

Discussions on Three Methods of Formulating the Business Strategy

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ABSTRACT

Nowadays the product supply of similar enterprises is greater than the demand, and the whole society has entered the stage of marketing concept. Enterprises must be customer-oriented and understand the needs of customers for survival, this is also an important issue to be considered in strategic management. This paper mainly expounds the importance of making strategies and the three effective methods of making business strategies. The three methods of making strategy are summarized by the author after a long period of theoretical research on management and on-site observation. For each strategy method, we give examples to illustrate, there are some well-known enterprises' cases. This article not only provides entrepreneurs with theoretical knowledge of building business strategy, but also puts forward some practical operation methods, which can serve to enhance the sales and profits of enterprises.

Keywords: *Mission, Strategic management, Market research, Enterprise internal and external environment analysis*

1. INTRODUCTION

The word "strategy", derived from Greek and intended as "the art of the general." It refers to a major deployment of the military as it relates to the overall situation, or to a major decision or programme on the overall situation, which has been widely used in social, economic, managerial and other fields [2]. In today's economic environment, high-speed development of productivity, rapid development of science and technology, the number of similar products is increasing, the supply of products is greater than demand, the competition between enterprises has become more intense, the whole society has entered the stage of marketing concept. So enterprises must be customer-centered, they should consider what are customers' needs and make the products sell out more easier. These are also the major considerations for making business strategies. Only if an effective management strategy is formulated at the beginning, then we can determine a correct direction and offer products with development potential for the enterprise. On the other hand, if the company does not have an effective strategy, the company cannot survive for a long time. For example, When Sanlu Group met the event of milk powder quality accident, they did not take any strategic measures, then the company went bankrupt. When Mengniu Group had a food quality accident in 2012, it adopted a differentiated strategy to improve the quality of milk, and their overall capital budget for raw milk and final product testing reached

350 million yuan [11]. Mengniu later restored consumers' confidence in its products. What's more, Procter & Gamble adopts product development strategy to meet the needs of different customers, which increases the sales volume and profit of the company. Anyway, it is very important for the company to make effective business strategy if they want to have a long-term survival and development.

Management professor Yang Wenshi put forward that "enterprise management strategy" refers to the major overall planning and strategy made by enterprises to seek and maintain a lasting competitive advantage on the basis of analyzing the current situation of external environment and internal conditions and their changing trends [4]. Marketing expert Lv Yilin mentioned that "enterprise management strategy" refers to the overall planning for long-term survival and development of enterprises in the face of drastic changes in the external environment, strategy is the basic form of setting goals, deploying and allocating resources and it is a reflection of the marketing changes, competitors and other environmental factors [2]. According to management theories, the strategic management process generally includes: clear organization's mission and vision, internal environment analysis, external environment analysis, strategy selection or formulation, implementation of selected strategies, strategy adjustment and change [4]. This article will mainly elaborate the three methods of formulating business strategy, and each method is given examples to illustrate, they are: (1) Formulating

business strategy through analysis of the internal and external environment of the enterprise; (2) Develop a business strategy by defining the organization's mission; (3) Formulating business strategy through market research. It can provide some useful tips for entrepreneurs in making business strategies in today's social economic situation.

2. THREE METHODS OF FORMULATING BUSINESS STRATEGY

Management experts have put forward different views about making business strategies. After we take a long-time research and observation, three methods of building business strategy are comprehended, hoping to provide entrepreneurs with a good reference.

2.1 Formulating business strategy through analysis of the internal and external environment of the enterprise

Strategic management is the process of systematic analysis, selection, implementation and adjustment of the organization's strategy. The process of strategic management is as follows: (1) Strategic analysis. It means the internal and external environment analysis of the enterprise. (2) Finding out the key environmental factors that affect the survival and development of the enterprise. (3) Making a strategic choice. In this step the entrepreneur should consider which strategy should be chosen to make the enterprise more competitive? Which strategy can make the enterprise survive or achieve sustainable development? (4) Strategy implementation. Professor Yang Wenshi proposed that the purpose of the organizational system is to make the various elements in the organization reasonably configured to create value and provide services, so as to achieve the best economic and social benefits. American professor Stephen P. Robbins mentioned that the organization is an open system, which includes inputs, transformation and outputs. Inputs contain raw materials, human resources, capital, technology, information.

Transformation include employees' work activities, management activities, technology and operations methods. Outputs contain products and services, financial results, information and human results [6]. This open system includes the internal functional activities of the enterprise, and the enterprise organization is also affected by external environmental factors. The internal functional activities generally includes: production management, marketing management, financial management, human resources management, information management [5]. The external environmental factors include: economic, political and

legal, social culture, scientific and technological, global, customer, supplier, competitor, government administration, consumer associations, media, community institutions of the organization [8]. As a manager, we should look at the problem systematically from the overall situation, find out the serious problem, and put forward the solution. For instance, Shuanghui Group had a food quality incident in 2011, the company's leaders began to analyse the internal and external environment of the company, taking into account the key internal and external environmental factors affecting the organization as followings: production management, political and legal environment, customers, suppliers, government agencies, media. At that time, Shuanghui Chairman Wan Long publicly announced six measures to improve quality and urged its subordinates to implement, these six measures are: (1) Strengthen source control. (2) Supervision of all aspects of the enterprise. (3) Establish Shuanghui Group food safety incentive fund and do a general review on March 15th every year. (4) Establish a food safety reporting system. (5) Introducing "China Inspection and Certification Group" as an independent supervision agency for third-party testing. (6) Accelerate the development of aquaculture industry and improve the control of enterprises on the upstream and downstream of the industrial chain [12]. From these six measures we know that they adopted a differentiated strategy (to improve the quality of food to zero defects) and backward integration strategy (to annex suppliers to control raw materials). Now Shuanghui has survived for a long time because they formulated the correct strategies, and the company's revenue reached 60.3 billion yuan last year. The types of strategies available are: total cost leading strategy, differentiation strategy, specialization strategy, abandonment strategy, market penetration, product development, integration development, diversification strategy and so on [1]. Enterprises should choose different strategic types according to their own situation when analyzing their internal and external environment. For example, the business owner finds out there are some problems with financial management when conducting strategic analysis, they could consider adopting a total cost-leading strategy to save the costs of various department while ensuring product quality. As for the marketing department, Internet advertising was much cheaper than newspapers. The use of promotion method "public relations" could both increase the reputation and sales of enterprises and save the cost of promotion. If some enterprises find that their sales volume is not good through the analysis of internal and external environment, enterprises can consider adopting market penetration strategy. The company can adopt low price strategy, advertising and so on to increase the sales and profits. Likewise, Li Ning Group and Lu Zhou Lao Jiao do advertising campaign through WeChat and website advertising. They give the

customers 40% discount and attract a lot of customers, their sales increased substantially. What's more, enterprises first use low-price strategy to sell some products, and then use high-quality products to attract customers to buy at high prices. Such as a business college X sold some courses at a price of 20 yuan at the beginning, they attracted a large number of trainees. Then business college X offered quality courses of over 5000 yuan to attract them to buy. These enterprises adopt such business strategy, their sales and profits are increased.

2.2 Develop a business strategy by defining the organization's mission

Determining organizational mission and objectives is the first step in the planning process. The mission of the enterprise is to answer what the business of the enterprise is. In order to determine the business area of the company, managers must answer three questions: (1) Who are our customers? (2) What are customers' needs? (3) How can we meet the needs of our customers? By answering the above questions, managers can understand the current needs of customers, determine the future trends of customer needs, and understand who are their real competitors. All this information can help managers identify appropriate goals. For example, American Seattle City Lighting company wanted redefine its mission. The company's previous business mission was defined as "electric power generation and transmission ", later the managers began to investigate and ask above three questions and finally find out that customers needed energy, not just electricity. The company then defined its business mission as "a provider of energy and related energy services." From this case we know "defining the organization's mission" can establish the strategic direction for the companies and enhance the sales and competitiveness of enterprises [7].

2.3 Formulating business strategy through market research

Market research needs to be done step by step which is through the process of information collection, recording and interpretation. The first step in market research is to identify what needs to be researched, then conducting primary or secondary data collection. Second-hand materials are obtained by reading newspapers, magazines, books, Internet and so on. The methods of obtaining primary data include field observation, group survey and questionnaire survey. For instance, Human skull and fossil enterprise adopted on-site observation and questionnaire survey methods. They directly ask customers what their needs are, they found that customers not only like human skull fossils, but also like dinosaur fossils which they did not think before [9]. This laid the

foundation for the business owner to formulate the product development strategy, and then increased the sales and profit for the enterprise.

Amazon's founder Bezos won the world's richest man last year who focus heavily on customer needs while running a business. They learn about each customer's purchase preference through Internet technology, provide the goods they like according to the customer's preference [10]. For example, Amazon personalizes the shopping experience for each individual customer. If it has 188 million customers, it reasons, it should have 188 million stores. Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, low prices, and convenience. Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, share opinions and reviews with other visitors [8]. In addition, Amazon often appoints its sales staff to investigate the market and understand the needs of customers to produce the corresponding products to meet the needs of customers. From this case we know Amazon attach importance a lot on their customers' needs and wants, they do market research at every moment and their aim is to formulate correct product or service strategies.

3. CONCLUSION

This paper mainly explores the importance of enterprise strategic management and three methods of formulating business strategies. When it comes to business strategic management, management books generally mentioned the process of strategic management: defining the mission and objectives of the enterprise, strategic analysis, strategic choice, strategic implementation and evaluation. They did not propose a more detailed programme in developing the strategy. After a long period of research and observation, here the authors summarized three methods of strategy making, which can make readers and entrepreneurs understand the different methods and uses of strategy making, they are: Formulating business strategy through analysis of the internal and external environment of the enterprise; Develop a business strategy by defining the organization's mission; Formulating business strategy through market research. This paper not only explains the theoretical knowledge, but also give examples to illustrate according to the current economic situations. These strategic approaches are useful and can help entrepreneurs to determine effective strategic objectives, define clear direction for the organizational operation, improve the sales and profits of enterprises and enhance the viability and competitiveness of enterprises in the market.

Although we can find some rules to operate in the aspect of business strategic management, but when the entrepreneurs formulate business strategies, they have to make them relevant to current economic situations, which is always changing, so strategic management is a subject that we always need to study.

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