Chapter Overview

1. CONCEPT OF MANAGEMENT

'Management' is used in the following two ways:

1. It is used in reference to **a key group in an organisation in-charge of its affairs.**
2. It is also used with reference to **a set of interrelated functions and processes which are carried out by the management of an organisation to attain its objectives.**
3. These functions include
   a) **Planning,**
   b) **Organizing,**
   c) **Directing,**
   d) **Staffing**
   e) **Controlling.**

2. CONCEPT OF STRATEGY

1. Strategy is the **game plan** that management may use to achieve any of the following objectives
   a) **To improve market position,**
   b) **To conduct operations more effectively,**
   c) **To attract and satisfy customers,**
   d) **To compete successfully for the achievement organizational objectives.**
2. It is a **long-range blueprint** of an **organization's desired image**, direction and destination, that is -
   a) **What it wants to be?**
   b) **What it wants to do?**
   c) **Where it wants to go?**
3. It provides an **integrated framework for the top management** to search for, **evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises,** to make full use of resources and strengths, to offset corporate weaknesses
4. However, strategy is **no substitute for sound, alert and responsible management.**
5. It can never be **perfect, flawless and optimal.**
6. It should be **flexible and pragmatic.**

3. STRATEGY IS PARTLY PROACTIVE AND PARTLY REACTIVE

A company's strategy is typically a blend of

1. **Proactive actions**- on the part of managers to **improve the company's market position** and **financial performance.**
   a. A company's current strategy **flows** from both **previously initiated actions** and business approaches that are working well enough to merit continuation, as well as **newly initiated managerial decisions and actions** that strengthen the company's overall position and performance.
   b. Thus, strategy **partly is deliberate and proactive.**
2. **Reactive Actions** - Reactions to **unanticipated developments** and fresh market conditions in the **dynamic business environment.**
   a) **Not every strategic move is the result of proactive planning & deliberate management design.**
   b) When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required.
   c) Hence, partially, a company's strategy is always **developed as a reasoned response to unforeseen developments** in the business environment.

4. STRATEGIC MANAGEMENT (SM)

1) **SM 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.**
2) The **overall objectives** of SM are two fold:
   a) To create **competitive advantage** so that the company can outperform the competitors.
   b) To guide the **company successfully through all changes** in the environment.

5. IMPORTANCE OF STRATEGIC MANAGEMENT

1) Each organization has to **build its competitive advantage over the competitors** in the business warfare in order to win. This can be done only by following the process of SM.

2) The **major benefits of SM** are:

a) Proactive instead of reactive:
SM helps Organisations to be **more proactive instead of reactive.** Thereby organisations will be able to control their own destiny in a better manner.

b) Provides framework for decision making:
SM provides framework for all the major business decisions of an enterprise such as **decisions on businesses, products, markets.** It provides better guidance to entire organisation on the crucial point - what it is trying to **achieve.**

c) Pathfinder:
SM will help in identifying available **opportunities in the external environment so that orgainsation can plan for a good future. Therefore it acts as pathfinder.**

d) Act as a corporate defence:
SM serves as a corporate defence mechanism against mistakes and pitfalls.

e) Helps in developing core competencies:
Over a period of time SM **helps organisation to evolve certain core competencies and competitive advantages** that assist in its fight for survival and growth.

f) Provides direction:
The SM gives a **direction to the company to move ahead.** It defines the goals and mission. It helps management to **define realistic objectives and goals.**

g) Enhancing the longevity of the business

6. LIMITATIONS OF STRATEGIC MANAGEMENT

1) Environment is highly complex and turbulent

a) It is **difficult to understand** the complex environment and **exactly pinpoint** how it will shape-up in future.

b) The organisational estimate about its future shape **may awfully go wrong** and jeopardise all strategic plans.

c) The environment affects as the organasation has to deal with suppliers, customers, governments and other external factors.

d) Thus, **relying** on a business strategy blindly **could go absolutely wrong** if the **environment is turbulent.**

2) Strategic management is a time-consuming process

a) Organisations **spend a lot of time** in preparing, communicating the strategies that may **impede** daily operations and **negatively impact** the routine business.

b) **Planning and strategizing** are important but **putting them in action** is where the **actual success lies.**

3) Strategic management is a costly process

a) SM adds a **lot of expenses to an organization.**

b) These can be really costly for organisations with **limited resources** particularly when **small and medium organisation**

c) SM **requires experts,** and these **experts are costly resources.**

4) Difficult to predict competitive responses

a) In a competitive scenario, where all organisations are trying to move strategically, it is **difficult to clearly estimate the competitive responses** to a firm's strategies.

b) It is quite difficult to **gauge the strategic planning of competitors** because most of these decisions are taken within closed doors by the top management.

7. STRATEGIC LEVELS IN ORGANIZATIONS

There are three main levels of management in an organization namely:

a) Corporate level **b) Business level** **c) Functional level**

7.1 CORPORATE LEVEL MANAGERS (CLM)

1) It consists of the **chief executive officer (CEO), other senior executives,** the board of directors, and corporate staff.
2) They occupy **apex of strategic decision making** in the Organisation.
3) CLM's, and particularly the CEO, can be viewed as **the guardians of shareholder welfare.**
4) CLM's provide an **organisation level view of strategy.**

THE ROLE OF A CORPORATE MANAGER INCLUDES

a) To oversee the **development of strategies** for the whole organi-zation.
b) Defining the **mission and goals** of the organization.
c) Determining **what businesses, it should be in.**
d) **Allocating resources** among the different businesses.
e) **Formulating and Implementing strategies** that span individual businesses.
f) Providing **leadership** for the organization.

7.2 BUSINESS LEVEL MANAGERS (BLM)

1) It consists of **divisional managers and staff.**
2) The strategic role of these managers is to **translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.**
3) BLM's are **concerned with strategies that are specific to a particular business.**

7.3 FUNCTIONAL LEVEL MANAGERS (FLM)

1) FLM's are **responsible for the specific business functions** such as **human resources, purchasing, product development, customer service,** etc.
2) FLM's provide most of the information that makes it possible for business and corporate-level general managers to formulate realistic and attainable strategies.
3) Thus, a FLM's **sphere of responsibilities** is generally **confined to one organizational activity.**
4) Since FLM's are **closer to the customer** than the typical general manager is, they themselves may **generate important ideas** that subsequently may become **major strategies** for the company.

8. NETWORK OF RELATIONSHIPS BETWEEN THE THREE LEVELS

1) There are multiple ways in which all the 3 levels of management are **interlinked**, and interestingly it **depends** on the **organisation as a whole** to decide what kind of network of relationship suits their culture and aspirations.
2) There are **3 major types of networks of relationship** between the levels.

FUNCTIONAL AND DIVISIONAL RELATIONSHIPS

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

HORIZONTAL RELATIONSHIPS

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

MATRIX RELATIONSHIP

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

9. STRATEGIC INTENT (VISION, MISSION, GOALS, OBJECTIVES AND VALUES)

1) It refers to **purposes of what the organization strives for.** Senior managers must define **"what they want to do"** and **"why they want to do"**. **"Why they want to do"** represents strategic intent of the firm.
2) It gives an idea of what the organisation desires to attain in future. It answers the question **what the organisation strives or stands for?**
3) It indicates the **long-term market position**, which the organisation desires to create or occupy and the apportunity for exploring new possibilities.

10. THE VISION

1) A Strategic vision is a road map of a company's future – it provides specifics about **technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.**
2) It **points out a particular direction, charts a strategic path** to be followed in future, and moulding organisational identity.

ESSENTIALS OF A STRATEGIC VISION

a) The **entrepreneurial challenge** in developing a strategic vision is to think creatively about how **to prepare** a company for the future.
b) Forming a strategic vision is an exercise **in intelligent entrepreneurship.**
c) A well-articulated strategic vision creates **enthusiasm for the course management has charted and engages members of the organization.**
d) The best-worded vision statement **clearly and crisply illuminates the direction in which organization is headed.**

11. MISSION (WHO WE ARE AND WHAT WE DO)

1) A mission is an answer to the basic question '**what business are we in and what we do**'.
2) A company's mission statement is typically focused on its **present business scope – "who we are and what we do"**. Mission statements broadly describe an organizations present **capability, customer focus, activities, and business makeup.**

WHY SHOULD AN ORGANIZATION HAVE A MISSION?

a) **Unanimity of purpose** within the organization.
b) **A basis for motivating the use of the organization's resources.**
c) **Standard, for allocating organisational resources.**
d) To **establish a general tone or organizational climate.**
e) To **serve as a focal point** for those who can identify with the organization's purpose and direction.
f) To **facilitate the translation of objective and goals into a work structure.**

GUIDELINES IN FORMULATING A MISSION STATEMENT

a) One of the roles of a mission statement is to give the organisation its **own special identity, business emphasis and path for development** – one that typically sets it apart from other similarly positioned companies.
b) A company's business is defined by **what needs it is trying to satisfy, which customer groups it is targeting** and the **technologies and competencies** it uses and the **activities** it performs.
c) Good mission statements are – **unique to the organisation** for which they are developed.

12. GOALS AND OBJECTIVES

1) Objectives are **organizations performance targets - the results and outcomes it wants to achieve.** They function as **yardstick for tracking an organizations performance and progress.**
2) Business organization **translates their vision and mission into objectives.**
3) As such the **term objectives are synonymous with goals,** however, some authors make an attempt to distinguish the two.
4) **Goals are open-ended attributes** that denote the future states or outcomes.
5) **Objectives are close-ended attributes** which are precise and expressed in specific terms.

CHARACTERISTICS OF OBJECTIVES

a) **Objectives should define the organization's relationship with its environment.**
b) **Standards for performance appraisal.**
c) **Concrete and specific**
d) **Related to a time frame**
e) **Measurable and controllable**
f) **Challenging**
g) **Different objectives should correlate with each other**

LONG-TERM OBJECTIVES

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

a) **Profitability**
b) **Productivity**
c) **Competitive Position**
d) **Employee Development**
e) **Employee Relations**
f) **Technological Leadership**
g) **Public Responsibility**

13. Values

1) A few common examples of values are – **Integrity, Trust, Accountability, Humility, Innovation, and Diversity.**
2) A company's value **sets the tone** for how the people of 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.
3) Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life.
4) Interestingly, majority of consumers say that they would prefer to buy products and services from companies that have a purpose that reflects their own value and belief system. Hence, **values have both internal as well as external implications.**

Chapter Overview

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1. STRATEGIC ANALYSIS

1) Environmental scanning is a **natural and continuous** activity for every business and some businesses may perform such analysis on informal basis and some may follow an appropriately designed framework for the same.

2) It is a component of business planning that has **a methodical approach**, makes the right resource investments, and may assist business in achieving its objective.

3) It is **a continuous process which is not without limitations**. There are two **major limitations** of strategic analysis that we need to be aware of.
   a) **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.**
   b) **Second**, it can be **time-consuming** at times, hurting overall organisational functioning and also **strain other efficient innovations** such as developing a new product or a service.

2. ISSUES TO CONSIDER FOR STRATEGIC ANALYSIS

1) **Strategy evolves over a period of time:**
   a) Each strategic decision must balance the different factors that **impact and constrain** strategy. A key element is the **probable outcomes** of everyday decisions.
   b) A current strategy is the **result of several little choices taken over a protracted period of time.**
   c) Strategy is **influenced by experience**.

2) **Balance of External and Internal Factors:**
   a) Strategic analysis **necessitates creating a reasonable balance** between many and conflicting challenges, because a perfect fit between them is unlikely.
   b) Management must consider **opportunities, influences, and constraints** while taking a strategic decision.

3) **Risk:**
   a) The principle of maintaining balance is important. The **complexity and intermingling of variables** in the environment **reduces the strategic balance** in the organisation.
   b) An important aspect of strategic analysis is **to identify potential imbalances or risks and assess** their consequences.

External Analysis

External Analysis	**Internal Analysis**
Customer Analysis : Segments, motivations, unment needs. **Competitor Analysis :** Strategic groups, performance, objectives, strategies, culture, cost structure. **Market Analysis :** Size, growth, profitability, entry barriers. **Environmental Analysis :** Technological, government, economic, cultural, demographic.	**Performance Analysis :** Profitability, sale, customer satisfaction, product quality, relative cost, new products, human resources. **Determinants Analysis :** Past and current strategies, strategic problems, organizational capabilities and constraints, financial resources, strengths, and weaknesses.
Opportunities, Threats, Trends, and Strategic Uncertainties	**Strategic Strengths, Weaknesses, Problems, Constraints & Uncertainties**

Strategy Identification & Selection
- Identify strategic alternatives
- Select strategy
- Implement the operating plan
- Review strategies

Figure : Framework of Strategic Analysis

3. FACTORS IMPACTING ECONOMIC CHARACTER OF INDUSTRIES

The economic character of industries varies according to such factors as

a) Overall size and market growth rate,
b) The pace of technological change,
c) The geographic boundaries of the market (from local to worldwide),
d) The number and size of buyers and sellers,
e) Whether sellers' products are virtually identical or highly differentiated, the extent to which costs are affected by economies of scale.
f) The types of distribution channels used to access buyers.
g) Marketing opportunities,
h) Disposable income of prospective buyers,
i) Government support, etc.,

4. STRATEGY AND BUSINESS ENVIRONMENT

1) The term "**business environment**" refers to all **external factors, influences, or situations** that in some way **affect business decisions, plans, and operations.**
2) SM is **involved with choosing a long-term direction** in relation to these resources and opportunities.
3) There is a **close and continuous interaction** between a business and its environment.
4) It helps the business in the following ways:
   a) The interaction between the business and its environment would explain opportunities and threats to the business. It **helps to 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.
   b) The interaction with the environment **enables** the business **to identify the areas for growth and expansion** of their activities. Once the business is aware and understands the changes happening around, it can plan and strategise to have successful business.
   c) The **managers** are **motivated** to **continuously** update their knowledge, understanding and skills to meet the predicted changes in the realm of business.
   d) Environmental understanding **helps** the business organizations **to improve their image** by showing their sensitivity to the environment in which they operate.
   e) It **helps** the businesses **to analyse the competitors' strategies** and **formulate** their own strategies accordingly. The idea is to flourish (Prosper) and beat competition for its products and services.

5. MICRO AND MACRO ENVIRONMENT

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

a) **Micro-environment** -
   Is related to **small area or immediate periphery** of an organization. This may include your **consumers, core suppliers, employees, intermediaries, local competitors, etc.**

b) **Macro environment** -
   Is the **portion of the outside world** that significantly affects how an organisation operates but much beyond its direct control and influence.

6. ELEMENTS OF MACRO ENVIRONMENT

Demographic Environment

a) Demographics are the **characteristics of a population** that have been classified and explained according to certain criteria, such age, gender, and income, in order to understand the features of a specific group.

b) Demographical analysis **considers** factors such as **race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education.**

Socio-Cultural Environment

a) It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth.

b) It **differs** from demographics, **it is not the characteristics** of the population, but **it is the behaviour and the belief system** of that population.

Economic Environment

a) Economic conditions have a **direct bearing** over the business strategies.

b) It refers to the overall economic situation around the business and include conditions at the regional, national and global levels.

c) **Income distribution pattern determine the business possibilities.**

d) **Higher interest rates are detrimental for the businesses with high debt.**

e) The **economic conditions** of a nation refer to a **set of economic factors that have great influence on business organizations and their operations.**

Political-Legal Environment

a) The **general level** of political development,

b) The degree to which **business and economic issues have been politicised,**

c) The degree of **political morality,**

d) The **state of law and order,**

e) **Political stability,**

f) The **political ideology and practises** of the ruling party,

g) The **effectiveness and purposefulness of governmental agencies,** and

h) The **scope and type of governmental intervention** in the economy and industry.

Technological Environment

a) Technology has changed the ways of how businesses operate now.

b) Technology and business are **linked and are interdependent on one another.**

c) Changes in technology **have an effect** on how a business runs its operations.

d) Technology is leading to many new business opportunities as well as making obsolete most of the existing business products and services.

7. PESTLE- A TOOL TO ANALYSE MACRO ENVIRONMENT

'PESTLE' analysis is an increasingly used and recognized analytical tool, and it is an acronym for:

a) **P- political**

b) **E- economic**

c) **S- socio-cultural**

d) **T- technological**

e) **L- legal**

f) **E- environmental**

The Key Factors

a) **Political factors: How and to what extent** the government intervenes in the economy and the activities of business firms.

b) **Economic factors: Major impacts** on how businesses operate and take decisions.

c) **Social factors: Affect the demand** for a company's products and how that company operates.

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

e) **Legal factors: Affect how a company operates, its costs, and the demand** for its products, ease of business.

f) **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.**

8. INTERNATIONALIZATION OF BUSINESS

A global company/MNC has three characteristics

a) It is a **conglomerate** of multiple units but all linked by common ownership.

b) Multiple units draw on a **common pool of resources**, such as money, credit, information, patents, trade names and control systems.

c) The units respond to some **common strategy**. Besides, its managers and shareholders are also based in different nations.

Why do companies go global?

a) **Technological developments and evolving political views** are two important **factors** in the rapid rise of multinational organisations. Because of technological advances, the process of internationalisation is now simpler than it was previously.

b) **Worldwide communication** makes it **easier to define and implement** global strategy by linking corporate headquarters with their abroad operations.

c) Introduction of improved transportation has increased the mobility of money, people, raw materials, and finished items.

There are several reasons why companies go global

a) Companies often set up **overseas plants to reduce high transportation costs** because it may be cheaper to produce near the market to reduce the time and costs involved.

b) Domestic markets are **no longer adequate**. The competition may not exist in international markets.

c) Globalization is important for **organization's to grow**. Often finding opportunities in the other parts of the globe organisation extend their businesses and globalize their operation.

d) Globalization has made companies to **form strategic alliances to ward off economic and technological threat and leverage their respective comparative and competitive advantage.**

e) There is **rapid shrinking of time and distance across the globe** because of faster communication, speedier transportation, growing financial flows and rapid technological changes.

f) Need for **reliable or cheaper source of raw material, cheap labour etc.**

g) When exporting organisations 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.

h) The rise of services to constitute the largest single sector in the world economy; and **regional economic integration**, which has involved both the world's largest economies as well as certain developing economies.

i) The apparent and **real collapse of international trade barriers** redefines the roles of state and industry. The trend is towards **increased privatization of manufacturing and services sectors, less government interference** in business decisions and more dependence on the value-added sector to gain market place competitiveness.

9. INTERNATIONAL ENVIRONMENT

An **assessment** of the external environment is the first step toward internationalisation. Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis

a) **It involves identifying, anticipating, and monitoring** significant components of the global environment on a large scale.

b) Governments may have **free or interventionist** tendencies in economies that **needs** to be **carefully considered**.

Regional environmental analysis

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

Country environmental analysis

a) Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful.

b) Each of the countries to develop effective market entrance strategies.

c) **International environment** has become an **inherent part** of strategic management for businesses of all sizes with global interests.

10. UNDERSTANDING PRODUCT AND INDUSTRY

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

1) **Products are either tangible or intangible.**
   a) A **tangible product** can be **handled, seen,** and **physically felt,** such as a car, book, pen, table, mobile handset and so on.
   b) An **intangible product** is **not a physical good,** such as telecom services, banking, insurance, or repair services.
2) **Product has a price.**
   a) Businesses **determine** the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service.
   b) The market price is the **price** at which **quantity provided equals quantity desired**. The price that may be paid is determined by the market, the quality, the marketing, and the targeted group.
3) **Products have certain features that deliver satisfaction.**
   A product feature is a component of a product that **satisfies** a consumer need. **Features determine product pricing,** and businesses alter features during the development process to optimise the user experience.
4) **Product is pivotal for business.**
   a) The product is at the **centre of business** around which all strategic activities revolve.
   b) The product enables **production, quality, sales, marketing, logistics** and other business processes.
   c) Product is the **driving force** behind business activities.
5) **A product has a useful life.**
   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.

11. 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 -

a) **The first stage** 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 knowledge on the part of customers.**

b) **The second phase** 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.

c) **The third phase** 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.

d) In **the fourth stage of PLC is declines with sharp downward drift in sales.** The **sales and profits fall down sharply** due to some **new product replaces the existing product**. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

Advantages of PLC

a) It can be used to **diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists.**

b) **Particular attention** is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made.

c) **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.

d) **A combination of strategies** like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

12. VALUE CHAIN ANALYSIS

1) It is a method used by strategists **to break down** each process that their business employs. For example **purchase of raw material, conversion of raw material into finished goods, marketing sales etc.**
2) This analysis could be **used to improve the sequence of operations, enhancing efficiency** and **creating a competitive advantage**.
3) It is a **method of examining each activity** in value chain of a business **to identify areas for improvements**.

<u>Primary Activities</u>

4) The **primary activities** of the organization are grouped into five main areas:
   a) **Inbound logistics** are the activities **concerned with receiving, storing and distributing the inputs to the product/service**. This includes materials handling, stock control, transport etc.
   b) **Operations** transform these **various inputs into the final product or service**: machining, packaging, assembly, testing etc.
   c) **Outbound logistics** collect, store and distribute the product to customers.
      i) **For tangible products** this would be warehousing, materials handling, transport, etc.
      ii) **In the case of services**, it may be more concerned with arrangements for bringing customers to the service if it is a fixed location (e.g. sports events).
   d) **Marketing and sales** provide the means where by consumers/users are made aware of the product / service and are able to purchase it.
      i) This would include **sales administration, advertising, selling** and so on.
      ii) In public services, **communication networks** which help users' access a particular service are often important.
   e) **Services** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

<u>Secondary Activities</u>

5) Each of these groups of primary activities is linked to **support activities**. These can be **divided into four areas:**
   a) **Procurement:** This refers to the processes for **acquiring the various resource inputs to the primary activities** (not to the resources themselves).
   b) **Technology development:**
      i) All value activities have a '**technology**', even if it is simply know-how.
      ii) The key technologies may be concerned directly with the product or with processes or with a particular resource
   c) **Human resource management:**
      i) It **transcends** all primary activities.
      ii) It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
   d) **Infrastructure:**
      i) The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities.
      ii) It also consists of structures & routines of the organization which sustain its culture.

13. INDUSTRY ENVIRONMENT ANALYSIS

1) A combination of ideas and methodologies may be **utilised to create a clear picture** of
   a) Key industry traits,
   b) Competition intensity,
   c) Industry change drivers,
   d) Rival firms' market positions and tactics,
   e) Competitive success, and
   f) Profit forecasts.
2) Industry analysis **enable strategic understanding** about the entire state of any industry and make decisions about whether the industry is a lucrative or not.
3) The goal of the industry environment analysis, which is typically an important step of strategic analysis, is **to estimate the amount of competitive pressures** the business is presently facing and is expected to face in the near future.
4) The analysis **entails seeing the firm in the context of a bigger framework.**
5) The purpose of industrial analysis is **to get insight into a wide range of elements within and outside the business.**

14. PORTER'S FIVE FORCES MODEL-COMPETITIVE ANALYSIS

1) To perform competitive pressure analysis, **Michael Porter** recommended identi-fication and analysis of following five forces:
   a) **Competitive pressures associated with the market manoeuvring i.e. strategies to earn buyer's patronage i.e. loyalty by rival sellers in the industry.**
   b) **Competitive pressures associated with the threat of new entrants into the market.**
   c) **Competitive pressures coming from certain companies of certain other industries to win over the existing customers of your industry i.e. effect of substitute products.**
   d) **Competitive pressures from supplier bargaining power.**
   e) **Competitive pressures from buyer bargaining power.**

2) **Following steps** will help the strategists in drawing conclusion :

   <u>Step 1:</u> Identify the specific competitive pressures associated with each of the five forces.

   <u>Step 2:</u> Evaluate how strong the pressures is from each five forces i.e. fierce, strong, moderate to normal, or weak.

   <u>Step 3:</u> Determine whether the collective strength of the five forces is conducive to earn attractive profits.

15. THREAT OF NEW ENTRANTS

1) New entrants can **reduce an industry's profitability**, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position.
2) New entrants are always a powerful source of competition.
3) The **bigger the new entrant, the more severe the competitive effect.**
4) A firm's profitability tends to be higher **when new firms are blocked** from entering the industry.
5) To discourage new entrants, existing firms can try to raise barriers to entry. "**Barriers to entry represent economic forces (or 'hurdles')** that slow down or impede entry of new firms.
6) **Common barriers to entry include:**
   a) **Capital requirements**
      When a large amount of capital is required to enter an industry, **firms lacking funds are effectively barred from the industry**, thus enhancing the profitability of existing firms.
   b) **Economies of scale**
      i) Many industries are characterized by economic activities driven by economies of scale.
      ii) **It refer to the decline in the per-unit cost of production (or other activity) as volume grows.**
   c) **Product differentiation**
      i) It refers to the **physical or perceptual differences, or enhancements**, that make a product special or unique in the eyes of customers.
      ii) Differentiation **works to reinforce entry barriers** because the cost of creating genuine product differences may be too high for the new entrants.
   d) **Switching costs**
      i) To succeed in an industry, new entrant must be able to **persuade existing customers of other companies to switch to its products.**
      ii) Buyers often incur **high financial and psychological costs** while switching between, this makes them reluctant to change.
   e) **Brand identity**
      i) The brand identity of products or services offered by existing firms can serve as another entry barrier.
      ii) It is **important for infrequently purchased products** that carry a high unit cost to the buyer.
   f) **Access to distribution channels (DC)**
      i) The unavailability of DC's for new entrants poses another threat.
      ii) Despite the growing power of the internet, **many firms still continue to rely on their control of physical DC's.**
   g) **Possibility of aggressive retaliation by existing players**
      Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

16. BARGAINING POWER OF BUYERS

Buyers of an industry can sometimes **exert considerable pressure** on existing firms to reduce the selling **price or to request better services.** This leverage is particularly evident when:

a) **Buyers have full knowledge of the sources of products and their available substitutes.**
b) **Buyers are spending a lot of money on the industry's products i.e., they are big buyers.**
c) **When buyers are more concentrated than the firms supplying the product i.e. few buyers and more number of seller.**

17. BARGAINING POWER OF SUPPLIERS

Suppliers can also **influence the profitability of an industry**, following circumstances may help a suppliers to exert higher bargaining power over a business:

a) **Supplier's products are crucial to the business and substitutes are not available.**
b) **They may be high switching costs involved to change the supplier.**
c) **Suppliers are more concentrated than the number of buyers i.e. few suppliers, more buyers.**

18. THE NATURE OF RIVALRY IN THE INDUSTRY

1) The intensity of rivalry in an industry is a **significant determinant of industry attractiveness and profitability.**
2) The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability.
3) The **more intensive the rivalry, the less attractive is the industry.** Rivalry among competitors tends to be cutthroat and industry profitability low when:
   a) **An industry has no clear leader. Therefore, continuous war for leadership.**
   b) **Competitors in the industry are numerous.**
   c) **Competitors operate with high fixed costs. Thus, aiming for better Return on Investment with more fierce tactics.**
   d) **Competitors face high exit barriers and therefore, continue to fight for market share.**
   e) **Competitors have little opportunity to differentiate their offerings.**
   f) **The industry faces slow or diminished growth.**

19. THREAT OF SUBSTITUTES

1) Substitute are hidden competitors for a product in the industry.
2) Organisation should identify available substitutes for their industry's product and evaluate how impactful they can be in the near future.
3) In many cases they grow **to become a major constituent of competition.** Substitute products that offer a **price advantage and/or performance improvement** to the consumers, can drastically alter the competitive character of an industry.
4) Wherever **significant investment in R&D is taking place,** threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits of an industry.
5) To predict profit pressure from this source, **firms must search for products that perform the same, or nearly the same, function as their existing products.**

20. ATTRACTIVENESS OF INDUSTRY

1) **Strategists assess** the industry outlook carefully, **deciding** whether **industry and competitive conditions present an attractive business opportunity** for the organisation or whether its growth and profit prospects are gloomy.
2) **The important factors on which to base such conclusions include:**
   a) The industry's growth potential, is it futuristically viable?
   b) Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
   c) Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces?
   d) The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker.
   e) The potential to capitalize on the vulnerabilities of weaker rivals.
   f) Whether the company is able to defend against or counteract the factors that make the industry unattractive?
   g) The degrees of risk and uncertainty in the industry's future.
   h) The severity of problems confronting the industry as a whole.

21. EXPERIENCE CURVE

1) **The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work.**
2) It is based on the commonly observed phenomenon that **units' costs decline as a firm accumulates experience** in terms of a cumulative volume of production.
3) It is based on the concept, **"we learn as we grow"**.
4) Experience curve results from a variety of factors such as **learning effects, economies of scale, product redesign and technological improvements** in production.
5) It has following features:
   a) **As business organisation grow, they gain experience.**
   b) **Experience may provide an advantage over the competition. Experience is a key barrier to entry.**
   c) **Large and successful organisation possess stronger "experience effect".**

22. WHAT IS VALUE CREATION ?

1) It means providing products and services to the customers with more worth than what they are paying as a price.
2) **Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.**
3) **It 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.
4) **Competitive advantage leads to superior profitability. At the most basic level, how 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.**

23. MARKET AND CUSTOMER

1) **A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for a price.**
2) The market **might be physical**, such as a departmental store where people engage in person.
3) 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.
4) While the market is a place, business strategist work on marketing to improve the chances of success. The term **"marketing"** encompasses a wide range of operations, **including research, designing, pricing, promotion, transportation, and distribution.**
5) Often market activities are categorised and explained in terms of **four 'Ps' of marketing**
   a) **Product,** b) **Place,**
   c) **Pricing**, and d) **Promotion.**
6) These four kinds of marketing activities help marketers **identify customer needs** so they may **meet their demands** and **deliver satisfaction.**

24. CUSTOMER

1) **A customer** is a **person or business** that **buys products or services** from another organisation. Customers are important because **they provide revenue** and organisations cannot exist without them.
2) All businesses vie for customers, either by aggressively marketing their products or by lowering their pricing to boost their customer bases. The **terms customer and consumer are practically synonymous** and are frequently used interchangeably. There is, however, **a thin distinction.**
3) **Individuals or businesses that consume or utilise products and services are referred to as consumers.**
4) **They are the purchasers of products and services** in the economy, and they might exist as consumers or only as customers.

25. CUSTOMER ANALYSIS

1) It means **identifying target clients, determines their wants, and then defines how your product or services can meet those needs or warrants.** Thus, it involves the examination and evaluation of consumer needs, desires, and wants.

2) **It includes -**

a) The administration of customer surveys, b) The study of consumer data,

c) The evaluation of market positioning strategies, d) Development of customer profiles, &

e) The selection of the best market segmentation techniques.

26. CUSTOMER BEHAVIOUR

1) Customer behaviour moves beyond the identification of customers to explain how they purchase products. It **examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings.**

2) Understanding the behaviours of customers **enables businesses to establish effective marketing and advertising campaigns,** provide products and services that meet their needs, and retain customers for repeat sales.

3) Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following three conceptual domains:

External Influences:

External influences, like advertisement, peer recommendations or social norms, have a **direct impact** on the psychological and internal processes that influence various consumer decisions.

Internal Influences:

Internal processes are psychological factors internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.

Decision Making:

A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product. After weighing the advantages and disadvantages of each option, they would make a decision.

The stages of decision making process can be described as:

a) **Problem recognition**, i.e., identify an existing need or desire that is unfulfilled

b) **Search for desirable alternative** and list them

c) **Seeking information** on available alternatives and weighing their pros and cons.

d) **Make a final choice.**

Post-decision Processes:

After making a decision and purchasing a product, the **final phase** in the decision-making process is **evaluating the outcome.** The consumer's reaction may vary depending upon the satisfaction.

27. COMPETITIVE LANDSCAPE

a) It is a business analysis where we try to **identify and understand the competitors of our industry.**

b) An **in-depth investigation and analysis of a firm's competition** allows it to assess the **competitor's strengths and weaknesses** in the marketplace and helps it to **choose and implement effective strategies** that will improve its competitive advantage.

28. STEPS TO UNDERSTAND THE COMPETITIVE LANDSCAPE

Identify the competitor:

Identify the competitors i.e. **who are the competitors, what is their market share and how big are they?**

Understand the competitors:

Understand the competitors i.e. **what products and services they offer in the market, what geographical markets they are targeting, which technology they are using etc.?**

Determine the strengths of the competitors:

What are the strength of the competitors? **What do they do well? Do they offer great products? Do they utilize marketing** in a way that comparatively reaches out to more consumers? Why do customers give them their business?

This answers the questions:

a) **What are their financial positions?**

b) **What gives them cost and price advantage?**

c) **What are they likely to do next?**

d) **How strong is their distribution network?**

e) **What are their human resource strengths?**

Determine the weaknesses of the competitors:

Determine the weakness of the competitor's i.e. Finding out customer reviews or reports which indicates the problems, bottlenecks or **where are they lacking?**

Put all of the information together:

Put all this information together and determine the next strategic moves which are right for your business.

This answers the questions:

a) **What will the business do with this information?**

b) **What improvements does the firm need to make?**

c) **How can the firm exploit the weaknesses of competitors?**

29. KEY FACTORS FOR COMPETITIVE SUCCESS

1) An industry's Key Success Factors (KSFs) are those things that most affect industry members' **ability to prosper in the marketplace** - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

2) The answers to three questions help identify an industry's KSF's:

a) **On what basis customers choose between competing brands?**

b) **What resources and capabilities are needed to be competitively successful?**

c) **What does it take for sellers to achieve a sustainable competitive advantage?**

3) Every industry may have **multiple** KSF's but very rarely an industry will have more than 3 or more KSF's.

4) **KSF's will vary from industry to industry and even from time to time. Therefore, it is essential that strategist should understand and analyse the industry's situation more frequently.**

Chapter Overview

1. Internal Environment
2. Understanding Key Stakeholders
3. Mendelow's Matrix
4. Strategic Drivers
5. Analysing Industry and Markets
6. Customers
7. Product / Services
8. Marketing Strategies
9. Channels
10. Role of Resource and Capabilities: Building Core Competency
11. Criteria for building a core competencies (CC)?
12. Sustainability of Competitive Advantage
13. Combining External and Internal Analysis (SWOT Analysis)
14. Michael Porter's Generic Strategies
15. Cost Leadership Strategies
16. Focus Strategies
17. Focused cost leadership
18. Focused differentiation
19. Best-Cost Provider Strategy
20. Differentiation Strategies

1. INTERNAL ENVIRONMENT

1) **Internal environment** refers to the **sum total of People** –
   a) Individuals and groups,
   b) Stakeholders,
   c) **Processes**- input-throughput-output,
   d) **Physical infrastructure**- space, equipment and physical conditions of work,
   e) **Administrative apparatus**- lines of authority & power, responsibility,
   f) **Accountability and organizational culture** intangible aspects of working- relationships,
   g) **Philosophy**,
   h) **Values**,
   i) **Ethics** - that shape an organization's identity.
2) Internal environment also involves -
   a) **Understanding of the ethics**,
   b) **Principles**,
   c) **Work environment**,
   d) **Employee friendliness**,
   e) **Confidence of investors and**
   f) **Other philosophical and cultural aspects of business, which aim for the success of the organisation.**

2. UNDERSTANDING KEY STAKEHOLDERS

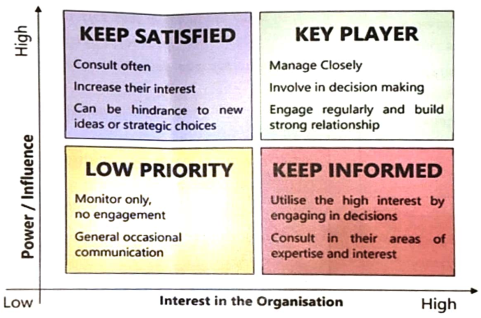
1) A firm may be viewed as a **coalition of stakeholders**- all those individuals and entities that have a stake in its success and can impact it as well.
2) The **stakeholders** can be **defined** as **any person/group of individuals**, internal or external, that **has an interest in**, or **impact** on the business or corporate strategy of the organisation.
3) They have the **power to influence** the strategy or performance of that organisation.
4) Generally, **stakeholders include management, employees, shareholders, customers and vendors.**
5) Each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation.

3. MENDELOW'S MATRIX

1) It is also known as the **Stakeholder Analysis matrix and the Power-Interest matrix.**
2) It is a simple framework **to help manage key stakeholders.**
3) **Managing stakeholders is critical to the success** of a project.
4) This is where a stakeholder analysis matrix i.e. Mendelow's Matrix can help.
5) **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).

DEVELOPING A GRID OF STAKEHOLDERS

It is **based on Power and Interest**. It suggests to identify which stakeholders are incredibly important.



Note

Always remember that **environment is highly dynamic** and certain things might happen that can **cause stakeholders to suddenly move between quadrants.**

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

a) **KEEP SATISFIED Stakeholders: High power, less interested people** - Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis.
For example, banks, government, customers, etc.

b) **KEY PLAYERS Stakeholders: High power, highly interested people** - Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis.
For example, Shareholders, CEO, Board of Directors, etc.

c) **LOW PRIORITY Stakeholders: Low power, less interested people** - Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change.
For example, business magazines, media houses, etc.

d) **KEEP INFORMED Stakeholders: Low power, highly interested people** - Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation.
For example, employees, vendors, suppliers, legal experts, etc.

4. STRATEGIC DRIVERS

1) **An important aspect of internal analysis is assessing the current performance** of the business.
2) It involves **analysis of the key markets** in which the organisation operates, as well as its key customers, the products and services it **provides, the channels** in which the products or services are **delivered**, and the organisation's competitive advantage.
3) There can be **varied ways** to assess the current performance of a business and it is highly subjective. It can either be **profit driven, purpose driven or any other metrics** that the management seems to fit in.
5) The key strategic drivers of an organisation **include:**
   a) Industry and markets
   b) Customers
   c) Products/services
   d) Channels

5. ANALYSING INDUSTRY AND MARKETS

1) It is **extremely important to identify one's position as compared to the competitors,** who can be of equal size and value, or bigger in size and value or even smaller and newer. A tool used for this is called - **Strategic Group Mapping.**
2) A strategic group **consists of those rival firms** which have similar competitive approaches and positions in the market.
3) Companies in the same strategic group can **resemble one another in any of the several ways:**
   a) Comparable product-line breadth,
   b) Sell in the same price/quality range,
   c) Same distribution channels,
   d) Use essentially the same product attributes to appeal to similar types of buyers.
   e) Offer buyers similar services and technical assistance.

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

a) **Identify the competitive characteristics** that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
b) **Plot the firms** on a two-variable map using pairs of these differentiating characteristics.
c) **Assign firms** that fall in about the same strategy space to the same strategic group.
d) **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues.

6. CUSTOMERS

1) Understanding the different types of customers to whom the organisation's products/services are **sold or provided**, is not only important but also the **first step in deciding the product/service.**
2) As customers are often **responsible for the generation of profits** obtained by an organisation, it is important to be able to collect and display data in order to show customer trends and profitability.
3) **Difference between Customer and Consumer** - while a **customer is the one buys a product/service,** the **consumer is the one who finally uses/consumes the bought product or service.**

7. PRODUCT / SERVICES

1) Products and services are **closely linked and interrelated with the markets** that the organisation wants to serve.
2) It attempts to answer the general question: **What business are we in and what should be done to win over competition in each product/service we serve.**
3) Product stands for the combination of "goods-and-services" that the company offers to the target market.
4) There are products that have **wide range of quality and workmanship** and these also change over time since products and markets are infinitely dynamic.
5) Products can also be **differentiated** on the **basis of size, shape, colour, packaging, brand names, after-sales service** and so on.
6) Organizations seek to hammer into customers' minds that their products are different from others. It does **not matter** whether the **differentiation is real or imaginary.**
7) Quite often the **differentiation is psychological rather than physical.**
8) For a new product, pricing strategies for entering a market need to be designed and for that matter at least **three objectives must be kept in mind:**
   a) **Have customer-centric approach while making a product.**
   b) **Produce sufficient returns through a reasonable margin over cost.**
   c) **Increasing market share.**

8. MARKETING STRATEGIES

1) Social Marketing:
It refers to the **design, implementation, and control** of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group to bring in a social change.

2) Augmented Marketing:
This type of marketing **includes additional customer services and benefits** that a product can offer besides the core and actual product that is being offered. It can be in the form of introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc.

3) Direct Marketing:
Marketing through **various advertising media** that **interact directly** with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.

4) Relationship Marketing:
The process of **creating, maintaining, and enhancing strong, value-laden relationships with customers** and other stakeholders. For example, Airlines offer special lounges at major airports for frequent flyers.

5) Services Marketing:
It is applying the **concepts, tools, and techniques, of marketing to services. Services** is any activity or benefit that one party can offer to another that is essentially intangible.

6) Person Marketing:
People can also be marketed. **Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person.** For example, politicians, sports stars, film stars, etc.

7) Organization Marketing:
It consists of activities undertaken **to create, maintain, or change** attitudes and behaviour of target audiences **towards an organization.** Both profit and non-profit organizations practice organization marketing.

8) Place Marketing:
It involves activities undertaken to create, maintain, or change attitudes and behaviour **towards particular places** say, marketing of business sites, tourism marketing.

9) Enlightened Marketing:
It is a **marketing philosophy** holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset; its five principles include -

a) **Customer-oriented marketing,**
b) **Innovative marketing,**
c) **Value marketing,**
d) **Sense-of-mission marketing,** and
e) **Societal marketing.**

10) Differential Marketing:
It is a **market-coverage strategy** in which a **firm decides to target several market segments** and **designs separate offer for each.** For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.

11) Synchro-marketing:
When the demand for a product is irregular due to season, some parts of the day, or on hour basis, **causing idle capacity or overworked capacities,** synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives.

12) Concentrated Marketing:
It is a market-coverage strategy in which a **firm goes after a large share of one or few sub-markets.** It can also take the form of Niche marketing.

13) Demarketing:
It includes marketing strategies **to reduce demand temporarily or permanently.** The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand.

9. CHANNELS

1) Channels are the **distribution system** by which an organisation distributes its product or provides its service.
2) The **wider and stronger the channel the better position a business has to fight and win over competition.**
3) There are typically **three channels** that should be considered:
   a) **The sales channel** - These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: **Who needs to sell to whom for your product to be sold to your end user?**
   b) **The product channel** - The product channel focuses on the series of **intermediaries who physically handle the product** on its path from its producer to the end user.
   c) **The service channel** - The service channel refers to the entities that provide **necessary services to support the product**, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are **complex in terms of installation or customer assistance.**

10. ROLE OF RESOURCE AND CAPABILITIES: BUILDING CORE COMPETENCY

1) **Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals.**
2) **Competency is defined as a combination of skills and techniques rather than individual skill or separate technique.**
3) **Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources.**
4) The optimal way to define core competence is to consider it as sum of 5-15 areas of developed expertise.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas –

1) Competitor differentiation is one of the main three conditions.

a) If the competence is unique and it is **difficult for competitors to imitate.**
b) This can **provide a company an edge** compared to competitors.
c) Although all companies operating in the same market would have the equal skills and resources, if one company can perform this significantly better; the company has obtained a core competence.

2) The second condition to be met is customer value.

a) When purchasing a product or service it **has to deliver a fundamental benefit** for the end customer in order to be a core competence.
b) If **customer has chosen** the company **without this impact**, then **competence is not a core competence** and it will not affect the company's market position.
c) The **essence** is that the **consumer should value the differentiation** offered.

3) The last condition refers to application of competencies to other markets.

a) Core competence must be **applicable** to the **whole organization**; it cannot be only one particular skill or specified area of expertise.
b) Thus, a core competence is a unique set of skills and expertise, which will be used through out the organisation to open up potential markets to be exploited.

11. CRITERIA FOR BUILDING A CORE COMPETENCIES (CC)?

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

Valuable

a) Valuable capabilities are the ones that **allow the firm to exploit opportunities or avert the threats in its external environment.**
b) A firm created value for customers by effectively **using capabilities to exploit opportunities.**

Rare

a) Core competencies are **very rare** capabilities and very few of the competitors possess this.
b) Competitive advantage results **only when firms develop and exploit** valuable capabilities that differ from those shared with competitors.

Costly to imitate

a) It means such capabilities that **competing firms are unable to develop easily.**
b) The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

Non-substitutable

a) Capabilities that do **not** have strategic equivalents are called **non-substitutable capabilities.**
b) This final criterion for a capability to be a source of competitive advantage is that **there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.**
c) The **strategic value** of capabilities **increases** as they **become more difficult to substitute.**

12. SUSTAINABILITY OF COMPETITIVE ADVANTAGE

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon **four major characteristics** of resources and capabilities:

Durability

a) **The period over which a competitive advantage is sustained** depends in part on the rate at which a firm's resources and capabilities deteriorate.
b) In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete.
c) Capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure.
d) Many consumer brand names have a highly durable appeal.

Transferability

a) Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals.
b) The ability of rivals to attack position of **competitive advantage relies on their gaining access to the necessary resources and capabilities.**
c) **The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.**

Imitability

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

Appropriability

a) **It refers to the ability of the firm's owners to appropriate the returns on its resource base.**
b) Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.
c) Rewards are directed to from where the funds were invested, rather than creating an advantage with no actual reward to people to invested capital.

13. COMBINING EXTERNAL AND INTERNAL ANALYSIS (SWOT ANALYSIS)

a) It is the analysis of a **business's strengths, weaknesses, opportunities and threats.** The primary objective of a SWOT analysis is **to help organizations develop a full awareness** of all the factors (external as well as internal), involved in making a business decision.
b) **It identifies the complex issues** for an organisation and **puts them into a simple framework.**
c) One of the major criticisms is that it does **not** generally provide for evaluation of strengths, weaknesses, opportunities and threats in the competitive context.
d) Therefore, an organsition while using this tool, SWOT analysis, should **consider relative competitors, and external factors** affecting the organisation. **Although a simple tool, it is a useful starting point for analysis.**

SWOT Analysis for Internal or External Environment?

a) SWOT stands for **Strengths, Weaknesses, Opportunities and Threats.**
b) **Internal analysis** is more focused on **understanding the existing structure** and competencies of the business, thus highlighting the **Strengths and Weaknesses**, while **External Analysis** is about **identifying and preparing for uncontrollable** which can either be **Opportunities or threats.** Therefore, SWOT Analysis is a tool which is used for **both Internal** and **External Analysis.**

14. MICHAEL PORTER'S GENERIC STRATEGIES

1) Strategies allow organizations to gain competitive advantage from three different bases:
   A) **Cost leadership** - It emphasizes on **producing standardized products at a very low per-unit cost** for consumers who are price-sensitive.
   B) **Differentiation** – It is a strategy aimed at **producing products and services which are unique industry wide** and directed at consumers who are relatively **price-insensitive.**
   C) **Focus** - It means producing products and services that fulfil the needs of small groups of consumers with specific taste.
2) Porter calls these **base generic strategies**
3) Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

15. COST LEADERSHIP STRATEGIES

1) It is a **low cost competitive strategy** that aims at broad mass market.
2) Because of **its lower costs**, the cost leader is **able to charge a lower price** for its products than its competitors.
3) The main strategy is to **under-price competitors and thereby gains market share and sales, driving some competitors out of the market entirely.**
4) **Cost leadership can be effective when following conditions are present –**
   a) **Market is composed of many price-sensitive buyers,**
   b) **Few ways to achieve product differentiation,**
   c) **Buyers are not brand conscious,**
   d) **Large number of buyers with significant bargaining power.**
5) **Risks and Disadvantages of Cost Leadership Strategy:**
   a) **Competitors may imitate the same strategy, thus driving overall industry profits down;**
   b) **Buyer interest may shift towards other differentiating features;**
   c) **Technological breakthroughs in the industry may make the strategy ineffective.**
   d) It **may not be remaining for long as competitors** may also follow cost reduction technique.
   e) It can succeed only if the firm **can achieve higher sales volume.**
   f) Cost leaders tend to keep their **costs low by minimizing** advertising, market research, and research and development, but **this approach can prove to be expensive in the long run.**
6) **To achieve cost leadership, company may take following actions –**
   a) **Prompt forecasting of demand of a product or service.**
   b) **Optimum utilization of the resources to get cost advantages.**
   c) **Achieving economies of scale leads to lower per unit cost of product/service.**
   d) **Standardisation of products for mass production to yield lower cost per unit.**
   e) **Invest in cost saving technologies and try using advance technology for smart working.**
   f) **Resistance to differentiation till it becomes essential.**
7) **Advantages of Cost Leadership Strategy:**
   a) **Rivalry** – Competitors are likely to **avoid a price war**, since the low cost firm will continue to earn profits after competitors compete away their profits.
   b) **Buyers** – Powerful buyers/customers would **not be able to exploit** the cost leader firm and will continue to buy its product.
   c) **Suppliers** – Cost leaders are able to **absorb greater price** increases before it must raise price to customers.
   d) **Entrants** – **Low cost leaders create barriers to market entry** through its continuous focus on efficiency and reducing costs.
   e) **Substitutes** – Low cost leaders are more likely to **lower costs to induce customers** to stay with their product, invest to develop substitutes, purchase patents.

16. FOCUS STRATEGIES

1) It **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.
2) An organization using a focus strategy may **concentrate on a particular group of customers, geographic markets, or on particular product-line segments** in order to serve a **well-defined but narrow market** better than competitors who serve a broader market. For example, Ferrari sports cars.
3) **Use focus strategy when:**
   a) Consumers have **distinctive preferences** or requirements and
   b) **Rival firms are not attempting to specialize in the same target segment.**

Achieving Focused Strategy

a) **Selecting specific niches which are not covered by cost leaders and differentiators.**
b) **Creating superior skills for catering to such niche markets.**
c) **Generating high efficiencies for serving such niche markets.**
d) **Developing innovative ways in managing the value chain.**

Advantages of Focused Strategy

a) **Premium prices** can be **charged** by the organisations
b) Due to the tremendous expertise about the goods and services that organisations following focus strategy offer, rivals and new entrants may find it **difficult to compete.**

Risks and Disadvantages of Focused Strategy

a) **The possibility that numerous competitors will recognize the successful focus strategy and imitating it, or**
b) **Consumer preferences will drift toward the product attributes desired by the market as a whole.**
c) The firms **lacking in distinctive competencies** may **not be able** to pursue focus strategy.
d) Due to the **limited demand** of product / services, **costs are high** which can cause problems.
e) In long run, the **niche could disappear** or be taken over by larger competitors by acquiring the same distinctive competencies.

17. FOCUS COST LEADERSHIP

a) It requires **competing based on price** to target a narrow market.
b) A firm that follows this **strategy does not necessarily charge the lowest prices in the industry.**
c) Instead, it charges **low prices relative to other firms** that compete within the target market.
d) **Firms that compete based on price and target a narrow market are following a focused cost leadership strategy.**

18. FOCUS DIFFERENTIATION

a) It requires **offering unique features that fulfill the demands of a narrow market.**
b) As with a focused **low-cost strategy**, narrow markets are defined in different ways in different settings.
c) Some firms using a focused differentiation strategy **concentrate their efforts on a particular sales channel**, such as selling over the internet only.
d) Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.
   For example, Rolls-Royce sells limited number of high-end, custom-built cars.

19. BEST-COST PROVIDER STRATEGY

1) The new model of best cost provider strategy is a **further development** of above three generic strategies. It is directed towards **giving customers more value** for the money by emphasizing both low cost and upscale differences.
2) The objective is to **keep costs and prices lower** than those of other sellers of **comparable products.**
3) It can be done:
   a) **Through 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.**

20. DIFFERENTIATION STRATEGIES

1) 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.**
2) The **uniqueness** can be associated with product design, brand image, features, technology, dealer network or customer service.
3) A **differentiation strategy,** firm will be able to charge a **premium price** for its product and buyer may respond positively if they accept or appreciate the differentiating features.
4) It should be adopted after careful study of buyer's needs and preferences to determin the feasibility of incorporating one or more differentiating features into a unique product.
5) **Product development is an example of a strategy that offers the advantages of differentiation.**

Basis of Differentiation

There are several basis of differentiation:

a) **Product:**
   i) Innovative products that meet customer needs cab be an area where a company has an advantage over competitors.
   ii) If **pursuit of new product offering can be costly**- research and development, as well as production and marketing costs can all add to the cost of production and distribution.
   iii) The payoff, however, **can be great as customer's flock to be among the first to have the new product.**

b) **Pricing:**
   i) It can **fluctuate based on its supply and demand,** and also be influence by the customer's ideal value for the product.
   ii) Companies can also differentiate on the basis of product price, they **may establish superiority** by charging a very high price or may offer the lowest price in comparison to their competitors.

c) **Organisation:**
   i) Organisation can **maximize the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success.**
   ii) **Location advantage, name recognition and customer loyalty** can all provide additional ways for a company differentiate itself from the competition.

Achieving Differentiation Strategy

To achieve differentiation, following strategies could be adopted by an organization to incorporate:

a) **Offer utility for the customers and match the products with their tastes and preferences.**
b) **Elevate/Improve the performance of the product.**
c) **Offer the promise of high quality product/service.**
d) **Rapid product innovation.**
e) **Constantly enhancing the organisation's image and its brand value.**

Advantages of Differentiation Strategy

a) **Rivalry** - **Brand loyalty acts as a safeguard against competitors.** It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
b) **Buyers** – They do not negotiate for price as they get **special features and also they have fewer options in the market.**
c) **Suppliers** – Because differentiators charge a premium price, they can afford to **absorb higher costs of supplies and customers are willing to pay extra too.**
d) **Entrants** – **Innovative features are an expensive offer.** So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
e) **Substitutes** – **Substitute products can't replace differentiated products** which have high brand value and enjoy customer loyalty.

Risks and Disadvantages of Differentiation Strategy

a) **Unique product may not be valued highly enough by customers to justify the higher price, thereby causing cost leadership strategy to defeat differentiation strategy.**
b) **Competitors may develop ways to copy the differentiating** features quickly.
c) **Uniqueness is difficult to sustain.**
d) **Charging too high a price** for differentiated features may cause the customer to **switch-off to another alternative.**
e) **Differentiation fails to work** if its basis is something that is **not valued** by the customers.

Chapter Overview

1. CORPORATE STRATEGIES

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

1. **Stability strategy**
2. **Expansion strategy**
3. **Retrenchment strategy**
4. **Combination strategy (not included in the chapter)**

2. STABILITY STRATEGY

1) **One of the important goals of a business enterprise is stability i.e. -**
   a) **To safeguard its existing interests and strengths,**
   b) **To pursue well established and tested objectives,**
   c) **To continue in the chosen business path,**
   d) **To maintain operational efficiency on a sustained basis,**
   e) **To consolidate the commanding position already reached, and**
   f) **To optimise returns on the resources committed in the business.**
2) **A stability strategy is pursued by a firm when:**
   a) To **serve in the same or similar markets** and deals in same products and services.
   b) Typical for those firms whose **product have reached the maturity stage** of product life cycle (PLC) or those who have a **sufficient market share** but need to retain that.
   c) They have to **remain updated** and have to **pace with the dynamic and volatile business world** to **preserve their market share.**
   d) Hence, it **should not be confused with 'do nothing'** strategy.

CHARACTERISTICS OF STABILITY STRATEGY

a) **Stays with the same business**, same product-market posture and functions, maintaining same level of effort as at present.
b) **Does not involve a redefinition of the business of the corporation.**
c) **Safe strategy** that **maintains status quo.**
d) **Does not warrant** much of **fresh investments.**
e) The **risk involved** in this strategy is less.
f) The organization can **concentrate on its resources and existing businesses/products and markets**, thus leading to building of **core competencies.**
g) **Modest growth objective** choose this strategy.

MAJOR REASONS FOR STABILITY STRATEGY

a) **Product has reached maturity stage in PLC.**
b) **Management is comfortable with the status quo** as it involves less changes and less risks.
c) **Environment** in which an organisation is operating is **relatively stable.**
d) Where it is **not advisable to expand** as it may be perceived as threatening.
e) After rapid expansion, a firm might want to **stabilize and consolidate itself.**

3. Expansion/ Growth Strategy

1) It is implemented by **redefining the business** by enlarging **the scope of business** and **substantially increasing investment** in the business.
2) It is often characterised by significant:
   a) **Reformulation of goals and directions,**
   b) **Major initiatives and moves involving investments,**
   c) **Exploration and onslaught into new products,**
   d) **New technology and new markets,**
   e) **Innovative decisions and action programmes and so on.**
3) This strategy may take the enterprise along **relatively unknown and risky paths, full of promises and pitfalls.**

Characteristics of Growth / Expansion Strategy

a) It involves a **redefinition of the business.**
b) It is the **opposite of stability strategy.**
c) It is a **highly versatile strategy**; it offers several permutations and combinations for growth.
d) It holds within its fold **two major strategy routes:**
   (i) **Intensification**
   (ii) **Diversification.**

Reasons for Growth / Expansion Strategy

a) When environment demands **increase in pace of activity** i.e expand.
b) Strategists may feel **more satisfied** with the **prospects of growth from** expansion rather than just stabilized operation;
c) Expansion may lead to **greater control over the market vis-a-vis competitors.**
d) It also includes **intensifying, diversifying, acquiring and merging businesses.**

4. Types of Growth / Expansion Strategy

The growth strategies can be classified into two main types:

a) **Internal growth strategies**
b) **External growth strategies**

5. Internal growth strategies

Internal growth strategies can be further divided into:

a) **Expansion through Intensification**
b) **Expansion through Diversification**

6. Expansion through Intensification

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

a) **Market Penetration:** The firm directs its resources to the profitable growth of its **existing product in the existing market.**

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

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

7. Expansion / Growth through Diversification

a) When a firm tries to grow and expand by diversifying into various products or fields, it is called **growth by diversification.**

b) **It is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.**

c) It is a means of utilising their existing **excessive facilities and capabilities.**

d) It lies in its **synergistic advantage.**

e) Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into following broad categories:

   i) **Concentric diversification**

   ii) **Conglomerate diversification**

   iii) **Expansion through Innovation**

8. Related Vs. Unrelated Diversification

Related Diversification	Unrelated Diversification
a) Exchange or share assets or competencies by exploiting.	a) Investment in new product portfolios.
b) Brand name	b) Employment of new technologies.
c) Marketing skills	c) Focus on multiple products.
d) Sales and distribution capacity	d) Reduce risk by operating in multiple product markets.
e) Manufacturing skills	e) Defend against takeover bids.
f) R&D and new product capability	f) Provide executive interest.
g) Economies of scale	

9. Concentric Diversification:

1) It takes place when the products are related.

2) **The new business is linked to the existing businesses through process, technology or marketing.**

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

4) It is generally understood in TWO DIRECTIONS,

   a) **Vertically integrated diversification**

      i) Firms opt to engage in businesses that are **related to the existing business of the firm.**

      ii) The firm **remains vertically within the same process** sequence either moving forward or backward in the product process chain and enters specific product / process steps with the intention of making them into new businesses for the firm.

      iii) **The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.**

      iv) A firm can either opt for-

         a) **Backward integration:**

         It is concerned with **creation of effective supply** by entering business of **input providers.** Strategy employed to expand profits and gain greater control over production/supply of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

         b) **Forward integration:**

         This is **moving forward in the value chain** and entering business lines that use existing products. Forward integration will also take place where organizations enter into **businesses of distribution channels.**

   b) **Horizontal Integrated Diversification**

      i) A firm gets horizontally diversified by **integrating through acquisition of one or more similar businesses operating** at the same stage of the production-marketing chain.

      ii) They can also **integrate with the firms producing complementary products or by- products** or by taking over competitors' products.

10. Conglomerate Diversification

a) **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.**

b) In process/technology/function, there is no connection between the new products and the existing ones.

c) It has **no common thread at all** with the firm's present position.

11. Innovation

It drives upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction. It offers the following;

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

A business **strives to find opportunities** in existing problems of the society, though planned innovation in areas of expertise. This helps to solve complex problems by developing customer centric sustainable solutions.

b) **Increases Productivity:**

Innovation **leads to simplification** and automation of existing tasks. Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organisation as a whole.

c) **Gives Competitive Advantage:**

   i) **Being ahead of competition is a need,** and businesses spend their strategic time building solutions to achieve this advantage.

   ii) **The faster a business innovates, the farther it goes from its competitor's reach.**

   iii) **Innovative products need less marketing.**

   iv) **Not only helps retain** the existing customers but **helps acquire** new ones with ease.

12. 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.** It can be classified in two ways.

a) **Expansion through acquisition and mergers**
b) **Expansion through strategic alliance**

13. Expansion through acquisitions mergers

a) Acquisition or merger with an existing concern is an **instant means of achieving the expansion.**
b) It is an **attractive and tempting proposition** in the sense that it **circumvents the time, risks and skills.**
c) Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be **mutually beneficial, a happy and lasting affair.**

Merger

a) It is considered to be a process **when two or more companies come together to expand their business operations.**
b) The deal gets finalized on **friendly terms** and both the organizations share profits in the newly created entity.
c) Two organizations combine to **increase their strength and financial gains** along with breaking the trade barriers.

Acquisition

a) When **one organization takes over the other organization** and controls all its business operations, it is known as acquisitions.
b) One financially strong organization **overpowers** the weaker one.
c) It often **happen during recession in economy or during declining profit margins.**
d) It is often done in an **unfriendly manner**, it is more or less a **forced association** where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

14. TYPES OF MERGERS

1. **Horizontal merger**
   a) **Horizontal mergers are combinations of firms engaged in the same industry.**
   b) It is a **merger with a direct competitor.**
   c) The principal objective is to **achieve economies of scale** in the production process **by shedding duplication** of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on.
2. **Vertical merger**
   a) 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.
   b) If an organization takes over its supplier/producers of raw material, then it leads to backward integration.
   c) Forward integration happens when an organization decides to take over its buyer organizations or distribution channels.
3. **Co-generic merger**
   a) Two or more merging organizations are **associated in some way or the other** related to the production processes, business markets, or basic required technologies.
   b) It include the **extension of the product line** or acquiring components that are required in the daily operations.
4. **Conglomerate merger**
   a) Conglomerate mergers are the **combination of organizations that are unrelated** to each other.
   b) **No linkages** with respect to customer groups, customer functions and technologies being used.
   c) **No important common factors** between the organizations in production, marketing, research and development and technology.

(Student should read basic meaning of mergers and acquisition and remember that the types of mergers and acquisition is as same as the types of diversification. Instead of Concentric, write Co- generic)

15. EXPANSION THROUGH STRATEGIC ALLIANCE

a) A strategic alliance is a relationship between two or more businesses that **enables each to achieve certain strategic objectives which may not be able to achieve on its own.**
b) It can be **formed in a global market place** and it allows strategic partners **to maintain their independent status so that they can also continue with their existing business.**

Advantages of Strategic Alliance

1) **Organizational:**
   a) It helps to **learn necessary skills and obtain certain capabilities** from strategic partners.
   b) Having a strategic partner who is well-known and respected also helps **add legitimacy and creditability** to a new venture.
2) **Economic:**
   a) **There** can be **reduction in costs and risks** by distributing them across the members of the alliance.
   b) **Greater economies of scale** can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.
3) **Strategic:**
   a) **Cooperate instead of compete.**
   b) Vertical integration can be created where partners are part of supply chain.
   c) It may also be useful to create a competitive advantage by the pooling of resources and skills
4) **Political:**
   a) In certain countries, strategic advantage may allow foreign player to enter into the local economy only with the partnership with a local player.
   b) Sometimes, politically-influential partners may also help improve your own influence and position.

Disadvantages of Strategic Alliance

a) It require **sharing of resources and profits**, and **also sharing knowledge and skills** that otherwise organisations may not like to share.
b) Sharing knowledge and skills can be problematic if they **involve trade secrets.**
c) It may also create a **potential competitor when** an ally becomes an opponent in future when it decides to separate out.

16. RETRENCHMENT STRATEGY / STRATEGIC EXISTS

1) **Strategic Exits** are followed when an organization **substantially reduces the scope of its activity.**
2) These steps result in different kinds of retrenchment strategies.
   a) If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at **turnaround strategy.**
   b) If it **cuts off the loss-making units,** divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy.
   c) If none of these actions work, then it may **choose to abandon the activities totally,** resulting in a liquidation strategy. We deal with each of these strategies below-
      i) **Turnaround strategy**
      ii) **Divestment strategy**
      iii) **Liquidation strategy (not included in ICAI Module)**

17. TURNAROUND STRATEGY

1) Retrenchment may be done either **internally or externally.**
2) For internal retrenchment to take place, emphasis is laid on **improving internal efficiency, known as turnaround strategy.**
3) Following **indicators/ conditions** may point out that organization needs a turnaround strategy to survive.
   a) **Persistent negative cash flow**
   b) **Declining market share**
   c) **Deterioration in physical facilities**
   d) **Over-staffing, high turnover of employees, and low morale**
   e) **Uncompetitive products or services**
   f) **Mismanagement**
4) The **important elements** of a Turnaround Strategy are:
   a) **Changes in the top management**
   b) **Initial credibility-building actions**
   c) **Neutralising external pressures**
   d) **Identifying quick payoff activities**
   e) **Quick cost reductions**
   f) **Revenue generation**
   g) **Asset liquidation for generating cash**
   F) **Better internal coordination.**

18. ACTION PLAN FOR TURNAROUND

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

Stage One – Assessment of current problems:

a) Identify and assess the current problems and **get to the root causes** of company's failure.
b) The resources should be focused toward those areas essential to efficiently work on **correcting and repairing** any immediate issues.

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

a) Identify appropriate strategies and develop a **preliminary action plan.**
b) Analyze the strengths and weaknesses and develop a strategic plan with specific goals.
c) Once major problems and opportunities are identified, **develop a strategic plan** with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan:

a) If the organization is in a critical stage, an appropriate **action plan** must be developed **to stop the bleeding and enable the organization to survive.**
b) **A positive operating cash flow must be established** as quickly as possible and enough funds to implement the turnaround strategies must be raised.

Stage Four – Restructuring the business:

a) The financial state of the organization's core business is particularly important.
b) **If the core business is irreparably damaged, then the outlook for the entire organization may be bleak.**
c) The organization should change their **"product mix" and 'people mix'.**
d) By changing product mix, company should focus on their core product to remain competitive.
e) The organization may even **withdraw from certain markets** to make organization leaner or target its products toward a different niche.

Stage Five – Returning to normal:

In the **final stage** of turnaround strategy process, the organization should begin to show **signs of profitability,** return on investments and enhancing economic value-added.

19. DIVESTMENT STRATEGY

It involves the **sale or liquidation** of a portion of business, or a major division, profit centre or SBU.

A divestment strategy may be adopted due to various reasons:

a) Acquired business proves to be a **mismatch** and cannot be integrated.
b) **Persistent negative cash flows** create financial problems for business.
c) Severity of **competition** and the **inability of a firm** to cope.
d) **Technological upgradation** is required but the firm doesn't have money to invest in it.
e) A better **alternative** may be available **for investment.**

Major Reasons for Retrenchment/Turnaround Strategy

a) The **management no longer wishes to remain in business** either partly or wholly due to continuous losses and unviability.
b) The management feels that **business could be made viable by divesting** some of the activities or liquidation of unprofitable activities.
c) A business that had been **acquired proves to be a mismatch** and cannot be integrated within the company.
d) **Persistent negative cash flows** from a particular business create financial problems for the whole company, creating the need for divestment of that business.
e) **Severity of competition and the inability of a firm to cope** with it may cause it to divest.
f) **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.
g) **A better alternative may be available for investment,** causing a firm to divest a part of its unprofitable businesses.

20. ANSOFF'S PRODUCT MARKET GROWTH MATRIX

1) It is a useful tool that helps businesses decide their product and market growth strategy.
2) The **product/market growth matrix** is a **portfolio-planning tool** for identifying company **growth opportunities.**

	Existing Products	New Products
Existing Markets	**Market Penetration**	**Product Development**
New Markets	**Market Development**	**Diversification**

Figure: Ansoff's Product Market Growth Matrix

Market Penetration:

a) It is a **growth strategy** where the business focuses on selling **existing products into existing markets.**
b) It is achieved by making **more sales to present customers** without changing products in any major way.
c) It might require **greater spending on advertising or personal selling.**
d) It is also done by effort on **increasing usage by existing customers.**

Market Development:

a) It refers to a **growth strategy** where the business wants to sell its **existing products into new markets.**
b) This strategy will require identifying and developing new markets for current company products.
c) This strategy may be achieved through **new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.**

Product Development:

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

Diversification:

a) A **growth strategy** where a business markets **new products in new markets.**
b) Business may acquire other businesses **outside your existing products and markets.**
c) This strategy is risky because it **does not rely on either the company's successful product or its position in established markets.** Typically, the business is moving into markets in which it has little or no experience.

21. ADL MATRIX (Arthur D Little)

1) It is a **portfolio analysis method** that is based on PLC.
2) 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.
3) Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of **five competitive positions:**
a) **Dominant,** b) **Strong,** c) **Favourable,** d) **Tenable and** e) **Weak.**

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

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

It is four by five matrix

Stage of industry maturity - Arthur D. Little (ADL) Matrix				
Competitive position	**Embryonic**	**Growth**	**Mature**	**Ageing**
Dominant				
Strong				
Favorable				
Tenable				
Weak				

22. BOSTON CONSULTING GROUP (BCG) (GROWTH-SHARE MATRIX)

1) The BCG is also known as growth - share matrix.

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

3) Growth share matrix also known for its **cow and dog metaphors** is popularly used for resource allocation in a diversified company.

4) Using the BCG approach, **the vertical axis represents market growth rate (market attractiveness)** and the **horizontal axis represents relative market share (business strength).**

5) BCG matrix requires **organisations to classify their businesses or SBU in the following categories:**

I) Stars

a) Are **Products** or **SBU's that are growing rapidly.**
b) **Need heavy investment to maintain their position** and finance their rapid growth potential.
c) Represent **best opportunities for expansion.**

II) Cash Cows

a) **Are low-growth, high market share businesses or products.**
b) Generate **cash and have low costs.**
c) Established, successful, and **need less investment to maintain their market share.**
d) In long run, when the **growth rate slows down, stars become cash cows.**

III) Question Marks

a) Sometimes called **problem children or wildcats, are low market share business in high-growth markets.**
b) Require a **lot of cash to hold their share.**
c) **Need heavy investments with low potential to generate cash.**
d) **If left unattended are capable of becoming cash traps.**
e) Since **growth rate is high, increasing it should be relatively easier.**
f) It is for **business organisations to turn them stars and then to cash cows when the growth rate reduces.**

IV) Dogs

a) **Low-growth, low-share** businesses and products.
b) May **generate enough cash to maintain themselves**, but do not have much future. Sometimes they **may need cash to survive.**
c) Dogs should be **minimised by means of divestment or liquidation.**

6) **BCG Matrix: Post Identification Strategies**

BCG matrix recommends following **strategies after identification of SBU's.**

a) **Build**: the objective is to **increase market share**, even by **forgoing short-term earnings** in favour of building a **strong future with large market share.**
b) **Hold: objective is to preserve market share.**
c) **Harvest: objective is to increase short-term cash flow** regardless **of long-term effect.**
d) **Divest: objective is to sell or liquidate the business.**

7) **Limitations of BCG Matrix:**

a) It can be **difficult, time-consuming, and costly** to implement.
b) Management may find it **difficult to define SBUs** and measure market share and growth.
c) It also focuses on classifying current businesses but provide **little advice for future planning.**
d) They can lead the company to placing **too much emphasis on market-share growth** or growth through entry into attractive new markets.
e) This can cause unwise expansion into **hot, new, risky ventures or giving up on established units too quickly.**

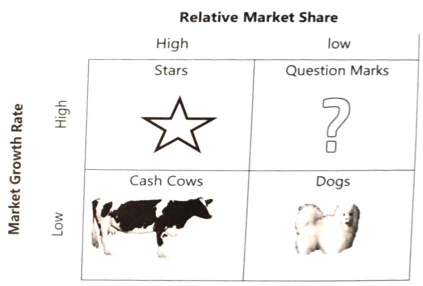


Figure: BCG Growth-Share Matrix

23. GENERAL ELECTRIC MODEL ("Stop Light" Strategy Model)

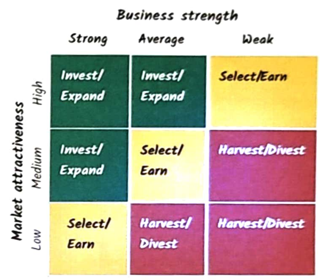
1) This model has been used by **General Electric Company** (developed by **GE** with the assistance of the consulting firm **McKinsey & Company**).
2) This model is also known as **Business Planning Matrix**, GE **Nine-Cell Matrix** and GE Electric Model. The strategic planning approach in this model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

Business strength is measured by considering the typical drivers like:

a) **Market share.**
b) **Market share growth rate.**
c) **Profit margin.**
d) **Distribution efficiency.**
e) **Brand image.**
f) **Ability to compete on price and quality.**
g) **Customer loyalty.**
h) **Production capacity.**
i) **Technological capability.**
j) **Relative cost position.**
k) **Management caliber, etc.**

The market attractiveness is measured by a number of factors like:

a) **Size of the market.**
b) **Market growth rate.**
c) **Industry profitability.**
d) **Competitive intensity.**
e) **Availability of Technology.**
f) **Pricing trends.**
g) **Overall risk of returns in the industry.**
h) **Opportunity for differentiation of products and services.**
i) **Demand variability.**
j) **Segmentation.**
k) **Distribution structure (e.g. retail, direct marketing, wholesale) etc.**



1) **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.**
2) **If a product is in the amber or yellow zone**, it needs **caution and managerial discretion** is called for making the strategic choices.
3) **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.**

BCG Vs. GE Model

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.

Chapter Overview

1. Strategic Management model and process
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30. Strategic Performance Measures
31. Types of Strategic Performance Measures
32. The Importance of Strategic Performance Measures
33. Choosing the right Strategic Performance Measures

1. STRATEGIC MANAGEMENT MODEL AND PROCESS

1) The SM process **is dynamic and continuous**. A change in any one of the major components in the model **can necessitate a change in any or all of the other components.**
2) **Strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi- annually. The SM process never really ends.**

The model illustrated in the Figure below:

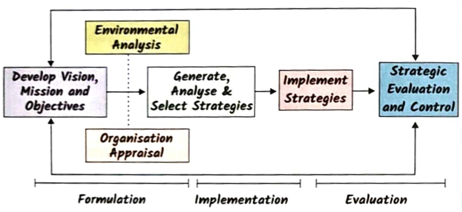


Figure : Strategic Management Model (Fred R David)

2. STAGES IN STRATEGIC MANAGEMENT

SM involves the following stages:

1) **Developing a strategic vision and formulation of statement of mission, goals and objectives.**
2) **Environmental and organizational analysis.**
3) **Formulation of strategy.**
4) **Implementation of strategy.**
5) **Strategic evaluation and control**

Stage 1: Strategic Vision, Mission and Objectives

A strategic vision delineates management's aspirations for the organisation and highlights a particular direction, or strategic path for it to follow in preparing for the future, and moulds its identity.

Mission and Strategic Intent

Managers need to be clear about what they see as the role of their organization, and this is often expressed in terms of a statement of mission.

Corporate goals and objectives

They flow from the **mission** and **growth ambition of the corporation**. The objective provides the **basis for its major decisions of the firm** and also help the organisational performance to be realized at each level.

Stage 2: Environmental and Organizational Analysis

1) This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:
   a) **Environmental scanning**
   b) **Organisational analysis**
2) **External environment** analysis may include PESTLE factors such as political, **economic, social, technological** etc. These factors will help in determining opportunities and threats for the entity. The firm's external environment is **dynamic and uncertain**.
3) **Organisational analysis** involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.
4) This would **reveal organisational strengths and weaknesses** which could be **matched with the threats and opportunities** in the external environment.

Stage 3: Formulating Strategy

1) The first step is **developing strategic alternatives** in the light of organization strengths and weaknesses and opportunities and threats in the environment.
2. The second step is the **deep analysis of various strategic alternatives** for the purpose of **choosing the most appropriate alternative.**

Stage 4: Implementation of Strategy

1) Implementation and execution is an operations-oriented activity aimed at **shaping the performance of core business activities in a strategy-supportive manner.**
2) In most situations, strategy-execution process includes the following principal aspects:
   a) **Developing budgets** that steer ample resources into those activities critical to strategic success.
   b) **Staffing the organization** with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
   c) **Using the best-known practices** to perform core business activities and pushing for continuous improvement.
   d) **Motivating people** to pursue the target objectives energetically.
   e) **Creating a company culture and work climate conducive to successful strategy implementation and execution.**
   f) **Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution.**

Stage 5: Strategic Evaluation and Control

1) The final stage of SM process focuses on **evaluating the company's overall strategic progress i.e whether strategy implementation is helping the company in achieving their desired objectives or due to new environmental developments, entity needs an adjustment or corrective action.**
2) **A company's direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant.**
3) It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.

3. CORPORATE PLANNING

Corporate Planning

Strategic Planning | **Strategic Planning**

Characteristic of Strategic Planning

- *Shapes the organisation and its resources.*
- *Assesses the impact of environmental virables.*
- *Takes a holistic view of the organisation.*
- *Develops overall objectives and strategies.*
- *Is concerned with the long-term success of the organisation.*
- *Is a senior management responsibility.*

Characteristic of Operational Planning

- *Deals with current deployment of resources.*
- *Develops tactics rather than strategy.*
- *Projects current operations into the future.*
- *Makes modifications to the business functions but not fundamental changes.*
- *Is the responsibility of functional managers.*

4. RELATIONSHIP BETWEEN STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION

1) A company will be successful only when the strategy formulation is **sound and implementation is excellent**.
2) Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus, **organizational success is a function of good strategy and proper implementation**.

Square A

1) Where a company has **formulated a very competitive strategy**, but is showing **difficulties in implementing** it successfully.
2) This can be due to **lack of experience (e.g. for start - ups), the lack of resources, missing leadership** and so on.
3) The company will **aim at moving from square A to square B**, given they realize their implementation difficulties.

Square B

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

Square C

1) It represent the companies that **haven't succeeded** in coming up with **a sound strategy formulation** and in addition are **bad at implementing** their flawed strategic model.
2) Their path to success goes through **business model redesign and implementation or execution readjustment.**

Square D

3) It is the situation where the **strategy formulation** is **flawed**, but the company is **showing excellent implementation skills.**
4) When a company in **square D** shall **redesign their strategy** before **readjusting** their **implementation /execution skills.**

5. STRATEGY FORMULATION V/s STRATEGY IMPLEMENTATION

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

6. LINKAGES AND ISSUES IN STRATEGY IMPLEMENTATION

Forward Linkages

a) The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself.
b) It deals with **impact of strategy formulation on strategy implementation.**

Backward Linkages

a) Strategy implementation can impact strategy formulation.
b) While dealing with strategic choice, **remember that past strategic actions** also determine the choice of strategy.
c) Organizations **tend to adopt those strategies** which can be implemented with the help of the **present structure of resources** combined with some additional efforts.

7. STRATEGIC CHANGE THROUGH DIGITAL TRANSFORMATION

Steps to initiate strategic change

1) **Recognize the need for change:**
   a) Company should find out **which aspects** of their present corporate culture are **strategy supportive and which ones are not supportive.**
   b) Company can use **SWOT analysis** i.e. environmental scanning to determine where exactly is the problem or where there is scope for change.

2) **Create a shared vision to manage change:**
   a) Objectives and **vision of both individuals and organization should coincide.** There should be no conflict between them.
   b) Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance, this will help in creating a shared vision.
   c) The actions taken have to be **credible, highly visible** and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

3) **Institutionalise the change:**
   a) This is an **action stage** which requires implementation of changed strategy.
   b) Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things.
   c) Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change.
   d) Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

8. KURT LEWIN'S MODEL OF CHANGE

Unfreezing the situation

The **individuals or organizations aware of the necessity for change** and **prepares them for such a change**.

Changing to New situation

1) After **unfreezing process**, the members of the organization recognize the need for change and have been fully prepared to accept such change, **their behavior patterns need to be redefined.**
2) **H.C. Kellman** has proposed **three methods for reassigning new patterns** of behavior. These are
   a) **Compliance:**
   Strictly **enforcing the reward and punishment strategy** for good or bad behavior. Fear of punishment, actual punishment or actual reward seems to change behavior for the better.
   b) **Identification:**
   Company may try to **identify such leaders who are role models** for their majority employees, therefore changing to new behavior can be implemented smoothly, if change is pushed through such role models.
   c) **Internalization:**
   This involves **internal changing of individual's thought processes**, therefore they are given the freedom to learn and adopt with the new behavior as per their convenience.

Refreezing

a) It occurs when the **new behavior becomes a normal way of life.**
b) The **new behavior must replace the former behavior** completely for successful and permanent change to take place.
c) In order for the new behavior to become permanent, it must be continuously reinforced so that this new acquired behavior does not diminish or extinguish.

9. HOW DOES DIGITAL TRANSFORMATION WORK?

1) The **use of digital technologies** to develop fresh, improved, or entirely new company procedures, goods, or services is known as "**digital transformation**."
2) It's a **fundamental adjustment** that can be challenging to identify and even more challenging to implement.
3) Change management enters into the picture here. Organizations can **plan, prepare for, and carry out** changes to their operations, including digital transformations, with the aid of the discipline of change management.
4) When implemented correctly, change management may assist firms in overcoming the obstacles posed by the digital transition and reaping the full rewards of their investment.
5) But how does change management appear when applied to digital transformation?
6) **Change management in the digital transition consists of four essential elements:**
   a) **Defining** the goals and objectives of the transformation
   b) **Assessing** the current state of the organization and identifying gaps
   c) **Creating a roadmap** for change that outlines the steps needed to reach the desired state
   d) **Implementing and managing** the change at every level of the organization
7) To navigate a digital transformation successfully, each of these elements is necessary. But what matters most is how they collaborate to support organisations in achieving their goals.

The role of change management in digital transformation

1) **Digital transformation** is a process of organizational change that **enables** an organization **to use technology to create new value** for customers, employees, and other stakeholders.
2) Change management is the **process of planning, implementing, and monitoring** changes in an organization.
3) For a successful digital transformation, a good change management strategy is necessary.
4) A **properly implemented change management strategy can help** an organization to:
   a) **Specifying** the goals and objectives i.e specific parameters of the digital transformation
   b) **Determining** which existing procedures and tools need to be modified.
   c) **In making a proper plan** for implementing the improvements.
   d) It will help in **involving** staff members and important 3rd parties required for the purpose of transformation.
   e) **To track progress** and make required corrections on a timely basis.

10. CHANGE MANAGEMENT STRATEGIES FOR DIGITAL TRANSFORMATION

1) **Begin at the top:**
A focused, invested, united leadership that is on the same page about the company's future is reflected in change, then this will motivate the rest of the organisation to accept change.

2) **Ensure that the change is both necessary and desired:**
If a corporation doesn't have a sound strategy in place, introducing too much too fast can become a major issue down the road.

3) **Reduce disruption:**
It is possible to reduce workplace disruption by making employee aware about the potential change, creating an environment that promotes the change, empowering change agents to help in implementing the change and involve IT department so that people can be supported when there is a change in technology.

4) **Encourage communication:**
The **people** who will be **affected the most** by these changes should be **reassured** that they are **not in danger** through effective communication.

5) **Recognize that change is the norm, not the exception:**
Orgainsation must be prepared well in advance for the change otherwise they may run into difficulties because change is not a project but rather an ongoing process.

11. HOW TO MANAGE CHANGE DURING DIGITAL TRANSFORMATION ?

1) **Specify the digital transformation's aims and objectives :** What is the intended outcome? What are the precise objectives that must be accomplished? IT will be easier to make sure that everyone is on the same page and pursuing the same aims if everyone has a clear grasp of the goals.

2) **Always, always, always communicate:** It might be challenging for people to accept change and adjust to it. **Ensure** that you **routinely and honestly discuss** the objectives of the digital transformation and how they will affect stakeholders, including employees, clients, and other parties.

3) **Be ready for resistance :** Even when a change is for the better, it can be challenging for people to embrace it. Have a strategy in place for dealing with any resistance that may arise.

4) **Implement changes gradually : Changes** should ideally be **implemented gradually** rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will givepeople time to become used to the new way of doing things.

5) **Offer continuous assistance and training:** Workers will need guidance in the new procedures, software applications, etc.

12. ORGANISATIONAL FRAMEWORK

1) The **McKinsey '7S Model'** helps an organization to analyzes a company's "organizational design" i.e. how they can run and manage their business more effectively.

2) The **McKinsey '7s Model'** focuses on how the **"Soft Ss" and "Hard Ss"** elements can help an orgainsation in analyzing and modifying their existing ways of doing businesses.

Hard elements

These are directly controlled by the management and includes the following-

a) **Strategy -** Direction of the orgnisation i.e. blueprint of how core competency can be built to achieve competitive advantage.

b) **Structure (orgnisation structure) -** Depending upon availability of resources and degree of centralization or decentralization, orgnisation should choose appropriate orgnisational structure.

c) **Systems -** Development of daily tasks, operations and teams to execute and achieve entity's goals and objectives in the most efficient and effective manner.

Soft elements

These elements are difficult to define as they are governed by culture. Soft elements may include the following -

a) **Shared Values -** The core values which are part of organizational culture and influence the entity's code of ethics.

b) **Staff -** The talent pool of organization.

c) **Skills -** The core competencies or skill of employees play a vital role in the orgainsation's success.

d) **Style -** It depicts the leadership style i.e. required to achieve orgainsation's goals.

Problems/ Limitations of this model

a) It ignores the importance of the external environment.

b) This model does not clearly explain the concept of organizational effectivness or performance.

c) This model is more static and less flexible for deicion making.

d) It is generally criticized for missing out the reals gaps in conceptualization and execution of strategy.

13. ORGANISATION STRUCTURE

1) **Changes in strategy often require changes in the organizational structure because -**
   a) **Structure dictates how objectives and policies will be established**
   b) **Structure also dictates how resources will be allocated to achieve strategic objectives.**

2) There is **no one optimal organizational design** or **structure for a given strategy.**

3) **What is appropriate for one organization may not be appropriate for a similar firm,** although successful firms in a given industry do tend to organize themselves in a similar way.

14. TYPES OF ORGANISATION STRUCTURE

The most important issue is that the company's structure must be congruent with or fit with the company's strategy.

a) **Simple**
b) **Functional**
c) **Divisional**
d) **Multi Divisional**
e) **SBU**
f) **Matrix**
g) **Network**
h) **Hourglass**

15. THE SIMPLE STRUCTURE

1) It is most appropriate for companies that follow a **single-business strategy** and offer a line of products in a single geographic market.
2) **Owner-manager makes all major decisions directly and the company's staff merely serves as an executor.**
3) **Communication is frequent and direct**, and **new products tend to be introduced to the market quickly**, which can result in a competitive advantage.
4) **Few of the coordination problems** that are common in larger organizations exist.
5) This may result in **competitive advantages for some small companies relative to their larger counterparts.**
6) If they are successful, small companies grow larger. As a result of this growth, the company outgrows the simple structure.

16. THE FUNCTIONAL STRUCTURE

1) A **widely used structure in business organisations** is functional type because of its **simplicity and low cost**.
2) A functional structure **groups tasks and activities by business function**, such as **production / operations, marketing, finance/accounting, research and development, and management information systems.**
3) It is **simple and inexpensive**, and also promotes **specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making.**
4) It consists of a **chief executive officer or a managing director** and **limited corporate staff with functional line managers** in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources.
5) **Compared to the simple structure, there are potential problems.** Differences in functional specialization and orientation **may impede communications and coordination.**

17. THE DIVISIONAL STRUCTURE

1) As a firm, grows year after year it **faces difficulty in managing different products and services in different markets.** Some form of **divisional structure** generally becomes necessary to motivate employees, control operations, and **compete successfully in diverse locations.**
2) **The divisional structure can be organized in one of four ways:**
   a) **By Geographic Area**
   b) **By Product or Service**
   c) **By Customer**
   d) **By Process**
3) **Advantages of Divisional Structure:**
   a) **The accountability is clear.**
   b) **It creates career development opportunities for managers,**
   c) **Allows local control of local situations,**
   d) **Leads to a competitive climate within an organization, and**
   e) **Allows new businesses and products to be added easily.**
   f) **Employee morale is higher.**
4) **Disadvantages / Limitations of Divisional Structure:**
   a) Each division requires **functional specialists who must be paid.**
   b) There exists some **duplication of staff services, facilities, and personnel; for instance,** functional specialists are also needed centrally (at headquarters) to coordinate divisional activities.
   c) **Managers must be well qualified** because the divisional design forces delegation of authority better-qualified individuals requires higher salaries.
   d) Certain regions, products, or customers may sometimes receive special treatment, **and it may be difficult to maintain consistent, company wide practices.**

18. THE MULTI DIVISIONAL STRUCTURE

1) 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.
2) **The corporate office is responsible for formulating and implementing overall corporate strategy** and manages divisions through strategic and financial controls.
3) **Multidivisional structure calls for:**
   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 dedicated corporate office will be required for overall control on semi - autonomous division or completely autonomous division.**

19. THE MATRIX STRUCTURE

1) **Both Functional and product forms are combined simultaneously employees have two superiors, a product or project manager and a functional manager.**
2) It is the **most complex** of all designs because it depends upon both vertical and horizontal flows of authority.
3) In contrast, functional and divisional structures depend **primarily on vertical flows of authority and communication.**
4) It can result in **higher overhead** because it more management positions.
5) Other characteristics of a matrix structure that contribute to overall complexity include -
   a) **Dual lines of budget authority** (a violation of the unity command principle),
   b) **Dual sources of reward and punishment,**
   c) **Shared authority,**
   d) **Dual reporting channels, and**
   e) **A need for an extensive and effective communication system.**
6) **Some advantages of a matrix structure are** that **project objectives are clear**, there are many channels of communication workers can see the visible results of their work, and shutting down a project is accomplished relatively easily.

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

1) **Cross-functional task forces:**
   a) Temporary cross-functional task forces are initially **used when a new product line is being introduced.**
   b) 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.
3) **Mature matrix:**
   a) The third and final phase of matrix development involves a **true dual-authority structure. Both the functional and product structures are permanent.**
   b) Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.
   c) However, the matrix structure is **not very popular** because of **difficulties in implementation and trouble in managing.**

20. NETWORK STRUCTURE

1) It is an example of what could be termed a **"non-structure"** by its virtual elimination of in-house business functions. **Many activities are outsourced.**
2) It is 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 and quick response.
3) Instead of having salaried employees, **it may contract with people** for a specific project or length of time. **Long-term contracts with suppliers and distributors** replace services that the company could provide for itself through vertical integration.
4) **It provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition.**
5) Employees may **lack the level of confidence** necessary to participate actively in organization-sponsored learning experiences.

21. HOURGLASS STRUCTURE

1) **The role played by middle management is diminishing.** The tasks performed by them are increasingly being replaced by the technological tools.
2) It consists of **three layers with constricted middle layer.**
3) 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 middle level manager. A shrunken middle layer coordinates diverse lower-level activities.
4) Contrary to traditional middle level managers, **the managers in the hourglass structures are generalists and perform wide variety of tasks.**
5) It will help in cost reduction and simplifying decision making since decision making authority has direct access to the source of information.
6) Continuity at the same level may **bring monotony and lack of interest** and it becomes **difficult to keep the motivation levels high.** Organizations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards of performance.

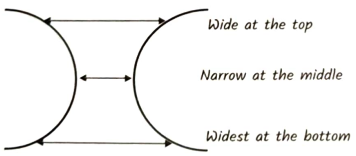
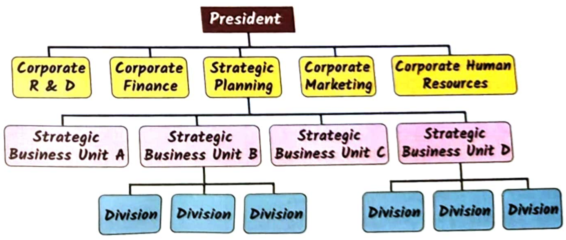


Figure : Hourglass Organisation Structure

22. SBU (STRATEGIC BUSINESS UNIT)

1) An SBU is a **grouping of related businesses,** which is amenable to composite planning treatment. As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way.
2) **The three most important Characteristics of SBU are:**
   a) **It can be a single business or collection of related businesses which requires separate planning and strategy.**
   b) **Has its own set of competitors.**
   c) **Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.**
3) The SBU structure is **composed of operating units** where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers.
4) The SBU structure consists of **at least three levels,**
   a) **Corporate headquarters at the top,**
   b) **SBU groups at the second level,** and
   c) **Divisions and functional level below each SBU** at the third level.
5) **The attributes of an SBU and the benefits a firm may derive by using the SBU Structure are as follows:**
   a) **A scientific method of grouping** the businesses of a multi-business corporation which helps the firm in strategic planning.
   b) An **improvement over the territorial grouping** of businesses and strategic planning based on territorial units.
   c) An SBU is a **grouping of related businesses** that can be taken up for strategic planning distinct from the rest of the businesses.
   d) **Unrelated products / businesses in any group are separated.**
   e) **Each SBU is a separate business** from the strategic planning standpoint. In the basic factors, viz., **mission, objectives, competition and strategy-one** SBU will be distinct from another.
   f) Each SBU will have its **own distinct set of competitors** and its **own distinct strategy.**
   g) **Each SBU will require a dedicated CEO** for the purpose of decision making and who has control of profit-influencing factors.; he will also have control over most of the factors affecting the profit of the SBU.



23. 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 can **originate anywhere**:

a) **From one influential individual, work group, department, or division,**
b) **From the bottom of the organizational hierarchy or the top**

Culture: ally or obstacle to strategy execution?

a) An organization's culture is either **an important contributor or an obstacle** to successful strategy execution.
b) The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy may or may **not** be compatible with its culture.
c) When they are **compatible**, the **culture becomes a valuable ally** in strategy implementation and execution.
d) When the **culture is in conflict** with certain aspects of new strategy, then the **culture may become a stumbling block** that impedes successful strategy implementation and execution

Changing a problem culture

a) Changing a **problem culture to align it with new strategy** is one of the toughest tasks for the management.
b) **It is very difficult** because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar.
c) It takes **concerted management action over a period of time to replace an unhealthy culture with a healthy culture** or to root out certain unwanted cultural obstacles and instil ones that are more strategy-supportive.
d) **Management needs to identify which aspects of present culture are not strategy supportive and which one are supportive.**
e) **Managers have to talk openly with all the people who are** concerned with corporate culture that needs to be changed.
f) The task of making culture supportive of strategy is **not a short-term exercise**. It may take a significant amount of **time to design and implement a new corporate culture.**
g) The **bigger the organization, the greater the cultural shift** will be needed to produce a strategy supportive culture. In large orgainsations, changing the corporate culture may take **2 to 5 years.**
h) It is usually **tougher to reshape a deeply ingrained culture** that is not strategy-supportive than it is to instill a strategy-supportive culture from scratch in a brand-new organization.

24. STRATEGIC LEADERSHIP

Managers have five leadership roles to play in pushing for good strategy execution:

a) **Staying on top** of what is happening, closely monitoring progress, discovering issues, and learning what obstacles lay in the path of good execution.
b) **Promoting a culture and esprit de corps** 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 a head of rivals in developing competitively valuable competencies and capabilities.
d) **Exercising ethics 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.

25. LEADERSHIP ROLE IN IMPLEMENTATION

A Strategic leader has several responsibilities, including the following:

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

26. TRANSFORMATIONAL LEADERSHIP STYLE

1) It use **charisma and enthusiasm** to inspire people to exert them for the good of the organization.
2) It may be **appropriate**
   a) **In turbulent environments,**
   b) **In industries at the very start or end of their life-cycles,**
   c) **In poorly performing organizations when there is a need to inspire a company to embrace major changes.**
3) Transformational leaders **offer**
   a) **Excitement,**
   b) **Vision,**
   c) **Intellectual stimulation and**
   d) **Personal satisfaction.**
4) They **inspire involvement** in a mission, giving followers a **"dream" or "vision"** of a higher calling so as to elicit more dramatic changes in organizational performance.

27. TRANSACTIONAL LEADERSHIP STYLE

1) It focus more on **designing systems and controlling** the organization's activities and are more likely to be **associated with improving** the current situation.
2) They try to **build on the existing culture and enhance current** practices.
3) This style **uses the authority** of its office to exchange rewards, such as pay and status.
4) They prefer a more **formalized approach** to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.
5) The style is **better suited** in persuading people **to work efficiently** and run operations smoothly.
6) It may be **appropriate**
   a) **In static or settled environment,**
   b) **In growing or mature industries, and**
   c) **In organizations that are performing well.**

28. STRATEGIC CONTROL

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

b) There is often a **time gap between the stages of strategy formulation and its implementation.**

29. TYPES OF STRATEGIC CONTROL

Premise control

a) A strategy is formed on the basis of **certain assumptions or premises** about organizational environment over a period of time, such assumptions may **not remain valid.**

b) It is a **tool for systematic and continuous monitoring** of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

Strategic surveillance

a) It is **unfocussed**. It **involves general monitoring** of various sources of information to uncover unanticipated information. It involves casual environmental browsing.

b) **Reading financial and other newspapers, business magazines, meetings, conferences,** discussions at clubs or parties and so on can help in strategic surveillance.

Special alert control

a) At times **unexpected events** may force organizations to reconsider their strategy.

b) **Sudden changes in government, natural calamities, terrorist attacks,** unexpected merger/acquisition by competitors, industrial disasters and other such events **may trigger an immediate and intense** review of strategy.

Implementation control

a) Managers implement strategy by converting major plans into **concrete, sequential actions** that form incremental steps.

b) The two basis forms of implementation control are:
   i) **Monitoring strategic thrusts:** It **help managers to determine** whether the overall strategy is progressing as desired or whether there is need for readjustments.
   ii) **Milestone Reviews:** All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It **normally involves a complete reassessment** of the strategy. It also assesses **the need** to continue or refocus the direction of an organization.

30. STRATEGIC PERFORMANCE MEASURES (SPM)

1) A **company's performance depends** heavily on **execution of strategy.** Companies that continuously outperform their competitors are those who execute well.

2) It is a method that **increases line executives understanding of an organization's strategic goals and objectives.**

3) It offers a **continuous system for tracking** organization's progress towards their objectives using clear cut performance measurements.

4) SPM's are **key indicators** that organizations **use to track the effectiveness** of their strategies and make informed decisions about resource allocation.

31. TYPES OF STRATEGIC PERFORMANCE MEASURES

1) **Financial Measures:**
   Revenue growth, return on investment (ROI), and profit margins, provide an understanding of the organization's financial performance and its ability to generate profit.

2) **Customer Satisfaction Measures:**
   Customer satisfaction, customer retention, and customer loyalty, provide insight about the organization's competitiveness and its ability to meet customer needs and provide high-quality products and services.

3) **Market Measures:**
   Market share, customer acquisition, and customer referrals, provide information about the organization's competitiveness in the marketplace and its ability to attract and retain customers.

4) **Employee Measures:**
   Employee satisfaction, turnover rate, and employee engagement, provide insight into the organization's ability to attract and retain talented employees and create a positive work environment.

5) **Innovation Measures:**
   Research and development (R&D) spending, patent applications, and new product launches, provide insight into the organization's ability to innovate new products and services.

6) **Environmental Measures:**
   Energy consumption, waste reduction, and carbon emissions, provide insight into the organization's impact on the environment.

32. IMPORTANCE OF STRATEGIC PERFORMANCE MEASURES

SPM's are essential for organizations for several reasons:

a) **Goal Alignment:**
   SPM's will **help an organizations align their strategies with their respective goals and objectives.**

b) **Resource Allocation:**
   It **will help an organizations** to make informed decisions about resource allocation, i.e. how much resources should be allocated to specify SBU's if they want to maximize the overall returns.

c) **Continuous Improvement:**
   It will **provide the organizations with a framework** that will help in improving overall business progress on a continuous basis.

d) **External Accountability:**
   It will **help the organizations in demonstrating their accountability** towards specific stakeholders. Organisation will be able to provide clear and transparent picture of entity's performance.

33. CHOOSING THE RIGHT STRATEGIC PERFORMANCE MEASURES

1) Organizations should choose SPM's that are **aligned with their goals and objectives** and they will help in providing relevant and actionable information.

2) While selecting the right measures, organizations should consider the following factors:
   a) **Relevance** of measure to the entity's goals and objectives.
   b) **Availability** of data i.e. the measure should be based on data that is readily available and can be collected and analyzed in a timely manner.
   c) **Data quality** i.e. the measure should be based on high-quality data that is accurate and reliable.
   d) **Data timeliness** i.e. the measure should be based on data that is current and up-to-date.

3) These measures **provide a way for organizations to assess the success** of their strategies, identify areas for improvement, and make informed decisions about how to allocate resources and adjust their strategies to achieve their desired outcomes.

4) Effective SPM's should be **relevant, meaningful, and easy** to understand and should be regularly reviewed and updated to ensure their continued alignment with the organization's goals and objectives.