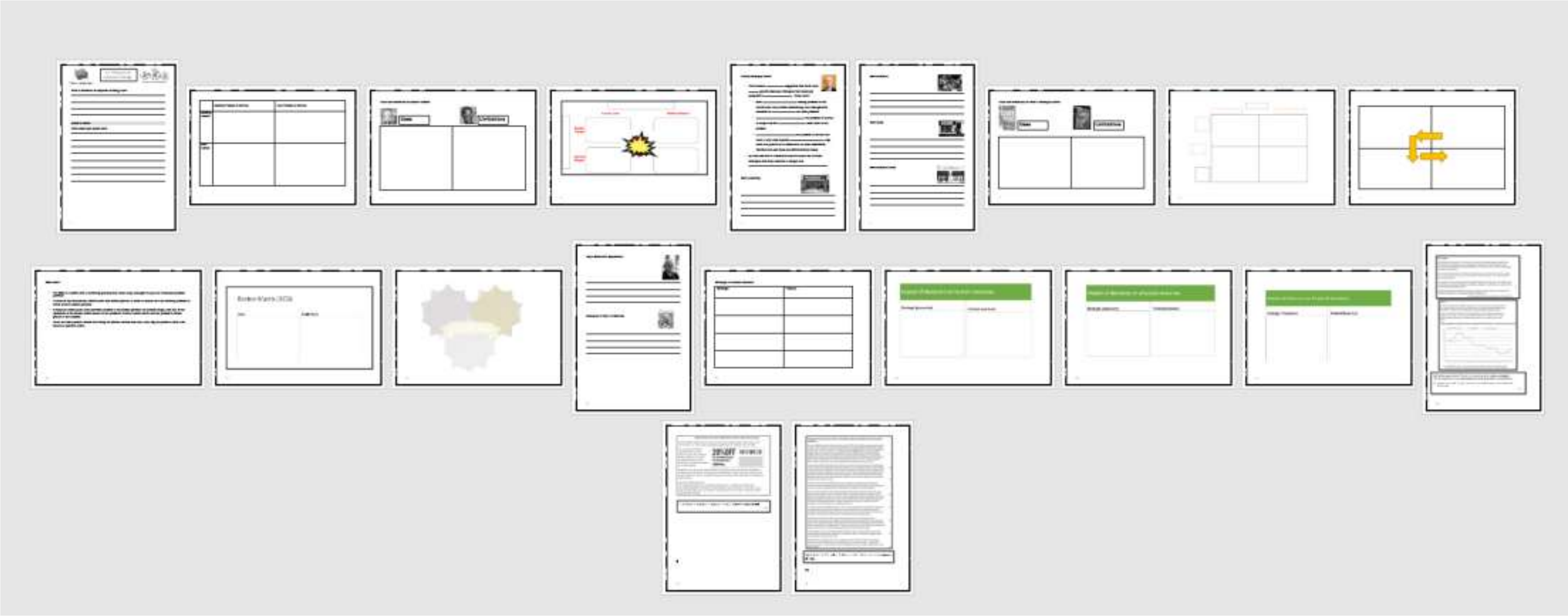
Edexcel A2 Business

3.1.2 Theories of corporate strategy

Revisionstation

Worksheet



From Edexcel

a) Development of corporate strategy:

- Ansoff’s Matrix
- Porter’s Strategic Matrix

b) Aim of portfolio analysis

c) Achieving competitive advantage through distinctive capabilities

d) Effect of strategic and tactical decisions on human, physical, and financial resources

Starter

- This is cheese flavoured mouthwash from Doritos – any thoughts on this product?

Corporate strategy defined

- The overall scope and direction of a business and the way in which its various business operations work together to achieve particular goals

Ansoff’s Matrix

Who was Igor Ansoff?

- Igor Ansoff was a business professor, who back in the 1950's, had a theory relating to how a company looking for growth can choose their marketing strategy – all of which can be expressed in a diagram.
- In an exam you have not got time to draw the diagram (in a more general question) but you can refer to it and you may be asked to discuss a given matrix in relation to the case study.
- Use it as a tool for analysis, like a spanner or a wrench, a marketing question when analysed using the matrix will score you valuable marks so it's worth learning and being able to apply to different companies.

Ansoff's Matrix

	Existing Product or Service	New Product or Service
Existing market		
New Market		

Ansoff's Matrix

	Existing Product or Service	**New Product or Service**
Existing market	***Market Penetration (Low risk)*** Increase sales to the existing market, or penetrate it more deeply - sell more to the same customers – encourage them to order more often – loyalty schemes e.g. Boots Advantage card	***Product or Service Development (moderate risk)*** New product or service developed for existing market: means R&D of new products to sell to your existing customers e.g. Herbal essences new shampoo
New Market	***Market Development (moderate risk)*** Existing product or service sold to new market e.g. Colouring books sold to adults (see next slide)	***Diversification (high risk)*** New product or service sold in new markets (new to the company): Tata Group consists of 116 diverse companies including; Jaguar, Land Rover, Tata Steel, Tetley Tea and Ginger Hotels.

Ansoff's Matrix examples

Daily Mail article on just chips restaurant here

Daily Mail article – on colouring books for adults here

Ansoff’s Matrix examples

MacDonald’s launch clothing line see the article here

Handbag clinic, spa days for handbags launched here

Uses of Ansoff's Matrix – identify new markets

A business can identify all their current products or services and their markets, then consider their future options for expansion using the matrix shown, considering opportunities, associated costs, benefits and risks

Ansoff's matrix helps to identify potential new markets or marketing strategies for a business

Drayton Manor has branched out into weddings

Limitations of Ansoff's Matrix

- The Ansoff's matrix has some limitations;
  - It only shows part of the picture
  - It oversimplifies the market
  - Large MNCs may need thousands of sub options and strategies
- Any organisation using Ansoff's matrix as an analysis tool to help decide on a company strategy should also conduct a SWOT and a PESTLE analysis to get a better idea of the whole picture, to see the issues from more than one angle

Snapchat's video-recording sunglasses

Porter’s Strategic Matrix

Porter's Strategic matrix

Lower cost

Differentiation

Broad Target

Narrow Target

Porter's Strategic matrix

Competitive advantage

Competitive scope	Lower cost	Differentiation
Broad Target	Cost leadership	Differentiation
Narrow Target	Cost focus	Differentiation focus

Stuck in the middle

Porter’s strategic matrix

- 1979 Michael Porter suggested that there were 3 generic business strategies that would get competitive advantage. These were:
  - **Cost leadership**; making products at the lowest cost, may include outsourcing, lean management, standard no frills low cost products
  - **Differentiation**; the product or service is unique and the USP adds value to the product
  - **Focus**; the product or service will serve a very small specific niche, high costs are passed on to customers, no close substitutes (Divided into cost focus and differentiation focus)
- He also said that if a business failed to select one of these strategies that they would be in danger and “stuck in the middle”

Cost leadership

- Useful in highly competitive markets where there are homogenous products
- Customers may frequently switch supplier to gain best value
- New entrants to the market will use low process to build a customer base

Differentiation

- Useful strategy in highly technological markets where there are rapidly changing and evolving features of products and services
- Where customers needs are very diverse
- Where the competitors in the market are all following a similar differentiation strategy

Cost focus

- Useful strategy when the business wants to offer very low prices to a small market segment
- Niche marketing but at very low cost
- Story here

Differentiation focus

- Useful strategy when the business wants to offer products and services to a small market segment
- Products or services will be differentiated and aimed at a niche market

Uses of Porter’s Strategic matrix

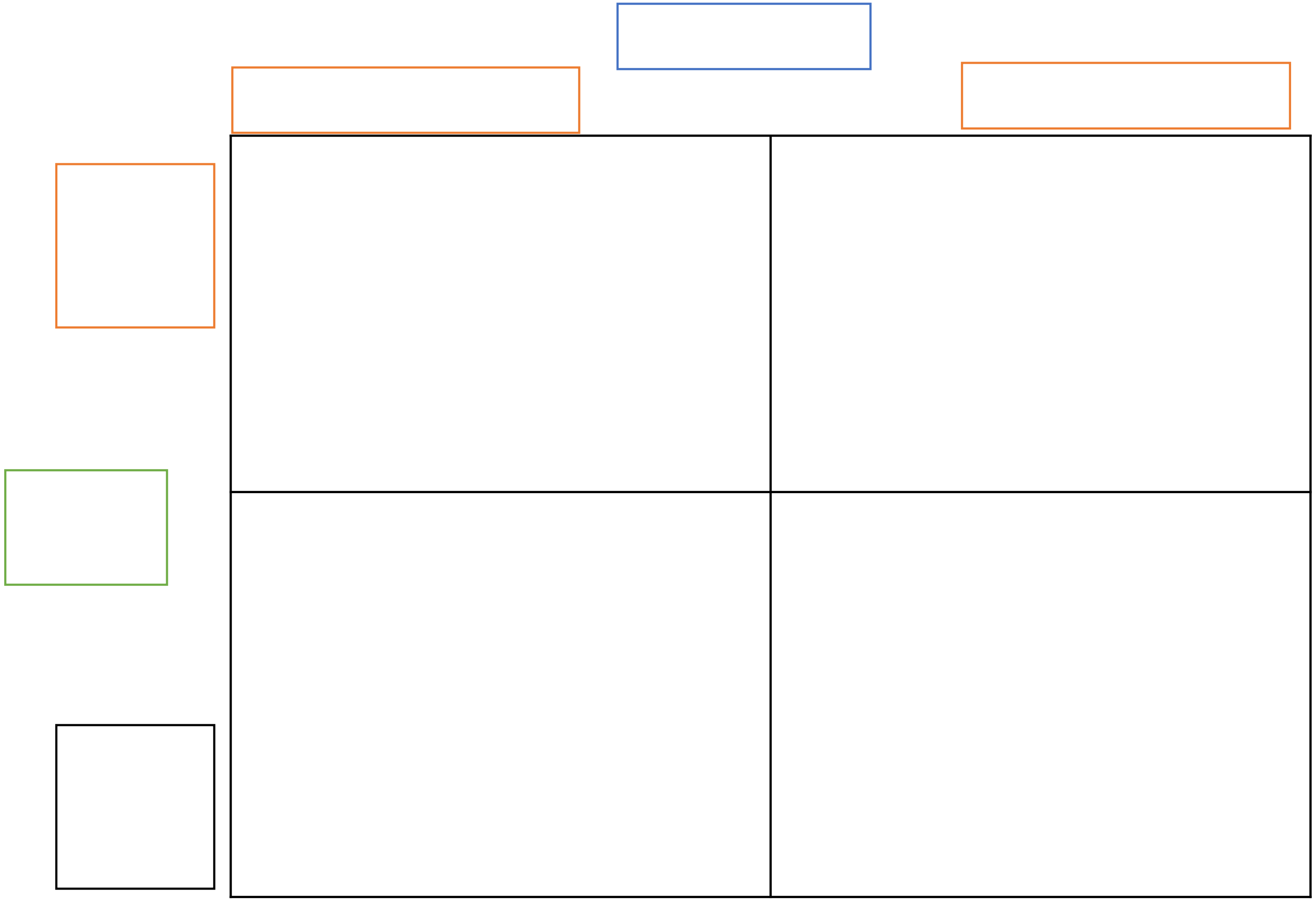
- Those in support of Porter’s Strategic matrix (generic strategies) say that it establishes a clear direction for the business to go in
- Identifies when a business may be in trouble e.g. Woolworths and BHS both got “stuck in the middle”

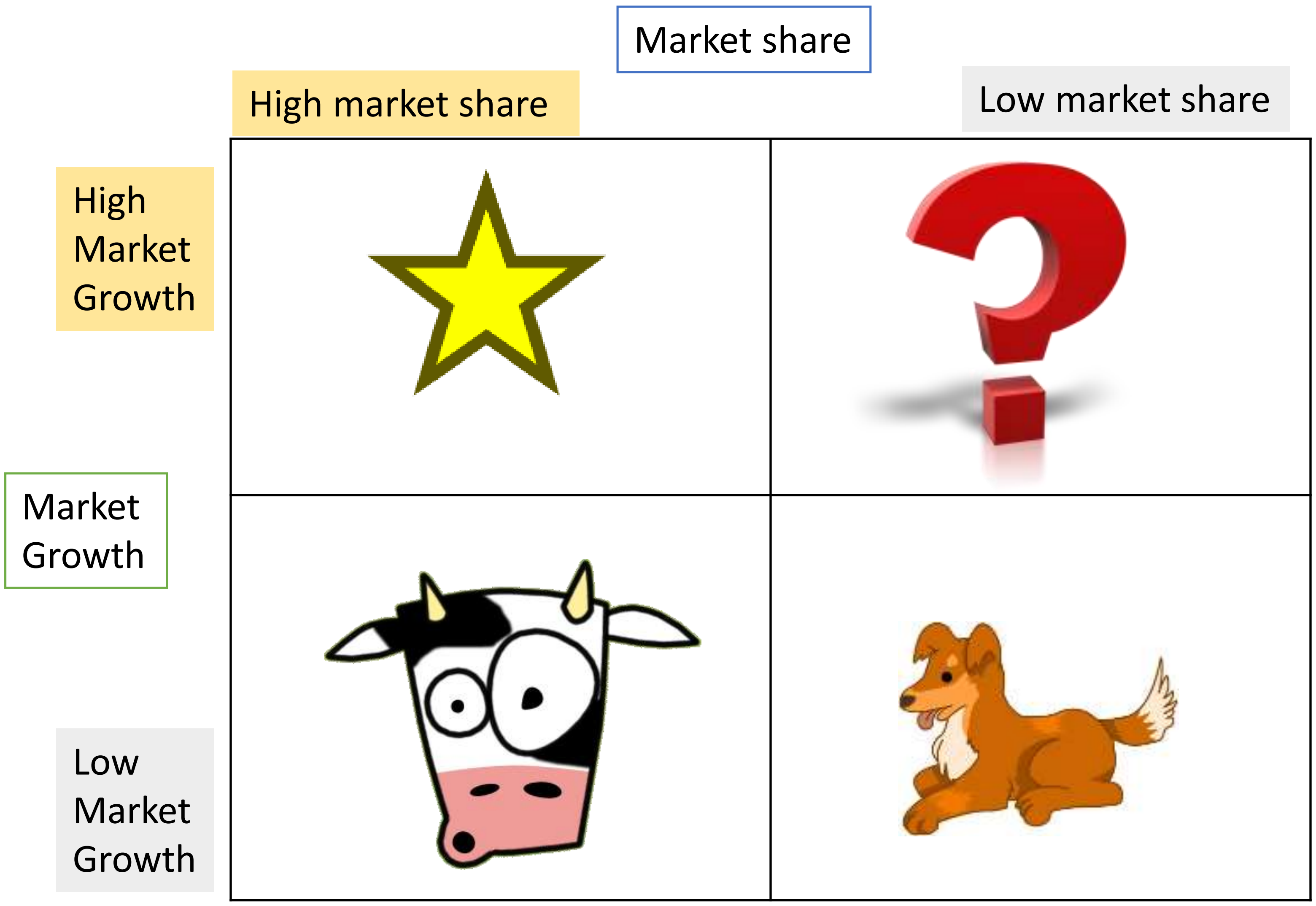
Limitations of Porter's Strategic Matrix

- This is only a tool for a business to look at their strategy and as such has some limitations;
    - Not as relevant in very dynamic markets
    - May not be useful in a crisis situation
    - Over simplifies the market structure
- Can be possible for a store or business to offer a range of products to a range of customers and not get stuck in the middle e.g. Debenhams

Boston Matrix

The Boston Matrix or Boston Box

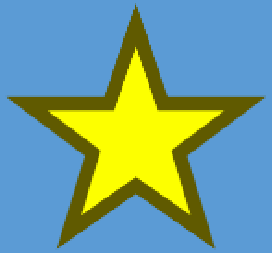




The Boston Matrix or Boston Box

Star:

- **A product in this quarter will have high market share and high market growth**
- **This product may be in the growth phase of the product life cycle**
- **Production of this product should remain consistent while profits are harvested**

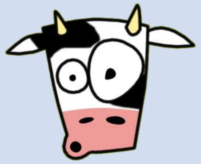


Question mark:

- **Also known in some books as a problem child**
- **A product in this quarter enjoys high market growth but low market share**
- **This product may have just been launched on the market and is building its customer loyalty**
- **Products should be invested in while their market share builds**

Cash cow:

- Products in this quarter are reaching the maturity of their product life cycle but still have customer loyalty
- Products should be produced until sales start to decline



Dog:

- Products in this quarter face declining sales in declining markets
- Products may be in the decline phase of their product life cycle
- For example video tapes or top hats
- These products should be removed from sale

BCG / Boston box / Matrix

- The BCG is a matrix with a marketing planning tool which helps managers to plan for a balanced product portfolio
- It looks at two dimensions, market share and market growth, in order to assess new and existing products in terms of their market potential
- A business would place each individual product in its product portfolio (or product range) onto one of the quadrants of the Boston matrix based on the product's relative market share and the product's market growth in the industry
- There are four possible results from using the Boston matrix; **cash cow**, **star**, **dog** and **problem child** (also known as question mark)

Boston Matrix (BCG)

Uses

Limitations

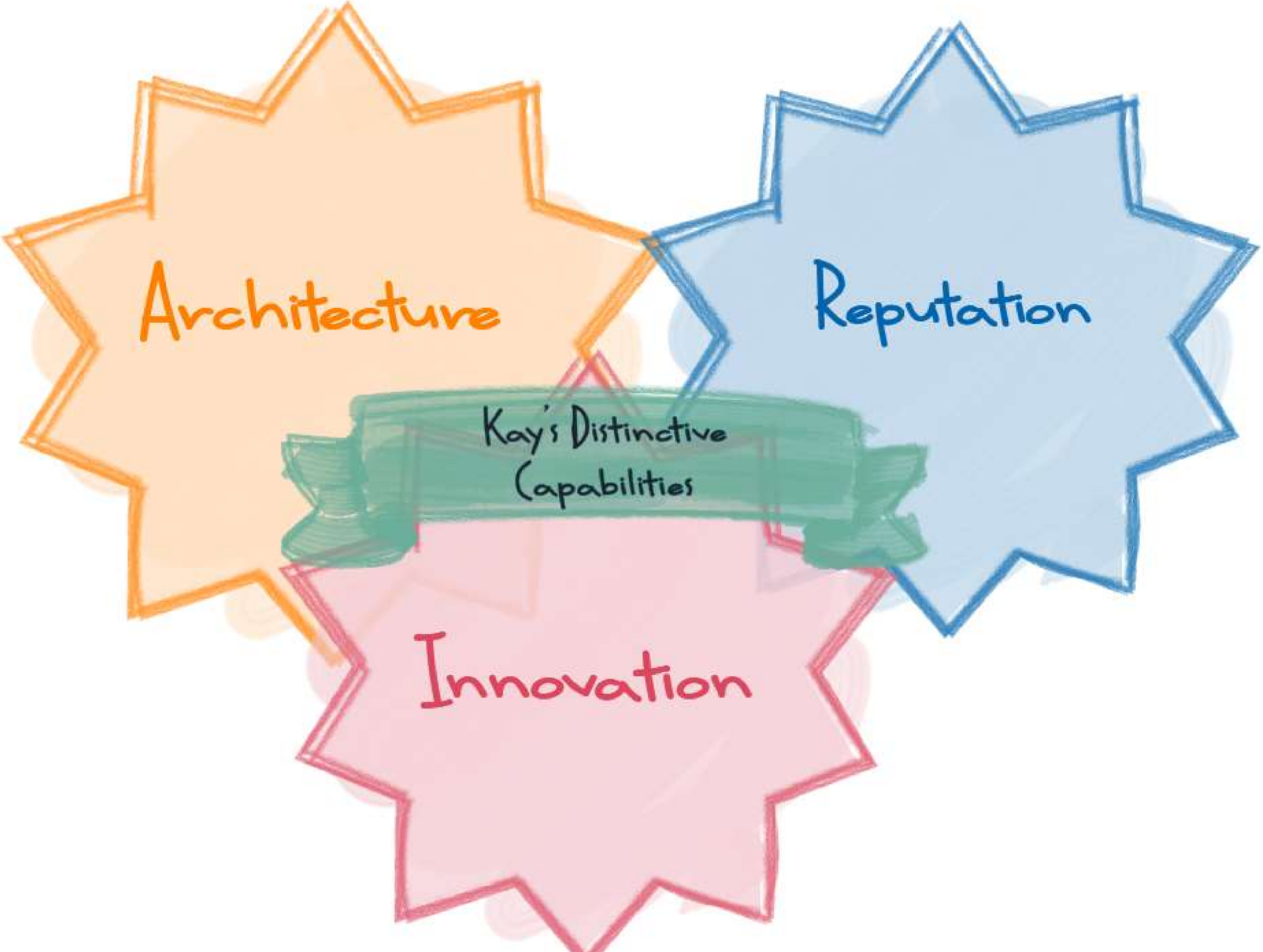
Uses of the BCG matrix

- The BCG matrix is a good starting point when reviewing an existing product line to decide future strategy and budgets
- The BCG helps businesses analyse future opportunities or problems with their product portfolios
- The conclusions drawn from such an analysis are to transfer the surplus cash from cash cows to the stars and the question marks, and to close down or sell off the dogs.
- In the end, question marks reveal themselves as either dogs or stars, and cash cows become so drained of finance that they inevitably turn into dogs.

Limitations of using BCG Matrix

- BCG matrix classifies businesses as low and high, but generally businesses can be medium also. So, the true nature of business may not be reflected
- High market share does not always lead to high profits. There are high costs also involved with high market share.
- Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability
- This approach is considered as to be too simplistic

Kay’s distinctive capabilities


Architecture
Reputation
Kay's Distinctive Capabilities
Innovation

Kay’s Distinctive Capabilities

- John Kay in 1993 argued that some outstanding businesses got their strength from their relationships with their employees / customers / suppliers
- Key to success was the continuity and stability of relationships with these three groups
- He also argued that there were 3 distinctive capabilities (DC) that could create added value and give a business competitive advantage. These were:
  - Architecture – relationships with employees, suppliers, customers
  - Reputation – through the customer experience
  - Innovation – bringing inventions to market

Examples of Kay’s in business

- Competitive advantage that distinguishes one business from another
- An asset or strength on which future growth can be built
- A unique quality of the business through; reputation (Lush), innovation (Sony), architecture (First Direct) (relationships with customers, employees and suppliers)

Strategic and tactical decisions

Strategic vs tactical decisions

Strategic	Tactical

Strategic vs tactical decisions

- Great animation video here on strategy and tactics

Strategic	Tactical
Long term direction of the business	Short or medium term decisions
What the business will do to meet its aims and objectives	How the business will implement its strategy
Pro-active decision making	Reactive to competitor actions
Forward thinking, future planning	Present day thinking, what is happening now that needs dealing with

Is this strategic or tactical?

Take-over of another business

- For example in Feb 2015 BT bought EE
- **Telecoms group BT has paid £12.5bn to buy mobile operator EE.**
- The takeover creates a communications giant covering fixed-line phones, broadband, mobile and TV.
- **Why?**
- BT says that within four years, the deal will be saving it £360m a year in terms of operating costs and capital investment.
- It added that by combining the two businesses, it should be able to generate an extra £1.6bn a year in sales.

Full BBC article [here]

BT

Is this strategic or tactical?

New Marketing strategy

For example a hairdressers – watch the video – you decide if its strategic or tactical

Impact of decisions on human resources

Strategic (proactive)	Tactical (reactive)

Impact of decisions on human resources

Strategic (proactive)

- Hiring new staff as part of a long term strategy to improve productivity
- Training staff to achieve the business objective of long-term efficiency and growth

Tactical (reactive)

- Having to hire a new network manager because the old one has quit
- Having to train staff because a new IT system has been introduced

Impact of decisions on physical resources

Strategic (proactive)	**Tactical (reactive)**

Impact of decisions on physical resources

Strategic (proactive)	Tactical (reactive)
• Moving a factory location to another country to achieve the long-term objective of cost cutting and profit maximisation	• Moving a factory layout around to accommodate a new product being manufactured

Impact of decisions on financial resources

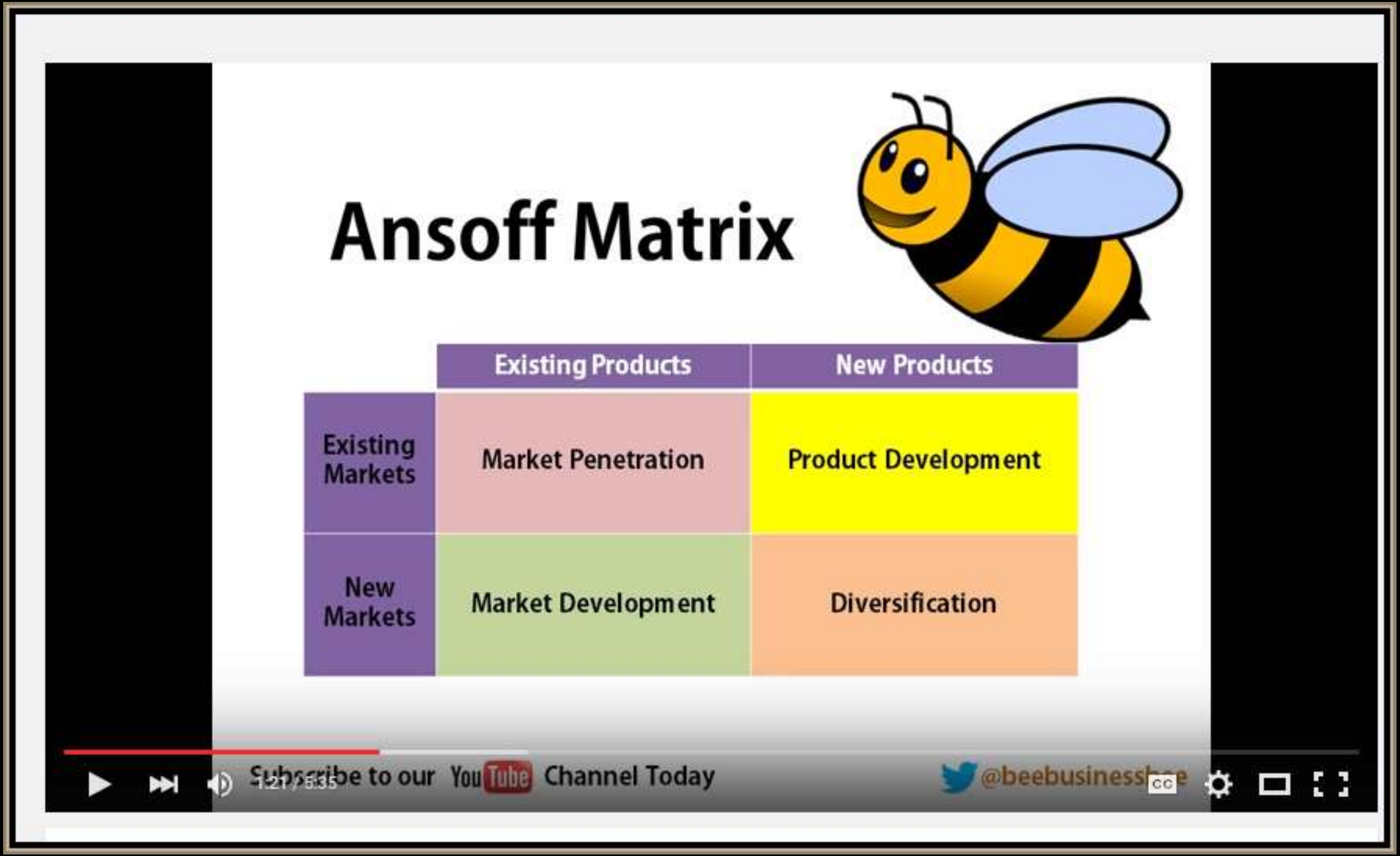
Strategic (Proactive)	Tactical (Reactive)

Impact of decisions on financial resources

Strategic (Proactive)	**Tactical (Reactive)**
• Issuing shares to raise capital to achieve a long-term objective of growth and expansion • Allocating budgets to ne R&D projects which help the business to achieve the long-term objectives of expanding the product portfolio	• Agreeing an overdraft with the bank to cover a shortfall in a cash flow forecast • Arranging a bank loan to buy some office furniture to replace some that is old and broken

Revision Video

Revision video 2



Sample Edexcel A2 questions

Case study for question 1

SKA Textiles

SKA Textiles was founded in 1975 and is one of the UK's leading textile manufacturers. The family-run company has grown steadily and today has one of the largest colour matching and physical fabric testing laboratories in the UK, as well as some of the largest dye machines in Europe.

Having originally specialised in knitting and dyeing yarns for ladies' fashion wear, today the company's impressive range of materials are used by retailers such as Next, Marks & Spencer and Primark.

Investment in new machinery has allowed SKA Textiles to diversify into new markets with new products, such as specialist yarns and fibres suitable for upholstery; car seats; the fire services and the aerospace sector.

The high performance materials which the company produces today, have earned SKA Textiles a reputation as an 'advanced textiles manufacturer'.

(Source adapted from: http://www.skatextiles.co.uk/about.html)

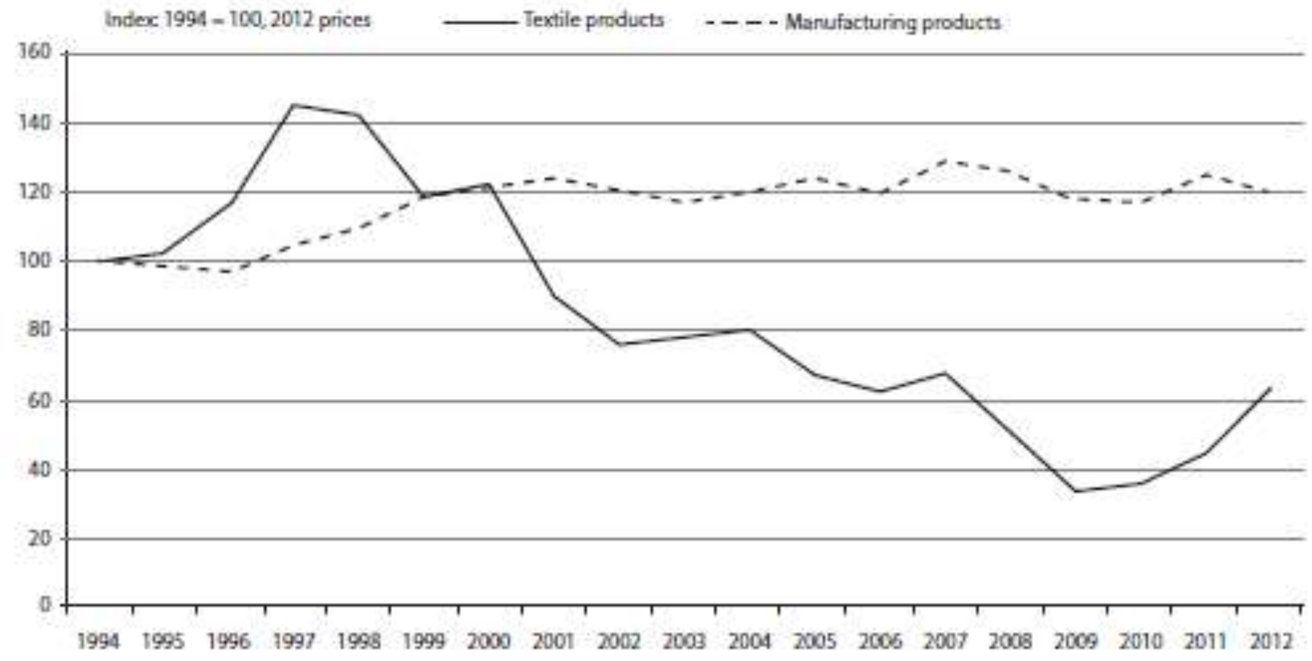
Case study question 1

Extract I

Research and development (R&D) expenditure on UK textile products was £20 million in 2012, representing 0.1% of the £12.2 billion spent on manufacturing R&D. Indeed, R&D expenditure in textiles is one of the lowest of all manufacturing product groups.

As output and jobs in the textile industry have fallen, so too has R&D expenditure on textile products; a fall of 37.2% between 1994 and 2012. This compares with a 19.9% increase in R&D expenditure on manufacturing products as a whole over the same period.

R&D expenditure on textile products compared with expenditure on manufacturing products



(Source adapted from: http://www.ons.gov.uk/ons/rel/uncategorised/summary/changing-shape-of-uk-manufacturing—textiles/sty—textile-industry-average-wage-lowest-within-uk-manufacturing.html)

Sample question 1

SKA Textiles uses the Ansoff Matrix when deciding on its marketing strategies.
The two strategies they are considering are market penetration or diversification.

(e) Evaluate these **two** strategies and recommend which **one** is most suitable for SKA Textiles.

(20)

Knowledge
2

Application
2

Analysis
3

Evaluation
3

Answer sample question 1

Indicative content option 1

- Ansoff's Matrix is a decision making tool that can be used to assess the degree of risk involved in a chosen strategy in order to choose the best decision
- Diversifications is launching a new product in a new market
- Market penetration is a strategy of attempting to increase market share through increased sales of existing products in existing markets

Indicative content option 2

- The company has also adopted a strategy of diversification by producing specialist products for a range of different markets e.g upholstery; automotive seating; the fire services; the MOD, and the aerospace sector. This has enabled it to spread risk as it is no longer dependent on one market. As a result the company is in a stronger position as it is not over dependent upon one market
- It has also given the company more opportunities for expansion and increased sales. By expanding into more markets, the business may become more well known as well as increasing its sales revenue. This could result in increased profitability and an opportunity to grow the business

Potential recommendation

- SKA Textiles should adopt a market penetration strategy due to the fact that their existing products are well known, they supply a wide range of customers and they have extensive knowledge of the ladies fashionwear market. It is the safer option
- SKA Textiles should adopt a diversification strategy due to the fact that selling to new markets provides more growth opportunities. It could enable them to enhance their reputation as 'an advanced textiles manufacturer' in a range of markets

How to level sample question 1

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect causes and/or consequences.
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question. Arguments are well developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.

Case study for question 2

SuperGroup share price slides after news of online discounting

Fashion retailer SuperGroup has seen its shares lose nearly a third of their value in the past month or so, after a sales slowdown sparked fears it could be losing its edge.

The company behind the Superdry brand is under pressure again after it offered online customers a 20% off everything in-store at the weekend, a change to its policy of not discounting.

Needless to say, the stores weren't offering 20% off to everybody, which could lead to confusion and resentment amongst its key stakeholder group: customers. Superdry will need to make sure that its corporate strategy of growing online sales doesn't damage the retail business.

A stock market analyst said:
'The online promotion aims to reward internet users – a similar tactical decision successfully adopted in the past to reward student union customers. This action, in our view, should not be seen as a change in strategy and not in any way a change in policy regarding discounting'.

Sample question 2

Assess Superdry's corporate strategy with the aid of **Porter's strategic matrix.**

(20)

Knowledge
4

Application
4

Analysis
6

Evaluation
6

1	**1-3**	**Corporate strategy is the way in which aims and objectives are achieved • Porter identified four main generic strategies (name them) • Cost or differentiation gives a business a competitive Advantage**
2	**4-7**	**• SuperDry use a differentiated approach • SuperDry sell products aimed at the youth consumer market • Products are not cheap, but nor expensive • Its brand provides the competitive advantage • Strategy is expansion through growth in UK stores and European expansion Five forces are relevant, only if explained as the reason for adopting a generic strategy.**
3	**8-14**	**Superdry's (Cult clothing) target market started off as quite narrow, which would suggest a 'differentiated focus' approach • As Superdry has expanded, it has become more differentiated with a broad/mass focus, which with a strong brand, endorsed by celebrities could be successful • Previously Superdry hasn't fallen into the trap that Porte warned of when a business tries to be differentiated and lead on cost • As the business has expanded it has worked on new designs and better quality styling of its clothing – all sources of competitive advantage within a differentiated approach**
4	**15-20**	**• The stock market fall could be due to investors worrying that SuperGroup were attempting to focus on cost/price and risked being 'stuck in the middle' as Porter warned. • Differentiation is difficult to maintain if competitors such as Hollister open stores and concessions to follow a similar model to SuperDry • Differentiation requires costs in areas that do not affect uniqueness being kept down – SuperGroup's expansion threatens a cost increase here • SuperDry's strategy is likely to be shaped by its phenomenal recent success – this is based on a strong brand supported by celebrities, with products priced reasonably, but if the brand is becoming overexposed/ common then the differentiation is lost • Its competitive advantage seems to be more subtle than those suggested by Porter e.g. it spreads through word of mouth and people being seen in the clothes, rather than specific advertising. • SuperGroup's growth suggests a movement from a differentiated focus approach to a differentiated/mainstream approach. The danger of this is that that the 'differentiation' will be lost due to the rapid expansion of SuperDry stores and its online presence. The constant evolution of its brand is an attempt to maintain this differentiation, but the fact that SuperDry is reasonably priced, suggests they risk being stuck in the middle.**

Case study for question 3

Additional Evidence H

Toyota to build electric cars with Tesla

Toyota has announced a surprise joint venture with Tesla Motors to design and build electric cars.

The deal marks a potentially massive shift in Toyota's long-term strategy, signalling that it may focus more actively on the next step for the "green" auto market as hybrid vehicles lose their appeal.

Tesla, a six-year-old American start-up company that is considered a pioneer in electric vehicles, has sold only 1 000 of its battery-powered cars each priced at $100 000 (£70 000). The deal with Toyota could dramatically improve the prospects of Tesla's next project, the Model S, whose $50 000 (£35 000) price tag will appeal to many more families.

The speed and eagerness with which the deal with Tesla was struck may signal an attack of nerves by Toyota, after its recent decisions to immediately recall faulty vehicles, experts said. It has not, traditionally, signed deals with small start-up companies.

Sample question 3

With reference to Additional Evidence H, explain the difference between a strategic decision and a tactical decision.

[5]

Knowledge
2

Application
2

Analysis
1

Answer sample question 3

Knowledge up to 2

- **Strategic Decisions.** These affect the long-term direction of the business (1mark) what a company does to meet its overall aims and objectives (1 mark) eg whether to take over another business (1 mark). It will be aimed at helping the business achieve its long-term objectives (1 mark) Strategic decision pro-active (1 mark)
- **Tactical Decisions.** These are short (1 mark) or medium-term (1 mark) decisions about how to implement strategy (1 mark) eg what kind of marketing to have; which suppliers to use; or how many extra staff to recruit (1 mark for any of these.) They are sometimes made as a reaction to a competitor(1mark) or sometimes to gain a competitive advantage (1 mark) or unforeseen events (1 mark) Tactical decisions are often reactive (1 mark)

Application up to 2

- In this case Toyota's decision to work with Tesla is strategic ('potentially massive shift in Toyota's long-term policy')(1 mark), whereas their decision to recall faulty cars is more tactical (1 mark)
- Joint venture with Tesla could be seen as a tactical decision if it is to gain knowledge of electric cars in order to gain a competitive advantage (1 mark)

Analysis 1

- The decision to work with Tesla could be an attempt to develop its product range (1 mark) by moving into a new market (1mark)
- A joint venture is a strategic move and therefore the link with Tesla is an example of this (1 mark)
- The decision to work with Tesla helps Toyota achieve their long-term aim of selling more environmentally friendly products (1 mark)

Case study for question 4

Brompton wants to keep up with the competition without its folding bicycles losing their uniqueness.

This year (2008), Brompton Bicycle expects to sell 19,000 of its folding machines, generating revenue of £7m and a pre-tax profit of £925,000. New managing director Will Butler-Adams is aware that to remain a player in a rapidly expanding global market it has to see significant sales growth. "Last year one of our competitors made 350,000 bikes," said Butler-Adams. "Selling 19,000 is nothing". The Brompton factory has limited capacity and uses sluggish production methods, as emphasised by a six month lead time. "In the past we have not been able to make enough bikes to meet demand," Butler-Adams said. "The market has grown 20 per cent to 25 per cent a year and we haven't been growing at the same rate."

Using double shifts backed by slicker systems, he wants to boost production to 50,000 bikes a year. To reach that, Brompton is half way through a £1m production revamp. Butler-Adams is well aware that the debt-free firm's investment could be undermined by a competitor that not only competes on quality but undercuts on price. "There is always the risk that someone could turn up with a bike just as good and compact as ours but for two thirds of the price." Brompton bikes sell in the UK for between £550 and £1 200. Sales to Europe, the US and Far East account for 70% of income.

"I think we have the best folding bike but the competition is getting better all the time. Someone could come along and do a better job. They will invest in research and development and come up with something better. The Brompton is unique, but not that unique."

There are other problems. Any patents Brompton had expired eight years ago. Also, being based in West London, it does not benefit from the low wage structure of Taiwan, where 80 per cent of bikes are made. In a country where traditional manufacturing skills are in short supply, Brompton has had to train many of its 85 staff in skills such as welding and brazing. This means that Brompton Bicycle Limited, named after the area of London where the prototype was first developed, is unwilling to relocate.

"In other cost areas", said Butler-Adams, "we are more competitive. Most bike manufacturers are perpetually changing their models and so never refine their manufacturing process. Our bikes have hardly changed in 20 years and we have been able to invest over time in the tooling. It's a big up-front cost but it's an investment we have already made."

Butler-Adams has further reduced costs by outsourcing non-core elements of the manufacture, retaining only the skilled machining and complex engineering at its Brentford base. It is this engineering ethos that underpins the business. Butler-Adams said attention to detail is Brompton's main differentiator. "They are built to last," he said. "We have to make sure that we don't become so obsessed by growing that we lose sight of quality".

"The Brompton is not a commodity product. We don't want to sell 250,000 a year as that would undermine the brand, making it so mainstream that it would lose its appeal. We are not interested in sales for sales sake."

Despite having 10 outlets in the US – compared to 100 in the UK – America accounted for just 5 per cent of sales last year. "We need to grow our overseas sales… We had the chance to go into 15 new shops in the US but didn't because we couldn't supply them," said Butler-Adams.

Sample question 4

Explain how the BCG (Boston) Matrix can contribute to Brompton's **corporate planning**.

[5]

Knowledge
2

Application
2

Analysis
1

Answer sample question 4

Knowledge up to 2:
Knowledge: a sketch of the Boston Matrix; a description would be acceptable (2 Marks)
Application up to 2
Brompton identified as a problem child/question mark (1 mark each).
Analysis up to 1
Brompton should advertise to convert the product to a rising star (1 mark);
In current market Brompton lack a cash cow (1 mark) and need to acquire/ develop one to fund future development (1 mark) (though it could be argued that their niche position within the folding bicycle market removes this need (1 Mark).

Glossary

- **Ansoff's matrix**; The Ansoff Matrix is a marketing planning tool which usually aids a business in determining its product and market growth by focusing on whether the products are new or existing and whether the market is new or existing
- **Boston Box**; Created by the Boston Consulting Group, the BCG matrix aims to identify high-growth products by categorising the company's product portfolio according to growth rate and market share
- **Kay's Distinctive Capabilities**; This is a business strategy concept where a successful company achieves a competitive advantage over other businesses. There are 3 ways this can be achieved (3 distinctive capabilities); - Architecture, Innovation and Reputation
- **Product portfolio**; All the products that a company produces or sells

Revisionstation