03 CHAPTER

STRATEGIC ANALYSIS:- INTERNAL ENVIRONMENT

Definition 1 :- It reffers to sum total of people (individual or groups), stakeholders, processes (input, throughput, output), physical infrastructure (space, equipments, physical condition of work), admin apparatus (lines of power & authority, responsibility, accountability, organisat. culture, values, ethics)

Definition 2 :- Internal Environment is specific to each organisation. It is based on its structure and business model & include all stakeholders like Top Mgmt, Investors, Employees, BOD, Investors etc.

Definition 3 :- It also involves understanding of ethics, principles, work environment, employee, friendliness, confidence of investors Other philosophical & cultural aspects of business which aim for success of organisation

UNDERSTANDING KEY STAKEHOLDERS

STAKEHOLDER reffers to all individuals and entities, internal or external to the firm which have interest in or can impact the business or strategy of the organisation. An organisation is coalition of various stakeholders and each exert different level of pressure on the organisation. eg :- Mgmt, employees, shareholder, customers, suppliers, govt etc. Some focus on Quick profits, some focus on long-term growth. A class of objectives of diff stakeholders can bring unfavourable consequences for the organisation.

EXAMPLE OF KEY STAKEHOLDERS & REQ. FOR OTT

STAKEHOLDERS	THEIR REQUIREMENTS
Shareholders	Return on Invest, Highest market share, Top Ranking of Firm, CSR, Innovation.
CEO & BOD	Prestige, Market Share, Revenue, Profit Growth, Market Rankings.
Major Vendors	Growth. Stability of ordering. Stable Margin
Consumer	New content, Better Deal, Value for Money, Continuous supply.
Employees	Wages & Benifits, Stability of employement, Pride of working for reputed organisation.

MENDELOW'S MATRIX

Also called as Stakeholder Analysis Matrix or Power Interest Matrix is a framework to help manage key stakeholders.

It suggests that one should analyse the stakeholder group based on power (ability to influence strategy) and Interest (how much interested they are in success of organisation). Some stakeholders may have lots of power & interest, some may have less power - less interest or more power - less interest or less power - more interest.

DEVELOPING GRID OF STAKEHOLDERS

KEEP SATISFIED :- They have high power but less interest & organisation Should keep them satisfied with intended information on regular basis. eg:- Banks, Govt, customers

KEY PLAYERS :- They have High Power and High Interest and organisation Should fully engage them, satisfy them, take their advice build actions & keep them informed with all info. on a regular basis. eg:- Shareholders, CEO, BOD etc.

LOW PRIORITY :- They have less Power and less Interest and organisation should monitor them only and no action to satisfy them. Only minimal efforts should be spent but an eye should be kept to check if their level of power or level of interest changes. eg:- media houses, business magazines.

KEEP INFORMED :- They have Low Power but High Interest and organisation Should adequately inform group of people & communicate with them to check that no major issue arise and they can also help back with real time feedback and areas of improvement. eg:- employees. vendors. suppliers. expert.

But one of the most important thing to be kept in mind is that environment is highly dynamic and various things can happen which can make stakeholders move from one grid to another. eg:- If we don't pay Tax or Bank Dues on time they can move from High Power - Low Interest to High Power - High Interest group and media houses can move from Low Power - Low Interest to High Power - High Interest.

STRATEGIC DRIVERS

In internal env. analysis the most important part is analysis of current perform. of the business, for which strategic driver is important which includes :-

- INDUSTRY & MARKETS
- CUSTOMERS
- PRODUCTS & SERVICES
- CHANNELS

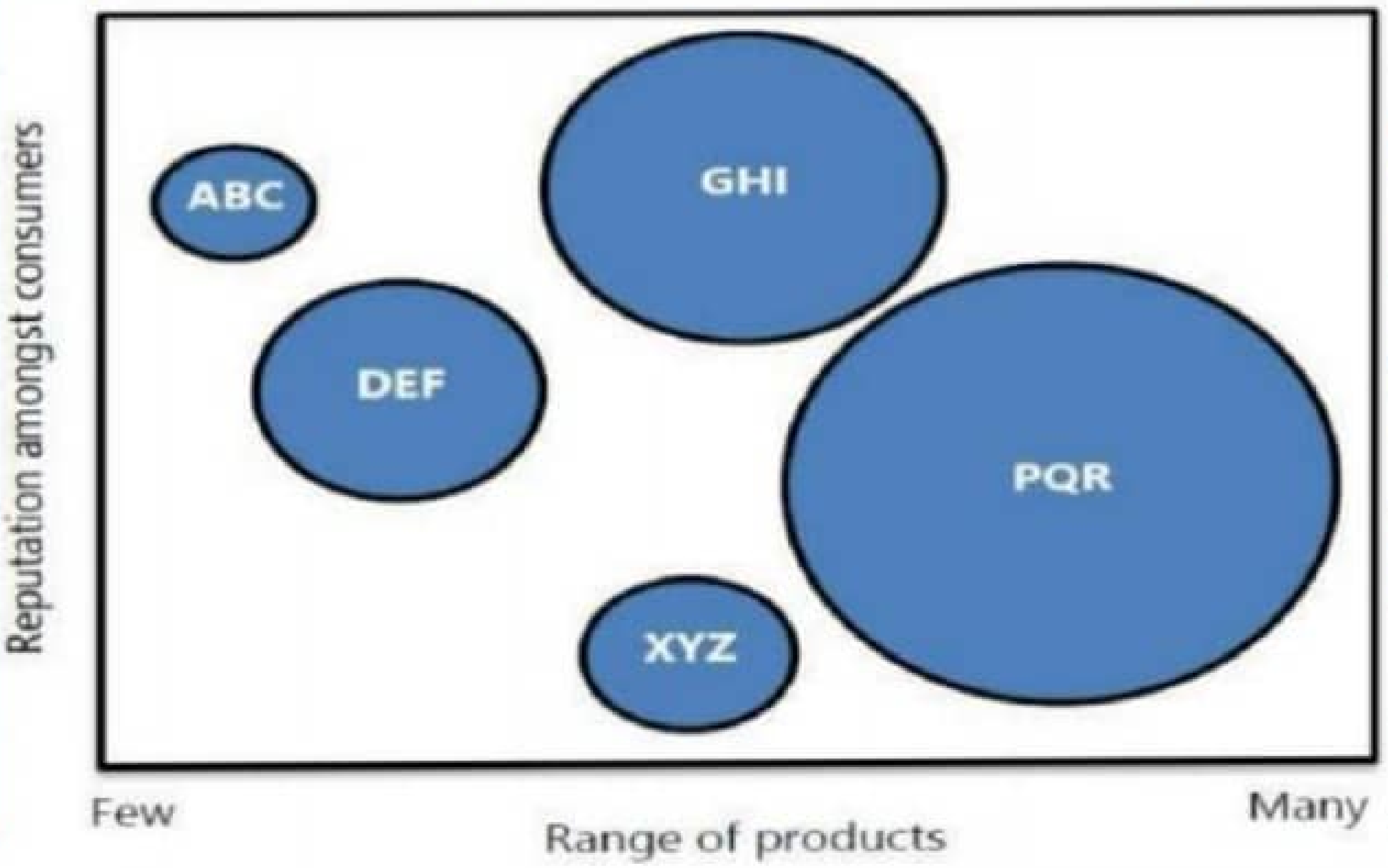
INDUSTRY AND MARKETS

Market is defined as sum total of all buyers & sellers in the area or region under consideration. It is any place where buyers & sellers meet to exchange the products for a price. But each business has its own set of customers and thus its own market.

When similar companies are grouped on the basis of primary product it makes or sells then it is called as Industry.

ANALYSING INDUSTRY AND MARKET

Analysing the Industry & Market is important to find out one's position as compared to competitor and tool used for this is called Strategic Group Mapping.



Strategic group consists of those rival firms having similar competitive approaches & position in the market. Companies in same strategic group resemble each other like same price, same quality, same technology, similar distribution chanels etc.

If all the competitors follow the same strategy, then there will be only one strategic group and there can be as many strategic groups as rival firms if all the competitors follow different strategy.

Step 1 :- Identify competitive characteristics that differentiates two firms in the industry (price - low, high ; area - local, national ; product categories - many, less ; use of distribution channel - one or all)

Step 2 :- Plot the firm on a two-variable map using different characteristics (Range v/s Reputation , Range v/s Price , Price v/s Quality etc)

Step 3 :- All the firms that fall in about same strategy space are allocated same strategic group.

Step 4 :- Draw circles around each strategic group making the circles proportional to size of group's revenue as compared to industry's total sales revenue.

CUSTOMERS

The different types of customers an organisation serve may have different types of needs and understanding their needs is first step in deciding product.

Companies can collect the data about the customer & sort it to get an idea about customer trends & profitability which can be used to find out the issues customers are facing and then target areas for growth can be found.

Customer :- One who pays price for Product. eg :- AB pays for kids diaper.

Consumer :- One who actually consumes it. eg :- Diaper used by AB junior.

PRODUCTS AND SERVICES

Every business identifies key products/services it is offering and how they are performing. Products stands for combination of good & services that company offers to target market. They can be differentiated based on shape, size, colour, packaging, brand names etc. Organisations try to show the customers that their products are different even if differentiation is real or imaginary.

For a new product, pricing strategy is prepared keeping in mind :-

(i) It must have customer-centric approach.

(ii) It must produce sufficient return over the cost.

(iii) It must increase the market share.

SOME IMPORTANT MARKETING STRATEGIES

(i) SOCIAL MARKETING :- When the advertisement is done to increase acceptability of social issues, ideas among a target group to bring in social change. eg :- Publicity campaign for prohibition of smoking showing places where one can smoke, where can't.

(ii) Augmented Marketing :- When some additional services or benefits are provided along side core product. eg :- Free repair services, Free screen replacement.

(iii) Direct Marketing :- If marketing is done through various advertising media that interacts directly with consumer, so that consumer can give direct response, it is called as Direct marketing. eg :- email, telecomputing, TV-shopping.

(iv) Relationship Marketing :- Here proper efforts are applied to create, enhance, maintain strong - value laden relationship with customer & other stakeholders. eg:- Lounge access for free at the airports for credit card holders.

(v) Service Marketing :- When the concepts of marketing applied for products are applied for the service industry ie intangible form requiring different marketing strategies as the service can't be seperated from provider.

(vi) Person Marketing :- The activities undertaken to create, maintain, change the attitude & behaviour of target audience towards an particular person. eg :- Salman khan, Sanjay Dutt

(vii) Organisation Marketing :- The activities undertaken to create, maintain, change attitude & behaviour of target audience towards an organisation, be it profit oriented or NPO.
eg :- marketing of various political parties.

(viii) Place Marketing :- The activities undertaken to create, maintain, change the attitude & behaviour of target audience towards some particular place. eg :- Gujrat Tourism by AB.

Gujarat Tourism

(ix) Enlightened Marketing :- Company's marketing should support the best long run marketing system which breaks existing mind-set of people. It has 5 principles - value marketing, customer-oriented marketing, innovative marketing

Sense-of mission marketing & societal marketing.

eg :- Beauty campaign by Dove.

(x) Differential Marketing :- Different types of market segment and different product for each segment. eg :- Lifebuoy, Lux, Dove, Pears.

(xi) Synchro Marketing :- If the demand are irregular due to season or during some parts or hours of day, then synchro-marketing can be used to equalise or balance the demand.

eg :- Prices of morning show is less to invite more people as compared to evening movie show.

(xii) Concentrated Marketing :- Also called as Niche Marketing, it is done when company wants to focus on large share of one or few sub-markets. eg Rolls-Royce.

(xiii) Demarketing :- When marketing is done to reduce the demand of some product temporarily or permanently. But must note that demand is never destroyed rather reduced or shifted.

Marketing done to avoid over-crowding of people in Ayodhya on 22nd January 2024 (Staphana diwas).

CHANNELS

These are the distribution system by which organisation distributes its products or services. The wider & stronger the channel the better chances a business has to win over its competitors and also acts as barriers to entry. eg :- Boat sells its products online. Lakme sells online, on its own stores & intermediary stores like Nykaa.

THERE ARE BASICALLY THREE TYPES OF CHANNELS

SALES CHANNEL

Intermediaries actually involved in selling the goods via physical stores or online or other ways.

PRODUCT CHANNEL

Intermediaries who actually handle the product on its path from producer to the end user like Blue-Dart

SERVICE CHANNEL

Entities that provide required support service as product moves through other two channels like technical install. team.

Chanel Analysis is important when business strategy is to scale up or to go beyond current markets. eg :- if a soft drink brand wants to acquire more customers, it has to place product in every physical store & online marketing.

ROLE OF RESOURCES & CAPABILITIES IN BUILDING CORE COMPETENCIES

An organisation has both resources & capabilities which are synergised to provide competencies. Core competency means such a capability which serves as source of competitive advantage over rivals or it is a collective learning in the organisation combining different production skills & multiple stream of technologies. Competency is combination of skills, techniques rather than individual skill and thus core-competency is also integration of many resources. Also it reffers to knowledge, skills & facilities required to design & produce core products.

- Core competencies are often visible in form of organizational functions. Like for HUL, its marketing & sales are core-competence.
- Core competencies are created by superior integration of technological, physical and human resources. They represent distinctive skills as well as intangible, Invisible, intellectual assets & cultural capabilities.

AS PER C.K. PRAHLAD AND GARY HAMEL, MAJOR COMPETENCIES ARE IDENTIFIED IN

(i) COMPETITOR DIFFERENTIATION (ii) CUSTOMER VALUE (iii) APPLICATION TO OTHER MARKETS

Competitor Differentiation is one of the main reason. If the organisation has some competence which is difficult for competitors to imitate, then it can clearly achieve competitive advantage as competitors can't copy. Also it is not neccessary that competence has to exist within the company, even if it doing slightly better than others, it can obtain core-competence. eg:- Tesla, Samsung.

When company sells products it has to deliver fundamental benifit or satisfaction to end customer and if it can do it better than its competitors, it has core-competence But the impact has to be real and should become reason to choose product, and if customer has purchased without this customer value then its not core-competence.

Company should be able to apply the core-competencies throughout the organisation. It cannot only be related to one particular skill and thus core competence is an unique set of skills & expertise which will be fundamental from the whole organisation's point of view.

And if all three above mentioned conditions are met, company can be said to have core-competency.

CRITERIA FOR BUILDING CORE COMPETENCIES

VALUABLE

Capabilities are valueable if they allow firm to exploit opportunities or avoid threats in external env.

RARE

Capabilities which are possessed by very few firms are rare or if they differ with what others have

COSTLY TO IMITATE

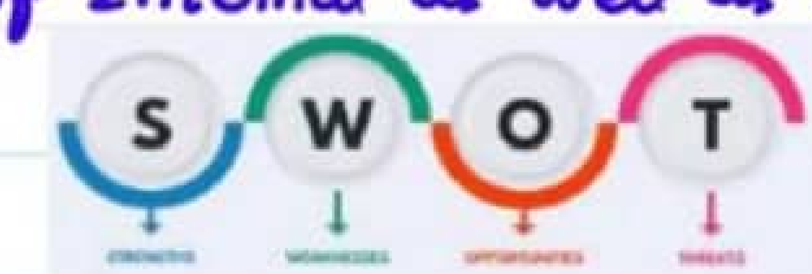
means the capabilities cannot be developed easily by competing firms like Intel

NON-SUBSTITUABLE

There must be no Strategically equiv. valuable resources that are themselves not rare or imitable like Tata's low cost, Apple's IOS.

SWOT ANALYSIS (COMBINING EXTERNAL AND INTERNAL ALAYSIS)

Analysis of business's strength, weakness, opportunities and threats. Its main aim is to help organisation's develop full awareness of internal as well as external factors involved in making business decision.



It can be implemented before all company actions like exploring new initiatives, revamping internal policies, discovering strategies and leveraging strengths & opportunities to overcome weakness & threats.

Ques :- Is SWOT Analysis for Internal Environment or External Environment ?

Internal Analysis focuses on understanding the existing structure and competencies of business, showcasing Strength & Weakness.

External Analysis is about identifying and preparing for uncontrollabes which can be either opportunities or threats. so its a combo of both.

SWOT Analysis just identifies complex issues for an organisation and puts them into simple framework. But one of the criticism is that it does not provide for evaluation of strength, weakness, opportunity & threats in competitive context (i.e How is SWOT of firm as compared to SWOT of rival) So it is useful for starting analysis only.

COMPETITIVE ADVANTAGE

Competitive Advantage is achieved when company's performance or profitability is better than the average profitability of firms in the Industry which happens when company's value creation strategy results in superior performance than rivals.

It is set of unique features of a company & its products that are perceived by the target market as better than the competitor. And competitive advantage is said to be achieved only when competitor firms try to duplicate or imitate but fail.

SUSTAINABILITY OF COMPETITIVE ADVANTAGE

By sustainability of competitive advantage we means the period for which the Company achieves advantage over competitor. It can be short term or long term. Following 4 major characteristics of resources and capabilities required are :-

(i) **DURABILITY** :- The period over which competitive advantage is sustained depends at the rate at which firm's resources & capabilities detoriate. Like if innovation is fast, patents become obsolete sooan and if the capability is due to mgmt. expertise then it will only last till the management is with company.

(ii) TRANSFERABILITY :- Even if the resources & capabilities are durable but are easily transferable and can be eroded by the competitor, lesser sustainable will be competitive advantage.

(iii) IMITABILITY :- When the resources and capabilities on the basis of which the competitive advantage is achieved cannot be easily copied or cannot be easily built or purchased, then competitive advantage will sustain for a longer period.

(iv) APPROPRIABILITY :- It reffers to firm's ability to appropriate returns on its resource base. So whether the returns are actually creating an advantage is a major issue.

PORTER'S GENERIC STRATEGIES

The generic strategies of the Micheal porter can be persued by any type of and any size of business firms even profit oriented or NPO

Competitive advantage can be gained from three different bases :-

- **COST LEADERSHIP** :- Standarised products, very low per unit cost and for price sensetive customers.

- **DIFFERENTIATION** :- Unique products for price insensetive customers.

- **FOCUS** :- Focus on needs of small groups of customers with very specific taste

COST LEADERSHIP STRATEGY

It aims at Broad Mass Market. It focus on cost reduction in various areas of procurement, production, storage & distribution of product or service.

The primary reason for pursuing forward, backward & horizontal integration is to gain cost-leadership benifits. The only focus is to sell at price less than the

No of cost elements affect relative attractiveness of generic strategies including :-

(i) economies or diseconomies of scale achieved.
(ii) learning & experience curve effects.
(iii) Percentage of capacity utilisation achieved.
(iv) Linkages with suppliers.

Low cost strategy is effective when

- market is composed of many price-sensetive buyers
- there are few ways to achieve product differentiation.
- buyers do not care much about difference from brand to brand.
- large no. of buyers with significant bargaining power.

Successful cost leadership passes through entire organisation and focuses on :-

High efficiency, Low overheads, Limited perks, Intensive screening of Request, Intolerance of waste, Wide span of controls, Rewards linked to cost curtailment & broad employee participation in cost control efforts.

HOW TO ACHIEVE COST LEADERSHIP

- Prompt forecasting of demand.
- Optimum utilisation of resources.
- Invest in cost saving technology.
- Achieving economies of scale.
- Standardisation of products.
- Resistance to differentiation

ADVANTAGES OF COST LEADERSHIP

(i) RIVALRY :- Since we are selling at very low price, so competitors donot enter into price wars.

(ii) BUYERS :- Powerful buyers can't exploit the firm as it is already selling at price lower than the others.

(iii) SUPPLIERS :- If supplier increases price, all firms will be affected due to rise but firms already selling at low can absorb shock better.

(iv) ENTRANTS :- Low cost in-itself is barrier to entry.

(v) SUBSTITUTES :- Low cost leaders mostly reduce cost to include other customer, invest in developing substitute & purchase patents.

DISADVANTAGES / RISKS IN COST LEADERSHIP

(i) May not last long as competitors may copy cost reduction technique.
(ii) Only benificial if selling huge volume of products.
(iii) Advancement of technology is a great threat.
(iv) Buyers interst may shift to other differentiating factor besides price.
(v) Since to reduce cost, advertisement & market research is reduced so it may have adverse impact in long term.

DIFFERENTIATION STRATEGY

It also aims at Broad mass market but involves creating products that are perceived unique by customers relating to product design, brand, features, customer service, technology, customer service eg:- Domino's 30minutes delivery. It helps the business to charge extra price due to customer loyalty.

But successful differentiation is only possible if competitors cannot imitate it and it exceeds the expectation of customers and should be perseud after careful examination of buyer's needs & preferences.

BASIS OF DIFFERENTIATION

PRODUCT

Giving innovative products can lead to competitive adv. But it may include high R&D and marketing cost. still payoff can be great

eg:- Apple Iphone

PRICING

Price fluctuate on basis of demand & supply. Companies can offer the product at lowest price or superiority through highest price.

eg:- Rolls Royce

ORGANISATION

Maximising power of brand, using location advantage, customer loyalty can provide additional ways of differentiation.

eg:- Apple Fanteam

ACHIEVING DIFFERENTIATION STRATEGY

- Improve performance
- Offer Higher Quality Products
- Rapid product innovation
- Taking steps for enhancing brand value.
- Fixing prices on basis of unique features.
- Offer utility to customers & match the product with taste/pref. of customer.

ADVANTAGES OF DIFFERENTIATION

(i) RIVALRY :- The customers are loyal to brand and are less-sensetive to price increase till the time firm satisfies needs of customers.

(ii) BUYERS :- Buyers don't negotiate for prices as they are getting special features & innovative options.

(iii) SUPPLIERS :- Since the firm is charging premium price, it can absorb the increase in prices of inputs by the supplier.

(iv) ENTRANTS :- Bringing Innovation is an expensive offer and new entrants can't afford them.

(v) SUBSTITUTES :- Substitute products can't replace differential products as they have high brand value & customer loyalty.

DISADVANTAGES / RISKS IN DIFFERENTIATION

(i) Uniqueness is difficult to sustain in long-term.

(ii) When firms charge too high prices for differentiation, then customers can switch to another alternatives.

(iii) Sometimes the basis on which differentiation is done is not valued by the customers. so differentiation fails.

(iv) Competitors may develop ways to copy differentiating features quickly.

FOCUS STRATEGY

Concentration on particular group of customers, geographical markets, or particular product-line segments in order to serve a well defined but narrow market, better than the competitors who serve broad market.
eg :- Jhonsons & Jhonsons, Ferrari. It is successful when customers have specific requirements and that is not dealt by rival firms.

FOCUSED COST LEADERSHIP

Competing based on prices to target a narrow market. Aim is to charge prices lower than firms competing in same target market.

FOCUSED DIFFERENTIATION

Offering unique features that fulfill demands of narrow market. Firms can focus on specific sales channel like only on internet or particular demographic groups.

ACHIEVING FOCUSED STRATEGY

- Select specific niche not covered by cost leaders & differentiators
- Creating superior skills for catering the niche market
- Generating high efficiences to cater niche market.
- Developing innovative ways to manage value chain

ADVANTAGES OF FOCUS STRATEGY

- premium prices can be charged for focused products
- Rivals & new entrants find difficult to compete due to tremendous expertise in goods & service.

DIS-ADVANTAGES OF FOCUS STRATEGY

- If firms lack distinctive competencies they can't persue Focus Strategy.
- Costs get high and demand is limited which is an issue.

BEST COST PROVIDER STRATEGY

It involves providing the customers more value for money by emphasizing on lower cost & better quality. It is further development of above three generic strategies and can be done through :-

- Giving products at prices lower than the competitors with almost same features or same quality.

or

- Giving products with higher features or better quality than the competitor but charging same price