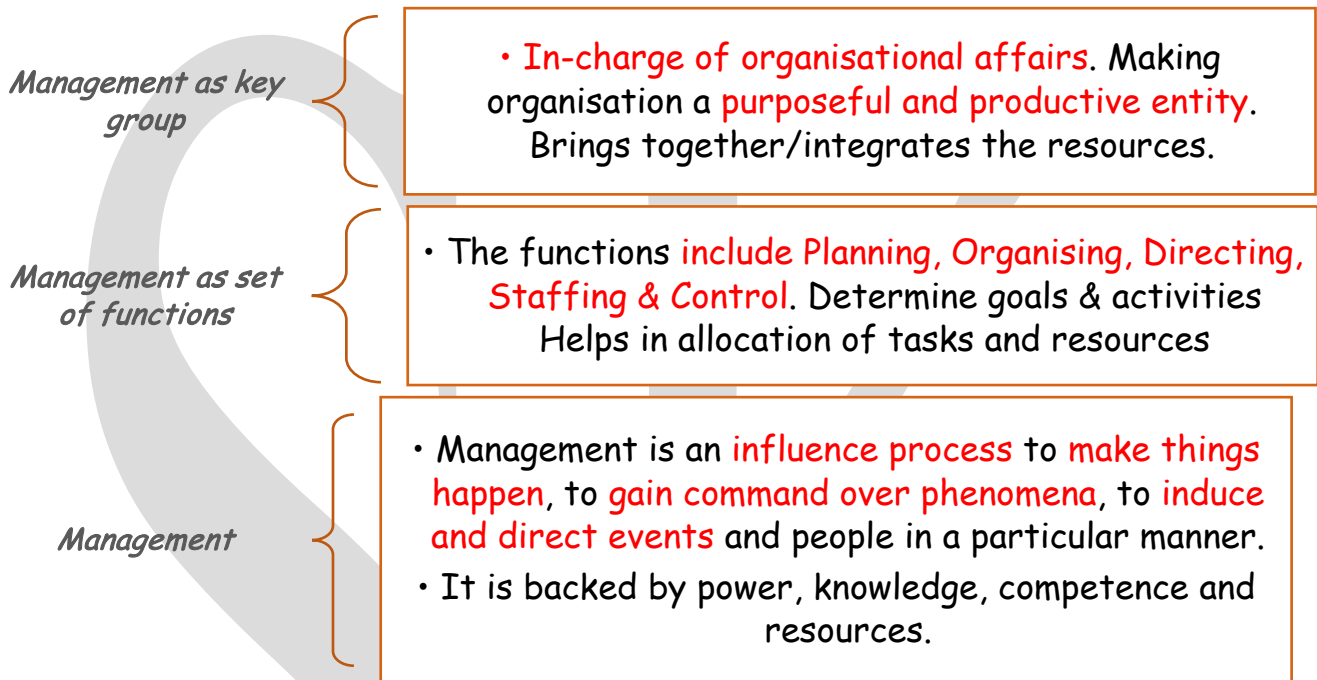


# Chapter - 1

## Introduction to Strategic Management

### Meaning and Nature of Strategic Management



### Concept of Strategy

- ◆ It is a **long term blueprint** of **desired image, direction** and **destination** i.e. what it wants to be and where it wants to be.
- ◆ It is used to take market position, **conducts its operations, attract and satisfy customer, compete successfully**.
- ◆ It is **game plan** or ways to **respond to dynamic and hostile external forces** by top level to **pursue vision, mission and objectives**.
- ◆ It is **no substitute** for sound, alert and **responsible management**.
- ◆ It can **never be perfect, flawless and optimal**.
- ◆ As per William F. Glueck, 'A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved'.

### Strategy is Partly Proactive and Partly Reactive

A company's strategy is typically a blend of:

- ◆ **Proactive actions** on the part of managers to **improve the company's market position and financial performance.**
- ◆ **Reactions** to **unanticipated developments** and **fresh market conditions** in the dynamic business environment.

In other words, a company uses both proactive and reactive strategies to cope up the uncertain business environment. **Proactive strategy is planned strategy** whereas **reactive strategy is adaptive reaction** to changing circumstances.

### Strategic Management

- ▶ It 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**.
- ▶ Strategic management emphasizes the **monitoring and evaluation of external opportunities and threats** in the light of a **company's strengths and weaknesses** and **designing strategies for the survival and growth** of the company.
- ▶ It has two fold **objectives**:
  - To **create competitive advantage** (unique and valued by customer) so that company can **outperform competitors.**
  - To **guide** the company successfully **through all changes in the environment** i.e. to reach in the right manner.

### Importance/Advantages of Strategic Management

- ▶ **Charles Darwin:- 'Survival of the fittest'**, 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.
- ▶ Many **business giants** have followed the **path of extinction** failing to manage drastic changes in the business environment.  
Thus, it **becomes imperative to study Business Strategy.**
- ▶ The major **benefits** of strategic management are:
  - Gives **direction to define goal, mission and objectives**
  - **Proactive** instead of just being reactive

- Framework for major decisions
- To face the future
- Defence mechanism against mistakes and pitfalls
- Develop core competencies
- Enhance the longevity

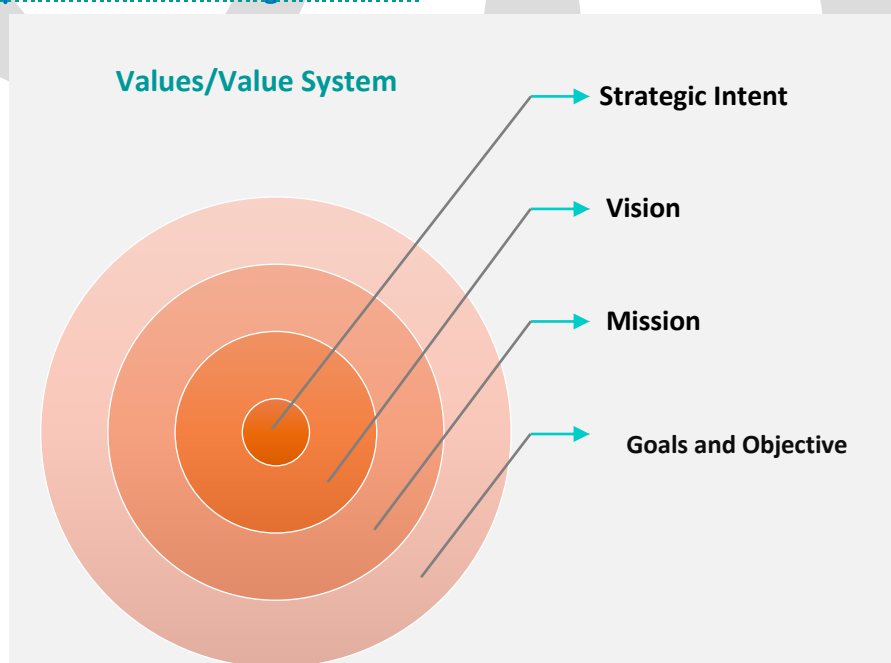
## Limitations Of Strategic Management

- (a) Complex and turbulent environment
- (b) Time consuming process
- (c) Costly process
- (d) Difficult to estimate competitor reaction or response

## Strategic Intent (Vision, Mission, Goals, Objectives & Values)

- It refers to purposes of what the organisation strives for
- Senior managers must define "what they want to do" and "why they want to do".
- It provides the framework within which the firm would operate to achieve strategic objectives.
- Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.
- It could be in the form of vision and mission statements for the organisation at the corporate level.
- It is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.

### ► Component of Strategic Intent



## Vision:

- »» By the top management.
- »» It tells us "where we want to be"
- »» It is the blueprint of future position.
- »» It communicates management aspirations to stakeholders.
- »» It define directional path, company should take in product, customer, market, technology.

### »» Essentials of a strategic vision

- ✓ Think creatively about how to prepare a company for the future.
- ✓ Vision involves exercise in intelligent entrepreneurship.
- ✓ Vision creates enthusiasm among the members of the organisation.
- ✓ Vision statement clearly illuminates the direction.

## Mission:

- »» It tells us 'what business are we in and what we do'.
- »» It states what customer it serves, what need it satisfies and what type of product it offers.
- »» It is the way to get to the vision.
- »» Many firms fail to articulate mission with clarity.
- »» Things to be kept in mind while writing mission
  - Gives organisation its own special identity
  - Defines needs to satisfy, target customer group, technologies and competencies it uses.
  - Unique to the organisation.
- »» *Why should an organisation have a mission?*
  - ✓ To ensure unanimity of purpose within the organisation.
  - ✓ To develop a basis, or standard, for allocating organisational resources.
  - ✓ To provide a basis for motivating the use of the organisation's resources.
  - ✓ To establish a general tone or organisational climate, to suggest a business-like operation.
  - ✓ To serve as a focal point for those who can identify with the organisation's purpose and direction.
  - ✓ To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.

- ✓ To specify organisational purposes and the **translation of these purposes into goals** in such a way that cost, time, and performance parameters can be assessed and controlled.

### »» *What is our mission and what business are we in?*

- ✓ As per **Peter Drucker and Theodore Levitt**, company should raise basic questions and get correct & meaningful answer:
  - What is our mission?
  - What is our ultimate purpose?
  - What do we want to become?
  - What kind of growth do we seek?
  - What business are we in?
  - Do we understand our business correctly?
  - Whom do we intend to serve?
  - What human need do we intend to serve?
  - What brings us to this particular business?
  - What would be the nature of business in future?
  - In what business would we like to be in future?

**For example:** Lakme - what business are we in?

Production oriented answer: In the factory we make cosmetics

Marketing oriented answer: In the retail outlet, we sell hope

Vision	Mission
It describes future identity	It is an ongoing and time independent guide
It is success	It is a key to success
It tells us "where we want to be"	It tells us, "what we are and what we do"
It is specific in terms of future and time frame	Mission if crafted well can remain in existence for a very long time
It motivates the people to achieve defined objectives	It provides a path to realise the vision.

## Goals and Objectives:

»»Goals are **open-ended attributes** that **denote the future states or outcomes**.

»»Objectives are **close-ended attributes** which are **precise and expressed in specific terms**.

»»Accordingly, we will also use the term interchangeably.

»»Objectives are organisation's performance targets.

»»Objectives serves as yardsticks for tracking an organisation's performance and progress.

»» Thus, the Objectives are more specific and translate the goals to both long term and short-term perspective.

»»Objectives must possess the following characteristics:

- ✓ They should be concrete and specific.
- ✓ They should be measurable and controllable.
- ✓ They should be challenging.
- ✓ They should provide standards for performance appraisal.
- ✓ They should be related to a time frame.
- ✓ Different objectives should correlate with each other.
- ✓ They should define the organisation's relationship with its environment.
- ✓ They should be facilitative towards achievement of mission and purpose.
- ✓ They should provide the basis for strategic decision-making.
- ✓ Objectives should be set within the constraints of organisational resources and external environment.

»»Long-term objectives: To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

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

### Values:

»»E.g. Integrity, trust, accountability, innovation and diversity

»»It sets the tone for how the people think and behave, especially in situations of dilemma.

»»It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success.

»»It have both internal as well as external implications.

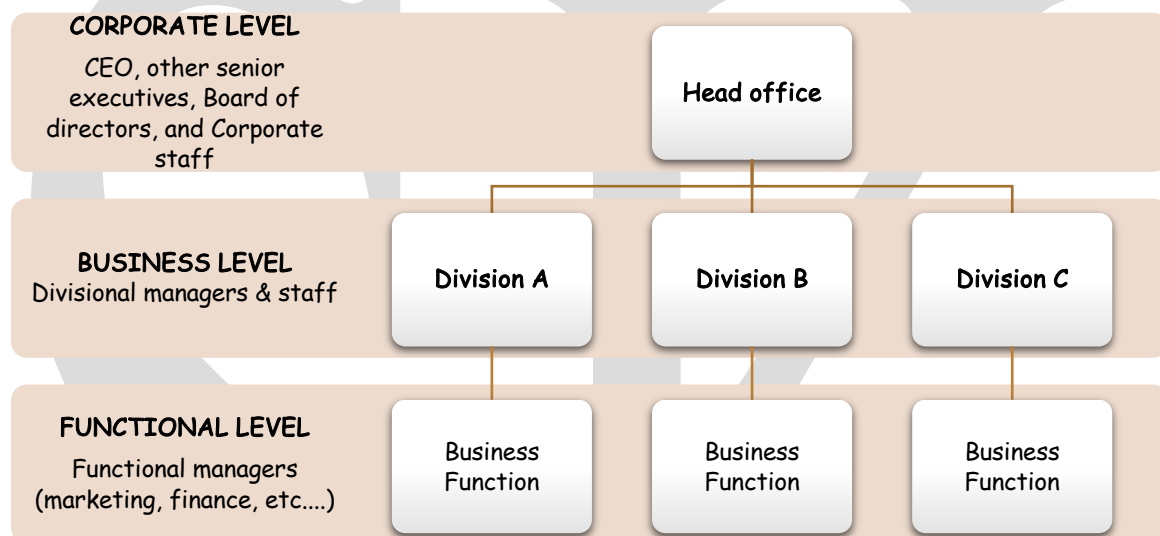
»»It remain the core of vision, mission, goals and objectives and putting them all into action.



## Intent Vs Values:

- »»Intent is the purpose of doing business.
- »»Values are the principles that guides decision making of business.
- »»They both go hand in hand, while the intent is driven by values.
- »»So, values are more broader than intent.

## Strategic Levels In Organisations



### »»Corporate Level

- ›It consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff.
- ›They participate in strategic decision making and oversee development of strategies for whole organization.
- ›For this his task includes:
  - a) Defining mission and goals of Organization
  - b) Determining what businesses, it should be in
  - c) Allocating resources among different divisions
  - d) Formulating and implementing strategies that span individual businesses
  - e) Providing leadership for Organization
  - f) Acts as a linkage between Management and Shareholders

›Corporate level managers, especially CEO is viewed as guardian of shareholder welfare and must make strategies to maximize the wealth of shareholders.

### »»Business or Divisional Level

- ›A Principle General Manager or Business level manager is head of a division.

- › They are **responsible for working of Division** and overseeing all functions of the Division or a particular business.
- › They are responsible to **translate** general statements of **direction of Corporate Level into concrete business plans**.
- › They should **listen to the functional level managers**.

### »»Functional Level

- › They are responsible for specific business functions in a division or company like marketing, Research & Development, Human Resource, Finance etc.
- › Thus, a functional manager's sphere of **responsibility** is generally **confined to one organizational activity or area**.
- › Functional managers are also responsible for
  - a) **developing functional strategies in their area** to fulfil strategic objectives set by corporate and business level managers; and
  - b) **implementing/ executing strategies of corporate level and business level managers**.
- › They are **closer to customers** and **provide** most of **information** that enable corporate level and business level managers **to formulate realistic and attainable strategies**.

### Network of relationship between the three levels

The corporate level decides what the business want to achieve while the business level draws ideas and plan to execute the same, which eventually flow down to functional level to execute and achieve results. There are many ways in which all the 3 levels of management are interlinked.

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

<i>Functional and Divisional Relationship</i>	<ul style="list-style-type: none"> <li>- It is an <b>independent relationship</b>, where each function or a division is run independently <b>headed by the function/division head, reporting directly to the business head</b>, who is a corporate level manager.</li> <li>- Functions maybe like Finance, Human Resources, Marketing, etc. while Divisions may depend on the products like for a toys manufacturer - kid's toys, teenager toys, etc. could be divisions.</li> </ul>
<i>Horizontal Relationship</i>	<ul style="list-style-type: none"> <li>- <b>All positions</b>, from top management to staff-level employees, are in the <b>same hierarchical position</b>.</li> </ul>



	<ul style="list-style-type: none"><li>- It is a <b>flat structure</b> where everyone is considered at same level.</li><li>- This <b>leads to openness and transparency</b></li><li>- It <b>focus</b> more on <b>idea sharing and innovation</b>.</li><li>- This type of relationship between levels is more <b>suitable for startups</b> where the need to share ideas with speed is more desirable.</li></ul>
<b>Matrix Relationship</b>	<ul style="list-style-type: none"><li>- It features a <b>grid-like structure</b> of levels in an organisation, with <b>teams formed with people from various departments</b> that are built <b>for temporary task-based projects</b>.</li><li>- This relationship <b>helps manage huge conglomerates</b> with ease where it is nearly impossible to track and manage every single team independently.</li><li>- In Matrix relationship - there are <b>more than one business level managers for each functional level teams</b>.</li><li>- It is <b>complex for smaller organisations</b>, but <b>extremely useful for large organisations</b>.</li></ul>

# Chapter - 2

## Strategic Analysis: External Environment

### Strategic Analysis

- ▶ 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**.
- ▶ The two important situational considerations are:
  - (1) **industry and competitive conditions**, and
  - (2) an organisation's **own capabilities, resources, internal strengths, weaknesses, and market position**.
- ▶ The strategic analysis is a continuous process with two limitations:
  - ▶ First, 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.
  - ▶ Second, it can be **time consuming** at times, hurting overall organisational functioning.

#### Issues to consider for Strategic Analysis:

<i>(a) Strategy evolves over a period of time</i>	<ul style="list-style-type: none"> <li>- result of <b>choices taken over a period of time</b></li> <li>- radically changes to speed up growth</li> <li>- <b>influenced by experience</b></li> </ul>
<i>(b) Balance of external and internal factors</i>	<ul style="list-style-type: none"> <li>- Meeting internal strengths and weaknesses with external opportunities and threats.</li> <li>- <b>No perfect match exist.</b></li> <li>- Thus, strategic analysis <b>uses workable balance</b>.</li> </ul>

The diagram illustrates the 'Framework of Strategic Analysis'. At the top, a box labeled 'Strategic Analysis' branches into two main components: 'External Analysis' on the left and 'Internal Analysis' on the right. Below 'External Analysis' is a box listing 'opportunities, threats, trends, and strategic uncertainties'. Below 'Internal Analysis' is a box listing 'Strategic strengths, weaknesses, problems, constraints, and uncertainties'. Both of these boxes have arrows pointing towards a central box at the bottom titled 'Strategy Identification & Selection'. This central box contains a list of four steps: 'Identify strategic alternatives', 'Select strategy', 'Implement the operating plan', and 'Review strategies'. The entire diagram is set against a background with large, faint letters 'C' and 'X'.

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graph TD; SA[Strategic Analysis] --> EA[External Analysis]; SA --> IA[Internal Analysis]; EA --> EBox[opportunities, threats, trends, and strategic uncertainties]; IA --> IBox[Strategic strengths, weaknesses, problems, constraints, and uncertainties]; EBox --> SIS[Strategy Identification & Selection]; IBox --> SIS;
```

**Framework of Strategic Analysis**

**Strategic Analysis**

**External Analysis**

opportunities, threats, trends, and strategic uncertainties

**Internal Analysis**

Strategic strengths, weaknesses, problems, constraints, and uncertainties

**Strategy Identification & Selection**

- Identify strategic alternatives
- Select strategy
- Implement the operating plan
- Review strategies

## Framework of Strategic Analysis



## Business Environment

- ▶ It consist of **all factors** which have **impact on business operations**.
- ▶ It can be classified as **internal and external** environment.
- ▶ **Internal** environment consist of **people within the organisation**.
- ▶ **External** environment consist **micro and macro environment** e.g. shareholders, industry competitive forces, political factors, legal factors etc.

## Strategy And Business Environment

► Business keeps a close and continuous interaction with environment which helps in following ways:

<i>Determine opportunities &amp; threats</i>	Find new needs and wants of the consumers, changes in laws, changes in social behaviours, and tells what new products the competitors are bringing in the market to attract consumers.
<i>Give direction for growth</i>	It helps to identify areas for growth and expansion of their activities. The business understands the changes happening around, it can plan and strategies to have successful business.
<i>Continuous Learning</i>	The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.
<i>Image Building</i>	Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs. It creates a positive image and helps it to prosper and win over the competitors.
<i>Meeting Competition</i>	It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

► Strategic analysis covering internal and external environment is highly relevant to achieve competitive advantage, as well as ensure high performance for survival and growth.

### »» Micro Environment

- It is related to small area or immediate periphery or an organization.
- It consists of suppliers, consumers, marketing intermediaries, competitors etc.
- These are specific to the organization and influences it on a direct and regular basis.

### »» Issues to Address in Macro Environment

- The **employees** of the firm, their characteristics and how they are organized.
- The existing **customer** base on which the firm relies for business
- The ways in which the firm can raise its **finance**
- Who are the firm **suppliers** and how are the links between the two being developed?
- The **local community** within which the firm operates
- The direct **competition** and their comparative performance.

### »» Macro Environment

- It is the **portion of outside world** that significantly affects how an organization operates but is typically much **beyond its direct control and influence**.
- It has **broader dimensions** as it **consist of economic**, socio-cultural, **technological**, **political** and legal **factors**.

### »» Elements of Macro Environment

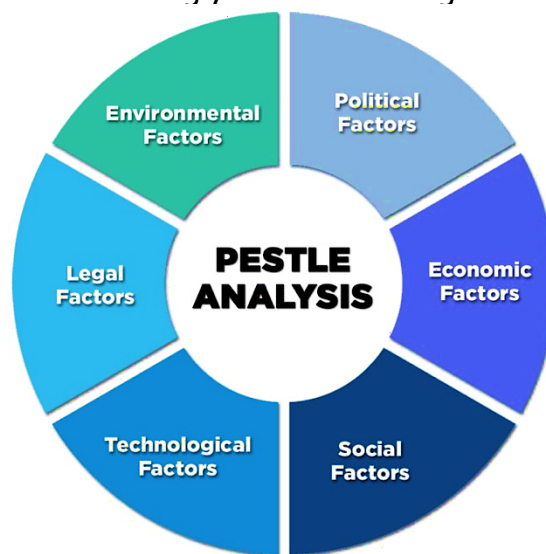
<u>Demographic Environment</u>	<p>»» Means <b>characteristics of population</b>.</p> <p>»» such as race, <b>age</b>, <b>income</b>, <b>education</b>, possession of assets, house ownership, job position, region, and the degree of education.</p> <p>»» Data about these are of importance to both businesses and economists. <b>Particularly, they need to address following issues:</b></p> <ul style="list-style-type: none"> <li>○ What demographic <b>trends</b> will <b>affect the market size</b> of the industry?</li> <li>○ What demographic <b>trends represent opportunities or threats?</b></li> </ul>
<u>Socio-Cultural Environment</u>	<p>»» It represents a complex group of factors <b>such as social traditions, values and beliefs, level and standards of literacy</b>, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth.</p> <p>»» It differs from demographics in the sense that it is not the characteristics of the population, but it is the <b>behaviour and the belief system of that population</b>.</p> <p>»» Core belief of society tends to be <b>persistent and difficult to change</b>.</p> <p>»» Thus, <b>businesses</b> have to <b>adjust to social norms and beliefs to operate successfully</b>.</p>

<u>Economic Environment</u>	<p>»It refers to the <b>overall economic situation</b> including conditions at the regional, national and global levels.</p> <p>»It <b>determines strength of the market</b>.</p> <p>»Purchasing power depends on current income, prices, savings, circulation of money, debt availability. <b>Income distribution determine the business possibilities.</b></p> <p>»It includes <b>factors like GDP, per capital income</b>, market for goods and services, interest rates, <b>inflation etc.</b></p> <p>»<b>High interest rate</b> are <b>detrimental</b> for the business with debt.</p>
<u>Political-Legal Environment</u>	<p>»It includes <b>factors like general level of policy development, degree of politicization</b>, economic issues, law and order, <b>political stability etc.</b></p> <p>»Business is <b>highly guided</b> and controlled <b>by government policies</b> and thus needs to consider changes in regulatory framework.</p> <p>»<b>Taxes and duties</b> are other critical areas that may be levied and <b>affect the business.</b></p> <p>»Businesses <b>prefer to operate</b> in a country <b>where there is a sound legal system.</b></p>
<u>Technological Environment</u>	<p>»<b>Business leverages technology.</b></p> <p>»Technology has <b>changed the way people communicate</b> and do things.</p> <p>»Technology has also changed the ways of how businesses <b>operate now.</b></p> <p>»<b>Technology and business</b> are <b>linked and are interdependent</b> on one another.</p> <p>»Technology <b>act as both opportunity and threat.</b></p> <p>»Business can effectively <b>adopts technological innovations to their strategic advantage.</b></p>



## PESTLE- A tool to Analyse Macro Environment

- It is a way of scanning the macro environment factors that have influenced or are likely to affect the organisation.
- Earlier it was PEST but now legal and environment factors are included.
- It encourages management to be proactive and structured thinking in decision making.
- 'PESTLE analysis is an increasingly used and recognized analytical tool, and it is an acronym for:



### ► The Key Factors

<b><i>Political factors</i></b>	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.
<b><i>Economic factors</i></b>	Economic factors have major impacts on how businesses operate and take decisions. Example: interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.
<b><i>Social factors</i></b>	Social factors affect the demand for a company's products and how that company operates.
<b><i>Technological factors</i></b>	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.

<b>Legal factors</b>	Legal factors affect how a company operates, its costs, and the demand for its products, ease of business.
<b>Environmental factors</b>	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

- ▶ Enables a business to **enter new markets** in search of **greater earnings** and **less expensive resources**.
- ▶ Additionally, expanding internationally enable a business to achieve **greater economies of scale** and **extend the lifespan of its products**.
- ▶ A business can approach internationalisation systemically with the aid of international strategy planning.
- ▶ **Characteristics of a global business**

To be specific, a global business has three characteristics:

- ✓ It is a **conglomerate of multiple units** (located in different parts of the globe) but **all linked by common ownership**.
- ✓ Multiple units draw on a **common pool of resources**, such as money, credit, information, patents, trade names and control systems.
- ✓ The units **respond to some common strategy**. Besides, its managers and shareholders are also based in different nations.

### Developing internationally

- ▶ The steps in international strategic planning are as follows:
  - ✓ **Evaluate global opportunities and threats** and rate them with the internal capabilities.
  - ✓ **Describe the scope of the firm's global commercial operations**.
  - ✓ **Create the firm's global business objectives**.
  - ✓ **Develop distinct corporate strategies** for the global business and whole organisation.

### Why do businesses go global?

- ✓ The first and foremost reason is the **need to grow**.
- ✓ There is **rapid shrinking of time and distance** across the globe.
- ✓ It is being realised that the **domestic markets are no longer adequate**. The competition present domestically may not exist in some of the international markets.

- ✓ There can be varied other reasons such as **need for reliable or cheaper source of raw-materials, cheap labour, etc.**
- ✓ Companies often set up overseas plants to **reduce high transportation costs**. It may be cheaper to produce near the market to reduce the time and costs involved in transportation.
- ✓ Companies find foreign markets to open up or **grow big**, they may naturally look at overseas manufacturing plants and sales branches **to generate higher sales and better cash flow**.
- ✓ The **trade tariffs and custom barriers** are **getting lowered**, resulting in increased flow of business.
- ✓ **Globalization to form strategic alliances** to **leverage** their respective **comparative and competitive advantages**.

### International Environment

► Assessments of the international environment can be done at three levels: multinational, regional, and country.

<i>Multinational environmental analysis</i>	<ul style="list-style-type: none"> <li>- Involves <b>identifying, anticipating, and monitoring</b> significant <b>components of the global environment</b> on a large scale.</li> <li>- Analyse macro environment, Govt. intervention etc.</li> <li>- <b>Government may have free or interventionist tendencies</b> in economies that needs to be carefully considered.</li> <li>- These characteristics are <b>evaluated</b> based on <b>their present and expected future impact</b>.</li> </ul>
<i>Regional environmental analysis</i>	<ul style="list-style-type: none"> <li>- It is a <b>more in-depth evaluation</b> of the critical factors <b>in a specific geographical area</b>.</li> <li>- The emphasis would be on <b>discovering market opportunities</b> for a goods, services, or innovations <b>in the chosen location</b>.</li> </ul>
<i>Country environmental analysis</i>	<ul style="list-style-type: none"> <li>- It has to take a <b>deeper look at the important environmental factors</b>.</li> <li>- Study of <b>economic, legal, political and cultural dimensions</b> is required to be successful.</li> <li>- The analysis must be <b>customised for each of the countries to develop effective market entrance strategies</b>.</li> </ul>

## Understanding Product And Industry

Business products have certain characteristics as follows:

1. Products are **either tangible or intangible**.
  - a. A **tangible** product can be **handled, seen, and physically felt**.
  - b. An **intangible** product is **not a physical good**, such as **telecom services, banking, insurance, or repair services**.
2. Product **has a price**.
  - a. The market price is the **price at which quantity provided equals quantity desired**.
  - b. In the present competitive world **price** is often **given by the market** and **businesses** have to **work on costs** to maintain profitability.
3. Products have certain **features that deliver satisfaction**.
  - a. Products should **provide value satisfaction to the customers**.
  - b. It is **distinguish** it in terms of its **function, design, quality and experience**.
4. Product is **pivotal for business**.
  - a. It is at the **centre of business** around which **all strategic activities revolve**.
  - b. It is the **driving force** behind business activities.
5. A product **has a useful life**.
  - a. Every product has a **usable life after which** it must be **replaced**, as well as a life cycle after which it is to be **reinvented** or may **cease to exist**.

## Product Life Cycle

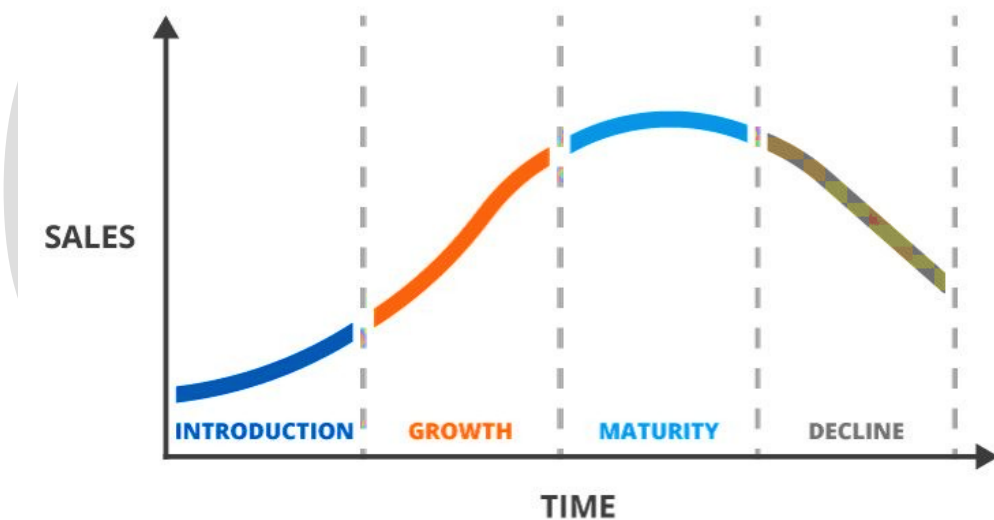
- »» An important concept in strategic choice is that of product life cycle (PLC).
- »» PLC is an **S-shaped curve** which exhibits the **relationship of sales with respect of time** for a product that passes through the **four successive stages** of **introduction, growth, maturity and decline**.

**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.

**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.

Third phase: - of PLC is maturity stage where there is slowdown in growth rate. In this stage, the **competition gets tough**, and **market gets stabilized**. **Profit comes down** because of **stiff competition**. At this stage, organisations have to **work for maintaining stability**.

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**.



»» The **main advantage of PLC approach** is that it can be used to **diagnose a portfolio of products** (or businesses) in order **to establish the stage** at which each of them exists.

»» Depending on the diagnosis, appropriate strategic choice can be made.

- For instance, **expansion** may be a **feasible** alternative for businesses **in the introductory and growth stages**.
- **Mature** businesses may be used **as sources of cash** for investment in other businesses which need resources.
- A **combination of strategies** like **selective harvesting, retrenchment, etc.** may be **adopted for declining businesses**.

### Value Chain Analysis

»» It was introduced by **Michael Porter**.

»» Value chain analysis is a **method of examining each activity** in value chain of a business in order **to identify areas for improvements**.

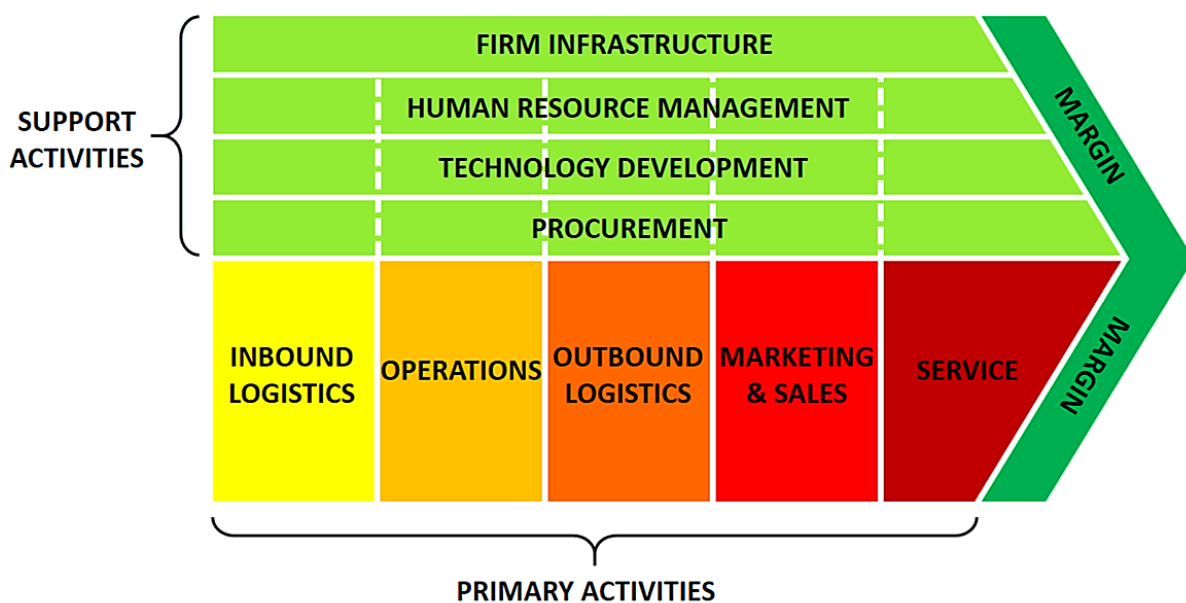
»» Value chain analysis has been widely used as a means of describing the activities within and around an organization and relating them to an assessment of the competitive strength of an organization.

»» Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing process, in order to determine where cost improvements could be made and/or value creation improved.

»» Two basic steps of

- ✓ identifying separate activities and
- ✓ assessing the value added from each.

»» There are two type of activities i.e. Primary and Secondary.



»» The primary activities of the organization are grouped into five main areas:

<i>Inbound logistics</i>	The activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc. Like, transportation and warehousing.
<i>Operations</i>	Operations transform these inputs into the final product or service machining, packaging, assembly, testing, etc. convert raw materials in finished goods.
<i>Outbound logistics</i>	Collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of



	<b>services</b> , it may be more concerned with arrangements for <b>bringing customers to the service</b> , if it is a fixed location (e.g. sports events).
<b>Marketing and sales</b>	Provide the means whereby <b>consumers/users are made aware of the product/service</b> and are able to purchase it. This would <b>include sales administration, advertising, selling and so on</b> . In <b>public services, communication networks which help users'</b> access a particular service are often important.
<b>Service</b>	Service are all those activities, <b>which enhance or maintain the value of a product/service, such as installation, repair, training and spares</b> .

»»Each of these groups of primary activities **are linked to support activities**.

»»These can be divided into **four areas**:

<b>Procurement</b>	The <b>processes for acquiring</b> the various <b>resource inputs to the primary activities</b> (not to the resources themselves).
<b>Technology development</b>	<b>All value activities have a 'technology'</b> , even if it is simply know-how. The <b>key technologies</b> may be <b>concerned directly with the product</b> (e.g. R&D product design) or <b>with processes</b> (e.g. process development) <b>or with a particular resource</b> (e.g. raw materials improvements).
<b>Human resource management</b>	It is an area which <b>transcends all primary activities</b> . It is concerned with those <b>activities involved in recruiting, managing, training, developing and rewarding people</b> within the organization.
<b>Infrastructure</b>	The <b>systems of planning, finance, quality control, information management, etc.</b> are <b>crucially important</b> to an organization's <b>performance in its primary activities</b> .

### Industry Environment Analysis

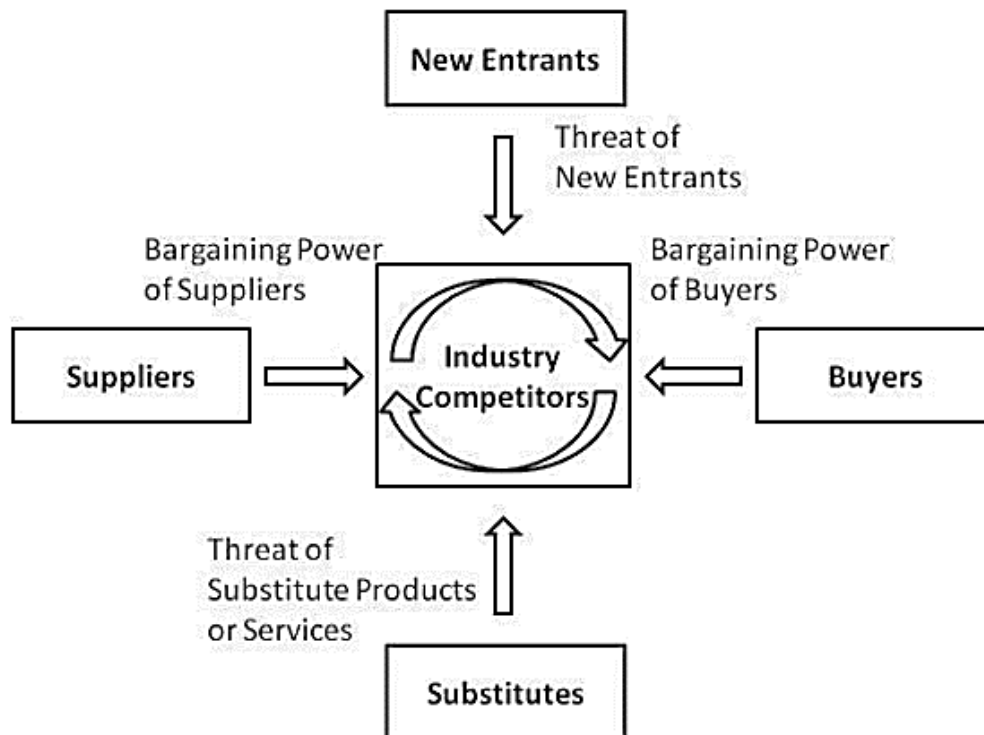
- It analyse whether **industry is a lucrative or not**.
- **Estimate the amount of competitive pressures** the business is **presently facing and is expected to face in the near future**.
- Analysing these elements enhances knowledge of surrounding and serves as the foundation for aligning strategy with changing industry circumstances and realities.

### 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.

»»Understanding the variables that affect industry helps to adapt strategy, boost profitability and stay ahead of the competition.

»»It states the competitive pressure operating in five areas of overall market. competitive pressures operating in **five areas of the overall market**:



### Steps for Competitive Analysis

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

- Identify the specific competitive pressures associated with each of the five forces.
- Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).
- Determine whether the collective strength of the five competitive forces is conducive to earnings attractive profits.

### (I)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.

»The bigger the new entrant, the more severe the competitive effect.

»A firm's profitability is higher when other firms are blocked from entering.

»To discourage new entrants, existing firms can try to raise barriers to entry which are:

<i>Capital requirement</i>	When large amount of capital is required to enter an industry, <b>firms lacking funds</b> are effectively <b>barred from industry</b> , thus <b>enhancing profitability of existing firms</b> .
<i>Economies of scale</i>	<ul style="list-style-type: none"> <li>- It refers to the <b>decline in the per unit cost of production</b> (or other activity) as volume grows.</li> <li>- A <b>large firm</b> that enjoys economies of scale can <b>produce large volumes at lower costs</b>. This <b>discourages new entrant</b>.</li> </ul>
<i>Product differentiation</i>	<ul style="list-style-type: none"> <li>- It refers to <b>physical or perceptual differences or enhancements</b> that make a <b>product special or unique</b> in eyes of customers.</li> <li>- Differentiation is an entry barriers as <b>cost of creating genuine product differences may be high for the new entrants</b>.</li> </ul>
<i>Switching costs</i>	<ul style="list-style-type: none"> <li>- To succeed in an industry, <b>new entrant</b> must be able to <b>persuade existing customers</b> of other companies <b>to switch of its products</b>.</li> <li>- To make a switch, buyers may need to test a new firm's product, negotiate new purchase contracts, &amp; train personnel to use the equipment or modify facilities for product use.</li> </ul>
<i>Brand identity</i>	<ul style="list-style-type: none"> <li>- Brand identity of products or services offered by existing firms can serve as another entry barrier.</li> <li>- It is particularly <b>important for infrequently purchased products that carry a high unit cost to buyer</b>.</li> </ul>
<i>Access to distribution channel</i>	<ul style="list-style-type: none"> <li>- The unavailability of distribution channels for new entrants poses another significant entry barrier.</li> <li>- Despite growing power of the internet, <b>many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals</b>.</li> </ul>
<i>Possibility of aggressive retaliation</i>	Sometimes the <b>mere threat of aggressive retaliation by incumbents can deter entry</b> by other firms into an existing industry.

## (II) Bargaining Power of Buyers

- This force will become **heavier** depending on the **possibilities of the buyers' forming groups or cartels**.
- Buyers of an industry's products or services can sometimes **exert considerable pressure on existing firms to secure lower prices or better services**.
- This leverage is particularly evident when:
  - Buyer have **full knowledge of product and their substitutes**
  - They are **big buyers**
  - **Product is not critical** to the buyer and they can **easily switch to the substitutes** available.

### (III) Bargaining Power of Suppliers

➤ The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, affect industry attractiveness and profitability.

➤ It happens when:

- Their products are crucial and substitutes are not available
- They can incur high switching costs
- They are more concentrated than their buyers.

### (IV) Threat of Substitutes

➤ Substitutes are those which perform the same function or nearly the same as that of existing products.

➤ 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.

➤ More substitute available leads to less attractive and profit industry will earn.

### (V) The Nature of Rivalry in the Industry

➤ The intensity of rivalry can influence the 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:

<b>Industry Leader</b>	A strong industry leader can discourage price wars by disciplining initiators of such activity. Because of its greater financial resources, a leader can generally outlast smaller rivals in a price war.
<b>Number of Competitors</b>	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.
<b>Fixed Costs</b>	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.
<b>Exit Barriers</b>	Rivalry among competitors declines if some competitors leave an industry. Exit barriers come in many forms. Assets of a firm

	considering exit may be highly specialized and therefore of little value to any other firm. Such a firm can thus find no buyer for its assets. This discourages exit. When barriers to exit are powerful, competitors desiring exit may refrain from leaving. Their continued presence in an industry exerts downward pressure on the profitability of all competitors.
<i>Product Differentiation</i>	Firms can sometimes <b>insulate themselves from price wars</b> by <b>differentiating their products</b> 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.
<i>Slow Growth</i>	Industries whose <b>growth is slowing down</b> tend to <b>face more intense rivalry</b> . 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.

### 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.
- The important factors on which the management may base such conclusions include:
  - ✓ The industry's **growth potential**, is it futuristically viable?
  - ✓ Whether **competition currently permits adequate profitability** and whether competitive forces will become stronger or weaker?
  - ✓ Whether **industry profitability** will be **favourably or unfavourably** affected by the prevailing driving forces?
  - ✓ The **competitive position** of an organisation in the industry and whether its position is **likely to grow stronger or weaker**.
  - ✓ The **potential to capitalize** on the **vulnerabilities of weaker rivals** (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
  - ✓ Whether the company is able to **defend against** or counteract the **factors that make the industry unattractive**?
  - ✓ The **degrees of risk and uncertainty** in the industry's future.
  - ✓ 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**".

»» Experience curve results from a variety of **factors** such as **learning effects**, **economies of scale**, **product redesign** and **technological improvements** in production.

»» Experience curve has following features:

As business organisation grow, they gain experience.

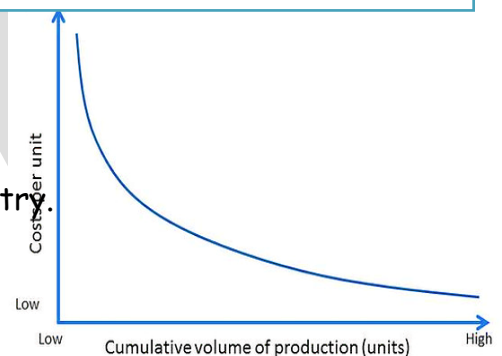
Experience may provide an advantage over the competition. Experience is a key barrier to entry.

Large and successful organisation possess stronger "experience effect".

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

»» It **acts as a barrier for new firms** entering in industry.

»» It is **used to build market share and discourage Competition**.



## Value Creation

»» The concept of value creation was introduced primarily for **providing products and services to the customers with more worth**.

»» Value is **measures by product features, quality, availability, durability, performance** and its service for which customers is willing to pay.

»» Thus, 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**.

»» This concept **gives** business a **competitive advantage** in the industry and helps them **earn above average profits/returns**.

»» Profitable a company becomes depends on **three factors**:

- a) the **value customers place** on the company's products;
- b) the **price that a company charges** for its products; and
- c) 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.

### 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.
- ▶ Example: it might be used to describe the stock exchange, where securities are traded.
- ▶ 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.

### Customer

- »»A customer is a person or business that buys products or services from another organisation.
- »»The terms customer and consumer are practically synonymous and are frequently used interchangeably. There is, 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.

### Customer Analysis

- »»Customer analysis is an essential marketing component of any strategic business plan.
- »»It identifies target clients, determines their wants, and then defines how the product meets those needs. Thus, 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.

## Customer Behaviour

»»It examines elements like shopping frequency, product preferences and the perception of your marketing, sales and service offerings.

»»It 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 may be influenced by a number of things which are:

<i>External Influences</i>	<p>- External influences, like advertisement, peer recommendations or social norms which have an impact on customers</p> <p>- These aspects are divided into two groups - the company's marketing efforts and the numerous environmental elements.</p>
<i>Internal Influences</i>	Internal processes are psychological factors internal to customer and affect consumer decision making.
<i>Decision Making</i>	<p>- A rational consumer, as decision maker would seek information about potential decisions and after weighing the advantages and disadvantages of each option they would make a decision.</p> <p>The stages of decision-making process can be described as:</p> <ul style="list-style-type: none"> <li>✓ Problem recognition, i.e., identify an existing need or desire that is unfulfilled</li> <li>✓ Search for desirable alternative and list them</li> <li>✓ Seeking information on available alternatives and weighing their pros and cons.</li> <li>✓ Make a final choice</li> </ul>
<i>Post-decision Processes</i>	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.

## Competitive Strategy

»»The competitive strategy of a business is concerned with how to compete in the business areas in which the organization operates.

»»The competitive strategy of a firm within a certain business field is analysed using two criteria:

- the creation of competitive advantage
- the protection of competitive advantage.

## Competitive Landscape

»»Competitive landscape is a business analysis which identifies competitors, either direct or indirect.

»»It is about identifying & understanding competitors & at same time it permits comprehension of their vision, mission, core values, niche market, strengths & weaknesses.

»»Understanding of competitive landscape requires an application of "competitive intelligence".(ability to gather & use info collected about competitors, to gain advantage in industry).

»»Steps to understand the Competitive Landscape:

- Identify the competitor
- Understand the competitor
- Determine the strength of competitor
- Determine the weakness of competitor
- Put all the information together

## Key Factors For Competitive Success

»»An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace

»»KSFs help to share whether a company will be financially and competitively successful.

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

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

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.?

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

»»Generally there are 3 to 4 KSFs in an industry.

»»The purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important.

## Chapter – 3

### Strategic Analysis: Internal Environment

#### 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 and organizational culture intangible aspects of working- relationships, philosophy, values, ethics- that shape an organization's identity.
- ▶ Internal environment is specific to each organization.
- ▶ It is based on its structure and business model and include all stakeholders.

#### Understanding Key Stakeholders

- ▶ Stakeholders can be defined as any person/group of individuals, internal or external, that has an interest in, or impact on the business or corporate strategy of the organisation e.g. shareholders, CEO, BOD, consumers, employees etc.
- ▶ They have the power to influence the strategy or performance of that organisation.

#### Mendelow's Matrix or Stakeholder Analysis Matrix or Power-Interest Matrix

- ▶ It 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.
- ▶ 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).

► **Example**, a big shareholder is likely to have high power and high interest in the organisation, whereas a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.

### Developing a Grid of Stakeholders



Keep Satisfied Stakeholders	<ul style="list-style-type: none"> <li>- High power, less interested people</li> <li>- Aim to keep them satisfied with their intended information on a regular basis.</li> <li>- Example, banks, government, customers, etc.</li> </ul>
Key Players Stakeholders	<ul style="list-style-type: none"> <li>- High power, highly interested people</li> <li>- Aim to make the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis.</li> <li>- Example, Shareholders, CEO, Board of Directors, etc.</li> </ul>
Keep Informed Stakeholders	<ul style="list-style-type: none"> <li>- Low power, highly interested people</li> <li>- Aim to adequately inform this group of people and communicate with them to ensure that no major issues arise.</li> <li>- They can also help with real time feedbacks and areas of improvement.</li> <li>- Example, employees, vendors, suppliers, legal experts, etc.</li> </ul>

Low Priority Stakeholders	<ul style="list-style-type: none"> <li>- Low power, less interested people</li> <li>- Aim to <b>only monitor</b> them with <b>no actions to satisfy</b> their expectations.</li> <li>- Strategically, minimal efforts should be spent while keeping an eye to check if their levels of interest or power change.</li> <li>- <b>Example</b>, business magazines, media houses, etc.</li> </ul>
<p>An important thing that strategists should be aware of, is the importance to remember that <b>environment is highly dynamic</b> and certain <b>things might happen</b> that can <b>cause stakeholders to suddenly move between quadrants</b>.</p>	

## Strategic Drivers

- ▶ An important aspect of **internal analysis is assessing the current performance** of the business. And in assessing current performance, the **strategic drivers consider what differentiates an organisation from its competitors**.
- ▶ The key strategic drivers of an organisation include:
  - ✓ Industry and markets
  - ✓ Customers
  - ✓ Products/services
  - ✓ Channels

## Industry And Markets

»» **Similar companies** based on their primary products are grouped together into industries.

»» **Example**, Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product and thus categorised into Automotive Industry.

»» **Market** refers to **all the buyers and sellers** of a particular product/service.

»» Is market the same for all businesses?

»» Market is not same for all businesses.

»» Market may be **physical entity or may be virtual** like e-commerce websites and applications.

**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.



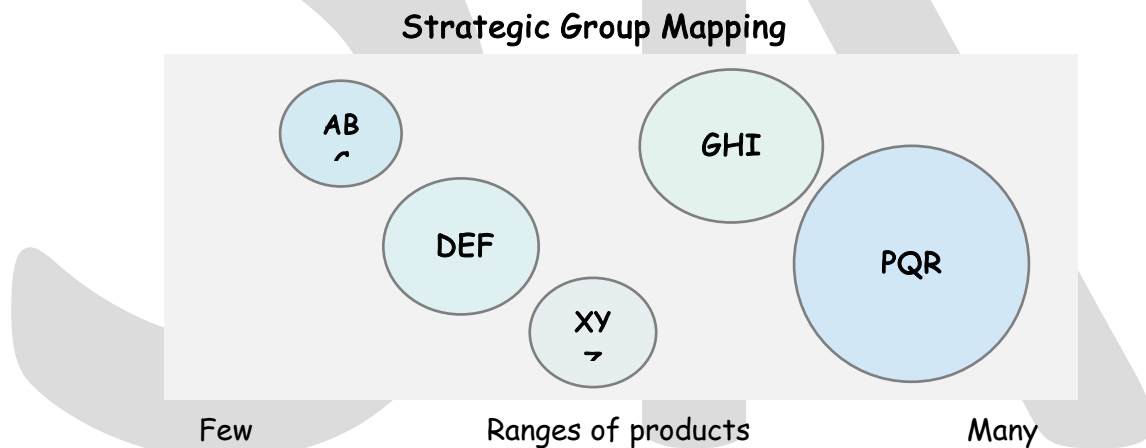
## Analysing Industry And Markets

»» A tool used for analysing industry and market is - Strategic Group Mapping.

»» A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

»» The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

- ✓ 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); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full)
- ✓ Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- ✓ Assign firms that fall in about the same strategy space to the same strategic group.
- ✓ Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.



## Customers

»» Different customers may have different needs and require different sales models or distribution channels.

### »» Customer vs Consumer

A **customer** is the **one buys a product/service**,

The **consumer** is the one **who finally uses/consumes the bought product or service**.

»» **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 kept at the center of decision making.

### Product/Services

»» Product stands for the **combination of "goods and services"** that the company offers to the target market.

»» Products can be **distinguished based on consumer, luxury, durables or perishables** etc.

»» **Strategies** are needed for managing existing product over time, **adding new ones and dropping failed products**.

»» **Strategic decisions** must also be made **regarding branding, packaging and other product features** such as warranties.

»» For a **new product of pricing strategies** at least three objectives must be kept in mind:

- ✓ Have **customer-centric approach** while making a product.
- ✓ Produce **sufficient returns** through a reasonable margin over cost.
- ✓ **Increasing market share**.

»» Products and services need heavy investment in reaching out to customers.

»» Marketing strategies to handle marketing strategically and fight the competition in the market.

### *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**.

<i>Augmented Marketing</i>	This type of marketing includes <b>additional customer services and benefits</b> that a product can offer <b>besides the core and actual product</b> that is being offered.
<i>Direct Marketing</i>	Marketing through various advertising media that <b>interact directly with consumers</b> , generally calling for the consumer to make a direct response. Direct marketing <b>includes catalogue selling, e-mail, telecomputing</b> . electronic marketing, shopping, and TV shopping.
<i>Relationship Marketing</i>	The process of <b>creating, maintaining, and enhancing strong, value-laden relationships with customers</b> and other stakeholders.
<i>Services Marketing</i>	<ul style="list-style-type: none"> <li>- Services is any activity or benefit that one party can offer to another that is essentially intangible.</li> <li>- This marketing requires different marketing strategies since it has <b>peculiar characteristics of its own such as inseparability, variability etc.</b></li> </ul>
<i>Person Marketing</i>	<ul style="list-style-type: none"> <li>- People can also be marketed.</li> <li>- Person marketing consists of <b>activities undertaken to create, maintain or change attitudes and behaviour towards particular person.</b></li> <li>- For example, politicians, sports stars, film stars, etc. Le., market themselves to get votes, or to promote their careers.</li> </ul>
<i>Organization Marketing</i>	<ul style="list-style-type: none"> <li>- It consists of <b>activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization.</b></li> <li>- Both profit and non-profit organizations practice organization marketing.</li> </ul>
<i>Place Marketing</i>	- Place marketing involves activities undertaken to <b>create, maintain, or change attitudes and behaviour towards particular places</b> say, marketing of business sites, tourism marketing.
<i>Enlightened Marketing</i>	<ul style="list-style-type: none"> <li>- It is a marketing philosophy holding that a company's marketing should <b>support the best long-run performance of the marketing system</b> that is beyond the prevailing mindset.</li> <li>- Its <b>five principles</b> include               <ul style="list-style-type: none"> <li>(A) <b>customer-oriented</b> marketing,</li> <li>(B) <b>innovative</b> marketing,</li> <li>(C) <b>value</b> marketing,</li> </ul> </li> </ul>

	(D) <b>sense-of-mission</b> marketing, and (E) <b>societal</b> marketing.
<b>Differential Marketing</b>	<ul style="list-style-type: none"> <li>- It is a market-coverage strategy in which a firm decides to <b>target several market segments and designs separate offer for each</b>.</li> <li>- For example, HUL has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.</li> </ul>
<b>Synchro-marketing</b>	<ul style="list-style-type: none"> <li>- When the <b>demand for a product is irregular</b> due to season, some parts of the day, or on hour basis, <b>causing idle capacity</b> or overworked capacities, synchro-marketing can be used to <b>find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives</b>.</li> </ul>
<b>Concentrated Marketing</b>	<ul style="list-style-type: none"> <li>- It is a <b>market-coverage strategy</b> in which a <b>firm goes after a large share of one or few sub-markets</b>. It can also take the <b>form of Niche marketing</b>.</li> <li>- Luxury cars, toddlers products</li> </ul>
<b>Demarketing</b>	It includes marketing strategies to <b>reduce demand temporarily or permanently</b> . The <b>aim is not to destroy demand</b> , but <b>only to reduce or shift it</b> . This happens when there is overfull demand.

## Channels

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

» Examples of some companies;

- 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.
- Boat Headphones - only online via e-commerce platforms like flipkart and amazon

» There are typically three channels:

<b>The sales channel</b>	<ul style="list-style-type: none"> <li>- These are the <b>intermediaries involved in selling the product through each channel and ultimately to the end user</b>.</li> <li>- The key question is: <b>Who needs to sell to whom</b> for your product to be <b>sold to your end user?</b></li> </ul>
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<i>The product channel</i>	- It focuses on the <b>series of intermediaries</b> who physically handle the product on its path from its producer to the end user.
<i>The service channel</i>	<ul style="list-style-type: none"> <li>- It refers to the <b>entities that provide necessary services</b> to support the product, as it moves through the sales channel and after purchase by the end user.</li> <li>- It is an important consideration for products that are complex in terms of installation or customer assistance.</li> </ul>

## Role Of Resources And Capabilities

### Building Core Competency

- »» **C.K. Prahalad and Gary Hamel** have advocated a concept of core competency.
- »» Competency is defined as a **combination of skills and techniques** rather than individual skill or separate technique.
- »» A **core competency** for a firm is **whatever it does best**.
- »» **Core competency** is defined as the **collective learning** in the organization, especially **coordinating diverse production skills** and **integrating multiple streams of technologies** that can lead to **competitive advantage** over competitors.
- »» **Core competencies** are created by superior integration of technological, physical and human resources.
- »» **Core competencies cannot be built on one capability or single technological know-how**, instead, it has to be the **integration of many resources** say a sum of 5 - 15 areas.
- »» According to C.K. Prahalad and Gary Hamel, major core competencies are identified in **three areas** -

<i>Competitor Differentiation</i>	<ul style="list-style-type: none"> <li>► Competence should be <b>unique and difficult for competitors to imitate</b>.</li> <li>► It allows the company <b>to provide better products or services</b></li> <li>► Company has to <b>keep on improving these skills</b> in order to sustain its competitive position.</li> <li>► Competence <b>does not necessarily have to exist within one company</b> in order to define as core competence.</li> <li>► <b>Example</b>, it is quite difficult to imitate patented innovation, like Tesla has been winning over competition in electric vehicles.</li> </ul>
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<i>Customer value</i>	<ul style="list-style-type: none"> <li>▶ When purchasing a product or service it has to <b>deliver a fundamental benefit for the end customer</b> in order to be a core competence.</li> <li>▶ The essence is that the <b>consumer should value the differentiation offered</b>. Without it, the core competency does not make sense.</li> </ul>
<i>Application to other markets</i>	<ul style="list-style-type: none"> <li>▶ Core competence must be <b>applicable to the whole organization</b>; it cannot be only one particular skill or specified area of expertise.</li> <li>▶ Although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence if it is not fundamental from the whole organization's point of view.</li> </ul>
<p>»»If the <b>three above-mentioned conditions are met</b>, then the company can <b>regard it</b> competence as <b>core competency</b>.</p> <p>»»Core competencies are often visible in the form of organizational functions. E.g. HUL</p>	

### Criteria For Building A Core Competencies (CC)

<i>Valuable</i>	<ul style="list-style-type: none"> <li>- These are the ones that allow the firm <b>to exploit opportunities or avert the threats</b> in its external environment.</li> <li>- Finance companies build a valuable competence in financial services.</li> <li>- <b>Human capital is important</b> in creating value for customers.</li> </ul>
<i>Rare</i>	<ul style="list-style-type: none"> <li>- Core competencies are <b>very rare capabilities</b> and <b>very few of the competitors possess</b> this.</li> <li>- Competitive advantage results only <b>when firms develop and exploit valuable capabilities that differ from</b> those shared with competitors.</li> </ul>
<i>Costly to imitate</i>	<ul style="list-style-type: none"> <li>- It means such capabilities that <b>competing firms are unable to develop easily</b>.</li> </ul>
<i>Non-substitutable</i>	<ul style="list-style-type: none"> <li>- Capabilities that <b>do not have strategic equivalents</b> are <b>called non-substitutable capabilities</b>.</li> <li>- <b>Strategic value of capabilities increases as they become more difficult to substitute.</b></li> </ul> <p><b>For example,</b> 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.</p>



## Combining External And Internal Analysis (SWOT Analysis)

- ▶ SWOT analysis is the **identification and 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.
- ▶ SWOT analysis can **show areas** where an organization is **performing well**, as well as areas that **need improvement.**
- ▶ SWOT analysis can **maximize opportunities by using strengths and minimize threats by reducing weakness.**
- ▶ The **benefit** is that it **identifies the complex issues** for an organisation and puts them **into a simple framework.**
- ▶ The major **criticisms** is that it **does not generally provide for evaluation of strengths, weaknesses, opportunities and threats in competitive context.**

**Strength** - Inherent capability of organization

**Weakness** - Inherent weakness of organization

**Opportunities** - Favourable external environment

**Threats** - Unfavourable external environment

SWOT Analysis

	Helpful to achieving the objective	Harmful to achieving the objective
Internal origin (attributes to the organization)	S	W
External origin (attributes to the environment)	O	T

## Competitive Advantage Using Michael Porter's Generic Strategies

- ▶ If a company's strategies results in superior performance, it is said to have a competitive advantage.
- ▶ 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.
- ▶ *"If you don't have a competitive advantage, don't compete"- Jack Welch*
- ▶ The competitive advantage is the achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry.
- ▶ It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate.

## Sustainability of Competitive Advantage

It depends upon four major characteristics of resources and capabilities:

### 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.
- The rate of product innovation is fast, product patents are quite likely to become obsolete.

### 2. Transferability

- Easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage

### 3. Imitability

- If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch and would remain competitive advantage.

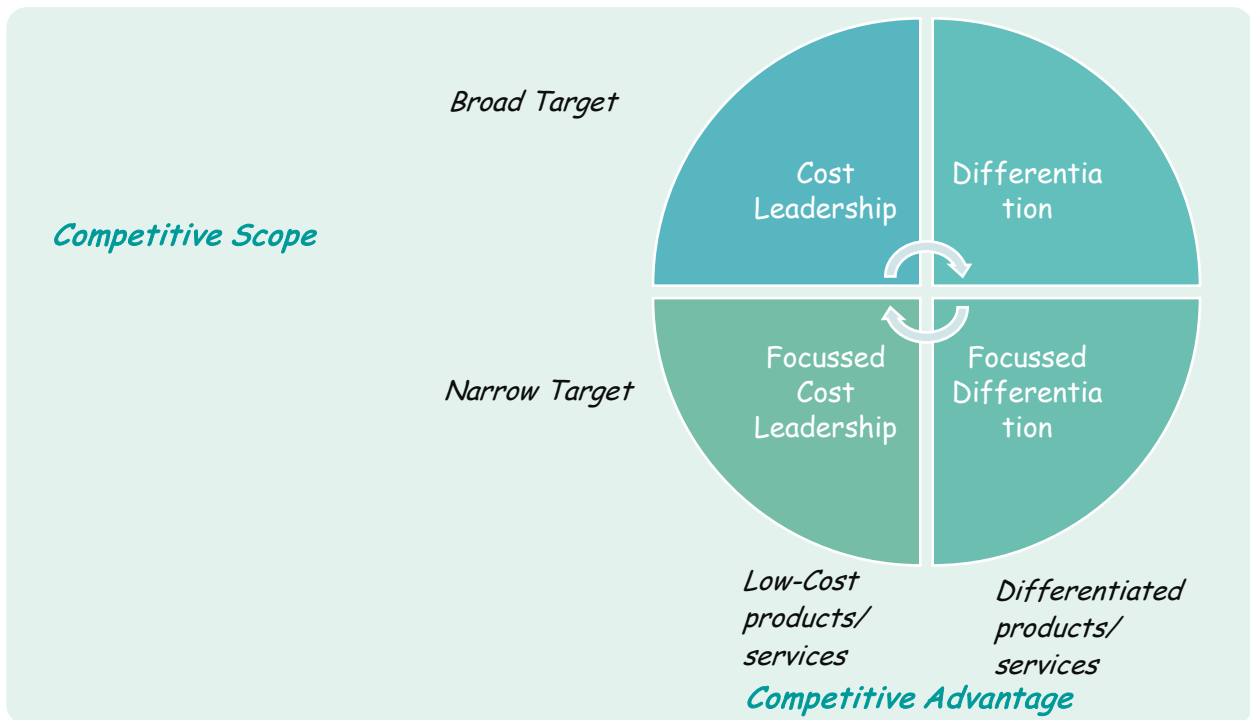
### 4. Appropriability

- It refers to the ability of the firm's owners to appropriate returns on its resource base.
- This means, that rewards are directed to from where the funds were invested, rather than creating an advantage with no actual reward to people to invested capital.

## Michael Porter's Generic Strategies

- ▶ 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.

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



### Cost Leadership

- It emphasizes on producing **standardized products at a very low per-unit cost** for consumers who are **price-sensitive**. E.g. milk, bread etc.

### Differentiation Strategy

- It is a strategy aimed at producing products and services **considered unique** industry-wide and directed at consumers who are **relatively price-insensitive**. E.g. cement can withstand earthquake etc.

### Focus Strategy

- Focus means producing products and services that **fulfil the needs of small groups** of consumers with **very specific taste**. E.g. Luxury cars

- **Large companies follow broad market and small companies follow narrow market or focus.**

### 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 & distribution of product or service and
- ✓ Also, economies in overhead costs.

»»Because of its lower costs, the firm is able to **charge a lower price** for its products than most of its competitors and **still earn satisfactory profits**.

»»**Example**, McDonald's, Decathlon,

»»Generally, cost leadership must be **pursued in conjunction with differentiation**.

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

- when the **market is price-sensitive** and
- when there are **few ways to achieve product differentiation**.

»»It is done to **reduce competitor** and thereby **gain market share** and driving some **competitors out of the market**.

»»Some **risks** of pursuing cost leadership are;

- that **competitors** may **imitate the strategy**, therefore driving overall industry profits down;
- that **technological breakthroughs** in the industry may make the strategy ineffective; or
- 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.
5. **Invest in cost saving** technologies and using advance technology for smart efficient working.
6. **Resistance to differentiation** till it becomes essential.

### Advantages of Cost Leadership Strategy

1. **Rivalry** - Competitors are likely to **avoid a price war**, since the low-cost firm will continue to earn profits even after competitors compete away their profits.
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 research and development, 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 by the customers as unique**.

» Uniqueness can be **associated with design, brand image, features, technology, customer service** etc.

» **Example**, Domino's Pizza has been offering home delivery within 30 minutes or the order is free,

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

» Differentiation **allows** a firm **to charge higher price for its product**.

» **Successful differentiation** can mean **greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features**.

» A **risk** associated with pursuing a differentiation strategy is that the **unique product may not be valued** high enough **by customers** to justify the higher price.

» Another risk is that it **can be copied by competitors quickly**.

### Basis of Differentiation

Product	<ul style="list-style-type: none"> <li>• <b>Innovative products</b> that meet customer needs can be an area</li> <li>• However, the pursuit of a new product offering can be <b>costly-research and development</b>, as well as production and marketing costs can <b>all add to the cost of production and distribution</b>.</li> <li>• <b>Example</b>, Apple iPhone, Tesla, etc.</li> </ul>
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Pricing	<ul style="list-style-type: none"> <li>It fluctuates based on supply &amp; demand and may also be influenced by customer's ideal value for a product.</li> <li>Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices.</li> <li>Example, Apple iPhone, Jio phone</li> </ul>
Organisation	<ul style="list-style-type: none"> <li>Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success.</li> <li>It can be in form of location advantage, name recognition, customer loyalty etc.</li> <li>Example - Apple, Tata</li> </ul>

### Achieving Differentiation Strategy

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

### Advantages of Differentiation Strategy

1. *Rivalry* - It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. *Buyers* - They do not negotiate for price as they get special features and they have fewer options in the market.
3. *Suppliers* - Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
4. *Entrants* - Innovative features are an expensive offer. So, new entrants generally, avoid these features.
5. *Substitutes* - They can't replace differentiated products which have high brand value and enjoy customer loyalty.

### Disadvantage 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.
3. IT fails to work if its basis is something that is not valued by the customers.

### 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.
- »»Focus strategy serves a well-defined but narrow market. Example, Ferrari sports cars.
- »»Risks of pursuing a focus strategy include the possibility of numerous competitors recognizing the successful focus strategy and imitating it or that consumer preferences may drift towards the product attributes desired by the market as a whole.

### Focus Cost Leadership

- A focused cost leadership strategy requires competing based on price to target a narrow market.
- A firm that follows this strategy 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.

### Focus Differentiation

- A focused differentiation strategy 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.
- Example, Rolls-Royce sells limited number of high-end, custom-built cars.

### Achieving Focused Strategy

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.

### 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

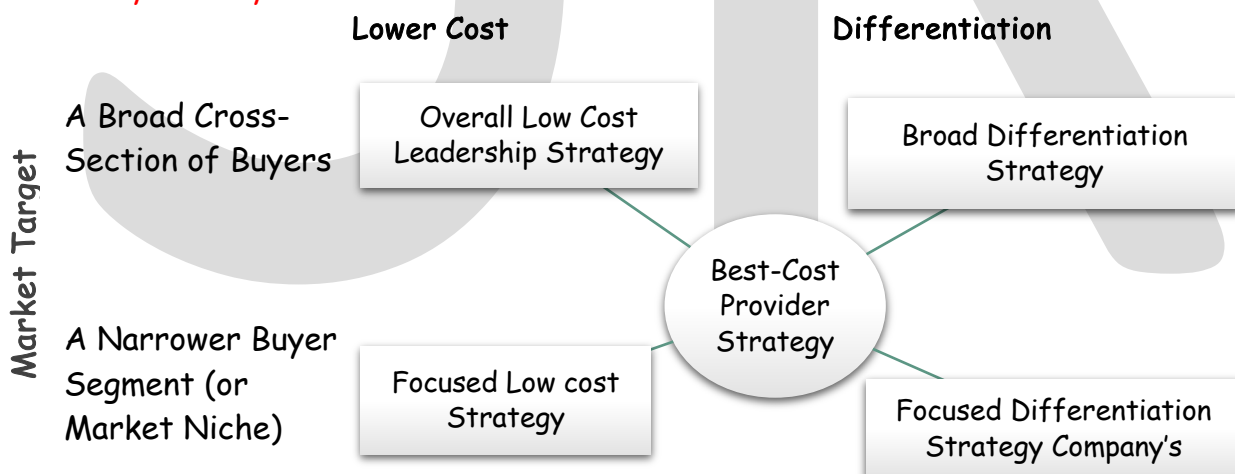
1. The firms **lacking in distinctive competencies** may not be able to pursue focus strategy.
2. Due to the **limited demand of product/services**, costs are high, which can cause problems
3. In the long run, the **niche could disappear** or be **taken over by larger competitors** by acquiring the same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

Or

(b) charging similar price as by the rivals for products with much higher quality and better features.

»»**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.

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# Chapter - 4

## Strategic Choices

### Strategic Choices

- ▶ Businesses follow different types of strategies to enter the market, to stay relevant and grow in the market.
- ▶ William F Glueck and Lawrence R. Jauch discussed four generic strategies including stability, growth, retrenchment and combination.
- ▶ These strategies have also been called Grand Strategies / Directional Strategies by many other authors.

### Stability Strategy

»» A stability strategy is pursued by a firm when:

- ✓ It continues to serve in the same or similar markets and deals in same or similar products and services.
- ✓ This strategy is typical for those firms whose product have reached the maturity stage of PLC or those who have a sufficient market share but need to retain that.

»» It is not "Do Nothing" Strategy but 'Do Nothing New' Strategy.

»» It involves minor improvement and not drastic changes.

Example - SAIL, NTPC, ONGC etc.

### Characteristics of Stability Strategy

- Company stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
- Firm focuses on incremental improvements in functional efficiencies.
- It 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 firms with modest growth objective choose this strategy.

### Major Reasons for Stability Strategy

- A product has reached the maturity stage of the PLC.
- The staff feels comfortable with the status quo as it involves less changes and less risks.
- Environment is relatively stable.
- Expansion may be perceived as threatening.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

## Growth/Expansion Strategy

»»It 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**.

Example - Google, Tesla, Amazon etc.

## Characteristics of Growth/Expansion Strategy

- It involves a **redefinition of the business** of the corporation.
- IT is the **opposite of stability** strategy. Rewards are very high along with risks.
- It leads to **business growth**.
- It facilitate the process of **renewal** of the firm **through fresh investments** and new businesses/products/markets.
- It is a **highly versatile** strategy; it offers several permutations and combinations for growth.
- It holds within it two major strategy **routes: Intensification and Diversification**.

## Major Reasons for Growth/Expansion Strategy

- May become imperative when environment demands **increase in pace of activity**.
- **Strategists may feel more satisfied** with the prospects of growth from expansion.
- Expansion may lead to **greater control over the market** vis-a-vis competitors.
- Advantages from the **experience curve and scale of operations** may accrue.

## Types of Growth/ Expansion Strategy

*The growth strategies can be classified into two main types:*



## Internal Growth Strategies

### I. Expansion or growth through Intensification

➤ It means that the organisation tries to grow internally by intensifying its operations either by market penetration or market development or by product development.

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

*Market Penetration*

- The firm directs its resources to the profitable growth of its **existing product in the existing market**.

*Market Development*

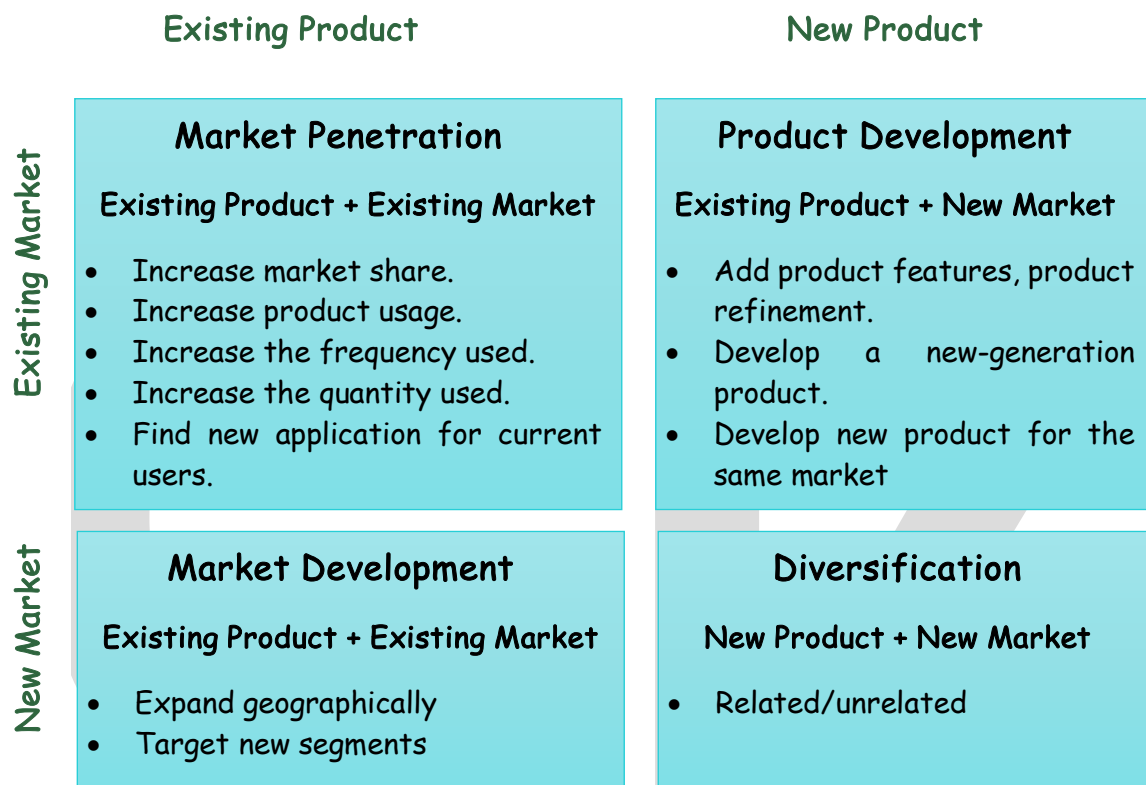
- It consists of marketing **present products**, to customers in related **market areas by adding different channels** of distribution or by changing the content of advertising or the promotional media.

*Product Development*

- It involves substantial **modification of existing products** or **creation of new** but related items that can be marketed to **current customers** through established channels.



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



## II. Expansion or Growth through Diversification

»Diversification is defined as an entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.

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

### Concentric Diversification

»Concentric diversification takes place when the products are related.

»In this diversification, the new business that it diversifies into is linked to the existing businesses through process, technology or marketing.

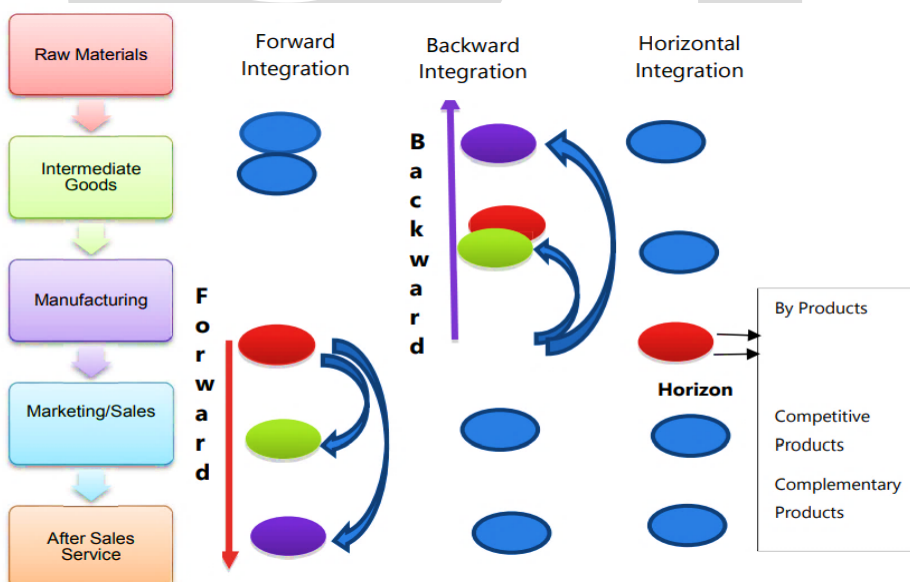
»The new product is a spin-off from the existing facilities and products/processes.

»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.

»Example, a company producing clothes ventures into the manufacturing of shoes.

»Concentric diversification is generally understood in two directions, vertical and horizontal integration;

	<p><i>Vertically Integrated Diversification</i></p>	<p>»»Firms opt to engage in businesses that are <b>related to the existing business</b> of the firm, while <b>remaining vertically within the same product-process chain</b>.</p> <p>»»A firm can <b>either opt for forward or backward integration</b>.</p> <table><tr><th><i>Backward Integration</i></th><th><i>Forward Integration</i></th></tr><tr><td><p>Concerned with <b>creation of effective supply by entering business of input providers</b>.</p><p>Strategy employed to <b>expand profits and gain greater control over production/ supply of a product</b> whereby a company will purchase or build a business that will <b>increase its own supply capability or lessen its cost of production</b>.</p><p><b>Example,</b> A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.</p></td><td><p><b>Moving forward in the value chain and entering business lines that use existing products</b>.</p><p>Forward integration will also take place where organizations <b>enter into businesses of distribution channels</b>.</p><p><b>Example,</b> A coffee bean manufacture may choose to merge with a coffee cafe.</p></td></tr></table>	<i>Backward Integration</i>	<i>Forward Integration</i>	<p>Concerned with <b>creation of effective supply by entering business of input providers</b>.</p> <p>Strategy employed to <b>expand profits and gain greater control over production/ supply of a product</b> whereby a company will purchase or build a business that will <b>increase its own supply capability or lessen its cost of production</b>.</p> <p><b>Example,</b> A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.</p>	<p><b>Moving forward in the value chain and entering business lines that use existing products</b>.</p> <p>Forward integration will also take place where organizations <b>enter into businesses of distribution channels</b>.</p> <p><b>Example,</b> A coffee bean manufacture may choose to merge with a coffee cafe.</p>
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	<p><i>Horizontal Integrated Diversification</i></p>	<p>A firm gets horizontally diversified by integrating through <b>acquisition of one or more similar businesses operating at the same stage of the production-marketing chain</b>. They can also <b>integrate with the firms producing complementary products or by-products</b> or by taking over competitors' products.</p>				



<b><u>Conglomerate Diversification</u></b>	<p>»» 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.</p> <p>»» Conglomerate diversification has no common thread at all with the firm's present position.</p> <p>»» <i>Example</i>, A cement manufacturer diversifies into the manufacture of steel and rubber products.</p>
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<b><u>Innovation</u></b>	<p>Innovation drives upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction. Innovation offers the following:</p> <table border="1"> <tr> <td data-bbox="276 757 475 1234"> <b><i>Help to solve complex problems</i></b> </td><td data-bbox="475 757 1477 1234"> <p>»» A business strives to find opportunities in existing problems of the society, and it does so through planned innovation in areas of expertise.</p> <p>»» This guided innovation help to solve complex problems by developing customer centric sustainable solutions.</p> <p>»» <i>Example</i>, the pressing problem of environmental damage is being tackled heads on by shifting to renewable sources of energy like solar, wind, sea waves, etc.</p> <p>»» It might be costly in introductory stages but in the long run it will only have economic and environmental sustainability.</p> </td></tr> <tr> <td data-bbox="276 1234 475 1621"> <b><i>Increases Productivity</i></b> </td><td data-bbox="475 1234 1477 1621"> <p>»» 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.</p> <p>»» Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organization as a whole.</p> <p>»» <i>Example</i>, MS Excel, every finance professional uses this software to simplify and automate their manual tasks.</p> </td></tr> <tr> <td data-bbox="276 1621 475 1953"> <b><i>Gives Competitive Advantage</i></b> </td><td data-bbox="475 1621 1477 1953"> <p>»» An interesting concept about innovation is the faster a business innovates, the farther it goes from its competitor's reach.</p> <p>»» Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage.</p> <p>»» Innovation not only helps retain the existing customers but helps acquire new ones with ease.</p> </td></tr> </table>	<b><i>Help to solve complex problems</i></b>	<p>»» A business strives to find opportunities in existing problems of the society, and it does so through planned innovation in areas of expertise.</p> <p>»» This guided innovation help to solve complex problems by developing customer centric sustainable solutions.</p> <p>»» <i>Example</i>, the pressing problem of environmental damage is being tackled heads on by shifting to renewable sources of energy like solar, wind, sea waves, etc.</p> <p>»» It might be costly in introductory stages but in the long run it will only have economic and environmental sustainability.</p>	<b><i>Increases Productivity</i></b>	<p>»» 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.</p> <p>»» Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organization as a whole.</p> <p>»» <i>Example</i>, MS Excel, every finance professional uses this software to simplify and automate their manual tasks.</p>	<b><i>Gives Competitive Advantage</i></b>	<p>»» An interesting concept about innovation is the faster a business innovates, the farther it goes from its competitor's reach.</p> <p>»» Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage.</p> <p>»» Innovation not only helps retain the existing customers but helps acquire new ones with ease.</p>
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## 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.

### I. Expansion through Mergers and Acquisitions

- Acquisition or merger with an existing concern is an **instant means of achieving the expansion**.
- Merger is a process when **two or more companies come together** to expand their business operations.
- In a merger the **deal** gets finalized **on friendly terms** and both organizations **share profits** in the newly created entity.
- In a merger two organizations combine **to increase their strength and financial gains along with breaking of the trade barriers**.
- When **one organization takes over the other organization** and controls all its business operations, it is known as **acquisition**.
- In acquisition, **one financially strong organization overpowers the weaker one**.
- Acquisition often happen **during recession in economy or during declining profit margins**.
- **Deal** is done in **an unfriendly manner**, it is more or less a **forced association**.

### Types of Mergers

#### Horizontal Merger

- ▶ Horizontal merger is a **combination of firms** engaged in the **same industry**.
- ▶ It is a merger **with a direct competitor**.
- ▶ The objective is to **achieve economies of scale, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition** and so on.
- ▶ **Example**, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.

#### 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**.

► On the other hand, **forward integration** happens when an organization decides to **take over its buyer organizations or distribution channels**.

► *Example*, Zee Ltd. and dish tv - forward

### Co-generic Merger

► In this two or more merging organizations are **associated in some way or the other related to the production processes, business markets, or basic required technologies**.

► Such merger **includes the extension of the product line or acquiring components that are required in the daily operations**.

► *Example*, an organization in the refrigerators can diversify by merging with another organization having business in kitchen appliances.

### Conglomerate Merger

► It is 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.

► Example - L&T & Voltas

## II. 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.

► These are **formed in the global marketplace** between businesses that are based in different regions of the world.

Example - Kwality (Delhi based ice-cream) with Walls (HUL), Maruti with Suzuki

### Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance.



Organizational	<ul style="list-style-type: none"> <li>- It helps to learn necessary skills and obtain certain capabilities from strategic partners.</li> <li>- Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain and help enhancing reputation in market.</li> </ul>
Economic	<ul style="list-style-type: none"> <li>- There can be reduction in costs and risks by distributing them across the members of the alliance.</li> <li>- Greater economies of scale, advantage of co-specialization, creating additional value can be obtained.</li> </ul>
Strategic	<ul style="list-style-type: none"> <li>- Rivals can join together instead of competing with each other.</li> <li>- It is useful to create a competitive advantage by the pooling of resources and skills, to get access to new technologies or to pursue joint research and development.</li> <li>- This may also help with future business opportunities and the development of new products and technologies.</li> </ul>
Political	<ul style="list-style-type: none"> <li>- It helps to gain entry into a foreign market either because of local prejudices or legal barriers to entry.</li> <li>- Alliance with politically influential partners may also help improve your own influence and position.</li> </ul>

### Disadvantages of Strategic Alliance

It require sharing of resources and profits, and also sharing knowledge and skills that otherwise organisations may not like to share.

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 also create potential competition when an ally becomes an opponent in future when it decides to separate out.

### Strategic Exits

»»It is followed when an organization substantially reduces the scope of its activity.

»»This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next steps are taken to solve the problems.

»»If the organisation choose to focus on ways and means to reverse the process of decline, it adopts to turnaround strategy.

»»If the organisation cuts off the loss-making units, divisions, SBUs, curtails its product line, or reduces functions performed, it adopts a divestment or divestiture strategy.



»If both doesn't work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

## I. Turnaround Strategy

» For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.

» Certain conditions or indicators which point out need for a turnaround are:

- ✓ Persistent negative cash flow from business(es)
- ✓ Uncompetitive products or services
- ✓ Declining market share
- ✓ Deterioration in physical facilities
- ✓ Over-staffing, high turnover of employees, and low morale
- ✓ Mismanagement

### Major Reasons for Retrenchment/Turnaround Strategy

- 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 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.

### Action Plan for Turnaround

A workable action plan for turnaround would involve the following stages:

<b>Stage One - Assessment of current problems</b>	<ul style="list-style-type: none"> <li>- The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused.</li> <li>- Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.</li> </ul>
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Stage Two - Analyse the situation and develop a strategic plan	<ul style="list-style-type: none"> <li>- Determine chances of business survival.</li> <li>- Identify appropriate strategies &amp; develop a preliminary action plan.</li> <li>- For this one should look for the viable core businesses, adequate bridge financing and available organizational resources.</li> <li>- Analyse the strengths and weaknesses</li> <li>- Develop a strategic plan with specific goals and detailed functional actions.</li> </ul>
Stage Three- Implementing an emergency action plan	<ul style="list-style-type: none"> <li>- An appropriate action plan must be developed to stop the bleeding and enable the organization to survive.</li> <li>- The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, and so on.</li> <li>- A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.</li> </ul>
Stage Four- Restructuring the business	<ul style="list-style-type: none"> <li>- During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning.</li> <li>- Core products neglected over time may require immediate attention to remain competitive.</li> <li>- Morale building of employees, reward and compensation should be given that encourage dedication and creativity amongst employees to think about profits and return on investments.</li> </ul>
Stage Five - Returning to normal	<ul style="list-style-type: none"> <li>- The organization should begin to show signs of profitability, return on investments and enhancing economic value-added.</li> <li>- Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.</li> </ul>

»» 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

## II. Divestment Strategy

»»It 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**.

»»A divestment strategy may be adopted due to various reasons:

- ✓ 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 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.
- ✓ 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.
- ✓ A **better alternative may be available for investment**, causing a firm to divest a part of its unprofitable business.

### Strategic Options

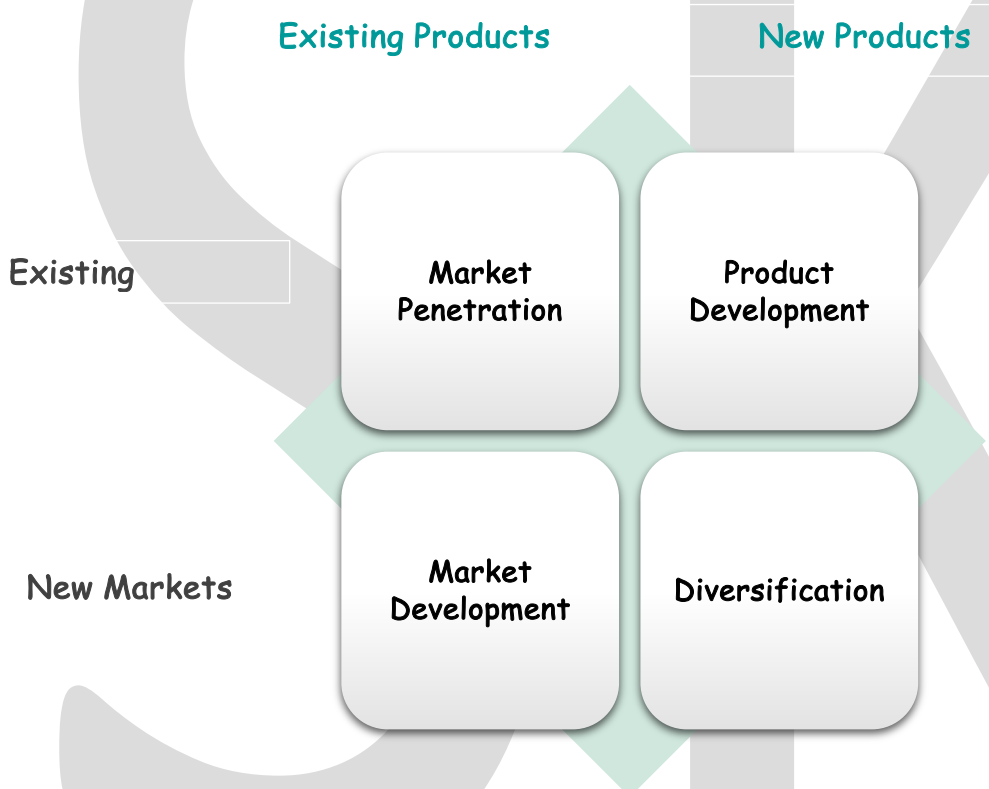
»Strategic options need to be **carved out from existing products and innovations** that are happening in the industry.

»Primarily **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 business that possess the greatest potential**.

## Ansoff's Product Market Growth Matrix

- 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 its 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**.



Market Penetration	<ul style="list-style-type: none"> <li>- It refers to a growth strategy where the business focuses on selling <b>existing products into existing markets</b>.</li> <li>- Penetration might <b>require greater spending on advertising or personal selling, increasing usage</b> by existing customers.</li> </ul> <p><b>Example,</b> Gucci, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.</p>
Market Development	<ul style="list-style-type: none"> <li>- It refers to a growth strategy where the business seeks to sell its <b>existing products into new markets</b>.</li> <li>- It is achieved through <b>new geographical markets, new product dimensions or packaging, new distribution channels</b> or different</li> </ul>

	pricing policies to attract different customers or create new market segments. <b>Example</b> , Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.
Product Development	<ul style="list-style-type: none"> <li>- It refers to a growth strategy was business aims to introduce <b>new products into existing markets</b>.</li> <li>- It may <b>require the development of new competencies</b> and requires the business to develop <b>modified products</b> which can appeal to existing markets.</li> <li>- <b>Example</b>, Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.</li> </ul>
Diversification	<ul style="list-style-type: none"> <li>- It refers to a growth strategy where a business market <b>new product in new markets</b>.</li> <li>- It is a strategy by <b>starting up or acquiring businesses outside the company's</b> current products and markets.</li> <li>- This strategy is <b>risky because</b> it does <b>not rely on</b> either the company's successful <b>product or its position in established markets</b>.</li> <li>- Typically, the business is moving into markets in which it has little or no experience.</li> </ul> <p><b>Example</b>, Gucci, a luxury clothing brand, selling casual clothing in Chinese markets, is diversification.</p>

### ADL Matrix

- The ADL matrix (derived its name from **Arthur D. Little**) 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 firm's competitive position**, environmental assessment and business strength assessment.
- It helps in categorization of products or SBU's into one of five competitive positions:
  - ✓ dominant,
  - ✓ strong.
  - ✓ favourable,
  - ✓ tenable and
  - ✓ weak

It is four by five matrix as follows:

Stage of industry maturity - Arthur D. Little (ADL) Matrix				
Competitive position	Embryonic	Growth	Mature	Ageing
<b>Dominant</b>	<ul style="list-style-type: none"> <li>- Fast grow</li> <li>- Build barriers</li> <li>- Act offensively</li> </ul>	<ul style="list-style-type: none"> <li>- Fast grow</li> <li>- Attend cost leadership</li> <li>- Renew</li> <li>- Defend position</li> <li>- Act offensively</li> </ul>	<ul style="list-style-type: none"> <li>- Defend position</li> <li>- Attend cost leadership</li> <li>- Renew</li> <li>- Fast grow</li> <li>- Act offensively</li> </ul>	<ul style="list-style-type: none"> <li>- Defend position</li> <li>- Renew</li> <li>- Focus</li> <li>- Consider withdrawal</li> </ul>
<b>Strong</b>	<ul style="list-style-type: none"> <li>- Differentiate</li> <li>- Fast grow</li> </ul>	<ul style="list-style-type: none"> <li>- Differentiate</li> <li>- Lower cost</li> <li>- Attack small firms</li> </ul>	<ul style="list-style-type: none"> <li>- Lower cost</li> <li>- Focus</li> <li>- Differentiate</li> <li>- Grow with industry</li> </ul>	<ul style="list-style-type: none"> <li>- Find niche</li> <li>- Hold niche</li> <li>- Harvest</li> </ul>
<b>Favourable</b>	<ul style="list-style-type: none"> <li>- Differentiate</li> <li>- Focus</li> <li>- Fast grow</li> </ul>	<ul style="list-style-type: none"> <li>- Focus</li> <li>- Differentiate</li> <li>- Defend</li> </ul>	<ul style="list-style-type: none"> <li>- Focus</li> <li>- Differentiate</li> <li>- Harvest</li> <li>- Find niche</li> <li>- Hold niche</li> <li>- Turnaround</li> <li>- Grow with industry</li> <li>- Hit smaller firms</li> </ul>	<ul style="list-style-type: none"> <li>- Harvest Turnaround</li> </ul>
<b>Tenable</b>	<ul style="list-style-type: none"> <li>- Grow with industry</li> <li>- Focus</li> </ul>	<ul style="list-style-type: none"> <li>- Hold niche</li> <li>- Turnaround</li> <li>- Focus</li> <li>- Grow with industry</li> <li>- Withdraw</li> </ul>	<ul style="list-style-type: none"> <li>- Turnaround</li> <li>- Hold niche</li> <li>- Retrench</li> </ul>	<ul style="list-style-type: none"> <li>- Divest</li> <li>- Retrench</li> </ul>
<b>Weak</b>	<ul style="list-style-type: none"> <li>- Find niche</li> <li>- Catch-up</li> <li>- Grow with industry</li> </ul>	<ul style="list-style-type: none"> <li>- Turnaround</li> <li>- Retrench</li> <li>- Niche or withdraw</li> </ul>	<ul style="list-style-type: none"> <li>- Withdraw</li> <li>- Divest</li> </ul>	<ul style="list-style-type: none"> <li>- Withdraw</li> </ul>



The competitive position of a firm is based on an assessment of the following criteria:

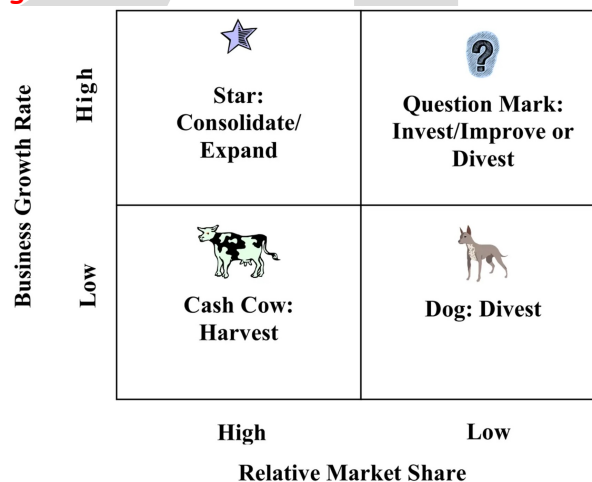
<b>Dominant</b>	This is a comparatively <b>rare position</b> and in many cases is attributable either to a <b>monopoly or a strong and protected technological leadership</b> .
<b>Strong</b>	The firm has a <b>considerable degree of freedom over its choice of strategies</b> and is often able to <b>act without its market position being unduly threatened</b> by its competitions.
<b>Favourable</b>	It generally comes about when the <b>industry is fragmented</b> and <b>no one competitor stand out clearly</b> , results in the market leaders a reasonable degree of freedom.
<b>Tenable</b>	Firms are able to <b>perform satisfactorily</b> and can justify staying in the industry, they are generally <b>vulnerable in the face of increased competition</b> from stronger and more proactive companies in the market.
<b>Weak</b>	The <b>performance</b> of firms in this category is generally <b>unsatisfactory</b> although the <b>opportunities for improvement do exist</b> .

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

- The BCG growth-share matrix is the **simplest way to portray** a corporation's **portfolio of 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.



Using the matrix, organisations can identify four different types of products or SBU as follows:

Stars	<ul style="list-style-type: none"> <li>- Are <b>high growth, high market share</b> businesses or products.</li> <li>- Are <b>products or SBUs</b> that are <b>growing rapidly</b>.</li> <li>- They also <b>need heavy investment</b> to maintain their position and finance their rapid growth potential.</li> <li>- They represent <b>best opportunities for expansion</b>.</li> </ul>
Cash Cows	<ul style="list-style-type: none"> <li>- Are <b>low-growth, high market share</b> businesses or products.</li> <li>- They <b>generate cash</b> and have <b>low costs</b>.</li> <li>- They are <b>established, successful</b>, and <b>need less investment</b> to maintain their market share.</li> <li>- In <b>long run when the growth rate slows down, stars become cash cows</b>.</li> </ul>
Question Marks	<ul style="list-style-type: none"> <li>- Sometimes <b>called problem children or wildcats</b>, are <b>low market share</b> business in <b>high-growth</b> markets.</li> <li>- They <b>require a lot of cash</b> to hold their share.</li> <li>- They <b>need heavy investments with low potential to generate cash</b>.</li> <li>- Question marks if <b>left unattended</b> are capable of <b>becoming cash traps</b>.</li> <li>- Since growth rate is high, increasing it should be relatively easier.</li> <li>- It is for business organisations to <b>turn them stars and then to cash cows</b> when the growth rate reduces.</li> </ul>
Dogs	<ul style="list-style-type: none"> <li>- Are <b>low-growth, low-share</b> businesses and products.</li> <li>- They may <b>generate enough cash to maintain themselves</b>, but do <b>not have much future</b>.</li> <li>- <b>Sometimes</b> they may <b>need cash to survive</b>.</li> <li>- Dogs should be <b>minimised by means of divestment or liquidation</b>.</li> </ul>

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

### Problems and limitations of BCG Matrix

- It can be difficult, time-consuming, and costly to implement.
- Management may find it difficult to define SBUS and measure market share and growth.
- It also focuses on classifying current businesses but provide little advice for future planning.
- It lead to too much emphasis on market-share growth or growth through entry into attractive new markets and can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

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

- ▶ This model has been used by General Electric Company 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 and Market Attractiveness.

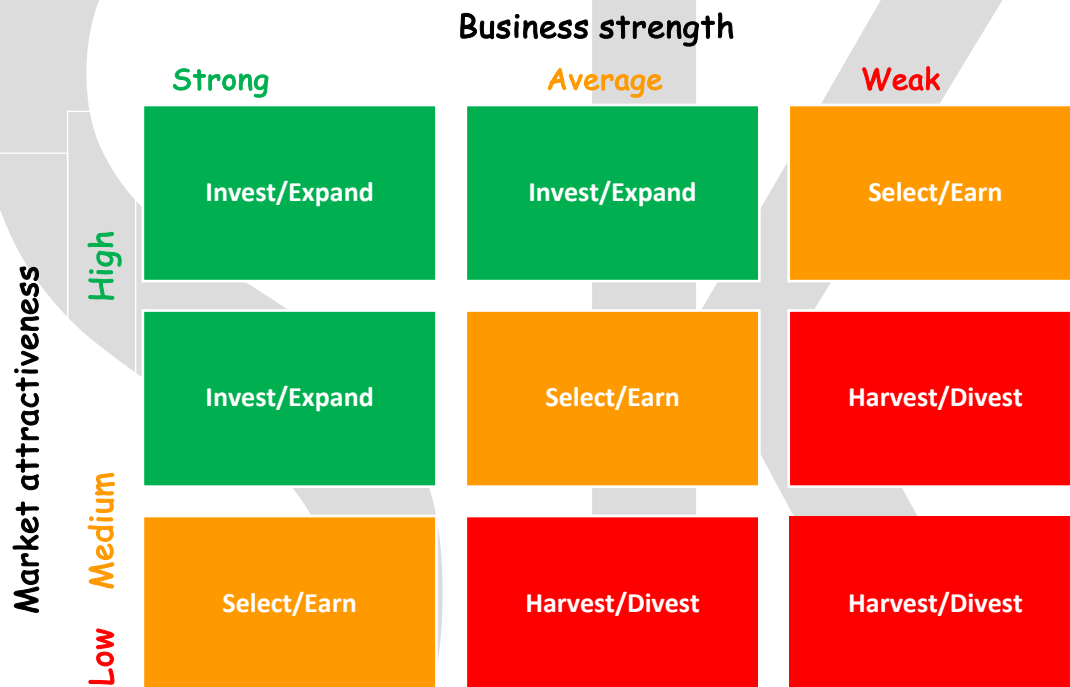
### Understanding the GE Matrix

The vertical axis indicates market attractiveness, and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- ✓ Size of the market.
- ✓ Market growth rate.
- ✓ Industry profitability.
- ✓ Competitive intensity.
- ✓ Availability of Technology.
- ✓ Pricing trends.
- ✓ Overall risk of returns in the industry.
- ✓ Opportunity for differentiation of products and services.
- ✓ Demand variability
- ✓ Segmentation.
- ✓ Distribution structure (e.g., direct marketing, retail, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- ✓ Market share.
- ✓ Market share growth rate.
- ✓ Profit margin.
- ✓ Distribution efficiency.
- ✓ Brand image.
- ✓ Ability to compete on price and quality.
- ✓ Customer loyalty.
- ✓ Production capacity.
- ✓ Technological capability.
- ✓ Relative cost position.
- ✓ Management calibre, etc.



- ▶ If a product falls in the **green section**, the **business is at advantageous position**.
- ▶ To reap the benefits, the strategic decision can be to **expand, to invest and grow**.
- ▶ If a product is in the **amber or yellow zone**, it **needs caution and managerial discretion is called for making the strategic choices**.
- ▶ If a product is in the **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**.

### Difference between BCG and GE Matrix

- ▶ Firstly, **market attractiveness** replaces **market growth** as the dimension of industry attractiveness and includes a broader range of factors other than just the market growth rate.
- ▶ Secondly, **competitive strength** replaces **market share** as the dimension by which the competitive position of each SBU is assessed.
- ▶ Thirdly, GE is a **nine cell matrix** as compared to **4 cell** of BCG Matrix.
- ▶ Fourthly, GE thinks both **about present & future** potential whereas BCG thinks **only of present** & take decision.
- ▶ Fifth, GE is **developed by GE** together with McKinsey and BCG **developed by Boston consulting Group**.

# Chapter - 5

## Strategy Implementation And Evaluation

### Strategic Management Process

- ❖ The process of developing an organisation's strategy is **quite methodical**.
- ❖ The strategic management process is **dynamic and continuous** and it **never really ends**.

### Stages in Strategic Management

Strategic management involves the following stages:

- Developing a strategic vision and formulation of statement of mission, goals and objectives.
- Environmental and organisational analysis.
- Formulation of strategy.
- Implementation of strategy.
- Strategic evaluation and control.

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

- First, Co. should **develop a Vision i.e., future blueprint**.
- It answers the question '**where it wants to land**'.
- **Top management's views and conclusions** about company's direction and product, customer, market, technology focus constitute strategic vision of company.
- A **strategic vision delineates management's aspirations** for the organization and **highlights a particular direction**, or strategic path for it to follow in **preparing for the future**, and moulds its identity.
- **Managers** need to be **clear** about **role** of the organization and this is often expressed in terms of a **mission statement**.
- Objectives & goals **flows from mission and growth ambition** of organization.
- They provide a means of **performance measurement** at each level of management.

#### 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 Analysis** - It consists of **economic, social, technological, market & other forces** which **affect its functioning**. It is **dynamic and uncertain** & helps in **determining opportunities and threats**.

**2.Organizational Analysis** - It consists of analysis of **company resources, technological resources, productive capacity, distribution channel, R&D, HR, etc.** It **reveals strength and weakness** of Organisation.

### Stage 3: Formulating Strategy

- **First stage** in strategy formulation is **developing strategic alternatives** in line with **SWOT** of organization.
- **Second stage** involves **deep analysis** of various **alternatives** and **choosing** appropriate alternative which will **serve as strategy** of firm.

**Examples of strategic alternatives:**

- a) Should company **continue in same business** on same level of operation?
- b) If it should continue in same business, should it **grow by expanding** same unit; **establishing new units; or acquiring** other units in same Industry?
- c) If it should **diversify**, should it diversify **into related or unrelated areas**?
- d) Should it **get out** of existing **business fully or partially**?
- e) **Combination of any** of the above strategies

### Stage 4: Implementation of Strategy

- Implementation and execution are an **operation- oriented activity**.
- Most **demanding & time-consuming** stage.

**Strategy execution process includes following aspects:**

- a) Developing **budget that steer ample resource** into critical activities.
- b) **Staffing** organization with **needed skills & expertise**, to build competitive capabilities and organizing the work.
- c) **Motivating people** to pursue target energetically
- d) Creating a company **culture & work climate** that support successful strategy implementation and execution
- e) Ensuring **policies, procedures and internal operations** facilitate effective execution
- f) **Exerting internal leadership** needed to drive implementation forward and keep improving strategy execution.
- g) **Using best-known practices** to perform core business activities & pushing for continuous improvement.
- h) **Installing information and operating system** that enable company personnel to better carry out their strategic roles day in and day out.

### Stage 5: Strategic Evaluation and Control

Final stage of SM process involves

- evaluating Co.'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.
- Successful strategy execution requires searching for:
  - a) Ways to continuously improve and
  - b) Corrective adjustments whenever and wherever it is useful to do so.

### 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.
- The game plan that really directs the company towards success is called "corporate strategy".

Strategic Planning	Operational Planning
Senior management develops strategic plans for entire organization after evaluating strengths and weaknesses.	Operational plans are made at functional level management. They provide specifics on how resources are to be used effectively to achieve goals.
<ul style="list-style-type: none"> <li>- Shapes the organisation and its resources.</li> <li>- Assesses the impact of environmental variables.</li> <li>- Takes a holistic view of the organisation.</li> <li>- Concerned with the long-term success of the organisation.</li> <li>- Is a senior management responsibility.</li> </ul>	<ul style="list-style-type: none"> <li>- Deals with current deployment of resources.</li> <li>- Develops tactics rather than strategy.</li> <li>- Projects current operations into the future.</li> <li>- Makes modifications to the business functions but not fundamental changes</li> <li>- Is the responsibility of functional managers.</li> </ul>

### Strategic uncertainty and how to deal with it?

- Strategic uncertainty refers to the unpredictability of future events and circumstances that can impact an organization's strategy and goals.
- It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors.
- To minimize impact of strategic uncertainty requires organizations to have following factors:

<b>Flexibility</b>	Organizations can build flexibility into their strategies to <b>quickly adapt to changes</b> in the environment.
<b>Diversification</b>	<b>Diversifying</b> the organization's <b>product portfolio, markets, and customer base</b> can reduce the impact of strategic uncertainty.
<b>Monitoring and Scenario Planning</b>	Organizations can regularly <b>monitor key indicators of change</b> and <b>conduct scenario planning</b> to understand how different future scenarios might impact their strategies.
<b>Building Resilience</b>	Organizations can invest in <b>building internal resilience</b> , such as <b>strengthening their operational processes</b> , increasing their <b>financial flexibility</b> , and improving their <b>risk management capabilities</b> .
<b>Collaboration and Partnerships</b>	Collaborating with other organizations, suppliers, customers, and partners can help organizations <b>pool resources, share risk, and gain access to new markets and technologies</b> .

### Strategy Implementation

»»Strategic implementation concerns the **managerial exercise** of **putting** a freshly **chosen strategy into action**.

»»It deals with **supervising the ongoing pursuit of strategy, making it work, improving the competence** with which it is executed & **showing measurable progress** in achieving the targeted results.

### Difference between Strategy Formulation and Implementation

Strategy Formulation	Strategy Implementation
It includes <b>planning and decision-making</b> involved in developing organization's strategic goals and plans	It involves all those means related to <b>executing the strategic plans</b> .
It is <b>placing the Forces before the action</b> .	It is <b>managing forces during the action</b> .
An <b>Entrepreneurial Activity</b> based on strategic decision-making.	An <b>Administrative Task</b> based on strategic and operational decisions
Emphasizes on <b>effectiveness</b> .	Emphasizes on <b>efficiency</b> .
Primarily an <b>intellectual and rational process</b> .	Primarily an <b>operational process</b> .
Requires <b>co-ordination among few</b> individuals at the <b>top level</b> .	Requires <b>co-ordination among many</b> individuals at the <b>middle and lower levels</b> .

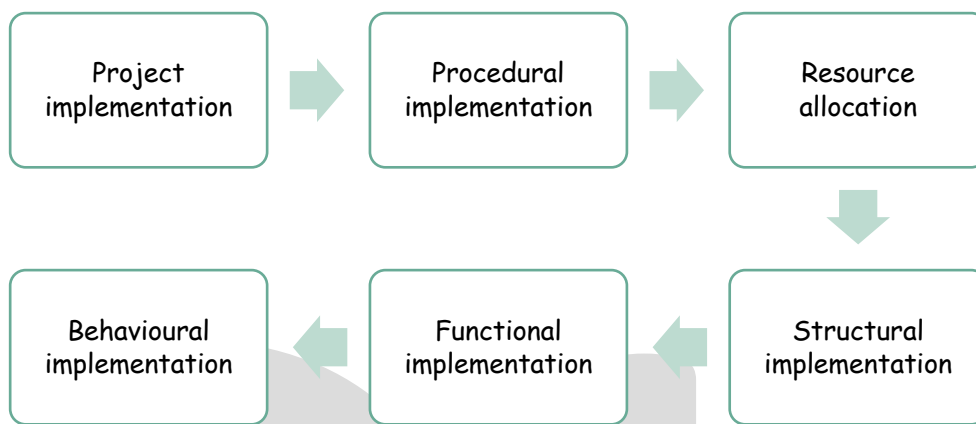
Requires a great deal of <b>initiative, logical skills, conceptual intuitive and analytical skills.</b>	Requires specific <b>motivational and leadership traits.</b>
Strategic Formulation <b>precedes Strategy Implementation.</b>	Strategy Implementation <b>follows Strategy Formulation.</b>

### Linkages and Issues in Strategy Implementation Linkages

Forward Linkages	<ul style="list-style-type: none"> <li>▶ The different elements in strategy formulation <b>determine the course</b> that an <b>organization adopts</b> for itself.</li> <li>▶ With the formulation of new strategies, or reformulation of existing strategies, many changes have to be affected within the organization.</li> <li>▶ Example - The organizational structure has to undergo a change, style of leadership has to be adapted to the needs of the modified or new strategies.</li> </ul>
Backward Linkages	<ul style="list-style-type: none"> <li>▶ While dealing with strategic choice, remember that <b>past strategic actions</b> also <b>determine the choice of strategy.</b></li> <li>▶ Organizations tend to adopt those strategies which can be implemented with the help of the <b>present structure of resources</b> combined with some additional efforts.</li> <li>▶ Such <b>incremental changes, over a period of time</b>, take the organization from <b>where it is to where it wishes to be.</b></li> </ul>

### Issues in Strategy Implementation

- The strategic plan proposes the manner in which the **strategies** could be **put into action**. Strategies, by themselves, **do not lead to action**. They are a **statement of intent**. **Implementation** tasks are **meant to realise the intent**. Strategies, therefore, have to be **activated through implementation**.
- 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 **supported by funds** allocated for plan implementation.
- 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, research and development programme may consist of several projects, each of which is intended to achieve a **specific and limited objective, requires separate allocation of funds**, and is to be **completed within a set time schedule**.
- Given below in sequential manner the issues in strategy implementation which are to be considered:



### Strategic Change

- Changes in the environmental forces often require businesses to make 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**.

For initiating strategic change, three steps can be identified as under:

Recognize the need for change	<ul style="list-style-type: none"> <li>► It means going for <b>environmental scanning</b> involving <b>appraisal</b> of both <b>internal and external capabilities</b> may be through <b>SWOT analysis</b> and then <b>determining where the lacuna lies and scope for change exists</b>.</li> </ul>
Create a shared vision to manage change	<ul style="list-style-type: none"> <li>► <b>Objective</b> of both <b>organization</b> and <b>individual</b> should <b>coincide</b> and there should <b>not be any conflict</b>.</li> <li>► <b>Senior managers</b> need to constantly <b>communicate</b> the <b>vision</b> to all the organizational members. They have to <b>convince</b> that the <b>change in business culture is not superficial or cosmetic</b>.</li> </ul> <p>The <b>actions</b> taken have to be <b>credible, highly visible and indicative</b> of management's <b>seriousness to new strategic initiatives and associated changes</b>.</p>
Institutionalise the change	<ul style="list-style-type: none"> <li>► It is <b>action stage</b> that requires <b>implementation of changed strategy</b>.</li> <li>► Change process should be <b>monitored</b> and in case of <b>any deviation, corrective action should be taken</b>.</li> </ul>

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 unfreezing, changing and refreezing.

Unfreezing the situation	<ul style="list-style-type: none"> <li>► Process of unfreezing <b>makes individual aware of necessity for change</b> &amp; help <b>prepare for such change</b>.</li> </ul>
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	<ul style="list-style-type: none"> <li>▶ Lewin proposes that change should <b>not come as a surprise</b> as it would be <b>socially destructive and morale lowering</b>.</li> <li>▶ It involves <b>breaking down old attitude &amp; behaviour, custom &amp; tradition</b> so that they <b>start clean slate</b> and are <b>willing to change</b>.</li> <li>▶ This can be achieved by <b>making announcements</b> and <b>holding meetings</b> throughout the organization.</li> </ul>
Changing to the new situation	<ul style="list-style-type: none"> <li>- Once the <b>unfreezing</b> process has been <b>completed</b> and the <b>members</b> of the organization <b>recognise the need for change</b> and have been fully <b>prepared to accept such change</b>, their <b>behaviour patterns</b> need to be <b>redefined</b>.</li> <li>- H.C. Kellman has proposed <b>three methods</b> for reassigning new patterns of behaviour. These are compliance, identification and internalization.</li> <li>▶ <b>Compliance:</b> It is achieved by <b>strictly enforcing the reward and punishment strategy</b> for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.</li> <li>▶ <b>Identification:</b> Identification occurs when members are <b>psychologically impressed</b> upon to <b>identify themselves with</b> some given <b>role models</b> whose behaviour they would like to adopt and try to become like them.</li> <li>▶ <b>Internalization:</b> Internalization involves some <b>internal changing</b> of the <b>individual's thought processes</b> in order to adjust to the changes introduced. They have given <b>freedom</b> to <b>learn and adopt new behaviour</b> in order to succeed in the new set of circumstances.</li> </ul>
Refreezing	<ul style="list-style-type: none"> <li>▶ It occurs when <b>new behaviour pattern becomes a normal way of life</b>.</li> <li>▶ <b>New behaviour must replace former behaviour</b> completely for successful and permanent change to take place.</li> <li>▶ Change process is <b>not one time process but a continuous</b> one due to dynamism and ever-<b>changing environment</b>.</li> </ul>

### 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." It's a **fundamental adjustment** that can be **challenging to identify** and even more challenging to **implement**.

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

##### How does change management works?

- Change management is a **process or set of tools** and best practices used to **manage changes** in an organization.
- It **assists** in making changes in a **safe and regulated manner**, **reducing** the **possibility of detrimental effects** on the company.
- A properly implemented change management strategy can help an organization to:
  - a) **Specify the parameters and goals** of the digital transformation
  - b) **Determine** which **procedures and tools** need to be modified.
  - c) **Make a plan** for implementing the improvements.
  - d) **Involve staff members and parties** involved in the transformation process.
  - e) **Track progress and make** required course **corrections**

##### Change Management Strategies for Digital Transformation

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

Begin at the top	<ul style="list-style-type: none"> <li>▶ A <b>focused, invested, united leadership</b> that is on the same page about the company's future is reflected in change that begins at the top.</li> <li>▶ The <b>culture</b> that will <b>motivate the rest</b> of the organisation to accept change can only be generated and promoted in this way.</li> </ul>
Ensure that the change is both necessary and desired	<ul style="list-style-type: none"> <li>▶ The fact that <b>decision-makers are unaware</b> of how to properly handle a digital transformation and the effects it will have on their firm is one of the <b>main causes</b> of this.</li> <li>▶ If a corporation <b>doesn't have a sound strategy</b> in place <b>introducing too much too fast</b> can frequently become a <b>major issue</b> down the road.</li> </ul>
Reduce disruption	<ul style="list-style-type: none"> <li>▶ <b>Employee perceptions</b> of what is required or desirable change can <b>differ</b> by department, rank, or performance history.</li> <li>▶ It's crucial to <b>lessen how changes affect staff</b>.</li> <li>▶ The introduction of new tactics or technologies intended to improve management and corporate operations causes employee concern about change.</li> </ul> <p><u>It is possible to reduce workplace disruption by:</u></p> <ol style="list-style-type: none"> <li>a. <b>Getting the word out early</b> and preparing for some interruption.</li> <li>b. <b>Giving staff members the knowledge and tools</b>, they need to adjust to change.</li> </ol>

	<p>c. <b>Creating an environment</b> that <b>encourages transformation</b> or change</p> <p>d. <b>Empowering change agents</b> to provide <b>context and clarity for changes</b>, such as project managers or team leaders.</p> <p>e. Ensuring that <b>IT department is informed</b> of changes in technology or infrastructure and is prepared to support them.</p>
Encourage communication	<p>► <b>Create channels</b> so that workers may contact you with queries or complaints.</p> <p>► <b>Encourage departmental collaboration</b> to propagate ideas and innovations as new procedures take root.</p> <p>► <b>Communication promotes efficiency</b> and has the power to <b>influence culture</b>, just like your vision.</p>
Recognize that change is the norm, not the exception	<p>► To stay updated in markets with customers, we need to remember <b>change is not a project, but rather ongoing process</b>.</p> <p>► They must prepare for change in advance and expect them.</p>

### How to manage change during transformation?

Any organisation may find the work of digital transformation **challenging and overwhelming**. To ensure that a digital transition is effective, **change management is essential**. Here are some pointers for navigating change during the digital transformation:

Specify the digital transformation's aims and objectives	<ul style="list-style-type: none"> <li>- What are the precise objectives that must be accomplished?</li> <li>- If <b>everyone is on the same page</b> and pursuing the same aims than <b>perusing goals could be easier</b>.</li> </ul>
Always communicate	<ul style="list-style-type: none"> <li>- Ensure that you routinely and honestly <b>discuss the objectives</b> of the digital transformation and <b>how they will affect</b> stakeholders, including employees, clients, and other parties.</li> </ul>
Be Ready for resistance	<ul style="list-style-type: none"> <li>- Even when a change is for the better, it can be <b>challenging for people to embrace it</b>.</li> <li>- Have a <b>strategy in place</b> for <b>dealing with any resistance</b> that may arise.</li> </ul>
Implement changes gradually	<ul style="list-style-type: none"> <li>- Changes should ideally be <b>implemented gradually rather than all at once</b>.</li> <li>- This will <b>give people time to become used</b> to the new way of doing things.</li> </ul>
Offer assistance and training	<ul style="list-style-type: none"> <li>- Workers will <b>need guidance</b> in the new procedures, software applications, etc.</li> </ul>

In conclusion, effective completion of digital transformation depends on **meticulous planning and change management**.

## Organizational Framework

The McKinsey 7S Model refers to a tool that **analyses** a company's "**organizational design**."

»»The goal of these tools is to **depict how effectiveness can be achieved** in an organization through **interaction of hard and soft elements**.

The Hard elements are directly controlled by the management.

<b>Strategy</b>	The <b>direction</b> of the organization, a <b>blueprint to build on a core competency</b> and <b>achieve competitive advantage</b> to drive margins and lead the industry
<b>Structure</b>	Depending on the availability of resources and the <b>degree of centralisation or decentralization</b> that the management desires, it <b>chooses from the available alternatives</b> of <b>organizational structures</b> .
<b>Systems</b>	The development of <b>daily tasks, operations and teams to execute</b> the <b>goals and objectives</b> in the most efficient and effective manner.

The Soft elements are **difficult to define** as they are **more governed by the culture**.

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

### Limitations of McKinsey Model

- ✓ 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.

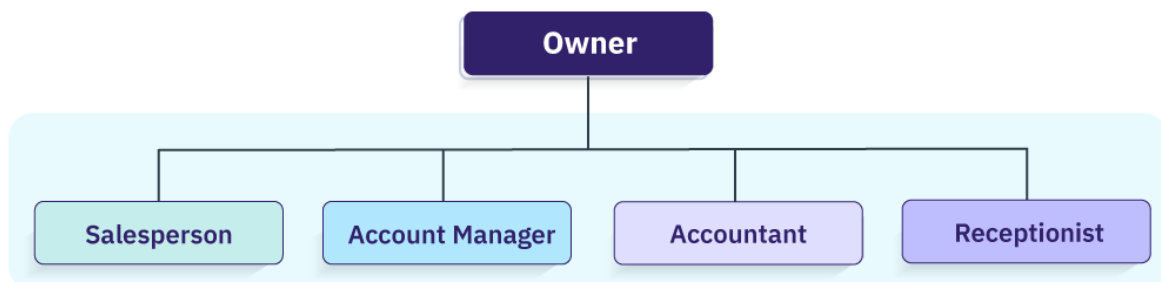
## Organization Structure

- It is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes.
- Company's structure must be congruent with or fit with the company's strategy.
- Changes in corporate strategy often requires changes in the way an organization is structure for two major reasons:
  - (a) Structure largely dictates how operational objectives and policies will be established to achieve the strategic objectives
  - (b) Structure dictates how resources will be allocated to achieve strategic objectives.
- **According to Chandler**, changes in strategy lead to changes in organizational structure i.e. structure should follow strategy.

### Types of Organization Structure

- Simple structure
- Functional Structure
- Divisional Structure
- Multi Divisional Structure
- Strategic Business Unit (SBU) Structure
- Matrix Structure
- Network Structure
- Hourglass structure

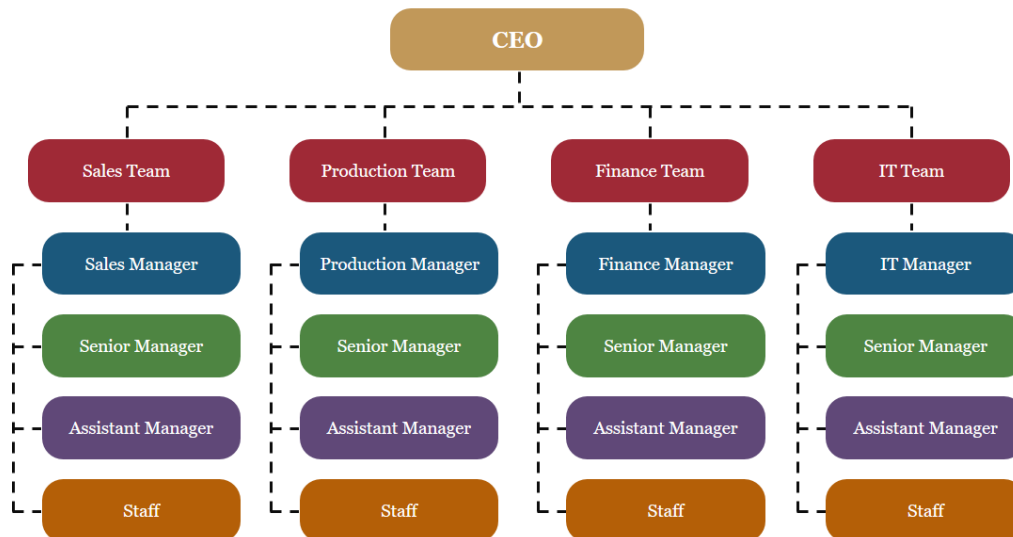
### A. Simple structure



- It is most **appropriate** for companies that **follow a single-business strategy** and offer a line of products in a **single geographic market**.
- Appropriate for companies **implementing focused cost leadership** or **focused differentiation strategies**.
- In this **owner takes all the decisions and monitors** all the activities of staff.
- **Little specialization** of tasks, **few rules**, **little formalization**, **unsophisticated information systems** and **direct involvement** of owner-manager in all phases of day-to-day operations characterise the simple structure.
- In this, **communication is fast** and **new products** tend to be **introduced very quickly**, which can **result in competitive advantage**.

- When the **company grows** and it **wishes to do specialisation**, there will be **pressures on owner-managers** (often due to a lack of organizational skills or experience or simply due to lack of time).
- As a result of this growth, the company outgrows the simple structure.

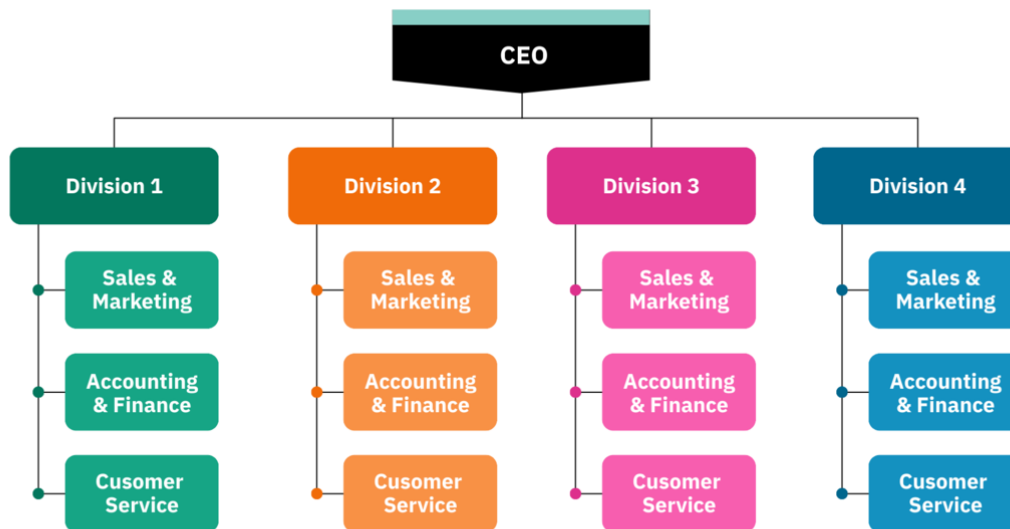
## B. Functional Structure



- A **widely used** structure in business organisations is functional type because of its **simplicity and low cost**.
- A functional structure **group tasks and activities by business function**, such as production/operations, marketing, finance etc.
- A functional structure also **promotes specialization of labour**, **encourages efficiency**, **minimizes the need for an elaborate control system**, and **allows rapid decision making**.
- It consists of a chief executive officer (**CEO**) or a managing director (**MD**) and supported by **corporate staff** with **functional line managers** 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 communication and coordination**.
- Functional specialists often **may develop a narrow perspective**, **losing sight of the company's strategic vision and mission**. This problem can be **overcome** by implementing the **multidivisional structure**.



## C. Divisional Structure



- As a **firm grows** and has different products and services in different markets, it has to **bring the divisional structure** which can be organized in **one of the four ways**: by **geographic area**, by **product or service**, by **customer**, or by **process**.
- With a divisional structure, **functional activities** are **performed both centrally** and in **each division** separately.
- A divisional structure has some clear **advantages**:
  - (a) **Accountability is clear** i.e. divisional managers can be held responsible for sales and profit levels.
  - (b) **Employee morale** is generally **high**
  - (c) It creates **career development opportunities** for managers
  - (d) Allows **local control of local situations**
  - (e) Leads to a **competitive climate** within an organization
  - (f) Allows **new businesses and products** to be **added easily**
- The **main limitation** of divisional design that it is costly due to:
  - (a) **Each division** requires functional **specialists** who must be **paid**.
  - (b) There exists **duplication of staff services, facilities, and personnel**
  - (c) Managers must be **well qualified** because the divisional design forces delegation of authority better-qualified individuals **requires higher salaries**.
  - (d) It requires an elaborate, **headquarters-driven control system**.
  - (e) Certain **regions, products, or customers** may sometimes **receive special treatment**, and it may be **difficult to maintain** consistent, companywide practices.

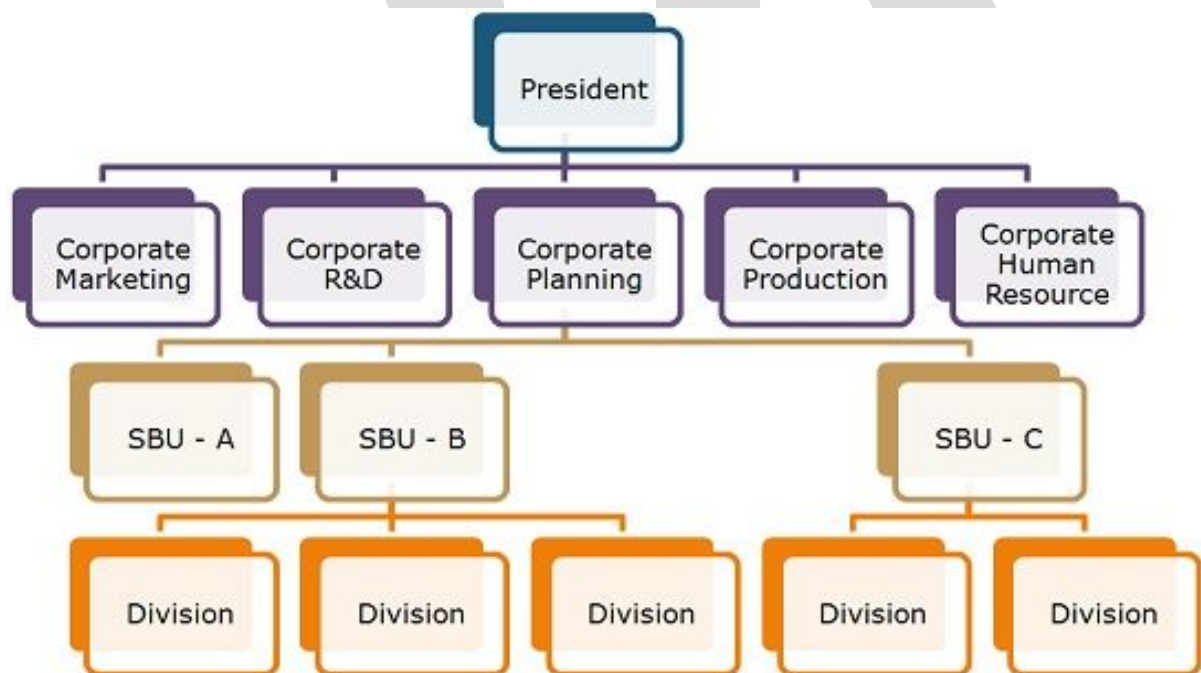
A key **difference** between divisional and functional structure is that **functional departments** are **not accountable for profits or revenues**, whereas **divisional process departments** are **evaluated on these criteria**.



### D. Multi Divisional Structure (M-Form)

- It is composed of operating divisions where **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.
- By such delegation, the **corporate office** is responsible for **formulating and implementing overall corporate strategy** and manages divisions through **strategic and financial controls**.
- Multidivisional structure calls for: (Characteristics)
  - (a) **Creating separate divisions**, each representing a distinct business
  - (b) Each division would house its **functional hierarchy**;
  - (c) Division managers would be given **responsibility for managing day-to-day operations**;
  - (d) 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**.
- It enables the firms: (Advantages)
  - (a) to more **accurately monitor the performance** of individual business
  - (b) **simplifying control** problems
  - (c) **facilitate comparisons** between divisions
  - (d) **improving allocation of resources**
  - (e) **stimulate managers** of poorly performing divisions to seek ways **to improve** them.

### E. Strategic Business Unit (SBU) Structure



- SBU concept is relevant for multiproduct, multi-business enterprise.
- When number of products become huge, it is not practical to provide separate strategic treatment to each product.
- An SBU is grouping of related business, which is amenable to composite planning treatment. The purpose is to provide effective strategic planning treatment to each one of its products/business.
- A strategic business unit (SBU) structure consists of at least three levels, with
  - a) corporate headquarters at the top,
  - b) SBU groups at the second level, and
  - c) divisions grouped by relatedness within each SBU at the third level.

**The three most important characteristics of a SBU are:**

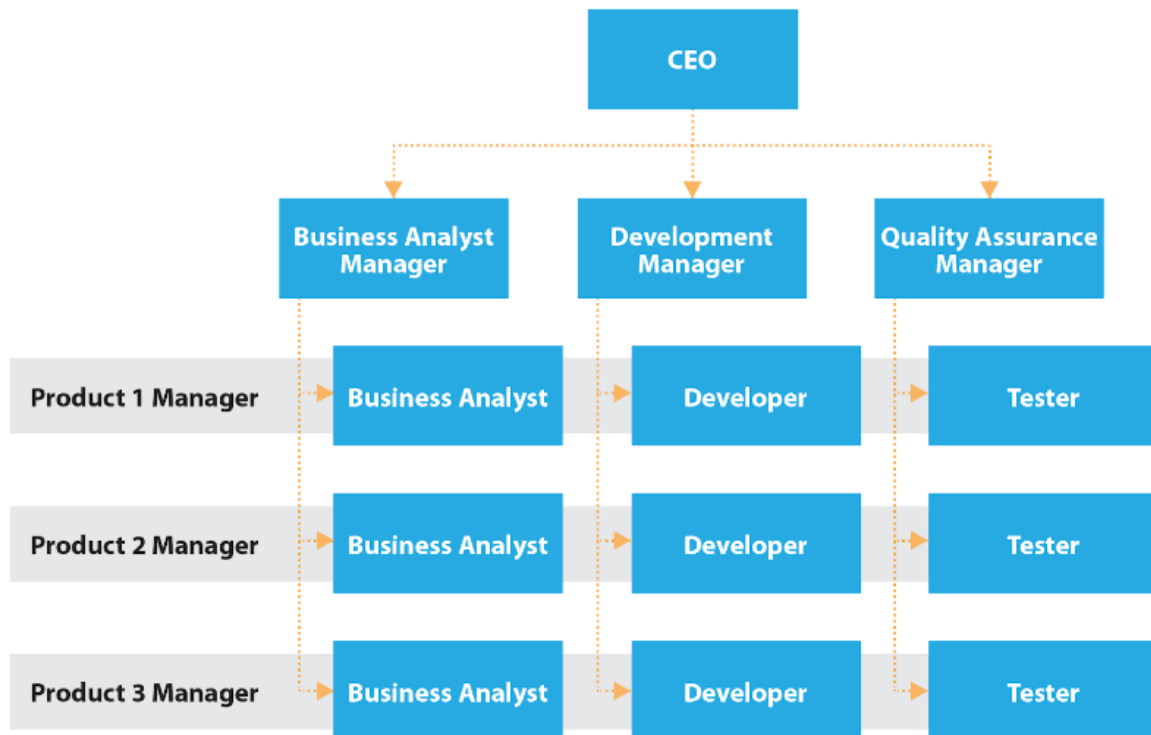
- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly standalone from the rest of the organization.
  - It has its own set of competitors.
  - It has a manager who has responsibility for strategic planning and profit performance and who has control of profit-influencing factors.
- When strategic planning was carried out treating territories as the units for planning, it gave rise to two kinds of difficulties:
- (a) since a number of territorial units handled the same product, the same product was getting varied strategic planning treatments;
  - (b) since a given territorial planning unit carried different and unrelated products, products with dissimilar characteristics were getting identical strategic planning treatment.

**Attributes of SBUS and the benefits a firm may derive by using SBU Structure**

- (a) It is scientific method of grouping multi-business corporation which helps in strategic planning.
- (b) It is improvement over territorial grouping of business based on territorial units.
- (c) Each SBU is can take up strategic planning distinct from the rest of the business.
- (d) Each SBU has CEO, who is responsible for planning and profit
- (e) Each SBU as it's distinct set of competitors and strategy
- (f) Unrelated products/businesses in any group are separated.
- (g) Grouping based on SBU helps to remove vagueness and confusion.

- (h) Each SBU is a **separate business** and will be distinct from one another on the basis of mission, objectives etc.

## F. Matrix Structure



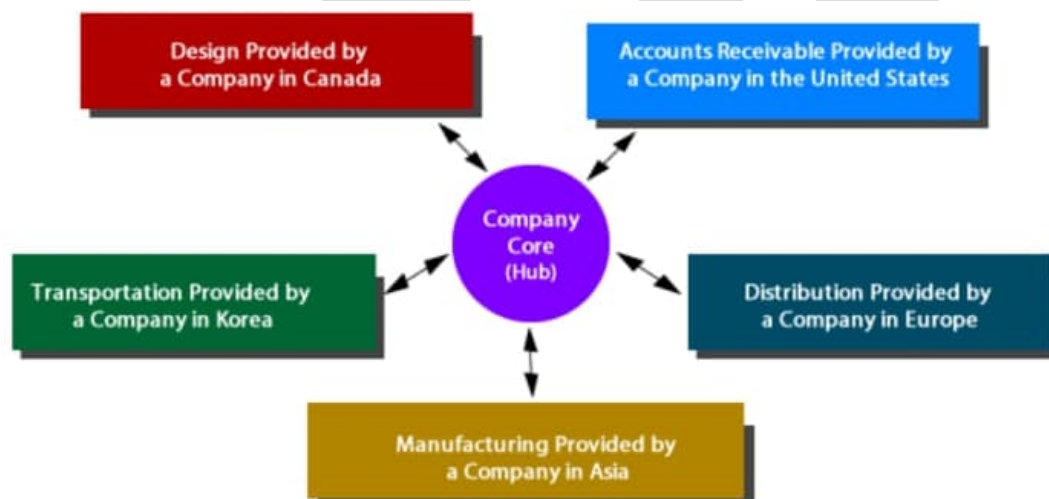
- It is **used** when **neither functional nor divisional** forms are **appropriate** for org.
- In matrix structure, **functional and product forms** are **combined** simultaneously at the **same level** of the organization.
- Employees have **two superiors** i.e., a product/ project manager and functional manager.
- It is the **most complex** of all design because it **depends** upon both **vertical & horizontal** flow of **authority and communication** (hence the term matrix).
- It has **dual sources of reward and punishment**, **shared authority**, **dual reporting channel** and **need for extensive communication**, **visible results of work** etc.
- It results in **higher overhead** because it has **more management positions**.
- It is **widely used** in many industries, including construction, healthcare, research and defence.
- **Advantages** of matrix structure:
  - (a) project **objectives are clear**,
  - (b) there are **many channels of communication**
  - (c) workers can see the **visible results of their work**,
  - (d) **shutting down** a project is accomplished **relatively easily**.
- It is often found in an organization or within an SBU when the following **three conditions exist**:

- (a) ideas need to be cross fertilized across projects or products,
- (b) resources are scarce, and
- (c) abilities to process information and to make decision needs to be improved.

For development of matrix structure Davis and Lawrence, have proposed three distinct phases:

1. **Cross-functional task forces:** 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.
2. **Product/brand management:** 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.
3. **Mature matrix:** 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.

## 6. Network Structure

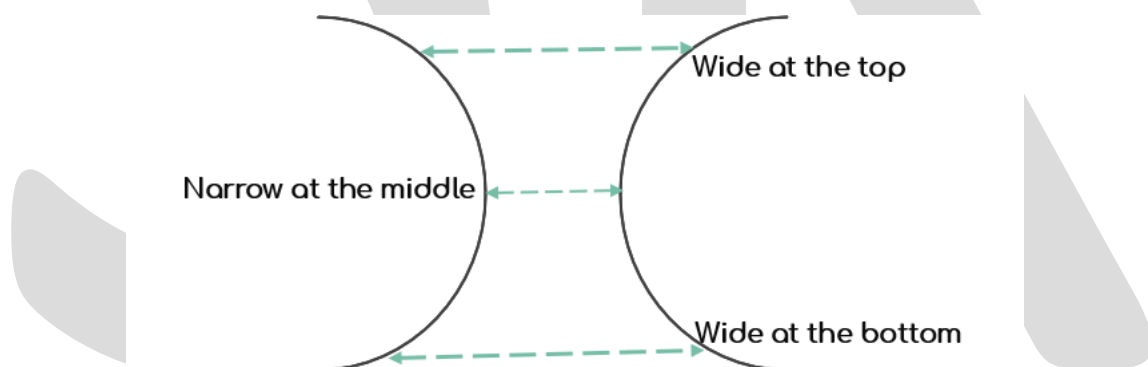


- A corporation organized in this manner is often called a virtual organization as many activities are outsourced.
- It is virtual elimination of inhouse business functions (non-structure).

- ▶ The network structure becomes most **useful when the environment** of a firm is **unstable** and is expected to remain so.
- ▶ Under such conditions, there is usually a strong need for innovation & quick response.
- ▶ In this there are **less salaried employees**, and **majority are contract workers** for specific project or time.
- ▶ 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.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▶ Allows a company to <b>concentrate</b> on its <b>own competencies</b> &amp; <b>outsourcing</b> of other functions <b>to experts</b> in their field.</li> <li>▶ It provides <b>more flexibility and adaptability</b> to meet/face rapid change in technology, taste and preferences.</li> <li>▶ Most useful when <b>environment</b> of a Firm is <b>unstable</b>.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Availability of <b>numerous partners</b> can be a source of <b>trouble</b>.</li> <li>▶ <b>Outsourcing</b> of functions may <b>keep</b> the Firm <b>away</b> from discovering any <b>synergies</b> by combining activities.</li> <li>▶ If a Firm <b>overspecializes</b> in only <b>few functions</b>, there is a <b>risk of choosing the wrong function</b> and thus becoming non- competitive.</li> <li>▶ <b>Low employee morale</b>.</li> </ul>

### H. Hourglass Structure



- ▶ The role played by **middle management** is diminishing as the **tasks** performed by them are increasingly being **replaced by the technological tools**.
- ▶ It 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.
- ▶ In this **middle level** manager are **generalists** and perform **wide variety of tasks** such as production, finance, marketing etc.



Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▶ <b>Reduced cost</b> due to reduction of middle level management posts.</li> <li>▶ <b>Enhanced responsiveness</b> by simplifying decision making.</li> <li>▶ Decision making authority is close to source of information, so it's <b>faster</b>.</li> </ul>	<ul style="list-style-type: none"> <li>a) Since size of middle management is reduced, <b>promotion opportunity for lower-level</b> managers is also <b>reduced</b>.</li> <li>b) <b>Lower employee morale</b> at lower level due to monotony.</li> </ul>

### Organization 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?

It is reflected or **manifested**:

- ✓ in the **values and business principles** that management preaches & 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)
- ✓ in the **traditions** the organization maintains
- ✓ in its **supervisory practices**
- ✓ in **employees' attitudes** and behaviour
- ✓ in the **legends people repeat** about happenings in the organization
- ✓ in the **peer pressures** that exist
- ✓ in the **organization's politics** that permeate the work environment.

#### Culture: ally 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**.
- When the culture is **in conflict** than it becomes a **blockage**.

### Role of culture in strategy execution

- ▶ **Strong culture** promotes **good strategy** execution when there's **fit** and **impedes** execution when there's **negligible fit**.
- ▶ A **culture grounded** in values, practices, and behavioural norms that match what is needed for good strategy execution helps **energize people** throughout the



company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution.

► Strategy-supportive cultures shape the mood, temperament, and motivation the workforce, positively affecting organizational energy, work habits and operating practices, the degree to which organizational units cooperate, and how customers are treated.

#### Perils of Strategy-Culture Conflict:

- When a company's culture is out of sync with what is needed for strategic success, the culture has to be changed as rapidly as can be managed - this, of course, presumes that it is one or more aspects of the culture that are out of whack rather than the strategy.
- While correcting a strategy-culture conflict can occasionally mean revamping strategy to produce cultural fit, more usually it means revamping the mismatched cultural features to produce strategy fit.
- The more entrenched the mismatched aspects of the culture, the greater the difficulty of implementing new or different strategies until better strategy-culture alignment emerges.

#### Creating a strong fit between strategy and culture:

- It is the strategy maker's responsibility to select a strategy compatible with the "sacred" or unchangeable parts of prevailing corporate culture.
- It is the strategy implementer's task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution.

#### Changing a problem culture:

- Changing a problem culture is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar.
- It takes concerted management actions over a point of time to replace unhealthy culture with healthy culture or remove unwanted aspects of problem culture and instil ones those which are more strategy-supportive.
- **first step** - Diagnose which facets of the present culture are strategy supportive and which are not.
- **Second step** - Managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- **Third step** - The talk has to be followed swiftly by visible aggressive action to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.
- The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail; it's unrealistic to expect an overnight transformation.

### Strategic Leadership

- ▶ Strategic leadership **sets the firms direction** by
  - ✓ **developing and communicating vision** of future,
  - ✓ **formulate strategies** in the light of internal and external environment,
  - ✓ **brings about changes** required to implement strategies and
  - ✓ **inspire the staff** to contribute to strategy execution.
- ▶ A leader has to **play various roles** like entrepreneur, strategist, culture builder, visionary, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, listener and decision maker.

### Five leadership roles to play in pushing for good strategy execution:

- (a) **Staying on top of what is happening, closely monitoring progress, solving out issues**, and learning what obstacles lie in the path of good execution.
- (b) **Promoting a culture of esprit de corps** (feeling of pride) that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
- (c) **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.
- (d) **Exercising ethical leadership** and insisting that the company conduct its affairs like a model corporate citizen.
- (e) **Pushing corrective actions** to improve strategy execution and overall strategic performance.

### A Strategic leader has several responsibilities, including the following:

- ▶ **Making strategic decisions.**
- ▶ Ensuring **effective communication** in the organisation.
- ▶ **Managing change** in the organisation.
- ▶ **Sustaining high performance** over time.
- ▶ **Formulating policies and action plans** to implement strategic decision.
- ▶ **Managing human capital** (perhaps the most critical of the strategic leader's skills).
- ▶ **Creating and sustaining strong corporate culture**

### Two basic approaches to leadership

<u>Transformational leadership style</u>	<u>Transactional leadership style</u>
It uses <b>charisma and enthusiasm to inspire</b> people to work for good of Organization.	It uses the <b>authority of its office</b> to exchange rewards such as pay, status symbols etc.

<b>It is appropriate</b> <ul style="list-style-type: none"> <li>▶ in <b>turbulent/ unsafe environment</b> or</li> <li>▶ in <b>industries at start or end of PLC</b> or</li> <li>▶ In <b>poorly performing organization</b>.</li> </ul>	<b>It is more appropriate</b> <ul style="list-style-type: none"> <li>▶ in <b>static environment</b>, or</li> <li>▶ in <b>mature industry</b>; or</li> <li>▶ in organizations that are <b>performing well</b>.</li> </ul>
These leaders offer <b>excitement, vision, intellectual stimulation and personal satisfaction</b> .	These leaders try to <b>build on existing culture</b> and enhance current practices.
They <b>motivates followers to do more</b> than originally affected to do <b>by stretching their abilities</b> and increasing their <b>self-confidence</b> , and also <b>promote innovation</b> throughout the organization.	They prefer a more <b>formalized approach to motivation</b> , setting clear goals with explicit rewards or penalties for achievement and non-achievement.
	It <b>focuses</b> more on <b>designing systems and controlling</b> the organization's activities.

### Strategic Control

- ▶ Control is intended to regulate and check i.e. to place restraints and curbs on undesirable tendencies, to make people conform to certain norms and standards, to measure progress to keep the system on track.
- ▶ Controlling function involves monitoring the activity, measuring results against predefined standards, analysing & correcting deviation as necessary & adapting the system.
- ▶ The **process of control** has the following elements:
  - (a) **Objectives of the business system** which could be operationalized into measurable and controllable standards.
  - (b) A **mechanism for monitoring and measuring** the performance of the system.
  - (c) A **mechanism** (i) for **comparing the actual results** with reference to the standards (ii) for **detecting deviations** from standards and (iii) for **learning new insights** on standards themselves.
  - (d) A **mechanism for feeding back corrective and adaptive information** and instructions to the system, for effecting the desired changes to set right the system to keep it on course.
- ▶ Primarily there are three types of organizational control, viz., operational control, management control and strategic control.

#### Operational Control

- It is concerned with **individual task or transaction** as against total management functions.

	<ul style="list-style-type: none"> <li>- One of the ways to <b>identify</b> operational control area is there should be <b>clear cut &amp; measurable relationship between input &amp; output</b> which could be predetermined or estimated with least uncertainty.</li> <li>- It ensures that processes are regulated within <b>certain 'tolerances' limit</b>.</li> <li>- <b>Examples:</b> 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)</li> </ul>
Management Control	<ul style="list-style-type: none"> <li>- When compared with operational control, management control is <b>more inclusive and more aggregative</b>, in the sense of embracing the integrated activities of a complete department, division or even organization.</li> <li>- The basic <b>purpose</b> of management control is the <b>achievement of enterprise goals</b> - short range and long range - in a most <b>effective and efficient manner</b>.</li> <li>- The term management control is <b>defined by Robert Anthony</b> as 'the process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives'.</li> <li>- <b>Example:</b> Inventory management</li> </ul>
Strategic Control	<ul style="list-style-type: none"> <li>- According to <b>Schendel and Hofer</b> "Strategic control <b>focuses</b> on the <b>dual questions</b> of whether: (1) the <b>strategy is being implemented as planned</b>; and (2) the <b>results produced</b> by the strategy are <b>those intended</b>."</li> <li>- There is often a <b>time gap between</b> the stages of strategy <b>formulation and its implementation</b>.</li> <li>- A strategy might be <b>affected</b> on account of <b>changes in internal and external environments</b> of organisation.</li> <li>- It is <b>directed</b> towards <b>identifying problems and changes in premises</b> and <b>making necessary adjustments</b>.</li> </ul>

### Types of Strategic Control:

Premise control	<ul style="list-style-type: none"> <li>- Strategies are based on <b>certain assumptions &amp; premises</b> with <b>related to environment</b> in which they operate. Such premises <b>may not remain valid</b> over a period of time.</li> <li>- It is a <b>tool for systematic and continuous monitoring</b> of the environment to <b>verify the validity and accuracy of the premises</b> on which the strategy has been built.</li> </ul>
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	<ul style="list-style-type: none"> <li>- It primarily involves monitoring two types of factors:               <ul style="list-style-type: none"> <li>(i) <b>Environmental factors</b> such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.</li> <li>(ii) <b>Industry factors</b> such as competitors, suppliers, substitutes.</li> </ul> </li> <li>verify the validity &amp; accuracy of the premise based on which strategy was formed.</li> <li>- It is <b>neither feasible nor desirable to control all</b> types of premises in same manner. Different premises may require different amount of control.</li> </ul>
Strategic surveillance	<ul style="list-style-type: none"> <li>- It is <b>unfocussed</b> and involves <b>general monitoring of environment</b> &amp; various sources of information like financial newspaper business magazines etc. <b>to uncover unanticipated information</b> which may affect the strategy.</li> <li>- Strategic surveillance may be <b>loose form</b> of strategic control but is <b>capable of uncovering information relevant to the strategy</b>.</li> </ul>
Special alert control	<ul style="list-style-type: none"> <li>- <b>Unexpected events</b> like natural calamity, terrorist attack, change in government &amp; other such events may <b>force</b> an organization <b>to review &amp; reconsider</b> their strategy.</li> <li>- To <b>cope up</b> with such crisis, organizations <b>form a crisis team</b> to handle the situation.</li> </ul>
Implementation control	<ul style="list-style-type: none"> <li>- It <b>assesses need for change in overall strategy</b> in light of unfolding events &amp; results associated with incremental steps and action.</li> <li>- Strategic implementation control is <b>not a replacement to operational control</b>. Unlike operational control, it <b>continuously monitors the basic direction</b> of the strategy.</li> <li>- The two basic forms of implementation control are:               <ul style="list-style-type: none"> <li>(i) <b>Monitoring strategic thrusts</b>: It helps managers to determine <b>whether the overall strategy is progressing as desired</b> or whether there is <b>need for readjustments</b>.</li> <li>(ii) <b>Milestone Reviews</b>: All key <b>activities</b> necessary to implement strategy are <b>segregated</b> in terms of time, events or major resource allocation. It normally <b>involves a complete reassessment</b> of the strategy. It also assesses the need to continue or refocus the direction of an organization.</li> </ul> </li> </ul>



### Strategic Performance Measures

- SPM is a method that **increases line executives' understanding** of an organization's **strategic goals** and offers a **continuous system for tracking progress** towards these objectives using **clear-cut performance measurements**.
- SPM helps to **eliminate silos** by establishing a common language among all divisions of the organisation so they may **communicate openly and productively**.

### Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

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



The Importance of Strategic Performance Measures Strategic performance measures are essential for organizations for several reasons:

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

### Choosing the Right Strategic Performance Measures

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