

MASTER MINDS
STRATEGIC MANAGEMENT
Section – B

Q.No:6

(a) Correct: Globalization refers to the process of integration of the world into one huge market. This unification leads to removal of all trade barriers among countries. At the organizational level, Globalization has two effects - (a) the Company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) it has the ability to compete in domestic markets with foreign competitors.

(b) Correct: Production Strategy comes under functional strategies implements, supports and drives higher strategies are business level & corporate strategies. Functional-Level Managers are responsible for the specific business functions/ tasks/ operations (e.g. Human Resources, Purchasing, Product Development, Customer Service, etc.) that constitute a Company or one of its divisions. Functional Managers have a major strategic role, that is, to develop functional strategies in their area that help fulfill the strategic objectives set by Business-Level and Corporate-Level General Managers

(c) Incorrect: Analysis: The structural elements that constitute a process provide the basis for its analysis, appraisal, and re-design for achieving higher levels of efficiency and effectiveness, economy and speed, and quality and output.

Benchmarking is the process of identifying and learning from the best industry practices and the processes by which they are achieved.

Benchmarking involves :

- a. comparing different aspects of the Firm's products, services, activities, processes and other aspects of performance with those of its competitors or other acknowledged leaders in their field, and the best prevailing practices,
- b. identifying gaps and deficiencies in the Firm's own performance,

Q.No:7

(a) Meaning: Turnaround Strategies are those which are formulated by laying emphasis on improving internal efficiency so as to bring about internal retrenchment.

Indicators: The danger signals create the need for a Turnaround Strategy are-

- (i) Negative Cash Flow and Profits,
- (ii) Mismanagement.
- (iii) Declining Market value,
- (iv) Deterioration in physical facilities,
- (v) Over manning, high turnover of employees, and low morale,
- (vi) Uncompetitive products or services, and

(b) Meaning: Retrenchment or Retreat Strategy is resorted to save the enterprise's vital interests, to minimize the adverse effects of advancing forces, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

Approach: The Firm retrenches some of the activities in a given business(es), or drops the business as such through sell-out liquidation. The Firm reduces the scope of its business(es).

Ways of retrenchment:

- (i) Cutting back on capital and revenue expenditure, e.g. R&D projects, advertising, executives perks, etc.
- (ii) Reduction in inventory levels, production volumes, manpower, dividend rates, etc.
- (iii) Withdrawal of some products/ product versions, winding up some branch offices, etc.
- (iv) Disposal/ Sale of manufacturing facilities and product divisions,
- (v) Retirement either from the production or the marketing stage.
- (vi) Offering itself for take-over by another more viable enterprise.
- (vii) Seeking liquidation or winding up (corporate death).

(c) Defining A Shared Vision

A shared vision is much more than a list of goals. It needs to be something that inspires people and gets them to pull together for cooperative action. People really get energized by what their group is trying to accomplish. They pull together to accomplish something worthwhile. Ideally, people can see a personal role in bringing the vision to life. This is the "shared" aspect of a shared vision. The following cultural qualities are associated with a shared vision at the workplace.

A Shared Vision Exists When People:

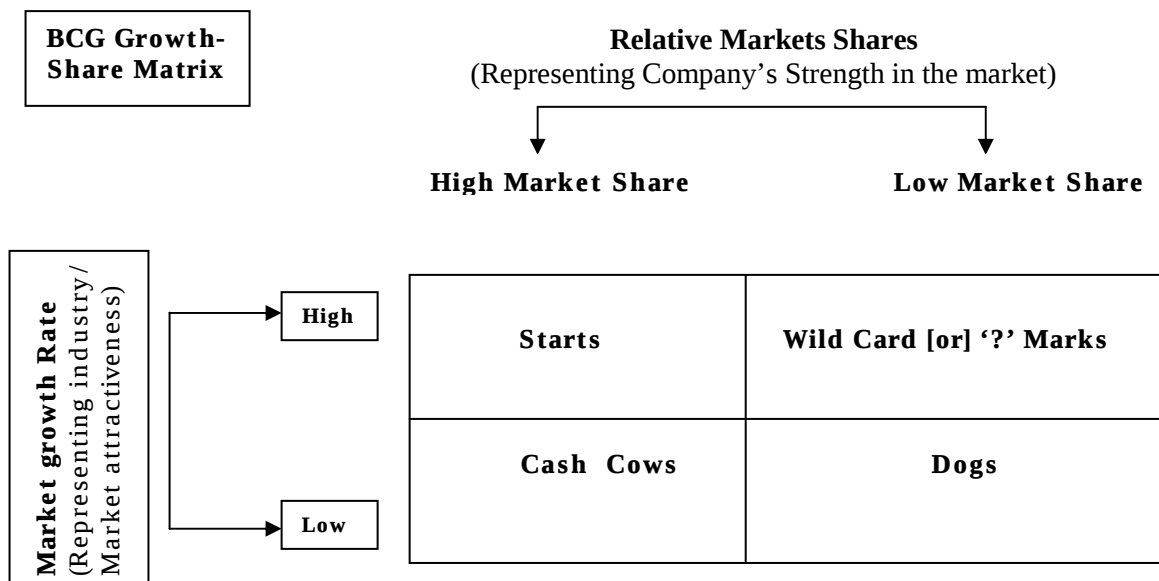
- Are inspired by the purpose of the group or organization
- Feel that their values and ideas are incorporated into what the organization is trying to achieve
- Can easily communicate the mission and direction of the organization
- Recognize that both individual and organizational needs are being addressed
- See how their day-to-day activities support the overall goals of the organization

Q.No: 8

(i) A Company's **Mission statement** is focused on its present business scope "**Who we are and what we do?**"

- A Mission Statement is to give the organization its own **special identity**, business emphasis and path for development.
- A Company's business is defined by its goals, the nature of target customer groups and the technologies and competencies it uses and the activities it performs. This should be specified in the Mission.
- Mission Statements should be highly personalized, i.e. **unique** to the Firm for which they are developed.
- Profit making is not the **only** mission of a business.
- Mission Statements should contain elements of **long-term strategy** as well as desired outcomes
- Mission Statements should be **precise, clear, feasible, distinctive** and **motivating** and should indicate major components of strategy.
- Mission Statements should serve as a **justification** for the Firm's very presence and existence.

(ii)



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BCG – Concept

Stage 1	Evaluation of relationships between Growth – Share.
State 2	Classification of SBUs into – (a) Stars, (b) Cash Cows, (c) Question Marks, and (d) Dogs,
State 3	Determination of Strategy – (a) Build, (b) Hold, (c) Harvest, and (d) Divest

- Stage 1:** Under the BCG approach, a Company classifies its different businesses on a two-dimensional Growth – Share Matrix. In the matrix –
 - Vertical Axis represents Market Growth Rate, and provides a measure of Market Attractiveness.
 - Horizontal Axis represents Relative Market Share and serves as a measure of Company Strength in the Market.

- Stage 2:** Using the BCG Matrix, Firms can identify 4 different types of products or SBUs, referred as-

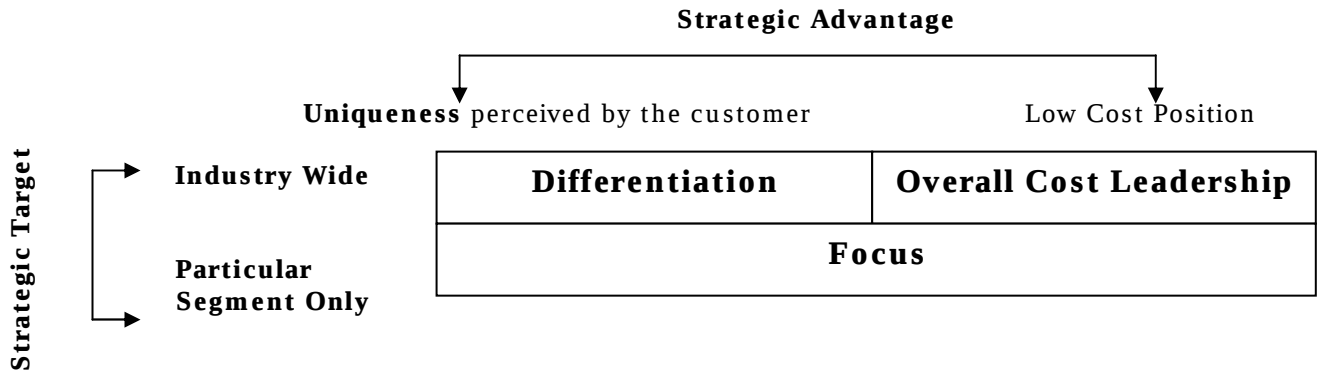
Item	Features
(a) Stars – Products or SBUs that grow rapidly	- They need heavy investment to maintain their position and finance their rapid growth potential. - They represent best opportunities for expansion.
(b) Cash Cows- Low-growth, high market share SBUs or products.	- They generate cash and have low costs. - They are established, successful, and need less investment to maintain their market share. - In the long run, when the growth rate slows down, Stars become Cash Cows.
(c) Question Marks or Problem Children or Wild Cats.	- Low market-share business in high-growth markets. - They need heavy investments but have low potential to generate cash. - Question Marks if left unattended, are capable of becoming cash traps. - As growth rate is high, increasing the investments should be relatively easier. - Firms have to initiate action to convert “Question Marks” into “Starts”, and then to “Cash Cows”, when the growth rate reduces.
(d) Dogs – Low-growth, low-share SBUs & products	- They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. - Dogs should be minimized by means of divestment or liquidation.

- State 3:** After classifying the SBUs as above, the role of each SBU is determined on the basis of the following strategies. The four strategies that help to determine the role of SBUs are-
 - Build:** To increase market share, by foregoing short-term earnings in favour of building a strong future with large market share.
 - Hold:** To preserve market share.
 - Harvest:** To increase short-term cash flow, regardless of long-term effect.
 - Divest:** To sell or liquidate the business because resources can be better used elsewhere.

Q.No:9

- Classification:** According to Porter, Generic or Basic Strategies allow organizations to gain competitive advantage from three different bases-
 - Cost Leadership** – Producing standardized products at a very low per unit costs, for consumers who are price-sensitive.
 - Differentiation** – Producing products and services considered unique industry-wide and directed at consumers who are relatively price – insensitive.
 - Focus** – Products and services that fulfill the needs of small groups of consumers.
- Factors:** Porter suggested that the appropriate strategy may be based on an evaluation of the following-

- (a) **Sharing:** Managers should perform cost-benefit analysis to evaluate “sharing opportunities” among a Firm’s existing and potential business units. Sharing activities and resources enhances competitive advantage by – (i) lowering costs, or (ii) raising differentiation.
- (b) **Transfer of Skills:** Firms can “transfer” skills and expertise among autonomous business units effectively in order to gain competitive advantage.
- (c) **Size:** Large Firms with greater access to resources can adopt Cost Leadership and/or Differentiation strategy while small Firms have to adopt Focus strategy.
- (d) **Others:** In addition to the above, the type of industry and intensity of competition also play a role in deciding in appropriate strategy.



Cost Leadership Strategy:

1. **Situations:** Cost Leadership Strategy seeks to make the Firm a low-cost producer in the industry. This strategy is more effective when-
 - (a) Market comprises many price-sensitive Buyers.
 - (b) There are only very few ways to achieve product differentiation.
 - (c) Buyers do not care much about differences from one brand to another brand,
 - (d) There are a large number of Buyers with significant bargaining power.
2. **Effect:** Cost Leadership strategy aims to lower cost and under price competitors, in order to gain market share and sales. In this process, some competitors may be driven out of the market entirely.
3. **Procedure:** Cost Leadership Strategy can be achieved by –

(a) High efficiency, (b) Low Overhead, (c) Effective Budgetary Control, (d) Wide spans of control,	(e) Limited Perquisites for Managers, (f) Reduction of waste and inefficiency, (g) Rewards linked to cost containment, and (h) Employee participation in cost control efforts.
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4. **Risks:** Some risks of pursuing cost leadership are-
 - (a) Competitors may imitate the strategy, thus driving overall industry profits down,
 - (b) Technological breakthroughs in the industry may make the strategy ineffective, or
 - (c) Buyer interest may swing to other differentiating features besides price.

Differentiation Strategy:

1. **Situations/Requirements:** Differentiation Strategy requires-
 - (a) Suitable amenities to attract scientists and creative people,
 - (b) Strong co-ordination between the R&D and marketing functions, and
 - (c) Possibility of creating customer loyalty by offering special features.
2. **Effect:** Differentiation Strategy allows a Firm to charge a higher price for its product and to gain customer loyalty because customers may become strongly attached to the differentiation features. Special features that differentiate one’s product can include superior quality, spare parts availability, engineering design, product performance, useful life, ease of use, etc.
3. **Advantages:** Successful differentiation can lead to:

(a) Product Flexibility (b) Compatibility, (c) Lower costs,	(d) Improved Service, (e) Less Maintenance, (f) Greater convenience, or more features,
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4. **Risks:** Differentiation Strategy will not be successful if-
- (a) Standard products sufficiently meet customer needs.
 - (b) Uniqueness of the product is not valued highly enough by customers to justify a higher price.
 - (c) Competitors develop ways to quickly copy the differentiating special features of the Company's product.

Focus Strategy:

1. **Situations:** Focus Strategy is effective-
- (a) When Consumers have distinctive preferences or requirements,
 - (b) When rival Firms are not attempting to specialize in the same target segment.
 - (c) For Medium and large-size Firms, who can effectively pursue Focus-based strategies in conjunction with Differentiation or Cost Leadership strategies.
2. **Effect:** A Firm 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.
3. **Requirements:** A successful Focus Strategy depends on an industry segment- (a) this is of sufficient size, (b) has good growth potential, and (c) is not critical to the success of other major competitors.
4. **Risks:** Risks of pursuing a Focus Strategy include-
- (a) Possibility that more competitors will recognize the successful focus strategy and copy it, and
 - (b) Consumer preferences will drift toward the product attributes desired by the market as a whole.

(a) **Ans:** Differentiation Strategy.

(b) **Ans:** Cost Leadership Strategy

(c) **Ans:** Focus Strategy

Q.No: 10

- (a) The essence of strategy formulation is coping with competition.
1. The factors to be considered in evaluating the competitive environment include –
- (a) Potential Competitors and Competitors already present in the market,
 - (b) Products and Services sold by the Competitors,
 - (c) Market Share of the Competitors,
 - (d) Financial position of the Competitors,
 - (e) Source of cost and price advantage to the Competitors,
 - (f) Present strategies and designs of the Competitors, and
Likely future action of the Competitors.

Case study answers:

There are quite a few areas where any firm cut out costs, production being one such area. A lot of waste is generated during the production process. There are issues like theft and loss of raw material, seepages and shrinkage as well. Streamlining the production process, maintaining control and supervision in the facility will help in pruning costs. Increasing productivity will help reduce costs. Inventory is another area where costs can be controlled. Inventory holding and carrying costs are a major expenditure that firms have to incur. Thus, if inventory management is good then such costs can be reduced. Logistics is another domain that can be utilised to bring down costs for organisations. Entering into long term alliances with partners and forming strategic alliances with competitors, certainly help in reducing expenditure.

The present economic crisis has affected the footfalls and hence sales of retailers. Consumers have reacted by being careful in their spending pattern and shopping smartly. The current crisis has led to drying up of capital and credit in the system, forcing many players to shelve their expansion plans or put them on the back burner. However this can be taken as an opportunity with few intelligent steps as mentioned below:

1. Firms can utilize economies of scale to advantage by renegotiating costs at all levels. Cost can be further reduced through stringent inventory control measures; and can increase sales without further capital infusion.

2. Retail organizations can control their advertising expenditure by focusing on the database of their loyal customers.
3. During the slowdown companies get enough time to go on a consolidation mode and can strengthen themselves.
4. Retail organizations can go for re-negotiations on rentals and expenditure on logistics to cut the costs further.
5. It is also suggested to large retailers coming together to share infrastructure and technical know-how in their backend operations in order to reduce costs and result in greater profits.
6. Reviewing the current business models would also be a priority for retailers.

A cash and carry store is different from regular retail chains which target professional customers rather than end-consumers. This concept is based around self-service and bulk buying and serves registered customers only. The core customer groups are hotels, caterers, traders and other business professionals. Such stores aim to prevent any intervention by middlemen and requires buyers to make their own arrangements and assume all risk.

METRO is a popular cash and carry store in India with branches in Bangalore, Hyderabad, Kolkata and Mumbai. METRO's Cash & Carry business model is based on a Business to Business (B2B) concept and focuses on meeting all the needs and requirements of business customers. It is a modern format of wholesale trading, catering only to business customers.

"Cash & Carry" means that the customers pick the goods themselves, pay in cash and transport their goods with their own vehicles. The advantage as compared with conventional wholesale lies in the more competitive price, the scope of the food and nonfood assortment, the immediate availability of the merchandise and the customer-oriented working hours.

THE END