General theoretical approaches to the choice of company strategy

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Abstract. Amid a swiftly changing economic situation and a fierce competitive struggle, risk and uncertainty companies ought to not only focus on the current state of affairs but strive to work out a long-term strategy for their conduct, which will help keep abreast with changes taking place around them. The lack of strategy within the company leads to defeat in the market struggle. This article examines the essence of and classifies company strategies. The authors also delineate strategies that best fit smaller companies.

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Introduction

Companies oftentimes plan their activity based on the belief that the environment will not be changing or no qualitative changes will be taking place in it, while the planning process itself begins with the analysis of the company's internal potential and resources [1]. Such an approach to strategic management can lead to a fiasco in the market. The function of the company's strategy is to ensure such a form of interaction between the firm and the external environment which would enable it to maintain its potential at the level needed for it to attain its goals and would thereby make it possible for it to survive in the long run [2]. There is no uniform strategy that would work for all companies. Every company, even within one and the same sector, is unique – therefore, each firm's strategy is determined individually, which depends on its potential as well as multiple external factors [3].

Methods

The methodological and theoretical basis of this study is formed by fundamental concepts and approaches in the area of strategic management delineated in the works of national and foreign authors. The author employs general scientific methods and logical techniques, such as the systemic and analytical approaches and structurization methods.

Main part

Strategy is a long-term qualitatively determined focus area of the company's development. Strategy is called on to ensure the firm's adaptation to the swiftly changing external environment – therefore, it must respond to the following questions: what, how much, and of what quality does one produce; how and for what markets does one work; what actions, how, and why does one undertake in the first place [4, pp: 159].

The firm's development strategy is worked out in the process of strategic planning conducted at the company. Having established its mission and goals, the executive management commences the diagnostic stage of the process of strategic planning. This stage includes the analysis of the environment in and thanks to which the firm operates (analysis of the macro-environment, analysis of the external environment, and analysis of the internal environment) [5]. Strategic planning presupposes that the firm establishes its key positions for the long run depending on the priority of its goals – hence a variety of strategies the firm can focus on.

The types of basic strategies, which are the most common in practice, reflect four different approaches to ensuring the firm's growth and are associated with change in the state of one or more elements: the product-market, the sector, the firm's position within the sector, and technology [6, pp: 184]. These can be classified as follows:

1) The group of concentrated growth strategies. These are strategies which include changes in the product and the market and do not deal with the other three elements. The company is keen on improving its product or launching a new one without changing sector. This kind of strategy implies the search for opportunities to improve one's positions in the existing market or shift to a new market. The following are the types of the concentrated growth strategy:

– The strategy of bolstering one's position in the market: the company directs all its resources on the existing market at conquering the best positions. The actualization of this strategy requires considerable marketing efforts and permits the implementation of "horizontal integration" (establishing control over one's competitors).

– The strategy of the development of the market: the firm looks for new markets for a product that is already being produced. This type of strategy is aimed at boosting growth in the volume of sales through engraining available products into new markets.

– The strategy of the development of the product: ensuring the company's growth through the production of a new product and promoting it in an already tapped market.

2) The group of integrated growth strategies. This group comprises strategies which presuppose the expansion of the firm through the addition of new structures. The company can effectuate an integrated growth strategy both through the acquisition of property and expansion from the inside, with change in the firm's position within the sector taking place in both cases. The following are the types of the integrated growth strategy:

– The backward vertical integration strategy: ensuring the growth of the business through strengthening control over suppliers and creating subsidiary establishments engaged in supply. The actualization of this type of strategy can result in a positive effect associated with decrease in one's dependence on suppliers and the fluctuation of prices for materials and resources.

– The onward vertical integration strategy: ensuring the company's growth through strengthening control over systems of distribution and sales and over establishments between the company and the end consumer. This type of strategy will work in cases when intermediary services constantly expand and lack sufficient quality.

3) The group of diversified growth strategies. The company implements this kind of strategies when it has reached its limit in a given market with a given product within a given sector [7]. The following are the types of the diversified growth strategy:

– The centered diversification strategy: the search for and use of additional opportunities for the production of new products within the frame of the existing business. Under this approach, the central kernel is existing line of production, while a new line of production emerges based on the potential of a tapped market and used technology or the company's other strengths.

– The horizontal diversification strategy: the search for growth opportunities within an existing market through a new product which requires new technology. This type of strategy orients the company towards the production of such technologically unrelated products which would use the company's available resources and potential.

– The conglomerate diversification strategy: the company plans on attaining growth through the sale of products already being produced in new markets.

4) The retrenchment strategy is characterized by setting goals below the level achieved in the past. Companies recur to the retrenchment strategy when their performance indicators show a steady trend towards decline and no measures can turn that trend around [8]. The following are the types of the retrenchment strategy:

– The retrenchment strategy: the company closes down or sells one of its units (lines) with a view to altering the scope of conducting business in the long run. This type of strategy is often implemented by diversified firms in which one of the lines of business poorly combines with the rest or which are in need of resources for the development of the more promising or starting new lines of business.

– The costs reduction strategy: the search for opportunities to reduce costs and conducting activities aimed at reducing costs. The implementation of this type of strategy deals with the reduction of production costs, boosting productivity, personnel retrenchment, and has a nature of short-term measures.

– The "harvest" strategy: giving up on one's long-term plans and planning on reaping maximum profits in the short-term. This type of strategy is applicable in relation to a dead-end business which one is unable to sell but can use to "reap a harvest". The harvest strategy presupposes the reduction of production and sale of one's product available.

– The liquidation strategy. The marginal case of the liquidation strategy is applicable when the company is unable to carry on its operation.

There are also functional and competitive strategies.

Functional strategies are strategies at the level of specific units of the company. There are the following types of functional strategies:

– The production costs minimization strategy: one's profits increase as a result of reducing paid-in capital outlays.

– The strategy of expanding the share of the market outlet: facilitates boosting the efficiency of production through a higher share of newly created value in the total volume of product sold.

– The innovation strategy: creating and adopting innovation in production. There is not only created and adopted progressive technology but developed whole new types of product, of higher quality and with no closely comparable counterparts on the market.

– The production costs maximization strategy: increasing one's profits through state and other subsidies in the absence of direct (intrasectoral) price competition [9].

Competitive strategies are aimed at reducing production costs, individualizing and boosting the quality of one's product, and determining through segmentation new activity sectors within specific markets. Based on the nature of interaction with the external environment, there are the following types of competitive strategies:

– The cost leadership strategy: the company achieves the lowest production and sales costs, as a result of which the company, through lower prices for a similar product, can conquer a greater share of the market. That said, firms must have a high level of production and supply organization, access to the latest technology, and a decent engineering/development base, as well as a developed logistics system.

– The strategy of expanding the share of the market: boosting the efficiency of production through a higher share of newly created value in the total volume of product sold; accelerating the firm's capital turnover. This type of strategy presupposes attaining competitive advantages through improving the quality of one's product and the level of customer service, as well as reducing costs related to the sale of one's product.

– The strategy of the innovation programming of R&D: creating and adopting progressive technology and developing whole new types of product, of higher quality and with no comparable counterparts on the market.

– The strategy of the imitation programming of R&D: upgrading one's assortment through the "cosmetic" enhancement of products already on the market.

In their competitive struggle against larger firms, smaller companies ought to use their primary advantages: mobility, flexibility, and territorial maneuverability. There are four strategies that fit smaller companies and can help them use these advantages:

– The optimum size strategy: tapping small-scale and specialized markets and spheres of activity wherein large production is not effective and the most optimum type of enterprise is a small company. In these spheres, the activity of large companies may be impeded by difficulties associated with high risk, insufficient revenue, high expenditure on wages, and low levels of manufacturability.

– The copy strategy: smaller companies can either produce a brand-name product under the license of large firms or arrange the production of and produce a copy whose prototype is the original product.

– The strategy of having a share in the product of a large firm: a smaller company gets a guaranteed subcontract order from a large organization. Within the setting of large-scale production, the highest costs are accounted for by the areas of low-manufacturability and short-scale production lines – therefore, it is often more profitable for large companies not to engage in this type of works and just purchase particular parts and components from smaller firms.

Actively working with several large firms, smaller companies get accustomed to their technological, organizational, and logistical requirements, quality levels, market fluctuations, and innovation processes. In the competitive struggle for the orders of large firms, they form quite a dynamic environment of the subcontract market, thereby stimulating large organizations towards further reduction of one's own internal costs.

– The franchising strategy: by virtue of the system of mutually profitable partnership between large and small firms, small companies get an opportunity to use the advantages of large organizations.

Franchising is a system of contractual relations wherein a large firm undertakes to provide a smaller company with its products, tried and tested business technology, trademarks, and advertising services. There are the following types of partnership within the frame of a franchising agreement:

Commodity franchising (a franchise) is a way to conduct business where a smaller firm buys from a leading company the right to sell products under its trademark. Besides, enterprises use production franchising. A smaller enterprise not only acts under the franchisor's trademark, selling its products, but engages in the entire cycle of the large corporation's economic activity, striving to meet the same requirements for quality, the technological process, sales plan implementation, and personnel qualification levels. Under business franchising, smaller firms obtain a license for the right to open stores to sell a set of products to and serve customers under the franchisor's name.

Thus, to successfully implement its strategy, the company needs to make sure that, first, its employees are perfectly aware of its goals, strategies, and plans with a view to getting them informally involved in the process of implementation of strategies. Second, the executive management ought to not only ensure that the company gets in a timely fashion all the resources needed for the implementation of its strategy but have a plan for the implementation of its strategy in the form of specific targets and keep track of the progress of attaining each objective [10].

Conclusion

In present-day market conditions, strategy is to ensure the company's adaptation to the swiftly changing external environment. There are various company strategies, the primary of which are the groups of basic strategies and the groups of competitive and functional strategies. The strategies which work for smaller companies are the optimum size strategy, the copy strategy, the strategy of having a share in the product of a large firm, as well as franchising. The aim of these strategies is to keep down to a minimum one's rivalry with large firms and make the best use of one's advantages, the strategies presupposing different scenarios for development: both the independent development of small businesses and partnership with large organizations.

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