“Strategy Formulation”

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INTRODUCTION

It is useful to consider strategy formulation as part of a strategic management process that comprises three phases: diagnosis, formulation, and implementation. Strategic management is an ongoing process to develop and revise future-oriented strategies that allow an organization to achieve its objectives, considering its capabilities, constraints, and the environment in which it operates.

Diagnosis includes: (a) performing a situation analysis (analysis of the internal environment of the organization), including identification and evaluation of current mission, strategic objectives, strategies, and results, plus major strengths and weaknesses; (b) analyzing the organization's external environment, including major opportunities and threats; and (c) identifying the major *critical issues*, which are a small set, typically two to five, of major problems, threats, weaknesses, and/or opportunities that require particularly high priority attention by management.

Formulation, the second phase in the strategic management process, produces a clear set of recommendations, with supporting justification, that revise as necessary the mission and objectives of the organization, and supply the strategies for accomplishing them. In formulation, we are trying to modify the current objectives and strategies in ways to make the organization more successful. This includes trying to create "sustainable" competitive advantages -- although most competitive advantages are eroded steadily by the efforts of competitors.

A good recommendation should be: effective in solving the stated problem(s), practical (can be implemented in this situation, with the resources available), feasible within a reasonable time frame, cost-effective, not overly disruptive, and acceptable to key "stakeholders" in the organization. It is important to consider "fits" between resources plus competencies with opportunities, and also fits between risks and expectations.

There are four primary steps in this phase:

* Reviewing the current key objectives and strategies of the organization, which usually would have been identified and evaluated as part of the diagnosis
* Identifying a rich range of strategic alternatives to address the three levels of strategy formulation outlined below, including but not limited to dealing with the critical issues
* Doing a balanced evaluation of advantages and disadvantages of the alternatives relative to their feasibility plus expected effects on the issues and contributions to the success of the organization
* Deciding on the alternatives that should be implemented or recommended.

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In organizations, and in the practice of strategic management, strategies must be *implemented* to achieve the intended results. The most wonderful strategy in the history of the world is useless if not implemented successfully. This third and final stage in the strategic management process involves developing an implementation plan and then doing whatever it takes to make the new strategy operational and effective in achieving the organization's objectives.

The remainder of this chapter focuses on strategy formulation, and is organized into six sections:
Three Aspects of Strategy Formulation, Corporate-Level Strategy, Competitive Strategy, Functional Strategy, Choosing Strategies, and Troublesome Strategies.

THREE ASPECTS OF STRATEGY FORMULATION

The following three aspects or levels of strategy formulation, each with a different focus, need to be dealt with in the formulation phase of strategic management. The three sets of recommendations must be internally consistent and fit together in a mutually supportive manner that forms an integrated hierarchy of strategy, in the order given.

Corporate Level Strategy: In this aspect of strategy, we are concerned with broad decisions about the total organization's scope and direction. Basically, we consider what changes should be made in our growth objective and strategy for achieving it, the lines of business we are in, and how these lines of business fit together. It is useful to think of three components of corporate level strategy: (a) growth or directional strategy (what should be our growth objective, ranging from retrenchment through stability to varying degrees of growth - and how do we accomplish this), (b) portfolio strategy (what should be our portfolio of lines of business, which implicitly requires reconsidering how much concentration or diversification we should have), and (c) parenting strategy (how we allocate resources and manage capabilities and activities across the portfolio -- where do we put special emphasis, and how much do we integrate our various lines of business).

Competitive Strategy (often called Business Level Strategy): This involves deciding how the company will compete within each line of business (LOB) or strategic business unit (SBU).

Functional Strategy: These more localized and shorter-horizon strategies deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity.

CORPORATE LEVEL STRATEGY

This comprises the overall strategy elements for the corporation as a whole, the grand strategy, if you please. Corporate strategy involves four kinds of initiatives:

* Making the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. A key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the company should be in. This may involve deciding to increase or decrease the amount and breadth of diversification. It may involve closing out some LOB's (lines of business), adding others, and/or changing emphasis among LOB's.
* Initiating actions to boost the combined performance of the businesses the company has diversified into: This may involve vigorously pursuing rapid-growth strategies in the most promising LOB's, keeping the other core businesses healthy, initiating turnaround efforts in weak-performing LOB's with promise, and dropping LOB's that are no longer attractive or don't fit into the corporation's overall plans. It also may involve supplying financial, managerial, and other resources, or acquiring and/or merging other companies with an existing LOB.
* Pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantages -- especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers.
* Establishing investment priorities and moving more corporate resources into the most attractive LOB's.

It is useful to organize the corporate level strategy considerations and initiatives into a framework with the following three main strategy components: growth, portfolio, and parenting. These are discussed in the next three sections.

What Should be Our Growth Objective and Strategies?

Growth objectives can range from drastic retrenchment through aggressive growth.

Organizational leaders need to revisit and make decisions about the growth objectives and the fundamental strategies the organization will use to achieve them. There are forces that tend to push top decision-makers toward a growth stance even when a company is in trouble and should not be trying to grow, for example bonuses, stock options, fame, ego. Leaders need to resist such temptations and select a growth strategy stance that is appropriate for the organization and its situation. Stability and retrenchment strategies are underutilized.

Some of the major strategic alternatives for each of the primary growth stances (retrenchment, stability, and growth) are summarized in the following three sub-sections.

Growth Strategies

All growth strategies can be classified into one of two fundamental categories: *concentration* within existing industries or *diversification* into other lines of business or industries. When a company's current industries are attractive, have good growth potential, and do not face serious threats, concentrating resources in the existing industries makes good sense. Diversification tends to have greater risks, but is an appropriate option when a company's current industries have little growth potential or are unattractive in other ways. When an industry consolidates and becomes mature, unless there are other markets to seek (for example other international markets), a company may have no choice for growth but diversification.

There are two basic concentration strategies, *vertical integration* and *horizontal growth*. Diversification strategies can be divided into *related* (or concentric) and *unrelated* (conglomerate) diversification. Each of the resulting four core categories of strategy alternatives can be achieved internally through investment and development, or externally through mergers, acquisitions, and/or strategic alliances -- thus producing eight major growth strategy categories.

Comments about each of the four core categories are outlined below, followed by some key points about mergers, acquisitions, and strategic alliances.

1. Vertical Integration: This type of strategy can be a good one if the company has a strong competitive position in a growing, attractive industry. A company can grow by taking over functions earlier in the value chain that were previously provided by suppliers or other organizations ("backward integration"). This strategy can have advantages, e.g., in cost, stability and quality of components, and making operations more difficult for competitors. However, it also reduces flexibility, raises exit barriers for the company to leave that industry, and prevents the company from seeking the best and latest components from suppliers competing for their business.

A company also can grow by taking over functions forward in the value chain previously provided by final manufacturers, distributors, or retailers ("forward integration"). This strategy provides more control over such things as final products/services and distribution, but may involve new critical success factors that the parent company may not be able to master and deliver. For example, being a world-class manufacturer does not make a company an effective retailer.

Some writers claim that backward integration is usually more profitable than forward integration, although this does not have general support. In any case, many companies have moved toward less vertical integration (especially backward, but also forward) during the last decade or so, replacing significant amounts of previous vertical integration with outsourcing and various forms of strategic alliances.

2. Horizontal Growth: This strategy alternative category involves expanding the company's existing products into other locations and/or market segments, or increasing the range of products/services offered to current markets, or a combination of both. It

amounts to expanding sideways at the point(s) in the value chain that the company is currently engaged in. One of the primary advantages of this alternative is being able to choose from a fairly continuous range of choices, from modest extensions of present products/markets to major expansions -- each with corresponding amounts of cost and risk.

3. Related Diversification (aka Concentric Diversification): In this alternative, a company expands into a related industry, one having synergy with the company's existing lines of business, creating a situation in which the existing and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities, and government access. This is often an appropriate corporate strategy when a company has a strong competitive position and distinctive competencies, but its existing industry is not very attractive.

4. Unrelated Diversification (aka Conglomerate Diversification): This fourth major category of corporate strategy alternatives for growth involves diversifying into a line of business unrelated to the current ones. The reasons to consider this alternative are primarily seeking more attractive opportunities for growth in which to invest available funds (in contrast to rather unattractive opportunities in existing industries), risk reduction, and/or preparing to exit an existing line of business (for example, one in the decline stage of the product life cycle). Further, this may be an appropriate strategy when, not only the present industry is unattractive, but the company lacks outstanding competencies that it could transfer to related products or industries. However, because it is difficult to manage and excel in unrelated business units, it can be difficult to realize the hoped-for value added.

Mergers, Acquisitions, and Strategic Alliances: Each of the four growth strategy categories just discussed can be carried out internally or externally, through mergers, acquisitions, and/or strategic alliances. Of course, there also can be a mixture of internal and external actions.

Various forms of strategic alliances, mergers, and acquisitions have emerged and are used extensively in many industries today. They are used particularly to bridge resource and technology gaps, and to obtain expertise and market positions more quickly than could be done through internal development. They are particularly necessary and potentially useful when a company wishes to enter a new industry, new markets, and/or new parts of the world.

Despite their extensive use, a large share of alliances, mergers, and acquisitions fall far short of expected benefits or are outright failures. For example, one study published in *Business Week* in 1999 found that 61 percent of alliances were either outright failures or "limping along." Research on mergers and acquisitions includes a Mercer Management Consulting study of all mergers from 1990 to 1996 which found that nearly half "destroyed" shareholder value; an A. T. Kearney study of 115

multibillion-dollar, global mergers between 1993 and 1996 where 58 percent failed to create "substantial returns for shareholders" in the form of dividends and stock price appreciation; and a Price-Waterhouse-Coopers study of 97 acquisitions over $500 million from 1994 to 1997 in which two-thirds of the buyer's stocks dropped on announcement of the transaction and a third of these were still lagging a year later.

Many reasons for the problematic record have been cited, including paying too much, unrealistic expectations, inadequate due diligence, and conflicting corporate cultures; however, the most powerful contributor to success or failure is inadequate attention to the merger integration process. Although the lawyers and investment bankers may consider a deal done when the papers are signed and they receive their fees, this should be merely an incident in a multi-year process of integration that began before the signing and continues far beyond.

Stability Strategies

There are a number of circumstances in which the most appropriate growth stance for a company is stability, rather than growth. Often, this may be used for a relatively short period, after which further growth is planned. Such circumstances usually involve a reasonable successful company, combined with circumstances that either permit a period of comfortable coasting or suggest a pause or caution. Three alternatives are outlined below, in which the actual strategy actions are similar, but differing primarily in the circumstances motivating the choice of a stability strategy and in the intentions for future strategic actions.

1. Pause and Then Proceed: This stability strategy alternative (essentially a timeout) may be appropriate in either of two situations: (a) the need for an opportunity to rest, digest, and consolidate after growth or some turbulent events - before continuing a growth strategy, or (b) an uncertain or hostile environment in which it is prudent to stay in a "holding pattern" until there is change in or more clarity about the future in the environment.

2. No Change: This alternative could be a cop-out, representing indecision or timidity in making a choice for change. Alternatively, it may be a comfortable, even long-term strategy in a mature, rather stable environment, e.g., a small business in a small town with few competitors.

3. Grab Profits While You Can: This is a non-recommended strategy to try to mask a deteriorating situation by artificially supporting profits or their appearance, or otherwise trying to act as though the problems will go away. It is an unstable, temporary strategy in a worsening situation, usually chosen either to try to delay letting stakeholders know how bad things are or to extract personal gain before things collapse. Recent terrible examples in the USA are Enron and WorldCom.

Retrenchment Strategies

Turnaround: This strategy, dealing with a company in serious trouble, attempts to resuscitate or revive the company through a combination of contraction (general, major cutbacks in size and costs) and consolidation (creating and stabilizing a smaller, leaner company). Although difficult, when done very effectively it can succeed in both retaining enough key employees and revitalizing the company.

Captive Company Strategy: This strategy involves giving up independence in exchange for some security by becoming another company's sole supplier, distributor, or a dependent subsidiary.

Sell Out: If a company in a weak position is unable or unlikely to succeed with a turnaround or captive company strategy, it has few choices other than to try to find a buyer and sell itself (or divest, if part of a diversified corporation).

Liquidation: When a company has been unsuccessful in or has none of the previous three strategic alternatives available, the only remaining alternative is liquidation, often involving a bankruptcy. There is a modest advantage of a voluntary liquidation over bankruptcy in that the board and top management make the decisions rather than turning them over to a court, which often ignores stockholders' interests.

What Should Be Our Portfolio Strategy?

This second component of corporate level strategy is concerned with making decisions about the portfolio of lines of business (LOB's) or strategic business units (SBU's), not the company's portfolio of individual products.

Portfolio matrix models can be useful in reexamining a company's present portfolio. The purpose of all portfolio matrix models is to help a company understand and consider changes in its portfolio of businesses, and also to think about allocation of resources among the different business elements. The two primary models are the BCG Growth-Share Matrix and the GE Business Screen (Porter, 1980, has a good summary of these). These models consider and display on a two-dimensional graph each major SBU in terms of some measure of its industry attractiveness and its relative competitive strength

The *BCG Growth-Share Matrix model* considers two relatively simple variables: growth rate of the industry as an indication of industry attractiveness, and relative market share as an indication of its relative competitive strength. The *GE Business Screen*, also associated with McKinsey, considers two composite variables, which can be customized by the user, for (a) industry attractiveness (e.g, one could include industry size and growth rate, profitability, pricing practices, favored treatment in government dealings, etc.) and (b) competitive strength (e.g., market share, technological position, profitability, size, etc.)

The best test of the business portfolio's overall attractiveness is whether the combined growth and profitability of the businesses in the portfolio will allow the company to attain its performance objectives. Related to this overall criterion are such questions as:

* Does the portfolio contain enough businesses in attractive industries?
* Does it contain too many marginal businesses or question marks?
* Is the proportion of mature/declining businesses so great that growth will be sluggish?
* Are there some businesses that are not really needed or should be divested?
* Does the company have its share of industry leaders, or is it burdened with too many businesses in modest competitive positions?
* Is the portfolio of SBU's and its relative risk/growth potential consistent with the strategic goals?
* Do the core businesses generate dependable profits and/or cash flow?
* Are there enough cash-producing businesses to finance those needing cash
* Is the portfolio overly vulnerable to seasonal or recessionary influences?
* Does the portfolio put the corporation in good position for the future?

It is important to consider diversification vs. concentration while working on portfolio strategy, i.e., how broad or narrow should be the scope of the company. It is not always desirable to have a broad scope. Single-business strategies can be very successful (e.g., early strategies of McDonald's, Coca-Cola, and BIC Pen). Some of the advantages of a narrow scope of business are: (a) less ambiguity about who we are and what we do; (b) concentrates the efforts of the total organization, rather than stretching them across many lines of business; (c) through extensive hands-on experience, the company is more likely to develop distinctive competence; and (d) focuses on long-term profits. However, having a single business puts "all the eggs in one basket," which is dangerous when the industry and/or technology may change. Diversification becomes more important when market growth rate slows. Building stable shareholder value is the ultimate justification for diversifying -- or any strategy.

What Should Be Our Parenting Strategy?

This third component of corporate level strategy, relevant for a multi-business company (it is moot for a single-business company), is concerned with how to allocate resources and manage capabilities and activities across the portfolio of businesses. It includes evaluating and making decisions on the following:

* Priorities in allocating resources (which business units will be stressed)
* What are critical success factors in each business unit, and how can the company do well on them
* Coordination of activities (e.g., horizontal strategies) and transfer of capabilities among business units
* How much integration of business units is desirable.

COMPETITIVE (BUSINESS LEVEL) STRATEGY

In this second aspect of a company's strategy, the focus is on how to compete successfully in each of the lines of business the company has chosen to engage in. The central thrust is how to build and improve the company's competitive position for each of its lines of business. A company has competitive advantage whenever it can attract customers and defend against competitive forces better than its rivals. Companies want to develop competitive advantages that have some sustainability (although the typical term "sustainable competitive advantage" is usually only true dynamically, as a firm works to continue it). Successful competitive strategies usually involve building uniquely strong or distinctive competencies in one or several areas crucial to success and using them to maintain a competitive edge over rivals. Some examples of distinctive competencies are superior technology and/or product features, better manufacturing technology and skills, superior sales and distribution capabilities, and better customer service and convenience.

> **Competitive strategy is about being different. It means deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value.** (Michael E. Porter)
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> **The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today.** (Gary Hamel & C. K. Prahalad)

We will consider competitive strategy by using Porter's four generic strategies (Porter 1980, 1985) as the fundamental choices, and then adding various competitive tactics.

Porter's Four Generic Competitive Strategies

He argues that a business needs to make two fundamental decisions in establishing its competitive advantage: (a) whether to compete primarily on price (he says "cost," which is necessary to sustain competitive prices, but price is what the customer responds to) or to compete through providing some distinctive points of differentiation that justify higher prices, and (b) how broad a market target it will aim at (its competitive scope). These two choices define the following four generic competitive strategies. which he argues cover the fundamental range of choices. A fifth strategy alternative (best-cost provider) is added by some sources, although not by Porter, and is included below:

1. Overall Price (Cost) Leadership: appealing to a broad cross-section of the market by providing products or services at the lowest price. This requires being the overall low-cost provider of the products or services (e.g., Costco, among retail stores, and

Hyundai, among automobile manufacturers). Implementing this strategy successfully requires continual, exceptional efforts to reduce costs -- without excluding product features and services that buyers consider essential. It also requires achieving cost advantages in ways that are hard for competitors to copy or match. Some conditions that tend to make this strategy an attractive choice are:

* The industry's product is much the same from seller to seller
* The marketplace is dominated by price competition, with highly price-sensitive buyers
* There are few ways to achieve product differentiation that have much value to buyers
* Most buyers use product in same ways -- common user requirements
* Switching costs for buyers are low
* Buyers are large and have significant bargaining power

2. Differentiation: appealing to a broad cross-section of the market through offering differentiating features that make customers willing to pay premium prices, e.g., superior technology, quality, prestige, special features, service, convenience (examples are Nordstrom and Lexus). Success with this type of strategy requires differentiation features that are hard or expensive for competitors to duplicate. Sustainable differentiation usually comes from advantages in core competencies, unique company resources or capabilities, and superior management of value chain activities. Some conditions that tend to favor differentiation strategies are:

* There are multiple ways to differentiate the product/service that buyers think have substantial value
* Buyers have different needs or uses of the product/service
* Product innovations and technological change are rapid and competition emphasizes the latest product features
* Not many rivals are following a similar differentiation strategy

3. Price (Cost) Focus: a market niche strategy, concentrating on a narrow customer segment and competing with lowest prices, which, again, requires having lower cost structure than competitors (e.g., a single, small shop on a side-street in a town, in which they will order electronic equipment at low prices, or the cheapest automobile made in the former Bulgaria). Some conditions that tend to favor focus (either price or differentiation focus) are:

* The business is new and/or has modest resources
* The company lacks the capability to go after a wider part of the total market
* Buyers' needs or uses of the item are diverse; there are many different niches and segments in the industry
* Buyer segments differ widely in size, growth rate, profitability, and intensity in the five competitive forces, making some segments more attractive than others
* Industry leaders don't see the niche as crucial to their own success
* Few or no other rivals are attempting to specialize in the same target segment

4. Differentiation Focus: a second market niche strategy, concentrating on a narrow customer segment and competing through differentiating features (e.g., a high-fashion women's clothing boutique in Paris, or Ferrari).

Best-Cost Provider Strategy: (although not one of Porter's basic four strategies, this strategy is mentioned by a number of other writers.) This is a strategy of trying to give customers the best cost/value combination, by incorporating key good-or-better product characteristics at a lower cost than competitors. This strategy is a mixture or hybrid of low-price and differentiation, and targets a segment of value-conscious buyers that is usually larger than a market niche, but smaller than a broad market. Successful implementation of this strategy requires the company to have the resources, skills, capabilities (and possibly luck) to incorporate up-scale features at lower cost than competitors.

This strategy could be attractive in markets that have both variety in buyer needs that make differentiation common and where large numbers of buyers are sensitive to both price and value.

Porter might argue that this strategy is often temporary, and that a business should choose and achieve one of the four generic competitive strategies above. Otherwise, the business is stuck in the middle of the competitive marketplace and will be out-performed by competitors who choose and excel in one of the fundamental strategies. His argument is analogous to the threats to a tennis player who is standing at the service line, rather than near the baseline or getting to the net. However, others present examples of companies (e.g., Honda and Toyota) who seem to be able to pursue successfully a best-cost provider strategy, with stability.

Competitive Tactics

Although a choice of one of the generic competitive strategies discussed in the previous section provides the foundation for a business strategy, there are many variations and elaborations. Among these are various tactics that may be useful (in general, tactics are shorter in time horizon and narrower in scope than strategies). This section deals with competitive tactics, while the following section discusses cooperative tactics.

Two categories of competitive tactics are those dealing with timing (when to enter a market) and market location (where and how to enter and/or defend).

Timing Tactics: When to make a strategic move is often as important as what move to make. We often speak of *first-movers* (i.e., the first to provide a product or service), *second-movers* or rapid followers, and *late movers* (wait-and-see). Each tactic can have advantages and disadvantages.

Being a first-mover can have major strategic advantages when: (a) doing so builds an important image and reputation with buyers; (b) early adoption of new technologies, different components, exclusive distribution channels, etc. can produce cost and/or other advantages over rivals; (c) first-time customers remain strongly loyal in making

repeat purchases; and (d) moving first makes entry and imitation by competitors hard or unlikely.

However, being a second- or late-mover isn't necessarily a disadvantage. There are cases in which the first-mover's skills, technology, and strategies are easily copied or even surpassed by later-movers, allowing them to catch or pass the first-mover in a relatively short period, while having the advantage of minimizing risks by waiting until a new market is established. Sometimes, there are advantages to being a skillful follower rather than a first-mover, e.g., when: (a) being a first-mover is more costly than imitating and only modest experience curve benefits accrue to the leader (followers can end up with lower costs than the first-mover under some conditions); (b) the products of an innovator are somewhat primitive and do not live up to buyer expectations, thus allowing a clever follower to win buyers away from the leader with better performing products; (c) technology is advancing rapidly, giving fast followers the opening to leapfrog a first-mover's products with more attractive and full-featured second- and third-generation products; and (d) the first-mover ignores market segments that can be picked up easily.

Market Location Tactics: These fall conveniently into offensive and defensive tactics. Offensive tactics are designed to take market share from a competitor, while defensive tactics attempt to keep a competitor from taking away some of our present market share, under the onslaught of offensive tactics by the competitor. Some offensive tactics are:

* *Frontal Assault:* going head-to-head with the competitor, matching each other in every way. To be successful, the attacker must have superior resources and be willing to continue longer than the company attacked.
* *Flanking Maneuver:* attacking a part of the market where the competitor is weak. To be successful, the attacker must be patient and willing to carefully expand out of the relatively undefended market niche or else face retaliation by an established competitor.
* *Encirclement:* usually evolving from the previous two, encirclement involves encircling and pushing over the competitor's position in terms of greater product variety and/or serving more markets. This requires a wide variety of abilities and resources necessary to attack multiple market segments.
* *Bypass Attack:* attempting to cut the market out from under the established defender by offering a new, superior type of produce that makes the competitor's product unnecessary or undesirable.
* *Guerrilla Warfare:* using a "hit and run" attack on a competitor, with small, intermittent assaults on different market segments. This offers the possibility for even a small firm to make some gains without seriously threatening a large, established competitor and evoking some form of retaliation.

Some Defensive Tactics are:

* *Raise Structural Barriers:* block avenues challengers can take in mounting an offensive

* *Increase Expected Retaliation:* signal challengers that there is threat of strong retaliation if they attack
* *Reduce Inducement for Attacks:* e.g., lower profits to make things less attractive (including use of accounting techniques to obscure true profitability). Keeping prices very low gives a new entrant little profit incentive to enter.

The general experience is that any competitive advantage currently held will eventually be eroded by the actions of competent, resourceful competitors. Therefore, to sustain its initial advantage, a firm must use both defensive and offensive strategies, in elaborating on its basic competitive strategy.

Cooperative Strategies

Another group of "competitive" tactics involve cooperation among companies. These could be grouped under the heading of various types of strategic alliances, which have been discussed to some extent under Corporate Level growth strategies. These involve an agreement or alliance between two or more businesses formed to achieve strategically significant objectives that are mutually beneficial. Some are very short-term; others are longer-term and may be the first stage of an eventual merger between the companies.

Some of the reasons for strategic alliances are to: obtain/share technology, share manufacturing capabilities and facilities, share access to specific markets, reduce financial/political/market risks, and achieve other competitive advantages not otherwise available. There could be considered a continuum of types of strategic alliances, ranging from: (a) mutual service consortiums (e.g., similar companies in similar industries pool their resources to develop something that is too expensive alone), (b) licensing arrangements, (c) joint ventures (an independent business entity formed by two or more companies to accomplish certain things, with allocated ownership, operational responsibilities, and financial risks and rewards), (d) value-chain partnerships (e.g., just-in-time supplier relationships, and out-sourcing of major value-chain functions).

FUNCTIONAL STRATEGIES

Functional strategies are relatively short-term activities that each functional area within a company will carry out to implement the broader, longer-term corporate level and business level strategies. Each functional area has a number of strategy choices, that interact with and must be consistent with the overall company strategies.

Three basic characteristics distinguish functional strategies from corporate level and business level strategies: shorter time horizon, greater specificity, and primary involvement of operating managers.

A few examples follow of functional strategy topics for the major functional areas of marketing, finance, production/operations, research and development, and human resources management. Each area needs to deal with sourcing strategy, i.e., what should be done in-house and what should be outsourced?

Marketing strategy deals with product/service choices and features, pricing strategy, markets to be targeted, distribution, and promotion considerations. Financial strategies include decisions about capital acquisition, capital allocation, dividend policy, and investment and working capital management. The production or operations functional strategies address choices about how and where the products or services will be manufactured or delivered, technology to be used, management of resources, plus purchasing and relationships with suppliers. For firms in high-tech industries, R&D strategy may be so central that many of the decisions will be made at the business or even corporate level, for example the role of technology in the company's competitive strategy, including choices between being a technology leader or follower. However, there will remain more specific decisions that are part of R&D functional strategy, such as the relative emphasis between product and process R&D, how new technology will be obtained (internal development vs. external through purchasing, acquisition, licensing, alliances, etc.), and degree of centralization for R&D activities. Human resources functional strategy includes many topics, typically recommended by the human resources department, but many requiring top management approval. Examples are job categories and descriptions; pay and benefits; recruiting, selection, and orientation; career development and training; evaluation and incentive systems; policies and discipline; and management/executive selection processes.

CHOOSING THE BEST STRATEGY ALTERNATIVES

Decision making is a complex subject, worthy of a chapter or book of its own. This section can only offer a few suggestions. Among the many sources for additional information, I recommend Harrison (1999), McCall & Kaplan (1990), and Williams (2002). Here are some factors to consider when choosing among alternative strategies:

* It is important to get as clear as possible about objectives and decision criteria (what makes a decision a "good" one?)
* The primary answer to the previous question, and therefore a vital criterion, is that the chosen strategies must be effective in addressing the "critical issues" the company faces at this time
* They must be consistent with the mission and other strategies of the organization
* They need to be consistent with external environment factors, including realistic assessments of the competitive environment and trends
* They fit the company's product life cycle position and market attractiveness/competitive strength situation

* They must be capable of being implemented effectively and efficiently, including being realistic with respect to the company's resources
* The risks must be acceptable and in line with the potential rewards
* It is important to match strategy to the other aspects of the situation, including: (a) size, stage, and growth rate of industry; (b) industry characteristics, including fragmentation, importance of technology, commodity product orientation, international features; and (c) company position (dominant leader, leader, aggressive challenger, follower, weak, "stuck in the middle")
* Consider stakeholder analysis and other people-related factors (e.g., internal and external pressures, risk propensity, and needs and desires of important decision-makers)
* Sometimes it is helpful to do scenario construction, e.g., cases with optimistic, most likely, and pessimistic assumptions.

SOME TROUBLESOME STRATEGIES TO AVOID OR USE WITH CAUTION

Follow the Leader: when the market has no more room for copycat products and look-alike
competitors. Sometimes such a strategy can work fine, but not without careful consideration of the company's particular strengths and weaknesses. (e.g., Fujitsu Ltd. was driven since the 1960s to catch up to IBM in mainframes and continued this quest even into the 1990s after mainframes were in steep decline; or the decision by Standard Oil of Ohio to follow Exxon and Mobil Oil into conglomerate diversification)

Count On Hitting Another Home Run: e.g., Polaroid tried to follow its early success with instant photography by developing "Polavision" during the mid-1970s. Unfortunately, this very expensive, instant developing, 8mm, black and white, silent motion picture camera and film was displayed at a stockholders' meeting about the time that the first beta-format video recorder was released by Sony. Polaroid reportedly wrote off at least $500 million on this venture without selling a single camera.

Try to Do Everything: establishing many weak market positions instead of a few strong ones

Arms Race: Attacking the market leaders head-on without having either a good competitive advantage or adequate financial strength; making such aggressive attempts to take market share that rivals are provoked into strong retaliation and a costly "arms race." Such battles seldom produce a substantial change in market shares; usual outcome is higher costs and profitless sales growth

Put More Money On a Losing Hand: one version of this is allocating R&D efforts to weak products instead of strong products (e.g., Polavision again, Pan Am's attempt to continue global routes in 1987)

Over-optimistic Expansion: Using high debt to finance investments in new facilities and equipment, then getting trapped with high fixed costs when demand turns down, excess capacity appears, and cash flows are tight

Unrealistic Status-Climbing: Going after the high end of the market without having the reputation to attract buyers looking for name-brand, prestige goods (e.g., Sears' attempts to introduce designer women's clothing)

Selling the Sizzle Without the Steak: Spending more money on marketing and sales promotions to try to get around problems with product quality and performance. Depending on cosmetic product improvements to serve as a substitute for real innovation and extra customer value.

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