Section 3.8

CHOOSING STRATEGIC DIRECTION

THIS SECTION OF THE SPECIFICATION COVERS:

- ❑ Strategic direction: choosing which markets to compete in and what products to offer
- ❑ Strategic positioning: choosing how to compete

0 1 GIVE ME THREE…

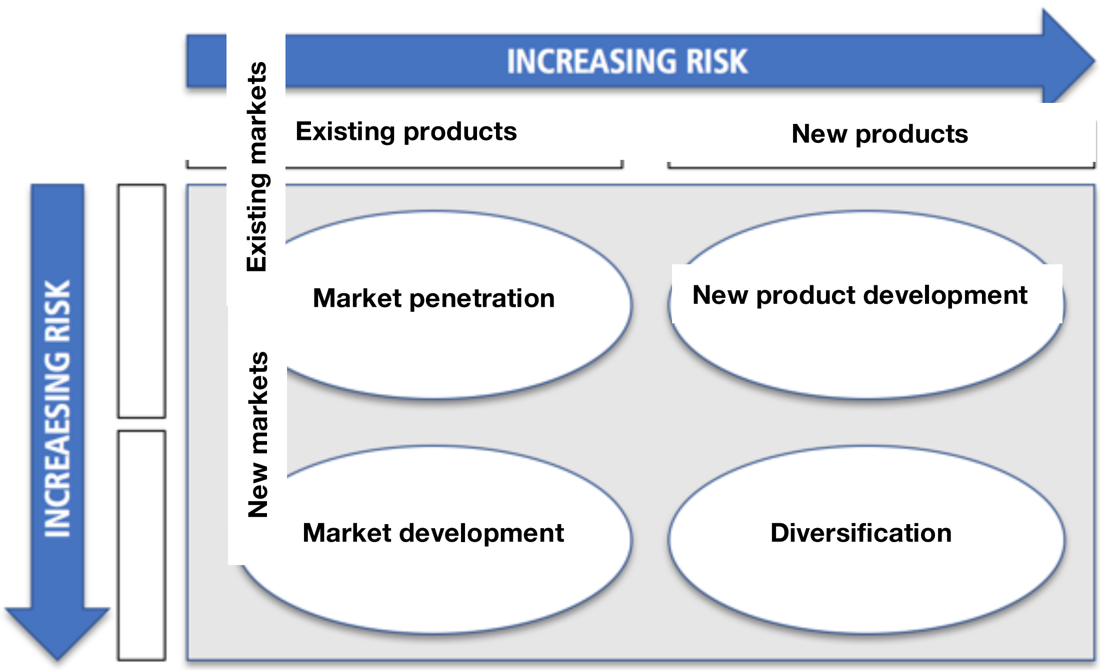
Factors that influence which markets to compete in and which products to offer:

1	The risk involved
2	The expected costs and returns
3	Opportunity cost i.e. what are the alternatives/options?

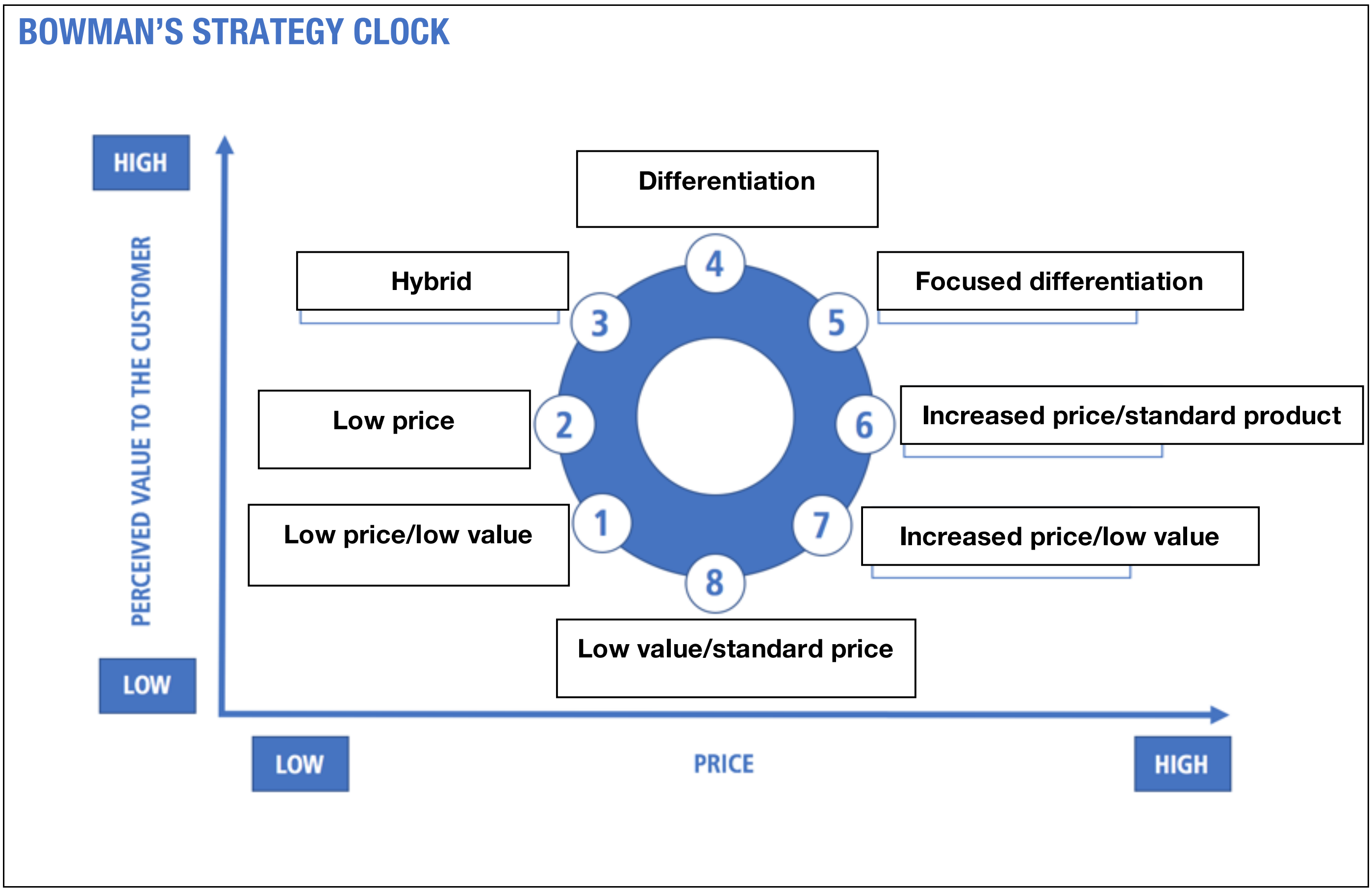
0 2 LABEL THE DIAGRAMS

Label the following blank diagram of Ansoff's Matrix:

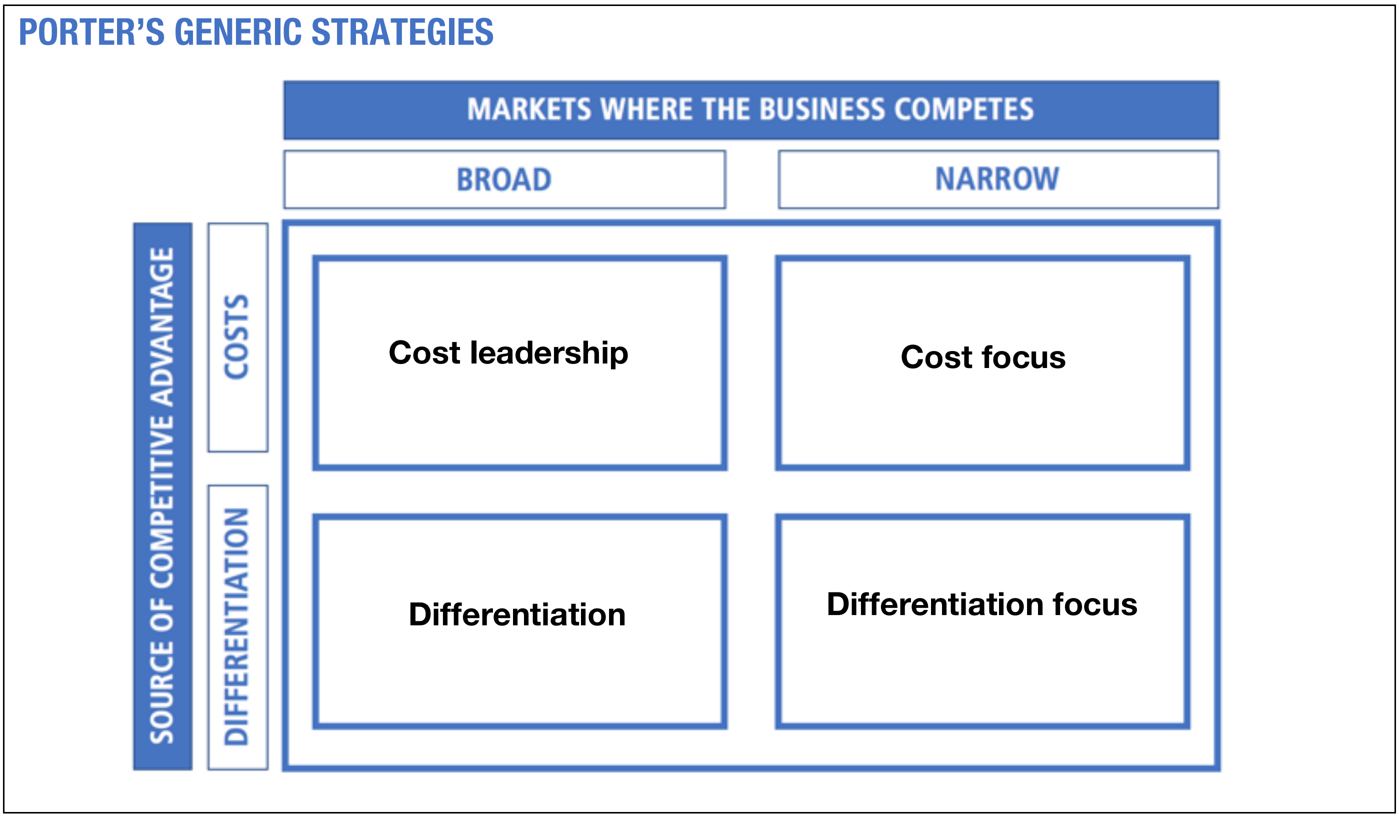
ANSOFF'S MATRIX



Label the following blank diagram of Bowman's Strategy Clock:



Label the following blank diagram of Porter's Generic Strategies:



0 3 BENEFITS AND DRAWBACKS

Identify one benefit and one drawback of the following examples of strategic direction and strategic positioning:

STRATEGIC DIRECTION (ANSOFF)

MARKET PENETRATION	PRODUCT DEVELOPMENT
BENEFIT	**DRAWBACK**
☑ Involves little risk as products, markets, competitors are known ☑ Usually requires little investment in market research	☒ May require extensive funding in research and development; launching new products is time consuming ☒ Increased risk compared to market penetration, as many new products fail

MARKET DEVELOPMENT	DIVERSIFICATION
BENEFIT	**DRAWBACK**
☑ Good strategy to undertake if the firm's core competences are linked to its products ☑ If successful, the business can experience growth, as it gains new customers and higher revenues	☒ Considered to be a high-risk strategy as it requires organisations to enter new markets with new products ☒ High levels of uncertainty ☒ High costs involved in research and development/market research

STRATEGIC POSITIONING (PORTER)

COST LEADERSHIP	COST FOCUS
BENEFIT	**DRAWBACK**
☑ Potential benefits from economies of scale, as the business produces on a large scale ☑ If a business can sustain being the lowest-cost producer in its industry and can charge similar prices to rivals, it will achieve above average profits ☑ A business can reduce its prices lower than rivals and still make the same profit margin	☒ Targets a small segment of the market ☒ Rivals may become interested in the market niche ☒ May not have as much power with suppliers due to low volumes

DIFFERENTIATION LEADERSHIP	DIFFERENTIATION FOCUS
BENEFIT	**DRAWBACK**
☑ Customers are willing to pay higher prices for products that are differentiated and they perceive to be of value ☑ Differentiators can generate a high profit margin, if the premium price charged exceeds the additional costs of providing these benefits ☑ Differentiators can experience high brand loyalty from customers	☒ Limited demand, which may also be short-lived ☒ The niche could be taken over by larger rivals

0 4 TELL ME

Two influences on the choice of strategic positioning:

1	Position of competitors
2	The competences/strengths of the business

The value of different strategic positioning strategies:

Porter's generic strategies:

Advantages:

- No best strategy exists; businesses should choose the strategy that best fits its circumstances; implementation must then be consistent once the position has been selected
- Provides direction to management and staff which helps a business to create consistency with factors such as the management style undertaken, rewards and recruitment policy

Disadvantages

- Does not work well in every market sector; it is oversimplified
- Identified Bowman's "hybrid" strategy as a potential course of failure, despite many businesses operating successfully in this position

Bowman's strategic clock:

Advantages:

- Many strategic possibilities are available; overcomes the issue with Porter's generic strategies of being too simple e.g. hybrid strategy is a possibility
- Helps businesses understand how they can compete in the marketplace; by reviewing the different combinations of price and perceived value, a business can choose a position that fits in with the firm's competencies which will then allow it to gain a sustainable competitive advantage
- Businesses can analyse and evaluate their current strategy and decide if any changes may improve the firm's overall competitive position in the future

Disadvantages

- Can create confusion, as the "clock" suggests many strategic positions
- Based on price, rather than costs; can be seen as a statement of marketing position rather than a corporate strategic tool

The benefits of having a competitive advantage:

- ☑ Faster sales growth than rivals
- ☑ Higher revenues and higher profits are possible; higher profits can be reinvested or distributed to shareholders
- ☑ High levels of capacity utilisation are possible, as products will be in demand; this lowers unit costs, as a firm's fixed costs can be spread across more units
- ☑ Survival is more likely, if there is a downturn in the economy

The difficulties in maintaining a competitive advantage:

- ☒ New entrants to the market may threaten a firm's ability to maintain its competitive advantage, as rivals may seek to replicate it
- ☒ Firms may lose their competitive advantage if certain factors change, such as fashions, tastes, legislation or technology
- ☒ Businesses must constantly monitor market conditions, proactively embrace change and seek to invest in their product ranges/new product development to help them gain and then maintain a sustainable competitive advantage