Comparisons on strategy formulations between small and big business

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Modern industrial enterprise is an open technical and economic social system. Its state and development are strongly influenced by the external environment, which suffers uncertainty, dynamism and unpredictability. It helps to develop the appropriate long-term strategy of organization conduction. Therefore, the problem of industrial enterprises adaptation to changes in the environment acquires special importance and

relevance. The adequacy of economic behavior and managerial decisions of the enterprise market requirements is becoming decisive factor in its successful long-term development. It is known that in developed countries, a strategic approach to

management now has a fairly broad distribution and has become an important factor in creating a high long-term effectiveness and competitiveness.

According to Charles H. Green (2010), growth strategy is focused on the use of available market opportunities. Work with the old product in the old market does not require new knowledge and skills in any area of marketing, not in technology. Therefore, the strategy of expanding sales of manufactured product markets has already involved minimal risk. At the same time, this strategy is difficult to implement in already developed markets that are in the stage of maturity. The reason is that the expansion of sales in mature markets requires weaning customers from competitors. Conquest of the same loyal customers to competitors may require considerable financial outlay. A little more risky is the output of the already manufactured products to new markets. Such an output may require

additional investments for the purpose of advertising campaigns and product adaptation to the new requirements. Entering new markets also requires significant marketing research, to identify new requirements and tastes of consumers.

Developing new products requires in addition to considerable financial investments and even purchase licenses, permits for production and various activities. Additional requirements for financial resources, together with an unknown reaction of consumers to new products bring new risks. Diversification (into new markets with new products) is the most risky strategy for growth, because here the risk of development of new products combined with the risk of entering new markets.

Thus, is urgent the need for the orientation in the strategic directions for effective operation. Therefore, the main purpose of this essay is to examine the growth strategies of firms. In this case, there would be considered the theoretical aspects of the issue as well – a strategy for large, small and medium-sized firms. According to R. Nag, D. Hambrick (2007), strategy – is a definition of the basic long-term goals and objectives to approve a course of action and allocation of resources needed to achieve these goals.

Strategic alternatives are determined by comparing the capabilities and resources of the corporation, taking into account an acceptable level of risk. Ultimately, the formation of business strategy must give answers to three questions: What areas of economic activity need to be developed? What are the capital needs and available resources? What is the possible impact on selected areas?

There is allocated a number of distinctive features of the strategy:

1. The process of developing the strategy does not end any immediate action. Usually, it ends up setting the overall direction, progress on which will ensure the growth and strengthening of the firm.

2. Formulated strategy should be used to develop strategic projects, search techniques. The role of strategy in the search is that, firstly, to focus on certain areas or features, and secondly, to reject all other possibilities as incompatible with the strategy.

3. The need for this strategy is no longer as soon as the actual course of events will bring the organization to the desired development.

4. During the formulation of strategies can not foresee all the possibilities that will arise in the drafting of specific activities. Therefore it is necessary to use highly generalized, incomplete and inaccurate information about the various alternatives.

5. As well, more precise information can be called into question the validity of the original strategy. It is therefore necessary to obtain the feedback that allows the timely reformulation strategy.

The process of implementing the strategy can be divided into two stages: strategic planning process – is developing a set of strategies, ranging from basic business strategy and ending with functional strategies and individual projects; the strategic management process – is an implementation of a strategy over time, a reformulation of policies in the light of new circumstances.

Strategic planning is systematized and logical process is based on rational thinking. At the same time, it is the art of prediction, research, calculation and selection of alternatives. Strategies of enterprises should be constructed in a hierarchical manner. The levels of strategy, comprehensiveness, and integration are very different, depending on the type and size of the enterprise. Thus, a simple organization may have a single strategy, and the complex – few different levels of action.

According to Takashi Hikino (2007), conceptual model of a strategic plan must determine the following stages of preparation of the strategic plan of the enterprise. Analysis of the environment:

External environment;

Internal capacity.

Definition of company's policy (goal setting). Strategy formulation and choice of alternatives:

marketing strategy;

financial strategy;

production strategy;

social policies;

a strategy for organizational changes;

environmental strategy.

Results of the proposed scheme above strategic plan of the enterprise composition is a document called Strategic Plan for the enterprise and typically has the following sections:

1. Aims and objectives of the enterprise.

2. Current activities of businesses and long-term objectives.

3. Business strategy (basic strategy, major policy alternatives).

4. Functional strategy.

5. The most significant projects.

6. Description of external operations.

7. Investment and resource allocation.

8. Planning for the unexpected.

Applications: Estimates, references, other business documents, including: annual sales by product group; annual profit and loss by division; the annual export and its relation to the volume of sales units; changes in key products and market share; the program of annual capital expenditures; annual cash flow; balance at the end of the last year of the plan; acquisition policy.

Analysis of the literature on strategic planning in Western firms showed that the number and content of the stages of drawing up a strategic plan, as well as itself, its shape can vary considerably and depend on many factors, among which the main ones are: ownership of the enterprise; type of enterprise; size of the enterprise (large, medium or small).

However, there is no single horizon of strategic planning. Different countries have different standards of strategic planning. For example, Europe, as a rule, uses the 10-year plans, United States and Canada are using the 5-year plans and the Japan in general uses 3-year plans.

I would like present strategies formulation and choice of alternatives.

According to Strategic Planning: Not Just for Big Business (2010), procedure for the formulation of strategy and choice of alternatives consists of the following steps:

Evaluation of existing strategies;

The proper phase of the formulation;

Planning of risk;

Choice of strategic alternatives.

Let’s consider these points in more detail. Assessment of the current (existing) strategy. The initial assessment of the current strategy is performed at the previous stage – assessment of internal capabilities. The strategy, being united as a basis for organizational effort, requires the development of a series of strategic plans at both the enterprise as a whole, and at the departmental level. Naturally, each strategic plan is a part of a general, and business strategy brings them all together. The core of any strategic plan, the company is its basic strategy. The choice of basic strategy is the prerogative of the company’s management. Leadership, evaluating and analyzing the information obtained in the previous steps, the final decision.

Planning for risk is an important part of the strategic plan. The main goal is to maintain a high level of anti-disturbance of the environment and reduce losses from these disturbances. Recently, in Western companies there is becoming increasingly popular not developing backup strategies, and establishing systems of crisis, characterized by a very high degree of centralization of decisions and quick response to changes in the environment. This follows from the fact that the very set of possible disturbances become so diverse that the firm is not able to foresee all possible situations. Choice of strategic alternatives as a part of the selected basic strategy has several possible courses of action, which are called strategic alternatives.

Developing a strategy should address to the levels of government enterprises as well as the solutions produced for strategic planning, are all employees of the organization. Therefore, it is necessary to coordinate the interests in the formulation of a strategy panel discussion. In addition, it allows management to consider many alternatives. But convergence in group selection is much lower than unity of command. Therefore, usually there is held a panel discussion and the sole final decision

growth strategy.

According to W. Mulcaster (2009), growth strategy consists of five stages:

1. Planning stage. The company is ready to formulate a growth strategy. There is a certain combination of external conditions and internal capabilities.

2. Initial stage. Typically, a firm is going through this stage very fast. During this phase arises and then eliminates bottlenecks in processes and structure of the implementation of specific strategy, which were not foreseen in the plan.

3. Stage of penetration.

4. Accelerated growth.

5. Transitional stage.

The purpose of the initial strategy is to moderate growth in order to provide enterprises with access to optimal efficiency. Leadership is vigilant attitude towards the accelerated development, trying to ensure the identification of bottlenecks and eliminate them to continue to take a persistent offensive position in the market. As already noted management must be prepared to ensure that the first phase may have difficulties in manufacturing, administrative friction and strained financial condition, associated with high costs and lack of profitability. However, one of the goals of the initial strategy is the speed of this phase and move to the next strategy.

Now let's consider penetration strategy. This strategy directs the efforts of the enterprise at a deeper market penetration and additional efforts to increase the pace of sales growth. If this requires the acquisition and absorption, they are made in the framework of this strategy. Long-term programs include strengthening and developing the action in all areas of functioning businesses, especially paying attention to the strengthening of financial positions, the modernization of fixed assets, research and development. After achieving these goals and carrying out the necessary internal rebuilt, the company can move to the next strategy.

The strategy of accelerated growth. The aim of this strategy is the full use of internal and external opportunities. This phase of the cycle of growth must be done as long as possible, because on that happens the full utilization of resources, revenue growth begins to exceed sales growth, market share approaching is planned. But at the stage of accelerated growth begin to emerge and accumulate the negative trends in the enterprise, so one of the goals of this strategy is as early as possible to identify and attempt to solve. If you solve the problems it is not possible, the management company of this strategy begins a smooth transition to implement the following strategy.

The strategy of transition. The aim of this strategy is to ensure that after a period of accelerated growth during the regrouping and restructuring of the enterprise to enter into a new cycle of growth as quickly as possible, i. e. avoiding prolonged stagnation. The strategy envisages savings, the rejection of new productions. Going in-depth analysis of the situation of the enterprise to reduce costs, improve profitability of products, restructuring the management system.

By itself, a growth strategy can be applied in different situations:

Start of business activities;

A young company struggling for its survival;

A single-product specialist company;

The diversity of the company described the situation where growth strategy in the organization as a whole can full screenshot the growth strategy for the individual type of product.

That is why, there can be offered many strategic alternatives of growth in business practices. Listing only some of basic, strategic alternatives includes: an intensification of market diversification, inter-firm cooperation, foreign trade activities, stabilization strategy and survival.

In the upset the economy in line with business cycles and the cycles of the last business may experience a painful period of instability, when start falling sales and profits. There is a need to develop special analysis procedures that allow companies to capture the transition from stage to stage of growth drop, i. e. the reorientation of the offensive in an offensive-defensive strategy – a strategy of stabilization.

Stabilization strategy is aimed at achieving an early alignment of sales and profits, with subsequent increases, that is, with the transition to the next stage of growth. Depending on the rate of fall of the enterprise it can be used with one of the three most likely approaches:

Savings with a clear intent to rapid recovery;

Changes in long recession with less hope for a rapid recovery;

Stabilization when there is needed a long-term program to achieve a balanced state of the enterprise market.

Survival strategy – is a purely defensive strategy and is applied in cases of complete dislocation of the economic activities of enterprises in a state close to bankruptcy. The strategy is to stabilize the situation, that is, the transition to a strategy of stabilization and, subsequently, to the growth strategy. It is clear that this strategy cannot be long. It requires, on the one hand, fast, strong, fully coordinated action, on the other – prudence and realism in the decision-making. That is why in the implementation of strategies for survival there is tight centralization of control, which creates a “ crisis committee”, which along with the adoption of rapid reaction response to the disturbance of the environment develops and rigidly enforces the following programs: reorganization of management; financial restructuring; restructuring of marketing.

According to Scott C. Beardsley, Denis Bugrov, and Luis Enriquez (2005), business development company (enterprise) is defined by the following circumstances: in what markets it operates, i. e. earned it the market or it is for it new and what kinds of goods or services go to the market (products that are new to the market or not). Practice showed that market relations were developed in few basic areas that form the active conduct of firms:

1. Expansion of activity of the firm (company) “ deep”, i. e. segmentation of existing markets to capture their production of new consumer groups.

2. Expansion of activity of the firm (company) “ in breadth”, i.
e. diversification of production through the issuance of new types of goods (products) as related to the basic profile of the enterprise and not associated with it.

3. Expansion of activity by “ quantitative” growth – in sales of products by increasing production volumes of continued product lines for the current market.

4. Expansion of activity of firm “ across borders”, i. e. software to increase production at the expense of entering new markets.

Typically, these strategies are represented as matrix constructed depending on the product and the market (Table 1).

Table 1. Matrix of the basic strategies

Old Market

New Market

Old

product

A1: Running out of market opportunities and product

A2: Development of new markets. New market segmentation

New product

B1: Penetration into unfilled niches with new or improved products

B2: Diversification of markets and products

The field A1 is characterized by deep penetration strategy (“ old” product – the “ old” market). This strategy is successful when the market is not

saturated. Competitive advantage can be achieved by a firm through lower production costs and selling prices of services. With regarding to the fields A2, it results that had a strategy of expanding the market (the “ old” product – a “ new” market). When using this strategy, the company is trying to increase the sales of their products (services) in new markets or new segments of existing markets.

Strategy of product development (“ new” products “-” old “ market) is typical of the positioning in the field B1. This strategy is effective in creating new versions of products for existing markets. Field B2 is characterized by a diversification strategy (“ new” product – a “ new” market). This strategy is used to eliminate the dependence of firms on the production of a certain product (service) or from some of the market.

The basic strategy of a firm’s growth predetermines and basic strategies for strategic business units, of which there are three main types.

1. Offensive strategy – is a strategy of conquest and expansion of market share.

2. Defensive strategy – is a strategy that retains existing market share.

3. Retreat strategy – is a strategy for reducing the market share to profit growth as a result of a gradual withdrawal from the market or liquidation of the business.

Application by one or another type of firm strategy is defined by the position in the market, which is characterized by its market share

(percentage). Depending on market share there is the following situation of the company and its strategy:

1. Leader (market share – 40%) feels confident; the first takes the initiative in the prices of new products. In defense, the leader has resorted to various actions: “ Defensive position” – the leader creates barriers (pricing, licensing) on the main directions of attack competitors; “ Flank defense” – the leader outlines key areas, reinforced the point made by both the active defense, and to counterattack; “ Proactive defense” – the leader organizes the lead opponent to the use of special signals to neutralize the attack, for example, distributes information about the upcoming price reductions; “ Offensive” – after the leader pauses, then strikes the weak point of a competitor, for example, shows the reliability of its product and unreliable nodes output a competitor; “ Mobile defense” – the leader is expanding its influence in the diversity of production, identifying the underlying needs of clients; “ Defense contracting” – the leader leaves the weak segments of the market while strengthening the most promising.

2. Contender for the leadership (market share – 30%) feels confident only if attacked first. Different variants of attacks: “ Frontal attack” is in many ways (new products and prices, advertising and sales) and requires considerable resources; “ Surrounding” – an attempt to attack all or a significant share of the market leader territory; “ Crawl” – the transition to the production of fundamentally new products, entering new markets or the implementation of the jump in technology; “ Guerrilla attack” – little choppy, attack is not quite correct method to demoralize an opponent.

3. Follower (market share – 20%) – this role is to follow the leader at a distance, saving power and money.

4. Beginner, “ entrenched” in the niche market (market share – 10%) – with this role is the beginning to newcomers. This search for market niches rather satisfactory size and profitability.

Growth strategy can be implemented by means of: expanded sales of products to more fully exploit the potential of the market; release of new products on the already developed markets; output from already manufactured products to new, untapped markets; diversification; acquisition of new businesses; release of new products into new markets.

It should be noted, that it is least risky to expand the volume sales of already produced goods. Following – is new products to old markets realization strategy and the output of old products into new markets. The most risky are out with new products for new markets.

Growth strategies for small business. According to Ben Gilad (2008), the main feature of the development of small firms in the market conditions lies in their flexibility, i. e. ability to quickly rebuild its productive activities, depending on market conditions. The main strategies of small firms are represented in the matrix (Table 2).

Table 2. The main types of strategies of small firms.

The shape of the existing firms

The product is a small firm

Such original

product of a large firm

Independence from big companies (sovereignty)

“ The false mushroom” (field1): Cooperation Strategy

“ Wise gudgeon” (field 2): The strategy of optimal size

Associated with large firms (symbiosis)

“ Chameleon” (field 4): The strategy of using the advantages of large firms

“ Biting Bee” (field 3): Strategy for participation in the product of large firms

Let’s consider field 1. The basic strategy here – is the strategy of copying (“ false mushroom”). The essence lies in the fact that a small company, using the results of scientific research of larger firms in the original product, released copies of these products at prices and quality is much inferior, as a rule, the original.

Relative to the field 2, we can say the following: there is used a strategy of optimal size (“ Wise gudgeon “). Small firm operates under the motto: “ Do not stick your neck out” beyond its niche market. This strategy ensures the survival and although a small firm, but serves as an obstacle expansion of the company.

With regard to field 3, there is adopted a strategy of involvement in the product of a large firm (“ Biting Bee”). Usage of this strategy is possible

when a single small element of production of a larger company – is the end product for this firm. In order to avoid dependence on the larger firms a small firm should strive to limit the proportion of turnover attributable to one major customer, i. e. small firm should strive to deliver products to several large firms so that the share for each of them in total sales of the firm does not exceed 20%. This allows small firms as " stinging bees", forcing the larger response, and to force large firms to get rid of unproductive units.

Field 4 is characterized by the use of strategies to take advantage of a large firm (" Chameleon"). This is so-called strategy franchise, under which the contract is concluded between small and large firms, according to which a large firm agrees to provide small firms own products, services, waste technology business is short-term loan on concessional terms, rents out its equipment. In turn, a small firm shall maintain business contacts with these exceptionally large firms to do business, " the rules" of the large firm and a contract to transfer the share of total sales in favor of large firms.

Growth strategy features of medium-sized firms. According to G. Johnson, K. Scholes (2008), medium-sized firms tightened vise press of large firms and small stinging pricks. For their survival strategy is characteristic strategies of niche specialization. The activities of the mid-sized firms are build, depending on the growth of the market and the possible pace of its growth (Table 3).

Table 3. Matrix of strategies medium-sized firms

Growth rates of firms

moderate

accelerated

moderate

Field 1: Conservation strategy

Field 2: The strategy of search the invader

accelerated

Field 3: Strategies to move beyond the niche

Field 4: Strategy of leadership in the niche

As can be seen from the table, in field 1 there is applicable strategy of saving current status. In this strategy, there is danger of losing the niche because of changing needs. Field 2 is characterized by using the search strategy of the invader. Using this strategy can be dictated by the fact that the firm has an acute shortage of funds to maintain its position within the niche. Average firm begins search for a large company that could absorb it, keeping it as a relatively independent, autonomous production unit. Use of financial resources of a large company can maintain its high position in the niche. Using this strategy, the average firm can keep changing owners, retaining its niche specialization.

For field 3 is most common strategy to move beyond niche. When using this strategy, the firm has problems associated with the growth and the need for

resources: company grows as fast as the market niche; firm should have adequate resources to sustain its rapid growth.

Action of firm in Field 4, is usually based on a strategy of leadership in a niche. This strategy is successful only when a market niche is too narrow for the average firm. Firm by sales volume reaching to the borders of a niche market, will face the competition of larger firms. For this “ decisive battle” a firm must accumulate the appropriate resources.

Growth strategies of large firms. Large firms, in contrast to small have more opportunities to: organization of mass standardized production; expand their activities (diversification) for directions.

In this context, growth strategies of large firms are constructed according to the degree of diversification and growth rates (Table 4).

Table 4. Matrix of the growth strategies of large firms

Growth rates/ Diversification degree

low

average

excessive

High

Field 1

Average

Field 2

Low

Field 3

Companies that enter into the field 1 with a low degree of product diversification and rapid growth are called “ Proud Lions”. This is the strategy of leaders in production; the growth in production is carried out rapidly, but a small range (e. g. consumer electronics).

Field 2, where there is an average level of both indicators includes firms, the so called “ Mighty Elephants.” This is the strategy of firms that occupy a stable position in the market and have average growth rates of output, but unlike the above firms degree of diversification of their production is wider, for example, they may cover the entire electrical production.

“ Hulking behemoths” – is firm, concentrating in the segment of Fields 3. This strategy is typical for firms with a high degree of diversification and low growth rates of output, i. e. for firms making everything up to “ nail” on their own. The range of products of such firm is extremely wide from the fairly simple (for example, razors) to unique in its complexity devices (for example, the device for the treatment of nervous system).

In this part of essay, I would like to consider strategies and features that are common to small businesses.

Strategies are integrated growth:

1. Backward vertical integration strategy, aimed at business growth through acquisition or strengthening of control over suppliers, as well as through the establishment of subsidiaries, is engaged in supply. Implementation of the strategy of vertical integration backward can give favorable results by reducing dependence on fluctuations in component prices and demands of suppliers. While deliveries to the enterprise as a cost center may become a case of reverse vertical integration in the center revenues.

2. Strategy of forward vertical integration is expressed in the growth of the company through the acquisition or increases the impact on consumers, is advantageous in cases where mediation is expanded or when the firm cannot find the middlemen from the quality level of work.

3. Diversified growth strategy implemented in the event that an organization cannot continue to develop this market with existing products in the industry. Strategies of this type are: centered strategy of diversification, based on finding and using prisoners in an existing business, additional opportunities for new products. In this case, the existing production remains at the center of the business. A new arises on the basis of those features, which are made in market development, technology used, or other strengths of the functioning of the firm.

According to Tsun-yan Hsieh and Sara Yik (2005), horizontal diversification strategy involves searching growth opportunities in existing markets through new products, requiring new technology, than was used previously. With this strategy, the organization should focus on the production of technologically related products, which is used by existing features, such as in supply. Since the new product should be directed to the main consumer of the product, on the qualities it must meet is already manufactured product. An important condition for the implementation of this strategy is a preliminary assessment of the organization's own expertise in the production of a new product.

Conglomerate diversification strategy lies in the fact that the company is expanding due to new products; technology is not related to the already produced and sold in emerging markets. This is one of the most difficult in implementation development strategies. Its successful implementation depends on many factors, in particular, the competence of the staff (especially managers), seasonality in the life market, the availability of the necessary sums of money.

4. Reduction strategies are realized when the organization needs realignment of forces after a long period of growth. This is done in connection with the need to improve when there are setbacks or major changes in the economy, such as structural adjustment. Implementation of these strategies is often painful. However, top management must clearly realize that this same strategy of the firm as a growth strategy. Under certain circumstances they cannot be avoided, as it is the only possible strategy for updating the business.

There are four types of strategies targeted to reduce business:

1. Elimination strategy is a limiting case of reduction strategies and implemented, if the firm cannot conduct further business;

2. Strategy of “ harvesting” is implying the rejection of long-term view of business in favor of the maximum revenue in the short term. This strategy is applied to the unpromising business which cannot be profitably sold, but it can generate revenue during the harvest. This strategy involves reducing the cost of purchasing and labor. The strategy of