IPMZ

HIGHER DIPLOMA

STRATEGIC MANAGEMENT

COURSE DESIGN LENGTH: 200 HOURS

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STRATEGIC MANAGEMENT

Course Objectives

By the end of the course, you will be able to:

1. Outline the nature and value of strategic management

2. Discuss the components of a mission statement

3. Describe the impact of the external environment on organisations

4. Describe the process of setting objectives and crafting strategies

5. Outline the nature of strategic implementation

6. Evaluate an organisation's strategy

7. Measure organisational performance

8. Design an effective strategy evaluation system

STUDY GUIDE

Firstly we would like to welcome you to this course and particularly to the "Strategic Management" module. We further congratulate you for taking this module, which covers modern tools that every manager worth his or her salt must have.

Today's business organisations rely on effective strategy formulation and implementation to outwit their opponents. Strategy sets the agenda for future action, strategic goals state what is to be achieved and when, policies set guidelines and limits for permissible action in pursuit of the strategic goals and programmes specify the sequence of actions necessary to achieve objectives. A well defined strategy integrates an organisation's major plans, objectives, policies and programmes and commitments into a cohesive whole. It allocates limited resources in the best way.

Companies and armies have much in common. They pursue strategies of offence, defence and alliance. A general manager can think of a well developed business strategy in terms of probing opponents' weaknesses in order to consider how to act. Given the knowledge of the opposition generated by such probing; forcing opponents to stretch their resources, concentrating one's own resources to attack an opponent's exposed position; overwhelming selected markets or market segments, establishing a leadership's position of dominance in certain markets.

This module is targeted for business students studying for a management qualification at higher diploma level and not for computer scientists. It is intended to present the business benefits of strategy formulation and implementation.

Literature

Prescribed books

Johnson, G. and Scholes, K. (2008) *Exploring Corporate Strategy: Text & Cases*, 8th Edition, Cape Town, Prentice Hall.

Recommended books

David, R. F (1999) *Strategic Management: Concepts and Cases,* 7th Edition, New Jersey, Prentice Hall.

Pearce II A, J and Robinson (2003) *Strategic Management. Strategy Formulation and Implementation*, Delhi, A.I.T.BS Publisher & Distributors.

Peter, J. P and Donelly, H.J (2009) *Marketing Management: Knowledge and Skills*, 9th Edition, Boston. McGraw Hill.

Thompson, A. A Jr. and Strickland J.A. (2003) *Strategic Management: Concepts and Cases*, 13th Edition, Alabama, McGraw Hill.

Use of prescribed books

We assumed most students would not be able to access the prescribed books and ensured the module covers all the key information that is required for the student to pass the exam. However, students are recommended to purchase the prescribed book in order to fully comprehend from an HR practitioner's perspective, the complexities of systems delivery to achieve real and lasting benefits from technology solutions.

In order for you to fully comprehend strategic management, we encourage you to access the referenced materials.

Method of study

The prescribed book is your primary learning resource. You may refer to the prescribed and reference books in order to improve your knowledge and understanding of the material in the course and enrich your learning experience.

As Strategic Management is in a constant state of change, you should attempt to remain up to date with current developments regarding technologies that are relevant to the HR service. You should read journals (hard copy or online) that cover HR Transformations as often as possible.

Review questions and exercises are given at the end of each Study Unit. These are meant to test your understanding of the concepts covered in the module. In addition, the exercises are meant to test your capability to apply the theoretical knowledge you have gained to real world scenarios.

Please attempt all the questions to test your understanding.

CHAPTER 1: THE NATURE AND VALUE OF STRATEGIC MANAGEMENT

Chapter Learning Objectives

Upon completion of this Chapter, you should be able to:

1. Explain the concepts of strategy and strategic management

2. Discuss the dimensions of strategic decisions

3. Distinguish between the levels of strategy in an organisation

4. Outline the role of strategic management

6. Describe the process of strategic management

1.1 INTRODUCTION

Companies that are highly successful over the long term effectively acquire, develop, manage resources and capabilities that provide and sustain competitive advantages. For example Google enjoys outstanding brand recall and recognition. Successful organisations have also learnt to develop and manage relationships with a wide range of organisations, groups and people that have a stake in their firms.

This module explores how organisations can grow and prosper through the successful execution of the strategic management process. It emphasizes the practical value of strategic management approach for a business organisation and the actual benefits for companies that have employed strategic management. Empirically it has been realised that firms that practice strategic planning processes tend to outperform their counterparts that do not.

1.2 DEFINITION OF STRATEGY

Definitions of strategy have their roots in military strategy, which defines itself in terms of drafting the plan of war, shaping and depending on individual campaigns and engagements (battles) with the enemy. Strategy in this military sense is the art of war or more precisely, the art of the general (the key decision maker). The analogy with business is that business too is a war footing as competition becomes more and more fierce and survival more problematic.

Companies and armies have much in common. They pursue strategies of offence, defence and alliance. A general manager can think of a well developed business strategy in terms of probing opponents' weaknesses in order to consider how to act. Given the knowledge of the opposition generated by such probing; forcing opponents to stretch their resources, concentrating one's own resources to attack an opponent's exposed position; overwhelming selected markets or market segments, establishing a leadership's position of dominance in certain markets.

Strategy itself sets the agenda for future action, strategic goals state what is to be achieved and when, policies set guidelines and limits for permissible action in pursuit of the strategic goals and programmes specify the sequence of actions necessary to achieve objectives. A well defined strategy integrates an organisation's major plans, objectives, policies and programmes and commitments into a cohesive whole. It allocates limited resources in the best way.

There is no one best way to define strategy, as various scholars and consultants have come up with a number of definitions. Only two definitions are going to be considered below:

Johnson *et al* (2008:3) define strategy as follows:

"Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competence with the aim of fulfilling stakeholder expectations"
This means, strategy is about:

- where the business is trying to get in the long term (the direction of an organisation in the long run)?
- which markets should a business compete in and what kind of activities are involved in such markets (markets; scope)?
- how can the business perform better than the competition in those markets (competitive advantage)?
- what resources (skills, assets, financial, relationships, technical competence, facilities etc) are required in order to be able to compete?
- what external or environmental factors affect the business's ability to compete?
- what are the values and expectations of those who have power in and around the business (stakeholders)?

The aforementioned characteristics imply that strategic decisions are likely to:

- be complex in nature
- be made in situations of uncertainty
- be linked to operational decisions
- call for an integrated approach of both the internal and external of an organisation and
- involve considerable change.

Thompson and Strickland (1999) also define company strategy as follows:"

"The game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance"

The definition entails that strategy includes an array of competitive moves and business approaches that managers employ in running an organisation. The company strategies are needed for the following reasons.

- They proactively shape how a company's business will be conducted.

- ❖ They provide a roadmap to operate, by which is a prescription for doing business and building customer loyalty.

- ❖ They put together independent decisions and actions started by managers and employees across the company into a coordinated companywide game plan.

However, no matter how good a strategy is, it should be implemented properly in order for it to produce appropriate results.

1.3 DIMENSIONS OF STRATEGIC DECISIONS

According to Pearce 11 and Robinson (2003), strategic issues have five identifiable dimensions listed below.

- ❖ Top management involvement in decision is a must/imperative.
- ❖ Strategic decisions involve a substantial resource deployment (people, physical assets, money)
- ❖ Strategic issues are future oriented
- ❖ Strategic issues consider factors in the firm's external environment, thus all business firms exist in an open system.
- ❖ Strategic issues have major multifunctional consequences

1.4 LEVELS OF STRATEGY

Strategies exist at several levels in an organisation. It is possible to distinguish at least three different levels of strategy.

(a) Corporate strategy

It is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision–making throughout the business. The level is composed mainly of members of the board of directors and the chief executive officer. They are responsible for the financial performance of the firm as a whole and for achieving non financial goals of the firm, for example, corporate image and social responsibility.

Corporate managers set objectives and formulate strategies that span the activities of individual business in the corporation and the functional areas of these businesses.

(b) Business Strategy

It is concerned with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs of customers, gaining competitive advantage of competitors, exploiting or creating new opportunities. The level is composed principally of corporate managers who translate general

statements of direction and intent generated at the corporate levels into concrete, functional objectives and strategies for individual business divisions.

(c) Functional Strategy

It is the level of the operating divisions and departments. The strategic issues at this level are related to business processes and value chain.

Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively. The greatest responsibility of this level is the actual implementation of a company's strategic plans.

Figure1.1 shows the three levels of Strategic Management for a multi-business firm.

Source: Pearce II and Robinson (2003:9) Strategic Management: Strategy Formulation and Implementation.

Alternatively when a company is involved in only one business, then the corporate and business level responsibilities are concentrated in a single group of directors as shown on the diagram below.

Figure 1.2 Strategic Management Structure of a single business firm.

Source: Pearce II and Robinson (2003:9) Strategic Management: Strategy Formulation and Implementation.

Although two structures have been depicted on the two structures above, this module will concentrate its attention on the three levels of strategic management.

Strategists are individuals who are most responsible for the success or failure of an organisation. These are the Chief Executive Officer, president, owner, chair of the board, executive director, chancellor, dean etc.

1.5 WHAT IS STRATEGIC MANAGEMENT?

David (1999:5) defines strategic management as follows:

"... the art and science of formulating, implementing and evaluating cross functional decisions that enable an organisation to achieve its objectives"

The definition implies that strategic management focuses on integrating management, marketing, finance/accounting, production, research and development and customer information system to achieve organisational goals.

- ❖ It also implies that it is a process of specifying an organisation's objectives, developing policies and plans to achieve these objectives.
- ❖ It is the highest level of managerial activity, performed by the company's Chief Executive Officer (CEO) and executive team.
- ❖ It provides the overall direction to the whole organisation.

In a similar definition Pierce II and Robinson (2003:6) note that strategic management is:

"... the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organisation".

This definition covers the following critical areas of strategic management.

- Determining the mission of the company
- Developing a company profile to reflect internal conditions and capabilities.
- Assessing the external environment
- Analysis of possible strategies that can best fit the operating environment.
- Identifying the desired strategic options that best fit the company's mission and environment.
- Developing annual objectives and short term strategies compatible with long-term objectives and grand strategies.
- Implementing strategies based on budgeted resources allocations.
- Review and evaluate the success of the strategic process.

1.6 IMPORTANCE OF STRATEGIC MANAGEMENT

Strategic management plays a significant role as it allows an organisation to be more proactive than reactive in shaping its future, thus it facilitates a firm to initiate and influence activities and exert control over its destiny. The key benefits of this process according to David (1999) include the following:-

(a) Financial benefits

Research shows that organisations that employ strategic management concepts are more profitable and successful than those that do not.

(b) Non Financial Benefits

Strategic management offers benefits such as an awareness of external threats, an understanding of competitor strategies, increased employee productivity, reduced resistance to change and a clearer understanding of performance-reward relationship. Generally, the benefits are:

- it allows for the identification, prioritisation and exploitation of opportunities.
- it provides an objective rich of management problems.
- it gives a framework for improved coordination and control of activities.
- it reduces the effects of adverse conditions and changes.
- it permits effective allocation of time and resources.

- it creates a framework for good internal communication among employees.
- it integrates the behaviour of individuals into a total effort.
- it encourages a positive attitude toward change.

1.7 STAGES OF STRATEGIC MANAGEMENT

The strategic management process consists of three stages.

a) Strategy formulation (strategy planning).

b) Strategy implementation.

c) Strategy evaluation.

These stages are depicted in the following diagram and will serve as the framework for this module.

Figure 1.3: The Strategic Management Model (Adapted from David (1999)

A) **STRATEGY FORMULATION**

This means a strategy is formulated to execute business activities. Strategy formulation includes developing:

- the vision and mission of the organisation
- the strengths and weaknesses of the organisation.
- the opportunities and threats that are related to the external environment at the business

Strategy formulation is also concerned with the tracing of long term goals and objectives, the generation of alternative strategies to achieve long term goals and choosing a specific strategy to pursue. In order to have the best fitting strategy the following should be considered.

- Appropriate allocation of resources
- What businesses to enter or retain?
- Is there any business to divest or liquidate?
- Is there any possibility of a joint venture or a merger?
- Is the business expanding or not?
- Any probability of going international? (Moving into foreign markets) etc.
- Trying to avoid takeover.

B) **STRATEGY IMPLEMENTATION**

It requires an organisation to establish objectives, trace policies, motivate employees and allocate resources so that the formulated strategies can be executed efficiently and effectively. It also calls for developing strategy support culture, creating an effective organisational structure, preparing budgets, developing and utilising the information system and linking employee compensation to organisational performance.

This is an action oriented stage of strategic management, thus putting formulated strategies into action. It is also considered to be the most challenging stage of strategic management and for this reason it requires discipline, commitment and sacrifice. The formulated strategy

should be implemented and executed efficiently and effectively otherwise it will serve no useful purpose.

C) **STRATEGY EVALUATION**

This is the last stage in the strategic management process. The management should keep track of how the strategies are working; thus strategy evaluation is the primary means of getting this information. All strategies are subject to modification as they are affected by both the external and internal forces which do change constantly.

1.8 CHAPTER SUMMARY

This chapter presented the nature and value of the strategic management process. The chapter highlighted the need for all companies to have a strategy for them to be proactive so that they can attain both individual and organisational goals. The management of this strategy is possible through strategic management, which was outlined under three strategies: strategy formulation; strategy implementation; and strategy evaluation.

QUESTIONS FOR DISCUSSION

1. Why do Zimbabwean companies need strategies?
2. Discuss the major characteristics of the levels of strategy.
3. Compare the levels of strategic management for a multi-business firm and a single business firm.
4. Evaluate the benefits of strategic management.

REFERENCES

David, R. F (1999). Strategic Management: Concepts and Cases, 7th Edition, New Jersey, Prentice Hall.

Johnson *et al* (2008). Exploring Corporate Strategy: Text & Cases, 8th Edition, Cape Town, Prentice Hall.

Pearce II A, J and Robinson (2003). Strategic Management: Strategy Formulation and Implementation, Delhi, A.I.T.BS Publisher & Distributors.

Peter, J. P and Donelly, H.J (2009). Marketing Management: Knowledge and Skills, 9th Edition, Boston. McGraw Hill.

CHAPTER 2: THE BUSINESS MISSION

Chapter Learning Objectives

Upon completion of this Chapter, you should be able to:

1. Explain what is meant by a company mission
2. Distinguish between vision and mission
3. Outline the importance of a clear mission statement
4. Discuss the components of a mission statement
5. Evaluate an organisation's mission statement using an evaluation matrix

2.1 INTRODUCTION

A mission statement is vital to the success of an organisation as a whole. It can unify a company and push it to new heights. It is an opportunity to define your business at the most basic level, as it tells your company story in a snapshot. It is a pointer to the destination of the business. Its importance is stressed by Proverbs 29 verse 18, which says "where there is no vision people perish."

2.2 WHAT IS A COMPANY MISSION?

'The company mission is defined as the fundamental unique purpose that sets a business apart from other firms of its type and identifies the scope of its operations in product and market terms' (Pearce II and Robinson, 2003:73)

The definition entails the following.

- The declaration of an organisation's reason for being (What is our business?)
- The business philosophy of top management
- The corporate image that the company seeks to project.
- Indicates the principal products/services the organisation offers.
- It reflects the organisation's self concept.

Thus in a nutshell, a business mission is made up of three components.

(a) Core values to which the firm is committed, for example, financial responsibility or excellent customer service.

(b) Core purpose of the firm and

(c) Vision or goals the firm will pursue to fulfil its mission.

2.3 THE NEED FOR A CLEAR MISSION

The mission statement should be a clear succinct representation of the organisation's purpose for existence. For example, it should incorporate socially meaningful and measurable criteria addressing concepts such as moral/ethical position of the enterprise, public image, target market, product/services, geographic domain and expectations of growth and profitability. According to King and Cleland organisations carefully develop written mission statements for the following various reasons.

- To ensure unanimity of purpose within the organisation.
- To provide a standard for allocating organisational resources.
- To establish a conducive organisational climate.

- ❖ To serve as a focal point for those who can identify with the organisation's purpose and direction.

- ❖ To deter those who cannot continue from participating further in the organisation's activities.

- ❖ To facilitate translation of objectives and goals into a work structure involving assignment of tasks to responsible elements within the organisation.

- ❖ To specify organisational purpose and the translation of these purposes into goals in such a way that cost, time and performance parameters can be assessed and controlled.

The reader is also encouraged to read Appendix 1 (The importance of a mission statement)

2.4 VISION VERSUS MISSION

Many organisations develop both a mission statement and a vision statement. The mission statement answers the question "What is our business?" A vision statement is an aspiration description of what an organisation would like to achieve in the mid-term or long-term future. It is a roadmap of a company's future, the direction it is headed, the competitive position it wants to occupy and the capabilities it plans to develop. It is intended to serve as a clear guide for choosing current and future courses of action. It is a marketing tool and a business development tool because it announces your company's goals and purpose to your employees, suppliers, customers, vendors and media.

2.5 HOW TO DEVELOP A MISSION STATEMENT

A business organisation starts with the beliefs, desires and aspirations of a single entrepreneur (owner of a business). The mission for an owner-manager is based on the following beliefs.

- ❖ That the product/service or idea provides benefits that at least match the price.

- ❖ That the product/service/idea will satisfy customer needs and wants of a given market segment.

- ❖ That the technology will produce quality products/services which will give the business a price competitive advantage.

- ❖ That the business will grow, develop and be profitable (or meet its goals).

- ❖ That management philosophy will enhance favourable public image and provide financial and psychological rewards for stakeholders.

- ❖ That the desired self concept of the business can be communicated to and adopted by employees and stakeholders.

The process of developing a mission statement can be summarised as follows.

- Select several articles about mission statements and allow all managers to read these as background information.

- Ask participants (managers) to prepare a mission for the organisation.

- A facilitator/top management should merge the statement into a single document.

- Distribute the documents to all managers.

- Allow for modification, additions and deletion of unnecessary things.

- Convene a meeting to revise the documents: - all managers should input and support the final mission statement document.

- It is important to note that an organisation can use discussion groups of managers to develop or modify the mission statement.

- Some organisations may hire a consultant or facilitator to manage the process. The advantage of using a consultant is that in many cases his /her views are unbiased.

- Communicate the mission to all managers, employees, and to external stakeholders of the organisation. It is important to note that as business grows, and the external and internal environments evolve, it is important to redefine the company mission. The revised mission should be best fitting to the business environment.

2.6 THE NATURE OF A BUSINESS MISSION

It declares attitude

A mission statement is a declaration of attitude, outlook and does not specify details as it is broad in scope for two reasons.

(a) It allows for the generation of objectives and strategies without restricting management creativity.

(b) It needs to reconcile differences among and appeal to an organisation's shareholders (employees, managers, shareholders, boards of directors, customers, suppliers, distributors, creditors, governments, unions, competitors and general public).

It is a resolution of divergent views

The question "What is our business", may create controversy amongst strategists in an organisation. Disagreements among strategists over the purpose and mission of the organisation must be resolved.

It is customer oriented

A good mission statement should reflect the expectations of customers. The working philosophy of the organisation should be that of identifying customer needs and provide the appropriate product or service to fulfil those needs, thus at the end the business will attract customers who give meaning to the organisation.

It declares the social policy of the organisation

Social policy requires that the company does not only consider its stakeholders, but it becomes socially responsible to customers, environment, communities and other groups.

2.7 THE COMPONENTS OF A MISSION STATEMENT

Mission statements vary in length, content, format and specialty. Key components of a mission statement should answer these questions.

- ❖ What are the organisation's customers?
- ❖ What are the organisation's major products or services?
- ❖ What is the geographical coverage of the firm's markets?
- ❖ Does the organisation have up to date technology?
- ❖ What is the performance of the firm in terms of growth, survival and profits?
- ❖ What are the beliefs, values aspirations and ethical priorities of the firm?
- ❖ What is the organisation's distinctive competence or major competitive advantage?
- ❖ Is the firm socially responsible?
- ❖ Are employees treated as valuable asserts?

2.8 EVALUATING A MISSION STATEMENT

Mission statements are evaluated using an evaluation matrix of a mission statement. Check if the following components exist in the mission. You acknowledge the existence of each component by filling in the table with a "yes". See table below.

Table 2.1 An example of an evaluation matrix

Company	**ABC (PVT) LTD**
Customers	Yes
Product/Services	Yes
Markets	Yes

Concern for Growth	
Technology	
Philosophy	
Self Concept	
Concern for Public Image	
Concern for Employees	

If the company has all the above in its mission statement, then it is regarded as having at least an inclusive mission.

2.9 CHAPTER SUMMARY

The purpose and reason for being for each organisation should be included in a mission statement. The uniqueness of an organisation is portrayed in a mission statement. A good mission statement includes an organisation's customers, products/services, markets, technology, philosophy, company image and concern for employees. A mission statement is important for the creation, implementation and evaluation of a company strategy.

QUESTIONS FOR DISCUSSION

1. Explain the value of a mission statement
2. Is it true to say that organisations that have comprehensive mission statements tend to perform better?
3. Write a mission statement for an organisation you are familiar with.
4. Evaluate the mission statement for Coca-Cola Company

REFERENCES

David, R.F (1999). Strategic Management: Concepts and cases, 7th Edition, New Jersey, Prentice Hall.

Pearce II and Robinson (2003). Strategic Management: Strategy Formulation and implementation, Delhi, A.I.T.B.S Publishers & Distributors.

CHAPTER 3: THE EXTERNAL ENVIRONMENT

Chapter Learning Objectives

Upon completion of this Chapter, you should be able to:

a.i.1. Discuss the external forces that affect organisations

a.i.2. Apply the five forces analysis in order to define the attractiveness of industry

a.i.3. Describe the stages of the industry life cycle

a.i.4. Discuss the PEST factors and their impact on organisations

a.i.5. Conduct an industry analysis

3.1 INTRODUCTION

This module looks at a host of external and largely uncontrollable factors that influence an organisation's direction, structure and internal processes. The environment contains both the means of survival and the threats to the survival of the organisation. It is made up of the following layers.

Figure 3.1 Layers of Business Environment

Ma

The macro-environment is the highest level layer which consists of broad environmental factors that impact on organisations. The PEST framework is employed to see how the external environment reflects on organisations.

INDUSTRY (OR SECTOR)

This consists of companies which produce the same products/services. The five forces model is employed to establish the attractiveness of industries.

COMPETITORS AND MARKETS

In most industries there are various organisations which do compete for investment, markets etc. A full discussion of these layers is given below.

3.2 THE MACRO ENVIRONMENT

The PEST framework categorises environmental influences into four main types: political, economic, social and technological. It provides a list of influences that affect the success or failure of particular strategies. It provides for the opportunities and threats that affect business.

a) POLITICAL FORCES

Politics entails the role of the government of the day. The direction and the stability of political factors are considered by managers in formulating company strategy. Government of the day defines the legal and governing parameters in which the firm should operate. Each company needs to observe fair trade decisions, tax laws, minimum wage legislation, environmental and pricing policies and other issues targeted at protecting the consumer and the operating environment.

Some laws, practices and regulations are restrictive and these impact negatively on the organisations profits. Other political actions are designed to protect and benefit the organisation, for example patent laws, and product research grants.

Political forces are both a limitation and a benefit to the firms they influence because they can represent threats or opportunities to organisations. Key political variables include:

- Government regulations
- Change in tax laws
- Antitrust regulations
- Environmental protection laws
- Size of government budgets
- Political conditions in the country
- Import- export regulations
- Country to country relationships
- Attitudes towards foreign companies.

- Laws on hiring and promotion
- Special incentives
- Changes in patent laws.

b) **ECONOMIC FORCES**

These have a direct impact on the potential attractiveness of various strategies. Each organisation needs to understand the economic trends in the market segments that affect its business operations. An organisation must consider the general availability of credit lines, level of income and the likelihood of people to spend. Key economic variables include the following.

- Level of disposable income
- Interest rates
- Inflation rates
- Economies of scale
- Money market rates
- Government budget deficits
- Gross domestic product trend
- Unemployment trends
- Demand shifts for different categories of goods and services.
- Price fluctuation
- Monetary policies
- Fiscal policies
- Tax rates

c) SOCIAL FORCES

They include the beliefs, values, attitudes, opinions and lifestyles of those in the organisation's environment. As social attitudes do change, so does the demand for clothing styles, books and products and services. Social forces are dynamic in nature, this is because individuals try to adapt to environmental factors that satisfy their needs and wants. Social change affects business forecasts and strategies. Key social forces include the following.

- Life expectancy rates
- Life styles
- Attitude toward work/business
- Buying behaviour
- Level of education
- Demographic data
- Sex roles
- Pollution
- Social programs
- Religion
- Change in tastes and preferences
- Ethical concerns

d) TECHNOLOGICAL FORCES

An organisation must keep track of the technological changes that might influence its industry. This allows a company to avoid obsolescence and promote innovation. Technological forces represent major opportunities and threats that affect a company in formulating strategies. Technological advancement affects an organisation's products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices and competitive position. It can result in new products, and improved products. Technology can lead to a reduction of cost, create shorter production runs, and result in changes in values and expectations of employees.

Key forces of technology include the following.

- Government research spending
- Industry focus on technological effort
- New inventions and development
- Rate of technology transfer
- Changes in information technology
- Changes in internet
- Changes in mobile technology

PEST analysis looks at the external business environment and is an appropriate strategic tool for understanding the big picture of the environment in which the organisation operates, enabling the company to take advantage of the opportunities and minimize the threats faced by the business activities. It is important to analyse how PEST factors are changing and try to draw out their impact on organisations.

3.3 INDUSTRY ANALYSIS

Johnson *et al* (2008:59) define industry as " a group of firms producing the same principal product/ service or more broadly, a group of firms producing products that are close substitutes for each other" In this section Michael Porter's five forces framework is going to be employed. Porter developed this model in 1980, in his book: **Competitive Strategy: Techniques for Analyzing Industries and Competitors.** Since then the model has been used for analyzing an organisation's industry structure in strategic process.

3.4 PORTER'S FIVE FORCES MODEL

The five forces determine the intensity of competition and the profitability and attractiveness of industry. Figure 3.2 on the next page represents the five forces framework.

Source: Pearce II and Robinson (2003)

Threat of new entrants

The competition in an industry is higher, when it is easier for other companies to enter this industry. New entrants may change the determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. The threat of new entrant is dependent upon the extent to which there are barriers to entry. These are as follows.

- ❖ Economies of scale (minimum size requirement for profitable operations).
- ❖ High initial outlay and fixed costs
- ❖ Legislation and government action
- ❖ Cost advantage of existing players due to experience curve effects of operation with fully depreciated assets.
- ❖ High brand loyalty of customers
- ❖ Scarcity of important resources e.g. qualified personnel.
- ❖ Potential intellectual property like patents and licences.
- ❖ Access to raw material is wholly controlled by existing players
- ❖ High switching costs for customers
- ❖ Differentiation providing a product/service with higher perceived value than the competitors.

Threat of substitutes

Substitutes are products or services that offer similar benefits to an industry's products or services, but by a different process (Johnson *et al*, 2008). Substitutes can reduce demand for a particular class of products as customers switch to the alternatives. Threats from substitutes exist when there are alternative products with current prices or better performance parameters for the same purpose. The threat to substitutes is determined by factors such as follows.

- Switching costs for customers
- Customer relationships
- Brand loyalty for customers
- Current trends
- The relations price for performance of substitutes.

Bargaining power of buyers

Buyers are the organisation's immediate customers, and not necessarily the consumers. The bargaining power of customers determines how much customers can put pressure on margins and volumes. Buying power is likely to be high when -

- there is a concentration of buyers, that is, few large customers account for the majority of sales.
- switching to an alternative product does not result in low costs.
- customers have low margins and are price sensitive.
- there is a possibility of the customer integrating backwards.
- the product is undifferentiated and can be replaced by substitutes.
- the customer knows the production costs of the product.
- the product is not of strategic importance to the customer.
- the supplying industry comprises of a large number of small operations.

Bargaining power of suppliers

Suppliers are those who supply the organisations with inputs it needs to produce the product or service. Supplier power is likely to be high when:

- the market is dominated by a few large suppliers rather than fragmented sources of supply.
- there are no substitutes for the particular input.

- ❖ the switching costs from one supplier to another are high.
- ❖ the suppliers, customers are fragmented, so that their bargaining power is low.
- ❖ there is the possibility of the supplier integrating forwards in order to obtain higher prices and margins.
- ❖ supplier competition threats where they are able to cut out buyers who are acting as intermediaries.

Competitive rivalry between existing players

Competitive rivals are organisations with similar products and services aimed at the same customer groups. The force describes the intensity of competition between existing companies in an industry. When competitive pressure is high, it exerts pressure on prices, margins and hence, on profitability for every single company in the industry. Competition between existing players is likely to be high when:

a) competitors are about the same size

b) players have the same strategies

c) there is low differentiation between competitor products and/services, resulting in price competition.

d) industry growth rate is low or declining.

e) barriers for exit are high (e.g. expensive and highly specialized equipment)

f) high fixed costs are high.

3.5 IMPLICATIONS OF THE FIVE FORCES ANALYSIS

Five forces analysis provides valuable information for those aspects of corporate planning such as follows.

a) The fundamental purpose is to determine the attractiveness of an industry. It provides insights on profitability. It facilitates decisions about the entry into or exit from an industry or market. Managers should invest where the five forces favour their businesses.

b) With knowledge on the intensity and power of competitive forces, companies may develop those options that improve their own competitive position.

c) It reveals drivers for change in an industry.

3.6 THE DYNAMICS OF INDUSTRY STRUCTURE

Industry structure is not static; it changes as the competitive forces change over time. Key drivers for change are likely to alter industry structures. According to Thompson and Strickland (2003) drivers for change include the following.

- ❖ Product innovation
- ❖ Technological change
- ❖ Increasing globalisation of the industry
- ❖ Government policy changes
- ❖ Changes in the long term industry growth rate
- ❖ Reduction in uncertainty and business risk
- ❖ Changing societal concerns, attitudes and life styles

3.7 THE INDUSTRY LIFE CYCLE

The power of the five forces varies with the stages of the industry life. The concept suggests that an industry grows and develops through the following stages: Development, Growth, Shake out, Maturity and Decline. Figure 3.2 depicts these stages.

Development stage

This is an experimental stage. It is characterized with few players who exercise weak direct rivalry and have highly differentiated products. The five forces are weak.

Growth stage

At this stage rivalry is still very low and there is adequate market opportunity for each player. Barriers to entry are low since competitors have not managed to build experience and customer loyalty.

Shakeout stage

This stage starts as soon as the growth rate starts to decline. Increased rivalry forces the weakest competitor (new entrants) out of business.

Maturity stage

Entry barriers are increasing as a result of tight control over distribution, economies of scale and experience benefit curves. Products and services are now standardized. Buyers become more powerful as they can switch between suppliers. Market share is crucial for companies to survive.

Decline stage

It is a period of extreme rivalry, especially where exit barriers are high. Sales fall and thus forcing players to be in a cut throat competition.

It is not recommended that you put much faith in the different stages of the industry life cycle. These stages may not follow the outlined order. Industries vary in their depth, breadth and length of their growth stages. New innovations may de-mature industries, for example the fixed line telephone dematured when mobile and internet telephones were introduced.

3.8 CHAPTER SUMMARY

The chapter discussed the need for an external audit, whereby strategists would be required to analyse the PEST factors before crafting organisational strategies. Companies

that do not empower their managers and employees to evaluate key external forces may fail to adapt to the changing environment. It is also vital to observe how the five forces affect the industry in its various stages of development.

QUESTIONS FOR DISCUSSION

1. Discuss the current economic, social, political or technological trends that affect an organisation of your choice.

2. Define industry life cycle. What strategies would a company use throughout the various stages?

3. How can you use Porter's five forces model to evaluate the competitiveness within retail business in Zimbabwe?

4. Discuss how the programmes offered by the Institute of People Management of Zimbabwe (I.P.M.Z) were affected by the PEST factors?

5. Using an organisation of your choice, carry out a PEST analysis and identify the key drivers of change.

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Johnson *et al* (2008). Exploring Corporate Strategy: Text & Cases, 8th Edition, Prentice Hall, Cape Town

Pearce II and Robinson (2003). Strategic Management: Strategy Formulation and Implementation, 3rd Edition, Delhi, India.

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CHAPTER 4: THE INTERNAL ENVIRONMENT

Chapter Learning Objectives

Upon completion of this Chapter, you should be able to:

1. Describe the internal factors that affect strategy selection
2. Outline the role of the value chain in an organisation
3. Conduct a SWOT analysis of a given organisation
4. Develop a company profile

4.1 INTRODUCTION

The main theme in this module is to identify and evaluate a company's strengths and weaknesses in the functional areas of business. This is called for because a good strategy is derived from a clear mission, an appraisal of the external environment and internal analysis of the organisation.

A strategy is likely to be successful when it is consistent with the conditions in the competitive clutter: It can take advantage of opportunities and minimize the impact of threats:

(a) a strategy is crafted based on the available resources of the company: and

(b) the strategy is executed and implemented properly.

Internal analysis places more emphasis on key internal factors like distribution, cash flow, locations, technology and organisational structure.

4.2 SYSTEMATIC INTERNAL ANALYSIS: IT'S VALUE

Developing a successful business strategy requires a thorough internal analysis. A strategy must be founded on internal strengths and weaknesses of the organisation. This allows the organisation to channel its limited resources in a direction that will maximize market opportunities available.

4.3 DEVELOPING A COMPANY PROFILE

A company profile entails the determination of an organisation's strategic competencies and weaknesses. This can be achieved after evaluating strategic internal factors. Representatives of management and employees need to be involved in such an exercise.

4.4 STRATEGIC INTERNAL FACTORS

In order to develop a strategy management needs to identify factors which lead to success. Many strategists examine past performance in order to identify key contributions to favourable or unfavourable results, for example, they can check on the past performance of marketing, operations, human resources, finance and accounting and the general management. An analysis of past trends in sales, costs and profits is important in identifying strategic internal factors. When identifying strategic factors it is also required that strategists look at the external environment because this uncontrollable environment does affect the opportunities and threats.

4.5 THE VALUE CHAIN APPROACH

A value chain is a systematic way of viewing the series of activities a firm performs to provide a product to its customers (Pearce II and Robinson, 2003: 211). It is a primary analytical tool of strategic cost analysis. It identifies the separate activities, functions and business process performed in designing, producing, marketing, delivering and supporting a product or service.

Figure 4.1 Value Chain

D

Source: Thompson and Strickland (2003)

(a) IDENTIFYING PRIMARY ACTIVITIES

It isolates activities that are technologically and strategically distinct. They include the following.

(i) **Inbound Logistics**

These are activities that are associated with receiving, storing and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling and returns to suppliers.

(ii) Operations

Involve all activities associated with transforming inputs into final products, e.g. machinery, packaging, assembly, equipment maintenance, testing, printing and operations.

(iii) **Outbound Logistics**

Involve all activities like collecting, storing, and the physical distribution of products/services to buyers. It also looks at material handling, delivery, transport, order processing and scheduling.

(iv) **Marketing and Sales**

These are activities meant to provide information about the availability of products and services that satisfy the needs of customers. Key activities include: advertising, promotion, distribution, quoting and pricing, channel selection and relations.

(v) **Service**

These are activities that provide a means to enhance or maintain the value of a product, for example installation, repair, training, parts supply and product adjustment.

(b) SUPPORT ACTIVITIES

(i) **Procurement**

The major activities entail obtaining the purchased inputs, such as raw materials, services and machinery. Procurement stretches across the entire value chain for it to support every activity.

(ii) **Technology and Systems Development**

It entails the designing of the product as well as creating and improving the way activities in the value chain are performed. It also involves modifying the organisation as a system.

(iii) **Human Resource Management**

This activity ensures that recruitment and decruitment, training and development of personnel are done properly. Every other activity in the chain involves human resources, thus this activity cuts across the value chain.

(iv) **General Administration**

It includes the general management of the functional activities such as marketing, finance, strategic planning and other activities that support the entire chain's operation.

4.6 THE USE OF THE VALUE CHAIN IN INTERNAL ANALYSIS

It provides a good framework to do a systematic internal analysis of the firm's existing or potential strengths or weaknesses.

4.7 SWOT ANALYSIS

It is the sizing up of an organisation's strengths and weaknesses and to its external opportunities and threats. It seeks to establish whether the business is healthy or unhealthy. SWOT analysis is grounded on the principle that strategy making efforts must aim at producing a good fit between a company's resources capabilities and its external environment.

(i) **Identifying company strengths and resource capabilities**

Strength is something a company is good at doing or a characteristic that gives it enhanced competitiveness. Strength can take any form, for example:

- a skill in any form
- valuable physical assets
- valuable human assets
- valuable organisational assets
- proven quality control systems
- proprietary technology
- key patents
- material rights
- a base of loyal customers
- a strong balance sheet and credit rating
- valuable intangible assets (brand name)
- company reputation and buyer good will
- high degree of employee loyalty
- competitive capabilities e.g. R & D, strong partnerships with key suppliers, strong dealer network
- alliances or cooperate ventures, the partnership with others who have expertise.

An organisation is positioned to succeed if it has a good complement of resources at its disposal.

(ii) **Identifying company weaknesses and resource deficiencies**.

A weakness is something a company lacks or does poorly or a condition that puts it at a disadvantage. Weaknesses relate to:

- deficiencies in skills or expertise;

- ❖ lack of a competitively important physical, human or organisational intangible assets; and
- ❖ missing or weak competitive capabilities in key areas.

A company's resource strengths represent competitive assets; its resource weaknesses represent competitive liabilities.

4.8 COMPANY COMPETENCIES AND CAPABILITIES

Core Competence

It is a valuable organisation resource or something an organisation does well relative to competitors. It may relate to exposure in performing an activity. Core competencies reside in an organisation's employees and not in its assets on the balance sheet.

Distinctive Competence

A distinctive competence is a competitively important activity that a company performs well in comparison to its competitors. A core competence becomes a basis for competitive advantage only when it is a distinctive competence:

Importance of a distinctive competence to strategy marketing rests with:

- ❖ the competitively valuable capabilities it gives a company.
- ❖ its potential for being a cornerstone of strategy and
- ❖ the competitive edge it can produce in the market place.

A company's market opportunities

Opportunities can be plentiful, scarce or attractive. The opportunities most relevant to a company are those that offer important avenues for profitable growth, those where a company can have a competitive advantage and those that match well with its financial and resource capabilities.

A company's threats

The external environment poses a threat to a company's profitability and market position, for example the emergence of cheaper technology or rivals introducing new products. When an organisation tailors its strategy to best fit its environment it means:

- ❖ pursuing opportunities that the company can take advantage of using its resources and capabilities; and
- ❖ the company builds a fortress to defend against external threats.

A SWOT analysis evaluates a company's strengths, weaknesses, opportunities and threats so that conclusions are drawn about how best to deploy the company's resources in light the of company's internal and external situations and how to identify the company's future resource base.

4.9 CHAPTER SUMMARY

The key issues discussed under this chapter included the value chain and SWOT analysis. These tools are keys to tracing a good strategy that best fits the operating environment.

QUESTIONS FOR DISCUSSION

1. Define company value chain. Draw a value chain for a named company.

2. How best can you use the value chain to cut costs of a named organisation?

3. Do a SWOT analysis for an organisation you are familiar with.

4. What role does a SWOT analysis play in the strategy making process?

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Thompson, A. A Jr and Strickland, J A (2003). Strategic Management: Concepts and Cases, 13th Edition, Alabama, McGraw Hill.

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CHAPTER 5: SETTING OBJECTIVES AND CRAFTING STRATEGIES

Chapter Learning Objectives

Upon completion of this Chapter, you should be able to:

1. Set organisational goals.
2. Describe the characteristics of good objectives
3. Identify the various strategies an organisation can use in order to attain its objectives
4. Discuss the approaches to setting objectives
5. Explain Michael Porter's generic strategies

5.1 INTRODUCTION

This module looks at the long-term objectives and the quality they should have. Various strategies are also going to be discussed under this module.

5.2 ESTABLISHING OBJECTIVES

Objectives represent a managerial commitment to achieving specific performance targets within a specific time frame. Objectives call for action and results. Objectives represent a conversion of the business mission into specific performance target. It is a requirement that all managers set objectives in each key result area and press for action aimed at achieving these objectives outlined. Empirically it has been realised that companies that do this outperform those that do not.

5.3 QUALITIES OF LONG-TERM OBJECTIVES

A good objective is characterised by the following.

Acceptability

When objectives are set by management representatives, managers are likely to accept them. Managers would like to pursue objectives that are consistent with their perceptions and preferences. If they are offended or feel that the objectives are inappropriate they are likely to block achievement. Long-term objectives should address the interests of stakeholders.

Flexibility

Objectives should be modifiable in light of unforeseen changes in the firm's competitive environment.

Measurability

It is critical that an objective must clearly and concretely spell out what is going to be achieved within a given timeframe. The use of figures reduces misunderstanding. For example an objective to increase market share, would be:

to increase market share by at least 5% over the next three years.

Motivating

Employees are more productive when objectives are set at a motivating level, that is, high enough to challenge but not so high to frustrate. Objectives should be set high enough to produce outcomes at least better than current performance. They should be set at levels above what is do-able with a little extra effort.

Suitability

Objectives must conform to the broad aims of the organisation, expressed in the mission statement of the organisation. Each objective should constitute a step forward an attempt to attain overall goals.

Understandability

It is important that managers at all levels clearly understand what is to be achieved. They need to understand the criteria to evaluate performance. This calls for objectives to be clear to the giver and recipient.

Achievability

It is crucial that objectives must be possible to achieve, using the available resources. However, because of the dynamic nature of both the external and internal environment, uncertainty may be created and this may impact negatively on set objectives.

In a nutshell, objectives must be **SMART**: that is, they need to be as follows.

Specific – objectives should specify what they want to achieve.

Measurable – you should be able to measure whether you are meeting the objectives or not.

Achievable – are the objectives you set achievable or attainable.

Realistic – can you realistically achieve the objectives with the resources you have?

Time – when do you want to achieve the set objectives?

EXAMPLES OF SMART OBJECTIVES

To achieve a 25% return on capital employed by 2013.

To increase the awareness of the dangers of AIDS in Zimbabwe from 20% to 50% by December 2012.

5.4 WHAT KIND OF OBJECTIVES DO COMPANIES SET?

Objectives are required for each key result area. There are two types of key result areas that stand out: those relating to financial performance and those relating to strategic performance. Examples of financial objectives are: growth in revenue and growth in earnings and strategic objectives include a bigger market share and quicker design to market times than rivals. Strategic objectives focus at competitors and they aim at unseating a rival who might be regarded as the industry's best.

5.5 CRAFTING STRATEGIES

Organisations need strategies to guide them on how to achieve objectives and to pursue the organisation's business mission and strategic vision. Company strategies look at how to attain performance targets e.g. how to out compete rivals and how to attain suitable competitive advantage.

Thompson and Strickland (1999) note that "… a company's actual strategy is partly planned and partly reactive to changing circumstances"

It happens this way because the actual strategy is shaped and reshaped by managers as events transpire outside and inside the organisations. The other thing is that the future is uncertain, therefore managers cannot plan every strategic action in advance and pursue pre-planned or intended strategy without any need for alteration.

5.6 TEST OF A WINNING STRATEGY

A good strategy can be measured by the following tests.

(a) The goodness of fit test

A good strategy is tailored to fit the company's internal and external situation.

(b) The competitive advantage test

A good strategy leads to a competitive advantage.

(c) The performance test

A good strategy boosts performance gains in profitability and gains in company's competitive strength.

5.7 APPROACHES EMPLOYED IN STRATEGY MAKING TASK.

There are four approaches.

(a) THE MASTER STRATEGIST APPROACH

In this approach managers are the chief strategists and chief entrepreneurs, they single handle, assess the situation and influence strategy alternatives that are explored. They are the key architects of the major process of strategy.

(b) DELEGATE-IT-TO-OTHERS APPROACH

Managers delegate the strategy making task to others like a cross functional taskforce or trusted subordinates. They take a supervisory role and offer guidance when appropriate. They will then put the various pieces of strategy into harmony. This approach allows for broad participation from many managers. Its success depends heavily on the skills of the participants.

(c) THE COLLABORATIVE APPROACH

In this approach management calls for the help of peers and subordinates, so that they come up with a consensus strategy. The strategy that comes out is a product of all the concerned parties.

(d) THE CHAMPION APPROACH

The manager has little interest neither in the details of the strategy nor in the time consuming task of the exercise. He/she encourages individuals and teams to develop, champion and implement strategies on their own initiatives. The vital pieces of strategies originate from the doers. This works well for diversified corporations.

All the four approaches have strengths and weaknesses and their use depends on the situation at hand.

5.8 TYPES OF STRATEGIES

There are many strategies that a company can employ to attain its goals as shown below.

1. INTERGRATION STRATEGIES

(a) Forward Integration

It involves gaining ownership or increased control over distributors or retailers.

Guidelines for the use of integration strategies

Forward integration becomes an effective strategy when:

- present distributors are expensive, unreliable, or incapable of meeting a firm's needs
- availability of quality distributors is limited
- a firm competes in an industry that is expected to grow markedly
- an organisation has both capital and human resources needed to manage the new business of distribution

- ❖ advantages of stable production are high
- ❖ present distributors have high profit margins

(b) Backward Integration

It is a strategy of seeking ownership or increased control of a firm's suppliers. It's an appropriate strategy in a situation where current suppliers are unreliable, too expensive or cannot meet the company's needs.

Guidelines for Backward Integration

There are five guidelines for backward integration. It is appropriate when:

- ❖ present suppliers are expensive, unreliable, or incapable of meeting needs
- ❖ number of suppliers is small and number of competitors large
- ❖ there is high growth in industry sector
- ❖ an organisation has both capital and human resources to manage new business
- ❖ present suppliers have high profit margins

(c) Horizontal Integration

It refers to a strategy of seeking ownerships of or increased control over a firm's competitors through mergers, acquisition and takeovers. It allows for increased economies of scale and enhanced transfer of resources and competencies. When an organisation gains increased control over competitors it means that you have to look for new opportunities either by the purchase of the new firm or hostile take over of the other firm.

Guidelines for Horizontal Integration

Horizontal integration is relevant when:

- ❖ a firm can gain monopolistic characteristics without being challenged by government
- ❖ a company competes in growing industry
- ❖ Increased economies of scale provide major competitive advantages
- ❖ when an organisation has both the capital and human talent needed to successfully manage an expanded organisation
- ❖ when competitors are faltering due to a lack of managerial expertise or a need for particular resources that an organisation possesses.

INTENSIVE STRATEGIES

(a) Market penetration

The strategy seeks to increase market share for present products or services in present markets through greater marketing efforts. This can be achieved through increasing the number of salespersons, increasing sales promotion, and increasing advertising efforts.

(b) Market Development

It involves introducing present products or services into new geographic areas. Ok Zimbabwe and Econet Wireless Zimbabwe Ltd are examples of companies that are pursuing a market development strategy. They have gone international (to South Africa and Kenya respectively).

(c) Product Development

It is a strategy that seeks increased sales by improving or modifying present products or services. It calls for large investments in research development expenditures.

DIVERSIFICATION STRATEGIES

These strategies are affected by the fact that organisations are finding it more difficult to manage diverse business activities

(a) Concentric Diversification

It entails new, but related products or services.

(b) Horizontal Diversification

It involves the adding of new, unrelated products or services for current customers. It’s not as risky as other strategies because the organisation already knows its clients.

(c) Conglomerate Diversification

This involves new, unrelated products or services.

DEFENSIVE STRATEGIES

(a) Joint Venture

This is when two or more companies form a partnership or consortium for the purpose of capitalising on some opportunity. The strategy is considered defensive as the organisations are sharing equity ownership in the new venture.

(b) Retrenchment

It occurs when an organisation regroups through cost and asset reduction to reverse declining sales and profits. It is sometimes called turnaround strategy. It is designed to strengthen the organisation's distinctive competence. When retrenchment is implemented, strategists work with limited resources and face intense pressure from employees, shareholders and the press. It entails selling assets like land, buildings to realise needed cash, closing marginal businesses, reducing the number of employees and put in place an expense control system.

(c) Divesture

It entails selling a division or part of an organisation. It is taken as a way to raise capital for further strategic acquisitions or investments. It can be part of an overall retrenchment strategy to get rid of unprofitable businesses.

(d) Liquidation

It entails selling the company's assets. It's a difficult strategy as it signals defeat.

(e) Combination

Organisations may combine strategies, but it is not feasible to pursue all strategies, since an organisation cannot do many things at a time due to limited resources.

5.9 MICHAEL PORTER'S GENERIC STRATEGIES

Porter notes that strategies allow organisations to gain competitive advantage from three different bases: cost leadership, differentiation and focus. He calls these three basic generic strategies.

(a) Cost leadership strategies

When organisations pursue backward and horizontal integration strategies, their intention is to achieve a cost leadership benefit. The basis for competitive advantage is lower overall costs than competitors. It is important that the company achieves its cost advantage in ways difficult for rivals to copy or match. A low cost provider has two options, I) to under price competitors in order to increase profits 2) to refrain from price cutting, be content with the present market share, and use the low cost to earn a higher profit margin on each unit sold, thereby raising the firm's total profits and return on investment.

To achieve a cost advantage an organisation's cumulative costs to its chain must be lower than competitors' cumulative cost. This is only possible when an organisation can do the following.

(i) Do a better job than rivals of performing internal value chain activities efficiently and managing the factors that drive the costs of value chain activities;

(ii) Revamp the value chain to permit some cost producing activities to be by passed altogether

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, screening of budget requests, wide span of control, rewards linked to cost commitment and broad employee participation in cost control efforts. There are risks associated with pursuing cost leadership, for example, competitors may imitate the strategy. This drives overall industry profits down. Technological breakthrough in the industry may make the strategy ineffective or buyer interest may switch to other differentiating features besides price.

(b) Differentiation strategies

Differentiation entails creating products/services that are perceived as unique and valuable to customers. The unique features/benefits should provide superior value for the customer if the strategy is going to be successful. Customers should see the product or service as unrivalled or unequalled. Successful differentiation allows a firm to command a premium price for its products and gain buyer loyalty to its brand. It is important to note that easy to copy differentiating features cannot produce a sustainable competitive advantage.

A company can differentiate its products/services across various angles, for example a unique task, a host of features, reliable service, 48 hours spare parts delivery to any customer, more for the money (dollar for three). Remember that the most appealing features to differentiate are those that are hard to copy and expensive for rivals to duplicate.

How to maintain (sustain) differentiation strategy

An organisation should have the following attributes.

- ❖ Research and development skills.
- ❖ Good relationships with distribution channels
- ❖ Strong marketing skills
- ❖ Ability to engage continuous distribution channels
- ❖ Strong marketing skills
- ❖ Ability to engineer continuous improvement and innovation

- ❖ The ability to communicate the importance of the differentiating product characteristics
- ❖ Skilled and creative people
- ❖ Unique service

5.10 PITFALLS OF DIFFERENTIATION STRATEGY

Differentiation fails when competitors can easily copy the appealing product attributes. Common pitfalls include the following.

- ❖ Trying to differentiate on the basis of something that does not lower a buyer's cost or enhances a buyer's well being.
- ❖ Over differentiation so that price becomes too high relative to competitors.
- ❖ Try to charge too high a price premium
- ❖ Failure to identify what buyers consider as value.
- ❖ Ignoring the need to signal value and depending only on intrinsic product attributes for performance.

5.11 FOCUS STRATEGIES

In this strategy the organisation concentrates attention on a narrow piece of total market or on a selected few target markets. The aim of this strategy is to do a better job of serving buyers in the target market niche than rival competitors. The focuser's basis for competitive advantage is either:

(a) lower costs than competitors in serving the market niche or

(b) an ability to offer niche members something they perceive as better.

It is hopeful that by focusing your marketing efforts on one or two narrow market segments you are tailoring your marketing mix to these specialised markets. You can better meet the needs of that target market. The organisation intends to gain competitive advantage through effectiveness rather than efficiency. It is most appropriate for small organisations. Focus strategy works well when:

- ❖ the target market niche is big enough to be profitable.
- ❖ the niche has good growth potential.
- ❖ he niche is not critical to the success of major competitors.
- ❖ when the focuser has the capabilities and resources to serve the targeted niche effectively.

- the focuser can defend itself against challenges.

5.12 CRITICISM OF THE GENERIC STRATEGIES

Generic strategies lack specificity, lack flexibility and are limiting.

5.13 CHAPTER SUMMARY

The chapter dealt with how objectives are set. The other key thing discussed includes the crafting of winning strategies. A number of strategies were discussed.

QUESTIONS FOR DISCUSSION

1. Discuss the major characteristics of good objectives.
2. Identify the approaches that are used to make strategies in organisations you are familiar with. Why do you think they use such approaches?
3. Discuss the generic strategies by Porter. How relevant are these strategies to retail organisations operating in Zimbabwe.
4. Read Appendix 4 and answer the following question.
5. Evaluate the strategies that Wal-Mart employed to go international

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CHAPTER 6: CHOICE OF STRATEGY

After studying this Chapter, you should be able to do the following.

1. Outline the process of strategy analysis
2. Evaluate various strategies
3. Describe the process of strategic choice.
4. Discuss the role of the BCG matrix and General Electric portfolios
5. Outline the contingency approach to strategy choice

6.1 INTRODUCTION

Strategic analysis and choice involves making subjective decisions based on objective information. Systematic comparison of external and internal factors is often used to search alternative strategies. Getting alternative strategies depends on systematic comparison of strengths, weaknesses, risks and trade offs of each alternative and systematically evaluating them in a comparative framework. Both new and old strategies should pass through the same systematic evaluation in order to make sure that the final choice yields desired results.

6.2 WHAT IS STRATEGIC ANALYSIS?

It is the process of developing an informed understanding of the external environment on which an organisation is operating together with an understanding of the organisation's capabilities and interaction with its environment in order to establish the strategic vision and the strategy of the organisation.

It tries to answer two questions

(a) How is the organisation affected by what it is obtaining in the environment?

(b) What is your response to these changes?

It is called strategic analysis because it is high level. It is long-term and about the whole organisation. It breaks down big and complex environment into some manageable chunks. It focuses on the external factors as they have a powerful influence on it.

Strategic analysis boosts organisational effectiveness. Strategic analysis helps to anticipate what might happen, evaluate how likely it is to happen and prepare for it happening. Strategic analysis leads to clearer and relevant goals, better quality decisions, and a more secure future as the organisation will be better prepared for what will happen. It is the link between getting the organisation's overall direction right and making the right decisions. Banks which fund organisations are reassured by strategic analysis because they know that organisations that are well prepared for the future are likely to use grants, loans and donations to their advantage. When an organisation fails to do strategic analysis it means it will miss opportunities (opportunity cost). If you do not do strategic analysis you are left behind.

6.3 THE DEFINITION OF STRATEGIC CHOICE

It involves the selection of a strategy or set of strategies that assists in attaining organisational goals or objectives. Glueck and Jauch (1984:279) state that,

"..strategic choice is the decision which selects from among the alternative grand strategies which will best meet the enterprise objectives. It is also important to note that subjective factors impact on the final choice of a strategy".

The strategic choice process is summarized in the diagram below

Figure 6.1: Strategic Choice Process (Source: Adapted from Glueck and Jauch 1984: 299)

The diagram demonstrates that choice of strategy is a decision making process which starts with a focus on strategic alternatives, evaluate alternatives, and consider decision factors (objective and subjective) and the choice of strategy. The steps are discussed below.

6.4 FOCUS ON STRATEGIC ALTERNATIVES

This is the first step that involves the identification of possible alternatives from which a strategy will be selected. It requires that all alternatives are identified. This is a tiresome exercise and many such exercises have resulted in failure. In real terms, managers only consider those alternatives which are relevant and feasible.

6.5 GAP ANALYSIS

The key focus is to examine if the goals that have been established are going to be achieved using the current strategy. Whenever the answer is positive the organisation is likely to continue with the present strategy. If the answer is negative the organisation needs to go far on alternative strategy. Gap analysis consists of defining the present state, the desired state and the gap between them. There might be a gap between what the organisation's mission statement suggests and what it is achieving. It could be a result of a failure of certain strategic actions. For example a mission may be modified or changed and this

means if current strategies are not adjusted in the same way they will not attain the expected results/goals.

In order to find out alternatives, it is important that the organisation diagnoses and analyses the gap which will suggest the various strategies to fill the gap. The gap between what is desired and what is achieved and how the gap may be filled is derived from Figure 6.2.

Figure 6.2 Gap analysis (adapted from Prasad (2004:310)

Because the organisation wants to reach at a desired performance it must identify the strategies which will fulfil the gap. Brainstorming sessions and some related idea generation techniques may be employed. Some of the generated ideas will be dropped on the basis of certain evaluation criteria which are based on organisational mission and goals.

6.6 EVALUATE STRATEGIC ALTERNATIVES

When alternative strategies have been identified the following step is to evaluate strengths and weaknesses of each alternative. The alternative that best fits the environment is taken for consideration.

6.7 PORTFOLIO ANALYSIS

It is a set of techniques that help an organisation, which has many business/products, in making strategic decisions with regard to individual business or products in its portfolio. Portfolio analysis is a term borrowed from investment management which means a combination of different securities with varying risks and returns. The major portfolio techniques are as follows.

(a) BCG growth share matrix

(b) GE nine-cell planning grid

(c) Product/market evolution matrix

(d) Grand strategy matrix

(a) THE BCG GROWTH–SHARE MATRIX

It is one of the most commonly used portfolio approaches to corporate strategic analysis. It is a portfolio planning model developed by Bruce Henderson of the Boston Consulting Group in the early 1970's. The BCG portfolio matrix takes two dimensions: market growth rate and relative market share of an organisation. Each dimension is divided into high and low degrees. The position of each business unit in the 2 x 2 matrix reveals the market growth rate and relative market share. The vertical axis represents the annual growth rate of market in which the business operates and the horizontal axis represents the market share relative to that of the largest competition.

The matrix is divided into four categories each representing a different type of business.

High

Low

High Low

Relative market share

Figure 6:3 BCG Growth–Share Matrix.

Stars

- They are characterized by high growth and high market share.
- They represent the organisation's best long run opportunities for growth profitability.
- These are the businesses that the organisation needs to nature and groom for the future.
- These businesses need a substantial amount of funding to maintain and expand their dominant position in a growing market.

Stars are likely to grow into cash cows, if the market share is maintained. The following strategies may be employed by these divisions or businesses: integration strategies, intensive strategies and joint ventures.

Cash cows

These are businesses that are characterized with high market share in a low growth market. They yield high profit margins and generate a lot of cash flow over and above their investment requirement. The businesses are milked as a source of corporate resources for deployment elsewhere (either to stars or question marks). These were yesterday's stars and form the foundation of the current business portfolio. These should be managed in order to maintain their strong position for a long time. Cash cows can use product development or concentric diversification strategies.

Question marks

These businesses are called question marks because the organisation needs to make a decision whether to strengthen or sell them. They have a considerable appeal due to their high growth rate but they have a questionable profit potential because of low market share. They consume a lot of cash as a result of rapid growth, yet their cash generation is low as a result of a small market share.

At corporate level, the concern is to identify the question marks that would most benefit from extra corporate resource so that they are moved to stars. If this fails, divest the business so that resources are used elsewhere.

Dogs

The BCG matrix calls businesses with low market share and low market growth dogs in the firm's portfolio.

- ❖ They are saturated, mature markets with intense competition and low profit margins.
- ❖ The businesses are managed for short term cash flow to supplement company resource needs.
- ❖ These businesses are eventually divested, liquidated or trimmed down through retrenchment.

The major benefits of the BCG Growth–Share Matrix, is that it draws attention to cash flow, investment characteristics and the needs of the various divisions of an organisation. It also reveals that a business is not static but it evolves over time. The BCG Matrix is a valuable tool for evaluating strategic alternatives for multi-business organisations. It helps to assign roles to a business unit, as evidenced by cash cows which may support stars, and it helps to integrate multiple businesses with a total corporate strategy.

Limitations of the BCG matrix

The BCG Matrix might be an important tool to analyse corporate strategy but it has the following limitations.

- ❖ Defining a market is difficult and as a result measuring market share and growth rate is a problem
- ❖ BCG Matrix use only two dimensions (market share and growth rate) and over looks other factors, yet market growth rate is only one factor in industry attractiveness and relative market share is one factor in competitive advantage.
- ❖ The framework assumes that each business unit is independent of the others, thus ignoring the synergy of business units.
- ❖ Dividing the matrix into four cells based on a high/low classification is too simple. It does not recognize average growth rates or business with average market shares.
- ❖ Sometimes dogs can earn even more cash as cash cows, thus businesses with low market share can be profitable too.
- ❖ The matrix does not reflect growth rate of the overall market.

(b) THE GE NINE-CELL PLANNING GRID (MCKINSEY MATRIX)

The General Electric matrix is similar to the BCG growth share matrix in that it maps strategic business units in the grid of the industry and the strategic business unit's (SBU) position in the industry. It is an adaptation of the BCG approach and it attempts to overcome the limitations of the BCG matrix. The GE grid employs many factors to assess

industry attractiveness and business strength, as opposed to single measures (market share and growth rate) used by the BCG Matrix. The G.E increased the number of the cells from four to nine cells. It has substituted the high or low axes with high/medium/ low.

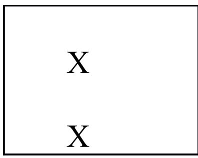
In order to use the General Electric Planning grid, the business units of an organisation are rated on multiple sets of strategic factors within each axis of the grid. The GE Grid is depicted in the following diagram.

		Business Unit Strength		
		High	Medium	Low
Industry Attractiveness	High			
	Medium			X X X X
	Low		X X X X	X X X

Key

Invest / expand

Select / team



Harvest

Figure 6:4 GE's Nine Cell Planning Grid: (Source: Prasad 2004:325 Business Policy: Strategic Management, 10th Edition, Delhi, Sultan Chand & Sons).

(i) Business strength factors

The horizontal axis of the GE Matrix is the strength of the business unit. The following factors can be used to determine the strength of business unit.

- Market share
- Profit margin relative to competitors
- Brand equity
- Customer and market knowledge
- Competitive position
- Distribution channel access
- Management calibre
- Technology
- Production capacity

ii) Industry attractiveness

The vertical axis of GE Matrix represents industry attractiveness, which is determined by the following factors.

- Market growth rate , size and industry profitability
- Competition
- Economies of scale

- Technology
- Macro-environmental factors (political, social, economic, technological)
- Demand variability
- Industry profitability
- Industry rivalry
- Global opportunities

In order to position a business in the planning grid, some computations are done; some weights are going to be assigned to each dimension. A dimension that contributes highest is given the highest weight and vice versa.

A composite value is obtained for each business as follows.

Industry Strength	**Weight**	**Rating**	**Score**
Market share	20	0.8	16
Profit margin	15	0.6	9
Ability to compete	30	0.8	24
Technology	15	0.6	9
Competitive position	20	0.8	16
Total	**100**		**74**

Ratings vary between 0-1 (lowest-highest) Business strength: strong, average, weak (50 representing average)

Table 6.1 Measurement of business strength.

Industry attractiveness	**Weight**	**Rating**	**Score**
Market size	15	0.8	12
Growth Rate	25	1	25
Profit Margin	20	0.7	14
Competition	20	0.8	16
Economies of Scale	10	0.5	5
Technology	100	0.6	6
Total	**100**		**78**

Table 6:2 Measurement of business attractiveness (Source: Adapted from Prasad 2004:324 Business Policy; Strategic Management, 1oth Edition, New Delhi, Sultan Chad & Sons).

It is important to note that what should be included as a factor depends on managerial judgement. The GE grid is divided into three zones which are shown by three different colours: green, yellow and red. This is linked to the traffic lights where green stands for go, yellow for wait and red for stop. Each zone presents a type of strategy:

Invest to grow (green)

This business is treated like a star in the BCG matrix. The business can grow through further investment and expansion. These businesses may be given resources to pursue growth strategies.

Invest selectively and manage for earnings (yellow)

These businesses need to be managed as cash cows which provide high earnings for the corporation or can be managed as question marks which can be chosen for investment or divestment.

Harvest/ divest (Red)

These businesses are managed like dogs in the BCG matrix. The organisation has to stop since it is in the red cell, therefore harvesting and divesting is suitable. Harvesting intends to withdraw from a business. At first the focus is on cost cutting especially on items like advertising, research and development. The main objective is to earn short term profit as the business is unlikely to be attractive in the long run. The student is also encouraged to read Appendix 5 which discusses portfolio models.

IMPORTANCE OF GE NINE CELL PLANNING GRID

The grid is useful for examining alternative corporate level strategies in multi-industry companies.

- It assists in generating good strategies by promoting competitive analysis at the business level.
- It promotes selective resource allocation
- Users of the GE grid feel that portfolio approach helps in the implementation of strategies.
- Helps to clarify and determine strategic intent.

(c) PRODUCT/MARKET EVOLUTION MATRIX

This matrix was coined by Charles A. W. Hofer and Schendel in 1978, and was published in their book: Strategy Formulation: Analytical Concepts. They indicated that the GE approach did not depict the positions of businesses that are likely to emerge as winners. In order to solve this problem, they constructed a fifteen cell matrix that takes competitive position and stages of product/market evolution as shown on the following Figure 6.

Competitive Position

Figure 6.5 Product/Market evolution matrix

The businesses of a company can be placed on this matrix, taking into account their competitive position and stages of product/market evolution. From the matrix, business A appears to be a developing winner, B can be classified as a potential winner, business C can be developed into a future winner through improving its competitiveness. Business D is an established winner and E is a cash cow, and business F is called a loser or dog. Hofer and Schandel (1984) quoted in Prasad (2004:327) reached at the following conclusions.

a) Businesses that fall in strong competitive positions and in development and growth market may be future winners.

b) Businesses falling in average competitive positions and in development and growth market may be converted into future winners by increasing their position.

c) Businesses that fall in weak competitive positions in a mature market or declining market are potential losers. They may be considered for divesting.

d) Those businesses falling in strong competitive positions and in mature and shakeout markets are called cash cows.

e) Businesses that fall in averagely competitive positions and in saturated and declining markets are candidates for future divestment.

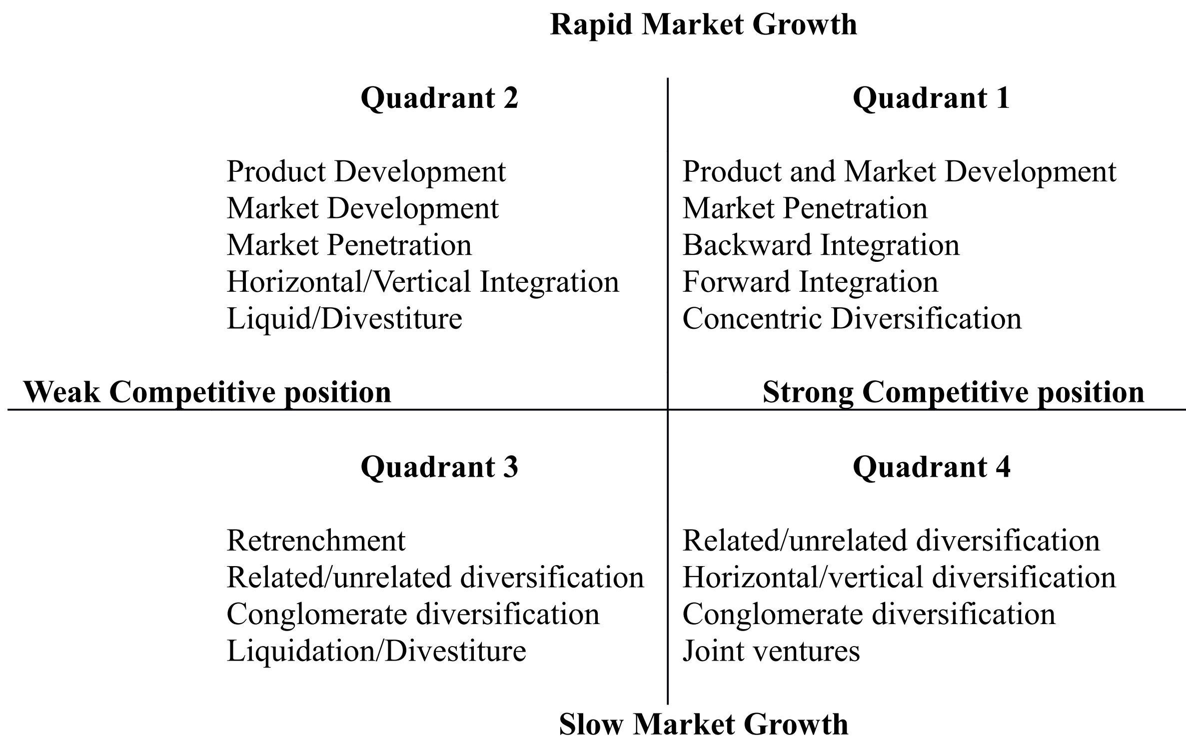
(d) GRAND STRATEGY MATRIX

This is also a useful matrix of strategy formulation framework. It is a popular tool for formulating strategy. It is divided into four quadrants. An organisation's businesses can be

positioned in one of the Grand Strategy Matrix's four strategy quadrants. An organisation can consider appropriate strategies which are listed in order of attractiveness in each quadrant of the matrix, as shown in Figure 6.5. It is constructed from two major dimensions:

(a) Market growth

(b) Competitive position



Quadrant 1

Companies in this quadrant are in a strong competitive position and a rapid market growth. They should concentrate on the current markets and products. Appropriate strategies for these companies include: market penetration and development and product development (see quadrant 1). A company in this quadrant may try backward, forward or horizontal integration, if resources allow. Companies in this quadrant can also take advantages of opportunities in the environment.

Quadrant II

This quadrant contains organisations with weak competitive position in a rapidly growing market. The organisations need to evaluate their present approach to the market place seriously. Regardless of the growth in industry, these organisations cannot compete effectively. An intense approach is appropriate for these organisations. If this fails then liquidating and divesting will be the last resort.

Quadrant III

Organisations in this quadrant compete in some slow growth industries and have a weak competitive position. They should work on turnaround strategies to avoid further deterioration and liquidation. These organisations should pursue retrenchment first. If this fails then they divest or liquidate.

Quadrant IV

The businesses in quadrant four have a strong competitive position in a slow growth industry. The organisations have potential to diversify their offerings/businesses because they have high cash flow levels. They may pursue joint ventures.

6.8 CONTINGENCY APPROACH TO STRATEGIC CHOICE

It implies that the appropriateness of a strategic action is contingent on behaviour factors, especially the environmental variables. The environmental factors are dynamic and therefore accurate forecast is difficult. Conditions may turn out to be different from those expected. We may have a down turn on the economy, shortage of raw materials, technological innovation and a strike. These are examples of contingencies which may force management to put in place alternative strategies which can be either short term or long term.

6.9 BEHAVIOURAL CONSIDERATIONS AFFECTING STRATEGIC CHOICE

Strategic choice is made after a thorough consideration of the alternative strategies. If the current strategy works well for the organisation, then the choice is much easier but if it is failing the organisation to attain its objectives then a new strategy is chosen. A number of factors affect the choice decision.

(a) Role of past strategy

The process of strategic choice begins with a review of past strategy. The immediate past strategy has strong influence on the final strategic choice. Current strategies are built from past strategies, because the organisation would have invested time, resources and interest in these strategies. The older and more successful a strategy is, the harder it is to replace. It should be realised that once a strategy is initiated, it is difficult to change because of the organisational momentum that keeps it going.

(b) Degree of the company's external dependence

A strategy is meant to effectively guide a company's performance within the external environment. The external environment is made up of owners, suppliers, government, customer, competitions and unions. If a firm depends on one of the environmental elements its strategic choice and alternatives need to accommodate such dependence.

(c) Attitudes towards risk

The fear of risk influences strategic choice. The attitudes vary from risk averse to risk taker. If attitude promotes risk taking, the range and diversity of strategic choices increase. Risk taking strategies are more preferable and have higher payoffs. When managers are risk averse, the choices become very limited as they would prefer defensive strategies.

(d) Internal political considerations

Political games within the organisation affect strategic choice. The use of power to gain individual or group interests is common in organisational life. The Chief Executive Officer is the most dominant source of power. Key managers may form coalitions in order to support some alternatives and oppose others. The dominant coalition takes control of the ultimate strategic choice.

(e) Timing considerations

Time element influences strategic choice. A good strategy becomes disastrous if it is undertaken at the wrong time. Strategic choice is strongly influenced by the match between management's current time horizon and the lead time/pay off time associated with different choices

(f) Competitive reaction

In evaluating strategic choices, management needs to consider competitor reaction to different options. In a case where management opts for an aggressive strategy that challenges a competitor, it is likely that the competitor may retaliate with an aggressive counter strategy.

6.10 CHOICE OF STRATEGY

At this stage, the strategist has to choose the strategy which is going to be implemented. The following questions are going to be asked.

- ❖ Is the strategy best fitting to management's value, philosophy and sense of social responsibility?
- ❖ How consistent is the strategy to the capabilities and competences of the organisation?
- ❖ Does the strategy not conflict with other strategies?
- ❖ Does the organisation have adequate resources to implement the strategy?
- ❖ Is the strategy consistent with the empowerment?
- ❖ Has the strategy been properly evaluated?
- ❖ Is the strategy acceptable to all key stakeholders?

6.11 CHAPTER SUMMARY

This chapter looked at several considerations in strategic analysis and choice. Different strategies were examined to see how they can assist in terms of generating and allocating resources. A number of questions were asked to guide the choice of strategy.

QUESTIONS FOR DISCUSSIONS

1. Explain the term strategic analysis.

2. Discuss the strategic choice process.

3. What is the role of gap analysis in the choice of a strategy?

4. Discuss the role of the BCG matrix in allocating resources of a business.

5. Discuss the limitations of the BCG, and GE Nine Grid planning matrices.

6. Read Appendix 6 and answer the questions that accompany it.

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CHAPTER 7: IMPLEMENTING STRATEGIES 1

Chapter Learning Objectives

Upon completion of this Chapter, you should be able to:

1. Describe the process of strategy implementation
2. Distinguish between strategy formulation and strategy implementation
3. Discuss why structure follows strategy
4. Outline the reasons why people resist change
5. Identify the need for creating a strategy supportive culture

7.1 INTRODUCTION

The setting of long-term objectives and the determination of strategies is not the end of the strategic management process. It calls for strategic implementation. Strategy implementation is fundamentally an action oriented, and make-it-happen activity which calls for a number of structures, policies and procedures so that the execution of the strategy will yield the desired end goals.

7.2 THE NATURE OF STRATEGY IMPLEMENTATION

Strategy implementation is a process through which a chosen strategy is put into action. Implementation looks at whom? Where? when? and how? of a strategy. A strategy is complete only when it is embodied in organisational activities.

(a) DEFINITION OF STRATEGIC IMPLEMENTATION

Stein *et al* (1986:607) define strategy implementation as follows:

"The implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structures, procedures and resources, in reaching organisational purposes"

"A process by which strategies and policies are put into action, through the development of programmes, budgets and procedures"

The definitions reveal that strategy implementation is part and parcel of the management process. The following functions are relevant to strategy implementation.

- ❖ The strategy should be communicated and accepted by the totality of the organisation. Activating the strategy calls for the formulation of plans and programmes, general objectives into operational objectives and resource allocation.

- ❖ Consider and follow the relevant procedures in order to put the strategy into action.
- ❖ Design the organisation structure and systems.
- ❖ Developing plans and policies for different functions.
- ❖ Develop leadership styles, constructing a conducive organisational atmosphere.
- ❖ Infuse values, ethical and social consideration.

Strategy implementation is difficult, yet strategy formulation is easier. This is likened to an adage that says; it is easier said than done. Implementation of strategies requires a paradigm shift on how a number of organisational activities are performed. It calls for alterations in sales territories, closing facilities, adding new departments, changing pricing strategy and developing new financial budgets among others.

(b) Differences between strategy implementation and strategy formulation

Strategy formulation	Strategy implementation
It is positioning before action	It is managing forces during the action
It focuses on effectiveness	It focuses on efficiency
It is an intellectual process	It is an operational process
Requires good intuitive and analytical skills	Requires special motivation and leadership skills
Requires coordination among a few individuals	Requires coordination among many persons

7.3 ANNUAL OBJECTIVES

They translate long-term objectives into a year's budget and provide a clear guide to strategy implementation. They are important because of the following reasons.

- ❖ They represent a basis for resource allocation
- ❖ They are used as yardsticks for evaluating managers.
- ❖ They provide an awareness to monitor progress towards achieving long-term objectives and
- ❖ They establish priorities for various divisions and departments.

When objectives are clearly stated and communicated they aid the successful attainment of organisational goals. Annual objectives can be stated in terms of profitability, growth, market share and the reader is reminded that annual objectives should be measurable, consistent, challenging, and clear and time framed. They should also be tied to performance rewards and be supported by organisational policies.

7.4 POLICIES

They refer to specific guidelines, methods, procedures, rules, forms and administrative practices established to support and encourage work toward stated goals (David, 2003:321). They are influential instruments in strategy implementation. Policies help strategy implementation in the following ways:

- policies set boundaries, and limits on how to reward employees;
- they clarify what can be done in the pursuit of organisational objectives;
- they allow both employees and managers to know what is expected of them;
- provide a basis for management control;
- allow coordination across various departments;
- reduce the amount of time taken to make decisions and
- they clarify work to be done.

Because policies are significant to attaining objectives they should be stated in writing whenever possible.

7.5 RESOURCE ALLOCATION

Organisations have four types of resources that can be used to achieve desired objectives (financial, physical, human resources and technology). The allocation of these resources is done according to priorities. It should be noted that effective resource allocation does not translate or guarantee successful strategy implementation.

7.6 MANAGING CONFLICT

Conflict is a disagreement between two or more parties on one or more issues. Conflict can arise in the establishment of annual objectives where perceptions and expectations may differ. Strategists may fail to agree on where to put emphasis either on short term profits, or long-term growth. Conflict is unavoidable, therefore it is crucial that it must be managed and resolved, before it affects the organisational performance. Management should treat conflict properly; it may lead to better decisions and avoid groupthink. Conflict may be managed in the following ways.

(a) **Avoidance:** ignoring the problem in hopes that the conflict will resolve itself or physically separate the conflicting groups/individuals.

(b) **Diffusion**: includes playing down differences between conflicting parties while promoting common interests, creating win-win scenarios, resort to majority rule or appealing to higher authority.

(c) **Confrontation:** holding a meeting in which conflicting parties present their views and work through their differences.

7.7 MATCHING STRUCTURE WITH STRATEGY

The change in strategy calls for a change in organisational structure because of two things.

(a) Structure determines how objectives and policies are established.

(b) Structure dictates how resources are allocated.

Structure follows strategy, this entails the fact that change in strategy leads to change in organisational structure. Without a strategy (the reason for being), it becomes difficult to design an effective structure. There is no one best structure for a given strategy. What is relevant to one organisation may not be for a similar organisation.

7.8 RESTRUCTURING AND REENGINEERING

Restructuring is also known as downsizing, rightsizing or delayering. It involves reducing the size of a firm in terms of the number of employees, number of divisions and number of hierarchical levels in the company's organisational structure. The intention is to improve on efficiency and effectiveness. Reengineering is more focused on employee and customer well being. It involves redesigning work and processes in order to improve cost, service quality, and speed.

(a) **Restructuring**
The main reason for restructuring is to cut costs. However it has the following demerits.

- Reduced employee commitment, creativity and innovation.
- Frighten aspiring managers

(b) **Reengineering**
It is the radical redesign on an organisation's process, especially the business processes. The key benefit of reengineering is that it offers employees the opportunity to see how their jobs impact the final product/service marketed by the organisation.

7.9 LINKING PERFORMANCE AND PAY TO STRATEGIES

The organisation's reward system should be closely linked to strategic performance. There are a number of ways to achieve this:

- **Profit Sharing**: It is a widely used form of incentive compensation. Critics note that there are too many factors that affect profits for this to be a good criterion.

- **Gain Sharing**: Employees or departments trace performance targets. If the actual results exceed objectives, then members are rewarded with bonuses.

- **Bonus System**: If an organisation meets agreed upon profit objectives, each member should get the share of the harvest. A bonus is an effective tool for motivating individuals to support strategy implementation efforts.

7.10 THE TEST OF A PERFORMANCE POLICY PLAN

In order to check if the performance policy plan benefits an organisation, it should pass the following tests.

(a) Does the plan capture attention?

(b) Do employees understand the plan?

(c) Is the plan improving communications?

(d) Does the plan pay out when it should (Are incentives paid out)?

(e) Is the organisation or division performing better? (Any increase in profits, market share)

A combination of reward strategy incentives works well. Managers can combine salary increase with stock options, fringe benefits, promotions, praise, recognition, criticism, fear; increased job autonomy and awards can be employed to exert pressure on employees so that strategy implementation is successful.

7.11 MANAGING RESISTANCE TO CHANGE

Change is an alteration in an organisation's alignment with its external environment. It may call for a shift in structure and process or a redefinition of the organisation's mission and purpose or substantial shift of priorities or goals.

(a) RESISTANCE TO CHANGE

Change is inevitable. You either shape up or ship out. Regardless of this people resist change. Managing change is not an easy task. Change is difficult to plan, more doubtful of success and dangerous to manage.

(i) Successful Change should be planned

- Analyse the need for change
- Decide what that change should be
- Manage change as a project or series of projects
- Implement change and manage change through it
- Ensure that it is well rooted.

(ii) Why change fails?

- Complacency – not creating enough sense of urgency
- Failure to create powerful coalition to guide change.
- Under communicating the vision.
- Failure to create short term wins to demonstrate success.
- Neglecting to anchor change

(iii) Forms of resisting change

- Sabotaging production machines
- Absenteeism
- Filing unfounded grievances
- Unwilling to compensate regularly

(iv) Why change is resisted?

- Lack of communication
- People may not understand what change is, why change is necessary and the urgency of change.
- Lack of acceptance of the process
- Lack of incentive to change.

- Threats to change e.g. reducing their power
- Fear of the unknown
- Unwillingness to take risk.

7.12 STRATEGIES FOR IMPLEMENTING CHANGE

(a) A forced change strategy

It involves giving orders and enforcing those orders. This strategy is fast but associated with low commitment and high resistance.

(b) The educative change strategy

It involves presenting information to convince people of the need for change. The disadvantage is that implementation is slow and difficult. It promotes greater commitment and less resistance than forced strategy.

(c) A rational/ self-interest change strategy
Is a strategy that tries to convince individuals that the change is to their personal advantage? Strategy implementation is easy. It is the most desirable.

7.13 CREATING A STRATEGY– SUPPORTIVE CULTURE

Strategies should make sure that they put in place aspects of culture that support proposed new strategies. Those aspects that oppose the new strategies should be changed. New strategies are in many times market driven and caused by competitive forces. Company culture can be changed through recruitment, training, transfer, promotion, restructuring and organisation and positive reinforcement.

7.14 TRIANGULATION

It is the commonly employed technique which combines the use of observation, self administrative questionnaires and personal interview to determine the nature of an organisation's culture. According to Shein as quoted in David (1996: 236) the following elements are useful in linking culture to strategy.

- Statements of organisational philosophy, chapter, creeds, materials used for recruitment and selection.
- Designing of physical spaces and buildings.
- Deliberate role involving teaching and coaching by leaders.
- Explicit reward and status system and promotion criteria.

- Stories, legends, myths and parables about key people and events.
- What leaders pay attention to, measure and control.
- How organisation is designed and structured.
- Organisation systems and procedures.
- Criteria used for recruitment, selection and promotion.

7.15 OPERATIONS CONCERNS WHEN IMPLEMENTING STRATEGIES

Before locating production facilities it is important to consider the availability of major resources, wage rate in the area, costs of transport, the location of major markets, political risks and the availability of employees. The training of employees can facilitate implementation of strategy.

7.16 ROLE OF HUMAN RESOURCES IN IMPLEMENTING STRATEGIES

Human Resources Managers have the responsibilities of making sure that adequate staff is available. They need to develop a staffing plan for implementing strategies. For example they can develop performance incentives linking performance and pay to strategies. It is also recommended that managers be matched with strategies to be implemented. To achieve this, managers can be transferred, hold workshops on leadership, offer career development activities, promote and enlarge or enrich the job. It is important to ensure that human relationships facilitate the strategy implementation efforts.

7.17 CHAPTER SUMMARY

A strategy is as good as its implementation. A well formulated strategy does not imply a successful strategy implementation. When you implement a new strategy, you are introducing change that must be managed effectively and efficiently.

QUESTIONS FOR DISCUSSION

1. Explain the role of objectives in strategy implementation.
2. Describe the relationship between annual objectives and policies.
3. Explain why conflict may occur during objective-selecting activities.
4. How does organisational structure affect the implementation of a strategy?

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CHAPTER 8: IMPLEMENTING STRATEGIES II

Chapter Learning Objectives

Upon completion of this Chapter, you shouldbe able to:

1. Explain how marketing issues assist in the implementation of strategies
2. Discuss the role played by capital requirements on strategy implementation
3. Outline the role of research and development in strategy implementation

8.1 INTRODUCTION

The foregoing chapter has set up the required conditions for implementing strategy. In addition to this, it is quite a challenge for a strategy to be implemented successfully if a firm does not market goods and services well, let alone, if a firm does not have adequate budget. The chapter looks at other issues that also promote effective strategy implementation.

8.2 MARKETING ISSUES

A number of marketing variables affect the success of strategy implementation. Two variables are of importance to strategy implementation. They are market segmentation and product positioning. Examples of those marketing decisions that require policies may include the following.

- The use of multiple channels of distribution.
- The use of press or TV advertising.
- Offering a complete warranty.
- Rewarding sales people basing on commission or a combination of salary and commission.
- Being a price leader or follower.

(a) Market Segmentation

Peter and Donelly (2009:66) define segmentation "…as a process of dividing a market into groups of similar consumers and selecting the most appropriate

group(s) for the firm to serve”. It is important in strategy implementation because of the following three reasons.

(i) Intensive strategies (market development, product development, market penetration and diversification strategies), require increased sales through new markets and products.

(ii) Market segmentation allows a firm to operate with limited resources.

(iii) Market segmentation affects marketing mix variables.

Bases of market segmentation

There are four important bases of market segmentation.

(i) **Psychographic:** buyers are divided into groups on the basis of the style and personality or values.

(ii) **Behavioural:** buyers are divided into different groups on the bases of their knowledge of, attitude towards, use of or response to a product.

(iii) **Geographical:** the markets are divided into different geographical units such as nations, states, territories, or provinces

(iv) **Demographic:** the market is divided into segments based on the variables such as age, family size, sex, religion, race, generation and social groups.

Segmenting is important because advertising strategy follows market segmentation. Segmenting is also important when an organisation is trying to match demand and supply which allows it to produce desirable levels. It allows organisations to increase effectiveness.

(b) Product positioning

When segmentation is done, the organisation determines what customers want and expect. This is done through research so that positioning can be done.

Positioning refers to the development of schematic representations that reflect how your products or services compare to competitors on dimensions most important to success in the industry. You position a product or service through the following steps.

1. Differentiate your products or services in the industry.

2. Draw a two-dimensional product positioning map with specified criteria on each axis.

3. Plot competitors' products/services in the resultant four quadrant matrix.

4. Identify an area where you can position your organisation's products or services. Look for niches.

5. Develop a marketing plan to position the organisation's products or services.

According to David (1999), the rules of thumb for product positioning include the following.

(i) Vacant niche:- an unserved market segment

(ii) Avoid serving two segments with the same strategy

(iii) Do not occupy a middle position of the map as it implies a strategy that has no unique characteristics.

A good product positioning distinguishes a company from competition.
Companies should avoid creating expectations that exceed their service delivery.

8.3 FINANCE ISSUES

Under this heading, only those finance issues that are relevant to implementing strategy are going to be discussed. The following decisions require finance or accounting policies.

- ❖ Raising capital for both short term and long term debt,
- ❖ Purchasing of fixed assets
- ❖ Coming up with a divided policy
- ❖ To decide on the duration of accounts receivable.
- ❖ Deciding on the amount of cash that should be kept on hand.

8.4 CAPITAL REQUIREMENTS TO IMPLEMENT STRATEGIES

Strategy implementation needs additional capital. The sources of capital to implement strategies include profit from operations, sale assets, debt and equity. A good debt-equity ratio can lead to a successful implementation of strategy.

Projected financial statements

Projected Financial Statement analysis is a central strategy implementation technique because it allows an organisation to estimate expected results of many actions and approaches.

Steps taken to perform a pro-forma (projected) financial statement are as follows.

a) Prepare the pro-forma income statement by accurately forecasting on sales.

b) Employ the percentage sales method to project cost of goods sold and the expense items in the income statement.

c) Compute the projected income.

d) From the net income subtract dividends to be paid and the remainder is added to the retained income.

e) Project the balance sheet items.

8.5 FINANCIAL BUDGETS AND DEVELOPMENT

R&D strategy ties external opportunities to internal strength. It matches market opportunities with external capabilities. It enhances strategy implementation efforts in the following ways:

(a) Stresses on process and product improvements

(b) It stresses applied research

(c) Uses both private and university lecturers

(d) Reforms R&D within the firm.

There are three major R&D approaches for implementing strategies.

(i) To be a leader in marketing new technological products.

(ii) Have the capabilities to innovatively imitate successful products so that the organisation minimises risks and costs of start up and

(iii) To be a low cost producer.

8.6 CHAPTER SUMMARY

For a successful strategy implementation, an organisation must make sure that all departments work in a coordinated way.

QUESTIONS FOR DISCUSSION

1. Discuss the role of market segmentation as a successful strategy implementation.

2. How can you successfully position your products or services in the mental maps of customers?

3. Explain how the following assist in strategy implementation.

    a) Capital
    b) Research and Development
    c) Financial Budgets

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David, R.F. (1999). *Strategic Management: Concepts & Cases*, New Jersey, Prentice Hall.

Peter, J. P. and Donelly, H. J (2009). *Marketing Management: Knowledge and Skills*, Boston, McGraw Hill.

CHAPTER 9: STRATEGY EVALUATION

Chapter Learning Objectives

Upon completion of this Chapter, you should be able to:

1. Outline the nature of strategy evaluation
2. Discuss the role of strategic evaluation and control
3. Measure organisational performance
4. Discuss the major characteristics of an effective evaluation system
5. Explain the role of contingency plans

9.1 INTRODUCTION

Strategy evaluation is vital for the well being of an organisation. It is needed because an organisation's vision and mission, objectives and strategy are never final. The evaluation of performance, monitoring changes in the surrounding environment and the making of adjustments are normal and necessary. The vision of an organisation may be changed, business may be redefined, and performance may be raised or lowered in light of past experience and future prospects.

9.2 THE NATURE OF STRATEGY EVALUATION

Timeous evaluation alerts management to problems before they go out of hand. Strategy evaluation consists of three activities:

a) Examining the bases of an organisation's strategy.

b) Comparing actual results with expected results and

c) Taking corrective actions to make sure that performance does not deviate from plans.

Effective evaluation calls for a timely feedback. It should be noted that strategy evaluation is a complex and sensitive activity. Organisations are evaluated on how well they have performed. For example evaluation may target the behaviour of sales to see if they have increased. Have profit margin and return on investment increased? If the answer to these questions were positive, strategy is regarded as having performed. Strategy evaluation is vital because firms face dynamic environments in which both the external or internal factors change.

Strategy evaluation is complex and difficult because of the following reasons:

(a) increased complexity of the environment.

(b) increased risk and uncertainty of the future

(c) proliferation of the variables to consider

(d) plans can quickly go out of date

(e) domestic and global events that affect organisations.

9.3 THE PROCESS OF EVALUATING STRATEGIES

The march of external and internal events guarantees that a company's vision, objectives, strategy and implementation need to be revisited, reconsidered and revised. Strategy evaluation is a continuous activity since managers and employees of the organisation should be aware of the progress being made towards achieving an organisation's objectives. If expectations deviate from forecasts, then the organisation should review strategy formulation activities.

9.4 A FRAMEWORK FOR STRATEGY EVALUATION

(a) Reviewing the bases of strategy

It calls for an organisation to do both the external and internal analysis. An external analysis looks at how the strategies have been responding to the opportunities and threats offered by the environment.

The analysis also looks at the following.

- Competitors' reaction to an organisation's strategies.
- Any change on competitors' strategies.
- The major strengths and weaknesses of competitors
- What are the reasons behind competitors changing certain strategic approaches?
- Are competitors happy with their profits?
- How far can major competitors be pushed before retaliating?
- To what extent can we cooperate with competitors?

It should be realised that both external and internal factors may hinder an organisation from attaining long term annual objectives. The external factors exert pressure on an organisation through actions by competitors, economic changes, demographic shifts and government policies among others. Internally, strategies may be poorly implemented by managers and employees.

The opportunities and threats and weaknesses that represent the bases of strategies should be monitored continually in order to identify some changes. David (1999: 287) note some key questions to look at when evaluating strategies.

(a) Are our external strengths still strengths?
(b) Does the organisation have a new strength?
(c) Are our internal weaknesses still weaknesses?
(d) Are there any other internal weaknesses
(e) Are external opportunities still opportunities?
(f) Any other external opportunities
(g) Any threats?
(h) Are we vulnerable to a hostile takeover?

(a) Measuring organisational performance

It is an important activity which entails comparing expected results to actual results. It investigates any deviations from plans, monitors individual performance and evaluates the progress towards meeting organisational goals. Both short term and long term objectives are employed in this process.

If an organisation fails to make satisfactory progress towards attaining goals, there is need to take corrective actions. Strategy evaluation is based on quantitative and qualitative criteria. The choice of the criteria depends on size of the organisation, industry, strategies and management philosophy.

Quantitative Criteria

Financial ratios are commonly used to evaluate strategies. Strategists use these to achieve three main things:

(a) to compare the company's performance

(b) to compare company performance to competitors and

(c) to compare company performance to industry's average.

The key financial ratios that are employed include: return on investment, return on equity, profit margin, market share, debt to equity, earnings per share, sales growth etc.

However, quantitative criteria have potential problems like: most quantitative methods are tailor made to annual objectives instead of long term objectives, different accounting methods lead to different results and personal judgement is involved in deriving quantitative criteria.

Qualitative Criteria

They are also important in evaluating strategies. A number of human factors do affect performance, for example absenteeism and turnover, low employee satisfaction and poor production quality. These may lead to poor or declining performance. Five qualitative questions are important in evaluating strategies.

(a) Is the strategy consistent with the environment?

(b) Is the strategy best fitting for the available resources?

(c) Does the strategy have an acceptable degree of risk?

(d) Does strategy have an appropriate time frame?

(e) Is the strategy workable?

Taking corrective actions

This is the final strategy evaluation activity that calls for making changes and reposition an organisation in a better competitive position. Changes that may be needed include: replacing employees, changing the structure of a firm, revising a vision or even selling a division. Objectives can be revised, new policies may be devised, stock may be valued to raise capital and new performance incentives may be developed: When you take corrective actions it does not mean that old strategies are abandoned and that new strategies must be formulated.

Change is inevitable. Taking corrective actions is required to make sure that an organisation moves towards attaining stated goals and objectives. Strategy evaluation enhances an organisation's ability to adapt successfully to changing circumstances. It has been realised that taking corrective actions raise employees and managers' anxieties, and it usually puts an organisation in a better position in order to take advantage of key opportunities, and avoid threats and improve on weaknesses. In taking corrective actions resistance may be encountered because of: fear of failure to the new situation, loss of status, lack of understanding of the need for change etc. To reduce this, a full explanation is given when change is going to be implemented.

9.5 CHARACTERISTICS OF AN EFFECTIVE EVALUATION SYSTEM

Strategy evaluation can only be effective when it meets the following requirements.

(a) Strategy evaluation activities must be economical.

(b) Strategy evaluation activities must be meaningful, that is they should relate to an organisation's objectives.

(c) They should provide management with useful information on tasks they control and influence.

(d) Strategy evaluation activities must provide a true picture of what is being measured of productivity and profitability.

(e) Strategy evaluation process should foster mutual understanding, trust and common sense.

(f) The strategy evaluation must be simple, because a complex one confuses people and accomplishes little.

(g) Strategy evaluation for large organisations must be explicit and detailed as it is more difficult to coordinate efforts across departments.

It is important to note that there is no one best strategy evaluation system. Each organisation is unique in terms of size, management style, performance, problems and strategies and therefore it calls for a unique strategy evaluation and control system.

9.6 CONTINGENCY PLANNING

Even if strategies are formulated, implemented and evaluated carefully, unforeseen events transpire and, for this reason, contingency plans are put in place. Contingency plans are alternative plans that can be put into effect when certain events do not occur as expected. Companies may establish the following contingency plans.

(a) What actions should the organisation take when a major competitor withdraws from a given market?

(b) If objectives are not met, what actions can be taken?

(c) If demand exceeds plan, how will the firm react?

(d) If disaster occurs, what is the way forward?

(e) If new innovation makes our product obsolete sooner than expected, what action will the firm take?

Contingency plans allow a strategist to respond quickly to major changes in the internal and external bases of the organisation's current strategy. If for example external conditions present opportunities, contingency plans should allow the organisation to take advantage of that quickly. Contingency plans permit quick response to change, prevent panic in situations of crises and facilitate adaptations to new situations. There are seven steps to contingency planning as shown below.

(a) Identify events that could possibly derail strategies.

(b) Estimate when contingent events may occur

(c) Assess the impact of each contingent event

(d) Develop contingency plans.

(e) Assess the impact of each contingency plan

(f) Determine warning signals for key contingent events

(g) Develop advance action plans.

Auditing

Is defined by American Accounting Association (AAA) as " …a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to the interested users."

9.7 CHAPTER SUMMARY

The chapter dealt with a strategy evaluation framework that can be employed to facilitate the accomplishment of annual and long term objectives. An effective evaluation system promotes the organisation to take advantage of opportunities in the environment and avoid threats presented by the environment. A strategy evaluation system calls for well formulated, implemented and evaluated strategies. If not, then corrective actions are taken to avoid strategies from deviating from the original plans.

QUESTIONS FOR DISCUSSIONS

1. Explain the nature and role of strategic evaluation and control.

2. Discuss why strategy evaluation is regarded as a system and not an event.

3. Explain the quantitative and qualitative criteria used for measuring organisational performance.

4. Discuss the role of contingency plans for a named organization.

5. Discuss the steps used in contingency planning.

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David R.F (1999) Strategic Management: Concepts and Cases, New Jersey, Prentice Hall.

APPENDIX 1

THE IMPORTANCE OF A MISSION STATEMENT

A mission statement is a company's articulation to its customers, employees and the entire world of the purpose of its existence. Obviously, businesses exist to make money, maximize profits and shareholder value, but the mission statement is more about the front line than the bottom line. That said, in order for a business to be successful, it has to have a clear and broad mission that resonates with the public and tells them why it would be beneficial to do business with your company. The mission statement should represent the company's vision of how it would like to be seen by its clients.

Mission statements generally include a statement of purpose, a business statement, and an indication of the company's values. The statement of purpose explicitly states the purpose of the company. For example, a car company's purpose is to manufacture cars. The business statement describes how they are going to manufacture those cars. The values portion of the statement talks about the common values shared throughout the company and how those common values contribute to the final product.

An ideal mission statement should be inspiring to employees. The statement brings a certain focus to the staff as the purpose of their work crystallizes and they are able to see the value of their contribution. Few things in life are as fulfilling as the knowledge that you are contributing something greater than yourself. The mission statement should allow each employee to see their own personal role in the firm's success.

Customers will be reassured when they are exposed to the statement as they will be able to see that the company is committed to their purpose. Customers can also sometimes form a connection with the firm if the values outlined are the ones they share. People like to work with others that they like and agree with, it's a natural human instinct.

When you sit down to write your mission statement, there are several things you should keep in mind. First, who are my clients and what are their needs and desires? Second, how do I fulfil those needs and desires? What values does the firm currently have? What values do I want it to have? Are we all working together with a singular purpose or are individuals constantly veering of course?

A mission statement is best written in collaboration. The decision makers in the company should sit down and talk about their thoughts and how they want to represent the company to the public. Ideas should be bandied about, considered and then voted on. Once they thoroughly discuss, write and re-write the statement, they should make sure that it's something that employees can buy into and customers can appreciate. It should be a statement that stays relevant no matter the difficulties the company may face and can serve as an instrument that rallies the troops to overcome adversity.

Source: http//www.business balls.com

APPENDIX 2

THE COCA COLA COMPANY: ITS MISSION STATEMENT

Mission, Vision & Values

The world is changing all around us. To continue to thrive as a business over the next ten years and beyond, we must look ahead, understand the trends and forces that will shape our business in the future and move swiftly to prepare for what's to come. We must get ready for tomorrow today. That's what our 2020 Vision is all about. It creates a long–term destination for our business and provides us with a "Roadmap" for winning together with our bottling partners.

Our Mission

Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions.

- To refresh the world…
- To inspire moments of optimism and happiness…
- To create value and make a difference.

Our Vision

Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.

- **People**: Be a great place to work where people are inspired to be the best they can be.
- **Portfolio**: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.
- **Partners**: Nurture a winning network of customers and suppliers, together we create mutual, enduring value.
- **Planet**: Be a responsible citizen that makes a difference by helping build and support sustainable communities.
- **Profit**: Maximize long-term return to shareowners while being mindful of our overall responsibilities.
- **Productivity**: Be a highly effective, lean and fast-moving organization.

Our Winning Culture

Our Winning Culture defines the attitudes and behaviours that will be required of us to make our 2010 Vision a reality.

Live Our Values

Our values serve as a compass for our actions and describe how we behave in the world.

- **Leadership**: The courage to shape a better future
- **Collaboration**: Leverage collective genius
- **Integrity:** Be real
- **Accountability**: If it is to be, it's up to me

- **Passion**: Committed in heart and mind
- **Diversity**: As inclusive as our brands
- **Quality:** What we do, we do well

Focus on the Market
- Focus on needs of our consumers, customers and franchise partners.
- Get out into the market and listen, observe and learn.
- Possess a world view.
- Focus on execution in the market place every day
- Be insatiably curious

Work Smart
- Act with urgency
- Remain responsive to change
- Have the courage to change course when needed
- Remain constructively discontent
- Work efficiently

Act like Owners
- Be accountable for our actions and inactions
- Steward system assets and focus on building value
- Reward our people for taking risks and finding better ways to solve problems.
- Learn from our outcomes – what worked and what didn't

Be the Brand
Inspire creativity, passion, optimism and fun

Source: http//www.business balls.com.

APPENDIX 3

A SWOT ANALYSIS TEMPLATE

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. The SWOT analysis headings provide a good framework for reviewing strategy, position and direction of a company or business proposition, or any other idea. SWOT is

used in an analysis for business planning, strategic planning, competitor evaluation, marketing, and business unit, a proportion or idea.

A SWOT analysis is a subjective assessment of data which is organized by the SWOT format into a logical order that helps understanding, presentation, discussion and decision-making. SWOT analysis can be used for all sorts of decision-making, and the SWOT template enables proactive thinking, rather than relying on habitual or instinctive reactions.

The SWOT analysis template is normally presented as grid, comprising four sections, one for each of the SWOT headings: Strengths, Weaknesses, Opportunities, and Threats. The free SWOT template below includes sample questions, whose answers are inserted into the relevant section of the SWOT grid. The questions are examples, or discussion points, and obviously can be altered depending on the subject of the SWOT analysis. Note that many of the SWOT questions are also talking points for other headings-use them as you find most helpful, and make up your own to suit the issue being analysed. It is important to clearly identify the subject of a SWOT analysis, because a SWOT analysis is a perspective of one thing, be it a company, a product, a proposition, and idea, a method, or option, etc.

Here are some examples of what a SWOT analysis can be used to assess:

- company (its position in the market, commercial viability, etc)
- a method of sales distribution
- a product or brand
- a business idea, a strategic option, such as entering a new market or launching a new product
- an opportunity to make an acquisition
- a potential partnership
- changing a supplier
- outsourcing a service, activity or resource
- an investment opportunity

SWOT Analysis Template

Subject of SWOT analysis: (define the subject of the analysis here)

Strengths	**Weaknesses**
Advantages of proposition? Capabilities? Competitive advantages? USP's (unique selling points)?	Disadvantages of proposition? Gaps in capabilities? Lack of competitive strength? Reputation, presence and reach?

Resources, Assets, People? Experience, knowledge, data? Financial reserves, likely returns? Marketing – reach, distribution, awareness? Innovative aspects? Location and geographical? Price, value, quality? Accreditations, qualifications, certifications? Processes, systems, IT, communications Cultural, attitudinal, behavioural? Management cover Succession?	Financials? Own known, vulnerabilities? Timescales, deadlines and pressures? Cash flow, start-up cash-drain? Continuity, supply chain robustness? Effects on core activities distraction? Reliability of data, plan predictability? Morale, commitment, leadership? Accreditations, etc? Processes and systems, etc? Management cover, succession/
OPPORTUNITIES	**THREATS**
Market developments? Competitors vulnerabilities Industry or lifestyle trends? Technology development and innovation? Global influences? New markets, vertical, horizontal? Geographical, export, import? New USP/s Tactics- surprise, major contracts, etc? Business and product development? Information and research? Partnerships, agencies, distribution? Volumes, production economies? Seasonal, weather, fashion influences?	Political effects? Legislative effects? Environmental effects? IT developments/ Competitor intentions – various? Market demand? New technologies, services, ideas? Vital contracts and partners? Sustaining internal capabilities? Obstacles faced? Loss of key staff Sustainable financial backing? Economy – home, abroad? Seasonality, weather effects?

APPENDIX 4

WAL-MART'S GLOBAL EXPANSION

Established in Arkansas in 1962 by Sam Walton, Wal-Mart has grown rapidly to become the largest retailer in the world with 2002 sales of $218 billion, 1.3 million associates (Wal-Mart's term for employees), and some 4500 stores. Until 1991, Wal-Mart's operations were confined to the United States, where it established a competitive advantage based upon a combination of efficient merchandising and progressive human relations policies.

Among other things, Wal-Mart was a leader in the implementation of information systems to track product sales and inventory. It developed one of the most efficient distribution systems in the world, and was one of the first companies to promote the widespread stock ownership among employees. These practices led to high productivity that enabled the company to gain market share first in general merchandising, it now dominates, and later in food retailing, where it is taking market share from established supermarkets.

By 1990, however, Wal-Mart realised that its opportunity for growth in the United States was becoming more limited. By 1995, the company would be active in all 50 states. Management calculated that by the early 2000s, its domestic growth opportunities would be constrained by market saturation. So the company decided to expand globally. Initially, the critics scoffed. Wal-Mart, they said, was too American a company. While its retailing practices were well suited to America, they would not work in other countries where infrastructure was different, where consumer tastes and preferences varied and where established retailers already dominated.

Unperturbed, Wal-Mart started to expand in 1991 by opening its first stores in Mexico. The Mexican operation was established as a joint venture with Cifera, the largest local retailer. Initially, Wal-Mart made a number of missteps that seemed to prove the critics right. Wal-Mart had problems replicating its efficient distribution system in Mexico. Poor infrastructure, crowded roads and a lack of leverage with local suppliers, many of which could not or would not deliver directly to Wal-Mart's stores or distribution centres, resulted in stocking problems and raised costs and prices. Initially, prices at Wal-Mart in Mexico were 20 percent above prices for comparable products in the company's U.S. stores which limited Wal-Mart's ability to gain market share. There were also

problems with merchandise selection. Initially, many of the stores in Mexico carried items that were popular in the United States. These included ice skates riding lawn mowers, leaf blowers, and fishing tackle. These items did not sell well in Mexico, so managers would slash prices to move inventory, only to find that the company's automated information systems would immediately order more inventory to replenish the depleted stock.

By the mid 1990s, however Wal-Mart had learned from early mistakes and adapted its Mexican operations to match the local environment. A partnership with a Mexican trucking company dramatically improved the distribution system, while more careful stocking practices meant that the Mexican stores sold merchandise that appealed to local tastes and preferences. As Wal-Mart's presence grew, many of Wal-Mart's suppliers built factories near its Mexico distribution centres so that they could better serve the company, which helped to further drive down inventory and logistics costs. Today, Mexico is a jewel in Wal-Mart's international operations. In 1998 Wal-Mart acquired a controlling interest in Cifera. By 2002, Wal-Mart was more than twice the size of its nearest rival in Mexico with 600 stores and revenues of more than $10 billion.

The Mexican experience proved to Wal-Mart that it could compete outside the United States. It has subsequently expanded into other countries. In Canada, Britain, German, Japan, and South Korea, Wal-Mart entered by acquiring existing retailers and then transferring its information systems, logistics, and China, Wal-Mart established its own stores. As a result of these moves, by 2002 the company had over 1200 stores outside the United States, Wal-Mart's international expansion, 303 000 associates and generated international revenues of more than $35 billion.

Initially undertaken as a response to market saturation in the United States, Wal-Mart's international expansion has been aided by three developments. First, as barriers to cross-border investment fell during the 1990s, it became possible for Wal-Mart to enter foreign nations on a significant scale. Wal-Mart's 1996 entry into China, for example, where it now has 26 stores, would not have been possible a decade earlier. Second, by expanding internationally Wal-Mart has been able to reap significant economies of scale from its global buying power. Many of Wal-Mart's key suppliers have long been international companies; for example, General Electric (appliances). Unilever (food products) and Procter and Gamble (personal care products) are all major Wal-Mart suppliers that have long had their own global operations. By building international reach, Wal-Mart has used its enhanced size to demand deeper discounts from the local operations of its global suppliers, increasing the company's ability to lower prices to consumers, gain market share and ultimately earn greater profits. Third, advances in information systems, particularly the spread of internet based software, have enabled Wal-Mart to exert considerable control over its global operations, tracking individual store sales, inventory, pricing and profit data on a daily basis.

Wal-Mart realised that if it didn't expand internationally, other global retailers would beat it to the punch. In fact, Wal-Mart faces significant global competition from Carrefour of France, Ahold of Holland, and Tesco from the United Kingdom. Carrefour, the world's second largest retailer, is perhaps the most global of the lot. The pioneer of the hypermarket concept now operates in 26 countries and generates more than 50 percent of its sales outside France. Compared to this, Wal-Mart is a laggard with just 17 percent of its sales generated from international operations. However, there is still room for significant global expansion. The global retailing market is still very fragmented. The top 25 retailers controlled just 18 percent of world-wide retail sales in 2002, although forecasts suggest the figure could reach 40 percent by 2009, with Latin America, Southeast Asia, and Eastern Europe being the main battlegrounds.

Source: A de Rocha and L.A. Dib, "The entry of Wal-Mart into Brazil," International Journal of Retail and Distribution Management 30(2002). pp 61-73

APPENDIX 5

PORTFOLIO MODELS

Portfolio models remain a valuable aid to marketing managers in their efforts to develop effective marketing plans. The use of these models can aid managers who face situations that can best be described as "more products, less time, and less money". More specifically, (1) as the number of products a firm produces expands, the time available for developing marketing plans for each product decreases; (2) at a strategic level; management must make resource allocation decisions across lines of products and, in diversified organizations, across different lines of business; and (3) when resources are limited (which they usually are), the process of deciding which strategic business units (SBUs) to emphasize becomes very complex. In such situations, portfolio models can be very useful.

Portfolio analysis is not a new idea. Banks manage loan portfolios seeking to balance risks and yields. Individuals who are serious investors usually have a portfolio of various kinds of investments (common stocks, preferred stocks, bank accounts, and the like), each with different characteristics of risk, growth, and rate of return. The investor seeks to manage the portfolio to maximize whatever objectives he or she might have. Applying this same idea, most organizations have a wide range of products, product lines, and businesses, each with different growth rates and returns. Similar to the investor, managers should seek a desirable balance among alternative SBUs. Specifically, management should seek to develop a business portfolio that will ensure long-run profits and cash flow.

Portfolio models can be used to classify SBUs to determine the future cash contributions that can be expected from each SBU as well as the future resources that each will require. Remember, depending on the organization, an SBU could be a single product, product line, division, or distinct business. While there are many different types of portfolio models, they generally examine the competitive position of the SBU and the chances for improving the SBUs contribution to profitability and cash flow.

There are several portfolio analysis techniques. Two of the most widely used are discussed in this appendix. To truly appreciate the concept of portfolio analysis, however, we must briefly review the development of portfolio theory.

A Review of Portfolio Theory

The interest in developing aids for managers in the selection of strategy was spurred by an organization known as the Boston Consulting Group (9BCG) over 25 years ago. Its ideas, which will be discussed shortly, and many of those that followed were based on the concept of experience curves.

Experience curves are similar in concept to learning curves. Learning curves were developed to express the idea that the number of labour hours it takes to produce one unit of a particular product declines in a predictable manner as the number of units produced increases. Hence, an accurate

estimation of how long it takes to produce the 100th unit is possible if the concept of experience curves was based on this model.

Experience curves were first widely discussed in the Strategic Planning Institute's ongoing Profit Impact of Marketing Strategies (PIMS) study. The PIMS project studies 150 firms with more than 1,000 individual business units. Its major focus is on determining which environmental and internal firm variables influence the firm's return on investment (ROI) and cash flow. The researchers have concluded that seven categories of variables appear to influence the return on investment (1) competitive position, (2) industry/market environment (3) budget allocation, (4) capital structure, (5) production processes, (6) company characteristics, and (7) "charge action" factors.

The experience curve includes all costs associated with a product and implies that the per-unit costs of a product should fall, due to cumulative experience, as production volume increases. In a given industry, therefore, the producer with the largest volume and corresponding market share should be able to under price competitors, discourage entry into the market by potential competitors, and, as a result, achieve an acceptable return on investment. The linkage of experience to cost to price to market share to ROI is exhibited in Figure A.1. The Boston Consulting Group's view of the experience curve led the members to develop what has become known as the BCG Portfolio Model.

Figure A. 1 Experience Curve and Resulting Profit

The BCG Model

The BCG is based on the assumption that profitability and cash flow will be closely related to sales volume. Thus, in this model, SBUs are classified according to their relative market share and the growth rate of the market the SBU is in. Using these dimensions, products are either classified as stars, cash cows, dogs, or question marks. The BCG model is presented in Figure A. 2.

Relative Market Share

Stars are SBUs with a high share of a high-growth market. Because high-growth markets attract competition such as SBUs are usually cash users because they are growing and because the firm needs to protect their market share position.

Cash cows are often market leaders, but the market they are in is not growing rapidly. Because these SBUs have a high share of low-growth market, they are cash generators for the firm.

Dogs are SBUs that have a low share of a low-growth market. If the SBU has a very loyal group of customers, it may be a source of cash.

Question marks are SBUs with a low share of a high growth market. They have great potential but require great resources if the firm is to successfully build market share.

As you can see a firm with 10 SBUs will usually have a portfolio that includes some of each of the above. Having developed this analysis, management must determine what role each SBU should assume. Four basic objectives are possible:

1. *Build share*. This objective sacrifices immediate earnings to improve market share. It is appropriate for promising question marks whose share has to grow if they are ever to become stars.

2. *Hold share.* This objective seeks to preserve the SBU's market share. It is very appropriate for strong cash cows to ensure that they can continue to yield a large cash flow.

3. *Harvest.* Here, the objective seeks to increase the product's short-term cash flow without concern for the long- run impact. It allows market share to decline in order to maximize earnings and cash flow. It is an appropriate objective for weak cash cows, weak question marks, and dogs.

4. *Divest*. This objective involves selling or divesting the SBU because better investment opportunities exist elsewhere. It is very appropriate for dogs and those question marks the firm cannot afford to finance for growth.

There have been several major criticisms of the BCG Portfolio Model, revolving around its focus on market share and market growth as the primary indicators of preference. First, the BCG model assumes market growth is uncontrollable. As a result, managers can become preoccupied with setting market objectives instead of trying to grow the market. Second assumptions regarding market share as a critical factor affecting firm performance may not hold true, especially in international markets. Third, the BCG model assumes that the major source of SBU financing comes from internal means. Fourth, the BCG matrix does not take into account any interdependencies that may exist between SBUs, such as shared distribution. Fifth, the BCG matrix does not take into account any measures of profits and customer satisfaction. Sixth, and perhaps most important, the thrust of the BCG matrix is based on the underlying assumption that corporate strategy begins with an analysis of competitive position. By its very nature, a strategy developed

entirely on competitive analysis will always be a reactive one. While the above criticisms are certainly valid ones, managers (especially of large firms) across all industries continue to find the BCG matrix useful in assessing the strategic position of an SBU.

The General Electric Model

Although the BCG model can be useful, it does assume that market share is the determinant of an SBU's profitability. Also, in projecting market growth rates, a manager should carefully analyze the factors that influence sales and any opportunities for influencing industry sales.

Some firms have developed alternative portfolio models to incorporate more information about market opportunities and competitive positions. The GE model is one of strength not just market share, and all of the factors that influence the long-term attractiveness of a market, not just its growth rate. As Figure A.3 indicates, all SBUs are classified according to business strength and industry attractiveness. Figure A.4 presents a list of items that can be used to position SBUs in the matrix.

Business Strength

Industry
Attractiveness

Figure A.3 The General Electric Portfolio Model

Industry Attractiveness	Business Strength
Market Size Market Growth Profitability Cyclicality Ability to recover from inflation World scope	**Market Position** Domestic market share World market share Share growth Share compared with leading Competitor. **Competitive Strengths** Quality Strengths Technology Marketing Relative profitability

Figure A.4 Components of Industry Attractiveness and Business Strength at GE

Industry attractiveness is a composite index made up of such factors as those listed in Figure A.4. For example market size – the larger the market, the more attractive it will be; market growth – high growth markets are more attractive than low- growth markets; profitability – high-profit margin markets are more attractive than low-profit-margin markets and high-profit-margin industries are more attractive than low-profit- margin industries.

Business strength is a composite index made up of such factors as those listed in Figure A.4. Such as market share – the higher the SBU's share of market, the greater its business strength; quality leadership – the higher the SBU's quality compared to competitors, the greater its business strength; share compared with leading competitor – the closer the SBU's share to the market leader, the greater its business strength.

Once the SBUs are classified, they are placed on the grid (Figure A.3). Priority "A" SBUs (often called the green zone), are those in the three cells at the upper left, indicating that these are SBUs high in both industry attractiveness and business strength, and that the firm should "build share". Priority "B" SBUs (often called the yellow zone) are those medium in both industry attractiveness and business strength. The firm will usually decide to "hold share" on these SBUs. Priority "C" SBUs are those in the three cells at the lower right (often called the red zone). These SBUs are low in both industry attractiveness and business strength. The firm will usually decide to harvest or divest these SBUs.

Whether the BCG model, the GE model, or a variation of these models is used, some analyses must be made of the firm's current portfolio of SBUs as part of any strategic planning effort. Marketing must get its direction from the organization's strategic plan.

Source: Peter, J. P and Donelly, H. J (2009). Marketing Management: Knowledge and Skills, Boston, McGraw Hill.

APPENDIX 6

MARKET OPPORTUNITY ANALYSIS

MCDONALD'S CORPORATION IN THE NEW MILLENIUM

Jack Greenberg, CEO of McDonald's Corporation, stared into the clear September skies thinking about the "Big Mac Attack". At one time, the term was an advertising slogan referring to a craving for a McDonald's Big Mc burger. However, "Big Mac Attack now" referred to McDonald's earnings declines in the late 1990s and early 2000s. Dynamic market expansion, new products, and special promotional strategies had made McDonald's Corporation a leader of the fast-food industry. However, sales growth in the United States had slowed to below the industry average in recent years. Jack Greenberg was trying to decide on a set of appropriate strategies for the future in order to reverse the declines and to stay ahead of competition.

The Fast-Food Industry

Years of profit drains and flat sales are driving fast-food chains to find new marketing strategies to compete in mature market. While McDonald's and most other hamburger chains continue discounting and offering a variety of new products to attract customers, they also seek to shed their "cheap and greasy" image with new store designs. Major competitors in the hamburger segment of the fast-food industry in order of annual sales are McDonald's Burger King. Wendy's and Hardee's.

Since these chains recognize the importance of drive-through customers (65 percent of sales), they are all trying to increase the speed of drive- through delivery. Strategies include using timers to encourage employees to prepare and deliver food faster, training employees in faster food preparation methods, having separate kitchens and food preparation facilities for drive-through customers, and even windshield respondents that automatically bill customers. Drive-through sales are expected to grow three times faster than on-premise sales. It is estimated that increasing drive-through efficiency by 10 percent increases average fast-food restaurant sales by $54,000. The average fast-food restaurant has sales of about $ 560,000 per year.

Another segment of the fast-food industry is comprised of a number of non hamburger fast-food restaurants. Major players in this segment include Pizza Hut, KFC (Kentucky Fried Chicken), and

Taco Bell. Sales in these restaurants have grown faster than hamburger chains in recent years. A growing trend is the move by customers to non-hamburger sandwiches. Subway dominates the market with more than 13,200 U.S outlets. Prepared meals and sandwiches available in supermarkets, convenience stores, and gas stations are competitors as are the variety of microwave meals available to consumers.

Another trend is the recognition of importance of heavy users of fast-food restaurants. It is estimated that heavy users comprise 20 percent of customers but account for 60 percent of all visits. Some of these customers visit fast-food restaurants 20 times per month and spend up to $ 40 per day in them. Heavy users have been described as single males, under 30 years of age, who have working class jobs, love music, don't read much, and hang out with friends.

A major change in the fast-food industry is the increase in the fast-casual segmentation that includes restaurants like Boston Market, Panera Bread Company, and Atlanta Bread Company. These chains offer deli sandwiches and meals that are more upscale than traditional fast food, served in nicer restaurants with more comfortable surroundings, but faster than in traditional restaurants. It is estimated that the fast-casual sector is growing from 15 to 20 percent per year, while growth in the quick service sector is only 2 percent a year. "People are willing to pay a couple dollars more for a better dining experience, yet don't want to sacrifice the convenience of quick service. Fast- casual combines all the elements for what the on- the – go consumer – which seems to be almost everyone these days- is looking for", said one analyst.

Americans are eating out less often compared to previous years and eating habits are changing. Though the recession is a major reason why folks aren't eating out as much at upscale restaurants, it's another story at fast-food restaurants. Many younger consumers are getting tired of fast food and are thinking about their health. There seems to be a growing dissatisfaction with the quality aspect of the McDonald's and Burger Kings of the world. It's not just young adults who are turning away from fast food. Baby boomers are also looking for "better" alternatives and fast food is not as appealing to this large group who frequently eat out.

McDonald's corporation

McDonald's system wide sales for 2001 were over $40 billion, but net income shrunk 17 percent to $1.64 billion, as shown in the exhibit. McDonald's U.S market share remained above that of competitors, but grew more slowly. Its share was up 2.2 percent in 2000 compared to 2.7 percent growth for Burger King Corp and 2.5 percent for Wendy International.

Exhibit: McDonald's Summary of Financial Data 1997-2001

Dollars in Millions					
Except per share Data	**2001**	**2000**	**1999**	**1998**	**1997**
Franchised sales	24 838	24 763	22 830	22 330	20 863
Operated sales	11 040	10 467	9 512	895	8 136
Affiliated sales	4 752	5 251	5 149	4 754	4 639
Total system sales	40 630	40 181	38 481	35 979	33 638
Total revenue	14 840	14 243	13 259	12 421	77 409
Operating income	2 697	3 330	3 320	2 762	2 808
Income before tax	2 330	2 882	2 884	2 307	2 407
Net income	1 637	1 977	1 948	1 550	1 642
Cash from operations	2 688	2 751	3 009	2 766	2 442
Capital expenditure	1 906	1 945	1 868	1 876	2 111
Free Cash Flow	7 82	806	1 141	887	331
Stock Purchases	1 090	2 002	933	1 162	765
Financial Position at year end					
Total assets	22 535	21 684	20 983	19 784	18 242
Total debt	8 918	8 474	7 252	7 043	6 463
Totals/holders equity	9 488	9 204	9 639	9 465	8 852
Shares outstanding	1 280.7	1 304.9	1 350.8	1 356.2	1 371.4
Total system restaurant	30 093	28 707	26 309	24 513	22 928

Looking for hits to reverse earnings declines, McDonalds accelerated plans for "New Tastes Menu" items. Products for limited-time offers included a fried chicken sandwich of tenderloin strips under the Chicken Selects name, a new grilled chicken sandwich, a brownie, a pork tenderloin sandwich, and a Philly cheese steak sandwich. Facing competitors' chicken sandwiches, like Wendy's Spicy Chicken Filet and burger King's Chicken Whopper, McDonald's put chicken menu items at the forefront of its offerings. The chain also added a chicken-honey biscuit item to its menu. Other entries included a breakfast steak burrito similar to an existing sausage version, hot dog McNuggets for kids, and an Italian-style burger similar to the Chicken Parmesan. The McRib sandwich was reintroduced.

McDonald's advertising message focused on tasty and nutritious food, friendly folks, and fun. The company invested heavily in advertising its product and improving its public image. McDonald's annual Charity Christmas Parade in Chicago and its Ronald McDonald House charity provided the company with a positive corporate image. Much of its promotional budget was spent on games, giveaways and deals, including Monopoly II, Scrabble, a Kraft salad dressing give-away, Happy Meals, plush toys, in-store kid videos, and various Big Mac-related deals.

McDonald's opened its first domestic McCafe with the expectations that the gourmet coffee shop would move it closer to its goals of doubling sales at existing U.S restaurants over the next decade. The 32-seat McCafe occupies a 900 square- foot space that shares an entrance with a traditional

McDonald's restaurant. The menu features a selection of speciality drinks, including cappuccinos, lattes, teas, and fruit smoothies served via a limited service front counter. Enhancing the coffee bar is a glass display case filled with a variety of high-end cakes, pastries, cookies and soft pretzels. Customers can place carryout orders that are packaged in disposable containers. If patrons opt to dine in the café, all drinks and food items are served on china with stainless steel flatware. McCafe originated in Australia in1993 and has grown to more than 300 units in 17 countries. The gourmet coffee concept was created to be placed within or adjacent to existing McDonald's restaurants. McDonald's estimates that the new concept will boost sales by 15 percent. At McCafe cappuccino drinks start at $2, 49 featuring a coffee imported from Italy. The drink menu includes specialty coffees, listed as "Caramel Cream Steamer," "French Vanilla" and "Milky Way". The pastries, including tiramisu, cheesecake, apple tart and muffins, range in price from $1, 59 to $2, 59. Many of the items are baked on –site and the others are prepared daily by various local suppliers. In addition to three on-premise bakers, the café has a staff of 15 with about six employees working each shift. Created to enhance an upscale coffee shop environment, the cafe's décor features lace curtains, mahogany accents, a leather couch, an antique mirror, wall sconces, and fresh flowers.

Major Competitors in the Hamburger Segment

McDonald's has three major competitors in the hamburger segment. These include Burger King, Hardee's and Wendy's. Both Burger and Wendy's have had small gains in market share while Hardee's lost share.

Burger King Corp.
Burger King Corp, in its ongoing effort to increase sales and market share, offered a new salad line and a permanent array of value-priced offerings, endeavours already under way at its fast-food competitors. The nation's number 2 burger chain, hoping to show signs of a turnaround in order to expedite its pending separation from parent Diageo PLC of London, debuted more than 10 new or improved products, including the Chicken Whopper, which officials said stimulated sales growth. The menu overhaul is one part of major turnaround strategy engineered by Burger King's chairman and chief executive, John Dasburg, who joined the chain in 2000.

As part of BK's sweeping transformation program, restaurant operators had to make extensive kitchen and drive-through upgrades. The Chicken Whopper, which debuted in 2001, generated "an enormous amount of trial" that led to double-digit same – store – sales growth at restaurants. Burger King is developing a more permanent marketing strategy and moving away from its previous tactical approach, which revolved around the monthly changes in menu items and deals.

Hardee's
Hardee's parent, CKE restaurants Inc, owns or franchises 2,784 Hardee's and 112 Taco Buenos restaurants and showed a 15 percent decline in net income in recent quarter. The chain posted year-to year quarterly declines of 4,8 percent in company-owned same – store sales. The efforts to reverse slowing but continuing sales erosion at Hardee's, the industry's number 4 burger chain, had dominated management's attention in its conversion of Hardee's to format called "Star Hardee's"

The company attempted to reverse sliding sales by introducing new items on the menu and joining the price promotion burger wars. The company tested individual item discounts at most of Hardee's company-owned units. Franchises in selected markets offered sandwiches bundled with regular-sized French fries and a soft drink for $2,99.Other new Hardee's sales-spiking tactics included its mid-priced sandwich option, the Famous Bacon Cheeseburger for $1,59,and a new Croissant

Sunrise breakfast for $1,79. The chain hoped to increase breakfast sales by at least 2 percent, currently breakfast items account for approximately 10 percent of Hardee's sales.

CKE also owns or franchise 878 upscale fast – food chains, Carl's Jr. It rolled out a premium sandwich product that had first debuted on the Hardee's menu in 1994 and recently was second only to the Carl's Jr's $ 3, 99 sirloin steak sandwiches in trial markets.

Wendy's International

Wendy's has had the strongest same-store – sales gain of the major burger chains in recent years. Chain officials and Wall Street analysts attributed at least part of the growth to Wendy's line of four upscale salads called "Garden Sensations." The nation's no. at least part of the growth to Wendy's line of four upscale salads called "Garden Sensations." The nation's no. burger chain holds an enviable position – analysts consistently rank it ahead of chief rivals in quality, customer satisfaction, innovation, and unit-level sales. Citing Wendy's planned 30 percent boost operations, one analyst stated, "This one-two punch looks like a formidable foe for rival chains to face this year". Wendy's same-store sales were expected to grow 3 percent in 2002, eclipsing the 2 percent projections for Trico Global Restaurants' Taco Bell and KFC, and a 1 percent to 2 percent projection for McDonald's Corp.

Wendy's product line includes four core menu items, burgers, chicken sandwiches, its value menu, and its Garden Sensations salads. The salad line is designed to provide custom taste comparable to salads offered by casual- dining chains and includes the $ 3,99 Chicken BLT, Taco Supremo, Mandarin Chicken, and $2,99 Spring Mix salads. The Garden Sensations line was expected to contribute 5 percent to total Wendy's sales.

The gradual shift of consumer preference toward hamburger substitutes has created strong competitors for McDonald's. Three of the major competitors offering non hamburger fast foods are Pizza Hut, Kentucky's Fried Chicken, and Taco Bell.

Pizza Hut

Pizza Hut dominates the pizza segment with 22 percent of all restaurant pizza sales in the country, with Domino's lagging far behind with about 11 percent of sales. Papa John's has steadily expanded to the point where it is the country's fourth largest pizza chain behind Little Caesars.

Pizza Hut is owned by Trico Global Restaurants, which also owns KFC and Taco Belt. It scored a major success with its P' Zone, a portable, calzone-like item that company officials call "the pizza that actually sold out in test market." The $70 million national product launch featured the P'Zone for $5,99 or two for $10,99. Each pie is made with a 12 – inch traditional crust, a layer of sliced mozzarella cheese and a choice of three different ingredient combinations: pepperoni; a mixture of meats that includes pepperoni, sausage, beef and ham; or sausage with green peppers and red onions. The P' Zone exceeded expectations and drove same-store sales up 7 percent to 8 percent. Pizza Hut's latest effort was called "a well-executed differentiated, yet value-oriented product that would drive traffic and sales over the next several periods" by one industry analyst.

KFC

KFC (Kentucky Fried Chicken) operates 11,000 global outlets of which 5,400 are in the United States. Its recent strategies included a "Kids Lap Pack" meal program to attract more kids and families to its food offerings. KFC planned to introduce the meals as part of its new product line-up for 2002. Roughly 80 percent of KFC's domestic stores signed up to offer the kids' meals, which featured more food and variety of choices. The meals are priced at $2,99 and offer 18 different food combinations. The kids' meal containers, designed to open as a laptop computer, featured

colourfully illustrated interactive puzzles and games. The idea built upon the latest batch of kids' meals launched previously, which introduced an education theme with crossword puzzles, word searches, mazes. KFC took away the staple of most kids' meals – the plastic toy – after company research found that children, especially older ones were not interested in them. Instead, the new meals included stickers or paper-based prize. The chain doesn't expect the new meal to generate substantial returns immediately. "This is about brand building; it is not about building; it's not about building sales today," said a company spokesperson.

Other new products at KFC for 2002 included a meal of three spicy Blazin' Crispy Strips with a choice of side and a biscuit priced at $2,99 and the Blazin' Buffalo Twister sandwich and a beverage in the price range of $2,29 to $ 2,79. In fiscal 2001, KFC led its sister brands, Pizza Hut and Taco Bell, in same-store sales at U.S company stores posting growth of 3 percent.

Taco Bell

The dramatic rebound in sales at Taco Bell and a 19 percent increase in 2001 profits were due to a strategy shift to higher-priced products, like Grilled Stuft Burrito and Chicken Quesadilla. Taco Bell's success with high-priced offerings proved that the brand could leverage its strength to bring up the average meal price, as well as appeal to light and medium users. Taco Bell planned to add more grilled extensions with higher quality tortillas, beef and beans, and sell them at non-discounted prices. Officials said Taco Bell would continue to experiment with ingredients, such as fish and pork, which are unique to fast food.

McDonald's Future

Jack Greenberg recognized the difficult task the company faced in trying to grow sales market share and profits in a fiercely competitive industry. He recognized the strengths of competitors in the burger segment but also knew that other providers of fast food and other meals were quick to take advantage of changes in customer preferences and tastes. He knew he had to counter attack the "Big Mac Attack" and find market opportunities for McDonald's.

DISCUSSION QUESTIONS

1. How are customers' tastes changing in the fast-food industry? What impact do these changes have on McDonald's?

2. How well are these changes in customer tastes and preferences being reflected in competitive strategies in the industry?

3. What are the McDonald's strengths and weaknesses and what conclusions do you draw about its future?

4. Should McDonald's develop a separate strategy for the heavy user segment of fast food industry?

5. What should Jack Greenberg do to grow sales, profits, and market share at McDonald's?

Source: Peter, J. P and Donelly, H. J (2009). Marketing Management: Knowledge and Skills, Boston, McGraw Hill.