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**Paper Title: Business Strategy & Ethics.**

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**Title: Strategy Formulation, Analysis & Choice.**

**Lecture No: 1 (One)**

**Title: Formulating Long-term Objectives and Grand Strategies.**

## Academic Scripts

**Introduction**

Without strategy, an organization is like a ship without a rudder. It may know where it wants to go but has no means of getting there. On the other hand, if it does not know where it wants to go - rudder or no rudder - any route (that is, any strategy) would do: it is pointless worrying over what route to take if you do not know where you are going!

Through this session students will be taught about the long-term objectives. These are statements of the results a firm seeks to achieve over a specified period typically three to five years.

In this session students will get knowledge of different types of generic and grand strategies

The session has two major aims:

1. To discuss in detail the concept of long term objectives
2. To discuss the concept of grand strategies and to describe the 15 principles of grand strategy that are being used to provide the basis for global competitiveness.

**<u>1, Long term objectives:</u>**

- To achieve long –term prosperity, strategic planners commonly establish long –term objectives in seven areas.

**1, Profitability**: the ability of any firm to operate in the long run depends on attaining an acceptable level of profits. strategically managed firms characteristically have a profit objective, usually expressed in earnings per share or return on equity.

**2, Productivity:** strategic managers constantly try to increase the productivity of their system. Firms that can improve the input-output relationship normally increase profitability. Thus, firms almost state an objective for productivity. Commonly used productivity objective are the number of items produced or the number of services rendered per unit of input.

**3, Competitive position:** One measure of corporate successis relative dominance in the marketplace. Larger firms commonly establish an objective in terms of competitive position, often using total sales or market share as measures of their competitive position. An objective with regard to competitive position may indicate a firm's long-term priorities.

**4, Employee development:** Employees value education and training, in part because they lead to increased compensation and job security. Providing such opportunities often increases productivity and decreases turnover. Therefore, strategic decision makers frequently include an employee development objective in their long-term plans. Development of Human Resources is an ongoing exercise.

**5, Employee relation:** Whether or not they are bound by union contracts, firms actively seek good employee relation. In fact, proactive steps in anticipation of employee needs and expectations are characteristic of strategic managers. Strategic managers believe that productivity is linked to employee loyalty and to appreciation of managers' interest in employee welfare. They, therefore, set objectives to improve employee relation.

**6, Technological leadership:** Firms must decide whether to lead or follow in the marketplace. Either approach can be successful, but each requires a different strategic posture. Therefore, many firms state an objective with regards to technological leadership.

**7, Public responsibility:** Managers recognize their responsibility to their customers and to society at large. In fact, many firms seek to exceed government requirements. They work not only to develop reputations for fairly priced products and services but also establish themselves as responsible corporate citizens.

- **Qualities of long-term objectives:**

We can list the following under this title:

**1, Flexible:** Objectives should be adaptable to unforeseen or extraordinary circumstances in the firm's competitive or environmental environment. Unfortunately, such flexibility usually is increased at the expense of specificity. One way of providing flexibility while minimizing its negative effects is to allow for adjustments in the level, rather than in the nature, of objectives.

**2, Measurable:** Objectives must clearly and concretely state what will be achieved and when it will be achieved. Thus, objectives should be measurable over time.

**3, Motivating:** People are most productive when objectives are set as a motivating level; one high enough to challenge but not so high as to frustrate or so low as to be easily attained. Individuals and groups differ in their perceptions of what is high enough. Developing such objectives requires time and efforts, but objectives of this kind are more likely to motivate.

**4, Suitable:** Objectives must be suited to the broad aims of the firm, which are expressed in its mission statement. Each objective should be a step toward the attainment of overall goals. In fact, objectives that are inconsistent with the company mission can subvert the firm's aims.

**5, Understandable:** Strategic managers at all levels must understand what is to be achieved. They also must understand the major criteria by which their performance will be evaluated. Thus, objective must be so stated that they are as understandable to the recipient as they are to the giver.

**<u>2. Types of strategies:</u>**

**There are two types of strategies**

- **Generic strategies:** A long-term or grand strategy must be based on a core idea about how the firm can best compete in the marketplace. The popular term for this core idea is generic strategy. From a scheme developed by Michael Porter, many planners believe that any long-term strategy should derive from a firm's attempt to seek a competitive advantage based on one of five generic strategies:

- **The Five Generic Competitive Strategies:**

1. There are countless variations in the competitive strategies that companies employ, mainly because each company's strategic approach entails custom-designed actions to fit its own circumstances and industry environment.

2. The biggest and most important differences among competitive strategies boil down to:

a. Whether a company's market target is broad or narrow

b. Whether the company is pursuing a competitive advantage linked to low costs or product differentiation

**3. Five distinct competitive strategy approaches stand out:**

**a. A low-cost provider strategy:** striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by under pricing rivals.

◆ Make achievement of *meaningful lower costs* than rivals the *theme* of firm's strategy

- Include *features and services* in product offering that buyers consider *essential*
- Find approaches to *achieve a cost advantage* in ways *difficult* for rivals to *copy or match*
- **Low-cost leadership means *low overall costs,* not just low manufacturing or production costs!**

**Translating a Low-Cost Advantage into Higher Profits: Two Options**

*Option 1:* Use lower-cost edge to under-price competitors and attract price-sensitive buyers in enough numbers to increase total profits

*Option 2:* Maintain present price, be content with present market share, and use lower-cost edge to earn a higher profit margin on each unit sold, thereby increasing total profits

**Characteristics of a Low-Cost Provider**

Successful low-cost producers *championfrugality* but wisely and aggressively *invest in cost-saving improvements*

Some steps in this direction include:

- Creating a cost conscious corporate culture
- Employee participation in cost-control efforts
- Ongoing efforts to benchmark costs
- Intensive scrutiny of budget requests
- Programs promoting continuous cost improvement

**Pitfalls of Low-Cost Strategies**

- Being overly aggressive in cutting price
- Low cost methods are easily imitated by rivals
- Becoming too fixated on reducing costs

and ignoring

- ➔ Buyer interest in additional features
- ➔ Declining buyer sensitivity to price
- ➔ Changes in how the product is used
- Technological breakthroughs open up cost reductions for rivals

**b. A broad differentiation strategy:** Seeking to differentiate the company's product/service offering from rivals' in ways that will appeal to a broad spectrum of buyers.Differentiation strategies are attractive whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product or by sellers with identical capabilities.

**c. A best-cost provider strategy:** Giving customers more value for the money by incorporating good-to-excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering products with comparable attributes.

◆ ***Combine*** a ***strategic emphasis*** on ***low-cost*** with a strategic emphasis on ***differentiation***

➔ Make an upscale product at a lower cost

➔ Give customers more value for the money

**Competitive Strength of a Best-Cost Provider Strategy**

◆ A best-cost provider's *competitive advantage* is based on its capability to include upscale attributes at a lower cost than rivals' comparable products

To achieve *competitive advantage,*a company must be able to

➔ Incorporate attractive features at a lower cost than rivals

➔ Manufacture a good-to-excellent quality product at a lower cost than rivals

➔ Develop a product that delivers good-to-excellent performance at a lower cost than rivals

➔ Provide attractive customer service at a lower cost than rivals

**d. A focused or market niche strategy based on lower cost:** concentrating on a narrow buyer segment and outcompeting rivals by serving niche members at a lower cost than rivals.

**Approaches to Defining a Market Niche**

◆ Geographic uniqueness

◆ Specialized requirements in using product/service

◆ Special product attributes appealing only to niche buyers

Achieve lower costs than rivals in serving a well-defined buyer segment

**e. A focused or market niche strategy based on differentiation:** Concentrating on a narrow buyer segment and outcompeting rivals by offering niche members' customized attributes that meet their tastes and requirements better than rivals products.

Advocates of generic strategies believe that each of these options can produce above average returns for a firm in an industry. However, they are successful for a verity of reasons.

**Focus / Niche Strategiesand Competitive Advantage**

**>Risks of a Focused Strategy**

These include:

- Competitors find effective ways to match a focuser's capabilities in serving niche
- Niche buyers' preferences shift towards product attributes desired by majority of buyers – niche becomes part of overall market
- Segment becomes so attractive that it becomes crowded with rivals, causing segment profits to be splintered

- **GRAND STRATEGIES:**

**1, Concentrated growth**

- **Concentrated growth** directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology

**2, Market Development**

- **Market development** commonly ranks second only to concentration as the least costly and least risky of the 15 grand strategies
- It consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion
- Frequently, changes in media selection, promotional appeals, and distribution are used to initiate this approach

**3, Product Development**

- **Product Development** involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels

**4, Innovation**

- These companies seek to reap the initially high profits associated with customer acceptance of a new or greatly improved product
- Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, they search for other original or novel ideas
- The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete

**5, Horizontal Integration**

- When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called **horizontal integration**
- Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets

**6, Vertical Integration**

- When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products), vertical integration is involved
- The main reason for backward integration is the desire to increase the dependability of the supply or quality of the raw materials used as production inputs

**7, Concentric Diversification**

- **Concentric diversification** involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products
- With this grand strategy, the selected new businesses possess a high degree of compatibility with the firm's current businesses
- The ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk

**8, Conglomerate Diversification**

- Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. This grand strategy is commonly known as **conglomerate diversification**.
- The principal concern of the acquiring firm is the profit pattern of the venture
- Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing businesses

**9, Turnaround**

At time the firm finds itself with declining profits

- Among the reasons for low and declining profits are economic recessions, production inefficiencies, and innovative breakthroughs by competitors

- Strategic managers often believe the firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competences. This is **turnaround**.
- Two forms of retrenchment:
  - Cost reduction
  - Asset reduction

**10, Divestiture**

- A **divestiture strategy** involves the sale of a firm or a major component of a firm
- When retrenchment fails to accomplish the desired turnaround, or when a nonintegrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm
- Reasons for divestiture vary

**11, Liquidation**

- When liquidation is the grand strategy, the firm typically is sold in parts, only occasionally as a whole—but for its tangible asset value and not as a going concern
- Planned liquidation can be worthwhile

**12, Bankruptcy**

*bankruptcy*—agreeing to a complete distribution of firm assets to creditors, most of whom receive a small fraction of the amount they owed

**13, Joint Ventures**

- Occasionally two or more capable firms lack a necessary component for success in a particular competitive environment
- The solution is a set of **joint ventures**, which are commercial companies (children) created and operated for the benefit of the co-owners (parents)
- The joint venture extends the supplier-consumer relationship and has strategic advantages for both partners

**14, Strategic Alliances**

- **Strategic alliances** are distinguished from joint ventures because the companies involved do not take an equity position in one another
- In some instances, strategic alliances are synonymous with licensing agreements
- Outsourcing arrangements vary

**15, Consortia**

Consortia are defined as large interlocking relationships between businesses of an industry.

In Japan such consortia are known as keiretsus; in south Korea as chaebols.

Japanese consortia of businesses that is coordinated by a large trading company to gain a strategic advantage, and a Korean consortia financed through government banking groups to gain a strategic advantage.

- **Selection of long term objectives and grand strategy.**

Strategic choice decision making leads to the sequential selection of long term objectives and grand strategies. In fact, however, strategic choice is the simultaneous selection of long range objectives and grand strategies. When strategic planners study their opportunities, they try to determine which are most likely to result in achieving various long range objectives. Almost simultaneously, they try to forecast whether an available grand strategy can take advantage of preferred opportunities so the tentative objectives can be met. Inessence, then, three distinct but highly interdependent choices are being made at one time. Several triads or sets, of possible decisions are usually considered.

In an actual decision situation, the strategic choice would be complicated by a wider variety of interactive opportunities, feasible company objectives, promising grand strategy options and evaluative criteria.

- **Sequence of objectives and strategy selection.**

The selection of long range objectives and grand strategies involves simultaneous, rather than sequential, decisions. While it is true that objectives are needed to prevent the firm's direction and progress from being determined by random forces, it is equally true that objectives can be achieved only if strategies areimplemented. In fact, long term objectives and grand strategies are so interdependent that some business consultants do not distinguish between them. Long term objectives and grand strategies are still combined under the heading of company strategy in most of the popular business literature and in the thinking of most practicing executives.

However, the distinction has merit. Objectives indicate what strategicmanagers' want but provide few insights about how they will be achieved. Conversely strategies indicate what type of actions will be taken but do not define what ends will be pursued or what criteria will serve as constraints in refining the strategic plan.

Does it matter what strategic decisions are made to achieve objectives or to satisfy constraints? No, because constraints are themselves objectives. The constraints of increased inventory capacity is a desired ( objective), not a certainty. Likewise the constraints of an increase in the sales force does not ensure that the increase will be achieved, given such factors as other company priorities, labor market conditions, and the firm's profit performance.

**Summary:**

At the end of this session students should have understood that it is very important to grasp two principal components of any strategic choice, namely, long term objectives and grand strategy for all businesses. The purpose of this session was to convey the understanding.

Students should have been enlightend knowledge about long term objectives that were defined as the result a firm seeks to achieve over a specific period, typically five years.

Seven common long term objectives were discussed; namely, profitability, productivity, competitive position, employee development, employee relations, technological leadership, and public responsibility. These or any other long terms objectives should be flexible, measurable over time, motivating, suitable, and understandable.

Grand strategies were defined as comprehensive approaches guiding the major actions designed to achieve long term objectives. Fifteen grand strategy options were discussed; namely concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, bankruptcy, joint ventures, strategic alliances, and consortia.