

Session 4

Formulating Competitive Strategy

In this session you will learn:

1. How to use the strategy hierarchy as the basis for the strategy formulation process
2. How to formulate business strategy through a SWOT analysis
3. How to use the generic strategies matrix to determine the source of your firm's competitive advantage
4. How to use the competitive advantage, market attractiveness matrix to determine a firm's strategic choices
5. How decision trees can be used to delineate the specific choices a firm has to achieve its objectives

Strategy is the Route to Competitive Advantage

- GOALS
- OBJECTIVES
- STRATEGY
- TACTICS

In this Course We Work Between Market Selection and Segment Selection and Down in the Hierarchy

Industry Selection
(corporate strategy)

Market Selection
(corporate business strategy)

Segment Selection
(business/marketing strategy)

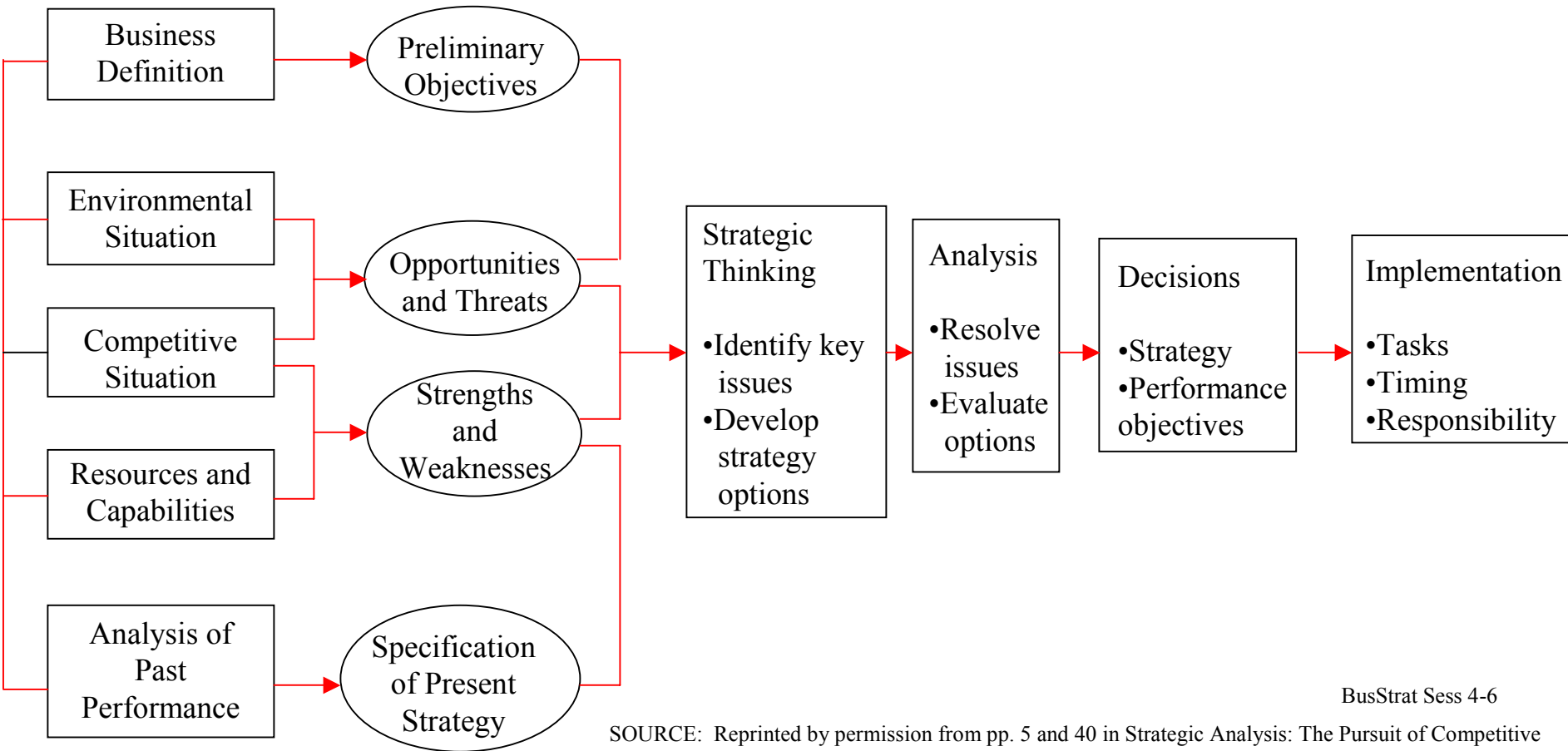
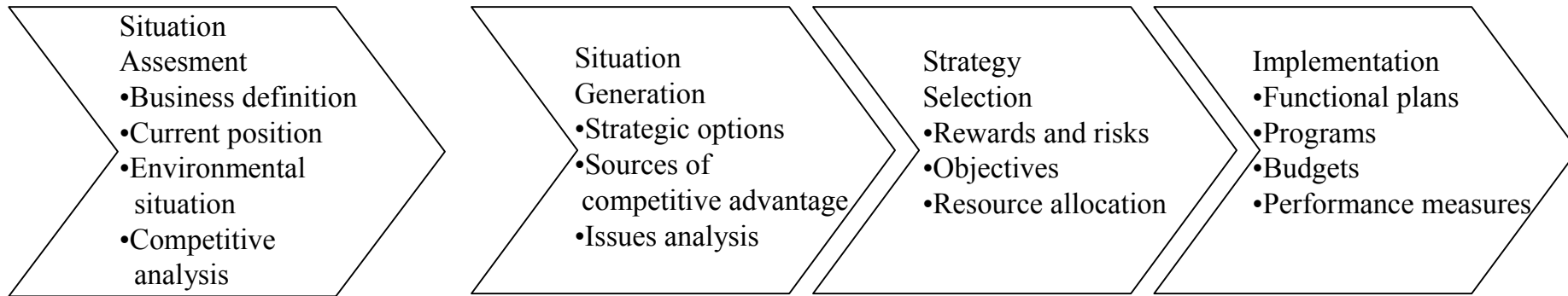
Niche Selection
(marketing/positioning strategy)

Customer Selection
(sales strategy)

A Basic Model of the Strategic Thought Process



The Strategy Formulation Process

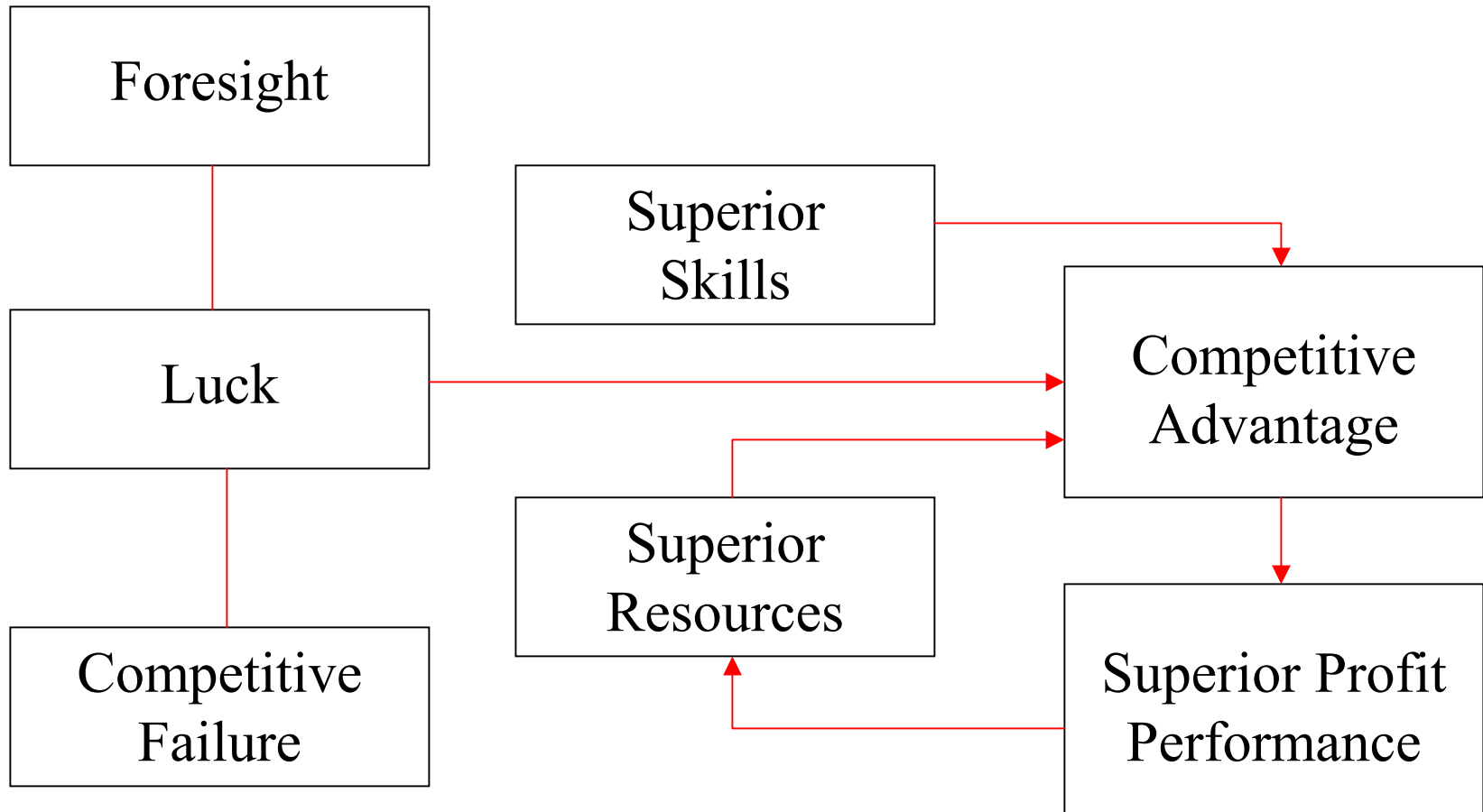


It Starts With Understanding My Competitive Advantage and Competitive Target

Competitive Advantage

		Lower Cost	Differentiation
Competitive Target	Broad	Cost Leadership	Differentiation
	Narrow	Cost Focus	Differentiation Focus

Next, I Need to Understand the Resource Needs and Implications



A Strategy is Incomplete Unless Both Are Specified

Resource Strategy

- Cash Usage
- Cash Neutral
- Cash Generating
- Manage for Cash
- Harvest for Cash

Competitive Advantage Strategy

- Cost Leadership
- Differentiation
- Cost Focus
- Cost Differentiation

Complete Strategy

```
graph TD; A[Resource Strategy] --> C[Complete Strategy]; B[Competitive Advantage Strategy] --> C;
```

Corporations and Businesses Invest Cash in Attractive Sectors Where They Are Advantaged

(Market)

Competitive Attractiveness

		Competitive Attractiveness		
		Unattractive	Average	Attractive
Competitive Position	Weak	Disinvest	Phased Withdrawal	Double or Quit
	Average	Proceed With Care	Proceed With Care	Try Harder
	Strong	Cash Generator	Growth Leader	Leader

The Market Attractiveness/Business Strength Matrix Can Be a Major Source of Insight

The diagram features a 3x3 matrix with a vertical red arrow on the left labeled 'Market attractiveness' pointing upwards, and a horizontal red arrow at the bottom labeled 'Corporate strengths' pointing to the right. The vertical axis is labeled 'High', 'Medium', and 'Low' from top to bottom. The horizontal axis is labeled 'Low', 'Medium', and 'High' from left to right.

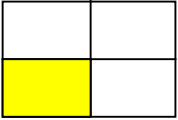
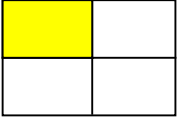
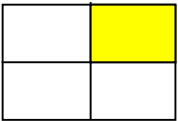
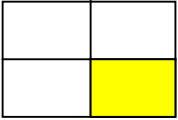
High	<p>Serious entry into the market</p> <p>Opportunistic position to test growth prospects; withdraw if indications of sustainable growth are lacking.</p>	<p>Selective growth</p> <p>Select areas where strength can be maintained, and concentrate investment in those areas.</p>	<p>All-out struggle</p> <p>Concentrate entire effort on maintaining strength; if necessary, maintain profit structure by investment.</p>
Medium	<p>Limited expansion or withdrawal</p> <p>Look for ways of achieving expansion without high risk; if unsuccessful, withdraw before involved too deeply</p>	<p>Selective expansion</p> <p>Concentrate investment, and expand only in segments where profitability is good and risk is relatively low.</p>	<p>Maintenance of superiority</p> <p>Build up ability to counter competition, avoiding large-scale investment; emphasize profitability by raising productivity</p>
Low	<p>Loss-minimizing</p> <p>Prevent losses before they occur by avoiding investment and by lowering fixed costs; when loss is unavoidable, withdraw.</p>	<p>Overall harvesting</p> <p>Promote switch from fixed to variable costs; emphasize profitability through value analysis and value engineering of variable costs.</p>	<p>Limited harvesting</p> <p>Reduces degree of risk to a minimum in several segments; emphasize profit by protecting profitability even if loss of market position is involved.</p>
	Low	Medium	High

A Decision Tree Analysis Can Help to Analyze the Strategic Option Decision Space



Sometimes You Win By Staying the Course, Other Times by Changing the Games

Scope of Competition (Where)	Narrow Market	2. Resegment the market to create a niche	3. Create and pursue a unique advantage
	Broad Market	1. Do more and better of the same	4. Exploit unique advantage industry-wide
		Same	New
Mode of Competition (How)			

<p>1. Across-the-board same game</p> <p><i>Do more and better of the same</i></p> 	<p>No attempt to change industry structure (technology, manufacturing, distribution)</p> <p>Similar customer segmentation</p>	<p>Same key success factors</p> <p>Little or no product differentiation</p> <p>Fierce competition, often based on price</p> <p>Low short-term risk; low commitment</p>
<p>2. Selective same game</p> <p><i>Resegment the market to create a niche</i></p> 	<p>No attempt to change existing industry structure. No radically new way of doing business</p> <p>Market resegmented to exploit company strengths</p>	<p>Same key success factors</p> <p>Limited competition in individual niche</p> <p>Opportunity to focus limited resources</p> <p>Moderate risk and commitment</p>
<p>3. Selective new game</p> <p><i>Create and pursue a unique advantage</i></p> 	<p>Focus on small and/or latent market segment</p> <p>Fundamental changes to business/ industry structure</p> <p>Creation of new and/or different customers</p> <p>Market redefinition to suit company strengths</p>	<p>New key success factors</p> <p>Conventional wisdom refuted</p> <p>Higher profits and longer-term advantage</p> <p>Moderate risk: sustained commitment</p>
<p>4. Across-the-board new game</p> <p><i>Exploit unique advantage industry-wide</i></p> 	<p>Focus on entire market</p> <p>Fundamental changes to business/industry structure</p> <p>Focus on competition vs. market/customers</p> <p>Market redefinition to suit company strengths</p>	<p>New key success factors</p> <p>Conventional wisdom made relevant</p> <p>Higher profits and longer-term advantage</p> <p>High risk: sustained major commitment</p>

Defining the Strategic Situation is Key

Remember Hannibal?

The Strategic Situation Facing Hannibal

- He is defending; Varro is attacking
- He is outnumbered in infantry
- His army is pinned by mountain ridges and river
- He cannot augment his troops nor retreat
- By the law of physics, he is expected to lose
- His first objective is to survive, next to win

Strategic Situation Analysis

How the firm finds itself in terms of:

- The actions being taken by the competitor(s)
- The characteristics of the terrain on which the competition is being staged
- The relative strengths and weaknesses of the competitors
- The constraints which limits the players' action options
- The rules which define who deserves to win
- The objectives(s) which the strategy must achieve to be successful