Evaluating and ranking the strategic alternatives

There will always be decisions to be made in business. These decisions will affect its operations, leading to either success of failure. Having strategic alternatives will present more potential solutions to address the requirements of a business for its success. These alternatives must be subject to analysis based on certain factors known as selection factors namely: the objective and the subjective factors. Objective factors are based on analysis, facts or data that facilitates strategic choice. One example of an objective factor selection is the market share, expressed as a percentage in the total market share of a company's business in its industry. Subjective Factors are based on personal judgments, collective or descriptive factors. One example of this is the perception of a company's top executives regarding the company's business prospect in the next 3 to 5 years. (Kazmi, 2008)

Evaluating strategic alternatives should lead to a clear assessment of viable options. In practice, many factors affect ranking strategic alternatives. A simple and systematic approach would be ranking (on a scale of 1-5) under six criteria namely: competitiveness, controllability, compatibility, feasibility, impact and risk. The results should prompt some key questions to about the alternatives (Joyce, Woods, 2001).

These alternatives must also be ranked in accordance to its respective advantages and disadvantages (pros and cons) or by implementing the SWOT analysis by identifying a business's strengths, weaknesses, opportunities and threats. We must also anticipate potential problems that might occur in its implementation. Therefore, it is necessary for these

strategies to be flexible and open to revisions and redevelopment. (Pehrsson, 1996).

The bottom line is to be able to decide on which strategic alternative to implement based on the existing conditions of the business, which includes factors to consider, both internal and external. Internal factors could include a business's resources, capabilities skills and expertise. External factors could include market demand, competition, legislation and economic aspects of the industry and locality to which the business belongs. (SIT, 2010)

Strategic Alternatives – Risk vs Return

Every strategy that is implemented by a business would include both risks and rewards. We can then evaluate strategic alternatives through comparing them.

Every strategic implementation in a business always encounters uncertainties along the way. It is often thought that the greater the risk, the higher the return. However, this is not always the case. We can try to maximise return by minimizing the risk. This is how it should be in business. When too much risk is involved, it also signifies ignorance of many contributing factors, which is counterproductive. The bottom-line is to always approach each strategy with care and calculation. We must also establish the viability of the strategy that needs to be implemented. Strategies that face too much impediments in must be excluded, with focus on objectives that need to be achieved for the success of the business.

According to Wilson & Gilligan (1998), objectives that were achieved signify that the company made the right decisions and thus, was able to overcome

the risks involved. Wilson & Gilligan (1998) also stated that good decisions are arrived by considering what the future may hold in store. Wilson& Gilligan provide an outline the four views of the future:

Ignorance – is where an organsiation sees the future as blank. When this happens, it is best to avoid making decisions until more information is at hand;

Assumed certainty – is where an organisation has a known and viable outcome in the future, based on the important information it had utilise to make at an accurate decision;

Risk – is where the future outcomes are not very clear but are still workable based on assumed probabilities to work with;

Uncertainty – is where outcomes cannot be ascertained. (SIT, 2010)

Based on the above, the returns can be dependent on these four views. Returns relate to profit, market share and consumer awareness. When choosing and implementing a strategy, we must weigh the risks, based on the information at hand in order to make the right decisions that would result to better returns for the business. Otherwise, we must choose another strategy that can encourage certainties that are more positive.

FEASIBILITY AND RETURNS

The process of determining the probable achievement of goals of a business signifies relevant feasibility in the implementation of its strategy. If the strategy is implementable, it also has to have the potential of a successful outcome and positive returns/rewards.

Returns would always signify, goals achieved, profit increases, growth in market share and heightened awareness from the consumer. One example is when a business would like to market and compete globally. There will be more risks with regards to: working with legislations, facing more competitors, diverse demand and quirks from consumers and the financial resources involve it implement this move. However, along with these risks, if the strategy is successful, it will build strategic partners in further expanding the business and most of all bring more profit from the increased market share and consumer base. These will prove that the rewards/returns outweigh the risk in the end. The business must also make sure that the strategy, implementation, risk involved and the returns would all fit into the overall goals of the business. For a business strategy to be successful, it must have balance in what is acceptable, compared to what is implemented. (SIT, 2010)

The “ fit” between the organisational goals and the marketing strategies

Business Strategies

Competitive Strategies refer to business strategies to succeed in the chosen industry. It is taking offensive or defensive actions to create a defendable position in an industry, to cope successfully with the five competitive forces and thereby achieve a superior return for the organisation.

Michael Porter had identified three internally generic strategies, which can be used individually or in combination: Cost leadership, differentiation and focus.

Cost leadership

The strategy of cost leadership is to become the lowest cost producer through a set of policies and objectives. According to Porter, cost leadership requires:

1. Aggressive construction of efficient scale facilities

2. Vigorous pursuit of cost reduction from experience

3. Tight cost and overhead control

4. Avoidance of marginal customer accounts

5. Cost minimisation in areas like research and development, services, sales force, advertising and so on.

Low-cost position gives above-average returns for the business. This gives the business the opportunity to re-invest part of its earnings thereby strengthening its position in the market. Cost leaders are in better position to survive price wars among competitors. Cost leaders are also more flexible in adjusting price increases from suppliers. However, cost leadership has several risks, namely:

1. Other firms might imitate the cost leader so that the cost leadership is lost

2. Technological changes may result in the firm losing cost leadership

3. Cost focusers may achieve even lower cost in the segments

4. Competition on bases other than cost may become more important (P. K. Jalan, 2004)

Differentiation

In a differentiation strategy, an organisation seeks to be unique in the services and products its provides its buyers. It finds its niche and focuses on that, thereby specialising in the uniqueness of its offer, albeit, usually at a premium.

There are many areas to differentiate, such as: the product itself, the delivery system, the marketing approach, credit facilities, after sales service, market segmentation, etc. Some common requirements in successfully carrying out the differentiation strategy are:

1. Creating flair

2. Engineering skills

3. Research and development

4. Innovative marketing capabilities

5. Motivation for innovation

6. Corporate reputation for quality or technological capabilities

Like anything else in business, this strategy also involves risks, such as:

1. Imitation destroys differentiation

2. If the prices or premium if very great, consumers might shy away from the product or service

3. Changes in market demands, particularly with the consumers’ needs and tastes may make differentiation insignificant

4. Differentiation focusers may achieve even greater differentiation in segment (P. K. Jalan, 2004)

Focus

The focus strategy lies on the narrow competitive scope within the industry, which can serve well than the competitors. Focus can take many forms, such as: consumer segment, product line segment, geographical area, etc. Focus strategy has two varieties:

1. Cost Focus – Cost advantage in its target market

2. Differentiation Focus – differentiation in its target segment

It requires a number of factors to be successful, which are the same factors for the cost leadership and differentiation strategies.

Its risks are as follow:

1. Competitors may imitate

2. Competitors may focus on sub-markets within strategic segment and may outperform the focuser

3. The basis of focus may erode

4. Costumer characteristics and base may change

In identifying the above generic strategies, there is a second classification of strategic options developed by Raymond Miles and Charles Snow. According to them, business strategies fall into four categories namely: prospector, defender, analyser and reactor. Different SBUs in the same company might employ different strategies. (Houston, 2002)

A prospector strategy is highly innovative that constantly seeks out new markets and new opportunities. It is oriented towards growth and risk taking. (Griffin, 2006)

A defender strategy concentrates on protecting its current markets, maintaining stable growth and serving current customers, by lowering its costs and improving the performance of its existing products. (Griffin, 2006)

An analyser strategy attempts to maintain its current businesses and be somewhat innovative in new businesses. It is a combination of a prospector and defender strategies. Most large organisations use this strategy to protect their base of operations and create new market opportunities. (Griffin, 2006)

A reactor strategy has no consistency. It drifts with external influences such as environmental events but fails to anticipate or influence these events. Organisations implementing this strategy do not perform as well as other organisations implementing the other strategies. (Griffin, 2006)

Goals and objectives

Each business will have varying goals and objectives, which is incorporated into its strategies. Whatever goals and objectives these are, they will require three performance objectives in the form of effectiveness (against

competitors), efficiency (smart utilisation of resources) and adaptability (adapting to market trends and changes). (SIT, 2010)

The ‘ fit’ between strategies

Strategic planning is the process of developing and maintaining a strategic fit between the organization’s objectives and resources and its changing market opportunities.

APFM. Org

Each business has a strategy that keeps them competitive and even dominant in an industry. This strategy should be in sync and fitting the business’ / organisation’s goals and resources, in order to be able to function and deliver to the fullest of its potential. The strategy has to be established in all of the organisation’s units or departments, making sure that everyone is working towards the same goal, and that resources are available, in order to gain a better likelihood of success. (SIT, 2010)

These units or departments are called a Strategic Business Unit (SBU) where most usually they operate with autonomy, they implement their own strategies, they have their own objectives and way of operating, in order to be more efficient and self-directive.

Each SBU must have a piece of the puzzle that will form the organisation’s bigger and complete picture. The SBUs, no matter how independent they seem to be, must have all the above incorporated to the main strategies, to use the resources available skilfully and to fit into the overall goals of the organisation. This will give the organisation the best possibility of success. (SIT, 2010)

Example of an SBU

GAP Analysis and its benefit to the organisation

Gap analysis is all about identifying gaps in an organisation, which might be filled to the profitable long-term benefit. There are various forms of gaps, which is open for analysis to be able to fill them strategically. These are performance gap, market segment gap, product gap, image gap, activity gap and competitive gap. (Fifield, 1998)

Furthermore, gap analysis is a comparison between an organisation’s goals (profit, demand) and the expected performance and outcomes. Gap analysis depends on the ability of an organisation to forecast performance. It can be used for a wide number of applications such as:

Sales gaps- short and medium term

Profitability gaps – for three-year planning value gaps; for targeting market share in the industry

Customer value gaps – comparison between that consumer expectation and what an organisation can provide or deliver

Competitor gaps – for understanding how an organisation matches up to its competitors

Cost gaps – for targeting strategic cost reduction

Organisational gaps – for understanding an organisations resources and capabilities

Change gaps – understanding changes that are to come, anticipating them and recognising an organisations place in the future

Personal development gaps – between present and desired capability (Grundy, Brown, 2002)

The main questions in a gap analysis are: “ Where are we?” and “ Where do we want to be?” These identify the areas needing improvement and the capabilities to achieve these improvements. The comparison between these two becomes the gap analysis. Such analysis can be performed at the strategic or operational level of an organization. (Wikipedia, 2010)

With all the above, we can see why it is beneficial for an organisation to perform a gap analysis in order to see how it currently performs, opening rooms for improvement, in order to achieve its by goals – by filling in these gaps. If an organisation determines the gap between their capabilities and performance, it needs to ensure that this is filled as soon as possible, in order to maintain its competitiveness in its chosen industry.