# 3.7. Analysing the Strategic Position of a Business

| 3.7.1. MISSION, CORPORATE OBJECTIVES & STRATEGY | |
|---|---|
| **MISSION STATEMENTS** | Sets out the purpose of an organisation and thus gives its reason for existing<br>Mission Statements commonly focus on:<br>• What the business wants to be<br>• The values of the business<br>• The range of the firm's activities<br>• The importance of different groups, such as employees, customers & investors. |
| **VISION STATEMENT** | Sets out what it wants to do or be in the future. They tend to be longer term and act as a source of inspiration to stakeholders. |
| **INFLUENCES ON A BUSINESS'S MISSION** | • The values of the founders of the business<br>• The values of the business's employees<br>• The industry of which the business is part<br>• Society's views<br>• The ownership of the business |

## STRATEGY, CORPORATE & FUNCTIONAL OBJECTIVES

**Strategy - the direction and scope of an organisation over the long-term, which achieves advantage for the organisation to meet the needs and expectations of stakeholders.**

| | |
|---|---|
| **CORPORATE OBJECTIVES** | OBJECTIVES that relate to the business as a whole. |
| **PURPOSE OF CORPORATE OBJECTIVES** | They provide a strategic focus.<br>Measure performance of the firm overall.<br>Inform decision making<br>Allow more detailed functional objectives to be drawn. |
| **EXAMPLES** | Market standing, Innovation, Productivity, Profitability, Management, Employees, Public responsibility |
| **INFLUENCES ON CORPORATE OBJECTIVES** | The business's ownership<br>Pressures for short termism (too great a focus on short term results).<br>Performance (Internal)<br>New leadership (Internal)<br>Business culture (Internal)<br>State of the economy (external)<br>Technological changes (external)<br>Prices in global market (ext) |
| **FUNCTIONAL OBJECTIVES** | Are set for each major business function & help to ensure that corporate objectives are achieved. |

| THE DIFFERENCE BETWEEN STRATEGY & TACTICS | |
|---|---|
| **CORPORATE STRATEGY** | A long-term plan to achieve the business's vision through attaining its corporate objectives. Strategies require major commitment. |
| **TACTICAL DECISIONS** | Short term decisions, requiring fewer resources, made to implement a strategy. |

## LINKS BETWEEN MISSION, CORPORATE OBJECTIVES & STRATEGY

A clearly stated mission & vision acts as a broad guide to its managers. Then a strategy is devised which will consist of corporate objectives. Functional and tactical objectives will help to achieve the corporate objectives.

# 3.7.2. Analysing Internal Position: Financial Ratio Analysis

## BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

**An accounting system that records the values of a business's assets, liabilities and shareholders' equity at one point in time.**

| Term | Definition |
|---|---|
| **FIXED ASSETS/NON-CURRENT ASSETS** | Assets to be kept and used by the business for more than one year. |
| **CURRENT ASSETS** | Assets that are likely to be turned into cash before the nest balance sheet date. |
| **CURRENT LIABILITIES** | Debts of the business that will usually have to be paid within one year. |
| **LONG TERM LIABILITIES/NON-CURRENT LIABILITIES** | Value of debts of the business that will be payable after more than one year. |
| **SHAREHOLDERS' EQUITY** | Total value of assets – total value of liabilities. The aim is to increase the equity by raising the value of assets more than the liabilities. It comes from: 1. Share capital 2. Retained earnings |
| **NET ASSETS (CAPITAL EMPLOYED)** | Total assets – total liabilities |
| **TOTAL EQUITY** | This must be the same as NET ASSETS. This is the 'balance'. |
| **KEY FEATURES:** | 1. Working Capital – business requires working capital to pay its day-to-day bills as they arise. It is calculated by subtracting a business's current liabilities from its current assets.<br>2. The proportion of its capital that is borrowed long-term – can be risky for the business to borrow too heavily as it may not be able to continue to pay if interest rates rise. |
| **INTANGIBLE ASSETS** | Include patents, copyrights, trademarks, goodwill and other items that have no physical existence, but provide long term benefits. |
| **GOODWILL** | Exists then a business is sold for a value greater that that which is recorded on its statement of financial position. It is the value of an established customer base and a good reputation |

## DEPRECIATION

| Term | Definition |
|---|---|
| **DEPRECIATION** | The decline in the estimated value of a non-current asset over time for two reasons: 1. Normal wear and tear through usage.<br>2. Technological change |
| **NET BOOK VALUE** | The current statement of financial position value of a non-current asset=original cost – accumulated depreciation. |
| **STRAIGHT LINE DEPRECIATION** | A constant amount of depreciation is subtracted from the value of the asset each year. |
| **DECREASING BALANCE METHOD** | Assumes the depreciation charge is higher earlier in the life of an asset<br>The asset is written off by the same percentage rate each year<br>So annual charge falls |

| | 27 September 2014 £000 | 28 September 2013 £000 |
|---|---|---|
| **Non-current assets** | | |
| Goodwill | 245 | *245* |
| Property, plant and equipment | 41 294 | *35 348* |
| **Total non-current assets** | 41 539 | *35 593* |
| **Current assets** | | |
| Inventories | 27 846 | *26 196* |
| Trade and other receivables | 5800 | *7711* |
| Cash and cash equivalents | 19 547 | *18 443* |
| **Total current assets** | 53 193 | *52 350* |
| **Total assets** | 94 732 | *87 943* |
| **Current liabilities** | | |
| Trade and other payables | (36 240) | *(35 929)* |
| Current tax liabilities | (4888) | *(3734)* |
| Provisions | (876) | *(1014)* |
| **Total current liabilities** | (42 004) | *(40 677)* |
| **Net current assets** | 11 189 | *11 673* |
| **Non-current liabilities** | | |
| Bank loans | (49 581) | *(54 820)* |
| Deferred tax liabilities | (261) | *(426)* |
| Provisions | (2043) | *(2204)* |
| **Total non-current liabilities** | (51 885) | *(57 450)* |
| **Total liabilities** | (93 889) | *(98 127)* |
| **Net assets/(liabilities)** | 843 | *(10 184)* |
| **Total equity** | 843 | *(10 184)* |

| | 1 April 2011 £m | *1 April 2010 £m* |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Intangible assets | 346.7 | *348.7* |
| Property, plant and equipment | 102.6 | *102.9* |
| **Total non-current assets** | 449.3 | *451.6* |
| **Current assets** | | |
| Inventories | 147.6 | *138.5* |
| Trade and other receivables | 42.0 | *42.9* |
| Cash and cash equivalents | 3.0 | *39.5* |
| **Total current assets** | 192.6 | *220.9* |
| **Total assets** | 641.9 | *672.5* |
| **Liabilities** | | |
| **Current liabilities** | | |
| Borrowings | (9.9) | *(1.0)* |
| Trade and other payables | (142.0) | *(131.5)* |
| Current tax liabilities | (23.4) | *(17.5)* |
| Provisions | (10.4) | *(20.4)* |
| **Total current liabilities** | (185.7) | *(170.4)* |
| **Net current assets** | 6.9 | *50.5* |
| **Non-current liabilities** | | |
| Borrowings | (98.3) | *(191.8)* |
| Accruals and deferred income — lease incentives | (27.7) | *(28.0)* |
| Provisions | (7.5) | *(3.3)* |
| Deferred tax liabilities | (0.3) | *(0.5)* |
| **Total non-current liabilities** | (133.8) | *(223.6)* |
| **Total liabilities** | (319.5) | *(394.0)* |
| **Net assets** | 322.4 | *278.5* |
| **Shareholders' equity** | | |
| Share capital | 2.1 | *2.1* |
| Share premium | 151.0 | *146.5* |
| Other reserves | 0.1 | *2.5* |
| Retained earnings | 169.2 | *127.4* |
| **Total equity attributable to equity holders of the company** | 322.4 | *278.5* |

**Table 3: Extract from Balance Sheet**

# Analysing Income Statements

| INCOME STATEMENT | | |
|---|---|---|
| An accounting statement showing a firm's revenue over a trading period and all the relevant costs generated to earn that revenue. | | |
| **PURPOSE/USES** | 1. Used to measure and compare the performance of a business over time or with other firms. (Using ratio analysis)<br>2. Actual profit data can be compared with the expected profit levels.<br>3. Bankers and creditors will need the information to help decide whether to lend money to the business.<br>4. Prospective investors may assess the value of putting money into a business from the level of profit being made. | |
| **COMPONENTS** | 1. The Trading Account | • Sales Revenue – total value of sales made during the trading period (selling prices x quantity sold)<br>• COGS (Cost of Goods Sold) – this is the direct cost of the goods that were sold during the financial year.<br>• Gross profit – Equal to sales revenue less cost of sales. |
| | 2. The Profit and Loss Account | • Expenses – Other costs not directly related to the number of items made or sold<br>• Operating profit (ne profit) – gross profit minus overhead expenses<br>• Profit after tax - - operating profit minus interest and corporation tax |
| | 3. Appropriation Account | • Dividends – the share of profits paid to shareholders as a return for investing in the company<br>• Retained profit – the profit left after all deductions, including dividends, have been paid which will be ploughed back into the business |
| **LIMITATIONS** | • Accounts cannot show what may happen in the future, but they may illustrate trends<br>• Stakeholders must be aware that financial info. Can be manipulated. | |

| | 27 September 2014 £000 | *28 September 2013 £000* |
|---|---|---|
| Revenue | 195 237 | *177 849* |
| Cost of sales | (76 367) | *(70 826)* |
| Gross profit | 118 870 | *107 023* |
| Employee profit sharing | (9827) | *(6251)* |
| Sales and marketing costs | (4672) | *(3763)* |
| Other operating expenses | (86 185) | *(83 164)* |
| Operating profit | 18 186 | *13 845* |
| Investment revenue | 652 | *279* |
| Finance costs | (2147) | *(3733)* |
| Interest rate derivatives | | *210* |
| Profit before tax | 16 691 | *10 601* |
| Taxation | (4179) | *(1457)* |
| Profit for the year | 12 512 | *9144* |

| | 27 September 2014 | *28 September 2013* |
|---|---|---|
| Earnings per share | 6.5p | *4.8p* |
| Share price | 107p | *88p* |
| Annual dividend cost | £3.1 million | *£1.9 million* |
| Dividend paid (per share) | 2.25p | *1.50p* |

| | **2009** £m | ***2008*** *£m* |
|---|---|---|
| **Revenue** | 10 414 | *9 082* |
| Cost of sales | (8 303) | *(7 278)* |
| **Gross profit** | 2 111 | *1 804* |
| Other operating income | 182 | *153* |
| Commercial, administrative and R&D costs | (1 119) | *(1 102)* |
| **Operating profit** | 1 174 | *855* |

**Table 3: Consolidated income statement: year ended December 31, 2009 (extract)**

These are extracts from past exam papers to show the many ways that Income Statements can be shown – sometimes as complete statements but also as consolidated or extracts

| - | 27 December 2012 £m | *29 December 2011 £m* |
|---|---|---|
| Revenue | 358.7 | *348.0* |
| Cost of Sales | (263.9) | *(261.5)* |
| Gross profit | 94.8 | *86.5* |
| Other operating income | 0.3 | *0.4* |
| Administrative expenses | (50.9) | *(44.3)* |
| Operating profit | 44.2 | *42.6* |
| Net finance expense | (5.7) | *(9.2)* |
| Profit before taxation | 38.5 | *33.4* |
| Tax charge | (10.8) | *(9.5)* |
| Profit attributable to equity holders | 27.7 | *23.9* |
| Earnings per share | 19.4p | *16.8p* |
| Share price | 300p | *250p* |

| WINDOW DRESSING BALANCE SHEETS & INCOME STATEMENTS | |
|---|---|
| WINDOW DRESSING | The preparation of financial statements to present the company's performance in the best possible light. |
| BORROW MONEY IN ADVANCE OF PUBLISHING ACCOUNTS | Boosts liquidity and cash flow improving short term viability of |
| USE OF SALE & LEASEBACK | Cash flow boost from sale of assets. However, the business faces an ongoing expense in leasing back asset. |
| EXCESSIVE VALUATION OF INTANGIBLE ASSETS | This suggests intangible assets are higher than their actual value, boosting the value of the business. |
| CAPITALISING EXPENDITURE | Spending on fixed assets to boost the value of the business. |
| INCOME STATEMENTS & BRINGING FORWARD SALES | A contract may be received for future sales and the business may record this revenue before the money is received. This inflates their income statement. |

| PROFITABILITY | |
|---|---|
| GROSS PROFIT MARGIN % | The percentage of Sales Revenue that is profit. A good indicator of how effectively the business has 'added value' to the cost of sales. **Gross profit/Revenue X100** |
| EXPLANATION | The higher the better but industry dependent. Review trends |
| NET PROFIT MARGIN % | AKA Operating profit. Compares operating profit with revenue. This includes overheads. **Net profit/Revenue X 100** |
| EXPLANATION | The higher percentage the better. Shows shows whether the business have been efficient in controlling expenses. |
| INTERPRETATION | Can be compared with gross profit. If gross profit rises and net profit margin declined showing that profits are rising but the overhead expenses are increasing at a faster rate. |
| ROCE % | Primary ratio. **Operating profit/Total Equity + Non current liabilities (cap emp) X 100**<br>Capital employed – total value of all LT finance invested |
| EXPLANATION | Measures and analyse a company's profitability and the efficiency with which its capital is employed. |
| INTERPRETATION | Higher the value the greater the return on capital invested. Can compare with other companies and/or previous years. Compare with current rate of interest in terms of shareholder return. |

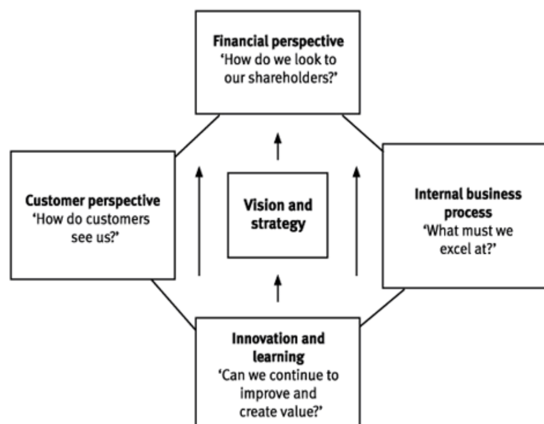
| LIQUIDITY RATIOS – ability to pay back debts | |
|---|---|
| CURRENT RATIO | Current ratio is a liquidity ratio that measure a company's ability to pay short-term and long term liabilities. **Current assets/current liabilities** |
| EXPLANATION | It's called a current ratio because unlike some other liquidity ratios it takes into account ALL current assets and ALL current liabilities. |
| INTERPRETATION | Example - current ratio of 2 would mean that the business has 2 times more current assets than current liabilities. Recommended result 1.5-2.0 but depends on industry. Low not unusual in food retailers (regular cash inflow) Over 2 suggests too much tied up in inventory. |
| ACID TEST | Examines the business's current liquidity position by comparing current assets and liabilities without stock as it is hard to sell without a loss in value. **(current assets - stock) /current liabilities** |
| EXPLANATION | Trends must be examined. Less than 1 could be a problem as less than £1 of assets to pay each £1 of short term debt. Industry dependent – furniture retailer has high stock levels, computer manufacturer stock outdated quickly. |

| GEARING | |
|---|---|
| GEARING | Measures the degree to which the capital of the business is financed from long term loans. The greater = the more highly geared. |
| FORMULA | **Long term liabilities/capital employed X 100** |
| EXPLANATION<br>INTERPRETATION<br>SOLUTIONS | If loans are **more than 50%** of capital employed, a businesses is highly geared.<br>High gearing usually means that a business is using its debt to pay for it's continuing operations.<br>The higher level of gearing, the higher degree of risk for the business.<br>High geared businesses cannot negotiate loans as effectively as those of low geared nature as banks are often reluctant to lend to those with high gear.<br>To reduce gearing a business could - Issuing more ordinary shares, retain more profit via increasing reserves, repaying loans or pay back debentures.<br>Low gearing is a safe strategy but can suggest lack of investment so low growth outlook. An issue for potential investors.<br>• Interest rates are historically low right now.<br>• Will interest payments be lower than required dividend payments?<br>• Increasing borrowing may be preferable to higher divorce of control. |

| FINANCIAL EFFICIENCY (MAIN ACTIVITY) | |
|---|---|
| **ASSET TURNOVER** | Measures a business's ability to make use of the assets they have in order to produce revenue from them. **Revenue/total assets** |
| **STOCK TURNOVER** | Measures the number of times per year a business sells and replaces it's stock. **Cost of goods sold/stock** |
| **EXPLANATION/ INTERPRETATION** | The higher the number then more efficient but industry dependent. May suggest JIT. No normal, fish retailer higher than car dealer. Service industry not relevant. |
| **DEBTOR DAYS** | Measures how long it takes the business to recover payment from customers who have bought good on credit (trade receivables ) **Trade receivables X365/Revenue** |
| **EXPLANATION/ INTERPRETATION** | The shorter the period, the better management control. Industry and Business dependent. Shorter credit terms could be given to improve the figure. |

| EVALUATION – USES OF RATIO ANALYSIS | |
|---|---|
| **DECISION MAKING** | Used to invest or lend |
| **PROFITABILITY** | Is profitability rising or falling? Trend analysis either within the business or industry |
| **RESOURCES** | Are resources being used efficiently? |

| LIMITATIONS | |
|---|---|
| **1.** | One result not helpful – comparison across time periods or business |
| **2.** | Industry comparison is most useful but using the same month/year |
| **3.** | Need to consider external factors |
| **4.** | Take caution with assets being used and depreciated using different methods |




| Balanced scorecard |
|---|
| A planning & management strategy designed to match business activities to the aspirations set out in the organisation's vision statement. |

| ANALYSING INTERNAL POSITION: OVERALL POSITION | |
|---|---|
| **USING NON FINANCIAL DATA** | **Operations data**<br>**Productivity as a measure of operational performance**<br>**Measuring quality**<br>**Capacity utilisation**<br>**HR data e.g. absenteeism, labour productivity, health & safety data.**<br>**Financial measures of HR performance – unit cost, labour cost per unit.**<br>**Marketing data** |
| **DATA RELATING TO ENTIRE MARKETS e.g.** | **The ease with which products can be distributed to consumers**<br>**Data on other firms operating in the market and their performance**<br>**The attitudes and motivations of relevant consumer groups.** |
| **MARKETING DATA FOR SPECIFIC BUSINESSES e.g.** | Details on product range, including some assessment on its forecast future sales<br>The results of marketing research<br>Marketing budgets |
| **ENVIRONMENTAL DATA** | **Emissions to air**<br>**Emissions to water**<br>**Emissions to land**<br>**Use of resources.** |

| IMPORTANCE OF CORE COMPETENCIES | |
|---|---|
| **WHAT ARE CORE COMPETENCIES?** | Unique abilities that a business possesses that provide it with competitive advantage. They depend upon the specific business and the products that it sells. |

| ASSESSING SHORT & LONG TERM PERFORMANCE | |
|---|---|
| **RESEARCH & DEVELOPMENT ACTIVITIES** | Human, financial and other resources to develop new products or new, and more efficient, methods of production. |
| **PROFIT QUALITY** | A major financial measure of performance, but it is possible to look beyond the amount of profit to its nature in judging the likely performance of a business in the short and long term. High quality profit comes from normal trading activities. Loq quality profit comes from extraordinary 'one-off' items. |
| **CUSTOMER SATISFACTION** | This is fairly easily measured via reviews and customer feedback. |
| **EMPLOYEE ENGAGEMENT** | The extent to which employees engage and participate with their employers. |
| **BRAND IMAGE & REPUTATION** | This is the cornerstone of ensuring long term business survival. |
| **TRIPLE BOTTOM LINE** | Elkington's triple bottom line: 1. PROFIT. 2. PEOPLE. 3. PLANET. |

| 3.7.4. ANALYSING THE EXTERNAL ENVIRONMENT: POLITICAL & LEGAL CHANGE | |
|---|---|
| **POLITICAL ENVIRONMENT** | Local, national or international authorities to:<br>• Encourage enterprise<br>• The regulation of markets<br>• The country's infrastructure<br>• Issues relating to the environment<br>• International trade. |
| **POLICIES AFFECTING ENTERPRISE** | This can be assessed by how well an economy is supporting self employment. Decisions and actions by government can encourage or discourage business start ups e.g. lockdown hurt small businesses at the expense of large companies. |
| **FINANCIAL SUPPORT FOR ENTERPRISE** | New enterprise allowance<br>Start up loans<br>Enterprise Finance Guarantee<br>Ensuring sufficient small, local banks are available to support small, local businesses. This has proven very successful in Germany. |
| **NON FINANCIAL SUPPORT FOR ENTERPRISE** | Reducing the number of regulations for business<br>Tax breaks for small businesses<br>Supporting innovation through helping researchers<br>The government offering a range of schemes to help entrepreneurs |
| **THE ROLE OF REGULATORS** | Regulations may relate to a number of aspects that affect businesses including:<br>• Regulations to create fair and free competition<br>• Regulation of banking & financial services<br>• Regulation of privatised monopolies<br>• Self regulation by businesses. |

| | |
|---|---|
| **REGULATION TO CREATE FREE & FAIR COMPETITION** | • Imposing windfall taxes<br>• Controlling prices<br>• Restricting rates of return on capital |
| **REGULATION OF HIGH PROFILE INDUSTRIES** | Prudential Regulation Authority<br>The Financial Conduct Authority |
| **REGULATION OF PRIVATE UTILITIES** | State Owned Enterprises were effectively turned into privately run monopolies. Consequently they needed regulation to ensure they offer a competitive service. e.g. OfWAT for Water, OfGEM for Gas & Electricity. |
| **IMPACT OF REGULATION** | May increase costs, may ensure lower prices and avoid exploitation. But equally regulators can be 'captured' by large firms, making regulators ineffective. |

| THE UK'S INFRASTRUCTURE | |
|---|---|
| **INFRASTRUCTURE** | Roads, rail, air and telephone networks. |
| **BENEFITS OF GOOD INFRASTRUCTURE** | Business activities can be conducted more quickly and efficiently if travel times are reduced and telecommunications are more effective. Better globally connected. |
| **INFRASTRUCTURE OPPORTUNITIES & THREATS** | Beneficial for engineering firms to be engaged in infrastructure improvements & the need for continued maintenance.<br>However, improved infrastructure may pose threats traditional transportation methods. E.g HS2, may make other rail networks less viable. |
| **THE NATURAL ENVIRONMENT** | Protecting the environment may mean certain industries cannot grow. E.g. House builders, road builders and firms in the fracking industry. |

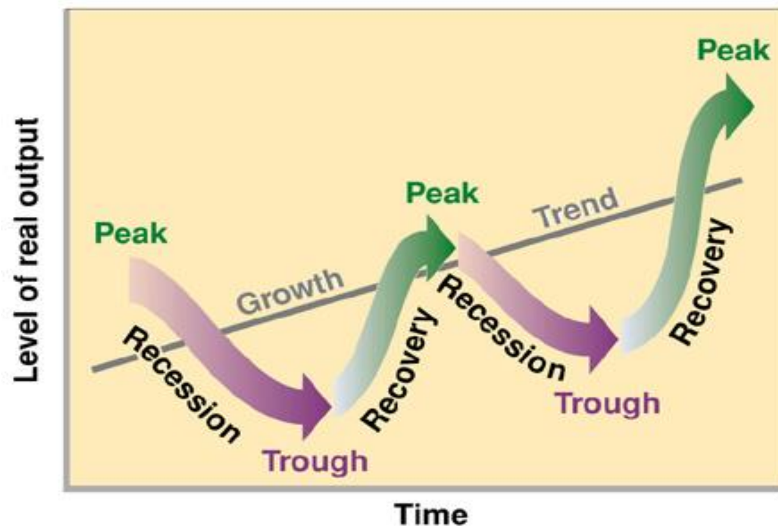
| INTERNATIONAL TRADE | |
|---|---|
| **BENEFITS OF INTERNATIONAL TRADE** | Promotes UK exports to overseas buyers<br>Improves the country's balance of trade.<br>Trade can help to ensure that British businesses are competitive<br>Offers choice to customers.<br>But it has contributed to much structural unemployment in the UK. |

| THE LEGAL ENVIRONMENT | |
|---|---|
| **LAW** | A framework of rules governing the way in which our society operates. |
| **COMPETITION LAW** | Intended to protect businesses and consumers from the effects of anti competitive practices. This applies to three key areas:<br>1. Cartel activity – price and output fixing<br>2. Abuse of a dominant market position<br>3. Other anti-competitive practices e.g. agreements with suppliers not to sell below a given price. |
| **MERGERS & TAKEOVERS** | Competition and Markets Authority will seek to assess whether mergers and takeovers are in the public interest. |
| **KEY UK COMPETITION LAWS** | Competition Act 1998, Enterprise act 2002, Enterprise & regulatory reform act 2013, EU competition policy |
| **LAWS RELATING TO THE LABOUR MARKET** | Those that relate to individual employees. E.g. minimum wage, equalities act.<br>Those that apply to groups of people such as trade unions. E.g. Employment Act, Trade Union Act |
| **HEALTH & SAFETY LEGISLATION** | Designed to prevent accidents in the workplace, and has developed steadily over the last thirty years. |
| **ENVIRONMENTAL LEGISLATION** | Protects the environment from firms polluting the natural environment. Examples of legislation include: The Environmental Protection Act & the Environment Act. |
| **EU & INTERNATIONAL LAWS** | These laws have to be enacted into national laws among the 28 member states of the EU. |
| **LEGAL ENVIRONMENT & DECISION MAKING** | Legislation has the ability to affect many businesses and could the impact upon the decisions made by the business. This will depend upon:<br>• The nature of the law & which businesses will be affected<br>• The type of business, its size and corporate objectives. |

## 3.7.6. ANALYSING THE EXTERNAL ENVIRONMENT TO ASSESS OPPORTUNITIES & THREATS: ECONOMIC CHANGE

**THE BUSINESS CYCLE: The regular patterns of ups and downs in demand and output within an economy.**

| | |
|---|---|
| **GDP** | The total value of goods & services produced in an economy. |
| **Causes of changes in the business cycle** | • Changes in business & consumer confidence<br>• Period of stock building then de-stocking<br>• Consumer spending and the impact of borrowing and repayment.<br>• Confidence in the banking sector. |
| **Growth Stage Characteristics** | • Incomes will be rising<br>• Unemployment will be low<br>• Inflation may be increasing due to **DEMAND-PULL**.<br>• **CONTRACTIONARY FISCAL** & **MONETARY POLICY** needed?<br>• **INCOME ELASTIC NORMAL** goods will be more popular<br>• Consumers less **PRICE SENSITIVE**. |
| **Recession Stage Characteristics** | • Incomes falling<br>• **Cyclical** & **search unemployment** increase<br>• Inflation is likely to be low<br>• **EXPANSIONARY** FISCAL & MONETARY POLICY.<br>• **INCOME INELASTIC INFERIOR** goods more popular<br>• Consumers more **PRICE SENSITIVE** |
| **Trend rate of growth** | The long run average rate for a country over a period of time. |




## EXCHANGE RATES

**Represent the price of one currency against another.** They directly influence the price of IMPORTS & EXPORTS. **W£IDEC/SPICED. APPRECIATION represents the rise in the price of a currency. DEPRECIATION the fall in price of a currency.**

| | |
|---|---|
| **Types of Exchange Rates** | FLOATING – Rely entirely upon supply and demand to determine the price. Used by MEDCs.<br>FIXED - Policy makers intervene to fix the value of the currency at a given level. Used by LEDCs. |
| **Reasons for changes in an Exchange Rate** | Demand & supply for the currency. Potential for future economic growth.<br>Changes in domestic interest rates. |
| **Price Elasticity of Demand & the Exchange Rate** | Exchange rates directly impact the price of IMPORTS & EXPORTS.<br>IF goods are price elastic – demand is very price sensitive.<br>If goods are price inelastic – demand is price insensitive. |
| **Main problems caused by Exchange Rates** | Transaction costs in converting currencies, Exchange rate fluctuation risks. They can also cause cost push INFLATION due to W£IDEC. |
| **Managing Exchange Rate risk** | Monitor & try to anticipate exchange rate risk<br>Use 'what if' sensitivity analysis to analyse implications of different exchange rates.<br>Use currency options to provide certainty – an 'option' to buy at a given price in future.<br>Use foreign bank accounts to reduce currency transactions<br>Capitalise on low exchange rates via outsourcing or FDI via purchases of foreign firms<br>Inward FDI into UK cheaper due to £'s depreciation. UK PLCs vulnerable to foreign takeover? |

# INFLATION

**A sustained general rise in prices, which is measured by the Consumer Price Index. The Bank of England targets a 2% rate of CPI inflation.**

## CAUSES OF INFLATION

| | |
|---|---|
| **Demand-pull** | Often occurs at times of low unemployment – This can therefore be closely related to the business cycle. When there is **excess demand**, producers can raise their prices and achieve bigger **profit margins.** |
| **Cost-push** | **Cost-push inflation** occurs when firms respond to **rising costs** by increasing prices in order to **protect their profit margins**. |

## IMPACTS OF INFLATION

| | |
|---|---|
| **Real Incomes** | At times of high inflation, REAL WAGES will decline. This is because inflation will be higher than wage growth. Consumers will become more PRICE SENSITIVE & demand for INFERIOR GOODS may increase. |
| **Real debts** | Higher inflation erodes the REAL VALUE of debts. This is due to money received now being worth more than money paid back in the future. Inflation will mean that future money is less valuable. It may be cheaper to use debt as a source of finance. |
| **Rising costs & prices** | Input costs could rise & this would REDUCE PROFIT MARGINS. These costs could be passed on to consumers in the form of higher prices. |

## POLICY RESPONSES TO INFLATION

| | |
|---|---|
| **Contractionary Monetary Policy** | Increase interest rates to reduce consumption, investment & borrowing. This will also promote higher levels of savings. |
| **Contractionary fiscal policy** | Increasing taxation to reduce disposable incomes or by reducing government spending. |

# FISCAL POLICY

**Involves the use of GOVERNMENT SPENDING & TAXATION which can influence the level of demand, output & jobs.** Can be used to change the pattern of spending on goods & services.
Can help to achieve a redistribution of income & wealth.

| | |
|---|---|
| **Direct Taxation** | Placed upon income, wealth and profit. E.g. income tax, inheritance tax & corporation tax. Income tax in the UK is progressive i.e. 10%, 20%, 40%, 45%. |
| **Indirect Taxation** | Indirect taxes are taxes on spending. E.g. include duties on fuel, cigarettes & alcohol & VAT. Many indirect taxes are regressive in nature. |
| **Impact of Taxation on Consumers & Businesses** | Directly influences the level of DISPOSABLE INCOME & the level of RETAINED PROFITS businesses can invest. This may influence consumer & R&D spending. Furthermore, with lower taxes more people may re-join the labour market. INCOME ELASTICITY OF DEMAND is relevant here! |
| **Government Spending** | Regional economic impact of infrastructure investment, providing Public goods such as National Defence & Merit goods e.g. NHS, schools. |
| **Impact of Government Spending** | Can create jobs in area of need & incentivise businesses to locate in particular areas. By providing good education the quality of the future workforce is much improved. |
| **THE FISCAL BUDGET** | The UK government runs a persistent fiscal deficit meaning the spend more than they receive in taxation. The difference is funded by borrowing. |

## MONETARY POLICY

**Involves changing the supply of money in an economy conducted by the Bank of England.** The most usual method is via changes in the interest rate. The main objective of monetary policy is price stability or **LOW INFLATION**.

| | |
|---|---|
| **Interest rates** | The cost of borrowing & the reward for saving. |
| **Impact of changes in monetary policy** | • Changes to the availability of credit for businesses & consumers<br>• Influence business investment/ expansion and the level of sales<br>• Low Interest rates will benefit those on variable rate mortgages & vice-versa. This will influence **DISPOSABLE INCOME** & the **INCOME ELASTICITY OF DEMAND** of these consumers. They may be less **PRICE SENSITIVE** when interest rates are low<br>• Interest rates also influence the exchange rate, thus impacting upon the price of goods in foreign markets. To what extent exports & imports are effected will depend upon the **PRICE ELASTICITY OF DEMAND**. |
| **Markets most vulnerable to changes in Monetary Policy** | The car industry – many cars are bought on finance.<br>The housing market – less demand for homes when interest rates are higher & vice-versa<br>Household appliances – often benefit when the housing market is buoyant<br>Home improvement businesses – That allow people to buy kitchens/ bathrooms on credit. |

## PROTECTIONISM

Occurs when countries place restrictions on imports into the economy. This can involve higher tariffs (a tax on imports) or quotas and embargoes. Other forms of protectionism can be less obvious, such as domestic subsidies to give industries unfair advantages.

| | |
|---|---|
| **EXAMPLES OF PROTECTIONISM** | **Tariffs** – A tax on imports.<br>**Quotas** – A physical limits on the quantity of imports<br>**Embargoes** – This is a total ban on a good, this may be done to stop dangerous substances<br>**Subsidies** – If a gov't subsidises domestic production this gives them an unfair advantage over competitors. This is quite common.<br>**Administrative barriers** Making it more difficult to trade, e.g. imposing minimum environmental standards. These are sometimes known as non-tariff barriers. |
| **ARGUMENTS FOR PROTECTIONISM** | 1. Infant Industry argument -protect new industries against free trade<br>2. Diversify the economy – tariffs and protectionism can help develop new industries to give more diversity to economy<br>3. Raise revenue for government.<br>4. Low cost competition.<br>5. Improve **CURRENT ACCOUNT** position.<br>6. Protect certain key industries from international competition to try and safeguard jobs. |
| **ARGUMENTS AGAINST PROTECTIONISM** | 1. Protectionism leads to retaliation and therefore higher import prices and higher consumer prices. May also flout **WTO** rules.<br>2. Higher prices lead to lower overall demand causing job losses in other industries<br>3. Protectionism can encourage inefficient firms to stay in business. Protectionism can keep smaller national firms which can't benefit from the same economies of scale.<br>4. Benefits of Free Trade |
| **EVALUATION** | 1. Higher costs of imports, are domestic substitutes available?<br>2. May mean final goods are more expensive in export markets – price elasticity of demand? |

## GLOBALISATION

**Process enabling financial and investment markets to operate internationally, largely as a result of deregulation and improved communications.**

| | |
|---|---|
| **Speed of Globalisation** | This has generally been accelerating due to improvements in technology, containerisation, integration of communist countries & removal of trade restrictions. |
| **Examples of Globalisation** | Expansion of trade into international markets, Foreign Direct Investment, Internationalisation of products & services, **Outsourcing** & **offshoring**. |
| **Alternative means of going global** | License technology & other IP, Joint Ventures, Franchising, Takeover of foreign business, Offshoring & outsourcing production. |

### BENEFITS

- Opportunities for trade and investment,
- Access to cheaper goods & services – higher living standards,
- Access to cheaper factors of production
- Bigger export markets – economies of scale,
- More intense competition – drives innovation & efficiency,
- Has lifted hundreds of millions of people out of absolute poverty,
- Falling cost and rising speed of global communications.

### DRAWBACKS

- Risks of increased structural unemployment,
- Globalisation may lead to rising income inequality,
- Impact on the environment – e.g. Co2,
- Loss of cultural diversity- uniformity of brands,
- Large trade account deficits as a result of imported consumer goods.
- Intensity of competition due to LEDC rival firms in home & foreign markets.
- Difficulties in understanding foreign market culture.

## GROWTH OF TRADING BLOCS E.G. EU/ NAFTA

A single market with a standardised system of laws that apply in all member states.
It allows free movement of people, goods, services and capital.

### Arguments in favour

- Major trading partners
- Source of inward investment
- EU businesses encourages British businesses to be efficient
- A market to export to with over 500m people
- Access the most suitable factors of production
- Expanding population.

### Arguments against

- Trade deficit of £62b with the EU
- Structural unemployment in our manufacturing sectors
- Profit reducing regulations, lower business start ups
- Distorts trade & imposes damaging tariff escalation
- Fosters interests of larger firms

## EMERGING MARKETS

**Describes countries in the process of rapid growth and industrialisation. E.g. the MINT nations, China & India.**

| | |
|---|---|
| **Key reasons for targeting Emerging Markets** | Stronger economic growth, Slowing sales in domestic markets (saturation), Government support to expand overseas, Shareholder pressure to grow revenues & profits through expansion. |
| **How to expand into Emerging Markets** | Exporting direct to customers, selling via overseas agents or distributors, opening an overseas operation, joint venture or buying a business overseas. |
| **Key International Risks** | Cultural differences, Language issues, Legislation, Currency fluctuations, Domestic & foreign competition. |

| 3.7.6. ANALYSING THE EXTERNAL ENVIRONMENT: SOCIAL & TECHNOLOGICAL CHANGE | |
|---|---|
| **SOCIAL CHANGE** | |
| **SOCIAL CHANGE** | **Social change** refers to the ways in which a society (rather than an individual) develops over time |
| **EXAMPLES OF SOCIAL CHANGE** | Immigration, Ageing population, female participation in the workforce, Increasing population size, Growth of single households, Fashion and fads, Growth of social media, Environmental/ ethical concerns, migration & urbanisation |
| **MARKET CHANGES THAT MAY OCCUR** | Larger or smaller markets – possibility of new market segmentation,<br>Availability of new employees<br>Ability to target particular customers |
| **IMPACT ON BUSINESSES** | New strategies for existing firms to cater for consumer changes,<br>New start ups to target particular niche markets or changing trends,<br>Some businesses may not be effected due to a timeless nature e.g. Rolex |
| **EVALUATION OF SOCIAL CHANGE & BUSINESS** | How does a business keep up with a changing social dynamic<br>Businesses that target fads, those that target fashions (think Zara, Topshop) and those that target trends (Netflix, Spotify) – discuss the impact upon functional areas of each<br>Are some businesses timeless/ classic and thus do not rely upon social changes?<br>Consideration of the cost versus the potential benefit?<br>Impact upon brand equity/ substance? |

| BUSINESS & TECHNOLOGY | |
|---|---|
| **TECHN CHANGE** | Change that arises as a result of development and innovation in technology. |
| **EXAMPLES OF TECH CHANGE – 3 AREAS** | 1. Processes e.g CAD/ CAM, automation.<br>2. Products using microtechnology e.g. Dyson 360 eye.<br>3. Communication links e.g. teleconferencing, home working, outsourcing of call centres.<br>These can significantly change business models |
| **BUSINESS BENEFITS** | Improved efficiency and reduced waste, Better products and services, New products and materials, Advances in communication, Improved working environment, Wealth creation. |
| **BUSINESS PROBLEMS** | Cost of investment & keeping up to date<br>Knowing when and where to invest in technology<br>Industrial relations between employers and employees.<br>Changes in consumer lifestyle & buying habits |
| **DEVELOPING OR ACQUIRING TECHNOLOGY** | In house developments e.g. Google Labs, ipad, iphone. Provides first mover advantage<br>Alliances e.g. Nokia & Microsoft. Entering new markets<br>Acquisition e.g. Apple takeover of Beats, Gorilla glass (High risk approach). Complementary products that enhance proposition. |
| **GROWTH OF ONLINE BUSINESS** | The low cost of start up has prompted many to launch online businesses<br>This has also been influenced by changing consumer trends and better technology<br>Many online markets are growing<br>They can employ fewer workers and outsource tasks via upwork or fiverr<br>Even the smallest online business can reach a global audience<br>This is also meaning high cost retail stores are less competitive |
| **EVALUATION OF TECH CHANGE & BUSINESS** | Adoption of new technology and the existing technology – change management.<br>Reaction of the workforce to new technology. Cooperation is vital.<br>Balanced judgements needed between the benefits against the problems/ costs. |

| CORPORATE SOCIAL RESPONSIBILITY (CSR) | |
|---|---|
| EXPLANATION | Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable — to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society including economic, social, and environmental. To engage in CSR means that, in the normal course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to it. |
| ANALYSIS | Depends on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their own brands. As important as CSR is for the community, it is equally valuable for a company. CSR activities can help forge a stronger bond between employee and corporation; they can boost morale and can help both employees and employers feel more connected with the world around them.<br>In order for a company to be socially responsible, it first needs to be responsible to itself and its shareholders. Often, companies that adopt CSR programs have grown their business to the point where they can give back to society. Thus, CSR is primarily a strategy of large corporations. Also, the more visible and successful a corporation is, the more responsibility it has to set standards of ethical behaviour for its peers, competition, and industry. |
| BENEFITS | It builds public trust. 88% of consumers said they were more likely to spend money for a company that supports and engages in activities to improve society. ...<br>It enhances positive relationships. ...<br>Sustainability. ...<br>It increases profits. ...<br>Encourage professional and personal growth. |
| DRAWBACKS | **Its costs fall disproportionally on small businesses**. Major corporations can afford to allocate a budget to CSR reporting, but this is not always open to smaller businesses with between 10 and 200 employees.<br>Impact on business focus and prioritisation of objectives?<br>Opportunity cost in allocating scarce resources to CSR. |
| EVALUATION | Will depend upon type of business and size of activities<br>For many large firms it represents good PR.<br>For small firms, it may be a poor use of resources. |

## Carroll's CSR Pyramid

| 3.7.7. ANALYSING THE EXTERNAL ENVIRONMENT TO ASSESS OPPORTUINITIES & THREATS: THE COMPETITIVE ENVIRONMENT | |
|---|---|
| PORTER'S FIVE FORCES | |
| **PORTER'S 5 FORCES** | The model is a framework for analysing the nature of competition within an industry. |
| **THREAT OF NEW ENTRANTS** | If new entrants move into an industry they will gain market share & rivalry will intensify<br>The position of existing firms is stronger if there are **barriers** to entering the market.<br>If **barriers to entry** are low then the threat of new entrants will be high, and vice versa<br>Barriers to entry are, therefore, very important in determining the threat of new entrants. |
| **SUPPLIER POWER** | If a firm's suppliers have bargaining power they will: Exercise that power, Sell their products at a higher price, Squeeze industry profits. |
| **BUYER POWER** | **Powerful customers** are able to exert pressure to drive down prices, or increase the required quality for the same price, and therefore reduce profits in an industry.<br>A great example in the UK currently is the dominant grocery supermarkets which exert great power over supplier firms. |
| **THREAT OF SUBSTITUTION** | A substitute product can be regarded as something that meets the same need<br>Substitute products are produced in a different industry –but crucially satisfy the same customer need. If there are many credible substitutes to a firm's product, they will limit the price that can be charged and will reduce industry profits. |
| **COMPETITIVE RIVALRY** | If there is intense rivalry in an industry, it will encourage businesses to engage in Price wars, Investment in innovation & new products, Intensive promotion (sales promotion and higher spending on advertising), All these activities are likely to increase costs and lower profits. |
| **ADVANTAGES** | Strategic consideration of the industry nature, provides means of assessing potential areas of weakness & how to improve existing business model. |
| **LIMITATIONS** | • Pace of change is now more rapid. • Market structures were seen as relatively static. • The model provides you with only a snapshot of your environment. • It can be difficult to define the industry • The model does not consider non-market forces. • The model is most applicable for analysis of simple market structures. • The model is based on the idea of competition. |

# 3.7.8. ANALYSING STRATEGIC OPTIONS

| INVESTMENT APPRAISAL | | |
|---|---|---|
| | A series of techniques designed to evaluate the profitability or desirability of an investment projects. | |
| **METHODS** | 1. Payback period (PBP)<br>2. Average Rate of Return (ARR)<br>3. Discounted Payback/Discounted cash flow (DCF)<br>4. Net present value (NPV)<br>5. Internal rate of return (IRR) | |
| **PAYBACK PERIOD (PBP)** | Length of time it takes for the net cash inflows to pay back the original capital cost of the investment. For example, if a project costs £2 million and is expected to pay back $500,000 per year then the payback will be 4 years. | |
| **PBP PROS AND CONS** | • Quick and easy to calculate<br>• Easily understood, can be used to eliminate or screen our projects that don't deliver<br>• Useful where liquidity is more important than profitability | • Doesn't measure profitability of overall project<br>• Emphasis on short term may reject worthwhile longer term projects, doesn't consider timings during payback period |
| **AVERAGE RATE OF RETURN (ARR)** | Measures the annual profitability of an investment as a percentage of the initial investment. | $$\text{ARR (\%)} = \frac{\text{Total net profit / No years}}{\text{Initial cost}} \times 100$$ |
| **ARR PROS AND CONS** | • Provides a percentage return which can be compared with a target return<br>• Considers whole profitability of the project – a key issue for shareholders<br>• Easily understood and compared with other projects<br>• Result quickly assessed and decision made | • Does not take into account cash flows – only profits (they may not be the same thing)<br>• Takes no account of the time value of money<br>• Treats profits arising late in the project in the same way as those which might arise early |
| **DISCOUNTING CASHFLOW** | Is reducing the value of future earnings to reflect the opportunity cost of an investment so in terms of investment appraisal, reducing the value of the cash flow | |
| **WHY?** | • Risk – Receiving the money now is a certainty but is value in the future is a risk as it may not be paid due to external factors<br>• Opportunity cost – the money could be placed into an interest bearing account. | |
| **NET PRESENT VALUE (NPV)** | The value of the future stream of income from an investment, converted into its current worth. Discounting future cash flow is the basis of calculating new present value. You also need to know: initial cost, chosen rate of discount, expected inflow and outflows, duration of investment and any residual value at the end of the project. | |

| INVESMENT APPRAISAL | | |
|---|---|---|
| **NPV PROS AND CONS** | • Considers both timing of cash flows and sixe of them<br>• Rate of discount can be varied to allow for external factors<br>• Considers time value of money and considers opportunity cost | • Reasonably complex to calculate<br>• Final results depends on rate of discount used<br>• Can be used to compare with other projects but only if initial capital cost is the same |
| **INTERNAL RATE OF RETURN (IRR)** | The internal rate of return does not choose a particular discounting rate. Instead a series of calculations are carried out using computers until a rate of discount is discovered which results in the NPV of the project equalling zero. | |
| **IRR PROS AND CONS** | • By giving a % rate of return, different projects costing different amounts can be compared<br>• IRR is easily comparable with the rate of interest<br>• Avoids need to choose an actual rate of discount | • Calculation is tedious without a computer/technology to automatically carry out steps<br>• Can mislead users into believing that it is a precise process with risks and uncertainties. |
| **FACTORS INFLUCING INVESTMENT DECISIONS** | 1. The rate of interest – ARR and NPV produce figures that can be compared. Needs to be based on the base rate or similar central bank rate. This is difficult as most projects are long term and returns may take place over a number of years.<br>2. The level of profit – Using ROCE to measure the return of the investment<br>3. Alternative investments – Unusual to consider only one investment project. Other options will always be considered. Opportunity cost is always considered.<br>4. Qualitative factors – Environmental impact, local community impact, planning permission, aims and objectives of the business, management perspective on risk, | |
| **RISKS AND UNCERTAINTY** | • Timescales<br>• New markets<br>• Competitors' reactions<br>• Purchasing raw materials<br>• Building in allowances for fluctuations in sales revenue and costs<br>• Ensuring the business has sufficient financial assets available | |

# 3.8. Choosing Strategic Direction

| STRATEGIC CHOICES | Deciding the direction in which a business should move and the methods by which it should pursue its plan. |
|---|---|
| ANSOFF MATRIX | Highlights strategies for growth based upon markets & products. |

| ANSOFF MATRIX | EXISTING PRODUCTS | NEW PRODUCTS |
|---|---|---|
| EXISTING MARKETS | **MARKET PENETRATION = EMEP**<br>In this strategy, there can be further exploitation of existing products. This will be possible through the use of promotional methods, putting various pricing policies that may attract more clientele, or one can make the distribution more extensive.<br>In Market Penetration, the risk involved in its marketing strategies is usually the least since the products are already familiar to the consumers and so is the established market. Another way in which market penetration can be increased is by coming up with various initiatives that will encourage increased usage of the product. | **PRODUCT DEVELOPMENT = NPEM**<br>Differs from the introduction of a new product in an existing market or it can involve the modification of an existing product. By modifying the product one would probably change its outlook or presentation, increase the products performance or quality. By doing so, it can appeal more to the already existing market. |
| NEW MARKETS | **MARKET DEVELOPMENT = NMEP**<br>This can be made possible through further market segmentation to aid in identifying a new clientele base. This strategy assumes that the existing markets have been fully exploited thus the need to venture into new markets. There are various approaches to this strategy, which include: New geographical markets, new distribution channels, new product packaging, and different pricing policies. In New geographical markets, the business can expound by exporting their products to other new countries. It would also mean setting up other branches of the business in other areas that the business had not ventured yet. Various businesses have adopted the franchise method as a way of setting up other branches in new markets. | **DIVERSIFICATION = NMNP**<br>This is the most risky strategy as it involves two unknowns, new products being created and the business does not know the development problems that may occur in the process. There is also the fact that there is a new market being targeted, which will bring the problem of having unknown characteristics. For a business to take a step into diversification, they need to have their facts right regarding what it expects to gain from the strategy and have a clear assessment of the risks involved. There are two types of diversification. There is **related diversification** and unrelated diversification. In related diversification, this means that the business remains in the same industry in which it is familiar with. For example, a cake manufacturer diversifies into a fresh juice manufacturer. This diversification is in the same industry which is the food industry. In **unrelated diversification**, there are usually no previous industry relations or market experiences. One can diversify from a food industry to a mechanical industry for instance. |

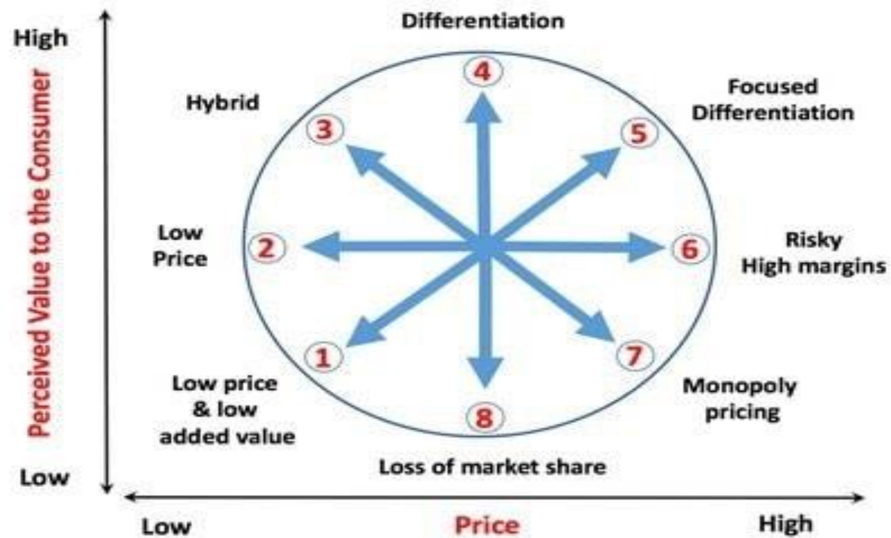
**Selecting a Strategy will depend upon: The expected costs, the expected returns, the opportunity costs, the risk, the fit with the resources & strengths of the business, the impact on other stakeholders, the ethical issues involved.**

## 3.8.2. Strategic Positioning: Choosing How to Compete

| STRATEGIC POSITIONING | Refers to how it is perceived relative to other businesses in the industry. |
|---|---|
| Porters Generic Strategies | Helps to identify sources of sustained competitive advantage for both mass and niche markets. |

| PGS | Explanation | Advantages | Disadvantages |
|---|---|---|---|
| **Cost Leadership** | Involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, | • Achieving a high asset utilization & exploit economies of scale.<br>• Achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and limiting customization and personalization of service<br>• Control over the value chain encompassing all functional groups (finance, supply/procurement, marketing, inventory, information technology etc..) to ensure low costs | • Only viable for large firms with the opportunity to enjoy economies of scale and large production volumes and big market share.<br>• cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available. A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future. |
| **Differentiation** | Differentiate the products/services in some way in order to compete successfully. | • Appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy.<br>• Differentiation drives profitability when the added price of the product outweighs the added expense to acquire the product or service but is ineffective when its uniqueness is easily replicated by its competitors. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors. | • Costs of developing USP, new innovations or brand characteristics can be expensive.<br>• Elements of a strategy may be imitated or adopted by competitors<br>• Furthermore, smaller firms using focus differentiation will be able to achieve even greater differentiation. |

| PGS | Explanation | Advantages | Disadvantages |
|---|---|---|---|
| **Focus cost & focus differentiation** | Concentrates on a narrow segment & within that segment attempts to achieve either a cost advantage | • Catering to focused needs may ensure increased brand loyalty<br>• Such loyalty may mean that other firms are dissuaded from market entry<br>• Differentiation focus may mean that firms can pass on increased costs onto customers. | • A cost focus strategy may mean that the higher costs of low volume production reduce profit margins.<br>• Successful performance in niche markets may attract competition & imitation of business models.<br>• Other focusers may be able to carve out sub-segments that they can serve even better. |
| **Evaluation** | • These generic strategies are not necessarily compatible - trying to create a competitive advantage in one field may result in no advantage being created at all. Hence, the firm will be 'stuck in the middle'<br>• However, some businesses will be able to create different brands which target different generic strategies e.g. Whitbread & Brewers Fayre & Costa. This will require different strategies & cultures.<br>• Many argue that a single strategy is not the best option. Commonly, firms will place within a segment of competitive advantage yet then offer a variety of different elements of Porter's generic strategies within this. E.g. Nike is placed within differentiation, yet their Nike ID goods are Focus differentiation. Yet they also own umbro - cost leadership. | | |



# STRATEGIC POSITIONING

| BOWMAN'S STRATEGIC CLOCK | |
|---|---|
| A model that explores the options for **strategic positioning** – i.e. how a product should be positioned to give it the most competitive position in the market. | |
| **1. LOW PRICE & LOW ADDED VALUE** | In this strategy position, keeping the price relatively low is the only means of the competitive method that the company can use to compete with its contemporaries in the market. The price of the product or service offerings is very low and the product or service is not distinguished and the customer perceives very little value. It is not the most competitive position within the framework of the Bowman's Strategy Clock. |
| **2. LOW PRICE** | The companies following this strategy of the Bowman's Strategy Clock often produce large quantities of the products plus their products are valued in the target market. The various and possible price wars are fought between the competitive brands in this position. |
| **3. HYBRID** | This strategy in the Bowman's Strategy Clock is very effective if the added value of the products is consistent in nature and is well applied and offered on the regular basis. On one hand, this strategic position involves the companies focusing on the aspect of product differentiation which makes their products highly valued in the market and in the minds of the customers and on the other hand the company's focus is on the low price making it a hybrid model. The customer is convinced that the good value product at a low price is offered to them that benefits them in a genuine way. |
| **4. DIFFERENTIATION** | The companies opting for the differentiation strategy of the Bowman's Strategy Clock tries there level best to offer the products that high on the realms of quality at an average price and wish to offer their customers the highest level of the perceived added value that makes them curate a distinctive identity in the market. Apart from focusing on the product quality, they put significant efforts on the branding making their brand a reliable one to retain the loyal set of customers. The customers are even ready to pay more for these products as they are sensitive to the high-quality products of a renowned brand in the market. |
| **5. FOCUSED DIFFERENTIATION** | This strategy from the Bowman's Strategy Clock is mainly applicable to the brands that focus on the luxury and exclusive products that are high on quality and are sold at a high price. The higher profit margins are attained by such companies as they use targeted promotions, marketing, distribution, and segmentation strategies. Their competitors are in the similar market segment and there is a tussle by keeping the prices of products high than the other. |
| **6. RISKY HIGH MARGINS** | The companies using this strategy from the model charge high prices for the products that are perceived as mediocre in value by the customers. It is the very risky strategy to opt for and the position of the company is most likely to fail in the long-term. The customers will look for the better quality product in the similar price range or a similar type of product at a lower price to cut their costs with an objective of value for money. |
| **7. MONOPOLY PRICING** | In this position of the strategy clock the company's position themselves as the monopoly leader in the market as they are the only ones offering the specific type of product in the market. And as a result, there is no fear of the competition and they are the only one determining the price of the product. The customers are left with the two choices to buy the product or not to buy the product as they are totally dependent on the products or services offered by the monopolistic brand. Usually, in most of the countries, the authorities regulate the monopolistic market to prevent the companies from increasing the prices and offering faulty products and services. |
| **8. LOSS OF MARKET SHARE** | This strategic position in the Bowman's Strategy Clock is not a very desirable one for any company as it basically means that the company is not able to offer the products or services that the customers value. The customers do not indulge in the purchase as the price is too high. The companies in this segment opt for the standard prices of their product offerings to stay relevant and competitive in the market and in the minds of the customers. |

# 3.9. STRATEGIC METHODS: HOW TO PURSUE STRATEGIES

## 3.9.1. ASSESSING A CHANGE IN SCALE

| | |
|---|---|
| **STRATEGIC METHODS** | The different strategies a business might pursue to achieve its objectives |
| **IMPORTANCE OF GROWTH** | • Shows progress – good for employees (Maslow's hierarchy).<br>• Can create financial benefits such as higher revenues & lower unit costs<br>• Creates momentum – Keeps employees focused and engaged.<br>• Brings benefits including more market power. |
| **FORMS OF GROWTH** | • ORGANIC OR INTERNAL GROWTH – When a business grows through expanding its own operations e.g. selling more of existing products or launching new products for its customers. Tends to be slower and the growth is easier to manage.<br>• INORGANIC OR EXTERNAL GROWTH – Involves growth by joining with other businesses; e.g. through mergers or takeovers. Sudden change in scale, potential for culture clashes and management difficulties. |

### INTERNAL ECONOMIES OF SCALE

Advantages that arise for a firm because of its larger size, or scale of operation. These advantages translate into lower unit costs (or improved productive efficiency).

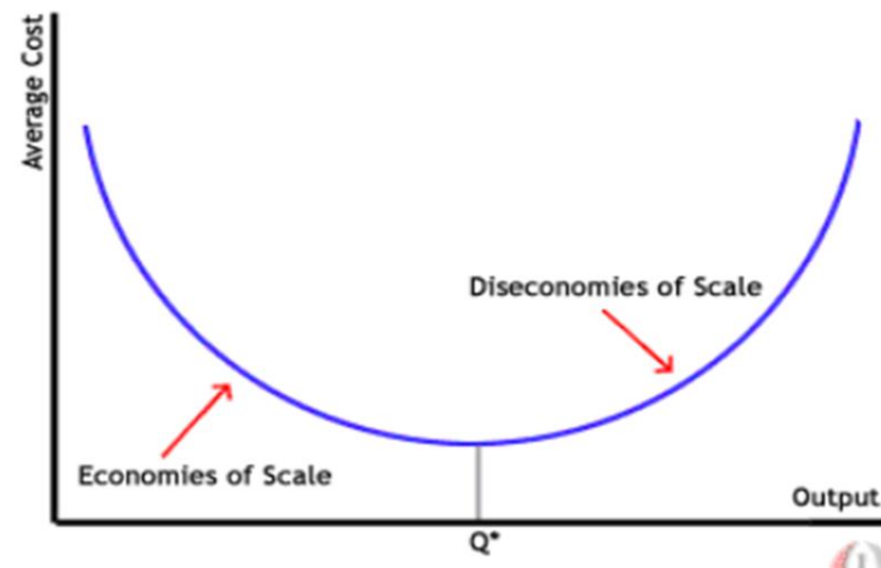
| | |
|---|---|
| **RISK BEARING** | A larger firm can be safer from the risk of failure if it has a more diversified product range. A larger firm may have greater resilience in the case of a downturn in its market because of larger reserves and greater scope to make cutbacks. |
| **FINANCIAL** | There is a wider range of finance options available to larger firms, such as the stock market, bonds and other kinds of bank lending. Furthermore, a larger firm is likely to be perceived by banks as a lower risk and the cost of borrowing is likely to be lower. |
| **MARKETING** | More options are available for larger firms, such as television and other national media, which would not be cost-effective for smaller producers. The marketing cost for selling 10 million items might be no greater than to sell 1 million items. Larger firms might find it easier to gain publicity for new launches simply because of their existing reputation. |
| **TECHNICAL** | It may be cost-effective to invest in more advanced production machinery, IT and software when operating on a larger scale. |
| **MANAGERIAL** | Larger firms can afford to have specialist managers for different functions within a business – such as Marketing, Finance and Human Resources. Furthermore, they may be able to pay the higher salaries required to attract the best people, leading to better planning and decision making. |
| **PURCHASING** | Firms producing on a larger scale should be able to *bulk buy* raw materials or products for resale in larger quantities. They may be able to cut out wholesalers by buying direct from producers, and transport costs per unit may also be reduced. The firm might also be buying in large enough quantities to make very specific demands about product quality, specifications, service and so on, so that supplies exactly match their needs. |

### EXTERNAL ECONOMIES OF SCALE

External economies of scale arise from firms in related industries operating in a concentrated geographical area; suppliers of services and raw materials to all these firms can do so more efficiently. Infrastructure such as roads and sophisticated telecommunications are easier to justify.
There is also likely to be a growing local pool of skilled labour as other local firms in the industry also train workers. This gives a larger and more flexible labour market in the area.

### DISECONOMIES OF SCALE

| | |
|---|---|
| **LACK OF MOTIVATION** | In larger firms, workers can feel that they are not appreciated or valued as individuals - see **Mayo** and **Herzberg**. It can be more difficult for managers in larger firms to develop the right kind of relationship with workers. If motivation falls, productivity may fall leading to inefficiencies. |
| **POOR COMMUNICATION** | It can be easier for smaller firms to communicate with all staff in a personal way. In larger firms, there is likely to be greater use written of notes rather than by explaining personally. Messages can remain unread or misunderstood and staff are not properly informed. |
| **CO-ORDINATION** | A very large business takes a lot of organising, leading to an increase in meetings and planning to ensure that all staff know what they are supposed to be doing. New layers of management may be required, adding to costs and creating further links in the chain of communication. |



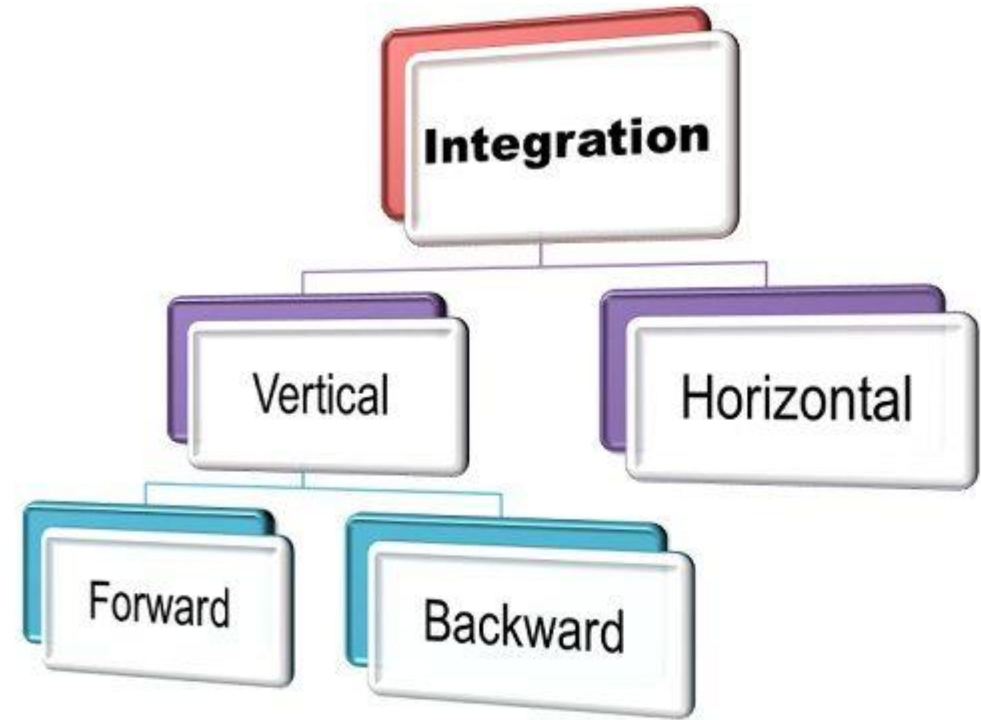
| MANAGING GROWTH | |
|---|---|
| OVERTRADING | Occurs when unit costs increase as a business expands. |
| GREINER'S GROWTH MODEL | Greiner's Growth Model describes phases that organizations go through as they grow. All kinds of organizations from design shops to manufacturers, construction companies to professional service firms experience these. Each growth phase is made up of a period of relatively stable growth, followed by a "crisis" when major organizational change is needed if the company is to carry on growing. |
| PHASE 1 | Here, the entrepreneurs who founded the firm are busy creating products and opening up markets. There aren't many staff, so informal communication works fine, and rewards for long hours are probably through profit share or stock options. However, as more staff join, production expands and capital is injected, there's a need for more formal communication. This phase ends with a Leadership Crisis, where professional management is needed. The founders may change their style and take on this role, but often someone new will be brought in. |
| PHASE 2 | Growth continues in an environment of more formal communications, budgets and focus on separate activities like marketing and production. Incentive schemes replace stock as a financial reward.However, there comes a point when the products and processes become so numerous that there are not enough hours in the day for one person to manage them all, and he or she can't possibly know as much about all these products or services as those lower down the hierarchy. This phase ends with an **Autonomy Crisis:** New structures based on delegation are called for. |
| PHASE 3 | With mid-level managers freed up to react fast to opportunities for new products or in new markets, the organization continues to grow, with top management just monitoring and dealing with the big issues (perhaps starting to look at merger or acquisition opportunities). Many businesses flounder at this stage, as the manager whose directive approach solved the problems at the end of Phase 1 finds it hard to let go, yet the mid-level managers struggle with their new roles as leaders. This phase ends with a **Control Crisis:** a much more sophisticated head office function is required, and the separate parts of the business need to work together. |
| PHASE 4 | Growth continues with the previously isolated business units re-organized into product groups or service practices. Investment finance is allocated centrally and managed according to Return on Investment (ROI) and not just profits. Incentives are shared through company-wide profit share schemes aligned to corporate goals. Eventually, though, work becomes submerged under increasing amounts of bureaucracy, and growth may become stifled.<br>This phase ends on a **Red-Tape Crisis:** a new culture and structure must be introduced. |
| PHASE 5 | The formal controls of phases 2-4 are replaced by professional good sense as staff group and re-group flexibly in teams to deliver projects in a matrix structure supported by sophisticated information systems and team-based financial rewards. This phase ends with a crisis of **Internal Growth:** further growth can only come by developing partnerships with complementary organizations. |
| PHASE 6 | Greiner's recently added sixth phase suggests that growth may continue through merger, outsourcing, networks and other solutions involving other companies. Growth rates will vary between and even within phases. The duration of each phase depends almost totally on the rate of growth of the market in which the organization operates. The longer a phase lasts, though, the harder it will be to implement a transition. |

| METHODS OF GROWTH |
|---|
| MERGERS, TAKEOVERS, VENTURES, FRANCHISES. |

| **FRANCHISES - When a franchisor grants a licence (franchise) to another business (franchisee) to allow it trade using the brand / business format.** | |
|---|---|
| **FRANCHISOR BENEFITS** | • Growth strategy for a proven business format<br>• Enables much quicker geographical growth for a relatively low investment<br>• Still have the option to open locations that are operated by the Franchisor<br>• Capital investment by franchisees is an important source of growth finance |
| **FRANCHISEE BENEFITS** | • The franchisee is given support by the franchisor. This includes marketing and staff training. So starting a business in this way requires less expertise and is less lonely!<br>• The franchisee may benefit from national advertising and being part of a well-known organisation with an established name, format and product<br>• Less investment is required at the start-up stage since the franchise business idea has already been developed<br>• A franchise allows people to start and run their own business with less risk. The chance of failure among new franchises is lower as their product is a proven success and has a secure place in the market |
| **FRANCHISEE DRAWBACKS** | • Cost to buy franchise – can be very expensive (hundreds of thousands of pounds).<br>• Have to pay a percentage of your revenue to the FRANCHISOR<br>• Have to follow the franchise model, so less flexible. You would probably be told what prices to set, what advertising to use and what type of staff to employ. |

| **TYPES OF INTEGRATION** | |
|---|---|
| **VERTICAL** | • When abusiness joins with another business at a different stage of the same production process. This may be backwards integration e.g. a baker joining with a flour mill or forwards integration e.g. a baker joining with a bakery shop. |
| **HORIZONTAL** | • Integrating with a business at the same stage of production enabling facilities and resources to be shared. E.g. Sainsburys & Argos. |
| **CONGLOMERATE** | • When one business joins with another that operates in a different industry. E.g. Google investing in healthcare industries. |

| **REDUCING SCALE: RETRENCHMENT** | |
|---|---|
| **RETRENCHMENT** | Reducing the scale of operations. |
| **IMPACT OF GROWTH OR RETRENCHMENT ON THE FUNCTIONAL AREAS OF THE BUSINESS** | • The need for Finance<br>• The need for Human Resources<br>• Operations to boost capacity or improve capacity utilisation<br>• The need for Marketing<br>• IT developments |



## 3.9.2. ASSESSING INNOVATION

| | |
|---|---|
| **INNOVATION** | • When a new idea is brought to fruition and turned into a good or service that can be used or sold. |
| **PRESSURES FOR INNOVATION** | • Political change<br>• Economic change<br>• Social change<br>• Technological developments<br>• Competitive pressures. |
| **PRODUCT & PROCESS INNOVATION** | Innovations could be focused upon the development of new products. Alternatively, it could be new processes that allows more efficient production to take place e.g. AI & robotics. |
| **THE VALUE OF INNOVATION** | • Helps to maintain competitiveness<br>• Enables better quality, lower costs, faster delivery or improved reliability<br>• Increased customer loyalty<br>• Easier to attract and retain high quality staff |
| **DEVELOPING AN INNOVATIVE CULTURE** | • Willingness to take calculated risks<br>• Willingness to fail<br>• Funding available for experimentation<br>• A culture of sharing ideas for improvement<br>• Strong leadership<br>• A culture of improvement<br>• Kaizen (continuous improvement) groups<br>• Intrapreneurship – encouraging new business start ups by company employees. E.g. Google and google maps, gmail and so on.<br>• Benchmarking – when a business tries to match the approach & success of a particular process that is used by another organisation. |
| **PROTECTING INNOVATION & INTELLECTUAL PROPERTY** | • **Copyrights** on literary or musical work<br>• **Trademarks** on logos and product names<br>• **Patents** on innovations<br>• **Design rights** on shape of objects<br>• Registered design for product shape and packaging. |
| **IMPACT OF INNOVATION ON FUNCTIONAL AREAS** | • Human Resources -<br>• Finance – Capital for R&D may require external finance<br>• Marketing – Differentiation and development of USP<br>• Operations – project management |

## 3.9.3. ASSESSING INTERNATIONALISATION

| | |
|---|---|
| **INTERNATIONALISATION** | Doing business overseas. |
| **KEY DRIVERS** | • Improvements in transport<br>• Trade agreements<br>• Improvements in ICT. |
| **FREE TRADE** | • When there is trade between countries without barriers such as tariffs and quotas |
| **TARIFF** | • A tax placed on foreign goods and services (imports) entering the country |
| **QUOTA** | • A limit on the number of imported goods and services. |
| **CUSTOMS UNION** | • When there is free trade between member countries but an agreed common external tariff on non-members. |
| **TECHNOLOGY** | • Has improved and enabled better communication to take place across the world. |
| **TRANSPORTATION COSTS** | • These have fallen dramatically and containerisation has improved efficiency. |
| **BENEFITS OF SELLING IN OVERSEAS MARKETS** | • A larger target population<br>• An opportunity to reduce risk – market development or diversification into other countries. |
| **METHODS OF ENTERING INTERNATIONAL MARKETS** | • Exporting<br>• Licensing agreements – when a business sells the rights to an overseas business to produce and or sell its products.<br>• Alliances/ Ventures – when a domestic business works in partnership with an overseas business<br>• Direct exposure – greatest commitment of all by direct overseas investment in resources. |

## MULTINATIONALS

| | |
|---|---|
| **MNCS** | Organisations that have operations in more than one country. |
| **OFTEN WELCOMED BECAUSE** | • Bring skills & expertise<br>• Bring employment<br>• Bring investment<br>• Increase tax revenue |
| **HOWEVER** | • They often exploit local resources<br>• Employ domestic people in only low paid jobs<br>• Send profits back home<br>• Are often involved in corruption |
| **ADVANTAGES OF BEING A MNC** | • Direct access to local markets<br>• Production can be closer to local markets<br>• May involve subsidies and tax incentives from the local government<br>• Spreads the risks of being dependent on one country<br>• Large target audience. |
| **DISADVANTAGES** | • Diseconomies of scale – worker motivation, communication and coordination difficulties<br>• Complex supply chains<br>• Bring criticism for exploitation of foreign, low skilled workers. |

## FACTORS INFLUENCING THE ATTRACTIVENESS OF MARKETS

The size & growth of the market
The expected costs of entering the market
The macro environment
How culturally similar the country is
The degree of competition
The perceived risk involved
The fit with the overall strategy of the business
The extent to which the business has to be adapted for local requirements
The impact on the business of overseas growth

## REASONS FOR PRODUCING ABROAD

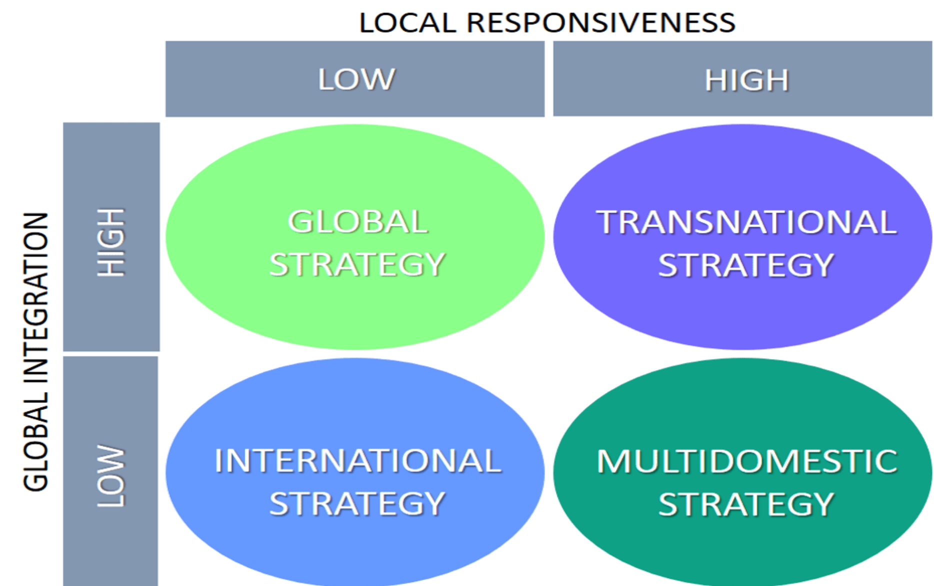
It costs less – cheaper land and labour
It may be nearer to resources
It may be more efficient to produce locally in overseas markets & sell there
There may be particular skills or expertise in a given area
It may overcome barriers to trade such as tariffs.

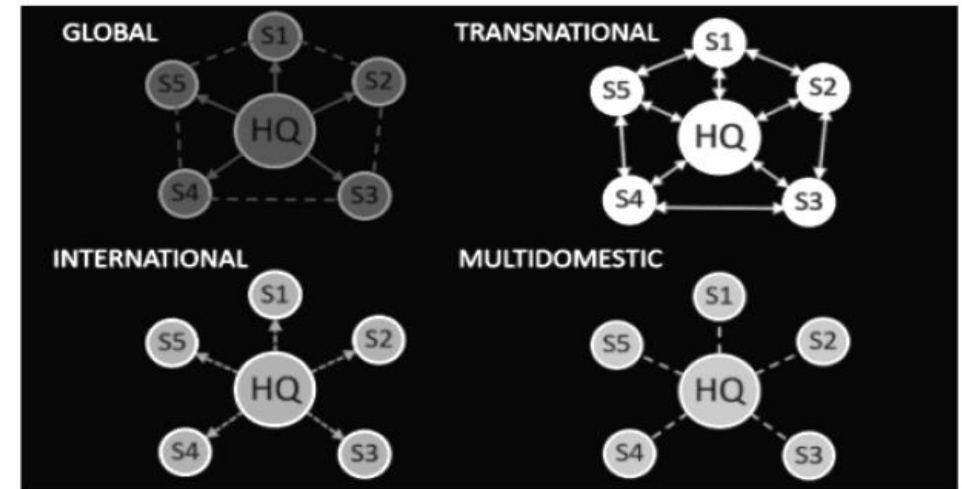
## OUTSOURCING & RESHORING

Outsourcing involves moving production overseas
Reshoring occurs when a business moves production back to the domestic country

| | |
|---|---|
| DRAWBACKS | Problems maintaining quality<br>Problems with delivery<br>A fall in the cost differential<br>A desire to be seen to support domestic jobs & production |
| INFLUENCES ON BUYING, SELLING & PRODUCING OVERSEAS | The pressure for growth<br>The pressure for lower costs<br>Location<br>The availability of suitable resources locally<br>The political and economic situation |
| MANAGING INTERNATIONAL BUSINESS | The extent to which the local market differs in terms of customer requirements<br>The costs of adapting products to local needs<br>The cost benefits (economies of scale) from standardising products and selling the same products all around the world.<br>The ease of managing the business centrally from one location. |

| BARTLETT & GHOSHAL MATRIX | |
|---|---|
| Highlights the strategic options in relation to two factors:<br>1. The Pressures for Local Responsiveness<br>2. The extent to which the business wants to be globally integrated. | |
| **1. INTERNATIONAL** | Per the Bartlett & Ghoshal model, an international business is considered to have a low degree of integration across countries, and a low level of customization for local market needs. This type of international strategy is used most often for companies that export products to other parts of the world, but produce their product in just one country. You might fall into this category if you manufacture a product that requires minimal if any adaptations for the local market, not even to packaging, but all your sales are handled locally. |
| **2. MULTI-DOMESTIC** | A multi-domestic company is the opposite of a global one, in terms of their international strategy. The multi-domestic company tailors and customizes their product and services to whatever degree is needed to appeal to local market needs. The HQ office has a hands-off approach. The HQ country staff put very little pressure on local offices to just follow the lead of HQ. Instead, local offices have a very high degree of autonomy and independence. The default expectation in this category of company isn't that local will bow to "corporate" of HQ. Each regional office functions separately and has a strong amount of local control. |
| **3. GLOBAL** | A global company, on the other hand, has more of a hub-and-spoke model. They are highly centralized and dependent on their HQ location, so their degree of global integration is high. Local offices don't have much autonomy, and their ability to adapt their product offering and operations is low. This international strategy offers a consistent product across the world, but seek to maximize operational efficiencies. The local offices implement decisions that come out of HQ. Local offices cannot flex and adapt much for their local customers. |
| **4. TRANSNATIONAL** | The company that maximizes both for the ability to execute locally while optimizing to gain global leverage is considered a transnational company. If this international strategy sounds like the best of both worlds, it really is! It's the gold standard, and what most companies ultimately seek to achieve. The idea with a transnational company is that you can drive scalability and leverage upstream, but create flexibility downstream in marketing and sales. For this model to work, local offices must be highly interconnected, with an excellent ability to communicate across regions and functions. |



## THE RISKS OF INTERNATIONALISATION

- Cultural differences
- Differences in negotiating & decision-making style
- Ethical standards
- Anti-globalisation feelings – local cultures have been damaged immensely by MNCs, MNCs have often land and cheap labour while causing significant pollution.
- Instability of the country

## IMPACT OF INTERNATIONALISATION ON THE FUNCTIONAL AREAS OF BUSINESS

- Market research activities – finding out about new markets and segments to target
- R&D as a business develops new products or modifies existing products for overseas.
- The purchasing of supplies – businesses have far more access to suppliers across the world.
- Production overseas is often far cheaper.
- Marketing decisions – such as how to promote and price products.
- HR – recruitment, selection, training and development issues.
- Exact impact depends upon strategy used.

## IMPACT OF A DECISION TO OFFSHORE PRODUCTION ON FUNCTIONAL AREAS

This may lead to:

- A relocation of production facilities and the development of the operation abroad.
- A reduction in staff domestically and the recruitment of employees overseas. Managing staff overseas may be problematic.
- Marketing being affected – will need to focus upon the key USP of the business
- Lower costs due to lower land and labour costs.

## DECISION TO TARGET NEW OVERSEAS MARKETS ON FUNCTIONAL AREAS

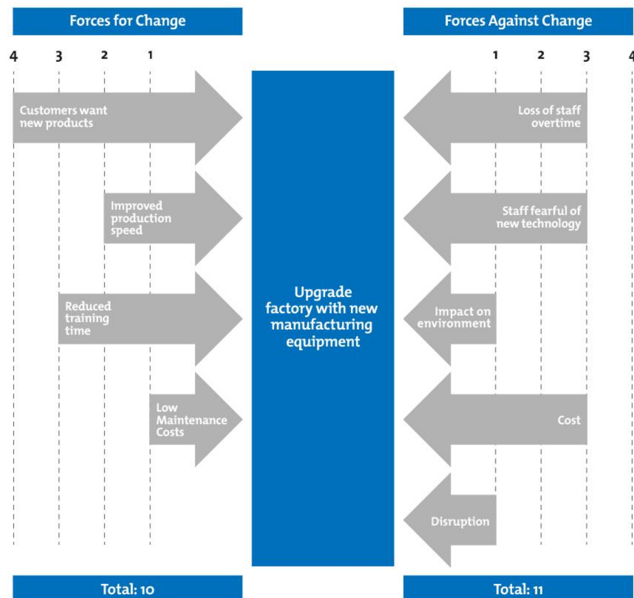
- Changes to the way products are produced
- Changes to the operations process to be able to produce products suitable for the new market
- Changes to HR decisions
- Changes to finances

## 3.9.4. ASSESSING GREATER USE OF DIGITAL TECHNOLOGIES

Digital technologies involves the use of digital resources to find, analyse, create, communicate and use information digitally. It can incorporate e-commerce, big data, data mining and enterprise resource planning.

| | |
|---|---|
| **E-COMMERCE** | Commercial transactions conducted electronically on the internet. This can involve Business 2 Business (B2B), Business 2 Customer (B2C) or even consumer 2 consumer (C2C).<br>E-COMMERCE offers the following benefits:<br>• Access to markets worldwide 24/7<br>• A new way in which customers can shop<br>• Relatively cheap start up costs<br>• Greater access to suppliers |
| **ENTERPRISE RESOURCE PLANNING** | A business management software system that allows a business to manage data relating to many of its activities. It should help to improve:<br>• Productivity & efficiency of the business by ensuring resources are fully used and are not idle<br>• Flexibility of the business & response time by being able to coordinate parts of the organisation more effectively. |
| **DATA MINING** | An analytical process designed to explore data to try and find patterns within it &/ or identify systematic relationships between variables. Data mining looks for possible relationships, for example, between different items a customer buys or how different market segments might respond to promotional offers. |
| **BIG DATA** | Is linked to data mining, but refers to the fact that technology has developed so that enormous quantities of data can be generated from customers and their transactions. |

| | |
|---|---|
| **IMPACT OF DIGITAL TECHNOLOGY** | • Improvements in communications and availability of information<br>• Better management<br>• Enabling new ways of doing business<br>• Changes in HR issues |
| **CHALLENGES OF DIGITAL TECHNOLOGY** | • Leadership<br>• Culture change<br>• The rate of change |
| **PRESSURES TO ADOPT TECHNOLOGY** | • The need to keep up with the market<br>• The need to keep pace with competitors' decision making & strategy<br>• The need to keep costs down |
| **THE THREATS OF DIGITAL TECHNOLOGY** | • Downward pressure on prices and on profit margins<br>• New unexpected competitors<br>• Keeping up with change |
| **THE IMPACT OF DIGITAL TECHNOLOGY ON THE FUNCTIONAL AREAS OF BUSINESS** | • Human resources<br>• Marketing<br>• Finance<br>• Operations |




## 3.10.1. MANAGING CHANGE

Businesses operate in an ever changing environment where change can be external or internal.

| | |
|---|---|
| **MANAGING STRATEGIC CHOICE** | Some changes that take place are:<br>• External – economic, political or competitive environments<br>• Internal – staff needs and identified improvements.<br><br>Change may be:<br>• Rapid & unexpected<br>• Long term<br>• Incremental<br>• Disruptive |
| **FUTURE DISRUPTIVE CHANGE** | • New applications that collect, report and respond to information from our own bodies<br>• 3D or additive manufacturing is the process of making 3D solid objects from a digital file of data.<br>• The internet of things – everyday items that have internet connectivity. |

## LEWIS FORCE FIELD ANALYSIS

Force-field analysis is a development in social science. It provides a framework for looking at the factors that influence a situation, originally social situations. It looks at forces that are either driving movement toward a goal or blocking movement toward a goal.

| | |
|---|---|
| **FORCES PUSHING FOR CHANGE** | • The need to keep up with the competition<br>• An increasing number of customer complaints<br>• New owners wanting higher returns<br>• A poor performance |
| **FORCES RESISTING CHANGE** | • A lack of finance for investment<br>• A reluctance on behalf of existing staff to change the way they do things<br>• Resistance from certain stakeholders groups that might be worse off following the change. |

| PRESSURES FOR CHANGE | • Internal from mangers or other employees keen to do things differently.<br>• External from PESTLE+C factors. |
|---|---|
| THE VALUE OF CHANGE | • Benefits to business performance<br>• Benefits to staff<br>• Benefits in repositioning the business |
| THE VALUE OF A FLEXIBLE ORGANISATION | • Restructuring<br>• Delayering<br>• Using flexible employment contracts<br>• Developing an organic structure rather than a mechanic structure (mechanistic structure is one in which there are many rules & procedures and clearly defined roles & levels of hierarchy<br>• Emphasising knowledge and information management |
| THE VALUE OF MANAGING INFORMATION & KNOWLEDGE | By managing data effectively managers can:<br>• Identify changes before or as they happen<br>• Develop suitable strategies to respond to or prepare for change<br>• Evaluate the effectiveness of the strategies adopted. |
| RESISTANCE TO CHANGE | 1. Self interest<br>2. Preference for the present situation<br>3. Differing assessment of the situation<br>4. Misunderstanding |
| OVERCOMING RESISTANCE TO CHANGE | 1. Education & communication<br>2. Facilitation & support<br>3. Participation & involvement<br>4. Manipulation & co-option<br>5. Negotiation & bargaining<br>6. Explicit & implicit coercion |

| 3.10.2. MANAGING ORGANISATIONAL CULTURE | |
|---|---|
| The culture of an organisation refers to the values, attitudes & beliefs of its employees | |
| HOW CULTURE IS DEMONSTRATED | • The stories behind the brand & customers helped<br>• Rituals<br>• The rewards system<br>• The physical environment |
| WHY CULTURES DIFFER | • Focus on profit<br>• Focus on safety<br>• Task vs People – is the task more important than the people and their wellbeing? |

## Handy's 4 Classes of Culture

A/C

### Power
Power radiates from a few Individuals
Found in entrepreneurial organisations
Few rules/ little bureaucracy
Decision making swift

### Role
People clearly delegated authorities
Highly defined structure role
Typically tall detailed organisational structure
Decision making slow

POWER

### Task
Power radiates from a few Individuals
Found in entrepreneurial organisations
Few rules/ little bureaucracy
Decision making swift

Functional Departments
Project Teams

### Person
People belief themselves Superior to the Organisation
Common in firms of professionals
Success depends on retaining key personnel

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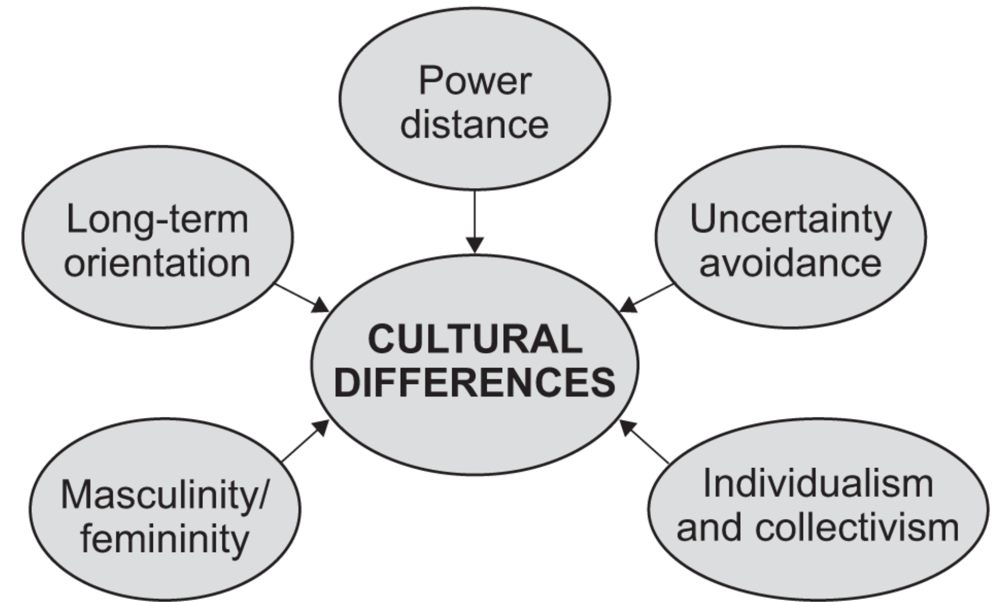
| HOFSTEDE'S NATIONAL CULTURE | |
|---|---|
| Based upon research of employees of IBM to see how cultures may differ around the world within the same organisation. | |
| **POWER DISTANCE** | Power distance is the degree a society accepts or rejects the unequal distribution of power in organisations and society. In high power distance cultures such as Japan, we expect to find great respect for age, status and titles. This could create problems for an American visitor used to the informality of a more moderate power distance culture, and accustomed to using first names and casual dress in the office. |
| **UNCERTAINTY AVOIDANCE** | Uncertainty avoidance is the degree a society tolerates or is uncomfortable with risk, change, and situational uncertainty. In high uncertainty avoidance cultures, such as France or Japan, one would expect to find a preference for structure, order and predictability. |
| **INDIVIDUALISM/ COLLECTIVISM** | Individualism-collectivism is the degree to which a society emphasises an individual's accomplishments and self-interest, versus the accomplishments and interests of groups. In Hofstede's data, the United States had the highest individualism score of any country. |
| **MASCULINITY/ FEMININITY** | Masculinity-femininity is the degree a society values assertiveness and materialism versus feelings, relationships, and quality of life. You might think of it as a tendency to emphasise stereotypical masculine or feminine traits and attitudes towards gender roles. Visitors to Japan, with the highest masculinity score in Hofstede's research, will probably notice how restricted career opportunities can be for women. |
| **LONG TERM ORIENTATION** | This is the degree to which a society emphasises short-term or long-term goals. Americans are notorious for being impatient and wanting quick, even instant gratification. Accordingly, American companies are expected to achieve short-term results. Many Asian cultures are the opposite, valuing persistence, being patient, and are willing to work for long-term success. |



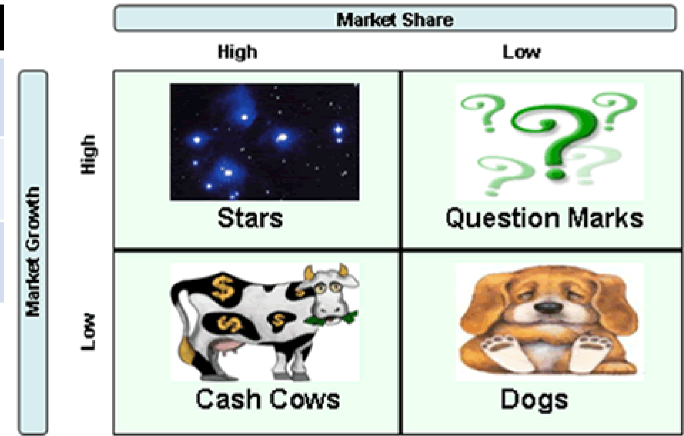

| | |
|---|---|
| **INFLUENCES ON ORGANISATIONAL CULTURE** | • The history of the business<br>• The present leadership<br>• Society in general<br>• Experience & the performance of the business<br>• Ownership |
| **REASONS FOR CHANGING ORGANISATIONAL CULTURE** | • New leader and/ or a new direction<br>• A change in society's values<br>• To improve performance<br>• New owners with new objectives |

| 3.10.3. MANAGING STRATEGIC IMPLEMENTATION | |
|---|---|
| Implementation means putting into action. Managers implement a plan when they make it happen. | |
| **IMPLEMENTING STRATEGY EFFECTIVELY** | • Planning what and who is needed where and when<br>• Setting clear standards of what is expected so that all those involved understand what they need to deliver<br>• Organising the resources required to do the job properly<br>• Coordinating what has to happen<br>• Ensuring the right people are in charge of the various parts of the strategy<br>• Establishing clear points at which progress can be measured and reviewed. |
| **LEADERSHIP & IMPLEMENTATION** | Leaders should offer the vision of where the business is heading. But must also oversee the implementation. This means a leader must:<br>• Make clear what is being done and why<br>• Gain the support of other senior, middle and junior managers who will have to put the strategy in place<br>• Ensure the required resources are in place<br>• Ensure effective communications<br>• Ensure that reward and appraisal systems are designed to ensure employees are aligned to the strategy<br>• Overcome any resistance to the strategy being implemented<br>• Ensure that there are clear stepping stones marking progress |
| **THE IMPORTANCE OF COMMUNICATION WHEN IMPLEMENTING A NEW STRATEGY** | • It can help to win support from stakeholders<br>• It can help to reduce trust and highlight the benefit to those involved in the process |
| **ORGANISATIONAL STRUCTURE IN STRATEGIC IMPLEMENTATION** | The structure of an organisation is the result of the decisions in several areas:<br>• What specific jobs are involved?<br>• How are jobs grouped together?<br>• How many people does a manager oversee?<br>• How many levels of authority are there?<br>• What authority do different jobs have? |

| ORGANISATIONAL STRUCTURES | | |
|---|---|---|
| **ORGANISATIONAL STRUCTURE** | The way in which a business is arranged to carry out its activities. This is often represented in an organisation chart which sets out authority and responsibility within the organisation. Internal, formal framework. | |
| **HIERARCHY STRUCTURES** | Designed on the layers/levels with the organisation with fewer people on each level at the top of the hierarchy. Decision making power at the top of the chart. Can be based on functional areas but also divided by product or geography.<br>Tall – lots of levels in the hierarchy with wide span of control. Pyramid shaped.<br>Flat – fewer layers in the hierarchy with narrow span of control. | |
| **MATRIX STRUCTURES** | An organisational structure that creates project teams that cut across traditional functional departments. | |
| **INFORMAL STRUCTURES** | Exist when there is not a natural, obvious structure, for example, solicitors, doctors) that usually work as a team. Requires high motivation and individual organisation. | |
| **CHAIN OF COMMAND** | This is the route through which authority is passed down an organisation – from the chief executive and the board of directors. | |
| **SPAN OF CONTROL** | The number of subordinates reporting directly to a manager. | |
| **DELEGATION** | Passing authority down the organisational hierarchy. | |
| **PROS AND CONS OF DELEGATION** | +Give managers more time for strategic<br>+Shows trust, staff fulfilment (SA Maslow) | - Only works with authority<br>- Boring jobs often delegated |
| **CENTRALISATION** | Keeping all of the important decision making powers within head office or the centre of the organisation. | |
| **ADVANTAGES OF CENTRALISATION** | + Rapid decision making<br>+ Prevents conflict and avoids confusion | + Decisions taken for whole business<br>+Economies of scale |
| **DECENTRALISATION** | Decision-making powers are passed down the organisational to empower subordinates and regional/product managers. | |
| **ADVANTAGES OF DECENTRALISATION** | +Local decisions reflect diff conditions<br>+Junior managers can develop | +Delegation/empowerment easier<br>+Local decision making quicker |

# 3.10.3. MANAGING STRATEGIC IMPLEMENTATION

| ENVIRONMENT ASSESSMENT | |
|---|---|
| 1. PEST | Assessment on the EXTERNAL ENVIRONMENT. Most likely on ECONOMIC factors. |
| 2. SWOT | Assessment of the businesses internal STRENGTHS & WEAKNESSES & external OPPORTUNITIES & THREATS. |
| 3. BOSTON MATRIX | Identification of business's PRODUCT PORTFOLIO & products to grow or divest. |



| IMPLEMENTATION PLANNING | |
|---|---|
| 1. IDENTIFY KEY ACTIONS | Based upon business analysis. |
| 2. IMPLEMENT | What is the best approach & why? What does this depend upon? |
| 3. MONITOR & REVIEW | Evaluate success, sales, repeat business, use of profit centres, feedback. |

| ORGANIZATIONAL DIRECTION | |
|---|---|
| 1. CORPORATE OBJECTIVES | Identification of the businesses plans & direction. |
| 2. PORTER'S GENERIC STRATEGIES | Refer to businesses' source of competitive advantage |
| 3. ANSOFF MATRIX | Identify potential sources of growth which fit with business internal |
| 4. PORTER'S 5 FORCES | |

| STRATEGY FORMULATION | |
|---|---|
| 1. IDENTIFY STRATEGY | Based upon business analysis. |
| 2. OBJECTIVES | SMART Objective appropriate for scenario. |

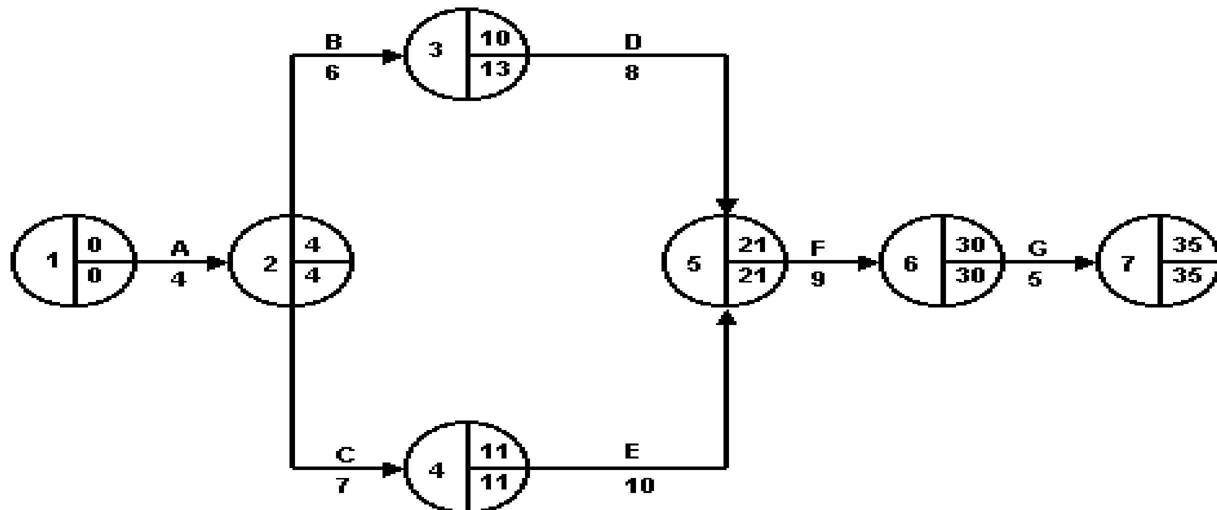
| *Target/Market Scope* | *Advantage* | |
|---|---|---|
| | *Low Cost* | *Product/Service Uniqueness* |
| *Broad (Industry Wide)* | Cost Leadership Strategy | Differentiation Strategy |
| *Narrow (Market Segment)* | Focus Strategy (low cost) | Focus Strategy (differentiation) |

| | Existing Products | New Products |
|---|---|---|
| Existing Markets | Market Penetration | Product Development |
| New Markets | Market Development | Diversification |

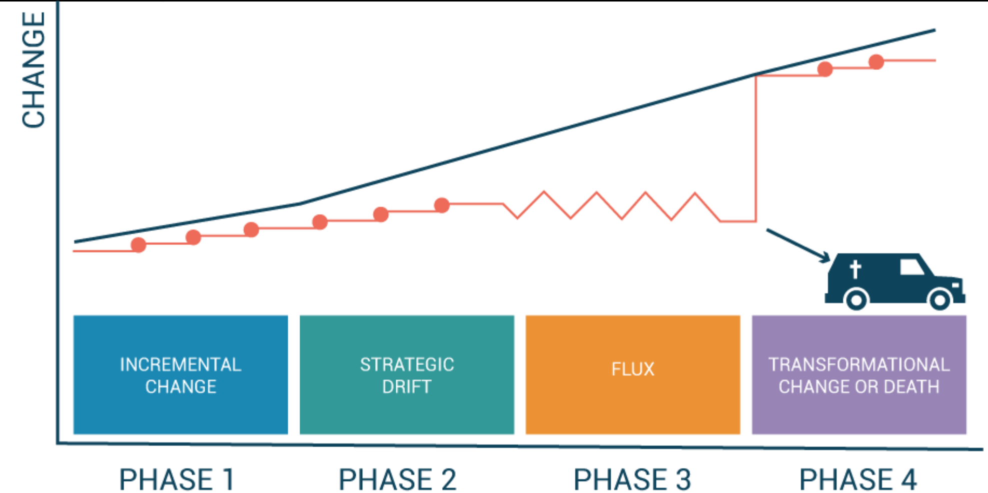
| NETWORK ANALYSIS | |
|---|---|
| A project analysis and planning method that allows a project to completed in the shortest possible time. | |
| **FREE FLOAT** | This is the amount of spare time available for an activity without delaying the NEXT ACTIVITY. FREE FLOAT = EST at end of activity – (EST at start + Duration of activity). |
| **TOTAL FLOAT** | The amount of spare time available for an activity without delaying the WHOLE PROJECT. TOTAL FLOAT = Activity's LFT – (Activity's EST + Activity's duration). |

| ADVANTAGES | DISADVANTAGES |
|---|---|
| ▶Provides decision makers with a picture of a problem which may become easier to interpret; ▶Encourages forward planning – ensures all tasks in a particular operation have been identified and timed from start to finish; ▶Improve efficiency in production – use of JIT; ▶Controls cash flow – by not ordering supplies too early. | ▶Construction of a network will not guarantee the smooth completion of the project; ▶Some projects are immense. Network diagrams may become complex and unmanageable; ▶Network analysis will only be helpful if the data used to construct diagrams is reliable. |

| **EVALUATION** | Some projects may be just too complex, delays can occur unexpectedly & this will require frequent monitoring throughout a project. Project will need good management throughout to stay on target. CPA alone cannot guarantee success. |
|---|---|




| 3.10.4. PROBLEMS WITH STRATEGY & WHY STRATEGIES FAIL | |
|---|---|
| **PROBLEMS WITH STRATEGY** | It requires the ability to:<br>• Identify what really matters & ask the key questions<br>• Make judgements on the relative importance of issues and the priority that should be given to different elements of a plan.<br>• Persuade others that the plan is right and then to make it happen |
| **DIFFICULTIES OF STRATEGIC DECISION MAKING** | • It involves risk<br>• Every case example is different and requires a focused approach.<br>• The impact of changes may only be realised in the long run. |
| **WHY DO STRATEGIC DECISIONS GO WRONG?** | • The wrong objectives are set<br>• The data may not be easily available<br>• Data maybe badly analysed<br>• The implementation can go wrong<br>• The progress of the plan is misread<br>• The strategy may be wrong. |
| **PLANNED VS EMERGENT STRATEGY** | The **planned strategy** is the one the managers intend to implement.<br>The **emergent strategy** is the one that develops over time. |
| **REASONS FOR STRATEGIC DRIFT** | Occurs when the strategy of the business no longer matches with the environment in which it operates.<br>Strategic drift may be due to a failure to identify the changes that are occurring and/ or a failure to react quickly enough. |



| | |
|---|---|
| **THE POSSIBLE EFFECT ON STRATEGY OF THE DIVORCE BETWEEN OWNERSHIP & CONTROL** | • Corporate governance – the systems and processes that are in place to monitor and control how a business is run.<br>• Strategic decisions are made by senior leaders which could lead to a divorce of ownership and control from the original founders. |
| **EVALUATING STRATEGIC PERFORMANCE** | This means assessing whether the strategy worked it can be assessed in a variety of ways:<br>• Increased revenue<br>• Increased profits<br>• Greater spend per customer<br>• Increased brand loyalty<br>• Increased revenue per employee |
| **THE VALUE OF STARTEGIC PLANNING** | • It bases plans on data<br>• It can provide a strategy that sets out for managers what the business is doing & how to do it<br>However, it must be remembered that:<br>• The environment can change so fast that strategic plans may need reviewing regularly.<br>• The level of detail in a strategic plan may be helpful in some cases but may make things inflexible in other circumstances. |

| **CONTINGENCY PLANNING** | |
|---|---|
| **CONTINGENCY PLANNING** | Aims to minimise the impact of foreseeable yet non critical events.<br>Involves gathering detailed information on predictable situations & use computer models. Asks 'what if' questions. |
| **CRISIS MANAGEMENT** | Involves damage limitation strategies and places a heavy emphasis on PR & media relationships;<br>Emphasizes the need for a flexible response to any situation. |
| **STAGES IN CONTINGENCY PLANNING** | Recognising the need for contingency planning; Distinguishing between issues that are critical & those that are non-critical; Listing all possible crisis scenarios & using sensitivity analysis & 'what if' questions; Searching for ways to prevent each crisis; Formulating plans for dealing with each crisis; Simulating each crisis and the operation of each plan. |
| **STRENGTHS** | Anticipating risks e.g. new competitor products, falls in revenues, Developing mitigation strategies e.g. ensuring sufficient working capital, improving working practices, Mobility of business strategies – having a plan B, Allows for opportunity planning, Ensures staff are trained and ready to adapt, Makes business look responsible to stakeholders |
| **WEAKNESSES** | Requires strong, flexible leadership who can respond to differing circumstances; Staffing required to assess risk and develop contingency plans, Similar to insurance, Contingency planning doesn't actually reduce risk, just helps you to plan for it, Opportunity cost of resources devoted to contingency planning. |
| **EVALUATION** | The extent to which businesses develop contingency plans will be determined by the level of risk faced in that particular industry.<br>For example, oil and shipping companies face a great deal of risk. This can be due to unfavourable trading conditions in a country, piracy, adverse weather or price fluctuations.<br>Trade off between costs and benefits. |