



STUDY NOTE - 1

STRATEGY FORMULATION

This Study Note includes:

- **Corporate Vision and Mission**
- **Corporate Goals / Strategic objectives**
- **SWOT analysis**
- **Alternative and Level strategies**
- **Planning pr**

STEP 1: DEVELOP CORPORATE VISION

Vision statements are often considered as a brief answer to the question “What do we want to become?” It is a corporate dream which will have to be achieved over a long time horizon. Normally vision statements are contained in a single sentence. Former President of India, Mr. Abdul Kalama’s vision for India has been “That India should become a Super Power by 2020”, Fortune 500 Indian company, I O C, a public sector company has its vision as “A major diversified, transnational, integrated energy company, with national leadership and a strong environment conscience, playing a National Role in Oil Security and Public Distribution”. A non profit making organization like American Institute of Management Accountants has projected a Vision as “Global leadership in education, certification and practice of management accounting and financial management”.

Thus it will be seen that the corporate dream envisages an all embracing statement of the corporate ambition to excel in the defined areas.

STEP 2: DEVELOP CORPORATE MISSION

While the vision statements are qualitative it becomes necessary to identify the underlying purpose of the vision statement, quantify the targets to be achieved in a defined period. Such a statement is a mission statement derived from a vision statement. Key authors like Chander, Ansoff and Porter from the classic school believed that the interaction between environment and organization needs to be analyzed in a thorough manner with a planning perspective on maximizing profit. The evolutionary school authors like Hannen & Freeman however felt that such an analysis of the Environment *versus* the Organization is not full susceptible for analysis and forecasting. The Processuan School authors like Cyert, Marsh, Mintzberg and Pettigrew believed that the objectives of an organization are not always likely to be well defined as the outcomes are arrived at by internal political process of bargaining and learning. The systemic school introduced the importance of influence of culture and social processes. Authors like Granovetter and Marris advocated this approach. Another author Lynch as late as 2003 identified the steps for formulation of a mission statement:

1. Identification of the Nature of the Organizational Business
2. Identify the responses from the customers to the organizational business



3. The basic values and beliefs of the organization
4. Reflect the element of sustainable competitive advantage distinctive to the organization; and finally
5. The mission statement should emphasize on team effort and mutual respect between individuals

This statement attempts to define a companies operations in product source service and market terms or in other words a good Mission statement delineates “What is our Business” and describes the values and priorities of an organization. A strategic Manager has to apply his mind about the nature and scope of the present operations and to assess the potential attractiveness of future business activities. For instance Mission Statement of Microsoft runs as follows:

“Microsoft’s mission is to create software for the personal computer that empowers and enriches people in the work place, at school and at home. Microsoft’s early vision of a computer on every desk and in every home is coupled today with a strong commitment to Internet-Related technologies that expand the power and reach of the Personal Computers and its users, as the world’s leading software provider Micro Soft strives to produce innovative products of our customers’ evolving needs and at the same time, we understand that long term success is about more than just making great products. Find out what we mean when we talk about Living Our Values” ([www. Microsoft. Com/MSCORP/](http://www.Microsoft.Com/MSCORP/)).

A corporate mission should make the fundamental and enduring purpose of an organization clear and differentiate it from the mission’s of other organizations of similar nature. A mission statement establishes the values beliefs and guidelines for business plans and operations. These statements are normally based on three main plans:

1. The history of the organization: The red letter events of the part and the tradition linking these events along with the cherished values and beliefs will help formulating a mission statement.
2. Organizations’ distinct competencies: Identifying the distinct competencies of an organization where the company has an edge over other organizations. This advantage should be reflected in the Mission Statement.
3. The environment: The mission statement should take into consideration the opportunities available and the threats posed by the environment in which the company has been or expected to operate.

In short a perfect Mission statement should include:

- Definition of the business in which the company would like to grow
- It sets apart the company from its competitors
- It is inclusive in that all the stake holders are covered
- The behavioral characteristics of the organization flowing out of values and beliefs
- The purpose for which the organization exists
- Clarify the same and
- The mission statement should be inspiring.

While developing a Mission statement assumptions should be clear in the following areas:

- Product or Service to provided
- Technology to be utilized
- Degree of customers satisfaction, i.e., customer needs, satisfaction and delight
- Business ethics and projecting the companies image
- Rewards to the stake holders
- An inclusive approach regarding organizational inputs and support from other external stake holders to achieve profitability; and
- A top down commitment for excellence to be communicated to all stake holders

STEP 3: DEVELOP CORPORATE GOALS /STRATEGIC OBJECTIVES

To provide a specific direction to the company's mission statement would be to identify specific company goals. The four pillars of corporate performance, viz., profitability solvency, growth and sustainability will have to be quantified and targets set for the company the characteristics of the goals should be such that they are precise and can be measured, the goals should address essential issues and the time span required for such achievement. The salient features of goal setting a part of strategy are based on the following tenets:

- Financial as well as physical achievements
- These goals should be consistent and should not contradict; and
- As Lord Byron said "Our desire should extend our grasp or what else is heaven for", the goals should be set in such a way that they are not easily achievable and should harness the commitment and efforts fully.

Strategic objectives flowing out of mission statement in the broad areas of growth, quality, innovation and social responsibility have their own attributes and should be susceptible to measurement. The goal structure is pyramidal and is a top down flow:





These objectives perform five functions of the organization, viz.,

- Provide the frame work for planning
- Define responsibilities, vis-à-vis, the objectives at each layer of the organization and the responsibilities attached to these objectives
- The various objectives handed down to the different divisions, departments and sectors need to be coordinated and senior managers should ensure goal congruence through integration
- The objectives should cover all areas of the mission and must be spread over the entire organization. The objectives should also be both physical and financial, so that the entire organization as a team and as Individuals gets motivated
- Senior managers should continuously monitor and evaluate the performance of the various terms and individuals, through detection of deviation, measurement thereof, control and regulation.

Critical success factors

The performance of objectives depends on certain critical factors. Rockert and Hoffman felt that “the limited number of areas in which results, if therefore satisfactory will enable successful competitive performance”. These critical success factors can help formulating key performance indicators. However, analysis of critical success factors needs to be methodically approached:

- Identify the critical success factors for the strategy adopted by a particular company.
- Identify the distinctive competences required to gain a competitive edge in each of the critical success factors.
- The list of distinctive competencies so identified must be validated for adequacy to gain competitive advantage.
- Develop performance indicator for each critical success factor in the form of targets to be achieved, measured and controlled.
- The competitive strategy so developed should be immune from competitors
- Keep a continuous pulse monitor on the competitors move to comprehend the impact of such moves on the critical success factors already enshrined in the company’s strategy

Some of the objectives identified by a company are:

- Maximization of shareholder wealth, this broad objective can be translated into financial objectives like EVA, EPS, Growth of Gross Assets, etc. Non financial objectives like monitoring consumer feedback in terms of consumer complaints, physical productivity targets, labor turnover, etc., can bolster the performance characteristics
- Achieve customer satisfaction through robust quality, through achievement of zero defects. This objective can be measured by financial parameters like cost of quality, broken up into prevention cost, appraisal cost, internal failure cost and external failure



cost. The non financial approach can be through the measurement of number of defects per 1000/units, number of repeat purchases, etc

- Social objective of the company can be based on elimination of discrimination due to race, religion and caste, reduce environmental pollution and provide a safety net. This objective can be measured through key performance indicator like work force composition, cubic meters of waste, particulate matter in atmosphere, etc

Developing objectives defers with the nature of the organization, viz., profit making corporations, public and private, non profit making organizations (NPO), etc. Non profit making organizations normally develop their objectives on the basis of the composition of the stake holders and the innate contradictions that prevail among them leads to a necessity for developing a consensus in setting strategic objectives through participation. Again the objectives are influenced by the fact that the fund providers are normally different from the beneficiaries of the NPO. Besides, the priorities of NPO also change due to exigencies of environment. However, the key performance indicators will be the effectiveness of the NPO in reaching out to the beneficiaries, efficiency of the NPO in speedy, timely delivery of service. The Third indicator is economy or the cost of operation of the NPO evaluated on the basis of Unit Cost.

Resolving conflicting objectives

Existence of a corporate body in an environment bounded by social, political, economic and technological developments is bound to have competing objectives arising out of the following:

- Balancing between profit maximization and social responsibilities
- Incongruence between goals of different stake holders
- Mismatch of Internal Goals.

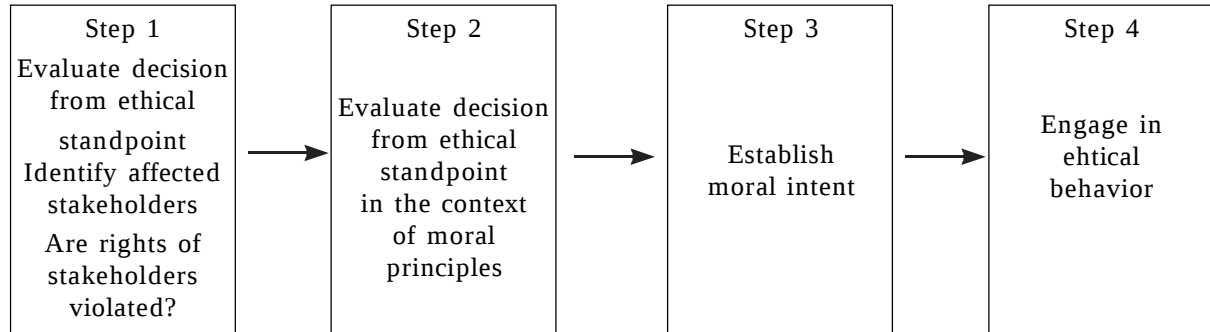
These problems are usually resolved by adopting the following techniques:

Ranking: Managements can rank the various priorities and try to achieve a balance through setting particular levels of achievement, e.g., a target level for ROCE, as against a target for pollution control expenditure to meet their social responsibilities to the society.

Weightage: The above ranking can be made more meaningful by according different weights to the priorities, and the weighted score can be compared.

Composite Measures: Effective tools like balancing score card can be used to gauge the impact of performance both physically and financially.

Formulation of goals should also take into account following responsibilities arising out of: ethical, discretionary, legal and economic areas. The ethical approach dictates what the company should do while the discretionary approach leaves enough elbow room. The legal responsibility lays down what the company has to do. While the economic obligations determine “the must do objectives”.

**A Model of Ethical Decision Making**

Source: Charles WL Hill and Gareth R Jones, Strategic Management – An Integrated Approach, Text and Cases, 4th Ed. 2002, p.62

STEP 4: COMMISSION SWOT ANALYSIS**1. Environmental consciousness**

Business should be conducted in a way that preserves natural environment. For a good business it is fundamental to respond to the following factors:

1. Consumer Demand for environmentally safe products has become a necessity
2. There is a growing resistance against pollution of the environment from the society
3. This resistance is directed into environmental advocacy troops all over the world
4. Statutory regulations for preserving environment and pollution control are preserving environment and pollution controls are becoming more stringent
5. Funds providers are also particular about the environment liabilities of the company seeking loans
6. Stake holders hesitate to do business with environmentally weak firms
7. Litigations due to violations against statutory environmental requirements are on the increase. So many corporate bodies are becoming environmentally proactive which would mean that they integrate the factors and the limitations of the environment in their strategies for improving efficiency and effectiveness.

Earlier corporate bodies functioned under a reactive environmental policies leading to swelling pollution control costs facing liability suites. Latterly, a proactive policy is taking shape taking into consideration the pressure from the environmental groups, developing green products, converting waste into usable products, recycling, etc.

The purpose of SWOT Analysis is to define the approach to a strategy for the company to be formulated in such a manner the strategy fits the environment. In other words SWOT Analysis which embraces both external and internal analysis are attempted so that the corporate body is able to develop a strategy which is suitable and provide proper notes of music with the environment instead of creating noise.



The three major outcomes from such an analysis are:

- Matching the company strengths to take advantage of the opportunities in the market place E.g. Converting fast food stands to full time restaurants
- Converting threat or weakness into an advantage.
- Eliminate the weaknesses that expose the company to external threats.

Another alternative to SWOT Analysis is TOWS Analysis identified by Vweirich (1982). Strategic options are framed in the form of a matrix with 4 quadrants as below:

- S O Strategies: Matching the strengths to opportunities
- S T Strategies: Utilize company's strengths to mitigate threats
- W O Strategies: Exploit opportunities accepting weaknesses
- W T Strategies: A defensive approach to minimize weaknesses and threats

2. External analysis

An analysis of opportunities and threats arising out of external environment is a must for developing a type of strategy a company should develop. As part of the SWOT analysis external analysis identified industries opportunities and threats while the internal analysis concerns itself with strengths and weaknesses.

Opportunities are created as a result of certain favorable conditions in the environment leading to greater profitability. Sudden demand for a particular product combined with sops from the government can be seen as an enormous opportunity for fresh enterprises to start producing that product. In the same manner threats can arise when excess capacity exists in an Industry creating a threat of price war due to decline in demand for the product.

For proper appreciation of opportunities and threats facing the Industry it is necessary to proceed methodically to analyze the industrial environment.

Firstly, its concepts and tools will have to be developed properly to explore the competitive structure of the industry for identifying opportunities and threats.

Secondly, analysis of the competitive strategies by different companies within the industry can be a pointer to future implications.

Thirdly, evolution of the Industry over the passage of time and the implication of changes which happened along side can project a future perspective.

Finally, the impact of macro environmental forces on the Industries structure needs to be examined for likely opportunities and threats.

Michael E.Porter's Five Forces Model is one of the basic models which are used to identify opportunities and threats. The five forces can be enumerated as

- Risk arising out of potential competitors entering the arena
- The intensity of rivalry among the existing companies within the same Industry
- The bargaining power of vendors supplying their materials, components and services



- The bargaining power of the buyers; and finally
- The threat from possible substitutes to the existing product.

Andrew Grove former CEO of INTEL has identified a sixth force, the “complimentors”. Complimentors are firms that market products which add value to the products of an Industry when used together to satisfy the customers remarks in a better fashion. An example is the success of personal computers improving with the increased supply of high quality software applications that could be run on personal computers. Non availability of proper complimentors can also become a threat to an unique product produced by an Industry for lack of adequate utilization.

External analysis needs to identify strategic groups within the Industry, e.g., generic group or proprietary group to determine the type of internal rivalry. Another aspect to gauge the evolutionary development of the industry it will be useful to understand the Industry Life Cycle Analysis.

The Industry Life Cycle Model identifies five sequential stages, viz., embryonic, growth, shakeout, mature and decline. At the embryonic stage the buyer is still not fully aware of the Industry’s product as the Industry has still not been able to produce the product at an affordable price and also not available through normal channels. At the growth stage demand expands rapidly and the customers are in a position to know about the product fully and buy the product at affordable price due to economies of scale. During these periods of growth impact of internal rivalry in an Industry is not significant. Rapid growth is not sustainable and demand gets saturated, at this point of time rivalry heats up and there is a shake out threatening inefficient companies to be shaken out. When the Industry enters the next stage of maturity the market is already saturated. As such threat of fresh entry from potential competitors is minimal. In the final declining stage when growth becomes negative normally substitution takes place. Social habits or change of fashion affect the demand. Social habits or a change of fashion affect the demand. Survival of the existing units becomes difficult. This often develops into intense internal rivalry.

To sum up it would be necessary that SWOT analysis of a particular company in an Industry needs to specify and examine the stage at which the Industry is passing through. This stage will indicate the types of opportunities and threats that may pose themselves.

The Macro Environment analysis involves environmental impact assessment and environmental segmentation. This analysis includes factors arising out of political, economic, socio cultural, technological, ecological and legal scenario.

Political forces result due to changes in countries statutes and regulations. As political processes culminate into rules and regulations, opportunities as well as threats are created. For, e.g., Industrial licensing has been entry barriers in India warding of potential entrants, however, the same barrier brought in intense rivalry within the existing companies as the industry passed through its life cycle. Besides deregulation has thrown open many opportunities in a growing industry and favorable tax laws has created new opportunities. Again the form of Government be it capitalistic, socialistic or totalitarian instilled fear or hope in the minds of entrepreneurs as to the threat of governmental intervention or favorable opportunities due to Government policies.



Economic environment can be a major factor affecting any Industry, the growth rate of economy, fluctuating interest rates, inflation or deflation, consumerism, etc., tend to control demand and supply situations. Business cycles like Boom, consolidation, stagnation, recession and recovery have had tremendous impact in posing threats and creating opportunities. With the opening up of global economy in the last decade, inflow of foreign capital or flight of foreign capital has been witnessed mainly due to changing economic environment in many countries with a sustained growth in GDP.

Social forces are the outcome of cultural, moral and societal values which change due to geographic, religious and customary outlook. Many industries which have started entering cross border activities failed to gauge this environment and had to re enter the same environment with a change philosophy. Example is abounding in this area, NIKE in China, KENTUCKY CHICKEN, McDonalds in India due to resistance from the local population. Tobacco industry is another industry which is facing a decline to greater awareness of the deleterious effects of the tobacco on the human health.

Technological forces have had grating impact on high technology industries rather than lower technology enterprises. Rapid technological obsolescence has been a feature especially in the IT industry leaving many enterprises on the way side as they could not adopt quickly enough changing technological environment. Any new technology aims either at a substitute or cost reduction. A definite threat shapes up with the adoption of a new technology by a competitor. In some cases the industry itself has become extinct due to the advent of new technology, e.g., the natural Indigo industry phasing out with the induction of artificial Indigo. Again the miniaturized transistor technology drove out radios with big valves. Frontier technological breakthroughs have also created many new opportunities and as such the life cycle of a technology also becomes relevant in the external analysis of a particular industry.

Ecological Scenario: In the various types of Industries coming up, the products, by products, by products and Industrial waste products by such industries have become a threat to the surrounding population. The three forms of pollution caused by solid liquid and gaseous effluence has been addressed by specific agencies like Pollution Control Board an organ constituted by Government. These agencies function under specific protection laws draw up tolerance limits and also specify methods of disposal of Industrial Waste. Depending on the type of Industry of which the firm belongs ecological factor assumes great significance in developing strategies, e.g., converting Industrial Waste into usable raw material. Thus avoiding not only pollution, but convert a waste into profitable raw material.

Legal Scenario: Each country has a gamut of legislation relating to formation of companies, conduct of companies, industrial disputes, workman's compensation, monopolies and trade practices, etc. These statutes become very important especially in the context of globalization where cross border activities like contract manufacturing, contract research, business process outsourcing, exports, imports, etc., have been the order of the day. Intellectual property rights product liability suites, etc., need to be fully understood before developing strategies.

3. Internal Analysis

Having identified the Goals and Objectives, it becomes necessary to understand the company's capabilities vis-à-vis the environment. A SWOT analysis is a most sought after methodology to analyze internally, the strengths and weaknesses of the company. The internal analysis is carried out in three phases.



First Phase: Understanding the process by which the company creates value for the customer while earning a profit for the company. For this purpose the company needs to know the role of resources, capabilities and distinctive competencies in this process.

Resources can be financial, physical, social, technological or organizational capital that helps a company to create values for the customers. These resources can be both tangible resources like money, machines, materials, etc., and intangible resources like formation of the company, brand equity, intellectual property including patents copyrights and trade marks.

Capabilities on the other hand refer to the company's ability to coordinate its resources and harnessing them to productive use. These skills are normally evolved through policies, procedures, routines and rules. Thus capabilities are intangible in that they are exhibited through interactions co-ordinations, co-operations and decisions.

Distinctive competencies of which resources and capability form part, build and shape strategies to achieve competitive advantage which leads to superior profitability. So, fundamentally a company's profitability is derived from three factors

- The value perceived by the customers on the companies products
- The price that a company can afford to charge and
- The total cost that the company incurs for creating such value.

Second Phase: Comprehension of the importance of superior efficiency innovation, quality and responsiveness to customers for creating value for the customer and earning good profits for the company.

Value creation can be possible through either differentiation or cost leadership for while the four pillars of superior efficiency, quality, innovation and customer responsiveness are firmly erected. A thorough assessment of the above factors analyzing the company's performance over a period of time can be a pointer towards the development of a particular strategy.

Third Phase: Analysis of the sources of the company's competitive advantage to identify the drivers for the profitability of the company as also the opposition for holistic improvement. As part of internal analysis the relevant activities from the value chain, viz., research, development, production, marketing and sales and customer service are analyzed for identifying distinctive competencies and competitive advantage.

Competitive advantage is defined as the advantage enjoyed by the company over its rivals by virtue of greater profitability over the average profitability of the Industry. A sustained competitive advantage is possible when the company is able to maintain the above advantage over a number of years.

Distinctive competencies are company specific strengths to differentiate its products and / or achieve significantly lower cost than its competitors, thus gaining a competitive advantage. These competencies can be manufacturing technique, inventory control systems, optimizing cycle time, evolving innovative marketing techniques or establishing a well oiled net work of distribution. The distinctive competencies evolve out of two main sources, viz., resources and capabilities.

In short, the above 3 phases should finally identify how as to how the strengths of the enterprise can be harnessed to enhance its profitability while estimating or mitigating the weaknesses which result in lower profitability. This analysis could also amply accepting an inherent weakness and converting the same into strengths.



While this internal analysis is carried out it is essential that the factors that influence the durability of competitive advantage are identified. Besides it will be useful to know why even successful companies lose their competitive advantage frequently. Also to develop a methodology to prevent competitive future while sustaining the existing competitive advantage over a period of time.

STEP 5: DEVELOP STRATEGIES

The alternative strategies that are available for selection based on the company's vision, mission on corporate goals and SWOT Analysis.

Alternative strategies

Strategy	Definition	Example
1. Forward Integration	Enhancing ownership and control over downstream products and distribution of the same.	Sugar Industry, Alcohol and portable spirit along with various distribution outlets.- EID PARRY LTD
2. Backward Integration	Gaining ownership and control of raw material and components supplies.	Iron & Steel Manufacturer gaining control over Iron Ore mines and coke ovens.- TISCO
3. Horizontal Integration	Increasing ownership and control over competitors.	Acquisition of Cement Companies of competitors.- INDIA CEMENTS LTD
4. Market Penetration	Gaining increased market share for present products or services in present markets through improved marketing efforts.	Introduction of daily newspapers in the present market at a penetration price.- DECCAN CHRONICLE
5. Market Development	Positioning present products or services into new geographic area.	Introducing existing brands of potable liquor in other countries.- KING FISHER
6. Product Development	Increasing Sales by improving present products or Services or Developing New Items.	Consumer Industry in India has developed many new products. HINDUSTAN UNILEVER & PROCTER AND GAMBLE
7. Concentric Diversification	Providing new but related products or services	Automobile manufacturers offering financial services to buy their products – MAHINDRA MAHINDRA & SHRIRAM GROUP.

STRATEGY FORMULATION



Strategy	Definition	Example
8. Horizontal Diversification	Introducing new unrelated products or services for present customers	Petrol bunks providing Departmental Stores.-IOC Ltd.
9. Retrenchment	Restructuring thro cost and asset reduction to arrest declining profitability	Introducing Voluntary Retirement Schemes, Regrouping activities, etc.- EID Parry Group in 1980s.
10. Divestiture	Selling a division or part of the company	Hiving of fertilizer activity. EID Parry Group Selling to Coromandel Fertilizer.
11. Liquidation	Selling all the companies assets in parts for their Tangible Worth	Sick companies being sold.- BINNY LTD. & STANDARD MOTORS, etc.

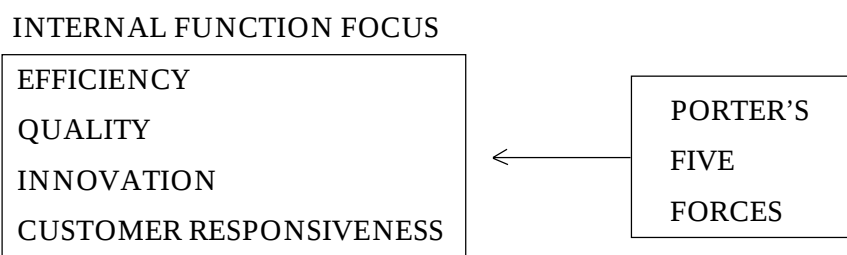
These alternative strategies can be grouped under FOUR heads as follows:

- Functional Level Strategy
- Business Level Strategy
- Global Level Strategy and
- Corporate Level Strategy.

	Forward Integration	Backward Integration	Horizontal Integration	Market Penetration	Market Development	Product Development	Concentric Diversification	Horizontal Diversification	Retrenchment	Divestiture	Liquidation
Corporate Level Strategy	✓	✓	✓				✓	✓	✓	✓	✓
Global Level Strategy	✓	✓	✓	✓	✓						
Business Level Strategy				✓	✓	✓	✓	✓		✓	
Functional Level Strategy				✓	✓	✓					

Functional level strategy

Companies do not operate in vacuum. Michael Porters Five Forces Model exemplifies the changing solutions in the life cycle of a product.



Functional level strategy

The change management has to be both internal and external. Functional Level Strategy aims at harnessing the internal strengths and eliminating the weakness. These strategies are focused on the effectiveness of a Company's operation to

- Achieve superior efficiency
- Quality
- Innovation and
- Customer responsiveness

The distinctive competencies of a company can identify the functional level strategies that a company can follow. Recently the Indian Railways have been following functional level strategies to improve its efficiencies, reliability and customer satisfaction. Indian Railways have improved safety through introduction of state-of-art technologies for signaling, removing congestion at terminals by increasing number of platforms as also opening new terminals. Indian Railways are opening ATMs in important terminals, providing E-Tickets and I-Tickets, providing reservation through computers for all stations, etc., thus improving customer satisfaction. Indian Railways are planning to introduce a separate corridor for transporting goods so that this area becomes time sensitive.

Achieving Superior Efficiency

Superior efficiency could be achieved by improving productivity as well as through application of value engineering in providing alternative raw materials. This should not compromise quality.

De-bottlenecking: Increase output through synergy as well as effective utilization of capacity without any increased fixed cost. This process reduces cost of the production significantly. Application of Theory of Constraints is a pointer in this direction to remove the bottle neck and effectively increase flow of materials through all processes thus increasing output.

Another avenue for achieving Superior Efficiency is to tap the Learning Effects. These effects are savings in costs that derive from learning by doing for e.g., a laborer learns through repetition as to how best he could perform a task. Effects of learning can be plotted on a curve known as Learning Curve. Studies have been instituted to understand the aspects of learning effects and to improve training, education of labor, under Indian ethos this approach is known as "SAMAVAYA" which is holistic to include the 5Ws and 1H, viz., WHAT, WHO, WHEN, WHERE, WHY and HOW. Studies have been conducted in manufacturing and services areas. It was noted that learning effects proved very beneficial whenever processes had complex steps like assembly processes, chemical processes, etc. In the area of services



studies conducted in the health care industry proved that mortality rate came down significantly with the Learning Curve. However, it is to be noted that the effects of learning will phase out for a particular type of process when the laborer has repeated it over a period of two to three years. Learning process starts again with a change in the process introduced externally. Superior efficiency can also be achieved through Experience Curve. Those who have already gone through their Learning Curve are now in a position to apply their experience to analyze the process into value adding activities and non value adding activities. They also understood the changes that occur during the life of a product. The experience curve thus synthesizes the expertise developed through the Learning Curve and experience with the knowledge of variations happening through the life cycle of a product. This approach leads to systematic reduction in cost leading to a holistic effect on the cost structure over the entire life cycle of a product. According to Experience Curve concept the volume of a product produced during the life cycle increases dramatically. In other words Experience Curve phenomenon is the culmination of economics of scale and Learning Curve. This concept is really significant in Industries that adopt mass production of standard products like sugar, commodity chemicals, semi conductor chips, etc. With the globalization of markets and the options available in the 21st Century, achieving superior efficiency through flexible manufacturing systems and mass customization has brought in radical changes. The concept of flexible manufacturing technology also known as lean production encompasses a range of production technologies. Designed to optimize cycle times, reducing setup times for complex equipment (SMED), analyze actual processing time by application of Learning Curve and Experience Curve, minimize move time through scientific and technological management and eliminating idle time due to assignable internal causes. Another advantage derived from flexible manufacturing technologies is that the company can also customize its product offering to a much greater extent than was initially possible. The terminology of mass customization is oxymoronic in that the two incompatible concepts of low cost and differentiation can be achieved. However, flexible manufacturing technologies are more sophisticated and complex as they have to integrate different activities lending to a process adopting technological, behavioral, and economical and purist concepts. TOYOTA developed the flexible manufacturing technologies by identifying initially the major draw backs, viz., massive inventories, wrong machine settings, inability to accommodate customer preferences. These three areas were analyzed by number of techniques using flexible machines cells and cross functional groups to comprehend the impact of technology, human behavior and cost elements. Achieving superior efficiency through marketing strategy entails reducing customer defection rates. These defection rates are dependent on the ability of a company to satisfy its customers. Lower defection rates helps the company to achieve a lower cost structure by spreading fixed costs on a larger repeat purchases from a loyal group of customers. Superior efficiency in the area of materials management has been one of the most sought of during the last decades. It has been due to the awareness that a total purchasing cost and the holding cost could be as high as 50% of the material cost itself. Application of simple technologies like Economic Order Quantity (EOQ), lot sizing, Material Requirement Planning (MRP), KANBAN systems and just in time inventory concepts and Electronic Data Interchange (EDI) have largely revolutionized material management. These concepts have extended themselves into supply chain management which embraces the management of the flow of inputs of components from the suppliers into the manufacturing arena to reduce inventory



holding, maximize inventory turnover and reduce total cycle time. Superior efficiency in the sphere of research and development is another aspect engaging the attention of global giants. Both fundamental and applications research have been instrumental in adopting a triple combat for attaining cost leadership, focus and differentiation of products. The various steps adopted in managing research and development will be dealt with in greater detail under Innovation. Superior efficiency in handling human resources impinges on the hiring strategy, employee training and education as also creating self managing teams. Hiring strategy is important in that identification of employees who share the values of the company and develop the same wave length. Hiring strategy also should be consistent with the goals of the company and the attributes that are required must be clearly defined. Employee training is one other area which has come a long way in improving efficiency thus not only making the employee learn as to how he should perform, but also as to why he has to perform. He is also to be educated on the holistic aspect of the product or service the company offers and the customer requires. The making of self managing teams which coordinate their own activities are being much on the lines of Self Help Group (SHG) which have been developed presently in the Indian contexts. Self managing teams in a company improve, team work, revise schedules, empower themselves in regard to quality improvement, inventory reduction and process improvement on the other hand self help groups are entrepreneurial and form their own small productive activities or offer services on their own. Achievement of superior efficiency in an organization has been enhanced through the I.T. Reduction. Information systems and their virtual products of time have dramatically increased with rapid decision making made possible through decision support systems and knowledge solutions. Finally infrastructure required for any organization should facilitate commitment to efficient right through the organization. Proper infrastructure is essential for a smooth coordination of all functions leading to superior efficiency.

Attaining Superior Quality

Attaining Superior Quality increases the reliability of any organization from the narrow definition of quality. Being the sole responsibility of a production team in an organization has now transpired to that real superior quality can be achieved only with the total commitment of entire organization. The awareness that the entire organization has its role to play, each function has to contribute and be responsible for a particular aspect in the achievement of a superior quality. For instance, the materials management function has to be both efficient and effective to make available raw materials and components of the desired quality, the human resources function has to educate and train the employees, how to prevent defects rather than correcting and reworking on defects. The finance function has to ensure availability of funds in time, improve efficiency of utilization of funds, suggest and implement cost reduction measures as also provide information on time for concurrent correction action in the various functions. The marketing function needs to keep the fingers on the pulse of customers through after sales service, identifying their needs graduating to satisfaction and thereafter enjoy the delights of the product or service. Customer response should be analyzed by the marketing function through quality functions deployment for any possible design modification for improving quality. All this awareness of this entire organization is embedded in the total quality management concept. Quality of a product has three major aspects, fitness for purpose, reliability and retentivity. All these three are to be weaved into their



entire fabric of the organization following a 5 Step implementation. Enhanced quality can be interpreted as

- Decreased cost of quality through less re work, fewer mistakes, reduced delays and effective use of time and materials
- As a result productivity improves
- Superior Quality leads to increase in market share and the company is in a position to ask for a premium
- Decreased cost of quality increases company's profitability and sustainability
- The company can provide more jobs through further growth.

Innovation

It is clear that organizations, products and services have their own life cycles. Survival of the fittest and sustained growth can be achieved only through proper change in management. Economies change because of natural development and calamities. Growth of Demographic forces and their needs require change in customs and practices, etc. "The old order changed yielding place to new and God fulfils himself in many ways, lest one custom should corrupt the world".- Said Lord Tennyson reflecting that the natural ethos of the society is change in a society or any walk of life comes through innovation. In the corporate world innovation is the most important source for creating competitive advantage. Innovation can result in creation of new products that can satisfy a customer, can improve the attributes of the existing products or services as also reduce the cost of production to offer customers at affordable prices. The competitive advantage arising out of innovation can be through differentiation of products and avail a premium or improve profit margins through cost leadership by adopting innovative value engineering and value analysis methods. However, not all innovations have been successful and high mortality rate of innovations have been traced to uncertainties, poor commercialization, improper positioning strategies, myopic approach to technologies and inordinate delay in offering product/ services. This failure rate can definitely be reduced drastically through methodical approach of value engineering and value analysis.

Creativeness and Innovation in industry have never been unimportant, but they have never been as important as they are now. The reason is quite simple – IT IS THE PACE OF CHANGE.

Two areas where change must dominate the thinking:

1. Technology
1. Market

What can be produced and what people want to buy, supply and demand. Technological advance is constantly bringing new possibilities into range, either new techniques, processes, and materials, or old ones at new low prices which make it possible to use them on new products.



Customer demand is also constantly changing as people become wealthier and can afford new products or as advances bring products within their range.

“Success in life is a matter not so much of talent or opportunity as of concentration and perseverance.”

– C. W. Wendte

Innovative project should be structured properly to include the following steps:

Project selection should be made after a brain storming session of a group represents a cross section of a company as also include experts in a field drawn from external sources.

The project so identified should be able to produce or innovate a product / service in a foreseeable future, i.e., 2 to 3 years, as the life cycle of a product / service is reducing very rapidly and technological obsolescence sets in very easily.

Cross functional integration is extremely important in that the product identified is driven by customer needs; articulated or unarticulated, manufacturability of the new product is assured on a commercial scale. Development costs are held under check through quality function deployment and different milestones leading to commercialization are fully understood by all the members of the cross functional team.

Achieving Superior Customer Responsiveness

Lost but not the least the aspect of customer responsiveness has assumed enormous significance in the globalization of the markets. Options available to the customer in the market place are many and the competition is looming large. Customer responsiveness is an important differentiating attribute which is the foundation to build Brand Loyalty. Customer focus is the first step in understanding the minds of the customer, his attitude to the company's products, shaping his opinion and views towards the company. For creating a proper customer focus a top to bottom exercise has to be initiated with the top management of an organization providing a necessary leadership. A strong leadership should percolate in such a way that the employee attitudes change from a “push philosophy” to “pull philosophy” responding to the needs of a customer. The next step would be to bring the customers into the company by building the necessary public relation. This would help the organization understanding the customer and the customer knowing the company its product better. This can be brought about through customer meets, soliciting customer opinions through questionnaires and through awareness campaigns. After being created a customer focus comprehending the customer needs, the company moves fast from meeting the customer needs to customer satisfaction and thereon to customer delight. This has also been identified in the Bhagavat Geetha as Dharana (Needs), ‘Poshaka’ (Satisfaction) and ‘Bhogya’ (Delight). These three are milestones which have to be achieved through Superior Responsiveness to the customer by (a) customization and (b) Response time. Customization represents identification of the unique needs of groups of customers and offering to satisfy those needs and wants. A consumer surplus in the economic sense will add value to the perception of the customer and his delight is ensured. Offering more value in terms of the customers’ perception for the price he has offered is the real dictum of customization. Responsive time is equally important as “Stitch in time Saves Nine”. Customer needs will have to be satisfied both in time and on time. A delay in supply of goods or services may prove catastrophic. For instance by providing



health care in the form of intensive care to a patient in a hospital has to be time bound as otherwise fatality is bound to occur. Again in the restaurant a hungry customer will not be ready to wait unless services are responsive to satisfy his needs when he requires. The time factor in responding to the customer needs cannot be over emphasized as the money value of time is immense. Reducing response time again has to be approached methodically to inculcate it as a natural attribute of the company. This can be obtained through three steps:

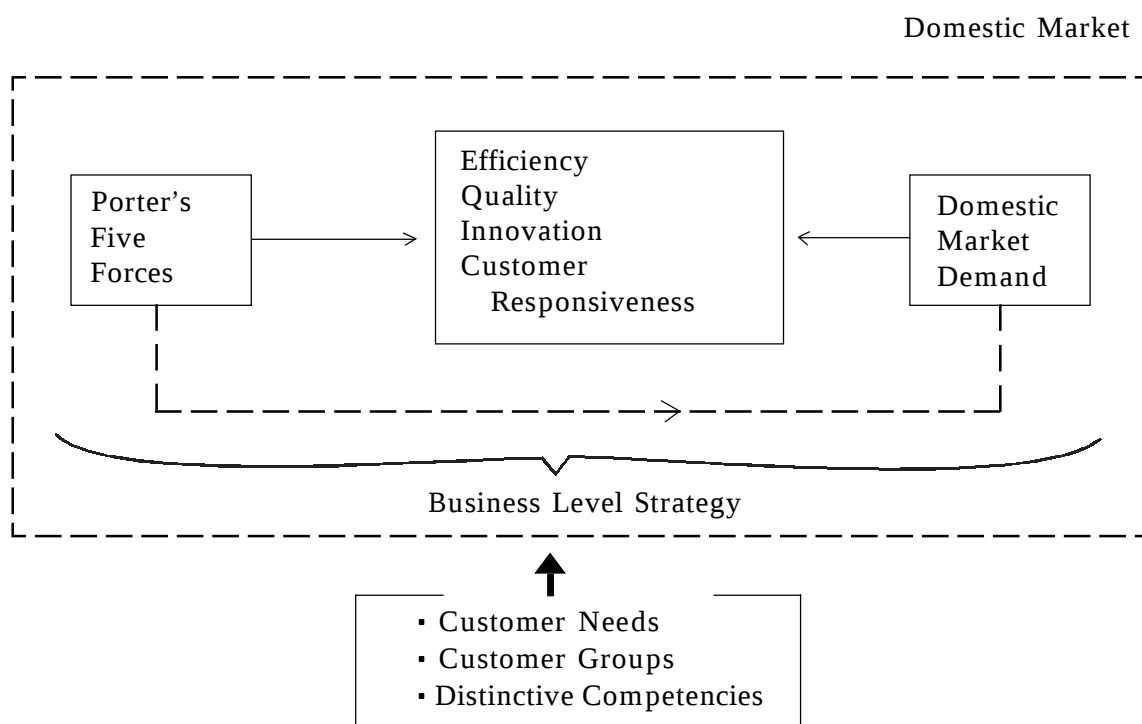
- Quick communication of customer requests to the relevant function of the company.
- Schedules of production and supply need to be responsive even to the unanticipated customer demands
- Information system will have to be devised for online and real time decision making.

Thus the functional strategy attempts to achieve superior efficiency, quality, innovation and responsiveness to customers through improvement of internal efficiency and effectiveness of the organization.

Business level strategy

Functional level strategies are instrumental in lowering costs and lend stability to a cost structure of a product or service as required by a business strategy or in other words the results of functional level strategies are inputs to a Business level strategy.

Business level strategies can be different according as how a company endeavors to create value for customers. Dynamics of a business level strategy is entirely based on industry competitive structure flowing out of Michael Porter's Five Forces model and market Demand.





The main focus of business level strategy is to develop a firm specific business model to enable a company to achieve competitive advantage over its rivals. This strategy entails identification of

- Customer's needs
- Customer Groups and
- Distinctive competencies which are needed for satisfying the customers.

Customers Needs

Customers' needs are determined by the price of the product and the way a product is differentiated from similar products. TOYOTA addressed differentiation successfully in the Luxury Car Range. In the area of technical design Mercedes Benz and BMW succeeded in introducing differentiated design.

Customer Groups

Identification of customers groups is done through market segmentation. Price has been one of the main factors for segmenting customers. In general three different strategies are available for market segmentation. First method is to recognize an average customer instead of specific or niche groups. Secondly, identify niche groups and develop; specific products to meet their requirements. For example Sony offers more than twenty different models of Television Sets targeting different niche groups. Thirdly the company chooses to identify only one or two niche groups and address their requirements, e.g., Luxury Car Segments. These strategies have to be selected based on the nature of the product and nature of the product and nature of the Industry.

Distinctive Competencies

Distinctive competencies need to be developed for achieving the differentiation required and such competencies can be developed through a proper dove-tailing functional level strategy to their business strategy for achieving superior efficiency, quality, innovation and responsiveness to the customer.

The dynamics of business level strategy depends on

- How to differentiate and price the product
- Timing and the quantum of segmentation in the market; and
- Quantification of investment regard for developing distinctive competencies

The dynamics starts with pricing option through differentiation which is dependant on competition on the one hand and the estimated market demand on the other. The kind of differentiation and the quantum of demand for such a product would determine the target price at which the differentiated product can be positioned. The Functional Level Strategy dovetails itself to the Business Level Strategy by producing the differentiated product with Superior Efficiency, Quality, Innovation and the Responsiveness to Customer at the targeted cost allowing for sufficient profit margin.

The generic Business Level Strategy offers 3 different strategies, viz., cost leadership, differentiation and focus.

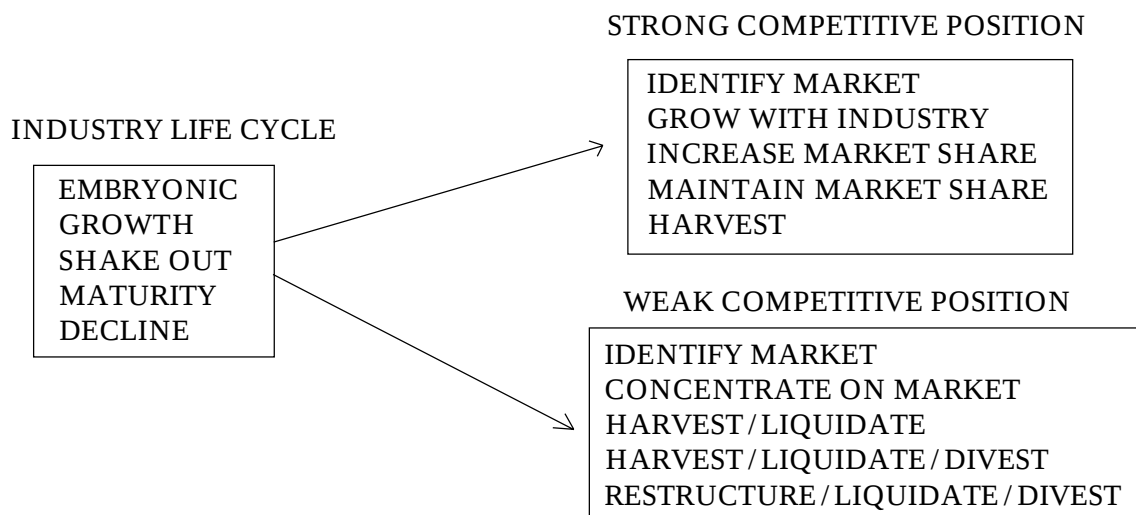


Product / Market/ Distinctive Competency choices and Generic competencies Strategies

	Cost Leadership	Differentiation	Focus
Product Differentiation	Low (principally by price)	High (principally by uniqueness)	Low to High (price or uniqueness)
Market Segmentation	Low (mass market)	High (many market segments)	Low (one or a few segments)
Distinctive Competency	Manufacturing and materials management	Research and Development, sales and marketing	Any kind of distinctive competency

Choosing investment strategy at the business level

Choosing an Investment Strategy at the Business Level depends on the quantum and types of resources to maximize company's profitability. For this purpose it becomes necessary to identify the stage at which the industry's life cycle is poised and whether the particular firm is in a strong competitive position or weak competitive position.



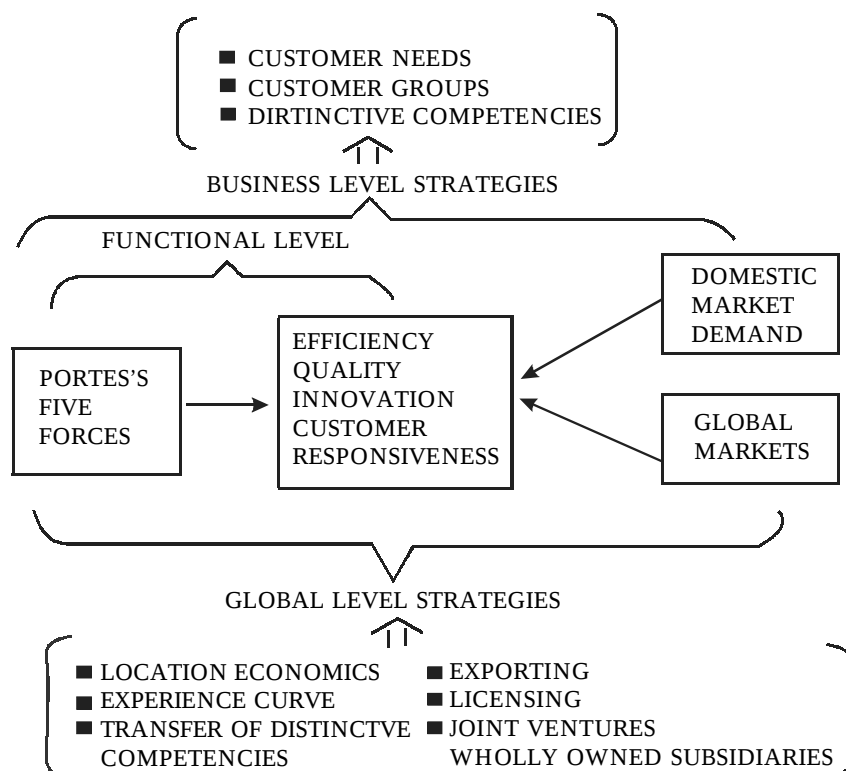
In the embryonic stage the focus will be on building the market share. Whether the company is strong or weak in the growth stage it will be necessary to sustain a competitive advantage through increasing investments. If the company happens to be in a weak competitive position it may have to concentrate on the market to maintain its market share. In the shake out stage between growth and maturity stages the stronger companies will place emphasize on

increasing the market share while the weaker ones may think of harvesting on liquidation. The strong companies will consolidate and maintain the market share in the maturity stage while the weaker ones may have to resort to disinvestment. In the final dying stage the stronger companies could go for harvesting and the consequential asset reduction while weaker ones will either adopt a turnaround strategy or phase out.

Global level strategy

The developed countries having created world class manufacturing facilities that adequate was not forthcoming due to stagnant or declining population in that countries so they started searching new markets in the developing and under developed countries towards the end of 20th century. With the advent of I.T. Revolution, Communication became extremely rapid and quick decision making became possible. The strategies required to operate in different countries across the globe called for a new type of strategy on the global environment. Thus the global strategies depended on two major issues, viz.

- Decision making in regard to geographical markets, timing of such an entry and their scale of such an entry and
- The ways and means a company should utilize to enable such a foreign investment.





Decision making

This depends on

- Location Economics
- Experience Curve
- Transfer of Distinctive Competencies.

Location economics

A proper assessment of the economic benefits that could arise by entering optimal location for the activity would be the first step. This assessment can indicate as to whether the company should adopt a cost leadership or differentiation strategy, e.g., Hyundai entering the Indian Market in the Low Cost Car Segment.

Experience curve

Utilizing the local pool of employees through the learning effects and through economies of scale, the employees develop greater comprehension of the processes and are in a position to improve and innovate on these processes due to the experience they have gained over the years of repetitive operations. The advantages of experience curve have been reaped through empowerment by many big multi nationals. The conversion cost especially in the chemical industry and oil refining industry in India is nearly 1/10th of the cost prevailing in the developed countries. Many pharmaceutical multi nationals had chosen India for contract, production or formulation for catering to the markets in India and the Far East. This strategy has reduced their cost of production as also the logistic cost.

Transfer of distinctive competencies

The fundamental requirement for production of a product in a third country requires transfer of distinctive competencies often approached through the strategy of wholly owned subsidiary so that secrecy and confidentiality are presumed, e.g., Cocoa Cola and Pepsi..

Exigencies of global markets

With the entry of more number of multinational companies as also strong local companies, the pressures for cost reduction increased. Again responsiveness of the local customer and his purchasing power would require lower prices, e.g., Tyre industry where multi nationals are present.

Local responsiveness may also be under pressure due to differences in customer culture and his preferences. The products sold by a multi national company in a third country may suffer because they have not taken into consideration difference in culture and taste of the local customer, e.g., Mc Donalds, Pizza Hut, Kentucky Fried Chicken, etc., in India. Differences in availability of the required infrastructure and trade practices also have an impact on the successful advent of multinational companies. Electrical Companies from the west who produce their goods based on 100 volts found it different in 240 volts in countries like India. Again the western Automobile Industry which produce cars for Left Hand Drive find it different in Countries like India where the practice is Right Hand Drive.



Thus, choosing a global strategy need to take into consideration all the above factors as result nowadays the multinational companies presume either an International Strategy or Multi Domestic Strategy or Global Strategy or Transnational Strategy.

International Strategy is based on transfer of distinctive competencies to foreign markets.

Multi Domestic Strategy depends on the ability to offer customized products catering to local market's requirements.

Global Strategy is based on the ability to exploit both the economies of scale and experience curve effects while guarding their own technology through wholly owned subsidiaries.

Transnational Strategy combines all the above three strategies to harvest the best of benefits. But this strategy is difficult to implement as complicated organizational structure to integrate both local and international talents will be required.

Ramification of global competition

Strategy	Advantages	Disadvantages
International	Transfer of distinctive competencies	▪ Inadequate local response ▪ Unrealized location economics ▪ Unavailable advantage due to experience-curve
Multi domestic	Customization of product to suit local market	▪ Unrealized location economics ▪ Unrealized advantage due to experience curve ▪ Inability to transfer distinctive competencies
Global	▪ Advantage of Experience Curve ▪ Advantage of location economics	▪ Inadequate Local Response
Transnational	▪ Advantage of location economics ▪ Advantage of experience curve ▪ Advantage of customization ▪ Benefits of global knowledge	▪ Problems in implementation because of organizational structure and culture

Global strategy has to contend with another important aspect, viz., the choice of entry mode. Depending on the intensity of operations as well as the volume, as also the extent of risk that a multi national is ready to take various modes of entry are available.

Export

This is the least risky mode as it eliminates the cost of establishing manufacturing operations in the third country and the impact will be minimal on the local population while sufficient data and time will be available to understand the economies of cost of production and marketing before actually launching bigger operations.

**Licensing**

This is yet another mode of entry where an entrepreneur from a third country obtains the license from the multinational company for a negotiated fee to produce the multinational company's products. In this mode the Multi National Company avoids development cost and risks and would be able to assess the preferences of the local markets for their products. However, there are drawbacks in this method in that the Multi National Company does not have adequate control over the local company. Again the strategy to be followed in a market place is not coordinated by the Multi National Company and it is purely the acumen of the local entrepreneur which spells success or failure. Thirdly licensing technologies to a third country often takes away the competitive edge of the MNC as it does not have strategic control of the local company.

Franchising

Franchising is another form of licensing in which the franchiser not only sells his trademark but also lays down certain rules to be followed in the conduct of business. The Franchiser normally helps the franchisee to generate the business on an ongoing basis. The advantages of franchising are the same as those of a licensing but the disadvantages are fewer. However the franchisor has to be careful that his trade mark is not misused or brought into disrepute.

Joint ventures

Another mode of entry is through joint ventures where the foreign company finds a local partner on the basis of strategic alliance to pool their distinctive competencies. This method reduces the risk of operation and the local partner is well aware of the customer requirements. In spite of these advantages the main drawbacks are that the foreign company often finds that it is not in the driver seat either through ownership or control of management.

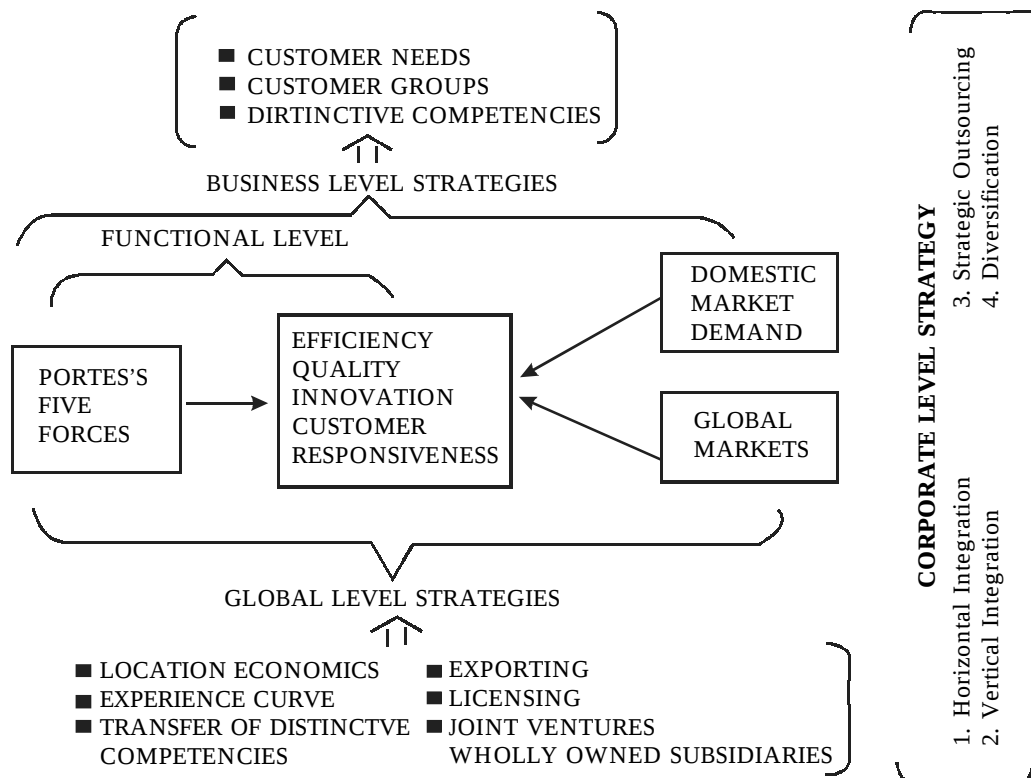
Wholly owned subsidiaries

Entering a third country through a wholly owned subsidiary preserves the control over technological competency, maintain a tight control over operations and also realize the full benefits of location economies and experience curve effects. However this mode of entry is the costliest as the entire cost of establishment and promotion would be borne by the parent company.

Corporate level strategy

Corporate Level Strategy engages itself in the identification of businesses which a company should endeavor. The value creation activities are to be performed in those businesses and suitable methods for expansion or contraction of different businesses. Four major strategies normally pursued are

- Horizontal integration
- Vertical integration
- Strategic outsourcing and
- Diversification.



Horizontal Integration

Horizontal Integration is the effort to achieve a competitive edge with increased size and scope. Acquisitions and mergers are the means through which such an increase in the size and scope are attempted. An acquisition takes place when a company uses its resources to purchase another similar company and the acquired company continues to remain as a separate entity. In a merger two companies agree to combine their operations and create a new entity. These will be treated in greater detail under the Chapter Merger and Acquisitions. E.g.—Cement Companies acquiring manufacturing facilities.

Horizontal Integration has acquired more significance in a global market with a view to achieving competitive advantage by growing in size as the organic mode of substantial expansion and green field projects take long gestation time, acquisitions and mergers are becoming more important to take advantage of a growing market expeditiously. The main benefits of horizontal integration are:

1. Reduction in mining cost
2. Possibility of offering a range of products through differentiation
3. Managing existing rivalry through market operations; and
4. Augmenting bargaining capacity over buyers and suppliers

However there are certain limitations to horizontal integration, they are:

1. The problems associated with mergers and acquisitions



- Conflicts that can arise due to statutory requirements while the process of acquisition are mergers is pursued

Vertical Integration

Through Vertical Integration a company extends its operation either backward into obtaining raw materials and components, e.g. Iron ore mines by a Steel Company, Limestone quarry by a Cement Company, etc., are expand in the forward direction to produce down stream products which flow out of the present product produced by the company. E.g. Sugar Industry extending into distillery.

Vertical Integration can either be forward or backward integration as already indicated is also possible that such integration can be full or tapered. Full integration has all its supplies. In house for manufacturing needs and the manufactured product is fully supplied through in house distributors. Under Taper Integration, raw materials are component purchases are both from In-house and outside sources required for the manufacturing purposes. The manufactured products are sold both through in-house distributors and Independent Distributors.

Advantages of Vertical Integration

- The company is able to create entry barriers for potential competitors.
- Investment to improve efficiency of the entire value chain
- Build robust quality
- Meet deadlines through improved scheduling

The drawback of a particular integration can be summed up as

- Possibilities of building obesity in cost extraneous to manufacturer
- Technological obsolescence can create problems
- Variation in demand may create problem

Strategic Outsourcing

It is rather recent in that companies have been separating into certain non-core activities within a business and allowing them to be performed by an Independent Firm, the purpose being reduction in cost production, e.g., sponsoring of back office operations to a third party. Strategic outsourcing has assumed gargantuan proportions during the last decade. Then a race for cost reduction has become furious due to global competition. This outsourcing activity has been in relation to non core activity are a high technology activity which is not the core competence of the company. The benefits of outsourcing are reduction of cost and secondly differentiation product. Reduction of cost is achieved by outsourcing activities to a third party which has been specializing in a particular activity and able to offer services at a lower cost. It is also possible that a particular activity which is highly skilled or uses a costly technological activity, a company may outsource the specialized operation to a outside agency to avoid capital investment and maintain a special cadre of employees. In the same manner differentiation of a final product of a company is also adopted by adding some new features to the product through outsourcing. The risks of outsourcing are possibilities of holder not being able to meet the deadlines due to third parties mistakes and loss of confidentiality of information.

Diversification

In a corporate life cycle a stage is often reached when both organic and inorganic growth in the existing products or services reach maturity. This forewarns decline and a necessity to look for new businesses or products not in the same range. Thus diversification into related or unrelated areas becomes a necessity. Diversification is the mode of adding new lines of business to a company which are distinctly different of the existing operation. A diversification strategy is often attempted to (a) to increase the number of value creation function at a lower cost (b) to increase the value creation function to differentiate products and (c) to manage the vagaries of demand for the different products of the company to achieve sustained profitability. E.g.—EID Parry Group as a conglomerate has diversified into Sugar, Ceramics and Fertilizers which were distinctly different. This was attempted to take care of the seasonality of operations which affected the demand pattern also improved cash flow right through the financial year. Diversification normally involves Transferring Competencies, Leveraging Competencies, sharing resources effectively, managing rivalry in more than one Industry and emerging organizational competencies in a holistic manner. Diversifications can be either related diversification or unrelated diversification.

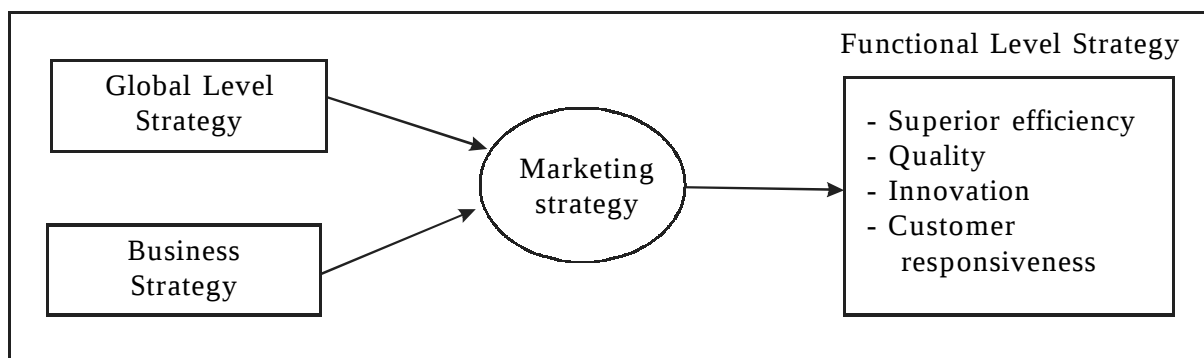
Related Diversification normally involves into diversifying into complimentary products like computers, printers, peripherals, etc.

Unrelated Diversification involves diversifying to areas which are totally unrelated to present products. E.g., An engineering company like L & T diversifying into Cement.

The limitations of diversification tend to skew the company's profitability, reduce the same due to unrelated operations. Bureaucratic cost may also increase cutting into profit margins. Core competencies may also come under scrutiny. Thus the corporate level strategy has many phases and will be dealt with in generation detail individually under strategy implementation section.

Marketing strategy as a part of corporate strategy

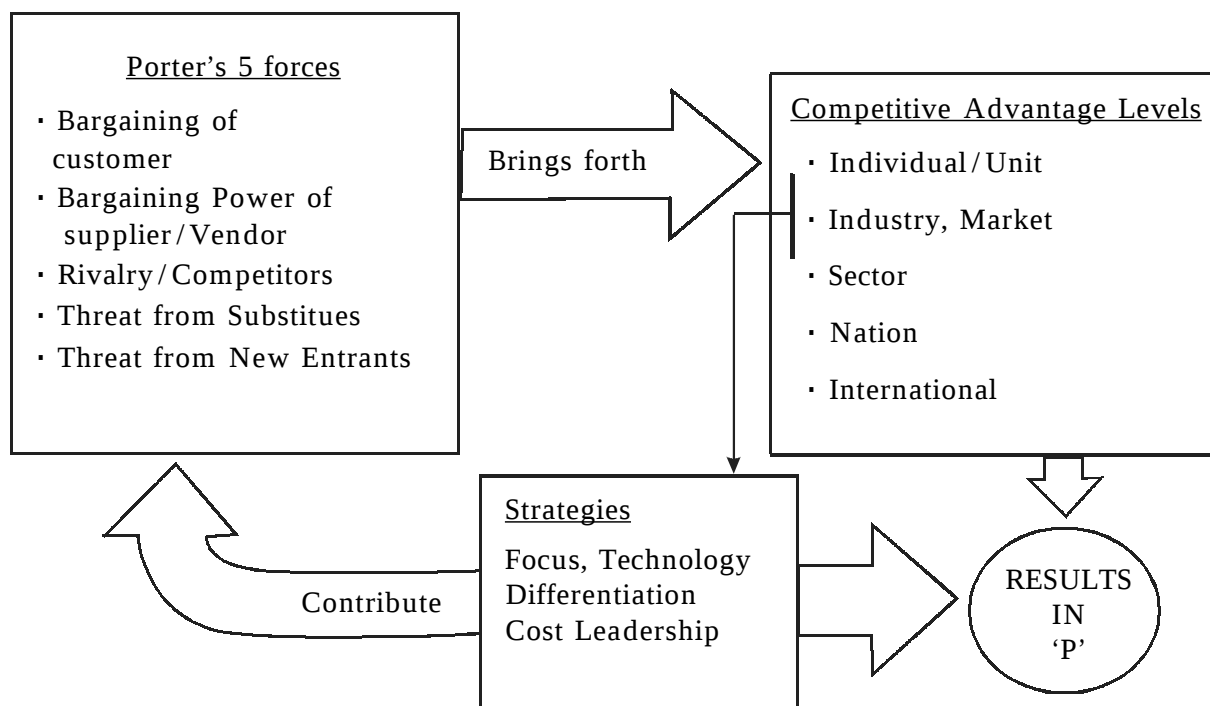
During strategy formulation the four different levels of strategy namely, functional level strategy, business level strategy, global level strategy and corporate level strategy were discussed and their relationship to the alternative forms of strategies were outlined. In the same manner a marketing strategy for a company needs to be an integral part of a corporate strategy, which is the umbrella. The business strategy of a company shapes the marketing strategy, which has to be developed and implemented through functional level strategy involving superior efficiency, quality, innovation and customer responsiveness.



According to David Aakar, the marketing strategy involves laying down strategic specifications as follows:

1. Scope of the product market in which the company desires to compete has to be laid down
2. The level of investment required taking in to consideration the timing, nature and phase of the market will have to be determined.
3. Identify the functional strategies required for implementation
4. The strategic assets like brand name, loyal customer base, talent inventories required for building sustainable competitive advantage will have to be built.
5. In case of multiple businesses need for proper allocation of resources both financial and non-financial becomes important.
6. Synergy among the various market activities for the different business of the same company will have to be developed.

To achieve the necessary the necessary competitive advantage using marketing strategies would mean understanding the relationship of Porter's five forces model with the strategies leading to the results in prosperity through performance.

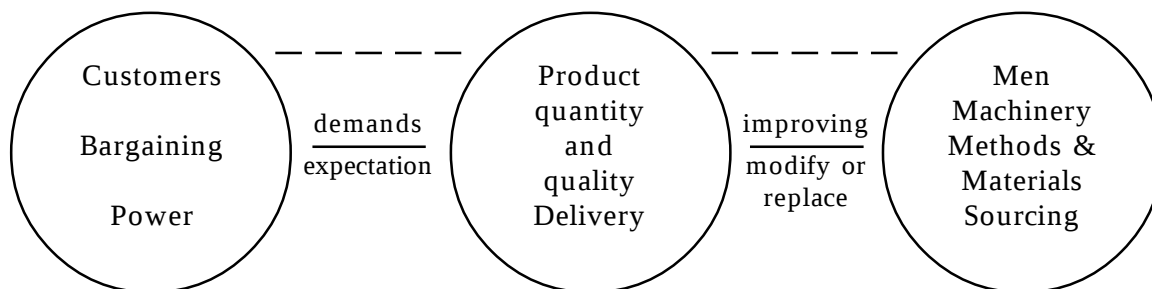


'P' – Customer Advantage, infrastructure growth, employment, technological advancement, formation of clusters, knowledge replication, Technological breakthroughs. "Prosperity through Performance"

Note:- Competitive advantage does not over rule the law of Comparative Advantage. A company or nation is said to enjoy a comparative Advantage when it has the ability (natural or sourced) to produce or supply goods or services at a lesser opportunity cost than its competitors. This is based on the Ricardian theory of utilization of ‘resources bundles’ such as land, labor materials and capital. While understanding the CA Model the following questions will arise in the minds of the reader:

1. How can the 5 forces (factors) be an advantage to the company? Why should any company benefit from the forces (which appear to be formidable)?
2. Can the 5 forces really contribute benefits or advantages to the various business or industry levels?

To provide answers and more explanation to the above questions we need to understand the old jungle principle – “faster we are pursued the swifter we become”. A competing company (open system category) will have to be on “on its finger tips” and “on its toes” in order to sustain growth under a non-monopoly market environment; For example let us take the first force ‘bargaining power of customer’. This means that the customers are strong, rational, information seeking, will not easily adjust to poor quality in product or service and that the customers will fight for their rights. Porter connotes bargaining power as demands and expectations towards the product both quantitatively and qualitatively. How can this be an advantage to the company? The answer is simple – now, the company has to perform even better to satisfy such customers. This means that the pressure (feedback) (expectations) given by customers will be passed on to all related departments of sales and marketing and therein to interrelated departments and divisions who will be forced or encouraged to improve their material sourcing product and delivery respectively.]



In a similar manner each of the other of 5 forces brings forth their respective reactions or response within environments. Marketing Guru Kotler comments on CA highlighting the fact that all such force-field interactions in all the three environments has to ultimately be to the customer's advantage, if not so then we cannot consider such forces as a part of Porters CA theory.

A cost leadership strategy is to maintain or improve operating margins through relatively lower cost of production or services compared to the competitors. A cost leadership company is able to offer a product or service at a lower price mainly due to its efficient and effective methods of production continuously improved through application of value engineering, value analysis and Kaizen methods (else where dealt in detail).



A differentiation strategy is seen as an edge over other competitors in terms of product features. Any such edge involved in the selling process is termed as USP (Unique Selling Proposition). An edge sustains and continues to give advantage in improving sales and the loyalty quotient as long as it is not copied or beaten out by the competing forces. So to have a continuing USP innovation through research and development becomes essential. If research and development facilities have not been developed within the organization, many companies go in for acquisition for state-of-art technology from external sources.

Focus as a strategy would pin point the area of cost leadership or differentiation to the target market. This strategy underscores the importance of not dissipating energies over a larger area and not gaining proportionate advantage. For example, introducing a product with USP in a particular sector and gauging the impact on the customer and his response before venturing into larger markets.

Technology as a strategy needs proper monitoring and changing over to a new one before the previous technology becomes obsolescent. This is particularly important in that any new technology brings with it either a new feature to a product or a dramatic reduction in costs through efficient processing. Optimization of processes and product design is continuous and so search for innovation through technology is also continuous.

With the growing markets potential entrants have to be reckoned and increased competition will always result. Each competitor will try to develop competitive edge and over a period of time the various strategies of focus, technology, differentiation and cost leadership merge and become multi-pronged, aggressive strategy leading to "best cost provider" status.

Growth under inflation

Bargaining power with the suppliers as well as buyers comes under strain during inflation in the economy. Inflation has both favorable and unfavorable aspects in propelling growth. As per the economic dictum, inflation is a result of "too much money chasing too few goods". Lot of money in circulation with not much supply of goods will lead to high prices. For increased capacities through either organic or inorganic strategies will take advantage of this situation. However, inflation grips the raw material prices also and as such the operating margins come under strain. Building inventories or following a strategy of make to stock offers better advantage.

If the inflation trend gets intense and a spiral develops a new problem of lower purchasing power of the customer results and suddenly demands start falling because the customer cannot afford the high price. The immediate future companies that have high capacities may phase recessionary trends that would increase their cost of production through lower capacity utilization. At this point of time, if the recessionary conditions were too prolonged corporate restructuring and turnaround strategies will have to be thought of.

As far as the marketing strategies are concerned inflation will have to be understood fully as to the causes for the trend. The causes can be imported, unexploited resources, too much money in circulation, sudden change in supply position due to statutory regulations, etc.

Due to increase in prices of crude oil in FY 2006-07, FY 2007-08, which is largely imported in India the refined products like petrol, diesel, and kerosene have become costlier. This is



purely due to imported inflation and proper adjustment of the end product prices will have to be made to maintain the margins. However, in India due to “inclusive” policy followed by the government, products like Kerosene and LPG are subsidized, but still not to the extent of neutralizing the increase in the cost of production. This has put the oil industry in a difficult situation and the strategies followed by the oil companies are in developing efficient purchasing to keep the cost of crude at manageable proportions.

Fiscal policy of the government and the Reserve Bank of India in containing inflation also have its own share of impact on the strategies of any company. Increase in the interest rates leads to lower availability and utilization of funds and the monies in circulation are also controlled through increase of cash reserve ratio. This affects the purchasing power of the customer and the prices of product tend to fall to attract the customer. The strategy to be followed by a company under these conditions will be cost leadership, as there will be better maneuverability in fixing prices.

“Growth under inflation is always a catch 22 situation” as inflation is a double edged sword. It can help you as well as injure you.

STEP 6: INITIATE PLANNING PROCESS BY SETTING A FRAMEWORK

Planning process is an assignment in terms of space - time continuum. Having identified objectives / goals and the strategies to be adopted it is only in the order of things that a framework linking the achievement of various goals in a phased manner using milestones concept. Milestones will have to be enunciated over a time horizon and this forms the basis for long range planning.

Long range planning becomes the basis for break up into annual plans and the strategies to be pursued during the continuous short term plan periods culminating into a long-range plan. Long-range plan can be based on forecasts qualitative or quantitative as the case may be depending on the respective targets. Long-range planning will also involve integrating strategic direction externally oriented planning; forecast based planning, and financial planning to impute values to physical targets. The type of forecast model to be used will depend on the quantum of historical data available if any, data pattern, forecast horizon, preparation time and the sophistication required. These aspects will be discussed in detail in the chapter on model building exercises.

“Tomorrow always arrives, it is always different and even the mightiest company is in trouble if it has not worked on the future. Being surprised by what happens is a risk that even the largest and richest company cannot afford and even the smallest business need not run,” said Peter F. Drucker necessitating an in dept approach to scan the future in a proper way to manage risks.

“Planning is doing things today to make us better tomorrow because the future belongs to those who make the hard decisions today is the motto of Eaton Corporation.”

Taken the above adages corporate planning can be broken up into four phases:

- Strategic direction
- Externally oriented planning
- Forecast based planning
- Financial planning to impute values to physical targets



STRATEGY FORMULATION

Identifying Strategic direction based on Vision, Mission, Objectives / Goals of a company	Externally oriented planning provides information regarding situation analysis, lead indicators, business cycles, macro level indices movement for economy	Forecast based planning – based on a time horizon five, ten or fifteen years select forecast model on the basis of data available if any, data pattern, forecast horizon, preparation time and the sophistication required	Financial planning – impute values to the physical targets / milestones to be achieved at different points of time in the future. Use of annual budgets of the specific type required eg, zero based, performance budgeting, sunrise or sunset/ operating budgets
---	--	--	---

Long range planning—Time-space continuum