

Chapter 2:Analysing business strategy: creating value

Learning Objectives

- 2.1 Describe what constitutes good strategy, including the five key questions of business strategy
- 2.2 Identify the ways in which customer value is created
- 2.3 Define the concept of key stakeholders and distinguish who the key stakeholders are for a particular organisation
- 2.4 Explain how different organisational types affect business strategy formulation
- 2.5 Explain how sustainability will affect business strategy choices
- 2.6 Describe how the evolution and complexity of strategy as a concept impacts how strategies are used by organisations
- 2.7 Explain why a business strategy will evolve dynamically over time

Chapter Summary

There are many different views about what constitutes a business strategy and how it might be expressed. In this chapter, we have provided a framework of five key questions (5Qs) to enable you to analyse existing business strategy statements and clearly understand what the organisation's business strategy actually is, regardless of what it is called.

We focused on concepts of how to create value for customers, leading to the development of a (hopefully sustainable) competitive advantage, a value proposition and a resulting business model. We considered how business strategy might vary for public sector organisations, not-for-profits, start-ups and small businesses. We considered how sustainability principles are likely to influence business strategy formulation in the future. We considered the dynamic evolution of strategy over time, including the roles of innovation and learning, and planned and emergent strategy.

End of chapter questions

Question 1: Why do you think that so many organisation's vision statements and mission statements end up being similar? Is this a problem?

Answer:

There is a huge overlap between the various statements across organisations and little acceptance of their definitions, or the links between them, if more than one is used. This also occurs in textbooks, in articles, and in consulting approaches. Therefore, it is not surprising that there is confusion in organisations over what each of these statements means and how they relate to each other. Studies consistently find that it is possible for highly successful organisations to have no vision or mission statement at various times in their history and that these elements are not mission critical. However, if they do exist, they should be useful in identifying the business strategy that the organisation is pursuing.

Question 2: Construct a hypothetical '5Qs' for your local cafe/university bookshop/department store. How easy was this to do?

Answer:

This question gives students the opportunity to explore the meaning behind the five questions of strategy, and how they can be combined to give a cogent picture of an organisation's strategy. In this exercise, students are able to discuss the way that the nature of the business affects the strategic position that it might take in relation to each question. Students may discover that many assumptions may need to be made about the strategic intent of each organisation, and yet, a concise statement of strategic intent can be generated for each type of business.

Using the 5Q approach as applied to the university bookstore:

1. What amount of growth and level of profitability does the organisation seek?

Most likely the university bookstore has as its mission a goal to service the university where it is located. However, since the textbook market has become very competitive, it might be that the store will service several universities if they are in close proximity.

2. What products and services does it plan to produce?

Since students have many options, the bookstore will want to do something better than their competitors. Typically students need to buy all of their books right away, so the bookstore may seek to provide a wider range of products in a better or faster way than their competitors.

3. What customer and geographic markets does it plan to service?

Obviously as mentioned in the first question, the store will want to service the university where it is located, unless it is in close proximity to other universities.

4. What generic strategy does it plan to follow to position itself uniquely against competitors?

Provide a wider range of products in a better or faster way.

5. What position in the industry does it plan to hold in the future?

The position that the bookstore hopes to hold in the future is one of a very favourable view –

one where all faculty shop and recommend students shop.

Question 3: What is the difference between stakeholders and key stakeholders? When might a stakeholder become a key stakeholder and vice versa?

Answer:

Stakeholders are those individuals or groups that are affected by the business strategy of the organisation. Typical stakeholders include owners, employees, suppliers, customers, government, the local community and the wider society.

Key stakeholders are those individuals or groups that can influence the business strategy of the organisation. Typical key stakeholders include majority or substantial shareholding owners and any directors they may appoint, the CEO and senior managing employees, a critical or sole supplier, a dominant customer, a government regulatory body, a local community lobby group and a national consumer or other association such as a trade union.

Circumstances under which a 'stakeholder' becomes a 'key stakeholder' include:

- a shareholder reaches a position that entitles it to nominate a director
- an employee is promoted to senior management
- a supplier becomes a sole supplier due to the takeover or collapse of its competitor(s)
- a customer becomes dominant due to the takeover or collapse of its competitor(s)
- a new regulatory body is created or an existing one is given new powers
- a particular incident causes a lobby group to form
- a shift in public opinion occurs or a labour dispute is precipitated.

Key stakeholders either become or revert to simple stakeholder status when she/he/it/they lose control of the power that enables them to influence the business strategy of the organisation.

Question 4: What do you think customers value when they purchase food from a local independently operated quick service restaurant? What about a well-known international chain restaurant (e.g. Domino's pizza versus an independent specialty pizza store)?

Answer:

Answers may vary. However, some issues of value for the local independently operated quick service restaurant include: doing business with someone you know, keeping the revenue of the business in the local community, knowing that the food is fresh, trusting the people that prepare the food, and receiving food at a fair price. Issues of value for the well-known international chain restaurant include: consistency of taste and price of menu items, similar surroundings in each facility, regulatory inspections by the chain management, similar menu offerings, and ability to complain about service to a corporate office.

Question 5: From your own perspective, if you were to rethink what a hotel would offer to make it attractive to you, what elements would you add and what would you increase relative to an existing offer? And what would you reduce and what would you eliminate? Do you think such a value proposition would be attractive to other customers?

Answer:

Answers may vary. Personal preferences will influence answer choices for the second and third question in this series, but some will mention good quality bedding and good soundproofing. Others will focus on size of the room, cleanliness, room service, fitness centres, WIFI-availability, reception hall availability, sufficient parking including how close it is to the hotel, airport shuttles, and proximity to diverse shopping, recreational, and restaurant centres or facilities. Some of these amenities would come with an increased cost. The value proposition would vary depending upon whether the stay was for business or pleasure and whether the individual paid for the hotel or whether his/her employer paid for the hotel.

Question 6: How do you think sustainability will affect the business strategy of farm organisations/coal miners/airlines/banks?

Answer:

This is a personal perspective question that allows students to explore the idea of sustainability from a strategy perspective. Some guidance may be required regarding the particular sustainability issues that are pertinent to these organisations. Obviously, the issues faced by banks are quite different to those faced by coal mines, e.g. environmental sustainability. Culture and values change to support a strategy.

Government initiatives see making food available for everyone without damaging the environment as one of the biggest challenges of our time. It will continue to be one of Australia's on-going focuses in creating an industry that is less wasteful, more profitable, and more sustainable. Coal is one of Australia's main exports and is responsible for a proportion of Australia's current economic growth. Because of this, efforts are being made toward clean coal initiatives and expanded markets that improve transmission networks. In Australia and around the world, airlines are taking notice and working to improve their corporate sustainability reporting. That means better use of scarce resources, better compliance with increased regulations and more satisfied customers. But there is a need for sector-wide standards to allow for comparisons, because there are currently too many types of data units being used. In 1995, research by United Nations Environment Program and Salomon Inc. of New York found that 70% of respondents in a group of 90 commercial and investment banks from four different continents believed environmental issues had a material impact on their business. In particular bankers are cautious about the financial implications of: (1) lender's liability; (2) borrower's ability to meet financial obligations; (3) growing environmental concerns; and business opportunities associated with sustainability. A number of banks in Australia are partnering with the NSW Government's Sustainability advantage as well as other government programs to promote sustainability.

Question 7: Consider the leading supermarket organisation in the country. Construct three alternative business strategies which it might hypothetically pursue. What has it chosen to pursue and how does this compare with those you constructed?

Answer:

This is a 'practical research' question that should prompt valuable discussion but only if adequate warning has been given to allow appropriate preparation. Students should be required to produce some publicly available evidence of the strategic intent of their chosen supermarket organisation as well as their own observations as a customer. Students may need guidance in constructing plausible alternative, hypothetical business strategies that would be within the repertoire of their chosen organisation.

This could be run as an individual or team activity. Furthermore, students could discuss the relative merits or otherwise of the hypothetical strategies proposed by classmates. One timely suggestion is to pursue social media strategies and other technology strategies. Both Coles and Woolworths have developed apps that show half-price items and hit hard at Aldi's low cost items and in similar IT changes, the supermarkets are working to eliminate the checkouts and promote self-checkout lanes or with cell phones.

Question 8: There is considerable discussion around the decline of the newspaper industry. Using the ideas of innovation and learning, what opportunities might exist for a company to redefine their business for the future?

Answer:

Again, student answers will vary. Under threat from new technologies, opportunities for the newspaper industry has led to heavy investments in technology in order to redefine the newspaper business. Students should focus on how organisations must be able to change their capabilities, and hence their business strategy, as the stage of the industry life cycle changes. With movement to the Internet, the newspaper business saw more opportunities to change the model to a digital paywall and less printed copies. Some newspapers have branched out into online and streaming media.

Question 9: The financial performance for Amazon is consistently very low relative to its equity, yet it's share capital is very high relative to these earnings. Why is Amazon still very popular with investors when its relative earnings are so low?

Answer:

Again, student answers will vary but should be supported with research about Wall Street. Amazon is very popular with investors because they believe in Jeff Bezos. Amazon steadily lost money in pursuit of growth, but it was a well-timed bond offering executed before investing sentiment turned that allowed Amazon to change course and ride out a cash crunch that ruined many other firms at the same time. Bezos' model for slow steady growth, focusing on service, and large investments in e-commerce is why Amazon is still very popular with investors.

Question 10: The extent to which Australian firms pay local taxes is getting increasing coverage as an emerging ethical consideration? Do you think that consumers will start to avoid some firms that take an extreme position in terms of tax minimization? Why or why not?

Answer:

Tax avoidance is a huge problem in Australia. Student answers will vary but at a minimum, students should support their positions with publicly available information about the tax savings of some of the companies and movements against these companies. According to the Australian Tax Office's most recent data, 36% of the largest public companies and multinational entities in Australia paid no tax in the most recent financial year on record.* Some firms that paid little or no tax in 2015 to 2016 include:

- Chevron: \$0 tax paid on \$2.1bn revenue.
- ExxonMobil Australia: \$0 tax paid on \$6.7bn revenue.
- IBM: \$0 tax paid on \$3.6bn of revenue.
- Glencore: \$44m in tax paid on \$24bn of revenue.

Campaigns like GetUp and data from Tax Justice Network Australia expose that there is less money for hospitals, schools, family violence support, support for people with disabilities and mental health needs. These movements blame the government for failing to address the underlying issues, where increasing numbers of corporations are restructuring in order to avoid having to pay tax in Australia.

*Source: Hutchens, G. (2017). Australian tax office says 36% of big firms and multinationals paid no tax. The Guardian, Dec. 7 (Retrievable online at <https://www.theguardian.com/australia-news/2017/dec/07/australian-tax-office-says-36-of-big-firms-and-multinationals-paid-no-tax>)