Chapter 7

Functional Strategies and Strategic Choice

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Learning Objectives

- Describe the concept of functional strategies
- Explain the concept of strategic choice
- Discuss strategic gap analysis
- Prescribe for the choice of business strategy

Functional Strategies

According to Gareth R. Jones, "Functional level strategy is a plan of action to strengthen an organisation's functional and organisational resources, as well as its coordination abilities, in order to create core competencies."

The main purpose of a functional-level strategy is to achieve corporate- and business-level objectives in a specific functional area through the optimum allocation of available resources to maximise profitability.

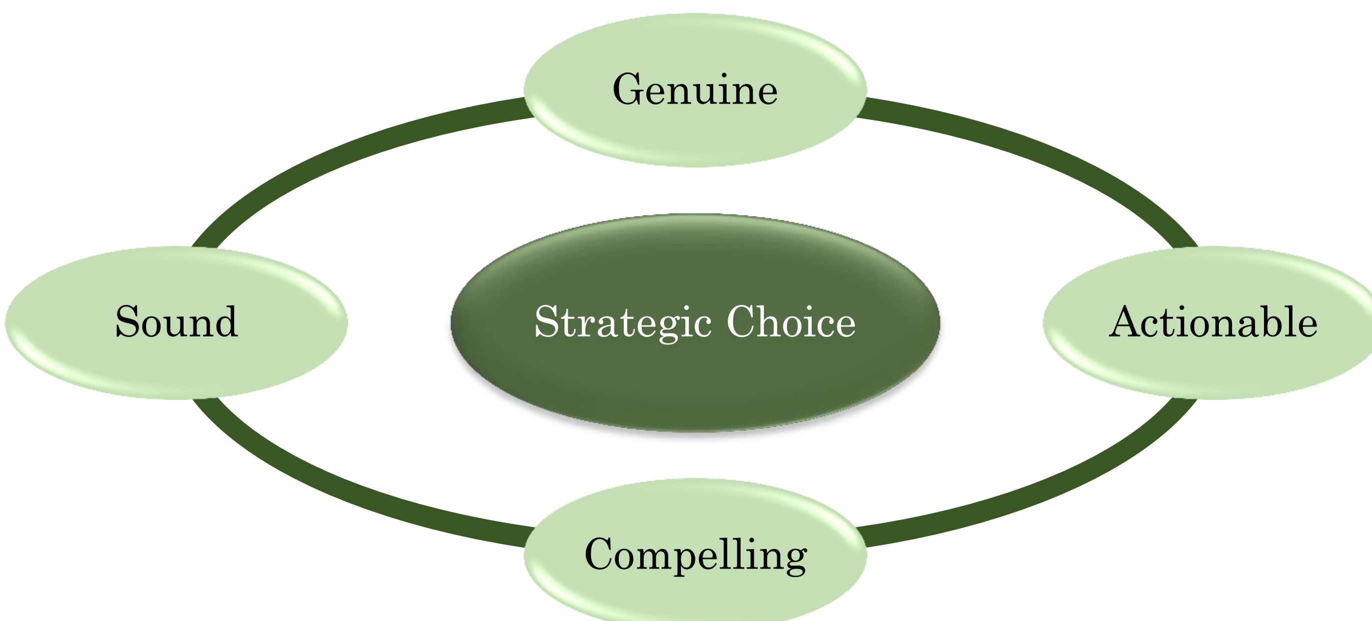
- It is important to understand the significance of alignment among corporate-, business- and functional-level strategies.
- The corporate-level strategy will not be effective if business- and functional-level strategies do not dovetail into it.
- Thus, confirming the reliability of business- and functional-level strategies, which support grand strategies for the organisation, is as important as picking up the right strategy at the corporate level.

Strategic Choice

Strategic choice is the process of making the final decision from available alternatives.

A good strategic choice is based on correct data, facts and figures and involves sound and rational reasoning

Some important features of Strategic Choice



Process of Making a Strategic Choice

It is a decision-making process, wherein the top management or decision makers accept or reject an alternative based on certain criteria.

Steps in Strategic Choice

- Identifying Strategic Alternatives
- Analysing the Strategic Alternatives
- Evaluating the Strategic Alternatives
- Selecting the Strategic Alternatives

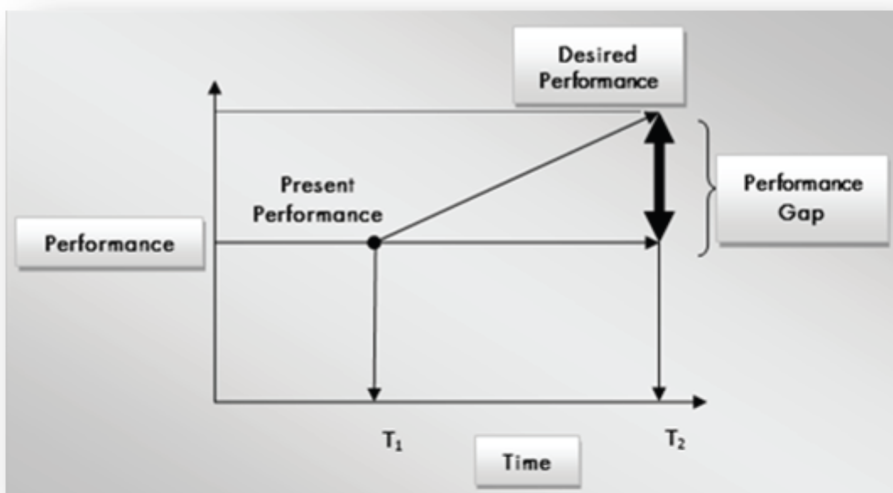
1. Identifying strategic alternatives

- Strategic choice makers prefer to limit the choices to a few alternatives. However, this may lead to ignorance of some valuable alternatives.

- An organisation tries to focus on specific alternatives with the help of a technique called gap analysis.

- Gap analysis involves visualising the future goals of an organisation and working towards it by finding the ways to meet goals.

A pictorial representation of gap analysis is shown below



2. Analysing the strategic alternatives

- All strategic options are studied thoroughly to find out their strengths, weaknesses, opportunities and threats
- An organisation has to analyse various selection factors to finalise a strategy.
- Selection factors are further divided into factors.

Selection factors

Objective factor

It is based on data and facts, such as percentage of market share or sales

Subjective factor

It is based on the personal judgment of a decision maker, such as perceptions and beliefs

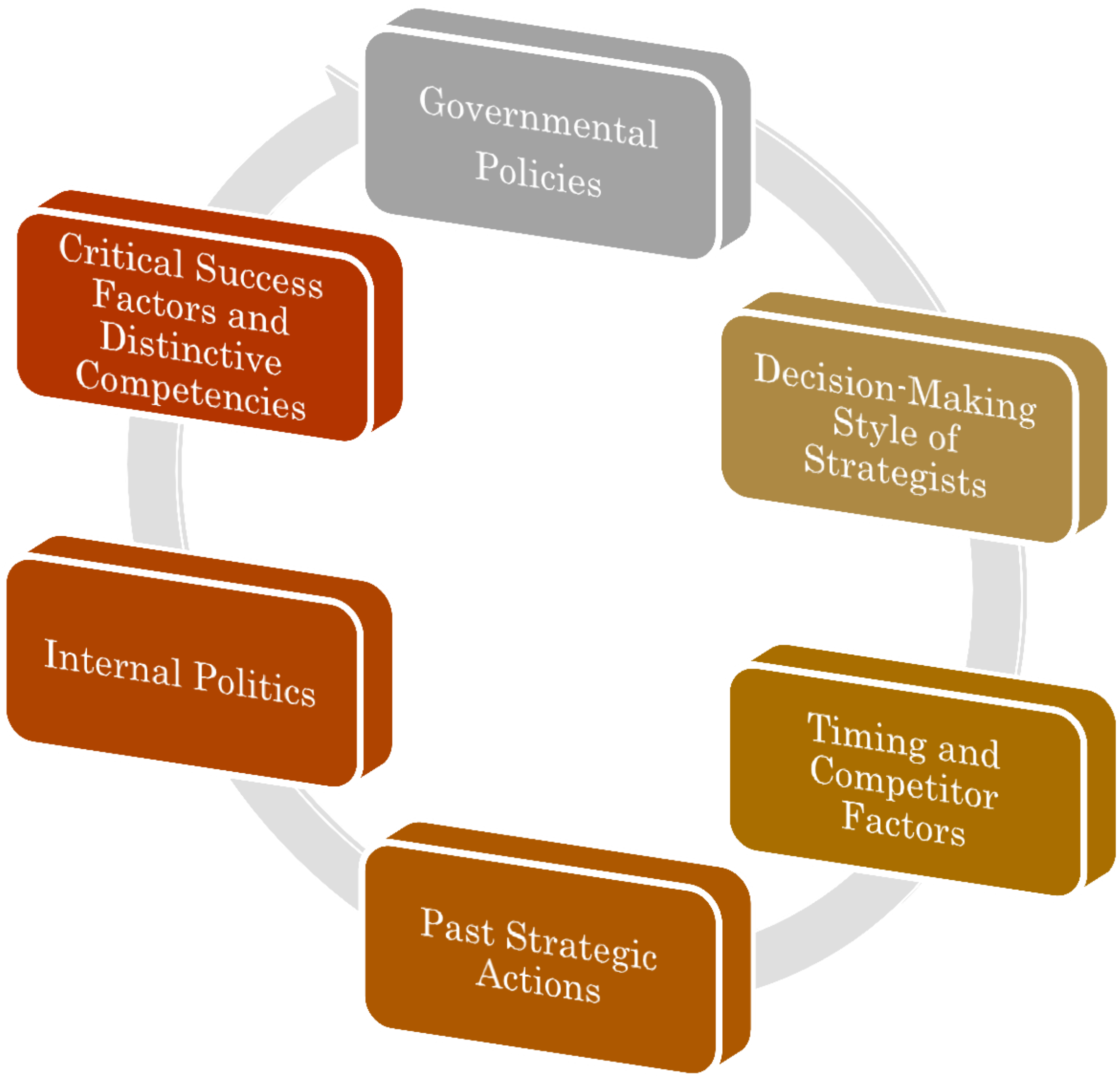
3. Evaluating the strategic alternatives

- It involves assessing options against the set criteria
- The long-term objectives of an organisation are also taken into consideration before selecting a strategy

4. Selecting the best strategic alternative

- After finalising the strategy, a blueprint should be prepared that details out conditions under which the alternative will be used
- An organisation should be ready for unexpected events, which may arise later and create new opportunities or wipe out unforeseen threats.

Factors Affecting Strategic Choice



Strategic Gap Analysis

Strategic gap analysis refers to the study of factors that need to be considered while making a strategic choice.

Expansion Through Concentration

It involves techniques that help strategists to take strategic decisions at the corporate level. It examines each business unit as a separate entity, which contributes to the organisation.

Its advantages are:

- Frames good strategies at the business unit level
- Helps in the efficient allocation of resources

BCG Matrix

BCG matrix was developed in the 1970s by The Boston Consulting Group, a global management consulting organisation.

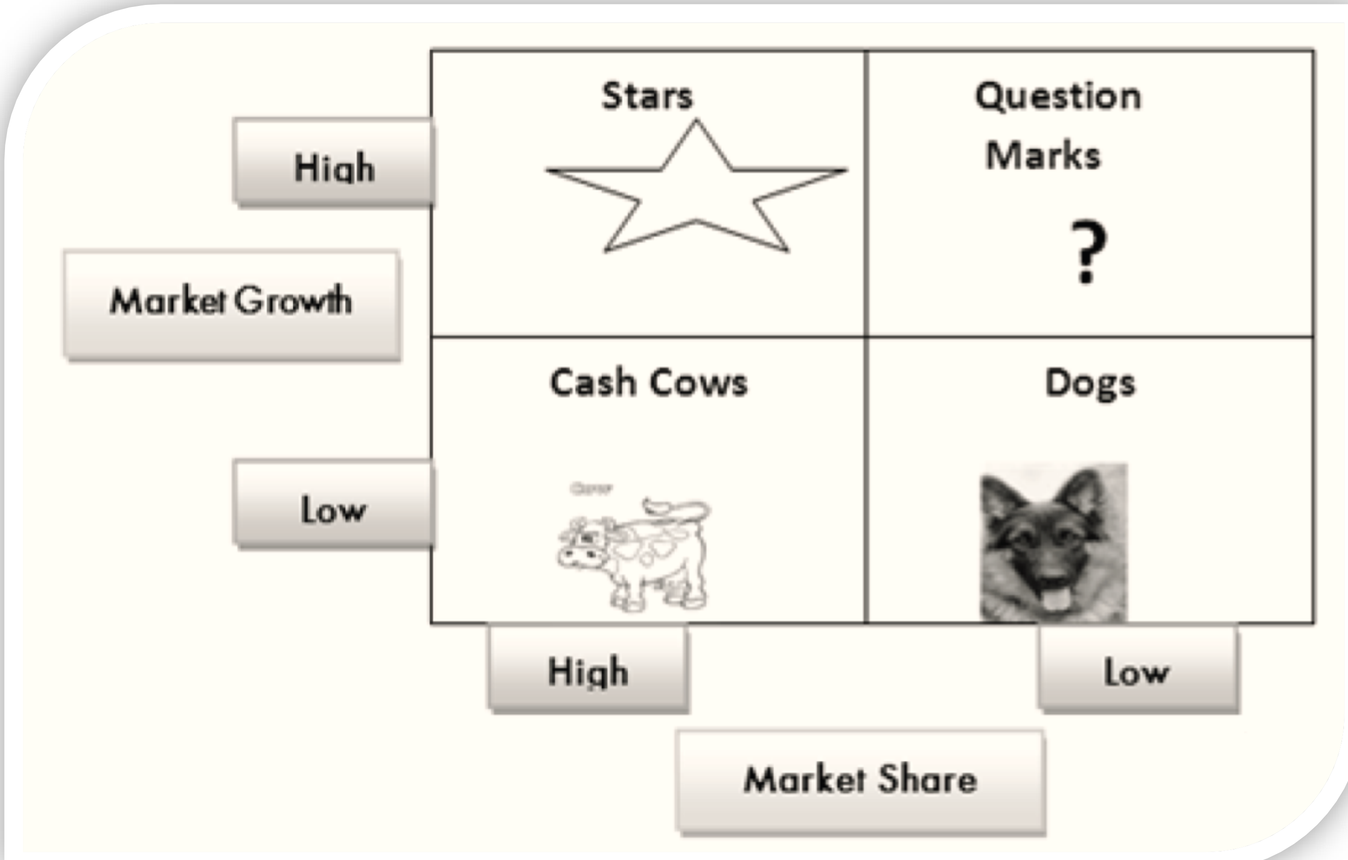
Also known as the BCG growthshare matrix, it is used for managing a portfolio of different business units in an organisation.

It shows a relationship between the market growth rate and relative market share of a business unit.

Limitation of Bcg Matrix:

- Emphasising more on improving the market share, which may induce an organisation to ignore its objectives
- Linking of market share and profitability is questionable because the rising market share requires additional investment; therefore, it may not result in increasing profit

- BCG divides business units into four categories to allocate resources of a business



GE Nine-Cell Matrix

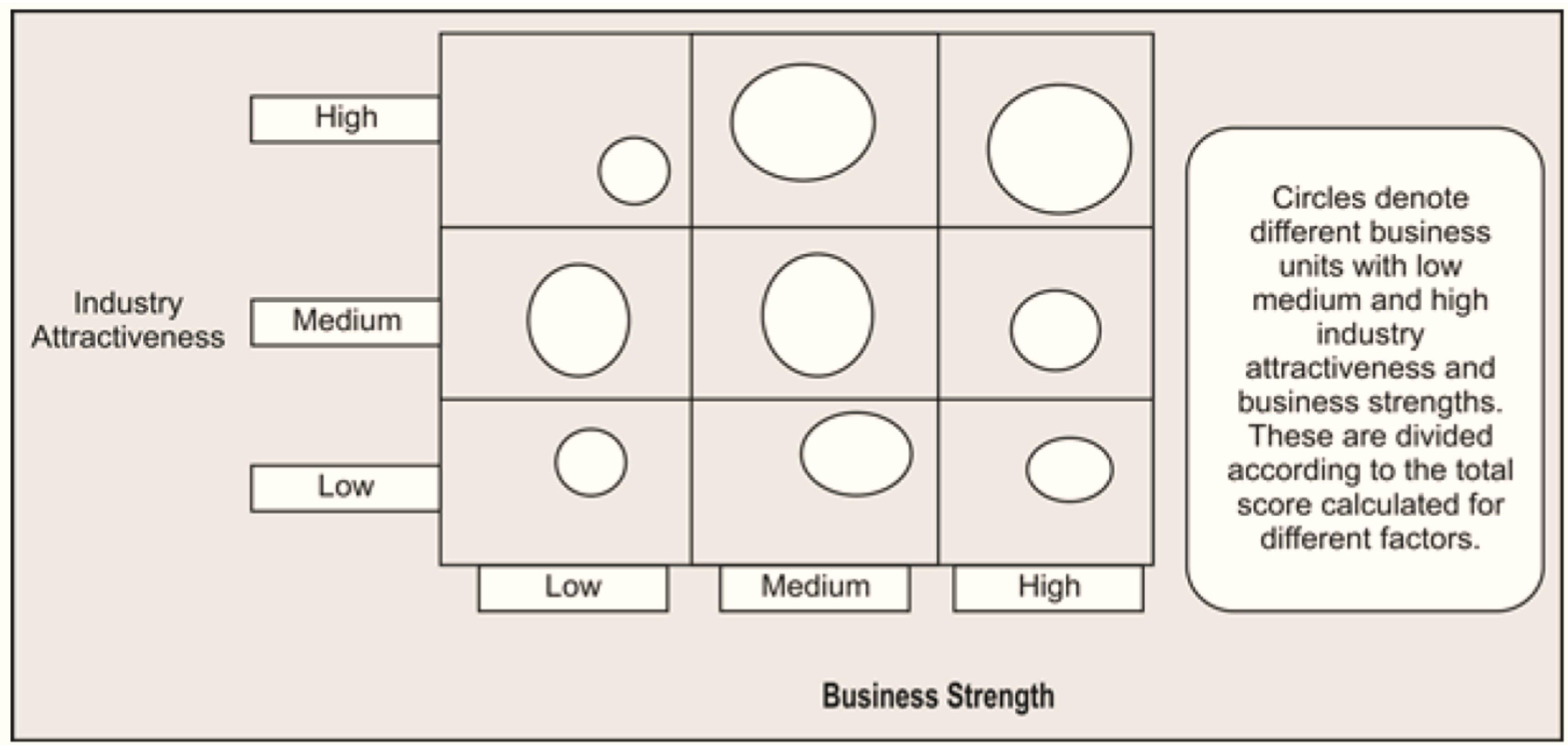
The GE nine-cell matrix was developed in 1970s by General Electric with the support of McKinsey & Company.

GE nine-cell matrix measures business strength and industry attractiveness through various methods.

The business strength is measured by factors such as market share, profit margin, market knowledge, ability to compete and technology.

Industry attractiveness is measured by factors such as market growth, competition, resource requirements and environmental, legal and human factors.

- The combination of industry attractiveness and business strength is represented in the GE nine-cell matrix, as shown below:



Product Life Cycle Analysis and Marketing Mix Strategies

It involves some marketing mix strategies, which can be better explained with the help of four Ps of marketing.

The brief explanation of four Ps is as follows:

- **Product:** It includes goods and services offered to customers by producers.
- **Price:** This is the amount given by a buyer to a seller to get a product or service.
- **Place:** It involves a decision about the location of the product from where it can be purchased.
- **Promotion:** It involves the use of communication tools to increase awareness of customers about the product.

- Marketing mix strategies used at different stages of a product life cycle are as follows:

At this stage, an organisation wants to create product awareness among customers to develop a market for the product.

Product strategy: It includes the branding of the product and setting the standard for its quality level.

Pricing strategy: It focuses on keeping the price of the product low to create its demand in the market.

Distribution strategy: It focuses on selecting the best distribution channel to target potential customers.

Promotion strategy: It aims at customers who wish to experiment with the new product.

Growth
It is the stage in which an organisation concentrates on building brand preference and increasing market share.

Product strategy: It includes additional features and services to the product to keep it in tune with the latest technology.

Pricing strategy: It maintains demand by stabilising the price or giving discounts to customers

Distribution strategy: It includes the addition of distribution channels for the timely delivery of the product as demand increases.

Promotion strategy: It aims at increasing the targeted customer base.

Maturity
It is the stage where growth rate in sales decreases

Product strategy: It includes enhanced product features that are modified to a larger extent to create differentiation from the competitor's products.

Pricing strategy: It involves the lowering of prices to maintain market share and face new competition.

Distribution strategy: It includes a strategy through which a product should be made widely available to customers.

Promotion strategy: It refers to the marketing of a product for making customers aware about the features and benefits of the product.

Decline
At this stage, an organisation's sales decline.

Product strategy: It maintains the product by finding new uses and adding new features to the product.

Pricing strategy: It expands the product sale by lowering its price in the market and targeting niche markets.

Distribution strategy: It focuses on optimising the cost by spending less on distribution channels.

Promotion strategy: It focuses on giving heavy discounts to clear stocks.

Industry-Level Analysis

- Porter's model analyses various factors that exist in an industry which are as follows:

Condition and environment of the industry

Structure of the industry

Attractiveness of the industry

Performance of the industry

Practices followed in the industry

Emerging trends of the industry

Prescription for the Choice of Business Strategy

Products and markets: These involve a set of choices available within the existing product or market. The choices are:

- Doing nothing
- Withdraw
- Market share build up
- Market penetration

Options for resources: These include the available set of choices related to resources of an organisation. The choices are:

- Developing human resources and their skills
- Changing materials

Options for Progress: These include various alternatives available to organisations for progress, which are as follows:

- Internal development
- Merger and acquisition
- Joint venture

Thank You