Business Strategy

Idea In Short

For most businesses, success is not a random occurrence, but rather a series of right decisions taken at the right instances. Meticulous planning, preparation, and execution determines success for most organizations. All this starts with defining the right strategy. A business strategy is a clear set of plans and actions that outline how a business will compete in particular markets with its current portfolio of products and services. The general managers of a business convert the mission and vision articulated in the high-level corporate strategy into concrete business strategies that form the blueprint of the entire business.

Business strategy is what most people are familiar with and answers the question - How? It is vital for any company seeking to strategically grow its business. To formulate a good Business strategy, a business should have a solid understanding of its internal and external environments.

Why need a business strategy?

Business strategy helps gain competitive advantages by offering more customer value. Simultaneously, it helps establish the business as a unique and hard-to-imitate player within the competitive landscape. A comprehensive business strategy must consider a number of factors, such as the company's structure, strengths & weaknesses in production, marketing, sales, distribution, etc. Business strategy equips the top management with an integrated framework, to discover, analyze and exploit opportunities. Likewise, it helps mitigate threats, optimize resources and counterbalance weakness.

Case – Toyota

According to an article published by the Harvard Business Review titled Lessons from Toyota's Long Drive:

> Toyota is, arguably, already the best carmaker on the planet. For almost 15 years J.D. Power and other research firms have consistently rated Toyota and its luxury line, Lexus, among the top automotive brands in terms of reliability, initial quality, and long-term durability. Toyota is also the most profitable car manufacturer.

However, in 1973, Toyota was nowhere in the competitive automotive landscape. The Big Three car makers in the USA had over 82% of the market share. Today, they have less than 50%. 1970s witnessed the aggressive and unexpected market entry of Japanese car makers, led by Toyota, into the US market. The American cars then were big, heavy and expensive to move around. Toyota surprised the US market when it started selling Japanese-made cars at prices far lower than the US-made ones.

Import duties

The car industry was a huge contributor to the US economy. So, the US government imposed protectionist taxes on all car imports; this made the Japanese cars just as expensive as the USA-made ones. However, the tactic failed. Within a few years, Toyota established production plants in the US and circumvented the hefty import duties.

Cost economies

At first, US car makers weren't worried; they reasoned that by moving production to the US, Toyota's costs would also rise to the same levels as theirs. However, that didn't happen. Toyota continued to produce cars significantly cheaper than US companies could. Toyota's finely honed production processes, for example Kanban & continuous improvement, were so efficient and lean that they were able to beat US car makers at their own game.

Product innovation

Toyota spent years studying the production lines of American car makers such as Ford. They knew that the US car industry was more advanced and more efficient than the Japanese one. So, they studied their competitors and tried to copy what the Americans did so well. They blended these processes with the strengths of their own, and came up with something even better. Toyota proved that knowing their own weaknesses can be the key to success; it is one of the best business strategies you can ever deploy.

Toyota's strategy analysis

Toyota's business strategy is a combination of the cost leadership and product differentiation strategies. Cost leadership entails minimizing cost of operations and selling prices. The differentiation strategy requires developing innovative products to ensure Toyota's competitive advantage.

Cost leadership

Toyota pursues aggressive cost control to minimize production costs and attain cost leadership. The company does so through the just-in-time [JIT] manufacturing method, also known as the Toyota Production System [TPS]. This helps Toyota minimize waste, reduce inventory costs and improve its responsiveness. In addition to lean production, Toyota achieves cost leadership through a careful choice and control of suppliers, efficient distribution, and low servicing costs from a high-quality product. As a result, the firm achieves maximum business efficiency.

Product differentiation

Similarly, Toyota has the strategic goal of innovation to address the broad differentiation of its product portfolio. Innovation leads to unique and attractive products for all market segments. In 2007, New York Times published a cover story titled, 0 to 60 to World Domination on Toyota. This article explains concepts, such as kaizen (continuous improvement) and genchi genbutsu (what customers want in an automobile and how any current versions come up short) that catapulted Toyota to the market leadership we witness today. According to an anecdote, Toyota engineering and design teams actually make archaeological visits to truck graveyards in Michigan, where they examine the rusting hulks of old trucks:

> With so many retired trucks in one place, they also gained a better sense of how trucks had evolved over the past 30 years - becoming larger, more various, more luxurious - and where they might go next.

Clearly, Toyota goes the extra mile to develop innovative products that customers want by integrating product development. It is said by Toyota in Japan that at their Nagoya factory, they receive 500,000 improvement suggestions a year from their employees and act on

most of them. This clearly demonstrates a solid business strategy.

Summary

A business strategy is a set of competitive moves and actions that a business uses to attract customers, compete successfully, strengthening performance, and achieve organisational goals. It outlines how business should be carried out to reach the desired ends. Business strategy equips the top management with an integrated framework, to discover, analyse and exploit beneficial opportunities, to sense and meet potential threats, to make optimum use of resources and strengths, to counterbalance weakness.