

WORK APPLICATION 2-4

Identify the vision and mission of an organization where you work or have worked.

A strong vision and a good mission statement are critical parts of the strategic planning process. *Everything* else in strategic planning comes from the vision and mission.

Vision + Mission = FOCUS!

Finally, organizations go through a series of analyses of both external and internal factors to come up with the plan of action that answers question 3. Strategic planners look at each of the environmental factors that we noted above, and they analyze the company's capabilities and limitations to come up with a workable plan. We will discuss some of these factors in the following sections.

Types of Strategies

There are several generic strategy types that we are able to categorize. Some researchers break these down into just two or three categories, while others list several more. We will try to keep this as simple as possible right now, since for our purposes, we only need to know the major categories. So we will break the types of strategies down into three categories: cost leadership, differentiation, and focus or niche strategies.³⁸

COST LEADERSHIP. Cost leaders do everything that they can to lower the organizational costs required to produce their products or services. However, cost leaders do not necessarily provide their products or services to the customer for a lower price. They can choose to keep their prices down and maintain the same margin as their higher-cost competitors, or they can choose to charge the same price as their competitors and thus increase their profit margin above that of their competitors on each of the goods or services they sell. **Wal-Mart** has had great success with this strategy, and during the recession and coming out of it, Wal-Mart reduced its prices even more aggressively to combat loss of business to “dollar” stores.³⁹ However, low-cost strategies can have a downside as well. **Tata Motors'** cheap Nano automobile at first failed because potential customers saw it as “too cheap” and therefore thought, “It must be unreliable.” So, Tata is now building more expensive Nanos, hoping that they will catch on with young buyers.⁴⁰

DIFFERENTIATION. This strategy attempts to create an impression of difference for the company's product or service in the mind of the customer. The differentiator company stresses its advantage over its competitors.⁴¹ If the company is successful in creating this impression, it can charge a higher price for its product or service than can its competitors. Differentiation, it should be noted, is not necessarily based on real difference but on the perception of difference, which is often created through advertising.⁴² **Nike, Harley Davidson, Margaritaville,** and others place their corporate name prominently on their products to differentiate those products from those of the competition. According to *Coca-Cola*, the three keys to selling consumer products are differentiation, differentiation, and differentiation, which it achieves with its scripted name logo and contour bottle.

FOCUS OR NICHE. With this strategy, the company focuses on a specific portion of a larger market. For instance, the company may focus on a regional market, a particular product line, or a buyer group. Within a particular target segment or market niche, the firm may use differentiation or a cost leadership strategy. Businesses can win big by thinking small.⁴³ It is hard to compete head-on with the big companies like **Coca-Cola** and **Pepsi**, but the much smaller **Dr Pepper Snapple Group's** two non-colas have a differentiated taste for a much smaller target market, but it is still very profitable.⁴⁴

WORK APPLICATION 2-5

Identify the strategy of an organization where you work or have worked and explain how the organization uses the strategy against its competitors to gain customers.

2-2

APPLYING THE CONCEPT

Identify which strategy is used by each brand or company listed and write the letter corresponding to the company's strategy by the company's name.

- a. cost leadership
- b. differentiation
- c. focus or niche

- ____ 6. iPhone
- ____ 7. *Bodybuilder* magazine
- ____ 8. Rolex watches
- ____ 9. TOMS shoes
- ____ 10. Wal-Mart

How Strategy Affects HRM

There are several areas where the generic corporate strategy affects how we do our jobs within HR. Let's take a look at a few of the significant differences between generic strategies. A little later in this chapter, we will also review how HRM affects the ability to commit to a particular corporate strategy. We will continue to discuss these areas in greater detail as we progress through the book.

HRM AND COST LEADERSHIP. If our organization is following a generic cost leadership strategy, we are going to be most interested in minimizing all internal costs, including employee costs. So we are concerned with maximum efficiency and effectiveness.⁴⁵ Because we are concerned with maximum efficiency, we will probably create highly specialized jobs within the organization so that we have people doing the same thing repeatedly. This will generally cause employees to get much better and faster at their jobs. We will also have a specific job description for each position and job-specific training with very little, if any, cross-training. We will hire new workers based on technical skills and abilities, and we will most likely emphasize performance pay by which the employees get paid more if they perform their job faster and better. We will also provide incentives that emphasize cost controls and efficiency. Finally, it's quite likely that managers will use performance appraisals as a control mechanism to allow them to weed out less efficient and less effective employees.

HRM AND DIFFERENTIATION. On the other hand, if our organization is following a differentiator strategy, we're going to be more concerned with employees who are flexible and adaptable, who have the ability to innovate and create new processes, and who can work in uncertain environments within cross-functional teams.⁴⁶ In a differentiator organization, we will most likely have much broader job classifications, as well as broader work-planning processes. Individuals will be hired and paid based on individual knowledge and skill sets, not specifically based on skills related to the job they fill upon entering the organization. Here, our incentive programs will reward innovation and creativity. Finally, in the differentiator organization, performance appraisals will generally be used as a tool to develop the skill sets of the valuable knowledge workers within the organization, not as a tool to punish and weed out poor performers. So you can see very quickly that HRM will need to do its job in a significantly different way based on the type of generic strategy that the company decides to follow.

Strategic Analysis

There are two primary components of strategic analysis used by most organizations. The first is called five-forces analysis, and it is a tool that organizations use to analyze the external competitive environment. The second is called SWOT analysis (SWOT stands for strengths, weaknesses, opportunities, and threats), and it is used to analyze