

Section 3.9

CHOOSING STRATEGIC METHODS: HOW TO PURSUE STRATEGIES

THIS SECTION OF THE SPECIFICATION COVERS:

- ☐ Assessing a change in scale
- ☐ Assessing innovation
- ☐ Assessing internationalisation
- ☐ Assessing greater use of digital technology

0 1 WHAT'S THE DIFFERENCE?

What's the difference between:

ORGANIC AND EXTERNAL GROWTH

- Organic growth: occurs when a business grows through expanding its operations, for example by selling more products through opening new stores
- External growth: when a firm grows by integrating with another firm due to a merger or takeover

GROWTH AND RETRENCHMENT

- Growth: relates to business expansion
- Retrenchment: is the process whereby a business cuts back on its operations

ECONOMIES AND DISECONOMIES OF SCALE

- Economies of scale: occur when the units costs fall as the scale of operation increases
- Diseconomies of scale: occur when the unit costs rise as the size of the business increases

0 2 GIVE ME THREE...

Economies of scale:

1	Technical
2	Managerial
3	Purchasing

Diseconomies of scale:

1	Control/co-ordination
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2	Communication
3	Motivation

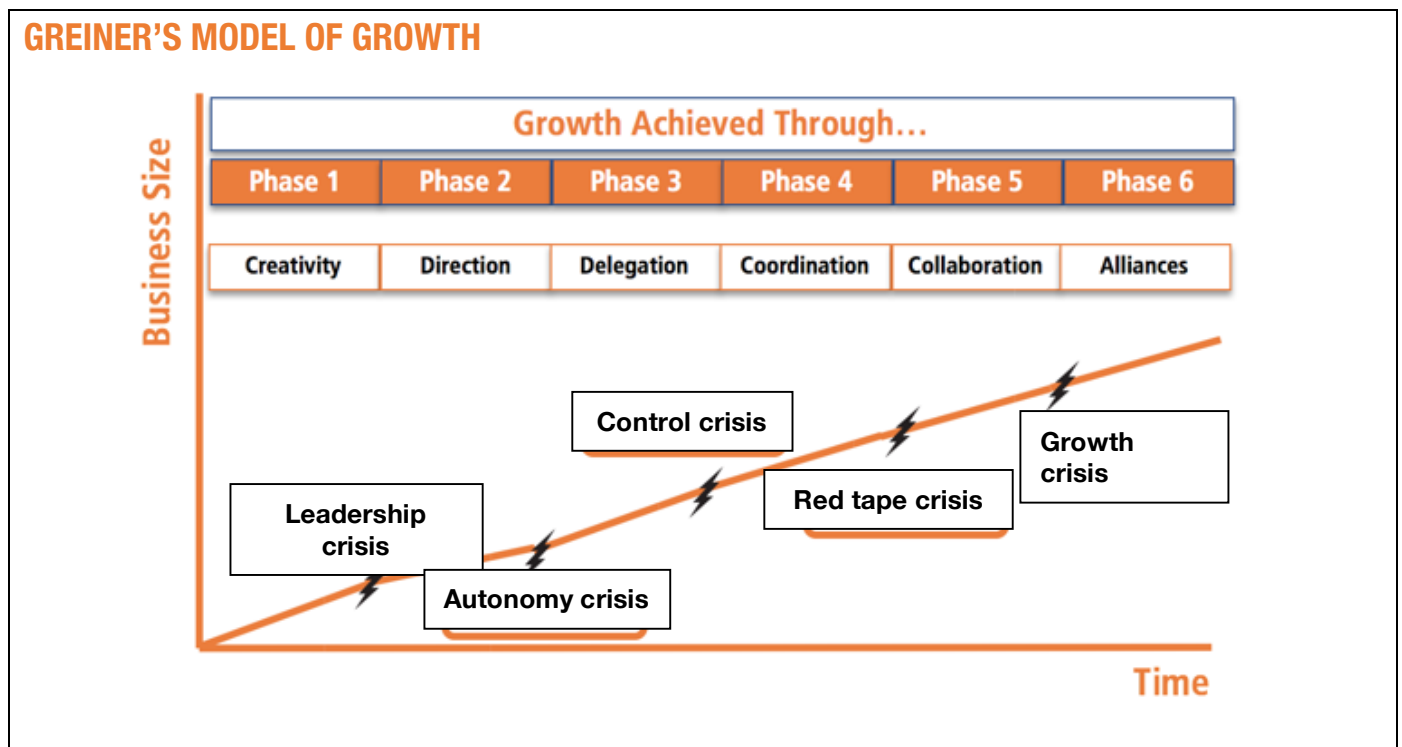
0 3 WHAT IS MEANT BY?

Write a definition for the following key terms:

ECONOMIES OF SCOPE	EXPERIENCE CURVE
➤ Economies of scope occur where it is cheaper for a business to produce a range of products rather than specialise in just a few products.	➤ The more experienced a firm is at producing a product, the lower its costs
SYNERGY	OVERTRADING
➤ Synergy happens when the value of two businesses brought together is higher than the sum of the value of the two individual businesses i.e. when synergy happens $1 + 1 = \text{more than } 2$	➤ Overtrading happens when a business expands too quickly without having the financial resources to support such a quick expansion

0 4 LABEL THE DIAGRAM

Label the diagram below of Greiner's model of growth to include the five crises of growth:



0 5 FOUR FUNCTIONAL AREAS

Identify one impact of growth on each of the following four functional areas:

MARKETING

- Increased marketing activities may be required to generate higher demand
- Sufficient resources required to meet marketing objectives
- Ensure sufficient market research is undertaken if entering new markets/developing new products
- Decisions regarding the marketing mix to ensure growth; exact decisions taken depend on many factors, such as the nature of the market

HUMAN RESOURCES

- Existing staff have the opportunity to take on new responsibilities/promotions; this may be seen as positive and developmental by the staff; alternatively, some staff may experience motivation issues and be reluctant to take on extra work
- Additional recruitment may need to be undertaken
- Training of new/existing staff may be required

OPERATIONS

- Increase in output will impact on capacity utilisation; this may be viewed positively by the business, as its fixed costs will be spread across more units; alternatively, staff and resources may be stretched to satisfy any increases in demand
- In the long term, increase in capacity may be required or decisions made relating to outsourcing

FINANCE

- Impact on working capital to ensure it is sufficient as the business grows
- Ensuring there is suitable long-term funding to finance the growth
- Careful budgeting is required to ensure expenditure is controlled and revenue is monitored

Identify one impact of retrenchment on each of the following four functional areas:

MARKETING

- Promotional budgets may be reduced
- Product ranges may be cut back/business may choose to exit from certain markets
- Business likely to focus on a smaller core business

HUMAN RESOURCES

- Redundancies may be required
- Businesses may redeploy staff to other areas
- Motivation issues leading to lower labour productivity
- Uncertainty about job security may result in skilled employees leaving the firm to find more stable posts in rival businesses

OPERATIONS

- Scale of operation will be reduced
- Investment in technology/equipment will be reduced/stopped
- May reduce unit costs, if diseconomies of scale can be overcome

FINANCE

- Increase in expenditure on redundancy payments
- Smaller workforce will reduce wage costs
- Business may be able to raise funds through the sale of unwanted assets

0 6 BENEFITS AND DRAWBACKS

Identify one benefit and one drawback of the following methods of growth:

TAKEOVERS AND MERGERS

BENEFIT	DRAWBACK
<ul style="list-style-type: none">➤ Lower unit costs through the benefit of economies of scale➤ Creation of synergies➤ Increase in market share	<ul style="list-style-type: none">➤ Many businesses overestimate the benefits of joining with another firm➤ The two businesses often fail to take account of the different cultures between them; this is often due to too little time spent before the acquisition to determine whether the two businesses will be compatible➤ 65% of mergers/takeovers fail to benefit shareholders

ORGANIC GROWTH

BENEFIT	DRAWBACK
<ul style="list-style-type: none">➤ Less risk attached, as finance usually comes from retained profits➤ Builds on business's existing strengths➤ Growth can be seen as taking place at a steady rate	<ul style="list-style-type: none">➤ Growth may be viewed as too slow to satisfy the needs of shareholders➤ Growth achieved may be dependent on the growth of the overall market➤ A significant amount of competition in the market may limit the amount of growth by this method; external growth in this situation may be a better option

VENTURES

BENEFIT	DRAWBACK
<ul style="list-style-type: none">➤ Access to greater resources, including specialist staff, technology and finance➤ Access to new markets and distribution networks➤ Increased capacity➤ Benefits from gaining local expertise without either business losing its own identity	<ul style="list-style-type: none">➤ The partners may have different objectives for the joint venture➤ The partners bring in different levels of expertise, investment or assets into the venture creating conflict➤ Different cultures and management styles result in poor integration and co-operation

FRANCHISING	
BENEFIT	DRAWBACK
<ul style="list-style-type: none"> ➤ Ability for the franchisor to expand without bearing the risk ➤ The franchisor receives regular royalty payments ➤ The franchisor still retains control over key decisions 	<ul style="list-style-type: none"> ➤ Brand name may be tarnished by franchisees that are poorly selected by the franchisor ➤ When establishing a franchise, the franchisor is required to have all resources in place from the outset requiring considerable investment ➤ Confidential information will need to be shared with the franchisee regarding the franchise which constitutes a risk for the franchisor

0 7 CATEGORISE THIS

Are the following examples of growth backward vertical, forward vertical, horizontal or conglomerate integration?

EXAMPLE	TYPE OF GROWTH
An airline purchases a chain of cinemas	Conglomerate integration
A supermarket buys a wholesaler	Backward vertical integration
A DIY chain purchases another DIY chain	Horizontal integration
A brewing company purchases a chain of pubs	Forward vertical integration

0 8 GIVE ME FOUR...

Identify four ways in which a business can be innovative:

1	Kaizen
2	Research and development
3	Intrapreneurship
4	Benchmarking

0 9 WHAT'S THE DIFFERENCE?

What's the difference between:

PRODUCT AND PROCESS INNOVATION

- Product innovation: the development and introduction of a new, redesigned or substantially improved product
- Process innovation: creation of new way(s) of making, providing or delivering a particular product

PATENTS AND COPYRIGHTS

- Patent: an official document granting the owner the right to be the only producer of a newly invented product or process for a specific period of time
- Copyright: legal protection against copying work for artists, authors or composers

1 0 TELL ME

Two reasons why a business may feel pressure to innovate:

1 Competitor actions

2 Social changes

The value of innovation to a business:

Advantages:

- Allows the business to remain competitive by providing factors such as better quality or lower costs
- Firms that innovate can gain a positive reputation in this area which encourages brand loyalty/repeat purchases

Disadvantages

- Considerable risk attached to innovation; many new ideas never reach the marketplace/new processes do not reap the benefits that were planned
- Opportunity cost involved in the process of innovation

1 1 FOUR FUNCTIONAL AREAS

Identify one impact of innovation on each of the following four functional areas:

MARKETING

- Market research will need to be carried out to determine whether the innovation is likely to be in demand
- Review of product life cycles/analysis of sales forecasts to determine the timings

HUMAN RESOURCES

- Recruit, train and retain staff with the appropriate skills to ensure the innovation process is successful; additional staff may need to be

of extension strategies and new product launches

- Impact on the marketing mix; premium products can be charged for highly innovative products/easier to find appropriate methods of distribution

recruited if innovation results in the business growing

- Ensure that the corporate culture is one that lends itself to innovation
- Encouraging a philosophy of teamwork/autonomy to encourage the development of ideas

OPERATIONS

- New processes can increase the efficiency of production
- Check if new products can be produced economically and in the correct volume to feasibly make the product
- Different ways of becoming innovative may fall under this functional area e.g. Kaizen may be the responsibility of the operations management team

FINANCE

- Innovation is expensive; appropriate sources of finance must be available to support the strategy
- Impact and review of any innovation strategy on cash flow
- ROI/investment appraisal will be conducted and results analysed e.g. payback period will be reviewed carefully before any innovation project is undertaken

1 2 WHAT'S THE VALUE?

State the value of the following four methods of entering international markets:

METHOD	VALUE OF ENTERING
EXPORTING	<p>Advantages:</p> <ul style="list-style-type: none"> ➤ Low risk, as little finance and management time are spent on this area in comparison to other methods ➤ Can increase capacity utilisation through the production of more goods; the firm may be able to benefit from economies of scale <p>Disadvantages</p> <ul style="list-style-type: none"> ➤ May face barriers to trade ➤ Higher transport costs than other methods
LICENCES	<p>Advantages:</p> <ul style="list-style-type: none"> ➤ Low risk and products can be adapted to the local market ➤ Risk is mainly taken by the firm that buys the license to produce or sell the products abroad <p>Disadvantages</p> <ul style="list-style-type: none"> ➤ Licensee may become a competitor ➤ Lack of control over marketing of products
ALLIANCES	<p>Advantages:</p> <ul style="list-style-type: none"> ➤ UK businesses gain access to local expertise and contacts through working with an overseas partner; both businesses keep their identity ➤ The risk is shared between the UK business and the overseas partner <p>Disadvantages</p> <ul style="list-style-type: none"> ➤ Profits are shared ➤ Partner may become a competitor in the future

DIRECT INVESTMENT

Advantages:

- Through setting up operations in the country itself, the domestic firm can avoid trade barriers and reduce transport costs
- The business is able to keep the knowledge of production and markets itself

Disadvantages

- Businesses must ensure that they plan their strategy well and take into account cultural differences of the countries they operate in
- Requires a large amount of funds and therefore constitutes the most risk out of the different options

1 3 WHAT IS MEANT BY?

Write down a definition for the following terms:

MULTINATIONAL

- Organisations that have production bases in more than one country

OFFSHORING

- When a business moves its production abroad

RESHORING

- When a business moves production back to its domestic country

1 4 GIVE ME THREE...

Factors influencing the attractiveness of international markets:

1

Size of the potential market and its expected growth rate

2

The amount of competition that exists in the market

3

The amount of government intervention/regulation

Reasons for producing/sourcing more resources abroad:

1

Lower costs

2

Nearer to resources

3

Overcome barriers to trade

Influences on buying, selling and producing abroad:

1

Resources available e.g. financial, skill of workforce

2

Infrastructure in foreign countries

3

Fluctuations in exchange rate

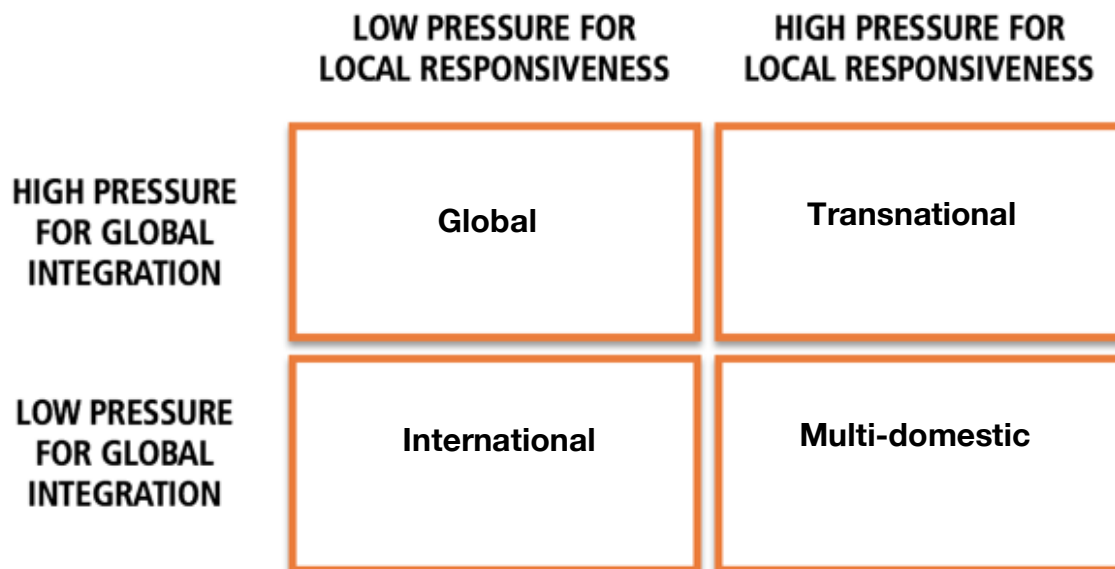
Reasons why a business may choose to off-shore production:

1	Pool of highly skilled, but relatively low paid workers available
2	Lower distribution costs and increased efficiencies
3	Availability of resources nearer to their source

1 5 LABEL THE DIAGRAM

Label the diagram below of Bartlett and Ghoshal's Model of International Strategy:

BARTLETT & GHOSHAL'S MODEL OF INTERNATIONAL STRATEGY



1 6 FOUR FUNCTIONAL AREAS

Identify one impact of internationalisation on each of the following four functional areas:

MARKETING

- Significant amount of market research required to understand the international market/market segments; possibility that marketing specialists may need to be employed
- New products will need to be developed that fit in with the demands of the overseas market
- Changes to the marketing mix may be required e.g. in terms of price, promotion

HUMAN RESOURCES

- To be successful, employing local staff/management may be required rather than relying on domestic managers to run operations abroad with little insight into the country
- Impact of differing national cultures on decisions regarding the organisational structure, training, remuneration and motivation methods used

OPERATIONS

- Quality assurance needs to be in place across all international locations
- Ability to adapt products to respond to local needs
- Ability to cope with differing country's standards in terms of infrastructure and technology

FINANCE

- Ability to control internal finances efficiently across large, complex organisations becomes more difficult
- Creating business accounts and declaring profits in countries where the business operates but where corporation taxation is the lowest
- Large scale investment required in terms of developing a sustainable presence abroad

1 7 WHAT IS MEANT BY?

Write a definition for the following terms:

E-COMMERCE

- The buying and selling of goods and services on the internet

BIG DATA

- The vast amount of data that can be mined in order to find links

DATA MINING

- The process of sorting through large data sets to identify patterns and establish relationships to solve problems through data analysis; data mining tools allow enterprises to predict future trends

ENTERPRISE RESOURCE PLANNING

- A software system that helps businesses integrate and manage their often complex financial, supply chain, manufacturing, operations, reporting and human resource systems

1 8 TELL ME

One reason why a business may be under pressure to adopt digital technology:

- The requirement to keep up with rivals
- To reduce costs
- To boost revenue and therefore impact favourably on profitability

The value of digital technology to a business:

Advantages:

- Less unskilled jobs available that operate in unsafe environments
- More choice of products available, leading to businesses seeking efficiencies and customer needs being met more exactly

Disadvantages

- Stress and lower morale amongst the workforce, as a loss of jobs may take place
- High cost of introducing and updating digital technology; costs associated with training staff

1 9 FOUR FUNCTIONAL AREAS

Identify one impact of digital technology on each of the following four functional areas:

MARKETING

- More efficient and personalised marketing due to more data being available regarding individuals and their habits
- Growth of social media has resulted in it being a major method of promotion
- Reduction in the requirement for expensive high street premises

HUMAN RESOURCES

- Workforce needs to possess different skills e.g. skills to analyse data
- Decision-making may be based more on data rather than intuition
- Offers more flexibility with the rise of teleworking, increasing the pool of applicants that can be considered for job vacancies

OPERATIONS

- Digital technology has enabled robots to carry out both routine and more complex tasks
- Inventory control; businesses can access current stock levels and, for example, the location of its stock if they have different retail outlets
- Quality assurance can be maintained in the production process

FINANCE

- Investment will be required; the degree will depend on the type of digital technology being undertaken
- Speed of processing data has increased together with the volume of information available which allows businesses to plan and monitor budgets much more accurately
- Data mining can allow businesses to monitor their overall financial performance more frequently than just at the end of the financial year, allowing any corrective action in performance to be tackled early on