

DIPLOMA PENGURUSAN HAJI & UMRAH(DHUMY)

STRATEGIC MANAGEMENT (DHU 3633)

CHAPTER 3: THE STRATEGY LEVELS



CHAPTER 3

THE STRATEGY LEVELS:

- 1. CORPORATE LEVEL**
- 2. BUSINESS LEVEL (GENERIC OR COMPETITIVE)**
- 3. FUNCTIONAL LEVEL**



In this chapter, you will:

Understand the three levels of strategy for an organization:

- ❑ 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.
- ❑ In a single business scenario, the corporate and business level responsibilities are clubbed together and undertaken by a single group, that is, the top management, whereas in a multi business scenario, there are three fully operative levels.

3 LEVELS OF STRATEGY



CORPORaTE LEVEL STRATEGY



LEVELS OF STRATEGY

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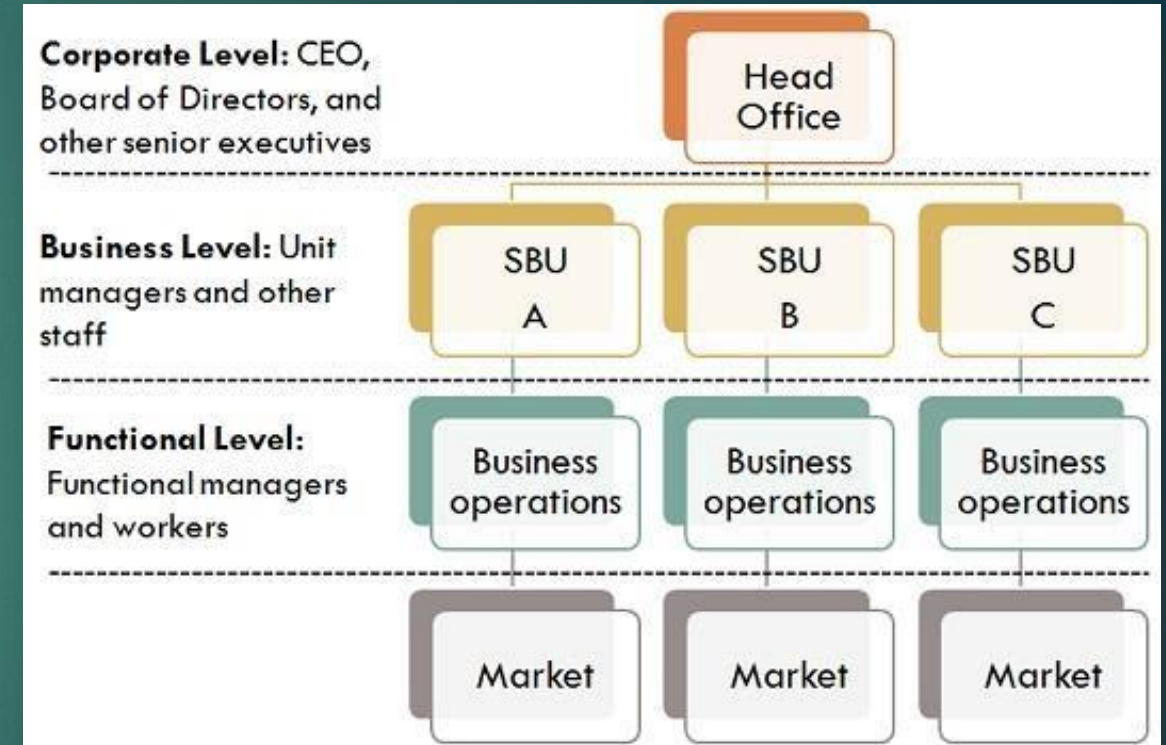
CORPORATE LEVEL STRATEGY

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 business operations, 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.

CORPORATE LEVEL STRATEGY

- ✓ Corporate level strategy is the top of the planning pyramid.
- ✓ It is the main purpose of your business.
- ✓ Think of corporate level strategy as the destination toward which your business is moving.
- ✓ That destination affects all the strategies and decisions in every other part of your business.
- ✓ So, for example, if your business has reached market saturation and you need to diversify to survive, your corporate level strategy would be to spread to new markets.
- ✓ That becomes the guiding force for everything your business does from now on.



1. Long Term

- ❖ Corporate level strategies are aimed at the long-term rather than the short-term. You may formulate them quickly, but their implementation and completion will take much longer.

2. Uncertain

- ❖ Corporate levels strategies are, by nature, uncertain. That's because they are extremely broad and often incorporate a great many moving parts (the success of your departments, the market, your competition, the economy, etc.).

3. Geared Toward Overarching Goals

- ❖ Manager reviewing her company's corporate level strategy. Corporate level strategies should be geared toward the goals of your organization as a whole. Improving the performance of your kitchen staff is not a corporate level strategy. It is, however, a component of a much broader goal (such as improving customer perception) that your business is striving for.

4. Complex

- ❖ Because corporate level strategies apply to your business as a whole, they are naturally going to be more complex. They are going to incorporate many moving parts and may be made up of a long list of sub-strategies (both business level and functional level).

5. Dynamic

- ❑ Corporate level strategies shouldn't be set in stone. You want your business to adapt and cope with consumer demands and market and industry changes.
- ❑ To achieve that, your corporate level strategy should be as dynamic as possible.
- ❑ That doesn't mean you have to incorporate contingency plans for every possible situation — that very well may be an impossible task. Instead, allow your corporate level strategy (and yourself) the flexibility to change along with the demands of your business.
- ❑ To help you understand the essential nature of a dynamic corporate level strategy, visualize your business as a tree in a storm.
- ❑ The trees that weather the storm the longest are those that can bend and move. Without that ability, they are blown over and crash to the ground.
- ❑ A dynamic corporate level strategy makes your business more flexible in the face of strong market and industry storms and prevents it from being blown over and crashing to the ground.

6. Far Reaching

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- ❑ Corporate level strategies, by nature, are far reaching and will affect the entire organization for the better — from the owners at the top down to the new employee just starting out.
- ❑ The strategy gives every department, every executive, every manager, and every employee a place to focus their efforts.
- ❑ This is a valuable thing because business is very much like a tug of war.
- ❑ On one side is your organization.
- ❑ On the other side are your customers, your markets, and the industry as a whole. That's a good amount of weight on the other side of the rope.

- ❑ It would not benefit your business to have upper management pulling in one direction, middle management pulling in the other direction, and your employees pulling in a completely different direction.
- ❑ Corporate level strategy gets everyone aligned (toward your goals) and pulling in the same direction.



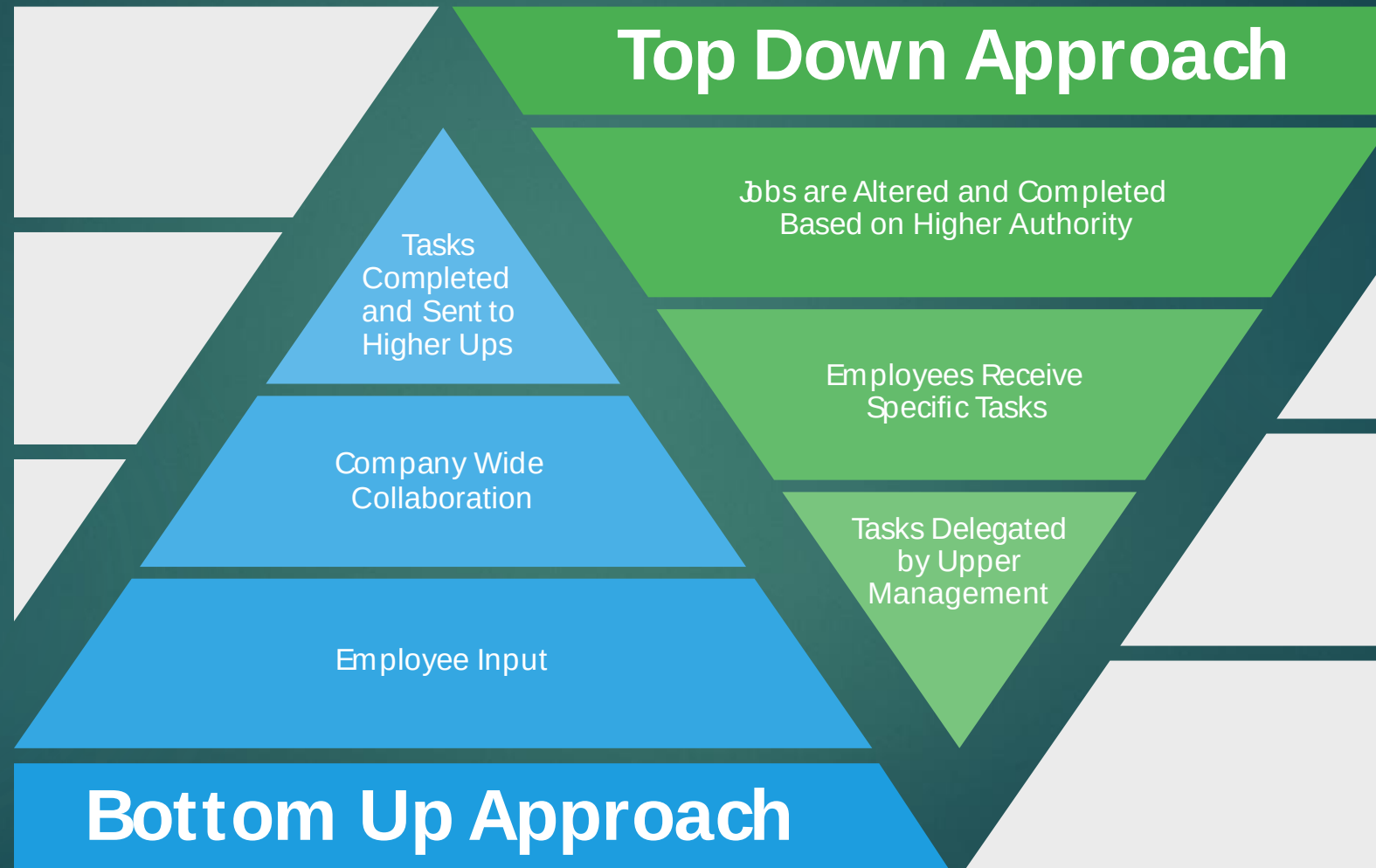
7). Formulated From The Top Down

- ❑ Corporate level strategies are always created at the highest levels of your business.
- ❑ Owners, board members, and chief officers (e.g., CEO, CFO, COO) should be the ones to formulate the strategies and then put them into practice in the other levels of the business.
- ❑ But that doesn't mean you should create your corporate level strategy in a vacuum, with only input from other members of the upper management.
- ❑ The best way to know what's really going on in your business is to talk to middle management as well as your employees in the trenches.
- ❑ Only then will you be able to create the best corporate level strategy.
- ❑ Once you've settled on the corporate level strategy that works best for your business, the next step is to translate those goals into business level strategy.
- ❑ After you've established your business level strategy, the final step is to put those strategies to use by implementing a functional level strategy.

KEY CHARACTERISTICS OF CORPORATE LEVEL STRATEGY

STRATEGIC MANAGEMENT

Example: Top Down Approach



9 EXAMPLES OF CORPORATE LEVEL STRATEGY

9 EXAMPLES OF CORPORATE LEVEL STRATEGY

Corporate level strategy can be subdivided into three types based on what you want to do with your business:

1. Growth
2. Stability
3. Retrenchment

Think of these three types of corporate level strategy as the general direction you want your business to “travel.” Within those broad goals, you have a number of options for specific corporate level strategy.

9 Examples of Corporate-Level Strategy

9 EXAMPLES OF CORPORATE LEVEL STRATEGY

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GROWTH

1. Concentration

- ✓ In a concentration growth strategy, you would focus resources in order to increase the vertical or horizontal participation in your respective market.

2. Diversification

- ✓ When there's little or no opportunity for growth in your original market, it's time to diversify (or spread into new markets).
- ✓ You might choose to spread into a related market (concentric diversification) or into a market that is unrelated to your current niche (conglomerate diversification).

3. Forward Or Backward Integration

- ✓ Another way to grow through a focused corporate level strategy is to harness the power of forward or backward integration.
- ✓ In forward integration, you take steps to assume the role previously provided by one of your distributors (forward in the supply chain).
- ✓ That may mean building a warehouse and creating the infrastructure to sell to retailers or direct to end users.
- ✓ In backward integration, you take steps to assume the role previously provided by one of your suppliers (backward in the supply chain).
- ✓ That may mean expanding existing production lines or implementing completely new ones to produce the parts you need to build your primary product.

9 EXAMPLES OF CORPORATE LEVEL STRATEGY

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STABILITY

4. No Change

- ❑ If you're happy with your business's current position in the market, you may adopt a "no change" strategy.
- ❑ Continue doing what you're doing, but plan for a time when you want to grow or retrench.

5. Profit

- ❑ Business manager creating a corporate level strategy
- ❑ Think of this strategy as stable profitability. Rather than growing to new markets, you would attempt to increase profits by:

- ✓ Cutting costs
- ✓ Selling assets
- ✓ Raising the price of a product or service
- ✓ Trimming non-core business components

6. Investigation

- ❑ You would use a stable investigation strategy as an intermediary between the other extremes of corporate level strategy (growth and retrenchment).
- ❑ Think of it as testing the waters before committing to a specific strategy.

9 EXAMPLES OF CORPORATE LEVEL STRATEGY

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RETRENCHMENT

7. Turnaround

- ❑ Turnaround strategy emphasizes efficiency in an attempt to eliminate the weaknesses that are holding your company back (e.g., causing a product line to perform poorly).

8. Divestment

- ❑ As a whole, management will put retrenchment corporate level strategies in place when the company is performing poorly.
- ❑ The goal of retrenchment, then, is to eliminate problems and improve how the business performs.

- ❑ Divestment strategy (a.k.a. divestiture) involves selling off poorly performing assets (or even high-performing periphery assets) to raise capital for the core product or service.

- ❑ With a properly planned divestment strategy, you can get your business back on track and in the black once again.

9. Liquidation

- ❑ Liquidation is a last-resort corporate level strategy.
- ❑ When everything else has failed to make the business profitable, you may choose to cease production, sell all your assets, and close the business completely.

THE BENEFITS OF CORPORATE LEVEL STRATEGY

- ❑ Implementing a corporate level strategy may seem like a complicated process — especially if you've never had one.
- ❑ But the benefits of a comprehensive corporate strategy far outweigh the time and effort required to put the strategy into effect.
- ❑ Here are five ways that a corporate strategy will benefit your business:

1. **ALLOWS YOUR BUSINESS TO BE PROACTIVE**

- ✓ There are few things worse for your business than being behind the curve.
- ✓ When you are, you have to react to everything that comes your way. But with a strong corporate level strategy, your business can be proactive instead of reactive.
- ✓ Your business will be able to anticipate future events and prepare accordingly.
- ✓ Staying ahead of the curve (being proactive) in this way helps your business keep up with the market and stay ahead of the competition.

THE BENEFITS OF CORPORATE LEVEL STRATEGY

2. INCREASES EFFICIENCY

- ❑ An efficient business is a profitable business.
- ❑ And a comprehensive corporate level strategy can set your business on the path to increased efficiency in all areas.
- ❑ The corporate strategy gives your business a goal to shoot for and provides a road map of sorts for how to get there.
- ❑ It shows you where to make changes to reach said goals and how to make each component of your business function more effectively.

3. INCREASES MARKET SHARE

- ❑ With a dedicated corporate level strategy, your organization will get valuable insight into the myriad factors that affect the way you do business, such as:
 - Consumer segments
 - Product offerings
 - Market trends
 - Service offerings
- ❑ The knowledge and power you gain when you have control over these factors can help you increase your market share like never before.

THE BENEFITS OF CORPORATE LEVEL STRATEGY

4. INCREASES PROFITABILITY

- ❑ Profitability is a direct result of increases in efficiency and market share.
- ❑ So when you implement a corporate level strategy, you set your business on the road to increased profitability.
- ❑ It may take some time to reach the profitability you're looking for (because you have to deal with efficiency and market share first), but when you do, you'll see just how valuable (and powerful) the corporate level strategy is to your business.

5. MAKES YOUR BUSINESS MORE DURABLE

- ❑ Industries and markets are constantly changing. You want your business to be durable enough to weather any changes that come your way.
- ❑ A strong corporate level strategy provides a foundation on which the rest of your business can

BUSINESS LEVEL STRATEGY



BUSINESS LEVEL STRATEGY

What is business level strategy?

- ❑ A business level strategy definition can be summarized as a detailed outline which incorporates a company's policies, goals, and actions with the focus on being how to deliver value to customers while maintaining a competitive advantage.
- ❑ Your business level strategy will determine your position in your industry as well as the direction of your profits. It will also affect the efficiency of how you are able to serve your customer base. T

The best approach will integrate several types of business level strategy, which are listed below. But first, in order to determine how you will implement these strategies, you have to figure out a few things:

- ✓ What is it that your target customers value the most? (i.e., cost savings, brand prestige, product quality, etc.)
- ✓ Are you targeting a broad-range or niche market?
- ✓ What are your resources?
- ✓ What differentiates you from the competition?
- ✓ Does your business have the capability to lead and sustain itself in the marketplace in terms of product quality and competitive pricing?

BUSINESS LEVEL STRATEGY

- ❑ 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.

BUSINESS

- ❑ LEVEL One way to gain perspective is to put yourself in your customer's position.
- ❑ STRATEGY For example, when shopping for clothing, which types of brands do you purchase from?
- ❑ How do you rank the importance of the pricing, material and manufacturing quality, environmental impacts, brand identity, etc.?
- ❑ Compare this perspective to that of your target customers' and see how it aligns with your marketing initiative and business resources.
- ❑ Once you've done that, you'll be able to figure out which of the following business level strategy examples will be most effective:

Business Level Strategy Examples



1 . COST LEADERSHIP

BUSINESS LEVEL STRATEGY EXAMPLES

If there's one thing that most businesses have in common, it's that they are competing in the market price-wise. Not only do they want to appeal to a wide range of potential customers, but they also want to have the capacity to sustain a margin on above-average returns. In essence, the Cost leadership Strategy aims to put your business at the forefront of the market in terms of pricing.

To achieve this, there are a few things you can do:

- Increase your profits by reducing operational costs
- Only charge industry-average prices
- Charge lower prices than your competitors

Of course, whether you're charging average or lower prices for your products, you must do it while reducing operational costs to maintain positive margins. You will also need to have substantial capital to invest in efficient logistics, materials, labor, and the right technology.

Examples of Cost leadership

- **Ikea** -The Swedish furniture retailer Ikea revolutionized the furniture industry by offering cheap but stylish furniture. Ikea is able to keep its prices low by sourcing its products in low-wage countries and by offering a very basic level of service.



BUSINESS LEVEL STRATEGY EXAMPLES:

2. DIFFERENTIATION

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- ❑ The second-most important of all business strategy examples - be different.
- ❑ This is fundamental in how a business can position itself as an industry-leader in its market.
- ❑ This approach also supports quality over cost. For example, designer goods and reputable customer service.
- ❑ This could even include designer goods at affordable prices, which integrates cost leadership.
- ❑ Differentiation also applies to those with a narrower market, like people who purchase organic produce only, despite higher prices.
- ❑ As a competing business your goal is to add value to your products and/or services so that they stand out.
- ❑ Effectively implementing your differentiation strategy means that you've effectively gained your target customers to your products and/or services so that they stand out.
- ❑ Effectively implementing your differentiation strategy means that you've effectively gained your target customers' trust and they're willing to pay a premium price.
- ❑ This ultimately affects your capacity to absorb higher operational costs and investments for your company's future.

BUSINESS LEVEL STRATEGY EXAMPLES:

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3. INTEGRATED LOW-COST DIFFERENTIATION

- ❑ An Integrated Low-Cost Differentiation strategy gives companies the advantage of learning new technologies and skills quickly while adapting to outside, environmental changes.
- ❑ This integrated approach reads as the first two business level strategy examples listed above at a first glance, however, it's a more in-depth response to increasing globalization.
- ❑ This strategy involves leveraging core competencies the multiple business networks, the utilization of flexible manufacturing systems, and the utilization of Total Quality Management (TQM)—all in the effort to create and maintain high-quality products while driving down operational costs.

The best way to explain this business level strategy is the Southwest Airlines example:

Low-Cost Portion:

- Use of a single aircraft model (the Boeing 737)
- Use of secondary airports
- Shorter flight routes
- No meals
- No reserved seats
- No travel agent reservations
- A 15-minute turn-around time

The Differentiation Portion:

- Greater focus on customer satisfaction
- A higher level of employee dedication
- New flight services for business travel (I.e., phones and faxes)

BUSINESS LEVEL STRATEGY EXAMPLES:

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4. FOCUSED DIFFERENTIATION

- ❑ Focused Differentiation implies a smaller target customer base.
 - ❑ The upside with this strategy is a greater capacity for the business to serve their customers with maximum efficiency.
 - ❑ This strategy could also be referred to as a “unique” or “niche-focused” strategy.
 - ❑ The competition with the Focused Differentiation approach is the ability to supply the particular customer base in question with more unique and advantageous features. The main components of this strategy include:
 - ✓ The selection of a profitable market subset
 - ✓ A focus on the areas in which the competition shows weakness
 - ✓ A focus on where product substitution is most difficult
- A great example of this would be the Rolls Royce.
- ❖ These cars have withstood the unwavering tests of time with their focus on status, quality and engineering superiority.
 - ❖ They are but a subset of the global auto market, however their premium worth and demand remains steady.

BUSINESS LEVEL STRATEGY EXAMPLES:

5. FOCUSED LOW-COST

- ❑ Much like the Focused Differentiation Strategy, the Focused Low-Cost Strategy also aims to corner a small segment of the market.
- ❑ This works best when a business cannot focus on a more generalized cost leadership strategy in that it can't afford to offer multiple products and/or services at low prices.
- ❑ So, what do they do?
- ❑ They focus on one niche or unique feature and work to offer said niche or feature at the lowest cost possible to their targeted market segment.

- ❑ Of course, if there's heavy competition within this niche, you'll have to make sure that you can keep your costs at the lowest while also offering at the highest volume.
- ❑ This strategy requires strong marketing to your target customer base as well as the capacity to produce at a high-volume.

Examples of Focus Strategy

- **Focus Low-cost**

- **Ikea:** Young furniture buyers who want style at low cost (price sensitive and low service customer groups)
- **Southwest Airlines:** Short-haul, point-to-point service between midsize cities & secondary airports in large cities (low pricing & low service)

- **Focus Differentiation**

- **Rolex:** Serve highest end of wristwatch market (premium pricing & image)
- **Rolls-Royce:** Serving luxurious end of automobile market (premium pricing & image)

BUSINESS

- ✓ Your Business Level Strategy will determine how you're able to compete within your market.
- ✓ To figure out which strategy will work best for your business entirely depends on your core competencies, your corner of the market, and the strengths and weaknesses of your competitors.
- ✓ According to Michael Porter, the father of Business Level Strategies, the things you need to do to make each type of strategy work appeals to different kinds of people. So, choose your strategy wisely.



FUNCTIONAL LEVEL STRATEGY



FUNCTIONAL LEVEL STRATEGY

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Functional Level Strategy

- ❑ Functional level strategies are the actions and goals assigned to various departments that support your business level strategy and corporate level strategy.
- ❑ These strategies specify the outcomes you want to see achieved from the daily operations of specific departments (or functions) of your business.
- ❑ Your functional level strategies should reflect the fact that corporate and business objectives typically require the involvement of multiple functional areas (e.g., HR, production, R&D, etc.).
- ❑ So, continuing with the corporate level strategy of increasing market share, your functional level strategy would then be:

1. HR: increase hiring of highly-trained employees
2. Marketing: improve brand identification
3. Production: reduce rejections

Once these strategies are set, department managers can devise individual employee assignments to support the departmental goals.



FUNCTIONAL LEVEL STRATEGY

- ❑ 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.

KEY VARIABLES OF FUNCTIONAL LEVEL STRATEGY

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1) Detail

- ❑ Your functional level strategy will have the most detail of the three strategy types. Of course, you'll have the specific goals and actionable items for each department.
- ❑ But you'll also have the various metrics through which you gauge the success of your team's actions.



2) Alignment

- ❑ Functional level strategies should always align with the business level strategies and corporate level strategies above them.
- ❑ For example, if your corporate strategy is to improve market share and your business strategy is to improve brand identification, you wouldn't want one of your functional strategies to be for the marketing department to update their computer systems. Those goals are out of alignment.
- ❑ You'll ensure your success (and gain the support of high-level management) when all three strategy levels are pointed toward the same result.

KEY VARIABLES OF FUNCTIONAL LEVEL STRATEGY

3) Progress

- ❑ When trying to measure your progress, it can be easy to include too much information and become inundated with data. It's vital to keep in mind what your business level strategies and corporate level strategies are and only measure the aspects that help you determine if you're progressing toward those goals.



▶ 4) Existing Resources

- ❑ Every functional level strategy that you put in place should utilize the existing resources — both equipment and personnel — that each department has to offer.
- ❑ Put another way, you don't want to base your marketing department strategy on resources they don't have. Doing so could seriously undermine the broader goals above it (at the business and corporate levels).

KEY VARIABLES OF FUNCTIONAL LEVEL STRATEGY

5) Integration

- ❑ In addition to vertical alignment, functional level strategies should also be integrated horizontally within and among departments.
- ❑ For example, coordinate purchasing, inventory, and shipping within your operations department, and those activities with any new processes in the production department.
- ❑ That way, actionable items in one department don't put a speed bump in the actionable items of another department.
- ❑ Now that you know what functional level strategy is and how it fits into the hierarchy of your business, let's examine specific examples of goals that work at this level.



18 EXAMPLES OF FUNCTIONAL LEVEL STRATEGY

By way of illustration, let's imagine that Lembaga Tabung Haji sets three corporate-level goals: efficiency, quality and delivery. Here's how those objectives would manifest as functional level strategy in each of six departments.

HUMAN RESOURCES

1) Efficiency

Reduce hiring and training expense by minimizing employee turnover.

2) Quality

Provide extensive training to decrease employee error.

3) Delivery

Streamline acquisition and education of talent.

MARKETING

4) Efficiency

Maximize cost-effective targeting of advertising campaigns.

5) Quality

Provide an accurate assessment of customer product preference.

6) Delivery

Detect and react to evolving market trends.

18 EXAMPLES OF FUNCTIONAL LEVEL STRATEGY

(37)

▶ PURCHASING7) Efficiency

- ▶ Negotiate purchase price to provide increased value.

8) Quality

- ▶ Select vendors who are willing to become partners.

9) Delivery

- ▶ Manage inventory.

OPERATIONS10) Efficiency

Minimize scrap.

11) Quality

Increase high-quality production.

12) Delivery

Adapt to the latest production demands with minimal delay.

18 EXAMPLES OF FUNCTIONAL LEVEL STRATEGY

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ACCOUNTING13) Efficiency

Simplify and automate the process of gathering information.

14) Quality

Reduce errors in data provided to other departments.

15) Delivery

Provide access to information in real time.

RESEARCH & DEVELOPMENT16) Efficiency

Test the feasibility of concepts before producing full-scale prototypes.

17) Quality

Design products that integrate customer demands and production capabilities.

18) Delivery

Speed up overall innovation using parallel design processes.



THE BENEFITS OF FUNCTIONAL LEVEL STRATEGY

Marketing as part of a functional level strategy:

- ❑ Because functional level strategy is so specific, it is usually more difficult to set than your corporate and business strategy.
- ❑ But taking the time to hammer out the actionable strategies of each department can help you align your goals from the top of your organization all the way down to the individual employees.



- ❑ This will help the managers throughout your organization get a better understanding of how their departments (and the employees that make them up) impact your business and corporate level strategy.
- ❑ And when all the pieces of your business are united in achieving a singular goal, success is inevitable.

SUMMARY:**1. Corporate Level Strategy:**

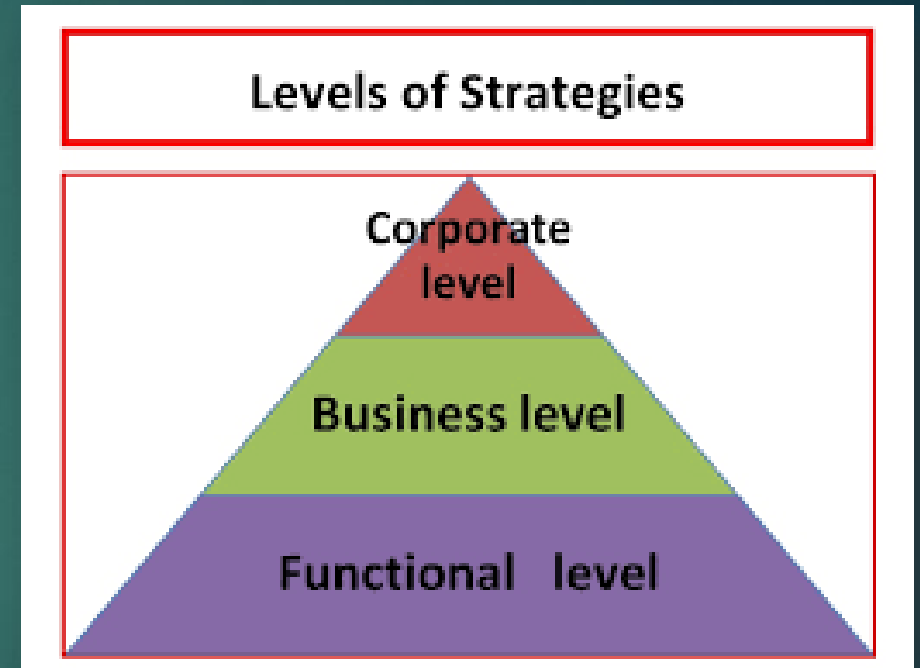
- ❑ Defines the business areas in which your firm will operate.
- ❑ Involves integrating and managing the diverse businesses and realizing synergy at the corporate level.
- ❑ Top management team is responsible.

2. Business Level Strategy:

- ❑ Involves defining the competitive position of a strategic business unit.
- ❑ Decided upon by the heads of strategic business units and their teams.

3. Functional Level Strategy:

- ❑ Formulated by the functional heads along with their teams.
- ❑ Involve setting up short-term functional objectives.



END OF CHAPTER 3

“THANK YOU”

PREPARED BY MR2@2020