"DEVELOPING A STRATEGY?"

"A set of decisions taken by the management on how the firm will allocate resources and create a sustainable competitive advantage in its chosen Markets"

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As per Peter Doyle and Philipp Stern, a strategy can be defined as "*a set of decisions taken by the management on how the Business will allocate its resources and achieve a sustainable competitive advantage in its chosen Markets.*" Therefore, a strategy sets the direction (which products and markets are the company's resources and efforts to be invested in) and the means to achieve this (how to create customer preference in these areas)."

Developing and executing a strategy is an orderly process. In this article, we will focus on two steps:

Developing Balanced Objectives:

Managers need to set a balanced set of objectives covering more than just profitability and growth. Multiple objectives are requested because, in the long run, the firm has to satisfy multiple stakeholders. The management has to set the goals to satisfy the interests of those on whom the firm's survival depends, including customers, shareholders, managers, suppliers, government, employees and the community. (For example, community expectations can be summarized as employment and preservation of environment.) Maintaining equilibrium or staying in the so-called tolerance zone for each stakeholder is the key. Achieving minimum or even extraordinary performance in some areas can both be major threats for the business. (For example, Schlitz Beer sought to maximize earnings per share and ended up minimizing customer satisfaction.)

While in the past the measures of performance have been focused on the lagging financial results; today the leadership needs a much broader perspective that integrates the interests of the stakeholders and the requirement for achieving sustainable competitiveness. Those companies that have stood the test of the time—Unilever, Procter & Gamble, Boeing, Shell, BMW, Siemens, 3M and Nestle—are not outperforming on any single dimension (or any one stakeholder).

Besides that, broad goals need to be translated into definite objectives with measures of success if these are to provide a clear incentive for performance. For most companies, these objectives can be grouped under four perspectives.

The goals will most likely depend on the nature of the business; its industry, manufacturing configuration, customer types, distribution channels and market macro trends. The following table shows balance scorecards that might be used:

FINANCIALS		OPERATIONS	
Goals	***Measures***	***Goals***	***Measures***
Survive Succeed Prosper Recognition	Cash Flow Quarterly Profits Return on Shareholders' Funds Share Price	Technological Manufacturing Excellence Time to market Quality	Benchmarking Productivity Benchmarking Total Quality

CUSTOMER		INTERNAL	
Goals	***Measures***	***Goals***	***Measures***
Satisfaction Responsiveness Loyalty Market Share	Customer Surveys On-Time Deliveries Repurchases Share growth	Employees Internal Growth Innovation Development	Satisfaction Surveys Sales Growth New Products Training Days

Then, to achieve its objectives, the leadership needs a plan or strategy.

Strategies

Having drafted the objectives, all companies will need a set of strategies to achieve these. Typically, the strategies will be developed at several organizational levels starting from the Corporate Strategy. Let us consider the following equation:

STRATEGY = Set the Directions [Products & Markets] + Create Customers' Preference [Means of Getting There].

The strategy sets the direction and defines how to allocate the resources and the means to get there, or how to achieve a sustainable competitive edge in the company's chosen markets.

Resource Allocation decision

The resource allocation decision is the choice of which products/market combinations offer the best opportunities for investment. To set out the broad choices in terms of a growth direction matrix; a business can grow in four directions:

	Current Products	New Products
Current Markets	*1. Market penetration Strategies* ✓ Increase Customer Loyalty ✓ Increase Market Share ✓ Increase Product Usage: • Frequency of Use • Quantity Used • New Application	*2. Product Development Strategies* ✓ Product Improvement ✓ Product Line Extension ✓ New Product for Same Markets
New Markets	*3. Market Development Strategies* ✓ Expand Market for Existing Products • Geographic Expansion • Target New Segments	***4.** Diversification Strategies* ✓ Vertical Integration • Forward Integration • Backward Integration ✓ Concentric Diversification (into related business) ✓ Conglomerate Diversification (into unrelated business)

The option **4** is considered the riskiest because it requires the firm to learn both new markets and new products.

Sustainable Competitive Advantage

The ability to make an offer to the target customers that they would perceive as providing superior value to the offers of competitors creates a **sustainable competitive advantage.**

Perceived Value = Perceived Benefits – Price & Cost of Ownership

Therefore, a firm can achieve a sustainable advantage by offering superior benefits, lower prices, or a reduced cost of ownership. The products may request a premium price if they bring superior benefits and a competitive cost of ownership.

The ***benefits*** are a function of the product‘s performance and design, the quality of the services that increase it, the employees who deliver it, and the brand/image the company enjoys after successfully communicating. The cost of ownership includes expenses that occur once the product is purchased (for example, installation, training, maintaining, energy consumption, trade-in value, cost of switching to a new supplier, etc.).

If an advantage is easily copied (some companies are investing in “me too strategies”), it will most likely not be not sustainable. Management needs strategies to maintain their advantage by building

barriers to entry from potential competitors. The following are among the typical barriers to entry: a) high capital requirements, b) scarce raw materials, c) economies of scale, d) ideal locations, e) patents & licenses, f) speed or being among the first entrants. *But the two most common barriers to entry are the combined advantages of BRAND and CORE COMPETENCIES based on organizational effectiveness.*

The brand built over the years of business gives customers confidence in the offer and makes them reluctant to pay the cost of switching to a new supplier. The core competencies of the firm are the set of processes & systems and the efficiently deployed marketing skill of its staff.
A business with strong core competencies and an organization committed to success sustain advantages though gathering information, change and continuous improvement.

Conclusion

In summary, approaches that achieve satisfactory performance across a balanced set of objectives have proven track record of success. To meet their objectives, managers need a plan or a set of strategies. The two key dimensions of a strategy are the resource allocation and the development of a sustainable competitive advantage.

References:
Marketing Management and Strategy, Peter Doyle, Philip Stern. Fourth Edition