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Strategy Formulation

Purpose

The purpose of this Tool is to help you formulate business strategies by bringing together the analyses you have conducted utilising Tools 1 to 7.

Overview

By working through this Tool, you will be able to address the following questions.

- Why do I need to understand strategy development?
- What strategy should my firm have?
- What impact will a strategy have on my business?

People involved

Members of your management team who have clear responsibilities for the allocation of resources.

Background Reading

At this point you should review Tools 1 to 7. It is important that you summarise the findings of your analyses and the implications for shaping future directions.

Useful Inputs

- The outputs generated by preceding analyses
- Any company reports that deal with strategic issues
- Any strategic information
- Industry reports
- Research carried out by government bodies
- Research carried out by industry associations.

Important ideas

You should now have a better understanding of your total business environment.

As you work through the strategy formulation process you should revisit and refine your earlier work as some of your analyses may require re-thinking or fine-tuning. The business diagnostic process is iterative and you should become comfortable with the idea of revisiting earlier work.

You may find it useful for you to review PRINT21 Action Agenda Background Paper 3 "Navigating to the New World" prior to embarking on strategy formulation. The scenario analysis presented in this paper may give valuable insights and ideas for your own strategy formulation process. For example, the paper identifies three areas of opportunity in Australian printing - technology, customers and business innovation. The scenarios also outline three alternative types of company operations and how they hypothetically go about developing strategies to exploit emerging opportunities.

The three scenarios are as follows.

1. Companies leading customers ie. using technology appropriately to better satisfy demands and/or educate customers to new demands
2. Customer- led or being focused on customers' needs
3. Shaping customers' needs through future innovations and leadership.

Strategic Alternatives

Your management team should now be ready to generate a number of alternative strategies.

It may not be immediately obvious which alternative is likely to position your business most favourably and enable you to yield the best return on investment relative to the risks to which you will be exposed.

Strategy formulation will encourage you to consider the future of your business, the ways in which it resembles your current business and the ways in which it will be different. The process will encourage you to make an assessment of the attractiveness of operating within a number of business environments. Flexibility in operations will be essential for minimising your operating risks.

The strategy formulation process outlined in this Tool is framed around three principal elements:

- strategic philosophy
The way you are going to position your business in the market.
- strategic directions
The rationale with which you are going to penetrate in the market.
- strategic methods
Organisation method you will adopt to operate in the market.

Figure 8.1 summarises the three elements of strategy development and implementation.

TABLE 8.1



Deciding the best strategy

These Diagnostic Tools will have helped you to assess your company's strengths and weaknesses, explored emerging opportunities and helped you give thought to possible new directions.

You are now in a position to consider strategies for your business. The analyses you have carried out as part of the Tools prompted you to consider three possible types of strategy:

- delivery of superior value to your customers
- become a company with the lowest delivered cost relative to your competitors
- delivery of superior customer value while operating at the lowest delivered cost.

As you gear up for strategy formulation you may find it useful to hold discussions with your management team on the possibilities associated with these types of strategies.

Exploring ideas

Bear these tips in mind as you embark on the strategy formulation process:

- choose your strategies
Having explored alternative strategies make a choice bearing in mind strategic philosophy, possible directions and methods.
- commit to strategy
It is important that you commit to the chosen strategies.
- prepare for uncertainty
Uncertainties will arise as you embrace the implementation process. After all, you are breaking new ground. Be prepared by trying to articulate situations and have contingency responses.
- be prepared to learn and adjust your thinking and your responses to situations as they arise through the implementation process.

Considerations

Formulating a Strategic Philosophy

There are no guaranteed, sure-fire formulas for devising successful business strategies. These Tools will not automatically result in successful business strategy. They will however, help guide your thinking and they provide you with some powerful concepts, approaches and methods to assist in formulating strategy.

Tools 4 and 5 in particular, explored two principles essential for good strategy in printing industries. These were:

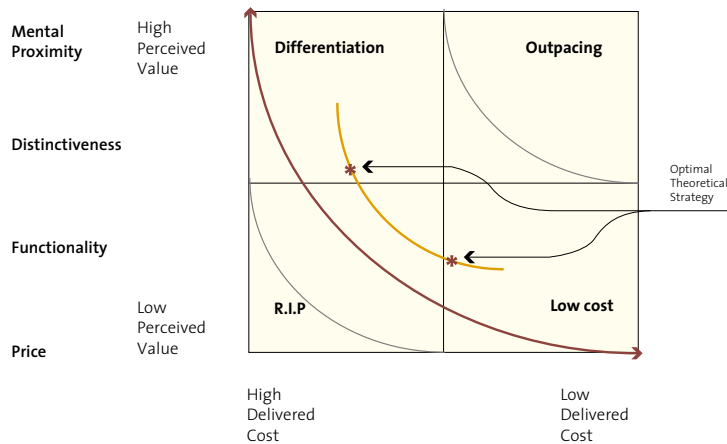
- perceived customer value (Tool 4)
- delivered costs (Tool 5).

Through Tool 4 you became familiar with the idea of categorising your customers along a perceived value spectrum. It showed that customer values were comprised of identified price, functionality, distinctiveness and mental proximity.

Tool 5 explored firm analysis. It discussed methods to analyse cost positions within a business along a spectrum from high to low delivered cost. By combining these constructs we are now able to identify four fundamental strategic orientations (Diagram 8.2).

In deciding your competitive strategies you will be essentially determining how to position yourself in the market in relation to your customers' perceived value and delivered costs of your products or services.

DIAGRAM 8.2



There are essentially three types of competitive strategies for you to consider.

1. Do you want to be a niche player?

To be successful in niche markets your strategy should be to position your products or services so that customers perceive them to have value.

If your enterprise necessarily operates on a high delivered cost-structure, the niche player strategy, will for a time at least provide latitude for this to be continued.

2. Do you want to be an outpacer?

Your strategy is again to position your products or services to be perceived as value. However, you may also have latitude to lower your delivered cost structure. As an outpacer, you will be aiming to deliver high value at the lowest market delivered cost.

3. Do you want to be a volume producer?

With this strategy you will be positioning your products or services at the lowest end of the spectrum of customer perceived value and delivered costs. This is essentially a product line operation.

Formulating Strategic Directions

Possible strategic directions you may consider adopting include:

- withdrawing from the market
- consolidating position in the market
- capture new market share – penetrate markets
- develop new products or services
- diversify your range of products or services.

Withdrawing from the market

Withdrawal of products and services from the market is a legitimate strategic direction. There are often sound reasons for doing so. For example, you may be relocating your business and then subsequently operating in another area where customers have different requirements to those customers you served previously.

Should you withdraw from the industry all together? Recall that Tool 1 provides you with a method for considering your position. Advice from your financial advisers and others should also be sought if you are considering such a course of action.

Consolidating your position in the market?

Consolidation is concerned with focusing on, and enhancing, existing activities. While your printing activities may evolve, your range of products and markets essentially remain unchanged under this scenario.

A business that aims to consolidate its activities will expect to perform and grow in line with the markets being served. It will behave in ways that sustain market positions.

Capture new market share – penetrate markets market penetration?

Market penetration entails capturing market share from competitors. It will more than likely require increased marketing activity to raise your customers' perception of value associated with your products or services.

However, the dynamics of your market and your competitors' relative positions, will have a significant impact on your ability to penetrate markets.

Because total sales activity is increasing in growth markets, normally new companies and companies with a relatively small market shares should be well placed to capture additional market share.

In many respects however, the Australian printing industry resembles a mature market. Mature markets demonstrate high levels of product standardisation and it is very difficult for any company to differentiate their offerings.

This means that the challenge for any company that commands a relatively small share of the market is therefore significant.

Develop new markets

If you are considering developing new markets it is important that you protect your existing products or services in present markets while venturing into new markets.

Market development may include, for example, not only entry to new markets, exploiting new uses for an existing product or extending into new geographical areas. Parts of the Australian printing industry require very specialised equipment and other specialised resources and, accordingly, are capital intensive.

Changes in product offerings are likely to be relatively rare from these segments of the industry because of the expense and the time required to develop the new offerings.

Export development may be an attractive option for the inexperienced operator, there will be risks to be managed. It may be helpful to seek advice from Austrade, for example, on gaining a thorough understanding of customer preferences, cultural norms, trade rules and legislation.

In some cases it may be difficult to transfer existing products to new markets without substantial changes or adaptations.

Develop new products or services?

Because Australian printers tend to operate in fast moving and competitive markets, new product development can be an effective strategy. Indeed, without some demonstrated commitment to innovation your company will experience difficulties in adapting to customer demands and may not be able to respond to competitive changes.

It is important to recognise that product development often consumes significant quantities of resources. Furthermore, great ideas may not make the transition from concept to successful product launch.

For it to yield positive outcomes product development should be based on market orientation.

Diversification of products or services

Diversification refers to the simultaneous development of new products and new markets.

Bear in mind that there may be substantial risks associated with new product development. You should assess the risks very carefully. Obtain relevant professional advice whenever possible.

Strategic organisational arrangements

Having decided your strategic philosophy and strategic directions (your strategic purpose) the next aspect to consider is the most appropriate organisational arrangement to achieve your strategic purpose.

Three types of organisational arrangements are suggested for your consideration. These are:

- to grow naturally
- to merge with, or acquire another enterprise
- to become part of a network.

Grow naturally

Growing naturally simply involves utilising your own resources to grow the business.

This strategy is suitable if your company has the appropriate physical and intellectual capital to continue to grow without it being exposed to onerous risks. Generally, companies that grow organically tend to be above average in size.

While natural growth means that development is likely to be slow, this alternative has advantages primarily you will know your cost structure well and you will be able to pace the development of your business as you see fit.

Merger or acquisition

Mergers and acquisitions can be beneficial in that they produce business outcomes rapidly and provide you with substantial control of the process. The costs involved in planning and orchestrating a merger or an acquisition are however, likely to be high and can in many instances, be risky.

Experience shows that mergers and acquisitions require careful planning to succeed. If you are a small to medium enterprise it would be advisable to seek professional assistance if you have come to the conclusion that this is the best course of action for your company.

Merger and acquisitions explained

Mergers and acquisitions involve the unification of previously independent companies and are generally driven by an interest in accessing economies of scale or economies of scope.

In an acquisition the seller is paid cash or a cash equivalent for the business and, accordingly, the seller relinquishes future ownership claims in the acquired company. The total financial pool is reduced because of the outflows of cash associated with the purchase. Accordingly, it is critical that the new entity has access to sufficient resources to successfully implement the subsequent integration process.

In a merger two or more companies come together to create a new company. Payment from one party to another often takes the form of shareholdings in the new company. In this way the pre-merger companies maintain an equity position and the arrangement preserves the new entity's capital reserves. It is still important that the new entity has access to sufficient resources to successfully implement the subsequent integration process.

Get involved in a network?

A network is a formal and well-structured association of companies that aims to deliver improvements in efficiency and effectiveness to its members.

By being involved in a network you will be able to exploit benefits that normally accrue to larger units while retaining your identity and control. Within the right network you will be able to develop the competence of your business, gain market advantages and gain access to lower procurement prices.

To benefit from a network you and your colleagues must be prepared to adopt a cooperative style in your dealings with other network members and be willing to share costs and benefits.

Your network is likely to deliver substantial benefits to your company if your resources align with your ambitions and you allow sufficient time to build trust and common understanding.

Be aware, however, that different stakeholders in the organisation may have very different motives for pursuing network strategies and you should endeavour to clarify motives and encourage clear communication.

It is appropriate for you to now refer back to your Action Plans/end of tool summaries that you developed earlier in Tools 1-7. The Action Plans should be part of the strategic actions your firm will undertake in the future.

You should now pause to reflect on the following questions before concluding Tool 8.

What is the best competitive strategy for the firm?

Should the firm withdraw a product(s) from the market?

Is consolidation an option to explore?

To what extent can the firm penetrate the market?

Can the firm's operations be changed to produce more value for the customer?

What is the best approach for firm expansion, eg organic growth?

Is a merger or acquisition a more practical approach to firm expansion?

To what extent is product development possible?

Should the firm invest in other product lines?

Can the firm undertake to value intangible assets more appropriately?

Do we need to change our service/product offerings?

Remember, there is no set recipe for developing your business strategy. You have to carefully think through the entire process yourself and with your staff.