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Strategy Formulation

...What exactly does it involve?

There are numerous strategy management frameworks that exist and most have a step defined as “Strategy Formulation”. Management literature is filled with generic strategies for example, Porter (1980) identified three competitive strategies: (1) Overall Cost Leadership, (2) Differentiation and (3) Niche/Focus. Kim and Mauborgne (2005) present the idea of “Blue Oceans” and the need to create uncontested market space where competition is irrelevant but in reality when a business is making profit it will attract competition. Treacy and Wiersema (1993) identify three value disciplines or basis of competition: (1) Product Leadership, (2) Customer Intimacy and (3) Operational Excellence. Generic strategies provide direction but need further expansion to create clarity on how they will be achieved and facilitate alignment across value creation and capture activities.

This short paper aims to clarify what issues should be addressed at the strategy formulation stage. Suppose an organization decides that its overall strategy in the market would be around “Product Leadership”, the strategy formulation stage fills in the “How, Where and What needs to happen” parts of the puzzle. A working definition of strategy formulation is: *The sum of strategic choices and decisions that will enable the business / organization to achieve its strategic goals and key stakeholder expectations.*

On the commercial front there are essentially two situations that strategy formulation needs to address:

1. How, Where and What is the organization going to do to drive growth and improve profitability?
2. If the organization is in a turnaround situation – How, Where and What does it need to do to get back on track or exit?

The focus in this paper will be on growth and profit improvement.

When formulating strategy as a team it is useful to leverage the various strategy tools and frameworks to address the “How” Where” and “What needs to happen” questions. Examples of strategy tools that may be used in a team strategy formulation context are presented in Figure 1.

Figure 1: Example of Strategy Tools for the How & What Questions

How & Where to Grow?	What Needs to Happen?
<ul style="list-style-type: none"> • PESTEL & SWOT • Product / Market Matrix • Attractiveness / Advantage Matrix • 3 Horizons for Growth • Blue Ocean Strategy Canvass 	<ul style="list-style-type: none"> • Value Chain Analysis • 5C Analysis • Strategy Maps • Balanced Scorecard • LEAN & Six Sigma

Source: developed for this paper

How to Grow? - Growth relates to the revenue side of the business while profitability relates to the differentiation, asset utilization, pricing and cost management. Decision making needs to balance both the short and medium/long term needs of the organization. For example, simply driving revenue growth may be achieved at the expense of declining profitability. Planning and strategizing for revenue growth the organization needs to decide where and how growth will be achieved. There are a limited range of options, however when creativity and innovation is applied new markets, products and business model often emerge. Typical revenue growth options include:

- Market penetration – taking market share from competitors.
- Geographic expansion – expanding into new markets.
- New Products, Services, Platforms and/or Market scope.
- Vertical integration - Backward integration going closer to the source of material input &/or Forward integration bringing you closer to the customer and consumer.
- Disruptive innovation – this is a situation where the organization develops new markets, breaks traditional industry boundaries or changes the rules of the game.
- Diversification – could be into adjacencies or into totally new markets.
- Alliances – such as joint ventures, partnerships and collaborative agreements.
- Mergers & Acquisitions

The growth options available emerge during the strategy analysis and implementation process. Situation analysis, strategy reviews, creative brainstorming and growth drive of the leadership team keeping in view resource availability, core capabilities, risk appetite, customer and market insights. Strategic choices made in terms of which opportunities to pursue, what investments to make and how resources will be deployed reflect the perspectives of the leadership and their assumptions of the future, how value will migrate and how the organization needs to change to fit /align for success.

Initiatives for growth require a combination of: (1) Operational improvements that impact the core business; (2) Innovations that redefine products and service offerings, (3) Business model changes and processes change (4) Redefining target markets served and (5) Exploring new transformative technologies that are disrupting or have the potential to disrupt markets and business models.

Profitability - Improving profitability while delivering top line growth is important. Growth organizations able to display operating leverage do well with their shareholders. Improved profitability comes from:

- Differentiated positioning enabling the organization to charge a Premium Price &/or Capture a major portion of industry profits. This is possible when the organization is able to distance itself from the competition, secure a loyal and growing customer base through a competitive value proposition;
- Effective cost management;
- High asset [i.e. Tangible & Intangible] utilization and leverage.

Delivering the value proposition which is at the core of strategy formulation, requires alignment across functions and the broader business value chain (Figure 2). Specific initiatives and resource investment required need to be defined and commitments made across all areas of the business such as marketing, sales, operations, technology, IT, human resources and finance. Well formulated strategy takes into consideration and addresses how the white space between departments and value chain partners will be coordinated, leveraged, resourced and held accountable to deliver the competitive value proposition to customer and capturing value for the business to sustain growth and stakeholder satisfaction.

Figure 2: Example: Functional Initiatives as Part of Strategy Formulation

Function	Contribution to Strategy Formulation	Aligned Initiatives & Actions
Marketing & Sales	<ul style="list-style-type: none"> • Demand Generation • Segmentation • Customer Engagement • New Business / Market Development 	<ul style="list-style-type: none"> • Pricing Policy • Global Account Development • Customer Relationship Management • Branding
Technology	<ul style="list-style-type: none"> • Innovation • Product Management 	<ul style="list-style-type: none"> • New Product Portfolio
Operations	<ul style="list-style-type: none"> • Capacity & Footprint Planning • Capital Investment • Capability Development • Supply Network Development 	<ul style="list-style-type: none"> • Supply Chain Savings • LEAN & Six Sigma • Industry 4.0 Programs
Human Resources	<ul style="list-style-type: none"> • Talent Acquisition • Performance Management & Alignment • Talent Retention • Strategy Communication 	<ul style="list-style-type: none"> • Cloud Based HR Tools • Performance Based Pay • Strategic Talent Acquisition
Information Technology	<ul style="list-style-type: none"> • Digital Technologies • Integrated IT Systems 	<ul style="list-style-type: none"> • AI & Machine Learning • Cyber Security • Global ERP platforms
Etc.		
Etc.		

Source: developed for this paper

Conclusion – Strategy formulation is the path that will be taken to achieve the vision and strategic goals of the business. It takes high-level strategic direction and maps out the path that will be taken to deliver expected results. A good strategy is one that is relevant given the market context and can be executed taking into consideration the resources available to the organization. In today’s global, dynamic and digital environment, strategy formulation requires continuous review, learning and adaptation as issues and new opportunities emerge.

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