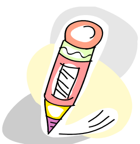
INTRODUCTION TO COMPETITIVE STRATEGY

Timeframe:	Minimum of 10 hours
Learning outcome:	• Understand and interrogate the context of competition, corporate strategy and relevant theories
Recommended reading:	• Brandenburger, A.M., and Nalebuff, B.J. 1995, 'The right game: use game theory to shape strategy', *Harvard Business Review,* July-August 1995, 57-71. • Brannback, M. (n.d.) 'DSS – Rethinking Strategic Management', http://www.syros.aegean.gr/users/tsp/Books/ewg6/01MALIN.pdf (accessed online 28 October 2012).
Multimedia:	• Lynch, R. n.d., 'What is strategic management?' [Article with embedded slides] http://www.global-strategy.net/what-is-strategic-management/ (accessed online 18 June 2014)
Section overview:	In this introductory chapter, we provide an overview of competitive strategy by defining key concepts. We also introduce the broad competitive strategy frameworks including the 'prescriptive' and 'emergent' approaches that guide strategic analysis and the development of strategies.

What is Strategy?

Whilst the definition of 'strategy' is relatively simple – a plan of action designed to achieve a long-term or overall aim – when we think in terms of 'competitive strategy' several competing definitions emerge.



Strategic management: "This has at least three definitions. First, the identification of the purpose of the organisation and the plans and actions to achieve that purpose. Second, the identification of market opportunities, coupled with experimenting and developing competitive advantage over time. Third, the pattern of major objectives, purposes or goals and the essential policies or plans for achieving those goals."

(Lynch, 2012: 830)

Company strategy: "A strategy reflects a company's awareness of how, when and where it should compete: against whom it should compete; and for what purposes it should compete."

(Pearce and Robinson, 2011:3-4)

Competitive strategy: "Long-term action plan that is devised to help a company gain a competitive advantage over its rival. Competitive strategies are essential to companies competing in markets that are heavily saturated with alternatives for consumers."

(Business Dictionary, 2013)

Offensive competitive strategy (as opposed to defensive): "A type of strategy that consists of actively trying to pursue changes within the industry … generally investing heavily in technology and research and development in an effort to stay ahead of the competition."

(Investopedia, 2013)

Warm-up Task Questions

- What are the commonalities and differences between the definitions provided above?
- In your own experience of business, what does strategy mean, and what does competitive strategy mean? Is there a difference?
- Consider the following example of offensive vs defensive competitive strategies and then answer the questions that follow:

"Assume Company X is in the publishing industry. The industry is undergoing significant changes in terms of technology and distribution. An offensive competitive strategy for Company X might involve investing capital in developing and patenting new distribution technology, as well as diversifying into more attractive markets; a defensive competitive strategy, on the other hand, might involve waiting a few years to see "where the chips fall" in terms of readership preferences and then adopting whatever technology is the cheapest or most popular." (Financial Dictionary, 2013)

- Based on the example, what are the key factors that differentiate offensive from defensive strategies?
- Evaluate the following statement: "Companies that pursue offensive competitive strategies are trend-setters, however it is an expensive strategy." Integrate your understanding of 'risk and reward' from your financial management module to assist you in your evaluation.
- Companies that acquire other companies to create some forward or backward integration or eliminate competitors are often pursing competitive strategies. Do you agree that strategic actions are strong indicators of the strategies that organisations are pursuing? Justify your response by citing examples.

The concepts of 'purpose' and 'competitive' are synonymous with most definitions and therefore it is useful to explore these in more depth.

Perhaps one of the most respected explanations of purpose derives from Peter Drucker and it is worth reflecting on this in terms of strategy.

Organisational purpose: A business is an organisation that adds value and creates wealth. Value is created for customers and wealth is generated for owners.

(Drucker in Watson, 2002)

While there are many definitions of organisational purpose (and you should be open to but critical of these), Drucker does point toward the connections between strategy and purpose – if the purpose of organisations is to add value and create wealth, then strategies must be formulated to achieve these ends.

Task Questions

- Using your own research, define organisational purpose.
- Explore some of the more recent trends, e.g. "greening" and add these to your understanding of purpose.
- Think systemically about organisational purpose across industries and economies. How does this change the way that you think about purpose?

Organisations exist in a competitive environment (e.g. even not-for-profit organisations are competitive – they compete for donor funds, and governments too compete – they compete for foreign direct investment). Consider the concepts of 'competition' and 'competitive advantage'.

Direct competition: These are organisations that produce the same or very similar goods in the same industry, which may or may not be differentiated.

Indirect competition: Occurs when organisations compete for the $ of expenditure, although the organisations might be in different sectors of the same market or different markets.

Competitive advantage: "The significant advantages that an organisation has over its competitors. Such advantages allow the organisation to add more value than its competitors in the same market."

(Lynch, 2012:822)

Sustainable competitive advantage: "An advantage over competitors that cannot be easily imitated. Such advantages will generate more value than competitors have."

(Lynch, 2012:830)

Task Questions

- Brainstorm organisations from several industries. Identify their direct and indirect competition, and their likely competitive advantage.
- From your list of organisations, identify examples of organisations with sustained competitive advantages. Compare your understanding of 'sustainable competitive advantage' with the example given below.

Coca-Cola's competitive advantage has proven its sustainability over the last 100 years

Coca-Cola's sustained competitive advantage can be ascribed to:

1. "The secret recipe for Coca-Cola, which arguably tastes better than other cola drinks.
2. Their ability to continue developing new products and re-inventing old ones (Coca-Cola currently offers over 400 brands in 200 markets worldwide)
3. The world's most comprehensive distribution system has made Coca-Cola accessible to billions of people worldwide. Coca-Cola is often available in ample supply to people in areas where other consumer goods companies would never consider delivering their products. The African continent is an excellent example – it's fairly common to see a small shop selling cold Coke in the middle of nowhere.
4. Coca-Cola's production techniques are so well developed that it costs a fraction of the selling price to manufacture their product, resulting in high profit margins."

(Author unknown, n.d.)

Levels of strategy

Bhasin (2010) differentiates between three levels of strategy. These are outlined in **Table 1** and **Figure 1**.

TABLE 1: THREE LEVELS OF STRATEGY

Corporate level	• Decisions made by Board of Directors/Chief Executive Officers • Responsibility for organisation's financial performance and the achievement of nonfinancial goals (e.g. green objectives) • Decisions reflect concerns of shareholders • Visionary, goal-setting, and purposeful (philosophy of the organisation)
Business level (Strategic Business Units)	• Decisions made by Business and Corporate Managers (i.e. across SBUs) • Responsible for translating the strategic direction set at the corporate level into concrete objectives and individual business unit strategies • Decisions are made at this level with regard to market segments and how the company will compete in its selected product-market arenas • Decisions help bridge decisions made at the corporate and functional levels (middle-up-down)
Functional support	• Decisions made by Functional Managers • Responsibility for supporting the SBUs in executing the organisation's corporate vision, goals and philosophy • Decisions address issues such as efficiency, effectiveness, quality and service levels in order to increase market share

(Adapted from Bhasin, 2010)

Corporate level strategy is responsible for the highest level of strategic decision-making – it includes decisions about fulfilling the organisation's vision (i.e. the purpose), corporate goals, and organisational philosophy (the value orientation which is conceptual and less concrete than decisions at the business or functional levels).

The concept of 'middle-up-down' applies here – the business level is responsible for translating corporate level decisions to the functional level and they are responsible for co-ordinating the feedback from the functional level to the corporate level.

In this model, Strategic Business Units (SBUs) serve discrete, independent product/market segments and are supported by functional departments (e.g. IT, Finance, Marketing, etc.). This suggests that different strategies are required for different product groups. Each SBU sets its own strategies to ensure the best use of organisational resources given the environments in which it operates. The corporate level assists the SBUs to define their scope of operations by either limiting or enhancing the SBUs operations in accordance with corporate strategy (vision, goals, and philosophy).

- Corporate strategy relates to the 'what' (the shape) and business unit strategy relates to the 'how' (execution).
- Corporate strategy defines the business in which a company will compete focussing its resources on converting distinctive competence into (sustainable) competitive advantage.

Functional strategy refers to the generic business functions of IT, Finance, Marketing, Research and Development, Human Resources, and where applicable Manufacturing. Decisions here are referred to as 'tactical' – the use of budgeted resources for optimal contribution to the achievement of the SBUs and corporate level goals.

There is integrity in the whole. Systemically all parts of the whole are affected by the actions of the individual parts.

FIGURE 1: THREE LEVELS OF STRATEGY IN AN ORGANISATION

(Bhasin, 2010)

- Why is systems' thinking an important concept in strategy formulation and execution?
- What are the consequences of inappropriate SBU strategy formulation on corporate goals and functional resources?