Unit 12: Strategic Planning

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Content

- Learning Objectives:
- Ac. 3: Be able to develop options for strategic planning for an organisation:
  - 3.1 Use modelling tools to develop strategic options for an organisation;
  - 3.2 Develop a comparative understanding of activity from organisations in the market
- References

3.1 Use modelling tools to develop strategic options for an organisation

Importance of Developing Strategic Options

- It is important that businesses developed strategic options throughout the planning process.

- Strategic planning may be characterized as a systematic effort to produce fundamental decisions and actions that shape and guide what a business organization is, what it does, and why it does it. The objective of strategic planning is to develop a map by which to manage an organization's positioning (Referenceforbusiness.com, 2016).

Tools for conducting Strategic Options

- Some of the tools use to conduct Strategic Options for organisations include:
  - Ansoff Matric Strategies
  - Vertical, backwards and forwards integration;
  - Horizontal integration;
  - Differentiation;
  - Cost leadership;
  - Mintzberg's strategies (deliberate, emergent);

Ansoff Matric Strategies

- To portray alternative corporate growth strategies, Ignor Ansoff presented a matrix that focus on the firm's present and potential products and markets (customers) (quickmba.com, 2016).

- By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations.

Ansoff Matrix

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

- Market Penetration: the firm seeks to achieve growth with existing products in the current market segments, aiming to increase its market shares.
- Market Development: the firm seeks growth by targeting its existing products to new markets segment.

Ansoff Matrix

- Product Development: the firm develops new products targeted to its existing market segment.
- Diversification: the firm grows by diversifying into new businesses by developing new products for new markets.

- Selecting a product –Market Growth Strategy:
  - Market penetration is least risky since it leverages many of the firm's existing resources and capacities.
  - Market development options include the pursuit of additional market segments or geographical regions.
  - Productive development strategy mat be appropriate if the firm's strengths are related to its specific customers rather than to a specific product itself.
  - Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm.

Mintzberg Strategy

- According to Ehn and Zeng, 2006) the model of Mintzberg and Waters (1985) about **intended** and **emergent strategy** is one of the most famous theories in the strategy process. This model gives the vivid picture about how the different strategies do work and it has already been quoted by dozens of theorists in different situations.

Deliberate (Intended) strategy

- A perfectly deliberate and intended strategy must satisfy 3 conditions (innovaders.com, 2016):
  - Precise and articulated intentions must exist in a concrete level of detail
  - Seeing organizations as collective action, intention must be common knowledge to virtually all the actors in the organization.
  - These collective intentions must have been realized exactly as intended – (also meaning that no external forces could have interfered with them).

Emergent strategy

- A perfectly emergent strategy is characterised by order, but in the absence of intention about it (innovaders.com, 2016). It is although difficult to imagine action in the total absence of intention. Emergent strategy does not mean chaos, but in essence *unintended order*

- Mintzberg and Waters (1985) expect that purely emergent strategies are as rare as the purely deliberate one. It is more likely to find tendencies in the direction of deliberate and emergent strategies rather than perfect forms of either.

- As a consequence of the above, the authors see emergent and deliberate strategies as two poles, where different types of strategy can bee said to exist in the space between them.

- They introduce the following strategies, where the first strategies fall closest to the deliberate strategy-pole and ending in the last strategies closest to reflecting the characteristics of emergent strategies.

Conducting a Competitor Analysis

Strategy	Major Features
Planned	Originate in formal plans: precise intentions exit, formulated and articulated by central leadership, backed up by formal controls to ensure surprise-free implementation. (strategies mostly deliberate)
Entrepreneurial	Strategies originate in central vision: intentions exist as personal, unarticulated vision of single leader, and so adaptable to new opportunities (strategies relatively deliberate but can emerge)
Ideological	Strategies originate in shared beliefs, intentions exist as collective vision of all actors, in inspirational form and relatively immutable, controlled normatively through indoctrination and/or socialization. (strategy largely deliberate)
Umbrella	Strategies originate in constraints, leadership, in partial control of organizational actions, defined strategic boundaries or targets within which other actors respond to own forces or to complex, perhaps also unpredictable environment. Strategy partly deliberate, partly emergent and deliberately emergent
Process	Strategies originate in process: leadership controls, process aspects of strategy (hiring, structure, etc.), leaving content aspects to other actors (strategies partly deliberate, emergent and deliberately emergent).

Adopted from: http://www.innovaders.com/strategy/general.htm

Backward and forward integration

- Backward and forward integration are strategic initiatives companies may perform to reduce risks and interdependencies with external business partners in the supply chain (businessmate.org, 2011)

- The main difference between forward integration and backward integration is focus. When companies are looking forward they are usually looking to expand their distribution or improve the placement of their products, while backward movement usually involves internal steps to reduce overall dependency on things like suppliers and service providers. Stated differently, forward integration focuses on the manner in which a company oversees its product distribution, while the backward form concentrates on how a company regulates its goods and supplies (wisegeek.org, 2016).

Mergers and Acquisitions (M&A)

- According to Lemkin (2013) M&A happens when a CEO sees a strategic gap in the future, or a VP sees a gap in what he/she can get done in the next 12-18 months — and fills that gap to with a deal, right or wrong.

Mergers and Acquisitions Definitions

Classified by the relatedness of business activities of the parties to the combination:

Type	Characteristic	Example
Horizontal merger	Companies are in the same line of business, often competitors.	Walt Disney Company buys Lucasfilm (October 2012).
Vertical merger	Companies are in the same line of production (e.g., supplier–customer).	Google acquired Motorola Mobility Holdings (June 2012).
Conglomerate merger	Companies are in unrelated lines of business.	Berkshire Hathaway acquires Lubrizol (2011).

3. Motives for merger

Creating Value

- Synergy
- Growth
- Increasing market power
- Acquiring unique capabilities or resources
- Unlocking hidden value

Cross-Border Mergers

- Exploiting market imperfections
- Overcoming adverse government policy
- Technology transfer
- Product differentiation
- Following clients

Dubious Motives

- Diversification
- Bootstrapping earnings
- Managers' personal incentives
- Tax considerations

Competitive strategies

- Competitive strategies are the method by which you achieve a competitive advantage in the market (toolkit.smallbiz.nsw.gov.au, 2016). There are typically three types of competitive strategies that can be implemented. They are cost leadership, differentiation and a focus strategy. A mixture of two or more of these strategies is also possible depending on your business' objectives and current market position.

- Cost Leadership: The aim of this strategy is to be a low-cost producer relative to your competitors and is particularly useful in markets where price is a deciding factor. Cost leadership is often achieved by carefully selecting suppliers and production techniques to minimise production, distribution and marketing costs. However you need to be aware of any serious loss in quality that may render low cost ineffective.

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- Further reading at: http://toolkit.smallbiz.nsw.gov.au/part/3/12/60

Value-based pricing

- Value-based pricing sells the product at the price based on the customer's perceived value of the product. A good example where such a pricing system is used is on luxury items where the actual value is quite different from the perceived value. For example, a luxury item may not actually cost nearly as much to make as what people are prepared to pay for it.

- It is important to note that this method of pricing is based on a sound understanding of how customers judge value and may only be possible after a product has a strong reputation.

Further Reading

1. http://www.quickmba.com/strategy/matrix/ansoff/
2. http://www.referenceforbusiness.com/management/Sc-Str/Strategic-Planning-Tools.html
3. http://www.innovaders.com/strategy/general.htm
4. *https://www.cfainstitute.org/learning/.../corporate_finance_chapter10.ppt*...

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