

Business Strategy

How to formulate a new strategy

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WEEK NINE
LECTURER: N. QUARRIE

Objectives

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- By the end of this lesson you should be able to:
- 3.2 justify the selection of a strategy



Overview

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- After creating a strategy what's the next step before even implementing that strategy?
- The next immediate step is to try to justify the strategy to senior management.
- So lets say you are apart of the marketing department and the department was tasked with creating a new strategy to increase sales. After creating the strategy wouldn't the department need to justify the strategy to your boss?

Why do we need to justify chosen strategy?

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- Implementing a strategy can be very costly and thus the senior managers need to be convinced that the strategy they will be spending their money on will be worth it.
- It will help to clarify any misconceptions that exists.
- It will help to showcase whether or not the persons who conceptualized the idea were very clear about the strategy
- Justification could also capture answers to how, when, potential persons to work on the strategy etc.

How to justify strategy?

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- The justification of your strategy is dependent on the strategy you will be justifying. So the justification of a marketing strategy will be different compared to one that is production based.
- It is therefore important that you do extensive research so that you have valid points to justify your strategy.

How to justify strategy?

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- Use the experience of other companies who may have implemented the same strategy and have succeeded in doing so.
- Ensure that that the strategy is relevant to the company's current economic situation.

How to justify strategy?

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- Example:
- Lets go through the process of justifying a pricing strategy.
- Lets say that you own a boutique that has branches all over the world. And you recently decided that you want to increase your revenues. In order to do so you have opted to use a pricing strategy. This strategy could go two ways. It could be that you are planning to increase or decrease price.

How to justify strategy?

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- According to by Craig Keolanui on <http://smallbusiness.chron.com/> “An effective pricing strategy in the fashion industry is one that can be justified based on the quality of goods being sold, location and competition.”
- So lets justify our pricing strategy based on these three highlighted points: quality of goods being sold, location and competition.

How to justify strategy?

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- Competition: Evaluate what your competitors are doing. What are your competitors doing?
- “What kind of pricing strategies do they have and what is the perceived quality of their merchandise. Consider Abercrombie and Fitch and Aeropostale.”



How to justify strategy?

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- Competition: “In one particular quarter, Aeropostale had a gross profit margin of just under 18 percent while Abercrombie enjoyed a gross profit margin just under 64 percent. This allows Abercrombie to spend more on marketing in order to justify high prices and establish a high-end branding strategy. Aeropostale might produce somewhat similar merchandise, but has a pricing strategy that relies heavily on volume.”
- <http://smallbusiness.chron.com/>

How to justify strategy?

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- Quality of your products :
- ‘Quality is another factor in justifying a pricing strategy. The quality of the fabric and other components of your products can justify a higher price, especially if there is a noticeable difference between your products and those produced from your competitors.’
- <http://smallbusiness.chron.com/>

How to justify strategy?

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- Quality of your products :
- “If you use higher-quality materials and methods of putting your product together, a higher price can be expected and a strategy of pricing your products too low might only mislead the consumer and lead to lower sales.”
- <http://smallbusiness.chron.com/>

How to justify strategy?

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- Location: ‘There is a big difference between selling clothes and accessories at the mall or in the suburbs or on the Internet. The mall has more competition, but thanks to the high level of foot traffic and more expensive leases, higher prices can be justified. The opposite can be said about Internet sales.
- <http://smallbusiness.chron.com/>

How to justify strategy?

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- Location; “Retail locations in the suburbs can justify higher prices if competition is non-existent, however, prices that are too high will make going to the mall a better value. This is concept is considered "geographical pricing," which also can extend beyond the borders of the United States and even can influence Internet pricing.”
- <http://smallbusiness.chron.com/>

Points to note

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- During the presentation of the strategy be sure to
- communicate the strategy well
- be confident
- Make use of visual aid
- Use stimulation exercise or scenarios

Video

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- Pricing strategy

https://www.youtube.com/watch?v=DLOAL_URp6M

<https://www.youtube.com/watch?v=XBmWEduod5k>

In class activity

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- Now for the purpose of you being better able to
- Select a strategy eg pricing strategy, location strategy etc. In groups of four come up with four reasons why you think this strategy will work

Review Questions

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1. Discuss THREE reason a strategy selection must be justified?
2. What are some of the key points to note when justifying a strategy selection?
3. Explain the key points that could be used to justify a pricing strategy.

References

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- [Businessdictionary.com](http://businessdictionary.com)
- Craig Keolanui, ‘Justification of Pricing Strategy in the Fashion Industry’
<http://smallbusiness.chron.com/justification-pricing-strategy-fashion-industry-77306.html>