EYB

وسّعْ أعمالك

Expand Your Business

An Integrated Support Programme for Growth Oriented Enterprises

STRATEGIC MANAGEMENT

JORDANIAN EDITION

Written by Robert Zegers and Cornelius J. Murombedzi

Adapted by Mahmoud Al-Sayyed

International Labour Organization

The American Chamber of Commerce in Jordan
Am Cham - Jordan

USAID

UNDP

حزمة الأمان الاجتماعي
Social Productivity Program
برنامج تنمية المشاريع الصغيرة
SME Development Program

About Expand Your Business (EYB)

EYB stands for Expand Your Business. It is an integrated business training and support programme for small to medium scale enterprises that have growth potential and capacity to create more and better jobs.

The vision of the EYB Programme is to assist growth oriented enterprises that have growth potential to develop effective strategies to exploit the growth potential of their enterprises. They are also assisted to strengthen their business functional areas in marketing, human resources and finance.

The EYB Programme is targeted towards Growth Oriented Enterprises (GOEs) that have a growth potential, employ between 6 to 100 employees, have basic management systems and have been in operation for at least one year. The EYB Programme is designed to enhance the knowledge and skills of Owners, Executive Directors, General Managers and functional managers in marketing, human resources and finance. The programme is designed to assist the GOEs to anticipate, plan and successfully manage the growth of their enterprises.

The EYB is an integrated programme, which involves classroom training, facilitation of business and financial linkages, individual counselling sessions and facilitation of Business Support Groups. The individual counseling sessions assist GOEs to complete their Business Growth Plans. The Business Support Groups provide an opportunity for GOEs to meet and discuss common problems, challenges and solutions, network and receive expert advice from invited resource specialists in identified areas.

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- Revision and approval: Roy Matenga, Enterprise Development Expert-Expand Your Business Manager –ILO Regional Project Office, Harare, Zimbabwe.
- Design and layout: Samih Jaber
- Editing: Ahmad Mustafa Abdalla and Edwina Anne Issa
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In this module you will find:

- **Relevant business knowledge and information**

  Read the simple theory and information relevant to the topic of this module. The examples on the case study that follow the theory and information show how that knowledge is applied to manage a business well.

- **Practical exercises**

  Do the exercises in the module and then compare your answers with the suggested answers given at the end of the module to find out how much you have learnt.

- **Action and Growth Plans**

  Fill in and use the action and growth plans. This will help you to put your new knowledge into practice.

- **Useful business terms**

  Useful business terms are printed in bold italics when they appear for the first time in the module. Look up the meaning of these terms in the text box next to them. Memorize their meanings. They are also listed in the annexes section of this module.

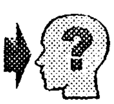
- **The symbols**

  You will see the following symbols in the left hand margin. The symbols indicate the nature of the text contained in the boxes next to them as explained below.

Next to this symbol you will find the objectives of the module and its chapters.

Next to this symbol you will find exercises for you to do or questions for you to answer.

The box next to this symbol tells you where to find more information in the other modules or elsewhere, for example: **EYB Modules: Strategic Financial Management** tells you more about how to interpret financial ratios.



The box next to this symbol contains questions for you to answer about your own business.

The box next to this symbol tells you something, which is extra important for you to memorize. For example, **the customer is the most important person for your business.**

The box next to this symbol provides you with examples on the case study used in this module. It shows how theory and information is applied in the case study.

PREFACE

1. The Expand Your Business (EYB) Programme

Welcome and congratulations on acquiring this EYB Programme, which focuses on business expansion!

1.1 What is business expansion?

Expanding a business may appeal to any entrepreneur. One may think of increasing sales and profits. But expanding does not automatically mean increasing profits. A business may acquire more staff, and expand the business facilities through investment. One could call this business expansion. The question then is whether business expansion is a goal in itself. Many businesses that expanded have gone bankrupt, simply because the business ran out of cash and the investment cost could not be repaid. Alternatively investments may indeed have resulted in increased sales and availability of cash surplus. Is this kind of expansion *then* something to aspire for? One could argue that increased sales are not a business objective. Instead, only profit is. After all, increased sales do not necessarily lead to increased profits. If costs increase more than sales, profits will be reduced.

This EYB programme, therefore, when referring to business expansion, is actually dealing with increasing profits which in most cases, is a result of a combination of increased sales and smart business operations with relatively low cost. Therefore, in this EYB programme business expansion means sustained growth and increased profits.

1.2 Why expand the business?

Some entrepreneurs may wonder, "Why should I expand my business? I am doing fine now, and I can manage and oversee the business well, so trying to grow further just means more work on top of what I already have to do!" This reasoning may be perfectly fine and is entirely true.

Allowing the business to grow means more work. If an entrepreneur does not see the real value in growing and does not have an intrinsic motivation to do so, it is probably better not to engage in the growth process in the first place. On the other hand, one needs to consider that competitors *will* consider growing. Therefore, trying to stay stable may mean actually losing business to competitors. So, in most cases there may actually not be a real choice. Nevertheless, the motivation and drive to expand *need* to be there. Without this feeling and energy of wanting to expand, it *will not* work.

Expanding business operations is also about increasing return on investment. The growth oriented entrepreneur and others may have invested in the business. The aim is then to ensure that the investment results in maximum return to satisfy these investor(s). Investors will make an assessment of the risk involved and the chances of high return. If your business is able to offer a good return with moderate risk then, it will be easier to attract capital.

1.3 Who is EYB Programme for?

The EYB programme intends to help you, as an owner of a business that intends to grow or that is already growing, to expand your business activities further. The EYB programme is, therefore, meant for those entrepreneurs who have an explicit intention to grow, and expand their businesses and have fairly concrete ideas about which way and how much they want their business to grow. The EYB programme does not attempt to give all the growth ideas. It gives basic ideas for growth to assist in organising the business, and making the business ready for growth. The EYB programme also helps to assess the growth ideas and develop other new ideas. It is meant for businesses in production, retail and services. The business size could be somewhere above 6 and less than 100 persons. Businesses smaller than 6 persons are unlikely to benefit from this EYB Programme.

The EYB Programme is for you if you are holding one of the following posts in the business:

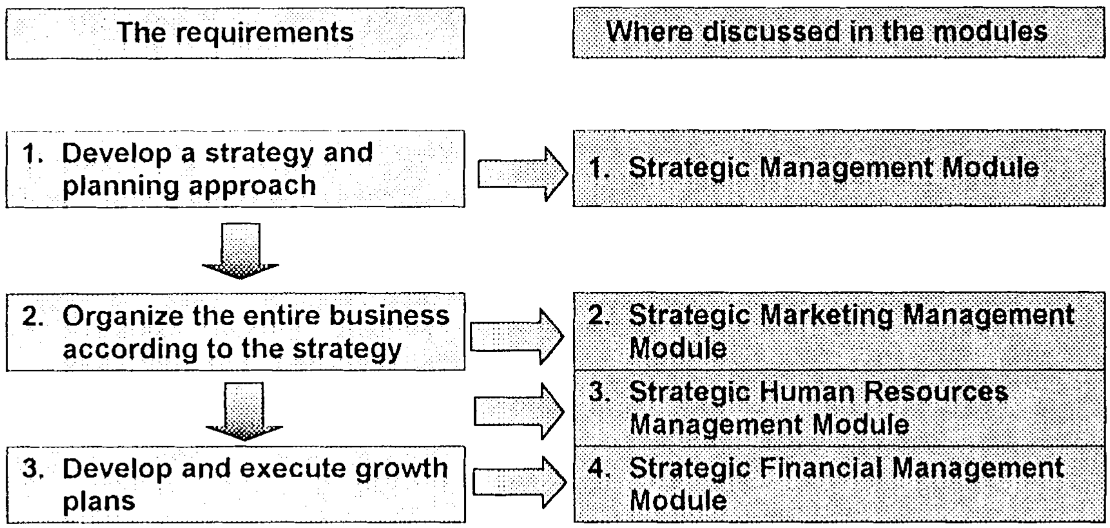
- **The General Manager, CEO or Managing Director.**
- **Financial, human resources, marketing or operations manger, or whoever is in a similar post of responsibilities.**

The EYB Programme assumes that your business has well-established management systems in marketing, record keeping, costing, buying, stock control and business planning.

1.4 How to expand the business?

The EYB programme is based on the principle of creating investor value by creating customer value. If you, the growth oriented entrepreneur, are able to create value for your customers, you will also obtain a high return on your investment. Creating customer value means that you are able to find customers who are willing to pay a price for your products or services above the cost you incur to produce them. The margin between your costs and the price paid by the customer is your return on investment. You will only be able to make a profit and to grow if you are continuously assessing opportunities for customer value creation. This obviously requires an excellent understanding of your clients, their needs and their wants. You also need to understand the ways and means to actually satisfy their needs and wants.

The EYB programme assumes that three things are required to be able to create customer value and expand. These requirements and where they are discussed in the EYB programme modules are shown in the following diagram:



1.5 What does EYB Programme aim for?

In line with the above, the EYB programme has two main aims:

a) It assists in developing a business growth plan. This growth plan consists of a business strategic growth plan, as well as, more detailed growth plans for the main functions in the business, i.e., marketing, human resources, and finance. These growth plans are interlinked. The overall strategic plan lays the foundation for the business growth strategy. This is then supported by the functions in the business so that, the entire business is geared to implement the growth plan successfully.

b) It also aims to assist growth oriented entrepreneurs to organise their business in such a way that the business is enabled to grow. It will help the growth-oriented entrepreneur to organise effective and efficient functions within the business such as management, marketing, human resources, and finance. It will also assist the entrepreneur to organise him or herself better so that he or she can concentrate on the most important tasks required to grow.

Research has shown that businesses, in their growth path, have different needs and problems that need to be dealt with. Without solving these problems, the business cannot grow further. One typical example that a growth oriented entrepreneur may experience is that of being unable to keep on doing the most important tasks in the business, while at the same time, these tasks cannot be left for others in the business to do. Time becomes a constraint for further growth. While the entrepreneur would like to take on new opportunities or challenges, the business is unable to perform successfully if these are taken on.

An often-encountered problem for growth-oriented enterprises is that the business is not organised to facilitate fast growth. Instead, the business itself may be an impediment to growth. The EYB programme will assist the owner to organise the business such that it is geared for the chosen growth path.

1.6 Why is a focus on strategy so important?

To create customer value and thereby, high financial returns, the business needs to have set goals. These goals, when achieved, ensure that the financial returns expected are indeed realised. Investors would like to maximise the prospects for high return through a strategic plan with clear goals, as well, as the plans to achieve them.

The growth-oriented business can pursue a number of different strategies to achieve high returns:

a) A strategy of low costs, thereby increasing the margin between product price and product cost,

b) A strategy of various product lines (differentiation), thereby adding value to the product and increasing the margin between price and costs,

c) A combination of the above two strategies (differentiation and low cost) leading to brand loyalty and high margins,

d) A focus strategy on one product line and/or customer segments, thereby adding higher value to the product for customers, and increasing the margin between price and costs.

Clearly, each strategy is focused on increasing the return on investment, hence, the need for a strategic choice.

1.7 Are there no other and easier ways to grow?

There are other ways to grow and expand. You could consider a merger with another company, either a take-over or acquisition of a company, or consider other ways of collaboration with other companies such as a joint venture. These are faster ways of growing. Whether these strategies are easier for achieving business growth is difficult to say. Take-overs do cost money, and mergers are not easy to establish successfully. Whether these are good strategies will ultimately depend on whether they increase the return on investment. Mostly this will not be the case, as the existing and future margins that can be realised in the company you are involved in will already be included in the merger or take-over price. Only if there are clear synergies between the two companies, resulting in increased profits for both through collaboration, it may be useful to consider such strategy.

As a growth enterprise, you may, of course, consider these options for growth. In that case, this EYB programme will not help you in those endeavours. You may require other specialised assistance. This EYB programme is specifically designed for internal business growth only.

1.8 How to use the EYB programme

Your business will benefit from the EYB Programme if you participate in it according to the following schedule:

- You, the owner/manager of the business, complete the training on all four modules.
- The functional managers of your business complete the training on, at least, the modules of their functional areas and the Strategic Management Module.

1.9 What you will get from the EYB Programme?

EYB Programme is a premium product that is developed by the International Labour Organisation (ILO) specifically to help the Jordanian growth-oriented enterprises in realizing their growth.
EYB Programme is considered by many SME development agencies in Jordan for their funding, support and subsidy schemes.

By enrolling in the EYB Programme, you will get the following:

a) **Assessment sessions**

These are one-on-one meetings between the certified EYB training consultant, you and your managers.

b) **The EYB modules**

You will get a complete set of modules ahead of time before the training. This will give you the opportunity to read and prepare yourself.

c) **Training:**

The EYB Training is modular. It will take three fulltime days for each module except for the Strategic Financial Management module that will take four fulltime days. Training will be organised in such a way to suit your business requirements. The sequence of training will be as follows:

- **First:** Strategic Management training
- **Second**: Strategic Marketing training
- **Third**: Strategic Human Resources Management training
- **Fourth**: Strategic Financial Management training.

d) **Individual Counselling (IC) sessions**

Individual counselling session will be conducted by certified training consultants to check on the completion of your Growth Plan and to provide assistance in its implementation.

e) **Business Support Groups (BSG)**

The Certified EYB training consultant can facilitate Business Support Groups, where you meet with other participating businesspersons to discuss common problems, needs, challenges and solutions.

f) **Linkages to finance and business:**

The EYB Programme will facilitate linkages to finance and business institutions, such as marketing and export, mentorship programmes, specialist agencies like tax consultants, legal services etc or other business areas as identified during the needs assessment and training.

This will provide you with excellent opportunities to network with other participants, trainers and guest presenters to exchange ideas and build useful business relationships formally during training and informally after training sessions

g) **Certification by the ILO at the corporate and individual levels**

2. About the Strategic Management Module

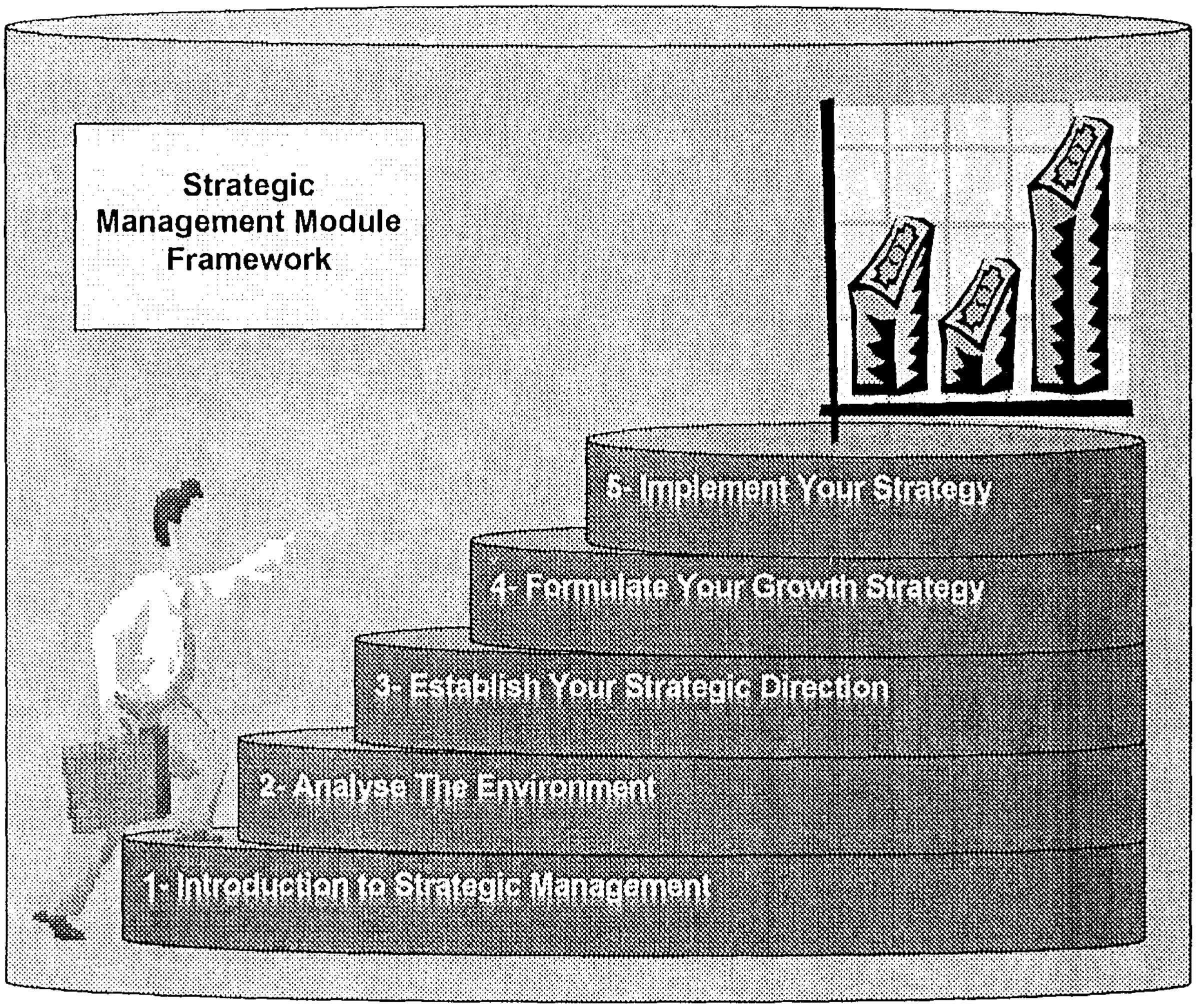
This module consists of six chapters and discusses strategic management as follows:

- **Chapter one** gives an overview of strategic management.
- **Chapter two** provides you with techniques and methods for strategic analysis. These techniques are divided into techniques that focus on the external business environment and those that focus on the internal business environment. You will be assisted with practical tools to do this analysis for your own company. Important results of this chapter will be the identification of critical success factors for the industry you are working in, your main competencies and the identification of your competitive strategic advantage in the industry you are operating in.
- **Chapter three** helps you to develop parts of your strategic plan. You will develop a vision and mission for your business, and develop goals and objectives.
- **Chapter four** guides you to develop and choose a generic competitive strategy for your business that matches with your competitive strengths.

- **Chapter five** explains how the work done in this module relates to the other modules. In particular, it will explain how objectives and the generic growth strategy, as developed in this module, will assist you in developing your growth plans and action plans for each of the main functions in your business, i.e. marketing and sales management, human resources management and finance management. Once this relation is clear, you will be ready to commence with the functional modules, and prepare your growth plans.

- **Chapter six**, finally, comprises of the strategic growth plan. This plan summarizes the efforts that you have undertaken in this module to strategise your business towards growth

The following diagram shows the Strategic Management Module framework



3. What you will learn in this Module ...

If you aim to grow your business, this module will be of great help to you. The basic idea of this module is to help you think strategically of your business growth. First, you should get ready for growth then you need to plan your growth and then, you should organize your enterprise to grow. This Module seeks to enhance your understanding of strategic management and the ideas and concepts that are critical in mapping the way your business is performing. It lays out the processes for effective management and planning, and how to utilize information for deciding on the way forward.

After studying this module and completing the exercises in it, and with the guidance of your business trainer, you will be able to:

- **Identify the characteristics of successful growth oriented enterprises and entrepreneurs, as well as the importance of Strategic Management.**
- **Analyse and study your business environment by using tools such as STEEP and SWOT analyses as well as others.**
- **Develop and articulate clear vision and mission statements for your growth plans, and formulate SMART objectives and craft strategies for growth.**
- **Design growth strategies that will guide you to achieve your own growth objectives.**
- **Implement your own growth strategies.**

4. The case study used in the EYB modules ...

Throughout the four EYB modules, you will find a case study of a Growth Oriented Enterprise. This enterprise, like yours, has been growing in the past and intends to grow further. The enterprise doesn't fully know how to achieve further growth and experiences certain problems that need to be overcome to realize its full growth potential. The enterprise is called **Hana Juice Company Limited (HAJCO)**. Throughout the four modules, we will follow HAJCO in their efforts to prepare their growth plans. By using HAJCO as our example, it is expected that you will find it easier to understand how to apply the techniques to prepare your own growth plan

CASE STUDY

Hana Juice Company Limited (HAJCO).

Introduction

Hana Juice Company Ltd is a small fruit processing company in Jordan Valley. Mr. Jameel and his wife own the company. Mr. Jameel started the company in 1996 after retiring from a job in an international company. Mr. Jameel was a key production manager for that company and in the course of his twenty-year career he travelled extensively worldwide.

History

When Mr. Jameel retired, he decided that he would start up his own business. He and his wife began making fruit juice at their farm in Jordan Valley. The business started very small and originally, they produced the product in the kitchen of their house and sold it in the local market. However, people learned about the product and orders began to come in from all over the district. When the local hotels began to order fruit juice, Mr. Jameel realized that he was really on to something, and decided to expand production facilities by renting the building close to his farm and purchasing new equipment.

Fortunately, Mr. Jameel's experience in the corporate world included production, and he was able to plan the factory layout, and develop the production lines. The factory included a simple assembly line for processing fruit into juice, and basic machines for bottling and packaging. The factory started out small, but as demand for the product has grown, the factory has also grown.

Today

HAJCO specializes in processing citrus like orange, lemon and grapefruit. Their main products are fruit juice and concentrated fruit juice. Their key clients are tourist hotels throughout the region. They have a very high quality product, which appeals to the high-end clients of the local tourist hotels. Their fruit juice looks and tastes like freshly squeezed juice. HAJCO's owners are now contemplating to sell their products to the local supermarkets. Recently, they were asked to export their products to the Gulf countries. HAJCO's owners also wonder if their product could compete in Europe. However, they are also concerned that Lebanese competition will enter into their prime markets: the hotel industry. They have already seen some of the Lebanese products in some supermarkets.

HAJCO's production facility housed in two buildings located on their farm. The production process is relatively simple and requires very little specialized equipment. The facility is very clean and modern. It is operated at about 85 percent capacity, but on occasion when customers' orders increase, the plant runs at full capacity. They run only one 10-hour shift. Mr. Jameel is the managing director and chief production manager. His wife is the buyer and business manager. They have 25 employees of whom 23 are involved in the production side of the business. One drives and delivers product to local customers, and one helps Mrs. Hind with sales and office duties.

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

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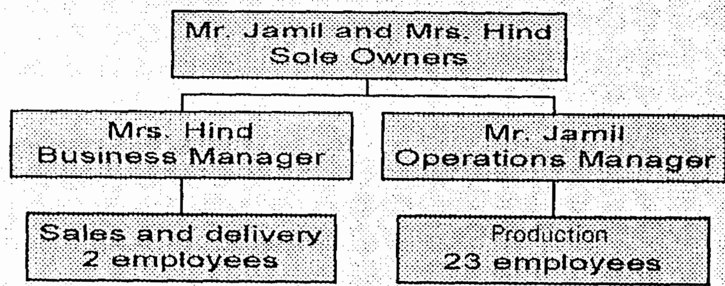
Organisation chart for HAJCO



A profitable company

HAJCO's owners knew their company was profitable based on financial statements they received from their CPA. HAJCO's owners were able to draw a salary, and at the end of each year, they had money left which they usually invested in the business. They wonder if their company is really as profitable as it should be. They also wonder if there are ways to make the company more profitable.

HAJCO has a bookkeeper who comes each week and enters all the transactions into the books. The system is an old module system. Once per year, Mrs. Hind meets with a local registered accountant who helps them prepare statements for the Income Tax Department. The accountant provides financial statements including a profit and loss statement and balance sheet. However, Mr. Jameel and his wife do not make much use of these statements preferring to run the business on a day-to-day basis.

Item	2002 (JD 000)	2003 (JD 000)
In thousands of Jordanian Dinars)		
Net Sales (Turnover)	314.00	408.00
Less: Cost of Sales	152.00	196.00
Gross Profit Margin	**162.00**	**212.00**
Operating Expenses	**68.00**	**84.00**
EBITDA	**94.00**	**128.00**
Depreciation	21.84	24.72
Amortization	-	-
EBIT	**72.16**	**103.28**
Interest Charges	15.00	12.00
EBT	**57.16**	**91.28**
Corporate Tax @15%	8.57	13.69
Net Income	**48.59**	**77.59**

Continued on the next page ...

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

Customer Credit Problems

HAJCO's management noticed that, as their business grew, more and more of their customers demanded credit. Some of these customers were very loyal and ordered large quantities of the product. Mr. Jameel felt that he could trust these customers and they would pay him on time.

Mr. Jameel met with the sales staff and discussed the issue of customer credit with them. They all felt it was very important to extend credit to all of their customers. They said "it seemed unfair to give credit to only a few customers and then have the others go without". The customers that did not get credit would complain when they found out that they were being treated differently.

After meeting with the sales staff and hearing their opinions, Mr. Jameel decided that they would extend the same amount of credit to all of their customers. They set the credit policy that customers could pay for their orders 30 days after they received the order. They decided that all customers would be allowed credit because that seemed fair.

After a few months, Mr. Jameel noticed that their company was running out of money. Cash was always a problem, but now, it was constant. This fact was even more surprising considering that sales were improving since they had started extending credit to customers.

Things go missing

HAJCO has a problem with employee theft that is common to many companies. Mr. Jameel had over time dismissed several employees for stealing. Fortunately, no one has stolen enough money or inventory to do serious damage to the business. However, Mr. Jameel continues to worry that maybe one day someone was going to get away with stealing a lot of money.

Employee Turnover

Mr. Jameel knows that HAJCO is probably one of the only employment opportunities in the area. Their farm is located outside of a medium town in Jordan Valley. There are not very many employers in the area and most people survive from farming. However, Mr. Jameel cannot understand why he has such high turnover with the employees. Many of the employees last less than a year. A few have been around for several years.

This is a problem because new employees require a fair amount of training before they can work in the factory. Additionally, employees are not very efficient at the work until they have been on the job for several months. This is because there are many skills to learn, and it takes time to become proficient at these skills.

Distributor problems

Mrs. Hind is in charge of sales. She works closely with several large hotel accounts; however, for sales to other areas of the country, she must rely on **Theqa Distributors**. Theqa Distributors is a typical wholesale company that distributes a large variety of products to hotels and supermarkets throughout Jordan. HAJCO signed an exclusive agreement with Theqa Distributors to distribute HAJCO juices to hotels throughout the area except for those who deal directly with HAJCO.

Continued on the next page ...

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

Recently though, Mrs. Hind has learned that Theqa Distributors has started representing a Lebanese Company who produces similar products to that of HAJCO. She has also noticed an obvious decline in orders from Theqa Distributors. Earlier, sales to Theqa Distributors made up 40% of total sales. Today, they are down to 30% and dropping.

Expansion

HAJCO is considering developing new markets in Europe. Mr. Jameel is not so sure about the overall potential of the Gulf markets but they think they can sell enough of their product to allow for the expansion of the business, and possibly make a better profit.

Mr. Jameel is also contemplating the introduction of new products such as jams, jellies and chutneys for the local market, dried fruit for export, and possibly ice cream to further the growth of their business, but, they are not sure if this is a good idea or how best to do it. He also knows he needs more equipment for the expansion, as well as, more employees. He knows that even for HAJCO's existing products, he should expand his factory to meet demand for their products. Mr. Jameel had plenty of room on his farm and it would be no real problem to expand.

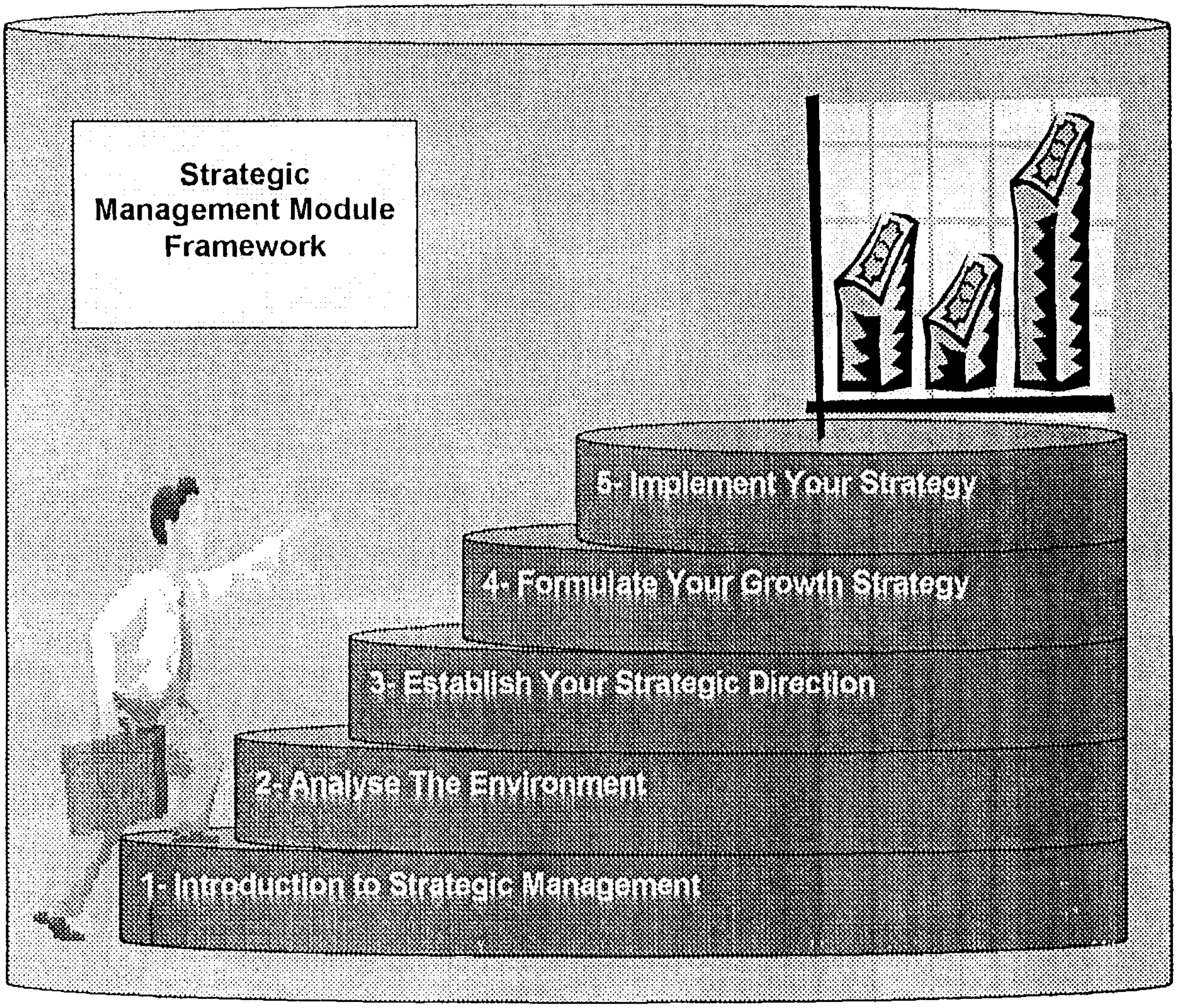
Chapter 1

INTRODUCTION TO STRATEGIC MANAGEMENT

What you will learn in this chapter ...

After studying this chapter, and completing the exercises in it, and with the guidance of your business trainer, you should be able to:

- **Explain the definition of strategic management**
- **Identify the importance of strategic management to your business**
- **List the key tasks for strategic management**
- **Explain how to grow the business**
- **Identify the differences between planned and unplanned growth, as well as managed and unmanaged growth.**



1. What is strategic management?

1.1 Introduction

This module, as well as the other three in the training package (i.e. Marketing, Human Resources Management and Finance), deals with organizational change. Every organization and every business changes over time. The changes inside the company are a reflection of what happens in the surroundings of the business and how the business reacts to it, but also changes that happens inside the business without outside interference. New opportunities arise, personnel leave, and new jobs are required, new relations are established, new customers acquired, etc. Change within the business is, therefore, as logical as change in life itself.

There is an important difference now between changes that happen as a result of uncontrollable factors, and changes that are the result of explicit and intended actions of the business entrepreneur and the employees within it. The former are *reactive* actions, while the latter constitute *pro-active* steps to influence the future state of the business.

Strategic management now is about being *proactive*. It is about developing goals for the business, as well as the strategy to get there. Strategic management is concerned with planning and predicting the future of the business, accounting for the present and future of the surroundings of the business. Once the entrepreneur has an idea of how the future could look like and what the position of the business should be within that future, then one could establish concrete objectives, as well as the road to follow to reach these objectives. These objectives and the strategy to achieve them are set such that, they will lead to maximum return on investment.

Nevertheless, the future changes and unexpected events happen these influence our plans. Some people feel that it is useless to plan for the future or to practice strategic management. The result of that attitude is that, one will be dependent on what happens and meanwhile remains static or *reactive*, waiting for fate to occur. In this case, return on investment will be low and opportunities may be missed. The fact that the future is unpredictable only means that there is a need to readjust strategies as we go in order that we may reach and achieve the final objectives for the business Strategic management is therefore a *reiterative* process.

1.2 Overview of strategic management

In the context of our business education, management focus is on a number of functions that can be learnt separately. Some of the functions covered in management include; finance, production, human resources, marketing, operations, logistics etc. These functions, although studied separately, form part of a whole. When running a business, reference is made to all these aspects and their contribution to the overall success of the business.

Strategic management as a discipline focuses on:

- **The total business including the environment in which it operates,**
- **The direction management intends to go, and the strategic plan for getting the enterprise moving in this direction, and**
- **The managerial tasks of implementing and executing the chosen strategy successfully**

The main consideration in strategic management is 'what' the entrepreneur must do to make the business prosper. The process presupposes that action follows careful thinking and mapping out of what has to be done before further development takes place.

1.3 Definition of strategic management

There are a variety of definitions for 'management'. The one we adopt here is: the activity of maximizing the input-output relation regarding resources, and performing activities to obtain best results, and achieve the business mission and objectives.

In brief, it is the process of formulating and implementing ***strategies***. In general terms ***strategic management*** helps in managing the business's resources to achieve **long-term objectives**.

The definition emphasizes the series of steps the manager should take. These steps include:

- Performing an environmental analysis,
- Establishing strategic direction,
- Formulating strategy, and implementing the strategy, and
- Exercising strategic control.

> ***Strategy*** is the comprehensive plan that sets direction towards achievement of set goals and objectives.
>
> ***Strategic management*** is a continuous, interactive, cross-functional process aimed at keeping an organization, as a whole, appropriately matched to its environment.

The definition, also, suggests that the strategic management is continuous; the entrepreneur never finishes the strategic work.

Important

> **Entrepreneurship entails knowledge of the business' current and future competitive advantages. Lack of such clarity results in failure to capitalize on your opportunities, and cushioning yourself from the forces threatening your business.**

1.4 Benefits of Strategic Management

Benefits of Strategic Management to growth-oriented businesses include:

- Better guidance to the entire business on the crucial questions, "what is it we are trying to do and to achieve?"
- Direction to improve your financial and management performance.
- Readiness to face the winds of change, new opportunities and threatening developments.
- Rationalization to evaluate competing budgets for investment and new capital.
- Integration of the numerous strategies–related decisions in the areas of finance, human resources, marketing and production.
- Building a more proactive management posture.
- Stronger business members' commitment to attaining long-term goals.

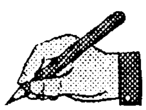
1.5 Strategic management versus strategic planning

There is a difference between strategic management and strategic planning. Strategic management is about *managing the business in a strategically oriented manner*, keeping the overview and steering the business in the right direction to achieve goals and objectives. Strategic planning, on the other hand, is about *the planning process* of developing strategies and how to implement them. Strategic planning is therefore process oriented. If the planning process is conducted well, it will be much easier for the entrepreneur to maintain the overview, and manage the business well towards set goals and objectives.

1.6 Why expand your business?

Having been used to operating at a smaller scale and running your business on "family" lines, you may be wondering why you now have to grow it to an extent where you may end up losing direct control over most of your operations. There are obviously sound reasons for growing your business, which should inspire you to expanding it. Some key reasons for expanding your business are shown in the following figure:

Benefits of Growing Your Business	Challenges of Growing Your Business	Effects of Not Growing Your Business
• Business will become larger and more stable	• Business will become more demanding from the owner	• You miss the advantages of economies of scale
• Business should generate real wealth for owner(s)	• Relations with family and friends may suffer	• Limited wealth base
• Owner will now be noticed as a community leader	• Rise in community expectations and demands	• Lower status
• Opportunity to reach full potential	• Too much pressure resulting from competing work and personal obligations	• You limit your capacity and initiative
• Opportunity to contribute more to the economy and society	• Dealing with uncontrollable volatile environmental forces	• Limited contribution to society and economic growth
• Opportunity to hire professional staff	• Managing human resources in the changing environment due to growth	• Failure to attract qualified staff
		• Sense of personal failure



EXERCISE

Key Questions in Strategy Development:

Below are key questions and issues that you need to ponder as you expand your business. Attempt to answer the questions in the space provided in the next column.

1) What goods or services do you really sell?

Continued on the next page...

EXERCISE

Key Questions in Strategy Development:

Continued from the previous page...

2) How well do you produce your goods or deliver your services?

3) Who buys your goods or services?

4) Do you have a strategy? If yes, describe it and indicate how you will implement your strategy?

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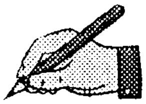

EXERCISE

Key Questions in Strategy Development:

Continued from the previous page...

5) Is your strategy communicated to your employees? Do they know about it?

6) What do you want from your business?

7) Are you prepared for how your business growth is likely to affect your relationship with your family and friends? Are you willing to deal with it?

8) What are your interests? (Both at the personal and business levels?)

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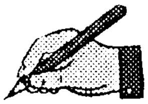


EXERCISE

Key Questions in Strategy Development:

Continued from the previous page...

9) What are your strengths and weaknesses? (Both as a person and an enterprise)?

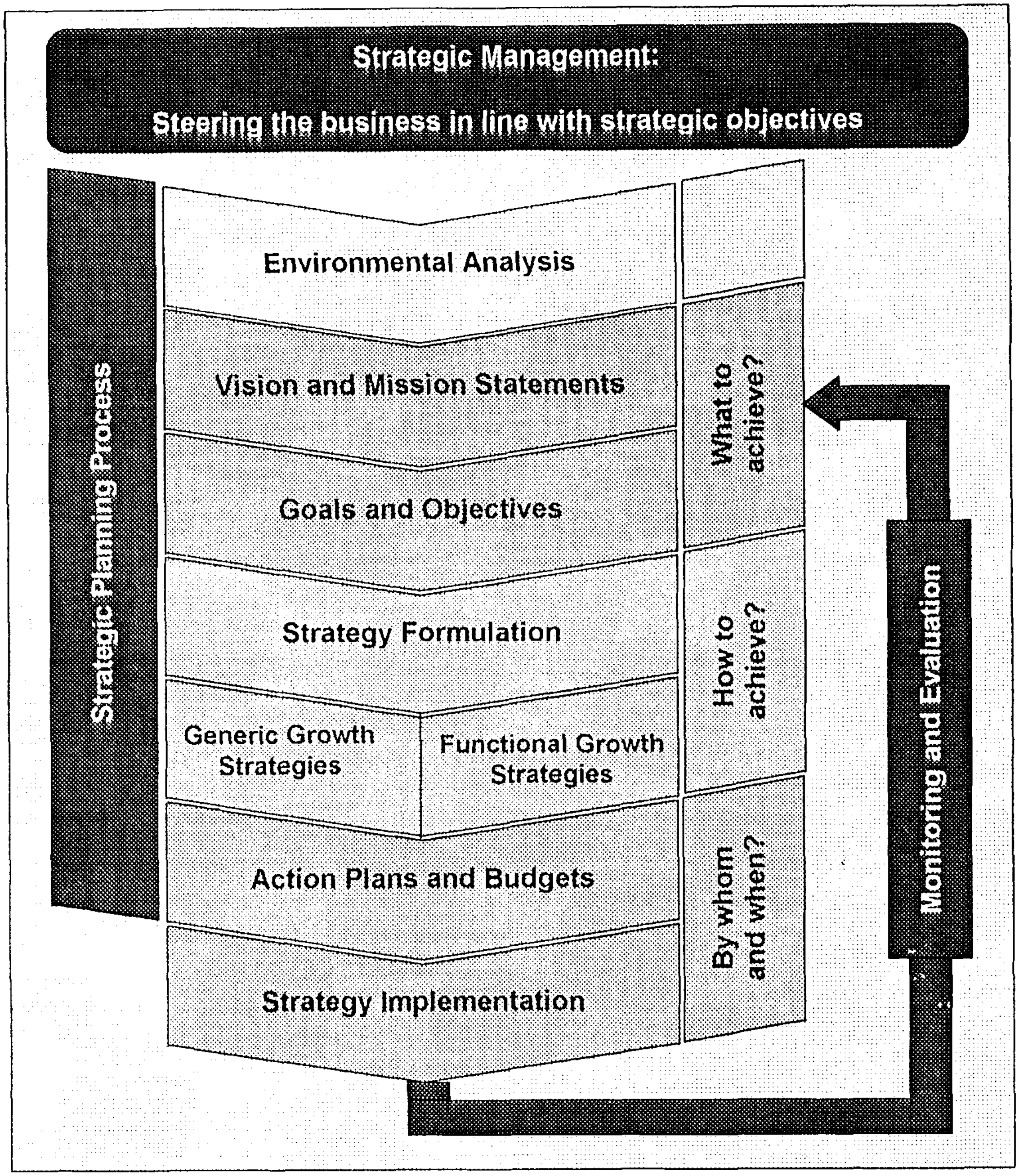
10) What should be your role in the growth process?

1.7 The strategic planning process

The next figure illustrates the strategic planning process. Basically, this process represents an overview of the complete strategic planning process for small and medium businesses. It involves distinct steps, namely developing the vision: mission, goals and objectives, strategic analysis, strategy formulation (with generic and functional strategies), actions plans/budgets, strategy implementation and finally the monitoring and evaluation of the strategies. Although these various tasks are interrelated, they will be dealt with separately over the coming chapters to guide you in the process of strategic planning.

The end result of this process is a strategic plan that will effectively guide the operations of the business over a set period of time. It is important to understand the need to regularly assess the validity of its objectives in relation to the business environment.

As we go through this module, this process and its steps will become clearer. We will introduce simple and practical 'tools' that will facilitate the analysis, formulation and implementation of your strategic growth plan in a smooth manner.



During this process, you will:

a) Analyse the business environment

You will analyse the external business environment, as well as the internal business environment to be able to assess the key industry success factors, core competencies and competitive advantage of the business. It is important to have a number of competitive advantages in order to be able to position the business successfully in the market, and thereby achieve growth.

b) Develop a vision/mission

At this stage, you will clarify and understand what your business is, and specify what the organization aims to achieve.

c) **Develop goals and from there, develop measurable objectives**

This allows you to then decide on the goals and objectives of the organization. Translate the vision and mission into goals first and subsequently; translate these goals into measurable objectives.

d) **Develop a generic growth strategy**

Strategies are the means of achieving the objectives that you have set for the business. By developing a generic strategy for the business, it positions itself strategically within the market, and builds on its strategic strengths.

e) **Develop functional growth strategies, action plans and supporting budgets for marketing and HRM, and finance as a support function**

Based on the overall growth strategy and the set objectives specify the functional growth strategies, and developing action plans for each function. Together, the growth plans and action plans form the complete strategic growth plan. Action plans for each function are required to ensure what will be done, when and by whom. Many businesses develop excellent plans, but fail to put them into action. That is why action plans are crucial. In order to be able to implement the plans, it is, also, necessary to prepare a budget. The Strategic Financial Management module will assist in designing the budget. The budgets will be based on the action plans to ensure that the business enables the money to flow where the required action is.

1.8 Implement the growth strategy

Once action plans are designed, the business then implements the growth plans accordingly. Various follow-up services are part of the training to assist you in the implementation of the growth strategies.

1.9 Monitor and evaluate performance

Businesses need to monitor and evaluate their performance to observe whether they are still on track with implementing their activities and reaching their objectives. If necessary, goals and objectives *and/or* growth plans *and/or* actions may need adjustment over time. From time to time the business will therefore, need to review how the strategy is being implemented.

Important

This strategic management module will assist you to prepare the generic strategic plan. The subsequent Strategic Marketing, Strategic Human Resources Management and Strategic Financial Management modules will assist you in preparing objectives, functional growth plans and action plans.

Do the above steps sound complicated to you? No need to worry. The principle applied throughout the modules is KIS: Keep It Simple. Tools and examples will be provided on how to prepare and implement the growth strategies. All this should then assist you in achieving your business growth.

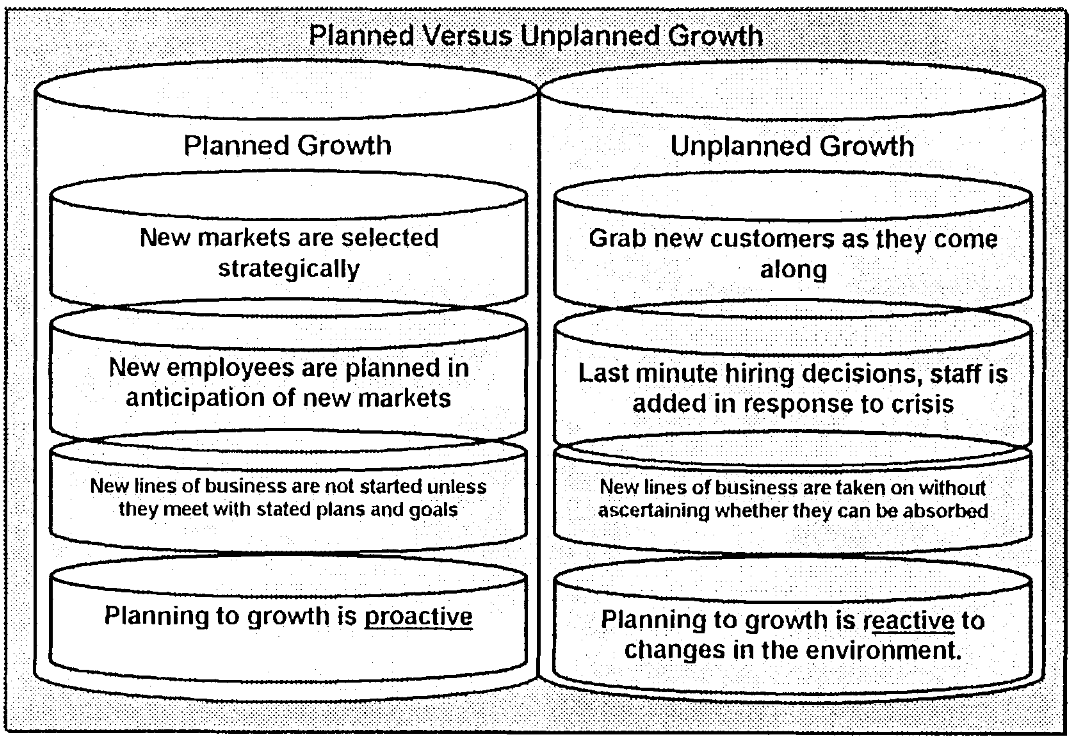
2. Why is strategic management important for the business to expand?

When your business was still small, you would perhaps deal with problems as they presented themselves, and decide on courses of action based on gut feeling. Growth calls for a professional management approach based on proper strategic planning, environmental forecasting and competitor analysis. Unlike in the past where your business returns would grow by chance, expansion means planned growth, and a clear development path.

Growing your business requires good planning. These are some of the issues that result from well-planned and managed growth in comparison with unplanned and unmanaged growth:

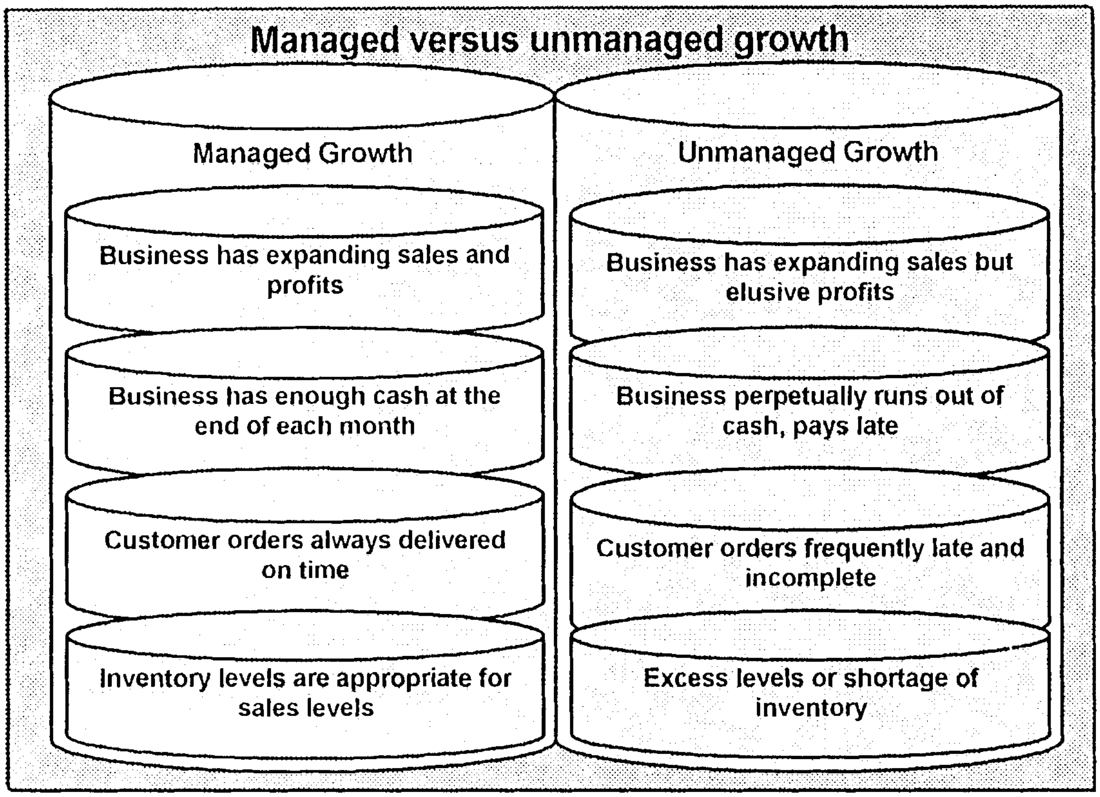
2.1 Planned versus unplanned growth

Growing your business requires good planning. There are a lot of benefits, which accrue from planned business growth, some of which are listed below.



2.2 Managed versus unmanaged growth

Planning the growth of your business is not enough. You need to manage the growth effectively in order to achieve targeted growth results. Some of the problems of failing to manage your business growth properly are shown below.



Generally, strategic management is important for any company. However, it may be even more important for small and medium enterprises (SMEs) than for larger corporations. Generally, in small and medium sized enterprises one person largely makes ideas and decisions. This is why the business came into existence in the first place. Now, if managers in larger corporations make wrong decisions, there are many areas of work where adequate decisions may have been made to compensate for wrong decisions. In addition, subordinate staff may compensate for wrong decisions at the top, and some decisions may or may not be fully implemented. In SMEs, a wrong decision can be fatal. The margin for error is much smaller, because the SME's resources are too limited to absorb the consequences of a wrong decision. There may also be nobody to prevent a wrong decision from being implemented. Research indicates that small businesses often fail because of wrong judgments and understanding at the top and reliance on the hearts and not on the heads of the owners.[1]

There is also some evidence stating that small businesses that implement strategic management and planning approaches have higher survival rates and better financial performance than those that don't [2]

[1] N. Siropolis, Small Business Management: A guide to entrepreneurship, Fifth Edition (Boston: Houghton Mifflin, 1994).
R.N. Lussier, "Startup Business Advice from Business Owners to Would-Be Entrepreneurs," SAM Advanced Management Journal 60 (1995), pp. 10-13.
[2] C.R. Schwenk and C.B. Schrader, "Effects of Formal Strategic Planning on Financial Performance in Small Firms: A Meta-Analysis," Entrepreneurship: Theory and Practice 17 (1993), pp 53-64.

Nevertheless, experience shows that most small and medium enterprises (SMEs) do not adopt a strategic management and planning approach. SMEs tend to be busy with daily problem solving, and reacting to problems rather than being proactive. The result is that opportunities are missed and threats aren't noticed in time to take action.

In conclusion, strategic planning is important as a way to set and achieve goals and objectives, and to maximize your return on investment.

3. How strategic management will help to expand the business

There are a number of ways in which strategic management will help to expand the business:

- Setting strategic goals enhances the chances for growth and improves financial performance.
- Strategic management increases knowledge of the market and therefore improves the ability to meet customer needs and demands.
- A strategic management approach allows more control and influence on the success of the company.
- Enables a less 'chaotic' and more structured organization.
- A strategic management approach will provide guidance to the entire organization on the crucial point "what is it we are trying to do and achieve"?
- Entrepreneurs will be more alert to the winds of change, new opportunities and threatening developments.
- Entrepreneurs will steer resources for competing purposes in those business opportunities that give highest yields.
- A strategic management approach leads to coordination of all strategy-related decisions in the areas of marketing, human resources and finance, thereby increasing efficiency and effectiveness of business performance.
- A strategic management approach results in a more pro-active management attitude, and a higher willingness to adapt to (and be ahead of) changing circumstances.
- Adopting a strategic management approach will save time in the longer run, because, plans are laid out based on what needs to be done and by whom.

4. Characteristics of Successful Entrepreneurs

Studies that have been carried out in several countries indicate the following as qualities for successful entrepreneurs: -

- Thirst for achievement and success
- Desire for responsibility and independence
- Preference for reasonably calculated risk
- Confidence in their ability to fulfill their commitments.

- Desire for immediate feedback
- Future orientation with high level of energy to pursue goals
- Excellent leadership and organizing skills
- Value achievement more than money
- Flexibility
- Technical competencies
- Bounce back from failure
- Internal focus on control (conviction that they control their own destiny)
- Ability to follow through endeavours undertaken

Bear the above mentioned issues in mind as you go through the rest of this module.

EXERCISE

Evaluate your attributes as a successful entrepreneur based on the previous characteristics by circling the value that represents your scoring (1 is the weakest and 5 is the strongest).

Characteristic	Your Score
1. Thirst for achievement and success	❶ ❷ ❸ ❹ ❺
2. Desire for responsibility and independence	❶ ❷ ❸ ❹ ❺
3. Preference for reasonably calculated risk	❶ ❷ ❸ ❹ ❺
4. Confidence in ability to succeed in fulfilling their commitments	❶ ❷ ❸ ❹ ❺
5. Desire for immediate feedback	❶ ❷ ❸ ❹ ❺
6. Future orientation with high level of energy to pursue goals	❶ ❷ ❸ ❹ ❺
7. Excellent leadership and organizing skills	❶ ❷ ❸ ❹ ❺
8. Value achievement more than money	❶ ❷ ❸ ❹ ❺
9. Flexibility	❶ ❷ ❸ ❹ ❺
10. Technical competencies/appreciation	❶ ❷ ❸ ❹ ❺
11. Bouncing back from failure	❶ ❷ ❸ ❹ ❺
12. Internal locus of control	❶ ❷ ❸ ❹ ❺
TOTAL SCORE	

Result: Following is the key for evaluating yourself as a successful entrepreneur:

Total Score	➔	Interpretation
Below 30 Points	➔	You don't have entrepreneurship skills, and you need to work extensively on improving these personal attributes to contribute to your business growth. You should focus on the points with a score below 5.
31-45 Points	➔	You have entrepreneurship skills, but there is still a room for improving these personal attributes to maximize your contribution to your business growth. You should focus on the points with a score below 5.
46-60 Points	➔	Your entrepreneurship skills are an asset that you have to lead your business for growth. You should maximize on these skills to get the best results. You should focus on the points with a score below 5.

Following is a list of competencies that growth-oriented entrepreneurs should have. These competencies are the key to differentiate between growth-oriented and average entrepreneurs.

Competency	Description
Proactivity	• Anticipates situations before they happen, and prepares for such eventualities. • Does things before being asked or forced by events • Confronts problems with others directly. Tells others what they have to do. • Takes calculated risks
Achievement Orientation	• Seizes unusual opportunities to start a new business, obtain financing, land, work space or assistance • Looks for or finds ways to do things faster or at less cost • States a desire to produce better quality products/services • Breaks a large task down into subtasks or sub goals and anticipates obstacles. • Develops or uses procedures to ensure that work is completed in time or that work meets standards of quality
Commitment	• Makes a personal sacrifice or expends extraordinary effort to complete a job. • Places long-term goodwill over short-term gain.
Communication	• Consults with members of staff on what needs to be done at work. • Counsels members in the event that work has not been done according to requirements.

Competency	Description
	• Acts to build rapport or friendly relationships with customers. Sees interpersonal relationships as a fundamental business resource.
Decision making	Involves making a choice among alternative choices each of which has potential effect that cannot be exactly measured or predicted at the time the decision is made. Decision can be made on whether you are to borrow funds from a bank or not. Certain information should be in place to make that decision.
Team building	Growth oriented entrepreneur on a team of managers given specific responsibilities in the business. The entrepreneur builds a team that will cooperate and share ideas on the success of the business. The entrepreneur provides leadership and guidance to the team.

5. Chapter Summary

Strategic management is about being proactive. It is concerned with setting goals to steer the business and maximize investor value. Strategic management focuses on the total enterprise, the direction to go and the managerial tasks of executing the chosen strategy.

The Strategic planning process is concerned with the process of planning, developing and implementing a growth strategy. Through the process of strategic planning, the business engages in important activities such as, predicting the future, setting goals for the business and designing and implementing a strategy to achieve these goals. Since the future can change, there is a need to review strategies from time to time, and make adjustments where necessary.

Strategic planning process comprises a number of steps as follows:

- Vision and mission development
- Setting goals and objectives
- Analysing the business environment
- Choosing a generic growth strategy
- Developing functional growth strategies and action plans
- Implementing the growth strategy
- Monitoring and evaluating the growth strategy

The development of functional growth strategies and action plans are discussed in other modules. This module discusses the other aspects of strategic planning.

Strategic management is important for the business as it reduces the chances for business failure, and increases the chances for higher profit margins and good financial performance.

A strategic management approach helps the business to be better organized, more focused, efficient and effective, be more alert to opportunities and threats, more proactive, and better coordinated in its efforts.

6. Make an action plan for developing your awareness for growth

Complete the Action Plan form shown on the next page. The Action Plan is useful when you prepare your strategic growth plan where you can have a master action plan for all aspects of your strategic management.

You can find the forms for preparing your Action Plan in the Strategic Growth Plan.

ACTION PLAN

OBJECTIVE (What to achieve?)	ACTIVITIES (What should be done?)	TIME FRAME (When it should be done?)		RESPOSIBILITY (Who should do it?)	RESOURCES (How it should be done?)	COMPLETED
		START	END			
						❑
						❑
						❑
						❑
						❑
						❑

Chapter 2

ANALYSE THE ENVIRONMENT

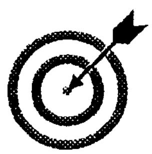
The first step in the strategic planning process is to analyse the market. Analysing the market should assist you to identify opportunities, and to assess whether the objectives you have set earlier are achievable. We will analyse both the external and internal environment that shapes your growth-oriented business. 'Tools' and methods that will make it possible for you to analyse the environment will be discussed.

The ***business environment*** is made up of all elements that surround an enterprise. The environment in which you operate is so powerful, that failure to take into account environmental factors would be dangerous to your business.

> *Business Environment* is the set of forces outside the enterprise that can affect its performance

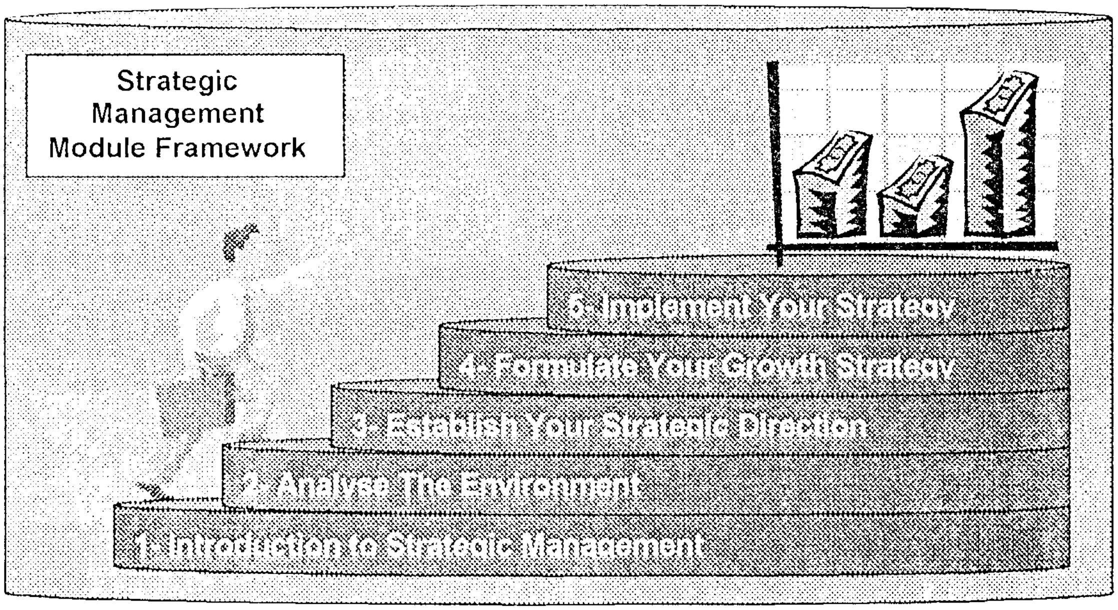
You, as an entrepreneur, need to appreciate that the process of strategic management takes place in a complex environment of business, political, economic, social and technological and ecological influences. The environment has become so dynamic and complex that at times, if not most times, it is difficult to determine how the environment will influence events and, in this case, your business operations.

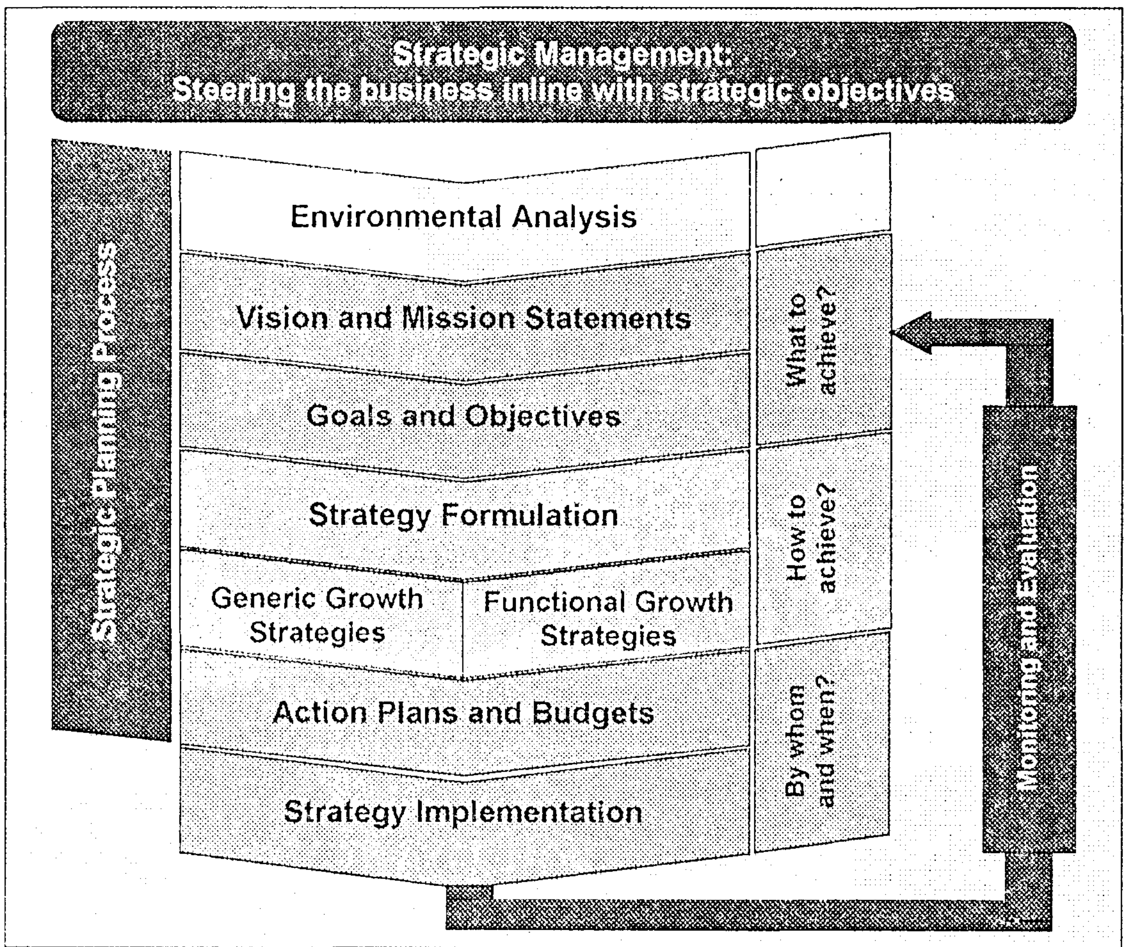
What you will learn in this chapter ...



After studying this chapter, and completing the exercises in it, and with the guidance of your business trainer, you should be able to:

- **Explain the concept of business environment**
- **Identify the boundaries of business environment**
- **Undertake STEEP analysis of your business environment**
- **Analyse the industry environment by using Porter's five forces model**
- **Undertake SWOT analysis to identify strengths, weaknesses, opportunities and threats**


Strategic Management Module Framework
5- Implement Your Strategy
4- Formulate Your Growth Strategy
3- Establish Your Strategic Direction
2- Analyse The Environment
1- Introduction to Strategic Management


Strategic Management:
Steering the business inline with strategic objectives
Strategic Planning Process
Environmental Analysis
Vision and Mission Statements
Goals and Objectives
Strategy Formulation
Generic Growth Strategies
Functional Growth Strategies
Action Plans and Budgets
Strategy Implementation
What to achieve?
How to achieve?
By whom and when?
Monitoring and Evaluation

1. What is strategic environmental analysis?

Your business operations are not carried out in a vacuum. You operate in a wider environment that influences whether your business succeeds or not. It is important for you to have an appreciation and understanding of the environment that your business operates in.

Strategic analysis is all about finding the optimal match between the competitive strengths of your business with the opportunities the business environment offers, thereby maximizing business growth and profits.

Strategic environmental analysis is conducted by collecting and analysing information on the business, environment, by assessing how the environmental changes impact your business and by identifying how you can take advantage of opportunities that arise within this environment. In other words, this analysis assists you to position your business to become more competitive and achieve sustainable growth. With a good grasp of the environment, you will be in a position to anticipate events and strategize accordingly, in order to gain competitive advantage.

Leading a successful business and steering it in the right direction, takes place in a complex environment of business, economic, technological, social and political influences. Strategic environmental analysis is, therefore, only successful if it is carried out with relevant, accurate and updated information. You need information to understand the state your industry is in, who the main players are, and the overall growth trend in the industry, etc. Access to reliable and relevant information for your business makes it possible for you to start developing a picture on the industry to consider alternative strategic options for business growth.

2. How strategic environmental analysis helps expand the business

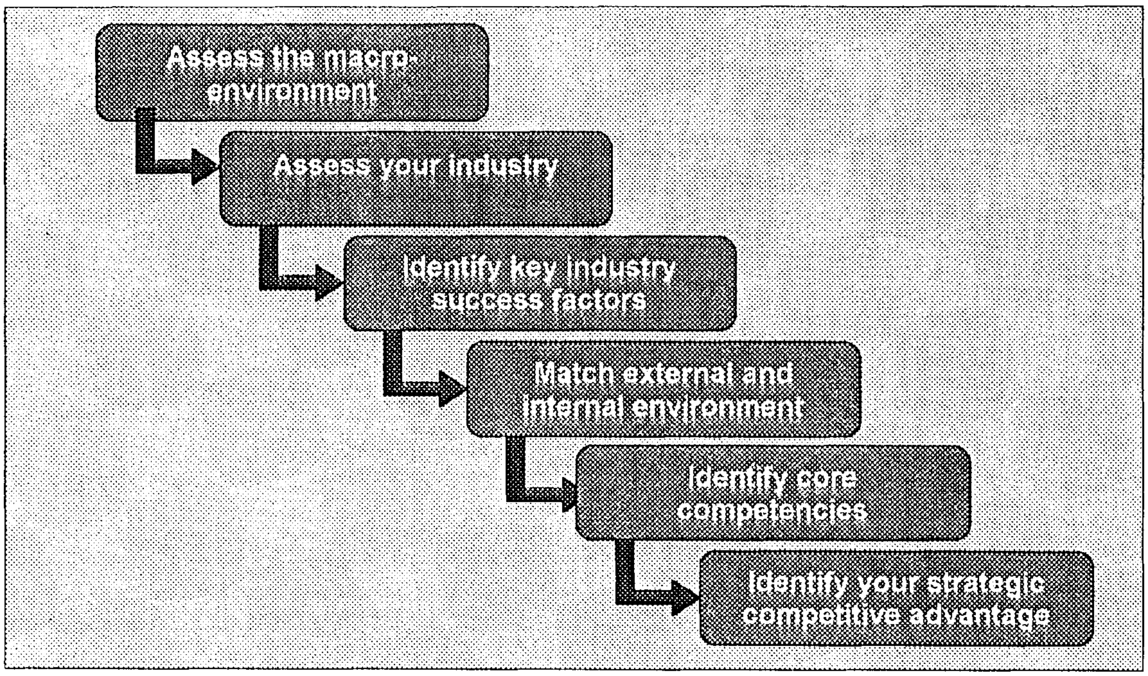
Strategic environmental analysis will help you to understand the environment, to 'predict' the direction things will go and then, to position your business accordingly. It will help in the expansion of your business in the following ways:

- It will provide you with an opportunity to counteract negative signals in the political and legal environment. This could take the form of lobbying through your association for the repeal of legislation and or regulations that impinge negatively on your business operations.
- It will result in the identification of the key drivers (or success factors) in the industry that will make a difference in the expansion of your business.
- It will give you useful information on the growth of the market, thus indicating possible avenues of expanding your business.
- It will give you an opportunity to assess suppliers that can provide raw materials for your business at competitive prices, thus resulting in the reduction of costs in the production process.
- It will provide you with a chance to identify opportunities to take advantage of and threats to avoid in developing your business further.

- It will provide information on the strengths and weaknesses of yourself and your key competitors. It will allow you to position your business in a way that will increase your market share.
- Most importantly, it will assist you in finding your 'strategic competitive advantage' or optimum match between your business strength and the opportunities in the market.

3. How to apply strategic environmental analysis to the GO business

Strategic environmental analysis consists of the following steps illustrated in the chart below:



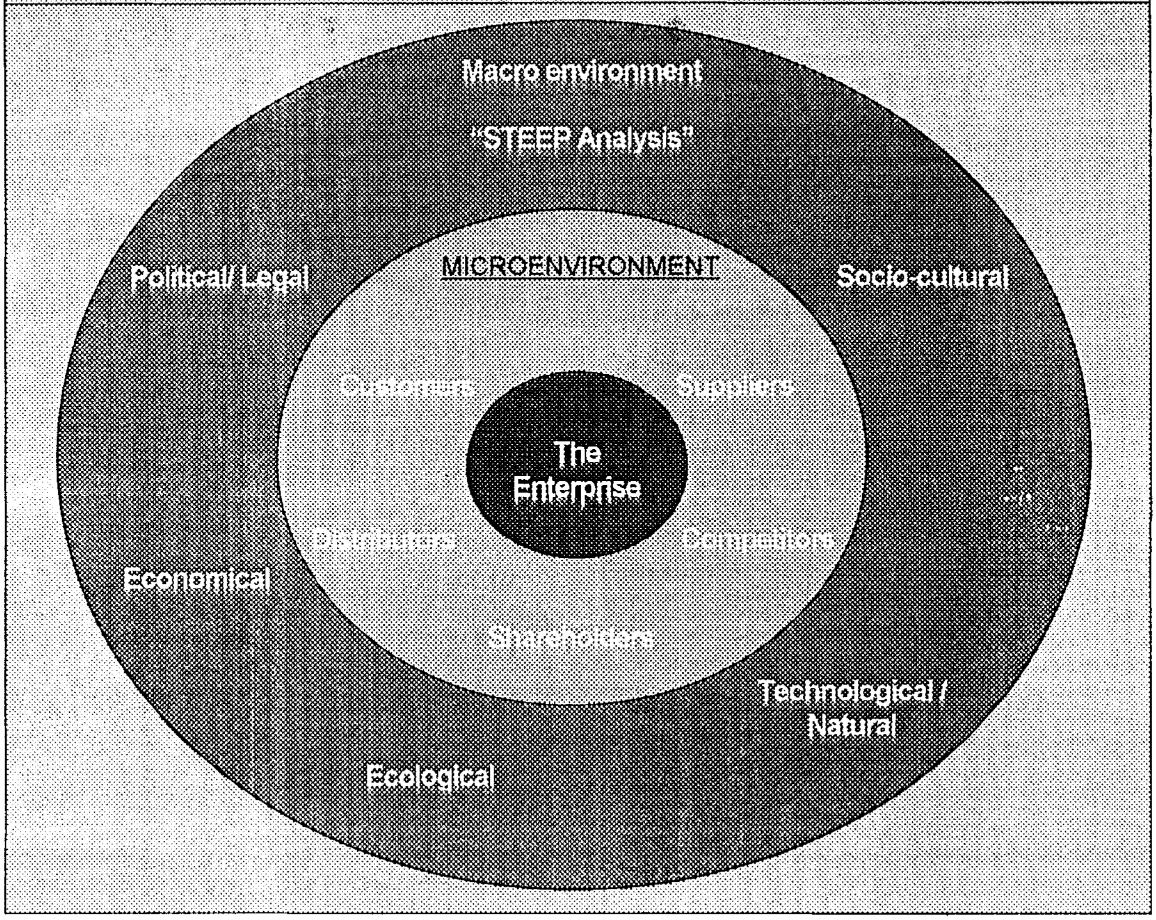
3.1 Assessing the macro-environment: STEEP Analysis

STEEP Analysis is a tool for analysing the external macro-environment to highlight those factors that will influence the way your business will develop. The tool isolates each individual component to establish the way each factor affects your business.

> ***STEEP Analysis***: is a summary for the macro-environmental forces that cover:
> - Socio-cultural
> - Technological/Natural
> - Economic
> - Ecological
> - Political/ Legal

The main components of the external and internal business environment are shown in the figure shown in the next page

The Business Environment



Your business is influenced by events that are outside your control. This particularly applies to the macro-environment your business operates in. Yet, understanding the macro-environment will assist you in making sound business decisions to adapt in the right way to prevailing circumstances or, even better, predict future circumstances and making smart business decisions in line with those future events.

The macro-circumstances also impact on the industry in which you operate. Understanding the implications of the macro-environment within your industry will assist you to strategise better.

- **The environmental analysis is based on the circumstances prevailing at the moment and these could change in the future.**
- **The environment we live in is highly unpredictable with new factors impacting on the strategy formulation process. Those factors might not be foreseen at the time you undertake STEEP analysis. Therefore, you should amend your STEEP analysis to reflect any new changes, and adapt your strategy accordingly.**

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

HAJCO's owners realized that they needed to understand the environment in which their business operates in. They decided to conduct a STEEP analysis to gain more structured information on the environment with a view to incorporate the outcomes in their overall analysis and business strategy development.

Mr. Jameel and Mrs. Hind agreed to adopt the following steps to make the job easier and logical:

- They would review all literature that they obtained; newspapers, magazines with information on political developments in Jordan, articles that Mr. Jameel had cut out of a publication by Jordan Business Associations, and articles from the Food Industry Association magazine.
- List from the various papers those factors that they considered important and were likely to affect business operations if ignored.
- Draw conclusions out from their own experiences
- Rank the various factors for each of the STEEP components in terms of being critical to the success of the business
- Draw out from the above exercises opportunities and threats to their business

HAJCO Results of STEEP Analysis

<u>Social Environment</u>

The following factors were identified that were likely to have an effect on their business:

- Cultural values towards employment impact on the business, i.e., frequent funerals and other reasons for absence resulting in high employee turnover and absence of workers
- Good male workers are hard to motivate for this type of work (which is considered female work), whereas women in Jordan Valley tend to quit work after marriage
- Poor attitudes towards work. Workers from the district appear to be less productive
- Level of education of the adult population is poor, as there is a poor literacy rate. Most of the workers have only basic literacy skills
- The government has a policy to improve the quantity and quality of public schools as well as vocational schools in Jordan. Therefore, Jordan Valley would benefit from this due to the increase of the educational standards.
- A proportion of workers in the Jordan Valley are non Jordanian Arab workers, their location in the Valley is often short term or transient.

HAJCO's owners expect Jordan to improve education standards and to develop a stronger business culture to facilitate economic growth.

<u>Technological Environment</u>

The following factors weve identified as likely to have an effect on the business:

- New equipment is available on the international market for the production of high quality juices, related products and packaging systems.
- High import duties on equipment in Jordan

Continued on the next page...

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

- Some incentive schemes are available for the purchase of new capital equipment. Most of these schemes focus on capital extensive investments and locally produced machinery.
- Frequent power cuts in Jordan Valley
- Availability of new methods that can preserve processed fruits for a much longer period than before
- Developments in road infrastructure improves access and delivery times
- Potential markets such as new hotels and resorts are opening in the Valley.

HAJCO's owners recognize the importance of technological improvements to their production process, and in particular in relation to larger scale artisan food processing production techniques. They should gear themselves to technological challenges of their business.

Economic Environment

The following factors were identified as likely to have an effect on the business:

- High interest rates, which were expected to increase again before the end of the year. This would make it extremely difficult to borrow working capital from the banks
- The local currency is subject to currency fluctuations from international markets making it expensive to purchase new machinery to increase production.
- Production capacities in the food processing industry were under-utilized. This could make other producers consider using their plants for the production of fruit juices and related fruit products.
- Levels of disposable income were shrinking as more people were losing jobs.

HAJCO's owners would continuously review the economic environment to strategize on any new purchases to be made at the right time. Their current target market (tourists) is not adversely affected by the economic environment factors.

Ecological Environment

The following factors were identified as likely to have an effect on the business:

- Frequent dry weather conditions/sudden cold spells could affect the availability of raw materials for HAJCO production.
- Government is contemplating restricting the use of part of Jordan Valley for the establishment of a national park.
- Government has introduced measures forbidding the use of pesticides in farms as they are said to be destroying the soil.
- A support scheme exists for environmentally-friendly production techniques.

HAJCO's owners support the government regulations to preserve the environment for long–term sustainability of the industry. They believe that these approaches towards Jordan Valley will enhance the image of HAJCO's products in the market.

Continued on the next page...

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

Political/Legal Environment

The following factors were identified as likely to have an effect on the business:

- Relative political stability but political uncertainty is becoming a serious problem. Mr. Jameel is known to be an opposition leader in the region. There are members of the ruling party who have been moving around spreading rumours against opposition.
- Respect and protection of individuals' property rights under the constitution.
- Changes in tax laws, which make submission of tax returns a cumbersome exercise.
- Rival producers keen to instigate legal action over content labelling details

Mr. Jameel has decided to join the national lobby group on the promotion of liberal private sector policies. He decided to reduce his political involvement so as to maintain good relations with the local government. He will maintain a leadership role in the promotion of local economic development, which is high on the agenda of all political parties.

EXERCISE

Conduct your own STEEP Analysis, and bring out those factors that are likely to affect the operations of your business. Draw conclusions on the overall impact of the environmental factors on your business, and how to react with your business.

3.2 Assessing the industry environment: Porter's five forces model

We have examined the macro-environment and the factors that comprise it. The next step is to take a closer look at the industry you are operating to identify those factors that are relevant to your business operations. Industry analysis assists you in assessing the attractiveness of the industry you operate in. It also assists in identifying the challenges you, as an entrepreneur in your industry, face. This analysis enables you to identify approaches to strengthen your position within the industry.

Industry analysis focuses on the major players in the industry that make the industry tick. For instance, if you are operating in an industry with many companies producing similar products, this will impact on the attractiveness of the industry and the way you position your business within this industry.

The decision to grow your business in a particular industry is also dependent on whether the industry itself has the potential to grow and remain profitable. You must be aware that once an industry is attractive, it will attract more players. One of the measurements used to gauge attractiveness of an industry is the level of competition. If the level of competition is too high, then, the industry is unattractive.

Michael Porter, a professor at Harvard Business School, developed a model that attempts to describe and link those forces that determine the attractiveness of an industry. This model assists in determining the growth potential and investment opportunities. The Strategic Marketing module will also make reference to the 'Porter Model'.

The Porter Model identifies five (5) critical forces determining industry attractiveness. These forces have critical impact on the way your business operates within the industry framework. When you understand the impact of the forces, it is easier for you to develop a picture of how you can position your business to gain competitive advantage. It assists you in determining whether the margins in the industry are still competitive for you to remain in that industry. The model assists in monitoring the five forces and anticipating whether there will be any negative changes that will make the industry unattractive.

The following are the five critical forces:

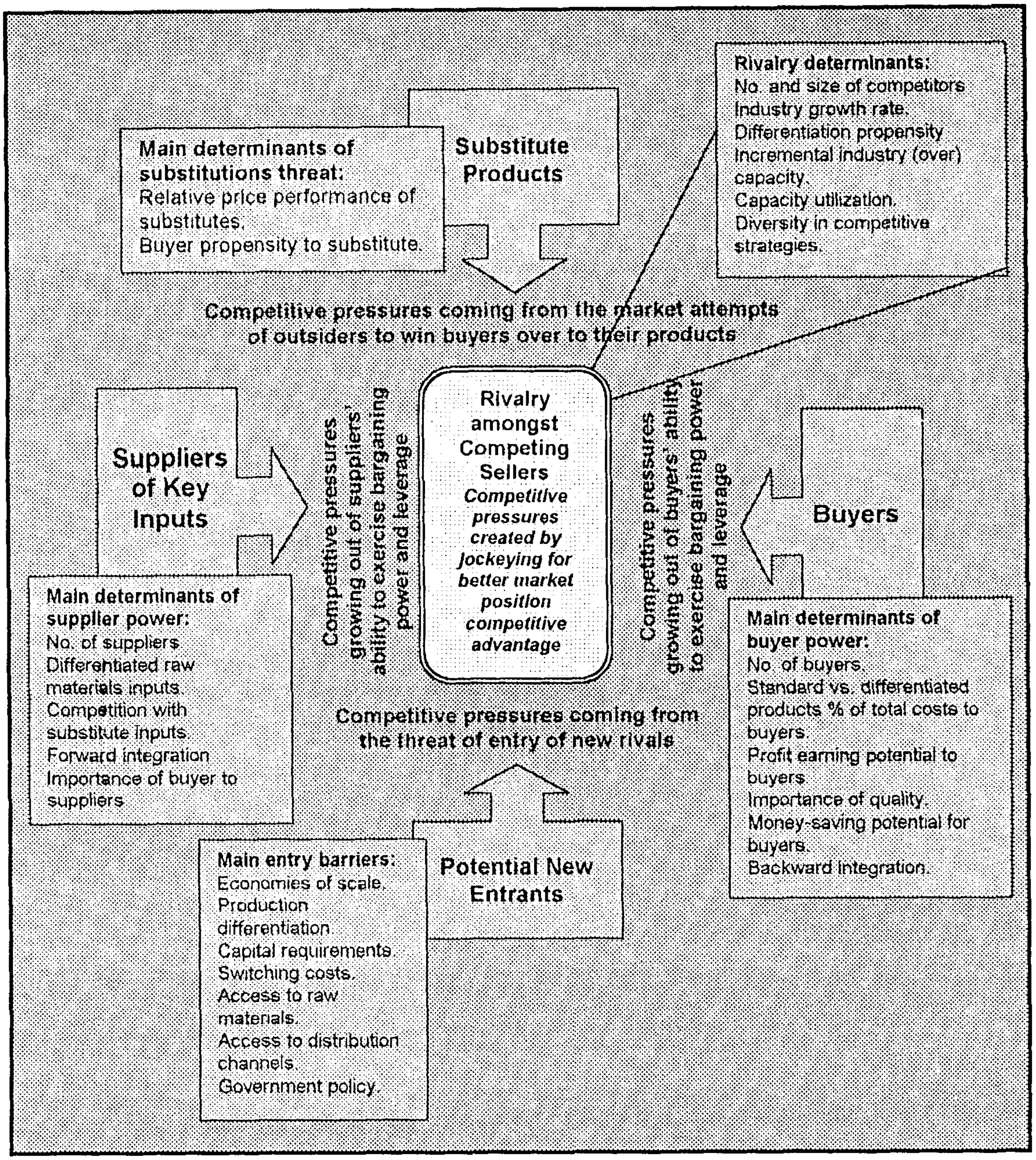
1) **New entrants:** New entrants to an industry bring new capacity and increase competition for market share. The seriousness of this threat depends on the barriers present and possible reactions from existing competitors to newcomers.

2) **Powerful suppliers:** Suppliers can exert power by raising prices or lowering quality of supply, thereby enhancing their profitability at the cost of the buyer.

3) **Powerful customers:** Customers can also force down prices or demand higher quality and play competitors of/against each other.

4) **Substitute products:** The existence or threat of substitute products could limit the price that can be charged by the industry. Charging higher prices than the ceiling will lead to consumers buying substitute products.

5) **Competitor rivalry:** competitors will fight each other for market share, using tactics like price competition, product introduction, advertising, etc. Intensity of rivalry depends, among others, on the maturity of the industry growth stage. A young industry has more growth potential and fewer competitors and is likely to be more attractive than a mature industry.

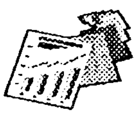


The following example should assist you in understanding the process of conducting an industry analysis using the Five Forces Model. The main steps in the analysis include:

- Source information from publications on your industry and any studies in the papers. If you are a member of an association, ask them to assist you in obtaining information on your industry.
- Make an assessment of each of the competitive forces to gauge its influence on your operations. Also, draw from your personal experience in the industry.
- Look at your company operations, your production methods, employee experience, how you conduct your sales, your leadership of the business, etc.
- Draw conclusions on how you perform within the competitive environment.

a) Detailed application of the Five Forces Model/complex format

The following is a detailed application of the Five Forces Model for HAJCO. This application includes a general industry profile. The application may look complicated, but is powerful if you understand it, and are able to apply it to your business. If you find this too complicated and too elaborate, please continue with the simpler example presented later.



CASE STUDY

Hana Juice Company (HAJCO) Ltd.

HAJCO's owners are on the verge of expanding their production. The entry of the Lebanese products on the market worried HAJCO's owners. They have decided to analyse the industry competition in the Jordanian market. They applied Porter 5 Forces Model. They believed Porter's Model might provide them with a broader view of the industry competitiveness and their position within the industry.

- *Industry definition*: HAJCO is active in the food processing industry. It produces premium quality fruit drinks and possible related fruit products to the Jordan tourism market.
- *Market size*: The current market size is estimated at one million tourists per annum in Jordan. It is estimated that fruit juice consumption of this market segment is 1.5 million litres per annum.
- *Growth rate*: the tourism market in Jordan is currently growing at 3 % yearly. The market for high quality fruit juices is expanding in Europe and the U.S. It is expected that the tourists also consume larger quantities of high quality fruit drinks.
- *Profitability*: Local mediocre fruit drinks are produced at reasonable margins. Higher quality drinks are imported. Fresh quality is not available locally and has higher margins.
- *Market structure*: On the supply side, the market is concentrated with 4 known producers of fruit juice, and imports and distribution of 2 Lebanese brands. The tourism market is supplied with imported fruit drinks. On the buying side, there are 165 hotels catering to tourists. HAJCO supplies 10% of these hotels. There are two main suppliers of food items to hotels.

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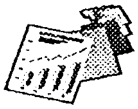

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

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- *Technological change*: Fruit juice processing operates in a fairly constant technological environment. Computer operated fully automated fruit juice plants including packaging lines exist, but in Jordan, production lines are partly module due to favourable Labour costs in comparison with overseas. Additionally, Mr. Jameel decided to take the social responsibility to assist in improving the lifestyle of the population of the Jordan Valley region by employing local workers.

Conclusion on the general industry features:

The market for fruit juices is relatively stable and offers potential for growth. There is room for small providers in niche markets such as the one HAJCO operates in.

Entry barriers:

-*Economies of scale*: Large fruit juice producers applying modern technology can operate at lower cost. However, technology for fresh juice quality is still artisan in nature, and economies of scale are limited beyond production capacity of 300,000 litres p.a.

-*Product differentiation*: The fruit juice industry produces various types of fruit juice. These types are fruit lemonade (5% fruit juice), cordial, squash, fruit drink (20-50% fruit juice), fruit juice from concentrate, and fresh fruit juice. Consumer awareness of various types is relatively low with the general public in Jordan, compared to overseas. Awareness of different qualities is high with tourists.

-*Capital requirements*: Current low cost technology applied by HAJCO Industries is labour intensive and could be copied by small businesses at affordable costs.

-*Switching costs*: existing regular fruit juice producers could switch to fresh fruit juice, but the technology applied is different.

-*Access to raw materials*: various fruits are available to large scale fruit producers. However, HAJCO is well positioned in Jordan Valley because its operations are located close to the fruit sources. Small scale fresh fruit producers would most likely need to start in Jordan Valley as well, to access high quality fruits at low prices. HAJCO dominates the current access to local larger scale fruit suppliers thereby, limiting the opportunities for new entrants locally.

-*Access to distribution channels*: HAJCO distributes directly to hotels as well as via Theqa distributors in other regions. Other producers could also use Theqa and other distributors to distribute their products to hotel and/or supermarkets.

-*Government policy*: government allows import of fruit juices, but duties apply. Foreign investment is allowed. There are no specific government regulations in place that reduce entry to the market.

Conclusions on entry barriers:

Large fruit producers could shift to fresh fruit juice production but, technology change will induce switching cost. The relative small market for fresh fruit juice may not immediately attract their attention. Small businesses could enter the same market, but HAJCO is well positioned in Jordan Valley with good access to raw materials.

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

Power of suppliers:

-No. of suppliers: There are many fruit producers in the country and in Jordan Valley which reduces their power to increase fruit prices

-Differentiated raw material inputs: Fruit supplies are standardised inputs. Suppliers are, therefore, not able to charge premium prices. Suppliers, therefore, compete among themselves for the sale of fruits. This reduces their power to increase prices. Availability does depend on weather. In seasons with poor rainfall, the supply is limited and the fruit prices raises considerably.

-Competition with other –substitute- raw material inputs: Fruits cannot be replaced with other inputs, which increase the capacity of fruit providers to charge prices to HAJCO with a reasonable profit margin to the producers.

-Forward integration: Local fruit producers could also start fresh fruit juice production. This is a risk HAJCO faces, but this risk seems limited at this stage given the low level of organization and entrepreneurship of fruit producers.

-Importance of the buyer, to the suppliers: HAJCO is an important buyer for various producers in Jordan Valley, which increases their dependency and reduces their power to increase prices. However, fruit producers could switch to supply other key fruit producers in the country.

Conclusions on power of suppliers:

HAJCO is well positioned to maintain adequate raw material supply at affordable prices in Jordan Valley. It is important to maintain good relations with main suppliers, and pay reasonable prices to maintain long-term supply of inputs.

Power of buyers:

-No. of buyers: The number of hotels is large; there are 980 hotels in Jordan catering to tourists. HAJCO supplies 10% of these hotels. There are two main suppliers of food items to hotels. Some hotels are part of larger chains, which increases their bargaining power due to large purchasing volumes. This could reduce the sales price. There are only limited distributors. Distributors can sell competing products; and therefore, have power over the sales price that HAJCO can charge. Sales to individual hotels are small. These hotels have limited bargaining power and fresh fruit juice can be sold at premium price.

-Standard vs. differentiated products: HAJCO sells a differentiated and unique product to hotels and, for this reason; hotels cannot easily switch to a competing supplier.

-Percentage of total costs for buyers: Hotels purchase many inputs. Fruit juices comprise only a small percentage of their total costs of inputs. Hotels are, therefore, unlikely to shop around for cheaper alternatives.

-Profit earning potential to buyers: Fresh fruit juices can be sold at premium prices to hotel guests. Adequate margins reduce the incentive to hotels to push the purchase price down.

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

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- *Importance of quality*: Quality of fruit juices traditionally did not have much attention to hotels, reducing the capacity to charge premium prices for a premium product. Recently, this is changing due to increasing demand by hotel guests for high quality and natural products.

-*Money-saving potential for buyers*: Buying HAJCO fresh fruit juice does not significantly reduce costs to buyers in comparison with preparing fresh fruit juice at hotels. However, it does reduce preparation time. Also, HAJCO juices can be stored, whereas fresh fruit is perishable and dependent on seasonal supply.

-*Backward integration*: There is no threat of hotels venturing into fruit juice production. Supermarkets also do not venture into fruit juice production, but there is a tendency to use supermarket home labels for products. This could, also happen to fruit juices.

Conclusion on power of buyers:

Individual hotels can be targeted for fresh juices. Their quantity and the advantages the product offers to them allow HAJCO to charge premium prices. The position of HAJCO towards hotel chains has not been explored, but is somewhat weaker. This offers opportunities for rapid expansion of sales, but at the risk of lower margins. The position of HAJCO towards distributors is weak. There are only limited distributors supplying the market; they can demand a low price for HAJCO products or switch to other (competing) brands.

Substitute products:

-Substitutes are traditional soft-drink and alcoholic beverages. The price setting for fresh fruit juice needs to take into account the prices of alternative drinks.

-Tourists are prepared to pay a premium price for fresh fruit juice, and will not easily substitute fresh juice for soft drink because of its higher prices.

- Smaller traditional hotels are not fully attuned with the concept of fresh juice, numbers continue to serve imported juices from powder, and this area is open for development.

Conclusion on substitute products:

As long as HAJCO supplies the tourism market, substitution is not a major force. In case of future sales in other markets such as supermarkets, substitutions would constitute a more serious risk.

Rivalry among competitors

-*Number and size of competitors*: On the supply side, the market is concentrated with 4 known producers of fruit juice and imports and distribution of 2 Lebanese brands. The tourism market is supplied with imported fruit drinks. The lower the number of competitors reduces competition.

-*Industry growth rate*: The tourism market in Jordan is currently growing at 3% yearly. The market for high quality fruit juices is expanding in the Gulf. It is expected that the tourists also consume larger quantities of high quality fruit drinks. The local market for fruit drinks is stable.

-*Differentiation propensity*: Fruit juices can be differentiated in quality, which reduces competition. HAJCO products are considered a premium brand.

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

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-*Incremental industry capacity*: investment in fruit juice production is incremental and does not suddenly lead to overcapacity. There is no risk for overcapacity in the market (which would lower prices and profits).

-*Capacity utilization*: Demand is regular resulting in relative high use of industry capacity. Industry capacity is, therefore, highly utilized. Existing fruit producers could use limited spare capacity for the high quality fruit juice niche market, or gain additional capacity. However, fresh fruit quality technology is different from concentrate juice technology, limiting switching opportunities for existing providers.

-*Diversity in strategies:* The strategies adopted by fruit juice producers are fairly similar and traditional. No exceptional and very competitive strategies are pursued by any of the providers to gain market share. This reduces the level of competition.

Conclusion on rivalry among competitors:

Rivalry exists among the large scale suppliers of fruit juices, but is not very intense. The number of competitors is limited. As a quality variance exists. Imports of foreign fruit juices pose a risk, particularly if HAJCO wanted to expand sales to supermarkets. So far, HAJCO is unique in the market for a market niche with limited competition only.

Overall conclusions on industry environment

HAJCO has benefited from the production of high quality, differentiated products in an industry facing growth. HAJCO's future prospects are good. HAJCO is still the best quality fruit juice producer locally and, despite the good opportunities in the market for new entrants, there are no major threats in the industry, as far as local new competitors are concerned. However, the major competitive threats that HAJCO does face would come from supermarket chain in case these start producing fruits juices or if international exporters of quality fruit juice (especially the Lebanese) decide to heavily promote their products locally. Therefore, it is important that HAJCO starts to strategically plan further expansion, as well as marketing of its products and develop their brand name before other competitors start to invest in the local market. In this way, HAJCO would face fewer challenges in attempting to enter new markets (such as supermarkets, hotel chains and perhaps even export) and would, also improve its position towards local fruit juice distributors.

b) Detailed application of Five Forces Model/ simpler format

The following is a simpler example illustrating the application of the Five Forces Model for HAJCO. The example is less powerful than the one presented before but easier to follow and apply to your business.

HAJCO: Results of the application of the Five Forces Model

New Entrants

- Two major threats: supermarket chains and international exporters (especially from The Lebanese) with both similar products and fresh juice production.
- No major threats from new local investors due to lack of entrepreneurship
- Market is still attractive due to high profit margins.

Attractive margins. There is room for more providers in the region. This is due to both the lack of entrepreneurship from local investors, and low investment from foreign producers.

Substitutes

- Only traditional soft drinks and alcoholic beverages.

The consumers of fruit juices, generally, are very conscious about their health and the quality of the products. They are less price sensitive; therefore, there are no serious threats from substitutes products on the markets targeted.

Rivalry in the industry and position of HAJCO Industries

- There are four locally known producers and two Lebanese brands distributed in the region.
- The lower number of competitors reduces competition.
- No exceptional or very competitive strategies are pursued by any of the competitors to gain market share.
- HAJCO Industries is still competitive because of low overheads, high quality products, their artisan nature and the geographic location of its operations.
- The marketing promotion techniques of all competitors are underdeveloped.

Rivalry exists among the players, but it is not very intense. Imports of foreign fruit juices pose a risk. HAJCO benefits from the high quality of its products in comparison with some of its competitors. There is potential for HAJCO's further expansion. HAJCO could possibly gain further market share in case it adopts a strategy that would promote the high quality of its product.

Suppliers

- Various suppliers of fruits available in the region, leading to continuous access to high quality, low price fruits for production.
- HAJCO dominates the current access to local larger scale fruit supplier.

The supply of fruits in the region is very competitive. Suppliers are easily available, and HAJCO has access to high quality and low prices. Therefore, the bargaining power of suppliers is currently very low.

Buyers

- HAJCO's main buyers are the local hotels, who resell the products to tourists.
- These buyers are not price sensitive. They are still able to gain high margins when reselling the products to tourists at premium prices.
- Hotel chains, however, have some bargaining power due to the large purchasing volumes.
- Reliance on only one local distributor.

Apparently, the biggest threats that HAJCO may face from its current buyers comes from the bargaining power of bigger hotel chains (who

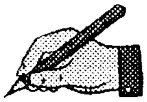
HAJCO's owners are reasonably happy with the industry they are in, and see good prospects for growth. They will continue to focus their attention on the upper end of the market.

Points to take into account when applying the five forces model:

- You may do more than one analysis using the Five Forces Model if you are in more than one industry or market. In principle, you do one analysis for each product line.
- Look at the competitive forces not in isolation, but in terms of how they interact with one another. For instance, your buyers may seek to enter the market via backward integration. Or suppliers may also seek entry via forward integration. Equally, buyers may look wider for sources of supply if competitive rivalry is low, enticing new entrants in.
- When industry changes significantly, it is, frequently, not because of one competitive force, but because of changes to two or possibly three forces combined together.

EXERCISE

Using the example given before, analyse your industry using the Five Forces Model, and draw conclusions on the impact of the forces on your business.



EXERCISE

1) During the last two years of operation, has your enterprise faced any stiff challenge from competitors? Were these new or old competitors? List the competitors indicating new/old competitor, and areas in which they posed challenges to your business.

Name of competitor	Old/New	Area of competition

2) What steps did you take to protect your market position, and were you successful?

3.3 Key Industry Success Factors

After carrying out the external and internal business environmental analysis, it becomes possible to identify the so called 'Key Industry Success Factors'.

Success factors are those factors that drive the industry. These are essential features within an industry for success. Key Industry Success Factors are basically the activities or competencies that any viable competitor should be good at. If a company knows the key success factors of the industry, it can, then evaluate to what extent its activities match some of these features to compete with within this industry. Nurturing and/or developing capabilities in some of the key success factors will make it possible for the business to compete and expand.

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

HAJCO's owners conducted the STEEP Analysis and Porter's Industry Analysis. They summarized the main outcomes of both these analyses. They summarized what they see as the most important aspects that affect business operations, and left the others out. The outcomes of those summaries are listed below.

HAJCO's owners, then critically looked at the summaries of the STEEP and Porter analyses, and used those to try to identify what they see as the critical factors in the food processing industry for success. HAJCO's Key Success Factors (KSFs) were identified as shown below.

HAJCO:
Porter's Industry Analysis

- Possibility of expansion for providers of high quality products' in the region.
- Attractive margins
- Reliable, stable and cheap raw material supply
- Access to distribution channels
- Product quality
- Stable local market supply

HAJCO:
STEEP Analysis

- Limited business culture, and low educational standards
- High investment costs
- Economic slowdown
- High interest rates
- High inflation rate
- New technology for manufacturing
- Government regulations on food processing and fruit production
- Nationalistic policies

HAJCO:
Key Success Factors for the Food Processing Industry

- High quality products
- Modern technology
- Efficient and reliable access to raw materials
- Efficient distribution channels
- Effective cost controls
- Adoption of government policies on food processing

EXERCISE

Identify the Key Success Factors in your industry.

The identification of the Industry Key Success Factors will be used in the next sections to assess the main strengths of your company.

3.4 Matching external and internal environment: SWOT analysis

> ***SWOT Analysis:*** Is an acronym for a company's:
> - Strengths
> - Weaknesses
> - Opportunities
> - Threats

The ***SWOT Analysis*** is an important tool that links the external analysis (STEEP and Porter's five forces Model) with the internal capabilities of your business. SWOT analysis assists in identifying what the company is doing right or wrong what it can do well , what it can't while laying that against the external environment. It forces management to make a candid list of internal strengths and weaknesses as well as a compilation of external opportunities and threats. These pave the way for strategy creation. This analysis will assist the business to take advantage of opportunities identified in the external environmental analysis, to position the business strategically in the market, and to avoid threats. It will also allow the business to capitalize on it strong areas and identify those areas that require further development.

Strength is something that an enterprise/company is good at doing or, a characteristic that gives it an important capability that others may not have. Strength can be a skill, important expertise, a valuable organizational resource, patents, connections. Strengths should be those internal factors that matter in the competitive business environment! Strengths that do not ultimately help the business to compete in the market are not very relevant strengths. For example, being able to attract and recruit qualified employees is not an important strength if the labour market supply is such that there is ample supply of qualified Labour.

> ***Strength*** is something a company is good at doing or a characteristic that gives it an important capability.

A ***Weakness*** is something a company lacks or does poorly (in comparison to others), or a condition that puts it at a disadvantage. A weakness is an internal deficiency that creates a competitive vulnerability in the business environment. A weakness that does not create vulnerability is not so important. For example, Difficulties in attracting job applicants does not cause vulnerability if unemployment of skilled labour is very high.

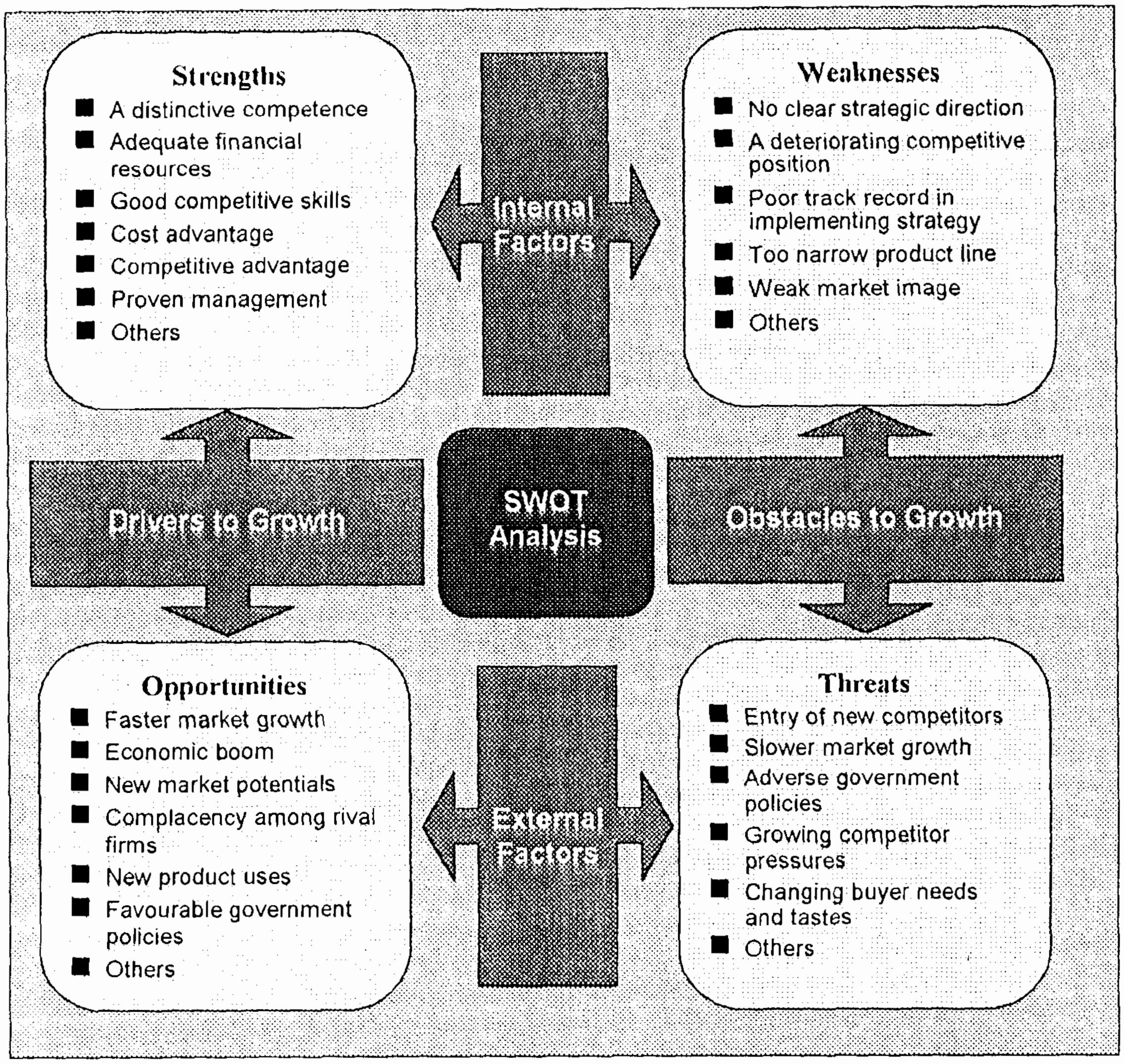
> ***Weakness*** is something a company lacks, or does poorly in comparison to others, or a condition that puts it at a disadvantage.

Opportunities include any favourable current or prospective situation in the organization's external environment, such as a trend, a change or overlooked need that supports the demand for a product or service and permits the organization to enhance its competitive position. They could be available to others as well. To be an opportunity to be considered as part of a SWOT analysis it should be an opportunity that is available to the company. For example, access to a new cost-reducing production technology could be an opportunity only if it is affordable to the company. Opportunities usually involve a level of risk-taking. The new technology for example, is not proven in the market yet. Other examples of opportunities could be new product development with high sales and profit potential (but at a risk of succeeding), national distribution expansion (but at a cost).

> ***Opportunity*** is something in the external environment of the company and beyond its control and can have a positive effect on the company if invested by using the strengths of the company.

Threats include any unfavourable situation, trend or impending changes in an organization's external environment that is currently / potentially damaging or even threatening its ability to compete. It may be a barrier, constraint, anything that might inflict problems, damages, harm, financial losses, or injury to the organization. Threats could, for example, be entry of new competitors, obsolete technology, upcoming strict government regulations on safe production, changing consumer habits away from the business products, etc.

> ***Threat*** is something in the external environment of the company and beyond its control, and can have a negative effect on the company, if not avoided or dealt with properly by the company.



The SWOT Analysis will contribute to the growth of your business in the following way:

- It brings out the big picture from the external and internal analysis, thus making it possible to develop appropriate strategies for sustainable growth.
- It reduces, to a reasonable degree, risks in the strategies that will be identified and implemented in the achievement of objectives.
- It allows you to revisit your long-term objectives, and add those aspects not originally captured in the initial objective-setting process.
- It creates greater confidence in your ability, as head of the business, to map out the overall direction that your business should take.

Steps in the SWOT analysis are as follows:

i) Identify an exhaustive list of internal strengths and weaknesses, and list them in two page-long columns.

ii) Rank the strengths and weaknesses; focus on the top four of each that you consider to have a significant impact on your business. Remember, they are only significant if they impact on your ability to compete in the market.

iii) Identify a list of all opportunities and threats, and list them in two columns.

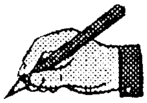
iv) Rank the opportunities and threats; focus on the top four of each that you consider to have a significant impact on your business. Remember, opportunities and threats are only significant in their ability to affect your competitive strength.

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Results of SWOT Analysis

Strengths	**Weaknesses**
• Only local provider of fresh quality fruit juices • Traditional artisan production concept • Easy access to high quality raw material • High product quality, and good brand image with existing users	• Reliance on one product line (fruit juices) • Low skills in marketing and sales, mediocre management and HRM systems • Absence of quality control mechanisms • Current artisan technology labour intensive and outdated for larger scale production
Opportunities	**Threats**
• Receptive and growing market for fresh fruit juice, both existing segment (tourists) and other segments • Potential for new fruit products in local market • Potential for new export product (dried fruits) for exports to Europe • New technology for fresh fruit production available overseas	• Over-reliance on one distributor / poor distribution system • Imports from Lebanese and possible fresh fruit production by existing large fruit juice corporations • Potential small local fresh fruit producers • Quality control regulations imposed by government

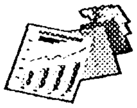


EXERCISE

Use the diagram below to fill in your identified strengths, weaknesses, opportunities and threats. Start with a long(er) list for each, and then bring it down to four aspects for each column. Select the main four SWOTs on the basis of impact in terms of competitive strength of your business in the market in relation to competitors

Internal Strengths	Internal Weaknesses
1.	1.
2.	2.
3.	3.
4.	4.
External Opportunities	**External Threats**
1.	1.
2.	2.
3.	3.
4.	4.

Comments(areas which need definition etc)



CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Example of Possible Strategies from SWOT Analysis

Following the identification of strengths, weaknesses, opportunities and threats, Mr. Jameel and Mrs. Hind, then proceeded to match their strengths and weaknesses to opportunities and threats to come up with indications of strategies. The process was as follows:

1. Establish relationships between strengths and each opportunity. Where there was a strong relationship, a strategy was formulated to take advantage of the opportunity.
2. Establish relationships between weaknesses and each opportunity. Where there was a strong negative relationship, strategies would be formulated to overcome weaknesses to take advantage of the opportunity.
3. Establish relationships, between strengths and threats. Where there was strong relationship, strategies would be developed to minimise threats by building on strengths.
4. Establish relationships between weaknesses and threats. Where there is a strong relationship, develop strategies to avoid threats and overcome weaknesses.

The results from this process are given in the next table.

Internal / External	**Strengths** • Only local provider of fresh quality fruit juices • Traditional artisan production concept • Easy access to high quality raw material • High product quality, and good brand image with existing users	**Weaknesses** • Current artisan technology labour intensive, and outdated for larger scale production • Reliance on one product line (fruit juices) • Low skills in marketing and sales mediocre management and HRM systems • Absence of quality control mechanisms
Opportunities • Receptive and growing market for fresh fruit juice, both existing segment (tourists) and other segments	**Possible strategies** • Market expansion of fresh fruit juices before competition arrives • New product development building on artisan production technology and brand image	**Possible strategies** • Increase number of distributors, and strengthen marketing and sales function • Introduce quality control concepts within current and new technologies

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

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• Potential for new fruit products in local market • Potential for new export product (dried fruits) for exports to Europe and the Gulf • New technology for fresh fruit production available overseas	• Capacity expansion (new technology) to cater for future growth of the business • Expand connections through contracts with fruit suppliers	• Develop management and HRM systems for improved productivity
Threats	**Possible strategies**	**Possible strategies**
• Imports from Lebanese and possible fresh fruit production by existing large fruit juice corporations • Potential small local fresh fruit producers • Quality control regulations imposed by government • Over-reliance on one distributor / poor distribution system	• Develop strategic links with distributors to deter competitive distribution • Develop artisan production technology through technical co-operation with local large scale producers of regular juices • Build on capacity to achieve larger volumes resulting in a competitive pricing strategy • Maintain high product quality and build on brand image	• Build forward and backward linkages with fruit producers and distributors to prevent entry by fruit producers and foreign exporters • Build quality control systems according to government rules • Develop very efficient and effective marketing strategies in order to gain market share by promoting its products and establishing its brand name.

EXERCISE

Using the steps outlined in the given example, please match your own strengths and weaknesses to opportunities and threats, and formulate possible strategy indicators. Do this exercise using the diagram provided below.

Internal / External	Strengths	Weaknesses
	• • • •	• • • •
Opportunities • • • •	**Possible strategies** • • • •	**Possible strategies** • • • •
Threats • • • •	**Possible strategies** • • • •	**Possible strategies** • • • •

3.5 Core Competencies and Strategic Competitive Advantage

The exercises and the examples given in analysing the external and internal environment are meant to assist you in identifying and taking advantage of your core competencies to expand your business operations.

> ***Core competency*** is an activity that a company does especially well in comparison to other internal activities

A *core competence* is an activity that a company does especially well in comparison to other internal activities. It becomes a **distinctive competence** if the company does it well in comparison to competitors.

You should exploit the distinctive competencies to achieve maximum advantage in the market.

What types of competencies can a business develop to gain market share and grow?

Core competencies are in people not in assets in the balance sheet. This means that you should invest in your employees in order to develop distinctive competencies.

Below is a list of competencies.

- Production based competencies
  - Cost-effective procurement of raw materials. This is when you can effectively negotiate with suppliers to achieve competitive prices.
  - Production expertise
  - Quality production
  - State of the art of equipment

- Marketing based competencies
  - Experienced marketing personnel
  - Competitive pricing
  - Competitive marketing channels

- Financial management
  - Personalized relationships with bankers
  - Excellent cash flow management

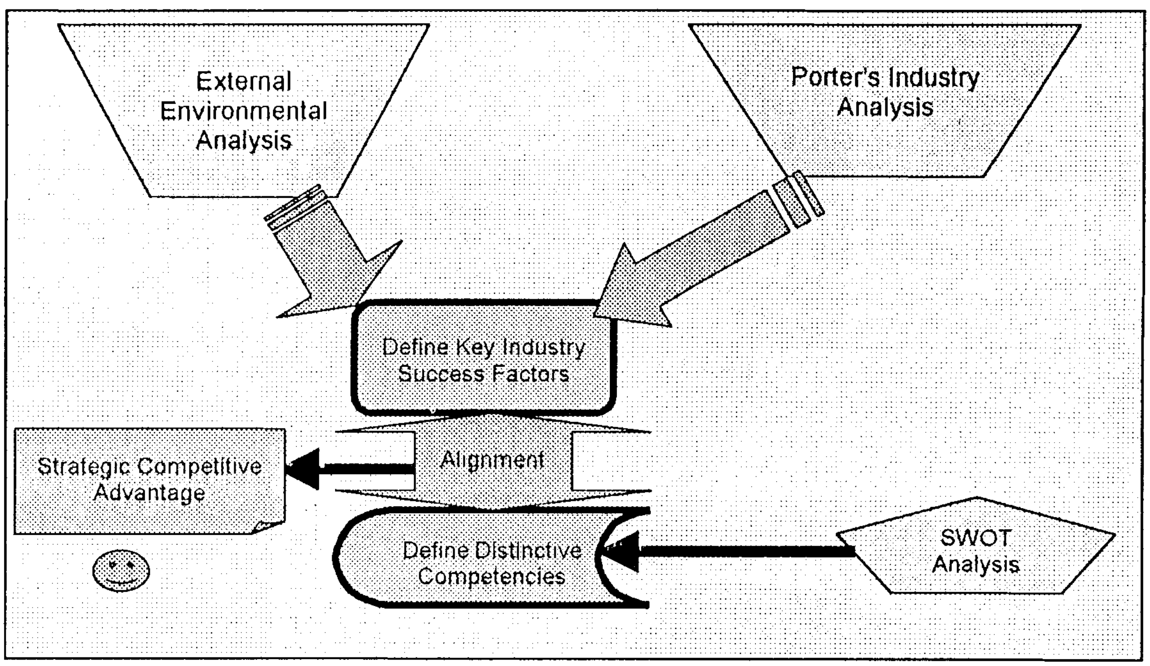
- Human Resources Management Competencies
  - Good performance management system in place
  - Competitive compensation packages
  - Excellent motivation and communication schemes

Organizations can build on their strengths, and come up with competencies that can anchor the organization in terms of its performance.

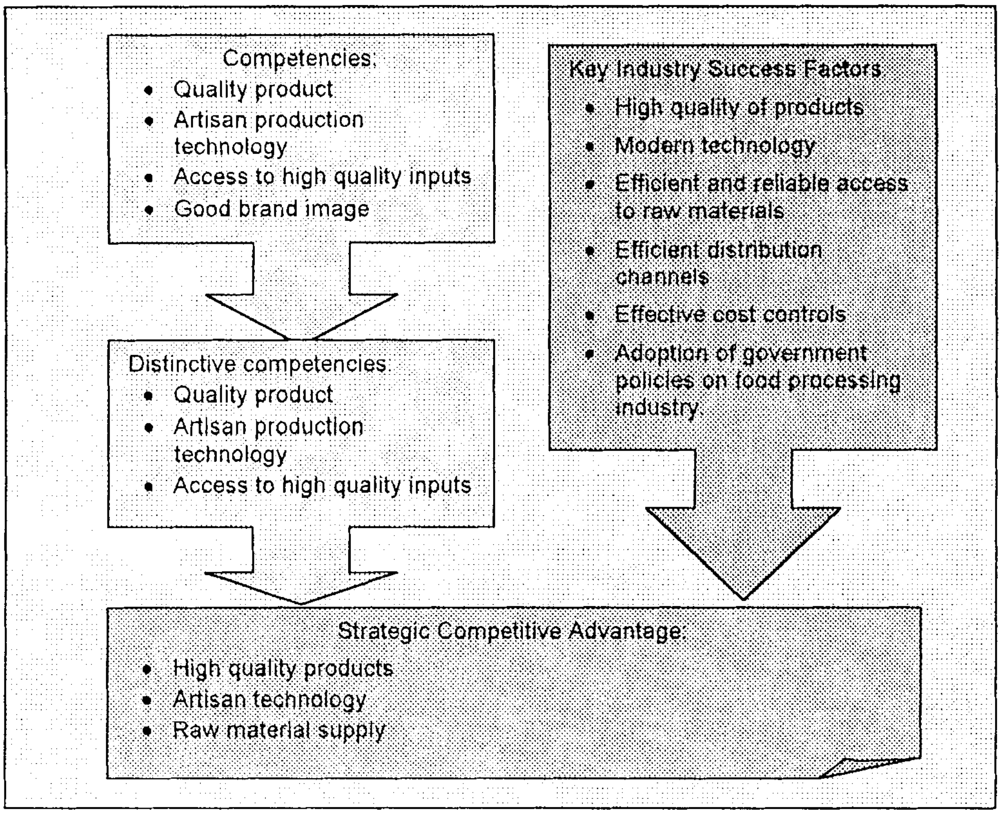
The importance of distinctive competencies to strategy making rests with:

- The added capability it gives a company in going after a particular market opportunity;
- The competitive edge it can yield in the market place;
- It's potential for being a cornerstone of strategy.

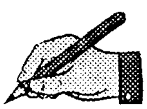
There is a link between SWOT Analysis and the identification of core competencies of your business. Let us go back to the HAJCO's SWOT Analysis, and focus on their strengths. HAJCO's owners after the SWOT Analysis seriously considered those elements of their strengths that could be the basis for core competencies. With added knowledge of the industry in their region, they were able to conclude what are the distinctive competencies in their business. Their distinctive competencies will then be aligned with the Key Industry Success Factors in order to form the basis for HAJCO's strategic competitive advantage. (Please refer to the diagrammatic presentation below to see how HAJCO's owners worked through).



From the process illustrated, HAJCO's owners identified their competencies as follows:



If competitors find it difficult to replicate your distinctive competencies, it then provides you with a sustainable competitive advantage that is critical for the growth of your business. It is important to note that the key to develop core competencies is your people and not your assets. What this means is that, you should invest in your employees in order to develop distinctive competencies. Also, note that to have only core competencies that do not match with key success factors is quite disastrous to your business, as your business, then does not have any competitive edge to expand business operations. Those with distinctive competencies will call the shots in the industry.



EXERCISE

Using the process mentioned, work through from your strengths identified in the SWOT Analysis, and assess whether your business has a strategic competitive advantage.

4. Chapter Summary

This chapter explains and applies the main techniques and concepts of strategic environmental analysis. Environmental analysis is the process of assessing the business environment, both externally and internally. This analysis allows the business to match its strengths with the opportunities in the market. The ultimate aim of environmental analysis is to identify competitive advantage for the business. Strategic environmental analysis provides the core input for the business strategy, and is, therefore, essential for business expansion.

Strategic environmental analysis consists of the following steps:

1) Assessing the macro-environment (STEEP analysis),
2) Assessing the industry (or industries) in which your business operates in. (Five Forces Model),
3) Identifying Industry Key Success Factors,
4) Matching external and internal environment (SWOT analysis),
5) Identifying core competencies, and
6) Identifying strategic competitive advantage.

5. Make an action plan for analysing your business environment

Complete the Action Plan shown on the next page. The Action Plan is useful when you prepare your strategic growth plan where you can have a master action plan for all aspects of your strategic management.

You can find the forms for preparing your Action Plan in the Strategic Growth Plan.

ACTION PLAN

OBJECTIVE (What to achieve?)	ACTIVITIES (What should be done?)	TIME FRAME (When it should be done?)		RESPONSIBILITY (Who should do it?)	RESOURCES (How it should be done?)	COMPLETED
		START	END			
						❑
						❑
						❑
						❑
						❑
						❑

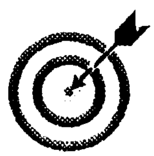
Chapter 3

ESTABLISH YOUR STRATEGIC DIRECTION

Chapter 2 looked at the macro and micro environments that influence the operations of your business. It emphasized the need for you to understand the environment that you operate within, in order to develop appropriate and effective strategic business objectives. The macro and micro environment analysis gives you an important background to think ahead about your operations in the future.

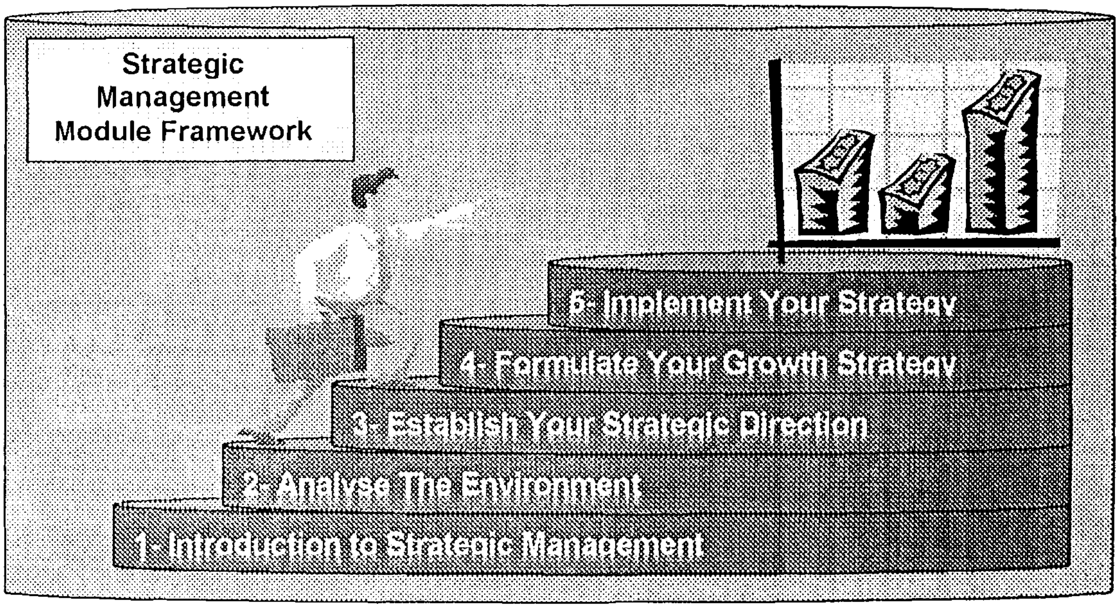
In this chapter, four important steps of the strategic planning process are discussed: vision, mission, goals and objectives. We will introduce practical tools to guide you to describe what business you are in, and how you see the business developing over time. Describing the current position of the business is important as a starting point for developing strategies.

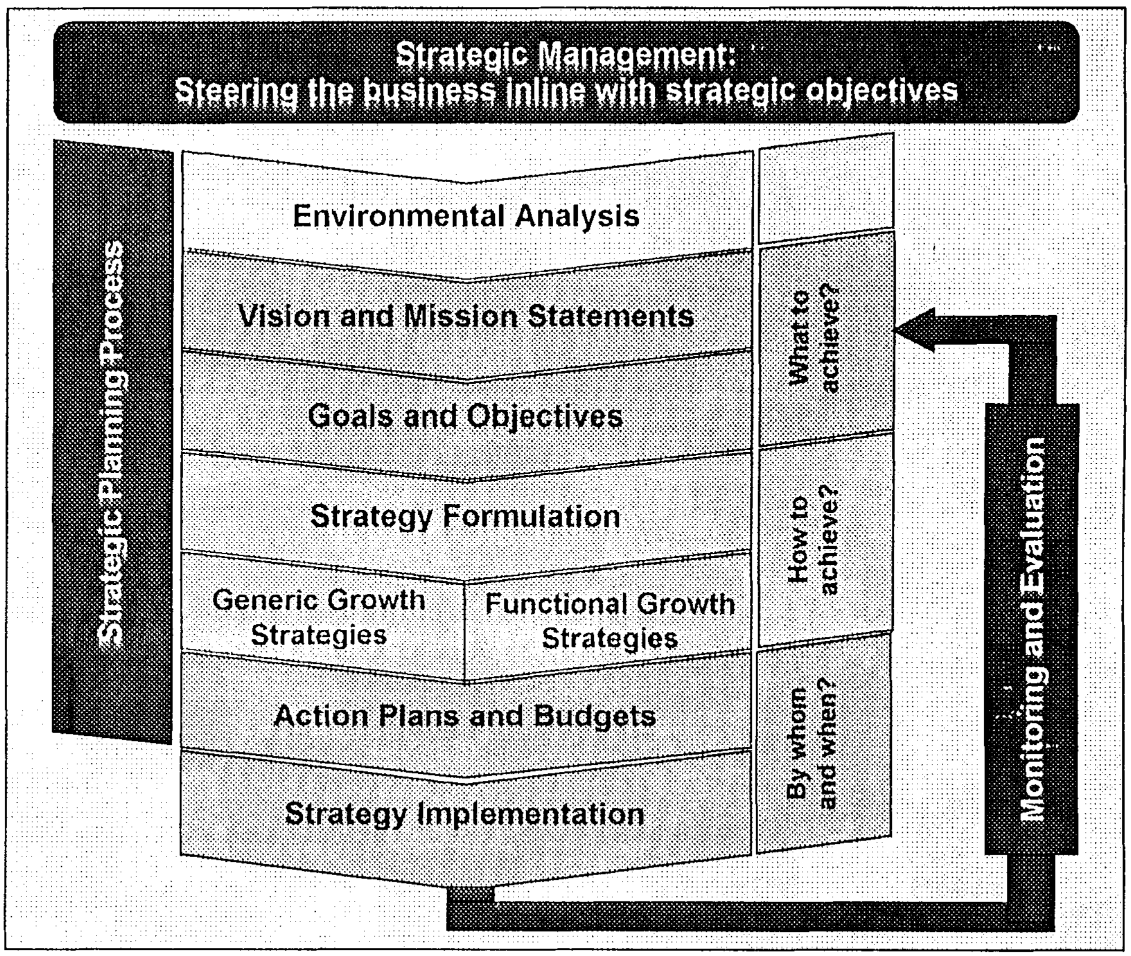
What you will learn in this chapter ...



After studying this chapter, and completing the exercises in it, and with the guidance of your business trainer, you should be able to:

- **Define vision, mission goals and objective.**
- **Develop your vision, mission, goals and objective.**
- **Set long-term and short-term objectives.**
- **Set SMART Objectives.**


Strategic Management Module Framework
5- Implement Your Strategy
4- Formulate Your Growth Strategy
3- Establish Your Strategic Direction
2- Analyse The Environment
1- Introduction to Strategic Management


Strategic Management:
Steering the business inline with strategic objectives
Strategic Planning Process
Environmental Analysis
Vision and Mission Statements
Goals and Objectives
Strategy Formulation
Generic Growth Strategies
Functional Growth Strategies
Action Plans and Budgets
Strategy Implementation
What to achieve?
How to achieve?
By whom and when?
Monitoring and Evaluation

1. What are vision, mission, goals and objectives?

A *vision* and mission try to describe what the organization does, and how it sees its role and position within society. These form the basis for establishing the longer term goals of the business. Objectives are a translation of these general goals into more specific and measurable objectives.

> *Vision:* is a term that encapsulates the organization's values and aspirations in the most general terms without specific statements about the strategies used to attain them.

A **vision** provides a longer term and more general idea of the business. The vision can be described as your ultimate goal, your ideal status for the business. It is a state of being, and provides the basis for setting your mission.

A vision:

- Provides a picture of the enterprise in 5, 10 or 15 years with an idea of the position of the enterprise in the industry as perceived by its environment (customers, suppliers, share holders, society)
- Provides a focus for longer term organizational goals
- Cannot be realized in the short term, but is sufficiently provocative to be achievable and measurable challenge
- Assists to create commitment of individuals in the business
- Assists to the business to create a better image in the society

A *mission* broadly outlines what business you are in, specifies the organization's future direction, and how you will satisfy the needs of your customer. It specifies activities to pursue and the course management will engage in for the future. The mission provides the basis for the business goals in the mid-term future.

> *Mission:* is a statement broadly outlines what business you are in, specifies the organization's future direction, and how you will satisfy the needs of the customer.

A mission:

- Is result oriented and gives direction
- Is both concrete and visionary
- Defines the main activity of the business (the needs, wants of the customer, customer segments, denotes which technology is applied)
- States the future position of the company in the industry
- States the business' values and philosophy

The difference between the vision and mission is that the mission is relatively short term oriented and more concrete, whereas the vision is longer term and inspirational in nature.

There are businesses that have both a vision and a mission, while other businesses combine the two.

Goals are defined as open-ended statements of planned accomplishments. Goals are directly derived from the mission of the company.

Objectives are specific performance targets or results to be achieved within a certain time frame. Objectives convert the goals into targeted results. Objectives can be both longer term (approx. 3-4 years) and shorter term (1-2 years) in nature.

Objectives:

- Are measurable statements either giving general guidance or direction to the business or business function for the outcome to be realized
- Are result oriented expressions describing a longer term situation
- Need to be linked to the mission, being consistent with other objectives (internal consistency requirement)

Important

Goals and objectives are often confused. Objectives are the specified desired end result of a more open ended goal. Objectives are measurable, goals are not. The following examples provides statements of a goal and an objective to assist you differentiate both definitions:

Goal: 'to ensure adequate employee welfare through adequate salaries and safety and health at the workplace'.

Objective: 'to achieve return on equity at 20% or above and real earning growth averaging 5% or better annually'.

2. How vision, mission, goals and objectives will help expand your business

Nobody outside the business requires you to prepare a vision and mission. Preparing them can be tedious. So why would one engage in doing this?

Vision and mission provide the indications of the attitude, outlook and orientation of the business. They are important for a variety of reasons:

- They crystallize top management's own views about the firm's long-term direction and make up
- They help to keep the direction, and to maintain related actions of lower level managers on the right path
- They convey an organizational purpose, and identity what motivates employees to do their best
- They help an organization to prepare for the future
- Filters into the customer base' a business with a visionary purpose'

Most importantly, the vision and mission provide the basis for general goals, which can then be translated into measurable objectives.

Longer term goals and objectives are important to ensure achieving sustained growth and profitability. Without longer term goals and objectives, the business may adopt a short term, day-to-day approach to business, thus only reaping the benefits as they come without investing in the most appropriate longer term opportunities.

An often repeated adage says that, "if impoverished people are given food, they will eat it and remain impoverished; however, if they are given seeds and tools and shown how to grow crops, they will be able to improve their conditions permanently".

The same choice applies to the business:

1. Should it eat the profits gained and cut costs where possible by paying lowest wages, lay off people in times of lower product demand, and exclude investments in Research &Development?
2. Or should the business sow the seeds in an effort to reap long-term rewards by reinvesting profits in growth opportunities, committing resources to employee training, and build the value of the business?

While in reality, businesses often practice 'strategy' above (option one), a growth orientation demands to pursue the second option. Measurable objectives will, and then help as a starting point to devise the strategy accordingly. Without objectives, the business will not be able to strategize and follow option two. It will by default only be able to follow option one.

3. How to assess your current business and ideas for the future

This section will assist you in developing your vision, mission and longer term goals and objectives.

3.1 Develop a vision

A vision is like a dream. It is a rather soft and seemingly a non-managerial tool. This may discomfort both the visionary and those vision impacts on. Yet, it is an important starting point in strategic development. You, the entrepreneur, may have a dream of what you see this business to be, and to achieve in the longer term, and the reason of its existence. This dream guides you in your business operations. It is this dream that will give the entrepreneur the drive and energy to bring the business towards what he or she probably had intended it to be from the outset. The vision provides the organization with a forward looking, idealized image of itself and its uniqueness. The vision becomes, then the view of how things can be. As an entrepreneur, instead of keeping this dream for you, it is important that this dream is expressed in writing. By explicitly formulating the vision, it gives the members of the business a sense of pride and purpose that instils a spirit of uniqueness, and a higher level of motivation that allows the business to function at a higher level than was previously thought possible. Staff will have the feeling that they are part of something important, that they are part of a place where things are happening.

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Example 1

Mr. Jameel needed to start his own business as he had retired from his earlier job, and job opportunities were scarce where he lived. His pension was not sufficient to maintain the family without further work. He had always appreciated the home-made fruit juice made by his wife. Since he was in need for a job, he thought that others might also appreciate these juices, so that, he could perhaps make some extra money by selling his wife's fruit juice. Fruits were abundant where he lived. Mr. Jameel and his wife formed a winning partnership. With his career background, he was able to get this business off the ground. Since the product was good, the message spread around and the business grew. HAJCO's owners were increasingly experiencing operational problems with their staff (low motivation, stealing, high staff turnover). They were lucky to have a good network, leading to new business opportunities in the market. They were not sure what steps to take next and took the opportunities as they came along. They designed new products, and went into new markets. Some of these failed, particularly since the business was not capable of meeting customer expectations.

Example 2

Mr. Jameel had always wanted to run his own business. His study and career gave him the required background to do so successfully. He preferred to do so from the rural area where he had always been living. He also felt that by starting a business in his home town the problem of absence of employment opportunities could be reduced. He had a warm, heart for the people in his town and regretted there were so limited economic opportunities. He always looked around for opportunities in the market, and knew that his town had an abundance of fresh fruits without any commercial exploitation beyond the local market. He loved food processing and had always been involved in preparing home made processed fruit products such as fruit juice and other products. He had some savings from the earlier job, and now finally saw his opportunity to realize his dream. With his limited resources, he knew he had to start from home. Given the quality and entrepreneurship of Mr. Jameel, the business started to expand fast. He was really excited about becoming the main employer in town, thereby helping people to make a living, and using the natural resources in town to prepare and sell his beloved products throughout the country. He had the staff participating in the growth process, and paid them adequate salaries, which contributed to the high motivation and achievements.

Mr. Jameel.in example, 1 does not have a real vision for his business. He started the business out of need for income, and without an idea of what he wants the business to be. This is not a good start for business expansion. In example 2 Mr. Jameel has a clear dream of what he wants to achieve. That is why he started his business in the first place. He has always wanted to do this! The starting point for a growth strategy is much stronger.

A vision has a clear link to leadership. By having the vision clearly outlined, the entrepreneur has the chance to instil leadership on the business. The leader of the business can share his dream with the business, and if it is a convincing dream, which the staff believe in, they will become followers and expediters for this dream to become reality.

Having dreams and a sense of purpose is important to all individuals. Having a dream and believing that it can be realized provides the basis for self-confidence. This self-confidence will then provide the ability and willingness to mobilize the energy required to realize the vision.

Many companies only prepare a mission. Not preparing a vision is a missed opportunity to share the dream, create leadership and the commitment to achieve more. Most companies that assumed global leadership during the last 30 years were those with longer term ambitions that were out of all proportion to their resources and capabilities.[1]

EXAMPLE

Realizing a dream: Example from Apple Computers

Apple computers started the business basically in the back of a house. The inceptors were of the opinion that the user-friendliness of computers at that time was low. All applications at that time were still DOS-based. They had a vision of easy-to-use computers through a 'what you see is what you get' application with an on-screen mouse whereby users could easily start and modify files and applications. Today that is what we all use on our computers. Apple computers realized this superior technology and, as a result, a fast market growth world-wide. The mainstream computer software companies such as Microsoft, losing market share, then had to copy the design and to apply it onto the DOS-operated systems.

The vision could include:

- What business the organization is in (products, markets or technologies)
- How things can be done better
- How it will go about the business as an organization
- What the organization's 'reason d'être' is
- A state of being for the business in the longer run

[1] *Hamel and Prahalad, 1989*

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Example 3: the vision

HAJCO's owners realised that in order to achieve their ambitious dreams, they needed the full support and commitment from their staff. They, therefore, sat down one evening and embarked on formulating the vision for the business:

"HAJCO's vision is to take the lead in the development of the fruit processing industry in Jordan Valley. This should lead to the establishment of a thriving business in this area, initially for HAJCO but later also, for others in the same and related industries. The aim is to create interesting and gainful employment and livelihoods for HAJCO's owners and many others in town, by making use of the abundance in natural resources in the region.

The distinctive competency for HAJCO is the combination of the use of superior quality fruits, and the distinctive home made production concept, as known in the region, applied in an industrial setting, thereby promoting the region's products throughout and beyond the country's borders.

The fruit products prepared by HAJCO will contain 100% pure fruits without any chemical agents, and will resemble the taste of the original fruit. HAJCO will supply to consumers in and outside of the country with a preference for high quality natural fruit products.

Workers and the local community will be proud of the local delicacy and will be the main promoters of the product within and outside the region, especially through word of mouth. Staff will identify themselves with the products, and be given the opportunity to develop their skills to facilitate taking responsibility for the continued improvement of the products. Creativity by staff in product development, technology and marketing and other ways of promoting the growth of the business will be rewarded. Staff being the main asset of the business, for this vision to become reality.

HAJCO will be a leading company in Jordan Valley in 10 years from now in fruit processing, and will be a main provider of quality employment in town.

Since the creation of a vision is a creative act, there is no standardized framework on how to prepare a vision. Generally, the leader would design a vision through solitary introspection, as the business is his creation and his dream. It can, also occur through interaction between a group of leaders, or through interaction between a leader and the followers. The vision can emerge suddenly and holistically, or slowly and incrementally through interaction with others. It can be fixed or shift over time, but is always future oriented, involves a high degree of success and ambition, is relatively stable and is inspirational. The vision involves the audience through dynamic interaction during or after it has been prepared to create ownership and excitement.

Finally, the design of the vision is based on a **proactive strategic planning** approach that is based on the assumption that you are not just reacting to your environment, but believe that you can influence and determine your own future.

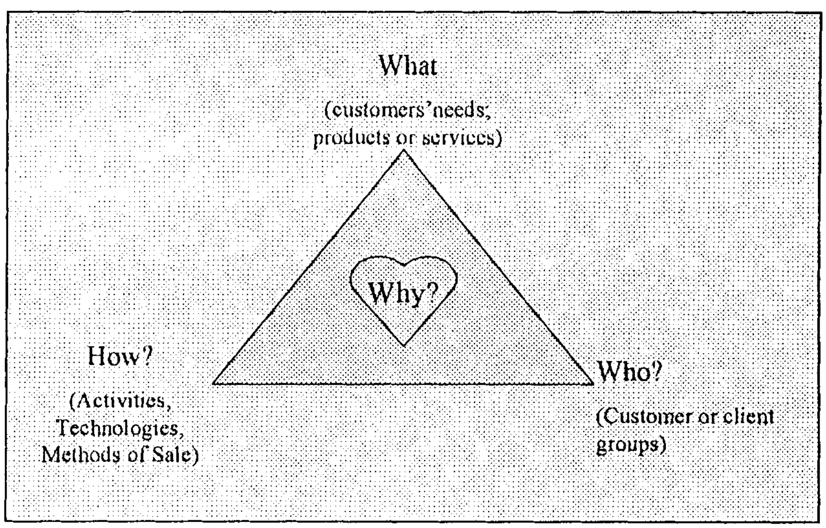
Taking into account your own ideas and preferred approach to the design of your vision, it is now time to formulate the vision for your growth oriented business.

EXERCISE

Prepare your vision:

3.2 Develop a mission

The mission has a time-span of a few (3-5) years. It is result oriented, and gives direction. The mission tries to answer four primary questions:



- What function(s) does the business perform?
- For whom does the business perform this function?
- How does the business go about filling this function?
- Why does the business exist? The' why' is drawn with a heart to indicate that it is important that the business owner has a strong motivation for doing his business. The entrepreneurs should be able to answer the question 'why' with passion

These main questions can also be listed in a somewhat longer, but more complete list of what the mission should preferably contain:

- The business you are in
- What needs you try to satisfy
- Which customer group you are targeting
- Which technology you will use
- Which functions you will perform to serve the target market
- The company's policy / philosophy
- What the future position of the business is expected to be

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

HAJCO's Mission

HAJCO produces high quality fruit products, in particular Fruit juices. Fruit juices are known to contain a guaranteed 100 percent extract of pure fresh fruits without any additions.

Traditional well-known Jordan Valley home made technology is applied to produce fruit products tasting as if just picked from the tree. Attractive packaging and natural preservation without any additions complete the quality of the product.

The products are affordable, and sold to middle and upper class families demanding a high quality and natural fruit experience. Products are sold through higher end hotels, but may be sold through supermarkets and other distribution channels in the coming periods.

HAJCO will be known as the manufacturer of finest fruit products in the country within the next three years. HAJCO will, within that time span, be introducing at least one new product line, and expanding its markets locally and beyond the borders. HAJCO will achieve this position through highly motivated employees and capable employees from Jordan Valley region and only with high ' employees' morale'.

EXERCISE

Does the above HAJCO'S mission cover the various questions posed above?

Now prepare your own mission. In preparing your mission, remember that the mission should not be too long, and should have clear contents and direction.

EXERCISE

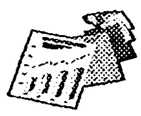
Develop your mission

Once the mission has been developed, it also needs to be effectively used in the business. Here are some often made mistakes with missions:

- The mission exists, but is not available or known by the employees
- There is inconsistence between mission and behaviour:
    - mission is known, but management acts in a contradictory way the mission
    - The mission is known, but staff behavior that contradicts with the mission is allowed by management.

These behaviours indicated will jeopardize the impact and use of the mission in strategizing achieving your growth goals.

In order to ensure that everyone is aware of and regularly reminded of the mission of the company, some companies also prepare a 'mission statement'. A mission statement is a short version of the mission which is communicated to all stakeholders of the company, such as employees, customers and others. Usually, the mission statement is printed on the wall, in the production area, in meeting rooms etc. This is to remind everyone of what the business is and tries to do.



CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Example 4: the Mission Statement

HAJCO's owners developed HAJCO's mission statement on the basis of the mission, as follows:

"HAJCO produces first class fruit products as fresh and pure as nature itself, to all those with a taste for quality and a commitment to a healthy life. Artisanal production technology by highly qualified employees from the Jordan Valley region ensures fruit products to taste as if freshly made. By listening carefully to customers, and always satisfying their needs to the maximum, shall HAJCO be known nationally and internationally?"

You may wish to develop a mission statement for your own company and depict it in places where stakeholders, in particular employees and clients, can easily see it. Do ensure that you practice what you preach, otherwise your business will develop a bad image, and your employees and customers will not take the business seriously any longer.

3.3 Develop goals and objectives (long term, short term, quantitative, qualitative)

This section will assist you in preparing your longer term goals and your objectives. You may recall that objectives are specific performance targets, or results to be achieved within a certain time frame.

In order achieve measurable objectives; you first need to define more broadly your goals. These goals are derived from the mission.

Once you have defined your goals, you can then continue with defining your longer and functional/shorter term objectives. The long term objectives are targets or expected results, to be achieved over a long period of time. Subsequently, the anticipated long term result identification will allow you to determine the more specific functional/short terms results or objectives.

> **Setting objectives converts the mission into targeted results and performance indicators.**
>
> **"You cannot manage what you cannot measure... and what gets measured gets done."**
>
> **(Hewlett, Hewlett-Packard)**

a) Value of setting objectives

- Substitutes purposeful strategic decision-making for aimless actions and confusion as what to accomplish.
- Provides a set of benchmarks for judging the business's performance.
- Spells out business objectives in measurable terms, allowing holding managers accountable for reaching assigned targets within a specified time frame.

Long term goals and objectives, therefore, serve two purposes:

- Setting targets pushes the entrepreneur to take actions now, and achieve the ultimate long term objectives later. Goals and objectives, therefore, **promote an action orientation**.
- Long term goals and objectives assist in the subsequent definition of shorter term objectives and actions, therefore, **promoting a logic framework for coordinated action** in the business to achieve long-term goals.

b) Types of goals and objectives

Objectives can be distinguished in quantitative and qualitative terms. Usually, the business will have both shorter and longer term goals and objectives.

The most important objective, at least for commercial businesses, is likely to be creating profit for its owners or maximizing shareholder wealth. A principal measure (objective) for success in this area would then be the firm's return on investment (ROI).

The danger in relying too strongly on ROI is that it may create pressure to focus too much on the short term benefits, often at the expense of long-term benefits. To help the business guard against this possible problem, it is recommended that the firm develops secondary objectives in a number of areas. Areas where the firm may develop goals and objectives are:

Profitability: The company is likely to have a profitability objective. Particularly for a growth oriented company, focused on maximizing investor value, this is important. Usually, this objective is set in terms of earnings per share or return on equity.

Customer orientation: This is a less common but an important objective specifically geared toward customers. If satisfying customers is high on the priority list then, it might make sense to include this objective here. Objectives could be related to client satisfaction with products and after sales services, time lead before communication to clients, percentage of re-buy by clients and the like.

Productivity: Normally companies set a profitability objective, as an improvement of productivity (the input/output relationship) will lead to increased profitability. Normally this would be the number of items produced, or the number of services rendered per unit of input. Productivity objectives could also be formulated in terms of desired cost decreases, for example, through reducing the number of defective items, a reduction in number of customer complaints or a reduction of overtime work.

Internal structuring: Objectives could be set on strengthening the internal structure of the organization, e.g. on logistics, client information, delegation, etc. resulting in higher personnel and client satisfaction, and more time for dealing with management tasks.

Competitive position: Business success can be measured in terms of the position in the marketplace. Total sales or market share are measures of competitive position. A qualitative objective here would be an increase in ranking within the industry, for example moving from the third to second position as a provider in a particular industry. Here, one can also include longer term goals on intended market segmentation.

Physical and financial resources: The business may require a basis of equity, liquidity and solvency, requiring sufficient property and long term assets, sufficient working capital etc. The business may formulate goals and objectives in this area to be achieved for long and short term financial health and stability.

Employee development: Employees value growth and career opportunities. Providing such opportunities increases productivity and decreases turnover. It may be sensible to include a staff development objective in the long term plans (e.g., developing highly skilled and flexible employees for high quality products and higher productivity).

Employee relations: Strategically oriented entrepreneurs seek good employee relations as part of the longer term strategy and continuity. Productivity is linked to employee loyalty and to perceived management interest in workers' welfare. This calls for objectives to improve employee relations through safety programs and other job quality programs.

Technology and innovation: The firm will need to decide what technology it will employ in the market and whether it is leading or following in technology. Both leading and following in technology can be a successful strategy, depending on the specific situation.

Public responsibility: As part of a longer term continuity strategy, it is important to recognize the responsibility of the company towards customers in particular, but also towards society at large. These objectives relate to customer expectations, meeting government laws and regulations, good citizenship, e.g. contributing to community development, etc.

c) Steps in formulating goals and objectives

Step 1)
Based on the above listing, identify areas where you would want to develop longer term goals. Link the identification of goal areas to your vision and mission so as to make the right selection.

Step 2)
Consider what it is you want to achieve in the next 3-5 years within each area selected. Identify specific outcomes or results. Ensure they are in line with your vision and mission.

Step 3)
Prepare the written objectives. Check the objectives with the below SMART criteria.

Setting SMART objectives
This is a test to ensure that an objective is clear and removes confusion of what is to be achieved, when you are setting objectives subject them to a SMART test. An acceptable objective should be specific, measurable, achievable, realistic and has time frame for accomplishment

SMART Objective: is an acronym for the following characteristics of an objective:

- Specific
- Measurable
- Achievable
- Realistic
- Timeframe for accomplishment

The following is an, example to demonstrate the linkage between mission, goals and objectives and how one could go about the formulation of the goals and objectives:

EXAMPLE

The linkage between Mission – Goals - Objectives

Mission

The company is dedicated to provide its customers with a wide selection of quality merchandise, competitively priced with a high level of after sales service. For our share holders, we strive for optimum long term return on capital through steady profit growth and prudent asset management

↓

Goal

To achieve sufficient profit to finance company growth, and provide needed resources to achieve other corporate objectives

↓

Longer-term objectives

1. Increase sales by 20 percent per year
2. Increase profit margins by 2 % each year
3. Increase earnings per share by 8% each year.

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Example 5: Goals and Objectives

Let us consider the case study for HAJCO to provide a more detailed example of goals and objectives setting. In this case study, HAJCO's owners, also try to translate the longer term objectives into functional and shorter term objectives where applicable. After giving it some thought, they come up with the following:

The following table summarizes HAJCO's goals and objectives that are set in line of the mission statements:-

Continued on the next page...

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

Mission	Goals	Long-term Objectives	Functional and shorter term objectives
HAJCO produces high quality fruit products, in particular fruit juices. Fruit juices are known to contain a guaranteed 100 percent pure fresh fruits without any additions.	**Profitability** 1. The business aims at high profit generation in the longer run, which will be reinvested largely for business growth	**Profitability** 1. Increase of profit margin by 2 percent each year 2. Earnings per share kept at an attractive 15% yearly maximum? 3. Reinvest minimum 50% of profit earnings	**Profitability** 1. Profit margin to be increased from current 7% to 9% end of next year 2. Earning per share to be raised from current 10% to 13% end of next year 3. Reinvestments aimed at 60% end of next year
Traditional well-known Jordan Valley home made technology is applied to produce fruit products tasting as if just picked from the tree. Attractive packaging and natural preservation without any additions complete the quality of the product.	**Customer orientation** 2. The business meets highest customer demands in fruit products through high quality, natural, and fresh products.	**Customer orientation** 4. Increase re-buy of customers to 90% 5. Delivery to distribution channels within 2 days of request.	**Customer orientation** 4. Maintain at least 95% of current clients as clients over the next 12 months 5. Distributors are always answered by phone; quotations are sent within 24 hours; deliveries are reduced to 2 days by the end of the year
The products are affordable, and sold to middle and upper class families demanding a high quality and natural fruit experience. Products are sold through higher end hotels, but may be sold through supermarkets and other distribution channels in the coming periods.	**Productivity** 3. Quality products are produced with low defects, efficient allocation of work and minimum customer complaints	**Productivity** 6. Quality control system reduces defective end products to 1 per 100 7. Workplace improvements increase production to 200 items per production worker per day	**Productivity** 6. Reduce defective items to 2 per 100 this year. 7. Machine operation increased to 150 products per worker by the end of the year 8. Safety handbook ready by end year.

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

Mission	Goals	Long-term Objectives	Functional and shorter term objectives
HAJCO Industries will be known as the manufacturer of finest fruit products in the country within the next three years. HAJCO will, within that time span, have introduced at least one new product line and expanded its markets locally and possibly beyond the borders. HAJCO will achieve this position through highly motivated and capable employees from Jordan Valley region and the leadership of Mr. Jameel	**Internal structuring** 4. To reach an efficient and effective structure with balanced allocation of tasks and responsibilities	**Internal structuring** 8. Organogram redesigned 9. Job descriptions available for all staff Organogram including relevant divisions and line managers 10. Managerial responsibilities delegated to line managers	**Internal structuring** 9. Organizational; structure reviewed and Organogram ready by end of year 9. Job descriptions available for management and supervisors in 6 months from now 10. Production manager recruited by end of year.
	Competitive position 5. To become the largest local fruit juice producer, expand current production into new markets and develop new products.	**Competitive position** 11. A growth of sales turnover of 25 percent per year 12. Fruit juice has entered new local markets within planning period and achieved higher market share in current market 13. Shift target magnet segmentation from tourism to local markets within planning period	**Competitive position** 11. Sales growth of 25 % in next 12 months 12. Market share in the hotel market reaches 40% in 12 months 13. First development phase of jams, jellies and chutneys completed by next year. 13. Market research on customer profile conducted; existing product range achieves 1 million J.D sales with current and new target group in year 1.

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

Mission	Goals	Long-term Objectives	Functional and shorter term objectives
	Physical and financial resources 6. To establish financial stability through increased ownership of property and prudent financial management	**Physical and financial resources** 14. Own currently rented factory outlet within 3 years 15. Adequate working capital system, budgeting system, and financial performance monitoring system set-up within plan period	**Physical and financial resources** 14. Current factory lease contract transferred into purchase contract in next 3 months 15. Finance manager recruited within next 6 months. Financial information and reporting system developed in next 12 months.
	Employee development 7. To develop highly skilled employees for staff satisfaction and for higher productivity and employee satisfaction productivity	**Employee development** 16. Relevant training for all employees conducted within plan period	**Employee development** 16. Assessment of training needs for all employees conducted and training for production workers implemented in next 12 months
	Employee relations 8. To ensure adequate employee welfare through adequate salaries, safety and health procedures and good work place management	**Employee relations** 17. Salary survey carried out and salaries adjusted, workplace safety procedures implemented within plan period	**Employee relations** 17. Salary survey carried out, and salaries adjusted by the end of the year 18. Performance based salary system implemented for line managers in next 12 months 19. Efficient and safe work procedures developed within next 6 months

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

	Technology and innovation 9. To continue to employ state-of-the-art technology that matches Jordan Valley traditional fruit production technology with high production levels	**Technology and innovation** 18. Current technology reviewed and improved, if possible, within plan period	**Technology and innovation** 20. Assessment of appropriateness of current technology conducted in 12 months
	Public responsibility 10. To employ staff from Jordan Valley, maintain a clean environment and invest actively in the development of the fruit processing industry in Jordan Valley	**Public responsibility** 19. Local staff selected for new available positions 20. Environmental policy developed, and fruit waste re-used by related industries within plan period 21. Five percent of profit invested yearly in local fruit industry development	**Public responsibility** 21. Staff selection criteria reviewed to favour local employees within next three months; recruitment procedures adjusted immediately 21. Environment co-ordinator appointed and environmental plan developed within 12 months. 22. Pursue leadership in establishment of fruit processing board in Jordan Valley in next 12 months

The development of the different types of goals and objectives for Mr. Jameel is quite elaborate, as you may have noticed. This has been done so that, you can see how objectives can be developed for each possible type It is possible that you do not have objectives for some of the functions. That depends on your vision and mission, and where the priorities are in your business to achieve your growth objectives.

With the information from this section and the example of HAJCO Industries, now try to set your own longer as well as functional and shorter term objectives. When you have completed the exercise, you can select the functional and shorter term objectives that are relevant to marketing, HRM and finance and transpose them to those modules. Chapter 1 of each module provides you space to do so. The objectives for those functional areas will then help you to design your personalized functional growth plan.

Refer to chapter 1.of the modules on Strategic Marketing, Strategic Human Resources Management and Strategic Financial Management,

EXERCISE

By using the following table, prepare your goals, longer term objectives, and your functional and shorter term objectives in light of your mission statement.

Mission	Goals	Long term Objectives	Functional and shorter term objectives
	Profitability	Profitability	Profitability
	Customer orientation	Customer orientation	Customer orientation

Continued on the next page...

EXERCISE

Continued from the previous page...

Mission	Goals	Long term Objectives	Functional and shorter term objectives
	Productivity	Productivity	Productivity
	Internal structuring	Internal structuring	Internal structuring
	Competitive position	Competitive position	Competitive position
	Physical and financial resources	Physical and financial resources	Physical and financial resources

Continued on the next page...

EXERCISE

Continued from the previous page...

Mission	Goals	Long term Objectives	Functional and shorter term objectives
	Employee development	Employee development	Employee development
	Employee relation	Employee relation	Employee relation
	Technology and innovation	Technology and innovation	Technology and innovation
	Public responsibility	Public responsibility	Public responsibility

Continued on the next page...

4. Chapter Summary

This chapter explains how to develop a vision, mission, goals and objectives.

The vision is the dream or long-term view of the entrepreneur on what the business aims to achieve. It provides a picture of the company in 5, 10 or 15 years with an idea of the position of the company in the industry as perceived by its environment.

The mission is mid-term in nature, is more concrete, is result-oriented and gives direction. The mission also, defines the main activity of the business, the customer group and customer needs it satisfies, the technology used and the business' future position in the market.
The process of developing a vision and mission can be tedious. There is no standard recipe on its preparation. The business owner usually prepares a vision. The mission is usually prepared as an effort undertaken by the owner with inputs by selected employees or friends.

Preparing a vision and mission is important as it sets the stage for the development of the strategy. Without vision and mission, it is almost impossible to develop goals and objectives. Without these, the business will aim for short term gains, and not achieve long term, sustainable growth.

Some companies prepare a mission statement. This is a short version of the mission, meant for communication purposes to its main stakeholders, such as its employees and customers. Communicating the business' mission is important as it allows stakeholders to understand the main values and ambitions of the business. Employees need to understand the business mission to understand what is expected from them. Customers will be interested in knowing the mission statement, as it will allow them to understand what they can expect from the business. It is crucial that a mission statement is adhered to. Nothing is more detrimental to the business than customer promises that remain unfulfilled.

Goals are open-ended statements of planned accomplishments. They are directly derived from the company's mission. Objectives are measurable performance targets or results to be achieved within a certain time frame. Objectives should meet the SMART criteria, that is, Specific, Measurable, Achievable, Realistic, and Timeframe for accomplishment.

Objectives can be longer term and shorter term and be general (e.g., specifying profit objectives) or related to specific business functions (e.g., HRM, marketing, etc.). An emphasis on profit only could lead to a short term shareholder / owner wealth increase orientation which may affect the longer term growth of the business. Therefore, it is important to formulate various types of goals and objectives that put the business responsibilities and growth performance in a broader context.

Areas for goals and objectives setting could include: profitability, customer orientation, productivity, internal structuring, competitive position, physical and financial resources, employee development, employee relations, technology and innovation, and public responsibility.

5. Make an action plan for establishing your strategic direction

Complete the Action Plan shown on the next page. The Action Plan is useful when you prepare your strategic growth plan where you can have a master action plan for all aspects of your strategic management.

You can find the forms for preparing your Action Plan in the Strategic Growth Plan.

ACTION PLAN

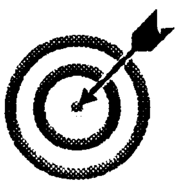
OBJECTIVE (What to achieve?)	ACTIVITIES (What should be done?)	TIME FRAME (When it should be done?)		RESPONSIBILITY (Who should do it?)	RESOURCES (How it should be done?)	COMPLETED
		START	END			
						❑
						❑
						❑
						❑
						❑
						❑

Chapter 4

FORMULATE YOUR GROWTH STRATEGY

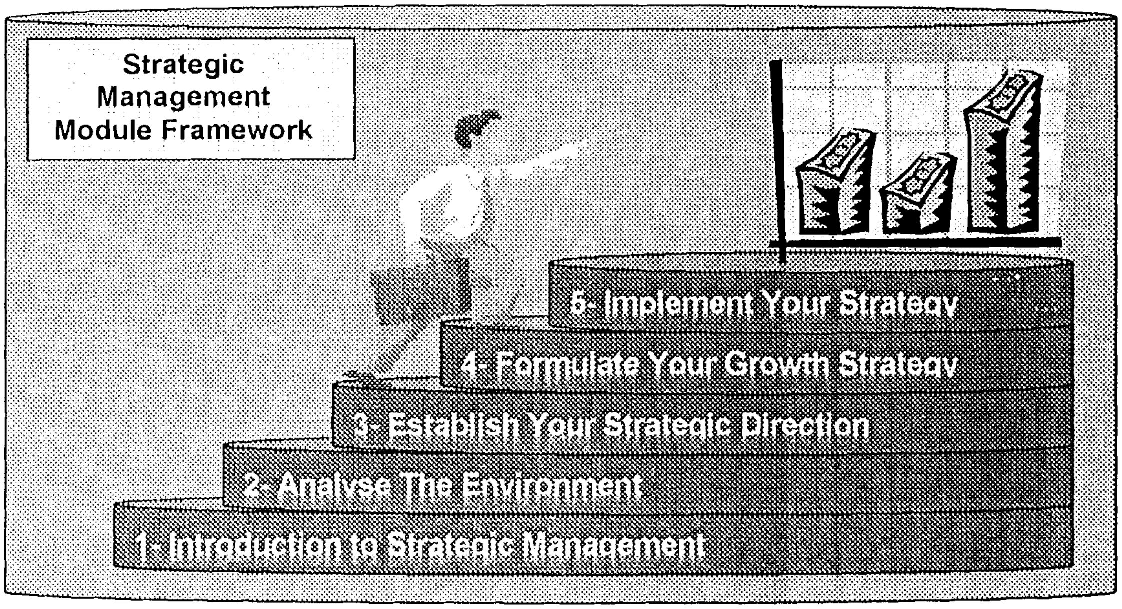
Chapter 3 looked at establishing the strategic direction of your business by setting your vision, mission, goals and objectives. It emphasized the need for you to understand your strategic objectives in order to develop appropriate and effective strategies that comply with your mission. The strategies you adopt give you an important background to think ahead about your business in the future. This chapter builds on the previous chapters by assisting the growth-oriented entrepreneurs (GOE) in finalizing the overall strategic thrust of the growth-oriented business.

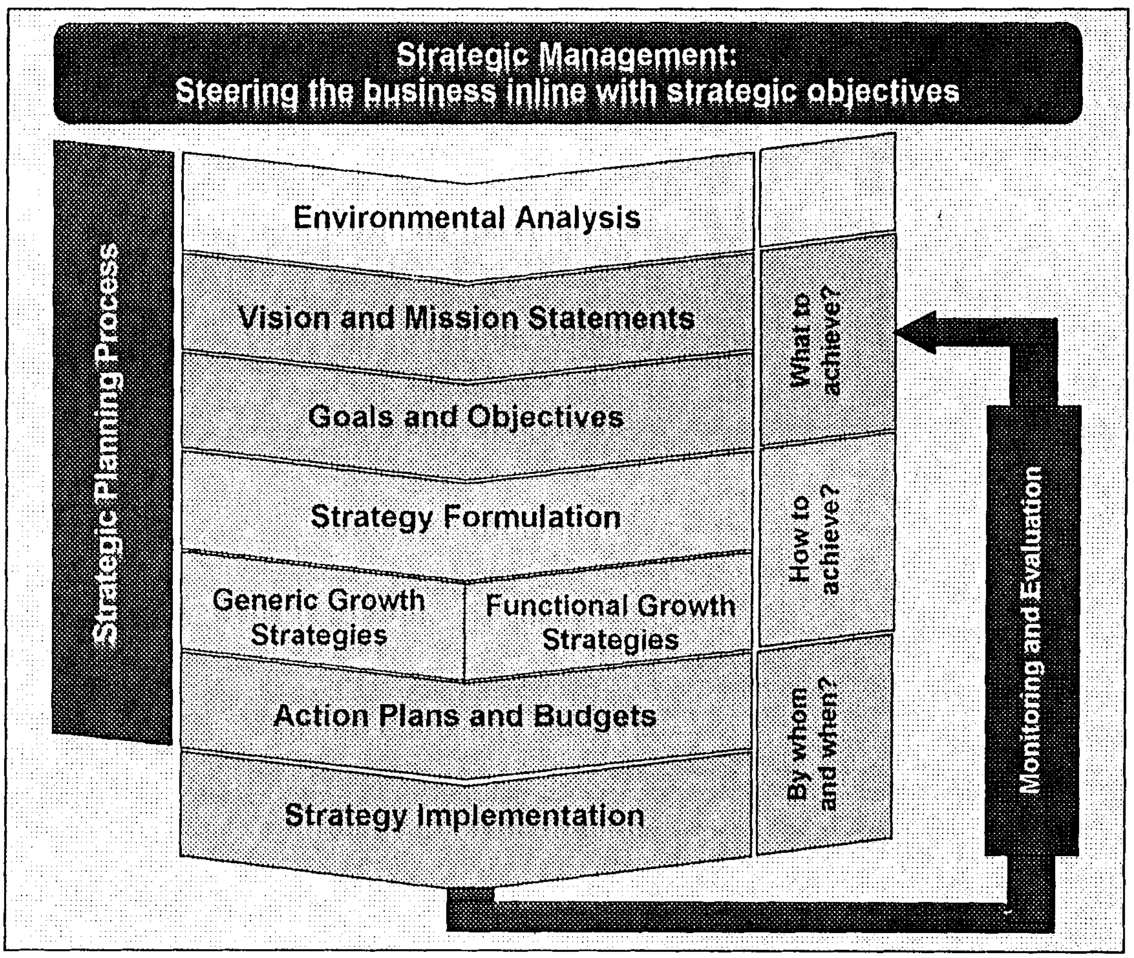
What you will learn in this chapter



After studying this chapter, and completing the exercises in it, and with the guidance of your business trainer, you should be able to:

- **Define the generic growth strategies.**
- **Assess the relevance of each strategy to your business.**
- **Develop the appropriate growth strategy (ies) for your business.**


Strategic
Management
Module Framework
5- Implement Your Strategy
4- Formulate Your Growth Strategy
3- Establish Your Strategic Direction
2- Analyse The Environment
1- Introduction to Strategic Management


Strategic Management:
Steering the business inline with strategic objectives
Strategic Planning Process
Environmental Analysis
Vision and Mission Statements
Goals and Objectives
Strategy Formulation
Generic Growth Strategies
Functional Growth Strategies
Action Plans and Budgets
Strategy Implementation
What to achieve?
How to achieve?
By whom and when?
Monitoring and Evaluation

1. What is a competitive strategy?

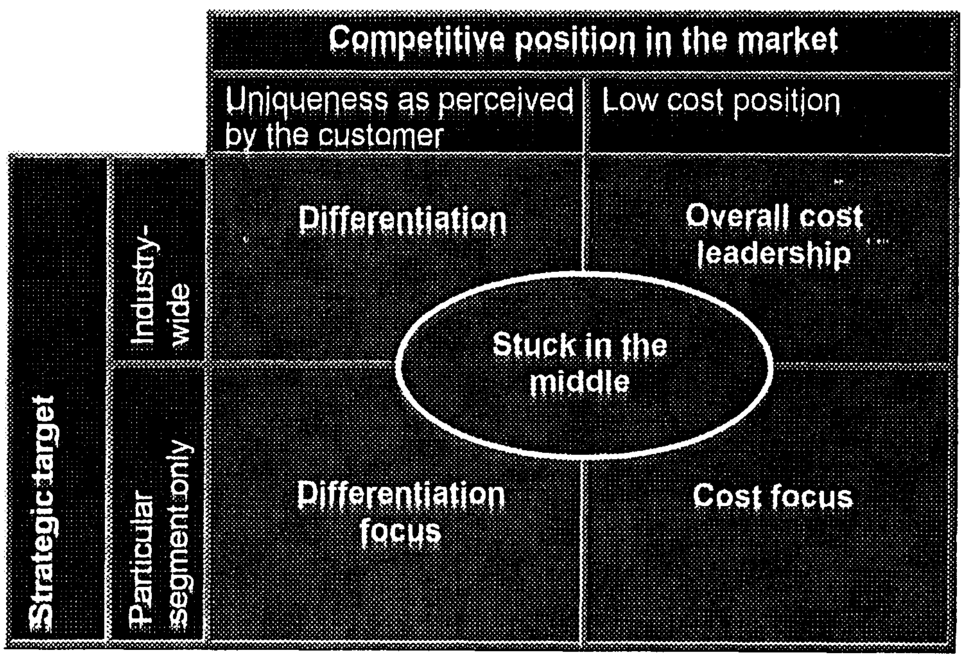
In chapter 2, Mr. Jameel identified his core competencies and distinctive competencies. Distinctive competencies are those competencies that your business possesses that make you achieve better results compared to your competition. If these competencies are maintained and sustained over a long period of time, then they become a source of competitive advantage for your business.

> ***Strategy:*** is the comprehensive plan that sets direction towards achievement of set goals and objectives.

Before defining what a competitive ***strategy*** is, it is important to recall what strategy is all about. Strategy is the comprehensive plan that sets direction towards achievement of set goals and objectives. Growth-oriented enterprises need strategies to achieve growth objectives, and to pursue the organization's mission. Objectives have been developed in chapter 2. Specific strategies to achieve those objectives already emerged in the previous chapter as an outcome of the SWOT analysis.

However, what is still missing now is the overall strategic direction of the business to achieve those growth goals. The overall strategic direction is the broad overarching approach the business adopts in order to build on its distinctive competencies /strategic advantages, so as to make those into sustainable competitive advantages. Hence, there is a need for an overall strategy that gives the strategic thrust for successful competition, increase in market share and business growth.

Essentially, a company has two basic choices. The first relates to the product. In relation to the product, a company can decide to offer a standard product or a product that is different to what competitors offer, that is, a differentiated product. The second choice relates to the market. A company can decide to offer a product to the entire market or to a segment of the market, i.e., a particular customer group. If one combines these two options that gives the following four generic strategies:



A **low cost strategy** an entrepreneur adopts to achieve the low(est) cost in production by striving to be an overall low-cost provider of a product/service that appeals to a broad range of customers.

> **You must realize that the strategic target is low cost relative to competitors, not absolute low cost.**

A **differentiation strategy**: an entrepreneur offers a product (or service) that is different or perceived to be different by the customer from a standard product available on the market. It implies adding value to the product. It seeks to differentiate the company's product offering from rivals in ways that will appeal to a broad range of buyers. These become attractive when buyers' needs and preferences are too diverse to be fully satisfied by a standard product.

> **To be successful with differentiation strategy the business needs to study buyers' needs.**

Focused or market niche strategy based on lower cost: an entrepreneur adopts to offer products to a narrow buyer segment and out-competing rivals on the basis of lower cost.

Focused or market niche strategy based on differentiation: an entrepreneur adapts to offering niche members a product/service customized to their tastes and requirements.

Stuck in the middle!

The above four strategies indicate that one would have to choose one of them. Many companies have tried to combine some of the above strategies. Porter called this being 'stuck in the middle'. The logic behind following one generic strategy is that a strategy aimed at achieving cost leadership precludes the capital investment required for a differentiation strategy. Porter argues that the middle of the road is not possible and leads to below-average performance. There is, however, evidence to suggest that firms combining a low cost and differentiation strategy can be successful. Honda, for example, operated on a low cost (and low price) strategy for substantial time, but gradually differentiated its products successfully. Volvo operated for a long time on the basis of a differentiation strategy (high quality specific features at a premium price), but gradually introduced a low cost strategy with more straightforward cars produced at low cost.

Nevertheless, being clear about one's generic strategy is important as it provides the basis for the way a business positions itself in the market.

2. How a competitive strategy will help your business to expand

The overall thrust of strategic management is the growth and expansion of your business. One of the critical considerations is the development of a competitive strategy that sets you apart from the players in your industry. The competitive strategy will assist in the following ways:

- Choosing one of the generic strategies will ensure your entire business has a strategic focus
- Choosing one generic strategy allows the business to be different from other businesses in the industry and, therefore, allow the business to compete successfully and achieve growth
- Choosing one generic strategy ensures that the business has a continuous focus on satisfying customer needs, as all our strategies are based on the principle of 'putting the customer first'
- Choosing one generic strategy enables business to align its more specific strategies as emerging from its SWOT analysis in line with the overarching strategy, therefore, ensuring that no specific strategies will be contradicting each other
- Choosing one generic strategy ensures that the business focuses on gaining a sustainable competitive advantage in the market, and focuses on its distinctive competencies
- Choosing one generic strategy encourages the business to review its strategy, and ensure it is still meeting the needs of the market by keeping the customers satisfied.

3. How to apply the competitive strategy approach

Successful growth of your business is dependent on having a competitive strategy that provides a clear direction on the specific types of strategies (resulting from the SWOT) that are crafted in line with the overall long and short-term objectives (as identified in chapter 3). The clarity of the competitive strategy is an important landmark in the successful development of a sustainable strategy that will result in the growth of your business and an increase in the market share. This section will focus on how to develop a competitive strategy for your business.

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

HAJCO's owners were proud of the progress made so far particularly in identifying strategic competitive advantages for their business. They were convinced that competitive advantage factors would give the necessary impetus for their business to grow. They were clear in their mind about possible strategies that had been developed by matching strengths/weaknesses with a combination of opportunities/threats. HAJCO's owners were also happy with the process of matching their competencies with the industry key success factors. They felt that they had reached the watershed and what they could now see was their business achieving new heights for growth.

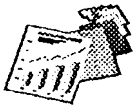
In order to scale the new heights, HAJCO's owners and their team decided on the overall competitive strategy for the business. It was now necessary to have an overarching strategy that would increase competitiveness, and guide the process of crafting specific strategies for a growing business.

Businesses might find it difficult to choose a generic strategy. Sometimes, a low cost strategy, differentiation strategy or one of the focus strategies all sound attractive. It is clear from the above that one has to make a choice. What should be the way to choose?
The choice of a generic strategy depends on the industry success factors identified in the last chapter, and more importantly, on the distinctive competencies of the business. In one industry all four strategies could be applicable. For example, one could imagine that the soft drinks market in a particular country could have the following types of businesses:

- A cost leader producing a fairly cheap standard drinks that is consumed by a wide range of the lower-end customers in the country
- A few soft drink companies producing branded juices supported by branding campaigns to a wide range of customers
- A soft drinks company with a cost focus producing a low cost Juice for a specific market niche
- A few more up-market special fresh juices, marketed at specific target groups of consumers who appreciate healthy fresh juices with no additives.

Based on the industry success factors for the soft drinks industry, one could have different companies choosing one of the mentioned generic strategies to compete with in the market. The choice of the generic strategy for each company would be based on the distinctive competencies, which provide for the competitive advantages. After all, these are the competencies the individual business possesses vis-à-vis its competitors. We already identified our distinctive competencies strategic advantages in chapter 2. These can now be used to identify the most appropriate generic strategy for our business. Let us first look at the example of HAJCO, and how Mr. Jameel decides on the generic strategy to be pursued for his business.

Follow the steps pursued by Mr. Jameel to identify your generic strategy. The results of the assessment are in the box that follows.



CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Initial assessment of Generic Strategy Options

HAJCO's owners decided to have a brainstorming session with senior supervisors to make a first assessment of the generic strategy options with a view to formulating a competitive strategy for their business. They agreed on the following steps for the assessment:

1) Define the generic strategy
2) Specify conditions for the strategy
3) Identify the pitfalls for the strategy
4) Repeat the process for all the generic strategies
5) Make an initial assessment for a possible strategy

Results of the assessment for the generic strategy options are presented in the following table.

Cost leadership strategy Understood to mean control of costs to achieve competitiveness	**Conditions** ▪ Low cost production technologies. ▪ Low wastage of materials and labour time. ▪ Low labour costs. ▪ Cheap raw materials for the production process. **Pitfalls** ▪ Technological breakthrough can open up cost reductions; ▪ Rivals may find it easy to imitate low-cost, methods; ▪ High turnover of staff resulting in loss of experienced workers.	**Remarks on HAJCO** HAJCO meets the conditions for low cost strategy ▪ Simple production assembly line used in multiple production of fruit juices ▪ Low labour costs ▪ Low wastage of materials and labour time. ▪ Cheap raw materials ▪ Operates at high capacity and at times at 100% capacity if demand is high
Differentiation strategy Understood to mean production of goods or services that add value to the needs of the customer	**Conditions** ▪ Gain buyer loyalty to your brands; ▪ Create a buffer against strategies of rivals when it results in enhanced buyer loyalty to a company's brand; ▪ Erect entry barriers and product uniqueness;	**HAJCO has partly reached the level of meeting the conditions for a differentiation strategy.** ▪ It has only partly achieved buyer loyalty for its products as evidenced by the introduction of competing product from the Lebanese, which has captured some market from HAJCO.

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CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Continued from the previous page...

	• Incorporate features that raise the performance of the product; • Incorporate features that enhance buyer satisfaction in intangible ways e.g. safety, health. **Pitfalls** • Trying to differentiate on the basis of something that does not lower a buyer's cost or enhance a buyer's well-being, as perceived by the buyer; • Setting price too high relative to competitors in the same market, • Charging too high a price premium (the bigger the premium, the harder it is to defend switching costs); • Not identifying/understanding what buyers consider as value.	• It has managed to incorporate intangible features into the product that enhances buyer satisfaction (quality of freshness). The production of natural fruit juice minimizes exposure to additives found in other juices.
Focus/Niche strategy Understood to mean targeting a specific market segment with the intention of meeting its needs on a sustainable basis. This can be both on the basis of low costs and on the basis of differentiation.	**Conditions** • The segment is big enough to be profitable; • The segment has a good growth potential; • The segment is not crucial to the success of the major competitors; • The focusing firm has the skills and resources to service the segment effectively. **Pitfalls** • Rivals will find ways of matching the special qualities offered by the focuser; • There may be a shift in niche buyers' preferences; • An erosion of differences across buyer segments lowers entry barriers and offers a window of opportunity for rivals; • The segment is found attractive by rivals, causing segment to attract more players leading to profit erosion.	HAJCO by the very nature of its operations focuses on a narrow niche of a market segment (tourists). It can be argued that: • One segment is not big enough to be profitable. • The segment has attracted outside competition • The skills of HAJCO might at this stage not be adequate to meet the pressure of competition.

Initial assessment

Based on the assessment of the conditions of the three generic strategies, HAJCO appears to meet the low cost strategy best. This is mainly because of the nature of the operation of the business, which is small scale. The question that comes to mind however, is whether a small-scale operation can achieve a low cost leadership strategy on a sustainable basis. This argument will be developed later as HAJCO's owners attempt to formulate a competitive strategy for HAJCO

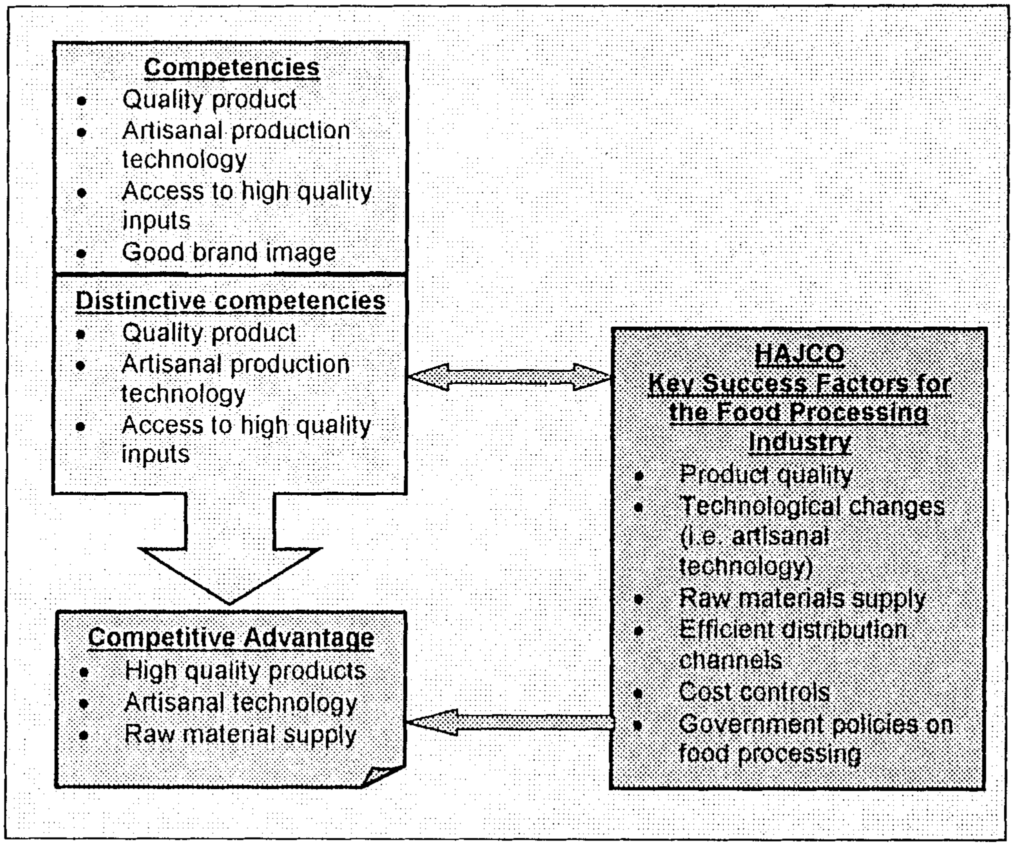
EXERCISE

Make an initial assessment of the generic strategies for your own enterprise

a) Formulating a competitive strategy

Having carried out an initial assessment of the generic strategies it is now possible to match each of the strategies with HAJCO's owners' strategic advantages and industry's key success factors. As you recall from the previous chapter, we attempted to match HAJCO's owners' distinctive competencies with the key industry success factors as a condition for achieving competitive advantage.

This is illustrated in the next page:



CASE STUDY

Hana Juice Company (HAJCO) Ltd.

The following steps will be used in matching generic strategies to key success factors and competitive advantages of HAJCO:

1) List the generic strategies and the key success factors for each strategy.
2) Make your comment on the relevance of the key success factors to the generic strategy.
3) Score each of the competitive advantage factors on the scale 1-5 in terms of perceived relevance in relation to the generic strategy. There are two main considerations about the scoring system, these are: a) we only score the competitive advantage and not the other key industry success factors, as the others are not competitive advantages that HAJCO can build on to gain and maintain competitive advantage. (On the other hand, the other Key Industry Success Factors do provide important information to HAJCO and require his attention. These may be areas where he is not strong but where he can strengthen his operation to become more successful. The other KISF are therefore, included in the general analysis and commented upon). b) The scoring is based on the importance of KISF and competitive advantages to HAJCO and not on the importance of generic strategies itself.
4) Based on the scoring, decide which of the generic strategies is appropriate to HAJCO.

The following is an example of how HAJCO can formulate a competitive strategy.

Continued on the next page...

CASE STUDY

Generic strategy	Key Success Factors /competitive advantage	Relevance to the company & Score
Low cost Strategy	• Product quality	Relevant as long as it leads to reduction in cost. HAJCO product is a high quality product and efficiently produced. A focus on producing natural fresh juices without any additives. HAJCO has a strategic advantage on high product quality. However, maintaining high quality as a distinctive competence will require further investment and does not match well with a low cost strategy. **(2 points)**
	• Technological changes / artisanal technology	Currently HAJCO has a simplified production line that produces different varieties using the same line. HAJCO has a strategic advantage here. However, current technology is not suited for quality control and for production expansion. HAJCO will need to invest in updated technology. The focus on quality processes and quality products does not match well with a strong emphasis on cost reductions **(2 points)**.
	• Raw material supply	High quality and availability of raw materials is a distinctive competency / strategic advantage for HAJCO. That it is cheap is an advantage, but is less crucial for HAJCO premium quality products **(2 points)**
	• Efficient distribution channels	Relevant to HAJCO. Reliance on one distributor is risky. HAJCO should aim at increasing the number of distributors. This may also reduce costs. This is a strategic weakness that HAJCO needs to work on. In the future this could become a distinctive competence if well handled.
	• Cost controls	Relevant. HAJCO has low production overheads and access to cheap fruit inputs. Labour is cheap as well. Nevertheless, the focus on cost control may be slightly less important to HAJCO than it is to others, because of their focus on premium quality products.
	• Government policies of food production	This could affect HAJCO in a low cost strategy. If stringent measures are introduced in the food processing industry it, could result in the increase in costs. HAJCO has no influence on policy decisions.
		Total score 6/15

Continued on the next page...

CASE STUDY

Generic strategy	Key Success Factors /competitive advantage	Relevance to the company & Score
Differentiation strategy	• Product quality	Relevant. This is the basis for adding value to a product destined for a specific market segment. Its attraction is the fact that it is a fresh product **(5 points)**
	• Technological changes / artisanal technology	Relevant. HAJCO's owners score well here because of their artisanal production technology and the technology, is important to differentiate their product. They also, need to maintain this strength by focusing on technology **(5 points)**
	• Access to high quality inputs	Relevant. HAJCO's owners sell their product based on high quality, which is a differentiation aspect. They, therefore, need to maintain access to high quality inputs in this strategy **(4 points)**
	• Efficient distribution channels	Relevant for reaching a wide group of customers with the differentiated product. Also in this strategy, HAJCO would need to identify better distribution mechanisms to reach customers. The emphasis on *efficiency* of distribution channels is less important here, because the differentiated product could charge a premium price. Having wide distribution is more important here than having cheap distribution.
	• Cost controls	A healthy cost conscience is always important, but a focus on cost control is less important in a differentiation strategy in comparison with, for example, a low cost strategy.
	• *Government policies* of food production	*Relevant.* Could play a key role in the improvement of product quality thus, add value to the customer. Currently, HAJCO is not taking advantage of this, because quality control systems are not yet well developed.
		Total score 14/15

Continued on the next page...

CASE STUDY

Generic strategy	Key Success Factors /competitive advantage	Relevance to the company & Score
Cost Focus/ Niche strategy	• Product quality	Is not very relevant for a low cost focus strategy. A low cost focus strategy would aim at providing a cheap product to a certain customer group that does not want to pay a high price. Both price and quality would need to be low. HAJCO however, produces a high quality product which is his distinctive competency / strategic advantage. **(1 point)**
	• Technological changes / Artisanal production	Can be important in a cost-focus strategy but only if HAJCO focus on a low cost technology. They currently have a low cost technology. In this strategy, they would stick to the same technology. There is a risk that they do not adopt new technologies and this technology gets obsolete **(4 points)**
	• Raw materials supply	Cheap and constant raw materials supply is important in a cost focus strategy. HAJCO meets this requirement. **(5 points)**
	• Efficient distribution channels	Relevant in a cost focus strategy. HAJCO would, in this case, need an efficient (low cost) and loyal distribution system to target customers.
	• Cost controls	Relevant in a cost focus strategy. HAJCO has low production overheads and low direct costs. HAJCO would perform well in this respect within this strategy.
	• Government policies of food production	If stringent measures are introduced in the food processing industry, it could result in the increase in costs.
		Total score 10/15

Continued on the next page...

CASE STUDY

Generic strategy	Key Success Factors /competitive advantage	Relevance to the company & Score
Differentiation Focus/ Niche strategy	• Product quality	Is very relevant for a differentiation focus strategy. HAJCO's owners would sell their product to a specific customer segment, based on quality differentiation at a premium price. This is the strategy HAJCO has followed so far with the tourism segment. **(5 points)**
	• Technological changes / Artisanal production	Very relevant. The HAJCO sell their differentiated product based on artisanal production technology to their customers. In this strategy, they might be able to stay with the current technology because the size of their market segments may not require major technology investments **(5 points)**
	• Access to high quality inputs	Very relevant. In this strategy HAJCO differentiates the market niche based on quality, which requires high quality inputs. HAJCO has access to high quality inputs. **(5 points)**
	• Efficient distribution channels	Relevant. HAJCO would need a well fitted and reliable distribution system to meet the niche market. (HAJCO has been lacking this thus far. This would, therefore, require attention if HAJCO's owners were to choose this strategy).
	• Cost controls	Less relevant. HAJCO has low production costs but the approach in this strategy would need to be based on high quality, even if this would mean somewhat higher cost.
	• Government policies of food production	This could require HAJCO to invest in quality control systems. They could use that as a sales argument to their niche market.
		Total score 15/15

Strategy adoption

HAJCO's owners and their team now realize that the overall competitive strategy is to a greater extent, influenced by the industry in which they operate. Having matched the distinctive competencies / strategic strengths with the four generic strategies now provides HAJCO with the information required to make a choice for one generic strategy. HAJCO's owners and their team reviewed the assessment made and came to the following conclusions:

The **low cost strategy** does not appear to match well with HAJCO's competitive advantages. **This option is taken off the list.**

The **cost focus strategy** scored reasonably well. However, there is a contradiction between a focus on cost and maintaining high quality products that requires investments. This strategy would mean lowering the quality, which would mean that HAJCO would leave their competitive strength of having a high quality product. They would have to look for another customer group other than the current one (tourists). **They decide to drop this strategy.**

The **differentiation strategy** had a high score of 14 out of 15 indicating all those distinct competencies / strategic advantages match well with this strategy. This could, therefore, be a strategy where HAJCO could build on its strategic advantages in the market and grow successfully.

Finally, the **differentiation focus strategy** also, resulted in a very high score with 15 out of 15 points, indicating that their strategic advantages also, match very well with this strategy. In fact, this is the strategy that HAJCO unknowingly has followed up to date! No wonder they have been doing so well!

Now the team has to decide what to do. There are two potentially successful strategies: 'differentiation' and 'differentiation focus'. A long debate takes place at HAJCO. Ultimately, the team decides for the differentiation strategy.

The reasons for this choice are as follows:

-The **differentiation focus strategy** has been successful. HAJCO could continue this strategy and penetrate the tourism market further. HAJCO could maintain product quality, current production technology and further sustain quality inputs. They would mainly need to strengthen his business in the area of distribution and marketing/sales. They would still need to make some investments in quality control systems, but these may not be too high. They might introduce new products such as jams etc. but sell them to the same niche (hotels/tourists). Basically, this strategy boils down to doing what HAJCO was already doing and trying to do it better.

-The **differentiation strategy** means that HAJCO would try to sell their premium products to a wider public. HAJCO could try to sell fruit juices through supermarkets. HAJCO would then also, develop new premium products such as jams, jellies and chutneys, and perhaps dried fruits, while building on distinctive competencies of product quality, technology and access to high quality inputs. These products would also, be sold to a wider public. As there are risks involved in developing new products and trying to sell them to a wider public, HAJCO would in this strategy take it step by step.

Ultimately the team decided for the **differentiation strategy**. The team felt they were ready for the bigger challenges within the differentiation strategy and that they could handle it now that they had conducted their strategic analysis. This strategy would also lead to faster growth and expansion, which the team was keen on. The team also felt that reaching out for a bigger public with their products would reduce the risks of depending on the tourism market only. Lastly, they felt that by going for a wider market, they might be able to beat the upcoming competition from Lebanon timely before they would have captured the wide supermarket distribution channels.

EXERCISE

Using the steps outlined in the development of a competitive strategy for HAJCO, develop a competitive strategy based on Porter's generic strategies for growing your business. Draw your own conclusion on the various strategies, and choose one based on thorough assessment and evaluation.

b) Checking the SWOT strategies against the chosen generic strategy

Having chosen a long-term generic strategy, it is important to review the more specific possible strategies that come out of the SWOT analysis earlier. Some of these strategies may be important because they match well with the chosen generic strategy, but some of these strategies may also, not match with the chosen generic strategy. Ensure that those that do match well are emphasized and those that don't are crossed off.

c) Checking the goals and objectives against the chosen generic strategy

In the same way as above, after having chosen the generic strategy, it is necessary to check also the longer and shorter term objectives, and review whether the objectives are in line with the chosen generic strategy. If certain objectives are not in line with the generic strategy, you have to eliminate them, or if you feel important objectives are missing, add them now.

CASE STUDY

Hana Juice Company (HAJCO) Ltd.

Checking SWOT and objectives with generic strategy

HAJCO's owners are happy with the differentiation strategy.

They checked the features of the differentiation strategy with the SWOT analysis they had conducted earlier. They realize that the strategies proposed will all fit well with the differentiation strategy. They feel that may be the case because all along they were probably thinking of a differentiation strategy. They also realized though that in case they would have chosen the differentiation focus strategy, that many of the proposed SWOT related strategies would no longer apply. In that case, they would have had to seriously cut down on those strategies. Those SWOT related strategies would in that case have been too ambitious for their business and would need to be scaled down.

Next, the HAJCO team reviewed their objectives as set out earlier. Again, they were quite happy with those more ambitious objectives and feel they fit well with the chosen differentiation strategy. Here again, they realized that these objectives would have been too ambitious for a differentiation focus strategy.

4. Chapter Summary

A generic strategy is that overarching strategy that combines the distinctive competencies and strategic advantages of the business, and positions the business in the market, distinguishing it from its competitors.

A business that wants to achieve growth needs to make a choice of one generic strategy. Two basic choices influence the choice for a generic strategy:

- A standard versus differentiated product.
- A wide market approach or an approach, to sell to a specific niche in the market.

Combining these two features gives four generic strategies to choose from:

A low cost strategy: an entrepreneur decides to achieve the low (est) cost in production by striving to be an overall low-cost provider of a product/service that appeals to a broad range of customers (relative to competition)

Differentiation strategy: an entrepreneur decides to offer a product (or service) that is different or perceived to be different from a standard product available on the market. It implies adding value to the product. It seeks to differentiate the company's product offering from rivals in ways that will appeal to a broad range of buyers.

Focused or market niche strategy based on lower cost: an entrepreneur decides to offer products to a narrow buyer segment and out-competing rivals on the basis of lower cost.

Focused or market niche strategy based on differentiation: an entrepreneur decides to offer niche members a product/service customized to their tastes and requirements.

Whilst the above classification is not rigid and a business can make choices for various quality/price product offerings in the market, the fact remains that it is important to identify a generic strategy in order to distinguish the business from others in the market, and in order 'not to get stuck in the middle'. Uniqueness is crucial if a business aims to grow.

The success of the business is, therefore, dependent on having a generic competitive strategy in place that provides a clear direction for the subsequent specific types of strategies formulated (based on the SWOT analysis) and in line with the overall long and short-term objectives.

5. Make an action plan for formulating your growth strategy

Complete the Action Plan show on the next page. The Action Plan is useful when you prepare your strategic growth plan where you can have a master action plan for all aspects of your strategic management.

You can find the forms for preparing your Action Plan in the Financial Management Growth Plan.

ACTION PLAN

OBJECTIVE (What to achieve?)	ACTIVITIES (What should be done?)	TIME FRAME (When it should be done?)		RESPONSIBILITY (Who should do it?)	RESOURCES (How it should be done?)	COMPLETED
		START	END			
						❑
						❑
						❑
						❑
						❑
						❑

ACTION PLAN

OBJECTIVE (What to achieve?)	ACTIVITIES (What should be done?)	TIME FRAME (When it should be done?)		RESPONSIBILITY (Who should do it?)	RESOURCES (How it should be done?)	COMPLETED
		START	END			
						❑
						❑
						❑
						❑
						❑
						❑

Chapter

5

IMPLEMENT YOUR STRATEGY

So far, your analysis has developed the main components of your strategy.

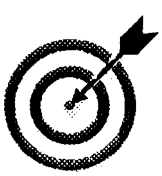
You started with assessing your environment. Macro-environment (STEEP-analysis), industry analysis (Five Forces Model) and the link with the internal business environment (SWOT analysis) were analysed. The SWOT analysis led to the identification of specific strategies. Based on the analysis, Key Industry Success Factors, core competencies, distinctive competencies and strategic competitive advantages were subsequently identified.

You were then, taken through an exercise of setting your vision, mission, goals and objectives. The latter were divided between longer term and shorter term / functional objectives.

In the last chapter, you were then, taken to the process of identifying the best fitting generic strategy for your business in order to generate a sustainable competitive advantage.

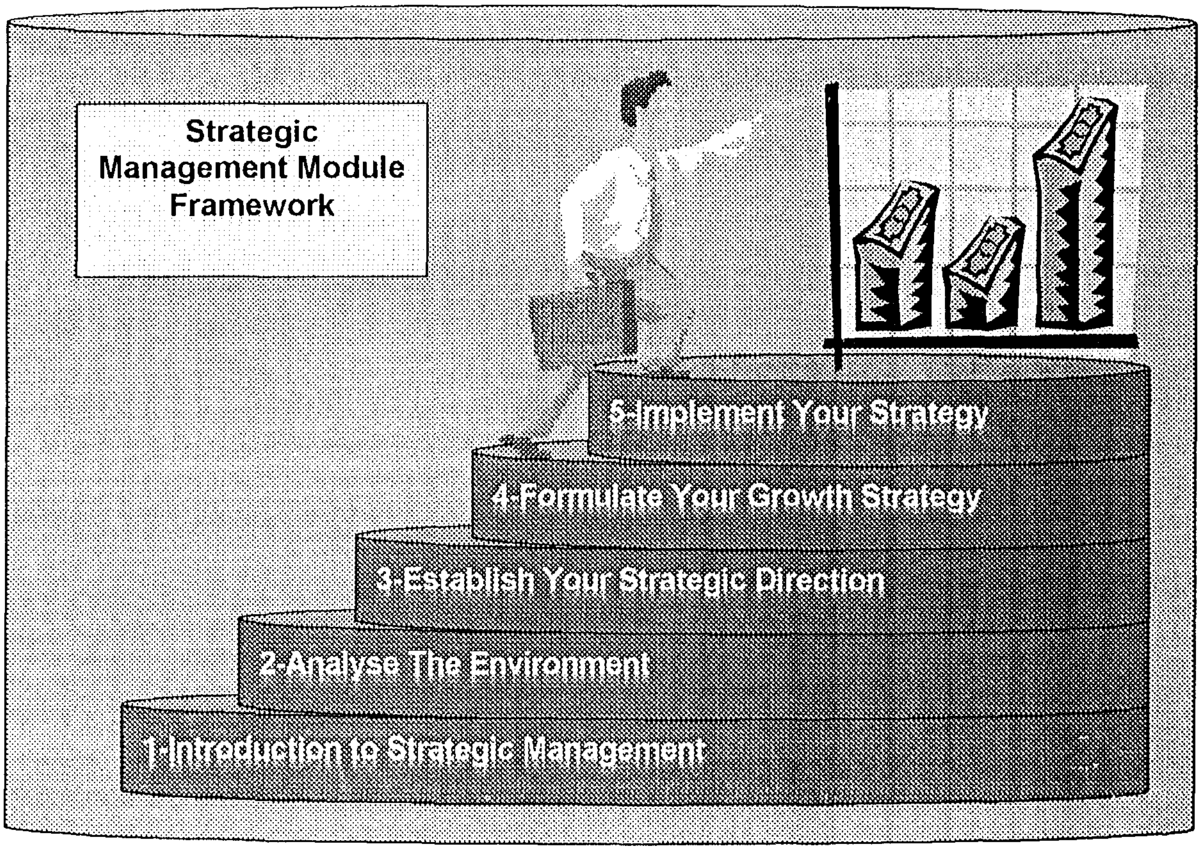
What do we do now with all these components for your strategy? This chapter will build a bridge between the strategic work done so far and the subsequent modules on Strategic Marketing, Strategic Human Resource Management and Strategic Finance Management.

What you will learn in this chapter ...



After studying this chapter, and completing the exercises in it, and with the guidance of your business trainer, you should be able to:

- **Define strategy implementation.**
- **Make an action plan to implement your adopted strategy.**



1. What is *strategy implementation*?

> ***Strategy implementation*** is the process of bringing strategy into action. Strategy implementation deals with the actions required to achieve set goals and objectives.

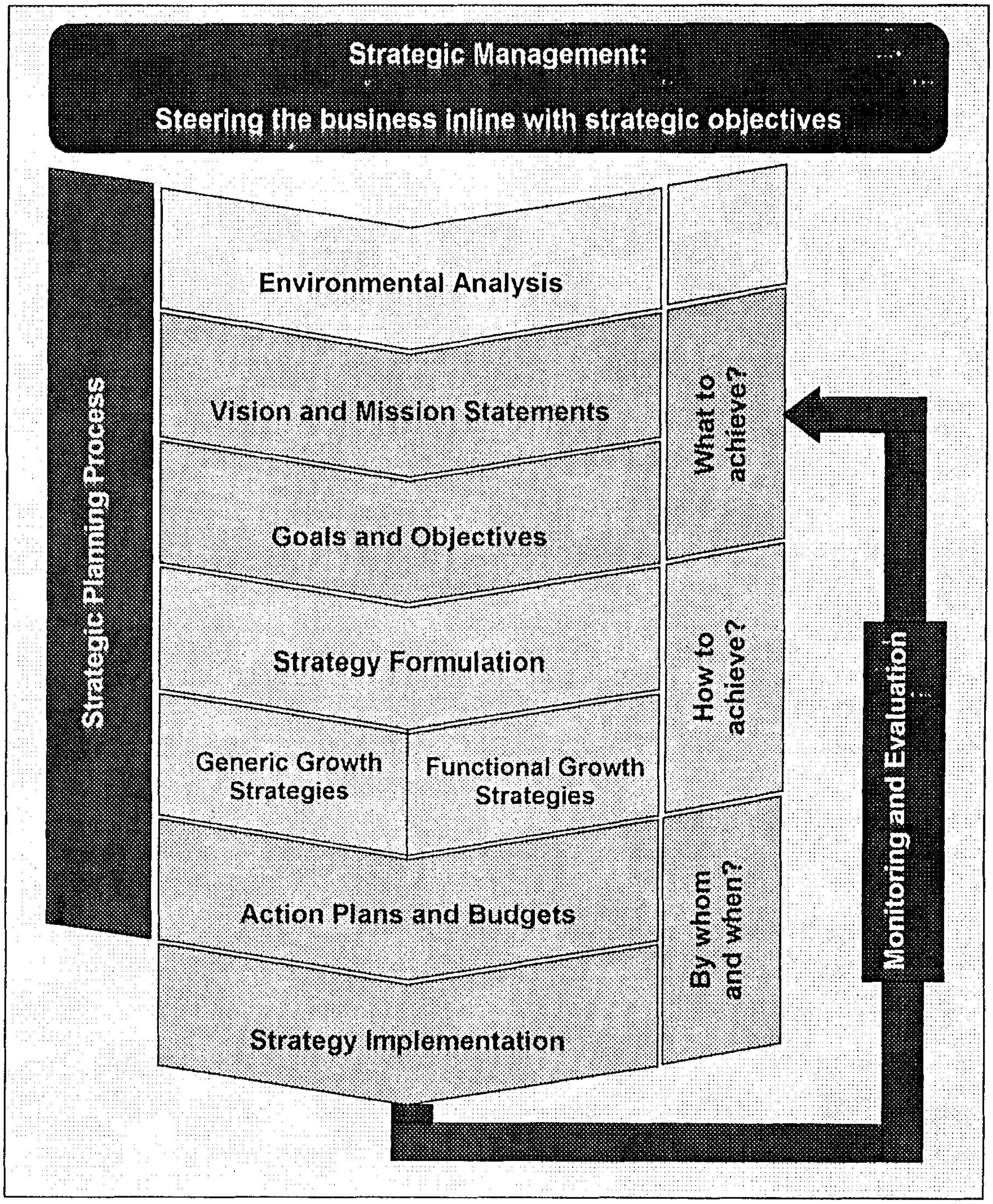
In this chapter, you will focus on how to translate strategies into action so that; you will be able to achieve the growth objectives set in chapter 3.

Implementing a strategy is done through a concerted planning process. This is necessary, as it would not be possible to achieve objectives without structured actions. With ad-hoc actions, a strategy would not be implemented well, and growth objectives would not be achieved.

Your business in its entirety is the vehicle to implement actions and achieve growth. That is, why we need to look at all important components of your business to ensure that they are well tuned to implement the actions required for achieving growth. Your business is like the human body; if it doesn't function well actions cannot be implemented well and objectives are not achieved. We need to look at its components and ensure they are all working to achieve the same objectives. These main components or functional areas are: marketing management, human resources management, and finance management. The approach of this program is, therefore, to ensure that the functional areas are able to implement their part of the strategy.

This programme is elaborated for your business to design a strategic growth plan. This growth plan then becomes the plan to achieve business growth. The growth plan consists of four interrelated growth plans: one for strategic management and one for marketing, HRM and finance management respectively. Together, these growth plans form the strategy for your business. They are the roads to success. They need to be accompanied by action plans to spell out who is going to do what and when. The action plans are the timetables to ensure that the growth plans are implemented so that objectives will be achieved.

We can illustrate this in the following diagram:



If you have completed the exercises in this module so far, you have completed the main parts of your **Strategic Growth Plan** included in chapter 6. This plan forms your overall strategy. You will use it as the basis for developing the functional strategies of growth plans in the other modules. Every other module has an action plan included that you complete after you have completed the functional growth plan. Once you have completed all growth plans and action plans, you are ready for the implementation of your strategies through your action plans.

The functional growth plan and accompanying action plan together form the functional strategy. If you have a functional manager, you may want to make him responsible for the successful implementation of the plan.

If all goes well, you should ultimately achieve your growth objectives as identified in this module. Based on your actual achievement, you can then, if necessary, adjust or renew the strategies, subsequently adjust or renew objectives, and revise or prepare new growth and action plans. In this way, strategic management becomes a cycle leading to business growth.

2. How strategy implementation will help your business to expand

The implementation of your strategy is a precondition for achieving your growth objectives. Without action plans, there is little chance that your growth plans will be implemented. The world is full of nice plans, many of which have only been prepared to gather dust. Action planning and implementation are crucial elements for business success. Action planning and implementation will help you to identify, which actions are to be taken, who is responsible for their implementation, and when they should be completed. Consequently, action planning will make the life of the entrepreneur substantially easier. Tasks will have been delegated to achieve the growth objectives. Action plan implementation becomes a joint responsibility and the chances are that achieving the growth objectives is seen as a shared challenge by all staff. This in itself will enhance the chances of achieving the objectives and being successful.

3. How to implement the strategies

You have developed your strategies. Your strategic growth plan in chapter 6 is completed. You are then almost ready to proceed with the functional modules.

The last thing to do before proceeding is to complete your objectives where you haven't done that yet: **What to do next with the strategies developed in this module?**

- Do ensure that you have set objectives for all relevant functional areas.
- Also, do ensure that you have reviewed the objectives carefully after doing your environmental analysis (STEEP analysis, Five forces model analysis, SWOT analysis). If you feel that adjustments were required, but they have not been made yet, do ensure you make them now before you proceed.
- Make sure you have cross-checked the strategies emerging from the SWOT analysis with the chosen generic growth strategy. Identify those SWOT related strategies that you want to implement to ensure that they are in line with the generic growth strategy. Also, ensure you have reviewed your goals and longer and shorter term objectives. Where required, include goals and objectives for the relevant SWOT related strategies that match with the generic growth strategy. Conversely, eliminate those SWOT strategies which are not in line with the generic strategy.
- Check whether the design of the growth strategy in the previous chapter resulted in the identification of additional areas that require attention. If so, formulate objectives for these areas as well.
- Finally, check whether all objectives are in line with the generic growth strategy chosen.

By including all areas of work in a complete set of objectives, you are ensuring yourself that you have a 'checklist' of objectives in place, that will help you to develop growth plans and action plans. By having a complete set of objectives, you do in fact have the starting point for the implementation of action following the strategies you identified. It is, therefore, no longer required to pursue those individual strategies separately. They should come back in your functional growth plans and action plans.

Once you have done all of the above, you review the shorter term / functional objectives. All objectives that could be relevant to one of the functional areas, you rewrite in relevant sections of those respective modules. These now are the objectives to be achieved as the outcome of the work in that area. For example, if you have included as a functional objective in the area of marketing 'the introduction of two new products this year', then you rewrite this objective in the chapter 1 of the Strategic Marketing Module. Objectives related to sales or profit expansion should be included in the Strategic marketing modules. When you have done this for all relevant objectives, you then have your functional objectives ready. The purpose of going through the functional module now, is to achieve these objectives.

If you have done the work in this module well, that is most of what there is to do right now. The strategic module in itself has no action plan, and is merely meant for you to prepare your strategy and objectives. Therefore, no further actions in the area of strategy are required in order to achieve your growth objectives, other than monitoring your business performance and monitoring whether you are on track with the implementation of your plans.

4. What is the exact aim of the functional modules?

The functional modules will assist you in designing the functional growth strategies and action plans required to achieve the objectives you have written down. In the end, it is, therefore, through the main business functions that you will achieve your business growth objectives. The strategic management function is merely the initiator and monitor of the process.

The functional modules will also at times force you to make choices. What should your organization structure look like? Should some of the staff receive performance based remuneration or not? These and many other questions depend on the generic growth strategy chosen in this module. If you have chosen a low cost strategy, in many cases you will need to make a choice for a low cost option. If you have chosen a differentiation strategy, you will make these choices such that they enhance the quality and value added of your products. If you have chosen a focus or niche strategy, in many cases, your choices will be related to effectively reaching and serving your market niche. The generic strategy therefore is a crucial underlying approach to your business operations that will guide you in the further design and execution of your business functions.

Therefore, the objectives and the generic growth strategy together will influence the design of the functional growth plan and action plan.

5. Chapter Summary

This chapter creates the link between the strategic management module and the other modules on Strategic Marketing, Strategic Human Resource Management and Strategic Financial Management.

This module has assisted you to craft strategies for your business. They include a vision, mission, goals and objectives, competencies and competitive advantage, and a generic strategy for the business.

Based on these efforts, it is then possible to commence the preparation for the implementation of the growth strategies. The strategies are implemented in functional areas only. The strategic management module is only the initiator and facilitator of the process, but is in itself not operational in nature.

Based on this module, you will then be able to develop growth plans for each of the functional areas in your business. You will also, need to develop an action plan for each functional area. The growth plan and action plan for each function forms the growth strategy for that function. After having prepared these strategies for all functions, you have prepared your entire growth plan. You are then ready for implementation.

Preparing a full set of longer term and shorter term objectives need to be complemented on the basis of the environmental analysis, the SWOT analysis (and resulting possible strategies), and generic strategy. It is also, important to check whether all objectives are in line with the chosen generic strategy.

Then, the objectives can be transposed to the respective module. By having a complete set of objectives, one can be assured that one is not missing out on essential strategies to be pursued. The objectives are the end results to be achieved in the respective functional areas. The growth plans and actions plans to be prepared in the functional modules, then are the 'tools' and implementation plans in order to achieve the growth objectives. The chosen generic strategy forms an overarching approach that constantly needs to be kept in mind. Many growth plan applications will depend on the generic growth strategy chosen.

The reader will be reminded in the functional modules of the implications of the generic strategy chosen as and when relevant.

6. Make an action plan for implementing adopted growth strategies

Complete the Action Plan show on the next page. The Action Plan is useful when you prepare your strategic growth plan where you can have a master action plan for all aspects of your strategic management.

You can find the forms for preparing your Action Plan in the Strategic Growth Plan.

ACTION PLAN

OBJECTIVE (What to achieve?)	ACTIVITIES (What should be done?)	TIME FRAME (When it should be done?)		RESPONSIBILITY (Who should do it?)	RESOURCES (How it should be done?)	COMPLETED
		START	END			
						☐
						☐
						☐
						☐
						☐
						☐

Chapter

6

STRATEGIC GROWTH PLAN

What you will learn in this chapter ...

After studying this chapter, and completing the exercises in it, and with the guidance of your business trainer, you should be able to:

- Prepare your strategic growth plan.
- Make an action plan for your strategic management activities.

1. What is a strategic growth plan?

A strategic growth plan is a longer term business plan that sets out the business growth objectives, as well as the main strategies to achieve those objectives.

This module has aimed at developing the ingredients of this growth plan. In this chapter, the Growth Oriented Entrepreneur (GOE) will be enabled to complete the strategic growth plan based on the previous chapters.

2. How the strategic growth plan will help the business to expand

The strategic growth plan, once completed, will set the growth objectives for the business for the coming years. The growth plan also sets the main strategic approach to achieve the set objectives through a generic strategy. Having the strategic growth plan completed means, that the business will have the main course identified to achieve its mission. The strategic growth plan enables the entrepreneur to organise the business accordingly, to commence with the preparation and implementation of functional growth plans and action plans. Without the strategic growth plan, the business will not be able to set achievable growth objectives, and to have a strategic approach to get there. In the same way, without a strategic growth plan, there will be no structured effort to achieve growth. The strategic growth plan, therefore, provides the required umbrella to structure the business functions, and implement actions to achieve growth.

Company Name: ______________________________

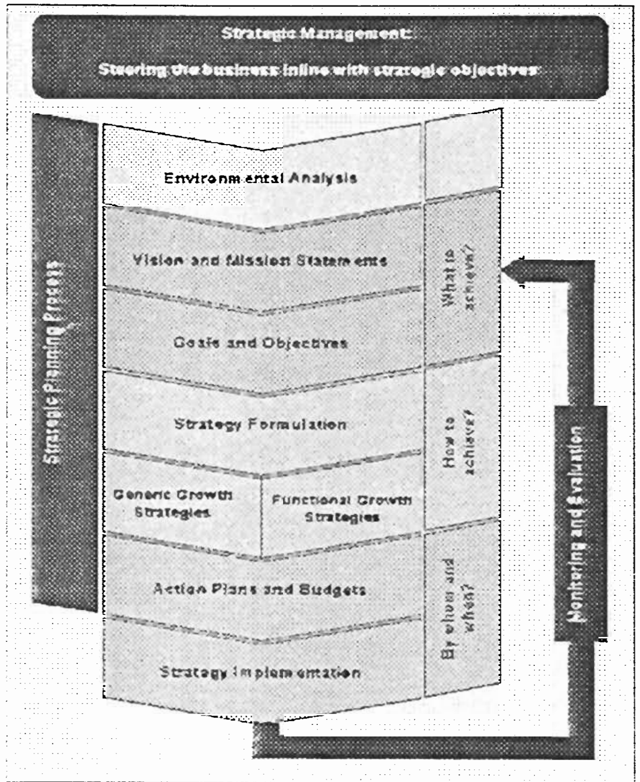
STRATEGIC BUSINESS GROWTH PLAN

FOR THE PERIOD

_____ /_________ / __________ **to** _____ / _________ / _________

3. How to design the strategic growth plan

The strategic growth plan is the most strategic part of the growth plan. The *other functional parts* will be developed on the basis of this growth plan in the various functional modules.



The strategic growth plan consists of the following components:

- STEEP Analysis
- Five Forces Model analysis
- SWOT analysis
- Industry Key Success Factors
- Core competencies
- Distinctive competencies
- Competitive advantage
- Vision
- Mission
- Goals
- Longer term objectives
- Shorter term or functional objectives
- Generic competitive strategy

3.1 Environmental analysis, competencies and Strategic advantage

In chapter two of this module, you have conducted strategic environmental analysis. The objective of doing this analysis was to identify your unique business strengths enabling you to position your business in the market in such a way that you should be able to achieve your growth objectives. The analysis tools applied included:

- Macro-environmental analysis: STEEP analysis
- Industry analysis: Five Forces Model analysis
- Matching external and internal analysis: SWOT analysis

Reprint in the following space provided the outcomes of your analysis work conducted.

PRODUCTS AND MARKETS

Products/ Services You Sell	Markets You Serve
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢

Products/ Services You Sell	Markets You Serve
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢

"STEEP" ANALYSIS FORM

Socio Cultural
Factors ➢ ➢ ➢ ➢ ➢
Conclusion

Technological
Factors
➢ ➢ ➢ ➢ ➢ ➢ ➢
Conclusion

Ecological
Factors ➢ ➢ ➢ ➢ ➢ ➢ ➢
Conclusion

Economic
Factors ➢ ➢ ➢ ➢ ➢ ➢ ➢
Conclusion

Political Legal
Factors ➢ ➢ ➢ ➢ ➢ ➢ ➢
Conclusion

"Five Forces" ANALYSIS FORM

General Industry profile	
Key Points	Conclusion
➢ ➢ ➢ ➢ ➢ ➢ ➢ ➢ ➢	

Entry Barriers:	
Key Points	Conclusion
➢ ➢ ➢ ➢ ➢ ➢ ➢ ➢ ➢ ➢	

Power of Suppliers	
Key Points	Conclusion
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	

Power of Buyers:	
Key Points	Conclusion
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	

Substitute Products:	
Key Points	Conclusion
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	
➢	

Drawing on the outcomes of the STEEP analysis and particularly the Five Forces Model analysis, you should now be able to conclude on the Industry Key Success Factors for your industry:

Industry Key Success Factors	
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢

YOUR "SWOT" ANALYSIS FORM

The next step in your strategy development process is to conduct a **SWOT analysis**. Based on the steps outlined in the module, now prepare or reprint your SWOT analysis below. Remember to prepare a long list, and then below mention the 4 most important strengths, weaknesses, opportunities and threats. Recall also that only those aspects are important *that affect your ability* to effectively compete in the market.

	Drivers to Growth	Obstacles to Growth
Internal Factors	Strengths ➢ ➢ ➢ ➢	Weaknesses ➢ ➢ ➢ ➢

	Drivers to Growth	Obstacles to Growth
External Factors	Opportunities ➢ ➢ ➢ ➢	Threats ➢ ➢ ➢ ➢

Based on the above SWOT analysis, follow the steps outlines in section 3.3.4. to match your strengths and weaknesses with the opportunities and threats. Formulate strategies where you observe a strong (positive or negative) relationship between the factors.

Internal / External	Strengths	Weaknesses
	➢ ➢ ➢ ➢	➢ ➢ ➢ ➢
Opportunities ➢ ➢ ➢ ➢	Possible strategies • • • •	Possible strategies • • • •
Threats ➢ ➢ ➢ ➢	Possible strategies • • • •	Possible strategies • • • •

STRENGTHS AND WEAKNESSES OF YOUR MAIN COMPETITORS

COMPETITOR (1) NAME: ____________________

	Drivers to Growth	Obstacles to Growth
Internal Factors	Strengths	Weaknesses
	➢	➢
	➢	➢
	➢	➢
	➢	➢

STRENGTHS AND WEAKNESSES OF YOUR MAIN COMPETITORS

COMPETITOR (2) NAME: ______________________________

	Drivers to Growth	Obstacles to Growth
Internal Factors	Strengths ➢ ➢ ➢ ➢	Weaknesses ➢ ➢ ➢ ➢

STRENGTHS AND WEAKNESSES OF YOUR MAIN COMPETITORS

COMPETITOR (3) NAME: ______________________________

	Drivers to Growth	Obstacles to Growth
Internal Factors	Strengths ➢ ➢ ➢ ➢	Weaknesses ➢ ➢ ➢ ➢

STRENGTHS AND WEAKNESSES OF YOUR MAIN COMPETITORS

COMPETITOR (4) NAME: ______________________

	Drivers to Growth	Obstacles to Growth
Internal Factors	Strengths ➢ ➢ ➢ ➢	Weaknesses ➢ ➢ ➢ ➢

STRENGTHS AND WEAKNESSES OF YOUR MAIN COMPETITORS

COMPETITOR (S) NAMES: ______________________________

Internal Factors	Drivers to Growth	Obstacles to Growth
	Strengths	Weaknesses
	➢	➢
	➢	➢
	➢	➢
	➢	➢

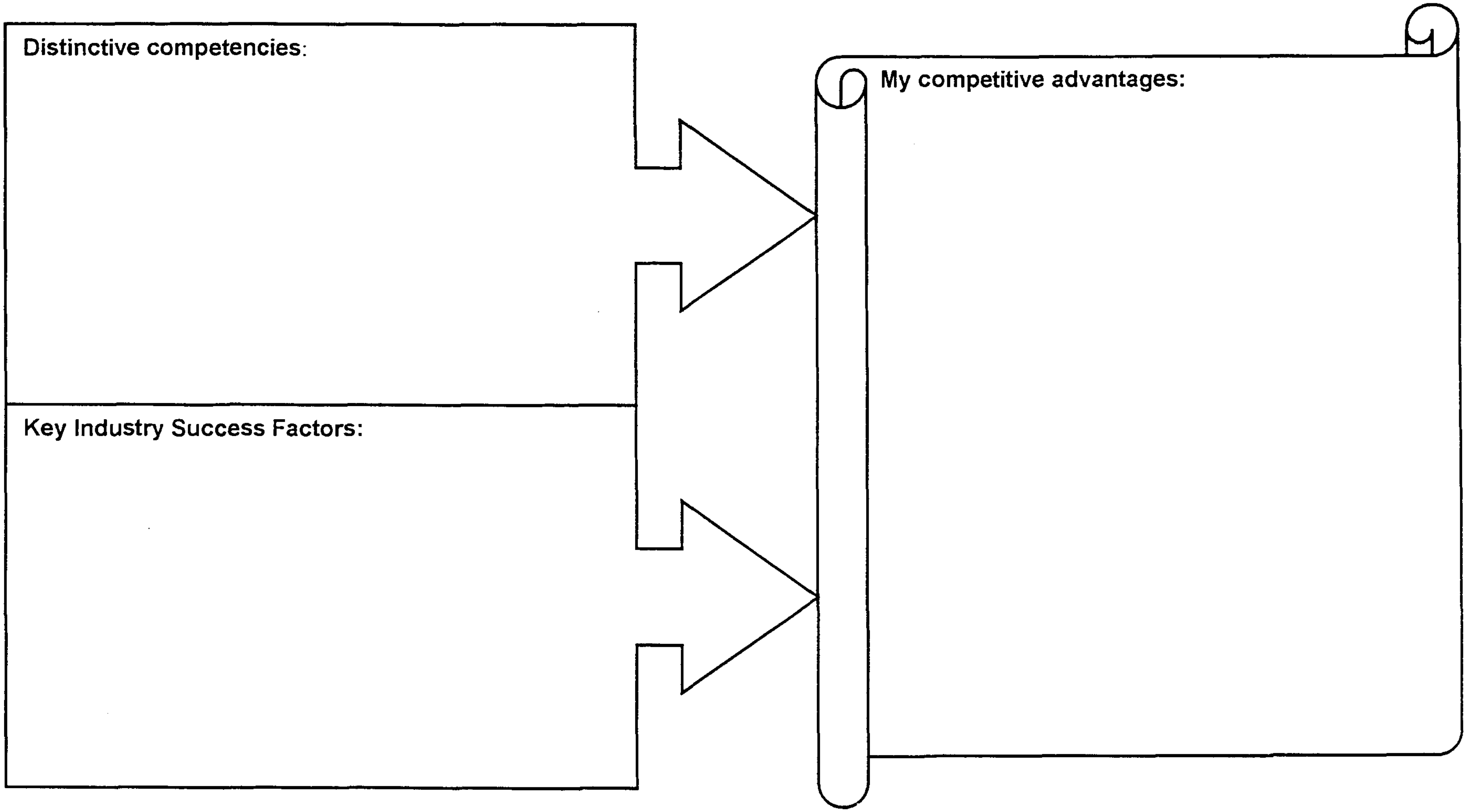
Having done the above analysis, you are now in a position to conclude on your **core competencies**. Your core competencies are your main competitive strengths in the market. They can be derived from the strengths as you identified in the SWOT analysis. Section 3.3.5 lists types of core competencies to assist you in identifying yours.

My Core Competences
➢
➢
➢
➢
➢
➢
➢

Having listed your core competencies, now assess which ones of these competencies you are significantly better at than your competitors. Be critical towards yourself. The areas in which you are particularly better than others are your **distinctive competencies**.

My Distinctive Competences	
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢
➢	➢

Finally, now, compare the distinctive competencies of your business with the Key Industry Success Factors identified earlier. Those distinctive competencies that are also Industry Key Success Factors are now your **competitive advantages** in the industry in which you operate. These are treasures to be nurtured as they form the basis for successful growth.



3.2 Vision, mission, goals and objectives

The vision is your long term view of what your company is, and what you want to achieve with it. It is like a dream you have of your company, which helps you to create leadership and the commitment to achieve life ambitions.

The **vision** could include:

- What business the organization is in, (products, markets or technologies).
- How things can be done better,
- How it will go about the business as an organization,
- What the organization's '*reason d'être*' is ,
- A state of being for the business in the longer run.

Draw your vision here based on the work undertaken in the Strategic Management Module.

THE STRATEGIC DIRECTION OF THE COMPANY

VISION

The **mission** has a time span of 3-5 years, is more result-oriented and gives direction. It answers the basic questions:

- What function(s) the organization performs?
- For whom does the organization perform this function?
- How does the organization go about filling this function?
- Why does the organization exist?

It also has a future outlook of what it wants to achieve.

Draw here your mission on the basis of what you learned in this module.

THE STRATEGIC DIRECTION OF THE COMPANY

MISSION STATEMENT

Goals are defined open-ended statements of planned accomplishments. Goals are directly derived from the mission of the company.

Objectives are specific performance targets or results to be achieved within a certain time frame. Objectives convert the goals into targeted results. Objectives can be longer term (approx. 3-4 years) and shorter term / functional (1-2 years) in nature. They can be both quantitative and qualitative, but should always be measurable. The SMART principle applies.

Print below your goals, longer-term objectives and shorter-term objectives from section 2.3.3.

STRATEGIC OBJECTIVES FOR THE PLAN (REMEMBER: THEY SHOULD BE SMART OBJECTIVES)

Goals	Long-term Objectives	Functional and shorter term objectives
Profitability	Profitability	Profitability

Goals	Long-term Objectives	Functional and shorter term objectives
Customer orientation	Customer orientation	Customer orientation
Productivity	Productivity	Productivity

Goals	Long-term Objectives	Functional and shorter term objectives
Internal structuring	Internal structuring	Internal structuring
Competitive position	Competitive position	Competitive position

Goals	Long-term Objectives	Functional and shorter term objectives
Physical and financial resources	Physical and financial resources	Physical and financial resources
Employee development	Employee development	Employee development

Goals	Long-term Objectives	Functional and shorter term objectives
Employee relations	Employee relations	Employee relations
Technology and innovation	Technology and innovation	Technology and innovation

Goals	Long-term Objectives	Functional and shorter term objectives
Public responsibility	**Public responsibility**	**Public responsibility**

3.3 Formulating a competitive strategy

Having identified your competitive advantage in the market, the next and last step is the identification of a generic strategy. The generic strategy will help you to turn your strategy advantages into **sustainable competitive advantages** in the industry. The generic strategy will ensure that your growth plans and action plans are designed such that you follow a specific strategy that ensures that you build on your competitive advantages, and exploit your competitive edge to the maximum so as to achieve your growth objectives.

The formulation consists of two steps. First, you may want to do an initial assessment of the generic strategies for your company. This exercise is optional, but will allow you to understand the implications of each strategy for your business. Complete the last column in the next box.

FORMULATING A COMPETITIVE STRATEGY: OPTIONAL EXERCISE

Cost leadership strategy Understood to mean control of costs to achieve competitiveness	**Conditions** ▪ Low cost production technologies. ▪ Low wastage of materials and labour time. ▪ Low labour costs. ▪ Cheap raw materials for the production process. **Pitfalls** ▪ Technological breakthrough can open up cost reductions; ▪ Rivals may find it easy to imitate low-cost methods; ▪ High turnover of staff resulting in loss of experienced workers	Complete
Differentiation strategy Understood to mean production of goods or services that add value to the needs of the customer.	**Conditions** ▪ Gain buyer loyalty to your brands; ▪ Create a buffer against strategies of rivals when it results in enhanced buyer loyalty to a company's brand; ▪ Erect entry barriers and product uniqueness; ▪ Incorporate features that raise the performance of the product; ▪ Incorporate features that enhance buyer satisfaction in intangible ways e.g. safety, health. **Pitfalls** ▪ Trying to differentiate on the basis of something that does not lower a buyer's cost or enhance a buyer's well-being, as perceived by the buyer; ▪ Setting price too high relative to competitors in the same market, ▪ Charging too high a price premium (the bigger the premium, the harder it is to defend switching costs); ▪ Not identifying/understanding what buyers consider as value.	

Focus/Niche strategy Understood to mean targeting a specific market segment with the intention of meeting its needs on a sustainable basis. This can be both on the basis of low costs and on the basis of differentiation.	**Conditions** ▪ The segment is big enough to be profitable; ▪ The segment has a good growth potential; ▪ The segment is not crucial to the success of the major competitors; ▪ The focusing firm has the skills and resources to service the segment effectively. **Pitfalls** ▪ Rivals will find ways of matching the special qualities offered by the focuser; ▪ There may be a shift in niche buyers' preferences; ▪ An erosion of differences across buyer segments lowers entry barriers and offers a window of opportunity for rivals; ▪ The segment is found attractive by rivals, causing segment to attract more players leading to profit erosion.	
Conclusion		

The second step is to formulate a generic strategy for your business following the steps outlined in section 4.3. List the four generic strategies. Then, list all Key Industry Success Factors (KISF) for each generic strategy. Give points on a scale of 1-5 for those KISF's that are also your competitive advantages. Add up the points, discuss carefully and decide your generic strategy.

Generic strategy	Key Success Factors /competitive advantage	Remarks/ Score
Low cost Strategy		**Total score**

Generic strategy	Key Success Factors /competitive advantage	Remarks/ Score
Differentiation strategy		**Total score**

Generic strategy	Key Success Factors /competitive advantage	Remarks/ Score
Cost Focus/ Niche strategy		Total score

Generic strategy	Key Success Factors /competitive advantage	Remarks/ Score
Differentiation Focus/ Niche strategy		**Total score**

Based on the above analysis, now make your final conclusions on the most appropriate growth strategy for your business. You may refer to the example given in the Strategic Management Module.

STRATEGY ADOPTION

Congratulations!!

You have completed your strategic growth plan. This is a milestone for the long-term growth and expansion of your business.

You are now ready to proceed with the functional modules on: Strategic Marketing, Strategic Human Resources Management and Strategic Financial Management to prepare growth plans and action plans for your main business functions.

NOTES

NOTES

MY ACTION PLAN

Objective (What To Achieve?)	Activities (What Should Be Done?)	Time Frame (When It Should Be Done?)		Responsibility (Who Should Do It?)	Resources (How It Should Be Done?)	Status
		Start	End			

MY ACTION PLAN

Objective (What To Achieve?)	Activities (What Should Be Done?)	Time Frame (When It Should Be Done?)		Responsibility (Who Should Do It?)	Resources (How It Should Be Done?)	Status
		Start	End			

Annex 1

GLOSSARY OF MANAGEMENT TERMS USED IN THIS MANUAL

Term	Its Meaning
Business Environment	is the set of forces outside the enterprise that can affect its performance
Core competency	is an activity that a company does, especially well, in comparison to other internal activities
Mission	is a statement broadly outlines what business you are in, specifies the organization's future direction, and how you will satisfy the needs of the customer
Opportunity	is something in the external environment of the company and beyond its control, and can have a positive effect on the company if invested by using the strengths of the company.
SMART Objective	is an acronym for the following characteristics of an objective: ■ Specific ■ Measurable ■ Achievable ■ Realistic ■ Timeframe for accomplishment
STEEP Analysis	is a summary for the macro-environmental forces that cover: ■ Socio-cultural ■ Technological/Natural ■ Economic ■ Ecological ■ Political/ Legal
Strategic management	is a continuous, interactive, cross-functional process aimed at keeping an organization as a whole appropriately matched to its environment
Strategy	Is the comprehensive plan that sets direction towards achievement of set goals and objectives
Strategy implementation	is the process of bringing strategy into action. Strategy implementation deals with the actions required to achieve set goals and objectives
Strength	is something a company is good at doing or a characteristic that gives it an important capability.

Term	Its Meaning
SWOT Analysis	is an acronym for a company's: ■ **S**trengths ■ **W**eaknesses ■ **O**pportunities ■ **T**hreats
Threat	is something in the external environment of the company and beyond its control, and can have a negative effect on the company if not avoided or dealt with properly by the company.
Vision	is a term that encapsulates the organization's values and aspirations in the most general terms without specific statements about the strategies used to attain them
Weakness	is something a company lacks or does poorly in comparison to others, or a condition that puts it at a disadvantage

Annex 2

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