Chapter 6
Strategy and implementation

Business objectives and strategy

Strategy is the way a business operates in order to achieve its aims and objectives.

There are two sides to strategy - the first is formulation and the second is implementation.

The formulation of strategy is basically the same thing as constructing a business plan. Implementation is putting the plan into practice.

A plan should not be rigid; it should be sufficiently flexible to allow for changing circumstances. It should include a feedback loop to regularly check if the plan is working and adapting it as and when necessary.

Businesses should attempt to create objectives which are achievable in its existing business environment (in line with the SMART model). A business that sets an objective of increasing market share from 10% to 30% in 12 months is probably being unrealistic but an increase to 15% may be more achievable, depending on the circumstances. So business strategy should always be set in relation to the environment the business operates within but also related to internal factors such as financial resources, brand strength, skills of management, employees and so on.

The setting and achievement of objectives within a large business is a hierarchical process, which starts at the top with the setting of a corporate strategy and is put into action by business functions that design strategies to fulfil objectives:

Corporate strategy

Corporate level strategy is concerned with the strategic decisions a business makes that affect the entire business. At the corporate level, strategy is concerned with setting objectives for overall financial performance, proposed mergers or acquisitions, long term human resource planning and the allocation of resources to different business divisions.

Strategic direction

Strategic direction is a course of action that ultimately leads to the achievement of the stated goals of the corporate strategy. Once the corporate strategy is established then the strategic planning that follows is used to establish the strategic direction i.e. sets out in broad terms how the objectives will be achieved. The strategic plan created will normally contain a clear mission statement but beyond this describes the businesses' objectives, which divisions or functions need to be focussed on to achieve these objectives, and makes clear methods of measuring achievement of objectives.

The corporate plan

A corporate plan is a statement of organisational goals to be achieved in the medium to long term. It will be based on management assessments of market opportunities, the economic situation and the resources and technologies available to the business. It will make clear measurable objectives and formulate strategies for achieving these objectives. The corporate plan will include methods for monitoring the achievement of objectives and the tactical decisions made to achieve these objectives.

Divisional strategy

The next level of business strategy is concerned with directing the divisions (often functional or geographical in structure) within the organisation. The overall corporate strategy will be communicated to the divisional managers. This information shapes the plans the divisional managers create. For example, if the corporate strategy focuses on rapid growth in demand for the company's products or services, the strategies the divisional managers generate would be tailored to meet this demand. In this scenario the sales division strategy may include growth in sales teams, the production strategy including increased need for inputs and production capacity.

Tactical decisions

Tactical decisions are medium term decisions made by middle managers. They follow on from strategic decisions and aim to meet the objectives stated in any strategic plan. For example, increase output may be a strategic decision but how to do this, perhaps through recruitment or alternatively through outsourcing increased production, is a tactical decision. A corporate objective may be to grow market share and in order to do this a business may have to widen distribution channels or improve web presence. Again these decisions are tactical in nature. Tactical decisions are also adaptable - the tactical approach can change to adjust to changing market conditions even though the corporate objectives have not changed.

Functional strategy

Functional strategy relates to a single functional operation such as: production, marketing or HRM and the activities involved within each of these functions. The decisions made at this level of strategy are guided and limited by the higher level corporate and divisional strategies and will support these strategies. For example the business's marketing strategy, which will be a functional strategy, will be guided by objectives established at corporate level and made clear at divisional level. It is the responsibility of the functional managers to develop the systems and applications that allow the achievement of corporate and divisional strategies.

SWOT analysis

In working out its strategy for the future it is helpful for a business to carry out a SWOT analysis. A SWOT analysis is used to identify and analyse the internal **Strengths** and **Weaknesses** of an organisation, as well as the external **Opportunities** and **Threats** created by the business and economic environment.

A SWOT is presented as a simple 2 by 2 table, showing the strengths, weaknesses, opportunities and threats relevant to a business. SWOTs are often used when developing corporate objectives, or on a smaller functional scale such as a marketing strategy. This analysis looks at both the things that the business can control, its strengths and weaknesses and the factors that are beyond its control, the opportunities and threats that it faces.

Strengths	Opportunities
Weaknesses	**Threats**

Why use a SWOT?

The objective of using a SWOT is the development of a strategic plan that considers many different internal and external factors and **maximises** the potential of the strengths and opportunities whilst **minimising** the impact of the weaknesses and threats.

The idea of a SWOT is then to gain an overall picture of all potential influences on future business success and to adapt business strategy to reflect these influences. SWOTs are often prepared as part of the process of developing a strategic plan, or planning a solution to a problem. Often carrying out an analysis using the SWOT framework will be enough to reveal changes, which can be useful to the future success of the business.

In general a business will want to know in what areas it is better than its competitors and in what areas it lags behind.

There are four distinct stages to preparing and using a SWOT analysis:

Stage 1

Internal analysis

Examining the capabilities of the business, or part of the business. This can be done by analysing the business's strengths and weaknesses.

Stage 2

External analysis

Gathering data on markets, competitor activities, economic outlook and the environmental impact of the business. Identifying those points that pose opportunities for the business and those that pose threats or obstacles to performance. Deciding whether the answers or the data collected reveal external opportunities or threats.

Stage 3

Prepare SWOT table

Entering the information collected in steps one and two into a SWOT table.

Stage 4

Using the SWOT to develop a business strategic plan or functional strategy.

The four components of SWOT are:

Strengths:

These are positive features of a business identified from Stage 1, the internal analysis. A strength is only a strength when a business is good at something and also takes advantage of this strength. Examples of strengths may be having an USP, a strong band, state of the art equipment, motivated workforce, strong financial indicators, etc. When examining strengths a business will ask the questions 'What are our advantages over our competition? What do we do well compared to other businesses in the industry?

Weaknesses:

These are negative features of a business identified from Stage 1, the internal analysis. A weakness occurs when a business performs poorly in an important area of operations or when it fails to take advantage of an existing strength i.e. an unsuccessful application of an asset or the failure to exploit a critical factor that diminishes company competitiveness. Weaknesses could also include the opposite of the strengths listed above such as a demotivated workforce, poor customer loyalty and a poor financial position. When examining weaknesses a business will ask the questions 'What could be improved?', 'What is done badly?' and 'What should be avoided?'

Opportunities:

These are prospects identified in the external analysis carried out in Stage 2. An opportunity is an external condition that could positively impact on the business's performance and improve competitive advantage provided positive action is taken in time. When examining opportunities a business will ask the questions 'What are the interesting market trends?', 'Is our competition suffering?', 'Are new market niches appearing?', 'Are there opportunities for take-overs?', 'Has legislation recently changed?' and 'Is the economic climate improving?'

Threats:

These are dangers identified in the external analysis carried out in Stage 2. A threat is an external condition that could have a negative impact on the business's performance and reduces competitive advantage. When examining threats, a business will ask the questions 'What obstacles does the business face?', 'What is the competition doing?', 'Is there a new business entering the market?', 'Is changing technology threatening the business's position?' and 'Is the economic climate getting worse?'

Stage 3 would be summarising this information in a table, such as the one shown below. This then can be used to initiate a discussion when developing a corporate or functional strategy (Stage 4).

Strengths	Opportunities
Effective distribution networks Strong brand identity High staff motivation Being seen as a price leader Good industrial relations High levels of productivity	Changes in technology and competitive structure of markets Changes in government policy related to the business's field Changes in social patterns, population profiles, life style changes, fashion ayb.
Weaknesses	**Threats**
Limited product range Poor investment record in technology High levels of staff turnover Failing to achieve industry benchmarks Bad debt or cash-flow problems	Economic recession Changing consumer incomes or tastes New product launches by competitors Environmental legislation New or increased taxes New technologies being used by competitors

Using the SWOT

Once the SWOT has been completed, the information can be used to help develop a strategy that uses the strengths and opportunities to reduce the weaknesses and threats and to achieve the objectives of the business.

An effective SWOT will allow a business to:

- Build on strengths
- Resolve weaknesses
- Exploit opportunities
- Avoid threats

SWOT analysis for Starbucks

Adapted from MarketingTeacher. com

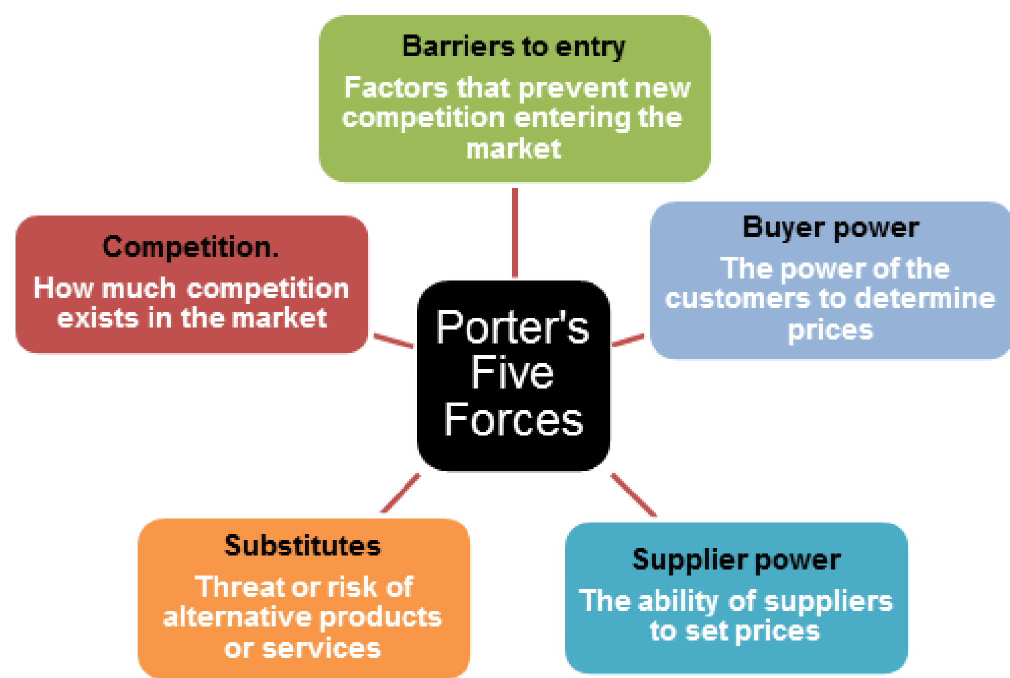
Strengths	Weaknesses
Starbucks Corporation is a very profitable organisation, earning in excess of $2billion in 2012.The company generated revenue of more than $10billion in the same year. It is a global coffee brand built upon a reputation for fine products and services. It has almost 11 000 cafés in more than 40 countries. Starbucks is consistently ranked as one of the Fortune Top 100 Companies to Work for. The company is a respected employer that values its workforce. The organisation has strong ethical values.	Starbucks has a reputation for new product development and creativity. However, they remain vulnerable to the possibility that their innovation may falter over time. The organisation has a strong presence in the United States of America with more than three quarters of their cafés located in the home market. It is often argued that they need to look for a portfolio of countries in order to spread business risk. The organisation is dependent on a main competitive advantage, the retail of coffee. This could make them slow to diversify into other sectors should the need arise.
Opportunities	**Threats**
Starbucks is very good at taking advantage of opportunities. In 2004 the company created a CD-burning service in their Santa Monica (California USA) café with Hewlett Packard, where customers create their own music CD. New products and services can be retailed in their cafés, such as Fair Trade products. The company has the opportunity to expand its global operations. New markets for coffee such as India and the Pacific Rim nations are beginning to emerge. Co-branding with other manufacturers of food and drink, and brand franchising to manufacturers of other goods and services both have potential.	Who knows if the market for coffee drinking will continue to grow and stay in favour with customers or whether another type of beverage or leisure activity will replace coffee in the future? Starbucks is exposed to rises in the cost of coffee and dairy products. Since its conception in Pike Place Market, Seattle in 1971, the success of Starbucks has led to the market entry of many competitors and copycat brands that pose potential threats. The effects of any future recession on coffee consumption are not yet known.

Porter's Five Forces

It has often been assumed that businesses have to operate in a certain way in particular market structures, such as monopoly, oligopoly and perfect competition. However, Dr Michael Porter, a professor at Harvard Business School, believes that large businesses can, under certain circumstances, exert an influence on the markets in which they operate. In other words they can be active rather than passive participants.

Dr Porter proposed a model of the business environment that stated industries and businesses were being influenced by 5 external forces. Porter suggested the idea that the interaction and influence of these 5 forces will determine the behaviour of businesses' and the likely levels of profitability for a business within a particular industry.

Business owners and managers can use this model of Porters Five Forces to better understand the industry in which the business operates and to properly consider the external influences on the business's behaviour. Understanding of how Porter's Five Forces affect any business will demonstrate to owners and managers that there are limits on what can be achieved and therefore how to set realistic objectives. Once they have this understanding managers will be able to devise appropriate strategies, designed to maximise profitability.



Barriers to entry

These are factors that prevent new competition entering the market. If barriers to entry are high, then monopoly profits can occur. However, when they are low then normal profits can be earned. If new businesses can enter the market easily then the existing businesses will have a challenge to keep their profits high. New businesses will be attracted to the market if profits are high but if barriers of entry exist, or existing businesses attempt to create barriers to entry, then this can reduce or stop new businesses entering the market.

Examples of barriers to entry include:

- Cost advantages of existing businesses (gained through economics of scale or effective relationships with suppliers)
- Access to factors of production e.g. raw materials, skilled staff and components
- High capital/ investment requirements
- Strong brand identity of existing business's products and high levels of advertising
- Access to distribution networks
- Predictable behaviour of existing businesses e.g. retaliation through short term pricing strategies
- Access to technologies used in the industry.

Supplier power

If suppliers have high levels of power they are able to push up prices for raw materials and components, so lowering profit margins for the business (the supplier's buyer). On the other hand, with lower levels of supplier power, the situation is reversed. The buyer may be able to force prices paid for components and raw materials down, which results in higher profit margins for the business. A large company such as Tesco, with its massive buying power, is able to exert power over its suppliers. It will pay its suppliers less money for their products, which is only to be expected, since bulk purchasing is an economy of scale. As a result, Tesco will reduce its costs and increase its profits. Businesses may attempt to reduce the power of suppliers to improve their position. Examples of factors that determine supplier power include:

- The number of alternative suppliers – competition amongst suppliers
- Importance of volume of orders to supplier
- If inputs make up a large proportion of costs
- If inputs (raw materials or components) help create differentiation of products made
- The costs of switching to a new supplier
- Availability of alternative (substitute) inputs
- If backward vertical integration exists.

Buyer power

Buyer power concerns the ability of the customers within an industry to affect/ determine the price they pay. The higher the buyer power, the lower the potential for the business to set the price themselves. If buyer power is low, then the business is able to set the price high and therefore achieve more profit. Examples of factors that determine buyer power include:

- The amount of bargaining leverage the buyer has. For example, does the customer buy a large proportion of the business' products/ services?
- Whether the customer buys in bulk. The larger the order the greater the level of negotiated discount
- Whether the buyer has information on costs/ availability of alternative suppliers
- Product USP and exclusivity
- Brand identity and loyalty of the product bought. If the product is branded, the buyer has less control over price paid, they may even be told the price that they can sell the product at

- Price sensitivity of the product. How changes in price affect demand levels (PED)
- If forward vertical integration exists.

Degree of competition in the market

The level of competition in a market can in theory vary between a pure monopoly to perfect competition. As a general rule we can say the lower the level of competition, the higher the profit margins (and vice versa). The extent of the rivalry between competing businesses within a market will determine the prices set for products and the profit that is made. Examples of factors that determine the number of competitors in a market include:

- The level of collusion in the market i.e. do the businesses act together to control price and share out the market between them?
- Maturity of the market i.e. is the market stable with established brands and market leaders, or is the market immature, with new entrants being able to join?
- Industry concentration i.e. is the market a monopoly or an oligopoly with a few businesses dominating the market, or even more like perfect competition with many businesses each having small market shares?
- Product differentiation in the market i.e. is the market full of virtually identical products (cereals), or are the products identifiably different (car market)?
- Strength of brands in the market (levels of brand loyalty). Are customers easily tempted to switch brands?
- The existence of patents and licenses to operate in the market. Patents can give companies monopolies of production for specific products, and licences offered by governments or regulators will limit the numbers of competitors
- If horizontal integration exists.

Threat or risk of substitute products or services

This concerns the availability of alternative products that customers could switch to. The more substitute products available the weaker the position of the business, and vice versa. For example in the telecommunications market, for a long period there was no risk of substitute products to fixed line phones and for terrestrial TV – but now we have mobile phones, smart phones, tablets, satellite and cable TV. Examples of factors that determine the likelihood of availability of substitute products include:

- Rate of change of technology – the faster the rate of change of technology, the more quickly substitutes are likely to occur
- Availability of capital for investment – are potential producers of substitutes likely to be able to raise the capital required for research and development and production
- Switching costs for customers – cost of changing to substitute
- Level of substitution effect – how close is the substitute, how easily does it replace the original product or service
- Price-performance trade-off of substitutes – how effective are the substitutes in cost and performance e.g. at the moment electric cars do not offer an effective substitute for petrol engine cars so few people consider them as effective substitutes
- The existence of patents and licenses to operate in the market.

Discussion themes
Explain how a business' mission statement should relate to its aims.
Describe the relationship between a business's objectives and its strategy.
Why should a business have a corporate plan?
SWOT analysis: https://www.mindtools.com/pages/article/newTMC_05.htm
Explain how carrying out a SWOT will help a business.
Porter's Five Forces: https://www.mindtools.com/pages/article/newTMC_08.htm
Supplier power: http://www.bbc.co.uk/news/business-35408064
For each of Porter's Five Forces identify and explain how a business may improve its position in the market.
Select two businesses operating in two different markets. Apply both a SWOT analysis and Porter's Five Forces to each business. Compare and contrast your findings.