Understanding the definition of strategy formulation

Strategic formulation is the process of determining appropriate courses of action for achieving organisational objectives and thereby accomplishing organisational purpose. In a business context, it means what are the products and services the organisation will deliver, what type of market they will entry, which capabilities are required, how will they allocate the resources, and what the returns organisational seeks? Strategic formulation is very important as it is the crucial part in the strategic management. A good and effective strategy is very important to the organisation because it helps the organisation handle threats, seeking and grab the opportunities, and solve the weeknesses and enhance the strengths of the organization in order to survive in the competitive environment.

3. 1 Distinction between Business Strategy and Corporate Strategy

Business strategy is a long-term plan of action designed to achieve a particular goal or objectives. Corporate strategy is the scope of the different industries and markets the organization competes within in order to achieve its organizational purpose. Normally, corporate strategy is supposed to be determined before the marketing strategy. In strategy formulation, it must included three stages of strategy. There are business level strategy, corporate level strategy, and international or globalisation level strategy.

3. 2. 1 Business Level Strategy

Business level strategy is an integrated and coordinated set of commitments and action of the organisation uses to gain a competitive advantage by exploiting major competencies in specific products and services. It is concerned with how the organization business competes in a specific market.

It also concerned the strategic decisions about the product choices, meet the customer expectations, exploiting or creating new opportunities, and gaining competitive advantages.

Besides, it is refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, an organisation must formulate their business strategy into three generic strategies to achieve a sustainable competitive advantage and long-term success. The three generic strategies are cost leadership, differentiation strategy, and focus strategy.

3. 2. 2 Cost Leadership

The first generic strategies in business level strategy which are identified as Porter's Five Forces is known as cost leadership strategy. Cost leadership is involving a firm being the lowest cost producer within the industry. This allows the firms to outperform rivals within the industry because it can be charged in lower prices. Although, the firm charge in lowest cost base, it stills can earn a profit. A dominant market share allows the firm to accumulate the greatest experience and the market share can continuing to grow to increase the cost advantages. A strategy of growth which enhance the accumulative experience and further lowers costs.

A cost leadership strategy allows an organization to generate above-average profits even it is intensive rivalry. A low cost producer will be in a better position in relation to the threats of new entrants and or substitutes. Cost leadership risks can be expensive as the organisation continually updates the capital equipments. The activities of the cost leader maybe easy to imitate.

3. 2. 3 Differentiation Strategy

Differentiation strategy is aimed at a broad market and involve the organisation competing on the basis of a unique or different product which is sufficiently valued by customers for them to pay a premium price. A major advantage of producing differentiated product is vitals will find it difficult to imitate. Besides, they also required different resources, capabilities, and organisational arrangements than cost leadership.

There are some several types of differentiation strategy that are design or brand image, customizing products to suit the customers in specific requirements, state-of-the-act of technology, marketing ability, reliability, products engineering skills, and creativity.

A differentiation strategy provides a defence against competitive rivalry because it creates brand loyalty which helps to protect an organisation from price competition. The brand loyalty is to be overcome by defence against new entry and substitutes. The buyers are constrained by a lack of alternatives and premium price are easier to pay back for suppliers.

Differentiated strategy has inherent risks. The high or premium price charged for differentiation cannot be too expensive above the competitors that it results in reduced the brand loyalty. Competitors may narrow the attributes of differentiation which results in customers being faced a viable substitute.

3. 2. 4 Focus Strategy

Focus strategy occurs when an organisation undertakes either a cost leadership or differentiation strategy but within only a narrow segment of the market. It also can be defined as market niche strategy, concentration on specific geographical market, isolating a unique segment product line, and isolating a specific buyer group. By focusing on a niche of the market, the organization must be placed to meet the buyers expectation. By focusing on the needs of specific segments that exist in the industry, the organisation can achieve competitive advantage either through lower costs or differentiation.

The risk of following in focus strategies are the customer preferences may change and the niche player may be unable to respond, broad-based competitors believe the segment represents an attractive submarket and outfocus the focuser, and the difference between the segment and the main market narrows leaving focus-based competitors at a disadvantage.

3. 3 Resource-Based Approach to Strategy Formulation

The two fundamental reasons for making the resources and capabilities of the firm the foundation for its strategy are internal and capabilities provide the basic direction for a firm’s strategy. The resources and capabilities are the primary source of profit for the firm.

Resources are the inputs into the production process while capability means the capacity to perform some task. Resources are the source of an organization’s capability but capabilities are the main source of an organization’s competitive advantage. The value of resources and capability of a business are sustainability and appropriability. Sustainability included durability, transparency, transferability, and replicability.

3. 4 Corporate Level Strategy

Corporate level strategy means overall scope of the different industries and markets the organisation competes within in order to achieve the organisational goals. Corporate strategy decisions included investment in diversification, vertical integration, acquisitions, and new ventures; the allocation of resources between the different businesses of the firm, and divestments.

3. 5 Growth Strategies

Growth strategies have four strategies that an organization might follow that are market penetration, market development, product development, and diversification.

3. 5. 1 Market Penetration

Market Penetration is to increase market share in your existing markets using your existing products. This strategy relies upon the organization existing resources and capabilities and therefore is relatively low risk.

3. 5. 2 Market Development

Market Development means entering new markets with your existing products. This can be targeted the new market segments and new geographical area, or devising the new uses for the products.

3. 5. 3 Product Development

Product Development is developing the new products to sell in your existing markets. The ability to innovate is crucial in developing products for rapidly changing customer markets.

3. 5. 4 Diversification

Diversification is developing new products to serve new markets. This will involve greatest level of risk it may be necessary where the organization existing products and markets offer little opportunity for growth. There are two diversification strategies such as related diversification and unrelated diversification. Related diversification refers entry into related industry which there is still some link with organization's value chain. It is included vertical integration and horizontal integration. Unrelated diversification refers to a situation where organisation moves into a totally unrelated industry. It can be called conglomerate diversification to reflect that managing a portfolio of companies. Thus resulting four core categories of strategy alternatives can be achieved internally through investment and development, or externally through mergers, acquisitions, and strategic alliances

3. 6 Portfolio Analysis

Portfolio analysis is simply different business units that organisation possess.

The two primary models are the Boston Consulting Group Matrix and The

General Electric-McKinsey Matrix. T he business portfolio’s overall uses is to determine whether the combined growth and profitability of the businesses in the portfolio will allow the company to attain its performance objectives.

3. 7 Corporate Parenting

Corporate parenting is concerned with how a parent company adds value across the businesses that make up the organisation. Corporate parent refers to all those levels of management that are not part of customer facing and profit run business units in multi-business companies. The concept of corporate parenting is useful in helping an organization to decide which new businesses it should be proceed on. It also helps parent company decide how to manage the business.

3. 8 International Level Strategy

International level strategy refers to the linkages between markets that exist across worldwide. What happens in one county has an impact on occurrences in other countries. These linkages may be economic, financial, social, political, in effect, anything that leads to increased interdependence among nations. These strategies have included four types of international strategy that are multidomestic strategy, global strategy, and transnational strategy.

3. 8. 1 Multidomestic Strategy

Multidomestic strategy is aimed at adapting products and service in national markets. Thus, responding more effectively to the changes in local demand conditions. The local manager needs to determine how the products and services can meet the local customer expectations.

3. 8. 2 Global Strategy

Global strategy is the organisation provides a standardised products and services for international markets. An organisation seeks to have their own manufacturing, marketing, and R&D centralised in a few locations. A combination of standardisation with centralised facilities and functions enable them to reap substantial economies of scale.

3. 8. 3 Transnational Strategy

Transnational strategy is seeks to simultaneously achieve global efficiency, national responsiveness, and worldwide leveraging capabilities of its innovations and learning.