Unit 12: Strategic Planning

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Content

- Learning Objectives:
- Ac. 2 Be able to review existing business plans and strategies of an organisation:
  - 2.2: Review the position of an organisation in its current market
  - 2.3: Evaluate the competitive strengths and weaknesses of an organisation's current business
- Assessment Criteria
- References

2.2 Review the position of an organisation in its

- current market

How to Determine Your Business's Market Position

- Organizations are not isolated entities but operate in the context of an external environment (Kumar, 2016). It is therefore imperative to not only evaluate oneself on an absolute scale but more so in relation with what is happening on the exterior.

- One of the foremost prerequisites in defining an organization's strategic orientation is the knowledge of the organization's current positioning.

How to Determine Your Business's Market Position

- You need to know your business's market position before you can create an effective brand for your business (or product, or service). Determining market position depends on three main tasks (dummies.com, 2016):
  - Figure out your point of difference. Your unique attributes are what set you apart from your competitors and attract clients to your offering.
  - Decide which customers you serve the best. Focus on the market segment you serve best. Instead of trying to please all people in all ways, great brands please some people — a defined segment of market — in an extraordinary way because of the unique and meaningful attributes and experiences the brands offer.

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- Find your place in the competitive landscape. Look at how your offering fits within your competitive landscape, including:
  - How your customers think your offering ranks.
  - How you think your offering ranks.

Conducting a Competitor Analysis

- infoentrepreneurs.org (2016) notes that once you have been running your business for a while, you will probably have a clearer idea of your competitors. Gathering more information may cost time, money and effort, but there are many benefits to knowing more about what your competition is doing.

- The type of competitor information that will be really useful to you depends on the type of business you are and the market you're operating in. Questions to ask about your competitors as noted by infoentrepreneurs.org (2016 include:
  - who they are?
  - what they offer?
  - how they price their products?
  - what the profile and numbers of their customers are compared to yours?
  - what their competitive advantages and disadvantages are compared to yours?
  - what their reaction to your entry into the market or any product or price changes might be

Finding out more about Your Competitors

- According to infoentrepreneurs.org (2016) there are three main ways to find out more about your competitors:
  - **What they say about themselves -** sales literature, advertisements, press releases, shared suppliers, exhibitions, websites, competitor visits, company accounts.
  - **What other people say about them -** your sales people, customers, local directories, the Internet, newspapers, analysts' reports, market research companies.
  - **Commissioned market research -** if you need more detailed information, you might want to commission specific market research.

Customer and Markets Analysis

- A business review offers you the opportunity to stand back from the activity outlined in your plan and look again at factors such as infoentrepreneurs.org (2016):
  - changes in your market
  - new and emerging services
  - changes in your customers' needs
  - external factors such as the economy, imports and new technology
  - changes in competitive activity

Market Share

- According to quickmba.com (2016) sales figures do not necessarily indicate how a firm is performing relative to its competitors'. Rather, changes in sales simple may reflect changes in the market size or changes in the economic conditions.

- The firms performance relative to competitors can be measured by the proportion of the market that the firm is able to capture. This proportion is referred to as the firm's market share and is calculated as the firm's sales divided by Total Market Sales (MS=FS/TMS.

- Sales may be determined on the value basis (sales price multiplied by volume) or on a unit basis (# of units shipped or # of customers served). The firms' own sale figures are readily available from Trade Associations and market research firms.

2. 3: Evaluate the competitive strengths and weaknesses of an organisation's current business

How to Identify Competitive Strengths and Weaknesses?

- As organisation establishes its footing in the market place, it needs to be able to identify its distinct advantages and weaknesses that will allow the business to gain in its competitors.

- There are several tools that an organisation can use to identify its competitive strengths and weaknesses:
  - Sustainable Competitive Advantage
  - Pricing Strategies
  - Economies of Scale and Scope
  - Comparative Analysis

Sustainable Competitive Advantage (SCA)

- SCA occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Boundless Marketing, 2015). These attributes can include access to natural resources or access to highly trained and skilled personnel human resources.

- It is an advantage (over the competition), and must have some life; the competition must not be able to do it right away, or it is not sustainable.

- It is an advantage that is not easily copied and, thus, can be maintained over a long period of time.

Criteria For Competitive Capabilities

- In 1991, Jay Barney established four criteria that determine a firm's competitive capabilities in the marketplace (Boundless marketing, 2015) . These four criteria for judging a firm's resources are:

  1. Are they valuable? (Do they enable a firm to devise strategies that improve efficiency or effectiveness?)
  2. Are they rare? (If many other firms possess it, then it is not rare.)
  3. Are they imperfectly imitable (because of unique historical conditions, causally ambiguous, and/or are socially complex)?
  4. Are they non-substitutable? (If a ready substitute can be found, then this condition is not met?)

- When all four of these criteria are met, then a firm can be said to have a sustainable competitive advantage.

Pricing Strategies

- According to Richards (2016) pricing is one of the four elements of the marketing mix, along with product, place and promotion. Pricing strategy is important for companies who wish to achieve success by finding the price point where they can maximize sales and profits. Companies may use a variety of pricing strategies, depending on their own unique marketing goals and objectives.

  - **Premium Pricing:** strategy establishes a price higher than the competitors. It's a strategy that can be effectively used when there is something unique about the product or when the product is first to market and the business has a distinct competitive advantage.

Pricing Strategies Cont

- **Penetration Pricing:** strategy is designed to capture market share by entering the market with a low price relative to the competition to attract buyers. The idea is that the business will be able to raise awareness and get people to try the product.

- **Economy Pricing: c**ompanies take a very basic, low-cost approach to marketing--nothing fancy, just the bare minimum to keep prices low and attract a specific segment of the market that is very price sensitive. Eg. Wal-mart and Aldi (Food Store).

- **Price Skimming**: Businesses that have a significant competitive advantage can enter the market with a price skimming strategy designed to gain maximum revenue advantage before other competitors begin offering similar products or product alternatives.

- **Psychological Pricing**: strategy is commonly used by marketers in the prices they establish for their products. For instance, $99 is psychologically "less" in the minds of consumers than $100. It's a minor distinction that can make a big difference.

Economies of Scale

- These are factors that cause the average cost of producing something to fall as the volume of its output increases (Economist.com, 2008). Hence it might cost $3,000 to produce 100 copies of a magazine but only $4,000 to produce 1,000 copies. The average cost in this case has fallen from $30 to $4 a copy because the main elements of cost in producing a magazine (editorial and design) are unrelated to the number of magazines produced. Can be gleaned from:
  - *Internal* - these are cost savings that accrue to a firm regardless of the industry, market or environment in which it operates.
  - *External* - *t*hese are economies that benefit a firm because of the way in which its industry is organised.

- Diseconomies of scale: The larger an organisation becomes in order to reap economies of scale, the more complex it has to be to manage and run such scale. This complexity incurs a cost, and eventually this cost may come to outweigh the savings gained from greater scale. In other words, economies of scale cannot be gleaned for ever.

Economies of Scope

- These are factors that make it cheaper to produce a range of products together than to produce each one of them on its own (economist.com, 2008). Such economies can come from businesses sharing centralised functions, such as finance or marketing. Or they can come from interrelationships elsewhere in the business process, such as cross-selling one product alongside another, or using the outputs of one business as the inputs of another.

- A number of conglomerates put together in the 1990s relied on cross-selling, thus reaping economies of scope by using the same people and systems to market many different products. The combination of Travelers Group and Citicorp in 1998, for instance, was based on the logic of selling the financial products of the one by using the sales teams of the other.

Comparative Analysis

- Businessdictionary.com (2016) defines this as the item-by-item comparison of two or more comparable alternatives, processes, products, qualifications, sets of data, systems, or the like.

- In accounting, for example, changes in a financial statement's items over several accounting periods may be presented together to detect the emerging trends in the company's operations and results. See also comparability analysis.

Assessment Criteria

- To Be Discussed in Class for Consensus and Agreement.

Further Reading

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- Richards, Leigh (2016) *"Different types of Pricing Strategy"* retrieved from http://smallbusiness.chron.com/different-types-pricing-strategy-4688.html