Theories of corporate strategy

2017-18

Business strategy

- Strategy: plan to achieve objectives
- Strategy starts with an *analytical process*
  - *SWOT analysis*:
    - Strengths
    - Weaknesses
    - Opportunities
    - Threats
  - *Five Forces Analysis*: forces that determine industry profitability
    - Industry competitors
    - Suppliers
    - Buyers
    - Substitutes

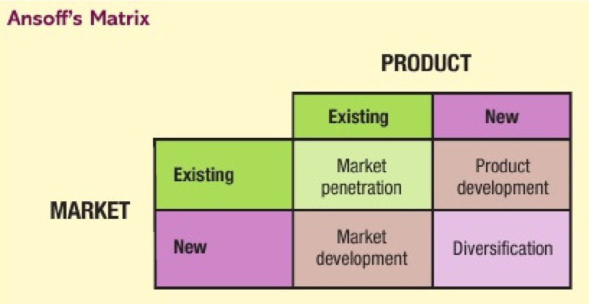
Development of corporate strategy

- Development of corporate strategy:
  - requires a lot of time and research
  - involves members of the management
- Tools used during the planning process:
  - Value chain analysis
  - Ansoff's Matrix
  - Porter's Strategic Matrix
  - Portfolio analysis

ANSOFF'S MATRIX

- Strategic tool to help a business achieve *growth*
- Identifies the *factors* that will determine the corpororate stategy of a company:
  - level of investment in existing and new products
  - exploitation of different markets
  - growth strategy for the business
  - level of risk the business is willing to accept
- Ansoff's matrix gives 4 possible strategies
  - Market penetration:
  - Product development:
  - Market development:
  - Diversification:

ANSOFF'S MATRIX

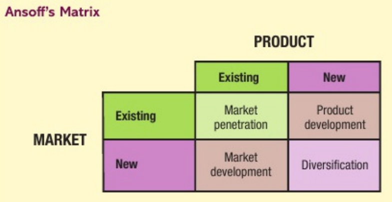


- *Risk* becomes greater the further a firms gets from the top left-hand corner of the matrix (= core of its existing products)

Ansoff's Matrix

Market penetration

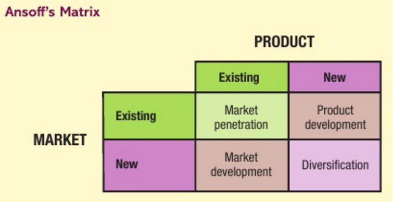
- achieve growth in markets with *existing products*
- several ways to achieve this:
  - increase *brand loyalty* (i.e., reward card)
  - encourage *regular use* of product (i.e., cereals as night-time snack)
  - encourage to use *larger quantity* (i.e., maxi size packages)
- this strategy has the *lowest risk*!



ANSOFF'S MATRIX

PRODUCT DEVELOPMENT

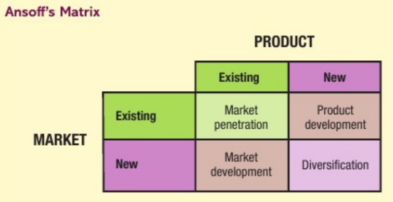
- market new or modified products in existing markets
- appropriate strategy where
  - product life cycle is short
  - trends/technology change quickly
- strategy associated with *product innovation* and *continuous development*
- requires large investment in R & D
- this strategy is associated with *high level of risk*!



Ansoff's Matrix

Market development

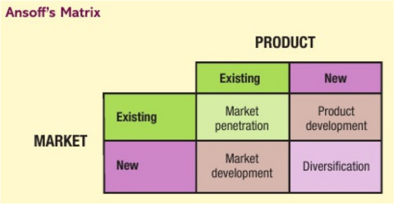
- marketing of existing products in new markets
- Example: entering *geographically* new markets (i.e., Enterprise Rent-a-car)



Ansoff's Matrix

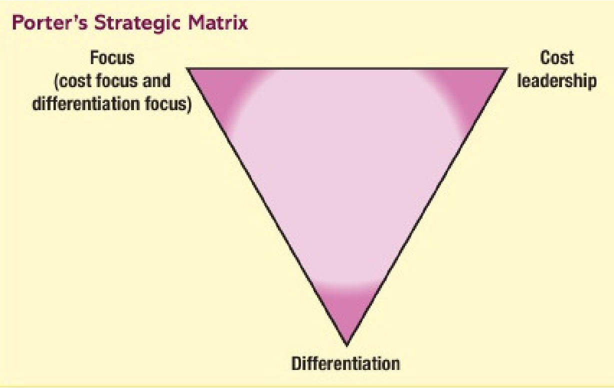
Diversification

- new products are developed for new markets
- $\oplus$ allows company to *spread risk* and *increase safety*
- $\ominus$ firm is outside its area of expertise $\longrightarrow$ *high risk*
- diversification requires
  - extensive business networks
  - large capital
  - strong corporate brand
- diversification may be subject to significant *barriers to entry*



PORTER'S STRATEGIC MATRIX

- identify the sources of competitive advantage that a business might achieve in a market
- *Any business that does not adopt one of these generic strategies is **stuck in the middle** and **unlikely to succeed**.*



Porter's Strategic Matrix

- **Cost leadership**: strive to be the low-cost provider in the market
- **Differentiation**: produce in mass market but adopt a unique position
- **Focus**: targeting a narrow range of customers
  - **Cost focus**: cost-minimisation within a focused or niche market (i.e., Aldi)
  - **Differentiation focus**: pursuing different strategies within a focused market (i.e., Ferrari)

Achieving competitive advantage through distinctive capabilities

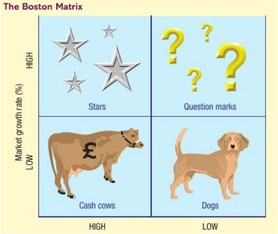
- read chapter 3
- Distinctive capability: form of competitive advantage that is difficult for competitors to understand or imitate
- The source of competitive advantage is teh exploitation of **distinctive capabilities**, of which Kay identifies 3 types:
  1. **Architecture**: contracts and relationships within and around an organisation (intangible value)
  2. **Reputation**: positive associations a business builds around issues such as quality, reliability, ...
  3. **Innovation**: sustainable competitive advantage if business can innovate

Aim of portfolio analysis

- read chapter 13
- Portfolio analysis: method of categorising all of the products and services of a firm
- 2 step process for evaluating the products:
  - **Step 1**: Give a full and detailed overview of all of the products and services in teh current business portfolio
  - **Step 2**: Look at the performance of each of these products and services by examining:
    - current and projected sales
    - current and projected costs
    - competitor activity and future competition
    - risks that may affect performance

AIM OF PORTFOLIO ANALYSIS

- Boston Consulting Group (BCG) proposed a tool:
  1. A business gathers *market-share* and *growth-rate* data on all of its products
  2. The Boston Matrix categorises these products into one of four different areas
     - Stars:
     - Cash cows:
     - Question marks:
     - Dogs:
- Boston Matrix may be used to help a business in identifying which strategy to adopt



Strategies and tactics

1. **Strategies**: sets long-term direction of the firm
2. **Tactics**: Short-term responses to opportunities/threats in the market

Key terms

- **Corporate strategy**: the plans and policies developed to meet a company's objectives. It is concerned with what range of activities the business needs to undertake in order to achieve its goals. It is also concerned with whether the size of the business organisation makes it capable of achieving the objectives set.
- **Distinctive capability**: a form of competitive advantage that is sustainable because it cannot easily be replicated by a competitor.
- **Diversification**: developing new products in new markets. Market development – the marketing of existing products in new markets.

Key terms

- **Penetration**: using tactics such as the marketing mix to increase the growth of existing products in an existing market.
- **Portfolio analysis**: a method of categorising all the products and services of a firm (its portfolio) to decide where each fits within the strategic plans
- **Production development**: marketing new or modified products in existing markets.

Key terms

Revision of chapter 3

- **Added value**: the extra features that may be offeredby a business when selling a product, such as high quality customer service, which helps to exceed customer exceptions
- **Competitive advantage**: an advantage that enables a business to perform better than its rivals in the market
- **Market maps** or **perceptual maps**: typically a two-dimensional diagram that shows two of the attributes or characteristics of a brand and those of rival brands in the market

Key terms

Revision of chapter 3

- **Market positioning**: the view consumers have about the quality, value for money and image of a product in relation to those of competitors
- **Product differentiation**: an attempt by a business to distinguish its product from those of competitors
- **Reposition**: change the view consumers have about a product by altering some of its characteristics
- **Unique selling point** (or **proposition**): the aspect or feature of a product that clearly distinguishes it from its rivals

Key terms

Revision of chapter 4

- **Complementary goods**: goods that are purchased together because they are consumed together
- **Demand**: the quantity of a product bought at a given price over a given period of time
- **Demand curve**: a line drawn on a graph that shows how much of a good will be bought at different prices
- **Inferior goods**: goods for which demand will fall if income rises or rise if income falls
- **Normal goods**: goods for which demand will rise if income rises or fall if income falls
- **Substitute goods**: goods that can be bought as an alternative to others, but perform the same function