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Formulating & Evaluating Strategy

Part 1

Chartered Accountancy
Strategic Level
Strategic Management & Leadership (SML)

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STRATEGIC MANAGEMENT

&

LEADERSHIP

CA - STRATEGIC LEVEL

Formulating & Evaluating Strategy (01)

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Formulating & Evaluating Strategy – (10%)

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INTRODUCTION

This chapter covers the broad areas of identifying alternative strategies and making strategic choices, and the evaluation of strategies. It also introduces the topic of game theory as a possible approach to strategy selection taking competitive strategy into consideration.

1.0 Formulating Strategy at Business Level

Once the Internal & External environmental analysis is done, Organization should made the choice of strategies to be followed with the purpose of achieving set targets and objectives.

Business level strategies are generally developed either around the Market or the product.

Strategic Choices

Strategic Choices are analyzed in to three categories;

Competitive Strategies

Product – Market Strategies

Institutional Strategies

Strategic Choices, Value Chain & Supply Chain

Strategic Choices made by the organization will affect the "Value Chain" or the "Supply Chain" which will add value to the business by;

a) Improving the Effectiveness and Efficiency of activities in the value chain
b) Product Innovation
c) Focusing on different market segments and differentiation strategies
d) Re-structuring the supply chain (Use of Technology)

2.0 Generic Competitive Strategies

According to Michael Porter there are three generic business strategies;

1. Cost Leadership
2. Differentiation
3. Focus

“Generic Strategy” is a strategy for achieving a competitive advantage. A firm which got a competitive advantage over other competitors will be able to make higher profits. The defined higher profits will attract new players to the market. Hence a firm to continue making high profits, it should possess with a “sustainable competitive advantage”. A Competitive Stragey is focusing on delivering a sustainable competitive advantage for the business.

The Choice of Competitive Strategy

Porter highlights that there are three “Generic Strategies” for creating a competitive advantage. According to porter, a firm should specialize in one of these competitive strategies where they run the risk of facing “Stuck in the Middle” situation provided they try to combine more than one strategy.

Cost Leadership	
Differentiation	
Focus	

Cost Leadership Strategy

A Cost Leadership seeks in achieving the position of “Low Cost Producer” in the industry as a whole. As a result of this achievement the firm can either;

(i)

(ii)

Following ways can be used by the Organization to Achieve Cost Leadership via reduction of costs;

a) Economies of scale

b) Use of modern production / distribution technology

c) Minimizing overhead costs

d) Managing sources of supply

e) Relocations of operations to low cost areas

f) Use of Information & Communication technology

Differentiation Strategy

A Differentiation strategy assumes that Competitive Advantage can be gained through Particular Characteristics of a firm's products or processes. The distinctive features of the product will encourage customers to go ahead with purchasing. The Higher Price charges for differentiated products enables the company to maintain higher profit margins. A product / Service can be differentiated via;

a) Product Design

b) Brand Image

c) Advertising

d) Distribution

Focus Strategy

In Focus strategy organization concentrates on a single or particular segments or niche market/s without focusing on the overall market.

This is the strategy of being the cost leader or differentiator in a particular niche market;

Cost-Focus Strategy	
Differentiation – Focus Strategy	

A Focus strategy can deliver following benefits as well as drawbacks;

Advantages	Disadvantages

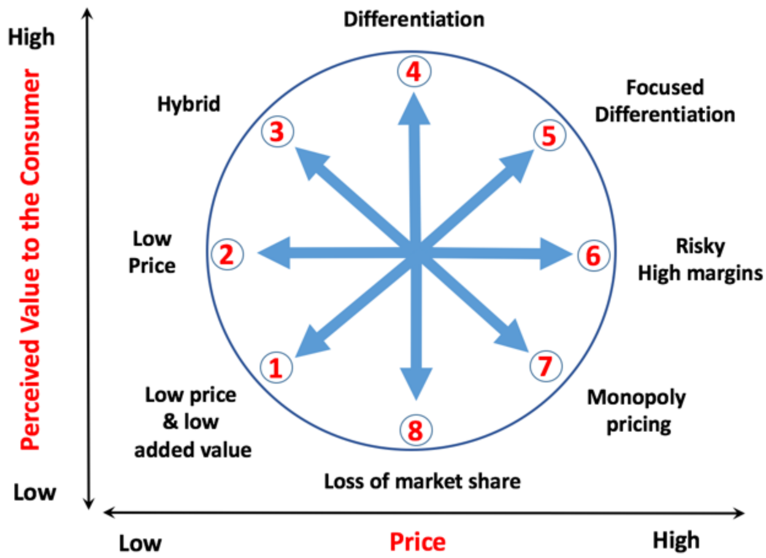
Limitations of Porter's Model

Cost Leadership Strategy	Differentiation Strategy

3.0 The Strategy Clock

Bowman's Strategy Clock is a model for analyzing Competitive Strategies according to different combinations of Price and Value for the customer.

In the model it's assumed that Customers are concerned about the "Value for Money" and value for money is generated through the Combination of Price and perceived product benefits and accordingly there can be 08 strategic positions.



Each position in the clock has its own "Critical Success factors"

- **No Frills Strategy**

- **Low Price Strategy**

- **Hybrid, Broad Differentiation & Focused Differentiation Strategies**

Hybrid Strategy

Broad Differentiation Strategy

Focused Differentiation Strategy

- **Failure Strategies**

1.

2.

3.

4.0 Blue Ocean & Red Ocean Strategies

Kim & Mauborgne in year 2005 introduced this model;

A "Blue Ocean" Strategy involves developing innovative ways to create value for customers while reducing cost of the organization.
A "Red Ocean" strategy is for organizations to compete in its existing markets with existing products

Originators of the models suggests a combination of Blue Ocean & Red Ocean in practice.

	Red-Ocean Strategy	Blue-Ocean Strategy

Broad Definition		
Competition		
Creating Value		
Nature of Business Strategy		

Value Innovation

Development of Blue Ocean Strategies

Kim & Mauborgne recommended a "Four Action Framework" for identifying an approach to developing Blue Ocean Strategies and reducing reliance on Red Ocean Strategies;

Reduce	
Create	
Raise	

Eliminate	