

4.10: The Role of Strategy in Management

Learning Outcomes

- Explain the concept of competitive advantage.
- Explain the concept of value proposition.
- Explain how strategy relates to the overall management of a business.

Businesses do not exist in isolation. They exist as one element of a complex situation that comprises the social, political, economic, and competitive environment. A firm's **strategy** is a comprehensive plan to achieve its goals in the face of these conditions. Strategy defines how a firm will achieve long-term success. Determining the strategy is a critical decision for management because it involves a significant commitment of resources and, once initiated, it is very difficult and costly to change.

In the movie *The Godfather II*, Michael Corleone says: "My father taught me many things. He taught me: keep your friends close, but your enemies closer." This applies in strategy, as well. A company's friends are its customers. Strategy must keep the company aligned with its customers' needs. Its enemies are its competitors. **Competitors** are firms that provide similar products or services and try to attract the same customers. Competitors are likely to have similar business goals in terms of sales, profitability, and market share. To succeed and achieve its goals, a firm has to "beat" its competitors by constantly striving to improve its offerings to customers and to be better than the competitors' alternatives. In this section we look at how companies address competitors in their strategy.

Competitive Advantage

In a competitive environment, businesses try to stand out from their competitors. Consider the following car companies. Is there a particular characteristic or quality that you associate with each of them?

- Porsche
- Volvo
- Hyundai
- Toyota
- Ford

Companies try very hard to create a perception that they are different from their competitors. If you are looking for a high-performance sports car you probably won't go to a Ford dealer. But if you are looking for a durable truck you wouldn't go to a Porsche dealer. Companies strive to provide a product or service that is distinct, or **differentiated**, in some way from their competitors. When customers perceive the distinction as being valuable, they will prefer to purchase the business's product over a competitor's products. This is called a **competitive advantage**. Competitive advantage means that the business outperforms its rivals in the market because customers prefer its products or services.

Businesses can achieve competitive advantages in a number of different ways. Their product may provide superior performance; it may be of higher quality; it may be more durable; or it may have unique features. The businesses may provide better customer service or have better availability. They may advertise and promote their products better, or they may offer their products at a lower price. The best businesses provide a combination of unique attributes that competitors cannot match.

Creating Competitive Advantage

Businesses create competitive advantage by doing some things better than their competitors. For example, look at the companies in the chart that follows. By doing some things much better than competitors, the businesses are able to create a valuable distinction for customers.

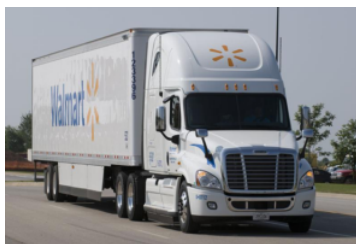
Creating Competitive Advantage

Company	How Company Creates Distinction
Apple	Research and development: creates new or improved products with leading-edge technology
Nike	Marketing: uses celebrity endorsements to create a powerful brand image

Walmart	Supply chain management: created a highly integrated system to keep supplier costs low and keep products that customers buy on the shelf
Zappos	Customer service: strives to deliver “Wow!” in the customer’s experience
UPS	Logistics: integrates package delivery with customer needs
Zara	Rapid responsiveness: quickly gets the latest styles into stores

It may seem that the best way to create competitive advantage is to do *everything* well. Unfortunately, this is not possible. Generally, resources are limited and it would be much too costly to try to excel at everything. Businesses that try to do too many things well often don’t succeed at doing anything extremely well and don’t produce distinction. This is referred to as being “stuck in the middle.”

Creating competitive advantage is not the only goal of business. Companies also must be able to maintain their competitive advantage. When competitors see a company is doing something that customers value, they will try to copy it. Some things can be copied quickly. For example, when American Airlines introduced the AAdvantage frequent flier program to reward loyal customers, it was copied within months by Delta, United, and British Airways. Other things are more difficult to copy. Walmart, for example, has created a tightly linked supply chain to provide low costs. No other company has figured out how to duplicate this system. The goal of companies is to create competitive advantage in ways that are difficult or costly for competitors to copy. This is called a **sustainable competitive advantage**.



Walmart’s supply chain helps to keep its prices low, giving it a competitive advantage over others.

Strategy and Competitive Advantage

Achieving competitive advantage is not likely to be a formal goal of a business. However, having competitive advantage means a company will have resources to pursue its goals. When firms beat their competitors it means they can finance more research and development to improve their products or services; they can spend more on advertising and promotions to attract customers; they can donate to charities to improve community relations; and they can provide greater profits to their owners. In short, competitive advantage is the *means* to meeting organizational goals.

Because strategy is a plan to achieve long-term goals, we can define strategy as a plan to create sustainable competitive advantage.

? Practice Question

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The Value Proposition

Companies strive to produce a unique product or service that will give them an advantage in the market place. But this produces competitive advantage only if customers perceive the difference and understand why this difference matters to them. A **value proposition** is a statement that a company uses to convince customers that its product or service provides more value to them than a competitor’s product or service. The value proposition communicates to the customer the main reason a product or service is the one best suited to their needs.

The value proposition is communicated through a company’s webpage, advertising, or social media. It should have a bold headline or graphic that grabs attention and depicts the benefits delivered to the customer. This brief “announcement” can be followed by a short paragraph or a few bullet points that list the key features of the product.

An excellent example is the value statement for the Apple MacBook. It shows an edge-on image of a MacBook with the caption “**MacBook:** Light. Years ahead.” This very cleverly conveys the important distinctions of the MacBook. First, it’s a really slick design. In the edge-on view the computer almost disappears. Second, it is light. In the laptop market, weight is important. Both the image and the statement emphasize that the MacBook is easy to carry around. Finally, it emphasizes MacBook’s advanced technology, “Light years ahead.” In a very small space, Apple conveys the main differentiators for the MacBook—its weight and its advanced technology.

? Practice Questions

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Strategic Management

Strategic management is the process of integrating all the functions and activities in an organization into a coherent whole. We previously defined management as the process of planning, organizing, leading, and controlling people in the organization to effectively use resources to meet organizational goals. Strategy management provides the “glue” that holds these processes together. Rather than looking at individual functions or activities, strategic management considers the entire organization and how the pieces fit together. Good strategic management allows an organization to develop **synergy**. That is, the pieces support each other so that the total output is greater than the sum of the output of individual functions.

Strategic management best fits with the planning function, and it involves two broad functions. The first is to determine how the company will create competitive advantage. That is, how will the company produce distinction and value to its customers? The answer to this question is the company’s **business strategy**. Management must make sure that all activities in the company support its business strategy. This is called “doing the right things.” It means everyone must be focused on excelling at the things that create competitive advantage, making sure that resources are allocated to the departments that create competitive advantage, and closely controlling the activities that create competitive advantage. That doesn’t mean they can ignore other things; successful businesses have to do many things well but excel at only a few.

Strategic management’s second function is to make sure that the people in the organization support the strategy. As we discussed previously, almost everything an organization accomplishes is achieved by people doing things. Management must make sure that the people in the organization are willing and capable of excelling at the things that create competitive advantage. This is called “doing things right.” They can do this by providing training and development opportunities for employees to improve skills that support the strategy, by creating a compensation system that rewards behaviors that support the strategy, and by implementing a supervisory system that encourages and recognizes behaviors that support the strategy. Management can also instill a **culture of excellence** throughout the organization. **Organizational culture** is the shared values and beliefs that guide individual behaviors in the organization. Managers can induce a culture that supports the strategy by communicating and modeling behaviors and values they want to see throughout the organization.

For example, when Tom’s of Maine introduced a new deodorant that disappointed customers, company founder Tom Chappell pulled the product from the market and reimbursed the customers who had purchased it. The company lost the money it had put into developing and producing the product, as well as the reimbursement cost. But it reinforced the core values of fairness and honesty that the company espoused, and demonstrated that quality and customer satisfaction were the company’s competitive advantage.

In another example, Southwest Airlines’ management implemented the “Walk a Mile” program in which managers and executives pitch in to help front-line employees. Executives clean planes, load luggage, and attend gates. Flight attendants were surprised when Herb Kelleher, the company chairman, showed up to help them provision a plane. This program reinforces the family culture at Southwest, where everyone is valued and considered equal. It also emphasizes the company’s focus on customer service by demonstrating that everyone has to support activities that directly affect the customer.

? Practice Question

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Industry Analysis

The purpose of strategic management is to create competitive advantage. But how do companies know they have competitive advantage? In the long term, competitive advantage will lead to greater profitability. But in the shorter term, it is difficult for companies to assess how well they are creating competitive advantage. An **industry analysis** is a method for a company to assess its market position relative to its competitors. An industry analysis is meant to help a company review various market and financial factors in its industry that affect the business, including evaluating the competition. This analysis helps managers understand the important factors of the marketplace and how these factors may be used to gain a competitive advantage. Industry analyses are an important tool for companies to assess their strategy in a shorter time frame.

Because conditions in the business environment are constantly changing, industry analyses need to be done periodically to keep up with developments. This can be a very time-consuming process and, if not done accurately, can lead to bad strategic decisions. For this reason, managers may go to outside firms, either to produce the analysis or to provide data for the company to complete an analysis. A number of companies exist that maintain huge databases of information about particular industries, such as Hoovers and IBIS. These companies have methods for gathering the data and for analyzing the data to produce reports.

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