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THE CONCEPT OF BUSINESS STRATEGY

by

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ABSTRACT

In this article an attempt is made to define the concept of business strategy by tracing the evolution of the same. The word 'strategy' means several things to several people at different points of time, which include, achieving long-term objectives of the organisation; finding a match between organisational resources and opportunities in the outside environment; as a vehicle for achieving competitive advantage; and a mechanism for coping with a turbulent environment.

Just as there are different definitions of strategy, there are different approaches to formulating strategy. In this article we discuss the following eight approaches: 1. Strategic Hierarchy Approach, 2. Shotgun Strategies, 3. Street-smart Strategies, 4. Intuitive strategies, 5. Generic Strategies, 6. Strategic Intent, 7. Strategic Posture, and 8. Creative Strategies.

THE CONCEPT OF BUSINESS STRATEGY

Nowadays it is fashionable to use the word strategy. Hence we hear people talk about defense strategies, business strategies, strategies for games (be it cricket or chess), personal strategies, national strategies, global strategies, religious strategies and the like. The word 'strategy' means several things to several people at different points of time. Collins Dictionary gives the following three meanings for the same word.

1. A plan you adopt in order to get something done, especially in politics, economics or business.

2. The art of planning where to place armies and weapons in order to gain the best military advantage.

3. The art of planning the best way to achieve something or to be successful in a particular field. (eg. Chess)

Even these definitions do not lead us to better clarity. This gives us a broad idea that strategy has something to do with planning to achieve something. In this article we shall attempt to look at the evolution of business strategy and various approaches to strategy formulation.

THE EVOLUTION OF BUSINESS STRATEGY

The evolution could be considered in the following four stages.

1. Long-term planning for the firm
2. Finding a fit between firm's capabilities and Opportunities in the environment
3. Planning to gain competitive advantage
4. Copability (coping + ability) in a turbulent environment

1. <u>Long-term</u> <u>Planning:</u> In the 60s the focus was on organisations setting clear long term goals and working towards the same. The basic idea was that the whole world was there for the companies to exploit and it was up to the companies to set long term goals and build capabilities to meet them. The growth was to come from the same line of business in which the company was operating. This is evident from the definition of strategy by Chandler (1962).

Strategy is the determination of the basic, long-term goals of an enterprise and the adoption of courses of actions and the allocation of resources necessary to carry-out these goals.

2. <u>Capability-Opportunity</u> <u>Fit:</u> According to Mintzberg (1979), ***strategy is a mediating force between the organisation and its environment; there are consistent patterns of streams of organisational decisions to deal with the environment.***

By 70's the environmental threats and opportunities started assuming greater importance in strategy planning. The resource constraints, particularly the oil shock, and limited opportunities in the traditional lines of business were mainly responsible for the shift in focus. Growth through integration and diversification formed the core of the strategic plans of many companies.

3. Competitive Advantage: Then came the severe competition from the Japanese and the Newly Industrialised countries. Hence in the 80s emphasis shifted to Competitive Advantage and offering better value to the customers than what the competitors could offer. Mergers, acquisition and takeovers to gain size advantage also became fashionable. This is evident from the following definitions.

According to Kenichi Ohme(1982) ***the job of a strategist is to achieve superior performance, relative to competition, in the key factors for success of business.*** His concept of strategy is built around the relationship between three key players - corporation, competitors and consumers. Basically the market consists of a number of segments and the corporation should endeavor to differentiate itself from its competitors, using its relative corporate strengths to offer better value and sataisfaction to selected segments of customers.

Porter (1985) defines ***strategy as a central vehicle for achieving competitive advantage.*** He defines competitive strategy as the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine competitive advantage.

4. <u>Copability in a Turbulent Environment:</u> In the 90's the trend is still more complex and companies are facing unprecedented uncertainties. Global competition, stunning technological break-throughs, shifting consumer tastes and everchanging exchange rates are all making the life of the planners miserable. Before the ink dries on the plan document, the rules of the game gets changed. Hence the shift from matching the capability to coping ability (copability) in a turbulent environment.

One major outcome is that many companies are doing away with long-term plans and the shift is towards managing through intuition and experience. A greater emphasis is placed on issues management. In order to cope with the environment, companies continuously monitor the environment (both internal and external) to identify issues that may have a significant bearing on the company operations. Depending on the immediacy of the issue and its potential impact, action is initiated to cope with the same. Day (1990) calls this as adaptive planning.

In the era of globalisation, individual companies do not possess all the skills and technology required to exploit the global market. Again as a coping mechanism companies are shifting in the direction of strategic alliances and joint ventures to compete on a global scale. There is a clear shift from competition to collaboration.

Different Definitions: From the above we could see that strategy is concerned with achieving long-term objectives of the organisation; strategy is finding a match between organisational resources and opportunities in the outside environment; strategy is a vehicle for achieving competitive advantage; and strategy is a mechanism for coping with a turbulent environment.

Just as we have different definitions, we have different approaches to formulating strategy. In the following section we shall look at some of these approaches.

DIFFERENT APPROACHES TO STRATEGY FORMULATION

There are as many approaches to formulate strategy as the number of academicians researching on business policy or strategic management. The following are some of the well known approaches that we shall describe in this article.

1. Strategic Hierarchy Approach
2. Shotgun Vs Rifle Strategies
3. Street-smart Vs Formal Planning
4. Intuitive Vs Analytical planning
5. Generic Strategies
6. Strategic Intent
7. Strategic Posture
8. Pro active Vs. Creative Strategies

1. Strategic Hierarchy: This is the most popular and a favourite approach of many academicians. The typical hierarchy approach will follow the steps shown in Figure -1.

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/--------->|   Mission          |
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|---------->|   Objectives     |
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|                 | SWOT Analysis  |
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|                 | Management      |
|                 | Control and     |
\-----------| Information     |
                  | Systems         |
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Figure - 1

Strategic Hierarchy Approach

Every company should have a spelt out mission statement which is usually reflective of the value systems of the founder. The following is an excerpt from the Credo of Johnson & Johnson.

"We believe our first responsibility is to the doctors, nurses and patients,
to mothers and all Others who use our products and services.
In meeting their needs everything we do must be of high quality.
We must constantly strive to reduce our costs
in order to maintain reasonable prices........"

The following are some of the major points from the business philosophy of Matsushita, the founder of the Matsushita Electric Industrial Company Ltd.

1. ***The purpose of an enterprise is to contribute to society by supplying goods of high quality at low prices in ample quantity.***

2. ***Profit comes in compensation for contribution to society.***

3. ***Always direct your effort for "mutual prosperity and existence".***

4. ***Human unity and harmony are indispensable for job achievement.***

Typically the mission statement should lead to objectives and goals. Objectives generally are of the nature of leadership in a particular field (market share, new product introductions or profits). Goals set specific targets such as attaining 50% market share or introduction of certain number of new products and so on.

SWOT (Strengths, Weaknesses, Threats and Opportunities) analyis would help the firm develop strategies to attain the goals. Strategy should decide the organisational structure to carry out the same. MCIS (Management Control and Information Systems) helps the managers to control and review the performance of the organisation with reference to its mission, objectives and goals.

2. Shotgun Vs. Rifle Strategies: When a company is faced with the problem of developing new products, it has the following two options. (i) It can either define the target market, understand their needs and develop according to their tastes or (ii) develop ***good*** products as defined by the technologists of the company and make it available in the market so that whoever likes it can buy it. The first one is referred to as rifle strategy as we know exactly the target and we aim and shoot. The second approach is called a shotgun approach as we fire in all directions and hope that some of the shots may hit the target.

Which one is a better strategy - shotgun or rifle? Management literature, founded on sound logic, may suggest that unless you know where you want to go any road will lead you there. However there are situations where shot-gun approach may also work.

Consider for example the war between Hindustan Lever and Godrej Soaps in the premium toilet soaps market. Hindustan lever has been carefully analysing the market and positioning its products in different slots to appeal to different groups of customers.

But Godrej has been firing its salvos left and right with launches like Crowning Glory, Marvel, Cinthol Lime and so on. They launch a product with out much research and then correct the positioning or product qualities based on market feed-back. Godrej has been quite successful in the premium soaps market with their shotgun approach.

However in the case of cigarettes, even well thought out new product launches have met with failure while it is sure to fail if one launches a cigarette without a clear understanding of the target market.

The following are some of the guidelines for choosing the right strategy.

1. In a stagnant market like cigarettes, shotgun strategy will not work.

2. If the brand loyalty is relatively high, as in the case of tooth-paste, it is better to follow the rifle strategy.

3. If the entry barriers and exit barriers are low, as in the case of premium soaps, shotgun strategy may be attempted.

4. In a shortage situation, there is no need for any strategy as whatever you produce will have to be bought by people.

5. If your competitor is street-smart, before you could research and formulate your strategy, he would put your findings into action.

As we find that premium soaps market is growing steadily, there are no entry or exit barriers, and the customers are known for switching of brands it is no wonder that Godrej has been successful with shotgun approach. Hence there is a place for every strategy.

3. <u>Street-smart</u> <u>Vs.</u> <u>Formal</u> <u>planing:</u> Formal planning is often criticised by street-smart entrepreneurs as slow and impractical. Consider for example offering a 1% discount for a slightly damaged product to clear the stock. Because of his training, the MBA would subject this problem to such an analysis that by the time he/she comes to a decision, the competitor would have given that 1% discount on his fresh stock and clinched the deal.

Parle's Chief Mr. Ramesh Chauhan is often described as a street-smart person. The following case illustrates the ordeals Double-Cola went through in Bombay with regard to distribution.

> "The unique industrial relations problems which sabotaged the launch of Double-Cola in Bombay in mid-June provides ample testimony of the domination of the indigenous bottled soft drinks market by the tough Ramesh Chauhan, Chief Executive of the Bombay-based Parle Beverages PVT. LTD., which has a 65% of the national bottled soft drinks market. ...... The Bharatiya Kamghar Sena, the trade union arm of the Shiv Sena, suddenly insisted that distributors' contractors who have traditionally worked on a commission basis for all soft drink manufacturing companies, should be absorbed by Double Cola Manufacturing Company as full time employees. Curiously, the Bharatiya Kamghar Sena is the recognised union in Parle Beverages as well, where it has made no such demand."

(Source: Offstage - Double Jeoparay, Business World, August 3 - 16, 1987, page - 96)

One can understand the problems faced by Double Cola in the light of the fact that when large sums of money spent on advertising starts stimulating demand for the product, the company is unable to make the product available at the retail outlets. Even Pepsi could not make much inroads into the forte of Ramesh Chauhan.

4. Intuitive Vs. Analytic planning: Generally, professional managers, by virtue of their education and training, believe in the strength of logic and are reluctant to give up their implicit faith in logic even when they reach senior levels where strategic and entrepreneurial decisions are required. In the case of many of these decisions, data is scanty and ultimate decision has to be arrived at by using intuition in a large measure. The grid analysis (author - unknown) shown in Figure-2 gives typical five strategies.

Type I is no strategy at all. This kind of an unit will end up as a sick unit. Type II is high intuition based strategy. This leads to fantastic success or fantastic failure. This strategy is particularly followed by small enterprises with scanty data. Type III is high logic based strategy. Hence risk taking ability becomes less and very often results in analysis-paralysis. Type IV is a compromise strategy. Companies following this approach tend to miss big investments and opportunities. Theses units experience moderate growth and stick to medium scale low risk activities. Type V is high logic and high intuition strategy. Intuition is used to conceive widely divergent projects and then analysed logically to get full understanding of threats and opportunities. This should theoretically result in higher growth rate.

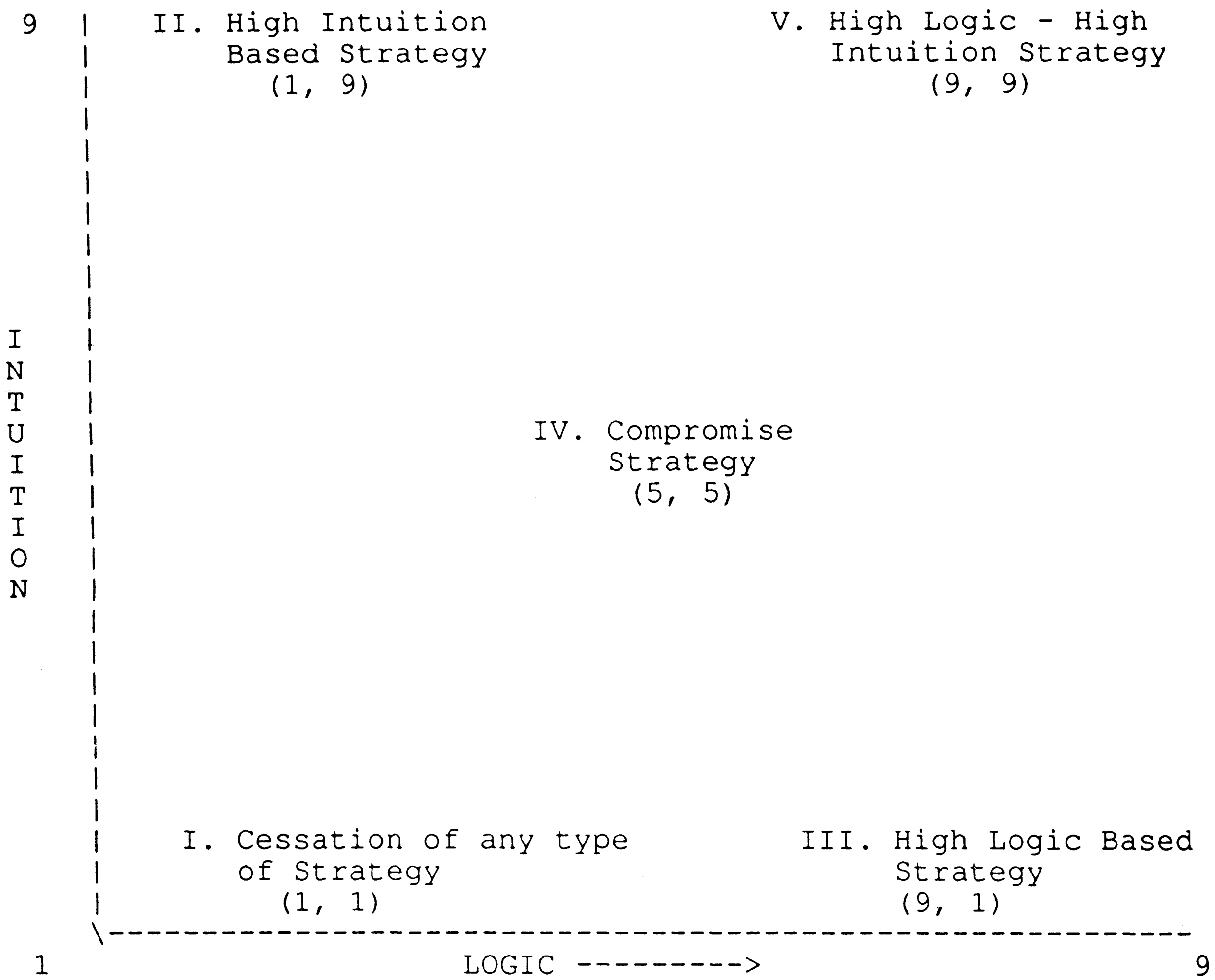

Figure - 2
The Strategy Grid

5. <u>Generic Strategies:</u> Porter (1980) developed a thesis that a firm's profitability was determined by the chracteristics of its industry and the firms position within it. Using his framework to analyse industry structure, he developed the following three generic strategies for firms.

i. Overall Cost leadership

ii. Differentiation and

iii. Focus

(i) Cost Leadership: In cost leadership, a firm sets out to become the low-cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials etc. These firms usually have a broad scope and serve many industry segments. In the detergent industry Nirma could be said to follow cost leadership strategy.

(ii) Product Differentiation: In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. Ariel and Surf are offering better value by their differentiated products and command better prices in the market.

(iii) Market Focus: This strategy rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall.

There are a number of small detergent manufacturers who do a geographic focus. There is scope for introducing a detergent for silks and costly clothes.

Any other strategy followed by firms could be classified as 'getting stuck in the middle'.

(iv) Getting Stuck In The Middle: These companies usually pursue a middle-of-the-road strategy of doing a little of everything but nothing particularly well. A firm that is stuck in the middle will earn reasonable profits only if the industry itself is attractive. Otherwise it is a sure way to get ruined. Point and Det are examples of brands that are stuck in the middle.

6. Strategic Intent: Hamel and Prahalad (1989) turn much recent thinking upside down by asserting the real function of a company's strategy is not to match its resources with its opportunities but ***to set goals which 'stretch' a company beyond what most managers believe is possible.*** The examples cited are Toyota Vs. General Motors, Cable News Network vs CBS, British Airways vs Pan Am and Sony vs RCA. In all these examples the overwhelming ambition and gritty determination may well have been a vital ingredient in their success.

Of course, the ambitious strategic intent should be backed by an active management process that includes: focusing the organisation's attention on the essence of winning; motivating people by communicating the value of the target;

leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocations.

While strategic intent is clear about ends, it is flexible as to means -- it leaves room for improvisation. Achieving strategic intent requires enormous creativity with respect to means. Also it creates an extreme misfit between resources and ambitions. Top management then challenges the organisation to close the gap by systematically building new advantages. The essence of strategy lies in creating tomorrow's advantage faster than competitors mimic the ones you possess today.

7. <u>Strategic</u> <u>Posture:</u> There are three basic postures that are exhibited by companies in coping with the changing environment (Xavier, 1992). Panchatantra, one of India's ancient literature, has a collection of animal fables of which the story of three fishes illustrates these three postures. The story goes as follows:

In a certain lake lived three fishes I, II and III. Fish-I always would plan ahead while fish-III was known for its skills in managing during crisis. Fish-II is supposed to be reactive and would jump around if disaster strikes. One day fish-I overheard the conversation of a couple of fishermen walking around the lake about their plans to cast net in the lake the next day. Fish-I communicated the message to other two fishes which they did not listen. Hence fish-I took to its fins and escaped to a near by lake through a small canal. As planned, the fishermen came the next day and caught fish-III along with others. Fish-III acted as if it was dead and hence the fishermen left it on the shore and went into the lake to cast the net again. Meanwhile it jumped into the lake and escaped. Then fish-II got caught and it started jumping in the net. One of the fishermen caught fish-II and banged it on the floor and killed it.

This story outlines the following three broad strategies followed by companies and individuals to cope with potential external environmental changes that are likely to have a significant impact on the individuals/companies.

1. Pro-active strategy (fish-I)
2. Crisis management strategy (fish-III)
3. Reactive strategy (fish-II)

We do find companies falling in all these three categories. A number of companies are skeptical of the liberalization moves and are adopting the 'wait and see' approach like fish-III. At the same time, a large number of public sector companies are expressing their opposition to the privatisation move through strikes and demonstrations, like fish-II.

However entrepreneurs with business acumen are quietly charting out plans to take full advantage of the liberalization and globalization moves of the government, like fish-1.

While every other cigarette company continues to remain a cigarette company, ITC was able to see clearly the writing on the wall that cigarette market was sure to go down and has successfully diversified into Hotels, Exports and Healthy Cooking Medium. It is paradoxical that, a company selling health hazard has come to be accepted as provider of better health through its 'Sundrop' healthy oil.

There are other companies which are slow in reacting, but are good in crisis management. A number of Indian companies would qualify for this category. Interestingly, even the giant consumer products company, Hindustan Lever, too seem to fall in this category when we look at the way it has handled the Nirma onslaught at the lower end of the detergent market and the recent flanking attack by Procter & Gamble with its Ariel detergent powder at the high end of the market. They were dabbling with the idea of Surf being cost-effective for quite some time before they could come up with their Wheel brand to effectively contain Nirma. If the lower end can be attacked, the attack on higher end cannot be far off. Hindustan lever could have effectively guarded the higher end if they had launched a premium brand of detergent powder above Surf even before Proctor & Gamble could do that. Now they are trying to fight Ariel with Surf Ultra.

It took quite some time for the tooth-paste titan, Colgate Palmolive, to react to the inroads being made by Closeup. Only recently they introduced a gel paste. Many such companies wait for the trend to become clear and then they act. But the danger in this approach is that they should act before it gets too late.

The worst thing for any company is to follow a reactive strategy like fish-II. When Foreign Exchange Regulations Act was promulgated by the Janata Government, many multi-nationals diluted their equities and became Indian companies. But IBM and Coca-Cola decided to pull out of the Indian market which typically was a reactive strategy. Now IBM and Coca-Cola are re-entering the Indian market. Had they remained in the Indian market, they could have built up a good customer franchise.

Ideally, one should be able to foresee things and plan pro-actively. Such people are the trend setters. If that is not possible, at least we must be able to manage when a crisis precipitates. There is certainly no place for a reactive person who opposes change as he is likely to be left behind when the whole world is marching ahead.

8. <u>Pro-active Vs. Creative Strategies:</u> Pro-active strategy is changing in accordance with the anticipated change. However the creative approach will enable the company to engineer changes to suit the company. The first approach is like wearing a sweater to

protect oneself from the cold and the second approach is somewhat similar to using a heater to warm up the room. The creative approach breaks through the constraints and barriers and creates an environment that suits its requirements.

The creative approach is also cifferent from the incremental approach which is rooted in the past, constrained by the current firm capabilities and is based on logic. Whereas the creative approach goes beyond the boundaries and develop multiple alternatives and comes up with totally new products and develops entirely new markets.

The often quoted anecdote about two shoe salesmen who visited some underdeveloped country to explore the market potential aptly illustrates the two approaches. The first one came back saying that there was no potential as no one used shoes in that country while the second one found a huge potential for the same reason.

Steve Jobb's personal computer and Akio Morita's walkman are the products of the creative approach. This is going beyond the trivial innovations of changing the shape or colour of a product as practiced by the logical incrementalists.

DIFFERENT DEFINITIONS AND DIFFERENT APPROACHES

From the various definitions discussed above we could see that strategy is concerned with achieving long-term objectives of the organisation; strategy is finding a match between organisational resources and opportunities in the outside environment; strategy is a vehicle for achieving competitive advantage; and strategy is a mechanism for coping with a turbulent environment.

Just as we have different definitions, there are different approaches to formulating strategy. There are as many approaches to formulate strategy as the number of academicians researching on business policy or strategic management. In this article we discussed 1. Strategic Hierarchy Approach, 2. Shotgun Strategies, 3. Street-smart Strategies, 4. Intuitive strategies, 5. Generic Strategies, 6. Strategic Intent, 7. Strategic Posture, and 8. Creative Strategies.

Hence we see that there is no single best approach that could be used in all situation. This is what makes the field of strategic management an exiting one offering scope for creativity, innovation and intuition.

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