

STUDY GUIDE A1: THE NEED FOR AND PURPOSE OF STRATEGIC AND BUSINESS ANALYSIS

Get Through Intro

Imagine you have had enough of working for other people and you want to start up your own business. You have always wanted to set up your own radio station and you have heard that the local government is tendering licences.

You need to decide how you are going to convince the government to give you the licence, instead of other people with more experience. In order to do this, you need to show the government your strategy – who your station will be for, how you will finance it and how long it will take to become profitable.

In fact, any business you join will always be looking at where they currently are, and where they want to be in the future. An important role for you will be to help shape that strategy. The more you understand how a strategy is built, the more important and useful you will be to the organisation.

This book will teach you the building blocks of how to build a good strategy, maintain it and expand it to stay ahead of your competitors. It will also ensure that you progress well in your career too!

Learning Outcomes

- a) Recognise the fundamental nature and vocabulary of strategy and strategic decisions.
- b) Discuss how strategy may be formulated at different levels (corporate, business level, operational) of an organisation.
- c) Explore the Johnson, Scholes and Whittington model for defining elements of strategic management - the strategic position, strategic choices and strategy into action.
- d) Analyse how strategic management is affected by different organisational contexts.
- e) Compare three different strategy lenses (Johnson, Scholes and Whittington) for viewing and understanding strategy and strategic management.
- f) Explore the scope of business analysis and its relationship to strategy and strategic management in the context of the relational diagram of this syllabus.

Introduction

Case Study

Richard Branson is well known as being an entrepreneur. At the age of 15 he set up a magazine called School. He also noticed that young people liked listening to music, but often could not afford to buy records as it was too expensive. He noticed that across the English Channel in France, records sold for lower prices. So he started going across the Channel and bringing back van-loads of records. He sold these under the banner 'virgin' as no one had ever done this before.

Since then, Richard Branson has had an ability to see a gap in the market and provide a product that fills it. He has been famously quoted as saying "I don't go into ventures to make a fortune. I do it because I'm not satisfied with the way others are doing business."

This was certainly the case with Virgin Airlines. It was the first airline that treated economy passengers well and gave them a number of benefits e.g. individual TV screens, computer games to play on board, better food, a travel pack etc. It managed to do this and also be competitive on price.

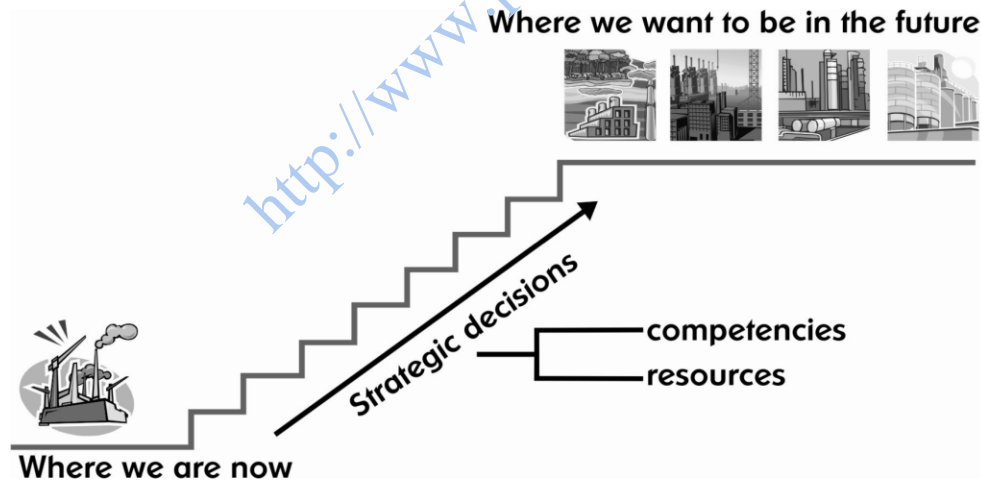
The above case study shows that Richard Branson was quick at spotting a gap and then forming the strategy to take advantage of that gap. This chapter will show you how to come up with strategies for your business ideas – both in the exam and in real life!

1. Recognise the fundamental nature and vocabulary of strategy and strategic decisions.^[2] [Learning Outcome a]

1.1 The fundamental nature of strategy

At its most fundamental level, strategy can be said to be linked to and involved with setting the long term direction for an organisation. It requires an organisation to not only examine and assess its present position but also its desired future position. Strategy then becomes the bridge that will help enable organisations to go from "where we are now" to "where we want to be in the future".

Diagram 1: Strategy



Building upon this base, it can be stated that the fundamental nature of strategy is that it is a process of using a company's internal resources to respond to its external environment in order to be successful. Broadly speaking this means an organisation deciding upon how it will meet its goals. More specifically it translates into a methodology through which a firm:

- outlines its long term objectives and
- decides upon the deployment of its resources (i.e. allocation of people, budgets etc)

The latter leads an organisation into following what is commonly referred to as the “resource based view” of strategy. This approach involves an organisation examining its resources (what it has) and its competencies (what it is good at) against the background of what is being demanded (in terms of goods and services) from the market place.

The main idea or end objective here is for an organisation to create a “strategic fit” with its business environment. By this what is meant is that an organisation should find a match between what goods and services they can best provide, against what goods and services are being demanded (or are likely to be demanded) by potential customers.

Example

Research undertaken by Bank 1 has shown that a greater number of automobile purchasers are choosing to lease rather than purchase a car with each passing month.

- Bank 1 then analyses whether it should introduce lease financing as a new product.
- Bank 1 has a large customer base that they can market this product to. However their rates will not be as competitive as those offered by dealerships.
- Bank 1 decides to go ahead and offer lease financing as a product. To compensate for the higher rates, Bank 1 will offer a longer payback period.

However no organisation can afford to formulate and base its strategy solely on the analytical procedures described above. Along with examining its capabilities and the external environment, organisations must also take into account the values and expectations of all their stakeholders. Johnson, Scholes and Whittington (“JSW”) define stakeholders as being “individuals or groups who depend on the organisation to fulfill their own goals and on whom in turn the organisation depends”. Common examples of the types of external stakeholders include:

- banks and other creditors
- suppliers
- governments and local communities

The internal stakeholders include:

- owners / investors of the business
- employees of the business

Therefore if an organisation and its chosen strategies are to have any chance of success they must have the support of stakeholders.



Example

Confederate Cars is a relatively small manufacturer of custom sports cars. Management of the organisation has recently come up with a strategy to change from producing small numbers of a large variety of models to the opposite of producing large volumes of a small number of models thereby increasing production efficiencies and subsequently profitability.

To further improve production efficiencies, management would like to automate much of the manufacturing process. This would result in a significant number of redundancies amongst shop floor workers. The factory employees immediately oppose this strategy and obtain the support of the organisation’s office and clerical staff all of whom threaten to strike.

Therefore management will not be able to implement their proposed strategy (at least in the short turn) unless they can convince their employees of the value and benefits of following this new direction.

Therefore taking all of the above into account, strategy can be thought of and defined in the words of JSW as being “the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations”.

SUMMARY



1.2 The vocabulary of strategy

As the above definition indicates, strategy is a process rather than just a “one-off” activity and like all processes has a vocabulary consisting of key terms such as:

- mission statement
- vision
- goal
- objective
- resources
- capabilities



Mission statements are written to help explain the purpose behind the particular organisation and where the organisation is going at present. They should include a description of what the organisation does as well as why it does it. This has also been discussed in the Ashridge Mission Model in learning outcome 1 of Study Guide B1.

Example

For instance, the Federal Express mission statement declares “FedEx is committed to our People-Service-Profit Philosophy. We will produce outstanding financial returns by providing totally reliable, competitively superior, global, air-ground transportation of high-priority goods and documents that require rapid, time-certain delivery.”

The purpose of a **vision statement** is to define and describe what the organisation is aspiring to be for the future. It typically reflects an ambitious and optimistic view of what management believes the organisation can and should achieve.

Example

For instance the vision statement for Toastmasters International is “To empower people to achieve their full potential and realize their dreams. Through our member clubs, people throughout the world can improve their communication and leadership skills, and find the courage to change”.

JSW define **goals** as being a “general statement of aim or purpose” and objectives as being a “quantification (if possible) or more precise statement of the goal.”