

Strategy Formulation

Introduction

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results. Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose. Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur. A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).

A company that has not taken the time to develop a strategic plan will not be able to provide its employees with direction or focus. Rather than being proactive in the face of business conditions, an organization that does not have a set strategy will find that it is being reactive; the organization will be addressing unanticipated pressures as they arise; and the organization will be at a competitive disadvantage.

Strategy formulation requires a defined set of six steps for effective implementation. Those steps are:

1. define the organization,
2. define the strategic mission,
3. define the strategic objectives,
4. define the competitive strategy,
5. implement strategies, and
6. evaluate progress.

In this reading, we will explore each of the six steps for strategy formulation.

Step 1. Define the Organization

The first step in defining an organization is to identify the company's customers. Without a strong customer base, whose needs are being filled, an organization will not be successful. A company must identify the factors that are valued by its customers. Is the value based on a superior product or service relative to the competition? Are your customers buying your products for your low prices? Do you produce products that meet image needs of your customers?

Let's review some of the ways in which companies can define themselves.

End Benefit

Organizations must remember that people are buying benefits not features. For example, if an airline only defined itself as being in the business of flying people from one place to another, then it would view its competition as being only other airlines. However, if it views itself as being in the transportation business, then it will recognize that its competition includes not only other airlines, but also trains, buses, car rental companies, and other ways of getting people from one place to another place. An airline must highlight the benefits of using its method of transportation as a means of persuading customers to purchase its service. Furthermore, an organization can explain how its product works or how it is built.

Inevitably, customers will ask the question, "What's in it for me?" Companies must be able to answer this question in order to meet the needs of their customers. They must be able to respond effectively to the "so what?" in order to influence customers to buy their product or service.

Target Market

Companies can become successful by identifying themselves with a particular target group. This focus should not be limited only to demographic segmentation (i.e., age, income, education, gender, income, family life-cycle, culture) but also by psychographic indicators. For example, by understanding the values, attitudes, opinions, and lifestyles of a company's customers, the organization can better provide ways in which to meet its customers' needs.

For example, Nike has successfully identified itself not only with professional athletes, but with those who want to be part of the athlete world. Nike's marketing message has made everyone who wishes to participate in sports feel as if they can achieve their athletic goals. While most people who purchase Nike products are not professional athletes, the people who buy Nike's products are able to identify with Nike's culture and feel like they are part of an exclusive group.

Technology

Computer companies, medical research companies, and other companies that identify themselves with the tech world will find that they must be able to quickly adapt to changes in the marketplace. New products, services, and inventions are frequently introduced, making this a very difficult and challenging business environment in which to operate. For example, Genentech, Inc. conducts genetic engineering and medical research for the pharmaceutical industry. This company uncovers and discovers new advances every day, making it challenging to develop a specific strategy plan for its products and services. However, by

defining the company as being in the biotech industry, it can develop a strategy for its overall corporate goals.

Step 2. Define the Strategic Mission

An organization's strategic mission offers a long-range perspective of what the organization strives for going forward. A clearly stated mission will provide the organization with a guide for carrying out its plans. Elements of a strong strategic mission statement should include the values that the organization holds, the nature of the business, special abilities or position the organization holds in the marketplace, and the organization's vision for where it wants to be in the future.

Step 3. Define the Strategic Objectives

This third step in the strategic formulation process requires an organization to identify the performance targets needed to reach clearly stated objectives. These objectives may include: market position relative to the competition, production of goods and services, desired market share, improved customer services, corporation expansion, advances in technology, and sales increases.

Strategic objectives must be communicated with all employees and stakeholders in order to ensure success. All members of the organization must be made aware of their role in the process and how their efforts contribute to meeting the organization's objectives. Additionally, members of the organization should have their own set of objectives and performance targets for their individual roles.

Step 4. Define the Competitive Strategy

The next step in strategy formulation requires an organization to determine where it fits into the marketplace. This applies not only to the organization as a whole, but to each individual unit and department throughout the enterprise. Each area must be aware of its role within the company and how those roles enable the organization to maintain its competitive position.

Another step in the competitive strategy process requires an organization to develop proactive responses to potential changes in the marketplace. As discussed in earlier readings, an organization must not wait for events in the marketplace to occur before taking steps; they must identify possible events and be prepared to take action.

The final step in defining a competitive strategy is identifying an organization's resources and determining how those resources will be used. Each department, division, or location will have its own set of needs, and a company must determine how it will allocate resources in order to meet those needs.

Three factors must be considered when determining the overall competitive strategy: the industry and marketplace, the company's position relative to the competition, and the company's internal strengths and weaknesses.

The Industry

When evaluating the overall industry, factors to be looked at include:

- size of the market,
- past and potential market growth,
- competitive profitability,
- new market entries, and
- industry threats.

These market factors must be evaluated on a regular basis, as small changes may have a large impact on an organization's business activities. For example, if an organization becomes aware of new technology that is on the verge of being introduced into the marketplace, then it can avoid making any new plans that would involve the older, existing technology available. Also, if an organization is considering global expansion, then it would be beneficial to be aware of emerging markets, other areas of potential growth, and what other companies have already entered in those markets.

The Competition

An organization cannot be successful unless it has a full understanding of the other players in marketplace. A company must be able to identify the strengths and weaknesses of the competition and analyze the ways in which the competition's products or services meet the needs of its customer base. Has the competition created a significant product differentiation strategy? Has the competition cornered a specific target market? Is the competition in full-scale competition with another company? It is essential for these questions to be answered in order to develop the appropriate strategy for successful competition.

As mentioned earlier, we discussed how competition for an airline is not only other airlines, but also other modes of transportation. Evaluating competition requires a company to look at organizations that provide substitutes for its product or service as well as those who provide the same products and services.

Strengths & Weaknesses

Let's go back to the traditional, well-known marketing tool of the SWOT analysis. As you may recall, SWOT is an acronym for Strengths, Weaknesses,

Opportunities, and Threats. Opportunities and threats are external factors; strengths and weaknesses are internal factors.

When developing a competitive strategy, it is vital for an organization to be fully aware of its internal strengths and how those strengths relate to the competition. These strengths should be maximized and leveraged to the company's advantage as well as highlighted in all business and marketing activities that the company undertakes.

It is equally important for an organization to take an honest look at its areas of weakness. This is where a company can become vulnerable to outside market conditions, such as competitive gains, advances in technology, economic shifts, and other factors. By identifying areas in need of improvement and taking steps to remedy those areas, a company will be in a stronger competitive position.

Step 5. Implement Strategies

Developing a strategy is only effective if it is put into place. An organization may take all the necessary steps to understand the marketplace, define itself, and identify the competition. However, without implementing the strategy, the organization's work will be of little to no value.

The methods employed for implementing strategies are known as tactics. These individual actions enable an organization to build a foundation for implementation. Companies are able to identify which of their efforts are more successful than others and will uncover new methods of implementation, if necessary.

Step 6. Evaluate Progress

As in any plan, a regular evaluation of processes and results is vital to ongoing success. An organization must keep track of the progress it is making as defined by its strategic plan. If goals are not being met, the organization must be adaptable and flexible to recognize that changes may be needed. An organization should consider the following questions on a continuous basis in order to evaluate progress: Have market conditions changed that may require a change in corporate direction? Are there new entries in the marketplace to pose a competitive threat? Has the organization been successful in translating their strategy into actionable steps? An organization will be able to successfully implement its strategy both now and in the future through evaluating feedback.

Conclusion

A strategic plan is a living document that changes and grows as the conditions around it change. If an organization recognizes that it must constantly be aware of the business world around it and must be flexible to the changes that will inevitably occur, then it will be in a position to adapt and modify its plans to achieve maximum success.

Summary:

- *Strategy formulation* is the course of action companies take to achieve their defined goals.
- All employees of an organization should be aware of the company's objectives, mission, and purpose.
- A strategic plan enables a company to evaluate resources, allocate budgets, and maximize ROI (return on investment).
- The lack of a strategic plan will result in an organization being without direction or focus. The company will be reactive rather than proactive.
- The six steps for strategy formulation are: define the organization, define the strategic mission, define the strategic objectives, define the competitive strategy, implement strategies, and evaluate progress.
- Defining the organization requires a company to identify its customers by end benefits sought, by specific target markets, or by technology.
- Defining the strategic mission ensures that the company is able to identify its values, the nature of its business, its competitive advantage, and its vision for the future.
- Strategic objectives should be defined based on performance targets and may include increases in market share, customer service improvements, corporate expansion, sales increases, production methods, etc.
- Competitive strategy includes an evaluation of the overall industry and marketplace, the nature of the competition's position, and the company's internal strengths and weaknesses.
- A company must implement its strategic plan in order to achieve success. It must develop appropriate tactics, which are the action steps for meeting the strategies directives.
- Strategies must be evaluated and revised on a regular basis in order to meet the changing needs and challenges of the marketplace and business environment.