BBA 601-18 Strategy Management

Strategic management is the process of setting goals, procedures, and objectives in order to make a company or organization more competitive. Typically, strategic management looks at effectively deploying staff and resources to achieve these goals.

Strategic Management Concepts

Although the term "strategic management" is bantered around a lot in the business world, it is not understood very well by most people. Essentially strategic management answers the questions of "Where do you want your business to go?" (goals), "How is your business going to get there?" (strategy), and "How will you know when you get there?" (evaluation).

A strategic management analogy is taking a trip during your vacation time. First you decide where you want to go - the natural beauty of Yellowstone or the bright lights of Las Vegas. Then you develop a strategy of how to get there - take an airplane (which flights), drive your car (which highways), etc. This will be influenced by the amount of money, time and other resources you have available. Then you monitor your trip to see if your strategy takes you to your destination and how your strategy worked (missed flights, poor road conditions, etc.).

Below are concepts to help expand your understanding of strategic management for a business. These will help sharpen your focus for using Strategic Management for Farm Businesses.

Strategic management involves deciding what is important for the long-range success of your business and focusing on it.

Strategic management asks, "How should I position my business to meet management and business goals?"

A business strategy is a series of business decisions that lead to achieving a business goal.

Strategic management involves the "big picture" of your business.

Strategic management involves planning, analyzing and implementing a business strategy.

Strategic management is most effective if you can step back far enough and say "all things are possible."

The essence of strategic management is matching business resources to market opportunities.

Strategic management involves seeking and identifying opportunities and threats in the market and industry as well as the outside world in general.

Strategic management is based on the premise that "all businesses are not the same."

Strategic management involves assessing the strengths and weaknesses of your business.

When assessing strengths and weaknesses, personal skills and abilities are likely to be more important than business assets.

Strategic management involves looking into the future rather than dwelling on the past.

Strategic management is proactive rather than reactive.

Strategic management involves anticipating change and taking advantage of it.

Strategic thinking involves assessing how decisions made today will affect my business in the future.

Strategic management is more of a state-of-mind than a rigid process.

A military connotation of strategic management is "it hasn’t won every war, but it has avoided a lot of ambushes."

Strategic management is most useful for businesses with unique or differentiated products for niche, specialty or differentiated product markets.

Strategic planning comes before business planning. Strategic planning is used to identify and assess alternative business strategies. Business planning is used to implement a business strategy.

Strategic planning is more words and less numbers than business planning.

A strategic plan is a "living" document that changes as your goals and resources evolve.

The Traditional Approach to strategic planning models

While there are myriad variations on the theme of traditional strategic planning, a typical approach, one that has been taught in schools for years, is shown in Figure 1.

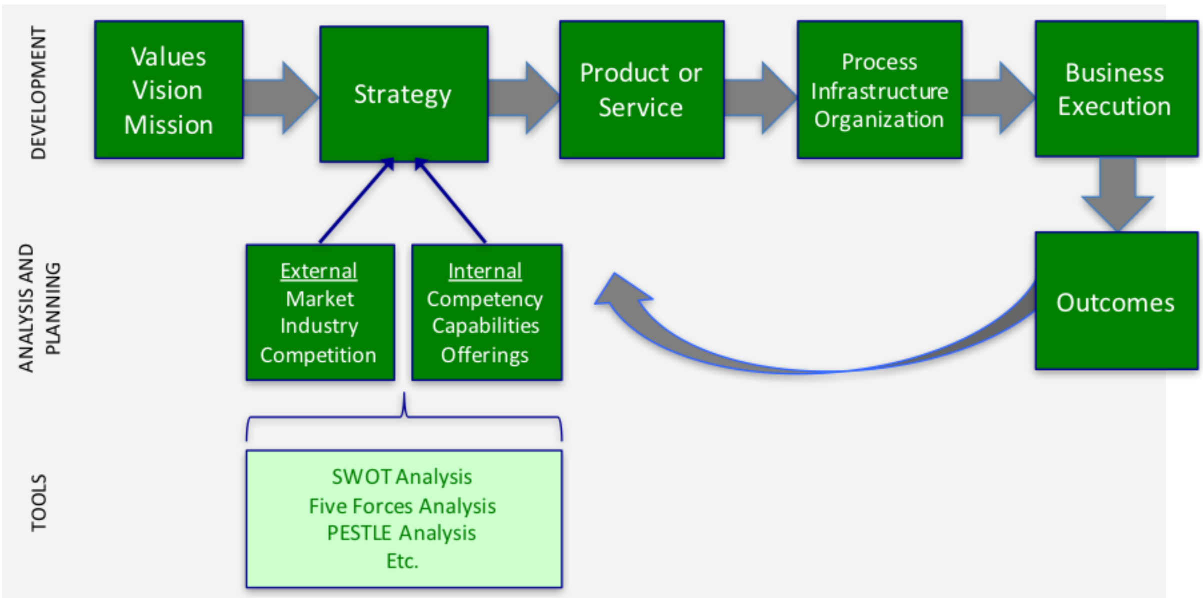

Figure 1 – Traditional Strategic Planning Models

A company's vision and mission, driven by a set of core values, establish the framework for the development of a strategic plan. The strategic plan is shaped by a set of external and internal factors, the assessment of which forms the basis for the strategy itself. Both primary and secondary methods may be used to understand the company's target market(s). A variety of tools and methods, such as SWOT analysis, PESTLE analysis, and many more within a veritable strategic "alphabet soup" may be deployed to facilitate the assessment. The strategy in kind drives the development and refinement of products and/or services to meet the perceived needs of the marketplace. The necessary manufacturing, distribution and business processes, infrastructure and organization are established to develop, deliver and service these offerings. When all of this is in place, the company executes to the strategic plan, which will be modified periodically based on measured outcomes.

It all seems quite straightforward, and it would be wonderful if it worked. But it doesn't.

What's Wrong with the Traditional Strategic Planning model?

So what's wrong with this approach? While the list is long, I would like to focus on seven fundamental flaws that, taken together, do not bode well for the success of the traditional strategic planning models.

More often than not, the focus is on the strategic plan. Fundamentally, strategy is not about the plan but, rather, it's about the planning process. It's about thinking and acting strategically, as opposed to producing a nice document that lays out a roadmap that may or may not work at the end of the day.

It's linear. The world is messy. Markets are messy. Business is messy. None of this lends itself to a linear approach. What's needed is a non-linear process, with constant feedback loops and opportunities to adjust to an ever-changing terrain and the acquisition of new knowledge and insights.

It's often complex, laborious and time-consuming. I have seen business leaders spend months developing strategic plans, while the market and competitive landscape shift beneath their feet.

Never has the need for rapid deployment been greater than it is today. What's needed is a straightforward, non-complex approach.
It's static and lacks agility. Things change rapidly, and business leaders need the ability to respond in kind. Mike Tyson is credited as having said: "Everyone has a plan 'til they get punched in the mouth." These are wise words that every business leader should never forget. How many times have we seen a well-developed strategic plan, that may have taken months to write, fail to survive first contact with the marketplace? What's needed is a process that is agile enough to respond rapidly to unforeseen turns of events.
It's too assumptive and too far removed from the buying customer. All the strategic planning models in the world is for naught if the dog won't eat the dog food. Primary and secondary market research is great. SWOT analysis has its place. But nothing substitutes for actually getting the offering in front of a real, live, buying customer. The most effective approaches to strategy get the product or service in front of prospective buyers as early in the process as possible (sometimes through prototype, pilot or trial programs), learn from the experience, and modify the offering or selling approach accordingly.
It doesn't leverage failure. Tom Peters said: "Fail fast, learn fast, fix fast." It is through our failures that we learn life's greatest lessons. It is through our failures that we develop the understandings necessary to implement winning strategies. We should learn to leverage our failures in real-time rather than view them as shortcomings. What's needed is a process of experimentation, failure, learning and agility.
It's more often than not implemented top-down. While it is critical that the leaders of an organization drive the strategy initiative by clearly articulating its values, vision and mission, successful strategies are not implemented from the top down. They are not created in a board room or a conference room full of executives. And they are also not created by "strategic planning departments". Rather, they are the result of bringing together a vertically and horizontally diverse cross section of members of the organization (and, where possible, downstream and upstream value chain participants from outside the organization), for these are the people

who understand the market, the industry and the day-to-day workings of the business in a way that the top tier of the organization simply cannot. Great ideas in an organization come from the bottom up, from its rank-and-file members.
In the face of these shortcomings, one would think that traditional strategic planning models would have been abandoned long ago, but unfortunately too many companies are still wedded to them.

The difference between the three levels of strategy in an organization

Strategy is at the heart of any effective decision made by managers in an organization. A carefully planned out and intentional strategy will provide guidelines that can inform what business actions the employees of an organization need to take.

That could be a strategy to reach new customers, to enter a new market, or to rebuild a workforce around a specific goal.

On the other hand, a lackluster strategy that's been implemented without any thought can result in a general lack of understanding among employees about a business and its environment.

Strategic decision making within any organization takes place on three levels. The difference between the three levels of strategy in an organization is the level at which they operate in a business. The three levels are corporate level strategy, business level strategy, and functional strategy.

These different levels of strategy enable business leaders to set business goals from the highest corporate level to the bottom functional level.

"For conventional organizations with a clear hierarchy, three levels of strategy are necessary to enable clear division of labor and accountability," says Chengwei Liu (pictured), associate professor of strategy and behavioral science at ESMT Berlin.

What is external analysis?

External analysis, also called **environmental analysis**, is the process by which businesses objectively assess the changes in their industry and the broader world that could affect their current business operations. Companies do this to ensure they can adapt to changes and continue to succeed within an industry.

What is the difference between external and internal analyses?

The difference between external analysis and internal analysis is the area of focus. External analysis focuses on how external factors such as industry trends affect a business and its success. In contrast, an internal analysis focuses on the internal processes of a business, such as company culture and employee onboarding and how those factors affect the success of the business.

Elements of an external analysis

Businesses should complete individual analyses of the following elements to conduct an external analysis successfully:

Supply chain

Industry

Economic trends

Competitors

Market demographics

PEST analysis

Supply chain

A business's supply chain is a component of an external analysis because it focuses on the following factors:

The source of raw materials

The manufacturing process that turns raw materials into company products

The transportation of the finished products to retail locations

These factors are external because they typically take place in a different area from the company headquarters. Therefore it is crucial for companies to monitor this process and look for ways to refine it to maximize efficiency while also adhering to laws and regulations.

Example: A business reviews its manufacturing process and compares it to the current labor laws that protect employee rights. They realize that their current practices allow factory employees to get within five feet of dangerous equipment, whereas current legislation says employees must stand 10 feet away from hazardous machinery. They revise their practices so that factory workers can perform their job duties while maintaining the required distance.

Industry

A business's industry, or more specifically its market, is another essential component of external analysis. This component requires businesses to consider the following factors:

Present risks and opportunities within their industry

Current size of the industry

Projected growth of the industry

Alternative industries to explore

By reviewing these factors, businesses can take proactive measures to ensure that their business continues to thrive, despite changes made to their industry.

Example: A local jeweler currently uses a B2C (business to customer) model to sell handcrafted rings, necklaces, bracelets and earrings to their community. After conducting an external analysis, they discover a new trend in small businesses expanding their market by selling their items for wholesale prices to other companies to include in their product lines.

Because of this, they decide to expand their business model to cater to both B2C and B2B (business to business), so they can make an additional profit while also expanding their market.

Economic trends

Watching for potential changes in economic trends such as interest rates, inflation, trading laws and recession levels helps businesses adapt. More specifically, it helps a business owner determine how these elements could affect how much they profit during a given period.

Example: A business uses an external analysis to determine a possible economic recession in the coming months. Because of this, they decide to decrease the number of products they purchase from a wholesale company to anticipate a slow in business.

Competitors

Another component to consider in a business's external analysis is its competitors. Focus on areas such as:

Number of current industry competitors with similar products, prices, target audience and overall company size

Potential barriers to entering a new industry such as government laws, product saturation or brand loyalty

Acceptable pricing businesses can assign to goods that encourage sales while maintaining profit and staying on the same level as competitors

Effects that competitors' goods will have on another business's sale of the same type of goods

Results of complementary products or services on the business's success

Reviewing these factors concerning a business's industry competitors helps that business determine the best price points to use, alternative industries to pursue, measures to improve product quality and marketing tactics to maintain a successful business.

Example: A gift shop conducts an external analysis of other local shops that sell the same skincare line. They identified the price points used by their competitors and set their own prices just below theirs to encourage profit.

Market demographics

Market demographics help businesses determine if their current products and marketing tactics meet the needs of their target audience. Factors include:

Age

Income/economic status

Location of residence

Hobbies and interests

How your products or services help improve their life.

Considering these factors help businesses revise their current marketing campaigns and even the products or services they offer to provide their customers with messages that resonate with them and products that help them in their daily life.

Example: A wine company previously identified its target audience as young adults in their 20s, but after conducting an external analysis of their market demographics, they discover that over 20% of wine sales have come from middle-aged adults in the 30s-40s. They make an alternative marketing campaign to attract both types of customers.

PEST analysis

Another way to evaluate all of the external factors that could influence a business is by conducting a PEST analysis. This method allows business owners to look at the political, economic, social and technological influences on their success:

Political: Laws, regulations and trade barriers

Economic: Inflation, exchange rates and interest rates

Social: Age and population

Technological: New industry technology and R&D investments

A PEST analysis is an excellent way to give business owners an overview of these components to make sure they do not forget an essential factor in their external analysis of their business.

Example: An IT software company uses the PEST analysis to identify the following factors that could affect their business:

Political: Trade barriers with countries outside of North America

Economic: Exchange rates between the U.S., Canada and Mexico

Social: Customers tend to be businesses in the eastern region of the U.S.

Technological: Updates being made to programming languages like Java, C++ and Python that could help benefit software creation

Benefits of external analysis

Conducting an external analysis can provide many benefits to a business. Here are a few common benefits:

Encourages business growth into new areas

External analyses can benefit businesses by encouraging them to be proactive in how they operate their company. For example, if a retail company sees a trend in free trade clothing among the public, this might help them decide to expand their business model to include the sale of free trade products.

Helps anticipate and adapt to change

External analysis helps businesses adjust to potential changes within their industry that could save their business. For example, a catering company changes the way they store their food products to comply with new FDA regulations. This helps them maintain their status as a catering service.

Creates opportunities to rise above the competition

Conducting an external analysis can help businesses identify operational elements that they could change or improve to set them apart from their industry competitors. For example, a staffing solutions firm identifies that they provide the same staffing solutions as their competitors: marketing, business administration and IT.