FACTFILE: GCE BUSINESS STUDIES

A21 STRATEGIC DECISION MAKING: BUSINESS MODELS

Rewarding Learning

Strategic Decision Making – Business Models

Learning objectives

Students should be able to:

- demonstrate and apply knowledge and understanding of Kaplan and Norton's Balanced Scorecard model.
- use Kaplan and Norton's Balanced Scorecard model to analyse and evaluate organisational effectiveness against vision and strategy.
- use Porter's Generic Strategy and Bowman's Strategy Clock to analyse and evaluate how organisations create and maintain a competitive advantage and compete in terms of price and perceived added value.

In their book, 'A Landmark Achievement' Robert Kaplan and David Norton describe the Balanced Scorecard as a tool that "provides management with the instrumentation they need to navigate to future competitive success."

- The Balanced Scorecard has been adopted on a global scale by businesses, governments and not-for-profit organisations as a model to help decision-makers ensure that all activities undertaken truly reflect the stated corporate vision and strategy.

- The users of Kaplan and Norton's Balanced Scorecard Model can get a more 'balanced' view of their organisation's performance as it provides a framework to consider not only the financial performance but also the non-financial elements that drive the business.

- The balance scorecard measures performance simultaneously across four important aspects of the organisation. The starting point for the organisation is to create a mission statement and then devise strategies to ensure the mission is achieved. The balanced scorecard framework helps management organise these strategies into meaningful targets that can be easily tracked, monitored and measured simultaneously.
  The outcomes will be used to plan ahead, and management can obtain the necessary resources to allow for future growth.

The Balanced Scorecard model

Vision & Strategy	
Financial Concern for shareholders	• Objectives • KPLs/Measures • Targets • Initiatives
Customer Concern for customers	• Objectives • KPLs/Measures • Targets • Initiatives
Internal Business Processes Concern for processes impacting on shareholders & customers	• Objectives • KPLs/Measures • Targets • Initiatives
Learning & Growth Concern for sustainable improvement and growth	• Objectives • KPLs/Measures • Targets • Initiatives

Some aspects of business activity included in each of the elements are:

- **Finance** – sources and cost of finance, investment through product development, growth in existing market or entry into new markets, targets and resources.
- **Internal Business Processes** – processes involved in delivering to customers, i.e. purchasing, warehousing, documentation, stock management and IT support services.
- **Customers** – quality, cost, market research, future trends, impact of technology and managing internal customers.
- **Learning & Growth** – data collection, management and interpretation; succession planning and professional development of employees; and competition and influence of technology.

Benefits of using the Balanced Scorecard model:

- it forces decision-makers to create a specific focus for their business activities so that the strategies chosen will have a greater chance of achieving success.
- it helps to grow the business by improving performance in four major areas thus leading to an increase in their customer base and market share.
- it ensures that the input of all employees contributes positively to the success of the business.
- it reduces waste as employees 'do it right first time' so the business becomes efficient and thus more competitive in the market.
- it provides a more realistic overview of performance as quantitative and qualitative aspects are measured.
- it ensures decision-makers prioritise activities and initiatives that contribute to the success of the organisation.

Factors that may influence the successful implementation of the Balanced Scorecard model:

- **Communication** – if the flow of communications throughout the organisation is ineffective then some employees may be left out of the 'loop' and therefore become demotivated. Management must ensure that all employees are on board from the outset and that they receive regular progress updates about existing or new initiatives being adopted.
- **Team Work** – it is essential that effective team work is established for the Model to be successful. This can be challenging for management who will have to organise ongoing training to ensure high levels of quality in all aspects of the business. They will have to devise monetary and non-monetary incentives to keep employees motivated and performing at an optimum level.
- **Commitment** – using the Balanced Scorecard model to improve business performance requires a long-term commitment, as it may take time before management become confident in preparing and interpreting the data required. Employees may become impatient and demotivated if the process is too complex and time consuming.

Porter's Generic Strategy

Porter's Generic Strategy examines how a business can gain competitive advantage in the face of sustained competition. This is achieved through:
- Cost Leadership
- Differentiation Leadership
- Cost Focus
- Differentiation Focus

Markets where business competes

Source of competitive advantage	Broad	Narrow
Costs	**Cost Leadership**	**Cost Focus**
Differentiation	**Differentiation Leadership**	**Differentiation Focus**

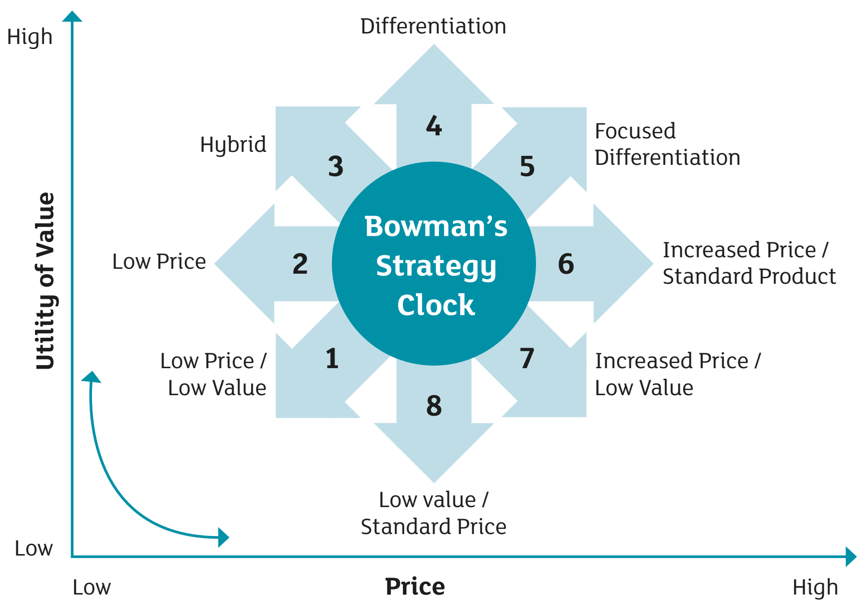
Cost Leadership is achieved by a business keeping its cost low and therefore increasing its profits. This typically involves production on a large scale where the business can exploit economies of scale, e.g. Asda, IKEA, Lidl.

Differentiation Leadership is achieved through extra value- added features and giving the customer a clear reason to buy this product. It targets large markets and aims to achieve competitive advantage throughout the entire industry. Cost Focus is achieved through the business becoming the lowest cost producer in a small market segment.

Differentiation Focus is achieved through offering something different or extra value in a small market; it can be referred to as niche marketing.

Bowman's Strategy Clock

Bowman's Strategy Clock was developed to assist businesses to develop an effective marketing strategy; it analyses the business's competitive position in terms of what their competitors are offering the market. It is an extension of Porter's generic strategies, generally still considering competitive advantage in relation to cost advantage or differentiation advantage. The diagram represents the relationship between the price a customer is willing to pay and the perceived customer value of the product or service.



Position 1: Low Price and Low Value
Businesses in this category produce standardised products which customers view as having low value. The main strategy here is for the business to attract new customers on a regular basis and cost-effectively sell large numbers of the products to them. The products are generally inferior, however, the price is low enough for customers to at least try them once.

Position 2: Low Price
These are low cost leaders. A low cost leader is a business that charges the lowest possible prices for their products; their profit margins are minimal. To balance this, the low cost leaders aim to sell high volumes of their products. Businesses operating in this category can be very successful if they can sustain large enough volumes, however, if this proves difficult they will encourage price wars between competitors. These price wars will benefit customers. However, such low prices will be unsustainable for extended periods of time.

Position 3: Hybrid (moderate price/moderate differentiation)
Businesses in this category offer customers low cost products. These products are perceived by customers to have higher value than competitors'. These businesses focus their efforts on creating and maintaining a reputation of offering fairly good, standard products at reasonable prices. When the quality and value is perceived as being good the businesses gain customer loyalty.

Position 4: Differentiation
A business who offers a differentiated product range will have customers who perceive their products as having a higher value than similar competitors' products. Businesses can choose to charge higher prices for their goods and receive higher profit margins or they can charge low prices and aim to gain a greater share of the market. Clearly, establishing and maintaining a good brand image is crucial to success.

Position 5: Focused Differentiation
Businesses in this category are ones whose products are considered designer; they have high prices and high perceived value. Customers will purchase products in this category totally based on perceived value, e.g. Gucci. The main strategy here is to target a highly- specialised market and gain high profit margins by charging premium prices.

Position 6: Increased Price/Standard Product
This is a risky strategy where businesses simply decide to increase the price of their products without any change to the product itself! If customers accept the price increase the business's profits increase, but if they don't they will experience a drop in market share. This strategy may be successful in the short term, however, in a competitive market, customers will quickly realise that lower-priced competitors' products offer the same value.

Position 7: High Price/Low Value
This is a standard monopoly situation where only one company offers a particular good or service to the customers. In a monopolistic market; businesses do not have to be concerned about price because they can effectively set the price of the product and if customers need it they will purchase it.

Position 8: Low Value/Standard Price
A company who follows this strategy of having a low value product and charging a standard price may find it loses market share. A low value product will only be a viable product if it is sold at a low price.

Positions 6, 7, and 8 are not strategies that a business would want to pursue in the long term especially if they operate in a competitive market. When price is greater than perceived value it would be difficult to secure sales, as competitors would be offering better quality products at better prices. It is important that a business balances its value and price correctly to remain competitive.

Bowman's Strategy Clock is a powerful way of looking at how to establish and sustain a competitive position in a market-driven economy.

? Revision Questions

1 Explain the term competitive advantage.

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2 Using Porter's Generic Strategy, analyse two ways in which a business can maintain competitive advantage.

1. ....

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2. ....

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3 Using Bowman's Strategy Clock, analyse two ways which a business can compete.

1. ....

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2. ....

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4 Discuss the advantages and disadvantage to a business of using the Kaplan and Norton's Balanced Scorecard model to improve performance.