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# Chapter 14

## Business Strategies

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### 14.1 Introduction

**A** **BUSINESS** strategy describes how a particular business intends to succeed in its chosen market place against its competitors. It therefore represents the best attempt that the management can make at defining and securing the future of that business. A business strategy should provide clear answers to the questions:

- What is the scope of the business (or offering) to which this strategy applies?
- What are the current and future needs of customers and potential customers of this business?
- What are the distinctive capabilities or unique competence that will give us competitive advantage in meeting these needs now and in the future?
- What in broad terms needs to be done to secure the future of our business?

These questions should have been addressed during the process of strategy formulation. The processes and techniques and processes described in Part III may have contributed to answering them. In this chapter, we are concerned with some of the practical issues that arise when thinking and analysis leads into action and commitment. We are concerned also with what makes the difference between good and indifferent business strategies. We suggest that a good business strategy will meet six tests of quality:

- It will be correctly scoped.
- It will be appropriately documented.
- It will address real customer needs.
- It will exploit genuine competencies.
- It will contribute to competitive advantage.
- It will lay the ground for implementation.

The paragraphs below examine each of these tests in turn.

## 14.2 The scope of business strategy

**E**ACH separate 'business' should have its own business strategy so that a multiple business enterprise will have a number of separate business strategies. This raises the practical question of how to define the scope for each such business.

Mathur and Kenyon (1997) have examined this question rigorously. They suggest that there should be a separate competitive strategy for each 'offering' defined as the unit of customer choice. The unit of customer choice depends on what the customer is comparing when he or she makes the buying decision. Their many examples of offerings suggest, for instance, that a 100g jar of Nescafé might be a separate offering from a 200g jar of Nescafé if the closest substitute for the customer is the same size jar of another make of instant coffee. They see the two different sizes of jar as being different offerings and therefore requiring different business strategies. This is certainly theoretically elegant but may present a few problems in practice. To divide businesses so finely is likely to be too much work and it is unlikely that it would be possible ever to implement such fine-grained strategies. There is often a conflict between theoretical rigour and practical constraints.

In practice, the problem is more often the reverse of the Nescafé example in that a business is defined too broadly and, consequently, a single strategy is expected to apply to all its facets. One reason for this is that a division or region considers a 'business strategy' for its business that includes several distinct offerings. If the genuinely different needs of the different offerings are not separated, the resulting strategies can only be muddled and less useful than they might have been.

There is a need for a balance in choosing the scope for each 'business'. If the scope of the business is defined at too low a level, the work becomes too much. If the level is too high, the analysis loses its rigour. In practice, the problem is usually that this question of scope is never clearly posed, not that it would be difficult to provide a workable answer.

## 14.3 Content of a business strategy document

**T**HERE is a tendency for strategy documents to be too long. It should be possible to read the whole document at a sitting and find it easy to understand. However, the document should give clear answers to the questions posed above, concisely and persuasively. Key facts and summarized analysis should support the answers. It may be appropriate to refer to more detailed documents or to include telling details.

It would be wrong to be too prescriptive in terms of the format for a business strategy document but the five headings below are likely to be included:

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## **1. Statement of strategic intent for the business**

This should describe in general terms the business as it expects to become in the future. It should outline in practical and tangible terms how this future is different from the present. Clearly, the strategic intent for the business has to relate to the strategic intent for the enterprise as a whole and be coherent with any other corporate strategies.

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## **2. Principal findings of strategic assessment**

Typically, the strategic assessment will have involved detailed analyses of both the external business environment and the capabilities of the enterprise. Only the most important or most surprising results need to be recorded. However, this section should provide a reasoned assessment of current status and future prospects of the business if present strategies were to be continued. This then makes the case for change in business terms.

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## **3. Strategic choices which have been made and supporting rationale**

This section has to summarize the options that have been identified and the choices made. The reasons for preferring one direction to another have to be spelt out and must be persuasive. The rationale for strategic choice should be based on a rigorous analysis of the basis of competitive advantage and how that will relate to the demonstrable capabilities of the enterprise. It is also desirable to show how the choice matches the strategic intent of the enterprise as a whole.

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## **4. Statement of goals and objectives**

The overall goal is to realize the strategic intent of the business. More measurable supporting goals are also very valuable. Objectives should not all be financial. It is important that some objectives set measures that relate to the fundamental nature of the business and to meeting customer and stakeholder needs.

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## 5. Outline of strategic initiatives

This section will outline the principal actions to be undertaken to make the strategy happen.

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### 14.4 Meeting the real needs of customers

**T**HE needs of customers are one major driver of business strategy. It is essential to understand the needs and to identify how to satisfy these needs more fully, more exactly, or more profitably than competitors. Business strategy is therefore about beating competitors in meeting customer needs; beating competitors for other purposes may be fun but it is a distraction.

It follows from this that a deep analysis and understanding of customers' needs is essential to produce a good business strategy. It is necessary to understand the nature and scope of customers' needs, how these needs differ between different groups or individuals, and how these needs are changing. It is normally the responsibility of the marketing function to understand these needs. Business strategy is therefore market driven and likely to have very heavy involvement of marketing people. This does not, however, mean that a business strategy is the same thing as a marketing strategy. Business strategy is also heavily influenced by strategic intent, by financial and human constraints, and in fact by everything that makes the chief executive's job different from the marketing director's.

In the BMW case example, there is no evidence that BMW defined clearly exactly how the BMW/Rover combination was expected to look from the customers' point of view or how it would help BMW to meet customers' needs better. Five years after the take-over, the BMW's brand strategy still looked like two separate companies. In 1999, Rover launched the Rover 75 that appears to compete almost directly with its BMW executive models. At the same time, BMW was developing the MX5, a four-wheel drive vehicle, in apparent competition with Rover's Landrover range. BMW may have had a clear strategy for how the merged entity would meet customer needs but we cannot detect it.

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## 14.5 Exploiting genuine competence in business strategy

**T**HE second major driver of business strategy is the competence of the enterprise. We have described various analytical techniques for measuring resources and identifying capabilities. The ultimate goal is to identify a unique core competence that can provide the basis for differentiating ourselves from our competition. This is not easy to do and probably more business strategies go wrong because they failed to be honest in their assessment of their own capabilities than because they misunderstood customer needs.

In the Nolan, Norton case example, the widening impact of information technologies caused the scope of Nolan, Norton's consulting assignments to broaden and to require larger teams with broader skills in people and change management. This was recognized during the process of formulating strategy and one of the reasons for selling out to Peat, Marwick was to provide this wider skill base.

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## 14.6 Providing sustainable competitive advantage

**T**HE best business strategies are those which use the capabilities of the firm to address customer needs in a way which leads to sustainable competitive advantage. Chapter 8 described how competitive advantage may be assessed, but also suggested that competitive advantage had some of the elusive qualities of the Holy Grail. In practice, business strategies may have to tolerate less lofty achievements than long-term sustainable advantage.

The business strategy has to address the issue of competitive advantage realistically in the context of that business. This may require an admission that former competitive advantages are being eroded so that the strategy is as much defensive as offensive.

As John Kay (1999) has pointed out, businesses, like people, have to go through good times and bad times. It is probably impossible to achieve competitive advantage permanently and the excellent corporation that can achieve a permanent and irreducible lead is a myth.

The business strategy must describe what the basis of competition is, how this basis is changing, and how the strategies take advantage of these changes.

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## 14.7 Laying the ground for implementation

**T**HE business strategy must identify, in broad terms, the principal initiatives that will be necessary to implement the strategies. It must identify the changes in the business processes, culture, and organization that may be needed. It must argue the case for change. It should set tight but achievable targets for the time-scales in which change can be achieved.

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## 14.8 Summary

**T**HE purpose of business strategy is to exploit the capabilities of the enterprise to gain and sustain competitive advantage in serving the needs of customers in a chosen marketplace. An effective business strategy will provide good answers to questions on business scope, customers' needs, how the enterprise will exploit its advantages, and on how competitive advantage will be achieved. It will also describe the main actions necessary to implement the strategy and the reasons why the changes are necessary.

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## References

- Kay, J. (1999) 'The Myth of Excellence', *Financial Times* (London), 26 May.
- Mathur, S. S. and Kenyon, A. (1997) *Creating Value: Shaping Tomorrow's Business* (Oxford: Butterworth Heinemann).