Chapter 3: Level of strategy

Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level. At the corporate level, strategy is formulated for your organization as a whole. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes. At the business unit level, strategy is formulated to convert the corporate vision into reality. At the functional level, strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of your organization. There is a clear hierarchy in levels of strategy, with corporate level strategy at the top, business level strategy being derived from the corporate level, and the functional level strategy being formulated out of the business level strategy.

1. Corporate Level

Corporate level strategy defines the business areas in which your firm will operate. It deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategy formulation at this level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The top management team is responsible for formulating the corporate strategy. The corporate strategy reflects the path toward attaining the vision of your organization. For example, your firm may have four distinct lines of business operations, namely, automobiles, steel, tea, and telecom. The corporate level strategy will outline whether the organization should compete in or withdraw from each of these lines of businesses, and in which business unit, investments should be increased, in line with the vision of your firm.

Corporation Level Strategy is concerned with 3 strategy:

1.1 Growth Strategy

There are six Growth path to Business:

- Concentration to Business
- Concentric
- Conglomerate to Business
- Integration Strategy
- Merger and Acquisition
- Joint Venture

There are three viable alternatives when it comes to an implementing an Integrative Growth Strategy. They are:

1. *Horizontal.* This growth strategy would involve buying a competing business or businesses. Employing such a strategy not only adds to your company's growth, it also eliminates another barrier standing in your way of future growth—namely, a real or potential competitor. McFarland says that many of breakthrough companies such as Paychex, the payroll processing company, and Intuit, the maker of personal and small business tax and accounting software, acquired key competitors over the years as both a shortcut to product development and as a way to increase their share of the market.
2. *Backward*. A backward integrative growth strategy would involve buying one of your suppliers as a way to better control your supply chain. Doing so could help you to develop new products faster and potentially more cheaply. For instance, Fastenal, a company based in Winona, Minnesota that sells nuts and bolts (among other things), made the decision to acquire several tool and die makers as a way to introduce custom-part manufacturing capabilities to its larger clients.
3. *Forward*. Acquisitions can also be focused on buying component companies that are part of your distribution chain. For instance, if you were a garment manufacturer like Chicos, which is based in Fort Myers, Florida, you could begin buying up retail stores as a means to pushing your product at the expense of your competition.

1.2 Stability Strategy

Stability strategy implies continuing the current activities of the firm without any significant change in direction. If the environment is unstable and the firm is doing well, then it may believe that it is better to make no changes. A firm is said to be following a stability strategy if it is satisfied with the same consumer groups and maintaining the same market share, satisfied with incremental improvements of functional performance and the management does not want to take any risks that might be associated with expansion or growth.

In other words, a firm is said to follow stability/ consolidation strategy if:

- It decides to serve the same markets with the same products;
- It continues to pursue the same objectives with a strategic thrust on incremental improvement of functional performances; and
- It concentrates its resources in a narrow product-market sphere for developing a meaningful competitive advantage.

1.3 Defensive strategies

Defensive strategies are management tools that can be used to fend off an attack from a potential competitor. Think of it as a battleground: You have to protect your share of the market in order to keep in order to keep your customers happy and your profits stable. Defending your business strategically is about knowing the market you're best equipped to operate in and about knowing when to widen your appeal to enter into new markets. In contrast to offensive strategies — which are aimed to attack your market competition — defensive strategies are about holding onto what you have and about using your competitive advantage to keep competitors at bay.

There are two approaches to defensive strategy in strategic management.

- The first approach is aimed at blocking competitors who are attempting to take over part of your business's market share. Cutting the price of your products, adding incentives or discounts to encourage customers to buy from you or increasing your advertising and marketing campaigns are the best common ways of going about this.

- The second approach is more passive. Here, you announce new product innovations, plan a company expansion by opening a new chain or reconnect with old customers to encourage them to buy from you. This is still a method to prevent the competition from taking away your customers and earning, but it is done in a more relaxed and less-aggressive manner, whereas the first approach is active and direct.

2. **Business Level**

Business level strategies are formulated for specific strategic business units and relate to a distinct product-market area. It involves defining the competitive position of a strategic business unit. The business level strategy formulation is based upon the generic strategies of overall cost leadership, differentiation, and focus. For example, your firm may choose overall cost leadership as a strategy to be pursued in its steel business, differentiation in its tea business, and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate.

In this strategy, the organization looks on three paths:

- *Cost Leadership strategy.* Cost leadership is a part of marketing strategy. Although, it is highly effective in gaining market share as well as drawing the customers' attention, it is difficult to deploy. The management team of the company has to constantly work towards reducing the cost of not just one product, but the entire range of products in the company's portfolio. Cost leadership does not mean that a company produces goods which are of inferior quality at comparatively cheap rates. That strategy will ultimately lead to failure. To deploy this strategy, a company has to produce goods which are of acceptable quality and specific to a set of customers at a price which is much lower or competitive than other companies producing the same product.

- *Differentiation Strategy.* A differentiation strategy is an approach businesses develop by providing customers with something unique, different and distinct from items their competitors may offer in the marketplace. The main objective of implementing a differentiation strategy is to increase competitive advantage. A business will usually accomplish this by analyzing its strengths and weaknesses, the needs of its customers and the overall value they can provide.
- *Focus Strategy.* Focus is essentially a strategy of segmenting markets. The segment sought may be defined by a particular buyer group, a geographic market segment, or a certain part of the product line. The logic of this approach is that a firm that limits its attention to one or a few market segments can serve those segments better than firms that seek to influence the entire market.

3. Functional Level

Functional level strategies relate to the different functional areas which a strategic business unit has, such as marketing, production and operations, finance, and human resources. These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy.

For example, the marketing strategy for a tea business which is following the differentiation strategy may translate into launching and selling a wide variety of tea variants through company-owned retail outlets. This may result in the distribution objective of opening 25 retail outlets in a city; and producing 15 varieties of tea may be the objective for the production department. The realization of the functional strategies in the form of quantifiable and measurable objectives will result in the achievement of business level strategies as well.

In Functional Level Strategy, the organization look on:

- Marketing strategy (4 P)

- Financial Strategy (Sources of Finance)
- R & D strategy (technological leader, innovation)
- Operation strategy (production Strategy)

The strategic issues at the functional level are related to functional business processes and value chain. Functional level strategies in R&D, operations, manufacturing, marketing, finance, and human resources involve the development and coordination of resources through which business unit level strategies can be executed effectively and efficiently.

Functional units of your organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on customer feedback or on resources and capabilities on which the higher level strategies can be based. Once the higher level strategy or strategic intent is developed, the functional units translate them into discrete action plans that each department or division must accomplish for the strategy to succeed.