University of Leicester

School of Management

Master of Business Administration

Module 2

Strategic Analysis and Choice

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Strategic Analysis and Choice

With reference to empirical examples, identify the circumstances in which a company should consider implementing a process of strategic renewal. What business strategies can they adopt in such circumstances and what factors are likely to influence the success of such strategies?

A close look upon circumstances in which a company should consider implementing a process of strategic renewal and how to clearly identify these circumstances , analysts have to explore checklists and frameworks to find information necessary for conducting an internal and External Audit , to assess very clearly the internal and external Environments , so that the Company finds out where it currently stands and in order to take advantage of opportunities and its strong areas and to make plans for threats and weak areas when preparing business strategies. For the assessment External environment, it is best conducted by the PESTLE Analysis the factors are : (P – Political , E – Economical , S – Social , T – Technological , L - Legal and E – Environmental) with the consideration of the Stakeholders and how to incorporate their desires into the Company's behaviour and shedding more lights on Porter's Five Forces Model - the Industry analysis also identifying the market conditions and the nature of competition facing the company .However , For the assessment internal environment , it is necessary to look at the company resources and the way these resources are put together , applying the 7S Framework (strategy, structure, systems, style, staff , shared values, skills) to incorporate resources and distinctive competence and also see into the Value Chain Model analyzing the company itself and the effectiveness of its different activities , and having a thorough examination of how each part of the Activities might contribute towards added value in the company and how this may differ from the other competitors. At this stage , focus will be put on the Strategic thinking and the Concept of Value Based Management stressing that Value is Customer determined and that the Company needs to be Market Driven which is affected by the type of market the Company is in . At a further stage , we will see into the Market Structure and examine how a company might compete in the industry in such circumstances by adopting one of the three generic strategies for competitive advantage : (Cost leadership - Differentiation - and Focus) with emphasis on the Value for Money – and the Gap Between the Market Price (P1) and Use value (P2) - and between the Reservation Price (P0) and the Market Price (P1) and . A clear examination of the Empirical examples (mentioned here in this study) taken from airlines , Automobile , and shipbuilding industry shows how Porter's three

Generic Strategies can help companies achieve the most Competitive and advantageous position in their industries Furthermost , Having adopted one Generic business Strategy , we will underline the factors which are likely to influence the success of such Strategy .

Assessment of the External and Internal Environment

Analysts have to explore certain checklists and frameworks to find information necessary for conducting an internal and External Audit, to assess very clearly the internal and external Environments "some of the tools and techniques used in strategic analysis and as aids to thinking strategically. These are:
(a) PESTLE, (b) Porter's five forces framework, (c) the 7S framework, and (d) the value chain"(University, Leicester. *Strategic Analysis and Choice*.P1.55)

PESTLE analysis

"One very famous checklist for the assessment of the external environment is PESTLE analysis with the consideration of the Stakeholders and how to incorporate their desires into the Company's behaviour.

We start this audit of the big picture with the really big picture: the impact on our market of those large and usually long-term factors: the **Political**, **Economic**, **Social**, **Technological**, **Legal** and **Environmental** changes going on around us. The acronym PESTLE has grown out of PEST (before environmental issues were so important), adding legal to become SLEPT and now environmental to become PESTLE, and there will be many more variations.

Use whatever you wish, so long as you are looking. For much of the time, these factors are simply things that we read about in the newspapers, but from time to time they have a dramatic impact on the working dynamics of our own marketplace. The marketer's task is to make sure that this time to time impact doesn't come as a surprise, and, even further, to seek to gain advantage by recognizing and understanding the relevance of these changes, ahead of the competition.

Political change

Political change can bring large-scale revolutions such as the opening up of Eastern Europe after the fall of the Berlin Wall, but the changes need not always be so dramatic. Changes in government can signal shifts in values and priorities in the country (even if they don't cause them). The more caring society heralded when New Labour replaced the Conservatives in 1997 was reflected in the messages and marketing strategies of many consumer products. Red-braced executives became stock jokes rather than role models, and cars became less clearly defined as symbols of power and status, with a consequent rise in values such as safety and environmental impact.

Economic change

Economic change includes the big-picture cycles of growth and decline that impact so greatly on markets like chemicals or building, with knockon effect for other businesses such as engineering suppliers or estate agents, but also the more immediate impact of, say, an extra 20p on wine at the Budget. Many businesses put a lot of effort into understanding economic trends and forecasts as an important element in their own planning: when to build new assets, when to expand the workforce, when to batten down the hatches. A squeeze on consumer spending in the high street can impact on a host of businesses far removed from fast-moving consumer goods, including catering, building, decorating, cleaning services, and so on.

Social change

Social change, such as the increasing number of (double-income) families, Particularly the Dinky (double income, no kids yet) ones, has led to a combination of households that are more prosperous but with less time to enjoy their prosperity! Ready-cooked microwavable meals have enjoyed great success, as have Internet shopping services The (double-pension) household is fast on its way in large numbers, and with the addition of time to enjoy this continued prosperity, we might expect an increase in leisure activities designed to fill time rather than save it (perhaps even a return to shopping trips).

Technological change

Technological change has been the norm of the past hundred years, and perhaps the expectation of change in this area (more so than any other the strategic market audit remember Y2K? PESTLE factor) is well integrated into the marketing process. Even so, many businesses are still well behind the pace in responding to the rise of e-commerce.

Legal changes

Legal changes can have instant impact, the banning of beef on the bone being a dramatic example of the sudden removal of a market opportunity.

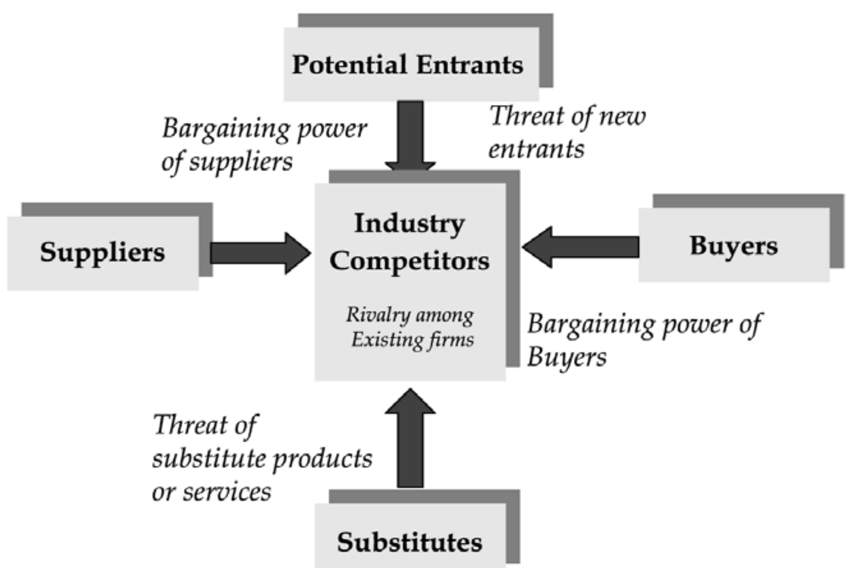
Environmental issues

Environmental issues and concerns have demonstrated quite clearly their impact on business, from the banning of lead in petrol to the restrictions on genetically modified (GM) food products. This factor, along with technological change, appears to be the most easily seized on as a means of gaining competitive advantage, whether it be supermarkets declaring the absence of GM foods in their stores or hotels telling us that they won't be washing our towels, in order to avoid pouring more detergents down various drains." (Peter, Cheverton. *Key Marketing Skills : Strategies, Tools & Techniques for Marketing Success.* PP.72:77).

Porter's Five Forces Model

Analysts should shed more lights on Porter's Five Forces Model - the Industry analysis also identifying the market conditions and the nature of competition facing the company "competition in an industry is a composite of five competitive forces**:**

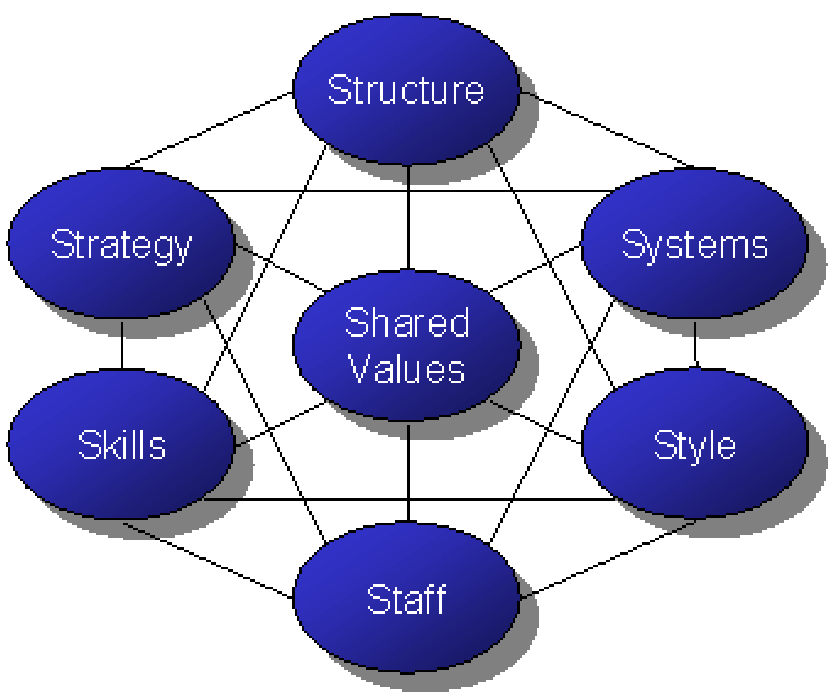
1. the rivalry among competing sellers in the industry,
2. the potential entry of new competitors,
3. the market attempts of companies in other industries to win customers over to their own substitute products,
4. the bargaining power and leverage exercisable by suppliers of inputs,
5. the bargaining power and leverage exercisable by buyers of the product."(University, Leicester. *Strategic Analysis and Choice*.P3.4)



The 7S framework

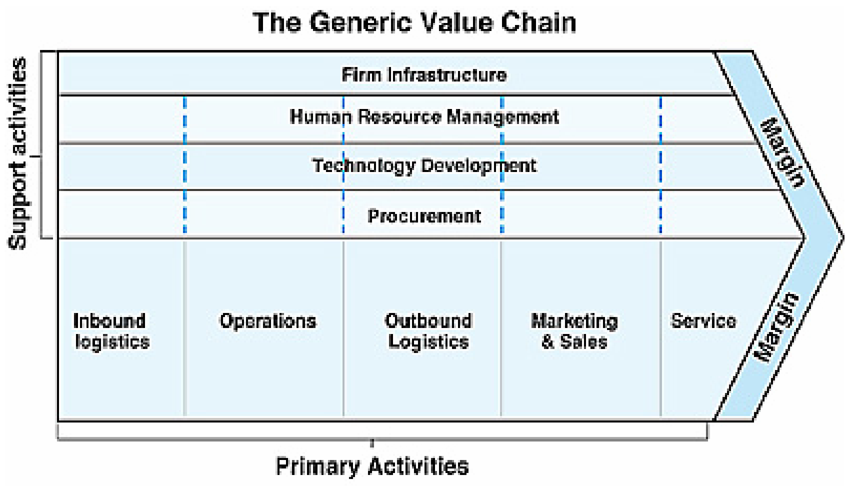
" One useful framework for carrying out an internal audit of any organisation is that which is referred to as the 'seven S framework.' This was developed at McKinsey and Company, the management consultants, in 1979 by two academics, Anthony Athos and Richard Pascale, and two McKinsey employees Robert Waterman and Tom Peters. This framework was the first to incorporate resources and distinctive competence. The seven Ss are:

1. strategy,
2. structure,
3. systems,
4. style,
5. staff,
6. shared values,
7. skills (i.e. distinctive competences of the organisation) ."(University, Leicester. *Strategic Analysis and Choice*.P1.49)



Value Chain Model

To go deeply in the analysis of the internal environment , analysts have to see into the Value Chain Model analyzing the company itself and the effectiveness of its different activities , and having a thorough examination of how each part of the Activities might contribute towards added value in the company and how this may differ from the other competitors.



Value Chain

"All of the aforementioned parts of the marketing plan cannot be carried out to the full level of effectiveness without all areas-a value chain- working together. Generally, the value chain includes the following activities:

Inbound logistics - bringing raw materials in to the business.

Operations - management of processes to create the product or service for the customer.

Outbound logistics - the means for getting the product or service to the customer (for example, distribution systems and shippers to get products in to retail stores).

Marketing and sales - creating value.

Service- aligning customer expectations and the performance of the product or service.

Firm infrastructure -the organization of the firm to maximize service to the customer.

Human resources Management -creating a structure for the people in the firm, which includes recruitment, training, retention, and compensation of employees

Technology -using technology to maximize service, thereby enhancing customer value. "

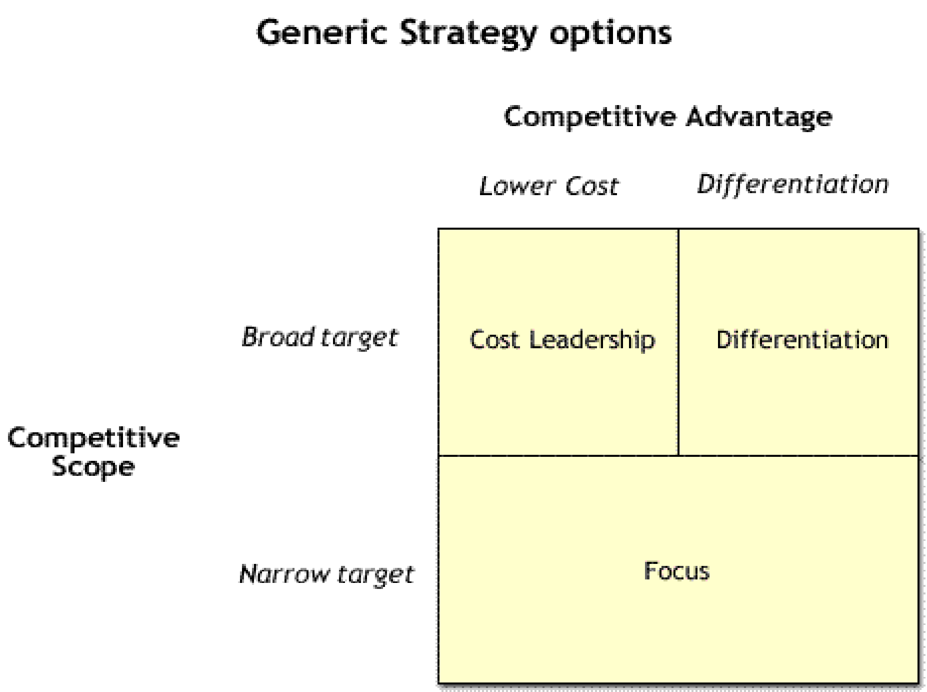
(Steven Stralser, MBA in A Day.PP:1150:151)

Porter's Generic Strategies Analysis

Companies can achieve competitive advantages essentially by differentiating their products and services from those of competitors and through low costs. Firms can target their products by a broad target, thereby covering most of the marketplace, or they can focus on a narrow target in the market.

Generic Strategies

"One of the most powerful and easiest ways to delineate strategies was developed by Michael Porter of Harvard Business School. Porter suggests that there are really only three strategies available to business, which he dubbed generic strategies". (Roger, Formisano. *Manager's Guide to Strategy.* P111). According to Porter, there are three generic strategies that a company can undertake to attain competitive advantage: cost leadership, differentiation, and focus.



Porter's three generic strategies are discussed in more detail in the following section with reference to some empirical examples from different industries.

Cost leadership

"Cost leadership is a strategy that entails producing standardized products at low per-unit costs for price sensitive consumers". (Roger, Formisano. *Manager's Guide to Strategy.* P111). The companies that attempt to become the lowest-cost producers in an industry can be referred to as those following a cost leadership strategy by reducing the reservation Price (P0) in order to widen the gap between (P0) and (P1) where we can get Profit or by reducing (P0) we can reduce (P1) so that the Gap between (P1) and (P2) widens in this case we can attract customers . The company with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. To be able to gain a competitive advantage using the Cost leadership strategy, the company should have considerable economies of scale and be a low cost producer especially as targeting broad market.

In the worldwide shipbuilding industry , Korean shipbuilding firms adopt the Cost leadership strategy and they managed to find profitability in this Cost leadership as they went for building good Vessels (but the Korean Vessels were not of very high superior Quality) .Further examples of companies following a cost leadership strategy include in the Automobile market the Korean cars maker Hyundai . In airlines, we find Ryan Air, and easy Jets.

Differentiation

When a company differentiates its products, it is often able to charge a premium price for its products or services in the market. Some general examples of differentiation include better service levels to customers, better product performance . in comparison with the existing competitors by emphasizing to increase the Use Value (P2) to attract customers it is meant to widen the gap between (P1) and (P2) . Porter has argued that for a company employing a differentiation strategy, there would be extra costs that the company would have to incur. Such extra costs may include high advertising spending to promote a differentiated brand image for the product, which in fact can be considered as a cost and an investment. A good example of Differentiation Strategy in the shipbuilding industry is the Japanese shipbuilding firms where they went for building very high and superior quality vessels and they charged very high Price for that . Moreover , in the Automobile industry , Toyota the Japanese Maker , for example, is differentiated by its very brand name by adding more value into most of its Value Chain , and this was clearly manifested in that Toyota went for added More value in its inbound Logistics and outbound logistics in the sense that Toyota was giving its customers the option of buying theirs cars online and the customers were giving also the option to customize the car , also Toyota managed its operations in a way that delivery of such customized cars will take them less than one week .other examples . in the airlines , the Emirates and British Airways followed this strategy .Nevertheless ,British Airways tried to compete in low cost airlines in this it was shifting to other areas ,which had negative effect on British airlines (blurred) which will be illustrated more in the (Stuck in the Middle) .

“The differentiation strategy is a must if we cannot compete effectively on price across the broad market. As we've noted, the cost leader must manage for expense control throughout the organization. Similarly, the differentiator must work its differentiation throughout all of its operations. Niche players are companies that employ differentiation in their strategic design, but do so for a very targeted segment of the market. Niche players learn the detailed likes and dislikes of their customer base, focus differentiation to those characteristics, and do not attempt to reach outside the segment of choice”. (Roger, Formisano. *Manager's Guide to Strategy.* P113).

Focus

It is Positioning Strategies fitting to the Environment . Porter initially presented focus as one of the three generic strategies, but later identified focus as a moderator of the two strategies. Companies employ this strategy by focusing on the areas in a market where there is the least amount of competition. Organizations can make use of the focus strategy by focusing on a specific niche in the market and offering specialised products for that niche. This is why the focus strategy is also sometimes referred to as the niche strategy. “Focus strategies are where a company chooses to concentrate one only one segment or a limited range of segments. With this approach it can again seek either lower costs or differentiation."(University, Leicester. *Strategic Analysis and Choice*.P3.31). Therefore, competitive advantage can be achieved only in the company's target segments by employing the focus strategy. The company can make use of the cost leadership or differentiation approach with regard to the focus strategy. In that, a company using the cost focus approach would aim for a cost advantage in its target segment only. If a company is using the differentiation focus approach, it would aim for differentiation in its target segment only, and not the overall market.

(Differentiation Focus)

This differentiation focuses strategy for niche market which provides the company the possibility to charge a premium price for superior quality. In the shipbuilding industry a good Example to illustrate this is the Scandinavian Yards , they went for building vessels very focus on high features such as ice-breakers , high quality cruise ships and very premium specialized vessels (niche market – a narrow target – very high degree of differentiation) .further In this same context, Ferrari , Rolls-Royce , and Maybach are classic examples of differentiation focus niche players in the automobile industry. These companies have a niche of premium products available at a premium price. Moreover, they have a small percentage of the worldwide market, which is a trait characteristic of niche players.

(Cost Focus)

This Price Focus strategy allows the Company to offer a very low price product to a small and specialised group of buyers (cost focus – narrow) . To make it Crystal clear , the example of Chinese Shipbuilding firms adopted this Fous strategy where it is more dangerous to be in the shipbuilding industry ,where we have very low degree of competitive scope and very narrow target .Here there is a severe limit of the ability to have profitability .Hence , we can find the Chinese Shipbuilding firms went for (very simple –very low cost standard vessels) in the sense that they are in endanger of losing to the firms in the Cost leadership Strategy i.e (the Korean firms) . Some examples to illustrate this is the Chinese Automobile maker – Cherry (very simple –very low cost standard cars) and the Indian one Maruti (very simple –very low cost standard cars for the Indian market only) . The downside of the focus strategy, however, is that the niche characteristically is small and may not be significant or large enough to justify a company's attention. The focus on costs can be difficult in industries where economies of scale play an important role. There is the evident danger that the niche may disappear over time, as the business environment and customer preferences change over time.

Stuck in the middle

According to Porter, a company's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance. A Clear example to illustrate this is the British Airways once had introduced its Low Cost Airlines carrier to compete with Airlines like EasyJet in the European Market , What British Airways found is that such strategy to compete in Low Cost was highly affecting the top Quality image of the British Airways in the market .

Conclusion

In conclusion, having identified the circumstances in which a company should consider implementing a process of strategic renewal through the help of checklists and frameworks of the things such as (PESTLE) that would affect the company for the long term (1-10 years) with the consideration of the Stakeholders and how to incorporate their desires into the Company's behaviour .At the same time , keeping an eye on the competitors analysis : Porter's Five Forces Model - the Industry analysis and also identifying the market conditions and the nature of competition facing the company ; seeing into not only the barriers to entry and but also what attract competitors into the industry checking the difference between the reservation Price (P0) and the Market Price (P1) in the sense that if (P0) is too low relative to (P1) , this will attract new competitors into the industry ; whereas if (P1) is kept too close to (P0) , this will Stop and deter the competitors from entering into the industry ; clearly this will force

Competitors to exist from the industry .Therefore , the Company needs to adopt strategies for competitive advantage as mentioned earlier adopting one of the three generic strategies for competitive advantage :(Cost leadership - Differentiation - and Focus) . In these strategies , companies should choose a clear direction and establish a clear competitive advantage by adopting one of these distinct strategies .where companies don't appear to have any clear , directed ,and coordinated direction , there is a danger for such companies to stuck in the middle resulting in poor profitability and distorting the brand image by adopting a blurred strategy as in the case of the British Airways when introduced its Low Cost Airlines carrier to compete with Airlines like EasyJet in the European Market .

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