CHAPTER II

REVIEW OF RELATED LITERATURE

In this chapter we will try to understand about the meaning of strategy and what are the characteristics of strategy in order to make it effective for the company. To make the strategy more effective, inevitably it also needs a good management. In this chapter we ill also discuss the meaning of strategic management and knowing what is the principal component of management strategy.

Every company must notice buyer's need and wants so as to compete in the market. Thus in this chapter we will also discuss the meaning of marketing strategy and the importance of making a good marketing strategies for the company. This chapter also discusses about the SWOT concept since SWOT, by knowing the internal factor and the external factor of the company, can be used to find the best strategy for the company

2.1. Strategy and Strategic Management

There is no single, universally accepted definition of strategy. Different authors and managers have different definitions, depending on how they understand the subject. Experience has shown that it is better not to provide a precise definition of what strategy is; rather, the emphasis should be on understanding issues that underlie various definitions and then see which definitions holds up better in specific content

Two keys in understanding strategy will be to examine the dimensions of strategy and define criteria for evaluating an effective strategy

Quinn provides a framework for both[1]. For Example, with regard to dimensions of strategy, he suggested four aspects, viz.: 1). Strategy contains three essential elements: Goals and objectives to be achieved, key policies that should guide actions, and action programmes that are to be initiated to accomplish the goals. 2). Good strategies are formulated around a select number of concepts and thrust areas. This is needed for cohesion, balance and form. 3). The strategy should help in building a position that can withstand unforeseeable external forces and 4). In an organisation, there is a hierarchy of related and mutually supporting strategies.

For a strategy to be effective, it must have the following key characteristic[2]:

1. Objectives and goal since are clearly stated and considered to be decisive and attainable;
2. There is scope for initiative and freedom of actions—the chosen strategy should also enhance commitment;

[1] Das, Rajnan (2000). *Crafting The Strategies: Concept and Cases In Strategic Management.* New Delhi: Tata Mcgraw-Hill Publishing Company Limited.

[2] Das, Rajnan (2000). *Crafting The Strategies: Concept and Cases In Strategic Management.* New Delhi: Tata Mcgraw-Hill Publishing Company Limited.

3. It should enable mobilisation and use of resources at decisive points in order to ensure success and enhance the superiority of the firm vis-à-vis the competition;
4. It should have flexibility and maneuverability to facilitate the alternation of a course of action and also to minimise the fixed allocation of resources to defend the firm's position in market;
5. It must be championed by committed leadership; in other words, the interest and values of key managers must match the needs of their role;
6. The strategy must make use of speed, secrecy and intelligence to initiate a surprise attack on opponents, with a view to altering the relative competitive position;
7. The strategy must protect the resource base of the organisation as well as the key operating points from attacks by competitors.

Mintzberg describes strategy as plan, pattern, position and perspective[3]. Strategy is a *plan* since it spells out a conscious and intended course of action to deal with a situation. Strategy is a *pattern*, in a stream of actions taken by a firm, which implies a consistency in managerial behaviour and thought processes. It needs to be noted that

[3] Das, Rajnan (2000). *Crafting the Strategies: Concept and Cases in Strategic Management.* New Delhi: Tata Mcgraw-Hill Publishing Company Limited.

strategy as a *plan* and strategy as a *pattern* can be different; for example, plans may not be 'realised' while a pattern may emerge without a formal plan.

Strategy is also a position in the sense that it is a 'fit' between the firm and its environment. Such a position can be achieved through a plan or through a pattern of behaviour. Defined on this basis, strategy is really aimed towards seeking and maintaining a sustainable position in which the firm will have competitive advantages. Mintzberg description of a firm's strategy as perspective is based on the realisation that the strategy of a firm is nothing but an ingrained way of perceiving the world around the firm. Certain organisations pursue aggressive strategy and introduce pacesetter technologies because they wish to dominate their business environment in the midst of uncertain future, while some other organisations tend to follow a set of strategies on the assumption that the world around them will remain stable. This difference in the perspective of two organisations creates a difference in the strategies to be pursued. Viewed from this angle, a strategy is really a 'concept' that resides in the minds of key managers who pursue them and also try to enhance their acceptance, by building a consensus and commitment among people around the chosen course of action

By knowing the importance of strategy in a firm, of course, it also needs a good management, which in the end this strategy will develop into one unity of strategic management.

The most significant improvement in the management processes came in the 1970's, when "long range planning," new venture management'" "planning, programming, budgeting," and "business policy" were blended. At the same time, increased emphasis was placed on environmental forecasting and external consideration in formulating and implementing plans. This all-encompassing approach is known as strategic management.

Strategic management is defined as the set of decisions and actions that result in the formulating and implementation of plans designed to achieve a company's objectives.[4]

Strategic management involves the planning, directing, organizing, and controlling of a company's strategy-related decisions and actions. By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to achieve company objectives. A strategy is a company game plan. Although that plan does not precisely detail all future deployments (of people, finances, and material), it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purpose it should compete.

Using the strategic management approach, managers at all levels of the firm interact in the planning and implementing. Therefore, an accurate assessment of the impact of the strategy formulation on organizational performance requires not only financial evaluation criteria but also non-financial criteria—measures of behaviour-

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[4] Pearce, John A, *Strategic Management: Formulation, Implementation, and Control*, 7th edn, McGraw-Hill Book Co., 2000.

based effects. In fact, promoting positive behavioural consequences also enables the firm to achieve its financial goals.[5]

Strategic management will lead the company to make strategic decisions. Strategic decision is a tool to gain company missions. Strategic decision will make the company's policies, which is the guide for the company how to act. These policies will show how source must be allocated and how the job in the company should be done, so manager can implement strategy appropriately.

2.1.1 The Principal Component of Management strategy

In the practice, the component of business strategic is done according to the management principal function, they are planning, implementing, and controlling, because of that, business strategy consist of three process that connected to each other and unbroken, the process of formulating, execution, and controlling of the strategy. The last process is needed for giving a feedback to next planning process.

The Principal Component of Management strategy[6]

1. Business environment analysis

   Needed to analyze the business opportunities and threats.

[5] Pearce, John A, *Strategic Management: Formulation, Implementation, and Control*, 7th edn, McGraw-Hill Book Co., 2000.

[6] Suwarsono (1994), Manajemen Strategik: Konsep, Alat Analisa, dan Konteks. UPP AMP YKPN

2. Company profile analysis

   Needed to identify the strength and the weaknesses of the company

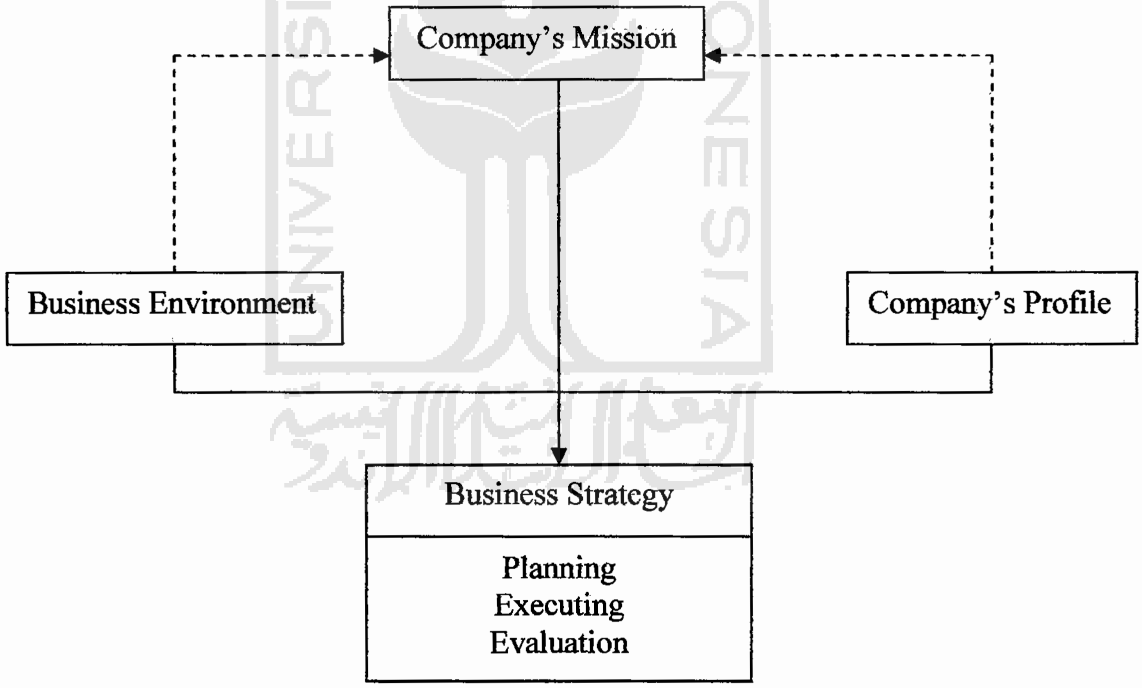
3. Business strategy(planning, execution, and evaluation)

   Needed to obtain the company's goal

4. Company's mission

Figure 2.1

The principal Component of Management Strategy[7]



[7] Suwarsono (1994), Manajemen Strategik: Konsep, Alat Analisa, dan Konteks. UPP AMP YKPN

1. Business environment Analysis

Business environment analysis is meant to try to identify the business opportunities, which need attention from executives, and at the same time, is aimed to examine the business threats that need anticipation by the company.

Business Environment analysis consists of:

- Macro environment Analysis

  This environment consists of economy, technology, politics environment and including government, law, sociocultural environment.

- Industrial environment (competitive environment)

  Industrial environment is placed between the macro environment and the prospect of the company and because of that, it is called as the intervening variable. However, without being influenced by macro environment, industrial environment can also stand itself to the company's objective.

2. Industrial environment and competitor analysis

Industry environment analysis and competitor is undivided part from the business environment analysis. A lot of things influence industry environment in general such as industry growth, product innovation, technology improvement, competition, and government policy, change of customer attitude and lifestyle, and also business risk.

Industry environment analysis is a way to find the threats and opportunities of the business as the effect of strategy and business behaviour of competing business in one marketing environment.

If structural approach is used in the industrial economic so the first analysis is upon the market structure. There are many market structures, and these will lead to different managerial implication.[8]

A). Monopoly Market with the one company characteristic that rule 100% of market share and barriers to entry is very high. There is no competitor, therefore, the opportunities become high and bring profit. In that condition, the company can implement any kind of business strategy they want. The bargaining position of that company is very high. Consumers have no alternative. One thing to be noted that the monopolist position will have no use if they can not control the high operational cost so that it will over the expected selling.

B). Dominant Oligopoly Market. If one of the existing companies in the market has market share around 50% to 100%. Thus, the company will also try to maintain their market share and their profit.

C). Tight Oligopoly. If four of the existing companies hold 60% to 100% of the market share. Usually one of the companies is able to be a market leader. But

[8] Suwarsono (1994), Manajemen Strategik: Konsep, Alat Analisa, dan Konteks. UPP AMP YKPN pp. 63-73

usually they choose not to compete to each other, because among them does not get an enough profit. Then, these companies will make collusion.

D). Loose Oligopoly. In this characteristic, there are many sellers and they offer goods that can function as substitutes. Related to that reason, none of the company holds huge market share. In this market structure, the barrier to entry is very low.

E). Perfect Market competition. There are many sellers and buyers which do not have the power to influence market. Barrier to entry is very low and almost zero. In the competition environment analysis, the condition of competition in the industry is depending on five main competition forces.

These five forces are power of supplier, power of buyer, threats of potential entrants, threats from substitutes, and intensity of rivalry among existing operators. This reflected that the competition is not only with the existing company but everything is a competitor for the company in a certain situation.

Any change in the above five forces alters both competitive rivalry and industry profitability. This being so, a strategist needs to understand each of these five forces in all their subtleties and complexity in order to develop the correct insight.

3. Company Profile Analysis.

The formulation of business strategy gives sign that there is a deeper analysis to thc appcarancc of business opportunitics and threats. Besides that, the company must understand their internal factor precisely to be able to know their strength and weaknesses. From the internal analysis, the company will be able to know the company's strategic advantages profile.

In identifying the internal variable, the functional approach is used because it is the simplest approach. According to this approach, company's profile can be seen from all kind of business function inside the company such as marketing, financial, operational and production, human resource, research and development and company culture functions.

4. Company mission

Company mission has a very important role in achieving the company's objective. The mission gives instructions also the boundary in the process of obtaining the objective. Based on that, the owner and the management not only try to achieve the objective but the objective that is being obtained must be in conformity with the company's characteristic.

In the process of formulating strategic management, the formulation of company mission is usually done first, even the process of formulation, it cannot leave the internal and external factor. Company mission is the answer to the question "what is our business" for now and for the future.

2.2. Marketing strategy

Every company must understand buyers' needs and wants and effectively combines and directs the skills and resources of the entire company to provide high levels of satisfaction to its customers. It is referred to "that model of competing, which links R&D, technology, innovation, production, and finance—integrated through marketing's drive to own a market—is the approach that all competitors will take to succeed in the 1990's"[9] Rather than a specialized function within the organization, marketing is a central process of the entire business. Marketing includes all of the various actions of the organization that are aimed at providing customers with superior value.

Numerous definitions are used to define marketing nowadays. As Kotler (2000a:8) defines it as:

"Marketing is a social process by which individual and groups obtain what they need and want through creating, offering, and freely exchanging products and services of values with others"

From the definition above, marketing is viewed as an exchange process that can be done by either individual or organization to satisfy their needs and wants. Moreover, the most important part is not selling but to know and understand the customer so well that the product or service fits and sells itself

[9] David W. Cravens (1997). *Strategic Marketing*, Fifth edition, Irwin.

While Stanton (1991:5) defines it as:

"Marketing is a total system of business activities designed to plan, price, promote, and distribute want—satisfying products to target markets to achieve organizational objectives"

It means that marketing is an interaction trying to make an exchange connection. Marketing makes decisions in setting the price of the product, promotion and distribute the goods and services to the consumer. Considering that, there are many activities had to be done in marketing, it should be arranged well so that marketing can be done effectively and efficiently, which is through Marketing management.

Marketing Management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.[10]

This definition recognizes that marketing management is a process involving analysis, planning, implementation, and control; that it covers goods, services, and ideas; that it rests on the notion of exchange; and the goal is to produce satisfaction for the parties involved. The planning step is a very crucial step in to secure the life and the success of the company. This process is a process based on forecasting of the possibilities that can happen in the future like the diversification of the program, procedure, and policy in order to gain the goals of marketing.

[10] Kotler, Philip. *(1980). Marketing Management: Analysis, Planning, Implementation, and Control (Ninth Edition).* New Jersey: Prentice Hall

Marketing plans are developed, implemented, evaluated, and adjusted to keep the strategy on target. After making a good marketing plan, the next step is executing the conception. In executing marketing plan, we need special step that is called Marketing Strategy.

Marketing Strategy is defined as the analysis, strategy development, and implementation activities in "selecting market target strategies for the product-markets of interest to the organization, setting marketing objectives, and developing, implementing, and managing the marketing program positioning strategies designed to meet the needs of customers in each market target."[11]

In the process of making the strategy all components of the company management will give its contribution. The marketing function has the biggest relationship with the external environment, while the external environment is beyond the control of the company. Because of that, marketing mix must be arranged appropriately so it can function as the correct weapon to face the company's competitors. This weapons at least can functions as a breakthrough to the castle of competitors which dominate the market, or to be able to survive in the tight competition or moreover it is able to win the market competition which at the end can superior another competitor. Because of that, marketing strategy as the company's weapon must be in conformity with the condition of the market and the condition of the competitors faced by the company.

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[11] David W. Cravens (1997). *Strategic Marketing*, Fifth edition, Irwin.

2.3. SWOT Concept

Industry in Indonesia is now getting ready to face a much more competitive arena than before. In order to do that, Industry needs *Strength-Weaknesses-Opportunities-Threats* (SWOT) analysis to find the best strategy for the competition coming.

SWOT analysis is a systematic way to identify the internal factor and the external factor of the company and the way to find the best strategy to be used. Strength and Weaknesses is from the internal environment of the company, while the Opportunities and Threats are from the external environment of the company. This analysis is based on the assumption that a strategy will work effectively if the company can maximalize their Strength and Opportunities and also minimalizing the threats for the company.

Strengths

A Strength is a resource advantage relative to competitors and the needs of the markets when firms serves or expects to serve. It is a distinctive competence when it gives the firm a comparative advantage in the marketplace. Strength arises from the resources and competencies available to the firm.

Weaknesses

A weakness is a limitation or deficiency in one or more resources or competencies relative to competitors that impedes a firm's effective performance.

Opportunities

An opportunity is a major favourable situation in a firm's environment. Key trends are one source of opportunities. Identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technological changes, and improved buyer or supplier relationships could represent opportunities for the firm.

Threats

A threat is a major unfavourable situation in a firm's environment. Threats are key impediments to the firm's current or desired position. The entrance of new competitors, slow market growth, increased bargaining power of key buyers or suppliers, technological changes, and new or revised regulations could represent threats to a firm's success.

SWOT analysis can be used in many ways to aid strategic analysis. The most common way is to use it as a logical framework guiding systematic discussion of firm's resources and the basic alternatives that emerged from this resource-based view. What one manager sees as an opportunity, another may see as a potential threat. Likewise, a strength to one manager may be a weakness to another. Different assessment may reflect underlying power considerations within the firms or differing factual perspectives. Systematic analysis of these issues facilitates objective internal analysis.[12]

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[12] Pearce, John A and Robinson R.B (2000). *Strategic Management: Formulation, Implementation, and Control*, 7th edn, McGraw-Hill Book Co.

2.3.1 SWOT Analysis Steps.

Several steps are needed to make a SWOT analysis:

1. **First steps**

Determining the internal factor in the company, which are the strength factor and the weaknesses factor compare to the same kind of business, and then determine the external factors, which are the opportunities factors, and the threats factor to the company in doing their business. Then, make table, in which the first table consist of the strength and weaknesses factor and in the second table consist of opportunities and threats factor.

2. **Second steps**

After classifying all factors as strengths, weaknesses, opportunities and threats, and then in the second column of table, every factor is being given a value, starting from 1, 0 (most important) until 0, 0 (not important), according to the influence of that factor to the company (all of that value cannot be scored more than 1, 0).

3. **Third steps**

Calculating the rating or the score (in the third column) for each factor by giving a scale from 4 to 1 score from the internal and external factor.

Score 1: Below Average

Score 2: Average

Score 3: Above Average/ Good

Score 4: Very Good

And then we multiply the score and the value in the fourth column, the product of the multiplication is to place the company in the SWOT diagram

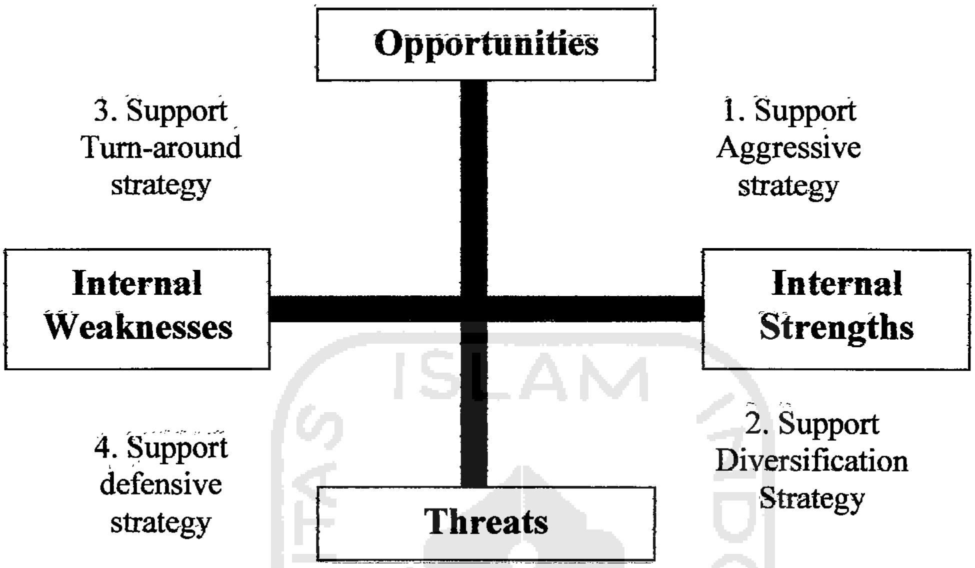
4. **Fourth steps**

Making comparison between product of multiplication of Strength and weaknesses score, Opportunities and threats score. If the score of the strength is more than the weaknesses score it can be said that the position of the company is stronger from its competitor and also in the others ways if the score of the strength is less than the score of weaknesses It means that the position of the company is weaker than its competitor. If the product of the multiplication from Opportunities score is more than the threats score it means that the company have more opportunities that its competitor while the threats from other company is meaningless for the company. In the other ways if the product of multiplication of opportunities scores is less than the threats score, it means that the company is losses in the competition of getting the opportunities.

According to that SWOT Analysis, the company can be positioned in the four quadrants in the SWOT analysis diagram, as shown below:

Figure 2.2

SWOT Analysis Diagram



Source : Rangkuti, Freddy. (2002). Analysis SWOT: Tehnik Membedah Kasus Bisnis. Jakarta: Gramedia Pustaka Utama. : 19-20

First Quadrant: This is a very good condition. The company has Opportunities and Strengths so it can use all the opportunity exist. The strategy that must be applied in this condition is the strategy supporting the aggressive growth policy (Growth oriented Strategy).

Second Quadrant: Even though the company is facing threats, the company still has the internal Strength. Strategy that must be applied in this condition is using all the strength in making use of the Longterm opportunity by using diversification strategy (product/market)

Third Quadrant: The company is facing a great market opportunities, but on the other side, it face some internal weaknesses. The strategy of the company must focus on minimalizing the internal problems so the company can gain better market opportunity.

Fourth Quadrant: This is a very bad situation; the company face all kind of threats and have internal weaknesses