

4.16: Stages and Types of Strategy

Learning Outcomes

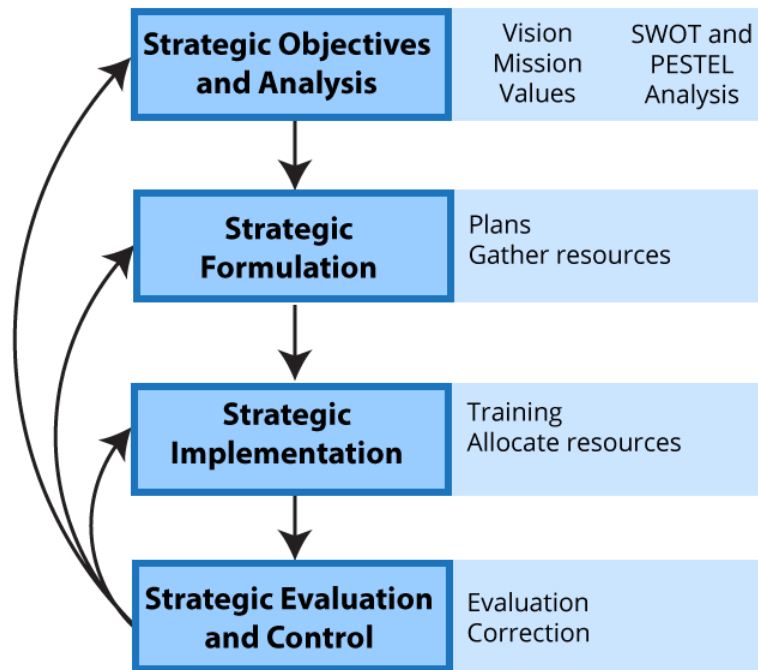
- Explain the stages of strategy.
- Explain Porter's general types of competitive strategies.
- Explain e-commerce strategy.

The previous sections have examined the role of strategy in management and looked at common frameworks for analyzing the external and internal environment of business organizations. But what are the specific steps in the strategic management process? How do managers decide what to do, when to do it, and make sure it is happening the way they want? This is what the strategic management process is all about.

The Strategic Management Process

The strategic management process consists of three, four, or five steps depending upon how the different stages are labeled and grouped. But all of the approaches include the same basic actions in the same order. A brief description of these steps follows:

1. **Strategic Objectives and Analysis.** The first step is to define the vision, mission, and values statements of the organization. This is done in combination with the external analysis of the business environment (PESTEL) and internal analysis of the organization (SWOT). An organization's statements may evolve as information is discovered that affects a company's ability to operate in the external environment.
2. **Strategic Formulation.** The information from PESTEL and SWOT analyses should be used to set clear and realistic goals and objectives based on the strengths and weaknesses of the company. Identify if the organization needs to find additional resources and how to obtain them. Formulate targeted plans to achieve the goals. Prioritize the tactics most important to achieving the objectives. Continue to scan the external environment for changes that would affect the chances of achieving the strategic goals.
3. **Strategic Implementation.** Sometimes referred to as *strategic execution*, this stage is when the planning stops and the action begins. The best plans won't make up for sloppy implementation. Everyone in the organization should be aware of his or her particular assignments, responsibilities and authority. Management should provide additional employee training to meet plan objectives during this stage, as well. It should also allocate resources, including funding. Success in this stage depends upon employees being given the tools needed to implement the plan and being motivated to make it work.
4. **Strategic Evaluation and Control.** Because external and internal conditions are always changing, this stage is extremely important. Performance measurements (determined by the nature of the goal) will help determine if key milestones are being met. If actual results vary from the strategic plan, corrective actions will need to be taken. If necessary, reexamine the goals or the measurement criteria. If it becomes apparent that the strategy is not working according to plan, then new plans need to be formulated (see Step 2) or organizational structures adjusted. Personnel may need to be retrained or shifted to other duties. You may even have to repeat the strategic management process from the beginning, including the information and knowledge gained from this first attempt.



The graphic depicts the basic steps of the strategic management process. Note that analysis, decision making, and action happen in all of the steps and throughout the process.

? Practice Question

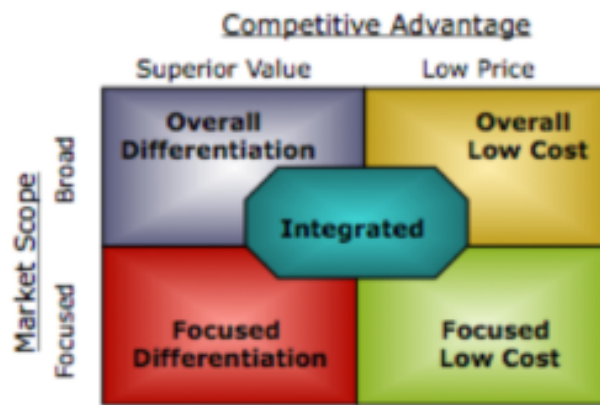
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Porter's Competitive Strategies

The strategic management process described earlier can be successfully used for a wide number of business strategies. In practice, however, most organizations develop strategies that focus on the competition.

Besides studying the nature of industry profits in the Five Forces Theory, Michael Porter is also recognized for his work on four general types of competitive strategies. (More recently, a fifth strategy has been added.) Porter's model describes two ways of achieving competitive advantage, either by differentiation or by cost. It also identifies two ways of targeting the market, by focusing on a particular market segment or appealing to the overall (broad) market. This approach results in four separate competitive strategies: overall differentiation, overall low cost, focused differentiation, and focused low cost. The fifth strategy combines elements of both low cost and differentiation. This is called the integrated approach.

PORTER'S COMPETITIVE STRATEGIES



Porter classified competitive strategies by cost and differentiation, with a focused or broad market scope. He later recognized a fifth (integrated) classification.

Low Price Leadership Strategy

An organization seeking a low-cost strategy seeks to become a leader in providing low-cost products to its customers. The strategy is to produce (or purchase) comparable value goods or services at a lower cost than its competitors. The lower cost will attract the majority of customers and allow it to profit by the volume of goods sold. For this strategy to be successful, it requires that only one or two companies can be industry leaders in this position. For example, Walmart and Costco are leaders in the **overall low-cost strategy**. IKEA is a low-cost leader using a **focused low-cost strategy**, appealing to a particular segment of the overall market.

Low-Cost Strategy Advantages and Disadvantages

ADVANTAGES OF LOW-COST STRATEGY	DISADVANTAGES OF LOW COST-STRATEGY
Reduces buyer bargaining power	Lack of differentiation/value in products and services
Forces out less efficient rivals	Some methods can be easily copied
Makes it hard for new entrants to compete	Focus on cost cutting decreases investment in key activities

Differentiation Leadership Strategy

A strategy based on differentiation (*distinction*) calls for goods and services that offer unique features and that have high value for the target customer. The features must be perceived by the customer to be so much better than what the competition offers that they are worth an additional cost.

The differentiation may be based on the total number of features, quality of the features, customer service, or other criteria. Marketing campaigns are one way to differentiate a product and create a strong emotional attachment to it, supporting premium prices. Examples of companies in the overall market scope that pursue an **overall differentiated strategy** include Sony and Apple. They produce a large number of quality products that appeal to the wide technology consumer market. Businesses that sell luxury goods in any industry are employing a **focused differentiation strategy**. Prada, BMW, and Rolex are all companies whose strategy depends upon maintaining a loyal customer base convinced of the superior quality and uniqueness of their products—and who are also willing to pay a premium for the perceived quality value.

ADVANTAGES OF DIFFERENTIATION STRATEGY	DISADVANTAGES OF DIFFERENTIATION STRATEGY
Buyers are less price-sensitive	Costs to produce can be high
Rivalry is reduced (fewer direct competitors)	Distinctive features don't necessarily create value
Difficult for new entrants into the market to copy the product or service	Distinctive features may be easily imitated
Uniqueness makes it hard to find substitutes	Distinction may be erased by innovation

Integrated Strategy

In today's highly competitive market, customers expect distinction and low cost. Some companies have responded by adopting an **integrated strategy**. Porter originally argued that this integrated, or "stuck in the middle," strategy would fail, but other researchers showed real-world examples. Later, Porter modified his view. The organizations strive to provide more value than the average competitor but also focus on keeping costs low. Examples of integrated strategy firms include the automobile companies who manufacture a "luxury" brand, such as the Kia K900. Kia keeps costs down by using many components of its low-cost models but adds additional features comparable to luxury car producers. This approach is risky, because these products run the risk of being too expensive for the economy-driven customer but not having the prestige of the classic luxury brands.

Integration Strategy Advantages and Disadvantages

ADVANTAGES OF INTEGRATION STRATEGY	DISADVANTAGES OF INTEGRATION STRATEGY
Provides value to two types of customers	Very difficult to maintain
Forces out less efficient rivals	Possible dilution of brand identity and customer confusion

? Practice Question

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E-Business and E-Commerce

Businesses today need a strategy for competing with online "upstarts" who can underprice and steal customers. Companies that once thought they were immune to online competition have discovered that the Internet is biting into their profits. Warby-Parker is an online provider of eyeglasses that offers lenses at up to 70 percent off the price opticians charge. The customer only needs to choose frames, pick a lens, and enter the prescription. Returns are guaranteed. Even many routine medical procedures are being addressed digitally as patients meet online with doctors.

E-business can be defined as any business that takes place over digital processes using a computer network rather than in a physical location ("brick and mortar"). Organizations of all types, military and nonprofit, educational and governmental, use e-business strategies. The strategies are geared to three purposes:

- those related to decreasing production costs and increasing efficiency.
- those creating customer focus.
- those addressing internal management.

E-commerce is a more limited term than e-business. It refers specifically to exchanges or transactions that occur electronically. The younger the shopper, the more likely he or she is to conduct "business" using a smart phone. E-commerce strategies rely on the power of the Internet, both in the growing popularity of online purchasing and in shaping marketing strategies. About 8.5 percent of all retail sales were made online in 2016 and this figure is increasing rapidly every year. Many organizations have sales and marketing teams dedicated to devising strategies for capturing their share of the growing online market. Amazon clearly dominates e-commerce with a whopping 33 percent of all online purchases. Its e-commerce strategy is "simply" to make it as easy as possible for the customer to find, order, pay, receive, and return (if necessary) the goods that it buys from the giant corporation. It doesn't wait for the customer to search out a product, but rather pushes products to the customer based on past purchases.

Retailers and manufacturers also use the aspects of the internet such as Twitter, Facebook, and other social media sites to predict trends as they are developing to get a jump on production. First to market can be a key competitive advantage, in part because of the short life span of many fads. Many of the strategies needed to succeed in e-commerce are very different from competing in a nondigital environment. To survive today, organizations need to be present in both environments.

? Practice Question

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