# Strategic Planning

9 CHAPTER

# Growth Strategy

- A growth strategy is when an organization expands the number of markets served or products offered, either through its current business(es) or through new business(es).
- Because of its growth strategy, an organization may increase revenues, number of employees, or market share.
- Organizations grow by using-

1. Concentration
2. Vertical integration
3. Horizontal integration
4. Diversification.

# Growth Strategy Cont…

- An organization that grows using *concentration* focuses on its primary line of business and increases the number of products offered or markets served in this primary business.
- A company also might choose to grow by *vertical integration*, either backward, forward, or both. In backward vertical integration, the organization becomes its own supplier so it can control its inputs.
- In *horizontal integration*, a company grows by combining with competitors.
- an organization can grow through *diversification*, either related or unrelated. Related diversification happens when a company combines with other companies in different, but related, industries.

# Stability Strategy

- A stability strategy is a corporate strategy in which an organization continues to do what it is currently doing.
- Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's current business operations.
- The organization doesn't grow, but doesn't fall behind, either.

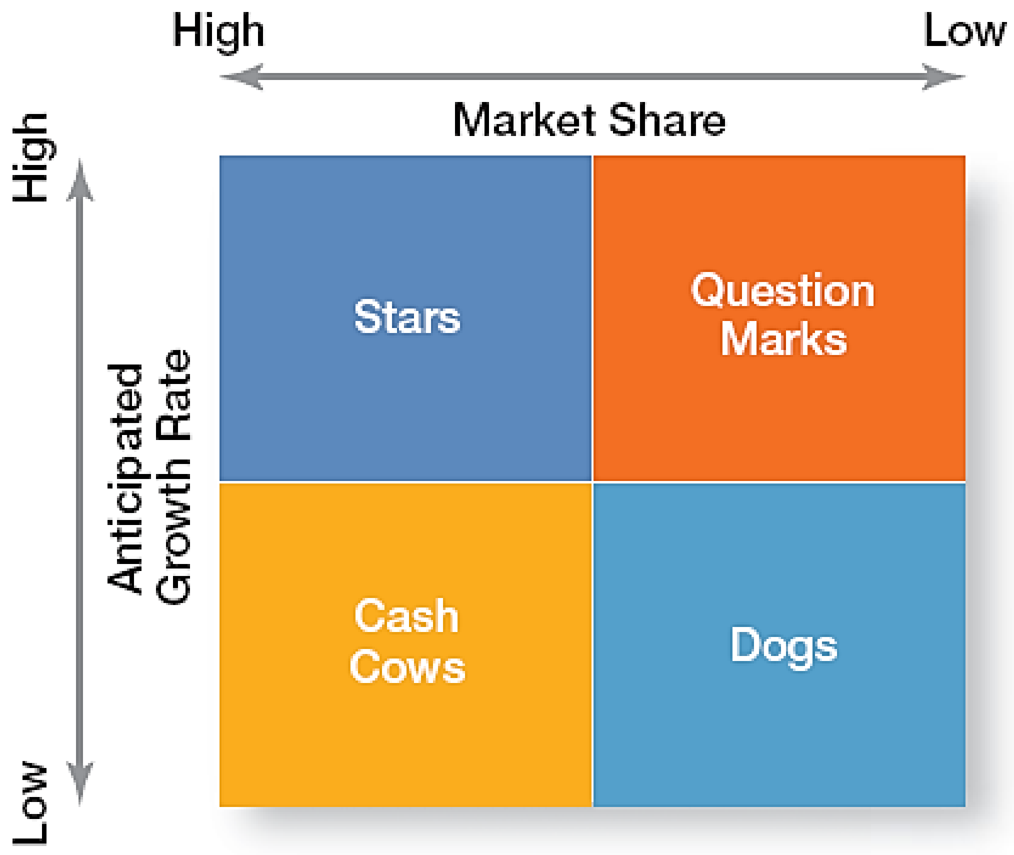
# Renewal Strategies

- When an organization is in trouble, something needs to be done. Managers need to develop strategies, called renewal strategies, that address declining performance.
- The two main types of renewal strategies are retrenchment and turnaround strategies.
- A *retrenchment strategy* is a short-run renewal strategy used for minor performance problems. This strategy helps an organization stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again.
- When an organization's problems are more serious, more drastic action—the *turnaround strategy*—is needed.
- Managers do two things for both renewal strategies: cut costs and restructure organizational operations.
- However, in a turnaround strategy, these measures are more extensive than in a retrenchment strategy.

# How Are Corporate Strategies Managed?

EXHIBIT 9-4

BCG Matrix



# Competitive Strategy

- A competitive strategy is a strategy for how an organization will compete in its business(es).
- For a small organization in only one line of business or a large organization that has not diversified into different products or markets, its competitive strategy describes how it will compete in its primary or main market.
- For organizations in multiple businesses, however, each business will have its own competitive strategy that defines its competitive advantage, the products or services it will offer, the customers it wants to reach, and the like.

# Competitive Advantage

- Developing an effective competitive strategy requires an understanding of competitive advantage, which is what sets an organization apart—that is, its distinctive edge.

- That distinctive edge can come from the organization's core competencies by doing something that others cannot do or doing it better than others can do it.

# FIVE FORCES MODEL.

- In any industry, five competitive forces dictate the rules of competition. Together, these five forces (see Exhibit 9-5) determine industry attractiveness and profitability, which managers assess using these five factors:
- 1. *Threat of new entrants*. How likely is it that new competitors will come into the industry?
- 2. *Threat of substitutes*. How likely is it that other industries' products can be substituted for our industry's products?
- 3. *Bargaining power of buyers*. How much bargaining power do buyers (customers) have?
- 4. *Bargaining power of suppliers*. How much bargaining power do suppliers have?
- 5. *Current rivalry*. How intense is the rivalry among current industry competitors?

EXHIBIT 9-5

Five Forces Model


Source: Based on M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors.*

# Choosing a Competitive Strategy

- *Cost Leadership Strategy:* When an organization competes on the basis of having the lowest costs (costs or expenses, not prices) in its industry, it's following a *cost leadership strategy*. A low-cost leader is highly efficient. Overhead is kept to a minimum, and the firm does everything it can to cut costs.
- *Differentiation Strategy*: A company that competes by offering unique products that are widely valued by customers is following a *differentiation strategy*. Product differences might come from exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. Practically any successful consumer product or service can be identified as an example of the differentiation strategy.
- *Focus Strategy:* the *focus strategy*—involves a cost advantage (cost focus) or a differentiation advantage (differentiation focus) in a narrow segment or niche. Segments can be based on product variety, customer type, distribution channel, or geographical location.
- *Stuck In The Middle*: What happens if an organization can't develop a cost or a differentiation advantage? Porter called that being *stuck in the middle* and warned that's not a good place to be. An organization becomes stuck in the middle when its costs are too high to compete with the low-cost leader or when its products and services aren't differentiated enough to compete with the differentiator. Getting unstuck means choosing which competitive advantage to pursue and then doing so by aligning resource, capabilities, and core competencies.

# Functional Strategies

- The functional strategies, which are the strategies used by an organization's various functional departments to support the competitive strategy. For example, when R. R. Donnelley & Sons Company, a Chicago-based printer, wanted to become more competitive and invested in high-tech digital printing methods, its marketing department had to develop new sales plans and promotional pieces, the production department had to incorporate the digital equipment in the printing plants, and the human resources department had to update its employee selection and training programs.

# What is strategic leadership?

- It's the ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization. How can top managers provide effective strategic leadership?
- Eight key dimensions have been identified.28 (See Exhibit 9-6.)

EXHIBIT 9-6

Effective Strategic Leadership


Sources: Based on J. P. Wallman, "Strategic Transactions and Managing the Future: A Druckerian Perspective," *Management Decision*, vol. 48, no. 4, 2010, pp. 485–499; D. E. Zand, "Drucker's Strategic Thinking Process: Three Key Techniques," *Strategy & Leadership*, vol. 38, no. 3, 2010, pp. 23–28; and R. D. Ireland and M. A. Hitt, "Achieving and Maintaining Strategic Competitiveness in the 21st Century: The Role of Strategic Leadership," *Academy of Management Executive*, February 1999, pp. 43–57.

# Strategic Flexibility

- Strategic Flexibility—that is, the ability to recognize major external changes, to quickly commit resources, and to recognize when a strategic decision isn't working. Given the highly uncertain environment that managers face today, strategic flexibility seems absolutely necessary!
- Exhibit 9-7 provides suggestions for developing such strategic flexibility.

## EXHIBIT 9-7

### Developing Strategic Flexibility

- *Encourage leadership unity* by making sure everyone is on the same page.
- *Keep resources fluid* and move them as circumstances warrant.
- *Have the right mindset* to explore and understand issues and challenges.
- Know what's happening with strategies currently being used by *monitoring and measuring results*.
- Encourage employees to *be open about disclosing and sharing negative information*.
- *Get new ideas and perspectives from outside* the organization.
- Have *multiple alternatives* when making strategic decisions.
- *Learn from mistakes*.

# e-BUSINESS STRATEGIES.

- Managers use e-business strategies to develop a sustainable competitive advantage.
- A cost leader can use e-business to lower costs in a variety of ways. For instance, it might use online bidding and order processing to eliminate the need for sales calls and to decrease sales force expenses; it could use Web-based inventory control systems that reduce storage costs; or it might use online testing and evaluation of job applicants.
- A differentiator needs to offer products or services that customers perceive and value as unique. For instance, a business might use Internet-based knowledge systems to shorten customer response times, provide rapid online responses to service requests, or automate purchasing and payment systems so that customers have detailed status reports and purchasing histories.
- Finally, because the focuser targets a narrow market segment with customized products, it might provide chat rooms or discussion boards for customers to interact with others who have common interests, design niche Web sites that target specific groups with specific interests, or use Web sites to perform standardized office functions such as payroll or budgeting.

# Clicks-and Bricks Strategy

- A clicks-and-bricks firm is one that uses both online (clicks) and traditional stand-alone locations (bricks).For example, Walgreen's established an online site for ordering prescriptions, but some 90 percent of its customers who placed orders on the Web preferred to pick up their prescriptions at a nearby store rather than have them shipped to their home. So its "clicks-and-bricks" strategy has worked well!

# First Mover

- An organization that's first to bring a product innovation to the market or to use a new process innovation is called a first mover.
- Being a first mover has certain strategic advantages and disadvantages as shown in Exhibit 9-8. Some organizations pursue this route, hoping to develop a sustainable competitive advantage. Others have successfully developed a sustainable competitive advantage by being the followers in the industry.
- They let the first movers pioneer the innovations and then mimic their products or processes. Which approach managers choose depends on their organization's innovation philosophy and specific resources and capabilities.

**EXHIBIT 9-8**

**First-Mover Advantages and Disadvantages**

| Advantages | Disadvantages |
|---|---|
| • Reputation for being innovative and industry leader<br>• Cost and learning benefits<br>• Control over scarce resources and keeping competitors from having access to them<br>• Opportunity to begin building customer relationships and customer loyalty | • Uncertainty over exact direction technology and market will go<br>• Risk of competitors imitating innovations<br>• Financial and strategic risks<br>• High development costs |


Thank You!