

## *What is Strategy?*

*“If you don’t design your own life plan, chances are you’ll fall into someone else’s plan. And guess what they have planned for you? Not much.”*

— *Jim Rohn*

The above quote by the late American entrepreneur and author, sums up the imperative for having a strategy. Even if the company is heavily dependent on a principal for business, it needs to have some form of a strategy (plan) to enjoy (make profit) being in business. Every company, irrespective of its size in an industry, has a competitive strategy. The strategy could be developed through a formal planning process or could be implicitly deployed by the promoters or the leadership team. If the planning is driven by the promoter or the Sales/ Marketing function head, it could invariably lead to revenue optimisation, without much diligence on the profitability and sustenance. In companies with strong Operations function, often, ‘Operational Effectiveness’ initiatives like Lean and Quality Improvement are branded as strategy. Operational effectiveness initiatives focus on performing similar activities better than the competition or benchmarks. Whereas strategy is about performing different activities from rivals or performing similar activities in diverse ways. Strategy is all about making a choice; to change for better. The change must manifest thro’ deployment, which is improved by course correction. For a better understanding of the term, we will focus on company’s strategy for revenue growth and profitability.

Professor Michael Porter of the Harvard Business School, who is an acknowledged authority on the subject of Competitive Strategy, sums up strategy as finding the unique position of sustained competitive advantage. Porter says, Strategy, is a matter of working out your company’s best position relative not just to pricing pressures from rivals but to all the forces in your competitive environment. We shall understand the concept by understanding the constituent elements.

There are **three** elements of Strategy,

1. **Creating Value:** This involves identifying a need of the customer which you intend to fulfil through a product or service, offered at a price which the customer is willing to pay, and your business makes profit.
2. **Capturing Value:** This involves planning of designing and delivering the value to the customer.
3. **Managing Value:** This involves aligning all the activities in such a way that facilitates the ‘value delivery’ process and refining the entire value chain over the period.

All three elements done effectively develops sustained competitive advantage for the company. A business can use any of the following **three generic strategies** to develop its own unique competitive advantage in an industry:

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1. **Overall cost leadership:** The first strategy, leverages enablers like economies of scale, learning curve, vertical integration, to achieve overall cost leadership. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on. Companies like Tata Steel, Indigo Airline (Low-cost airline) and retail chain D-Mart could be given as examples.
2. **Differentiation:** The second generic strategy is one of differentiating the product or service offering of the company, creating something that is perceived industrywide as being unique. Company can differentiate itself through - **Design or Brand Image** (example: Apple phones), **Technology** (example: Samsung electronics products), **Features** (example -Vistara (Full-service airline)), **Customer Service** (example – Taj Hotels) or any other form of value delivery mechanism dimensions. Ideally, the company differentiates itself along several dimensions. Maruti Suzuki, for example differentiate itself through design – Fuel efficiency; cost – Total ownership cost and service network. When a company competes on differentiation, it does not imply that costs are ignored. Rather, it tries to seek better value (profits) through various levers of differentiation.
3. **Focus:** The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market; as with differentiation, focus may take many forms. Although the low cost and differentiation strategies are aimed at achieving their objectives industrywide, the entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind. The strategy rests on the premise that the company is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the company achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both. Many Auto-component companies serving Indian or global OEMs could be given as example. Forgings company – Bharat Forge started by becoming a world-class automotive forgings supplier and now has diversified into designing products for other industries by leveraging its operational excellence in forging process.

A good strategy must pass five tests:

1. It should identify a distinct value proposition
  - a. Which customers are you going to serve?
  - b. Which needs are you going to meet?
  - c. What is the price point where customers get value, and you make profits?
2. It must manifest through a tailored value chain
  - a. It should identify the set of activities across the value chain to design and deliver the value
3. Trade-offs different from rivals
  - a. Which activities it will perform differently than the rivals? And **more importantly**,
  - b. Which activities it will not perform?
4. Fit across value chain
  - a. How various activities complement each other and develop a moat that is difficult to copy
5. Continuity over time
  - a. Continuity fosters improvements in individual activities and fit across activities; it allows an organization to build unique capabilities and skills tailored to its strategies.