LCCI International Qualifications from EDI

Level 3 Award in Introduction to Business Strategy and Planning

Revision guide

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Introduction

This Revision guide has been written specifically to help you prepare for the LCCI Level 3 Award in Introduction to Business Strategy and Planning.

As a revision guide, it covers the core subject content required by the syllabus. It looks at the concept of strategy and strategic planning along with the various frameworks and models used in internal and external strategic analysis. This includes PEST, STEEPLE, SWOT, Competitor Analysis and Porter's Five Force Analysis.

It also looks at how the Ansoff Matrix and the Boston Consulting Group Matrix are used in strategy formulation and decision-making, and concludes by looking at the process of implementing strategy and the factors affecting the effectiveness of strategic implementation.

To help you make the best of your revision, key terms are highlighted in **bold** and *Improve your grade* tips are presented throughout. The language is simple and easy to read and tables and diagrams are used to aid understanding.

This revision guide is a very useful learning resource, whether in personal study or classroom situation.

1. The concept of strategy and strategic planning

1.1 The purpose of strategic planning

Strategic Planning is the process of determining a business's long-term goals and identifying the best approach for achieving these goals. It involves analysing the internal and external environments in which the business operates, and putting together ideas for creating a strategic plan to take the business forward.

1.2 Strategy and tactics

It is important to distinguish between the concepts of strategy and tactics. **Strategy** defines the general direction that the business intends to take in order to achieve its mission and objectives over the long-term. It is the plan of action that will help the business to achieve its goals. Strategy formulation is the responsibility of top management.

Tactics are the specific, immediate actions that are taken to achieve the strategy in the short- term. Most strategies will require more than one tactic. Tactics are usually decided and implemented by the operational managers who are responsible for the day-to-day operations of the business.

Essentially, strategy is decided first. It considers the 'big picture' and provides the framework and direction for the business to achieve its mission and objectives. Strategy is used to guide tactical decision-making but would be of little use without tactics. Tactics are the 'doing' aspect that follows strategy. They are the essential day-to-day activities that are needed to put the strategy into action. Strategy and tactics should be related to each other.

Table 1 gives examples of two different strategies and the possible tactics that could be used to achieve them.

Table 1 Examples of strategies and possible tactics

STRATEGY	POSSIBLE TACTICS
To promote the business using online marketing	▪ Build a suitable website ▪ Get the website listed in search engines ▪ Email potential sponsors ▪ Advertise on website banners ▪ State website address on offline / printed materials
To increase market share through brand building	▪ Advertise online, e.g. website ▪ Celebrity endorsements ▪ Use social media such as Face Book ▪ Reposition the brand ▪ Invest in staff training to improve customer service

The strategic planning framework

The strategic planning process is based on a framework. Diagram 1 shows the stages in the framework and provides a description of each stage and its purpose in the strategic planning process.

Diagram 1: The strategic planning framework

Framework Stage	Overview and purpose
Mission statement	▪ Definition and expression of the business's mission statement, i.e. a clear and powerful statement that describes the values, purpose and vision of the business. ▪ Used as a 'sounding board' for all business decisions and practices.
Strategic objectives	▪ Definition of measurable and challenging financial goals (e.g. sales targets, earnings growth) and strategic goals (e.g. market share) that the business wants to achieve. Objectives must be achievable and in line with the business mission statement. ▪ Helps the business to monitor its progress and make corrections as necessary.
Strategic analysis	▪ An assessment of the internal and external factors that may affect the business's ability to achieve its strategic objectives. ▪ Identifies available opportunities and threats in the environment as well as the capabilities and limitations of the business. Also provides information on the attractiveness and profitability of an industry.
Strategy formulation	▪ Development of a clear set of recommendations / strategic options that gives the business a competitive advantage. These recommendations would be based on the interpretation of the results from strategic analysis as well as on the outcomes of the different strategic planning models. ▪ Provides the basis for the functional managers to set operational targets and make tactical decisions.
Strategy implementation	▪ Conversion of the strategy into more detailed policies and actions for the different functional areas. In effect, the strategy is broken down into operational plans to be implemented by the functional areas. ▪ Necessary for the strategy to be understood at the functional level of the organisation. It also helps to highlight any practical issues that may not have been obvious at the higher level.
Strategy monitoring and control	▪ This includes the systems and processes for reviewing the strategic plan ▪ Enables the business to measure its performance against its targets and implement remedial action if required in instances of underperformance

The remainder of this book will look at the different techniques, planning models and tools used in the different stages of the framework.

2 The frameworks and models used in internal and external strategic analysis

2.1 The purpose of strategic analysis

Strategic analysis identifies and examines those factors that may influence the ability of the business to achieve its strategic objectives. It involves analysing the strength of the business's position and understanding the important external factors that may affect that position. Strategic analysis may be internal or external:

- **Internal strategic analysis** is concerned with identifying the business's relative strengths and weaknesses in terms of its human and physical resources, organisational structure, culture and management. This is carried out by using a SWOT Analysis – please see page 7.
- **External strategic analysis** is concerned with identifying those factors in the external environment that pose the greatest risks to, as well as, offer the greatest opportunities for the business to achieve its objectives. External strategic analysis can be carried out at three levels:
  - **Macro** – this involves examining those broad trends affecting the national and international business environment in relation to political, economic, social and technological factors. A PEST / STEEPLE Analysis is used to do this level of analysis – please see 2.2 below.
  - **Industry (Micro)** – this involves assessing the operating environment or industry in which the business competes. It includes a range of issues such as suppliers, customers, competitive intensity and the threat of new entrants and of substitute products arising. Porter's Five Forces Analysis is used to assess the industry – please see page 9.
  - **Competitive** – this aims to understand the products and services offered by competitors. This helps the business to come up with innovative ideas that will give it a competitive advantage. This level of analysis is carried out by a Competitor Analysis – please see page 9.

As indicated above, the business can use a number of techniques to carry out strategic analysis:

- PEST/STEEPLE analyses
- SWOT analysis
- Competitor analysis
- Industry analysis (Porter's Five Forces Analysis)

These techniques are discussed in detail in the next sections.

2.2 PEST and STEEPLE Analyses

The purpose of **PEST** Analysis is to identify and assess those factors within the **macro environment** that will influence the business. The PEST framework categorises macro-environmental influences into four main categories:

- **P**olitical factors – these include government regulations and legal issues that define the formal and informal rules under which the business operates.
- **E**conomic conditions – these include factors, such as inflation, interest rates, economic growth and unemployment that affect the purchasing power of potential customers and the business's cost of capital.
- **S**ocial factors - these include the demographic and cultural aspects of the external environment (e.g. age distribution, career attitudes, population, education) that affect customer needs and the size of the potential market.
- **T**echnological factors - these include technological aspects such as research and development activity, automation, technology incentives and the rate of technological change.

STEEPLE Analysis develops the PEST approach by considering an additional three factors in the macro environment:

- **S**ocial
- **T**echnological
- **E**conomic
- **E**nvironmental e.g. global warming
- **P**olitical
- **L**egal e.g. business law
- **E**thical e.g. corporate image and reputation

Good PEST and STEEPLE analyses should be future-oriented and interpretive. Businesses can use these analyses to assess how the factors will affect general business trends and industry-specific changes in the future and the level of impact these may have on the success of the business strategy.

Improve your grade

PEST and STEEPLE analyses are not just about making lists of factors that currently affect the business. They also aim to assess how these factors will push change in the future and how these changes will impact on the success of the business strategy.

2.3 SWOT Analysis

A **SWOT Analysis** is a technique for analysing the business, its resources and environment. The purpose of SWOT analysis is to identify those factors that affect the specific circumstances within which the business is operating. As such, it considers factors in the internal environment as well as factors in the external environment.

A SWOT analysis will therefore consider:

- **S**trengths – internal features of the business that give it an advantage over other businesses and help it to achieve its objectives, e.g. positive brand image
- **W**eaknesses – internal features of the business that put it at a disadvantage in comparison to other businesses and could possibly hinder it from achieving its objectives, e.g. lack of innovation
- **O**pportunities – events or conditions in the external environment that the business could take advantage of to improve performance e.g. new markets
- **T**hreats – factors in the external environment that could limit the business in achieving its objectives, e.g. a new competitor

In carrying out a SWOT Analysis, a matrix is produced to show the positive and negative factors affecting the business in terms of whether they are strengths, weaknesses, opportunities or threats. Diagram 2 shows an example of this matrix.

Improve your grade

It is important to remember that strengths and weaknesses are internal to the business and relate to the present business situation. However, opportunities and threats are external to the business and relate to changes to the environment that will affect the business now and in the future.

Diagram 2 SWOT Analysis Matrix with examples

	Positive Factors	Negative factors
Internal Factors (current features of the organisation)	**Examples of Strengths:** ▪ Very strong brand ▪ Large market share ▪ Skilled, well trained work force ▪ Up-to-date technology ▪ Excellent reputation for quality ▪ Financially strong with a lot of cash reserves ▪ Market leader in new product innovation ▪ Good corporate image ▪ Excellent marketing department ▪ Patents	**Examples of Weaknesses:** ▪ Low market share ▪ Unskilled and ageing labour force ▪ Old and outdated machinery and equipment ▪ High staff turnover ▪ Poor reputation for quality or service ▪ Several recent product launch failures ▪ Heavily in debt with bank loans and re-financing ▪ Low share value on the stock market
External Factors (factors in the environment)	**Examples of Opportunities:** ▪ New technology is becoming available ▪ New market segments have been identified ▪ Relaxation of government controls ▪ Government offering new export incentives ▪ A competitor is in financial difficulties ▪ Vertical integration opportunities ▪ New developing markets	**Examples of Threats:** ▪ Major new competitor enters the market ▪ Competitors launch innovative products ▪ Changes in government legislation ▪ Increase in corporation tax rates ▪ Shortages in the labour market ▪ Competitors obtain superior technology ▪ Economic recession ▪ Negative publicity for the organisation

Improve your grade

Exam questions will not only test your knowledge and understanding about the use of a SWOT analysis but will also test your ability to apply it to a given situation.

The SWOT Analysis matrix will give the business the information it needs to develop strategies that will optimise its strengths, improve its weaknesses, exploit the opportunities and minimise the threats. Strategies should be developed around the business strengths and opportunities. The business should use the matrix information to find competitive advantages by matching its strengths to the opportunities. At the same time, it should be looking at how it can convert weaknesses or threats into strengths or opportunities. If the threats or weaknesses cannot be converted then the business should try to minimise them.

A SWOT Analysis not only helps the business to identify how they are better or worse than competitors but also helps the business to assess how well they are using the opportunities available and how they should respond to changes in the external environment.

2.4 Competitor Analysis

When formulating business strategy, the business must consider the strategies of its competitors as competitor actions will affect the success of its strategy. As such, competitor analysis is an important part of the strategic planning process.

Competitor analysis consists of two primary activities:

1. Obtaining information about important competitors

2. Using the information to predict competitor behaviour.

A competitor analysis will aim to answer the following questions:

- Who are our main competitors?
- What risks do they pose to the achievement of our strategic objectives?
- What is the profile of our competitors?
- What are their strengths and weaknesses?
- What are the strategies of our competitors and how successful are these strategies?
- How will our competitors respond to any changes in the way we do business?
- Are there any opportunities for takeovers or strategic partnerships with our competitors?

Competitor analysis should be carried out in a systematic way and the sources of information should be accurate and reliable. Sources of information could include:

- Recorded data already in the public domain, for example annual reports and product catalogues.
- Observable data – this can be assembled from several different sources; for example, pricing.
- Opportunistic data – information arising from discussions with suppliers and customers.

Competitor analysis helps the business to:

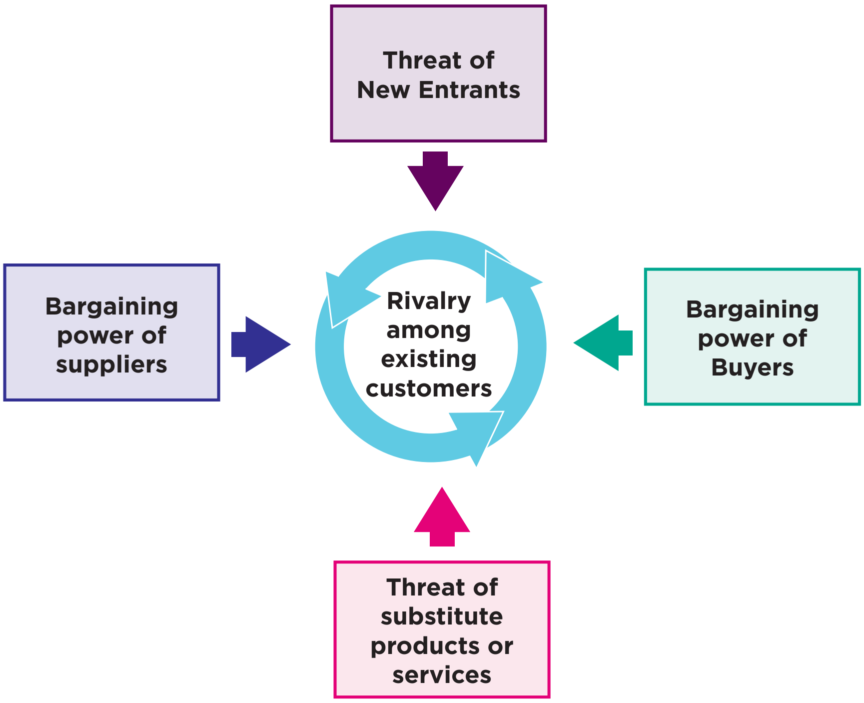
- make informed decisions in developing its strategies to achieve competitive advantage
- understand competitors' strategies and planned actions
- identify its main competitors
- understand its competitive advantages and disadvantages relative to competitors
- forecast the returns that may be made from future investments

2.5 Porter's Five Force Analysis

The profitability of a business is significantly affected by the level of competition in the industry in which it operates, or intends to operate, as well as its strategic position in that industry. It is, therefore, important for the business to assess the impact of the different influences or forces operating in the industry when planning its strategy.

Porter's Five Force Analysis is a framework for assessing the profitability of an industry. It considers five forces that determine the intensity of competition in an industry and, therefore, the attractiveness of that industry in terms of its profitability. Diagram 3 shows the five forces within Porter's framework.

Diagram 3 Porter's Five Forces Analysis



These five competitive forces are described below:

- **Bargaining power of suppliers** – the power of suppliers to drive up input costs. Supplier power will be high if there are many buyers and a few main suppliers and where the product is undifferentiated, i.e. identical among suppliers.
- **Bargaining power of buyers** – the power of buyers to dictate terms to the business. The bargaining power of buyers is greater if there are few main buyers and many sellers and the product is standardised.
- **Competitive rivalry** – the intensity of rivalry is dependent on the relative size of the businesses in the industry, the degree of product differentiation and industry cost structure.
- **Threat of substitute products or services** – the extent to which consumers can substitute goods or services. This depends on the willingness of consumers to switch to substitutes, the cost of switching and the relative price and suitability of substitutes.
- **Threat of new entry** – the ease with which new businesses can enter the industry. This depends mainly on the barriers to entry; if there are low barriers to entry then more businesses can enter the industry, therefore increasing the level of competition and reducing its attractiveness.

The more powerful these forces are in an industry, the lower its profit potential. The lower the profit potential in an industry, the more 'unattractive' the industry becomes. The strength of each force differs by industry and changes over time.

The use of Porter's Five Forces analysis in strategic planning helps businesses to:

- better understand the competitive forces in their industry
- assess the attractiveness of a new industry and opportunities for growth
- develop effective strategies to improve their profitability, power and competitive position in the industry in which they operate.

However, this framework has its limitations and therefore should not be used on its own in developing strategy. Limitations include:

- It does not fully consider the dynamics of different markets and so may not be applicable in rapidly changing markets. In the modern business world, competition is dynamic and always changing but the framework assumes relatively stable market structures.

- It does not consider the impact of technological innovation on business models and the industry structure.
- It does not emphasise the importance of differences between businesses in an industry. For example, it does not consider how the resources and capabilities of individual businesses impact on their profitability.

3 Strategy formulation and strategic decision-making

Once the business has agreed its mission and strategic objectives and undertaken a strategic analysis of its environment, industry and main competitors, it will then move to the next stage of the strategic planning framework. In this stage it will use a range of **business models** to develop specific strategies to achieve its business objectives.

The purpose of these business models is to assist the business in making decisions relating to its strategic options. The two most commonly used business models in strategic planning are:

- **The Boston Consulting Group Matrix** (relating to the product strategy)
- **The Ansoff Matrix** (relating to assessing business risks and strategic choice).

3.1 The Boston Consulting Group Matrix

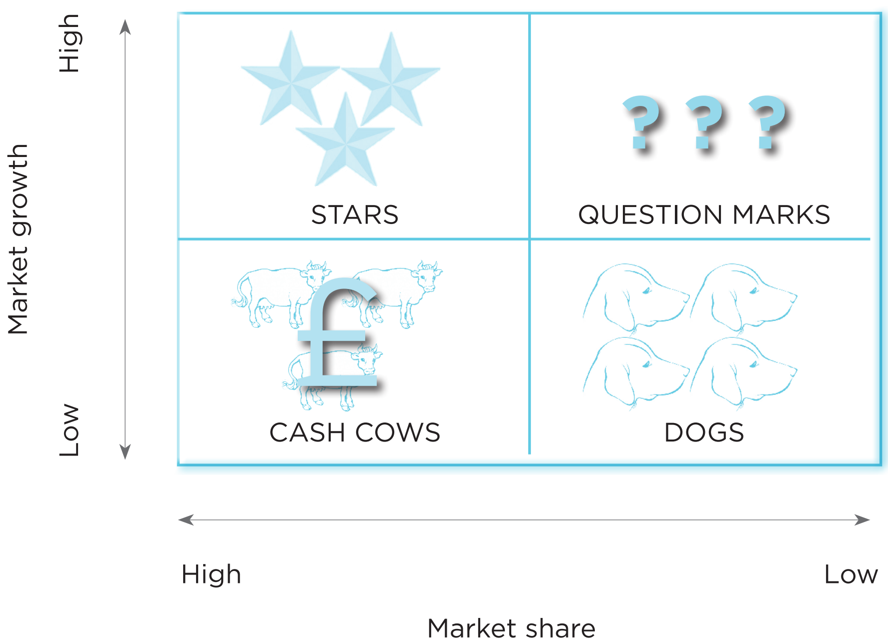
In order to spread the risk, most businesses will offer similar products that appeal to different customers. This collection of products is known as a '**product range**' or '**product portfolio**'. However, having a product portfolio often poses a problem for the business as it has to decide how to allocate investment across the product range. When developing its strategy, the business must:

- analyse its current product portfolio to determine its future marketing and investment strategies
- determine growth strategies for new products which it can add to its product portfolio

The Boston Consulting Group Matrix can be used to analyse and evaluate the product portfolio to help the business to decide which products to focus on. The Matrix places products into four different categories based on their market share and potential for market growth.

Diagram 4 shows the matrix with market growth on the vertical axis, market share on the horizontal axis and the different product categories in the relevant quadrants.

Diagram 4 The Boston Consulting Group Matrix



The four categories of products within the matrix are described in Table 2 below.

Table 2 Boston Consulting Group products characteristics

PRODUCT CATEGORIES	PRODUCT CHARACTERISTICS
Stars	These products are market leaders in high growth markets. They often need heavy investment to maintain their position. Eventually growth will slow and Stars may become Cash Cows.
Cash cows	These are mature and successful (low growth) products with a relatively high market share. They need relatively little investment but need to be managed for continued profit. Profits made from Cash Cows can be used to fund the development of other products.
Dogs	These products have low market growth and market share. They may have previously been Cash Cows. They may earn just enough revenue to cover their production costs but they are rarely worth investing in. They could potentially tie up resources which are required to develop new products within the portfolio.
Question marks	These products have low market share but are operating in high growth markets. They have potential but may require significant investment to grow market share.

Once the business has classified its product portfolio in the different product categories, it must then decide its product strategy, i.e. what to do with the different products. Using the Boston Consulting Matrix, the business could adopt four possible strategies:

1. **Build market share** – the business could invest more to increase market share; for example it could invest to retain a Star, or to turn a Question Mark into a Star.
2. **Hold** – the business could invest just enough to keep the products in their present positions.
3. **Harvest** – the business could reduce the amount of investment in order to maximise the short-term cash flows and profits from a Star or Cash Cow.
4. **Divest** – the business could stop producing Dogs and use that money to invest in Stars or Question Marks.

As discussed above, the Boston Consulting Group Matrix can provide a business with useful insights into its product mix strategy and can guide it in making investment decisions. However, it should be used cautiously because:

- it is easy to categorise products incorrectly
- Dogs can be misunderstood – only a few may need immediate investment or need to be withdrawn. In addition, some may need to be kept for a range of reasons; for example, to maintain presence in a market or to complete a product offering.
- Stars and Question Marks often take up a lot of management time and effort.

3.2 The Ansoff Matrix

Decision-making at the corporate level should be guided by the right strategic tools. The Ansoff Matrix is one of these tools.

The Ansoff Matrix helps businesses decide their product and market growth strategy. It looks at the business's external market situation as well as its product portfolio to answer the following questions:

- How can we grow in the existing markets?
- What changes can be made in the product portfolio to achieve better growth?

The matrix identifies four different growth strategies and helps the business to assess the risks associated with each option. Diagram 5 shows the Ansoff Matrix with new and existing products on the horizontal axis, new and existing markets on the vertical axis and the four possible growth strategies in the relevant quadrants.

Diagram 4.5: The Ansoff Matrix

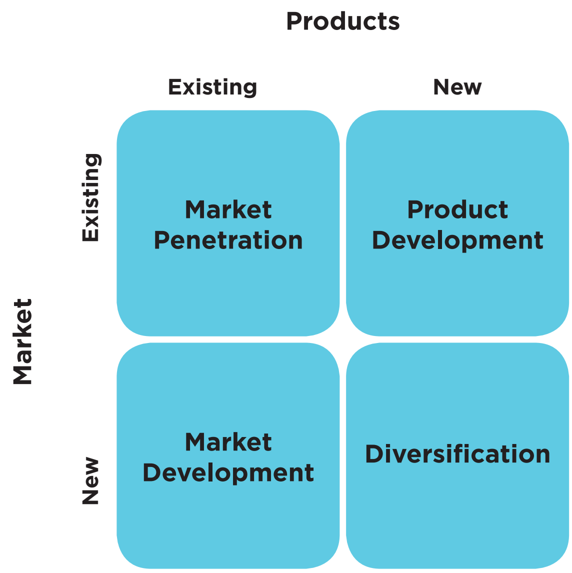


Table 3 provides descriptions of the four growth strategies and identifies the level of risks associated with each.

Table 3: The Ansoff Matrix Strategies and level of risks

MARKET PENETRATION	PRODUCT DEVELOPMENT
Selling more of the existing products to the existing market segment, i.e. selling more to the same group of people. This may include: ▪ Running more advertising campaigns ▪ Increasing sales promotions activities ▪ Increasing the sales force Least risky strategy since it uses existing resources and capabilities. However, it has a limited life span.	*Developing new products to be sold in existing markets.* Can be a medium to high risk depending on the product and the level of investment required. Risk is lower if the business has developed a loyal customer base. Risk is lower if the level of investment in the new product is relatively low.
MARKET DEVELOPMENT	**DIVERSIFICATION**
Selling existing products to new market segments, i.e. different group of people. Essentially, getting more customers. This may include: ▪ Developing new sales tactics ▪ Targeting different geographical areas ▪ Re-segmenting the market Moderate level of risk but has more risk than market penetration. May be a good strategy if the business's strength is more in the product than the market	*Developing new products to be sold in new markets.* This is the most risky strategy since it requires both product and market development. Potential for high returns if successful.

Improve your grade

An exam question may ask you to use the Ansoff Matrix to recommend a strategy in a given situation. To do this you need to consider the nature of each strategy and its level of risk in relation to the situation. Think about whether or not the business has the capabilities to carry out the strategy and the level of risk it can afford to take.

4 The process of implementing strategy and factors affecting the effectiveness of implementation

4.1 The Business Plan

Business plans are usually associated with business start-ups and smaller business organisations who are seeking loan finance. However, planning is not just important at the start-up stage. Ongoing business planning helps the business to monitor its progress in achieving objectives and can be used to identify current performance and the direction for business growth.

Businesses must regularly review their business plan to ensure that it continues to meet their needs and respond to changes in the market, economy and industry. Once strategies have been decided, the business needs to update its business plan.

The business plan should include a summary of what the business does, how it has developed and its mission and objectives. In particular, it should include the business growth strategy.

Most business plans will have the following sections:

- **Operational information** *(Name and address of the business; legal status; product or service; structure)*
- **Business objectives** *(Mission; targets; timescales)*
- **Market research and a marketing plan** *(Market demand; market segmentation; competitor analysis; marketing tactics)*
- **Resource implications** *(Production schedule, overheads, capital costs, premises costs)*
- **Financial targets** *(Sales turnover; gross profit; net profit; profit margins; return on capital employed; cash flow forecasts)*

The complexity and type of information in a business plan will vary depending on the size of the business

4.2 Factors affecting the effectiveness of strategy implementation

There are several factors that could influence the effectiveness of strategy implementation. These include:

- Leadership
- Motivation
- Organisational structure and corporate culture
- Resources

Table 4 summarises how each of these four factors contribute towards the successful implementation of business strategy.

Of these factors, leadership is important since the business leader has to take full responsibility for the overall performance of the business.

Table 4: Factors contributing to successful implementation of strategy

FACTOR	IMPORTANCE IN IMPLEMENTING STRATEGIC CHANGE
Leadership	Managing strategic change is an important leadership skill. An effective business leader is one who can inspire others to share and promote a common vision. Strategic change will be implemented effectively if business leaders: ▪ Prepare people for the change ▪ Inform people of the change ▪ Explain the reasons for the change ▪ Outline the consequences if the change is not successfully implemented ▪ Ensure managers and their staff take responsibility
Motivation	People will only 'buy-in' to the strategic changes if they are motivated to do so. There are a number of factors that can promote motivation within the workforce. Many of these motivational factors are not connected with financial rewards and may include: ▪ Praise and recognition of achievements ▪ Teamwork ▪ Management/staff relations ▪ Status ▪ Opportunities to take on new roles ▪ Participation in decision-making
Structure and corporate culture	Business culture – a blend of beliefs and values which develop over time – is also an important factor in determining the successful implementation of planned strategic changes. The factors to be considered in relation to business culture and strategic change include: ▪ The company's mission and values ▪ Attitude towards innovation and risk ▪ Management/staff relations within the business ▪ Attitude of the main stakeholders to change ▪ Attitude to customers and quality ▪ Corporate identity ▪ How the business uses new technology
Resources	Strategic change is likely to require resource inputs including: ▪ New product development and marketing ▪ New specialist staff may have to be employed ▪ Existing staff may have to be retrained ▪ Investment in new technology ▪ New production facilities A key strategic decision will be how to finance these new resources. Financing may come from: ▪ shareholders ▪ profits ▪ efficiency savings ▪ external sources

4.3 Management strategies to implement and manage strategic change

Managing change is one of the biggest challenges of management. Since change will involve people throughout the organisation, there is likely to be some level of resistance due to factors including:

- Fear of the unknown
- Loss of status
- Lack of skills
- Loss or transfer of current work role responsibilities

There are a number of management strategies that can be put in place to support the successful implementation of strategic change, including the use of:

- Management styles
- Decentralisation
- Target-setting and monitoring

Table 5 summarises each of these management strategies.

Table 5: Management strategies for implementing strategic change

MANAGEMENT STRATEGY	SUMMARY
Management styles	It is generally accepted that consultative or participative management is best suited to managing strategic change.
Decentralisation	Decentralisation is a management strategy in which decision-making is delegated throughout the organisation. Closely allied to consultative and participative management styles, decentralisation is characterised by: ▪ Team work ▪ Quality circles ▪ Project Teams ▪ Independent business units ▪ Delegated budgets ▪ Flatter organisational structures
Target-setting and monitoring	The business must be able to measure the success of its strategy. Key performance indicators (KPIs) should be identified in relation to each business objective and SMART targets will be set for each KPI. KPIs are discussed in Topic 5, page 72. Managers, teams and individuals are responsible for the achievement of targets in their own functional areas. An effective Management Information System will allow managers to continuously monitor actual performance against business targets. Recovery plans can be put in place in those instances where current performance would indicate that targets will not be achieved.

4.4 Change agents

Change agents are specialist management consultants employed by the business to work with managers and their teams in order to support organisational change.

The use of change agents is a useful strategy to employ in instances where:

- There is a significant mistrust amongst staff of management's motives for implementing change
- Management lack the time or the skills to devote to organisational change
- Management consider that a change agent will be able to promote changes to staff so that they are implemented within the planned timescale

Improve your grade

Draw up a glossary of business terms referred to in this book.

Examples of terms to be included:

Strategic planning	Boston Consulting Group	Market development
Strategy	Matrix	Diversification
Tactics	Stars	Market penetration
PEST / STEEPLE	Dogs	Product development
SWOT	Cash cows	Decentralisation
Competitor analysis	Question Marks	Change agents
Porter's 5 Forces Analysis	Ansoff Matrix	

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