

FORMULATION OF FUNCTIONAL STRATEGY

Question 1

State with reasons which of the following statements is correct / incorrect:

- (a) *Functional level constitutes the lowest hierarchical level of strategic management.*
(May, 2007)
 - (b) *A core-competence is a unique opportunity of an organisation not shared by other.*
(Nov., 2007)
 - (c) *Tele-shopping is an instance of direct marketing.*
(Nov., 2007)
 - (d) *PLC is an S shaped curve.*
(June, 2009)
- (2 Marks each)

Answer

- (a) **Correct:** Functional-level managers and strategies operate at the lowest hierarchical level of strategic management. Functional level is responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Although they are not responsible for the overall performance of the organisation, functional managers nevertheless have a major strategic role to develop functional strategies in their area that help to fulfil the strategic objectives set by business and corporate-level managers.
- (b) **Incorrect:** Core competencies are unique strengths rather than opportunities of an organisation. They are resources and capabilities that serve as a source of competitive advantage over rivals. In comparison with competitors an organisation is in better position to leverage and take advantage of the core competencies.
- (c) **Correct:** Direct marketing is done through various advertising media that interact directly with customer. Teleshopping is a form of direct marketing which operates without conventional intermediaries and employs television and other IT devices for reaching the customer. The communication between the marketer and the customer is direct through third party interfaces such as telecom or postal systems.

Strategic Management

- (d) **Correct:** Product Life cycle (PLC) which is a graphical depiction of sales over time is an 'S' shaped curve with four stages – introduction, growth, maturity and decline. The pattern is shared by all product group and families though the duration for each phase is different in each case. Identification of PLC stages for a product/service offers useful insights for marketing management.

Question 2

Briefly answer the following questions in 2-3 sentences each:

- (a) *Logistics Strategy* (Nov., 2007)
(b) *Enlist the components of marketing mix.* (June, 2009)
(2 Marks each)

Answer

- (a) **Logistics Strategy:** Management of logistics is a process which integrates the flow of materials into, through and out of an organization to achieve a level of service that the right materials are available at the right place at the right time, of right quality and at the right cost. For a business organization effective logistics strategy will involve raising and finding solutions to the questions relating to raw material, manufacturing locations, products, transportation and deployment of inventory. Improvement in logistics can result in saving in cost of doing business.

When a company creates a logistics strategy it is defining the service levels at which its logistics systems are highly effective. A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers to address different categorical requirements.

- (b) **Marketing mix** is a systematic way of classifying the key decision areas of marketing management. It is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The original framework of marketing mix comprises of 4Ps- product, price, place and promotion. These are subsequently expanded to highlight certain other key decision areas like people, processes, and physical evidence. The elements of original framework are:
- ◆ **Product:** It stands for the “goods-and-service” combination the company offers to the target market.
 - ◆ **Price:** It stands for the amount of money customers have to pay to obtain the product.
 - ◆ **Place:** It stands for company activities that make the product available to target consumers and include marketing channel, distribution policies and geographical availability.
 - ◆ **Promotion:** It stands for activities that communicate the merits of the product and persuade target consumers to buy it.

Formulation of Functional Strategy

Question 3

What is meant by Functional strategies? In term of level where will you put them? Are functional strategies really important for business? (4 + 2 + 4 = 10 Marks) (Nov., 2007)

Answer

Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for each functional area. For effective implementation, strategists have to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Strategy of one functional area can not be looked at in isolation, because it is the extent to which all the functional tasks are interwoven that determines the effectiveness of the major strategy.

Functional area strategy such as marketing, financial, production and Human Resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation is identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organisation. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

Major strategies need to be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. The reasons why functional strategies are really important and needed for business can be enumerated as follows:

- ◆ The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- ◆ Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.

Strategic Management

- ◆ Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.