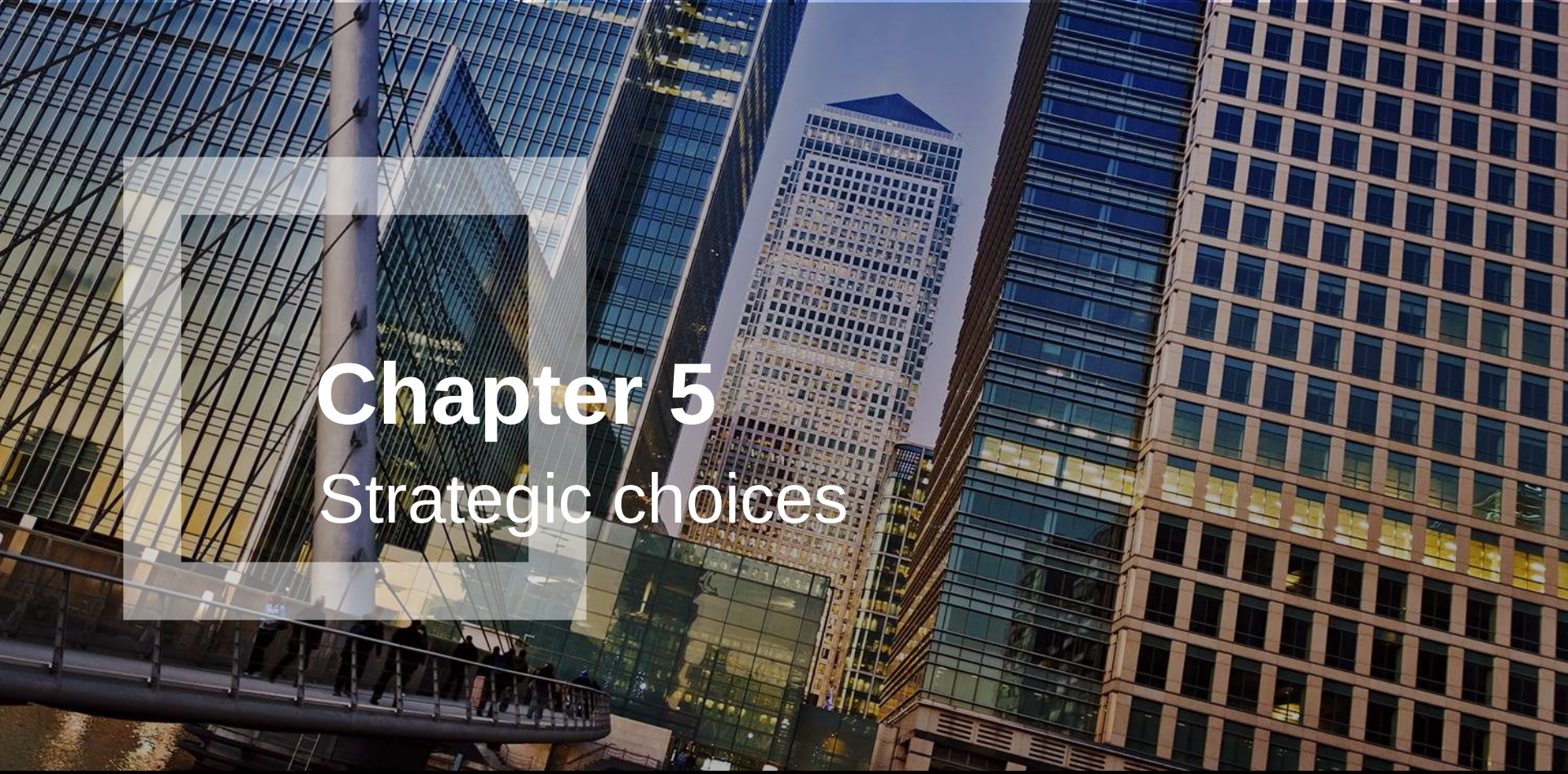


Chapter 5

Strategic choices

Key to chapter content icons

Chapter overview

Technical content

Activity

Answer to activity

Real world example

Exam focus

Model

Resources

Key questions

Chapter summary

Learning Outcome

On completion of chapter 5, you will **be able to**:

- assess how an organisation may choose to compete
- advise on how price based strategies, differentiation and lock-in can help an organisation sustain its competitive advantage
- discuss the capabilities required to sustain competitive advantage
- assess and advise on how an organisation can be empowered to reach its strategic goals, improve its results and be more competitive

Learning Outcome

On completion of chapter 5, you will **be able to**:

- recommend generic development directions using the Ansoff matrix assess the opportunities and potential problems of pursuing different organisation strategies of product/market diversification from a national, multinational and global perspective

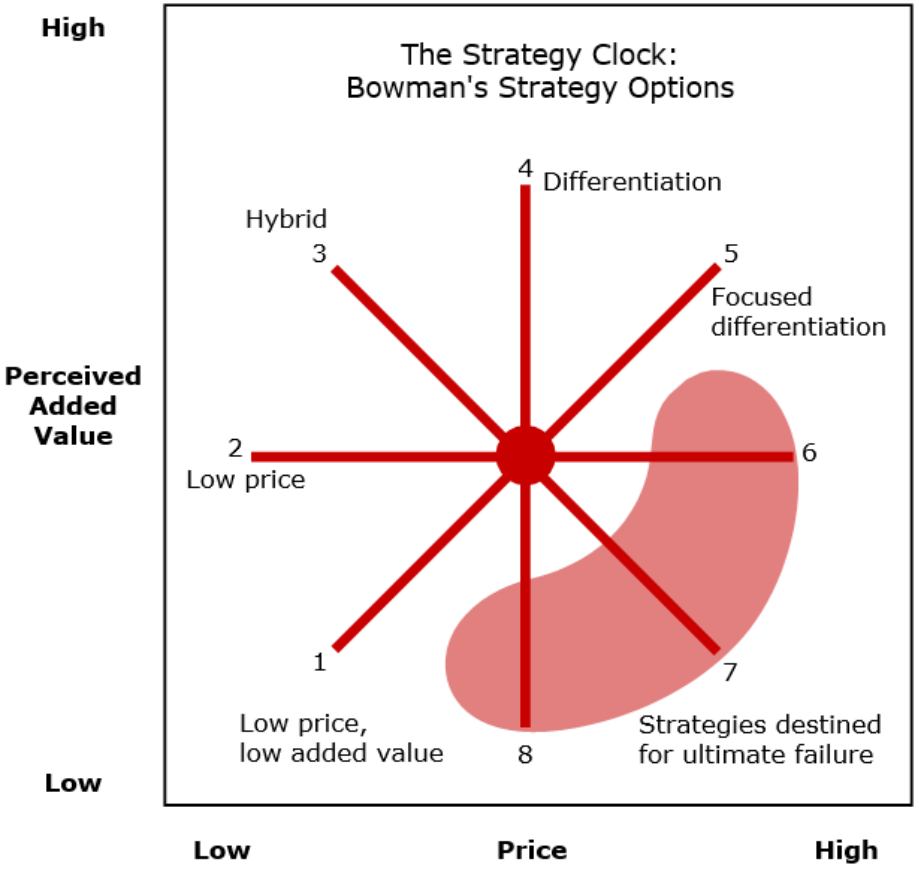
- assess the suitability, feasibility and acceptability of different strategic options to an organisation

CHAPTER 5: Strategic choices

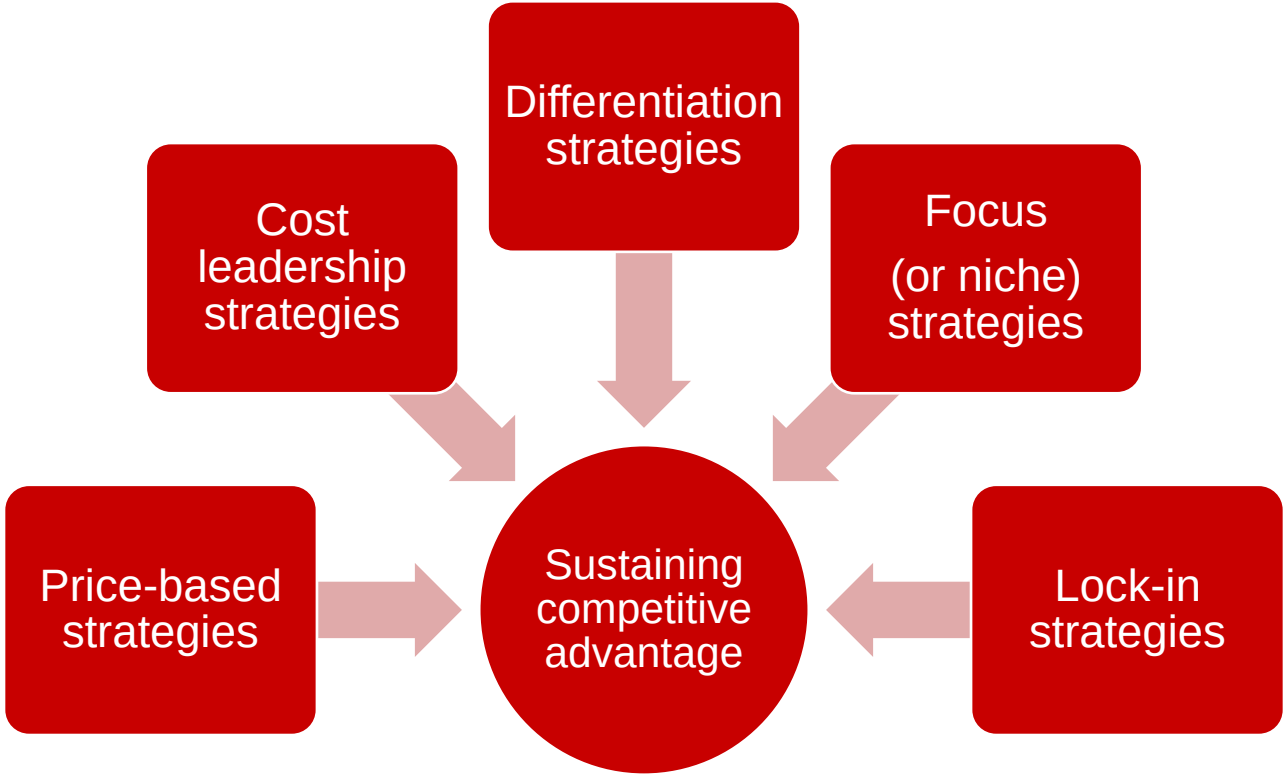
Competitive Strategy

Broad Scope	Cost Leadership	Differentiation
Where		
Narrow Scope	Focus	

Bowman's strategy clock



Sustaining competitive advantage



Price-based strategies

- Accept reduced margin
- Win a price war
- Cost leadership
- Focus on specific segments

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Cost leadership strategy

- Being the lowest cost producer in the industry as a whole
- Organisation can compete on price with every other organisation in the industry
- How to achieve overall cost leadership
  - Economies of scale
  - Technology
  - Learning curve effect
  - Improve productivity
  - Minimise overheads
  - Favourable access to sources of supply

Differentiation strategies

- Assumes that competitive advantage can be gained through particular characteristics of an organisation's products
- Three categories
  - Breakthrough products
  - Improved products
  - Competitive product
- Differentiation methods
  - Brand image
  - Special features
  - Exploit other value chain activities

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Real world example: Dyson differentiation

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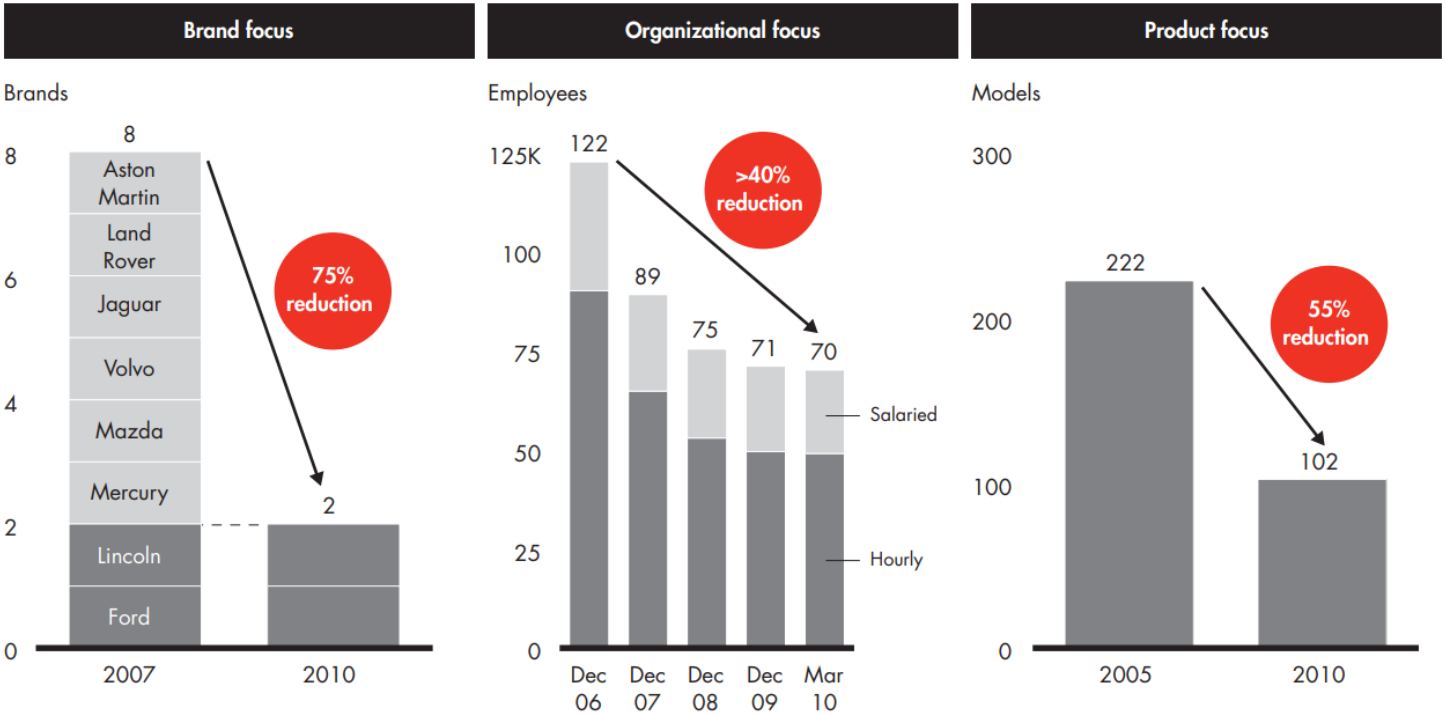
Focus (or niche) strategy

- Concentration on one or more particular niches of a market, for example:
  - Buyer group eg those aged 50+
  - Geography eg Africa
- Does not try to serve the entire market with a single product
- Two approaches
  - Cost focus strategy: aim to be a cost leader for a particular segment
  - Differentiation focus strategy: pursue differentiation for a chosen strategy

Real world example: Ford focus



Sources: Ford Motor Company; *Detroit Free Press;* Bain analysis

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Lock-in strategies

- The customer is so dependent on a vendor for products and services that the customer cannot move to another vendor without substantial switching costs, real and/or perceived.
- Ways to lock-in
  - Base products plus consumables
  - Exclusive platforms
  - Learning curve
  - Industry standards
  - Complementary services
  - Early termination fees

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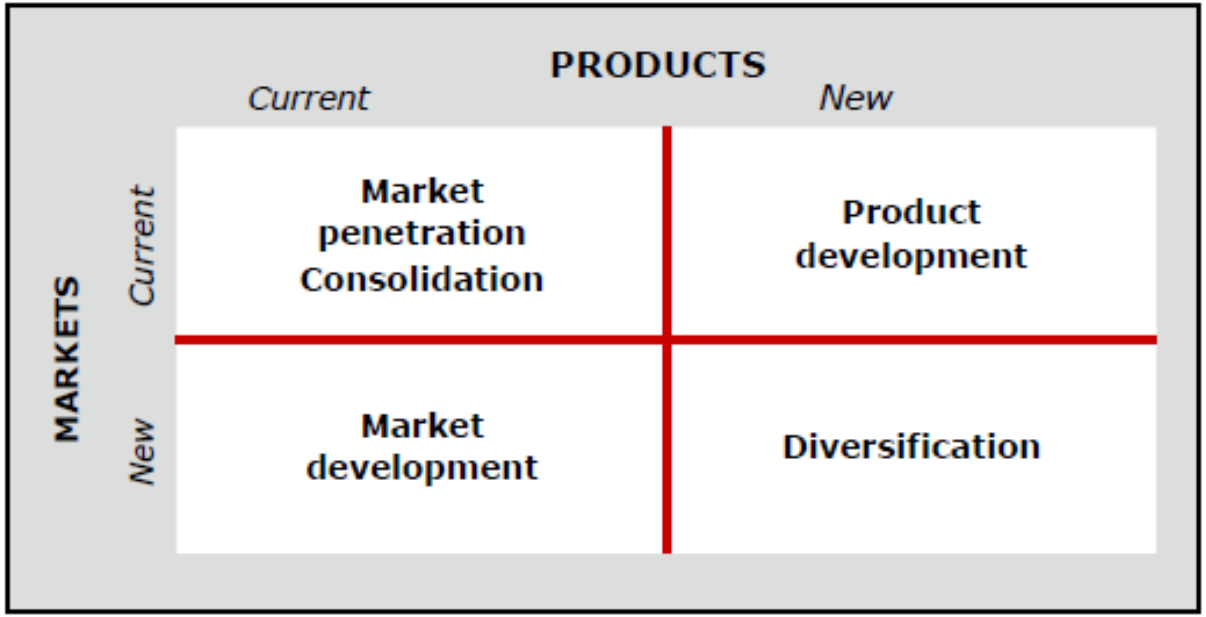
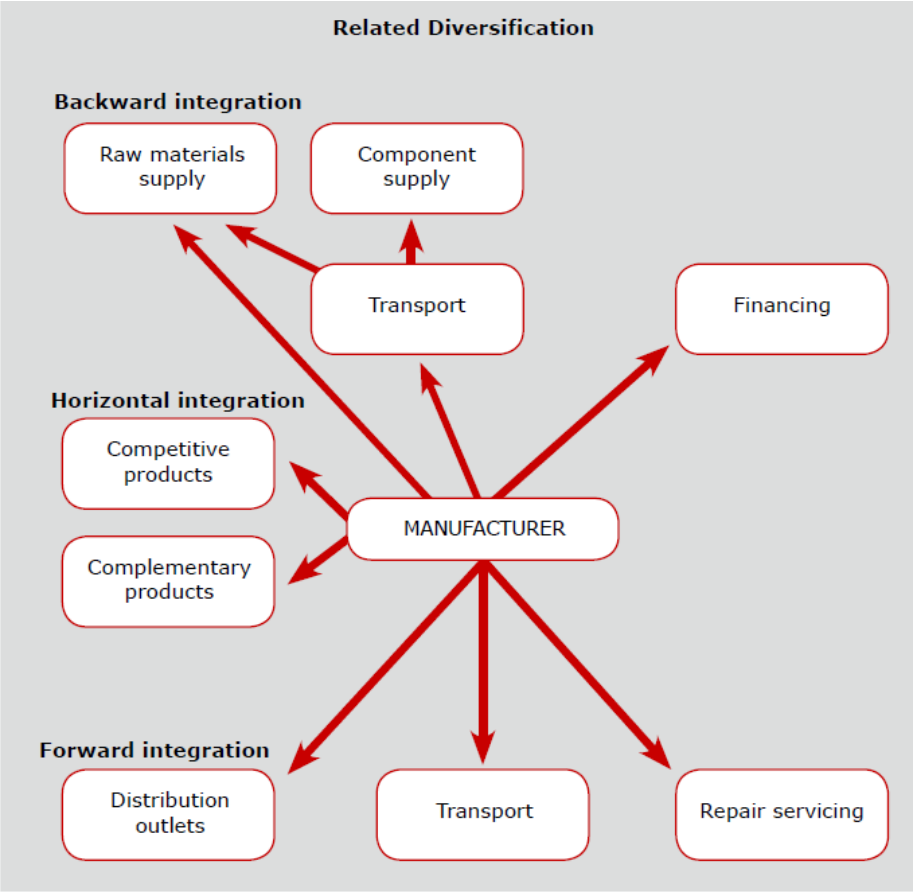
Ansoff matrix



Related diversification



Unrelated (conglomerate) diversification

- Introduces an organisation to unrelated product and market areas
- The areas are likely to be beyond the current capabilities or value networks
- Normally used as an acquisition strategy

Technical article: The strategic planning process

Click the link below to open the article on accaglobal

Technical article

The strategic planning process – part 2

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Market development – international markets

- Factors encouraging international markets
  - Low barriers to international trade
  - Market drivers
  - Government drivers
  - Cost drivers
  - Competitive drivers
- International value network
  - Cost advantages
  - Unique local capabilities
  - Overcoming tariffs
- Modes of entry include
  - Exporting
  - Overseas production
  - Contract manufacture
  - Franchising, licensing, joint venture
- Market selection, based on
  - Market attractiveness
  - Competitive advantage
  - Risk analysis

Strategic option evaluation

SUITABILITY

Is the strategy consistent, both internally and externally?

ACCEPTABILITY

Is the balance of risk and return in line with stakeholder expectations?

FEASIBILITY

Is the strategy within the resources and capability of the organisation?

Success criteria

Suitability

- Build on strengths and grasp opportunities
- Address weaknesses and threats
- Fit in with the culture
- Align with objectives
- Close the gap between current and desired performance
- Fit with expected trends and changes in the environment
- Exploit an organisation's capabilities
- Meet stakeholder expectations

Acceptability

- Be in accordance with the organisation's mission
- Provide a return that would satisfy all stakeholders
- Expose the company to an acceptable level of risk

Feasibility

- Adequately resourced
- Deliverable within the required timescale
- Able to withstand competitive retaliation
- Adaptable to a changing environment
- Complies with any legal requirements

Activity

Work through Activity 1

Strategic Options Evaluation

From Chapter 14 of the Study Text

Activity 1 Strategic Options Evaluation

RudosRail (RR), the state-owned railway in the country of Rudos, was privatised six years ago. Great Eastern Trains (GET) was set up to bid for the franchise to run the passenger railway services on the East coast mainline by former members of RR's management. GET was primarily financed through loans from the government-owned Bank of Rudos. It was successful in winning a 10-year franchise, which has four years still to run. GET is an unquoted company, owned by its management team.

The skill and knowledge of the management team ensured that GET became very profitable. This team already had significant operating experience (gained with RR) and management quickly adapted to the new private sector model. GET was the most profitable of the new franchises formed during privatisation and it was held up as an example of successful privatisation. Its investment in new trains and excellent reliability record meant that it quickly built up a well-respected image and brand.

Figure 1: Selected information for GET (last financial year)

Financial gearing $\left(\frac{\text{Long-term debt}}{\text{Equity+long-term debt}}\right)$	75%
Employees per route kilometre	3.3
Revenue per employee	$106,000

There will be a general election in Rudos in two years. The leader of the main opposition party, which opposed the privatisation, has suggested that railway franchisees should be more highly taxed and regulated.

Recently, the Republic of Raziackstan announced its intention to privatise its railway network. It proposes to keep the rail tracks under public ownership but privatise the trains and infrastructure. A stipulation of the invitation to tender is that the bidder should have a significant industrial presence in the country.

GET is interested in acquiring SOFR (Society Fabrication de Raziackstan), the company that undertakes most of the track and train maintenance in Raziackstan, and using it as a means for bidding to run the rail network in Raziackstan. GET's management is already familiar with SOFR, which it has used to refurbish some of GET's equipment and has been delighted with the results.

Although there is little employment legislation, public service jobs are traditionally viewed as safe and employees perceive that a "railway job is a job for life". All political parties are united in their desire to privatise the railways so that money can be invested elsewhere in Raziackstan (e.g. in providing better healthcare).

The railway network in Raziackstan is 1,500 kilometres long, employs 8,000 people and generates revenue of $180 million.

Required:

Evaluate GET's proposed strategy using suitability, acceptability and feasibility.

Exam focus

- A question in the September 2019 exam required candidates to discuss how proposed sales development strategies would assist the organisation in achieving its strategic aim of developing products and markets.
- Key to a strong answer was liking the strategies to the need for the organisation to produce products that customers demanded in the locations they demanded them.
- It was also important to ensure a link was made between the strategies and the overall strategic aim.
- The professional skill being examined was commercial acumen. Candidates needed to recognise the external and internal factors affecting the ability of the organisation to achieve its strategic aim.

Chapter 5: Summary

- Strategies to create a sustainable competitive advantage include: price-based, cost leadership, differentiation, focus/ niche, lock-in.
- Bowman's Strategy Clock analyses strategies in terms of price and perceived value added.
- Ansoff's growth vector matrix describes how the combination of an organisation's activities in current and new markets, with existing and new products, may be used to produce strategies that can lead to growth.
- An organisation may choose to diversify in relation to an existing product via integration.
- Market development through expansion into international markets is common.

Chapter 13: Practice question

Study Question Bank	
Maratec	55 mins

For SBL

- **Attempt the Study Question Bank questions listed above after studying this chapter**
- **Attempt Revision Question Bank questions in your revision phase, after studying all chapters**

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Thank you

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