# Crash Course Material

## CA- Intermediate
## PAPER- 6B
## STRATEGIC MANAGEMENT

Chapter 1- Introduction to Strategic Management
Chapter 2- Strategic Analysis- External Environment
Chapter 3- Strategic Analysis- Internal Environment
Chapter 4- Strategic Choice
Chapter 5- Strategy Implementation and Evaluation

- **Prof. ShashiKiran M**

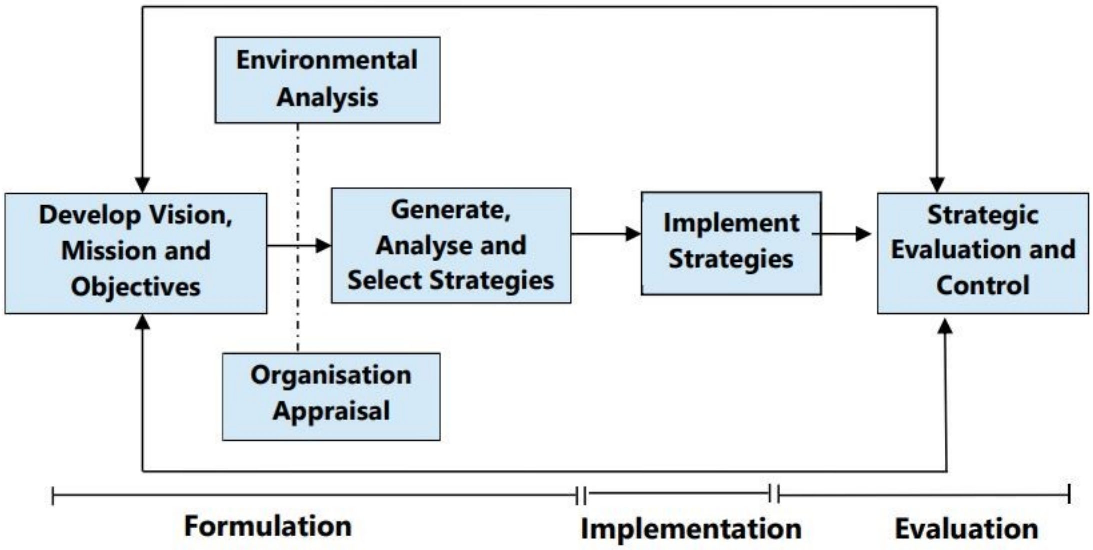



**Figure: Strategic Management Model (Fred R David)**

# Chapter-1
# Introduction to Strategic Management

## CONCEPT OF MANAGEMENT

The term 'management' is used in two senses, such as:

a) It is a **key group in an organisation who is in-charge of its affairs**.
It is the **chief organ entrusted with the task of making it a purposeful and productive entity**,

b) The term 'Management' is also used with reference to a **set of interrelated functions and processes carried out by the management of an organisation**.
These functions include **Planning, Organising, Directing, Staffing and Control**.

- Management is an influence process **to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner.**

# CONCEPT OF STRATEGY

**Strategy is the game plan that the management of a business uses to take**
→ **attract and satisfy customers,**
→ **compete successfully,**
→ **achieve organizational objectives**
→ **conduct its operations &**
→ **market position.**

It is a **long-range blueprint of an organization's** **(3D's)** **Desired image**, **Direction** **and** **Destination**, i.e., what it wants to be, what it wants to do, how it wants to do things, and where it wants to go.

**Strategy provides an integrated framework for the top management**
→ to **search** for, **evaluate** and **exploit** beneficial **opportunities**,
→ to perceive and **meet potential** **threats** and crisis,
→ to make full **use of resources** and **strengths**,
→ to **offset** corporate **weaknesses**. **(SWOT Analysis)**

Note:
- **Strategy is no substitute** for sound, alert and responsible **management.**
- **Strategy can never be perfect, flawless and optimal**.
- Strategy should be **flexible and pragmatic** to take care of **sudden emergencies (Cadbury case study)** **, pressures, and avoid failures and frustrations**.
- Sound strategy, **allowances are made for possible miscalculations** and **unanticipated events**

# STRATEGY IS PARTLY PROACTIVE AND PARTLY REACTIVE:

A company's strategy is a combination of:
- **Proactive/Deliberate** actions on the part of managers to **improve the company's market position and financial performance**.
- **Reactions to unanticipated/emergent developments** and **fresh market conditions** in the **dynamic business environment.**
- Pro-Active strategy is a **planned** strategy, BUT reactive is adapted **reactions** to changing circumstances.

**Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required. Hence, partially, a company's strategy is always developed as a reasoned response to unforeseen developments in the business environment as well as the situations within the firm.**

# STRATEGIC MANAGEMENT - IMPORTANCE AND LIMITATIONS

The term '**strategic management'** refers to the **managerial process of**

- → developing a strategic **vision**,
- → setting **objectives**,
- → **crafting a strategy**,
- → **implementing** and
- → **evaluating the strategy**, and
- → finally initiating **corrective adjustments** were deemed appropriate.

**The process does not end, it keeps going on in a cyclic manner.** The importance of Strategic Management essentially lies in **enabling an organisation to perform better than its competitors and its own past and present performance**.

The overall objectives of strategic management are two-fold:

- To create **competitive advantage** (something unique and valued by the customer), so that the company can outperform the competitors in all aspects of organisational performance.
- To **guide the company** successfully through all changes in the environment. That is to react in the right manner.

## Importance of Strategic Management

**'Survival of the fittest 'as propagated by "Charles Darwin" is the only principle of survival for all organizations, where 'fittest' are not the 'largest' or 'strongest' organizations but those who can change and adapt successfully to the changes in business environment.**

The major benefits of strategic management are:

- It **gives a direction to the company to move ahead**. It helps define the goals and mission.
- It **helps organisations to be proactive instead of reactive** in shaping its future.
- It **provides frameworks** for **all major decisions** of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure.
- It seeks to **prepare the organisation to face the future** and act as pathfinder to various business opportunities.
- It **serves as a corporate defence mechanism** against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments
- It **helps to enhance the longevity of the business**. With the state of competition and dynamic environment it may be challenging for organisations to survive in the long run.
- It **helps the organisation to develop certain 'core competencies and competitive advantages'** that would facilitate assist in its fight for survival and growth.

## Limitations of Strategic Management

- **Environment is highly complex and turbulent:**
- **Strategic management is a time-consuming process:**
- **Strategic management is a costly process:**
- **It is difficult to clearly estimate the competitive responses to a firm's strategies. It is quite difficult to gauge the strategic planning of competitors because most of these decisions are taken within closed doors by the top management**.
  For example, Apple changed the market dynamics of the speaker industry by choosing to remove 3.5mm audio jack from iPhones. Now, to be relevant in the market, all major speaker brands had to put concentrated efforts to develop their own true wireless speakers (TWS) and compete with new entrants.

**Why do businesses opt for strategic management even with its limitation?**
Strategic Management is a time consuming and costly process, yet all organization's want to do indulge into it? Why?
Because even though it has its limitations, **its importance outweighs its shortcomings**. A business cannot operate and succeed without proper strategic management.

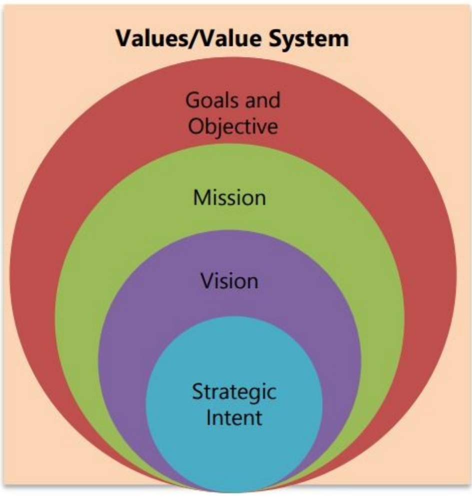
# STRATEGIC INTENT (VISION, MISSION, GOALS, OBJECTIVES AND VALUES)

**Strategic intent can be understood as the philosophical base of strategic management**.
**Strategic intent gives an idea of what the organisation desires to attain in future**.

## Elements of Strategic Intent.

**Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives**.

→ **At Corporate level , vision and mission statements for the organisation.**
→ **At business level,** "**business definition** and **business model**" of the organisation.
→ **At Operational Level**, "**goals and objectives**".




**Component of Strategic Intent**

1. **Vision**: Vision implies the **blueprint of the company's future position**. It describes **where** the organisation wants to land. It depicts the **organisation's aspirations** and provides a glimpse of **what the organisation would like to become in future**. Every sub system of the organisation is required to follow its vision.
   For instance,
   **Henry Ford's vision** of a **car in every garage**
   **HDFC Bank Ltd.,** - **being a world class Indian bank**. This vision helps them keep in mind, "**where we want to go",**
   **Apple Inc.'s** - **"We believe that we are on the face of the earth to make great products, and that's not changing."**
   **ICAI**- "**To be World's leading accounting body**, A regulator and developer of trusted and

   Essentials of a strategic vision
   - **It think creatively**.
   - **It intelligent entrepreneurship**.
   - It creates **enthusiasm among the members of the organisation**.
   - It clearly illuminates the **direction in which organisation is headed**.

2. **Mission**: '**what business are we in &what we do'**.
   - **Its goals and ways to reach the goals**.
   - **It explains the reason for the existence of the firm in the society.**
   - It help potential shareholders and investors understand the **purpose of the firm.**
   - It defines the present capabilities, activities, customer focus and role in society along with future aspiration.

   Following points are useful while writing a mission of a company:
   - Mission statement is to **give the organisation its own**
     → **special identity**,
     → **business emphasis and**
     → **path for development** –

   Mission Statement should set apart from other similarly positioned companies.
   - **Mission Statement is defined by**
     → what **needs** it is trying to satisfy,
     → which **customer groups** it is targeting and
     → the **technologies and competencies** it uses and
     → the **activities** it performs.
   - Good mission statements are – **unique** to the organisation for which they are developed.
   - Mission should **not take Profit.**

**According to Peter Drucker**, every organisation must ask an important question
- **"What business are we in?"** and get the correct and meaningful answer.
- The answer should have **marketing or external perspective** and should not be restated to the **production or generic activities of business**. The table given below will clarify and highlight the importance of external perspective.

**What business are we in?**

| Company | Production-oriented answer | Marketing-oriented answer |
|---|---|---|
| Indian Oil | We produce oil and gasoline products. | We provide various types of safe and cost-effective energy. |
| Indian Railways | We run a railroad. | We offer a transportation and material-handling system. |
| Lakme | In the factory, we make cosmetics. | In the retail outlet, we sell hope. |

## 3. Goals and Objectives:

**Goals are the end results, that the organisation attempts to achieve.**

Thus, the **Goals are-**

→ **They are open-ended attributes.**
  Ex: Should provide world class services to my customers.

→ **They is no time restriction for performance.**

→ **They focus on end results of organisation.**

→ **They represent future states or outcomes.**

**objectives are time-based measurable targets, which help in the accomplishment of goals.**

Thus, the **Objectives are-**

→ **They are close-ended attributes**
  Ex: Should finish the portions/classes two months before exams.

→ **They are time based measurable targets.**

→ **They translate the goals to both long term and short-term perspective.**

→ **There pursuit of objective is unending process** (New objective keeps appearing once we finish existing)

→ **They are organisation's performance targets – the results and outcomes it wants to achieve.**

→ **They function as yardsticks for tracking an organisation's performance and progress.**

**Long-term objectives**:

- Profitability
- Productivity
- Competitive Position
- Employee Development
- Employee Relations
- Technological Leadership
- Public Responsibility

**Note:**

**The vision, mission, business definition, and business model explain the philosophy of the organisation but the goals and objectives represent the results to be achieved in multiple areas of business.**

## 4. Values/ Value System:

- Values are **deep rooted guiding principles which guides decisions & actions in the organisation, it creates** a **sense of shared purpose to build a strong foundation and focus on longevity of the company's success**.

**But why are values so important?**

→ A company's value **sets the tone for how the people think and behave**, especially in situations of dilemma/confusion/problem.

→ **Employees prefer to work with employers whose values resonate with them -** the ones they can relate to in their daily work and personal life.

→ **Majority of consumers say that they would prefer to buy products and services from companies that have a purpose that reflects their own value and belief system**.

→ Hence, values have both internal as well as external implications.

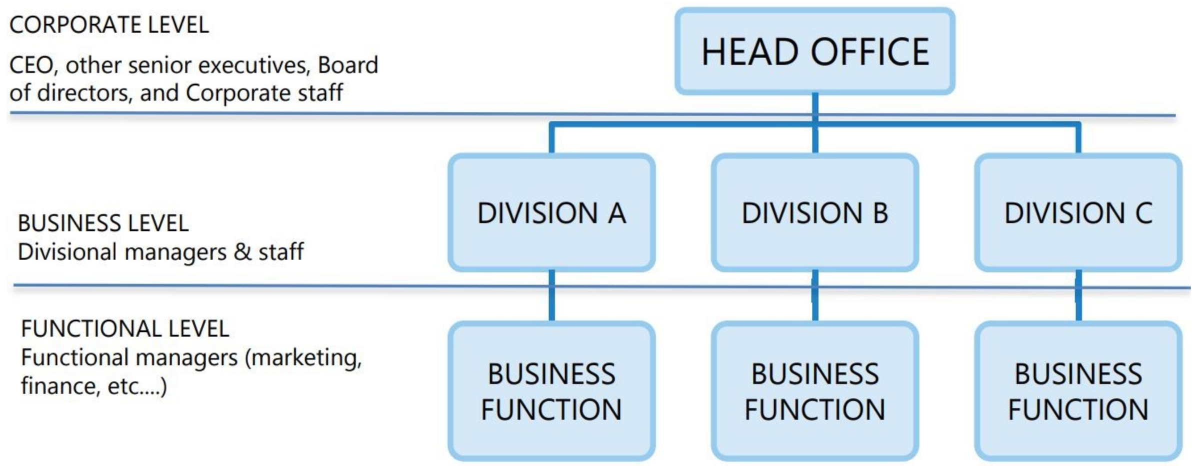
**Intent vs Values - Which is a broader concept?**

Values and Intent are two different concepts. **Intent is the purpose of doing business while values are the principles that guide decision making of business**. They both go hand in hand, **while the intent is sometimes driven by values**. So values more or so is wider than Intent.

## STRATEGIC LEVELS IN ORGANISATIONS

Generally, there are three main levels of management:

- Corporate level
- Business level
- Functional level




**The corporate level of management** consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals participate in strategic decision making within the organization.

→ **The role of corporate level managers** is to **oversee the development of strategies** for the whole organization. This role includes defining the **mission and goals** of the organization, determining what businesses it should be in, **allocating resources** among the different businesses, **formulating and implementing strategies** that span individual businesses, and providing **leadership** for the organization as a whole.

## Business level managers.

The responsibility to develop strategies for competing in the individual business areas. The development of such strategies is the responsibility of those in charge of different businesses.

An organization is divided into a number of segments that work together to bring a particular product or service to the market.

→ If a company provides several and/or different kinds of products or services, **it often duplicates these functions and creates a series of self-contained divisions** (each of which contain its own set of functions) to manage each different product or service.

→ **The general managers** of these divisions then become responsible for their particular product line. The overriding concern of the divisional managers is healthy growth of their divisions.

→ They are responsible for deciding how to create a competitive advantage and achieve higher profitability with the resources and capital they have at their disposal.

→ Such divisions are called **Strategic Business Units (SBUs).**

**The principal general manager at the business level, or the business-level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.**

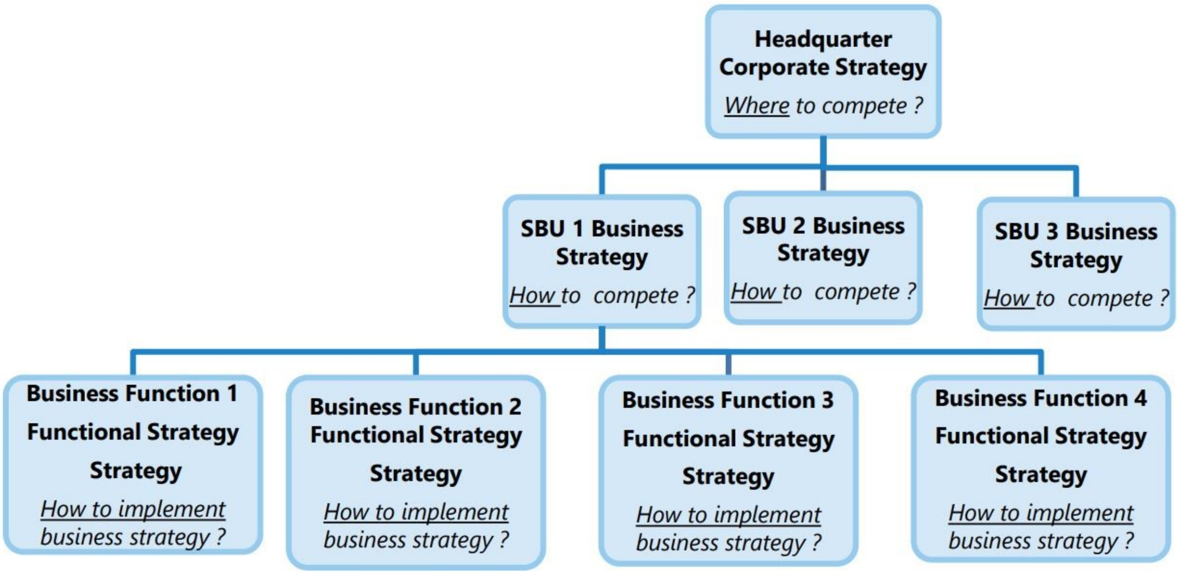
Note: Thus, whereas corporate-level managers are concerned with strategies that span **individual businesses**, business-level managers are concerned with strategies that are specific to a **particular business.**

**Functional-level managers** are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions.

- Thus, **a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division**.

**Functional managers** provide most of the information that makes it possible for business- and corporate-level general managers to **formulate realistic and attainable strategies**.

- Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company.
- **It is important for general managers to listen closely to the ideas of their functional managers**. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business-level plans.




**Which is better - Top Down Approach or Bottom-Up Approach?**
Do you know the concepts of Top-Down and Bottom-Up approach of decision making? A top-down approach to decision making is when decisions are made solely by leadership at the top i.e. corporate level of management, while the bottom-up approach gives all teams across the levels a voice in decision making.

Network of relationship between the three levels
There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;

- **Functional and Divisional Relationship:** It is an independent relationship, **where each function or a division is run independently headed by the function/division head, who is a business level manager**, reporting directly to the business head, who is a corporate level manager. Functions maybe like Finance, Human Resources, Marketing, etc. while Divisions may depend on the products like for a toys manufacturer - kids toys, teenager toys, etc. could be divisions.

- **Horizontal Relationship**: All positions, **from top management to staff-level employees, are in the same hierarchical position.** It is a **flat structure** where everyone is considered at same level. This leads to openness and transparency in work culture and focused more on idea sharing and innovation. This type of relationship between levels is more **suitable for startups** where the need to share ideas with speed is more desirable.

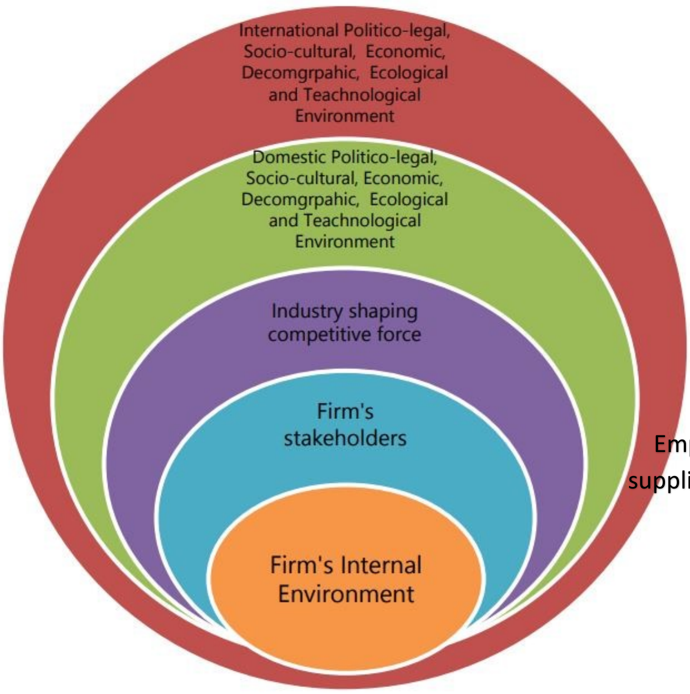
- **Matrix Relationship:** It features a grid-like structure of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects. This relationship helps manage huge conglomerates with ease where it is nearly impossible to track and manage every single team independently. In Matrix relationship - there are more than one business level managers for each functional level teams. It is complex for smaller organisations, but extremely useful for large organisations.

# Chapter-2
# STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT

The process of strategic formulation **begins with a strategic analysis**.
Its objective is to **compile information** about **internal and external environments** in order to assess possibilities while formulating strategic objectives and understanding strategic activities.

**In this chapter various aspects of external environment are covered with the perspective of strategic analysis.**

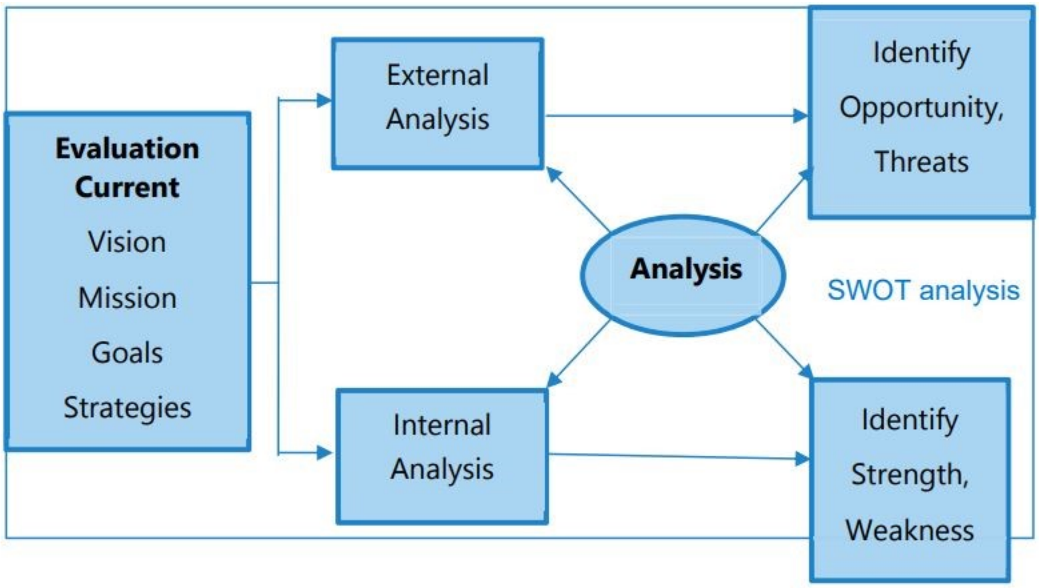
- We will understand how to **identify and tackle strategies to adapt within complex and turbulent external environment**




<u>Stakeholders are</u>:
Employees, customers, shareholders, suppliers, communities, and governments

## <u>STRAGIC ANALYSIS</u>

- Strategy formulation is not a task in which **managers can get by with intuition**, **opinions, instincts, and creative thinking**. **Judgments about what strategies to pursue need to flow directly from analysis of a firm's external environment and its internal resources and capabilities**
- **<u>Environmental scanning</u>** is a **natural and continuous activity** for every business and some do it on an informal basis, while others have a formal structure to **collect meaningful information**.
- **A systematic approach to environmental assessment is essential for managing risk and uncertainty.**
- **The strategic analysis is a component of business planning that has a**
  - → **methodical approach,**
  - → **makes the right resource investments, and**
  - → **may assist business in achieving its objective.**
- **It forces to think about the rivals and aids in the evaluation of business plans to stay ahead of the competition.**




- **Accurate diagnosis of the business situation is necessary for managerial preparation to**
  - → **decide on a sound long-term direction,**
  - → **setting appropriate objectives, and**
  - → **crafting a winning strategy.**

<u>There are two major limitations of strategic analysis that we need to be aware of:</u>

1. It gives a lot of innovative options but **doesn't tell which one to pick**. The options can be overlapping, confusing or **difficult to implement**.
2. It is **time consuming at times**, hurting overall organisational functioning and also strain other efficient innovations such as developing a new product or a service

<u>Issues to consider for Strategic Analysis</u>

1. **Strategy evolves over a period of time**:
2. **Balance of external and internal factors:**
3. **Risk (External risk & Internal risk)**

A broad classification of the strategic risk that requires consideration in strategic analysis is given below:

**Time**

| Strategic Risks | Short Time | Long Time |
|---|---|---|
| External | Errors in interpreting the environment cause strategic failure | Changes in the environment lead to obsolescence of strategy. |
| Internal | Organizational capacity is unable to cope up with strategic demands. | Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences |

**Figure: Strategic Risk**

**Short term external risk;** When we make a mistake in understanding external environment.
Example : Cadbury perk mint, Cheetos Lip balm, Vanilla Coke (It failed)




**Long term external risk;** Strategy becomes very old & not apt for present environment.
Example: Nokia, Kodak, Block baster.

**Short term internal risk**; Unable to meet the demand in market due to limited internal resources/ capacity to produce/perform.
Example; Unexpected boom in demand in economy.

**Long term internal risk**; Strategy is amazing but resources are drained up.
Example: Key persons have resigned.

## STRATEGY AND BUSINESS ENVIRONMENT

- To accomplish the goals and objectives of a business, business strategist creates strategies and formulate policies **considering both internal and external factors.**

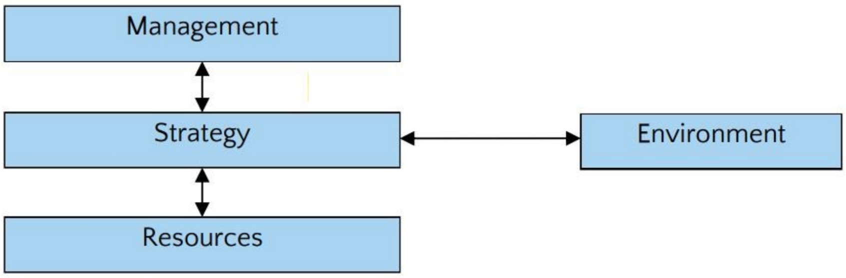



**Figure: Strategy and Environment**

- The business environment is **highly dynamic and continuously evolving**.
- The term "**business environment**" refers to **all external factors, influences, or situations** that in some way affect **business decisions, plans, and operations**. Organisational success is determined by its business environment, and even more from its relationship with it.

  **Importance of Business Environment**

  a) **Determine opportunities and threats:**
  b) **Give direction for growth:**
  c) **Continuous Learning:**
  d) **Image Building:**
  **e)** **Meeting Competition:**

# MICRO AND MACRO ENVIRONMENT

The external environment can be categorised in two major types as follows :

a) Micro environment
b) Macro environment

**Micro-environment** is **related to small area or immediate periphery** of an organization.

- It **influences an organization regularly and directly.**
- **Micro environment consists of suppliers, consumers, marketing intermediaries, competitors, etc.** These are specific to the said business or firm and **affect its working on a direct and regular basis**.

## Elements of Macro Environment

1) **Demographic Environment** :
   - It is **characteristics of a population** (**age, gender, and income**, **in order to understand the features of a specific group**).
   - It considers factors such as **race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education**.
   - **India has relatively younger population** as compared to many other countries. Many multinationals are interested in India considering its population size.

2) **Socio-Cultural Environment**
   - **social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society,** the extent of social stratification, conflict, cohesiveness and so forth.
   - It is the behaviour and the belief system of that population.
   - **The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.**

3) **Economic Environment :**
   - The **overall economic situation around the business** and include conditions at the **regional, national and global levels**.
   - **Resources**, **their costs, dependability, quality, and availability**.
   - **The strength and size of the market**.
   - The **purchasing power** in an economy (**Income distribution pattern, current income, prices, savings, circulation of money, debt and credit availability**).
   - **Higher interest rates are detrimental/ harmful for the businesses with high debt**.

4) **Political-Legal Environment** :
   - **political development** (**business and economic issues have been politicised)**
   - the degree of **political morality, state of law and order**, **political stability, the political ideology and practises of the ruling party.**
   - the scope and **type of governmental intervention in the economy and industry**.

5) **Technological Environment :**
   - **Technology has changed the way people communicate and do business.**
   - **Technology has also changed the ways of how businesses operate now. Technology and business are linked and are interdependent on one another.**
   - **Businesses use new discoveries to adapt themselves for the advancement of society.**

Ex: Waymo (driverless Jaguars in Miami, US)

- **This helps to reduce costs of companies, and shrink time and distance**.

## PESTLE– A tool to Analyse Macro Environment

| | |
|---|---|
| P- Political | T- Technological |
| E- Economic | L- Legal |
| S- Socio-cultural | E- Environmental |

The PESTLE analysis is simple to understand and quick to implement, it encourages management into proactive and structured thinking in its decision making.

**Political factors** are **how and to what extent the government intervenes in the economy and the activities of business firms.** Political factors may also influence goods and services which the government wants to provide or be provided and those that the government does not want to be provided.

**Economic factors** have major impacts on how businesses operate and take decisions.
For example, **Interest rate**, **Exchange rates, the money supply, inflation, credit flow, per capita income, growth rates** have a bearing on the business decisions.

**Social factors** affect the demand for a company's products and how that company operates.

**Technological factors** can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. **Furthermore, technological shifts can affect costs, quality, and lead to innovation.**

**Legal factors** affect how a company operates, its costs, and the demand for its products, ease of business.

**Environmental factors** affect industries such as **tourism, farming, and insurance**. Growing awareness to climate change is affecting how companies operate and the products they offer--it is both creating new markets and diminishing or destroying existing ones.

## Internationalization of Business :

It enables a business to **enter new markets in search of greater earnings and less expensive resources**.

- It enable a **business to achieve greater economies of scale and extend the lifespan of its products.**
- **International processes are much more complicated due to additional variables and linkages.**
- The development of effective strategies and the formulation of global strategic objectives are made feasible by internationalisation.

**Characteristics of a global business** : (ORS)

1. **Common ownership**
2. **Common pool of resources**, such as money, credit, information, patents, trade names and control systems.
3. **common strategy,** its managers and shareholders are also based in different nations.

The steps in international strategic planning are as follows :

a) **Evaluate global opportunities and threats** and rate them with the internal capabilities.
b) **Describe the scope** of the firm's global commercial operations.
c) Create the firm's **global business objectives**.
d) **Develop distinct corporate strategies** for the global business and whole organisation.

**Why do businesses go global?**

Reasons why companies go global. These are explained as follows :

- **Need to grow**.
- **Rapid shrinking of time and distance across the globe**.
- **Domestic markets are no longer adequate**.
- **Need for reliable or cheaper source of raw-materials, cheap labour, etc**. (**vast pool of talent).**
- Companies often set up overseas plants to **reduce high transportation costs**.
- When **exporting organisations find foreign markets to open up or grow big.**
- The trend is towards **increased privatization of manufacturing and services sectors, less government interference** in business decisions
- The **trade tariffs and custom barriers are getting lowered**, resulting in increased flow of business.
- Globalization has made companies in different countries to form **strategic alliances to ward off economic and technological threats and leverage** their respective comparative and competitive advantages.

## International Environment

**The social, cultural, demographic, environmental, political, governmental, legal, technological factors** that an **international organisation faces are nearly limitless and complexity of these factors increase manifold as the number of products produced and geographic areas served increase**.

Assessments of the international environment can be done at three levels:

1. Multinational level
2. Regional Level
3. Country Level

**Multinational level**

→ Identifying, anticipating, and monitoring significant components of the **global environment on a large scale**.
→ Understanding global developments covering economic and other macro elements is important.
→ Governments may have free or interventionist tendencies in economies that needs to be carefully considered. These characteristics are evaluated based on their present and expected future impact.

**Regional Level**

It is **more in-depth evaluation of the critical factors in a specific geographical area**. The emphasis would be on **discovering market opportunities** for a goods, services, or innovations in the chosen location.

Note:
Multinational level operate in multiple countries, while regional levels are more focused on a specific region or geographical area.

**Country Level**

Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful. The analysis must be **customised for each of the countries** to develop effective market entrance strategies.

## UNDERSTANDING PRODUCT AND INDUSTRY

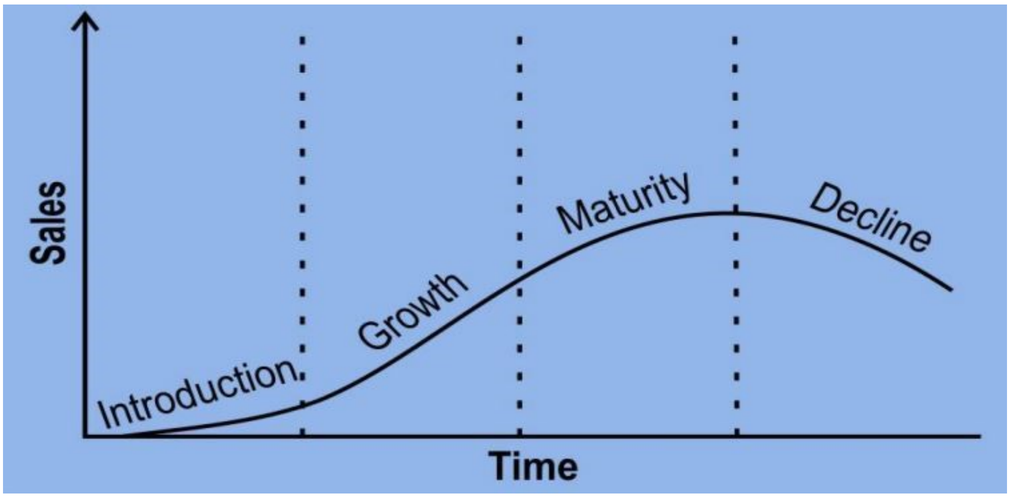
Businesses sell products. A product can be either a good or a service. It might be physical good or a service, an experience. Business products have certain characteristics as follows :

1. **Products are either tangible or intangible**. A tangible product can be handled, seen, and
2. **Product has a price**.
3. **The price that may be paid is determined by the market, the quality, the marketing, and the targeted group.**
4. **On account of competition**,.
5. **Products have certain features that deliver satisfaction**. **(customer's cumulative experience** with a product from its purchase to the end of its useful life is an important component of a product feature).
6. **Product is pivotal (Main focus of biz) for business. The product is at the centre of business around which all strategic activities revolve**.
7. **A product has a useful life.**

## Product Life Cycle

**PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction, growth, maturity and decline**.
If businesses are substituted for product, the concept of PLC could work just as well.

- **The first stage of PLC** is the introduction stage with **slow sales growth**, in which competition is almost negligible, **prices are relatively high**, and **markets are limited**. The growth in sales is at a lower rate **because of lack of awareness** on the part of customers.
- **The second phase of PLC** is growth stage with **rapid market acceptance**. In the growth stage, the **demand expands rapidly**, **prices fall**, competition increases, and market expands. The customer has knowledge about the product and shows interest in purchasing it.
- **The third phase of PLC** is maturity stage where there is **slowdown in growth rate**. In this stage, the competition gets tough, and market gets stablised. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.
- **In the fourth stage of PLC** is declines with sharp downward drift in sales. **The sales and profits fall down sharply due to some new product replaces the existing product**. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.




## Value Chain Analysis

**It was propounded by "Michael Porter".**

**"It is a method of examining each activity in value chain of a business in order to identify areas for improvements".**

- We must analyse how **each stage** in the process **adds or subtracts**(After sales service) value from the end product or service.
- This analysis could be used to **improve the sequence of operations**, **enhancing efficiency and creating a competitive advantage**.
- The two basic steps of
  → **identifying separate activities** and
  → assessing the **value added** from each

  were linked to an analysis of an organization's competitive advantage by "**Michael Porter".**
- **With each transaction, successful businesses produce value for their consumers** in the form of **satisfaction and profits** for themselves and their shareholders.
- It used **by strategists to break down each process that their business employs.**
- Value chain analysis can be **used by businesses of all sizes**, from sole proprietorships to multinational organisations.

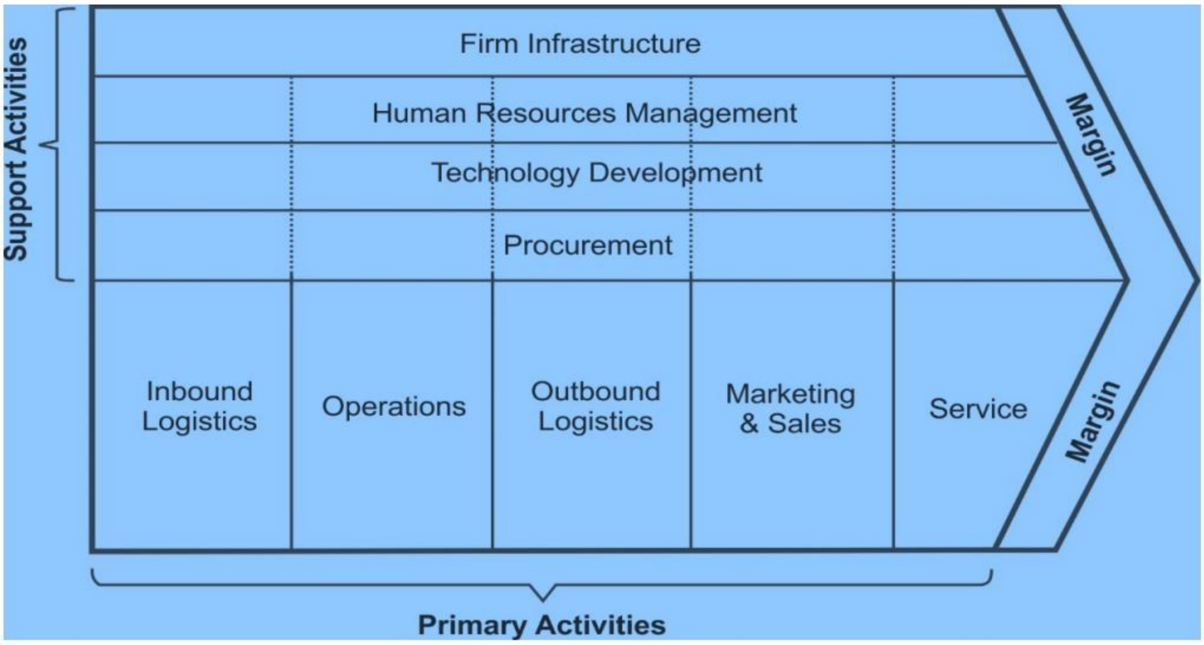



**Figure: Value Chain (Michael Porter)**

The **Primary activities** of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

a) **Inbound logistics**:- **receiving, storing and distributing the inputs** to the product/service. This includes materials handling, stock control, transport etc. Like, **transportation and warehousing**

b) **Operations transform** these **inputs into the final product** or service: machining, packaging, assembly, testing, etc. convert raw materials in finished goods.

c) **Outbound logistics** **collect, store and distribute the product to customers**. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g. sports events).

d) **Marketing and sales** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on.

e) **Service** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares (**After Sales services**).

**Support activities**. These can be divided into four areas;

f) **Procurement** :**Acquiring the various resource** inputs to the primary activities (

g) **Technology development** : All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the **product** (e.g. R&D product design) or with **processes** (e.g. process development) or with a **particular resource** (e.g. raw materials improvements).

h) **Human resource management** :It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization

i) **Infrastructure** : The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities.

# INDUSTRY ENVIRONMENT ANALYSIS

"It is to **estimate the amount of competitive pressures** the business is presently facing and is expected to face in the near future"

(**Understanding the attractiveness & profitability of business).**

- Industry analysis **enable strategic understanding about the entire state of any industry and make decisions about whether the industry is a lucrative or not**.
- The analysis entails **seeing the firm in the context of a bigger framework**.

## Porter's Five Forces Model :

- **Porter's Five Forces analysis is a simple but efficient way for**
  - → determining the **key sources of competition** in business or industry.
  - → systematically diagnose the **significant competitive pressures** in a market and **assess the strength and importance** of each.
- Understanding the variables that affect industry helps to
  - → **Adapt strategy,**
  - → **Boost profitability, and**
  - → **Stay ahead of the competition**.
- **"Michael Porter"** believes that the **basic unit of analysis for understanding is a group of competitors producing goods or services that compete directly with each other**

- The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps :

  **Step 1 :** Identify the specific **competitive pressures associated with each of the five forces.**

  **Step 2 :** Evaluate **how strong the pressures comprising each of the five forces** are (fierce, strong, moderate to normal, or weak).

  **Step 3 :** Determine whether the **collective strength** of the five competitive forces is **conducive to earning attractive profits.**

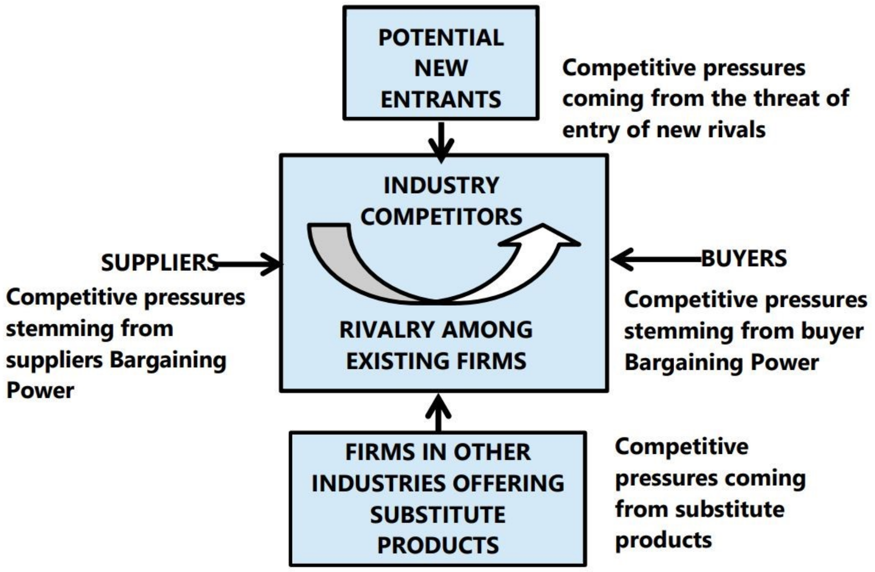



**Figure: Porter's Five Force Model of Competition**

By applying Porter's five forces model of industry attractiveness to their own industries, the manager can gauge their own firm's strengths, weaknesses, and future opportunities.

**1) The Threat of New Entrants:**

- New entrants **can reduce industry profitability** because they **add new production capacity** leading to an **increase supply** of the product even at a **lower price** and can substantially erode existing firm's market share position.
  - → **New entrants are always a powerful source of competition**.
  - → **Bigger the new entrant, the more severe the competitive effect**.
- **To discourage new entrants, existing firms can try to raise barriers to entry**.

  Common barriers to entry include:

  i. **Capital Requirements**
  ii. **Economies of Scale**
  iii. **Product Differentiation**
  iv. **Switching Costs**
  v. **Brand Identity**
  vi. **Access to Distribution Channels**
  vii. **Possibility of Aggressive Retaliation**

**2) Bargaining Power of Buyers:**

- The bargaining power of the buyers influences **not only the prices that the producer can charge but also influences on costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer (lower prices or better services)**

  i. Buyers have full knowledge of the **sources of products and their substitutes**
  ii. They spend a lot of money on the industry's products i.e. they are **big buyers**
  iii. The industry's product is not critical to the buyer's needs and buyers can easily switch to the substitutes available.

**3) Bargaining Power of Suppliers**

- **If the suppliers are also limited in number** they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and therefore, industry attractiveness and profitability.
- Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when :

  **i. Their products are crucial to the buyer and substitutes are not available.**
  **ii. They can erect high switching costs.**
  **iii. They are more concentrated than their buyers.**

**4) The Nature of Rivalry in the Industry**

- The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability, **costs of suppliers, distribution and of attracting customers and thus directly affect the profitability**. **The more intensive the rivalry, the less attractive is the industry**. Rivalry among competitors tends to be cutthroat and industry profitability low under various conditions explained as follows :

  i. **Industry Leader :** A strong industry leader can discourage price wars by disciplining initiators of such activity.
  ii. **Number of Competitors:** Even when an industry leader exists, the leader's ability to exert pricing discipline diminishes with the increased number of rivals in the industry as communicating expectations to players becomes more difficult.
  iii. **Fixed Costs :** When rivals operate with high fixed costs, they feel strong motivation to utilize their capacity and therefore are inclined to cut prices when they have excess capacity.
  iv. **Exit Barriers :** Rivalry among competitors declines if some competitors leave an industry. Profitability therefore tends to be higher in industries with few exit barriers.

v. **Product Differentiation** : Firms can sometimes insulate themselves from price wars by differentiating their products from those of rivals. As a consequence, profitability tends to be higher in industries that offer opportunity for differentiation. Profitability tends to be lower in industries involving undifferentiated commodities.

vi. **Slow Growth:** Industries whose growth is slowing down tend to face more intense rivalry. As industry growth slows, rivals must often fight harder to grow or even to keep their existing market share. The resulting intensive rivalry tends to reduce profitability for all.

**5) Threat of Substitutes**

- Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry and they can bring it about all of a sudden.
- Firms must search for products that perform the same, or nearly the same, function as their existing products.

  **For example,** Real estate, insurance, bonds and bank deposits for example are clear substitutes for common stocks, because they represent alternate ways to invest funds.

## Attractiveness of Industry :

The industry analysis culminates into identification of **various issues and draw conclusions about the relative attractiveness or unattractiveness of the industry**, both near-term and long-term. Strategists assess the industry outlook carefully, deciding whether industry and competitive conditions present an **attractive business opportunity** for the organisation or whether its **growth and profit prospects are gloomy**.

The important factors on which the management may base such conclusions include :

i. The industry's **growth potential**, is it futuristically viable?

ii. Whether competition currently permits **adequate profitability** and whether competitive forces will become stronger or weaker?

iii. Whether industry **profitability will be favourably or unfavourably** affected by the prevailing driving forces?

iv. The **competitive position** of an organisation in the industry and whether its position is likely to **grow stronger or weaker**.

v. The potential to **capitalize on the vulnerabilities of weaker rivals**

vi. The **degrees of risk and uncertainty** in the industry's future

vii. The severity of problems confronting the industry as a whole

## Experience Curve :

- **Experience curve akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work**. Experience curve is based on the commonly observed phenomenon that **unit costs decline as a firm accumulates experience** in terms of a cumulative **volume of production**. It is based on the concept, **"we learn as we grow".**

  "Large and successful organisation possess stronger "**experience effect**".

**A typical experience curve may be depicted as follows:**

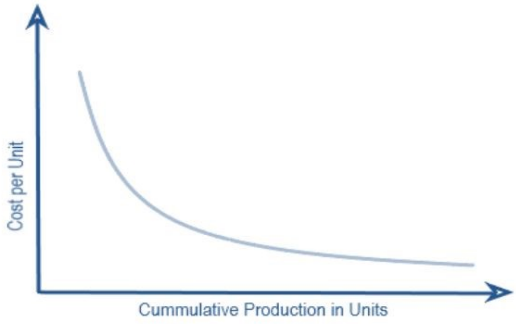


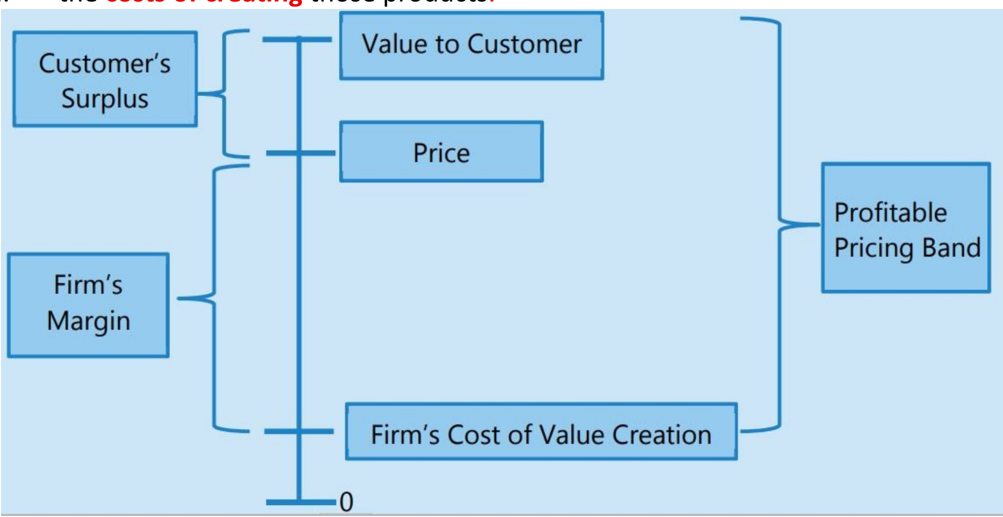

**Figure: Experience curve**

- In the contemporary Indian automobile industry, the experience curve phenomenon seems to be working in **Maruti Suzuki**. The likely strategic choice for competitors can be a market niche approach or segmentation based on demography or geography.

## Value Creation :

- The concept of value creation was introduced primarily for **providing products and services to the customers with more worth.** **Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay**.
- Many businesses now focus on value creation both in the context of creating better value for **customers purchasing** its products and services, as well as for **stakeholders** in the business who want to see their investment in business appreciate in value.
- Thus, we can say that the value creation is an activity or performance by the firm to create value that **increases the worth of goods, services, business processes or even the whole business system**.
- Competitive advantage leads to **superior profitability**. At the most basic level, how profitable a company becomes depends on three factors :

i. the **value customers place on the company's products**;
ii. the **price** that a company charges for its products; and
iii. the **costs of creating** those products.



- Companies are ultimately aiming to achieve "**sustainable competitive advantage"**, which enables them to succeed in the long run. 'Michael Porter argues that a company can generate competitive advantage in two different ways, **either through differentiation or cost advantage'**.
- **According to Porter's, differentiation** means the **capability to provide customers superior and special value in the form of product's special features and quality or in the form of aftersales customer service**. As a result of differentiation, a **company can demand higher price** for its products or services. A company will earn **higher profits** due to differentiation in case the expenses stay comparable to the costs of competitors.
- The **value consumer wants to pay, over and above the price** that the business wants to charge from the consumer. This excess amount is called value creation, **wherein the consumers value the product or service more than it actually costs them.**

# MARKET AND CUSTOMER

A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for a price. The **market might be physical**, such as a departmental store where people engage in person. They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal. In addition to this broad definition, the term market can apply to a wide range of contexts.

For example**, it might be used to describe the stock exchange**, **where securities are traded.** It may also refer to a group of individuals trying to buy a specific commodity or service in a specific place, such as grain or vegetable market where farmers come to sell their produce. It may also be used to define a business or industry, such as the global oil market.

- While the market is a place, business strategist work on marketing to improve the chances of success. The term "**marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution**. Often market activities are categorised and explained in terms of four **Ps of marketing – product, place, pricing, and promotion.** These four kinds of marketing activities help marketers identify customer needs so they may meet their demands and deliver satisfaction.
- **Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the main goals of marketing.**
- The orientation of product marketing has evolved and acquired different dimensions centred around product, production, sales and customers. Businesses that have product orientation think that buyers will choose those **products that have the best quality**, **performance, design, or features.**

  **Production- oriented businesses** that believe that customers choose low price products.

  **Sales- oriented businesses** believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.

## Customer :

A customer is a **person or business that buys products or services from another organisation**. Customers are important because **they provide revenue and organisations cannot exist without them.**

All businesses vie for customers, either by aggressively marketing their products or by lowering their pricing to boost their customer bases.

The terms customer and consumer are practically synonymous and are frequently used interchangeably.

- There is, however, a thin distinction. **Individuals or businesses that consume or utilise products and services are referred to as consumers. Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers**. In homes groceries are often bought by a parent and consume by all the members of family.

## Customer Analysis :

- **It identifies target clients, determines their wants, and then defines how the product meets those needs.**
- It involves the **examination and evaluation of consumer needs, desires, and wants**.
- Customer analysis includes
  - → the administration of customer surveys,
  - → the study of consumer data,
  - → the evaluation of market positioning strategies,
  - → development of customer profiles, and
  - → the selection of the best market segmentation techniques.

  Using the facts generated by customer analysis, an effective profiling of customers may be established. Customer profiles can reveal **demographic information about customers.**

## Customer Behaviour

Customer behaviour moves beyond the identification of customers to explain **how they purchase products.**

It examines elements like

→ **shopping frequency,**

→ **product preferences, and**

→ **the perception of your marketing, sales, and service offerings**.

- **Understanding above details allows businesses to communicate with customers in an effective manner.**
- **Understanding the behaviours of customers enables businesses to establish effective marketing and advertising campaigns, provide products and services that meet their needs, and retain customers for repeat sales.**
- Consumer behaviour is influenced by:

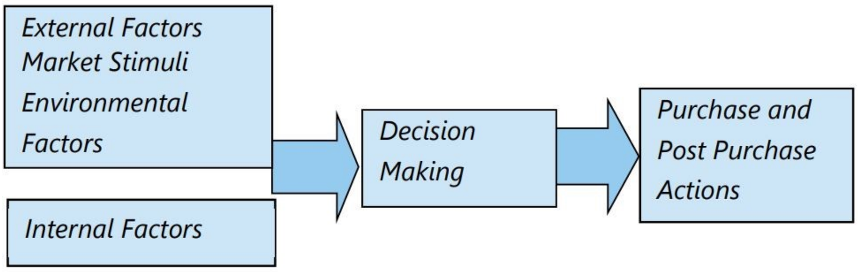



**Figure: Process of consumer behaviour**

a) **External Influences** : External influences, like **advertisement, peer recommendations or social norms,** have a direct impact on the psychological and internal processes that influence various consumer decisions. The focus of external effects have an impact on customers as to which needs to satisfy and which products to use.

b) **Internal Influences :** They are **psychological factors internal to customer** and affect consumer decision making.

c) **Decision Making :** A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product.

The stages of decision making process can be described as :

i. **Problem recognition**, i.e., identify an existing need or desire that is unfulfilled.
ii. Search for **desirable alternative** and list them.
iii. Seeking information on available **alternatives** and weighing their pros and cons
iv. Make a **final choice**

**d) Post-decision Processes :** After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome. **The consumer's reaction may vary depending upon the satisfaction**. While a **happy customer may make repeat purchase** and **recommend to others**, **customer with dissonance will neither purchase the product again nor recommend it to others**.

## COMPETITIVE STRATEGY

- **Businesses compete with each other for the same set of resources and customers.** Within a industry, competition is frequently encouraged with the wider goal of attaining and achieving **higher quality services** or **superior goods** that the firm may manufacture or develop.
- **The competitive strategy of a business is concerned with how to compete in the business areas in which the organization operates.**
  **In other words, competitive strategy defines how a firm expects to create and sustain a competitive advantage over competitors.**
- **Having a competitive advantage over competitors means being more profitable in the long run**.
- Porter's five forces model is useful in understanding the competition. It is a powerful tool for systematically **diagnosing the main competitive pressures in a market and assessing how strong and important each one is.** Not only is it the widely used technique of competition analysis, but it is also relatively easy to understand and apply.

## COMPETITIVE LANDSCAPE

- **Competitive landscape is a business analysis which identifies competitors, either direct or indirect.**
- Competitive landscape is about "**identifying and understanding the competitors**" and at the same time, the ability to understand **their(Competitors) vision, mission, core values, niche market, strengths and weaknesses**. Understanding of competitive landscape requires an application of **"competitive intelligence".**
- **An in-depth investigation and analysis of a firm's competition allows it to assess the competitor's strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage**. Thus, understanding the competitive landscape is important to build upon a competitive advantage.

Steps to understand the Competitive Landscape :

i. **Identify the competitor :** The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.
This answers the question :
   - Who are the competitors and how big are they?

ii. **Understand the competitors :** Once the competitors have been identified, the strategist can use **market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.**
This answers the question :
   - What are their product and services ?

iii. **Determine the strengths of the competitors :** What are the **strengths of the competitors**? What do they do well? Do they offer great products? Why are consumers liking their product/service? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business ?
This answers the questions :
   - What are their financial positions?
   - What gives them cost and price advantage?
   - What are they likely to do next?
   - How strong is their distribution network?
   - What are their human resource strengths?

iv. **Determine the weaknesses of the competitors :** Identify **the areas where the competitor is lacking or is weak.** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. Financial strength and weakness can always be learnt from annual reports.
This answers the question.
   - Where are they lacking ?

**v.** **Put all of the information together :** At this stage, **the strategist should put together all information about competitors and draw inference** about **what they are not offering and what the firm can do to fill in the gaps.** The strategist can also know the areas which need to be strengthen by the firm. (**Competitive intelligence)**
This answers the questions :
   - What will the business do with this information?
   - What improvements does the firm need to make?
   - How can the firm exploit the weaknesses of competitors?

## Key factors for competitive success (Basic things in the industry which should be stronger)

- An industry's Key Success Factors (KSFs) are those things that **most affect industry members' ability to prosper** in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them.
- Key success factors are the **prerequisites for industry success** or, to put it another way, KSFs are the factors that shape **whether a company will be financially and competitively successful.**

The answers to three questions help **identify an industry's key success factors** :

a) On **what basis do customers choose between the competing brands of sellers** ? What **product attributes** are crucial to sales ?

b) What **resources** and **competitive capabilities** does a seller need to have to be competitively successful, better human capital, quality of product or quantity of product, cost of service, etc. ?

c) What does it take for sellers to achieve a **sustainable competitive advantage**, something that can be sustained for long term ?

For example, in apparel/cloths manufacturing, the KSFs are a**ppealing designs and colour combinations** (to create buyer interest) and **low-cost manufacturing efficiency** (to permit attractive retail pricing and ample profit margins).

- Key success factors **vary from industry to industry** and even from time to time within the same industry as driving forces and competitive conditions change.
- The purpose of identifying KSFs is to make judgments about what things are **more important to competitive success and what things are less important**. To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

- They need to know what kind of resources are competitively valuable. Misdiagnosing the industry factors critical to long-term competitive success **greatly raises the risk of a misdirected strategy.**
- Indeed, business organisations that stand out on a particular KSF **enjoy a stronger market position** for their, efforts- being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. Hence, using the industry's KSFs as cornerstones for the company's strategy and trying **to gain sustainable competitive advantage** by excelling at one particular KSF is a fruitful competitive strategy approach.
- **Only rarely does an industry have more than three or four key success factors at any one time**. And even among these three or four, one or two usually outrank the others in importance.

# Chapter-3
# Strategic Analysis : Internal Environment

Internal environment refers to the **sum total of**

→ **People** – individuals and groups, stakeholders,
→ **Processes**- input-throughput-output,
→ **Physical infrastructure**- space, equipment and physical conditions of work,
→ **Administrative apparatus**- lines of authority & power, responsibility, accountability
→ **Organizational culture** **intangible aspects** of working- relationships, philosophy, values, ethics- that shape an organization's identity.

- Internal environment is specific (Different) to each organisation, based on its structure and business model and **includes all stakeholders like top management, investors, employees, board of directors, investors, etc.**

## UNDERSTANDING KEY STAKEHOLDERS

Who are Stakeholders and how do we identify them?

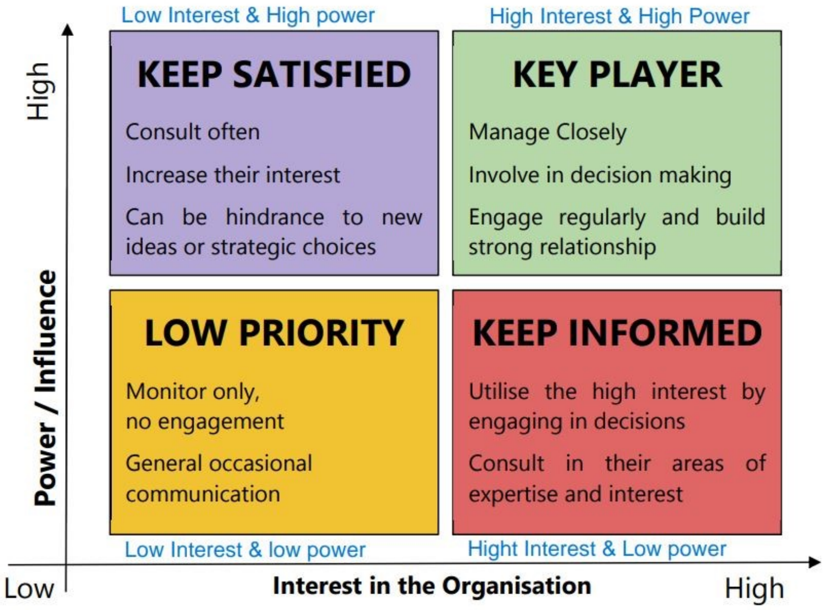
- A firm may be viewed as a collection of stakeholders-
  → All those individuals and entities that have a **stake/ "interest"** in its success. (Like employees, shareholders, investors, suppliers, customers, regulators).
  → Those who have the **"power" to influence the strategy or performance** of that organisation (CEO, MD/ Chairmen).
- It is important to first **identify the key stakeholders**. Each stakeholder exerts **a different level of influence and can have differing levels of interest** in the organisation.
  For example, an organisation involved in healthcare innovation needs to have a long-term perspective about its return on investment (ROI) as there may be a long time between investment into research timelines and a commercial outcome. While, **shareholders, whose main concern is quick profits**, may be more **hesitant to support the organisation spending funds on something that they may not see the return in the near future**.

### Mendelow's Matrix

- The Mendelow Stakeholder matrix (also known as the **Stakeholder Analysis matrix** and the **Power-Interest matrix**) is a simple framework to **help manage key stakeholders**.
- Managing a project is extremely complicated as it involves managing the competing interests of various stakeholders.
  → Who needs to **know what and when**,
  → who needs to **give their feedback**,
  → who has the **final approval**
  
  **can be confusing.**
  However, managing stakeholders is critical to the success of a project. This is where a stakeholder analysis matrix i.e. Mendelow's Matrix can help.
- Mendelow suggests that one should analyse stakeholder groups based on
  **Power** (the ability to influence organisation strategy or resources) and
  **Interest** (how interested they are in the organisation succeeding).
  A thing to remember is that all stakeholders may seem to have lots of **power** and organisation may hope they would have lots of **interest** too. But in reality, some stakeholders will hold more Power than others, and some stakeholders will have more Interest than others.

**Developing a Grid of Stakeholders**

- Mendelow's Matrix is based on Power and Interest. It suggests to identify **which stakeholders are incredibly important**. Metrics to define the importance being **High Power and High Interest** which management would need to manage closely, while investing a lot of time and resources. **For example, <u>the CEO</u>** is likely to have more Power to influence the work and also high interest in it being successful. **Keeping them informed almost daily should be a priority**.
- However, those stakeholders with **low power and low interest like <u>research institutes</u>** seeking an organisation data should be monitored rarely and minimum effort expended on them in terms of time and money.




In the above figure, we see categorisation of stakeholders into four groups by Mendelow's;

- **<u>KEEP SATISFIED Stakeholders</u>**: High power, less interested people - Organisation should put in enough work with these people to **'keep them satisfied'** with their intended information on a regular basis. For example, **banks, government, customers, etc**.
- **<u>KEY PLAYERS Stakeholders</u>:** High power, highly interested people - Organisation's aim should be to fully engage this group of stakeholders, making the **greatest efforts to satisfy them, take their advice, build actions and keep them informed with 'all' information on a regular basis**. For example, **Shareholders, CEO, Board of Directors, etc**
- **<u>LOW PRIORITY Stakeholders</u>:** Low power, less interested people - Organisation **should only monitor** them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while **'keeping an eye' to check if their levels of interest or power change**. For example, **business magazines, media houses, etc.**
- **<u>KEEP INFORMED Stakeholders</u>:** Low power, highly interested people - Organisation should adequately **'inform this group'** of people and communicate with them to ensure that no major issues arise. **Utilize their high interest by engaging in decision, consult in their areas of expert**. This audiences can also **help with real time feedbacks and areas of improvement** for an organisation. For example, **employees, vendors, suppliers, legal experts, etc**.

An important thing that strategists should be aware of, is the importance to remember that **environment is highly dynamic and certain things might happen that can cause stakeholders to suddenly move between quadrants.**

For example**, **an organisation might inadvertently contravene a regulation**, say GST compliance which would cause the regulatory body i.e. the Indirect Taxes Department to move from High Power, Low Interest to High Power, High Interest.**

Note:
It is always worth to re-analyse Mendelow's Matrix in the event of change in environment.

## STRATEGIC DRIVERS

- An important aspect of internal analysis is **assessing the current performance of the business**., & **the strategic drivers consider what differentiates an organisation from its competitors**.
- The key strategic drivers of an organisation include :
    - a) Industry And Markets
    - b) Customers
    - c) Products/Services
    - d) Channels

### A) Industry and Markets

- Similar companies are grouped together into industries.
- Basically, industry grouping is based on the **primary product** that a company makes or sells.
  For example, Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product and thus categorised into **Automotive Industry**.
  Similarly, Zara, H&M, Marks & Spencer, Pantaloons, Westside, Uniqlo, are all selling apparels and accessories for the youth, and thus categorised under **apparels industry.**
- **A market** is defined as the sum total of all the **buyers and sellers** in the area or region under consideration.
  - → The value, cost and price of items traded are as per forces of **supply and demand** in a market.
  - → The market may be a **physical entity** or may be **virtual** like e-commerce websites and applications.
  - → It may further be **local or global**, depending on which all countries the business sells its products in.

| **Is market the same for all businesses?** |
| --- |
| Market refers to all the buyers and sellers of a particular product/service and so it would be incorrect to say that market is the same for all businesses. Each business has its own set of customers i.e. market and more so, each product within a business has its own market. **For example,** for a FMCG brand selling Shampoos, Dairy Products, Flours, Washing Powder, etc. - each product line will have a separate market to cater to and therefore build strategies specific to the market of concern. |

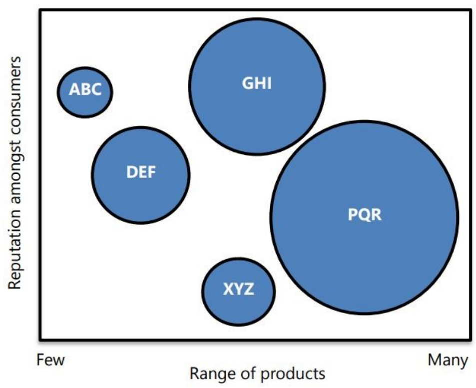
### Analysing Industry and Markets/ Strategic Group Mapping

- A **strategic group** consists of those **rival firms** which have **similar competitive approaches** and **positions in the market**. A tool to **study the market position of rivel competitors by grouping them into like position is SGM- Strategic Group Mapping**.
- Companies in the same strategic group can **resemble one another** in any of the several ways:
  - → they may have **comparable product-line**,
  - → sell in the **same price/quality** range,
  - → emphasize the **same distribution channels**,
  - → use essentially the **same product attributes** to appeal to similar types of buyers,
  - → depend on **identical technological** approaches, or
  - → offer buyers **similar services and technical assistance**.

"**Steps of SGM**"-

1. **'Identify' the competitive characteristics** that differentiate firms in the industry typical variables are;
   - → price/quality range (high, medium, low);
   - → geographic coverage (local, regional, national, global);
   - → degree of vertical integration (none, partial, full);
   - → product-line breadth (wide, narrow);
   - → use of distribution channels (one, some, all); and
   - → degree of service offered (no-frills- offering or including only the basic features without any unnecessary or added things, in order to keep the price low, limited, full).
2. **'Plot'** the firms on a **two-variable map** using pairs of these differentiating characteristics.
3. **'Assign'** firms that fall in about the same strategy space to the **same strategic group**.
4. **'Draw' circles** around each strategic group making the circles proportional to the size of the group's respective share of **total industry sales revenues**.

**Strategic Group Mapping**




**Explanation of Diagram (Strategic Group Mapping)**

## B) Customers

- Understanding the different types of customers **to whom the organisation's products/services are sold or provided**, is not only important but also the first step in deciding the product/service.
- **Different customers may have different needs** and require different sales models or distribution channels.

- The customers can be grouped under
  → high value buyers,
  → medium value buyers and
  → low value buyers

  based on the **amount they are willing to spend on a product**, thus helping the business understand their key customers and focus areas of improvement.
- Another interesting concept is the difference **between Customer and Consumer** - while a customer is the one buys a product/service, the consumer is the one who finally uses/consumes the bought product or service. For example - A parent buying stationery products for their kids might be the customers, but consumers of stationery are the kids who would actually use it. Thus, understanding both is important for the marketers.
- From a **pricing perspective - the customer is of more importance** and
- From **value creation and design/usability, consumer needs to be the kept at the center of decision making**.

## C) Product/Services

- Products and services are closely linked and interrelated with the markets that the **organisation wants to serve.**
  → business identifies the **key** products/ services that the organisation offers and
  → how those products/services are **performing**.
- It attempts to answer the general question:
  → **What business are we** in and
  → **what should be done to win over competition** in each product/service we serve.
- **Strategies are needed for managing existing product over time, adding new ones and dropping failed products.**
- The products can also be classified on the basis of;
  → industrial or consumer products,
  → essentials or luxury products,
  → durables or perishables.
- Some products have **consistent demand over long term**, while others have a **short term demand/ life span**.
- For a **new product**, **pricing strategies for entering a market** need to be designed and for that matter at least three objectives must be kept in mind :
  a) Have **customer-centric approach** while making a product.
  b) Produce **sufficient returns** through a reasonable margin over cost.
  c) **Increasing market share**.
- Organizations seek to hammer into customers' minds that their **products are different from others**. It does not matter whether the differentiation is real or imaginary. **Quite often the differentiation is psychological rather than physical**

  For example, Shampoos with different branding namely Head & Shoulders, Olay, Old Spice, Pantene are all produced by the **same company P&G.**
- Organizations formalize product differentiation through designating **'brand names'** to their respective products. These are generally reinforced with **legal sanction and protection**. **Brands enable customers to identify the product and the organization behind it**. **The products and even firms' image is built around brands through advertising and other promotional strategies.**
- **"Customers tend to develop strong brand loyalty for a particular product over a period of time".**

Products and services need heavy investment in reaching out to customers. Over the years, a number of marketing strategies have been evolved, which are given to handle marketing strategically and fight the competition in the market

1. **Social Marketing :** It refers to the **design, implementation, and control** of programs seeking to **increase the acceptability** of a **social ideas, cause, or practice among a target group** to bring in a **social change**.
   For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that **smoking is injurious to health**.
   Example: India Gate Basumathi rice & Marriage rice usage ritual. (To feed hunger in India).
   Jagho grahak jago (Consumer awarness), Beti bachav Beti padav (Female child educztion), swatch Bharath abhiyan.
2. **Augmented Marketing :** This type of marketing includes **additional customer services** and **benefits** that a product can offer **besides the core and actual product** that is being offered.
   Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
   Example: iCare extended warrant, Gym membership 12 months + Diet plan.
3. **Direct Marketing :** Marketing through various advertising media that **interact directly with consumers**, **generally calling for the consumer to make a direct response**. Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.
4. **Relationship Marketing :** The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. For example, Airlines offer **special lounges at major airports for frequent flyers.** Thus, providing special benefits to "**selected customers"** to **strengthen bonds**. It can go a long way in building relationships.
5. **Services Marketing :** It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is **essentially intangible.** This marketing requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.
   Example: First time users 10% discount (or) Post purchase, coupon code & next time you get 10% discount.
6. **Person Marketing :** People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards **particular person**. For example, **politicians, sports stars, film stars, etc**. i.e., market themselves to get votes, or to promote their careers.
7. **Organization Marketing :** It consists of activities undertaken to create, maintain, or change attitudes and behaviour of **target audiences towards an organization**. Both profit and non-profit organizations practice organization marketing. (Sugar free, chemical free )
8. **Place Marketing :** Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards **particular places** say, marketing of business sites, **tourism marketing**.
9. **Enlightened Marketing :** It is a marketing philosophy holding that a company's marketing should support the **best long-run performance of the marketing system** that is beyond the prevailing mindset; its five principles include **customer-oriented marketing (Pull customers through advt) , innovative marketing(Add new things) , value marketing (Car- Fuel efficient, safety) , sense-of-mission marketing (Product is sold for purpose & not for money, like women employment in village) , and societal marketing (For changing society, compostable bags v/s plastic bags)**.
10. **Differential Marketing :** It is a market-coverage strategy in which a firm decides to **target several market segments and designs separate offer for each**. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.

11. **Synchro-marketing :** When the demand for a product is **irregular due to season,** some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives. For example, Restaurant (Happy hours), products such as movie tickets can be sold at lower price over weekdays to generate demand.
12. **Concentrated Marketing :** It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form **of Niche marketing**. Ex: Rolls Royce car, Ferari
13. **Demarketing :** It includes marketing strategies to **reduce demand temporarily or permanently**. **The aim is not to destroy demand, but only to reduce or shift it**. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are overcrowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

## D) Channels :

Channels are the **distribution system by which an organisation distributes its product or provides its service**.

Examples;

a) **Lakme -** sells its products via **retail stores, intermediary stores** (like Nykaa, Westside, Reliance Trends), as well as **online mode** like amazon, flipkart, nykaa online and its own website.
b) **Boat Headphones** - only **online via e-commerce** platforms like flipkart and amazon.
c) **Coca Cola - retail shops** across the nation, in each district, each town as well as **online** mode via dunzo, blinkit, etc.

"All the above are the channels via which companies sell their products and services to the customers".

The **wider and stronger the channel the better position a business has to fight and win over competition**. Also, having robust channels of **business distribution** (Availability of product in every place in country) help **keep new players away from entering the industry**, **thus acting as barriers to entry**.

**There are typically three channels that should be considered:**

- **The sales channel -** These are the **intermediaries involved in selling the product through each channel** and ultimately to the end user. The key question is: **Who needs to sell to whom** for your product to be sold to your end user? For example, many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.
  **Ex:** Seller info in Amazon & Flipkart.
- **The product channel** - The product channel focuses on the **series of intermediaries who physically handle the product** on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores. Ex: DTDC Courier person will physically hand over the good.
- **The service channel** - The service channel refers to the entities that **provide necessary services to support the product**, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance.
  For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber (Installation).

## ROLE OF RESOURCES AND CAPABILITIES : BUILDING CORE COMPETENCY

- According to C.K. Prahalad and Gary Hamel, core competency as the **collective learning** in the organization.
- **Competency is defined as a combination of skills and techniques(in multiple area)** rather than individual skill or separate technique.
- Core competencies **cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources**. The optimal way to define core competence is to consider it as sum of 5- 15 areas of developed expertise.

- **According to C.K. Prahalad and Gary Hamel**, major core competencies are **identified in three areas**:
  a) Competitor differentiation,
  b) Customer value, and
  c) Application to other markets

**Competitor differentiation**.
- If the '**competence is unique'** and it is **difficult for competitors to 'imitate'**.
- This can provide a company an **edge** compared to competitors.
- The company has to **keep on improving these skills** in order to **sustain** its competitive position .
- Although all companies operating in the same market would have the equal skills and resources, **if one company can perform this significantly better**; the company has obtained a core competence.

For example, it is quite difficult to imitate patented innovation, like Tesla has been winning over competition in electric vehicles.

**Customer value,**
- When purchasing a product or service it has to **deliver a fundamental benefit** for the end customer in order to be a core competence **(Some thing different & creating value to customer)**.
- It will include all the **skills** needed to provide fundamental benefits. The service or the product has to have **real impact on the customer** as the reason to choose to purchase them.
- If customer has chosen the company **without this impact**, **then competence is not a core competence**, and it will not affect the company's market position.
- The essence is that the **consumer should value the differentiation offered**. Without it, the core competency does not make sense.

Example: Apple products- Quality, security, camara & software.

**Application of competencies to other markets.**

Core competence must be **applicable to the whole organization**; **it cannot be only one particular skill or specified area of expertise.**

Therefore, although some special capability would be essential or crucial for the success of business activity (Mobile- Calling & Camara are Key success factors of Industry), **it will not be considered as core competence** if it is not fundamental from the whole organization's point of view.

Thus, a core competence is a **unique set of skills and expertise**, which will be used throughout the organisation to **open up potential markets to be exploited**.

Ex: Siri

**"If the three above-mentioned conditions are met, then the company can regard it competence as core competency according to C.K. Prahalad and Gary Hamel "**

Other Important points of Core competencies

- **Core competencies are often visible in the form of organizational functions.**
  For example, Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.
  Surf excel- daag acche hai/ pour rub pour,
  Life boy- Tera saboon slow hai kya
  Dove- One side dove & other said normal soap
- **A core competency for a firm is whatever it does best :**
  For example: Wal-Mart focuses on lowering its operating costs. The cost advantage that Wal-Mart has created for itself has allowed the retailer to price goods lower than most competitors.(D-mart in India)
  The **core competency in this case is derived from the company's ability to generate large sales volume**, allowing the company to remain profitable with low profit margin.
  **Selling all products at lower price is not Core Competence, ability to have a large sales volume (Operational efficiency i.e., doing more work with less cost) is the core competence of Wal-mart/ D-Mart.**
- Core Competence represents **distinctive skills** as well as **intangible, invisible intellectual assets & cultural capabilities.**
  **Cultural capabilities** refer to the ability to manage change, the ability to learn and team working.

## Criteria for building a Core Competencies (CC) ?

**Four specific criteria of sustainable competitive advantage** that firms can use to determine those capabilities that are core competencies. Capabilities that are **valuable, rare, costly to imitate, and non-substitutable** are core competencies.

1. **Valuable :**
   Valuable capabilities are the ones **that allow the firm to exploit opportunities or avert the threats** in its external environment.
   **A firm created value for customers by effectively using capabilities to exploit opportunities.**
   Example: Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs.
   Human capital is important in creating value for customers.

2. **Rare :** Core competencies are very **rare capabilities** and **very few of the competitors possess this**. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when **firms develop and exploit valuable capabilities that differ from those shared with competitors**.
   Example: Apple iPhone camara and R&D done by them.

3. **Costly to imitate :** Costly to imitate means such capabilities that **competing firms are unable to develop easily.**
   For example, Intel has enjoyed a **first-mover advantage** more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much **more difficult to imitate the R&D cycle time capability**.

4. **Non-substitutable :** Capabilities that **do not have strategic equivalents** are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that **there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.**

**For example**, For years, firms tried to imitate Tata's low-cost strategy, but most have been unable to duplicate Tata's success. They did not realize that **Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.**

**For example,** Competitors are deeply aware about **Apple's operating system's (iOS)** successful model. However, to date no competitor has been able to imitate Apple's capabilities. **These are also protected through copyrights**.

**To sum up, we can say that only when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage. Over a time, core competencies must be supported.**

**Core competencies are a source of competitive advantage only when they allow the firm to create value by exploiting opportunities in its external environment.**

**Zero Customer Complaints!**
Airtel has its marketing campaign that talks about - Zero Customer Complaints. This is about creating a core competency of great customer service.

## COMBINING EXTERNAL AND INTERNAL ANALYSIS (SWOT ANALYSIS)

SWOT analysis is the analysis of a business's strengths, weaknesses, opportunities and threats. The primary objective of a SWOT analysis is to **help organizations develop a full awareness of all the factors (external as well as internal), involved in making a business decision.**

| **STRENGTH**<br>Build<br>In-herent capacity | **OPPORTUNITY**<br>Invest/capitalize<br>Favourable Condition |
|---|---|
| **WEAKNESS**<br>Minimize<br>In-herent limitation | **THREAT**<br>Neutralize/ Monitor<br>Un-favourable Condition |

a) It is Self-assessment

b) It is Internal & External assessment

c) Business analyse them self & competitors to prepare a business strategy
d) We convert WEAKNESS into STRENGHT
THREAT into OPPORTUNITY
e) STRENGTH + OPPORTUNITY will be aggressive and take decisions
f) WEAKNESS + THREAT situations likely to avoid.

## COMPETITIVE ADVANTAGE: USING MICHAEL PORTER'S GENERIC STRATEGIES

- Why do some companies succeed while others fail?
- Why did Hindustan Motors do so well for several decades ?
- How did Apple return from near obsolescence in the late 1990s and become the world leader and a dominant technology company of today?
- In the Indian airline industry, how has Indigo Airlines managed to keep increasing its revenues and profits through both good times and bad, while rivals struggled?

**If a company's strategies result in superior performance, it is said to have a competitive advantage.**

Competitive advantage allows a firm to **gain an edge over rivals when competing**. **'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'**

In other words, **an organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.**
**"If you don't have a competitive advantage, don't compete" - Jack Welch**

**Sustainability of Competitive Advantage :**
It depends upon four major characteristics-

1) **Durability :**
   - The **period over** which a competitive advantage is sustained depends in part on the '**rate'** at which a firm's resources and capabilities deteriorate. (It should deteriorate slow, should hold more period of time in a competitive advantage)
   - In industries where the **rate of product innovation is fast**, **product patents are quite likely to become obsolete.** (Land line phone, Tape recorder was replaced bcz of mobile phone invention)

2) **Transferability :**
   - Even if the **resources and capabilities on which a competitive advantage is based** are durable, it is likely to be eroded by competition from rivals. (Hotel Chef being dragged by Competitor hotel, due to which taste changed- Taste of the food was competitive advantage) Teacher & Gym trainers.
   - The **ability of rivals to attack** position of competitive advantage relies on their **gaining access to the necessary resources and capabilities**.
   - The **easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.**

3) **Imitability :**
   - If resources and capabilities **cannot be purchased** by a would-be imitator, then **they must be built from scratch**.
   - **How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability.**

4) **Appropriability :**
   - It is the ability of the **firm's owners** to **appropriate the returns on its resource base**.

   (Competitive advantage was built by the funds invested by investors/share holders, and how much of your profits/ returns are you sharing i.e., appropriating with investors & not just retaining them by org., for themselves)

## MICHAEL PORTER'S GENERIC STRATEGIES

These **Business level strategies** have been termed generic, because they can be pursued/implemented by any type or size of business firm and **even by not-for-profit organisations**.

**According to Porter**, strategies allow organizations to gain competitive advantage from three different bases: **cost leadership, differentiation, and focus**.
Porter called these base generic strategies.

1. **Cost leadership** emphasizes on producing **standardized products** at a **very low per-unit cost** for consumers who are price-sensitive. Ex: McDonald's, Decathlon
2. **Differentiation** is a strategy aimed at producing products and services considered **unique** industry-wide and directed at consumers who are relatively **price-insensitive**. Ex: Apple products.
3. **Focus** means producing products and services **that fulfil the needs of small groups of consumers with very specific taste.** Ex: Ultra rick ppl- Ferari, Royles Royes. (Beardo-Men's grooming & Diet Coke)

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems.

→ **Larger firms** with greater access to resources typically compete on a **cost leadership** and/or **differentiation basis**,

→ **Smaller firms** often compete on a **focus basis.**

| | | | |
|---|---|---|---|
| COMPETITIVE SCOPE | Broad Target | Cost Leadership | Differentiation |
| | Narrow Target | Focussed Cost Leadership | Focussed Differentiation |
| | | Low-Cost products/services | Differentiated products/services |
| | | COMPETITIVE ADVANTAGE | |

# COST LEADERSHIP STRATEGY

- It is a **low-cost competitive strategy** that aims at **broad mass market**.
- It requires **vigorous pursuit of cost reduction** in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs.
- Because of its lower costs, **the cost leader is able to charge a lower price for its products than most of its competitors and still earn satisfactory profits**.

  For example,
  - → McDonald's fast-food restaurants have successfully followed low-cost leadership strategy.
  - → Decathlon Group's mega sports stores have been following low-cost leadership strategy to gain international recognition and also beat competition.

Striving to be a low-cost producer in an industry can especially be effective,

1. when there are a **large number of buyers** with **significant bargaining power**
2. when **buyers do not care much about differences** from brand to brand
3. when the **market is composed of many price-sensitive buyers** and
4. When there are **few ways to achieve product differentiation**.

Note:
The basic idea is to **under price competitors** and thereby **gain market share** driving some of the **competitors out of the market.**

Some risks of pursuing cost leadership are;

a) that **competitors may imitate the strategy**, therefore driving overall industry profits down;
b) that **technological breakthroughs** in the industry may make the strategy ineffective; or
c) that **buyer interests may swing to other differentiating** features besides price.

**Achieving Cost Leadership Strategy :**

1. **Prompt forecasting of demand** of a product or service.
2. **Optimum utilization of the resources** to achieve cost advantages.
3. Achieving **economies of scale**; thus, lower per unit cost of product/service.
4. **Standardisation** of products for **mass production** to yield lower cost per unit. (Example of McDonald's)
5. **Invest in cost saving technologies and using advance technology** for smart efficient working.
6. **Resistance/staying away** from differentiation till it becomes essential.

**Advantages of Cost Leadership Strategy**

A cost leadership strategy may help to remain profitable even with (Porters 5 forces) rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. **Rivalry** – Competitors are likely to **avoid a price war**, since the low-cost firm will continue to earn profits even lowering price.
2. **Buyers** – Powerful buyers/customers **would not be able to exploit** the cost leader firm and will continue to buy its product.
3. **Suppliers** – Cost leaders are **able to absorb greater price increases from suppliers** before they need to raise prices for customers.
4. **Entrants** – Low-cost leaders **create barriers to market entry** through their continuous focus on efficiency and cost reduction.
5. **Substitutes** – Low-cost leaders are **more likely to lower the costs** to induce existing customers to stay with their products, **invest in developing substitutes**, and **even purchase patents**.

**Disadvantages of Cost Leadership Strategy :**

1. Cost advantage **may not last long** as competitors may **imitate cost reduction techniques**.
2. Cost leadership **can succeed only if** the firm can **achieve higher sales volume**.
3. Cost leaders tend to keep their costs low by minimizing cost of advertising, market research, and R&D, but this approach **can prove to be expensive in the long run**.
4. **Technological advancement** areas a great threat to cost leaders.

## DIFFERENTIATION STRATEGY

- This strategy is aimed at **broad mass market** and involves the **creation of a product or service** that is **perceived/ believed** by the customers as **unique**.
- The uniqueness can be associated with
  → product design,
  → brand image,
  → features,
  → technology,
  → dealer network or
  → customer service.
- A successful differentiation strategy allows a firm to **charge a higher price** and **to gain customer loyalty**, because consumers may become **strongly attached** to the differentiated features.
  For example,
  Domino's Pizza has been offering home delivery within 30 minutes or the order is free, is a unique selling point that differentiates if from its rivals.
  Apply – Different products with new features.

- Differentiation does not guarantee competitive advantage, especially
  → if **standard products** sufficiently meet customer needs or
  → if **rapid imitation** by competitors is possible.

- Successful differentiation can mean
  → greater product flexibility, (Flexible/responsive for future changes)
  → greater compatibility,
  → lower costs,
  → improved service,
  → less maintenance,
  → greater convenience,
  → more features.
- Differentiation strategy **should be pursued only** after a **careful study of buyers' needs and preferences** to determine the **feasibility** of incorporating one or more differentiating features into a unique product that features the customers' desired attributes.

- A risk associated with pursuing a differentiation strategy
  → **Unique product may not be valued high enough by customers** to **justify the higher price**.(Apple Air pod Max- it did'nt perform well) when this happens, a cost leadership strategy will easily defeat a differentiation strategy. (Small producers will over ride differenciator)
  → Competitors **may develop ways to copy** the differentiating features quickly. Firms must find **durable sources of uniqueness** that cannot be imitated quickly or cheaply by rival firms. (Apple watch & Airpods was copied by different brands and launched similar products from lesser price than apple).
  For example, Amazon Prime offers deliver within two hours. This is quite difficult to imitate by its rivals, and thus this differentiating factor helps it to lead the market.

**<u>Basis of Differentiation</u>**

There are several bases of differentiation, major being: Product, Pricing and Organization.

1. **Product :**

   **Innovative products** that meet customer needs can be an area where a company has an advantage over competitors.

   BUT, the pursuit/trying to achieve a new product offering can be

   → **costly** – due to research and development,

   → **production and marketing costs** can all add to the cost of production and distribution.

   **<u>The payoff</u>**, however, can be great as customer's rush to buy/ flock to be among the first to have the new product.

   **For example,** Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that. They want to be among the first ones to try the new offerings from the company.

2. **Pricing :**

   - Companies that differentiate based **on product price** can either **determine to offer the lowest price** (OR) can attempt to **establish superiority through higher prices**.

   **For example,** Apple iPhone dominates the smart phone segment by charging higher prices for its products.

3. **Organisation :**

   - Maximizing the power of a brand **(OR)**
   - Using the **specific advantages that an organization possesses in market through its good will** can be instrumental to a company's success.
   - **Location advantage**, **name recognition** and **customer loyalty** can all provide additional ways for a company differentiate itself from the competition.

   **For example,** Apple has been building customer loyalty since years and has a fanbase of consumers that are called "Apple Fanboys/Fangirls".

**Achieving Differentiation Strategy**

To achieve differentiation, following strategies could be adopted by an organisation :

1. Offer **<u>utility to the customers</u>** and **<u>match products with their tastes and preferences</u>**.
2. **<u>Elevate/Improve performance</u>** of the product.
3. Offer the **<u>high-quality product/service</u>** for buyer satisfaction.
4. **<u>Rapid product innovation</u> to keep up with dynamic environment**.
5. Taking steps for **<u>enhancing brand image and brand value</u>**.
6. **<u>Fixing product prices based on the unique features</u>** of product and **<u>buying capacity</u>** of the customer.

**Advantages of Differentiation Strategy**

A differentiation strategy may help an organisation to remain profitable (Porters/s 5 Forces) even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. **Rivalry - <u>Brand loyalty acts as a safeguard</u>** against competitors. It means that customers will be **<u>less sensitive to price increases</u>**, as long as the firm can satisfy the needs of its customers.
2. **Buyers –** They **<u>do not negotiate for price</u>** as they get special features and they have **<u>fewer options</u>** in the market.
3. **Suppliers –** Because differentiators **<u>charge a premium price</u>**, they can afford to absorb higher costs of supplies as the **<u>customers are willing to pay extra too</u>**.

4. **Entrants –** Innovative features are an expensive offer. So, **new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price**.
5. **Substitutes –** Substitute products **can't replace** differentiated products which have **high brand value and enjoy customer loyalty**.

**Disadvantages of Differentiation Strategy**

1. In the long term, **uniqueness is difficult** to sustain.
2. Charging **too high a price** for differentiated features **may cause the customer to switch-off** to another **alternative**. As we see a shift of iPhone users to other android flagship smart phones.
3. Differentiation fails to work if its **basis is something that is not valued by the customers**. Home delivery of packed snacks in 30 minutes would not even be a differentiator as the consumer wouldn't value such an offer.

# FOCUS STRATEGIES

- A successful focus strategy depends on an industry segment that
  - → is of **sufficient size,**
  - → has good **growth potential**, and
  - → is **not crucial to the success of other major competitors**.
- Focus strategies are **most effective** when consumers have **distinctive preferences** or requirements, and when the **rival firms are not attempting to specialize** in the same target segment.
- An organization using a focus strategy may **concentrate on**
  - → a **particular group of customers**,
  - → **geographic markets**, or
  - → on **particular product-line segments**

  in order to serve a **well-defined but narrow market** better than competitors who serve a broader market. **For example,** Ferrari sports cars/ RR.

  Risks of pursuing a focus strategy include

  → possibility of numerous **competitors recognizing** the successful focus strategy and **imitating it. (Competitors will also enter market once they see the success of the org)**
  (or)

  → consumer **preferences may shift** towards the product attributes desired by the market as a whole.

**Focused cost leadership** :

- It requires competing **based on price** to target a **narrow market**.
- **A firm does not necessarily charge the lowest prices in the industry. Instead, it charges low prices relative to other firms that compete within the target market**.
- Firms that compete based on price and target a narrow market follow a focused cost leadership strategy. **(Narrow market, low cost)**

**Focused differentiation :**

- It requires offering unique features that fulfil the demands of a narrow market.
- Some firms using a focused differentiation strategy **concentrate their efforts on a particular sales channel**, **such as selling over the internet only**. Others target particular demographic groups.
- Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy. **(Narrow market with unique product)**

**For example,** Rolls-Royce sells limited number of high-end, custom-built cars (Ultra HNI customer).

**Achieving Focused Strategy**

To achieve focused cost leadership/differentiation, following strategies could be adopted by an organization :

1. Selecting **specific niches** which are not covered by cost leaders and differentiators.
2. Creating **superior skills** for catering such niche markets.
3. Generating **high efficiencies** for serving such niche markets.
4. Developing **innovative ways** in managing the value chain. (In bound ,out bound logistics & operations)

**Advantages of Focused Strategy :**

1. **Premium prices can be charged** by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, **rivals and new entrants may find it difficult to compete**.

**Disadvantages of Focused Strategy**

1. The firms lacking **in distinctive competencies (Different abilities)** may not be able to pursue focus strategy.
2. Due to the **limited demand of product/services**, costs are high, which can cause problems.
3. In the long run, the **niche could disappear** or be **taken over by larger competitors** by acquiring the same distinctive competencies.

## BEST-COST PROVIDER STRATEGY

- It is a further development of above three generic strategies.
- It is directed towards giving **customers more value for the money** by emphasizing on both, **low cost and better quality differences**.
- The objective is to **keep costs and prices lower** **than those of other sellers of "comparable products".**
- It can be done through :
  a) offering products at **lower price** than what is being offered by rivals for products with **comparable quality and features.** (Low price than competitors & give same quality)
     OR (MI phones as less price than Samsung BUT provides same features of samsung)
  b) charging **similar price** as by the rivals for products with much **higher quality and better features** (If MI charges same price as Samsung BUT provide high quality than Samsung)

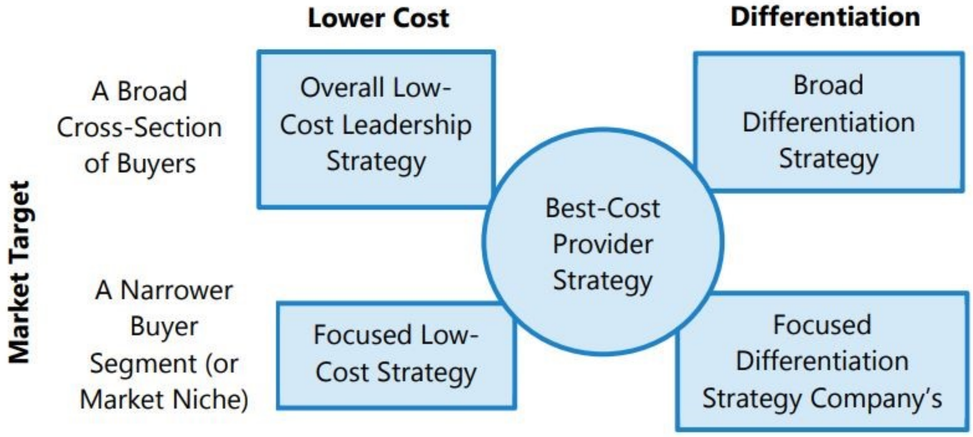
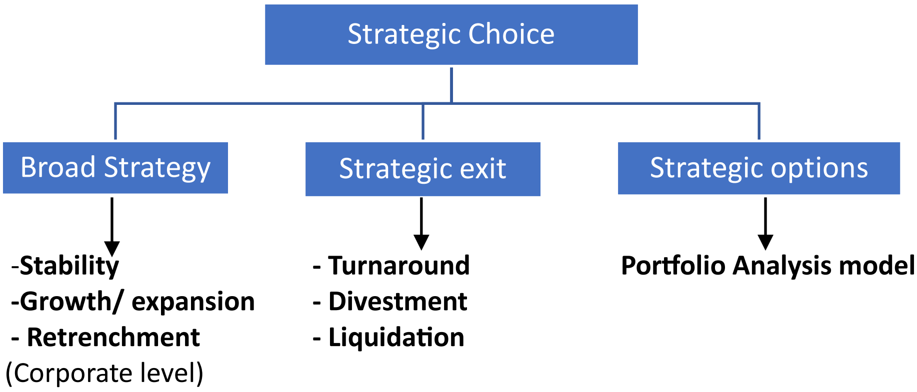



**Figure: The Five Generic Competitive Strategies**

**For example,** android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc, are all rooting for giving better quality at lowest prices to the customers. They are following the best-cost provider strategy to penetrate market.

# Chapter-4
# STRATEGIC CHOICES




**Top management of the organization makes strategic decisions, which pen down for delegation at middle management level and finally the functional level managers execute the same with their teams.**

## STRATEGIC CHOICES

Businesses follow different types of strategies

→ to enter the market,
→ to stay relevant and
→ to grow in the market.

A large number of strategies with different nomenclatures have been employed by different businesses and also suggested by different authors on strategy.

1. **William F Glueck and Lawrence R Jauch discussed four generic/ Corporate Level strategies including stability, growth, retrenchment and combination.**
2. **Michael E. Porter** suggested **competitive strategies** including **Cost Leadership, Differentiation, Focus Cost Leadership and Focus Differentiation (Business Level Strategy)**

- **Functional Strategies** are meant for **strategic management of distinct functions** such as Marketing, Financial, Human Resource, Logistics, Production etc.

**Table: 1- Different types of strategies on the basis of their classification**

| Basis of Classification | Types |
|---|---|
| Level of the organisation | Corporate Level<br>Business Level<br>Functional Level |
| Stages of Business Life Cycle | Entry/Introduction Stage - Market Penetration Strategy<br>Growth Stage - Growth/Expansion Strategy<br>Maturity Stage - Stability Strategy<br>Decline Stage - Retrenchment/ Turnaround Strategy |
| Competition oriented | Competitive Strategies - Cost Leadership, Differentiation, Focus<br>Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance |

**A start-up or a new enterprise** might follow either

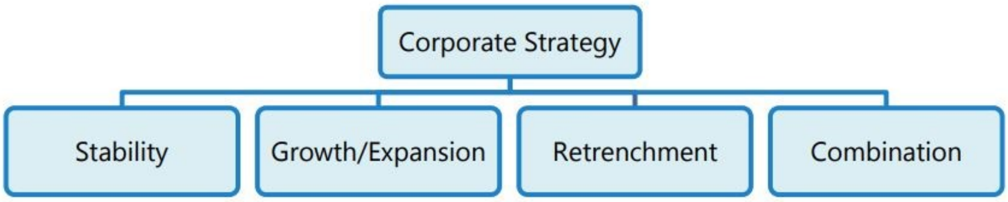
- **A competitive strategy** i.e., entering the market where a number of rivals are already operating,
  OR
- **A collaborative strategy**, i.e., enter into a joint venture with an established company.

- However, majority of **startups are launched on a small scale and their main strategy is to penetrate the market and to reach the breakeven stage at the earliest and later pursue growth strategy**. While a going concern can continue with the competitive strategy or resort to collaborative strategy to ensure business growth.

## In this chapter, we shall discuss the corporate level strategies.

**The corporate strategies a firm can adopt may be classified into four broad categories:**

1. **Stability strategy**
2. **Expansion strategy**
3. **Retrenchment strategy**
4. **Combination strategy**




The basic features of the corporate strategies are as follows :

**Table:2- Basic Features of Corporate Strategies**

| Strategy | Basic Feature |
|---|---|
| **Stability** | The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth. |
| **Expansion** | Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses. |
| **Retrenchment** | The firm retrenches some of the activities in some business (es), or) or drops the business as such through sell-out or liquidation. |
| **Combination** | The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of the firm. |

## STABILITY STRATEGY

One of the **important goals of a business enterprise is stability strategy**.

It is a strategy where a firm stay with

→ Its **current business & product market**
→ **Maintain existing level** of efforts
→ **Satisfied with incremental growth**.

Stabilisation may be opted

1. to **safeguard** its **existing interests and strengths**,
2. to **pursue** **well established and tested objectives**,
3. to **continue** in the **chosen business path**,
4. to **maintain** **operational efficiency** on a sustained basis,
5. to **consolidate** the **commanding position already reached**, and
6. to **optimise** **returns on the resources** committed in the business.

A stability strategy is pursued by a firm when :

1. It **continues to serve** in the **same or similar markets** and **deals** in same or similar products and services.
2. This strategy is typical for those firms whose product have reached the **maturity stage of product life cycle** or **those who have a sufficient market share but need to retain that.**
3. They have to **remain updated** and have to **pace with the dynamic and volatile business world** to preserve their market share.
4. Hence, stability strategy should **not** be confused with '**do nothing' strategy'.**
5. Small organizations may also follow stability strategy to consolidate their market position and prepare for the launch of growth strategies.

**Characteristics of Stability Strategy :**

- A firm opting for stability strategy **stays** **with the same business, same product-market posture and functions, maintaining same level of effort as at present**.
- The try hard to **enhance functional efficiencies in an incremental way/ slow growth**.
- Stability strategy **does not involve a redefinition of the business** of the corporation.
- It is a **safe strategy that maintains status quo**.
- It **does not** warrant much of **fresh investments**.
- The **risk involved in this strategy is less**.
- The organization can **concentrate on its resources and existing businesses**/products and markets, thus **leading to building of core competencies**.
- The firms with **modest growth objective** choose this strategy.

**Major Reasons for Stability Strategy :**

- A **product has reached the maturity stage** of the product life cycle.
- The staff feels **comfortable with the status quo** as it involves less changes and less risks.
- When firm's environment is **relatively stable**.
- Where it is **not advisable to expand** as it may be **perceived as threatening**.
- **After rapid expansion**, a firm might want to **stabilize and consolidate itself**.

# GROWTH/EXPANSION STRATEGY

- Growth/Expansion strategy is implemented by **redefining the business by enlarging the scope of business and substantially increasing investment in the business.**
- It is a strategy that can be equated with **dynamism, vigour, promise and success**.
- This strategy may take the enterprise along **relatively unknown and risky paths**, **full of promises and pitfalls.**
- It is often characterised by
  → significant **reformulation** of goals and directions,
  → **major initiatives and moves involving investments**,
  → **exploration and onslaught** into **new products**,
  → **new technology** and **new markets**,
  → **innovative decisions** and **action programmes** and so on.

**Characteristics of Growth/Expansion Strategy :**

- It involves a **redefinition of the business** of the corporation.
- It is the **opposite of stability strategy**. **While in stability strategy, rewards are limited, in expansion strategy they are very high.** In the matter of risks, too, the two are the opposites of each other.
- **It leads to business growth**. A firm with a **mammoth/ very big growth ambition** can meet its objective only through the expansion strategy.
- The process of **renewal of the firm through fresh investments** and **new businesses** /products/markets is facilitated only by expansion strategy.
- It is a highly **versatile strategy**; **it offers several permutations and combinations for growth**. A firm opting for the expansion strategy can generate many alternatives within the strategy by altering its propositions regarding products, markets and functions and pick the one that suits it most.
- **It's further divided into two major strategy routes**: **Intensification & Diversification**. Both of them are growth strategies; the difference lies in the way in which the firm actually pursues the growth.

**Major Reasons for Growth/Expansion Strategy :**

- It may become **imperative/urgent when environment demands increase in pace of activity**.
- **Strategists may feel more satisfied with the prospects of growth** from expansion; **chief executives may take pride** in presiding over organizations perceived to be growth-oriented.
- Expansion may lead to **greater control** over the market vis-a-vis competitors
- **Advantages** from the **experience curve and Economies of scale** of operations may accrue.
- Expansion also **includes intensifying, diversifying, acquiring and merging businesses**.

**Types of Growth/ Expansion Strategy**

The growth strategies can be classified into two main types :

A. Internal growth strategies
B. External growth strategies

**Types of Growth/Expansion Strategy**

- 1) Internal Growth Strategy
  - a) Expansion through **Intensification**
    - Market Penetration
    - Market Development
    - Product Development
  - b) Expansion through **Diversification**
    - Concentric Diversification
      - → Vertical integration
      - → Horizontal integration
    - Conglomerate Diversification
    - Innovation
- 2) External Growth Strategy
  - a) Expansion through **Merger & Acquisition**
    - Horizontal Merger
    - Vertical Merger
    - Co-generic Merger
    - Conglomerate Merger
  - Expansion through **Strategic alliance**
    - Advantages
    - Dis-advantages

## A. Internal growth strategies :

Internal growth strategies can be further divided into:

1. Expansion **through Intensification**
2. Expansion **through Diversification**

### 1) Expansion or growth through 'Intensification' :

It means that the organisation **tries to grow internally by intensifying** its operations either by
**Market penetration** (Existing Product ; existing Market)
**Market development** (Existing product; New market)
**By product development** (New Product; Existing market)

It tries to **cash on its internal capabilities and internal resources**.

The firm can intensify by adopting any of the following strategies :

a) **Market Penetration:** **Highly common expansion strategy** is market penetration /concentration on the current business. **The firm directs its resources to the profitable growth of its existing product in the existing market**.

b) **Market Development** : It consists of **marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.**

c) **Product Development :** Product development involves **substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.**

**Igor. H. Ansoff** gave a framework as shown in figure below which describes the intensification options available to a firm,

| | |
|---|---|
| **Market Penetration**<br>• Increase market share.<br>• Increase product usage<br>• Increase the frequency used.<br>• Increase the quantity used.<br>• Find new application for current users. | **Product Development**<br>• Add product features, product refinement.<br>• Develop a new-generation product.<br>• Develop new product for the same market. |
| **Market Development**<br>• Expand geographically Target new segments | **Diversification involving new products and new markets**<br>• Related / Unrelated. |

**2) Expansion or Growth through Diversification :**

- **New Product in New Market**.
- **When a firm tries to grow and expand by diversifying into various products or fields, it is called growth by diversification.**
- This is also an internal growth strategy.
- Innovative and creative firms always look;
  → for **opportunities** and **challenges to grow**,
  → to venture into **new areas** of activity and
  → to **break new frontiers** with the zeal of entrepreneurship
  **by using their internal resources**.
- They feel that diversification offers greater prospects of growth and profitability than intensification.
- Diversification is defined as an **entry into new products** or product lines, new services or **new markets,** involving substantially different skills, technology and knowledge.

## Why do firms Diversify?

- It means, **utilising their existing facilities and capabilities** in a more effective and efficient manner. they may have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth.
- It lies in its **synergistic advantage**. It may be possible to **improve the sales and profits** of existing products by **adding suitably related or new products**, because of linkages in technology and/or in markets.

Types of Diversification/ Based on the nature and extent of their relationship to existing businesses, diversification can be classified into two broad categories :

i. **Concentric diversification :** diversification into **related business** to benefit from synergistic gains
   (a) Vertical diversification (backward and forward)
   (b) horizontal diversification)
ii. **Conglomerate diversification :** diversification into **unrelated business** to explore more opportunities beyond existing areas of expertise
**iii.** **Expansion through Innovation**

## 1) Concentric Diversification :

- Concentric diversification takes place when the **products are related.**
- **In this diversification, the new business that is it diversifies into is linked to the existing businesses through process, technology or marketing.**
- **The new product is a spin-off** (add something additional) from the existing facilities and products/processes.
- There are benefits of synergy with the current operations. **The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.**

**For example,** a company producing clothes ventures into the manufacturing of shoes.

Types of Concentric diversification

### a) Vertically Integrated Diversification :

- In vertically integrated diversification, **firms opt to engage in businesses that are related to the existing business of the firm.**
- The firm remains vertically within the **same process sequence moves forward or backward** in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.
- The firm remains in the vertically linked product-process chain.
- A firm can either opt for forward or backward integration or horizontal integration.

**Types of Vertical integration**

**Forward and Backward Integration :**

- Forward and backward integration forms part of vertically integrated diversification.
- In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm.
- The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain.
- **Backward integration** is concerned with creation of effective supply by entering business of **input providers**/ **raw materials**.
- Strategy employed to expand profits and gain greater control over production/supply of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.
  For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.
- **Forward integration** is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of **distribution channels**.
  For example, A coffee bean manufacture may choose to merge with a coffee cafe.

### b) Horizontal Integrated Diversification :

- A firm gets horizontally diversified by integrating through **acquisition of one or more similar businesses operating at the same stage of the production-marketing chain**.
- They can also integrate with the firms producing **complementary products or by-products or by taking over competitors' products**.

## 2) Conglomerate Diversification :

- In conglomerate diversification, no linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/products in every way; **it is a totally unrelated diversification**.
- In process/technology/function, there is no connection between the new products and the existing ones.
- Conglomerate diversification has no common thread at all with the firm's present position.

(OR)

When an established firm **introduces a new product**, which has little or no affinity/similarity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as **conglomerate diversification**.

(OR)

- When an established firm **adds new products or services** that are significantly unrelated and with no technological or commercial similarities.
- Both the technology of the product and the market are different from the firm's present experience.

For example, A cement manufacturer diversifies into the manufacture of steel and rubber products.

| **Is it really worth expanding so much to diversify a business into unrelated products?** |
|---|
| Despite of its complexity, conglomerate diversification (diversification into unrelated business) **financially makes a lot of sense**.<br>• It creates access a new pool of customers, thereby expanding its customer base.<br>• It allows access to markets and cross-selling new products, leading to increased revenues.<br>• It eases the management of losses in a business; profits in one business can be used to keep the loss making business afloat within the same organisation. |

| RELATED DIVERSIFICATION | UNRELATED DIVERSIFICATION |
|---|---|
| • Exchange or share assets or **competencies** by exploiting. | • Investment in **new product** portfolios. |
| • **Brand name** | • Employment of **new technologies**. |
| • **Sales and distribution** capacity | • **Focus on multiple products**. |
| • **Manufacturing skills** | • **Reduce risk** by operating in multiple product markets. (Compensating loss for other biz units) |
| • **R&D** and **new product** capability. | • **Defend** against **takeover bids** |
| • **Economies of scale** | • Provide **executive interest (Pride)** |

## 3) Expansion through Innovation:

- Innovation drives **upgradation of existing product lines or processes**, **leading to increased market share, revenues, profitability and most important, customer satisfaction**.
- Some may argue that innovation leads to unnecessary expenses that do not give as much returns, but on the contrary, **for a business to grow long term, innovation offers the following**;

**a) Helps to solve 'complex problems' :**

- A business strives to **find opportunities in existing problems of the society, and it does so though planned innovation in areas of expertise**.
- This guided innovation help solve complex problems by developing **customer centric sustainable solutions**.

<u>For example,</u> the pressing problem of environmental damage is being tackled heads on by shifting to renewable sources of energy like solar, wind, sea waves, etc. It might be costly in introductory stages but in the long run it will only have economical and environmental sustainability. (Compostable bags).

b) **Increases Productivity :**

- Innovation leads to **simplification and in most cases automation of existing tasks**.
- Productivity is defined as a measure of final output from a task or a process, and companies are willing to spend millions on increasing their productivity, Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organisation as a whole.

<u>For example,</u> MS Excel, every finance professional uses this software to simplify and automate their manual tasks. Such digital innovation which leads to improved productivity, creates opportunities to further develop processes and products within and outside the organisatoin. Thus, innovation creates a ripple effect that has a far and wide impact across industries. **(AI- Chat GPT)**

c) **Gives Competitive Advantage :**

- **Being ahead of competition is a need,** and businesses spend majority of their strategic time building solutions to achieve this advantage.
- An interesting concept about innovation is -**the faster a business innovates, the farther (FAR) it goes from its competitor's reach.**
- **Innovative products need less marketing as they aim to provide added satisfaction to consumers**, thus, creating a competitive advantage.
- Innovation not only helps retain the existing customers but helps acquire new ones with ease.

## B. External growth strategies :

When the organization instead of growing internally thinks of diversifying by making **alliances with external organisations**, it is called external growth diversification.

<u>It can be classified in two ways :</u>

1. Expansion through **Mergers and Acquisitions**
2. Expansion through **Strategic Alliance :**

### 1) Expansion through Mergers and Acquisitions (Marriage btw organisations)

- Acquisition or merger with an existing concern is an '<u>**instant means' of achieving the expansion**</u>.
- Merger and acquisition in simple words are defined as a **process of combining two or more organizations together.**
- It is an **attractive and tempting proposition** in the sense that it circumvents/reduces the time, risks and skills involved in screening internal growth opportunities, seizing them and **building up the necessary resource base required to materialise growth**.

- Organizations consider merger and acquisition proposals in a **systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.**

**Difference between Merger & Acquisition**

**Merger (X+Y=XY)**

a) It is a process when **two or more companies come together to expand their business operations**.

b) The deal gets finalized on **friendly terms** and both the organizations **share profits** in the newly created entity.

c) Two organizations **combine to increase their strength and financial gains** along with breaking of the trade barriers.

**Acquisition** (X+Y =X)

a) When one organization **takes over the other organization** and **controls all its business operations**, it is known as acquisition.

b) In acquisition, one financially strong organization **overpowers the weaker one**, such combined operations then **run under the name of the powerful entity**.

c) Acquisitions often happen during **recession** in economy or during **declining profit** margins. In this process, the stronger one overpowers the weaker one.

d) A deal in case of an acquisition is often done in an **unfriendly manner**,(Adani & NDTV) it is more or less a **forced association** where the **powerful organization acquires the operations of the company that is in a weaker position** and is **forced to sell its entity**.

**Types of Mergers :**

The following are the types of mergers and are quite similar to the types of diversification.

a) **Horizontal Merger;**

- It is a **combination of firms engaged in the same industry**. It is a **merger with a direct competitor.**
- The **principal objective** behind this type of merger is to **achieve economies of scale** in the **production process**
  - → by shedding duplication of functions,
  - → widening the line of products,
  - → decrease in working capital and
  - → fixed assets investment,
  - → getting rid of competition and so on.

For example, formation of **Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond. (Jio cinemas & Hotstar) (Vodafone & idea).**

b) **Vertical Merger**

- It is a merger of two organizations that are operating in the **same industry but at different stages of production or distribution system.**
- This often leads to increased synergies with the merging firms.
- If an **organization takes over its supplier/producers of raw material**, then it leads to **backward integration**.
- **Forward integration** happens when an organization decides to take over its **buyer organizations or distribution channels**.
- Vertical merger results in many **operating and financial economies.**

- Vertical mergers help to **create an advantageous** position
  → by **restricting the supply** of inputs to other players (or)
  → by providing the inputs at a **higher cost**.

For example, backward integration and forward integration. (Dish TV & Zee entertainment)

c) **Co-generic Merger**

- It is a **two or more merging** organizations are **associated/ linked/similar in some way** or the other related to
  → production **processes**,
  → business **markets**, or
  basic required **technologie**s
  Ex: (Zomato – cooked food delivery & Blink it- Groceries delivery)
  (e-bay- eCommerce website & pay pal- payment gateway)
- Such merger includes
  → **extension of the product line** (or)
  → acquiring components that are **required in the daily operations**.
- It offers **great opportunities** to businesses to **diversify around a common set of resources and strategic requirements**.

For example, an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchen appliances.

d) **Conglomerate Merger;**

- They are the combination of organizations that are **unrelated to each other**.
- There are **no linkages with respect to customer groups, customer functions and technologies being used**.
- There are no important common factors between the organizations in production, marketing, research and development and technology.
- In practice, however, there is some degree of overlap in one or more of these factors.

Example: TATA & Air India, Adani & NDTV, Tesla & Twitter(X).

**2) Expansion through Strategic Alliance :**

- A strategic alliance is a **relationship between two or more businesses** that enables each **to achieve certain strategic objectives** which **neither would be able to achieve on its own**.
- The strategic partners **maintain** their status as **independent and separate entities**, share the benefits and control over the partnership, and **continue to make contributions to the alliance until it is terminated**.
- Strategic alliances are **often formed in the global marketplace** between businesses that are **based in different regions** of the world.

Ex: Jio & savan, Redbull & GoPro, Uber & spotify

**Advantages of Strategic Alliance :**

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows :

a) **Organizational :**

- Strategic alliance helps to learn **necessary skills and obtain certain capabilities** from strategic partners.
- Strategic partners may also help to enhance **productive capacity, provide a distribution system, or extend supply chain.**

- Strategic partners may provide a good or service that **complements thereby creating a synergy**.
- Having a strategic partner who is **well-known and respected** also helps **add legitimacy and creditability** to a new venture.
  Example: Tesla & Panasonic for battery manufacturing, Maruthi & Suzuki Motors co.,

b) **Economic :**

- There can be **reduction in costs and risks (Sharing of losses)** by distributing them across the members of the alliance.
- Greater **economies of scale** can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.
- Finally, **partners can take advantage of co-specialization**, **creating additional value**, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.

c) **Strategic :**

- **Rivals can join together to cooperate instead of competing with each other.**
- **Vertical integration** can be created where partners are **part of supply chain**. (CEAT tyres & Suzuki)
- Strategic alliances may also be **useful to create a competitive advantage** by the **pooling of resources and skills.**
- This may also help with **future business opportunities and the development of new products and technologies.**
- Strategic alliances may also be used to **get access to new technologies or to pursue joint research and development.**

d) **Political :**

- Sometimes strategic alliances are formed with a **local foreign business** to **gain entry into a foreign market** either because of **local prejudices or <u>legal barriers to entry</u>**. (Do biz together along with some foreign company when such foreign govt doesn't allow you to enter)
- Forming strategic alliances **with politically influential partners** may also **help improve your own influence and position.**

<u>**Disadvantages of Strategic Alliance**</u>

- The major disadvantage is **<u>sharing,</u>** strategic alliances require **sharing of resources and profits, and also sharing knowledge and skills** that otherwise organisations may not like to share.
- Sharing knowledge and skills can be problematic **if they involve trade secrets**.
- **Agreements can be executed to protect trade secrets**, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them.
- Strategic alliances may **<u>also create potential competition</u> when an ally becomes an opponent in future** when it decides to separate out.

# STRATEGIC EXITS

- Strategic Exits are followed when an organization
  - → **Substantially <u>reduces the scope</u> of its activity**.
  - → This is done through an **attempt to <u>find out the problem areas</u>** and
  - → **Diagnose the <u>causes of the problems</u>**.
- Next, steps are taken to **solve the problems**.
- These steps result in different kinds of retrenchment strategies.
  - a) <u>Turnaround strategy</u> (Making a come back)- focus on ways and means to reverse the process of decline. (Tata motors)
  - b) <u>Divestment strategy</u>- If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed. (FORD sold JLR to TATA)
  - c) If none of these actions work, then it may choose to abandon the activities totally, resulting in a <u>liquidation strategy</u>. (Kingfisher airlines)

<u>Strategic Exits</u>

- Retrenchment
  - Internal → Turnaround
  - External → Divestment (Sell to other co.,)
- Liquidation → Sell Assets & Repay liabilities

## 1) Turnaround Strategy :

- Turnaround is needed when an organisation **performance deteriorates** to a point that it needs a **radical change of direction** in strategy, possibly in **structure and cultural** as well.
- It is a targeted effort to **return an organisation to profitable position**.
- It is used when **threats and weakness adversely affect the health of organisation** so much that its **basic survival is difficult**.
- There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are :
  - a) **Persistent negative cash flow** from business(es)
  - **b) Uncompetitive products or services**
  - **c) Declining market share**
  - **d) Deterioration in physical facilities**
  - e) **Over-staffing**, high turnover of employees, **and low morale**
  - **f) Mismanagement**

**<u>Action Plan for Turnaround :</u>**

For turnaround strategies to be successful, it is imperative to **focus on the short and long-term financing needs as well as on strategic issues**. A workable action plan for turnaround would involve the following stages :

**Stage One** – **Assessment of current problems** :

- The first step is to assess the current problems and **<u>get to the root causes and the extent of damage</u>** the problem has caused.
- Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

**Stage Two** –**Analyze the situation and develop a strategic plan** :

- Before you make any major changes; **determine**
  - → **the <u>chances</u> of the business's survival.**

→ **Identify appropriate strategies and**
→ **develop a preliminary action plan.**

- For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

**Stage Three –Implementing an emergency action plan :**

- If the organization is in a critical stage, **an appropriate action plan must be developed**
  → **to stop the bleeding and**
  → **enable the organization to survive**.

The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products.

- **A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.**

**Stage Four –Restructuring the business** :

- If the core business is irreparably damaged, then the outlook for the entire organization may be **bad/bleak.**
- Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to **position the organization for rapid improvement**.
- **Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche**

**Stage Five –Returning to normal :**

- In the final stage of turnaround strategy process, the organization should **begin to show signs of profitability, return on investments and enhancing economic value-added**.
- Emphasis is placed on a number of strategic efforts such as
  → carefully adding new products
  → improving customer service,
  → creating alliances with other organizations,
  → increasing the market share, etc.

The important elements of turnaround strategy are as follows :

- Changes in **the top management**
- Initial **credibility-building actions**
- **Neutralising** external pressures
- Identifying **quick payoff activities**
- Quick **cost reductions**
- **Revenue generation**
- **Asset liquidation for generating cash**
- Better **internal coordination**

**Major Reasons for Retrenchment/Turnaround Strategy (Will be same for Divestment)**

- The management no longer wishes to remain in business **either partly or wholly** due to **continuous losses** and unviability.
- The management feels that business could be made viable by divesting some of the activities or **liquidation of unprofitable activities**
- A business that had been acquired proves to be a **mismatch** and cannot be integrated within the company.
- Persistent **negative cash flows** from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- Severity of **competition** and the inability of a firm to cope with it may cause it to divest.
- **Technological upgradation** is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- **A better alternative** may be available for investment, causing a firm to divest a part of its unprofitable businesses.

**Is Turnaround strategy only relevant to loss making businesses ?**
Interestingly, turnaround strategy is relevant when a company is experiencing a period of poor performance. Poor performance does not always mean losses, it may also mean lower than expected growth, no future clarity, or even lesser than target profits.

### 2) Divestment Strategy

- Divestment strategy involves the **sale or liquidation of a portion of business**, or **a major division, profit centre or SBU**. Divestment is usually **a part of rehabilitation or restructuring plan** and is adopted when a **turnaround has been attempted but has proved to be unsuccessful**. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.
- A divestment strategy may be adopted due to various reasons :
  a) A business that had been acquired proves to be a **mismatch** and cannot be integrated within the company.
  b) Persistent **negative cash flows** from a particular **business create financial problems for the whole company,** creating the need for divestment of that business.
  c) Severity of **competition** and the **inability of a firm to cope with it may cause** it to divest.
  d) It is **not possible for the business to do Technological upgradation** that is required for the business to survive, a preferable option would be to divest.
  **e)** A **better alternative** may be available for investment**, causing a firm to divest a part of its unprofitable business.**

**Characteristics of Divestment Strategy :**

- This strategy involves **divestment of some of the activities** in a given business of the firm or **sell-out of some of the businesses as such**.
- Divestment is to be viewed as an **integral part of corporate strategy** without any stigma attached.

Note:

**Explain the meaning of Combination strategy? Nov-18 Exam.**

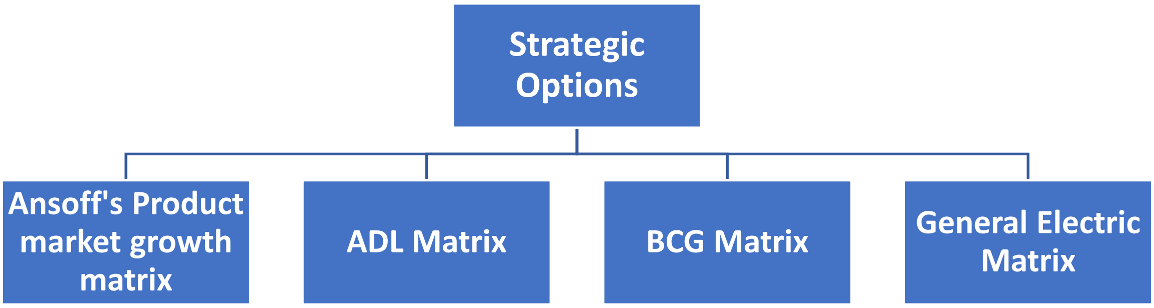
Answer:

It refers to a mix of different strategy (Expansion, diversification or retrenchment) to suit particular situation that an enterprise is facing.

Example: In TATA groups different business they might adapt different strategy as suitable to the current business scenarios.

## STRATEGIC OPTIONS

- Strategic options need to be **carved out from existing products and innovations** that are happening in the industry.
- There are a **set of models** that help strategists in **taking strategic decisions** with regard to individual products or businesses in a firm's portfolio.
- It is used for competitive analysis and corporate strategic planning in **multi-product and multi business firms.**
- The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that **resources could be channelised at the corporate level** to those businesses that possess the greatest potential.




### Ansoff's Product Market Growth Matrix (Already Done)

- The Ansoff's product market growth matrix (**proposed by Igor Ansoff**) is a useful tool that helps businesses decide their product and market **growth strategy**.
- With the use of this matrix a business can get a fair idea about how its **growth depends upon it markets** in new or existing products in both new and existing markets.
- Companies should always be looking to the **future**. One useful device for identifying growth opportunities for the future is the product/market expansion grid.
- The product/market growth matrix is a **portfolio-planning tool for identifying growth opportunities for the company.**

| | Existing Products | New Products |
|---|---|---|
| Existing Markets | Market Penetration | Product Development |
| New Markets | Market Development | Diversification |

**Figure: Ansoff's Product Market Growth Matrix**

**Market Penetration:**

- The business focuses on **selling existing products into existing markets**.
- It is achieved by making more sales to present customers **without changing products** in any major way.
- It require greater spending on **advertising or personal selling**.

- Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors.
- Penetration is also done by effort on **increasing usage by existing customers**.

For example, Gucci, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.

**Market Development:**

- It is a growth strategy where the business seeks to **sell its existing products into new markets**.
- It is a strategy for company growth by identifying and developing new markets for current company products.
- This strategy may be achieved through
  - new **geographical markets**,
  - new **product dimensions or packaging**,
  - new **distribution channels** or
  - different **pricing policies**

  **to attract different customers or create new market segments**.

For example, Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.

**Product Development:**

- It refers to a growth strategy where business aims to **introduce new products into existing markets.**
- It is a strategy for company growth by offering modified or new products to current markets.
- This strategy may require the **development of new competencies** and requires the business to **develop modified products** which can appeal to existing markets.

For example, Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development

**Diversification:**

- It refers to a growth strategy where a business markets **new products in new markets**.
- It is a strategy by starting up or acquiring businesses **outside the company's current products and markets.**
- This strategy **is risky** because it does not rely on either the company's successful product or its position in established markets.
- Typically, the business is moving into markets in which it has little or no experience.

For example, Gucci, a luxury clothing brand, selling casual clothing in Chinese markets, is diversification.

## ADL Matrix

The ADL matrix (derived its name from **Arthur D. Little**)

- It is a portfolio analysis technique that is **based on product life cycle**.
- The approach forms a **two-dimensional matrix** based on
  - **stage of industry maturity** and
  - **the firms competitive position**, environmental assessment and business strength assessment.
- ADL matrix will assess the Competitive position organisations SBU's based on five competitive positions: **Dominant, strong, favourable, tenable and weak.**

| Stage of industry maturity - Arthur D. Little (ADL) Matrix | | | | |
|---|---|---|---|---|
| **Competitive position** | **Embryonic** | **Growth** | **Mature** | **Ageing** |
| **Dominant** | - Fast grow<br>- Build barriers<br>- Act offensively | - Fast grow<br>- Attend cost leadership<br>- Renew<br>- Defend position<br>- Act offensively | - Defend position<br>- Attend cost leadership<br>- Renew<br>- Fast grow<br>- Act offensively | - Defend position<br>- Renew<br>- Focus<br>- Consider withdrawal |
| **Strong** | - Differentiate<br>- Fast grow | - Differentiate<br>- Lower cost<br>- Attack small firms | - Lower cost<br>- Focus<br>- Differentiate<br>- Grow with industry | - Find niche<br>- Hold niche<br>- Harvest |
| **Favorable** | - Differentiate<br>- Focus<br>- Fast grow | - Focus<br>- Differentiate<br>- Defend | - Focus<br>- Differentiate<br>- Harvest<br>- Find niche<br>- Hold niche<br>- Turnaround<br>- Grow with industry<br>- Hit smaller firms | - Harvest<br>- Turnaround |
| **Tenable** | - Grow with industry<br>- Focus | - Hold niche<br>- Turnaround<br>- Focus<br>- Grow with industry<br>- Withdraw | - Turnaround<br>- Hold niche<br>- Retrench | - Divest<br>- Retrench |
| **Weak** | - Find niche<br>- Catch-up<br>- Grow with industry | - Turnaround<br>- Retrench<br>- Niche or withdraw | - Withdraw<br>- Divest | - Withdraw |

**Figure: Arthur D. Little Strategic Condition Matrix**

The ADL Matrix will asses competitive position of a firm is based on following criteria:

1. **Dominant:** This is a comparatively **rare position** and in many cases is attributable either to a **monopoly or** a strong and **protected technological leadership**. (Windows OS & Intel Semi conductor)
2. **Strong:** By virtue of this position, the firm has a **considerable degree of freedom over its choice of strategies** and is often able to **act without its market position being unduly threatened** by its competitions. (Jio, market share doesn't get effect even if a firm does something)
3. **Favourable:** This position, which generally comes about when the **industry is fragmented** and **no one competitor stand out clearly**, results in the **market leaders** a reasonable degree of freedom. (Many sellers for same G&S but non of them have a stand out position)Ex: Dove & Colgate
4. **Tenable:** Although the firms within this category are able to perform **satisfactorily** and can justify staying in the industry, they are generally **vulnerable in the face of increased competition** from stronger and **more proactive** companies in the market. Ex: Vi (Vodafone & Idea)
5. **Weak:** The performance of firms in this category is generally **unsatisfactory** although the opportunities for improvement do exist. Ex: BSNL

## Boston Consulting Group (BCG) Growth-Share Matrix

- The BCG growth-share matrix is the simplest way to portray a **organisation's portfolio of products**/investments.
- Growth share matrix also known for its **cow and dog metaphors** is popularly used for **resource allocation in a diversified company.**
- Using the BCG approach, **a company classifies its different businesses** on a **two-dimensional growth-share matrix**.

In the matrix:

- The vertical axis represents **market growth rate** and provides a **measure of market attractiveness.**
- The horizontal axis represents **relative market share** and serves as a **measure of company strength** in the market.

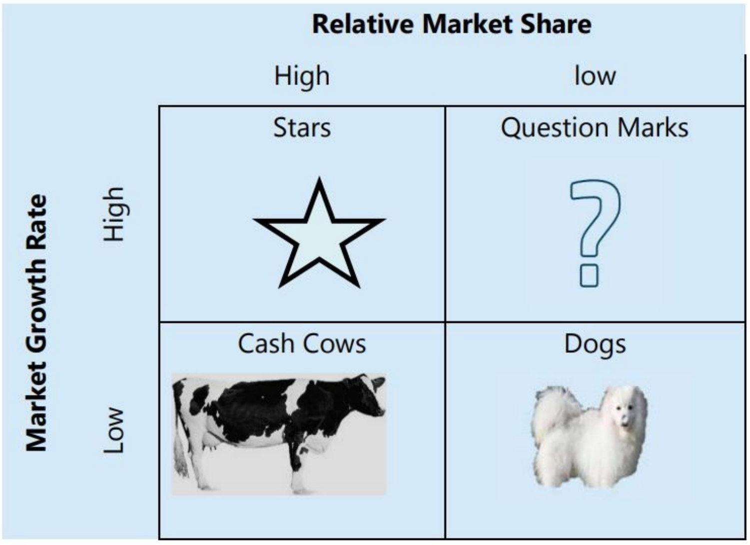



**Figure: BCG Growth-Share Matrix**

**Stars**: are products or SBUs that are **growing rapidly**. They also need **heavy investment to maintain/ Retrain their position** and finance their **rapid growth potential**. They represent **best opportunities for expansion. (BUILD)**

**Cash Cows** are **low-growth, high market share** businesses or products. They **generate cash** and **have low costs**. They are **established, successful, and need less investment to maintain** their market share. In long run when the **growth rate slows down, stars become cash cows**. **(HARVEST)**

**Question Marks,** sometimes called **problem children or wildcats**, are **low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash**. Question marks **if left unattended are capable of becoming cash traps.** Since growth rate is high, increasing it should be relatively easier**. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces**. **(HOLD Strategy)**

**Dogs** are **low-growth, low-share businesses** and products. They may generate enough cash to maintain themselves, but **do not have much future**. Sometimes they **may need cash to survive**. Dogs should **be minimised by means of 'DIVEST'MENT or LIQUIDATION.**

**BCG Matrix: Post Identification Strategies**

After a firm, has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

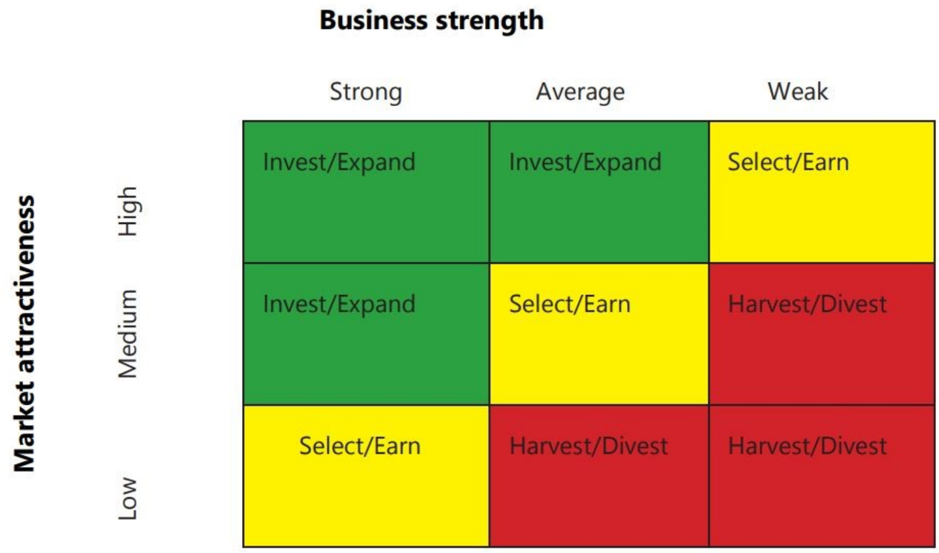
1. **Build**: Here the objective is to **increase market share**, even by forgoing short term earnings in favour of **building a strong future with large market share**.
2. **Hold**: Here the objective is to **preserve market share**.
3. **Harvest**: Here the objective is to **increase short-term cash flow** regardless of long-term effect.
4. **Divest**: Here the objective is to **sell or liquidate the business because resources can be better used elsewhere.**

Problems and limitations with BCG Matrix.

1. It is **difficult, time-consuming, and costly** to implement.
2. It is **difficult to define SBUs and measure 'market share and growth rate'**.
   (two much focus on this two component only and ignore other components like profitability, competition intensity etc.,)
3. It also **focuses on classifying current businesses** but **provide little advice for future planning**.
4. They can lead the company to placing **too much emphasis/focus on 'market-share & growth rate'** or **growth through entry into attractive new markets**. This can cause **unwise expansion into hot, new, risky ventures or divesting established units too quickly.** (Even before making good returns)

## General Electric Matrix ["Stop-Light" Strategy Model]

- This model has been used by **General Electric Company** (developed by GE with the assistance of the consulting firm McKinsey and Company). This model is also known as **Business Planning Matrix, GE Nine-Cell Matrix and GE Model.**
- The strategic planning approach in this model has been **inspired from traffic control lights**.
- The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.
- This model uses **two factors** while taking strategic decisions:
  - Business Strength (Horizontal axis)
  - Market Attractiveness (Vertical axis)



**Green Zone**, the business is at **advantageous position**. To reap the benefits, the strategic decision can be to **expand**, **to invest and grow**.
**Amber or Yellow zone**, it needs **caution and managerial discretion** is called for making the strategic choices.
**Red zone**, it will **eventually lead to losses** that would make things difficult for organisations. In such cases, the appropriate strategy should be **retrenchment, divestment or liquidation**.

| Market attractiveness is measured with | Business strength in the industry is measured with |
|---|---|
| • **Size** of the market.<br>• Market **growth rate.**<br>• Industry **profitability**<br>• Competitive **intensity**<br>• Availability of **Technology.**<br>• **Pricing** trends.<br>• Overall **risk** of returns in the industry<br>• Opportunity for **differentiation** of products and services.<br>• **Demand** variability.<br>• **Segmentation.**<br>• **Distribution structure** (e.g. direct marketing, retail, wholesale) etc | • Market **share**.<br>• Market share **growth** rate.<br>• **Profit** margin.<br>• **Distribution** efficiency<br>• **Brand** image<br>• Ability to **compete** on **price and quality**<br>• Customer **loyalty.**<br>• Production **capacity**.<br>• **Technological** capability<br>• Relative **cost position**.<br>• Management **calibre,** etc |

# Chapter-5
# Strategy Implementation and Evaluation

Strategy implementation and evaluation are **critical phases** of the process of strategic management in an organization.

- **Implementation** involves **putting the plans and initiatives** developed as part of the strategy **into action**.
- **Evaluation** refers to the process of **measuring and assessing** the **effectiveness** of these actions.

## STRATEGIC MANAGEMENT PROCESS

- The process of developing an organisation's strategy is quite methodical.
  1) First **develops a clear vision, mission, values and goals**.
  2) Then **discuss and analyse** a number of **themes** to determine **which options are most promising.**
  3) All these aspects come together in a **strategic plan** that **details** the organisation's vision, mission, values, goals, strategic themes, a **high-level implementation** plan and **key performance measures.**
  4) The key performance measures are included in the strategic plan and are used to **link the themes back to the organisation's goals and to measure the success of the strategy** after it is implemented.

- The strategic management process is **dynamic and continuous. strategy formulation, implementation, and evaluation activities** <u>should be performed on a continual basis</u>, not just at the end of the year or semi-annually. **The strategic management process never really ends.**

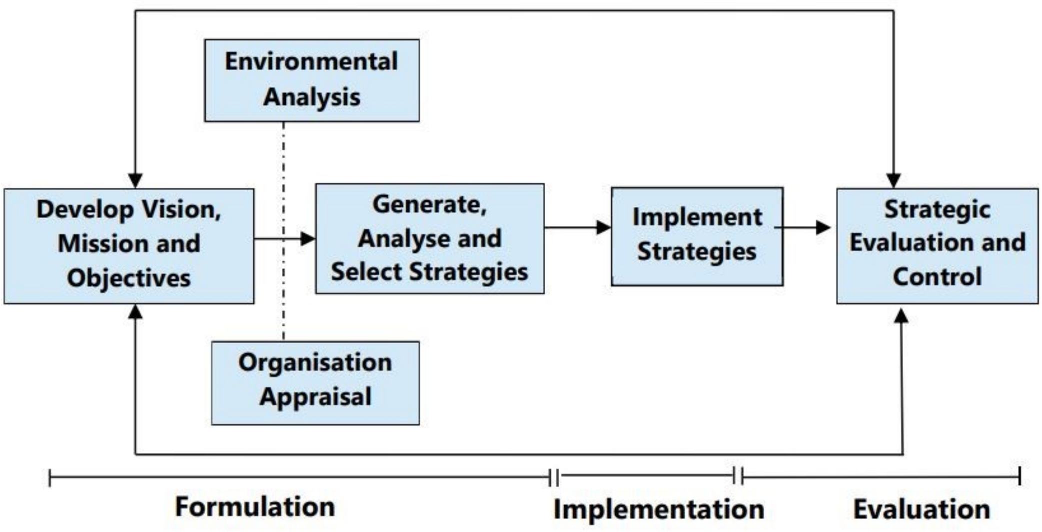



**Figure: Strategic Management Model (Fred R David)**

- The strategic management process can **best be studied and applied using a model**.
- The model illustrated in the Figure: Strategic Management Model (Fred R David) is a **widely accepted,** comprehensive.
- This model like any other model of management **does not guarantee sure-shot success**, but it does **represent a clear and practical approach** for **formulating, implementing, and evaluating** strategies.

## Stages in Strategic Management

Crafting and executing strategy are the heart and soul of managing a business enterprise.

Strategic management involves the following stages:
1. **Developing** a strategic **vision** and formulation of statement of **mission, goals and objectives**.
2. **Environmental** and **organisational analysis**.
3. **Formulation** of strategy.
4. **Implementation** of strategy.
5. Strategic **evaluation** and **control**

**Stage 1: Strategic Vision, Mission and Objectives**

- A strategic **vision** delineates
  - ✓ **Management's aspirations** for the organisation **and**
  - ✓ Highlights a **particular direction**,

  (**OR)**
  - ✓ **Strategic path** for it to follow in preparing for the future **and**
  - ✓ Molds **its identity**.
- A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

**Mission and Strategic Intent:**

- Managers need to be clear about the role of their organisation, and this is often expressed in terms of a statement of mission.
- This is important because both external stakeholders and other managers in the organisation need to be clear about **what the organisation is seeking to achieve** and in broad terms, **how it expects to do so.**

**Corporate goals and objectives**

- flow from the mission and growth ambition of Org.
- they represent the **quantum of growth the firm seeks to achieve in the given time frame**
- The managerial purpose of **setting objectives is to convert the strategic vision into specific performance targets** and then use these o**bjectives as yardsticks for tracking the company's progress and performance.**

**Stage 2: Environmental and Organisational Analysis**

This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:
1. Environmental scanning
2. Organisational analysis

**1. Environmental scanning**

- The **external environment** of a firm consists of **economic, social, technological, market and other forces** which affect its functioning.
- The firm's external environment is **dynamic and uncertain**. So, the management must systematically be analysed various elements of environment to determine **opportunities and threats** for the firm in future.

**2. Organisational analysis**

- Organisational analysis involved a **review** of **financial** resources, **technological** resources, **productive capacity, marketing and distribution** effectiveness, **research and development**, **human resource skills** and so on.
- This would reveal organisational **strengths and weaknesses** which could be **matched** with the threats and opportunities in the external environment. This would provide us a framework for **SWOT analysis.**

**Stage 3: Formulating Strategy**

- The **first step** is **developing strategic alternatives** in the light of SWOT Analysis.
- The **second step** is the **deep analysis** of various strategic alternatives for the purpose of **choosing the most appropriate alternative** which will serve as the strategy of the firm.

A company may be confronted with several alternatives such as:

i. Should the company **continue in the same business** carrying on the same volume of activities?
ii. If it should continue in the same business, should it **grow by expanding the existing units** or by establishing **new units** or by **acquiring other units** in the industry?
iii. If it should **diversify**, should it diversify into **related areas** or **unrelated areas**?
iv. Should it **get out** of an existing business **fully or partially**?

A company may also follow a **combination** of these alternatives called **combination strategy.**

**Stage 4: Implementation of Strategy**

- Implementation and execution are an **operations-oriented activity** aimed at **shaping the performance of core business** activities in a strategy-supportive manner.
- It is the **most demanding and time-consuming part** of the strategy management process.
- To **convert strategic plans** into **actions and results**, a manager must be able to
  - ✓ **direct organisational change,**
  - ✓ **motivate people,**
  - ✓ **build and strengthen company competencies (Skill & efficiency) and competitive capabilities,**
  - ✓ **create a strategy which support work climate,**
  - ✓ **meet or beat performance targets**

**Stage 5: Strategic Evaluation and Control**

The final stage of strategic management process

- ✓ **Evaluating** the company's **progress**,
- ✓ Assessing the **impact of new external developments**, and
- ✓ making **corrective adjustments**

- It is the **trigger point** for deciding **whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods**.
- So long as the company's direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, **company executives may decide to stay the course.**

# Strategy Formulation & Strategy Implementation

## 1) Strategy Formulation

### Corporate Strategy

Planning entails **choosing what has to be done in the future and creating action plans**.
Planning may be operational or strategic.

| Strategic planning | Operational Planning |
|---|---|
| **Senior management** develops strategic plans for the entire organisation<br><br>They evaluate the organization's **strengths and weaknesses in light of potential possibilities and dangers in the outside world**. | They are created by **middle and lower-level management.**<br><br>They provide specifics on **how the resources are to be used effectively to achieve the goals & objectives**. |
| Characteristics ;<br>• Shapes the organisation and its resources<br>• Assesses the impact of environmental variables.<br>• Takes a holistic view of the organisation.<br>• **Develops overall objectives and strategies**<br>• Is concerned with the **long-term success** of the organisation.<br>• Is a **senior management responsibility** | Characteristics ;<br>• Deals with **current deployment of resources.**<br>• Makes **modifications to the business functions** but **not fundamental changes**.<br>• **Develops tactics rather than strategy**.<br>• Is concerned/ Projects **current operations** into the future<br>• Is the **responsibility of functional managers.** |

"**Strategic planning is the process of determining corporate strategy**".

Below listed is the process of Strategic planning;

a) It determining the **objectives** of the firm
**b)** It also determines **resources required** to attain the objectives and **formulation of policies to govern the acquisition, use and disposition of RESOURCES**
c) The process is **organisation-wide or focused on a major function** such as a **division** or other **major function.**
d) It involves a fact of **interactive and overlapping decisions** leading to the **development of an effective strategy** .
e) It determines **where an organisation is going over the next year and the ways for going there**

### Strategic uncertainty

It refers to the **unpredictability of future events and circumstances** that can **impact** an organization's strategy and goals.

How to deal with strategic uncertainty?

1. **Flexibility:** Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.
2. **Diversification:** Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.
3. **Monitoring and Scenario Planning:** Organizations can **regularly monitor key indicators** of **change and conduct scenario planning** to understand how **different future scenarios might impact their strategies.**

4. **Building Resilience:** Organizations can invest in building internal resilience, such as
    - ✓ strengthening their operational processes,
    - ✓ increasing their financial flexibility, and
    - ✓ improving their risk management capabilities.
5. **Collaboration and Partnerships:** Collaborating with other organizations, suppliers, customers, and partners can **help organizations pool resources, share risk, and gain access to new markets and technologies.** (M&A, Strategic alliance)

Impact of uncertainty: Each element of strategic uncertainty involves potential trends or events that could have an impact on **present, proposed, and even potential** businesses.

## 2) Strategy Implementation

- It concerns the managerial exercise of putting a -
  - ✓ freshly chosen **strategy into action**
  - ✓ **supervising** the ongoing pursuit of strategy
  - ✓ **making it work**,
  - ✓ **improving** the **competence** with which it is executed and showing **measurable progress** in **achieving the targeted results**.
- It concerned with **translating a strategic decision into action**.

Relationship with strategy formulation

- A company will be successful only when the strategy **formulation is sound and implementation is excellent**.
- There is **no such thing as successful strategic design**. This sounds obvious, but in practice the distinction is not always made.
- **Often people, blame the strategy model for the failure of a company** while the **main flaw might lie in failed implementation**. Thus, organizational success is a function of **good strategy and proper implementation**.

Strategy Implementation

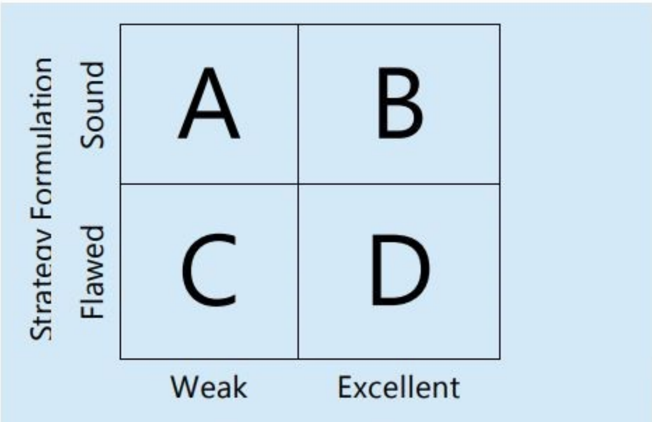



**Figure: Strategy formulation and implementation matrix**

**Square A**

- Is the situation where a company **apparently has formulated a very competitive strategy but is showing difficulties in implementing** it successfully.
- This can be due to various factors, such as the **lack of experience** (e.g. for startups), the **lack of resources, missing leadership** and so on.
- In such a situation the company will aim at moving from square A to square B,

**Square B**

It is the **ideal situation** where a company has **succeeded in designing a sound and competitive strategy** and has been **successful in implementing it**

**Square C**

- It denotes for **companies that haven't succeeded in coming up with a sound strategy formulation** and in addition are **bad at implementing** their flawed strategic model.
- Their path to success also goes through **business model 'redesign'** and **implementation 'readjustment'.**

**Square D**

- It is the situation where the strategy **formulation is flawed**, but the **company is showing excellent implementation skills.**
- When a company finds itself in square D the first thing, they have to do is to **redesign their strategy** before readjusting their implementation/execution skills (Senior management inefficiency)

**Strategic Formulation**

| Operational Management | Effective | Ineffective |
|---|---|---|
| **Efficient** | 1 Thrive | 2 Die Slowly |
| **Inefficient** | 3 Survive | 4 Die Quickly |

**Figure: Principal combinations of efficiency and effectiveness**

While **efficiency** is **essentially introspective, effectiveness highlights the links between the organization and its environment**.

- An organization in **cell 1** is **well placed** and **thrives/ develop well**, **since it is achieving what it aspires to achieve with an efficient output/input ratio.**
- An organization in **cell 2 or 4** is **doomed**, **unless it can establish some strategic direction.**
- The **cell 2 is a worse place to be than is cell 3** since, in the latter, the strategic direction is present to ensure effectiveness even if rather too much input is being used to generate outputs.
  - → to be **effective** **(Management)** is to do the right thing,
  - → to be **efficient** **(Operations)** is to do the thing right.
- **An emphasis on efficiency rather than on effectiveness is clearly wrong**.
- **Change comes through implementation and evaluation, not through the plan**
- A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.
- **Successful strategy formulation does not guarantee successful strategy implementation**.
- It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation).

## Difference between Strategy Formulation and Implementation

| **Strategy Formulation** | **Strategy Implementation** |
|---|---|
| Strategy Formulation includes planning and decision-making involved in **developing organization's strategic goals and plans** | Strategy Implementation involves all those means related to **executing the strategic plans**. |
| In short, Strategy Formulation is **placing the Forces before the action.** | In short, Strategy Implementation is **managing forces during the action.** |
| An **Entrepreneurial Activity** based on strategic decision-making. | An **Administrative Task** based on strategic and operational decisions. |
| Emphasizes on **effectiveness**. | Emphasizes on **efficiency.** |
| Primarily an **intellectual and rational process**. | Primarily an **operational process**. |
| Requires co-ordination among **few individuals at the top level.** | Requires co-ordination among many **individuals at the middle and lower level.** |
| Requires a great deal of **initiative, logical skills, conceptual intuitive and analytical skills**. | Requires specific **motivational and leadership traits.** |
| Strategic Formulation precedes Strategy Implementation | Strategy Implementation follows Strategy Formulation |

## Linkages and Issues in Strategy Implementation

**1. Forward Linkages**

- **Impact of Strategy formulation on strategy implementation.**
- Strategy formulation starting with **objective setting** through
  → environmental and organizational appraisal,
  → strategic alternatives and choice to the strategic plan
  determine the course that an organization adopts for itself.
- With the **formulation of new strategies** (Ex: New govt., new strategy for development)
  OR
  **Reformulation** of existing strategies (Ex: Apple , from 300 Products & got down to 10)
- The organizational structure has to **undergo a change** in the light of the requirements of the **modified or new strategy**.
- The style of leadership has to be **adapted** to the needs of the **modified or new strategies**.
- In this way, the formulation of strategies has forward linkages with their implementation

2. Backward Linkages:

- While dealing with strategic choice, remember that **past strategic actions** also **determine the choice of strategy.** (all the previous mistakes committed in implementation will be considered while forming a new subsequent strategy)
- Organizations tend to adopt those strategies which can be implemented with the help of **the present structure of resources** combined with **some additional efforts.**
  Ex: First Cry, Which presently have 900 stores in India
  Assume They have 500 Stores & additional 400 Stores will be created with **existing resources** (present reserves & funds, by adding additional employees i.e., additional efforts)
- Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

**Issues in Strategy Implementation**

1) **Strategies, by themselves do not lead to action, they are a statement of intent**. Implementation tasks are meant to realise the intent. **Strategies have to be activated through implementation**.
2) **Strategies should lead to formulation of different kinds of programmes. A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action**. Programmes are usually supported by funds allocated for plan implementation.
3) **Programmes lead to the formulation of projects**, A project is a highly specific programme for which the **time schedule and costs are predetermined**. It requires **allocation of funds** based on **capital budgeting** by organizations. Thus, R&D programme may consist of several projects, each of which is intended to achieve a **specific objective**, requires **separate allocation of funds**, and is to be **completed within a set time schedule**.

# STRATEGIC CHANGE THROUGH DIGITAL TRANSFORMATION

The use of digital technologies to develop **fresh, improved, or entirely new company procedures, goods, or services** is known as "digital transformation."

Digital transformation, may be a difficult and complicated process.

The changes in the environmental needs modifications in their existing strategies and bring out new strategies. **Strategic change** is a **complex process** that involves a **corporate strategy** focused on **new markets, products, services and new ways of doing business**.

Steps to initiate strategic change

1. **Recognize the need for change**
    - The first step is to diagnose which facets (i.e. one part or particular aspect of something) of the present corporate culture are strategy supportive and which are not.
    - This basically means going for **environmental scanning** involving **appraisal** of both **internal and external capabilities** may be through **SWOT analysis** and then **determining where the lacuna** (i.e. a gap or missing part) lies and **scope for change** exists.
2. **Create a shared vision to manage change**:
    - Objectives of both **individuals and organization** should coincide. There should be **no conflict between them**. This is possible only if the management and the organization members follow a shared vision.
    - **Senior managers** need to constantly and consistently **communicate the vision** to all the **organizational members**. They have to convince all those concerned that the **change in business culture is not superficial or cosmetic**.
    - The actions taken have to be credible, **highly visible and unmistakably indicative** of management's seriousness to new strategic initiatives and associated changes.
3. **Institutionalise the change:**
    - This is basically an **action stage** which requires **implementation of changed strategy**. Creating and sustaining a different attitude towards change is essential to ensure that the firm **does not slip back into old ways** of thinking or doing things.
    - Capacity for self-renewal should be a fundamental anchor of the new culture of the firm.
    - Change process must be **regularly monitored** and **reviewed to analyse the after-effects** of change.
    - Any deviation should be brought to the notice of persons concerned so that the **necessary corrective actions** are taken. **It takes time for the changed culture to prevail.**

## Kurt Lewin's Model of Change:

**To make the change 'lasting'**, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future.

These stages are
**1) unfreezing the situation**
**2) changing to a new situation**
**3) refreezing the situation**

**1) Unfreezing the situation:**

- It makes the **individuals aware of the necessity for change** and prepares them for such a change. Lewin proposes that the **changes should not come as a surprise to the members** of the organization. **Sudden and unannounced change would be socially destructive** and morale lowering.
- The management must **pave the way for the change** by first "unfreezing the situation", so that members would be willing and ready to accept the change.
- Unfreezing is the process of **breaking down the old attitudes and behaviours**, customs and traditions so that they **start with a clean slate**. This can be achieved by **making announcements, meetings and promoting the new ideas** throughout the organization.

**2) Changing to the new situation**

- Once the unfreezing process is complete, the members of the org., recognise the need for change and have fully prepared to accept such change, their behaviour patterns need to be redefined.
- **H.C. Kellman has proposed three methods for reassigning new patterns of behaviour**.
  **a) Compliance:** It is achieved by strictly enforcing the **reward and punishment strategy** for good or bad behaviour. **Fear of punishment, actual punishment/reward** seems to change behaviour for the better.
  **b) Identification:** when members are **psychologically impressed** upon to identify themselves with some given **role models** whose behaviour they would **like to adopt and try to become like them**.
  **c) Internalization:** **Internal changing of the individual's** thought processes in order to adjust to the changes introduced. They have given **freedom to learn and adopt new behaviour** in order to succeed in the new set of circumstances.

**3) Refreezing the situation**

- When the **new behaviour** becomes a **normal way of life.**
- The **new behaviour must replace the former behaviour completely for successful and permanent change.** For making new behaviour to become permanent, it must be **continuously reinforced**.
- Change process is **not a one-time application** but a **continuous process due to dynamism and ever changing environment**.

"The process of unfreezing, changing and refreezing is a cyclical one and remains **continuously in action**."

## How does digital transformation work?

Change management in the digital transition consists of four essential elements:

1. Defining the **goals and objectives** of the transformation
2. Assessing the **current state** of the organization and **identifying gaps**
3. **Creating a roadmap** for change that outlines the steps needed to reach the desired state
4. **Implementing and managing the change** at every level of the organization.

## Change Management Strategies for Digital Transformation

The five best practices for managing change in **small and medium-sized** businesses are:

1. **Begin at the top:** A focused, invested, **united leadership** that is on the **same page about the company's future** is reflected in change that begins at the top. The **culture that will motivate the rest of the organisation** to accept change can only be generated and promoted in this way, (Lead by example- Top management should follow and set a example to low level to follow the same)
2. **Ensure that the change is both necessary and desired**: Before implementing changes company should **assess its current state and identify areas** where **digital transformation can add value**, its **important to involve employees** in the process.
3. **Reduce disruption;** It's crucial to lessen how **changes affect staff**. The introduction of new tactics or technologies intended to improve management and corporate operations causes **employee concern** about change.
   It is possible to reduce workplace disruption by:
   a) Getting the **word out early and preparing for some interruption**
   b) Giving **staff members the knowledge and tools, they need to adjust to change**.
   c) Creating an environment that **encourages transformation or change**
   d) Empowering **change agents to provide context and clarity for changes**, such as project managers or team leaders.
   e) Ensuring that **IT department is informed of changes in technology** or infrastructure and is prepared to support them.
4. **Encourage communication:** Create channels so that **workers may contact you with queries or complaints.** Encourage collaboration between & to share ideas and innovations. effective communication, which keeps everyone on the same page and overcome fear.
5. **Recognize that change is the norm, not the exception**; Digital transformation is not an one- time process but an on going process. The company may run into difficulties, should be prepared to adapt to new technology and make necessary changes in advance.

## How to manage change during digital transformation?

Change management is essential during digital transition. Any organisation may find the work challenging and overwhelming.

Here are some pointers for navigating change during the digital transformation:

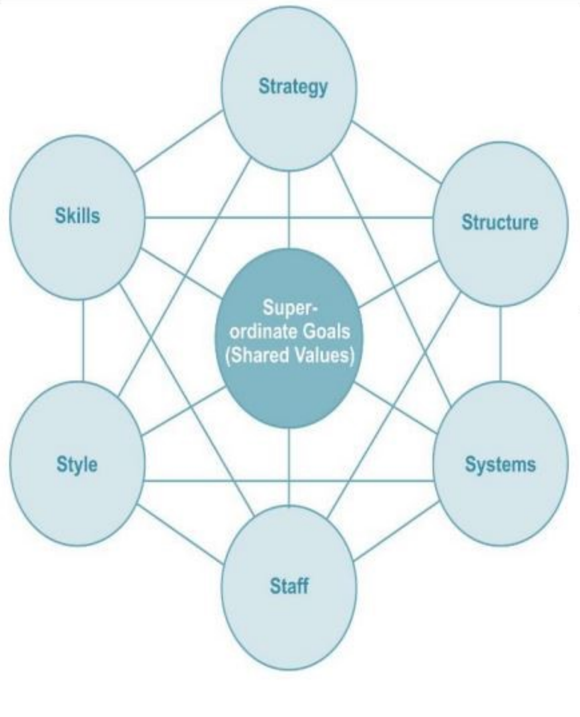
1) **Specify the digital transformation's aims and objectives**: **What is the intended outcome?** What are the precise objectives that must be accomplished? It will be easier to make sure that **everyone is on the same page** and **pursuing the same aims** if everyone has a clear grasp of the goals.
2) **Always, always, always communicate:** It might be challenging for people to accept change and adjust to it. **Ensure that you routinely and honestly discuss the objectives of the digital transformation** and how they will affect stakeholders, including employees, clients, and other parties.
3) **Be ready for resistance:** Even when a change is for the better, it can be **challenging for people to embrace** it. Have a strategy in place for dealing with any resistance that may arise.

4) **Implement changes gradually:** Instead of making all changes at once gradually implementation allows individuals to **adapt to new ways** of doing things **without feeling over whelmed** by too much change simultaneously.
5) **Offer assistance and training:** Workers will need guidance in the new procedures, software applications, etc.

## ORGRANISATIONAL FRAMEWORK

**(If you want to bring changes in the organisation, Org., should focus on 7 internal elements & all such 7 elements should work together as planned)**

- The McKinsey 7S Model refers to a tool that **analyses** a company's "**organizational design**." The goal of the model is to depict **how effectiveness can be achieved** in an organization through the interactions of **hard and soft elements.**
- The McKinsey 7s Model focuses on how the **"Soft Ss"** and **"Hard Ss"** elements **are interrelated,** suggesting that **modifying one aspect** might have a **ripple effect** on the other elements in order to **maintain an effective balance**.




**Hard elements are:**

**Strategy:** What steps does the company intend to take to address current and futures challenges?

**Structure:** How is work divided, how do different departments work and collaborate?

**Systems:** Which formal and informal processes is the company's structure based on?

**Soft elements are:**

**Shared Values:** What is the idea the organization subscribes to? Is this idea communicated credibly to others?

**Staff:** This elements refers to employees development and relevant processes, performances and feedback programs etc.

**Skill:** What is the company's base of skills and competencies?

**Style:** This depicts the leadership style and how it influences the strategic decisions of the organization.

**The Hard elements** are **directly controlled by the management**, **they are easily identified & managed/ changed**.

The following elements are the hard elements in an organization.

1. **Strategy:** the direction of the organization, a **blueprint** to **build on a core competency and achieve competitive advantag**e to drive margins and lead the industry
2. **Structure:** depending on the **availability of resources** and the degree of **centralisation or decentralization** that the management desires, it choses from the available **alternatives of organizational structures**.
3. **Systems:** the development of **daily tasks, operations and teams to execute the goals and objectives** in the most efficient and effective manner.

**The Soft elements** are **difficult to define/identify** as they are **intangible**/ more **governed by the culture**, But they are **equally important** in determining an organization's success as well as growth in the industry.

The following are the soft elements in this model;

1. **Shared Values:** The **core values** which get reflected within the organizational culture or **influence the code of ethics** of the management.
2. **Style:** This depicts the **leadership style** and how it **influences** the strategic **decisions of the organisation**. It also **revolves around people motivation and organizational delivery of goals**.
3. **Staff:** The **talent pool of the organisation**.
4. **Skills:** The **core competencies or the key skills of the employees** play a vital role in defining the organizational success.

Limitations of McKinsey 7S Model (Org Framework)

- It ignores **the importance of the external environment** and depicts only the most crucial elements within the organization.
- The model does **not clearly explain the concept of organizational effectiveness** or **performance**.
- The model is considered to be **more static and less flexible** for decision making.
- It is generally criticized for **missing out the real gaps** in conceptualization and execution of strategy

## Organization Structure **(Line of authority)**

Changes in corporate strategy often require changes in the way an organization is structured for two major reasons.

→ **First,** structure largely dictates how **operational objectives** and **policies** will be **established to achieve the strategic objectives.**

For example, objectives and policies established under a **geographic organizational structure** are couched in geographic terms. Objectives and policies are stated largely in terms of **products** in an organization whose **structure is based on product groups.**

**Geographic organizational structure**.

Example: Coca-Cola has four geographic operating segments: Europe, Middle East & Africa; Latin America & North America; and Asia Pacific

→ The **second,** structure dictates **how resources will be allocated to achieve strategic objectives**. If an organization's structure is based on **customer groups**, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along **functional business lines**, then resources are allocated by functional areas.

**According to Chandler**, changes in strategy lead to changes in organizational structure, Chandler found a particular structure sequence to be often repeated as organizations grow and change strategy over time.

**Small firms** tend to **be functionally structured** (centralized).

**Medium-size** firms tend to be (decentralized).

**Large firms** tend to use an **SBU** (strategic business divisionally structured unit) or **matrix structure**.

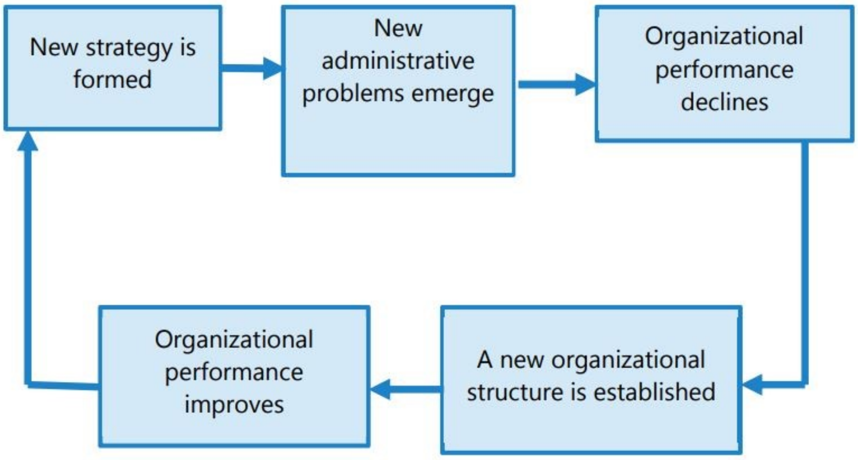



**Figure: Chandler's Strategy-Structure Relationship**

when a firm **changes its strategy**, the **existing organizational structure may become ineffective**.

## Types of Organization Structure

1. Simple Structure
2. Functional Structure
3. Divisional Structure
4. Multi Divisional Structure
5. Strategic Business Unit (SBU) Structure
6. Matrix Structure
7. Network Structure
8. Hourglass Structure

## Simple Structure

- It is where **owner-manager makes all major decisions directly and monitors all activities**, while the **company's staff merely serves as an executor**
- It is most appropriate for companies
  → That follow a **single-business strategy** and offer a line of products in a **single geographic market.**
  → For companies implementing **focused cost leadership or focused differentiation strategies**. (Narrow Market)

Characterise the simple structure are;

- Little specialization of tasks,
- few rules,
- little formalization,
- unsophisticated information systems
- direct involvement of owner-manager in all phases of day-to-day operations.
- communication is frequent and direct,
- new products tend to be introduced to the market quickly, which can result in a competitive advantage

A simple organizational structure may result in **competitive advantages** for some **small companies** relative to their larger counterparts.

These potential competitive advantages include;

→ **broad-based openness to innovation**,

→ **greater structural flexibility,**

→ an ability **to respond more rapidly** to environmental changes.

However, if they are successful, **small companies grow larger**. As a result of this growth, the **company outgrows the simple structure.**

More extensive and complicated information-processing requirements place significant pressures on owner-managers (often due to a lack of organizational skills or experience or simply due to lack of time)

## Functional Structure

A functional structure **groups tasks and activities** by **business function**, such as

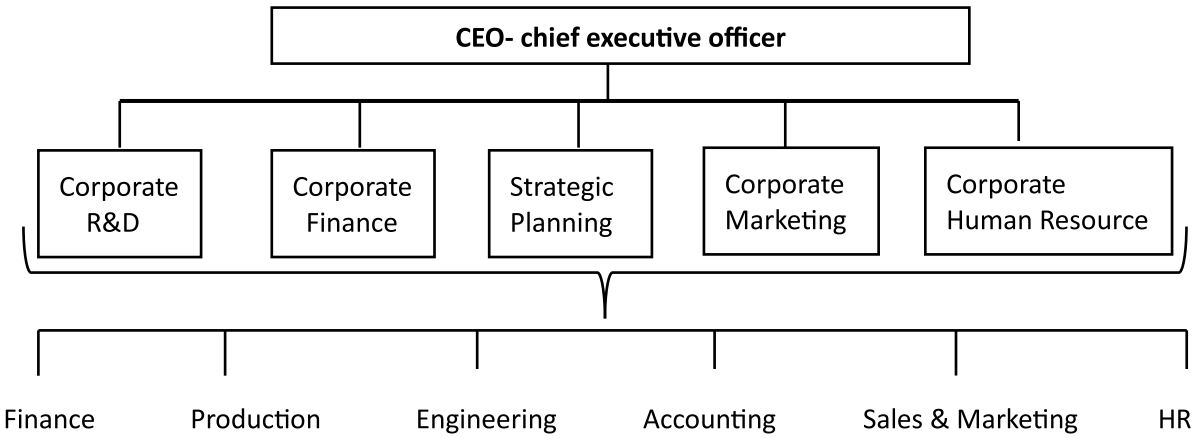
- production/operations,
- marketing,
- finance/accounting,
- research and development,
- Human Recourse
- management information systems

Besides being **simple and inexpensive**, a functional structure also promotes

- **specialization of labour,**
- **encourages efficiency (Division of labour),**
- **minimizes the need for an elaborate control system**
- **allows rapid decision making**

The functional structure consists of a

1. **CEO-chief executive officer or MD- managing director and supported by corporate staff (with)**
2. **Functional line managers in dominant functions such as production, financial accounting, marketing, R&D, engineering, and human resources.**




The functional structure **enables the company to overcome the growth-related constraints** of the simple structure, enabling or **facilitating communication and coordination**

Some potential problems of functional Structure are
- The CEO-chief executive officer **must integrate functional decision-making** and **coordinate actions** of the overall business across functions.
- Functional specialists often may **develop a myopic (narrow) perspective**,
- **losing sight of the company's strategic vision and mission**.

this problem can be overcome by implementing the multidivisional structure.

## Divisional Structure

As a firm, **grows year after year** it faces **difficulty in managing different products and services in different markets**.

Some form of divisional structure generally becomes necessary to
- **motivate employees,**
- **control operations,**
- **compete successfully in diverse locations.**

With a divisional structure, functional activities are performed both
- Centrally level and
- In each division **separately**

The divisional structure can be **organized** in one of the four ways:
1. by geographic area,
2. by product or service,
3. by customer,
4. by process.

**Division by Geographical area**

It is appropriate for organizations
→ whose strategies are formulated to **fit the particular needs and characteristics of customers in different geographic areas.**
→ Org.,having **similar branch facilities** located in widely dispersed areas.

It allows **local participation** in **decision making** and within a **improved coordination** region.

**Division by product or service**

→ It is most effective when specific products or services **need special emphasis**. It is used when an organization offers only a **few products or services**, which **differ substantially**.
→ It allows **strict control** over and **attention to product lines**, but it may also require a **more skilled management force** and **reduced top management control**.

For example, General Motors, Procter & Gamble use a divisional structure by product to implement strategies.

**Division by customer**

This structure allows an organization to cater effectively to the requirements of clearly defined customer groups.

For example,
→ **Book-publishing companies** often organize their activities around customer groups such as **colleges, secondary schools, and private commercial schools**.
→ **Airline companies** have two major customer divisions: **passengers and freight or cargo services**.
→ **Banks** are often organised in divisions such as **personal banking & corporate banking**, etc.

**Division by process**

Similar to a functional structure, because **activities are organized according to the way work is actually performed.**

**Note:** Key difference between these two designs is that functional departments are not **accountable for profits** or **revenues**, whereas divisional process departments are **accountable for profits or revenue.**

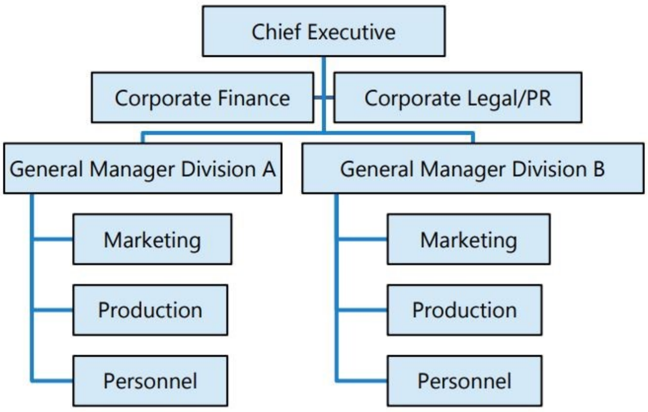



**Figure: Divisional Structure**

Advantages of divisional structure

1. Creates **career development opportunities** for managers,
2. **Allows local control of local situations**,
3. Leads to a **competitive climate** within an organization
4. **Allows new businesses and products in be added easily**
5. **Accountability is clear**, divisional managers can be **held responsible for sales and profit levels**.
6. **Employee morale is generally higher** in a divisional structure than it is in centralized structure.

Di-advantages of divisional structure

1. Divisional structure **is costly**, for a number of reasons.
2. Each division requires **functional specialists** who must be paid high salaries.
3. There exists **some duplication of staff services, facilities, and personnel**; for instance, **functional specialists are also needed centrally (at headquarters) to coordinate divisional activities**.
4. **Managers must be well qualified** because the divisional design forces **delegation of authority better-qualified individuals requires higher salaries**.
5. It requires an elaborate, headquarters-driven control system.
6. **certain regions, products, or customers may sometimes receive special treatment, and It may be difficult to maintain consistent, companywide practices.**

## Multi Divisional Structure

In this structure **each division represents a separate business** to which the top corporate officer **delegates responsibility** for

→ day-to-day operations and

→ business unit strategy

to division managers.

| |
|---|
| Diff between Divisional & Muli-divisional structure<br>In Multi-divisional structure, **Corporate level will only take care of corporate strategies** |

| BUT<br>In divisional structure, **all 3** (Corporate, Business & Functional/Day to day **strategy) was created by Corporate level**. |
|---|

By such delegation, the corporate office is
→ responsible for formulating and implementing overall corporate strategy
→ manages divisions through strategic and financial controls.

Needs for M-form structure

- Multidivisional or M-form structure was **developed in the 1920s**, in response to **coordination- and control-related problems in large firms.**
- **Functional departments often had difficulty dealing with distinct product lines and markets**, especially in coordinating conflicting priorities among the products.
- Costs were **not allocated to individual products**, so it was not possible to assess an individual product's profit contribution.
- Due to **loss of control** meant that **optimal allocation of firm resources between products was difficult** (if not impossible).
- **Top managers became overinvolved in solving short-run problems** (such as coordination, communications, conflict resolution) and **neglected long-term strategic issues**.

Characteristics of Multidivisional structure:

- **Creating separate divisions, each representing a distinct business**
- **Each division would house its functional hierarchy**
- **Division managers would be given responsibility for managing day-to-day operations;**
- **A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions**.

## Strategic Business Unit (SBU) Structure

This structure is relevant to **multi-product, multi-business** enterprises.
Ex: TATA & Reliance.

It is impractical for an enterprise with a multitude of businesses to provide separate strategic planning treatment to each one of its products/businesses; it has to necessarily **group the products/businesses into a manageable number of strategically related business units** and then take them up for strategic planning.

**An SBU is a grouping of related businesses**, which is amenable to **composite planning treatment**. As per this concept, a multi-business enterprise groups its multitude of businesses into a **few distinct business units** in a **scientific way. The purpose is to provide effective strategic planning treatment to each one of its products/businesses.**

The three most important characteristics of a SBU are

1. It is a **single business or a collection of related businesses** which offer **scope for independent planning** and which might feasibly standalone from the rest of the organization.
2. It has **its own set of competitors**.
3. It has a **manager who has responsibility for strategic planning and profit performanc**e, and who has control of profit-influencing factors.

A strategic business unit (SBU) structure consists of at least three levels, with
- Corporate headquarters at the top,
- SBU groups at the second level, and
- divisions grouped by relatedness within each SBU at the third level.

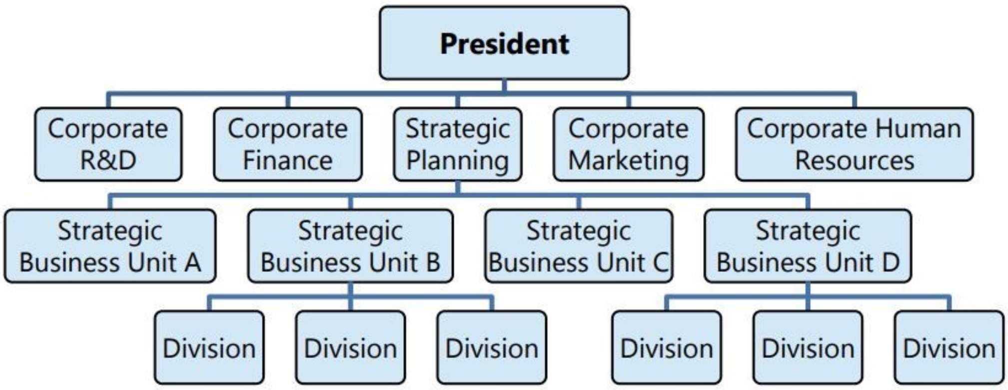



**Figure: SBU Structure**

**<u>Within each SBU,</u>**
→ Each divisions are related to each other &
→ Other SBU Groups unrelated to each other
→ divisions **producing similar products and/or using similar technologies** can be organised to **achieve synergy**.

Individual SBUs are treated as **profit centres** and controlled by **corporate headquarters** that can **concentrate on strategic planning rather than operational control** so that individual divisions can react more quickly to environmental changes.

**All related products**-related from the standpoint of "function"-**should fall under one SBU.**

<u>The attributes of an SBU and the benefits a firm may derive by using the SBU Structure are as follows:</u>
1. A **scientific method** of grouping the businesses of a multi-business corporation which helps the firm in **strategic planning**.
2. An **improvement over the territorial grouping of businesses** and **strategic planning** based on territorial units.
3. An **SBU is a grouping of related businesses** that can be taken up for strategic planning distinct from the rest of the businesses. **Products/businesses within an SBU receive same strategic planning treatment and priorities**
4. Each SBU will have its **own distinct set of competitors and its own distinct strategy**.
5. Each SBU is a **separate business** from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be **distinct** from another.
6. Each SBU will have a **CEO**. He will be **responsible for strategic planning** for the SBU and its **profit performance**; he will also have control over most of the **factors affecting the profit** of the SBU.
7. SBUs might build on **similar technologies**, or all **provide similar sorts of products or services**.
8. SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar.
   Example: ITC & Unilever

## Matrix Structure

Its **dual line of authority**.

In matrix structure, **functional and product forms are combined** simultaneously at the same level of the organization.

Employees have **two superiors**,

→ a **product or project manager and**

→ **a functional manager**.

The "home" department - that is, engineering, manufacturing, or marketing - is usually functional and is reasonably permanent.

People from these functional units are often **assigned temporarily** to one or more product units or projects. The product units or projects are **usually temporary and act like divisions** in that they are differentiated on a product-market basis.

Characteristics of a matrix structure that contribute to **overall complexity** include

- Dual lines of **authority** (a violation of the unity command principle), - Generally one person should be the head for reporting BUT it is violated in matrix structure.
- Dual sources of **reward and punishment**,
- **Shared authority**,
- **Dual reporting channels**, and
- Need for **an extensive and effective communication system.**

Advantages of a matrix structure are

- **project objectives are clear**,
- there are many **channels of communication**
- workers can see the **visible results of their work**, and
- **shutting down a project is accomplished relatively easily**.

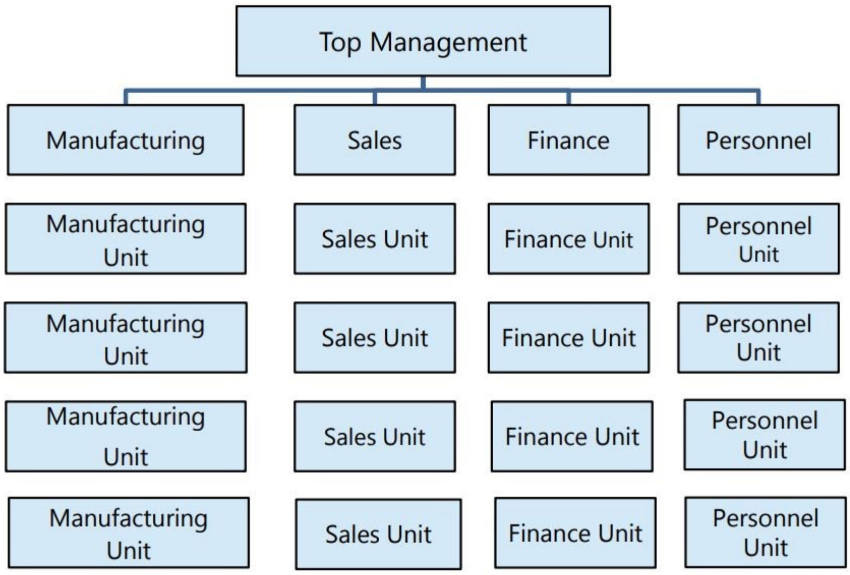



**Figure: Matrix Structure**

For development of **matrix structure** **<u>Davis and Lawrence</u>, have proposed three distinct phases**

1. **<u>Cross-functional task forces</u>**: **Temporary cross-functional task forces** are initially used when a **new product line is being introduced**. A project manager is in charge as the key horizontal link. (We execute **all** kind of project with single project manager-like Education, marriage, corporate, political, etc.,)

2. **<u>Product/brand management:</u>** If the **cross-functional** task forces become **more permanent**, the **project manager becomes a product or brand manager** and a second phase begins. In this arrangement, function is still the primary organizational structure, but **product or brand managers act as the integrators of semi-permanent products or brands**.
   (Once we get multiple projects in same industry, semi-permanently we decide a person to handle such projects) Same project can also be given to other project manager at any time.

3. **<u>Mature matrix:</u>** The third and final phase of matrix development involves a **true dual-authority structure**. Both the functional and product structures are **permanent**. All employees are connected to both a vertical functional superior and a horizontal product manager. Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.
   (Once we develop & start getting specific projects, we create differ project managers for different specialisation permanently, like for all wedding, person events- Event Manager, For Educational events- Edu Project manager)

However, the matrix structure is **not very popular because of difficulties in implementation and trouble in managing.**

## <u>Network Structure</u>

Big brands like Airtel, H&M, Parle-G, Mama Earth and ZARA**, They outsource the main production work & just label there brand, there operations function are in the form of subcontracting manufacturing to other companies in low-cost.**

- The network structure is an example of what could be termed a **"non-structure**" by its virtual **elimination of in-house business functions**. Many activities are **outsourced**.
- A corporation organized in this manner is often called a **virtual organization** because it is composed of a **series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks**.
- This structure is useful **when the environment of a firm is unstable** and is expected to remain so. Under such conditions, there is usually a **<u>strong need for innovation and quick response</u>**. Instead of having salaried employees, **it may contract with people for a specific project or length of time**.
- **Rather than being located in a single building or area,** an organization's business functions are **scattered at different geographical locations**.
- The organization is, in effect, **only a shell**, with a **small headquarters acting as a "broker**", **electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent organisation.**

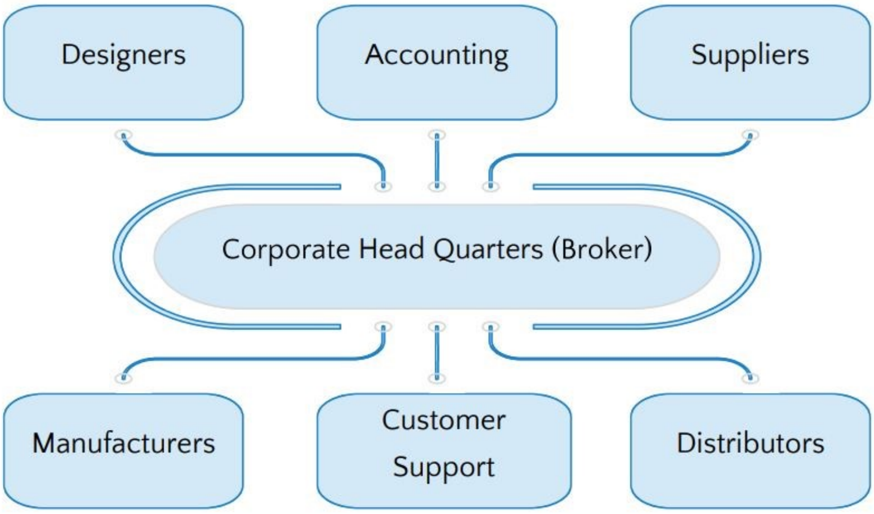



**Figure: Network Structure**

The network organization structure provides an organization

→ with **increased flexibility and adaptability** to cope with **rapid technological change** and **shifting patterns of international trade and competition.**

→ It allows a company to **concentrate on its distinctive competencies**, while **gathering efficiencies from other firms who are concentrating their efforts in their areas of expertise**.

<u>Disadvantages of Network structure.</u>

1. The availability of **numerous potential partners** can be a source of trouble (Finding so many partners to work with us in long term is difficult).
2. Contracting out functions to s**eparate suppliers/distributors may keep the firm from discovering any synergies by combining activities** (We do not work with any partner for long term, only on requirement basis in Geography).
3. If a particular firm **over specialises** on only a few functions, it runs the risk of **choosing the wrong functions** and thus **becoming non-competitive** (Only Few set of Partners will be more specialized & others are not , hence we cannot be competitive in market).
4. **Employees may lack the level of confidence** necessary to participate actively in organization-sponsored learning experiences (Employees can be removed at any time).
5. The **flatter organizational structures** that accompany contemporary structures can seem **intrusive**/**causing disruption or annoyance** as a result of **their demand for more intense and personal interactions with internal and external stakeholders.**
   (Unable to add additional SUB/biz & Partners or employee's wants to communicate directly to management).

## Hourglass Structure

- In the recent year's **information technology and communications** have **significantly altered the functioning of organizations.**
- The role played by **middle management is diminishing** as the **tasks performed by them are increasingly being replaced by the technological tools**.
- Hourglass organization structure consists of three layers with **constricted middle layer**. The structure has a short and narrow middle-management level.
- **Information technology** links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers.

- A shrunken middle layer coordinates diverse lower-level activities.
- Contrary to traditional middle level managers who are often specialist**, the managers in the hourglass structure are generalists and perform wide variety of tasks**. They would be handling cross-functional issues emanating such as those from marketing, finance or production.

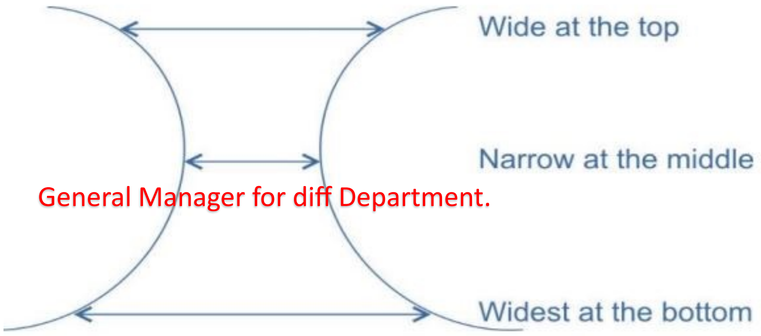



**Figure: Hourglass Organisation Structure**

<u>Hourglass structure has obvious **benefit** like</u>
- **reduced costs**
- helps in **enhancing responsiveness** by simplifying decision making.
- Decision making authority is **shifted close to the source of information** so that it is faster.

<u>**Problems** of this structure</u>
- with the reduced size of middle management the **promotion opportunities for the lower levels diminish significantly.**
- **Continuity at same level may bring monotony and lack of interest** and it **becomes difficult to keep the motivation levels high**.

<u>The above mentioned problems are overcome by</u>
- Assigning challenging tasks,
- Transfer to different departments and
- Proper rewards for performance.

# ORGANIZATION CULTURE
- It is Organisations **internal working environment**.
- Every organisation has a **unique organizational culture**.
- It has its **own philosophy and principles, its own history, values, and rituals, its own ways of approaching problems and making decisions, its own work climate**.
- It has its **own embedded patterns of how to do things**. Its own ingrained **beliefs and thought patterns**, and **practices** that define its corporate culture.

| |
|---|
| Corporate culture refers to a company's **values, beliefs, business principles, traditions, ways of operating, and internal work environment.** |

**Where Does Corporate Culture Come From?**
A significant part of a company's culture **emerges from the stories that get told over and over again to illustrate to newcomers** the importance of **certain values and beliefs and ways of operating**.

A company's culture is **manifested** in the **values and business principles** that management **preaches and practices,** in its **ethical standards and official policies**, in its **stakeholder relationships** (especially its dealings with employees, unions, stockholders, vendors, and the communities in which it operates).

**Culture: Ally(Support) or obstacle to strategy execution?**

- An organization's culture is **either an important contributor or an obstacle** to successful strategy execution.
- The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy **may or may not be compatible with its culture**.
- When they are compatible, the culture becomes a valuable ally in strategy implementation and execution.
- When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the **culture becomes a stumbling block** that impedes successful strategy implementation and execution.

# STRATEGIC LEADERSHIP

Strategic/ Corporate Managers have **five leadership roles** to play in pushing for good strategy execution;

1. Staying on top of **what is happening, closely monitoring progress**, **solving out issues**, and learning **what obstacles lie in the path** of good execution.
2. Promoting a culture of **esprit de corps** (**Team Spirit**) that **mobilizes and energizes organizational members to execute strategy** in a competent fashion and **perform at a high level**.
3. Keeping the organization **responsive to changing conditions**, **alert for new opportunities**, **bubbling with innovative ideas**, and **ahead of rivals** **in developing competitively valuable competencies and capabilities**.
4. Exercising **ethical leadership** and insisting that the company **conduct its affairs** like a **model corporate citizen.**
5. Pushing **corrective actions** **to improve strategy execution and overall strategic performance**.

Leadership role in implementation:

The strategic leaders must be able to **use the strategic management process effectively** by guiding the company in ways that **result in the formation of strategic intent and strategic mission, facilitating the development and implementation of appropriate strategic plans** and **providing guidance to the employees for achieving strategic goals.**

Strategic leadership has the **ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessitated by external environment**. In other words, **strategic leadership represents a complex form of leadership in companies**.

A Strategic leader has several responsibilities, including the following: **(MMS)**

1. Making **strategic decisions**.
2. Formulating **policies** and action plans to implement strategic decision. MAKE
3. Creating and sustaining strong **corporate culture**.
4. Ensuring **effective communication** in the organisation.
5. Managing **human capital** (perhaps the most critical of the strategic leader's skills). MANAGE
6. Managing **change** in the organisation.
7. Sustaining **high performance** over time SUSTAIN


**Figure: Strategy Design and Implementation: Interrelationship of Elements**

Difference between transformational leadership style and transactional leadership style.

| Transformational leadership style | Transactional leadership style |
|---|---|
| • They uses **charisma and enthusiasm** to **inspire people** to exert them for the good of the organization. | • It focuses more on **designing systems** and **controlling** the organization's activities and with improving the current situation. |
| • It may be appropriate in<br>→ turbulent environments, **enhance current practices**<br>→ in industries at the **very start or end** of their life-cycles,<br>→ in **poorly performing** organizations when there is a **need to inspire** a company to embrace major changes. | • It may be appropriate or suited in<br>→ **static environment**,<br>→ in **mature or growing** industries<br>→ in organizations that are **performing well**. |
| • Transformational leaders offer **excitement, vision, intellectual stimulation** and **personal satisfaction** | • Transactional leaders try to build on the **existing culture** and **enhance current practices** |
| • Such a leadership **motivates followers** to do more than originally affected to do by **stretching their abilities and increasing their self-confidence,** and also **promote innovation** throughout the organization. | • Transactional leadership style uses the **authority** of its office to exchange **rewards**, such as **pay and status.** |
| | • They prefer a more **formalized approach to motivation**, setting **clear goals** with **explicit rewards or penalties** for achievement or non-achievement. |
| • Examples: Jeff Bezos, mark Zuckerberg, Steve jobs | • Example: Bill gates, Mukesh Ambani, Elon Musk |

# STRATEGIC CONTROL

**Types of organizational control,**

1. Operational control,
2. Management control and
3. Strategic control

## Operational Control:

- The thrust of operational control is on **individual tasks** or **transactions** as against total or more aggregative management functions.
  For example, **procuring specific items for inventory** is a matter of operational control, in contrast to inventory management as a whole.
- One of the tests that can be applied to identify operational control areas is that **there should be a clear-cut and somewhat measurable relationship** between **inputs and outputs** which could be **predetermined or estimated with least uncertainty**.
  (We do not consider the individual department/over all department operation BUT we get inside the department and see the task & control any individual task)

Some of the examples of operational controls can be

→ **stock control** (maintaining stocks between set limits),
→ **production control** (manufacturing to set programmes),
→ **quality control** (keeping product quality between agreed limits),
→ **cost control** (maintaining expenditure as per standards),
→ **budgetary control** (keeping performance to budget).

## Management Control:

- When compared with operational control, management control is **more inclusive and more aggregative,** in the sense of embracing the **integrated activities of a complete department**, **division** or **even entire organisation**, instead or mere narrowly circumscribed activities of sub-units.
- The basic purpose of management control is **achievement of enterprise goals** – **short range and long range** – in a most **effective and efficient manner.**
- (We consider the entire department & control them in Aggregate way & also Include every operation inclusive in it)

The term management control is defined by Robert Anthony as 'the **process by which managers assure the resources are obtained** and **used effectively and efficiently in the accomplishment of the organisation's objectives**. Controls are necessary to influence the behaviour of events and ensure that they conform to plans.

## Strategic Control:

According to Schendel and Hofer "Strategic control **focuses on the dual questions of whether**:
(1) the **strategy is being implemented as planned**; and
(2) the **results produced by the strategy are those intended**."

- There is often a **time gap** between the stages of **strategy formulation** and **its implementation**.
- **A strategy might be affected on account of changes in internal and external environments** of organisation.

- Strategic control is the **process of evaluating strategy as it is formulated and implemented**. It is directed towards **identifying problems and changes in premises/assumption and making necessary adjustments**.

Types of Strategic Control:

1. Premise control
2. Strategic surveillance
3. Special alert control:
4. Implementation control

## A. Premise control:

- **A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment.**
- Over a period of time **these premises may not remain valid**.
- Premise control is a **tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built**.

It primarily involves monitoring two types of factors:

1. Environmental factors- such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory. (MACRO Environment)
2. Industry factors- such as competitors, suppliers, substitutes. (MICRO Environment)

It is **neither feasible nor desirable to control all types of premises/assumption in the same manner. Different premises may require different amount of control.** Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

## B. Strategic surveillance: (CCTV Surveillance)

- Contrary to the premise control, the strategic surveillance is **unfocussed**. It involves **general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.** It involves casual environmental browsing.
- Reading financial and other newspapers, business magazines, attending meetings, conferences, discussions and so on can help in strategic surveillance.
- Strategic surveillance may be **loose form of strategic control** but is **capable of uncovering information relevant to the strategy.**

## C. Special alert control:

- At times, **unexpected events** may force organizations to reconsider their strategy.
- Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- To cope up with such eventualities, the organisations form **crisis management teams to handle the situation.**

**D. Implementation control:**

- Managers implement strategy by **converting major plans into concrete, sequential actions** that form incremental steps. **(to implement the strategy manager creates a plan & dived the plan into multiple parts/milestone)**
- Implementation control is directed towards **assessing the need for changes in the overall strategy in light of unfolding events** and **results associated with incremental steps and actions**.
**(We check for any changes needed/are we performing in proper way before going to next step- we cross check with milestone)**
- Strategic implementation control is **not a replacement to operational control**. Unlike operational control, it **continuously monitors the basic direction of the strategy**.
**(We convert Strategy into plan & every plan is converted into mile stones to be achieved, after every mile stone we check for any changes needed)**

## STRATEGIC PERFORMANCE MEASURES (SPM)

→ Whether the strategy created by top level is working or not? Are we achieving goals?
→ Functional level is understanding the strategy created by corporate level or not?
→ How do we measure functional level performance in accordance with strategy?

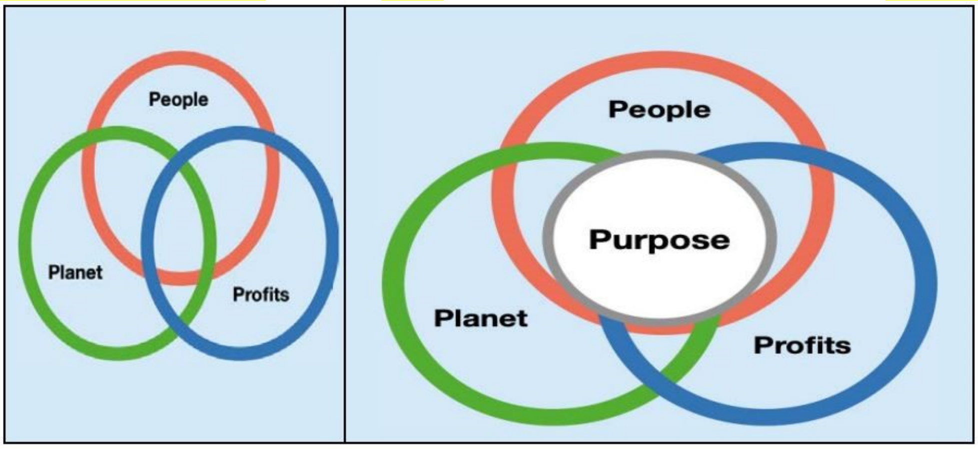
"Strategic performance measure is the **mechanism to monitor progress towards achievement of goals".**

It is a method that **increases line executives' understanding/to make functional level understand** an organization's **strategic goals** and offers a **continuous system for tracking progress towards these objectives using clear-cut performance measurements.**

Strategic performance measures are **key indicators** that organizations use to **track the effectiveness of their strategies** and **make informed decisions about resource allocation.**
Types of Strategic Performance Measures

1. **Financial Measures:** Financial measures, such as **revenue growth**, **return on investment (ROI),** and **profit margins**, provide an understanding of the organization's financial performance and its ability to generate profit.
2. **Customer Satisfaction Measures:** Customer measures, such as **customer satisfaction, customer retention, and customer loyalty,** provide insight into the organization's ability to meet customer needs and provide high-quality products and services.
3. **Market Measures:** Market measures, such as **market share, customer acquisition, and customer referrals**, provide information about the organization's competitiveness in the marketplace and its ability to attract and retain customers.
4. **Employee Measures:** Employee measures, such as **employee satisfaction, turnover rate, and employee engagement**, provide insight into the organization's ability to attract and retain talented employees and create a positive work environment.
5. **Innovation Measures:** Innovation measures, such as **research and development (R&D) spending, patent applications, and new product launches**, provide insight into the organization's ability to innovate and create new products and services that meet customer needs.
6. **Environmental Measures:** Environmental measures, such as **energy consumption, waste reduction, and carbon emissions reduction**, provide insight into the organization's impact on the environment and its efforts to operate in a sustainable manner.

| Toward More Holistic Measures of Strategic Performance |
|---|
| • Development of management thought and practice has persistently pushed the frontier of strategic performance beyond financial metrics.<br>• Thus, the Triple Bottom Line framework (TBL) emphasises **People** and **Planetary** Concerns besides **profitability** or Economic Prosperity alone.<br>• The Quadruple Bottomline adds the 4th P to add a spiritual dimension named 'Purpose.' |




The Importance of Strategic Performance Measures

(Organisation should know whether it is performing well or not , are they improve & were to use its resources and not to use).

1. **Goal Alignment:** Strategic performance measures **help organizations align their strategies with their goals and objectives**, ensuring that. **they are on track to achieve their desired outcomes.**
2. **Resource Allocation:** Strategic performance measures provide organizations with the information they need to make **informed decisions about resource allocation**, enabling them to **prioritize their efforts and allocate resources to the areas** that will have the greatest impact on their performance.
3. **Continuous Improvement:** Strategic performance measures provide organizations with a **framework for continuous improvement**, enabling them to **track their progress and make adjustments to improve their performance over time**.
4. **External Accountability:** Strategic performance measures help organizations demonstrate **accountability to stakeholders**, including shareholders, customers, and regulatory bodies, by **providing a clear and transparent picture of their performance.**

Choosing the Right Strategic Performance Measures

In selecting the right measures, organizations should consider the following factors:

1. **Relevance:** The measure should be **relevant to the organization's goals and objectives** and provide **information that is actionable and meaningful**.
2. **Data Availability:** The measure should be **based on data that is readily available** and can be **collected and analysed in a timely manner**.
3. **Data Quality:** The measure should be based on **high-quality data that is accurate and reliable**.
4. **Data Timeliness:** The measure should be based **on data that is current and up-to-date, enabling organizations to make informed decisions in a timely manner**.