CHAPTER 1

THE STRATEGY PROCESS

1. Business strategy

Did you shop at a supermarket this week? How was the experience? Was it better than going shopping, say, 10 years ago? Let's hope so. Today retailers talk about 'experience', 'excitement' and 'retail theatrics'. You see, they wanted to change the experience and act of shopping for groceries from something you have to do, to something you want to do.

Making shopping an exciting, stimulating or otherwise enjoyable experience, would give one retailer a competitive advantage over another in a market where many products such as milk, meat and fruit, are the same from one competitor to the next. To this end, some supermarket retailers explored the development of stores as a 'third place' - a destination between work and leisure, where people go for a 'trip out' and where they can meet or spend some time in a café or restaurant. They have also capitalised on their well-known brands by diversifying product ranges. For example, by providing clothing, electronics, insurance, banking and even medicine in store. To varying extents, supermarkets have been successful in raising the quality of the shopping experience.

This hasn't happened by accident, it happened by design. In 2011, supermarket retailer Tesco committed £1 billion of investment to improving the shopping experience for its customers. Now that's a lot of money for a fairly broad vision. To make it reality, Tesco needed a plan of action; a set of steps that would lead it from the current state to the envisaged state. It would map out the moves it intended to make and the means by which it would make them. This is what we call strategy.

Strategy

A strategy is a plan of action designed to achieve a goal or objective. The usual aim of a business strategy is to gain some kind of competitive advantage, or to help to exploit future opportunities.

Here's Tesco's seven-point strategy from 2011:

	Strategy
1	To grow the UK core
2	To be a highly valued creator of brands
3	To be an outstanding international retailer in stores and online
4	To grow services in all our retail markets
5	To put our responsibilities to the communities we serve at the heart of what we do
6	To build our team so that we create more value
7	To be as strong at everything we do as we are in food

You'll notice that Tesco's strategy is somewhat short on detail! That's fine. **A strategic plan tends to be an overall guide to the way forward rather than a detailed step-by-step approach.** That's because the real world is uncertain. If you were playing a game of chess, a 'strategy' would provide the over-riding approach that you would take to win, but the exact set of moves you make would vary depending on your opponent's moves. However, no matter how adaptive you would need to be in the moment, the strategy would remain your big picture and guide you in your move choices.

Strategy in business

Applying this to a business scenario, according to the CIMA official terminology, **a business strategy can be defined as:**

"**A course of action, including the specification of resources required, to achieve a specific objective**."

Or, a **more complete definition** is given by Johnson, Scholes and Whittington as:

"The direction and scope of an organisation over the long term, which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of the markets and to fulfil stakeholder expectations."

So business strategy is **concerned with the overall management of an organisation and includes taking decisions about**:

Products

What kinds of products are we going to make and how will they fulfil our customers' needs?

Markets

Where should we sell? In towns or cities? This country or abroad? Should we target affluent consumers or the budget-conscious? Men or women? Professionals or stay-at-homes?

Locations

Should we open out-of-town or on the high street? In addition to figuring out where we will sell our product we must also think about where we will produce it. Should we produce in-store or buy in? It may be cheaper to produce abroad, but if all our customers are in our home nation will the transport costs involved make it worth it?

Structure

Centralised decisions or local autonomy? One big warehouse or many local hubs? We will need to look at the nature of the business and decide which structure would be most suitable. For a global businesses a matrix structure may be the most effective, but a functional structure may suit a smaller business.

Personnel

Skilled or unskilled, what functions should we employ and what functions can we outsource? What kinds of people do we want working in our organisation? This may also have an impact on location.

For example, a company wishing to attract top graduate talent may need to set up in a large city to tap into a larger talent pool as this is where many young graduates will want to be located.

Buildings and machinery

Should we build, buy or lease? It's a case of having the best tools for the job, but getting the balance right between cost and function. For example, a manufacturing company will want to produce its goods as efficiently as possible. This may often require the best pieces of machinery available. If these machines are particularly expensive, research will need to be done to see if this expense will pay off in the long run.

How to compete

Lastly, but most importantly, how will we stand out from the other companies? Or, put **in business terms, what are our points of difference**? Perhaps we are going to compete on quality (produce a better product than anyone else), or on price (produce a product of similar/identical quality to everyone else but sell it for less).

It is these points of difference that will shape the brand and direction of a company's strategy.

Key features of strategic management

Meet Bob! Bob runs a small sandwich shop, Bob's Lunchbox, in Anytown. The shop employs five people and has few direct competitors in Anytown. Bob read in the trade press that Snackpack, the large multinational sandwich chain, is looking for a site to open in Anytown within two years. To meet the challenge, Bob wants to increase the amount of shops he has and double his sales and profits.

So where does Bob start? He needs to apply **the key features of strategic management:**

Long-term approach – Decisions are made over the long term, often for periods exceeding one year. Bob knows Snackpack is planning to arrive in the next two years, so this gives him a two-year period in which to get his own business ready. His strategy, therefore, should be a two-year plan.

Focused on organisational objectives – The aim being to **ensure that the plan of action achieves the most important objectives for a wide group of key stakeholders**. Bob will need to ensure that his two-year plan will appeal to and bring benefits to his stakeholders, such as suppliers and staff. By increasing the number of shops he will increase his demand from suppliers, pleasing them and provide more jobs/hours for his employees.

Aligned with internal strengths and weaknesses – The aim should be to **capitalise on the business's strengths and overcome any key weaknesses**. Devising a strategy will often follow a **position audit** of the business to ascertain the business's current position, its strengths and weaknesses.

Here, Bob will need to look carefully at his organisation's own strengths: are they enough to compete with Snackpack, or is there a gap between his competencies and business model and those of Snackpack? He can do this via certain tests such as **SWOT** and **gap analysis** (these will be covered in detail later) and aim to close any gaps over the two-year period.

Adapt to the changing business environment – So that changes in the political, economic, social and technological factors are taken into account, while adapting to industry changes, such as competitive threats, supply issues or changing customer needs.

Do customers still want what Bob's Lunchbox offers, or do they prefer the type of product that Snackpack can provide? Does Bob's strategy need to make him more like Snackpack or a better version of today's Bob's Lunchbox? Does Snackpack reach customers in ways Bob hasn't considered, such as online or mobile apps? Bob will need to analyse these factors before developing a strategy to address them.

The importance of strategy

For Bob's Lunchbox there's a pressing market need to grow. If his business stays where it is, then even a small loss of market share to Snackpack could put Bob out of business. If he waits to see what Snackpack does, he'll already be at a disadvantage. But setting and managing a strategy of doubling his sales and profits within two years, for example, will help Bob to plan for Snackpack's market entry and focus his next moves.

Strategic management is important for the following reasons:

1) **Provides a clear direction**, both for Bob and for his team, focusing Bob's decision making to keep him on point, but also helping the team see how their roles play into a wider scheme. It's a big picture. After all, if you don't know where you're going, it's hard to get there!

2) Helps Bob's Lunchbox to **adapt to the changing environment**, by providing clear steps to address events, such as a new entrant to the market (e.g. Snackpack), ensuring the shop's continuing survival.

   In recent years the high quantities of sugar in soft drinks and food has come under fire, along with accusations that the artificial additives put in to replace the sugar are just as bad. In light of this, a lot of brands are reducing sugar levels in their products, even replacing some with more natural sugars. This is an example of companies responding to the external environment, in this instance, public opinion and changing consumer needs and wants.

3) By taking time to **understand and adapt to competition** through the process of strategy design, Bob's Lunchbox becomes more competitive as a whole, now and in the future. Bob and the team won't unlearn the skills they develop now so the business and its people will be equipped to handle future scenarios.

   For example, in the UK the big four supermarkets have been losing market share to budget alternatives Lidl and Aldi. In order to compete with them many of the big four launched a basic home brand range that challenged Lidl and Aldi's prices. By doing this without affecting their regular product range, they were able to compete with Lidl and Aldi in the low price market without alienating their loyal customers.

   It will **build core competences** enabling Bob's Lunchbox to develop these to stay competitive. To put it simply: **making sure you are good at whatever the customer values**. If the customer values great service and after care then you need to make sure that this is built into the organisation.

4) **Co-ordinates all elements of the business** in a structured, planned approach. When all the members of the team, or wider supply chain, are all working in the same direction, there's a better chance of arriving at the destination. Just like a centipede needs all 100 legs to be moving in the same direction for it to walk, **all departments need to be moving in the same direction** if a strategic goal is going to be achieved.

If Bob expanded his business by buying and opening another shop, his team responsible for securing funding and asset management would need to organise this. However, if the supply team didn't work to ensure the new store was fully stocked or the person responsible for recruiting didn't hire more staff to run the new shop, the whole strategy would be undermined. Bob would have a new shop, but wouldn't have any sandwiches to sell or staff to sell them.

However, if the plan had been fed down to everyone effectively the new shop would have been fully stocked, fully staffed and ready for business.

Director’s role in strategy

Ultimately it's down to Bob to make decisions on strategy for Bob's Lunchbox because he's the director of the company. In any organisation, **it's the responsibility of the directors to decide strategy**. Typically, strategy will be discussed and agreed in board meetings. **Larger organisations often have a small department whose role is to** analyse the business, its markets and competitors, and **devise strategy** for the board to discuss and agree upon.

The directors of a company have a duty of trust, known as a fiduciary duty, to make strategic decisions which are in the best interests of the company and its shareholders. This makes it very important that due diligence be undertaken before key contracts resulting from strategic decisions are signed. This might include an analysis of key suppliers prior to long-term supply agreements, or review of an acquisition target by an independent accountancy firm prior to purchase.

2. Levels of strategy

So how can we help Bob take on this new competition from Snackpack? For starters, we can provide a framework on which he can build his strategy. It's important to know where to begin and a good way is to break it down into parts. **There are three different levels on which strategy can be set:**

Corporate strategy or strategic level

The corporate strategy provides the direction for the business as a whole, including all parts of the business. **It includes** consideration of:

- **The overriding purpose** and scope of the business: who is it for and how far should it go in meeting their needs?
- Which business **sectors and markets** should the organisation operate in? Should it focus on one type of customer, one type of product and one location, or many?
- What are **the core competencies** - Those skills that provide competitive advantage - and should they be increased?
- **Resources and financing** - What do we have, what do we need and how can we fund it? Bank loans or equity?
- **How to compete** - How can we gain an advantage over our rivals?
- **How to structure the business** - The way we build and organise our activities will have an effect on the way things get done. Should we divide the company up by function or in some other way? The structure and strategy should complement one another.

Example

Let's just consider for a moment a company such as Diageo, one of the world's leading premium drinks businesses with brands such as Guinness, Smirnoff and Johnnie Walker amongst its group. But it also owned the Burger King fast food franchise. Diageo had to decide which products to include in its brands, which markets to operate in and which of its operations it would consider 'core' - those competencies, activities and offers which it considers add a competitive advantage, and align with 'core' strengths.

In 2002, Diageo sold Burger King as part of a decision to move out of the food industry and focus on premium branded drinks. This was a 'corporate level decision' because it concerned the direction of the organisation as a whole.

What should Bob's corporate level decisions be? Well, Bob decides Bob's Lunchbox should open more outlets and become a retail multiple. The business will focus on its core competency of selling sandwiches. Bob will raise finance by selling franchises and take out a bank loan to cover his marketing. Now he has a corporate strategy! It's a great start.

Business strategy or management level

A strategic business unit (SBU) is division of a company which operates as an independent enterprise, and is responsible for particular products or services, just like Guinness and Smirnoff are responsible for different products within Diageo.

Each business unit or subsidiary of the business is likely to have different goals, competitors, suppliers, manufacturing approaches, IT, financial requirements and so on, and **so each SBU needs its own strategy**. **This covers**:

- Which **competencies**?
- Which **products**?
- Which **markets**?
- **Tactics to beat competition** in this market.
- Business **resources** (people, buildings, machinery, processes).
- **How to compete** in this business area?

In Diageo, different strategies will be required for each drinks brand and each regional market due to the different nature of the products and markets. Diageo markets Guinness in a completely different way to how it markets Baileys, for example, as they are targeting a completely different customer group. **These are 'business level' strategies**.

For Bob's Lunchbox, he will need to consider these factors for each new franchise he sells. Each will be in different markets, with different customer tastes, competition, and local norms. Should he expand internationally in the future the differences will be even greater and a greater diversity of approach will be needed. Even McDonald's, famed for having the same key items on its menu throughout the world, sells different products to meet local needs. In India, for instance, you cannot buy a beef burger out of sensitivity to the country's mostly Hindu population.

Functional strategy or operational level

Each functional area within each business unit will have its own strategy, so there will be strategies in each department, e.g. HR, IT, production, finance and marketing.

These should be designed to be consistent with the business strategy of the SBU.

If Bob is going to adopt the franchise model of operation, he will need an operational strategy for this, to decide at the outset which functions he will offer to franchisees as part of the deal and which they will need to develop for themselves. Many franchisors, for example, offer extensive back office and supply chain support. Some merely rent out the brand and sell inventory to franchisees. He will then need to plan how he will deliver these services to them.

Approaches to strategy formulation

Bob sat down and planned out a strategy that he will now implement. However, that's not the only way. There are a number of different approaches to the development of strategies within organisations:

- **Planned strategies**
- **Emergent strategies**
- **Incrementalism**
- **Opportunism**

These will be individually explained and discussed, in terms of advantages and disadvantages, in the following sections.

3. Planned strategies

It's winter and you are already sick of the cold. One night, while you are all curled up on the sofa in front of the fire, you start to think about taking a summer holiday next year. You know that if you do not come up with a plan of action nothing will happen, so a plan you must create!

You **start off by thinking about your current situation**, will I be able to get the time off work? Will I be able to afford it? Is there anyone who would like to come with me? Once you answer these questions you need to **decide on where you want to go**. Do you feel like a camping holiday or a beach holiday?

Now that you have decided on your location and assessed your current position it is time to **put a plan in place** to take you from where you are now to where you want to be in the summer. You need to book time off work, you need to save certain amount of money each month for the next few months to afford it, and you need to arrange flights and accommodation. You also pencil in a monthly check to see how well your plan is progressing.

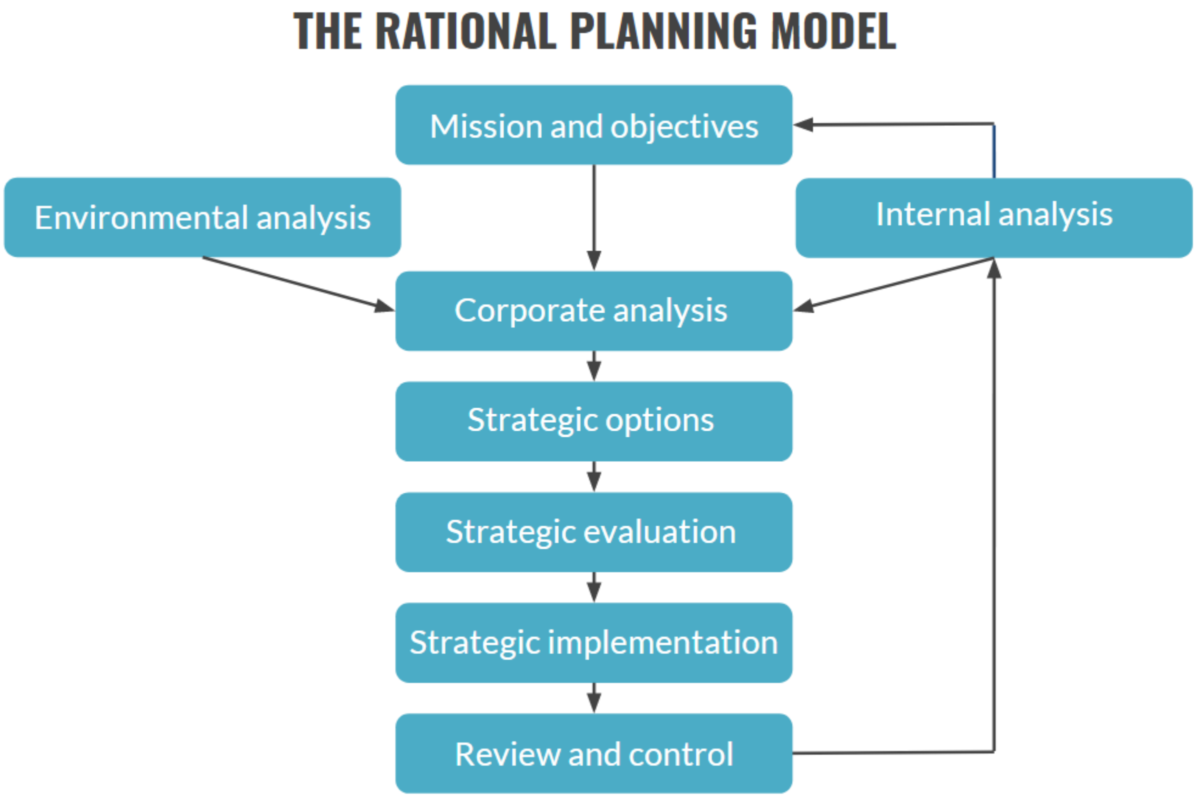
This may sound like a silly example, but it is, in a sense, a planned strategy much like those undertaken by most businesses. **A planned strategy is a process of identifying where we are, where we want to be, how we are going to get there and how we are doing.**

Planned strategies are **often used in large organisations**, and are **particularly suitable where the industry is subject to relatively little change**.

Strategies can be consciously and formally planned in advance, either by the directors or by a specialist department. This **provides a clear, justifiable strategy based on the information available about the company's current position, environment and competencies**. As such the strategy developed should be well thought through and effective.

Rational planning model

The stages of strategic planning are summed up in what is known as the **rational planning model. Here are the key steps:**



We will examine each stage of the rational planning model in more detail through the course of this study text. For now we will look at how **Johnson, Scholes and Whittington grouped the rational planing model into three stages**:

1. Strategic analysis. This groups together the first four stages of the rational planning model: mission and objectives, environmental analysis, internal analysis and corporate appraisal.

- **Defining the direction – Mission and objectives,** i.e. where are you trying to get your business or what are you trying to achieve?

- **External or environmental analysis**, to make sure the business is aware of any opportunities and threats in the business environment, i.e. competitors, demand and supply.

- **Internal analysis** of the firm, i.e. looking for the strengths and weaknesses of your company.

- **Corporate appraisal**, a summary of the internal and external analysis. It measures a company's ability to face the challenges posed by its environment, i.e. gap analysis.

2. Strategic choice. The purpose of this stage is to find a response to the issues raised during the Strategic analysis.

- **Selecting strategic options**. What possible alternatives does a company have to achieve certain goals? How do they want to grow? These may include opening new stores or making a new product range.

- **Competitive strategy**. Not just for the organisation as a whole but for each business unit

This group includes the middle two stages of the rational planning model, strategic options and strategic evaluation.

3. Strategic implementation. This stage is all about putting the strategy into practice and making sure it works as intended, hence it includes the last two stages of the rational planning model, implementation and review and control.

- **Creation of the complete detailed plans**, including the budgets.

- **Setting targets,** so that the success of the strategy can be measured.

- **Monitoring and control**. The strategy has to be monitored to make sure it is working as expected and then amending if it isn't.

Example

Foneitin is a technology company specialising in the smart-phone industry. It is a relatively small company, but has some very big ideas. It wants to be the market leader in the smart phone industry, a tall order given the size of its competition. How might it go about planning such an audacious strategy?

Strategic analysis

We know that **the firm's mission is clear**, to be the market leader in the smart phone industry. Having this clear goal in place should keep it focused.

Next, it needs to conduct an **analysis of the external environment**, we know that as a tech company it will be affected greatly by changes in technology and also the economy (given the generally high price nature of the industry) this all **contributes to the overall risk of the strategy**. Its market is also very saturated.

The company then needs to take a **look at itself (internal analysis)**, what is it about? **What are its strengths and weaknesses**? It's about researching and developing new phone technology and providing a superior alternative to mainstream companies. However, it is a small company with limited sales and capital so this poses a challenge to overcome.

Foneitin will also need to look at **how it's prepared to face the challenges posed by its environment by conducting a corporate appraisal**. For example, it has a strong research department which helps it keep up in an industry dominated by developments in technology. We also know it is a small company which makes it vulnerable to competition from larger companies.

Strategic choice

Foneitin wants to be the market leader in the smart phone industry, but needs to figure out how it is going to do this.

First it needs to **look at the options available**. It could try and beat the competition by using its strong research department to come up with a new piece of technology that everyone wants and no one else provides (utilising its strengths). Alternatively, it could make sure its phone can compete with competitors in terms of quality and then charge a lower price, undercutting the competition. Another option would be to look overseas to emerging markets where competitors have less of a stranglehold (where a low market share will be less of an issue).

Once it has chosen a strategy, **research will need to be conducted into its feasibility and profitability**. If it will not be worth it, then now is the time to pull the plug. If it is, but requires substantial investment, a decision will need to be made on how to raise funds. This may be by taking out a loan or by issuing new shares on the stock market.

Strategic implementation

Once a strategy has been chosen it is time to put it into action. Let's say the company went ahead with the decision to enter the market of a developing country with the intent to become the leading phone provider in that country and will take out a substantial loan to pay for it.

Foneitin will now need to **mobilise all of its different departments to ensure this strategy is a success**. So, what does it do? It currently has no presence in the target country so it is up to the marketing department to start raising the profile of the company through advertising campaigns etc. The Research and Development department needs to make sure the phone is compatible with the technology infrastructure within the country to ensure its value to the consumer, and the finance department must raise the necessary capital, finding the best possible loan and hedging against the risks of the investment.

Finally, **the company must undertake regular appraisals to see that the strategy is taking shape** and that every department fulfilling its full potential.

It must also **check to see if the strategy is still realistic**. If, for example, it is no longer possible to achieve market leader status, as there is more competition than it thought, the company may have to **adjust its vision and plan**, without letting the work already completed go to waste. So it may aim for a more modest share in the market and reduce expenditure.

Criticisms of planned strategies

So planned strategies provide logical, focused, well-organised strategies, why doesn't every business use them, well, **they also have downsides**:

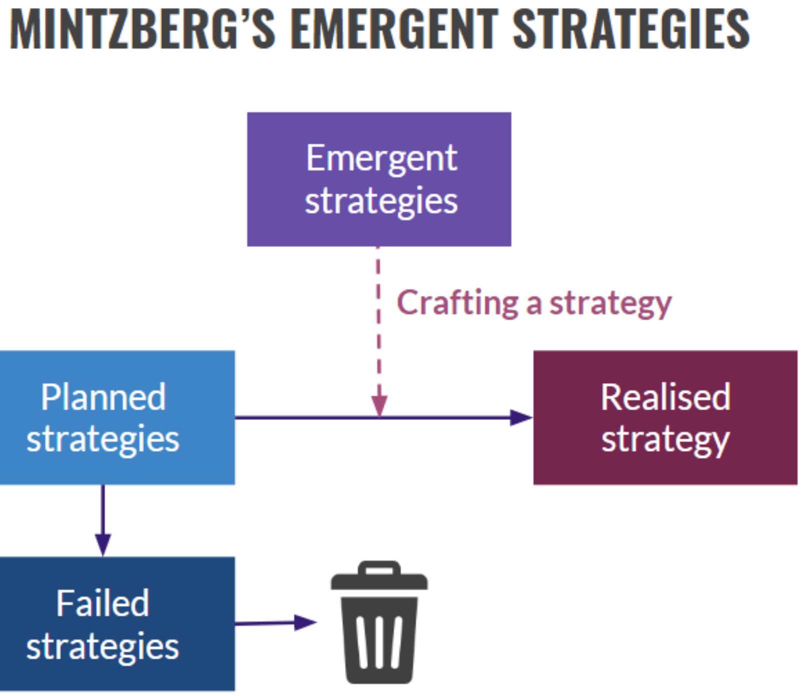
- **Time commitment** – They can be very time-consuming to create. For large businesses it often takes many months to formulate strategies, and they may be out of date by the time it comes to publishing and presenting them.

- **Cost** – This includes staff time, collecting relevant information, using strategy consultants, and so on.

- **Lack of flexibility** - The organisation can become constrained by a fixed plan and as a result not take new opportunities that arise or adapt to changes in the business environment (e.g. a new competitive threat).

4. Mintzberg's emergent strategies

What if things in the marketplace don't go as Bob predicted? It may turn out in the course of business that Bob's customers are increasingly asking for salads as well as sandwiches. Should Bob still hold fast to his planned strategy of sandwiches only?



Emergent strategies are those which literally emerge out of the course of the business rather than having been formally planned. They could perhaps be due to opportunities which present themselves (e.g. a competitor comes up for sale) or threats which need to be addressed (e.g. a competitor develops a new product and the company must follow suit to remain competitive). **Emergent strategies can be combined with the successful elements of the planned strategy** to define the way forward for the business. **The process of bringing these together is called crafting a strategy.**

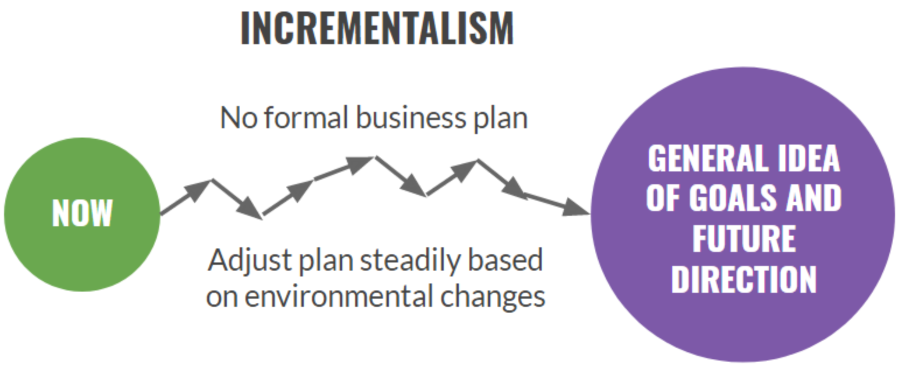
Let's say Bob is **developing a new product**: salads. Now, **the needs of the new product would need to be crafted alongside those of the existing business**, including production timings and approaches of both existing and new products, combined marketing strategies, allocation of funds to different product lines and the use of human resources for each area.

This is **more appropriate for businesses in a changing environment**, such as high technology, **where restriction to one planned strategy may be a competitive weakness**.

It is also **most commonly used in smaller organisations** where the organisation relies less on formal plans and processes, and more on the knowledge of key managers and staff who can be very flexible to change.

5. Incrementalism

In fast-changing environments, it may be unrealistic to effectively undertake the full strategic planning process. Instead it is more practical to develop a **short-term strategy based on the consensus of opinion of major stakeholders**.



An incrementalist approach was adopted by many businesses during the economic downturn of the late 2000s as uncertainty made it hard to make accurate long-term predictions. Instead they typically planned for no more than a few months at a time so they could wait and see what would happen to the market and adapt accordingly.

The strategy is then developed regularly using a series of small-scale changes as dictated by the changing environment.

Another situation where incrementalism is common is in the public sector, which, while not a rapidly changing environment, is one where there are a **wide variety of stakeholder needs to satisfy**. It can, therefore, be hard to agree clear long-term objectives to keep every stakeholder content, and so a shorter term 'middle ground' view is taken that satisfies all groups.

So, were Bob to follow an incrementalist strategy, instead of committing to a long-term plan to open 20 new stores over five years, he might consider opening one more outlet in the short term and testing it in the market. On the basis of how well the new store is received, he might then open a further store; or he might see that the market is shifting to street food and launch a street stall instead. After that, he might notice that app-driven home delivery is where consumers are spending, so he might orient his next year's development towards that market. Each time, Bob would be making a move that's right in the short term, without committing to a long-term plan in which all options are considered and a single direction agreed.

6. Freewheeling opportunism

Let's consider something else entirely. What if Bob's friend Dave was looking to sell his successful garden centre and retire to Spain? Here's an opportunity for Bob to buy a thriving garden centre with high turnover and great profitability. The new influx of cash to the combined company would certainly help Bob's Lunchbox survive the competition from Snackpack, but no one would have predicted that lateral move. The opportunity just came up.

This is known as freewheeling opportunism. In this model there is **no formal approach to strategy development**.

Directors dictate the business direction by taking whatever opportunities are available at a particular point in time. This **allows the business to be very flexible** and take opportunities that companies using a more formal approach to strategy development would be slow to take.

Freewheeling opportunism is most common in small companies with an entrepreneurial leader who can direct and focus their organisation down each new track, based on the opportunities they identify and wish to pursue. **The lack of formal processes makes change quick and easy.**

Multinational company Virgin could be considered an example of this type of approach. Richard Branson began his empire with a just record store, then he launched a record label, and as you’re probably aware he didn't stop there. Whatever industry, wherever Branson feels he has an opportunity, he moves into. Whether it be wine, airlines, telecoms or hotels, the lack of formal processes within the structure makes the possibility of change quick and easy.

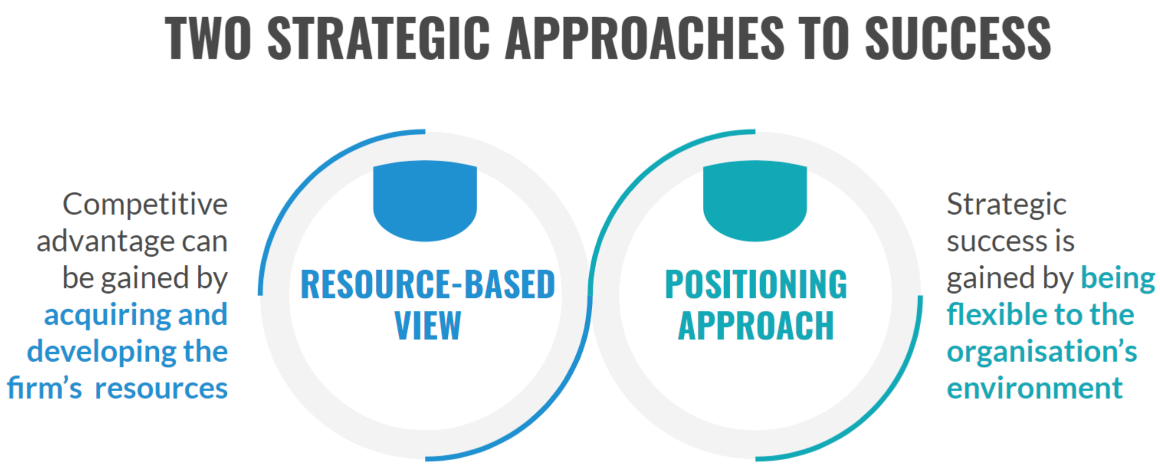
7. The basis for strategic success

It is all well and good setting a strategy, but **how can we make sure the strategy is followed and successful**? Also, how do we use, develop, maintain or obtain resources to help drive strategy and competitive advantage?

Theoretically there are **two clear strategic approaches to success**:

- The resource-based view
- The positioning approach

Do note that these are different from the approaches to setting strategy outlined earlier. Those were about the way strategy was developed, **this is about the approach taken by a business to ensure they are successful**.



Resourced-based view of strategic success

The resource-based view suggests that competitive advantage can be gained by **acquiring and developing the resources of the firm effectively** to provide a product or service which is better than that of competitors.

A firm's resources which can be developed include:

People

By **hiring and retaining the best people** (particularly relevant in industries led by innovation driven by individuals such as technology companies) **a company can ensure it has the edge over competitors**. Take a football team for example. Teams like Barcelona and Real Madrid spend more on player transfers and salaries than any other. However, as a result they attract the best players and that gives them an advantage over other teams.

Machinery

It's all about **having the right tools for the job**! A classic example of this would be the automation of manual processes. If you have a machine that can **produce your product for you more quickly**, **with less waste and more cheaply** than your competitor then you are likely to gain an advantage over them.

IT

In modern day business IT is incredibly important, so much so that some analysts actually believe that any organisation is really an information business regardless of what they actually make. **The accuracy, speed and precision of a good IT system can be the difference between winning or losing customers** and keeping supply chains open and maintained.

Brands

Fairly self explanatory, **a strong, well respected and well known brand will always have an advantage**, simply because consumers trust a known name over a new one. I think we can all relate to that, when you go to the supermarket how many of you prefer to buy a brand you have never heard of? Very few of us.

Money

You will not be surprised to find that the next addition to our list of resources that can be used to gain a competitive advantage is money! **Having a significant amount of cash reserves can be very beneficial for a business**, it can allow them to take advantage of an opportunity when it comes along or **sustain the business during a period of poor cash flow**, both of which help to create an advantage over poorer competitors.

Information

These days information is in abundance and businesses have many ways of attaining it. However, **the advantage comes in their use of the information**. For example, **the use of big data to identify trends** invisible to the naked eye to secure an advantage.

Patents

Patenting a design or process allows your **business exclusive use of said design or process for 25 years**, provided the information is published. Obviously this is an advantage as it acts as a unique selling point. For example, Dyson vacuum cleaners have a cyclone system that gives better suction than any other standard home use vacuum cleaner. Despite everyone knowing why they are better, **no one can copy them because of the patent**!

Unique resources

To achieve long-term, sustained competitive advantage using the resource-based approach, the resources need to be difficult to imitate. For example, due to a patent on a design, through long-term brand development (e.g. Coca Cola), or through the expense of developing a resource such as a modern factory.

Key to the resource-based viewpoint is the idea that resources will be unique in some way, making them special and difficult for competitors to match. **The following criteria are used to judge whether a resource is unique:**

Valuable – A resource must enable a firm to **add value to the customer**, e.g. by facilitating better service. For example a hotel based in the centre of a historic and beautiful city adds value though its location.

Rare – The **rarer the resource, the harder it is for competitors to acquire** that same resource. If our hotel was one of just a few hotels in the city centre, that rarity adds to its uniqueness and hence its ability to provide a competitive advantage.

Inimitable – The **harder it is for a competitor to imitate the resource the stronger the advantage to the company**. If there was very limited building space in the city centre it would mean competitors could not build new hotels of the same quality, that gives our hotel a strong advantage in the long term as it is difficult to imitate.

For an item to be difficult to imitate there must be some **isolating mechanism** that means that competitors are unable to create something similar. In the case of the hotel, it might be the limit on building space or a suitable location to compete for the same customer base.

Non-substitutable – A substitute is a product that fulfils the same need as the product being produced. The key need for a hotel, for example, is to have somewhere for people to stay away from home (perhaps for business or a holiday), so substitutes might include camping, hostels and guest houses. If our hotel was a well located luxury hotel, where the need was to have somewhere to stay in the city centre in a luxurious, comfortable environment, substitutes (such as a campsite) would not suffice and the hotel would become **non-substitutable**.

Positioning approach to strategic success

The positioning approach suggests that strategic success is gained by being flexible to the organisation's environment (particularly its competitors), and **continually adapting itself to offer the customer a product or service which is different from competitors.** An area in which a company differs from its competitors is called a **point of difference**, e.g. price, quality etc.

To be successful the positioning approach requires:

Competitor analysis and adaptation

The positioning approach is about **where you place yourself in the market, relative to the competition**. In order to do this you must first develop a clear view of the dynamics at play in the market.

For example, if you want to run an online book store, you must find a way to position yourself relative to existing competitors such as Amazon that provides a point of difference. Perhaps you will sell only rare and out-of-print books. When competitors change their own position, you will need to adapt in order to maintain a point of difference. Launching with no competitor analysis is not an option.

Environmental analysis

As well as the direct competitors in the market, you will need to **keep your strategic eye on all the external factors**, be they political, environmental, legal or other.

Perhaps a new government is elected that is unfriendly to your line of business, or regulations and taxation changes. Perhaps you rely on inputs that are in scarce supply or harm the environment and so availability and public opinion change. We never operate in stasis and these external factors will impact your business. You will need to be aware of the changing external environment, and develop plans to deal with those changes.

Scenario planning

Scenario planning is how you develop plans to deal with future changes and uncertainty. It involves **looking at possible future situations, which we call scenarios, and planning on how to deal with them should they arise.** Because the future is uncertain, we need to imagine varying futures: a best case, a worst case and something in the middle, so that when one of these arises we have a plan we can put into action.

A company might ask, what they would do if there was a crash in the stock market, or if a new competitor emerged. Scenario planning would mean that your company had a plan for each of these scenarios before they actually occurred, allowing you to respond quickly.

Innovation

Because markets and competitors change all the time, it's impossible to create a fixed position. A downmarket rival might suddenly move upmarket and compete with you for wealthy customers. **We will need to adapt, and the key to doing this is the ability to generate new ideas, products, services or ways of operating** and a culture that will support and encourage this behaviour. Don't be afraid to kill off an idea when a better one emerges.

Change management

Positioning approaches involve **continuous change** to adapt to the changing world.

Change isn't just about coming up with solutions and changes in the market, but about **how you put that change into action**. It is one thing to think of a new strategy, but it is quite another to actually implement that strategy.

This is why it is important that companies have procedures or even a specific department to help facilitate and manage any changes. This department would co-ordinate, enforce and check on company changes.

For example, a new competitor emerges. Their product is cheaper than yours, so you come up with a strategy that emphasises the quality of your product. You may need to change the manufacture process, the marketing and the customer service procedures. The respective departments will start making the appropriate changes, but the change management department will guide them and make sure it is done smoothly and according to plan.

Positioning approach vs the resource-based approach

The key difference between the positioning approach and the resource based view is the extent to which the organisation’s environment is the focus of the business’s strategy. In the **resource-based view the focus is on continuing to develop and focus on the company’s unique resources and capabilities**, so that the company will naturally remain ahead of its rivals. Whilst the **positioning-based view involves**

analysing the environment and continual adaptation and change to ensure the strategic position is unique.

Whilst the resource-based view offers consistency and stability based around key resources and competencies, if the environment changes significantly then its basis of success could be eroded. **The positioning view may be more flexible, but with flexibility comes a regular need for innovation and change which can be difficult to manage**.

8. Strategy development in different contexts

Meet George! George is the principal of a school. He, too, needs a strategy, and yet many standard strategy development theories would not apply to him. For instance, George's objective is not to make a profit which is usually the goal of businesses.

George has noticed that another school in his area has been giving laptops to pupils and offering programming classes. As a result of this a number of their pupils have gone on to study programming at university. On three separate occasions parents have come to see George to ask why the same opportunities are not being offered at his school. Although it will not make the school more profitable, he pledges to buy all sixth form pupils laptops and employ a programming expert to offer after-school classes.

Many of the different strategy theories we have discussed can be readily **applied to most not for profit and public sector organisations** too. Let's examine how this is done in more detail.

Public sector and not-for-profit

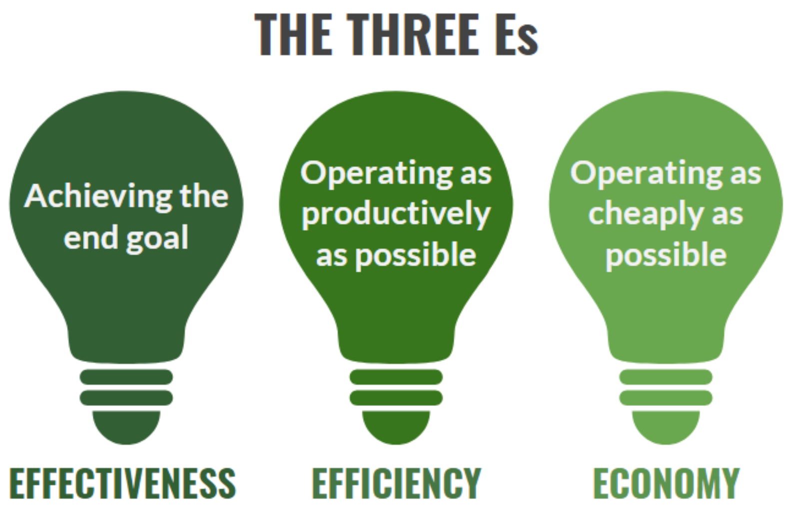
Public sector organisations are owned by the state and are responsible to the government for their business activities. Public sector organisations can be in the form of a state-owned industry or a government-run department. For example, The UK's NHS (healthcare) and The Forestry Commission (managing UK forests).

Not-for-profit organisations do not set out to make a profit for their owners. This does not mean that they are unprofitable, but their aim is to **provide a service to their members and subscribers rather than maximise returns for owners**. Not-for-profit organisations include trade unions, charities, co-operatives, mutual organisations, clubs and societies and educational establishments.

It is hard for not-for-profit and public sector organisations to set objectives as **their motives are likely to be different from profit seeking organisations**. There may be conflicting objectives or immeasurable goals.

For example, a school may aim to get a large number of high grades but may also aim to get a high level of staff satisfaction, and the two may not necessarily correlate if the staff are under pressure and have to work long hours to achieve good results.

Objectives in not-for-profit businesses often focus around the 3 Es of Effectiveness, Efficiency and Economy.



Looking at a **hospital** examples of the 3 Es that might include:

- **Effectiveness** – Achieving the end goal of making people well: recovery rates, operation success rates
- **Efficiency** – Operating as productively as possible, e.g. reducing time taken for an operation by using new procedures, or using monitoring technology to reduce staff numbers.
- **Economy** – Operating as cheaply as possible – e.g. purchasing equipment and drugs in bulk with other hospitals to keep costs down.

Small- and medium-sized enterprises (SMEs)

Small- and medium-sized enterprises may have fewer resources and less experience when it comes to strategy development. Therefore **plans are likely to simpler**

and on a smaller scale than the strategies of big businesses. On top of this there may be a simple structure in a small- or medium-sized enterprise, so there is no need to come up with extensive plans to co-ordinate change. **The goals of the company may be directly related to the goals of the owner and not determined by appeasing multiple stakeholders** or by purely economic incentives.

9. The role of the management accountant in strategy formulation

Strategic Management Accounting (SMA) builds on management accounting, while widening its scope. Strategic management accounting **evaluates an organisation from a strategic perspective to provide vital information to management to support decision-making.** It helps to control the overall strategy of the company, by providing directors with any information that will support them.

Key aspects

External reach

Where traditional management accounting focuses on internal performance indicators and measures, **strategic management accounting has a mission to aid leadership in the formulation of new strategic decisions**. As such, it must consider a **wider set of data**, analysis and measures, including those outside the business itself.

Forward-looking

Strategic management accounting goes beyond the traditional examination of past performance and historical data to **analyse possible strategies**, **evaluate likely outcomes and scenarios and provide recommendations**. For this reason the strategic management accountant must be more forward-looking than their traditional counterpart.

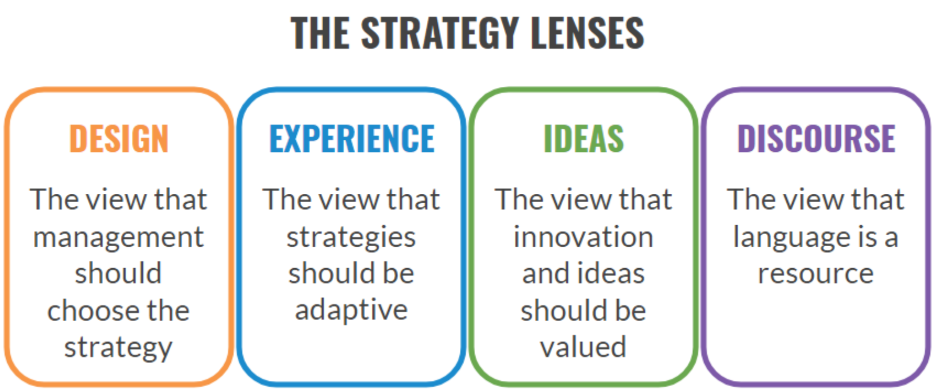
Examples of SMA:

- Investment analysis e.g. NPV, payback period
- Market trend analysis of a target market
- Product profitability analysis to support decisions on future product developments
- Customer profitability analysis to support marketing decisions
- Competitor analysis
- Industry reports on changing trends (e.g. PESTEL factors and 5 forces)

10. The strategic lenses

Is the glass half full or half empty? Well, that depends on your perspective. The same can be said when reviewing a strategy. Johnson, Scholes and Whittington suggest that **decision makers can improve a strategy by examining it from different angles**. To help with this concept, they devised the four lenses process through which an organisation's strategy should be viewed. Each lens offers the viewer a different perspective on the strategy.

Let's take a look at each of the different lenses:



1. Strategy as design

This view suggests that a strategy is a logical process that is based on **internal and external analysis, and rational thought,** and is the most commonly held belief about how strategy is developed. Does this **analytical and evaluative** approach sound like any other strategies that we have already looked at in this chapter? That's right! **The rational planning model.**

2. Strategy as experience

This lens moves away from the idea that strategy is a logical process and instead suggests that **strategies are influenced by the experience of people** and that strategy comes from **learning from, and adapting to, real-world experience**.

The characteristic of reliance on the experience of the organisation's employees, (especially that of the decision makers), to be able to take advantage of new opportunities sounds a little familiar, that's because it's very **similar to the emergent strategy** that we have already looked at.

3. Strategy as ideas

Now that we've looked at a couple of the lenses, can you work out what strategy as ideas may be? Well, unsurprisingly this lens really emphasises the **continuous application of new innovations and business and process change**. This strategy **relies on the organisation being set up to allow for staff and structural flexibility, entrepreneurship and idea generation**, because there is far less planned direction from the top of the organisation.

This sounds like **freewheeling opportunism**, doesn’t it?

4. Strategy as discourse

Discourse can be defined as written or spoken communication and this lens looks at the **language and discussion of strategy, and views it as an asset that can be used by managers**. It looks at different possibilities and when a choice is made, managers explain the strategy that they are implementing and in doing so, they themselves gain legitimacy and power as strategists as they gain confidence for the choice taken.

Using the lenses

We've now linked three of the lenses to strategies we've already discussed, so why do we need them? Well, as we mentioned earlier, each lens offers a different perspective and **if managers only view a strategy through one of these lenses, they may miss out on developments or opportunities that could lead to the organisation's success**.

For example, let's imagine that a big organisation is only viewing its strategy through a logical and analytical approach that is formed by managers at the top of the organisation. We know that that is strategy by design and is one of the most common approaches, so what's wrong with doing just that? Well it may overlook any exciting new developments that appear and so the organisation would lose out by not taking advantage of them. A problem that could have been avoided if the managers had also viewed their strategy through the lens of ideas!

And that is why Johnson, Scholes and Whittington suggest **viewing an organisation's strategy through each of the four lenses; the strategist can see the fuller picture and gain different insights as well as making sure they have considered other options to the one they are putting in place!**

11. The top-down approach

When determining an organisation's strategy and how it will be implemented, it is vital that the style of management being used is taken into consideration. Specifically, who is creating the strategy, and how is it being communicated to the rest of the organisation?

Originally a method used by IBM in the 1970s to streamline the software development process in some of its projects, the top-down approach has since been adopted by companies in many different industries as a way of making their decision-making and command structures as focussed and efficient as possible.

As the name suggests, the top-down approach to management involves a structure set up such that **the directors and top-level executives of the organisation are the ones who control and make plans and decisions for the company** as a whole. They then delegate specific tasks for the lower-level employees to complete. Hence, the employees at the lower levels are not involved in deciding the organisation's direction or goals.

The **decisions the leaders make are communicated down the reporting lines** to the business's divisions, functions, departments, areas and employees, all of which do as they are told. Any **decisions made by the lower departments have to be consistent with those decided at the top** of the organisation.

There is a **strong hierarchy associated with the top-down approach** (in that there needs to be a "top" of the organisation dictating to those "down" the hierarchy).

Advantages and disadvantages of the top-down approach

Advantages	Disadvantages
Faster decision-making – With change driven by the organisation's leadership, it cuts down on time spent discussing, or explaining, decisions with different levels of employees, resulting in faster action.	**Limits the variety within the employee's role** – Employees are limited to working in their specific role or area, performing their allotted task. They cannot contribute directly to the company's strategy.
Provides clear goals - Goals and expectations set at the top, by limited personnel are likely to be clear and succinct. Hence, easier to communicate and understand.	**Requires a strong leader** – Since the decisions are coming entirely from the organisation's leadership, strong and competent leaders are required as otherwise the organisation will fail, or the employees will resent the incapable leadership.
Strategically aligned decisions – Since all significant decisions affecting the company are made at the top, they are aligned with the corporate strategy which is made at the same level.	**Limited perspective** – All significant decisions come from the top, which limits knowledge of the day-to-day workings of the organisation in the decision-making process.
More informed decision-making – Since the top levels of the organisation are those with greatest oversight and knowledge of the current position of the business, they can make more informed and less risky decisions.	**Staff morale** – Staff may feel undervalued if their opinions and insights are not sought or taken into account.

Advantages	Disadvantages
Provides a strong organisational structure – Reinforces the organisation’s hierarchy through the lines of authority.	**Limited number of decision-makers** – With only a few at the top of the organisation making significant company-wide decisions, it can slow down the organisation’s ability to react to threats or opportunities, due to limited insight into specific issues, or purely due to time constraints
Focusses employees - Employees are not involved in the production of strategy, so they can focus on their own individual areas.	

The bottom-up approach

It is also worth noting that there is an opposing view of management called bottom-up communication. This involves **all employees having a voice in the organisation’s decision-making**, so they can **contribute ideas or their experience** to the process. By making decisions and creating strategies in this way, it can allow the organisation to make more appropriate goals and plans, based on the knowledge, experience and ideas from a wide range of individuals in the organisation.