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Master Document Text

What analytical tools can be applied to help a business identify an appropriate strategy and effective market positioning?

INTRODUCTION

In essence, strategy is about setting the long-term direction for a business (Johnson, Whittington, Scholes, Angwin & Regnér, 2014). In order to be truly effective, it needs to be able to capture the purpose (i.e. why the organisation exists), corporate ambitions (what it seeks to achieve) and the resources that can be marshalled to achieve these goals (Lynch, 2009). However, any successful strategy, must also reflect the environment within which a business operates, noting the importance of the interactions and expectations of such actors as customers, competitors, regulators and other interested stakeholders (Henry, 2011). Consequently, any meaningful consideration of strategy must be able to bring together both internal factors and the broader external context if any distinct competitive advantage is to be created (Heifetz, Grashow, & Linsky, 2009). Therefore, as this requires an understanding of dynamic, constantly evolving issues (e.g. the expectations and trends of customers), strategy must be regularly reviewed in order to ensure that the direction set is able to maintain the competitive position of the company over time (Capon, 2009)

In conducting any analysis or review of strategy, it is therefore important to appreciate that most interpretations of competitive positioning reflect the need for a business to be more successful than their competitors – it is about creating a winning formula (McKeown, 2015). This view was epitomised by Henry Ford (1923) in the development of his production-line approach, which sought to combine a lean manufacturing model with defined service principles that other producers found difficult to match.

CREATING THE WINNING STRATEGY

Before considering the analytical tools that can be applied to help a business establish the most appropriate strategy and competitive positioning to adopt, it is sensible to understand which strategies can be taken forward (Mullin & Christy, 2016). According to Porter (2004), there are essentially three generic strategies to consider:

Cost Leadership. The business seeks to be the lowest cost provider within their particular market segment in relation to the quality of the outputs produced. This cost leadership can be gained through access to investment capital (which could be a barrier for potential competitors), the ability to create more efficient production processes that minimise input costs or by streamlining their supply chain.

Differentiation. Developing a product or service that is perceived to be unique or to provide 'added value' in the minds of customers. This perception can allow higher prices to be charged (premium pricing) given that consumers may not necessarily view competitor products/services as providing comparable/adequate alternatives. To maintain this position requires an ability to maintain the business's reputation for quality and service, underpinned by staff able to effectively articulate and defend the premium benefits that are seen to be unique.

Focus. A business decides to service a very particular or narrow market segment and then (ideally) achieve either cost leadership or differentiation within that segment. In carefully tailoring their products and services to the specific customer requirements of that market segment, a company can make it harder for new entrants to be seen as credible alternative suppliers.

(Hooley, Piercy, Nicoulaud & Rudd, 2017)

However, this is a complex area and whilst Porter argues against 'being stuck in the middle' (i.e. attempting to adopt a strategy that blurs these distinctions) it will be shaped by customer perceptions of quality which continually evolve (Slack, Brandon-Jones & Johnston, 2016; Porter, 2004).

STRATEGIC ANALYSIS TOOLS AND TECHNIQUES

PORTFOLIO ANALYSIS

An initial review of the existing product/service offering of the business may prove a sensible starting point and the Boston Consulting Group created a matrix to facilitate such an examination, building upon the product life-cycle (Lynch, 2009). This is presented in Diagram 1:

RELATIVE MARKET SHARE

HIGH

LOW

MARKET GROWTH %

HIGH

STARS

A business area with large market share in a fast growing industry. Whilst generating significant revenue, they need investment to maintain their lead. A successful star has the potential to become a cash cow.

?

Holding a small share of a high growth market. These products or services will need resourcing to develop their market share, but success is not guaranteed and such investment will involve corporate risk.

LOW

CASH COWS

Products/services with a large market share in a mature (but slow growth) arena. Such 'cash cows' require little investment but can generate revenues that can be used to fund investment in other business areas.

DOGS

Products/services with a small share in a mature market segment. The resources needed to sustain this business offering may be better used elsewhere and could therefore be discontinued or sold-off.

(Adapted from Lynch, 2009)

DIAGRAM 1: BOSTON CONSULTING GROUP (BCG) MATRIX

An initial portfolio analysis can help to create the foundation for a subsequent business development strategy, but is predicated on the assumption that achieving high market share is the cornerstone of a sustainable growth plan (Henry, 2011). However, such a high market share approach often requires significant enduring investment and this relatively simplistic model does not necessarily reflect the strategic options and opportunities proposed by Porter (2004). That said, if effectively applied it can provide the foundation needed to consider the revenue sources required to support an enduring business strategy and the subsequent implications for the corporate product/services mix (Johnson et al, 2014).

A further model that can be applied when considering how a company's product/service portfolio is likely to support future growth aspirations is the matrix developed by Ansoff (1988). This can help to develop the thinking emerging from the application of the BCG matrix by introducing a future focus on new markets as well as those currently being exploited (David, 2013). Diagram 2 provides an illustration of how this model could be applied when considering a large-scale retail environment:

PRODUCTS/SERVICES

EXISTING

NEW

MARKETS

EXISTING

MARKET PENETRATION

Maintain price challenge through own brand value product ranges.

Improve ethical and sustainable supply chain marketing around core/standard products.

Reinvigorate prestige/'finest' product lines through promotions linking same products across core ranges.

NEW PRODUCTS AND SERVICES

Minimise proposals for new products outside of grocery and household areas

Provide clear choice (between value, core and prestige selections) for all core product ranges.

Revise route to market(s) – focus on mixed-retail shopping centres over superstores to reflect revised consumer shopping habits.

NEW

MARKET DEVELOPMENT

Develop partnerships or franchise arrangements for non-grocery/household product lines.

Use UK core grocery/household product lines (value, core, prestige) as foundation for international expansion plans.

Increase customer supply chain visibility to reinforce/create positive brand associations (i.e. not just value)

CONGLOMERATE DIVERSIFICATION

Avoid such diversification in order to restore focus on balancing cost leadership against differentiation (i.e. providing the consumer with such choice in one store).

(Adapted from Ansoff, 1988)

DIAGRAM 2: ANSOFF'S CORPORATE STRATEGY MATRIX

Ansoff's approach essentially supports the analysis of four different growth strategies that a company can consider – increasing market share through the improved penetration of existing markets, launching new product or service ranges within those established markets, taking existing businesses offerings to new markets or diversification (new products/services for new markets) (Ansoff, 1998; Johnson et al, 2014). The strategy to take forward will obviously be shaped by the risk appetite of the business concerned, as well as the skills/competency base they possess (particularly when considering new products, services and markets) (Hooley et al, 2017).

PORTER'S FIVE FORCES FRAMEWORK

The requirement for any effective strategy to reflect a detailed appreciation of a company's operating environment has already been noted (Lynch, 2009). This is vital if a business is to be able to develop the corporate competences needed to meet customer requirements, exploit emerging market opportunities and maintain an understanding of how competitors can undermine current operating models (Clegg, Kornberger & Pitsis, 2011). Porter's five forces framework (1980) considers the effectiveness and relative position of an entity already established and operating within a competitive market, focussing on the micro-environment (i.e. those stakeholders and actors closely connected to the business concerned) and an example for a large retail entity is provided at Diagram 3:

Increasing consumer sensitivity to price, durability and utility

over fashion, brand and product range

Threat of substitute products

Bargaining power of suppliers

INTENSITY OF RIVALRY IN THE INDUSTRY

Bargaining power of buyers

Decreasing label/brand loyalty from consumers

Increasing consumer demand for ethical sourcing

Undifferentiated products – less brand/label sensitivity

Increasing consumer access to competitors

Internet access to discount suppliers and price comparison sites

Increasing attractiveness of discount stores such as ALDI and LIDL

Threats from new entrants

(Adapted from Porter, 1980)

DIAGRAM 3: PORTER'S FIVE FORCES FRAMEWORK

However, any environmental analysis needs to be taken forward on a much broader basis if it is to truly inform and shape strategy, necessitating a review of macro as well as micro environmental factors (Henry, 2011).

PESTLE ANALYSIS

The PESTLE approach (Political, Economic, Social, Technological, Legal and Environmental) has the potential to provide the structure needed to support the review of the broader operating context needed to underpin strategy discussions (McKeown, 2015). An outline example focussed on the issues likely to face a small business start-up in the leisure/catering sector is shown at Diagram 4:

Political:

Increasing levels of national and local support for new business start-ups.

Local plan supporting creation of 'social-mix' business parks.

BREXIT issues unlikely to impact/shape core business model proposed

Economic:

Reducing unemployment rates – increasing spend on leisure activities.

Local funding incentives for businesses providing employment in area.

Significant available retail space – reduced rents.

Social:

A return to more 'mainstream' family entertainment activity.

No local restaurant provision in area – indicated as a local 'need' in primary research.

Eating out a core UK family activity.

Technological:

Ability to engage customers directly through internet marketing.

Businesses seeking technology-enabled presentation and conference spaces.

Modern business systems supporting 'lean' operating model (e.g. minimal stock holdings).

Legal:

Core legislation around business clear and understood.

Limited legal concerns likely to be raised in establishing business (e.g. planning controls, noise).

Need to ensure that lease arrangements support future expansion and/or changes in service provision.

Environmental:

Greater client awareness of ecological and sustainability issues – need to manage business waste, energy consumption etc.

Potential future revenue streams e.g. roof space supporting solar panels

Technology developments could reduce running costs.

(Adapted from Kent and Omar, 2003)

DIAGRAM 4: PESTLE FRAMEWORK

Whilst this is a relatively simple framework, if applied effectively it can support the development of a more comprehensive understanding of the broader business environment being faced (Longnecker, Petty, Palich & Hoy, 2016) This, in turn, can support a business in its efforts to anticipate future/emerging challenges whilst also helping to identify and exploit emerging opportunities (Johnson et al, 2014). However, if used in isolation then it is easy to introduce untested assumptions which can undermine the effectiveness of any subsequent strategy deliberations (Henry, 2011). Like most analytical tools of this type, the challenge is to introduce enough substantive data to support the evolution of business strategy without overcomplicating the process by attempting to cover every potential factor (Capon, 2009).

SWOT ANALYSIS

The factors emerging from any PESTLE review conducted can be critically reviewed through the application of a relatively straightforward SWOT analysis i.e. a consideration of the relative strengths, weaknesses, opportunities and threats being faced by the company (Lynch, 2009). Whilst this is quite rightly criticised as a simplistic and largely subjective tool, it does help to collate and present the critical information needed to support any strategy development (McKeown, 2015). The importance of outlining such data in a clear and concise manner using the SWOT format is reinforced through the subsequent use of the TOWS matrix which can be used to generate potential courses of action supporting the evolution of a coherent business strategy (Porter, 1980; Porter, 2004).

Examples of a SWOT analysis and the use of the associated TOWS matrix to support strategy generation suggestions are shown at Diagrams 5 and 6. In these examples, a large multinational entity is used to provide essential context:

STRENGTHS

Scale – world’s largest consumer electronics company.

Coherent strategic vision – knowledge-based, interconnectivity.

Early innovator (miniaturisation history).

Dispersed markets

Cross-functional organisation with regional management.

Autonomous research & development functions.

WEAKNESSES

Declining revenues.

Poor patent protection for complex consumer electronics.

Confused production strategy (component manufacture vs. innovation.

Some poor judgement in diversification strategy (e.g. film executives).

Past successful strategies may not fit new/emerging product/e-services environment.

Silo mentality/over-departmentalisation.

OPPORTUNITIES

Growth following restructuring

Early internationalisation through acquisition.

Experience of successful international Joint Ventures

Established investment plan (particularly new market exploitation, portfolio realignment and restructuring).

THREATS

Strengthening competition

Loss of market share in some markets

Management culture in home market undermining transformation efforts.

Perceived declining innovative ability

(Adapted from Lynch, 2009)

DIAGRAM 5: SWOT ANALYSIS

INTERNAL FACTORS

Strengths (S)

Weaknesses (W)

EXTERNAL FACTORS

Opportunities (O)

SO Strategic Options

Use established Joint Venture model to exploit new markets.

Develop autonomous research and innovation capabilities to reflect emerging demands of diverse markets.

Maximise return from scale economies to reduce core cost base.

Using strengths to take advantage of opportunities

WO Strategic Options

Develop regional management structures to challenge centralised ‘silo’ approach.

Ensure any future diversification driven by regional market demand rather than product(s).

Joint-Venture models could improve (local) patent protection.

Taking advantage of opportunities to overcome weaknesses

Threats (T)

ST Strategic Options

Use scale economies to build cheaper product offerings challenging core competitor products.

Use emerging brand/product range to recover market share.

Regionalisation/Joint Venture strategy to over-ride home-market cultural resistance

Using strengths to avoid threats

WT Strategic Options

Lobby for improved patent protection, taking forward litigation if necessary.

Consider different competitive strategies for each regional market (e.g. low cost to penetrate new markets)

Minimise further portfolio diversification whilst exploring new markets.

Minimise weaknesses and avoid threats
(Adapted from Johnson et al, 2014)
DIAGRAM 6: TOWS MATRIX
ESTABLISHING STRATEGIC DIRECTION AND PURPOSE
The various analytical tools outlined (above) can help to frame the key business strategy of a company with the overall purpose often captured within a defined mission statement, the company's direction outlined within a stated vision and the desired working culture and operating norms reflected in expressions of corporate values (Cole & Kelly, 2011). However, these must also be considered from the perspective of stakeholders i.e. those individuals and/or groups that depend upon the company to fulfil their own goals and upon whom, in turn, the company also depends on for their enduring commercial success (Johnson et al, 2014). Any review of corporate strategy should therefore also include some form of stakeholder mapping exercise in order to ensure that the mission, vision and values articulated reflect stakeholder needs and expectations (Henry, 2011).
An example of a stakeholder analysis is presented at Diagram 7:
Stakeholder(s)
Relevance
-internal Stakeholders of high importance/value to the organisation
Employees
People wish to feel valued and fairly rewarded. Shape the company's reputation for customers.
Managers.
Will wish to be involved in shaping and directing corporate goals. Will wish to feel valued and rewarded.
-external Stakeholders of importance/value to the organisation
Financial Community
The source of investment and will require a sensible/attractive return on their investments. Will also wish to invest and support ethical, community-facing organisations as a part of their own reputation management.
Customers
Require a comprehensive and competitive service. Will wish to feel valued. The source of profits.
Competition
The company needs to safeguard and develop its market share. An understanding of competitors and the relevant markets is essential.
-internal Stakeholders of secondary importance/value to the organisation
Trade Unions.
Will want to be recognised and seen to add value for their members.
.-external Stakeholders of secondary importance/value to the organisation
Suppliers
The business requires a responsive and agile supply chain in order to meet customer expectations and maintain/develop profitability.
Government.
Government wants such businesses to be a success. Looking for revenues from taxation and employment.
Wider Political establishment and pressure groups
Corporate Governance and Corporate Social Responsibility now at the heart of any successful business given previous corporate and banking failures and the subsequent political and public interest. (Crane & Matten, 2010).
(Adapted from Johnson et al, 2014)
DIAGRAM 7: STAKEHOLDER ANALYSIS
This examination of corporate stakeholders can be used to review the relevance and validity of the strategy set, facilitating any revision in the approach adopted (Henry, 2011). The awareness that results can also support the evolution of tailored engagement approaches designed to underpin the strategy adopted through a process of stakeholder mapping, an example of which is shown at Diagram 8:
LOWPOWERHIGH
LOWLEVEL OF INTERESTHIGH
MINIMAL EFFORT
KEEP INFORMED
Unions
Owners/Shareholders
Suppliers
Trade Associations
Political Groups/Activists
KEEP SATISFIED
Communities
Government
KEY PLAYERS
Staff
Managers
Customers
Competitors

(Adapted from Johnson et al, 2014)

DIAGRAM 8: STAKEHOLDER MAPPING

In setting the strategic direction and supporting aims for a business, it is also prudent to consider how the internal competences and resources of an organisation are deployed to achieve them (Porter, 2004). To do so, it is appropriate to consider the value proposition proposed i.e. perceptions of value and how and how it is delivered, experienced and acquired both internally (to the organisation) and externally (to broader stakeholders (Henry, 2011). Whilst stakeholder analysis and mapping (Diagrams 7 and 8) can provide the external perspective, value chain analysis can support a critical review of how internal resources and competences are deployed to meet the strategic aims articulated (Porter, 2004). An example of how such an analysis can be presented is shown in Diagram 9:

SUPPORT ACTIVITIES

FIRM INFRASTRUCTURE

Solid infrastructure able to support international retail operations

MARGIN

HUMAN RESOURCE MANAGEMENT

Good personnel development and performance metrics in place – assessment built around profitability, so career progression derived from core (grocery/household) product knowledge

TECHNOLOGY DEVELOPMENT

Excellent technology application in terms of stock movement and consumption

PROCUREMENT

Outstanding procurement function, but often diverted to support ‘non-core’ product lines (e.g. clothing)

INBOUND LOGISTICS

Extensive expertise, but spread over numerous product lines

OPERATIONS

Extensive expertise and resources, more limited knowledge of non-core product lines (e.g. clothing)

OUTBOUND LOGISTICS

Excellent route to consumers (such as home delivery, internet ordering)

MARKETING & SALES

No shop floor subject matter experts available outside of core (household and grocery) product lines.

SERVICE

Excellent, but limited awareness of differences associated with low-cost and prestige/luxury offerings

MARGIN

PRIMARY ACTIVITIES

(Adapted from Porter, 2004)

DIAGRAM 9: VALUE CHAIN ANALYSIS (RETAIL OPERATION)

From the example presented in Diagram 9, it could be argued that product diversification into perceived non-core product lines (such as clothing) has the potential to undermine an otherwise cohesive corporate strategy (Porter, 2004).

SUMMARY AND CONCLUSION

This paper has provided a brief outline of the various analytical models and tools that can be applied to both support the generation and evolution of corporate strategy, as well as those that provide mechanisms to check the ‘fit’ between current operations and the strategy articulated (Johnson et al, 2014). Any effective strategy must be flexible enough to respond to changes in both the internal and external operating environment without losing sight of the requirement to maintain an enduring competitive advantage (Henry, 2011). This will require the careful application of the tools and analytical techniques presented as strategy can be considered from a range of perspectives:

Strategy as a planning tool, aiming to address future challenges;

Strategy as a means of positioning a business in relation to its markets and competitors;

Strategy as an internal review mechanism to consider the effectiveness of a company’s people, processes and culture;

Strategy as a pattern, aiming to review corporate actions over time to establish the most optimum operating model.

(Mintzberg, 1994)

As a result, strategy can be viewed as a layered concept. Corporate strategy seeks to focus on the broader competitive environment in order to examine the business areas a company may wish to operate within. Business Strategy often articulates more limited aims, considering how a company is going to obtain and maintain competitive advantage within a particular market (Henry, 2011). Given such complexities, it is therefore essential that the analytical approaches discussed are therefore used to support strategic decision making and not to drive it.

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