Strategy

by

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February 2022

ISBN 978-87-94331-03-6

Introduction

Strategy is a long-term high-level plan to achieve one or more goals under conditions of uncertainty. "A Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 1996)."

The strategy should begin by defining a goal the strategy should enable the firm to reach - a timeframe of achieving it is also a must.
Components of a strategy include:

- Objective
- Scope
- Advantage

Companies that correctly match their strategy-making processes to their competitive circumstances perform better than those that don´t. There are four different broad strategic styles (Reeves M 2012).
A classical strategy works well for companies operating in predictable and immutable environments.
An adaptive strategy is more flexible and experimental and works better in immutable environments that are unpredictable.
A shaping strategy is best in unpredictable environments that can be changed.
A visionary strategy is best in predictable environments that can be changed.

Models offer mental maps that help you navigate complicated problem fields or business ideas in a more effective and intelligent way.

Some models may be a useful tool for knowing the business better (Evans, 2013). A common generic analysis framework is the SWOT analysis. A SWOT analysis is a 2 x 2 matrix with factors internal to the company (strengths and weaknesses) and external factors (opportunities and threats). Characteristics of these factors are:

Strength:

- Internal attributes of the organization that are helpful in achieving its objective.
- Identifying company's competitive advantage and what differentiates its product / services.

Weaknesses:

- Internal attributes of organization that are harmful in achieving the objective.
- What barriers or hurdles is the company exposed to.

Opportunities:

- External conditions that are helpful in achieving the objective of the firm
- Example: Technological opportunities, relatively low IP coverage in area, demand growth for disease area

Threats:

- External conditions that are harmful in achieving the objective

Generic analysis framework: SWOT analysis

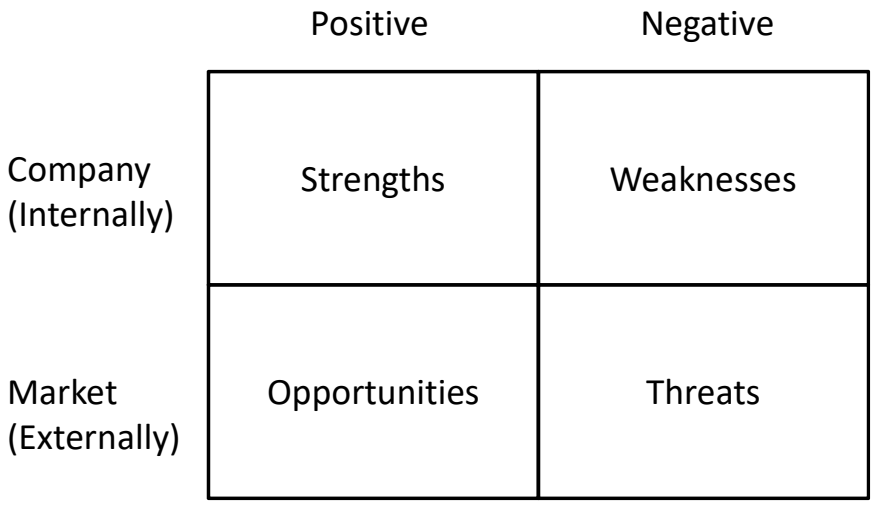

Figure. The SWOT model.

Other models may address key market segments and a situational analysis dealing with the company, customers, collaborators, competitors and the context.

Another group of models are useful for setting goals (long-term) and objectives (short-term). Objectives should be SMART, Specific, Measurable, Attainable, Relevant and Time-limited. A balanced scorecard is a means of translating company/corporate goals and strategy into a series of defined, measurable objectives relating to a financial perspective, a customer perspective, an internal business processes perspective and a learning and growth perspective. This scorecard tool has been further developed into strategy maps.

Tools for forecasting market demands include surveys, statistical methods, an analysis of demand drivers and the elasticity of demands.

Competition

The dominating model for assessing industry competition is Porters five forces (Porter, 1979). These forces shape the degree of competition in a market-place.

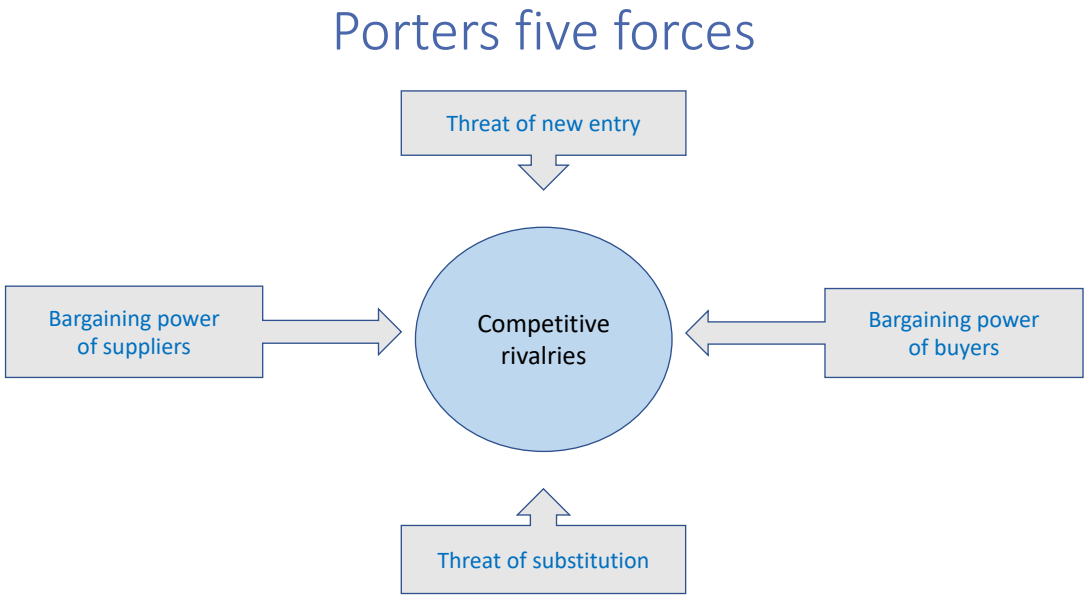

Figure. Porters five forces.

The framework includes:

Industry force: Rivalry

For most industries the intensity of competitive rivalry is the biggest determinant of the competitiveness of the industry. Understanding industry rivals is vital to successfully marketing a product. competitive strategy normally builds on low cost versus differentiation.

Industry force: Entry barriers

New entrants put pressure on current organizations within an industry through their desire to gain market share. This in turn puts pressure on prices, costs, and the rate of investment needed to sustain a business within the industry. The threat of new entrants is particularly intense if they are diversifying from another market and make use of their existing competencies. Barriers to entry restrict the threat of new entrants. Examples of entre barriers are intellectual property rights, regulatory regulations, government policies and switching cost.

Industry force: Supplier power

Suppliers of raw materials, components, labor, and services to the company can be a source of power over the firm when there are few substitutes. Suppliers may refuse to work with the company or charge excessively high prices for unique resources.

Industry force: Buyer power

The ability of customers to put the company under pressure, which also affects the customer's sensitivity to price changes. Companies can take measures to reduce buyer power, such as implementing a loyalty program. Buyers' power is high if buyers have many alternatives. It is low if they have few choices.

Industry force: Substitutes

A substitute product uses a different technology to try to solve the same economic need. Substitute goods may have specific advantages to the customer but rely on low switching costs.

The PESTEL analysis offers a framework for identifying external issues affecting industry competition. It may supplement the SWOT analysis in relation the external factors. The model may be used to outline issues of a Political, Economic, Social, Technological, Environmental and Legal nature.

An outline of key success factors is essential when comparing competitors.

Some concepts are essential when analysing how a company may target its strategic gap.
The strategic sweet spot of a company is where it meets customer´s needs in a way that rivals can´t, given the context in which it competes.

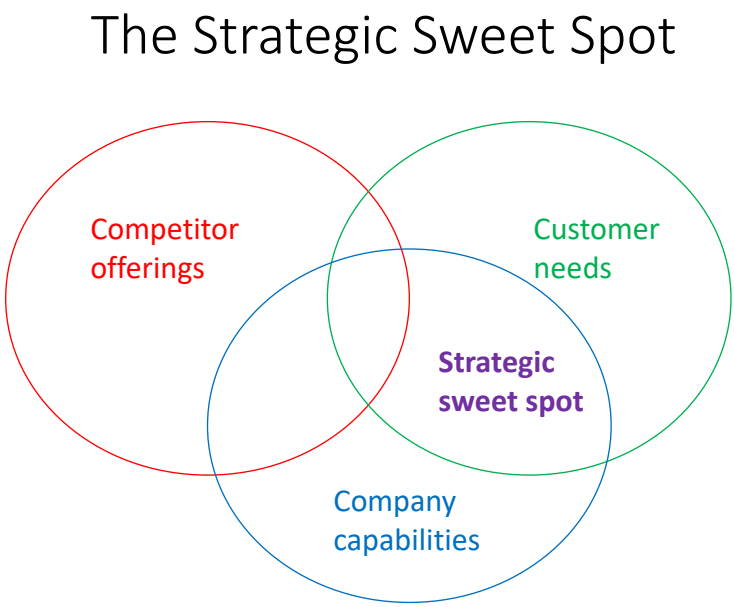

Figure. The strategic sweet spot.

Attractiveness of different elements in the strategy may be mapped up against the competitive advantages the company may possess.

Value chains

The value chain is a tool for identifying key processes in a company business assessing competitive capabilities in each key process. A value chain is thus a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.

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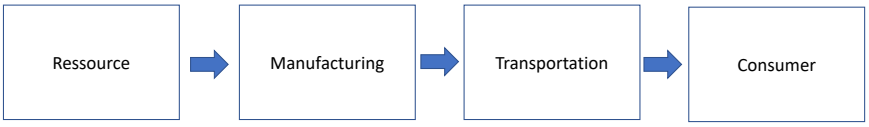

Figure. The value chain.

Tracking the competitive advantage is essential and may be analysed using different models. Porter´s value chain model (Porter, 1985) divides company activities into primary activities important for the production process and delivery of the product and/or service to the customer and support.

Porter´s value chain

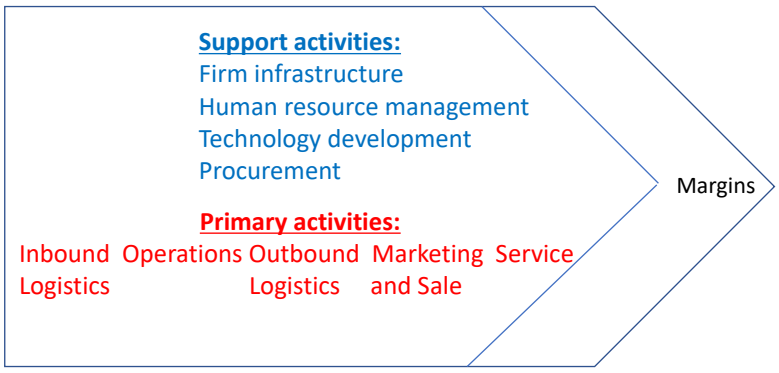

Figure. Porter´s value chain model adapted.

Primary activities include inbound logistics, operations, outbound logistics, marketing and sales and service.

Support activities include procurement (the acquisition of inputs, but not their physical transfer, as that would be covered by inbound logistics), human resource management, technology development and infrastructure.

An internal analysis of a value chain may be conducted focusing on strength and weaknesses (part of the SWOT model).

The value chain will look differently within different life science industries as illustrated in below figures.

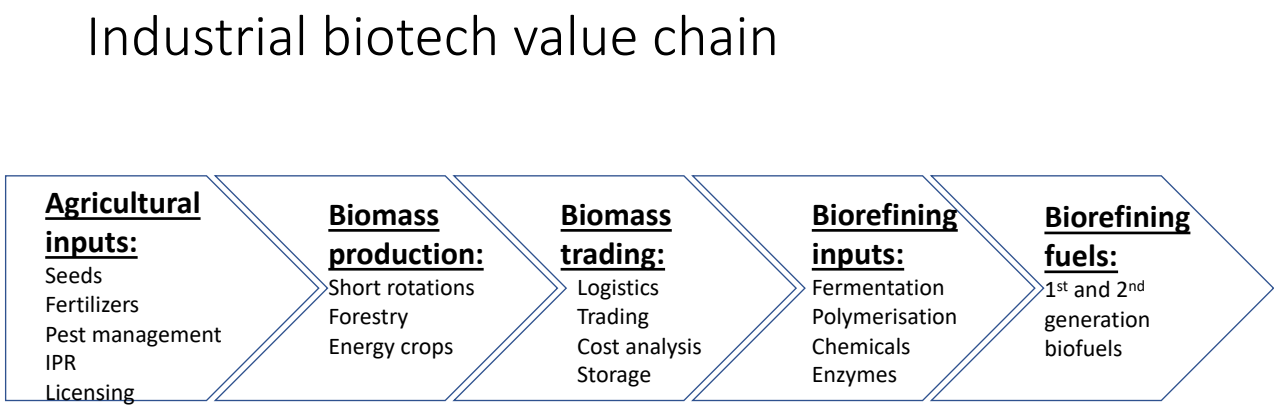

Figure. Industrial biotechnology value chain example.

Pharma value chain

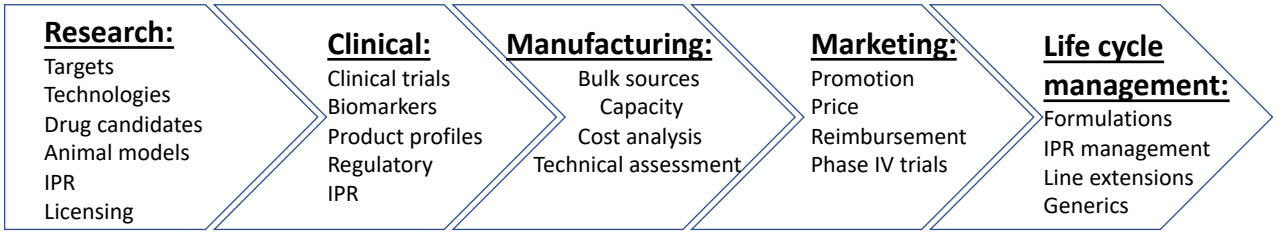

Figure. The pharma value chain.

The Ansoff product/market matrix may be used to evaluate growth strategies by outlining existing new markets and existing and new products.

Generic strategies and experience curves

The business strategy may be outlined using a variety of models.

Porter's generic strategies (Porter, 1980) outline cost leadership, differentiation and focus as the strategic options available to organizations for gaining competitive advantage.

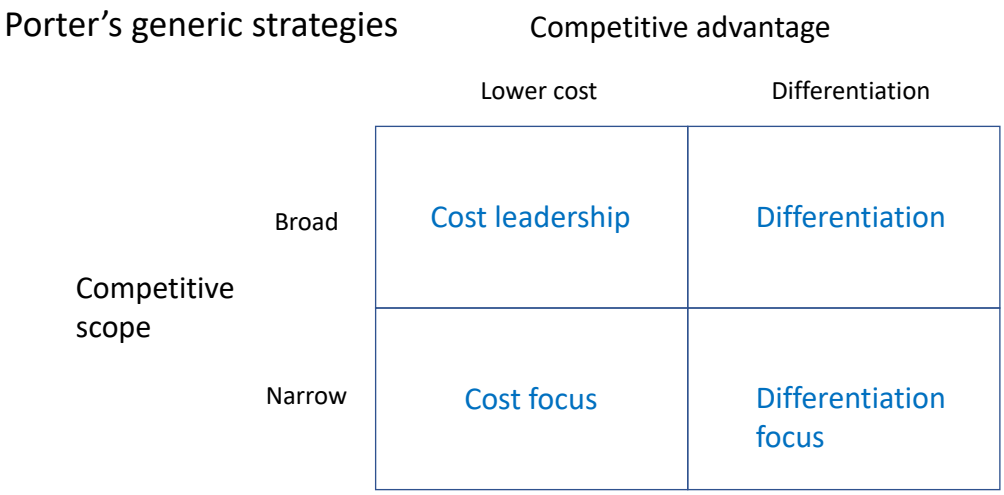

Figure. Porter's generic strategies.

Fundamental business strategy choices for pharmaceutical companies include:

- First mover (first to the market with a new type of product or service)
- Fast follower with differentiation (serving a better product in an existing market)
- Me-too low-cost provider (focusing on cost leadership)
- Niche strategy (focusing on small markets like orphan drug diseases which is not served by competitors typically with a high-price product)

The concept behind the Experience Curve is that the more experience a business has in producing a particular product, the lower its costs. The experience curve is an idea developed by the Boston Consulting Group (BCG) in the mid-1960s. Working with a leading manufacturer of semiconductors, the consultants noticed that the company's unit cost of manufacturing fell by about 25% for each doubling of the volume that it produced.
The cost of pharmaceutical drug production also decreases, when the company is upscaling production.

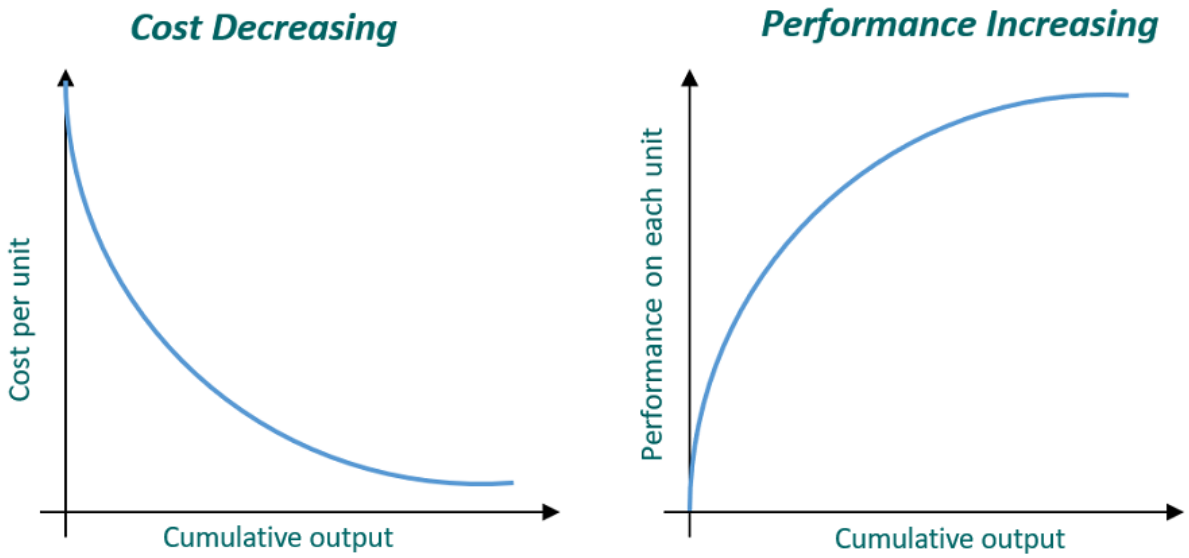

Figure. The experience curve (Schilling, 2016).

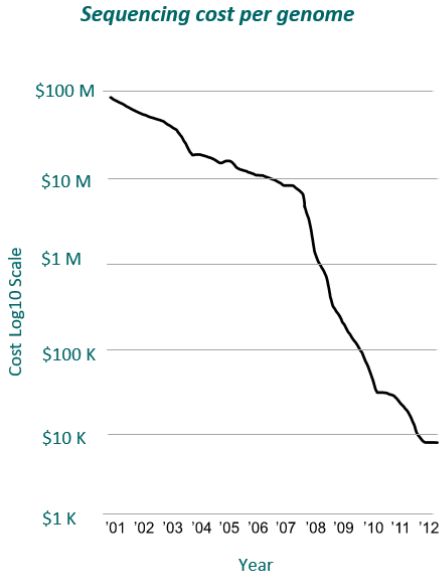

Figure. Decreasing costs for genome sequencing from 2001 to 2012 (adapted from Burrill & Co., 2013).

Blue ocean strategy

Kim and Mauborgne, 2004, argued that competing head-on in today´s overcrowded industries result in nothing but a bloody red ocean of rivals fighting over shrinking profits. They argue that tomorrow´s winners will succeed not by battling in red oceans but by creating blue oceans of uncontested market space with growth potential.

The argument that companies can succeed by creating "blue oceans" of uncontested market space, as opposed to "red oceans" where competitors fight for dominance, the analogy being that an ocean full of vicious competition turns red with blood.

Red and Blue Ocean strategy are outlined below.

Red Ocean strategy:

- Compete in existing market space
- Beat the competition
- Exploit existing demands
- Make the value/cost trade-off
- Align the whole system of a company´s activities with its strategic choice of differentiation or low cost

Blue Ocean strategy:

- Create uncontested market space
- Make the competition irrelevant
- Create and capture new demand
- Break the value/cost trade-off
- Align the whole system of a company´s activities in pursuit of differentiation and low cost

Thus do the company try to dominate existing markets, where Porter´s competitive five forces is a good model, or do the company look for opportunities to create new markets, where the Blue ocean innovation model is a good model.

The next models may be used to analyse the overall corporate strategy. One approach is to identify the company existing capabilities and the capabilities in future for which the company aspire. Then the company may identify the resource and capability gap in relation to the key success factors of the company.

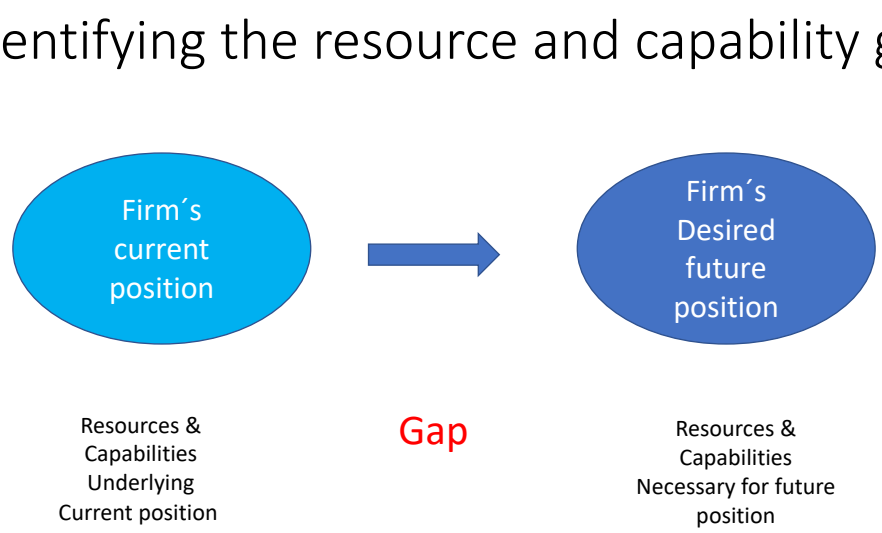

Figure. Resource and capability gap.

Finally, models may be used to risks and opportunities. Typically, the impact of a risk or opportunity is mapped against their likelihood. The manageability of risks may also be managed.

Strategy execution

A strategy needs to be executed.

A design thinking process may be one way of executing the strategy. Design thinking refers to creative strategies designers use during the process of designing. Design thinking is also an approach that can be used to consider issues, with a means to help resolve these issues, more broadly than within professional design practice and has been applied in business as well as social issues. Design thinking in business uses the designer's sensibility and methods to match people's needs with what is technologically feasible and what a viable business strategy can convert into customer value and market opportunity.

A dominant design is a technology management concept introduced by Utterback and Abernathy in 1975, identifying key technological features that become a de facto standard. A dominant design is the one that wins the allegiance of the marketplace, the one to which competitors and innovators must adhere if they hope to command significant market shares.

Factors that may facilitate design dominance include:

- Control of essential complementary goods (additional goods and services that enable or enhance the value of another good)

- Government regulation if government enforces a dominant design.

- Path dependency when small historical events have a great impact on the final outcome of competition.

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