Life Long Learning Initiative

Strategic Management Workshop

The Institute of Bankers in South Africa
Dear Learner

Welcome to the Strategic Management programme. This training intervention will introduce you to the basic elements of strategic management. Understanding these principles will equip you with the necessary skills to execute your own strategic management process and allow you to contribute significantly to the development of your organisation.

The overall purpose of the workshop is, therefore, to assist you in acquiring the applied competence to facilitate a basic strategic management process.

Programme Outcomes

By the end of this programme you will be able to:

1. Apply your understanding of the principles of strategic management
2. Be able to analyse a venture's environment with basic tools
3. Understand what “positioning” of a venture is
4. Identify competitive advantage when it exists
5. Formulate a basic strategy for the venture
6. Ask the right questions

Delivery Approach

The programme is delivered during a half-day workshop. In conjunction with this learner guide, you will also be exposed to some examples during a lecture session where the principles will be explained.

The workshop is interactive in nature and we encourage you to participate as actively as possible to gain the maximum benefit.

Regards

Phil Mnisi
Chief Executive Officer
Institute of Bankers in South Africa

Prof Marius Pretorius
Chair: Business Turnaround and Strategy
University of Pretoria
INTRODUCTION TO STRATEGIC MANAGEMENT

LEARNING UNIT ONE

THE ELEMENTS AND PROCESS OF STRATEGIC MANAGEMENT

LEARNING OUTCOMES

By the end of this learning unit you will be able to apply your understanding of the following concepts:

- The elements of strategic management
- The process of strategic management
- Important aspects of strategic management.
1. **WHAT IS STRATEGIC MANAGEMENT?**

The question is not if strategic management makes a difference but rather what the impact of proper strategic management for the business is. There are as many definitions of strategy as there are authors writing about it. In the box below there are three definitions of strategic management developed over years by key management experts to help understand what it is all about.

<table>
<thead>
<tr>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic management refers to the managerial process forming strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiating whatever corrective adjustments in the vision, objectives, strategy and execution are deemed appropriate.</td>
<td>Thompson &amp; Strickland</td>
</tr>
<tr>
<td>Strategic management is defined as a set of decisions and actions that result in formulation and implementation of plans to achieve the company’s objectives.</td>
<td>Pearce &amp; Robbins</td>
</tr>
<tr>
<td>Strategic management is the analysis, decisions and actions an organisation undertakes in order to create and sustain competitive advantage.</td>
<td>Dess &amp; Lumpkin</td>
</tr>
</tbody>
</table>

From the above one could determine the essentials of strategy. The main aim is not to give a definition of strategic management in this chapter but only to elaborate on the construct and its related concepts.
Per definition strategic management has to do with:

- Ensuring long term survival of the business in a changing environment
- Growing the business as the ultimate business goal
- An ongoing and sometimes messy process of analysis, evaluation, planning, implementation and reviewing. Many of these things happen simultaneously and interactively
- Choices and **decision-making**
- Leading and motivating people to pursue the vision by
  - Allocating resources to support strategic goals
  - Implementing the decisions and executing the choices
  - Changing and adapting to changes which result from the decisions.

Looking at the above elements, a working definition for this concept may be as follows:

---

**Working definition**

**What is strategy about?**

**Strategy consists of competitive moves and business approaches used by managers to run the company**

**Management’s “action plan” to:**

- Start/Grow the business
- Attract and please customers
- Compete successfully
- Structure and Conduct operations
- Achieve target levels of organizational performance
2. THE BROAD PROCESS ELEMENTS

Formal and Informal Strategy

Research indicates that small businesses that have formal strategic plans perform better than small businesses that have informal strategic plans. However, if someone does not have a formally written plan, it is not to say that they do not have a strategy. Especially when talking to entrepreneurs and small business owners, one often finds that they have clear strategies despite not having it on paper. Their problems are rather associated with sharing the strategies with staff as well as implementing the plans.

Key Elements to the Strategic Process

As will be clear at the end of this workshop, it shows that strategic management has to do with three main areas - namely:

- Strategy formulation (planning)
- Strategy implementation (doing or execution)
- Review of implementation (evaluation or control)

Before one can start formulating a strategy, one has to use strategic thinking in finding the important events, patterns and trends that will influence the future of the small business as well as the industry in which the small business operates. Awareness of one’s environment is important. One of the key things to be good at strategic management is to ensure that all people involved are strategically oriented. This requires that they should converse about strategic issues all the time. Strategic conversation must therefore become part of the culture (the way you do things) of the organization. An important part of strategic conversation is to challenge choices and decisions all the time. Asking the right questions is more important than finding the right answers.

Process

Strategic management is a process (steps/events that follow a sequence), which is elaborated extensively in the chapters that follow. The process is iterative (steps repeat itself through the feedback loop). The discussion that follows here is more to set the scene to understand the thinking behind the process. (Learning outcome 2 highlights the elements of the overall process).
2.1 Formulation

The outcome of the formulation process is a plan with broad goals and detailed steps to achieve the vision of the small business. Formulation, however, implies that a number of things happen before the plan is formulated. This entails thinking and conversing about the environment, the industry, key drivers of success, analysis, evaluation, budgeting and more. The first step in the process is to establish a vision for the small business, as it leads the rest of the steps in the process.

The starting point of any journey is the destination thereof.
Unknown

2.2 Implementation

Once the plan is created it needs to be implemented or else it will remain a plan only. It therefore requires the execution of the steps described in the plan.

2.3 Monitoring, Evaluation and Control (Review Of Implementation)

Control refers to measurement of how well the small business is doing in executing the plan. It therefore implies that the objectives must be measurable and some “milestones” must be set to measure progress. If the execution does not go according to the plan, then new plans must be made or adaptations to the original plan must be made.

Why Is It Important To Know?

Essentially strategy is about choice and therefore strategy is important because it is related to many important business decision-making issues. These issues include:

- Strategy is a mindset and thinking issue

  Thinking is about information patterns and the creation of mental models to make it possible for people to understand the world. The way people think can be described as any one of creative, innovative, imaginative, responsive,
conservative, and rigid or no thinking at all. Typically strategic thinking is associated with awareness of changing patterns and responsiveness to the opportunities that are created. Awareness and responsiveness are particularly important as it is key to counter strategic drift.

- **Strategy is a leadership issue**

When the leadership of an organisation starts to envision the future and where they want to take their business, they are involved in the process of strategy as this is what leaders do. They envision the goals, create structures, share the vision, and motivate the people to pursue the vision, communicate, support and coordinate those involved if they are successful leaders. However, if they fail to lead successfully, their businesses may fail too. Many of these activities described are also associated with the strategic management process used in organisations. The process is described in the different chapters.

- **Strategy is a change management issue**

One of the reasons for strategic management is to be able to adapt the business activities to ensure long-term survival of the organisation. Long-term survival has to do with the achievement of goals that support the vision. Both vision and goals have to do with choices. The faster the environment changes, the more important it is to be strong on strategic management to set and achieve meaningful goals for the small business. Doing more of the same things will not keep the business going forever if the environment is changing.

During the implementation of strategies, people must change their thinking, behaviour, systems and structures to fit the vision and adapt to the changing environment. While changing, people experience uneasiness, fear, anger and many other emotions. Change and strategy are therefore very close because change requires strategy to overcome the effect of the changes. The concept of strategic drift expands the relation to some extent.

- **Strategy is key to growth**

Small businesses that do not grow are dying. Growth is probably the most important goal for businesses because that is what investors and shareholders
look for. A business cannot achieve growth though the application of the same strategy over and over again. Today growth is what distinguishes entrepreneurs from small business owners. Growth can happen through several strategies such as:

- Organic business growth by expanding the market or products or both
- Acquiring businesses to expand into other revenue sources
- Franchising
- Expanding globally through internationalisation strategies
- Combination strategies

**Strategy is an entrepreneurial issue**

While entrepreneurship has to do with recognition / identification of opportunities and finding innovative ways to pursue them, the strategic process is also involved in scanning the environment for new opportunities and creating ways to profit from them. Finding new ways to do things is in its core meaning that of finding new strategies to improve performance. There are those that profess that the strategy of the future is to be entrepreneurial. Looking at the growth of “corporate entrepreneurship” as a subject field, there appears to be support for the role of entrepreneurship in growth of all sized small businesses.

**Strategy is an innovation issue**

Innovation has to do with commercialising of opportunities and doing thing in different ways. Finding ways to do things better is about strategy to improve performance. The growth in technological developments, for example, has forced business to change the way they do things. If they don’t, they will not be able to compete with other small businesses in the industries that do. Doing research and spending money on development to find new products, markets, processes and profit models are therefore crucial for survival. Doing so however, requires new strategies.

From the above, it is clear that strategy can be associated with, thinking, leadership, change, growth, entrepreneurship and innovation. Essentially it appears to be desirable and beneficial if management is successful in pursuing the right strategy for the right context.
3. Summary

Doing strategic management correctly:

- Leads to better guidance for the business
- Leads to making managers more alert to new opportunities and threats
- It helps to align all members to pursue the same goals
- It helps to make management become more proactive rather than reactive
- It challenges the economic model of the business to ensure sustained profits
- It facilitates the decision-making process of allocating resources
Learner Activity 1

Think about your own strategy. Can you see some elements and value for your own business?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Elements</td>
<td></td>
</tr>
<tr>
<td>2) Value</td>
<td></td>
</tr>
</tbody>
</table>

CHECK AGAINST LEARNING OUTCOMES

I completely understand the following outcomes and will be able to apply them in the work environment:

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcome</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The elements of strategic management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>The process of strategic management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Important aspects of strategic management</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LEARNING UNIT TWO

THE PROCESS OF STRATEGIC MANAGEMENT

LEARNING OUTCOMES

By the end of this learning unit you will be able to apply your understanding of the following concepts:

☐ Understand the elements of the strategic management process and apply them successfully in a business venture.
1. It is a Process

Being a process it suggests that there are actions / activities that follow each other in a specific sequence. The approach of the training programme is to follow the process approach. So, while formulation (generally referred to as the planning step) is the starting point, an analysis process precedes it. To assist with better understanding, the process is shown below. The process involves formulation after scanning the environment, thereafter implementation of the strategy followed by the review of how well the strategy is doing. Then a new formulation process starts.

The detailed process is shown in the next figure. First however, it is important to understand the broad process steps.
2. Analysis

Analysis is shown to consist of two definite steps namely the external and internal analyses. There are many tools for each, including SWOT analysis, SPACE analysis etc. Time allows for looking at the simplest one namely the SWOT analysis and how it is used.

External Environmental Analysis

External analysis asks questions about the macro environment (the political, economical, social, technology, global and physical situation and trends) and market environment (competitors, suppliers, customers, intermediaries and substitute products).

These questions are:
- What is changing?
- How does the change influence how we must do business to survive?
- How must we change the way we do business to cope with the new situation?

Evaluation of the environment suggests that there are opportunities that can be pursued and/or threats that must be defended against. It is important to not only react to the
changes but also to anticipate future trends to become first movers in the new environments.

Look at the picture and ask the questions above for each of the elements of the macro and market environments.

Competitor Analysis helps a lot

Collecting information on competitors is one of the most difficult parts of researching the market. It is easy to gain superficial information from the competitor's advertising and website. However, amassing the less obvious types of information, such as revenues and long-term strategies, are another matter. Information on publicly held competitors could be found in annual reports and other filings required by the JSE. Unfortunately, however, most start-up companies are competing against other private companies that are not willing to divulge this sensitive data.

Although it is helpful to gather as much "hard data" as possible about competing companies, it is also important to collect information on their current market strategies,
management style and culture, pricing strategy, customer mix, and promotional mix. Competitive intelligence can be found by visiting competitors' websites or the outlets where their products are sold and evaluating appearance, number of customers coming and going, what they buy, how much, and how often in addition to talking to customers and employees. Buying competitors' products to understand the differences in features and benefits and to learn much about how they treat their customers is also valuable.

**Looking for the less obvious**

Competitors can threaten a new or existing business by possessing a core competency that is not readily visible in the typical facts that are reported, especially if those competitors come from outside the entrepreneur's industry and market. For example, suppose that the entrepreneur's business concept is a company that trains unskilled workers for well-paying jobs in industry. The entrepreneur looks at all the competitors in the training market and decides that he or she can compete because a unique niche has been created in the market. What the entrepreneur has failed to do is look outside the market to companies that might have the same core competency and might have the resources to shift to the entrepreneur's niche very rapidly. Those companies are not always obvious.

To make sure that they are not missing a potential threat, small ventures should determine:

- What the competitor has to do to be successful in its own core business?
- Are there any core competencies that are a “must acquire”?
- Which of the competitor's core competencies are transferable to the entrepreneur's business?
- Whether the competitor has a competency in the same area as the entrepreneur?

If the competitor is a large company, the entrepreneur may strategically position his or her company to be acquired because most large companies acquire core competencies rather than develop them.

**Internal Environmental Analysis**

Internal analysis concerns the micro-environment in the above figure. There are 8 main issues to look at: Finance, production, purchasing, marketing, human resources, public
relations, administration and management. Strategic management falls under the management function.

Internal analysis asks questions about the internal resources of the company and if they contribute to the strengths or the weaknesses of company. If a company has an overweight of strengths it can pursue some opportunities and defend itself against threats from the environment. If it is underweight in strengths it must pursue development strategies to overcome these weaknesses and turn them into strengths to then pursue the opportunities.

3. Formulation

Once the environment is well understood it is necessary to formulate different strategies to best use the situation that the company is in. First the venture must know where it is going thus the vision (see next learning outcome). It must also know why it wants to move towards the vision as it determines the strategies to pursue.

Three Key Strategic Questions

1. What is the company’s present situation?

2. Where does the company need to go from here?
   - Business to be in and market positions to stake out
   - Buyer needs and groups to serve
   - Direction to head towards

3. How should it get there?
   - A company’s answer to “how will we get there?” is its strategy

These strategies are explored in learning unit six.
4. Implementation

Once plans are formulated they are worthless unless they are deliberately pursued and resources are allocated towards implementing (doing) these specific plans. I often find ventures with good strategies but no resource allocation towards them. Implementing a strategy demands proper resource allocation and therefore a different way of thinking.

Ventures should attempt to spend 70% of their time towards implementation and the rest towards formulation (20%) and review / evaluation (10%). Organisations that spend too much time on planning without sufficient implementation (such as government) have shown in the past to perform poorly.

Part of implementation is to create capacity and structure to achieve the goals of the strategy.

5. Review / Evaluation

After the implementation has started, progress must be measured on a continuous basis. It has been said that “no measurement – no movement”. Reviewing the progress also requires changing the strategy if things do not work out or at least adjusting or refining the strategies.

6. Summary

- Strategic management is an ongoing process of planning (formulation), executing (doing) and reviewing (control).

- There is a lot of analysis to be done as homework before one can formulate the right strategies.

- It should not be done once off but regularly.
## CHECK AGAINST LEARNING OUTCOMES

I completely understand the following outcomes and will be able to apply them in the work environment:

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcome</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The elements of the strategic management process and successful application for a business venture</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LEARNING UNIT THREE

VISION AND MISSION

LEARNING OUTCOMES

By the end of this learning unit you will be able to apply your understanding of the following concepts:

- The definitions of a vision, mission and strategic intent
- The roles of vision and mission for the venture
- How each influences the strategies chosen
1. What Is A Vision?

Vision refers to the picture (in the mind) of the future state of affairs of the venture. It answers the question of what results should be there in say 5 years from now.

Vision helps to guide the venture as it gives direction for where to go. It could include hard issues (like an automated production line) or soft issues (like well trained artisans) for the company. Vision should be results oriented.

<table>
<thead>
<tr>
<th>VISION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental picture of a future state of affairs</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Vision is also sometimes referred to as the end goal of the venture as it gives direction to where the focus must be.
What Is A Mission?

Mission answers the question to “why” you are pursuing the business. To make a profit is not good enough reason (as a mission statement) as all ventures have it as a goal and therefore it does not distinguish your venture from that of the competition.

| MISSION |
|-----------------|--------------------------------------------------|
| **Why are we doing what we do?** | **Reasons for existence (purpose)** |
| | The mission statement of a company focuses on its present business purpose “who we are and what we do”. |
| | - Current product and service offerings |
| | - Customer needs being served |
| | - Technological and business capabilities |
2. Key Success Factors (KSFs)

KSFs are those competitive factors most affecting every industry member’s ability to prosper. KSF’s refer to the 3-5 things that a venture must be able to master if it wants to be a competitor in an industry.

KSFs are concerned with:
- Specific strategy elements
- Product attributes
- Resources
- Competencies
- Competitive capabilities that every company needs to be competitively successful

Identifying Industry Key Success Factors

- Pinpointing KSFs involves determining
  - On what basis do customers choose between competing brands of sellers?
  - What resources and competitive capabilities does a seller need to have to be competitively successful?
  - What does it take for sellers to achieve sustainable competitive advantage?
  - What will make customers switch to a competitive product?

- KSFs consist of the major determinants for success
  - There are rarely more than 5 or 6 factors that are truly key to the future financial and competitive success of industry members.

You have to be able to identify the key success factors for the industry that you want to participate in.
3. Summary

Once you understand the environment you have to:

☐ Create a vision of where you want to go
☐ Understand why you would like to go there (purpose)
☐ Find the key things you must do right to successfully reach your vision
A metaphor about strategy

Several years ago I lived in Polokwane (Pietersburg) but had to go to Cape Town on several occasions. Look at the two situations described here.

When I had to go for business reasons, I would wake at 04h30 in the morning, drive to Johannesburg, catch a flight at 08h00 and arrive in Cape Town at 11h00. The meeting would last until 14h30 and the return flight departs at 17h00 to arrive at 19h00 in Johannesburg. Three hours later I would be back in Polokwane.

During December I would get in my car with my family and a trailer hooked up. We would travel to Pretoria and sleep over at my mother’s place. Early the next day we would start the journey to Cape Town stopping over at several places to eat and rest. Eventually we would arrive in the mother city round about 17h00 the next day.

In both cases the aim was to travel to Cape Town (vision / where) but for each case the way (how) it was executed differed. Driven by low costs, quick turnaround and minimum expenses I traveled for business reasons and attended the meeting with the least disturbances as possible. Traveling for vacation purposes (to rest) I used a different approach to reach the same goal (go to Cape Town). The reason (purpose) why I wanted to go to Cape Town determined “how” I traveled there.

Strategy therefore has to do with how we approach and achieve our goals. So strategy depends on the end goals and reasons why we want to achieve them. Two businesses with the same goals can have different strategies.
Answer the following questions

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What was the vision?</strong></td>
</tr>
<tr>
<td><strong>What was the mission?</strong></td>
</tr>
<tr>
<td><strong>How did it influence the strategy?</strong></td>
</tr>
</tbody>
</table>
Activity 3: Answers

**What was the vision?**
To go to Cape Town – where you want to be

**What was the mission?**
1. To do business
2. To go for a holiday

**How did it influence the strategy?**
1. Speed was important to get there and do the business. To reach each of the transfer points on time was crucial.
2. To rest and spend time with the family was important

### CHECK AGAINST LEARNING OUTCOMES

I completely understand the following outcomes and will be able to apply them in the work environment:

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcome</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The definitions of a vision, mission and strategic intent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>The roles of vision and mission for the venture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>How each influences the strategies chosen</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LEARNING UNIT FOUR

POSITIONING AND COMPETITIVE ADVANTAGE

LEARNING OUTCOMES

By the end of this learning unit, you will apply your understanding of the following concepts in order to apply it to one’s own venture.

- The positioning of a venture in the market.
- Competitive advantage.
1. What Is Positioning?

Very few people seem to grasp the notion of positioning. Positioning, like competitive advantage, originates from the key success factors.

Perhaps we should start by looking at an example to introduce the idea of concept positioning. Take three well-known food franchises in SA that all sell chicken as their main line namely KFC, Nando's and Chicken Licken. How do they “position” their concept offerings? Studying their advertisements, set-ups, pricing strategies, apparent target groups and what their managers say. We can learn the following about each one’s positioning.

The concept of KFC seems to be positioned as “convenience” that is also fun while being priced for the average family or individual with medium income. They even have drive through facilities for more convenience. The pieces make it ideal for feeding the family of the busy parent. They focus on take-away but sometimes also have some very basic sit-down facilities. Their marketing often involves promotions with toys and user-coupons.

Nando’s, on the other hand, focus on giving people a “lasting experience” for which they will come back time after time. Their product is higher priced larger portions prepared more “healthy” for the higher income groups. The taste of Portugal and open fire preparation brings an added experience component. They have better sit-down facilities as part of the experience.

Chicken Licken on the other hand positions their product as a basically good food that makes up a fair sized meal at a cheap price. They normally have no sit-down but only take away facilities. Nothing that can increase costs is tolerated. They focus on the lower income group.

As you will now realise, positioning takes place in the mind of the consumer. It is how they see your product (their perception). It is what you believe the customers will value. Think how differently a normal loaf of bread and garlic bread is positioned. Bread is widely distributed, low priced, never advertised (basic food) while garlic bread is highly priced, exclusively distributed and promoted (upper class luxury item). Obviously they are aimed at different target markets.
The needs of the target market therefore **determine** what “value” the concept can bring to them and therefore you have to understand their needs well. Positioning has a lot to do with the target market you select to serve.

**Examples of positioning (strategic)**

<table>
<thead>
<tr>
<th></th>
<th>KFC</th>
<th>Nando’s</th>
<th>Chicken Licken</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium Price</strong></td>
<td>High Price</td>
<td>Lower Price</td>
<td></td>
</tr>
<tr>
<td><strong>Convenience food</strong></td>
<td>Experience to remember</td>
<td>Basic meal focus that is</td>
<td></td>
</tr>
<tr>
<td>(Drive Through)</td>
<td>(Also Drive Through)</td>
<td>affordable</td>
<td></td>
</tr>
<tr>
<td><strong>Selected target market</strong></td>
<td>Selective market – higher income groups</td>
<td></td>
<td>Selective market</td>
</tr>
<tr>
<td><strong>Medium promotion targeted at children</strong></td>
<td>High promotion, slightly complex and funny - targeted at adults</td>
<td></td>
<td>Lower level</td>
</tr>
</tbody>
</table>

If you don’t understand your own venture’s positioning, how do you think your customer will understand it?

### 2. What Is Competitive Advantage?

Competitive advantage is a key concept for business. If you can answer the question of why people will buy from you and not your competition, and you can find a significant reason, then you are on the way to competitive advantage.

**Competitive advantage refers to a benefit that exists when a company has a product or service that is seen by its target market as better than those of the competitors. It is found in the resources or can be a capacity / competency that allow it to be perceived as having an advantage.**

Low price can never be seen a competitive advantage as it is not sustainable and any competitor can beat your price (even at a loss). To be a competitive advantage it must be...
sustainable and hard to imitate. There are several places to seek for a competitive advantage. Remember is not automatic to have a competitive advantage. One spends a lot of resources to create and maintain competitive advantage. Think about some brand images (names) that have become competitive advantages like Coke, BMW, Vodacom and others.

<table>
<thead>
<tr>
<th>Where to seek Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lower cost (not price)</td>
</tr>
<tr>
<td>• More or different performance features</td>
</tr>
<tr>
<td>• Better product performance</td>
</tr>
<tr>
<td>• Higher quality</td>
</tr>
<tr>
<td>• Strong brand image and appeal</td>
</tr>
<tr>
<td>• Wider selection of models and styles</td>
</tr>
<tr>
<td>• Financing / low interest rate finance</td>
</tr>
</tbody>
</table>

3. Competitive Advantage in Small Ventures

How do family-controlled enterprises create value? Speed and agility have already been mentioned as competitive advantages often inherent to entrepreneurial and small, privately held companies with first-generation leadership. The result of unique organizational capabilities, speed allows the business to stay close to the customer, whether through personal or digitally enabled relationships, and to detect when the customer needs change.

The seven primary sources of value on which small ventures can build competitive advantage are: (1) financial resources, such as cash and securities; (2) physical assets such as plant and equipment; (3) the product (sometimes protected by patents) and its
price and performance; (4) brand equity, which is the market's perception of a distinction in quality or reputation, a perception created over time; (5) organizational capabilities, which are the competencies residing in employees and unique organizational architectures; (6) customer-supplier integration (once called distribution), which includes new ways of getting the product or service to the customer in any form, at any time, and in any place; and (7) the intimate business relationship, a resource that can be leveraged. Combining these seven sources of value in various ways, as if different pieces in a custom-assembled puzzle, will give rise to a unique business model, one that is rooted in the core competencies of the business and can create value for both the owners and customers.

Competitive advantages created by real assets (such as financial resources and equipment) can be copied or cloned and are often temporary and transient. **Competitive advantages created by intangible assets (people, their knowledge and skills, company values, and other organizational capabilities) are often more defensible and longer lasting.** The clear tendency then is for small ventures to create a business model that relies more heavily on the sources of value on the right quadrants of the puzzle.

4. Summary

Competitive advantage is key for long-term survival. If you cannot find a competitive advantage that differentiates you from the competition, you may survive for a short time only.
Activity 4

Study the following 4 retail outlets and see whether you can identify their positioning in the market. Think about price, what the concept is, who the target market is, how it is distributed and how it is promoted.

Strategic Positioning

<table>
<thead>
<tr>
<th>EDGARS</th>
<th>GUESS</th>
<th>PEP</th>
<th>MR PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Activity 4: Answers

<table>
<thead>
<tr>
<th></th>
<th>EDGARS</th>
<th>GUESS</th>
<th>PEP</th>
<th>MR PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>High price</td>
<td>Very high price</td>
<td>Lower price</td>
<td>Value for money</td>
<td></td>
</tr>
<tr>
<td>Aspire to be classy</td>
<td>Status and experience – young people, yuppies</td>
<td>Basic clothing that is affordable</td>
<td>Trendy and affordable clothing</td>
<td></td>
</tr>
<tr>
<td>Just above average income consumers</td>
<td>Selective high income groups – youth, upper class</td>
<td>Low income – everywhere in rural areas</td>
<td>Average income</td>
<td></td>
</tr>
<tr>
<td>High promotion, club, catalogues</td>
<td>Selective, movies and brand</td>
<td>Lower level, in store</td>
<td>Sponsorship, in store, pamphlets, catalogues</td>
<td></td>
</tr>
</tbody>
</table>

**Notes**
CHECK AGAINST LEARNING OUTCOMES

I completely understand the following outcomes and will be able to apply them in the work environment:

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcome</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The positioning of a venture in the market.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Competitive advantage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LEARNING UNIT FIVE

SWOT

LEARNING OUTCOMES

By the end of this learning unit, you will be able to apply your understanding of the following concepts.

☐ The elements of a SWOT analysis

☐ How to apply a basic SWOT analysis

☐ How to derive the three core strategies from the outcome
1. What is a Swot Analysis?

A **SWOT analysis** is a simple but powerful tool for sizing up a company’s resource capabilities and deficiencies, its market opportunities and the external threats to its future well-being. A first-rate SWOT analysis provides the basis for crafting a strategy that capitalizes on the company’s resources, aims squarely at capturing the company’s best opportunities, and defends against the threats to its well-being.

It is a tool that is applied to the analysis process and helps to clarify the complexities of the results of all the different analyses. SWOT analysis graphically plots the results of the external and internal analyses for a venture. It requires a lot of research and asking questions but its benefit is that it assists to improve understanding of “where we are”. It considers 4 elements namely:

- **Opportunities** – found in the external environment, are positive and benefit the venture if pursued correctly
- **Threats** – also found externally but the may have negative effects on the venture
- **Strengths** – are found within the venture and gives the venture a platform to operate from
- **Weakness** – are found within the venture and are those elements that hamper progress and pursuing opportunities.

**Strategy Options From The SWOT**

From the figure the following principles of a SWOT analysis can be deduced namely:

- to pursue opportunities from a point of strength is the right way to go
- to pursue opportunities from a weak point is a temptation and should be avoided
- to defend from weakness is makes you vulnerable and threats should be defended from strengths
- the correct way is to function from the strengths only
- weaknesses should be made strengths before on pursues opportunities.
SWOT Analysis - Principles

There are therefore three broad strategies to be considered:

- Offensive strategies where opportunities are vigorously pursued
- Defensive strategies where the venture identifies the threats and defend itself against them
- Development strategies where weaknesses are turned into strengths to pursue offensive and defensive strategies
- Temptation and vulnerability are not strategies.
2. **Swot Example**

Here follows a real life example of a SWOT for a company.

<table>
<thead>
<tr>
<th>Example</th>
<th>Key SWOT Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPPORTUNITIES</strong></td>
<td><strong>THREATS</strong></td>
</tr>
<tr>
<td><strong>STRENGTHS</strong></td>
<td><strong>WEAKNESSES</strong></td>
</tr>
</tbody>
</table>

From the example SWOT matrix one could see the following:

- there are many opportunities to pursue – several of which may be temptations.
- but also many threats that could make the venture fail.
- the strengths are underweight compared to the weaknesses.
- weaknesses must be developed to become strengths.
3. Value of the Swot

Just what story does the SWOT analysis tell about the company’s overall situation can be summarized in a series of questions:

- Does the venture have an attractive set of resource strengths?
- How serious are the venture’s weaknesses and competitive deficiencies?
- Do the venture’s resource strengths and competitive capabilities outweigh its resource weaknesses and competitive deficiencies by an attractive margin?
- Does the venture have attractive market opportunities that are well suited to its resource strengths and competitive capabilities?
- Are the threats alarming or are they something the venture appears able to deal with and defend against?
- How strong is the venture’s overall situation?

Applying the SWOT correctly helps the venture to clearly understand where it is relative to its competitors within the industry that it operates. One can develop the use of the SWOT further by using it to study competitors and therefore learn from them and be prepared for any moves that they might contemplate. It further assists the venture to decide whether it wants to pursue new opportunities and whether it should change its strategic direction.

4. Summary

- The SWOT analysis is purely a tool to help one understand the current situation of the venture.
- The SWOT is as good as the research and information used in it.
- It cannot do anything for the venture unless there are some strategies formulated based on the outcome thereof.
Activity 5

Think of your own venture. Identify the key success factors and classify them for your venture under strengths and weakness.

Where is the balance?

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHECK AGAINST LEARNING OUTCOMES

I completely understand the following outcomes and will be able to apply them in the work environment:

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcome</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The elements of a SWOT analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>How to apply a basic SWOT analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>How to derive the three core strategies from the outcome</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LEARNING UNIT SIX

FORMULATION AND IMPLEMENTATION

By the end of this learning unit, you will be able to apply your understanding of the following concepts to a venture.

☐ Identify possible strategies to pursue

☐ Make a choice

☐ Start with implementation
Formulation

Once you know:

- where you want to go (vision)
- why you want to go there (mission)
- where you are (analysis)
- what the key factors are to succeed in this industry (KSF’s)
- how you are going to be different (positioning) and
- what your competitive advantage will be

then you can formulate your plan to start the journey.

The generic strategies to choose from are:

![Generic strategies diagram]

- **Overall Low-Cost Provider Strategy**
- **Broad Differentiation Strategy**
- **Focused Low-Cost Strategy**
- **Focused Differentiation Strategy**

**Lower Cost**

**Differentiation**

**Type of Competitive Advantage Being Pursued**
Five distinct competitive strategy approaches stand out:

- **A low-cost provider strategy**: striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by under pricing rivals.

- **A broad differentiation strategy**: seeking to differentiate the company’s product/service offering from rivals’ in ways that will appeal to a broad spectrum of buyers.

- **A best-cost provider strategy**: giving customers more value for the money by incorporating good-to-excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering products with comparable attributes.

- **A focused or market niche strategy based on lower cost**: concentrating on a narrow buyer segment and out competing rivals by serving niche members at a lower cost than rivals.

- **A focused or market niche strategy based on differentiation**: concentrating on a narrow buyer segment and out competing rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals products.

The market you are pursuing plays a significant role in the choices about strategy that you have. Generally, do not try to do more than one type of strategy as you may be squeezed from both types of competitors.

Other potential strategies (originating from competitive advantages) may include product leadership, customer intimacy and operational efficiency strategies. Small businesses often find it difficult to compete on some of the generic strategies.

---

The big risk – Selecting a “stuck in the middle” strategy! This rarely produces a sustainable competitive advantage or a distinctive competitive position!
Porter (1991:95) noted that the very essence of strategy is choice, and that it is centrally concerned with issues of business performance. So it is important to ask the right questions to lead the strategic decision process. Think about it as the questions that one would ask when faced with an important choice and that will influence the performance of the small business.

2. Implementation

Implementation means that you must start doing what you planned.

### Executing the Strategy

- Is primarily an operation driven strategy
- Successful strategy execution depends on:
  - Doing a good job of working through others
  - Good organisation-building
  - Building competitive capabilities
  - Creating a strategy-supportive culture
  - Getting things done and delivering good results

There are basically five things that may influence how successful your implementation would be, namely:

- Leadership – to sell people the vision and show them the way and what to do. Encourage them if they pursue the vision correctly and reprimand and redirect if not.
- Accurate resource allocation – to ensure that the strategy is supported by the available resources (easier said than done)
- Structure to support the strategy – You have to put in place a value chain to create products / services needed by customers as dictated by your plan
- A culture – of how to do things from now on to support the strategy and achieve the goals.
- Reward system – that would reward strategy support and penalties for not supporting it (things like incentive schemes etc).
Allocating Resources to support Strategy Execution

- Allocating resources in ways to support effective strategy execution involves:
  
  o Funding strategic initiatives that can make a contribution to strategy implementation
  
  o Funding efforts to strengthen competencies and capabilities or create new ones
  
  o Shifting resources, downsizing some areas, upsizing others, killing activities no longer justified and funding new activities with a critical strategy role

3. Summary

Formulation and implementation is the most important of the strategic management process.
CHECK AGAINST LEARNING OUTCOMES

I completely understand the following outcomes and will be able to apply them in the work environment:

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcome</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Identify possible strategies to pursue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Make a choice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Start with implementation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LEARNING UNIT SEVEN

REVIEW THE PROGRESS

LEARNING OUTCOMES

In this learning unit, you will be able to understand the following concepts:

- Define the measurement of progress
- Understand the Balanced Score card
1. Measurement

There is nothing worse than having a strategy but not knowing whether it is working or not. Every success factor must therefore be converted into several objectives to be achieved. The word objective suggests that it is able to measure whether it has been achieved or not.

How do we know the strategy is a good one?

- **GOODNESS OF FIT TEST**
  - How well does the strategy fit the company’s situation? Judgement

- **COMPETITIVE ADVANTAGE TEST**
  - Does strategy lead to sustainable competitive advantage?

- **PERFORMANCE TEST**
  - Does strategy boost company performance? Balanced scorecard

One of the ways to do this measurement (developed by Kaplan) is the balanced scorecard.

**Balanced Score Card**

**A Balanced Scorecard Approach**

- A balanced scorecard for measuring company performance is optimal; it entails:
  - Setting financial and strategic objectives
  - Placing balanced emphasis on achieving both types of objectives.

(However, if a company’s financial performance is dismal or if it’s very survival is in doubt because of poor financial results, then stressing the achievement of the financial objectives and temporarily de-emphasising the strategic objectives may have merit)

- Just tracking financial performance overlooks the importance of measuring whether a company is strengthening its competitiveness and market position.
The balanced scorecard exist of matrices that one uses to keep score on. The four broad elements that encompass everything are:

- Finance
- Customers
- Internal business processes
- Learning and growth

Balanced Scorecard

<table>
<thead>
<tr>
<th>Customers</th>
<th>To achieve our vision, how should we appear to our customers?</th>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
</table>

Financial

<table>
<thead>
<tr>
<th>To succeed financially how should we appear to our shareholders?</th>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
</table>

Internal business processes

<table>
<thead>
<tr>
<th>To satisfy our shareholders and customers, at which business processes must we excel?</th>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
</table>

Learning and growth

<table>
<thead>
<tr>
<th>To achieve our vision, how will we sustain our ability to change and improve?</th>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
</table>
4. Example Balanced Score Card

A Balanced Scorecard Includes Objectives, Measurements and Targets That Promote Change

<table>
<thead>
<tr>
<th>PERSPECTIVE</th>
<th>BUSINESS OBJECTIVES</th>
<th>MEASUREMENTS</th>
<th>TARGETS</th>
<th>OWNER ACCOUNTABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCIAL</td>
<td>- Shareholder value</td>
<td>- % dividend growth</td>
<td>- Top 10% of FTSE companies each year</td>
<td>- Finance Director</td>
</tr>
<tr>
<td></td>
<td>- Profit</td>
<td>- Operating Margin</td>
<td>- RPI + X% annually</td>
<td>- CEO</td>
</tr>
<tr>
<td></td>
<td>- New revenue</td>
<td>- Revenue from new services</td>
<td>- 25% in three years</td>
<td>- Business Development Manager</td>
</tr>
<tr>
<td>CUSTOMER</td>
<td>- Differentiation</td>
<td>- Value for money</td>
<td>- Number one customer rating</td>
<td>- Marketing Director</td>
</tr>
<tr>
<td></td>
<td>- Strategic alliances</td>
<td>- Profits from alliances</td>
<td>- £3m in five years</td>
<td>- Business Development Manager</td>
</tr>
<tr>
<td></td>
<td>- Customer service</td>
<td>- Customer satisfaction</td>
<td>- Number one customer rating</td>
<td>- Marketing Director</td>
</tr>
<tr>
<td>INTERNAL PROCESS</td>
<td>- Productivity</td>
<td>- Revenue/work hour</td>
<td>- Best-in-class within five years</td>
<td>- Chief Operating Officer</td>
</tr>
<tr>
<td></td>
<td>- New product development</td>
<td>- Product development cycle time</td>
<td>- Reduced by 50% in two years</td>
<td>- Research and Development Manager</td>
</tr>
<tr>
<td></td>
<td>- Segmentation</td>
<td>- Number of initiatives targeted at profitable segments</td>
<td>- 60% within one year</td>
<td>- Marketing Director</td>
</tr>
<tr>
<td>INNOVATION &amp; GROWTH</td>
<td>- People policy</td>
<td>- Management span of control</td>
<td>- Triple in three years</td>
<td>- Human Resources Director</td>
</tr>
<tr>
<td></td>
<td>- Alliance management</td>
<td>- Number of “learning” partnerships</td>
<td>- 10 in five years</td>
<td>- Business Development Manager</td>
</tr>
<tr>
<td></td>
<td>- Customer focus</td>
<td>- % management time interfacing with customers</td>
<td>- 20% in two years</td>
<td>- CEO</td>
</tr>
</tbody>
</table>

5. Summary

Key to everything is the fact that you can only see progress if you measure regularly. The balanced scorecard is a tool for that.
CHECK AGAINST LEARNING OUTCOMES

I completely understand the following outcomes and will be able to apply them in the work environment:

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcome</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Define the measurement of progress</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Understand the Balanced Score card</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
“Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat”

To request a copy of the training manual, please contact:

Trudy Paul
Institute of Bankers in South Africa
trudy@job.co.za