Anglo American Plats

Principles of Strategy

Strategic analysis, choice and implementation

A self-completion work-book Using the management Models in your company

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Contents

Introduction

This manual has been designed to offer a practical set of tools to be used:

- In and between the workshops
- After the programme as a resource pack.

The manual provides a guide to some of ht e main tools and techniques used in the strategy process and suggest how they may be ‘adapted and adopted” to meet a range of different business situations.

The main case study for your programme should be provided by your own business or organization. The subject can be the entire business or organization, a strategic business unit, a functional division, a department, unit or branch location. Each of these needs strategic management and size is not important. You will need to define the area of business that will be your subject at the outset. When doing this you should bear in mind that, ideally, you will need ready access to information about this area and should therefore not choose a subject area from which you are remote.

At this point you should nominate your chosen case study subject:

This concentration on the practical dimension means that the manual can only touch on the wealth of strategic theories that underpin modern strategic management. A reading list is provided for those who wish to pursue the subject in more depth.

The manual contents and structure

You should be prepared to take a flexible approach in the use of the following tools and techniques. Strategic issues and approaches vary significantly from organization to organization which means that these tools and techniques should not so much be considered as mandatory steps but more as a menu of items which are available where and when they are appropriate. Many of you will have already come across some of the techniques included like ‘SWOT analysis’ and ‘brainstorming’ which are in common use by managers and may be employed in dealing with a wide range of strategic and tactical situations. Other approaches and techniques are less common and need to be applied more specifically.

A. Defining strategy

Strategy can be defined in a number of different ways. There is no universal definition that fits all circumstances. However we will use the following comprehensive definition of strategy:

The direction and scope of an organization over the long term; matching the resources to the changing environment, and in particular to its markets, customers or clients, so as to meet stakeholder expectations.

Consider your organization, or part of the organization, how would you rate its position in these key elements of strategy?
1 Clarity of long term direction
2 Clarity of scope, in the long-term
3 Clarity of market definition
4 Comprehension of customer/client requirements

Strategic Management

The term strategic management is used in order to differentiate modern strategy management practice from the former style of dealing with strategy. In the development of postwar management, strategy development was frequently carried out as strategic planning by a corporate planning department – an 'ivory tower' activity. The strategies developed in the way were often difficult to implement because they were not practical and lacked the commitment of those responsible for turning them into action.

By contrast, modern management practice is based on a leaner and flatter organization with a considerable degree of empowerment. This means that the role of many operational mangers includes a devolved responsibility for strategy development. Thus the term strategic management has been used to describe this much more all-embracing role for strategy within the organization. Having been given this responsibility, managers need to distinguish between the day to day management of operations and the separate and discrete activity of managing strategic development.

A generic strategy process model

One of the simplest ways of dealing with strategic management is to view it as a series of questions that need to be answered. These questions provide the steps in a process model as shown below:

Step and question	**Process step and contents**
1. Where are we now?	Analysis of the external environment and internal capability and attributes of the organization
2. Where do we want to be?	Analysis of the key aims and objectives which will enable the organisation to operate successfully in the future
3. What are the strategic gaps?	Defining the key gaps between step 1 and 2
4. How are we going to close the gaps?	Devising the strategic options that will enable the gaps that will be closed
5. Which strategic options will we choose?	Choosing the optimum strategies, setting priorities and validating strategies
6. How will we implement them?	Creating plans for implementing strategies
7. How will we know?	Setting targets and milestones in order to monitor progress in implementation and provide feedback from which we can modify

	future strategy development as required

A specific model for the strategy process

This generic model has stimulated the development of a number of specific strategy process models. The shown below is based on that developed by Johnson and Scholes.

A summary of the specific strategy process

This model is constructed using three basic activities:

Strategic analysis	Where we are and where we want to be
Strategic choice	Generating a full range of strategic options and then selecting from them the optimum strategy mix
Strategic implementation	Planning how the choice of strategy can be put into effect and deciding how the necessary changes will be handled

Either: Draw the process of strategic planning used in your organization o this page;
Or: If you do not have a standard process in use, design one for your own use.

In what ways does this process work well?

How would you improve it?

B. Where are we now?
External analysis

The following are the main reasons why external analysis is performed:

- **Avoidance of major surprises**
  Many organizations have failed to anticipate and prepare for changes in the external environment. Of course some surprises really do come 'out of the blue'. But other changes, like the consequences of new legislation, take some time to take effect and their potential effects can be anticipated in scenario planning predictions of the key environmental factors affecting the organization the future.

- **Fast identifications of opportunities and threats**
  The continuing changes in the external environment produce a steady stream of opportunities and threat. Periodically organizations are presented with a window of opportunity which is a unique chance to identify, following up and develop an opportunity to improve their business in a new and radical way.

  There is an enormous range of factors that generate these opportunities and threats. And of course, in many cases the opportunities and threats are opposite sides of the same coin.

- **Improved planning and decreased response times**
  Although knowledge of the environment helps organizations to act rapidly and more effectively once opportunities and threats are identified. Many external trends, for example, are cyclical, others are subject to fashion.

- **Enhanced self-understanding**
  It puts a person's own organization into perspective. There is a tendency in organizations for managers and other employees to be inward looking. Without an outward perspective it is difficult to assess the current level of business performance**.**

The PESTLE Model

The Pestle model provides a general checklist of external factors that affect business life. The detail required for each category will vary greatly. Some firms, e.g. those in telecommunications, are highly dependent on technological advances and will need to carry out almost perpetual surveys' on progress in this area.

The acronym **PESTLE** stands for:

- **Politica**l - relating to central and local government
- **Economic** - the business cycle, inflation trends, demand and supply factors, employment, cost of money, monetary and investment policies
- **Social** - trends in the social and demographic structure of society, individual and group behavior and lifestyles
- **Technologica**l- new technologies, materials, processes, ideas
- **Legal** – new legislation and its interpretation and implementation by officials
- **Environmental or ecological** – representing the 'green' lobby and other groups concerned with protecting the environment.

Impact analysis

In order to examine the potential effect of each factor an impact analysis can be carried out. This is done by listing the major factors under each of the PESTLE headings and then assessing the impact, its importance and the potential opportunities or threats associated with each item.

The following table can be used to demonstrate this.

Factor	**Level of impact** 1= low impact 10= high impact	**Opportunity**	**Threat**

Market analysis

The introduction to this section mentioned the following typical analytical tools in this category:

- Industry forecasts and scenario planning
- Industry analysis: five forces model
- Quantitative market research to produce analysis such as: segmentation by geography, customer type (ABC analysis), product/service channel.
- Qualitative research to determine customer needs
- Competitive benchmarking

The quantitative and qualitative market research techniques are usually carried out by the marketing function and the results they produce will provide a vital input to the market forecasts for the strategic plan. If you have nor formal marketing department, **make sure you can answer the following questions about your customer base** before you proceed:

- Who buys? Where? When?
- Why do they buy? What are their needs?
- How is the buying decision made?
- What influences the decision?
- How involved is the customer willing or able to be?
- To what extent do buyers perceive differences between brands?

Scenario Planning

The basic steps in scenario planning are:

- Identify the key factors and assumptions that exist in the industry many of these should be identified through the PESTLE model.
- Examine the historical trends in order to understand the criteria that drive these key factors an assumptions
- Build up a series of scenarios (commonly 2-4) based on logical possible futures. It is customary to produce a pessimistic outcome and an optimistic outcome and one or two 'most likely' options
- The scenarios are either produced by extrapolation of current tends or by 'painting a picture' of the likely environment that will exist at the future date chosen and the associated consequences for the key factor assumptions.

Create a scenario for your business:

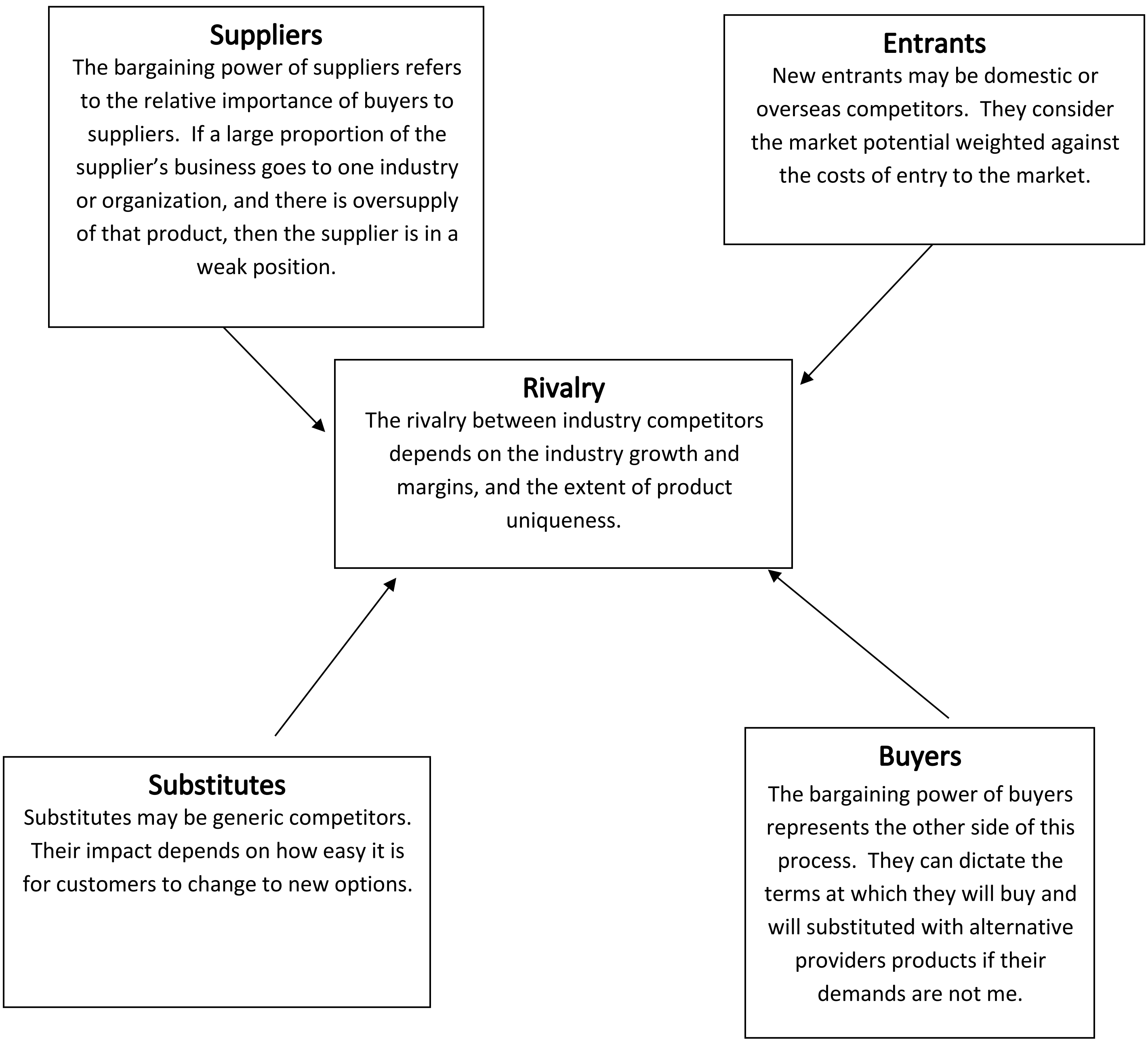
Scenario planning work-sheet

What key industry factors or assumptions apply?
What sources of information are available to provide information on these factors and assumptions?
What constitutes a pessimistic view of your industry?
What constitutes an optimistic view?

The five forces model

Michael Porter in his work on competitive advantage has produced the five forces model as a way of assessing the competitive pressures in an industry. He contends that “the state of completion in an industry depends on five basic competitive forces’.

These forces are contained in the model below.



Analysing competitors and the industry structure using the five forces model

Examine each of the forces and list your thoughts about potential competitors in each category:

Category	Your ideas
Suppliers	
Entrants	
Substitutes	
Buyers	
Rivalry	

Competitive benchmarking

Benchmarking is a process which affects both external and internal analysis.

The International Benchmarking Clearing-house (IBC), a service of the American Productivity and Quality Center (APQC) acts as a co-coordinating body for benchmarking development. The IB have produced their own composite definition based on input from over 100 member companies:

Benchmarking is a systematic and continuous measurement process; a process of continuously measuring and comparing an organisation's business processes against business process leaders anywhere in the world to gain information which will help the organization take action to improve competitive performance.

Benchmarking is therefore both a means of measuring comparative business performance and of discovering how others achieve superior performance. There are a number of different types of benchmarking e.g.:

- Internal benchmarking –using similar individual departments or branches within an organization, or comparable firms within a group
- Competitive benchmarking against the best competitors
- Best practice benchmarking using acknowledged centre's of excellence to set yardsticks for best business practice.

Benchmarking

Who provides the best overall comparison?
Which firm, business unit, function department has the best business practices relevant to us?

Where can we find comparable operations that operate best practices?

Who are the people to emulate in our industry?
Are they in our firm?

Who do we rate highly?

Who do the customers rate highly?

Where do we expect the next developments to come from?
Who will lead in our industry?

Who, outside our industry, will produce developments that we can apply?

What to measure

The measurement of performance gaps through benchmarking can be dealt with as a hierarchy of performance measures:

<table>
<tr>
<td>Overall business gaps

Relative market share
Relative profitability and trends
Revenue and profit growth trends
Return on investment or capital employed

</td>
<td rowspan="3">Product and function level gaps

Product/Service specification
Parts/Supplies
Manufacturing or Operations
Sales channels
Purchased goods and services
Marketing
Products, parts components
Distribution and transportation
Services
Finance
Administration
Personnel and training
Information systems
Research and development

</td>
</tr>
<tr>
<td>Strategic level gaps

Customer satisfaction index
Products
Services
Relative perceived quality
Performance
Revenue/cost/asset utilization

</td>
</tr>
<tr>
<td>Process level gaps

(these represent a further level of analysis)
For the administration function these would include processes like:

Order processing, order scheduling, customer billing
Cash collection, customer enquiry/complaint handling

</td>
</tr>
</table>

Audit of benchmarking practice

What do you benchmark on a regular or an ad hoc basis? List the items measured, the benchmark firms used and indicate whether the data is collected regularly or not.

	What	Against	Regular (yes/no)
Overall gaps			
Strategic level gaps			
Product or functional gaps			
Process gaps			

C. Where are we now?

Stakeholder analysis

Stakeholders are those who wield power in an around the organization – and whose expectations and demands must be satisfied by the organization.
Stakeholder analysis needs to be carried out in three phases:

1. Identifying the stakeholders
2. Investigating their requirements
3. Prioritising the requirements

The Stakeholder Checklist

Use the following checklist of the most common stakeholders as a basis for carrying out your own analysis. Tick off each item as it is answered.

A . Owners of business
Who are they?
Who is the most important and influential of them?

B. Government or local government
Do national or local government departments feature among the stakeholders?
What is their interest and how do they exercise influence?
Is this position likely to change?

C Governors, directors etc.
Which of these is most influential?
Is their power and influence likely to change?

D Customers
Is the business dependent on one particular customer or group of customers?
Do they influence your business in a particular way?
Is the balance of customers changing?
Are new factors arising which they which to influence?

E Suppliers
Is one supplier or group of suppliers more important than others?
How much do you depend on them?
Is the supply industry undergoing change?

F Competitors

Does any particular competition or group of competitors have a disproportionate amount of influence in the industry?
Which industry trends are likely to change the balance of power within the industry?

G Pressure groups

Do any pressure groups (e.g. environmentalists, local community, press, employment groups) have a particular interest in your business?
What effect are they likely to have.

H Trades unions, employee groups

Which main unions have influence within your business?
What are their main aims?

I Professional associations

Do any trade or professional associations exercise influence upon your business?
Will this change in the future?

J Individual employees, groups and committees

Who are the most important individuals and which are the most influential groups and committees within your business?
Can you identify new power groups who are emerging?

In general the stakeholders fall into two categories:

- Those with direct authority who make their expectations known through direct means such as legislation, financial budgets, codes of conduct or performance indicators.

- Those with indirect influence whose needs are often not expressed directly but whose needs must be satisfied if success is to be achieved. This includes employees –whose needs must be satisfied if the service is to be carried out well in the long term – and the general public who are the ultimate judges on whether or not the service has been performed successfully.

Summary of stakeholder requirements		
Who	**What**	**Priority H/M/L**

D. Where are we now?

Internal analysis

Before starting the strategy development process it is necessary for managers to know their organization's capability and its main strengths and weaknesses. Some of the main aspects covered in this section are:

- Business direction – mission, values, aims, objectives
- Internal analysis checklist –key areas to consider
- Alternative checklist – the seven s model
- Value chain analysis.

Business direction – mission, values, aims, objectives

Most successful businesses have clear direction with a business philosophy shared by top management and a direct cascading of this into appropriate policies and goals down through the organization. There terminology used in this process may change from business to business but the structure is similar. For example on organization may have a missing statement, a statement of business purpose or a corporate direction statement, all meaning the same thing. Similarly it may have corporate aims, goals or objectives which are also interchangeable terms.

Does your business have a clear statement of business direction?
Either: write it in her Or: propose one if one does not really exist at present

Examining the resources

One way of approaching resource analysis is through a series of investigative questions as proposed by Richardson and Richardson (1992).

These questions are:

1. What resources do we have?
2. How productive is our resource utilization?
3. How flexible are our resources?
4. How balanced are our resources?
5. Where and how can value be added our origination system
6. How successful is our strategic fit?
7. Where are our strengths, weaknesses and distinctive competences?

1 What resources do we have?

Resource audits need to cover not only the obvious resources like manpower skills and experience, financial resources, assets available and technological know-how and facilities, but also less tangible resources like the business's image and its key customer and supplier contacts. In carrying out the audit of these intangible factors it is useful to get input from important outside parties like customers, suppliers and distributors.
What we are trying to get at with this exercise are what Hamel and Prahalad define as core competences –organisation strengths that meet three tests:

- They are lasting – they 'provide potential access to a wide variety of markets'
- They are relevant – they make 'a significant contribution to the perceived customer benefits of the end product'
- They are unique – they are difficult to imitate.

List the key resources and core competences of the business and state whether it is lasting (L), relevant® or unique (U).

Resources/competence	**L/R/U**

2 How productive is our resources utilization?

In preparing a resource list you should not only find out what resources exist, but also examine how well they are used. Productivity and quality of output are measured in different ways of different resources. For example, financial resources tend to be viewed in terms of their value for money; human resources tend to be seen in terms of their output performance per person and plant in terms of its efficiency.

Key success Factors

Most organizations have already identified Key Success Factors (KSFs –also known as critical success factors –CSFs) which represent those performance measures which can be used to gauge the 'health of the business' – the indicators of success or failure. These indicators may be standard for the industry or they may be specific to the business.

The table overleaf shows some of the main areas for KSFs and includes a column for you to complete for your own business.

Key Success Factors

Business Area	KSF example	Your KSFs?
A. Business performance	Fast, efficient service(e.g. customer response time)	
B. Quality	Service quality (e.g. number of customer complaints)	
C. Service Features	Capability, Cost-effectiveness, Reliability ‘Attractiveness’ Value for money	
D. Financial position	Budget compliance State. State of Investment	
E. Publicity	Image	
F. Operational Effectiveness	Process technology Efficiency	
G. Technology & Development	Technical leadership New process	
H. People	Achievement Skill levels	

3. How flexible are our resources?

The next dimension to examine is the flexibility of resources. The value of resources will be diminished if they are not capable of development or redirection. In many business planning exercises 'direct labor' is treated as a variable cost that will vary with the operational workload, but we have to ask ourselves if this is really the case. The fact is, for many businesses, the employees are relatively fixed in number, are conservative in outlook (they do not welcome change), and observe a number customs, that hinder flexibility.

There are many other areas in the organization where lack of flexibility may exist which will be a barrier to strategic development or change. For example, the organization may have buildings which are run down, or in locations which do not match current needs, services offered may not be aligned to new public needs, finance may be locked up in non-productive investments which would be costly to withdraw from.

How flexible are your resources?

RESOURCE	FLEXIBILITY SHOWN BY…..	FLEXIBILITY RATING (1-10)

4. How balanced are our resources?

As you review the resources you need to examine them for balance. A business is a dynamic organization and needs constant rejuvenation and refreshment. A business which is in balance is far better able to face the future.

There are a number of factors that then to lead to a business being unbalanced. A period of fast growth will typically tend to unbalance a business when, for example:

- A large number of new employees are introduced which reduces the average experience level of employees,
- New equipment is introduced which suffers from teething problems and puts service quality and delivery performance at risk
- There is a large requirement for investment in new facilities or technologies

Another area which may cause problems through being unbalanced is that of the product or service portfolio, which you can examine using techniques like the ‘Boston Box’.

The four product categories identified in the box are:

- **Stars**
  These are the new products which will provide tomorrow's profitability. At present they require investment and support so that they develop sufficient market share to be viable, completive and profitable. A business needs a number of these, because a good proportion of them will ultimately fail. The business therefore needs to generate a healthy number of 'seed corn' ideas, but be ruthless in weeding out those which fail to meet the business criteria for a success at any early stage. In this way the business will not be supporting too many grow products.

- **Question marks**
  These are the products which are growing but have low market share as yet. These need careful monitoring with the strong ones being nurtured and the weak being withdrawn.

- **Cash cows**
  These are products that have a leading position in their market sectors. Past investment means that they have loyal customers but their market has peaked and there is little market growth. At this stage the products should be highly profitable and be good positive generators of cash. This stage in life cycle may last a long time. Brands like the Mars bar and Kit Kat were developed in the 1930s and remain sector leaders. However, in industries like computer games and cash cow phase for a product may last about a year
  .
- **Dogs**
  These are products or services which are decline; they have low market shares in markets with lower even negative growth. Cash cows generally fall into the dog category at some stage, at which time product supersession, product withdrawal or disposal plan should be in place.

Using the Boston Box to describe your business

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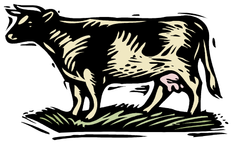
	

5. Where and how can we add value to our business system?

Organisations are always going to be seeking to improve their service delivery through increasing funding and reducing costs. The efficient running of and constant improvement in business systems all have their part to play.

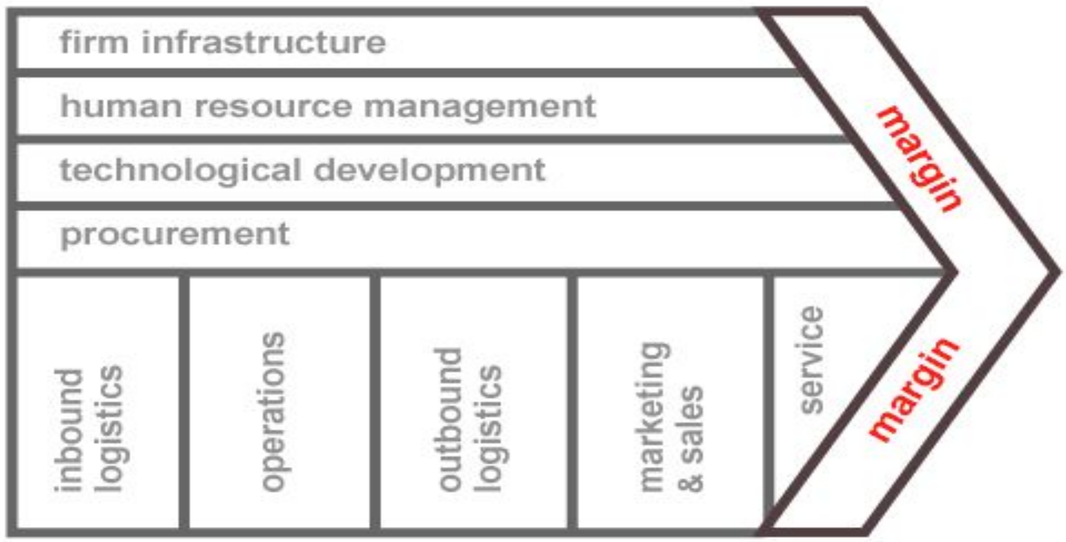
Questions that need to asked are:

- Is our organization structure right?
- Will it be right for the future?
- Are our main business processes relevant to the way we want to develop the business?

The following diagram shows a model for assessing how well a business is performing:

Value chain analysis

Michael Porter in Completive advantage – crating and sustaining superior performance provides a model for achieving competitive advantage called the value chain model.



The Value Chain model

This matrix covers all the major activities of an organisation and their supporting activities. The assumption is that all parts of the business can add value that improves the overall business margin so the model provides the basis for systematic review of each activity.

This overall model can then either be further subdivided in to the detailed divisional and departmental activities that make up both the support and main activities or simply applied as an entire model at the lower levels.

This systematic approach provides a basis for detailed examination of business resources and crates improvement opportunities at the level at which they can be acted upon – within the main activity areas of the business. It also applies equally to non-commercial business, as it deals with added value, which should be one purpose of every organization.

6. How dynamic is our strategic fit?

The Seven S Model

The Seven S model was developed by McKinsey & Co. as a consulting tool and is as follows:

The Seven Ss are points for analysis and are defined as:

Strategy – the plan of action that takes you from where you are now to where you want to be

Structure- the way that you organize and coordinate activities.

Systems – the processes by which the organization is managed and the systems by which information is transferred.

Staff – the organizational culture and the qualifications of members comprising key staff groups.

Style – the pattern of behavior of the top leader and the senior management team.

Shared values – the overriding purpose and values of organization.

Skills – includes both ’hard’ and ’soft’ skills and refers to those things that the organization and key individuals do particularly well.

The Seven Ss
How does your organization perform in each of the seven areas?

Strategy

Structure

Systems

Staff

Style

Shared values

Skills

7. What are our Strengths, Weaknesses, Opportunities and Threats?

The **SWOT** analysis is a classic way of examining organizations resources for their strengths, weaknesses and distinctive competence.

Strengths and weaknesses are internal and controllable by the business

- Strengths are positive characteristics, relevant to customers, relative to competitors
- Weaknesses are negative characteristics, relevant to customers, relative to competitors

Opportunities and threats are external and not controllable by the business

- Opportunities are factors relevant to strategic goals that can affect the business positively in the future
- Threats are factors relevant to strategic goals that can affect the business negatively in the future

STRENGTHS	WEAKNESSES
OPPORTUNITIES	**THREATS**

E Summarising the gaps

Having completed the analytical phase it is now necessary to summarise the findings by stating the main gaps between where the organization is now and where it needs to be and to match these against the strategic goals.

Use the following questions to summarise the position for the organisation:

1. What are your main goals?

Goal **Realistic?**

2. What are the major strategic gaps in terms of what is required to achieve these goals?

3. In which areas do you currently have the resources available to span these gaps?

4. In which areas will you require additional resources, and what are these resources?

AREA	**WHAT**

F Developing strategic options

1. Start by defining the strategic task for your organization or division that you wish to consider in completing this section – use the Gap analysis to decide your priorities.

'Brainstorm' and list every idea you can think of that would contribute to the strategic development of your strategic task.

Consider key strategy models

Three classic strategy models can help you to consider your strategic options.

Porter's Generic strategy model

The first is Michael Porter's (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. Porter called the generic strategies "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market). He then subdivided the Focus strategy into two parts: "Cost Focus" and "Differentiation Focus":

SCOPE

COMPETITIVE AD

Differentiate

Narrow

Cost leadership

Broad

Cost

Focus on differentiation

The Cost Leadership Strategy

Porter's generic strategies are ways of gaining competitive advantage - in other words, developing the "edge" that gets you the sale and takes it away from your competitors. There are two main ways of achieving this within a Cost Leadership strategy:

- Increasing profits by reducing costs, while charging industry-average prices.
- Increasing market share through charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

> Remember that Cost Leadership is about minimizing the cost to the organization of delivering products and services. The cost or price paid by the customer is a separate issue!

The Cost Leadership strategy is exactly that - it involves being the leader in terms of cost in your industry or market. Simply being amongst the lowest-cost producers is not good enough, as you leave yourself wide open to attack by other low cost producers who may undercut your prices and therefore block your attempts to increase market share.

You therefore need to be confident that you can achieve and maintain the number one position before choosing the Cost Leadership route. Companies that are successful in achieving Cost Leadership usually have:

- Access to the capital needed to invest in technology that will bring costs down.
- Very efficient logistics.
- A low cost base (labor, materials, facilities), and a way of sustainably cutting costs below those of other competitors.

The greatest risk in pursuing a Cost Leadership strategy is that these sources of cost reduction are not unique to you, and that other competitors copy your cost reduction strategies. This is why it's important to continuously find ways of reducing every cost. One successful way of doing this is by adopting the Japanese Kaizen philosophy of "continuous improvement".

The Differentiation Strategy

Differentiation involves making your products or services different from and more attractive those of your competitors. How you do this depends on the exact nature of your industry and of the products and services themselves, but will typically involve features, functionality, durability, support and also brand image that your customers value.

To make a success of a generic Differentiation strategy, organizations need:

- Good research, development and innovation.
- The ability to deliver high-quality products or services.

- Effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings.

Large organizations pursuing a differentiation strategy need to stay agile with their new product development processes. Otherwise, they risk attack on several fronts by competitors pursuing Focus Differentiation strategies in different market segments.

The Focus Strategy

Companies that use Focus strategies well concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers in it, develop uniquely low cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

As with broad market strategies, it is still essential to decide whether you will pursue Cost Leadership or Differentiation once you have selected a Focus strategy as your main approach: Focus is not normally enough on its own.

But whether you use Cost Focus or Differentiation Focus, the key to making a success of a generic Focus strategy is to ensure that you are adding something extra as a result of serving only that market niche. It's simply not enough to focus on only one market segment because your organization is too small to serve a broader market (if you do, you risk competing against better-resourced broad market companies' offerings.)

The "something extra" that you add can contribute to reducing costs (perhaps through your knowledge of specialist suppliers) or to increasing differentiation (though your deep understanding of customers' needs).

Generic strategies apply to not-for-profit organizations too. A not-for-profit can use a Cost Leadership strategy to minimize the cost of getting donations and achieving more for their income, while one with pursing a Differentiation strategy will be committed to the very best outcomes, even if the volume of work they do as a result is lower. Local charities are great examples of organizations using Focus strategies to get donations and contribute to their communities.

Choosing the Right Generic Strategy

Your choice of which generic strategy to pursue underpins every other strategic decision you make, so it's worth spending time to get it right.

But you **do** need to make a decision: Porter specifically warns against trying to "hedge your bets" by following more than one strategy. One of the most important reasons why this is wise advice is that the things you need to do to make each type of strategy work appeal to different types of people. Cost Leadership requires a very detailed internal focus on processes. Differentiation, on the other hand, demands an outward-facing, highly creative approach.

So, when you come to choose which of the three generic strategies is for you, it's vital that you take your organization's competencies and strengths into account.

Use the following steps to help you choose.

Step 1: For each generic strategy, carry out a SWOT analysis of your strengths and weaknesses, and the opportunities and threats you would face, if you adopted that strategy. Having done this, it may be clear that your organization is unlikely to be able to make a success of some of the generic strategies.

Step 2: Use Five Forces Analysis to understand the nature of the industry you are in.

Step 3: Compare the SWOT analyses of the viable strategic options with the results of your Five Forces analysis. For each strategic option, ask yourself how you could use that strategy to:

- Reduce or manage supplier power.
- Reduce or manage buyer/customer power.
- Come out on top of the competitive rivalry.
- Reduce or eliminate the threat of substitution.
- Reduce or eliminate the threat of new entry.

Select the generic strategy that gives you the strongest set of options[1].

[1] Source: www.mindtools.com

Worksheet: choosing a generic strategy

Consider how each of the generic strategies would help to offset the threats posed by the competitive structure of your industry

	Cost Leadership	Differentiation	Focus
Industry rivalry			
Threat of new entrants			
Threat of substitutes			
Supplier power			
Buyer power			

Three value disciplines model

A second strategy model which could guide your strategy selection was developed by Michael Treacy and Fred Wiersema in their 1994 book, “The discipline of Market Leaders”. The authors argue assert that companies achieve leadership positions by narrowing, not broadening their business focus, and identify three "value-disciplines" that can serve as the basis for strategy. While only one of these should be the focus of strategic attention, the other three should not be entirely neglected:

Differentiation

Focus on cost

Each of the three strategic options is described briefly below:

Operational excellence	Product leadership	Customer intimacy
Focus on leading on the basis of price and convenience • Minimise overhead costs • Eliminate intermediate production steps • Reduce transaction costs • Optimise business processes • Emphasis on efficiency and reliability • Information systems that	Continuous stream of state of the art products and services • Must recognise and appreciate creative ideas everywhere • Must move quickly, react as opportunities arise • Must relentlessly pursue improvement • Own fiercest competitors	Continuously tailor and shape products and services to fit a careful definition of customers • Look at life-time value, not transaction value • Understand customer need for information and assistance, as well as products • Requires careful market

emphasise integration and low cost transaction processing		segmentation and customer identification • Decentralised marketing functions

G. Drawing the plan together

Write your strategy statement

What, then, is strategy? Is it a plan? Does it refer to how we will obtain the ends we seek? Is it a position taken? Just as military forces might take the high ground prior to engaging the enemy; might a business take the position of low-cost provider? Or does strategy refer to perspective, to the view one takes of matters, and to the purposes, directions, decisions and actions stemming from this view? Lastly, does strategy refer to a pattern in our decisions and actions? For example, does repeatedly copying a competitor's new product offerings signal a "me too" strategy? Just what is strategy?

Strategy is all these—it is perspective, position, plan, and pattern. Strategy is the bridge between policy or high-order goals on the one hand and tactics or concrete actions on the other. Strategy and tactics together straddle the gap between ends and means. In short, strategy is a term that refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Strategy is at once the course we chart, the journey we imagine and, at the same time, it is the course we steer, the trip we actually make. Even when we are embarking on a voyage of discovery, with no particular destination in mind, the voyage has a purpose, an outcome, an end to be kept in view.

Strategy, then, has no existence apart from the ends sought. It is a general framework that provides guidance for actions to be taken and, at the same time, is shaped by the actions taken. This means that the necessary precondition for formulating strategy is a clear and widespread understanding of the ends to be obtained. Without these ends in view, action is purely tactical and can quickly degenerate into nothing more than a flailing about[2].

The preparation of a strategy statement can provide a helpful tool for facilitating such a clear and widespread understanding. Essentially the strategy statement answers the following questions:

- What is the current strategy, implicit or explicit? What assumptions have to hold for the current strategy to be viable?
- What is happening in the industry, with our competitors, and in general?
- What are our growth, size, and profitability goals?
- What products and services will we offer?

[2] Fred Nichols, 2000. Definitions of Strategy, downloaded from http://home.att.net/~nickols/strategy_definition

- To what customers or users? How will the selling/buying decisions be made?
- How will we distribute our products and services?
- What technologies will we employ?
- What capabilities and capacities will we require? Which ones are core? What will we make, what will we buy, and what will we acquire through alliance?
- What are our options? Have we considered how we intend to build on strengths, correct weaknesses, capitalise on opportunities, avert threats?
- On what basis will we compete?
- Which stakeholder relationships are important to the success of the business? What are their expectations?

Write your strategy statement here…..

Evaluate your strategy

It is impossible to demonstrate conclusively that a particular business strategy is optimal or even to guarantee that it will work. One can, nevertheless, test it for critical flaws. Of the many tests which could be justifiably applied to a business strategy, most will fit within one of these broad criteria[3]:

Sustainability
Is there a sustainable competitive advantage?

Consonance
Is the strategy an adaptive response to the external environment?

Consistency
Does the strategy hang together?

Feasibility
Do we have the skills, resources, commitment?

Vulnerability
What are the risks and contingencies?

Potential rewards
Are the forecast outcomes delivering value?

[3]Richard Rumelt, 1979. Evaluation of strategy: Theory and models