INDEX

Life is not a race.
Do take it slower
Hear the music
before the song is over.

With Best Wishes

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Thanks to all my students for suggesting me how to improve my teaching style and notes. And Special thanks to, Shrenik Mundada, Ashish Sahni, Abdul Kadir, Anmol Artani, Kamlesh Mendhe, Aarti Oochal , Chandu Bhaiya, Arundhati Ma'am & Madhavi Ma'am for their continuous support.

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The Important Things in Life

A philosophy professor stood before his class with some items on the table in front of him. When the class began, wordlessly he picked up a very large and empty mayonnaise jar and proceeded to fill it with rocks, about 2 inches in diameter.

He then asked the students if the jar was full. They agreed that it was.

So the professor then picked up a box of pebbles and poured them into the jar. He shook the jar lightly. The pebbles, of course, rolled into the open areas between the rocks.

He then asked the students again if the jar was full. They agreed it was.

The professor picked up a box of sand and poured it into the jar. Of course, the sand filled up everything else.

He then asked once more if the jar was full. The students responded with a unanimous “Yes.”

“Now,” said the professor, “I want you to recognize that this jar represents your life. The rocks are the important things – your family, your partner, your health, your children – things that if everything else was lost and only they remained, your life would still be full.

The pebbles are the other things that matter – like your job, your house, your car.

The sand is everything else. The small stuff.”

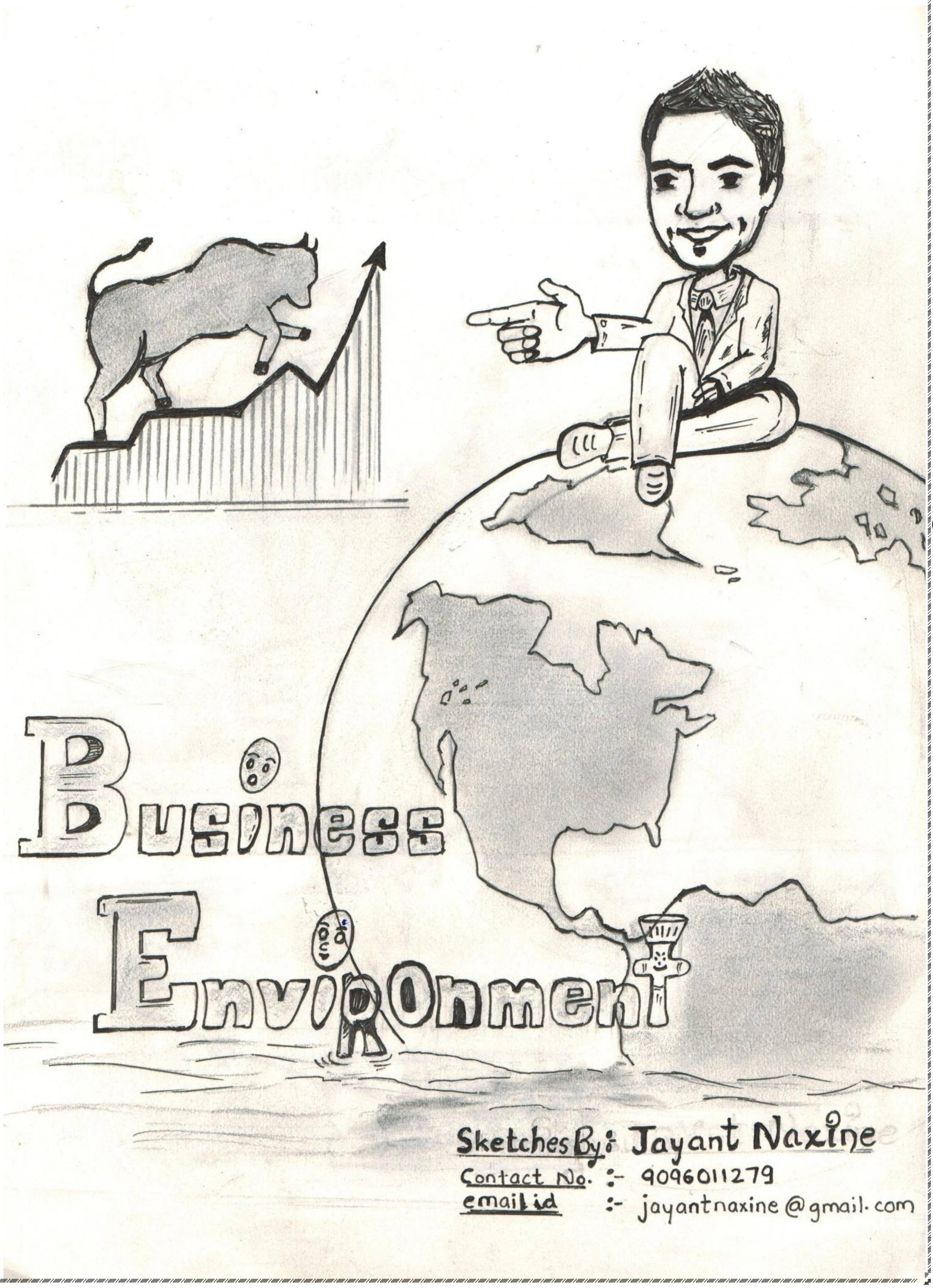
“If you put the sand into the jar first,” he continued “there is no room for the pebbles or the rocks. The same goes for your life.

If you spend all your time and energy on the small stuff, you will never have room for the things that are important to you. Pay attention to the things that are critical to your happiness. Play with your children. Take your partner out dancing. There will always be time to go to work, clean the house, give a dinner party and fix the disposal.

Take care of the rocks first – the things that really matter. Set your priorities. The rest is just sand.”

CHAPTER - 1

Business Environment



A morning prayer by a Businessman

"Hey Bhagwan ! please give me strength to pay Income tax, VAT, CST, Customs, Service tax, Excise Duty, TDS, PF, ESI, FBT, Professional Tax, Property Tax, Road Tax, Stamp Duty, Water Tax, Education Cess and many more…….!

Besides that also give me additional strength to pay **Hafta, Chai Paani, Donation, Chanda and then** if I have something left then I can feed my family and then help the society and mankind **also develop also give me strength to fight my competitors, be good to my employees and my suppliers and customers."**

Welcome to the practical world and the real business environment

Business Defined:-

It's an activity consisting of

- ♦ Purchase
- ♦ Sale
- ♦ Manufacture
- ♦ Processing Marketing of
- ♦ Goods/ services

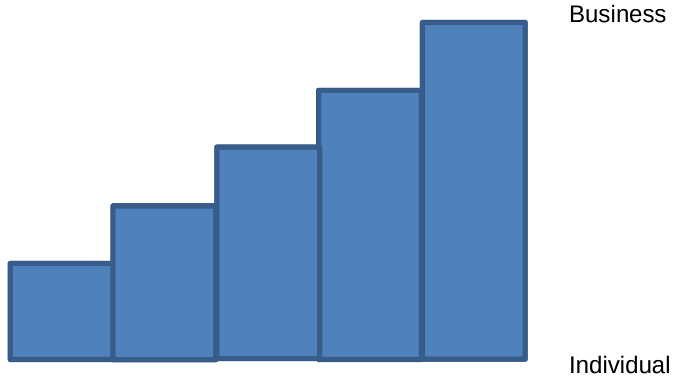
According to Peter F. Drucker "Business is **NOT** only Profit, Business is something which is

a. Managed by people

b. Business cannot be explained in terms of profit only. It has to include long term growth and wealth maximization and societal developments.

Objectives of Business

It is society's organ of economic expansion, growth and change. As an individual goes through a need cycle, on similar lines a business also moves on a cycle of evolution.



- ❖ **Survival: It's the will and anxiety to go into the future as long as possible :** It is of high prominence in the initial time of business and gains more importance during adverse times. Like Going concern
- ❖ **Stability: Every business wants to be steady, firm and long lasting.** A stable organization demands less time for petty things for managers. It reduces managerial tensions and requires fruitful and effective dynamism.
- ❖ **Growth: An objective which is associated with dynamism, vigour promise and success.** It can be displayed in various ways viz. Increase in assets, sales, manpower/profits and market share. It can be of two types

a.

b.

❖ **Efficiency: An objective which seeks to look for the best way or options in anything we do**

- It is about rationally choosing appropriate means to achieve goals.
- Doing things in best possible manner
- Utilizing resources in the highest productive combination

It is the economic version of technical productivity- designing and achieving suitable output of funds, resources, facilities and efforts.

❖ **Profitability: The primary objective of any business is profit and it is the sole source of all other objectives**. All other objectives are facilitative and are meant to be subservient to the profit motive.

Influence of Environment on the Business

The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are Socio-Economic, Technological, Supplier, Competitors and Government

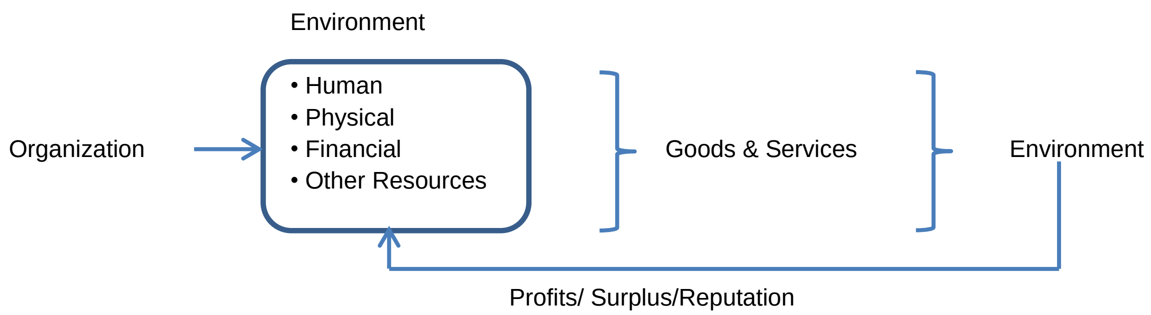
A business has to recognize different elements of the environment but also it has to

- Respect
- Adapt
- Manage &
- Influence them

The business must continuously monitor and adapt to the environment if it is to survive and prosper. A successful business has to

- Identify
- Appraise &
- Respond

to various **OPPORTUNITIES** and **THREATS** in its environment.



Problems In Understanding Environmental Influences

❖ **Diversity:** There is so much action everywhere on so may aspects that it is quite challenging to identify "what is influencing most to the organisation"

❖ **Uncertainty:** The speed of change is very high but it is still difficult to identify the impact organisation.

❖ **Complexity:** Most managers tend to simplify the complexity by focusing on the aspects of environment. D.U,C

A strategic manager is to find ways and means to break out of over simplification or bias in the understanding of that environment while still achieving a useful and usable level of analysis, i.e. **"Thinking out of the Box"**

Framework to understand Environmental influences

Need for a framework

- ♦ It will help in identifying key issues,
- ♦ Coping with complexity and
- ♦ Assist in challenging managerial thinking.

Basics of the framework

- ❖ **Take an initial view of the organisation nature**
  - ♦ How receptive they are to change ?
  - ♦ Are they static or Dynamic ?
  - ♦ if yes/ no then in what ways ?
- ❖ **Auditing of Environmental influences**
  - ♦ Out of many environmental influences, which are the ones which are going to affect the organisation's development or performance
  - ♦ This is done by understanding the impact of various political economic, social and technological influences on the organisation
- ❖ **Move the focus towards the immediate environment**
  - ♦ Identify the key forces at work in the immediate and competitive environment and why they are significant ?

Why Environmental Analysis?

It helps strategists buy time to anticipate opportunities and to plan to take optional/proper response(s) to these opportunities. Strategists develop an early warning system to prevent threats or to develop strategies which can turn a threat to firm's advantage.

So does it mean that future can be controlled?

Certainly the answer is not in the affirmative but not also totally negative.' the benefit is to the extent that some events can be controlled or anticipated by this analysis and diagnosis. |o the pressure is less and brains for strategists' are free and fresh for surprises to be given by the environment.

The goals of such en analysis can be given as follows:

Firstly, it should provide an **understanding of current and potential changes** tasking place in the environment.

Secondly, it should provide **Inputs** for strategic decision making. Only collecting data is not enough..

Third, it should prepare a rich source of ideas and understanding of the context within which a firm operates.

"In change there is both Opportunity and Challenge"

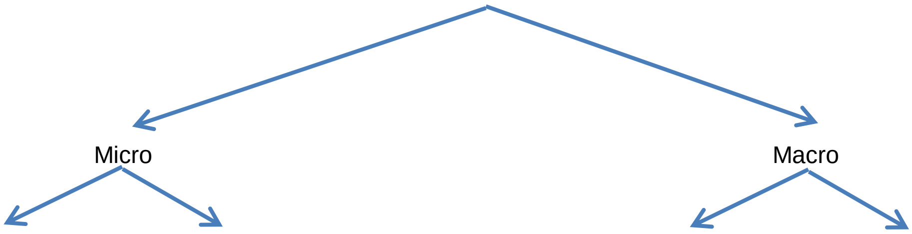
<u>Scenario:</u> An organisation is 50 years old, which started with the production of base clothing with 5 family members. Today the organisation has grown to a multi location organisation having Pan-India presence. It has progressed from a cloth producer to an end to end solution provider for clothing. They are the lowest cost producer of base clothing in India. They have developed the market significantly through, web-based marketing.

Benefits of framework:

- A view of really important developments taking place around the organization will evolve.
- It may/may not be the case that there are relatively few of outstanding significance.
- It could be that there are many interconnected developments.
- Ultimately, what will matter is that there is an attempt to understand that why these factors are of strategic significance
- It would also help the organisation to look upon it and see where they stand in terms of their competitors and in the overall competitive environment

<u>Components of Business Environment</u>

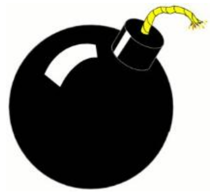
The business environment is Complex, Dynamic, multi faceted and has a far reaching impact.



Environmental influences explained

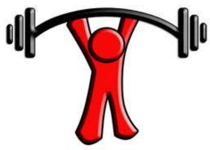
- **<u>Opportunity:</u>** It is a favorable condition in the organizations environment, which enables it to consolidate and strengthen its position.

  Eg:



♦ **<u>Threat</u>:** A threat is an unfavorable condition in the organisations environment which creates a risk for, cause a damage to the organisation.

Eg:



- **<u>Strength:</u>** It is an inherent capacity, which an organisation can use to gain strategic advantage over its competitors.

  Eg.

♦ **<u>Weakness:</u>** It is an inherent limitation or constraint, which creates a strategic disadvantage over its competitors.

Eg :

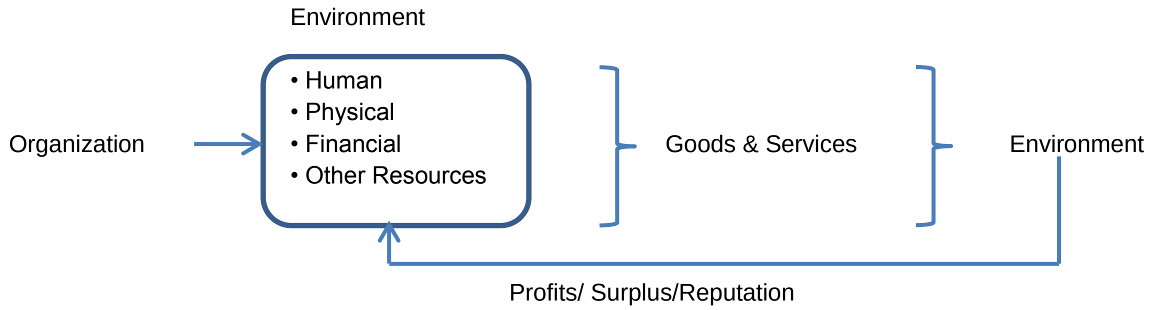
Effective Organisational Strategy: One that capitalizes on the opportunities through use of strengths and neutralizes the threats by minimizing the impact of weakness.

Relationship between Organisation and Environment

Exchange of information:

- The organisation scans the external their behaviour, and changes, generates important information and
- Uses it for planning, decision-making, and control purpose.(It helps overcome the problem of uncertainty and complexity)
- It is to be general social and demographic factors, competitors and so on.
- Sources of gathering information : Occasional advertisement, Annual reports, Data given to various legal agencies, investors, employees, trade unions, professional bodies, RTI (Right to Information Act)

Exchange of Resources:



Organisation draws resources from the environment. They try to meet expectations and satisfy needs of various people from the environment having different values and interest.

Exchange of Influence and Power:

(**Power**: the ability, strength, and capacity to do something**; Influence**: the power that somebody has to affect other people's thinking or actions by means of argument, example, or force of personality)

- External environment holds considerable power over organisation by virtue of it being bigger than the organisation and its command over resources, information, and other inputs.
- It offers a range of opportunities, incentives and rewards and also has a set of constraints, threats and restrictions on the other. An organisation remains conditioned and constrained.

- Sometimes, the organisation is in a position to wield (use) considerable power and influence some elements of external environment.
- Relationship between an organisation and external environment depends on factors such as its size, age, nature of business, nature of ownership, degree of professionalisation. Similarly, the external environment also behaves in Random or Structured; Placid (easygoing) or turbulent; Slow or fast changing; Simple or Complex manner.

"All organisations do not behave in the same way in relation to their external environment. Their structures and functions are shaped in tune with the demands of external environment"

Micro and Macro Environment

Aspects covered under respective business environments

Micro Environment	Macro Environment
❖ **Employees.** How are the., organized **Customers:** The basis on which firm relies on them ❖ **Finances**: How it can be raised ❖ **Suppliers:** How are links being developed ❖ between supplier and firm ❖ **Community:** The place(community) where the firm operates ❖ **Competition**: How others are performing.	❖ **Competition:** Who are the competitors and how they operate ? ❖ **Technology:** Which area of technology might pose a threat to their product range and why. ❖ **Bargaining power** of Suppliers & Customers ❖ **Type of competition** faced and perceived (thought) threat and weakness.

Environmental Scanning/ Environmental Monitoring

It is the process of gathering information regarding company's environment, analysing, it and forecasting the impact of all predictable environmental changes.

MICRO

- **Consumers/ Customers:** The main aim of any business is to create and retain customers. They are the people who pay money to acquire the product and services of organisation. Customers (one who pays) may or may not be a consumer (one who ultimately consumes).
- **Competitors:** They are the other entities that compete for resources as well as markets. Competition maybe Direct or Indirect
- **Organisation:** An organisation has different kind of individuals working in different capacities having different kinds of interests.
  - **Owners:** Individuals, shareholders having a majority stake in organisation.
  - **Board of Directors:** People selected by shareholders to oversee the general management of the company to run it for benefit of shareholders.
  - **Employees:** People who actually work for the organisation.
- **Market:** The cost structure/ price sensitivity/ technological structure/ distribution system / market maturity achieve a lot of significance.
- **Suppliers:** Suppliers with their bargaining power affect the cost structure and major decisions of **"out sourcing"** and **"in house production"** are taken after considering the relations with suppliers.

❖ **Demographic Environment**: Demographics denotes characteristics of population in a area, district , country or world on grounds of race, age, income, educational attainment, asset ownership, home ownership, employment status and location etc.

M A C R O	
M A C R O	♦ **Population size:** Some important question which would be looked up are as follows: ▪ Increase or decrease in the population ▪ Change in birth rate and death rate, family size, way of living ♦ **Geographic distribution:** ▪ Population shifts from one region to another / Metro to Non-Metro ▪ Availability of qualified work force ♦ **Ethnic Mix:** ▪ Handling of diverse workforces by managers ▪ Modification of existing products to suit changing needs ♦ **Income Distribution:** ▪ In income distribution pattern, purchasing power. ▪ Change in saving pattern

❖ **Economic Environment:** Purchasing power is a function of

♦ Current Income, prices, savings, circulation of money, debt and credit availability.

♦ Strategists must scan, monitor, forecast, assess, following factors in domestic and international markets.

Economic Factors

Level of disposable income	Availability of credit
Interest rates	Propensity of people to spend
Tax Rates	Income differences by region & group
Budget Deficits	Worker productivity levels
Consumption Pattern	Monetary and fiscal policies
Coalition of Countries/ Regions	Unemployment tends

❖ **Political-Legal Environment:** Government Policies, Specific Enactments and the framework in which the enterprise functions, affect a lot. Three major factors affect the environment.

♦ **Government policies**: A strategist has to consider changes in the regulatory framework and their impact on the business, (positive, negative, direct, and indirect). Taxes, EXIM

♦ **Legal:** A working knowledge of various laws in different states and countries in respect of consumer protection, competitions, organisation, intellectual property, foreign exchange, labour and so on.

♦ **Political:** Political pressure groups and influence organizations, unions. Along with that also movements, protests and agitations against product, services. NGO's Consumer right organizations, political, moral policing groups need to be managed.

- **Socio Cultural environment:** The social environment primarily affects the strategic management process within the organisation in areas of **MISSION, OBJECTIVE SETTING** (discuss at length in next chapter). Any organisation to operate need to understand and take care of following at the local level.

  - Values and beliefs
  - Levels and standards of literacy and education
  - Ethical standards and state of society
  - Extent of social stratification

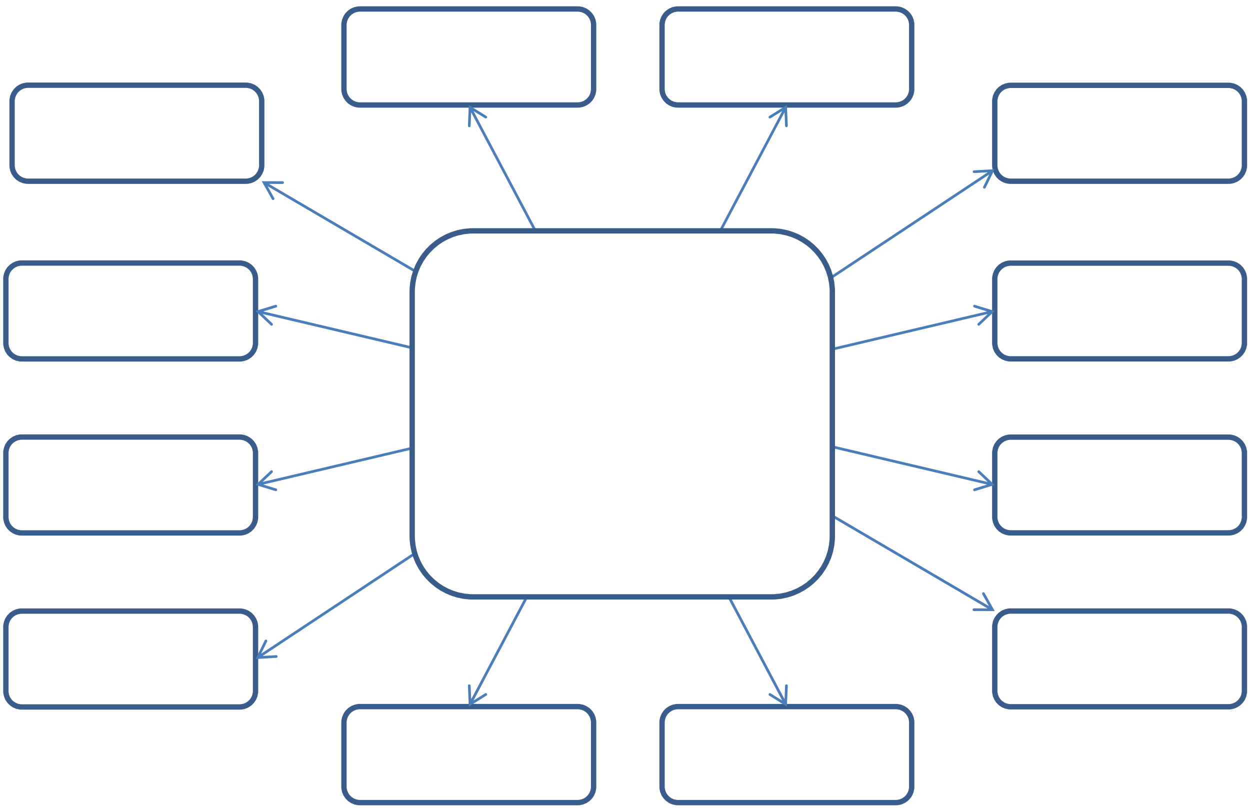
A business would end up answering questions about benefits of business to society, environmental pollution, social customs and practicing rituals.

- **Technological Environment:** Technology has changed the way people communicate. With the advent of internet and communication the way business is done has changed. Consider the following

  - Pull of technological change
  - Opportunities arising out of technological innovation
  - Risk and uncertainty of technological development
  - Role of R&D in country,

The fruits of technological research and development are available to society through business only and also this improves the quality of life of the society.

E.g. Dell Computer Corporation reduces its paperwork flow, schedule its payments more efficiently and effectively by using the capabilities of the Internet. This helps to eliminate / reduce/ paperwork flatten companies and shrink time and distance, thus capturing a competitive premium for the company.



<u>Globalisation:</u> A set of fresh beliefs, working methods, new realities in economical political and social environment where previous assumptions are no longer valid.

MNC TNC

From Developing Economy's point of view:

It means integration with the world economy, such unifications call for removal of trade barriers among trading countries. Even political and geographical barriers become irrelevant.

From Organisation's point of view:

(a) The Company commits itself heavily with several manufacturing locations around the world and offers product in several diversified industries, and
(b) It also means ability to compete in domestic market with foreign competitors

A global company will have

a. A conglomerate of multiple units
b. All units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
c. The units respond to some common **strategy.**

"Sports meet Fashion show can change the face of not only the area hosting it, it can even change the way business is done in that area"

Goa: **Delhi:**

Why do companies go global?

- ❖ Domestic markets become inadequate to absorb the increased capacity. (E.g. Japanese goods in US specially electronics and automobiles)
- ❖ New products developed by companies are sold in their home market. Then foreign markets learn about them and then justify foreign investment (E.g.
- ❖ A reliable and cheaper source of raw material is another reason to go global (E.g.
- ❖ Sometimes higher transportation costs may prompt and make a foreign investment more justifiable rather than an import. (E.g.

<u>Benefits of Globalisation:</u>

❖ configuring anywhere in the world	❖ entrepreneur and unit have a central economic role
❖ Interlinked and independent economies	❖ mobility of skilled resources
❖ lowering of trade and tariff barriers	❖ market side efficiency
❖ lowering of trade and tariff barriers	❖ market side efficiency
❖ infrastructural resources and inputs at international prices	❖ formation of regional blocks
❖ increasing trend towards privatization	

Strategic Response to the Environment

An organisation may respond to the changing scenario in following ways. Strategically it should make efforts to exploit the opportunities and ward off threats

Least Resistances	Proceed with caution	Dynamic Response
♦ Survival is by way of coping with the changing environment ♦ They are goal maintaining units ♦ Very passive in their behaviour ♦ Solely guided by external environment ♦ Not ambitious ♦ Reactive action	♦ Business takes intelligent interest to adapt with the changing environment, ♦ They monitor the environment, analyse the impact on their own goals , and activities and ♦ Translate their assessment in pursuing the strategy of survival, stability, and strength. ♦ They consider problems and complexities as a part and parcel of the game of business. ♦ Proactive action	♦ Business who consider external forces manageable by their action ♦ Have highly dynamic and powerful feedback systems ♦ They not only recognize and reduce threats, they convert them into opportunities ♦ They are always ready with an alternative plan in case of changing situation

Competitive Environment

The essence of strategy formulation is coping with competition. While formulating strategies, organisations have to separately identify and concentrate on the competitors who are significantly affecting the business

Cooperation in competitive environment: Similar to OLIGOPOLY as defined in economics, people get together to cooperate with each other in business. E.g. OPEC,

- A cold drink manufacturer entering into an agreement with chain of restaurants to offer it's beverages to clients of restaurant **(Mc. Donald's, tie up with Coke)**
- Credit card companies tying up with various companies for co-branded credit cards (Citibank with shopper's stop, jet airways)

Kieretsu: A concept of (**Japanese origin**) economic cooperation where businesses co operate with each other to enhance the abilities of individual members businesses to compete in their respective industries. Featured as

- A **Kieretsu**s a loosely coupled group of companies usually in related industries
- Members may own significant amount of each others stock and have many board members in common
- **Its neither in association nor a consortium** as the main purpose is not to share the information or agree industry standards but
- To share **purchasing, distribution or any other function**.
- Members remain independent companies in their right

The only thing common with members is to do business with other **Kieretsu** members when buying or selling.

Porter's Five Forces model – Competitive Analysis

Competitive analysis every time does not require gathering all the unnecessary information. The model holds that the state of competition in any industry is a composite of competitive pressure operating in five areas of overall market.

Bargaining power of suppliers

New Entrants

Threat of entry of new rivals

Suppliers

Industry competitors and Extent of Rivalry

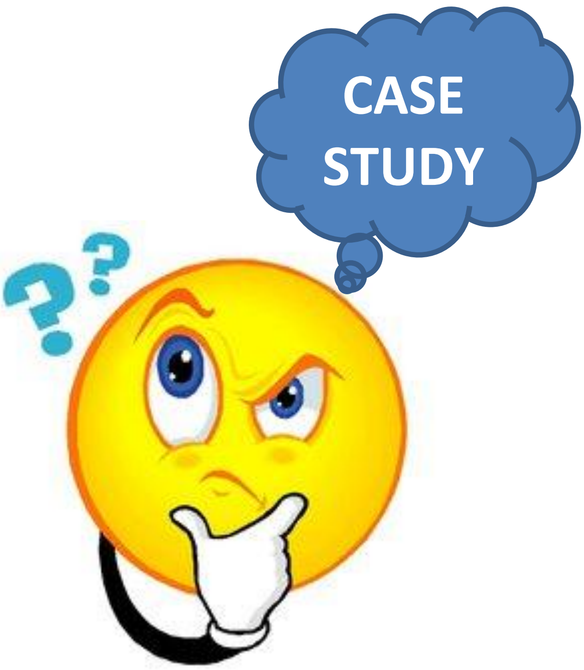
Buyers

Threat of substitute products

Substitutes

Bargaining power of buyers

- **New Entrants:** They are always a powerful source of competition. Bigger the new entrant, more sever the competition r would be .it affects the pricing and profitability of the existing market, **(entry of TATA Indicom in CDMA market)**
- **Bargaining power of customers:** the force can be bigger when buyers form pools or cartels, it is more prominent in case of industrial products where groups together put pressure on producer on matters such as price, quality and delivery, **(e.g. TATA and Reliance in CDMA handset market; Airtel and Reliance in Blackberry technology)**
- **Bargaining power of suppliers:** If supplier is offering a specialized and customized product he will demand a premium for that, which will affect the cost of raw material and profitability in the industry
- **Rivalry among current players:** The existing players compete and decide cost of product, production facilities, product development, advertising, sales force etc.
- **Threat from substitutes :** Substitute products offer a price advantage and/or performance improvement to the consumer. It can drastically alter the competitive character of the industry. One should always keep an eye on the R&D expenditure and intellectual property expenditure of competitor.



Information technology (IT) exports from the software technology park are in Sohanpurin Uttar Pradesh has increased from Rs 1005 to Rs 1455 Crores in the last 5 years. To further this growth and discuss the common issues various IT professionals of different companies assembled for a meeting. Their agenda included discussion on the issues relevant for the development of Technology Park and available opportunities in the IT - industry for companies planning to set up IT and processing businesses in Sohanpur.

It was felt by a few persons that the absence of an airport and availability of uninterrupted round the clock power supply were major hurdles towards the development of the park. The nearest airport is 600km away in New Delhi.

One of the participant highlighted the importance of world-class telecommunication facilities in the area. He felt that the telecommunication technology in the region is primitive and is not able to meet the present needs of the region. He also spoke at length about the problems of frequent job changes by present youth. He highlighted that a major problem is lack of patience in the young generation of IT professionals. He said retention was a major problem in Sohanpur as professional preferred bigger cities. He suggested that IT businesses should get together to create a conducive working climate for retention as well as growth.

Answer the following questions:

a. List out different environmental factors for a new entrepreneur who wants to start a new IT project in technology park.

   Segregate them as positive and negative

b. What is importance of an airport in city ? Discuss

c. Suggest how manpower issues can be dealt by the businesses in the IT park.

Question from My Desk (very Important) For Business Environment

Q.1 Globalization means different things to different people. Explain.

Q.2 What is PESTLE analysis?

Q.3 What are the manifestations or effects of Globalization?

Q.4 Explain the business environment and why environment analysis is important?

Q.5 Why Do Companies Go Global?

Q.6 What are the various business objectives?

Q.7 What are various elements of micro & macro environment? Discuss briefly.

Q.8 What is competitive environment? Discuss the five forces driving industry competition as given by Porter.

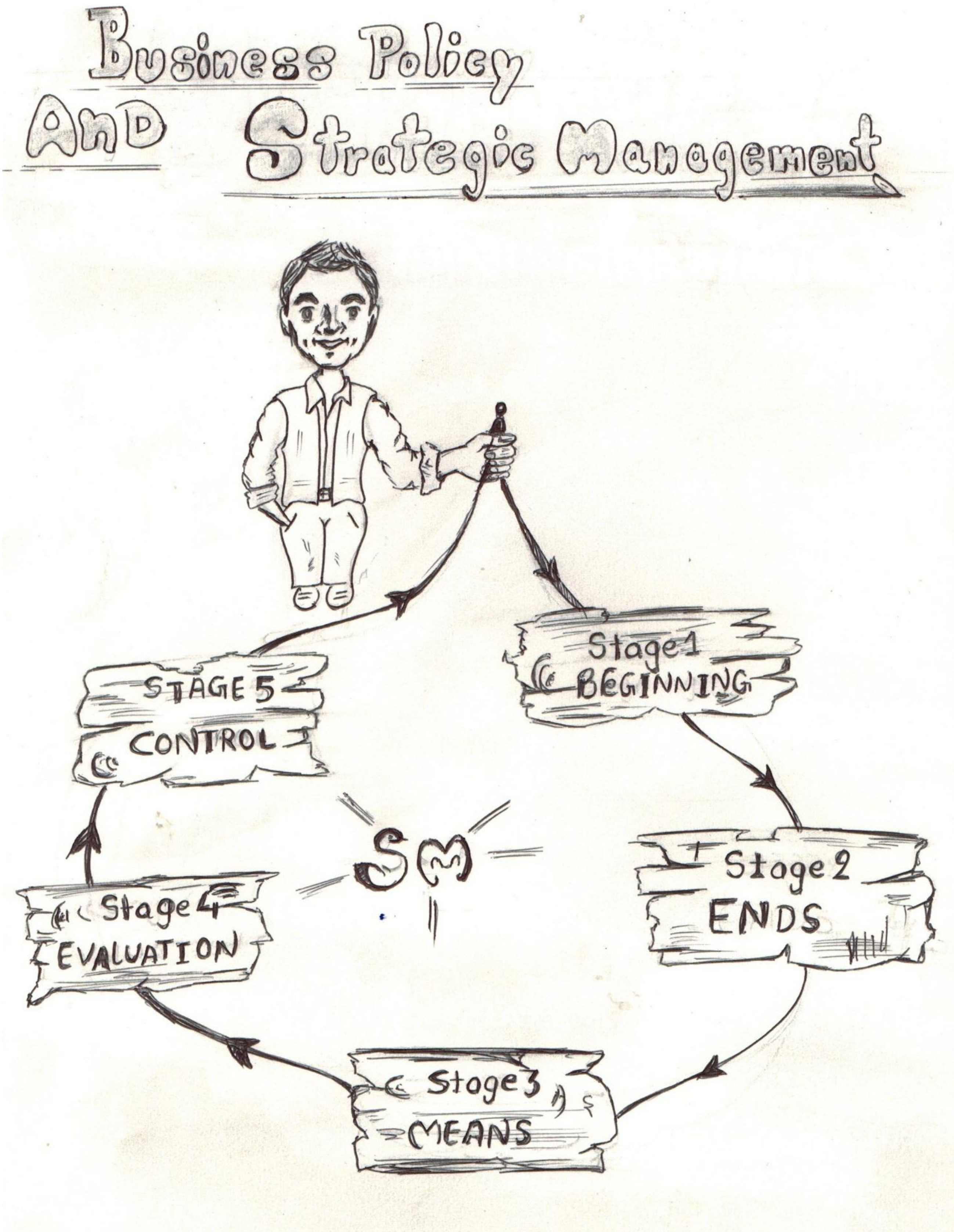
Q.9 Discuss the relations between organizations and their external environment? How organizations strategically respond to their environment?

Q.10 What is Demographic environment of business?

Q.11 What is a Kieretsu.

CHAPTER - 2

Business Policy and Strategic Management



"Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action"

Peter Drucker

What we think, know, or believe in is, in the end, of little consequence. The only consequence ... is what we do...!

Haines

The management of business has acquired a STRATEGIC dimension. Business policy and strategic management are highly intertwined

Business Policy

- It is study of the functions and responsibilities of the senior management.
- The crucial problems that affect the success in total enterprise and
- The decisions that determine the direction of the organization and shapes its future

Business Strategy

The business has to respond to a dynamic (ever changing) and hostile (unfriendly) environment for pursuit of their mission.

Objective of business $\xrightarrow{\textbf{Strategy}}$ **Means of Achieving the business objective**

It is the game plan of the management to have

- Market position
- Conduct its operations
- Attract and please customers TV
- Compete successfully
- Achieve organisational objectives

"It is the long range blue print of an organisations desired image, direction, direction and destination what it wants to be, what it wants to do and where it wants to go."

"A unified, comprehensive and integrated plan designed to assure that the basic objective of the enterprise are achieved" - William Glueck

Strategy

It is **consciously considered** and **flexibly designed** scheme of corporate intent and action

- to achieve, effectiveness,
- to mobilize resources,
- to direct effort and behaviour,
- to handle events and problems,

- to perceive and utilize opportunities and
- to meet challenges and threats to corporate survival and success

Top management operates in an environment of partial ignorance and uncertainty :.

A CORPORATE STRATEGY has following characteristics:

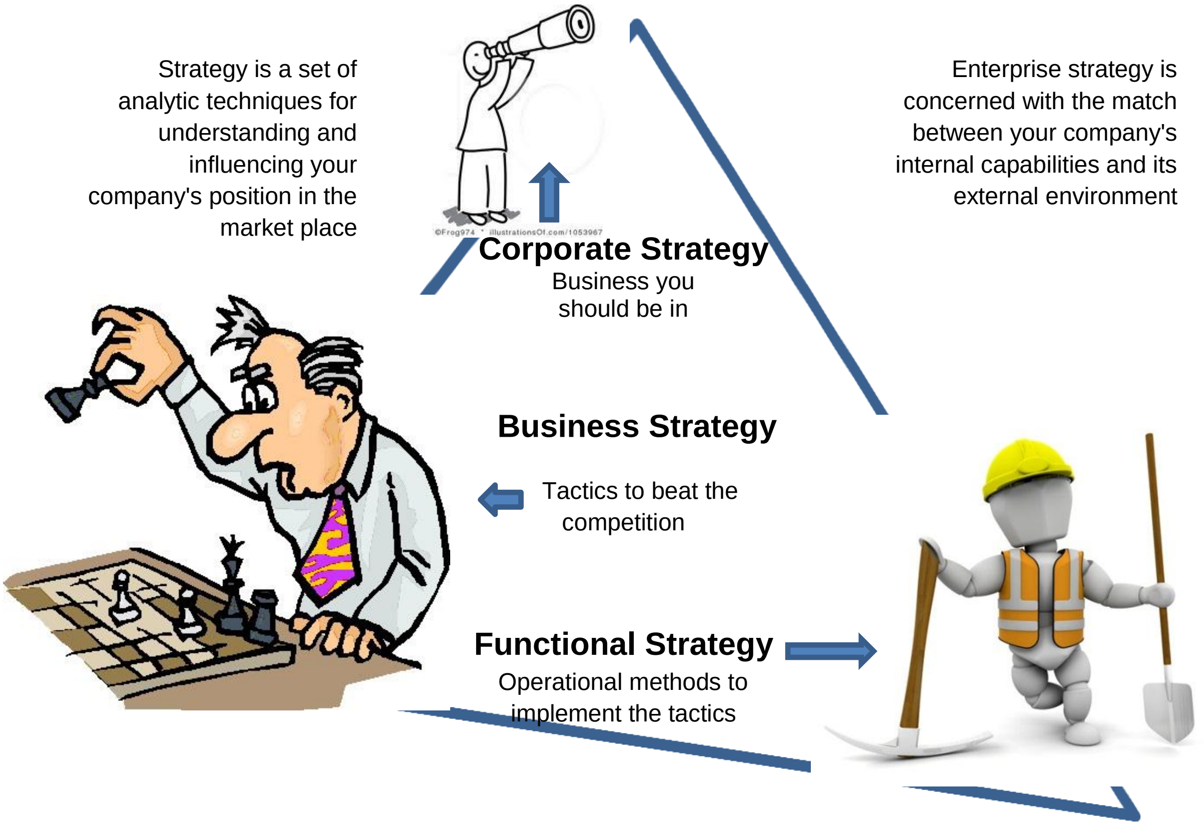
- It is generally long run in the nature
- It is action oriented and more specific than objectives
- It is integrities and multipronged (involving several different approaches or aspects) and integrated
- It is flexible and dynamic
- It is made at the top management level
- It helps in dealing with competitive and complex setting of business
- It is a result of goals and objectives of the enterprise **WHICH NEED TO BE TRANSLATED TO REALITIES**
- It helps perceive (recognise) opportunities and threats and initiative to cope with them .
- It gives importance to combination, sequence, timing, direction and depth of various moves and actions taken by the managers to handle environment uncertainties and complexities.
- It gives a unified criteria for decision making

Strategy can be devised at

- ♦ Corporate,
- ♦ Divisional and
- ♦ Functional level

Corporate level strategies: Top-level managers about business lines, expansion, growth, vertical / horizontal integration diversification takeovers, mergers, new investment, disinvestment, R&D, make them and so on.

Divisional and Functional Strategies: the corporate strategies need to be turned into reality by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.



Strategy can never be perfect flawless and optimal However, in a sound strategy allowances are made for possible miscalculations and unanticipated events.

Generic Strategic Alternatives

According to William F Glueck and Lawrence R Jauch there are four generic strategic alternatives that can be considered,

a. Stability (Steadiness): When a firm decides to continue what it has been, doing so far then the firm would focus on incremental improvement of functional performance. One should not confuse this with **"Do Nothing"** strategy.

It's good for mature Business organisations.

Company	Line of Service / Business

b. Expansion Strategy : Adding to the scope of business and increasing the area of thinking. One should have vigour, hunger for more and promise to grow. It would force the business to think beyond the ordinary. Expansion will attract the following things

- New technology,
- New markets,
- Innovative decisions,
- Diversifying, acquiring or merging new business, It is achieved in various ways

<u>Expansion through diversification</u>: Entry into new products or product lines, new services or new markets, involving different skills, technology, and knowledge.

- **Conglomerate Diversification:** Creating something new for which a totally new class of customers need to be created. The technology and market for the product is totally new then the previous experience of the firm.

- **Concentric Diversification:** When an organisation builds around what they already know and what they already have is concentric diversification. They utilise their existing capacities in more efficient manner. Such kind of diversification may occur due to organisation having excess capacity, surplus funds, marketing channels, market prestige. Another reason is also that it may have a synergistic advantage.

- **Expansion through acquisitions and mergers**: A sudden way to, grow bigger than the ordinary means. Not having the time effort and energy to build the resource base, customer base all over again. The entrepreneur wants a ready base of the infrastructure to work up his idea. **A SYNERGY** would result in physical facilities, technical and managerial skills, distribution channels, general administration, research, and development.

c. Retrenchment strategy: Organisations may some time do away with closing a business line or leaving a particular market. It may be necessary to deal with a hostile environment or adverse situation. It is not a bad idea to reduce the adverse situation by closing a business line or stopping the production of a product. The strategy may work in different stages.

Stage -1

A cut on following expenditures

- Administration;
- Reduction in repairs and maintenance expenditure.
- Replacement of old machinery
- Suspension of capital expenditure
- Reduction in staff welfare
- Executive perks etc.

Stage-2

The focus of the organisation now shifts on to purely Cost Cutting Aspects such as

- Inventory Levels
- Manufacturing level
- Manpower
- Plant maintenance
- Dividend to shareholders
- Interest on deposits

Stage-3

The enterprise would decide to withdraw from some markets, some brands and size of products

- Discontinuation of a product
- Discontinuation of a brand
- Withdrawal form some marginal markets
- Winding up of branch offices

- Abolition of some executive positions

Stage-4

The enterprise may resort to sale of some manufacturing facilities and individual product divisions that are more a burden to the company. The enterprise may also offer itself for a take over by another viable enterprise.

Stage-5

The last option may finally lead to seeking a liquidation i.e. asking for a Corporate Death

d. Combination Strategies

There is no hard and fast rule that one strategy can be applied at a time. A company can look for expansion in some areas, retrenchment in others.

Dynamics Of Competitive Strategy

The economic and technical aspect along with the expectation of the society are major factors which determine the competitive strategy of an organisation. An organisation should find out where it has its strength i.e. Marketing, R & D, Operations etc.

Strategic Management

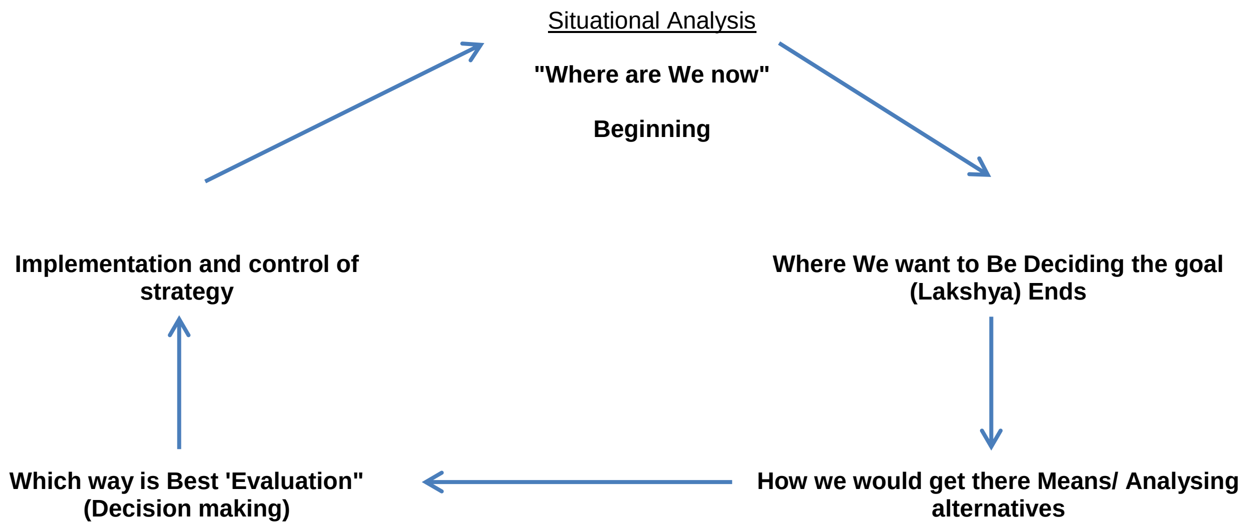
In this **hyper competitive** world one can be successful only by giving **superior value to target customers**. The overall objective of strategic management is to

- To create competitive advantage , so that the company can outperform the competitors in order to have dominance over the market
- To guide the company successfully through all changes in the environment.

  The process of strategic management starts with
- developing a company mission (to give it direction),
- Objectives and goals (to give it means and methods for accomplishing its mission)
- Business portfolio (to allow management to utilise all facets {aspects/resources} of organisation) and
- Functional plans (plans to carry out daily operations from the different functional disciplines)

"The term strategic management refers to the managerial process of forming a strategic vision, setting objectives crafting a strategy implementing and executing the strategy, and then overtimes initiating whatever corrective adjustments in the vision, objectives, strategy and execution are deemed appropriate"

Framework of Strategic Management



Strategic Management Cycle

Stage-1: It is the starting point; it is the situational analysis of the firm in the environmental context. Firm should realistically look for it's

- Market position
- Corporate image
- Its Strength, Weakness, Opportunities, Threats known as SWOT

Stage-2: It is the process of **goal setting** for the organisation after finalization of it's Vision **(mental picture)** and Mission **(what customer it serves, what need it satisfies and what type of products it offers).**

Stage – 3 : The organisation here deals with various strategic alternatives.

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Stage - 4 : Out of the alternatives generated in the earlier stage, organisation selects the best alternative generated in line with its SWOT analysis.

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Stage-5: The strategy, which was adapted in stage-4 is implemented and controlled. A continuous situational analysis is done.

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Significance of Strategic Management

- It works as a pathfinder to various business opportunities
- Serves as a corporate defence mechanism
- Helps the firm avoid costly mistake in product market choice or investments
- It has got to provide the organisation with certain core competencies and competitive advantages in its fight for survival and growth. It is not just a matter of projecting the future. It is not just a forecasting job; it is concerned with ensuring a good future for the firm.
- Environmental uncertainly makes strategy and strategic conduct essential in a business.
- According to Darwin's "Survival of the Fittest" is the only principle for survival. Where fittest are not the largest or strongest but those who can change and adapt successfully to the changes in business environment.

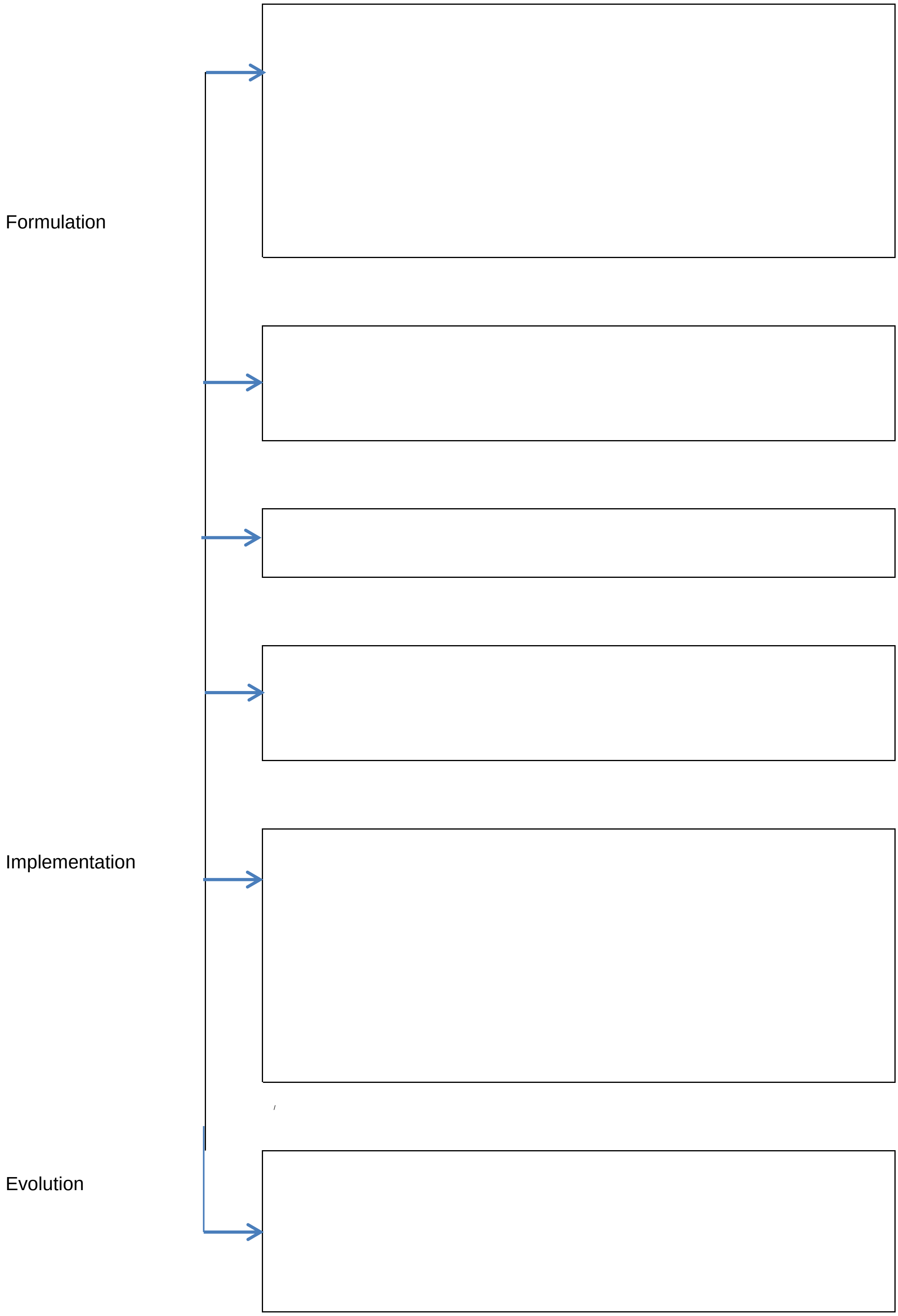
Strategic Decision Making

Specific features that distinguish it from normal day-to-day decision-making are as follows:

1. Strategic issues require top management decisions: There is lot of risk involved
2. It involves allocation of large amount of company sources
3. Strategic issues are likely to have a significant impact on the long term prosperity of the firm
4. Strategic issues are future oriented
5. They have multifunctional and multi business consequences
6. Strategic issues necessitate consideration of factors in the firms external environment.

Strategic Management Model

Every model represents some kind of process. This model like any other modal of management does not guarantee a sure shot success but is widely accepted and comprehensive. It represents a clear and practical approach for formulating, implementing, and evaluating strategies.



The process is dynamic and continuous;

♦ A change in one component can necessitate change in others;

♦ The strategic management process never really ends;

♦ Practically, strategists do not go through same in a lockstep fashion (step by step)

Management's job is not to see the company as it is but as it can become.

John W Tiets
CEO, Grey Hound Corporation.

How can you lead when you don't know where you are going

- George Newman

Vision mission and objectives

VISION

- Top management's view and conclusions about the company's direction and the product-customer-market-technology focus constitutes a strategic vision for the company.
- A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organisation's identity.
- It specifies about technology and customer focus, markets to be covered, capabilities to be developed and the kind of company that management wants to create.

Elements of Strategic vision are as follows:

1. Defining **'who we are and where we are now**" i.e. developing a mission statement.
2. Using the mission statement for deciding the long-term course. **"Where we are going".**
3. Communicating the Strategic vision in clear terms to arouse organisation wide commitment

MISSION

Mission is answer to the question of "**what business are we in"** Mission statement is typically focused on its present business scope-**"who we are and what we do."** They rapidly describe organisation's present capabilities, customer focus, activities, and business make-up.

Every business must clarify the corporate mission and define accurately the business the firm is engaged in. A MISSION'S importance can be elaborated as follows

- It is an expression of growth ambition of firm.
- It is in fact, the **firms future visualized.**
- Corporations dream crystallized.
- A sketch of how the organisation wants to look, irrespective of the current position.
- It is a grand design of the firm's future.

- It serves as a justification for the firm's very presence and existence.
- **It is through the mission that firm spells out its vision**
- A mission **is not a confidential affair to be confined at the TOP it has to be Open to the entire Co.**

Every organisation works through a network of aims. Mission is the foundation from which the network of aims is built. It's a declaration to outsiders and an inspiration for insiders cording to Peter F. Drucker every organisation must ask "**What Business are we In?**

Company	Production Oriented Answer	Marketing oriented answer
ICICI insurance		
Make my trip		
Indian Railways		
Eastman Kodak		
Indian oil		
BSNL		
Revlon		

Mission and Purpose

Mission	Purpose
♦ A statement which defines the role that an organisation plays in the society. ♦ It strictly refers to the needs of the society.	♦ Anything which the organisation strives for ♦ Purpose relates to what the organisation strives to achieve in order to fulfill its mission to the society.

A book publisher may aim at producing excellent reading material while a editor may strive to present news analysis in a balanced and unbiased manner. **BOTH HAVE DIFFERENT PURPOSE BUT IDENTICAL MISSION**

"The mission of our company , as William Hasketh Lever saw it, is to make cleanliness commonplace, to lessen work for women, to foster health, and to contribute to personal attractiveness that life may be more enjoyable for the people use our products"

"To attain Leadership position in the confectionary market and achieve a strong presence in the food drinks sector"

"To become major Player in the global chemicals business and simultaneously grow in other growth industries like infrastructure"

"Our ambition is to be the leading global professional services organization, solving complex business problems for top - tier clients in global, national and local markets."

To pursue the highest levels of integrity, quality and professionalism to provide clients with a broad array of services relating to audit and risk-related services, tax, and transactions."

© Can Stock Photo – csp9946590

Objectives and Goals

Business organisations translate their vision and mission into objectives. If we try to distinguish them then:

Objectives are open-ended attributes that denote the future states or outcomes.

Goals are close-ended attributes that are precise and expressed in specific terms. Thus, we can say that Goals are more specific and translate the objectives to short-term perspective. Both the terms are used interchangeable in our discussion.

Objectives: They are organisations performance targets. The result and outcomes it wants to achieve. They function as yardstick for tracking an organisation's performance and progress.

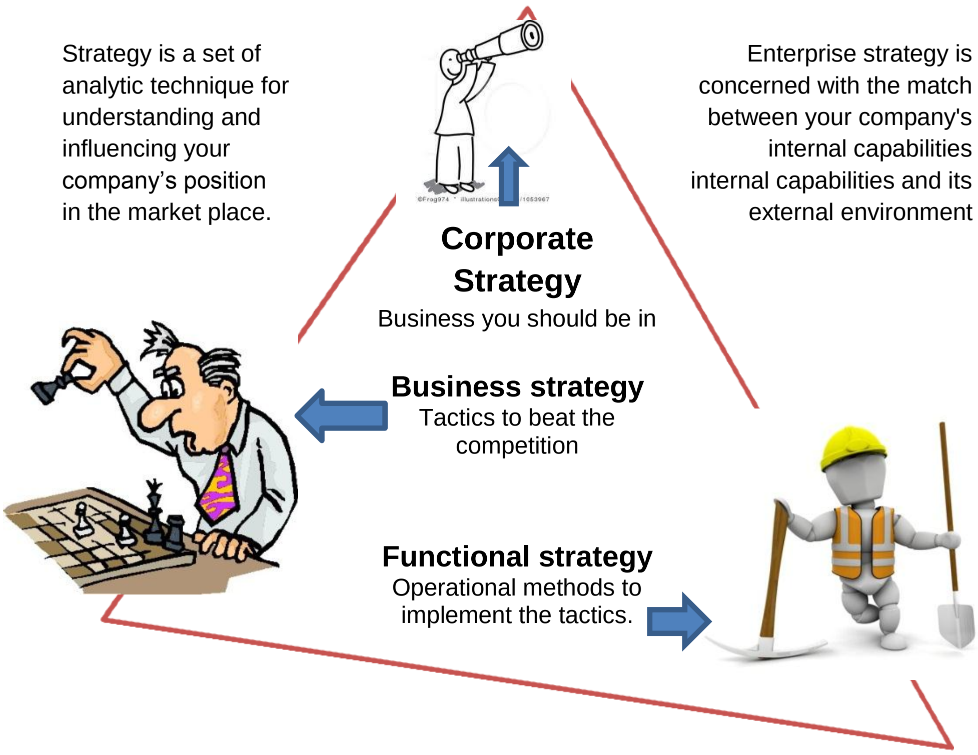
Strategic levels in an organisation

General Managers : Who bear the responsibility for the overall performance of the company or for one of its major self-contained sub-units or divisions.

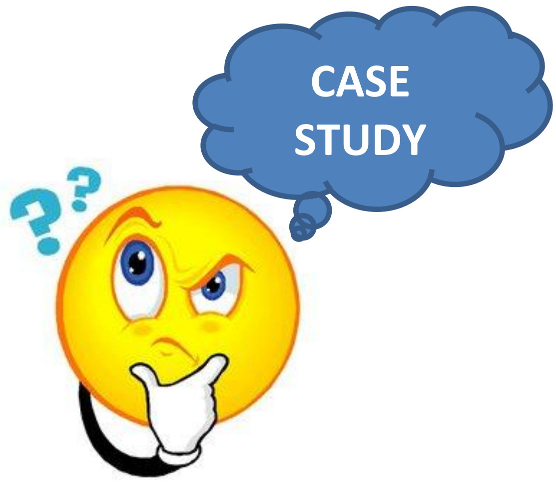
Functional Managers: People who are responsible for supervising a particular function that is a task, activity, or operation. Like finance, accounting, production, marketing etc.

Strategy is a set of analytic technique for understanding and influencing your company's position in the market place.

Enterprise strategy is concerned with the match between your company's internal capabilities internal capabilities and its external environment



- Corporate Level: CEO, Senior Executive, Board of Directors and corporate staff
- Business Level : Divisional managers, Business managers
- Functional Level: Operational managers handling individual functions such as Accounts, Finance etc.



Delhi based Ace International is close to acquiring popular household brands Yummy and Tasty from Beet root Ltd. The deal, at rupees Thirty Five Crore was announced at a joint press conference.

It was sometime back that Beet Root felt the need to restructure its unwieldy product portfolio and exit brands which had low business potential for the company. Beet Root had put these brands on sale last year. Ace has emerged as the highest bidder for them .The Company, stated in the press release that Ace is buying brands but not their manufacturing facility at Noida (near Delhi), because the plant also makes other food products which are Beet Root's core food brands.

While Yummy and Tasty are marginal businesses for Beet Root (around Rs 20 Crore per annum), management consultants felt that they are a good fit in Ace's product portfolio. The company makes the same genre of products and can grow the brands without additional input or distribution costs. Tasty and Yummy are food brands that Ace can manufacture in its existing plants spread across seven locations in Punjab and Maharashtra. The company can also use the same set of distributors to place these brands in shop's. Financial analysts expect them 8-10% to Ace's Rs 250 Crore turnover in the first year.

a. Discuss the business strategy for Ace

b. Discuss the business strategy for Beet root.

Question from My Desk (very Important) For Business Policy and Strategic Management

Q.1 Explain 'Shared Vision' and 'Vision Shared'.

Q.2 What are the various Strategic Levels in Organizations?

Q.3 What are differences between Vision and Mission?

Q.4 Explain Business Policy & Strategy?

Q.5 What are the general characteristics of a "Corporate Strategy"?

Q.6 Define Strategic Management, explain its five stages.

Q.7 Explain the Dynamics of Competitive Strategy

Q.8 Define Strategic Decision Making, explain its dimensions.

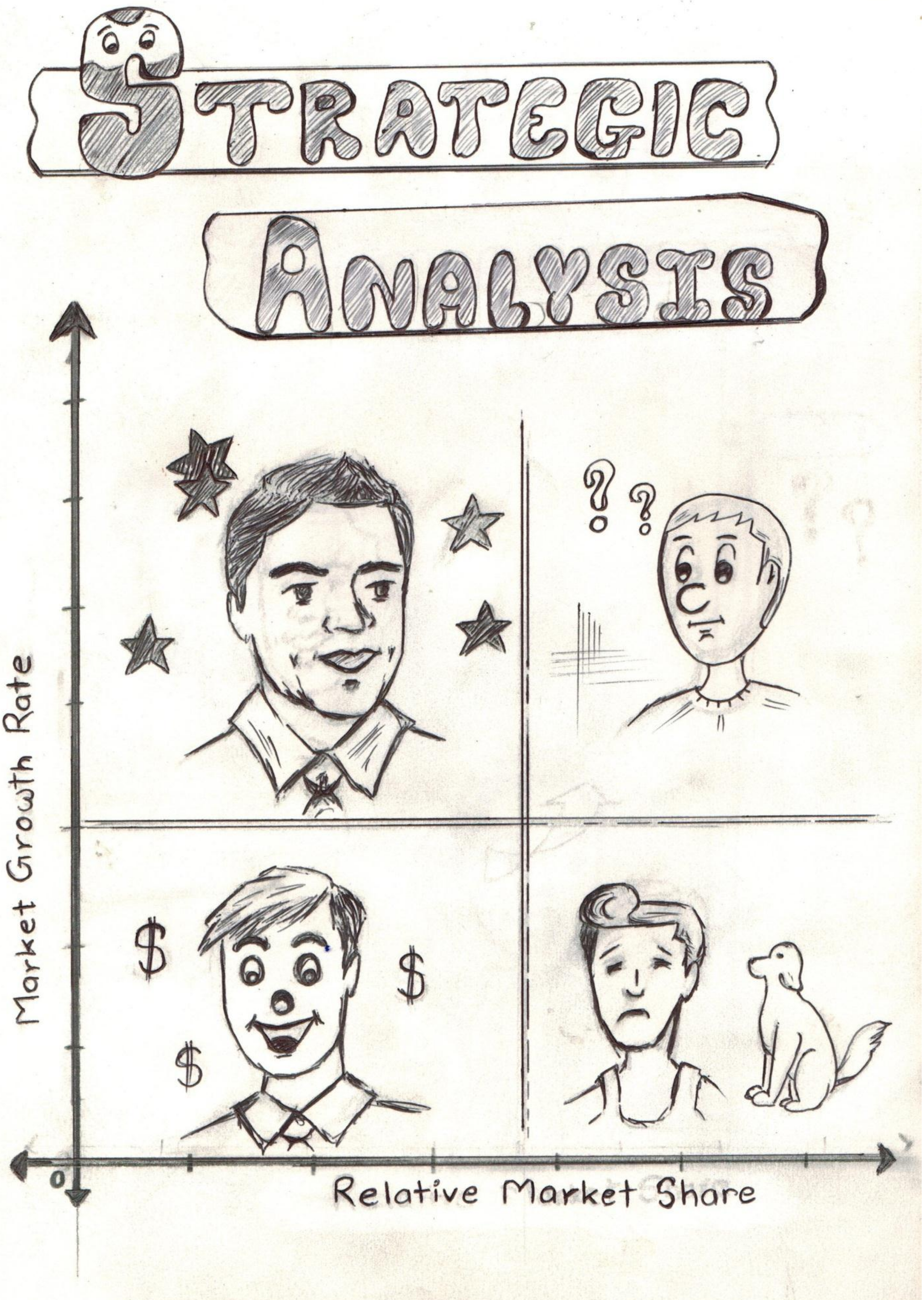
Q.9 Explain the importance of strategic management.

Q.10 What is Strategic Management Model? Explain its three categories.

Q.11 What you understand by Organization's Objective? Explain its Characteristics

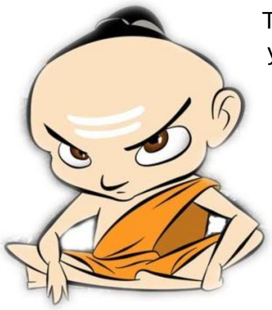
CHAPTER - 3

Strategic Analysis



Analysis is the critical starting point of strategic thinking

-Kemichi Ohmae



The idea is to concentrate your strength against our competitor's relative weakness.

-Bruce Henderson

If you are not faster than your competitor is, you are in a tenuous position, and if you are only half as fast, you are terminal.

-George Salk

Strategic Analysis

The judgement about what strategy to pursue need to flow directly from ^id analysis of company's external environment and internal situation. The two most important situational considerations are

1. Industry and competitive conditions
2. Company's own competitive capabilities, internal strengths, weaknesses and market position.

An accurate diagnosis of the company's, situation necessary managerial preparation for deciding on sound long term direction, setting appropriate objectives and crafting a winning strategy.

Issues to consider strategic analysis

❖ **Strategy evolves over a period of time:** One should closely observe the day to day routine decisions as the strategy of a business, at a particular point of time, is result of a series of small decisions taken over an extended period of time. What we reap today is a conscious and unconscious effort of our past actions.

❖ **Balance :** Making a strategy is like marrying potential of your organisation with environmental opportunities. A perfect match is hot possible.

A manager working on strategic balance has to balance opportunities, influences and constraints.

Management
↓
Strategy → Environment
↑
Resources

❖ **Risk:** The principle of maintaining balance is important. The lives we lead is uncertain and business is no exception. An important aspect of strategic analysis is to identify potential imbalances or risks that assess their consequences.

External risk is because of inconsistencies between strategies and .forces in the environment.

Internal risk occurs on account of forces that are either within the organisation are directly interacting with the organisation on a routine basis.

Strategic risk

	Short Term	Long term
External	Wrong interpretation of environment	Change in Environment making strategy ineffective
Internal	Organisation capacity unable to cope with demand	Changes in internal capacities and preferences.

Situational Analysis

From thinking strategically about the company's situation to choosing a strategy

Thinking strategically about a company's external environment

Thinking strategically about a company's internal environment

→ Forma strategic vision of where the company needs to head

→ Identity promising strategic options for the company

→ Select the best strategy & business model for company

The factors to be considered in situational analysis are as follows:

❖ **Product situation:** Ask **"what is my current product?** " Break the product classification into

♦ Core/Main Product/service:

♦ Secondary/ supporting product/ service:

❖ **Competitive situation**: Analyse your main competitors,

♦ Who are they?

♦ What are they up to?

♦ What are their competitive?

❖ **Distribution situation:** Review your distribution situation

♦ How are you getting your product to the market?

♦ Do you need to go through distributors or other intermediaries?

- **Environmental factors** : The external and internal factors affecting the environment should be listed down, for situational analysis. These can be sociological, economical, technological etc.

- **Opportunity and issue analysis:**

♦ What current opportunities are available in the market?

♦ Main threats which business faces or may face in the future?

♦ Strengths that business can rely on

♦ Weaknesses, which may affect the business performance?

<u>An overview of the competition between various search engines on the internet</u>

External Analysis

Customer Analysis

- Segment
- Motivation
- Unmet needs

Competitor Analysis

- Identity
- Strategic Group
- Performance

Market Analysis

- Size
- Projected Growth
- Profitability
- Cost Structure
- Strengths

Environment Analysis

- Technological
- Government
- Economic
- Cultural

Opportunities, Threats, Trends, Strategic Uncertainties

Internal Analysis

Performance Analysis

- Profitability
- Sales
- Customer satisfaction
- Product quality
- Brand associations
- Employee capability

Determinates Analysis

- Past and current strategies
- Strategic Problems
- Organisational capabilities
- Financial resources

Strategic strength, weaknesses, problems, constraints, and uncertainties

Completion of strategic analysis is through Strategy Identification and Selection, which involves:

❖ Identifying strategic alternatives

- Product maker investment strategies
- Functional area strategies
- Assets, competencies and synergies

❖ Select strategy

❖ Implement the operating plan

❖ Review strategies

An industry's economic traits and competitive conditions and how they are expected to change, determine whether its profit prospects are poor, average or excellent. Industry and competitive conditions differ so much that leading companies in to attractive can find it hard to earn respectable profits, while even weak companies in attractive industries can turn in good economic performances.

Methods of industry and competitive analysis

Industry and competitive analysis can be done using a sety of concepts and techniques to get a clear fix on following:

- Key industry traits
- Intensity of competition
- Drivers of industry change
- Market position and strategies of rivalry companies
- Industry's profit outlook

Following issues build understanding of firm's surrounding environment and collectively, form the basis for matching its strategy to changing industry conditions and competitive realities.

1. **Dominant economic features of the industry :** Industry is a group of forms whose products have same and similar attributes such that they compete for same buyers.

   a. Market size

   b. Small companies / dominant companies

   c. Number of buyers and their relative sizes

   d. Clustering of participants in a location i.e. Sarees in Surat, IT in Bangalore, Locks in Aligarh

   e. Whether high rates of capacity utilization are crucial for achieving low cost production efficiency

2. **Nature and strength of competition**:

Porter's five forces analysis is a powerful tool for systematically diagnosing the principle competitive pressures in a market and assessing how strong and important each one is

New Entrants

Suppliers

Industry Competitors and Extent of Rivalry

Buyers

Substitutes

3. Triggers of change: All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response from participating firms. The life cycle stages are strongly related to changes in overall industry growth rate (i.e. rapid growth, early maturity, saturation and decline are used to describe the stages.) The most dominant forces are called driving forces because they have the biggest influence on what kind of changes will take place in industry's structure and competitive environment. Two things can be analysed out of this:

a. Identifying the driving forces

b. Assessing the impact they will have on the industry

Most common driving forces are:

- The internet and E-commerce the new opportunities and threats it breeds into industry.
- Increasing globalization
- Product innovation
- Marketing innovation
- Diffusion of technical know how across more companies and more countries.

4. Identifying the companies that are in strongest and weakest positions: One technique for revealing the competitive positions of industry participants is strategic group mapping.

It is an analytical tool for comparing the market positions of each firm separately and grouping them into like positions when an industry has so many competitors. A strategic group consists of those rival firms with similar competitive approaches and positions in the market. Competitiveness can be measured on various grounds such as

Process of constructing a strategic group:

Step 1: Identify the competitive characteristics that differentiate firms in the industry: Typical variables include price/quality range (high/medium/low), geographic coverage (local/regional/national/global).

Step 2: Plot the firms on a two variable map using pairs of these differentiating characteristics.

Step 3: Assign firms that fall in about same strategy space to the same strategic group.

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

5. **Likely strategic moves of rivals:** Unless a company pays attention to what competitors are doing it ends up flying blind into competitive battle. Competitive intelligence is about
   a. the strategies rivals are deploying
   b. their latest moves
   c. their resource strengths and weakness
   d. plans they have announced

All this is necessary to anticipate the actions they are likely to take next and what bearing their moves have on a company's own strategic moves.

6. **Key factors for competitive success (KSF):** It is those things that affect most industry members ability to prosper in the market place. KSF's are the rules that shape whether a company will be financially and competitively. successful Key questions to be answered are as follows:
   a. On what basis do customers choose between competing brand of sellers?
   b. What resources and competitive capabilities does a seller need to have to be competitively successful?
   c. What does it takes for sellers to achieve a sustainable competitive advantage?

Industry	KSF's
Education	
Entertainment	
Clothing/apparel	
Electronics	
♦ Washing machines ♦ Microwaves ♦ Television ♦ DVD Players ♦ Music systems ♦ Cell phones	
TV shows	
Hospitality	

Companies that stand out on a particular KSF enjoy a stronger market position for their, efforts being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. Only rarely does an industry have more than three or four key success factors and even out of these 3 or 4 ,1 or 2o usually outrank the others.

The main purpose is to make judgments about what things are more important to competitive success and what are less important.

7. **Prospects and financial attractiveness of industry:** To use the result of analysis of previous six issues to draw conclusions about the relative attractiveness or unattractiveness of the industry both near term and long term.

   a. If an industry's overall profit prospects > average = Industry is attractive

   b. If an industry's overall profit prospects < average = Industry is unattractive

   Sometimes something, which is unattractive for one, may be attractive for other. Attractiveness is relative not absolute Industry environments not attractive to weak competitors may appear attractive to strong competitors.

If industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to

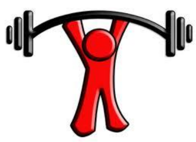
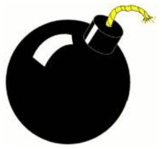
a. Invest cautiously

b. look for ways to protect their long term competitiveness and profitability

c perhaps acquire smaller firms if the price is right

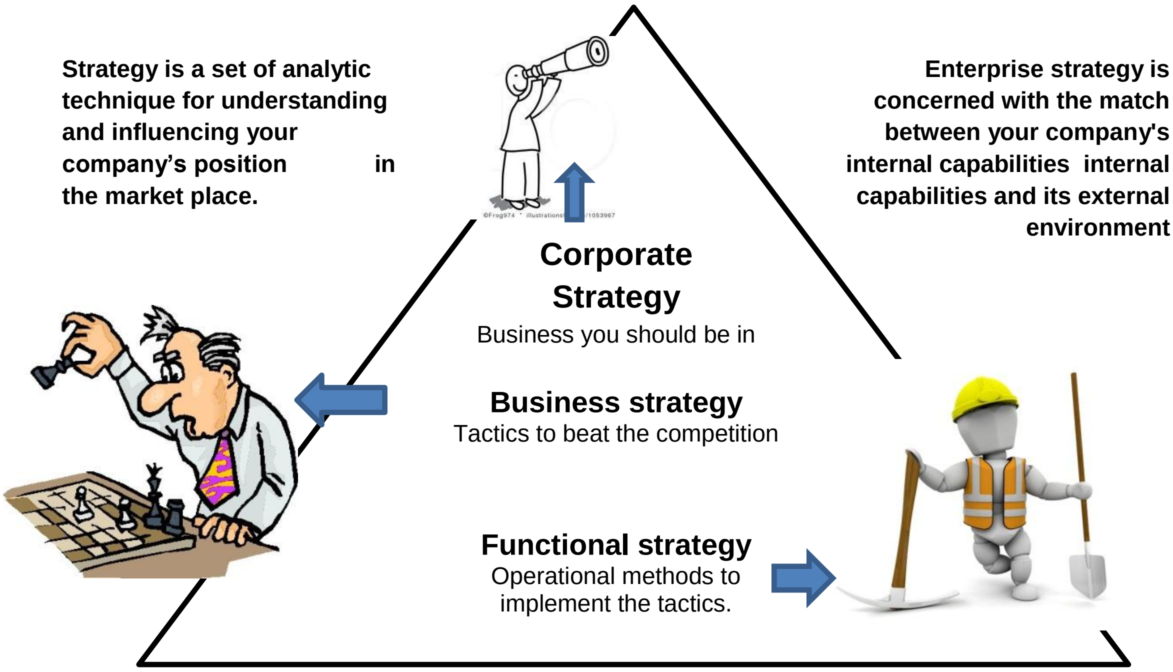
In the long run, strong companies may consider diversification into more attractive businesses. Weak companies in unattractive industries may consider merging with a rival to bolster (strengthen) market share and profitability. Or look outside the industry for attractive diversification options.

SWOT Analysis

	**Opportunity:** It is a favourable condition in the organisations environment, which enables it to consolidate and strengthen its position.		**Strength :** It is an inherent capacity, which an organisation can use to gain strategic advantage over its competitors.
	**Threat:** A threat is an unfavourable condition in the organisations environment, which creates a risk for, cause a damage to, the organisation.		**Weakness :** It is an inherent limitation or constraint, which creates a strategic disadvantage over its competitors.

Its central purpose is to identify the strategies that will create a **FIRM SPECIFIC BUSINESSS MODEL** that will best align or match a company's resources and capabilities to the demands of the environment in which it operates.

Strategic managers compare and contrast the various alternatives possible strategies against each other with respect to their ability to achieve major goals and superior profitability.



The organisations performance in the market place is significantly influenced by three factors:

- The organisations correct market position
- The nature of environmental opportunities and threats
- The organisations resource capability to capitalize the opportunities and its ability to protect against threat,

Why SWOT analysis?

- It presents a comparative account about both external and internal environment in a structured form.
- It is possible to compare external opportunities and threats with internal strengths and weakness.
- Helps in matching external and internal environments so that a strategist can come out with a suitable solution by developing certain patterns of relationships.
- It **provides us with a logical framework** for systematic and sound thrashing of issues having bearing on the business situation, **generation of alternative strategies and choice of a strategy.**
- It **guides the strategist in strategy identification** when the situation doesn't matches in the given four options
- It **helps managers to craft a business model** that will allow a company to gain a competitive advantage in it's industry
- It **maximizes the company's chance of surviving** in the fast changing global competitive environment that characterizes most industries today.
- Each business unit needs to develop a **Marketing Information System** to track trends and developments, which can be categorized as an opportunity or a threat.

Strength	**Weakness**
Potential Resources and competitive capabilities	Potential Resource weaknesses and Competitive deficiencies
Opportunities	**Threat**
Potential Company Opportunities	Potential External threats to company's

STRENGTH	**OPPORTUNITIES**	**WEAKNESS**	**THREAT**
❖ Powerful strategy ❖ Strong brand name ❖ Market leader ❖ Attractive customer base ❖ Superior technological skills ❖ Superior knowledge capital ❖ Cost advantages ❖ Strong advertising and promotion ❖ Product innovation skills ❖ Proven skills in improving product process ❖ Use of E commerce ❖ Superior skills in supply chain management ❖ Efficient customer service ❖ Wide geographic coverage ❖ Alliance joint venture with other firms	❖ Serving additional customer groups, expanding into new geographic segment. ❖ Utilizing existing company skills to enter new business. ❖ using internet to cut costs dramatically ❖ Forward and backward integration ❖ Falling trade barriers in international market ❖ Ability to grow rapidly because of sharply increasing demand ❖ Acquisition of rival firms ❖ Alliance or joint ventures ❖ Exploit emerging new technologies	❖ No clear strategic direction ❖ Obsolete facilities ❖ Weak fundamentals (balance sheet with high debt) ❖ High per unit costs ❖ Missing key competencies/ lack of Management depth/ deficiency of intellectual capital ❖ Subpar profitability ❖ Internal operating problems ❖ Non utilization of new age technologies ❖ A narrow product line compared to rivals ❖ Weak brand image or reputation ❖ Weaker dealer network do ❖ than key rivals ❖ Snort on financial resources ❖ Underutilized plant capacity ❖ Low R & D ❖ Not attracting new customers	❖ Entry of new competitors ❖ Loss of sales to substitute products ❖ Mounting competition from new internet start up companies using e commerce strategies ❖ Increasing intensity of competition ❖ Slowdown in market growth ❖ Adverse shift in foreign exchange rates ❖ Costly new regulations ❖ Growing bargaining power of customers and suppliers ❖ A shift in buyer needs and tastes ❖ Adverse demographic changes ❖ Vulnerability to industry driving products ❖ Low R & D ❖ Not attracting new customers

SWOT of Moser Baer

Moser baer incorporated in 1983, is one of India's leading technology companies and ranks amongst the top three media manufacturers in the world. Based in New Delhi, India. It has a broad and product range of floppy discs and compact discs digital versatile discs (DVD's)

Strengths	Weaknesses
• Integrated manufacturing allowing cost efficiencies and enhances speed to market • Lower capital investment, manpower and overhead costs allow cost leadership • Strong focus on R&D and constantly innovate products and reduce costs • Committed shareholders add strength longevity and sustainability to future plans.	• Need to scale up operations and evolve internal controls to meet exponential growth • Need to constantly expand capacities, requiring continuing capital investments.
Opportunities	**Threats**
• **Exploding DVD-R market :** With world class capacities , existing top tier customer base and efficient in house technology, the company is well positioned to tap this opportunity • **Domestic market:** India has one of the largest movie industries in the world and customers are shifting to CD's for audio and DVD's for video requirement • **Blu-ray/ hd-dvd:** Efforts are on world wide level to define and develop the next gen storage format and Moser baer is part of that effort	• **Emerging technologies** : In a dynamic technology environment the company's business could be threatened from more efficient emerging technologies. However the extent of the threat is mitigated by the explosive growth in digital content, a low cost and ease of storage on optical media , the huge installed base of read/write drives and time to market for a new format • **Anti dumping and anti-subsidiary levies:** the company derives a significant part of it's revenue from international markets. These have seen growing protectionist attitude and a tendency by some local governments to use anti-dumping and trade protection tools to provide protection to local businesses. However the company continues to keep a close watch on this front and take necessary steps to minimise any fallouts • **Fall in product prices:** As products move into the mature phase in their life cycle they start to emulate commodity type characteristics also as an industry characterized by high volumes, large capacities and investments. A sharp reduction in product pricing can affect performance. Pricing could fall due to oversupply, low demand, cost reduction due to reduction in input cost or setting up of capacities in low cost region.

TOWS Matrix

It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this Piercy argues for the TOWS Matrix, which, while using the same inputs (Threats, Opportunities, Weakness and Strengths) reorganizes them and integrates them more fully into the strategic planning process.

	Organisational Strength	Organisational Weakness
Environmental Opportunities	SO:	WO:
Environmental Threats	ST:	WT:

PORTFOLIO ANALYSIS

A business portfolio is a collection of businesses and products that make up the company, a tool by which management identifies and evaluates the various businesses that make up the company.

In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. A set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.

Used where ?

- ❖ It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms.
- ❖ They may also be used in less-diversified firms, if these consist of a main business and other minor complementary

Benefits The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential.

Pr-requisite?

In order to design the business portfolio, the business must analyse its current business portfolio and decide which business should receive more, less, or no investment.

How to Doit?

Depending upon analysis businesses may develop growth strategies for adding new products or businesses to the portfolio.

Concept of SBP, Experience Curve, PLC

Analysing portfolio may begin with identifying key businesses also termed as strategic business unit (SBU).

Strategic business unit: SBU is a unit of the company that has a separate mission and objectives and which can be planned independently from other company businesses.

The SBU can be a company division, a product line within a division, or even a single product or brand. SBUs are common in organisations that are located in multiple countries with independent manufacturing and marketing setups. An SBU has following characteristics:

- ♦ Single business or collection of related businesses that can-be planned for separately.
- ♦ Has its own set of competitors.
- ♦ Has a manager who is responsible for strategic planning and profit.

Experience Curve: Experience curve is an important concept used for applying a portfolio approach. The concept is akin to a learning curve, which explains the efficiency increase gained by workers through repetitive productive work. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage.

Experience curve results from a variety of factors such as learning effects, economies of scale, product re-design and technological improvements in production

Angles to look at experience curve?

♦ Experience curve is considered a barrier for new firms contemplating entry in an industry.

♦ It is also used to build market share and discourage competition.

Two wheeler Industry Experience Curve in India: Experience curve phenomenon seems to be working in favour of Bajaj Auto, which for the past decade has been selling, on an average, 5 lakh scooters a year and retains more than 60 per cent of the market. Its only serious competitor is LML Vespa Ltd., which has a far lesser share of the market. The primary strategic advantage that Bajaj Auto has is in terms of costs.

Other competitors like Gujarat Narmada and Kinetic Honda find it extremely difficult to compete due to the cost differentials that currently exist.

The likely strategic choice for underdog competitors should be to develop a niche market or segmentation based on demography or geography.

Product Life Cycle (PLC): A useful concept for guiding strategic choice. Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of

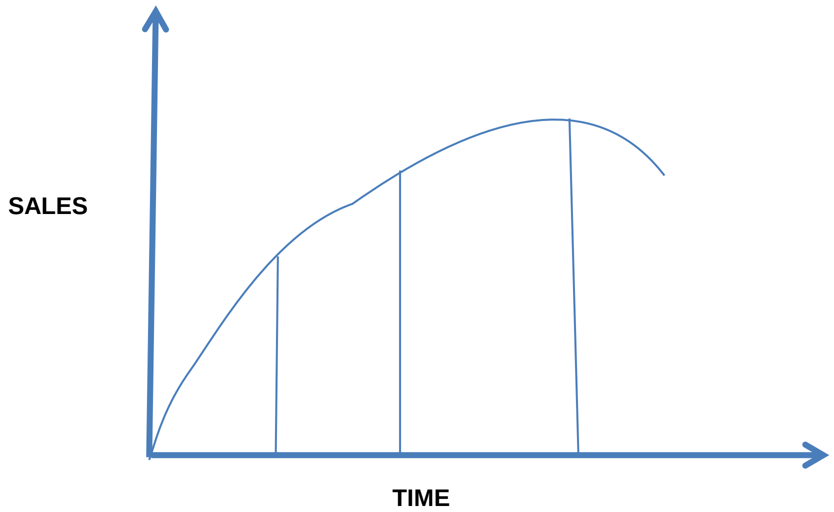
First : introduction (slow sales growth),

Second : growth (rapid market acceptance)

Third : maturity (slow down in growth rate) and

Fourth : decline (sharp downward drift).

If businesses are substituted for product, the concept of PLC could work just as well.



It can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice could be made. For instance,

♦ Expansion may be a feasible alternative for businesses in the introductory and growth stages.

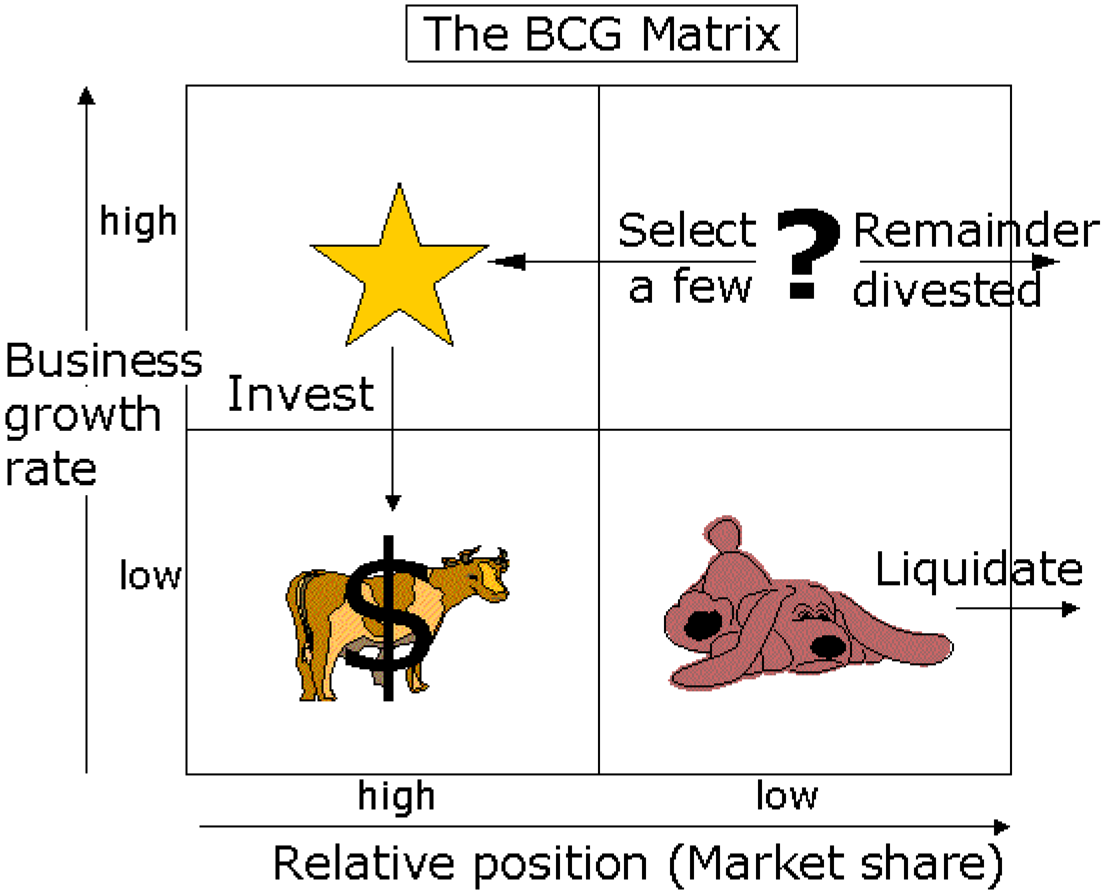
♦ Mature businesses may be used as sources of cash for investment in other businesses which need resources.

♦ A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses.

Boston Consulting Group MATRIX (BCG)

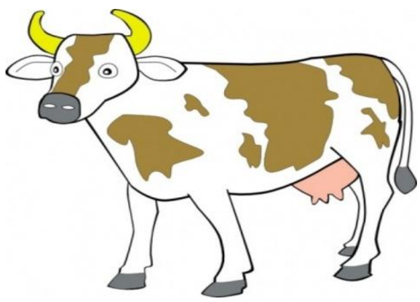
It is the simplest way to portray a corporation's portfolio of investments. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix.

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company strength in the market



Using the matrix, organisations can identify four different types of products or SBU as follows:

- **<u>Stars</u>** are products or SBUs that are growing rapidly.
  - They also need heavy investment to maintain their position and finance their rapid growth potential.
  - **<u>They represent best opportunities for expansion.</u>**



- **<u>Cash Cows</u>** are low-growth, high market share businesses or products.
  - They generate cash and have low costs.
  - They are established, successful, and need less investment to
    maintain their market share.
  - **<u>In long run when the growth rate slows down, stars become cash cows.</u>**

❖ **Question Marks**, sometimes **called problem children or wildcats,**

- They are low market share business in high-growth markets.
- They **require a lot of cash to hold their share**,
- They need heavy investments with low potential to generate cash.
- **Question marks if left unattended are capable of becoming cash traps**.
- Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

❖ **Dogs are low-growth, low-share businesses and 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 minimised by means of divestment or liquidation.

What to do after classification as above is thru...?

The four strategies that can be pursued are:

1. **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
2. **Hold:** Here the objective is to preserve market share.
3. **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.
4. **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere

Limitations to the above method

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

Ansoff’s Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff’s is a useful portfolio-planning tool for identifying company growth opportunities.

Purpose

It helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets.

	Existing Products	New products
Existing Markers		
New Markets		

1. **Market Penetration:** Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way.

   How Achieved

   ♦ Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors.

   ♦ Penetration is also done by effort on increasing usage by existing customers.

2. **Market Development:** Market development refers to a growth strategy where the business seeks to sell it’s exiting products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products.

   How Achieved

   ♦ This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

3. **Product Development:** Product development is refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.

   How achieved

   ♦ This strategy may require the development of new competency and requires the business to develop modified products which can appeal to existing markets.

4. **Diversification:** Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. **How achieved**

   How achieved

   ♦ Typically, the business is moving into markets in which it has little or no experience. This strategy is risky because it does not rely on either the company's successful product or its position in established markets.

ADL Matrix

Given by Arthur D. Little it is a portfolio analysis method that is based on product life cycle

The approach forms a two dimensional matrix based on

- Stage of industry maturity i.e. position in industry's life cycle (embryonic, growth; mature, ageing) and
- The firms competitive position, i.e. measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions (dominant, strong, favorable, tenable, weak)

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

It is 5 x 4 matrix

Stage of Industry Maturity

Competitive Position	Embryonic	Growth	Mature	Ageing
Dominant				
Strong				
Favorable				
Tenable				
Weak				

The General Electric Model

The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) is similar to the BCG growth-share matrix. However, there are differences.

Difference between BCG matrix & GE Model

Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate.

Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

Process:

Each SBU is rated with respect to all criteria. Finally, overall rating for both factors are calculated for each SBU. Based on these ratings, each SBU is labelled as high, medium or low with respect to

- market attractiveness, and
- business position.

Usefulness

Every organization has to make decisions about how to use its limited resources most effectively. That's' where this planning models can help determining which SBU should be stimulated for growth, which one maintained in their present market position and which one eliminated.

Business Position				
Market Attractiveness	**High**	**High**	**Medium**	**Low**
	Medium			
	Low			

Criteria for business position:

Size

Growth

Share by segment

Customer loyalty

Margins

Distribution

Technology skills

Patents

Marketing

Flexibility

Organization

Evolution market effectiveness

Size

Growth

Customer satisfaction levels

Competition: quality, types, effectiveness, commitment

Price levels

Profitability

Technology

Government regulations

Sensitivity to economic trends

The Managing Director of Big Ltd. called an internal meeting of senior managers to discuss issues involved in acquiring Small Ltd. for about Rs. 350 crores. He started the meeting with following observations:

'After acquiring Small, we will become the second largest consumer goods company in India with sales of over Rs. 4500 crores. We will have more money for marketing initiatives, product launches and aggressive price-cuts. The key reason behind buying Small is to create shareholder value over and above that of the sum of the two companies. Recent years have been tough for both the companies with strong competition. The merged company hopes to gain a greater market share and achieve greater efficiency.

Different issues were discussed between the managers. Pertinent points that were raised were as follows:

Head Production. 'Although, I am involved little, till now, in the discussion regarding the acquisition, I have closely studied various production facilities available to both the companies. I feel production facilities of both the companies need to be synergised. There is also need to close down production facilities of two locations out of seven locations of Small. The costs of production of these locations is very high and also they are located in eastern India, whereas our major sales is in south and west.

Head Marketing. We need to analyse it further. The market of the products is in mature phase with low growth rate. Small Ltd. has little presence in some regions and is not a major competitor for us. Further, there is marginal gap between our existing third position and second position. We can easily achieve second position if we are able to fully utilize our capacities.

(a) In a low growth product what are the different options available to a company.

(b) If you are appointed as a consultant, advise Big Ltd. about how to proceed before arriving at a decision to acquire any company.

(c) Conduct SWOT analysis from the facts given in the case.

Question from My Desk (very Important) For Strategic Analysis

Q.1 Explain SWOT analysis and its Significances.

Q.2 Define Competitive and Industry analysis with their key factors.

Q.3 Explain significance of TOWS matrix.

Q.4 What is Situational analysis? What are the various Elements of this analysis?

Q.5 What is Strategic Analysis? What are various issues considered in Strategic Analysis?

Q.6 Write Short note on the followings:
a. SBU
b. Product Life Cycle
c. Experience Curve.

Q.7 Explain Portfolio Analysis.

Q.8 Write Short note on the followings:
a. BCG
b. Ansoff's Product Market Growth.

Q.9 Explain General Electric/ McKinsey Model

Q.10 Explain the meaning of following concepts:
a. Market Penetration
b Strategic Group Mapping.

CHAPTER - 4

Strategic Planning

Far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can be made precise.

- John Tukey, Statistician

Strategy is a deliberate search for a plan of action that will develop a business competitive advantage and compound it

- Bruce D. Henderson

Chance favors the prepared mind.

-Louis Pasteur

The strength of the entire process of strategic planning is tested by the efficacy of the strategy finally forged by the firm. Corporate strategy is the game plan that actually steers the firm towards success.

Corporate strategy

- Corporate strategy is basically the growth design of the firm;
- it spells out the growth objective of the firm - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth.

Nature, scope and concerns of corporate strategy

- Corporate strategy is concerned with the choice of businesses, products, and markets. It is the design for filling the firm's strategic planning gap.
- It ensures that the right fit is achieved between the firm and its environment.
- Corporate objectives and corporate strategy together describe the firm's concept of business.

What does corporate strategy ensure?

1. Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment.

2. Masterminding and working out the right fit between the firm and its external environment is the primary contribution of corporate strategy.

3. The purpose of corporate strategy is to harness the opportunities available in the environment, countering the threats embedded therein.

Q. How good or how methodical is the response to the environment ?

Strategy is the opposite of ad-hoc responses to the changes in the environment-in competition, consumer tastes, technology and other variables. It amounts to long-term, well though out and prepared responses to the various forces in the business environment.

Strategy is partly proactive and partly reactive

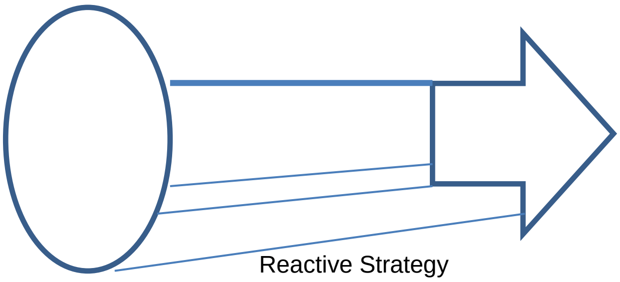
A company's strategy is typically a blend of

1) proactive actions on the part of managers to improve the company's market position and financial performance and

2) as needed reactions to unanticipated developments and fresh market conditions.

Partly Proactive: One part of management's program is deliberate and proactive, standing as the product of managements analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer patronage.

Reactive: When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stonewall, some kind of strategic reaction or adjustment is required.



Hence, a portion of a company's strategy is always developed on the fly, coming as a reasoned response to unforeseen developments-fresh strategic maneuvers on the part of rival firms, shifting customer requirements and expectations, new technologies and market opportunities, a changing political or economic climate in the surrounding environment

Dealing with strategic uncertainty

Uncertainty is represented by a future trend or event that has inherent unpredictability. Uncertainty that has strategic implications is a key construct in strategy formulation.

Q. Given the fact that A typical external analysis will emerge with dozens of strategic uncertainties.

- To be manageable, they need to be grouped into logical clusters or themes.
- It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis

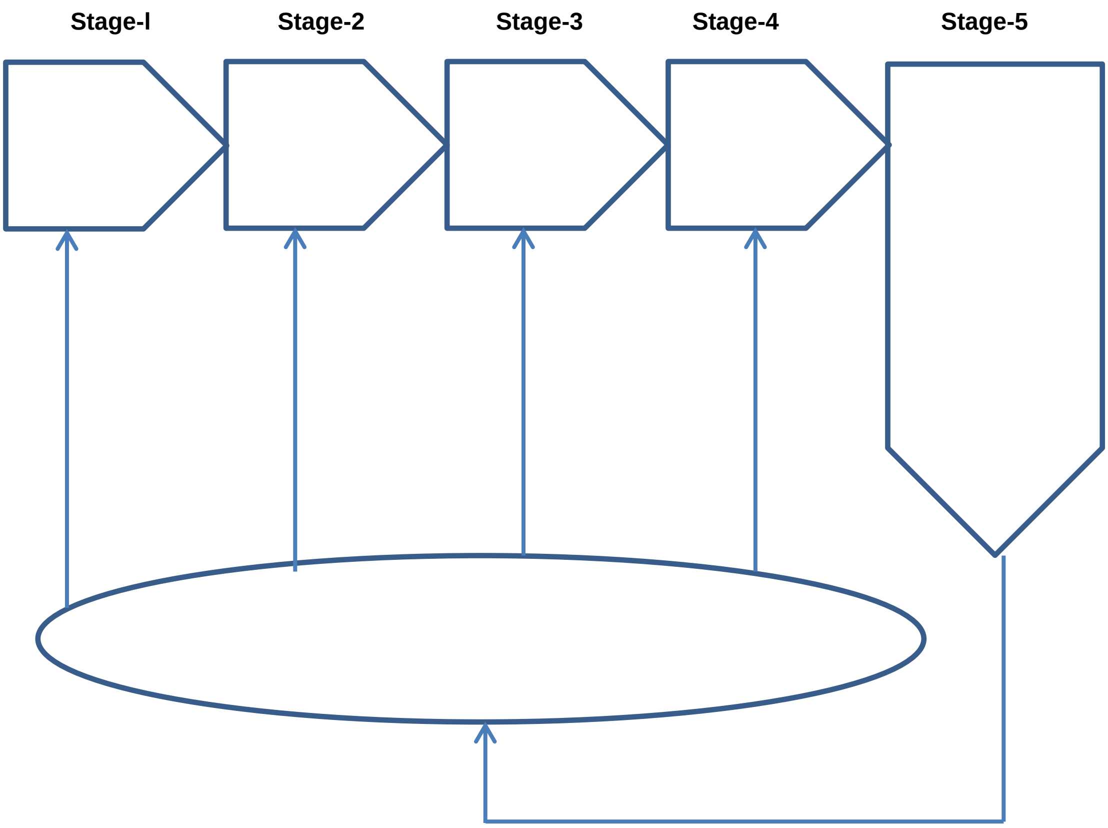
Scenario Analysis

Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

Impact of a strategic uncertainty:-

Each strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential strategic business units (SBUs). The importance of established SBUs may be indicated by their associated sales, profits, or costs.

The Stages of Corporate Strategy Formulation- Implementation Process



Stage 1: Developing a strategic vision

First, a company must determine what directional path the company should take and what changes in the company's **product - market -.customer - technology - focus** would improve its current market position and its future prospect.

A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

Mission and strategic intents:

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

This is important because both external stakeholders and other managers in the organization need to be clear about what the organization is seeking to achieve and, in broad terms, how it expects to do so.

The importance of clear strategic intent can go much further: it can help galvanise motivation and enthusiasm throughout the organization by providing what they call a sense of destiny and discovery.

Stage 2: Setting objectives

Corporate objectives flow from the mission and growth ambition of the corporation. The objective provides the basis for it major decisions of the firm and says the organizational performance to be realised at each level.

The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets - results and outcomes the management wants to achieve - and then use these objectives as yardsticks for tracking the company's progress and performance.

The balanced scorecard approach

A combination of strategic and financial objectives - The balanced scorecard approach for measuring company performance requires setting both financial and strategic objectives and tracking their achievement.

The surest path to sustained future profitability quarter after quarter and year after year is to relentlessly pursue strategic outcomes that strengthen a company's business position and, ideally, give it a growing competitive advantage over rivals. To deliver better financial results from operations is the achievement of strategic objectives that improve its competitiveness and market strength.

A need for both short-term and long-term objectives:

As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets. Having quarterly or annual objectives focuses attention on delivering immediate performance improvements. Targets to be achieved within three to five years prompt considerations of what to do now to put the company in position to perform better down the road.

By spelling out annual (or perhaps quarterly) performance targets, management indicates the speed at which longer-range targets are to be approached.

Objectives (characteristics)

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Each objective should also be associated with a time line.

Objectives (benefits)
They provide direction,
♦ allow synergy, ♦ aid in evaluation, ♦ establish priorities,
♦ reduce uncertainty, ♦ minimize conflicts, ♦ stimulate exertion
aid in both the allocation of resources and the design of jobs.

Concept of Strategic Intent:

A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective. Ambitious companies almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market positions.

The need for objectives at all organizational levels:

Objective setting should not stop with top management's establishing of companywide performance targets. Company objectives need to be broken down into performance targets for

- each separate business,
- product line,
- functional department, and
- individual work unit.

Stage 3: Crafting a strategy to achieve the objectives and vision

A company's strategy is at full power only when its many pieces are united. Ideally, the pieces and layers of a company's strategy should fit together like a jigsaw puzzle.

Midlevel and frontline managers cannot do good strategy making without understanding the company's long-term direction and higher-level strategies.

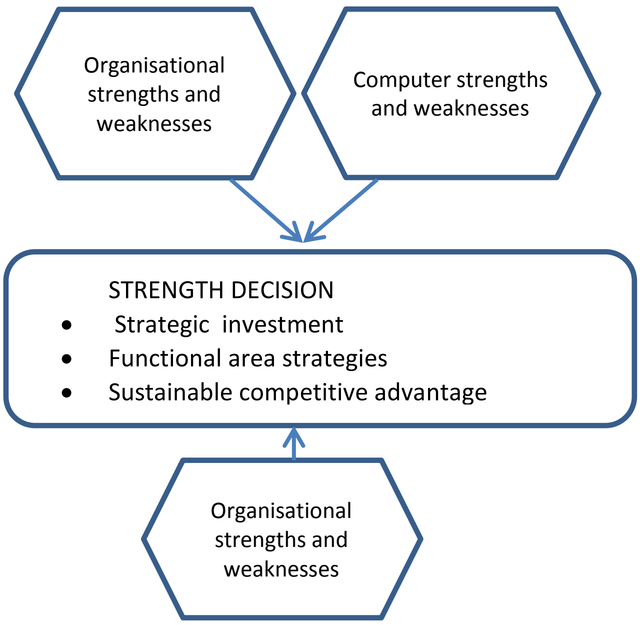
Cohesive strategy making down through the4iier^rchy becomes easier to achieve when company strategy is distilled into pithy, easy to grasp terminology that can be used to drive consistent strategic action throughout the company. Good communication of strategic themes and guiding principles thus serves a valuable strategy-unifying purpose.

A company's strategic plan lays out

- its future direction,
- performance targets, and
- strategy.

Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks.

In making strategic decisions, inputs from a variety of assessments are relevant. However, the core of any strategic decision **should be based on three types of assessments.**



First, concerns organizational strengths and weaknesses.

Second, evaluates competitor strengths, weaknesses, and strategies

Third, assesses the competitive context, the customers and their needs, the market, and the market environment

Stage 4: Implementing & executing the strategy

Managing strategy implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner.

To convert strategic plans into actions and results, a manager must be able to perform following:,

- direct organizational change
- motivate people,
- build and strengthen company competencies and competitive capabilities,
- create a strategy-supportive work climate, and
- meet or beat performance targets.

Good strategy execution involves creating strong "fits",

between strategy and organizational capabilities,

between strategy and the reward structure

between strategy and internal operating systems, and between strategy and the organization's work climate and culture

Stage 5 Monitoring developments, evaluating performance and making corrective adjustments

- The fifth stage is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods.
- A company's vision, objectives, strategy, and approach to strategy execution are never final.
- Managing strategy is an ongoing process, not an every now and then task.
- A company's direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant.
- It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.
- Proficient strategy execution is always the product of much organizational learning. It is achieved unevenly – coming quickly in some areas and proving nettlesome and problematic in others.

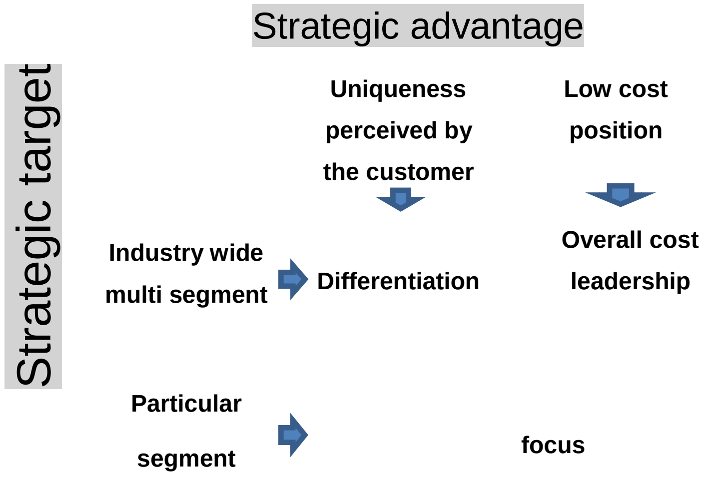
Strategic Alternatives

Michael Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases:

- **Cost** leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price.
- **Differentiation** is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive.
- **Focus** means producing products and services that fulfill the needs of small groups of consumers.

Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas **Smaller** firms often compete on a focus basis.



Porter's Emphasis on following:

- **Perform cost-benefit analysis** to evaluate "sharing opportunities' among a firm's existing and potential business units.
- **Firms to "transfer" skills** and expertise among autonomous business units effectively in order to gain competitive advantage.

Cost Leadership Strategies

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. Striving to be the taw-cost producer in an industry can be especially effective when

- the market is composed company price-sensitive buyers,
- when there are few ways to achiever
- when buyers do not care much about differences from brand to brand, or
- when there are a large number of buyers with significant bargaining power.

The basic idea is to under price competitors and thereby gain market share and sales, driving some competitors out of the market entirely.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by

- high efficiency,
- low overhead,
- limited perks,
- intolerance of waste,
- intensive screening of budget requests,
- wide spans of control,
- rewards linked to cost containment, and
- broad employee participation in cost control efforts.

Differentiation Strategies

Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are best.

When differentiation should be done

Only after a careful study of buyer's needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes.

Benefits of Differentiation

A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features.

How differentiation can be achieved ?

Special features that differentiate one's product can include

- superior service
- spare parts availability,
- engineering design,
- product performance,
- useful life,
- gas mileage, or ease of use

Risks attached with differentiation

♦ A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price.

♦ Competitors may develop ways to copy the differentiating features quickly.

Way to achieve differentiation?

Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms. Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people.

Focus Strategies

A successful focus strategy depends on an industry segment that is of

- sufficient size,
- has good growth potential, and
- is not crucial to the success of other major competitors.

Ways to achieve it

Strategies such as market penetration and market development offer substantial focusing advantages.

How to achieve it

- Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies.
- Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment.

Risks of pursuing it:

A focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer preferences will drift toward the product attributes desired by the market as a whole.

An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

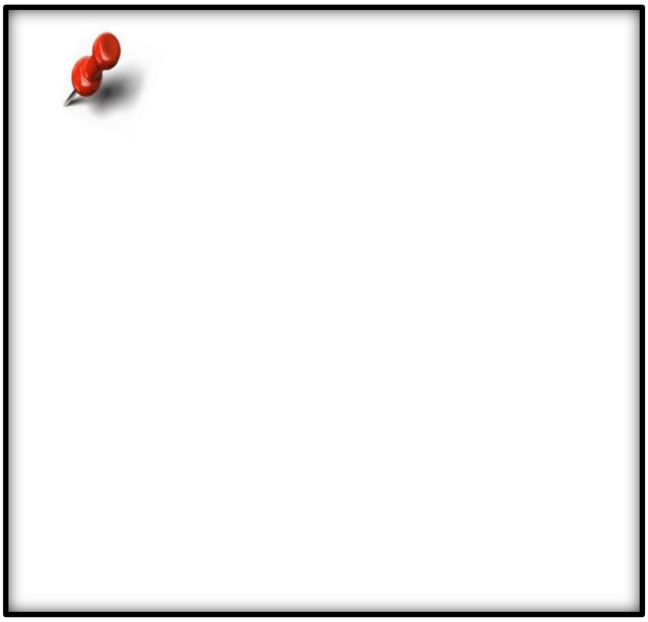
Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies.

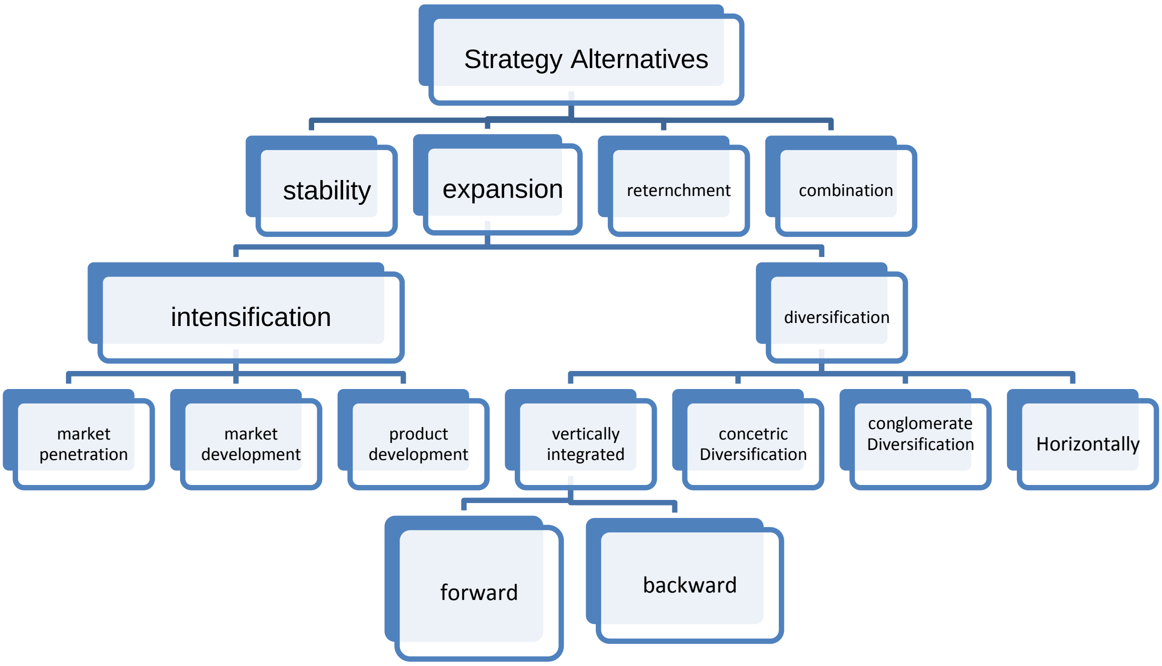
The Five Generic Competitive Strategies

Type of Advantage Sought

	Lower Cost	**Differentiation**
Broad range buyers	**Overall low cost leadership strategy**	**Broad differentiation strategy**
	Best cost provider	
Buyer segment or niche	**Focused low cost strategy**	**Focused differentiation strategy**



Grand Strategies/ Directional Strategies



The corporate strategies a firm can adopt have been classified into four broad categories:

- stability,
- expansion
- retrenchment and
- Combination known as grand strategies.

Grand strategies, which are often called master or business strategies, are intended to provide basic direction for strategic actions. They are seen as the basic of coordinated and sustained efforts directed toward achieving long-term business objectives.

Strategy	Basic Feature
Stability	
Expansion	
Retrenchment	
Combination	

Grand Strategies

Stability strategy:

- Stability strategy does not involve a redefinition of the business of the corporation.
- It is basically a safety-oriented, status quo-oriented strategy.
- It does not warrant much of fresh investments.

But the strategy does not permit the renewal process of bringing in fresh investments and new products and markets for the firm.

Expansion strategy:

Expansion strategy is the opposite of stability strategy. While in stability they are very high. In the matter of risks, too, the two are the opposites of each other.

- Expansion strategy involves a redefinition of the business of the corporation;

A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present

- Expansion, strategy is a highly versatile strategy;

- Expansion strategy holds within its fold two major strategy routes: **Intensification** the firm pursues growth by working with its current businesses) & **Diversification** (involves expansion into new businesses that are outside the current businesses and markets.)

Intensification, in turn, encompasses three alternative routes:

- Market penetration strategy
- Market development strategy
- Product development strategy

There are four broad types of diversification

1. **Vertically integrated diversification:** Firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence It moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.

   - Forward &
   - Backward

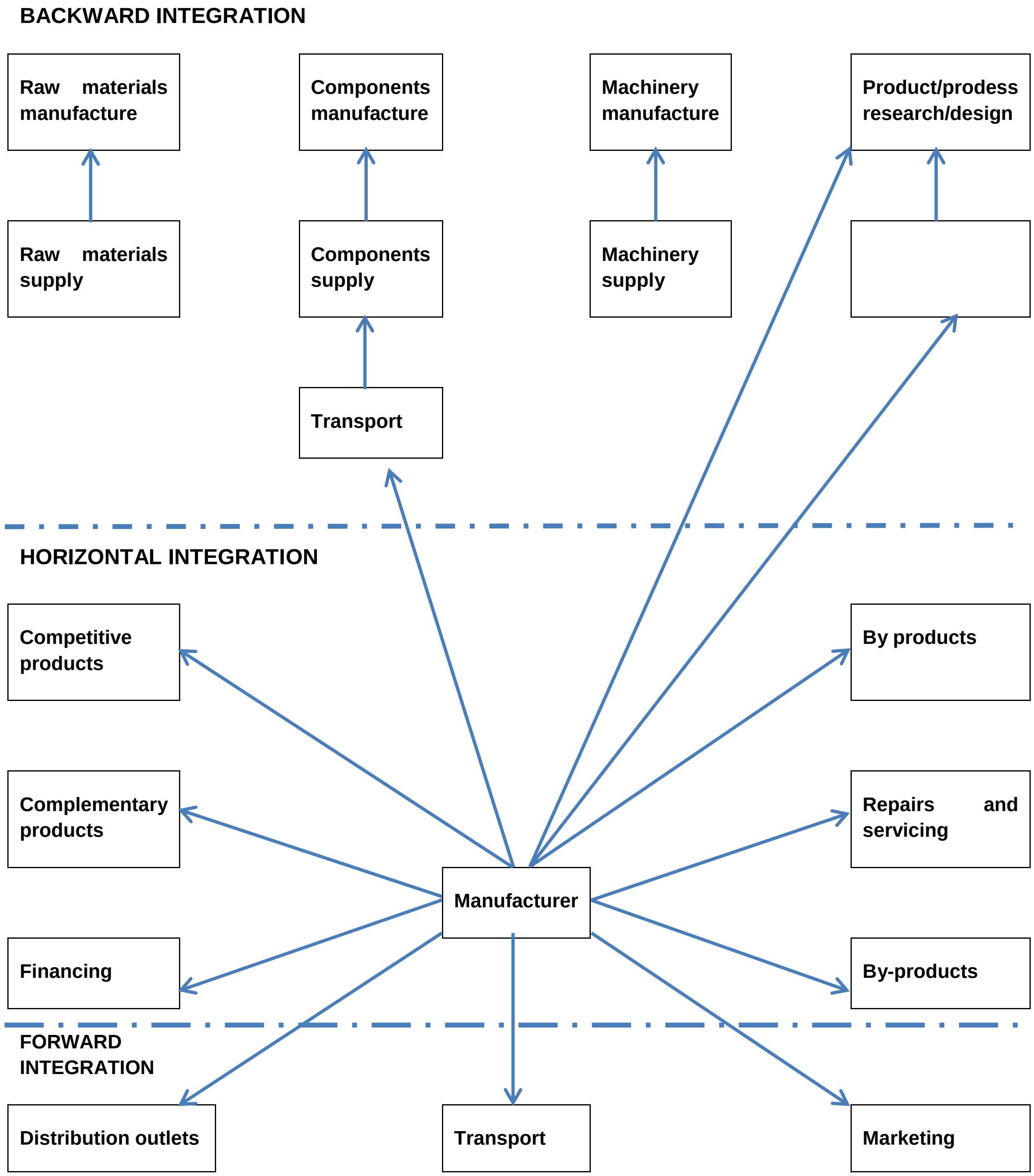
The firm remains vertically within the given product-process sequence; the intermediaries in the chain become new businesses,

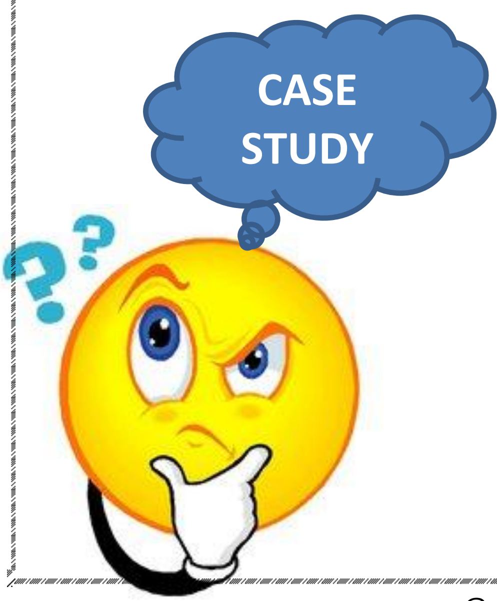
2. **Horizontal integrated diversification:** Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors products.
3. **Concentric diversification** here too, the new products are connected to the firm's existing process/technology.
4. **Conglomerate diversification:** It is unrelated diversification. Here, a new business is added to the firm's portfolio. But, it is disjointed from the existing businesses; in process/technology/function, there is no connection between the new business and the existing ones.

Divestment strategy:

Divestment strategy involves retrenchment of some of the activities in a given business of the firm or sell-out of some of the businesses as such. Compulsions for divestment can be many and varied, such as

- Obsolescence of product/process
- Business becoming unprofitable
- High competition
- Industry/Capacity
- Failure of strategy





Cool Garments is exploring options of picking up a strategic equity stake in north based Jazzy Wear, a Kanpur -based garment manufacture catering to gents segment. The takeover may boost its production of premium garments. This will also increase Cool Garments' presence in the North.

The size of the acquisition would be small - within Rs. 50 crore - compared to Cool Garments recent big deals in other states. Jazzy Wear special products fit perfectly into Cool Garment's future plans. Acquiring Jazzy will give it a bigger product portfolio and also a considerable presence in the north Indian market.

With the fragmented shareholding the top managers of Jazzy Wear know that the Cool Garments will be definitely able to acquire controlling share in their company. They feel that if a deal is striked it would also be in their favour. However, they are not clear how to formulate right strategy for the Jazzy Wear.

Q. If you are appointed as strategic consultant by the Jazzy Wear, explain to their top managers the process of strategy formulation.

Q. Discuss the nature of strategy for both the companies.

Question from My Desk (very Important)
For
Strategic Planning

Q.1 What is Balance Score Card Approach?

Q.2 Discuss Stability Strategy and Diversification Strategy.

Q.3 Strategy is partly proactive and partly reactive. Discuss.

Q.4 Discuss strategic alternatives with reference to Michael Porte's strategies.

Q.5 Discuss various stages in strategic formulation and implementation process.

Q.6 Explain Concentric and conglomerate diversification.

Q.7 Explain the different types of Retrenchment Strategies.

Q.8 Explain porter's three generic alternative strategies.

Q.9 What do you understand by focus strategy?

Q.10 Distinguish between the following:

i. Top-down and Bottom-Up Strategic Planning

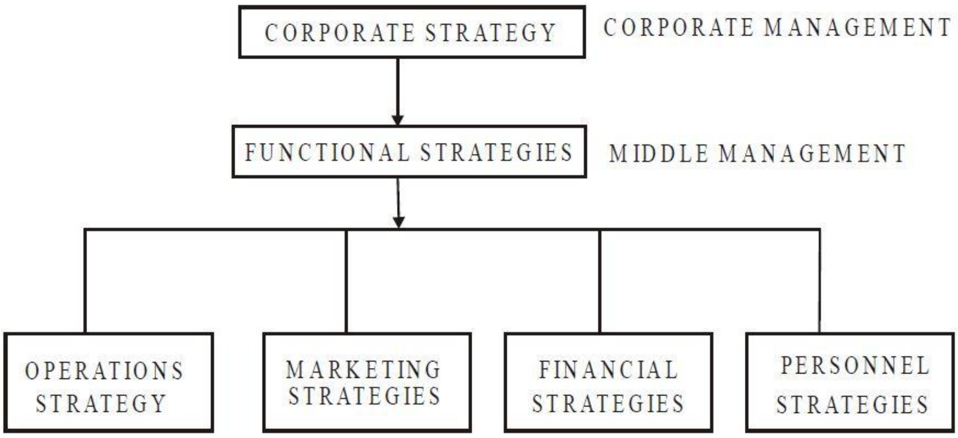
ii. The three levels of Strategy Formulation.

CHAPTER - 5

Formulation of Functional Strategy

Most of the time, strategists should not be formulating strategy at all, they should be getting on with implementing strategies they already have.

- Henry Mintzberg



Definition

Functional strategies are relatively short-term activities that each Functional area within a company will carry out to implement the broader, longer-term corporate level and. business level strategies.

Each functional area has a number of strategy choices, which interact with and must be consistent with the overall company strategies.

Three basic characteristics distinguish functional strategies from corporate level and business level strategies:

- shorter time horizon,
- greater specificity, and
- primary involvement of operating managers

Major functional areas of marketing, finance, production/operations, research and development, and human resources management require functional strategies.

The reasons why functional strategies are needed:

- There is a basis available for controlling activities in the different functional areas of business.
- The time spent by functional managers in decision-making is reduced
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.
- Coordination across the different functions takes place where necessary.
- Making the strategies-formulated at the top management level-practically feasible at the functional level.

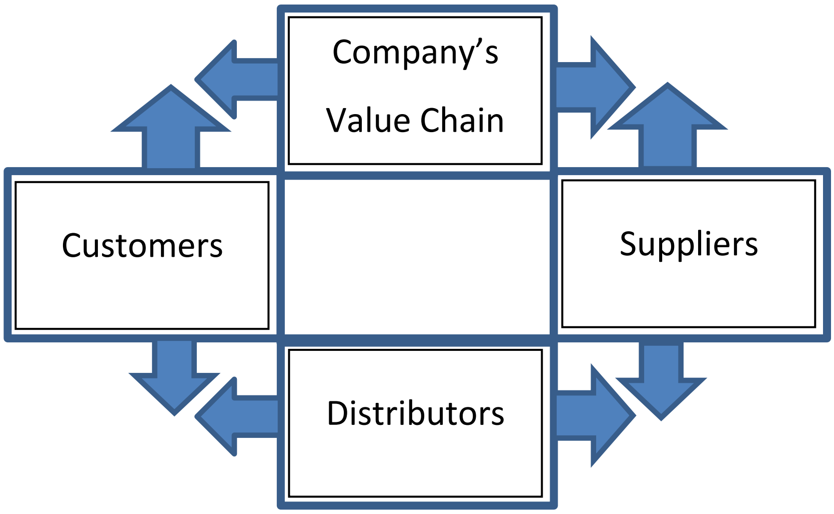
Functional managers need guidance from the business strategy in order to make decisions. **Operational plans** tell the functional managers what has to be done while

Policies state how the plans are to be implemented.

Marketing Strategy Formulation

In marketing, it is more important to do what is strategically right than what is immediately profitable.

- ❖ Marketers are challenged to find ways to get all departments to "think customer.
- ❖ In its search for competitive advantage, the firm needs to look beyond its own value chain and **into the value chains of its suppliers, distributors, and ultimately customers.** This "partnering" will produce a **value delivery network.**



<u>Marketing vis-a-vis Marketing Issues</u>

Marketing Process	Marketing Issues
The **marketing process** is the process of ➢ Analyzing market opportunities ➢ Selecting target markets. ➢ Developing the marketing mix, and ➢ Managing the marketing effort	❖ To use exclusive dealerships or multiple channels of distribution. ❖ To use heavy, light, or no TV advertising ❖ To limit (or not) the share of business done with a single customer ❖ To be a price leader or a price follower ❖ To offer a complete or limited warranty ❖ To reward salespeople based on straight salary, straight commission, or a combination salary/commission ❖ To advertise online or not.

Since companies cannot satisfy all consumers in a given market, they must divide the total market **(market segmentation),** choose the best segments **(market targeting),** and design strategies for profitably serving chosen segments better than the competition **(market positioning).**

Developing the marketing mix strategically

Aspect	Perspective	Strategic perspective
Product	Stands for the "**goods-and-service**" combination the company offers to the target market.	Strategies are needed for managing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging, and other product features such as warrantees.
Price	Stands for money customers have to pay to obtain the product.	Strategies pertain to the location of customers, price flexibility, related items within a product line and terms of sale. Pricing strategies for entering a market especially with a new product, be designed.
Place	Stands for company activities that make the product available to target consumers.	Strategies should be taken for the management of channel(s) by which ownership of product is transferred. The system(s) by which goods are moved from where they are produced from they are purchases by the final customers. Strategies applicable to the middleman such as wholesalers and retails must be designed
Promotion	Stands for activities that communicate the I merits of the product and persuade target consumers to buy it	Strategies are needed to combine individual methods such as advertising, personal selling. and sales promotion into a coordinated campaign. In addition, promotional strategies must be adjusted as a product move from earlier stages from a later stage of its life.

Product	Customer want and needs
Price	Cost to satisfy
Place	Convenience to buy
Promotion	Communication

The Marketing Mix

The new marketing mix (particularly for services) includes

People: all who play a part in delivery of the market offering and influence the buyer's perception, namely the firm's personnel and the customer.

Physical evidence: Environment in which the market offering is delivered and where the firm and customer interact.

Process: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

Marketing Analysis

Marketing analysis involves a complete analysis of the company's situation. The company performs analysis by

- Identifying environmental opportunities and threats.
- Analyzing company strengths and weaknesses to determine which opportunities the company can best pursue.

Analysis

Planning

Develop strategic plans

Develop marketing plans

Implementation

Carry out the plans

Control

Measure results

Evaluate results

Take corrective action

Marketing Planning

Marketing planning involves deciding on marketing strategies that will help the company attains its overall strategic objectives. A detailed plan is needed <u>for each business, product or brand.</u>

A product or brand plan may contain different sections:

- Executive summary (short summary of the main goals and recommendations to be presented)
- Current marketing situation(plan that describes target market & the company's position in it)
- Threats and opportunity analysis,
- Objectives and issues,
- Marketing strategies (the marketing logic by which the business unit hopes to achieve its marketing objectives)
- Action programs,
- Budgets (marketing plan that shows projected revenues, costs, and profits) and
- Controls (for progress checks and corrective action)

Marketing Strategy Techniques

Name	Meaning	Example
Social Marketing	Design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group	
Augmented Marketing	It is provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services. Innovative offerings provide a set of benefits that promise to elevate customer service	
Direct Marketing	Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response	
Relationship Marketing	Process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholder.	
Services Marketing	Applying the concepts, tools, and techniques, of marketing to services	
Person Marketing	People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people	
Organization Marketing	Consists of activities undertaken to create, maintain, or change attitudes and behavior of target audiences towards an organization.	
Place Marketing	involves activities undertaken to create, maintain, or change attitudes and behavior towards particular places	
Enlightened Marketing	Philosophy holding that a company's marketing should support the best long-run performance of the marketing system;	
Differential Marketing	Market-coverage strategy in which a firm decides to target several market, segments and designs separate offer for each.	
Synchronic-marketing	Demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchronic-marketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives.	
Concentrated Marketing	Market-coverage strategy in which a firm goes after a large share of one or few sub–markets.	
Demarketing	Strategies to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it. this happens when there is overfull demand	

Financial Strategy Formulation

Main aspects of financial strategy formulation

1. acquiring needed-capital/source of found.
2. developing projected financial stab
3. management/ usage of funds, and
4. evaluating the worth of a business

"Strategic plan B: We chop down all the office plants and grow vegetables.

Strategists need to think in the following direction:

- To raise capital with short-term debt, long-term debt, preferred stock (Preference shares), or common stock (equity shares),
- Lease or buy fixed assets.
- Strategies to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it. this happens when there is overfull demand
- Cash policy
- Debtors policy
- Creditors policy
- Dividend policy

1. Acquiring capital to implement strategies/sources of funds

Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Theoretically, an enterprise should have enough debt in its capital structure to boost its return on investment, profits being more than the cost of the debt. Concept of Financial leverage. The major factors regarding which strategies have to be made are:

- capital structure;
- procurement of capital and working capital borrowings;
- reserves and surplus as sources of funds; and
- relationship with lenders, banks and financial institutions.

2. Projected financial statements / budgets

A pro forma income statement and balance sheet allow an organization to compute projected financial ratios under various strategy-implementation scenarios. When compared to prior years and to industry averages, financial ratios provide insights into feasibility of strategy.

Increased focus on Projected Statements: Because of the Enron collapse and accounting scandal, companies today are being much more diligent in preparing projected financial statements **"reasonably rather than too optimistically"** for projected future expenses and earnings.

Financial Budget: A financial budget is also a document that details how funds will be obtained and spent for a specified period.

Purpose of Budgeting: Financial budgeting should not be thought of as a tool for limiting expenditures but rather as a method for obtaining the most productive and profitable use of an organization's resources.

Limitations of Financial budgets:

1. Budgetary programs can become so detailed that they are cumbersome and overly expensive,
2. Financial budgets can become a substitute for objectives.
3. Budgets can hide inefficiencies if based solely on past performance rather than on periodic evaluation of circumstances and standards.
4. Budgets are sometimes used as instruments of tyranny (domination) that results in frustration, resentment, absenteeism, and high turnover. (to avoid this one should increase the participation of sub ordinates)

3. Management / usage of funds

Plans and policies for the usage of funds deal with investment or asset-mix decisions. Usage of funds is important since it. relates to the efficiency and effectiveness of resource utilization in the process of strategy implementation.

- Capital investment;
- Fixed asset acquisition;
- Current, assets;
- Loans and advances;
- Dividend decisions; and
- Relationship with shareholders

Implementation of projects in pursuance of expansion strategies results in increase in capital work in progress and current assets. A generous capex would lead to an increased debt and would hit the profitability (interest and depreciation) in the initial years of gestation of a any project. E.g. Modis' Plant V/s Jaypee's Rewa Plant

Good management of funds often creates the difference between a strategically successful and unsuccessful company. Organisations that implement strategies of stability, growth or retrenchment cannot escape the rigours of a proper management of funds.

3. Management V/s Shareholders Dilemma

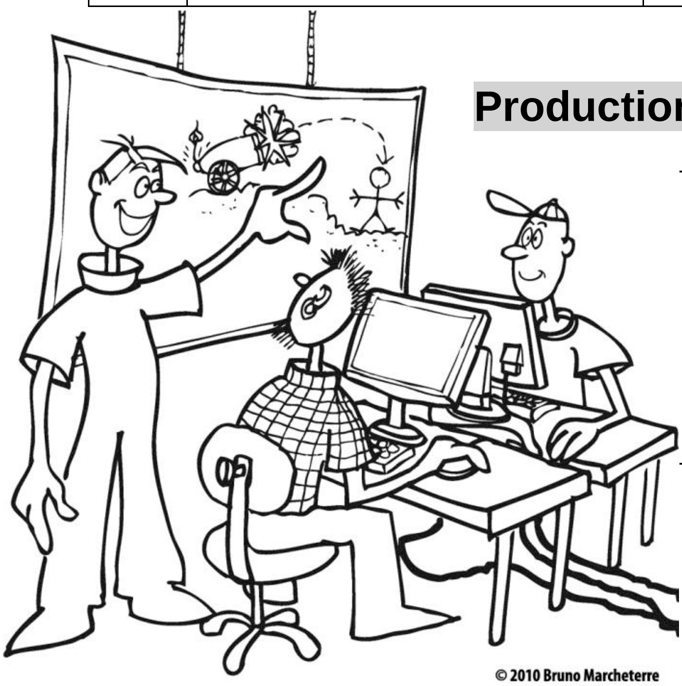
The priorities of management may often conflict with those of shareholders. It is the responsibility of the strategists to minimize the conflict of interest between the management and the shareholders.

4, Evaluating the worth of a business

Integrative, intensive, and diversification strategies are often implemented by acquiring other firms. Thousands of transactions occur each year in which businesses are bought or sold. Evaluating the worth of a business becomes central to strategy implementation. It is necessary to establish the financial worth or cash value of a business.

Various methods for determining a business worth can be grouped in to three approaches

i.	**Net worth or stockholders equity.**	
ii.	**Based on profits**	
iii.	**Market based**	
a)	**Selling price of similar company**	
b)	**PE Method**	
c)	**Outstanding shares method**	



Production Strategy Formulation

The strategy for production are related to

a. The production system,

b. Operational planning and control and

c. Logistics

d. Research and development (R&D)

The strategy adopted affects;

- The nature of product/service,
- The markets to be served, and
- The manner in which the markets are to be served

A. Production System

The production system is concerned, with the

- capacity
- Location/layout,
- product on service design,
- work systems/degree of automation,
- extent of vertical integration, and such factors.

Strategies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives in not only the immediate time but as well in future too.

Examples

a. **Excel industries**: A pioneering company in the area of industrial and agro chemicals. It starts with the end product and then integrates backward to make raw materials for it. It adopts a policy of successive vertical integration for import substitution.

b. **Lakshmi machine:** Where operations policy related to the product range is aimed at the successive enlargement of its textile machinery range. This is done through a policy of mastering the process of production by absorption of technology, indigenization, and adaptation to customer needs,

B. Operations Planning and Control

Strategies related to operations planning and control are concerned with

- aggregate production planning;
- materials supply;
- inventory, cost, and quality management; and
- maintenance of plant and equipment.

The aim of strategy implementation is to see how efficiently resources are utilised and in what manner the day-to-day operations can be managed in the light of long-term objectives.

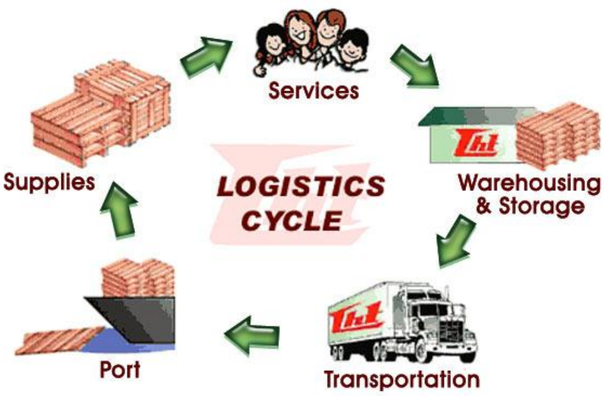
Examples

a. **instrumentation Ltd** is a public sector company engaged in the business of process control and automation. Operations planning and control at this company is based on the policy of ancillarisation.

There are about 259 ancillary units that supply sub-assemblies and components. The centralised production provides /m the basic inputs to ancillaries and performs the functions of testing, standardising, and fabricating the equipment,

b. The operations policies at **KSB Pumps Ltd** lay a great emphasis on quality aspects in implementing its strategy of stable growth. It has a separate department of quality assurance having two groups of quality inspection and quality engineering, has, quality is a consideration not only at the inspection stage but is built into the design itself.

C. Logistics Strategy



Management of logistics is a process which integrates the flow of supplies into, through and out of an organization to achieve a level of service which ensures that, the right materials are available at right place of the right quality and at the right cost.

Organization tries to keep the cost of transportation of materials as low as possible consistent with safe and reliable delivery.

Supply chairs management: Helps in logistics and enables a company to have constant contact with its distribution channel which could consist of trucks, trains, or any other mode of transportation.

Improvement in logistics can results in savings in cost of doing business. These savings can also reveal in the profit of the company,

- Cost savings
- Reduced inventory
- Improved delivery time
- Customer satisfaction
- Competitive advantage

D. Research and Development

Research and development (R&D) personnel can play an integral part in strategy implementation with developing new product and improving old product in a way that will allow effective strategy implementation.

R&D employees and managers perform tasks that include transferring complex technology adjusting processes in local raw materials adapting processes to local markets and altering products to particular tastes and specifications.

Strategies such as product development, market penetration, and concentric diversification require that new products be successfully development and that old products be significantly improved. Most successful organization uses an R&D strategies that ties external opportunities to internal strength.

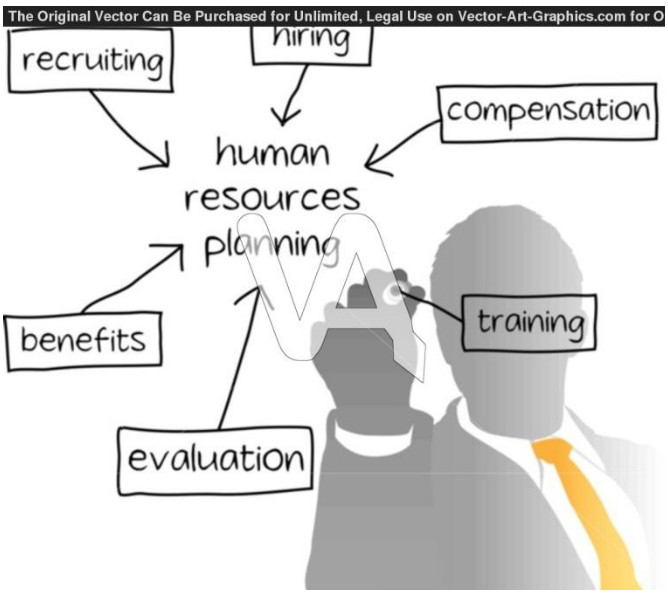
Scenario Analysis

Technical progress	Market Growth	Action required for R & D
Slow	Moderate	
Fast	Slow	
Slow	fast	
Fast	Fast	

There are at least three major R&D approaches for implementing strategies

1. **Lead from the front:** Be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one. Firms such as 3M and GE have been successful.
2. **Follow the leader**: Be an innovative imitator of successful products, thus minimizing the risks and costs of start up. This approach entails allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists. This strategy requires excellent R&D personnel and an excellent marketing department.
3. **Low cost producer:** Be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced. This R&D strategy requires substantial investment in plant and equipment, but fewer expenditures in R&D

Human Resource Strategy Formulation



HR functional strategy includes many topics, typically recommended by the human resources department, but many requiring top management approval Examples are

- job categories and descriptions;
- pay and benefits;
- recruiting, selection, and
- orientation;
- career development and training:
- evaluation and incentive systems;
- policies and discipline; an
- management/executive selection processes.

Empowering managers and employees yields the greatest benefits when all organizational members understand clearly how they will benefit personally if the firm does well.

Other new responsibilities for human resource managers may include:

1. Establishing and administering an employee stock ownership plan (ESOP);
2. Instituting an effective childcare policy; and
3. Providing leadership for managers and employees in a way that allows them to balance work and family.

Human resource problems that arise can be due to:

1. Disruption of Social and political structures,
2. failure t) match individuals' aptitudes with implementation tasks, and
3. Inadequate top management support for implementation activities.

Threats from strategy implementation:

1. New power and status relationships are anticipated and realized.
2. Managers and employees may become engaged in resistance behavior as their roles, prerogatives, and power in the firm change.

Biggest challenge in implementing a strategy is that jobs are fixed and people are dynamic therefore, transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

Guidelines can help ensure that human relationships facilitate rather than disrupt strategy- Implementation efforts. Managers can build support for strategy-implementation efforts by

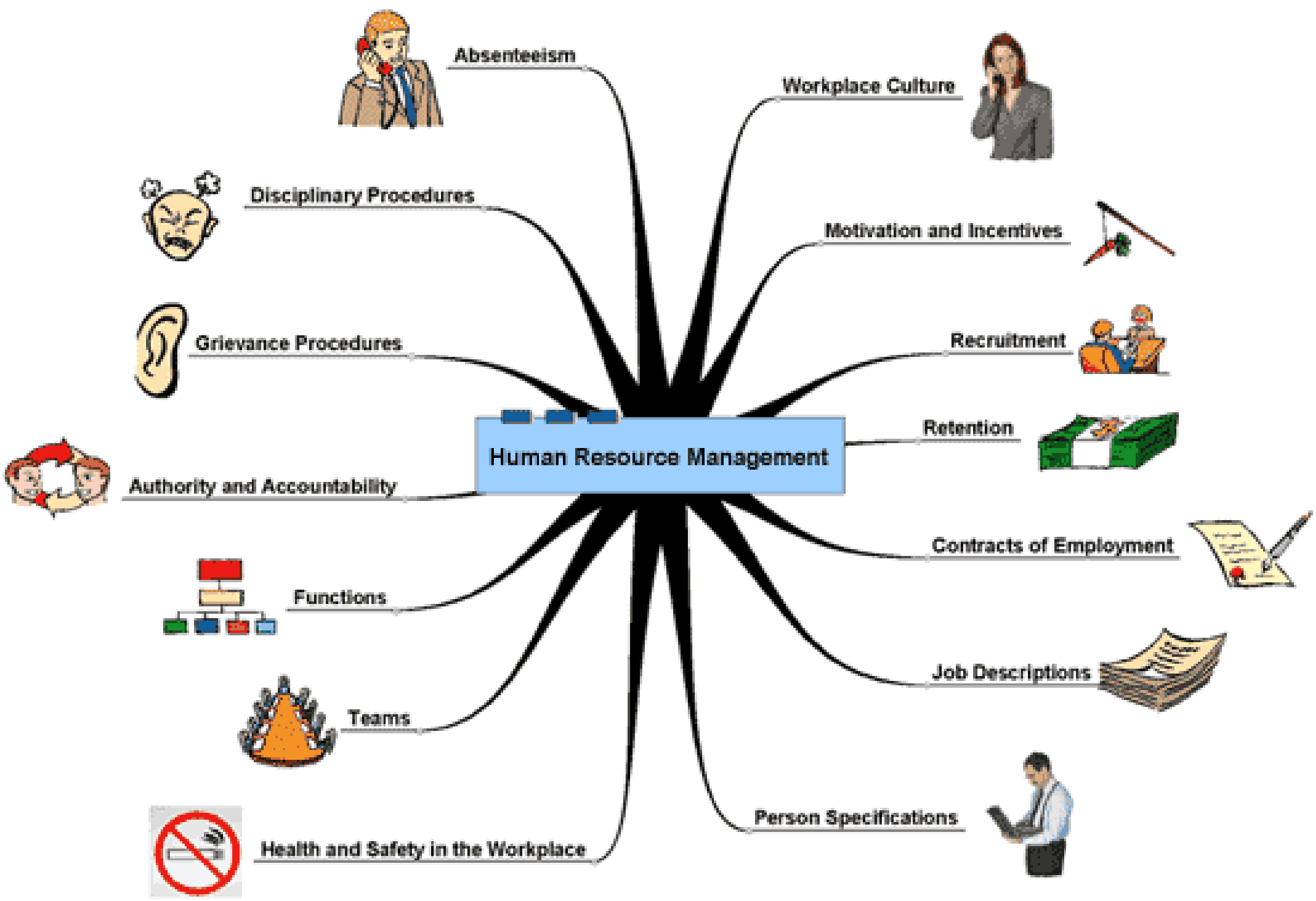
- giving few orders,
- announcing few decisions,
- depending heavily on informal questioning, and
- seeking to probe and clarify until a consensus emerges.

Often during strategy formulation, individual values, skills, and abilities needed for successful strategy implementation are not considered. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice. Inadequate support from strategists for implementation activities often undermines (slowly weakens) organizational success.

The <u>best method for preventing and overcoming human resource problems in strategic management is so actively invoice many managers and employees' as possible in the process</u>. Although time-consuming, this approach understanding, trust, commitment, and ownership and reduces resentment and hostility.

An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence.

- **<u>Recruitment and selection</u> ;** The workforce will be more competent if a firm can successfully identify, attracts, and select the most competent applicants.
- **<u>Training</u>**: The workforce will be more competent if employees are well trained to perform their jobs property.
- **<u>Appraisal of Performance</u>** : The performance appraisal is to identify any performance deficiencies experience by employees due to lack of competence.
- **<u>Compensation :</u>** A firm can usually increase the competency of its workforce by offering pay and benefit packages that are more attractive than those of there competitors



Strategy and Human Resource Management

The human resource strategy of business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans

- to develop its employees and
- provide them suitable opportunities and
- better working conditions so that their optional contribution is ensured.

The success of an organization depends on its human resources. This means how they are acquired, developed, motivated and retained plays an important role in organizational success. Strategic focus should be given in the following points :

- Pre-selection practices including human resource planning and job analysis
- Both recruitment and selection policies and procedures should be designed keeping in view the mission and the purpose of the organization.
- Decisions related to training and development, performance appraisal, compensation and motivation should be based on corporate strategy of the organization.

Strategic Role of Human Resource Management

1. **Providing purposeful direction :** Objects of an organization become the object of each person working in the organization and the objectives are set to fulfill the same. Objectives are specific aims which must be in the line with the goal of the organization and the all actions of each person must be consistent with the objectives defined
2. **Creating competitive atmosphere :** There are two important ways of business can achieve a competitive advantages over the others The first is **cost leadership**, which means the firm aims to become a low cost leader in the industry. The second competitive strategy is **differentiation**. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce.

3. **Facilitation of change:** The Human resource will he more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory.

4. **Diversion of workforce** : Management of diverse workforce is a great challenge, diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee.

    - The workforce in future will comprise more of educated and self-conscious workers.
    - They will ask for higher degree of participation and avenues for fulfillment. .
    - Money will no longer be the sole motivating force for majority of the workers.
    - Non-financial incentives will also play an important role in motivating the workforce.

5. **Empowerment of human resources**: Empowerment means authorizing every number of a society or organization to take of his/her own destiny realizing his/her full potential.

6. **Building core competency** : A core competence is a unique strength of an organization which may not be shared by others. This may be in the form of human resources, marketing, capability, or technological capability. **If the business is based on core competency, it is likely to generate competitive advantage**. Business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous, and dynamic leadership having faith in organization's human resources.

7. **Development of works ethics and culture** : As changing work ethic requires increasing emphasis on individuals, jobs will have to be re-designed to provide challenge.
    - Flexible starting and quitting times for employees may be necessary.
    - Focus will shift from extrinsic to intrinsic motivation.
    - create an atmosphere of trust among people and to encourage creative ideas by the people.

Many companies are harping on making their products affordable to the mass consumers as part of their growth strategy. Two years back Clean Head Ltd started selling their shampoo at an affordable price of Rs 10 for 40 ml bottle. The price of 100 ml and 200 bottles were retained at Rs 45 and 85 respectively. The product was aggressively pushed in small and mofussil towns.

The company expected that the existing customers would continue with the convenience of bigger bottles and purchase them. Contrary to the expectations, big cities also witnessed a shift towards smaller size bottles. There was some increase in the volumes, but squeeze in the margins

tremendously reduced the profits. Moreover, the turnover did not increase as forecasted.

The chairman of the company called a meeting of all the functional heads and made following observations:

"We have to chart out long-term strategies for our company. At this moment, sustainable but profitable growth is sacrosanct for us, but may prove to be elusive. We are not in a position to offer lower-priced shampoos with declining profits. If we continue like this, gradually the company may start incurring losses., Our competitors have also followed us by reducing their prices. My dilemma is if we roll back our prices, our competitors may not do so.

(a) What went wrong? Give your assessment of the situation

(b) How competitors are related to the internal decisions?

(c) What is the strategy used by Clean Head Ltd.

Question from My Desk (very Important) For Formulation of Functional Strategy

Q.1 Write a short note on marketing mix?

Q.2 Explain various types of Marketing Strategy Techniques.

Q.3 Write a short Note on evaluating worth of a business.

Q.4 What is financial Strategy?

Q.5 Explain the importance of R&D in strategic management

Q.6 What is HRM? Discuss its role in implementation of Strategy.

Q.7 Explain briefly Logistics Strategy.

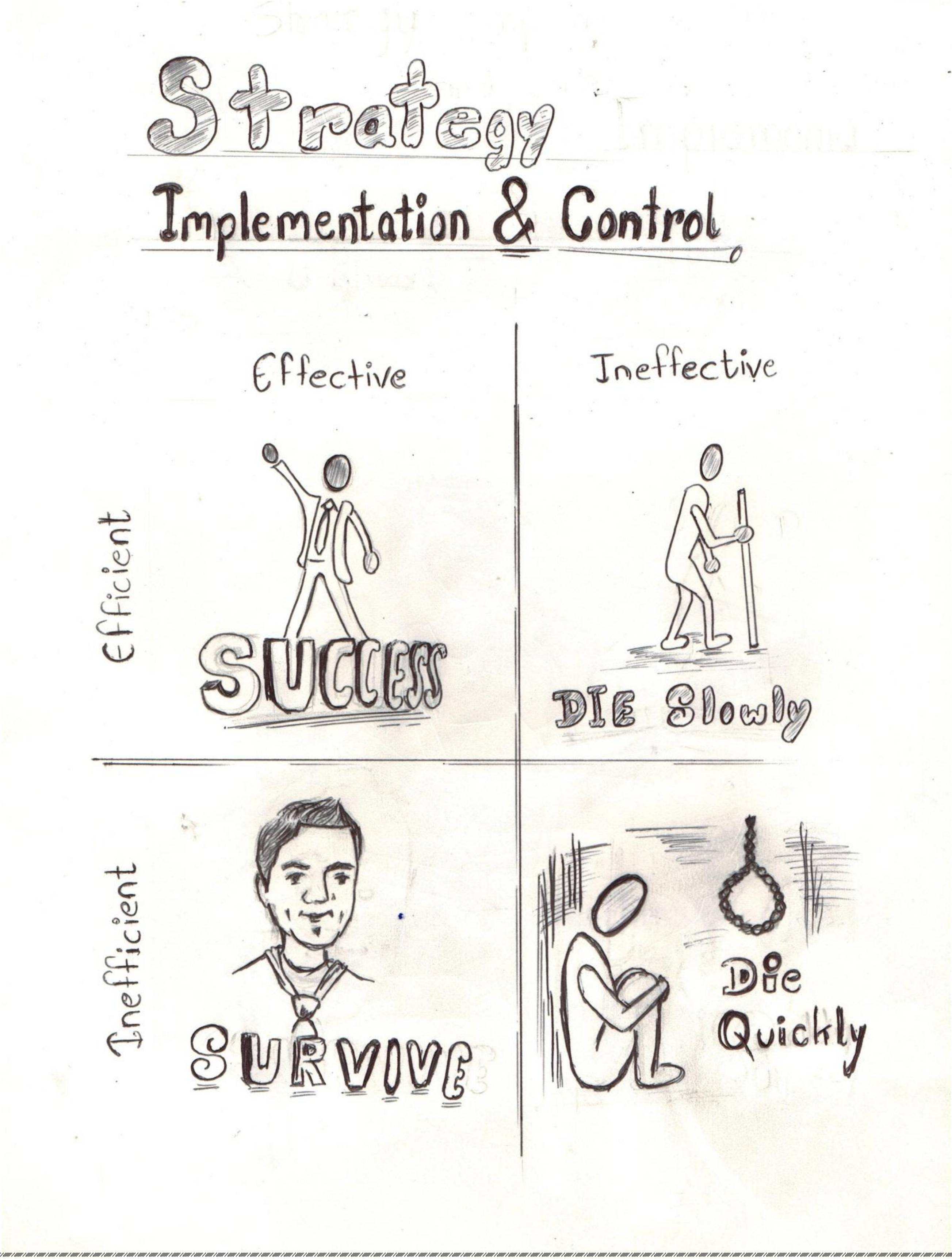
Q.8 Explain the area where HRM can plan a prominent role.

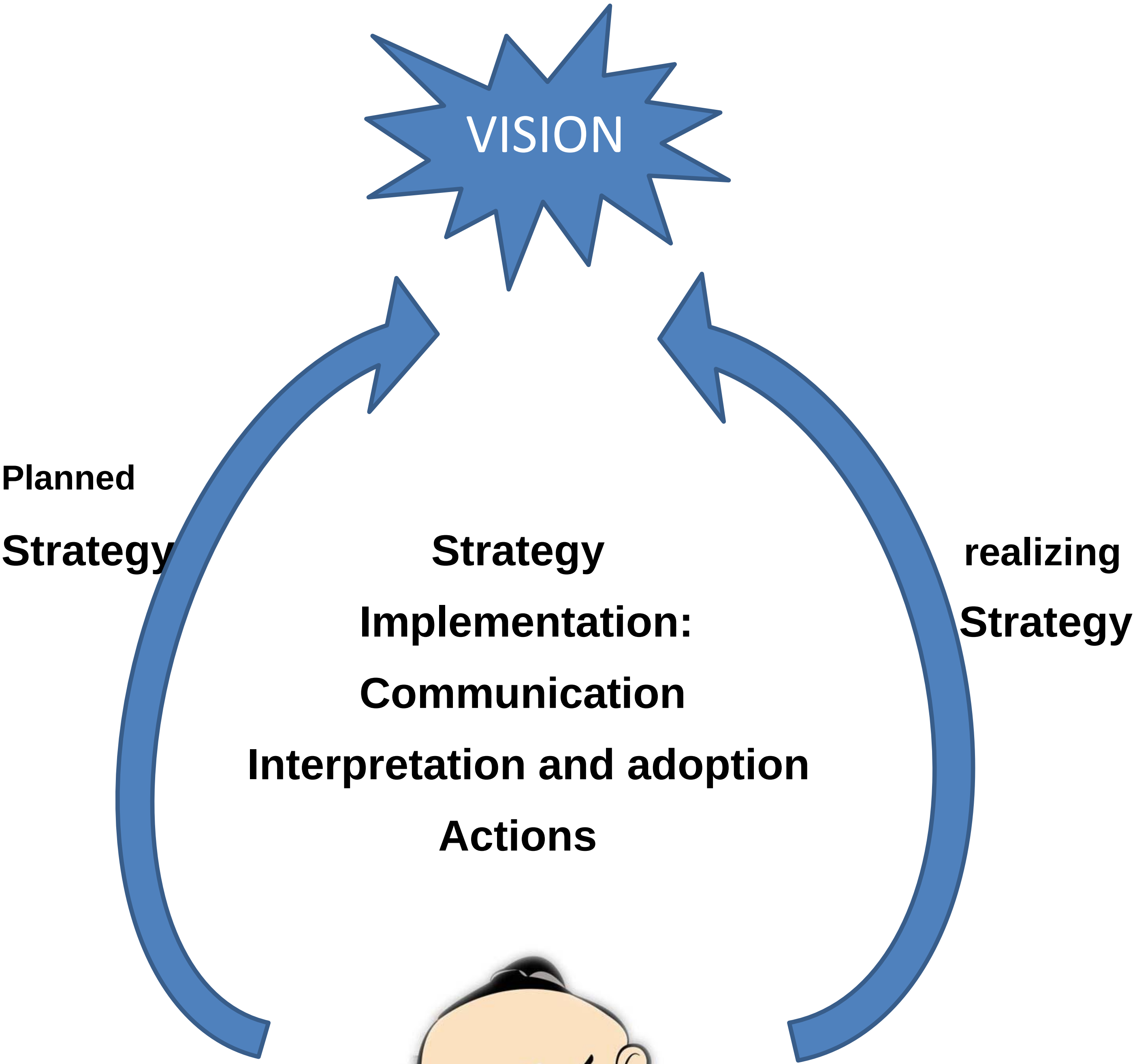
Q.9 What is meant by Functional strategies? Are functional strategies really important for business?

Q.10 Give a brief about Production Strategy Formulation.

CHAPTER - 6

Strategy Implementation and Control





Winning companies know how to do their work better

-Michael Hammer and James Champy

Structure-follows strategy.However; "many organizations attempt to carry out a new strategy with an old structure.

- Dale Mc Conkey

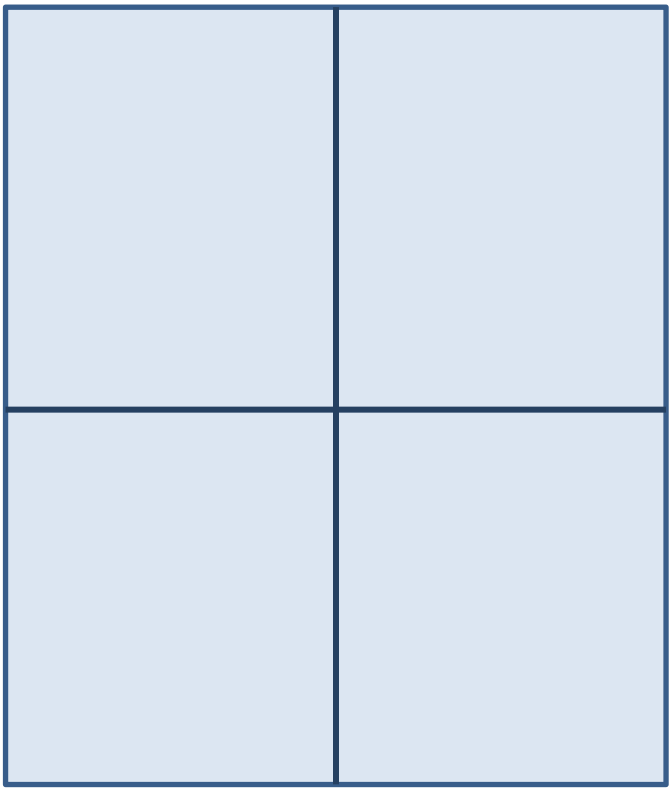
Interrelationships Between Strategy Formulation And Implementation

Strategic-management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic thought into strategic action. Strategic implementation is concerned with translating a decision into action. Many **managers fail to distinguish between strategy formulation and strategy implementation.**

There is no such thing as successful strategic design per se. Often people, blame the strategy mode! for the failure a company while the main flaw might lie in failed implementation. Thus

Organizational success F(x) = good strategy + proper implementation

Strategy formulation and Implementation Mix



<u>Square A</u> the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully.

<u>Square B</u> is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

<u>Square C</u> is for companies that have not succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model Success goes through business model redesign and implementation/execution readjustment.

<u>Square D</u> situation where the strategy formulation is flawed, but the company is showing excellent, implementation skills. The first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills.

Strategy it is to be seen as a chosen set of actions by means of which a market position is sought and maintained. A series of strategic moves may be planned; competitors' actions will mean that the actual moves will have to be modified to take account of those actions.

Efficiency V/s Effectiveness

In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions. In other words, the focus has been on efficiency rather than on effectiveness.

While efficiency is essentially introspective (thoughtful), effectiveness highlights the links between the organization and its environment. Responsibility for efficiency lies with operational managers, with top management having the primary-responsibility for the strategic orientation of the organization.

Strategic Management

		Effective	Ineffective
Operational Management	Efficient	1	2
	Inefficient	3	4

- ❖ An organization that finds itself in **cell 1** is well placed and **thrives,** since it is achieving what it aspires to achieve with an efficient output/input ratio.
- ❖ An organization in **cell 2 or 4** is doomed, unless it can establish some strategic direction.
- ❖ Cell 2 is a worse place to be than is **cell 3** since, in the latter, the strategic direction is present even if too much input is being used to generate outputs.

To be effective is to do the right thing, while to be efficient is to do the thing right.

A group of people who all get together to secure some advantage can be well defined as an organisation.

- ♦ Shareholders for dividends)
- ♦ Employees for good wages
- ♦ Government for Legal compliance
- ♦ Consumers for satisfaction
- ♦ Suppliers for business

Even the most technically perfect strategic plan will serve little purpose if it is not implemented. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, Implementation of **strategy is mainly an administrative** task based on strategic as well as operational decision-making.

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)!

	Strategy Formulation	Strategy Implementation
1		
2		
3		
4		
5		

Implementing strategies requires such actions as

- ❖ altering sales territories,
- ❖ adding new departments,
- ❖ closing facilities,
- ❖ hiring new employees,
- ❖ transferring managers among divisions,
- ❖ building a Letter management information system.
- ❖ changing an organization's pricing strategy,
- ♦ developing new employee benefits,
- ♦ changing advertising strategies,
- ♦ building new facilities,
- ♦ training new employees,

These types of activities obviously differ greatly between manufacturing, service, and governmental organizations.

Division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are knotted. Two types of linkages exist.

The **forward linkages** deal with the impact of the formulation on implementation while the **backward linkages** are concerned

with the impact in the opposite direction.

Forward Linkages : Changes that would come thru with the strategy formulation such as organizational structure, style of leadership etc.

Backward Linkages : While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts.

Issues In Strategy Implementation

Issues involved in strategy implementation cover practically everything that is included in the discipline of management studies.

The implementation tasks put to test the strategists' abilities

- ♦ to allocate resources,
- ♦ Design structures,
- ♦ Formulate functional policies, and
- ♦ take into account the leadership styles required, besides with various other issues

BREAK-DOWN OF STRATEGY IMPLEMENTATION TASK

First Strategic plan proposes the manner in which the strategies could be put into action.
Second Strategies are in a sense, a statement of intent.
Third Implementation tasks are meant to realise the intent
Fourth Strategies should lead to plans
Fifth Plans result in different kinds of programmes.
Sixth A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action.
Seventh Programmes lead to the formulation of projects
Eighth Projects create the needed infrastructure for the day-to-day operations in an organization.

Implementation requires a shift in responsibility from strategists to divisional and functional managers., Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide.

Practical problem for strategy implementation

Strategists are too busy to actively support strategy-implementation efforts, and their lack of interest is harmful to organizational success. Following should be compulsorily done to avoid failure:

1. The rationale for objectives and strategies should be clearly communicated throughout an organization.
2. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members.
3. Major external opportunities and threats should be clear, and managers and employees' questions should be answered.
4. Top-down flow of communication is essential for developing bottom-up support.

Organization & Strategy Implementation

Picture of an ideal organisation structure:

a. Ideas filter up as well as down
b. Where idea is more important than the person who gave it
c. Where participation and shared objectives are more valued than the order of the Boss

Majority strategy changes get affected due to **two major reasons**

First Structure largely dictates how objectives and policies are established

i. Geographical Structure of organisation will have objectives in geographic terms
ii. Product based structure will have objectives based on product groups

Second Structure largely dictates how resources will be allocated

i. Customer based structure of organisation will have allocations based on customer groups
ii. Product based structure will have allocations based on product groups

What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way. **Industry wise structure can be categorized as follows:**

Sr, No.	Industry Type	Structure
a.	Consumer goods companies	
b.	Small firms	
c.	Medium-size firms	
d.	Large firms	

Chandler's Strategy Structure Relationship

What types of structural changes are needed to implement new strategies and how these changes can best be accomplished?

Organizational structure is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes. The most important issue is that the company's structure must be congruent with or fit with the company's strategy. We examine this issue by focusing on eight organisational structures:

1. Functional
2. Divisional
   a. Geographical
   b. Product
   c. Customer
   d. Process
3. SBU
4. Matrix
5. Network

1. Functional

A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems.

Advantages	Disadvantages
a. Besides being simple and inexpensive,	a. It forces accountability to the top,
b. promotes specialization of labour,	b. minimizes career development opportunities, and
c. encourages efficiency,	c. is sometimes times characterized by low employee
d. minimizes the need for an elaborate control, system, and	d. line/staff conflicts, poor delegation of authority,
e. allows rapid decision making.	e. Inadequate planning for products and markets.

Most large companies abandoned the functional structure in favour of decentralization and improved accountability.

Structure:

2. Divisional:

The divisional structure can be organized in one of four ways:

a. by geographic area,
b. by product or service,
c. by customer, or
d. by process.

Cisco Systems discarded its divisional structure by customer and reorganized into a functional structure.

What changed ? CEO John Chambers replaced the three-customer structure based on big businesses, small business, and telecoms, and Now the company has centralized its engineering and marketing units

Purpose so that they focus on technologies such as wireless networks. Chambers says the goal was to eliminate duplication,

Kodak reduced its number of business units from seven by-customer divisions to five by-product divisions.

Reason: As consumption patterns become increasingly similar worldwide, a by-product structure is becoming more effective than a by-customer or a by geographic type divisional structure.

What changed ? Kodak eliminated its global operations division & distributed those responsibilities across the new by-product divisions.

Advantages	Disadvantages
a. accountability is clear	a. divisional structure is costly
b. employees can easily see the results of their good or bad performances.	b. each division requires functional specialists who must be paid
c. it creates career development opportunities for managers	c. there exists some duplication of staff services, facilities, and personnel;
d. allows local control of local situations,	d. managers must be well qualified
e. leads to a competitive climate within an organization	e. Better - qualified individuals require higher salaries.
f. new businesses and products can be added easily.	f. it requires an elaborate, headquarters- g. certain regions, products, or customers may sometimes receive special treatment,

Appropriateness of various divisional structures

❖ **Geographical Division** : Appropriate for organizations whose Strategies need to be tailored to fit the particular needs and characteristics of customers indifferent geographic areas & have similar branch facilities located in wide spread areas.

❖ **Product (or services) Division** : It is most effective for implementing strategies when specific products or services need special emphasis. Allows strict control over and attention to product lines, but it may also require a more skilled management force and reduced top management control.

- **Customer wise Division** : When a few major customers are of paramount importance and many r provided to these customers, allows an organization to cater effectively to the requirements of cam: groups.

  Eg: Book publishing Co's: **Airline Co's:**

- **Process based Division**: Similar to a functional structure, because activities are organized to the way work is actually performed. Key difference between these two designs is that functional departments are profits or revenues, whereas divisional process based departments are.

3. Strategic Business Unit (SBU)

Increases in sales often are not accompanied by similar increases in profitability. The span of control1 levels of the firm. It becomes difficult for the CEO to manage complex strategic information, increased diversification.

The SBU structure group's similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer.

SBU structure is composed of operating units where each unit, represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers.

Advantages	Disadvantages
a. Improves co-ordination which helps strategy implementation. b. Brings accountability to distinct business units c. Allocation of resources can be improved once the ambiguous accountability is there for money spent	a. Fit requires an additional layer of management which increases salary expenses. b. Role of the group vice president is often ambiguous

A strategic business unit (SBU) structure, consists of at least three levels, with a Corporate heat groups at the second level, and divisions grouped by relatedness within each SBU at the third level.

Sony has been restructuring to match the SBU structure with its ten companies as organised into four SBU's .It has been pushing the company to make better use of software Product and content (e.g., Sony's music, films and games) in its televisions and audio gear to increase Sony's profitability, Sony has the opportunity to integrate software and content across a broad range of consumer electronics products.

GE's SBU form js made up of 10 strategic business units which should enable it to act quickly and more effectively. This structure will enable the company to walk, talk and think' like smaller companies by making decisions and introducing innovative products more rapidly.

Individual SBU are treated as profit centres and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

Newer Forms of Organization Structures

Increased levels of diversification call for newer structures that enable fast decision making and where other structures do not seem to be working properly.

New organisational design vis-a-vis old organisation design

Old organisation design	New organisational design

4. **Matrix Structure:** When organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for their situations.

   Functional and product forms are combined simultaneously at the same level of the organization. Employees have two superiors,

   - a product or project manager and
   - a functional manager

   The "home'" department - that is, engineering, manufacturing, or sales - is usually functional and is reasonably permanent.

Development of Matrix Structure

To combine stability of functional department and flexibility of the product form; this is useful when external environment is changeable.

The matrix structure is often found in an organization or within an SBU when the following three conditions exist:

a. Ideas need to be cross-fertilized across projects or products,

b. Resources are scarce and

c. Abilities to process information and to make decisions need to be improved.

Davis and Lawrence, have proposed three distinct phases

cross-functional task forces ———►

Product/ Brand management ———►

Mature Matrix ———►

However, the matrix structure is not very popular because of difficulties in implementation and trouble in managing.

Positive factors	Negative Factors
❖ project, objectives are clear;	♦ Higher overhead because it more management positions.
♦ there are many channels of communication	♦ dual lines of budget authority
♦ workers can see the visible results of their work, and	♦ dual sources of reward and punishment,
♦ shutting down a project is accomplished relatively easily	♦ shared authority, dual reporting channels,

5. Network Stricture: A virtual non-structure by elimination of in-house business functions.

a. It is a combination of series of projects and groups or collaborations linked with constantly changing non hierarchical cob-web
b. The structure is most suitable when the environments unstable and requires innovation and Quick response.
c. Rather than having salaried employees, people are contracted for specific project or an assignment (contract workers).
d. There is no single building or location ; its scattered locations are spread world-wide
e. Its virtually a small Head Quarter acting as a broker electronically connected to its
    - Own divisions
    - Partially owned subsidiaries and
    - Other interdependent companies

f. Electronic markets and sophisticated information systems reduce the transactions costs of the market lace was justifying a "buy" over a "make" decision.

g. It is networking carried to its extreme “a series of independent firms or business units linked together by computers in a MIS that designs; produces and markets a product or services.

Advantages:

a. Provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition,

b. allows a company to concentrate on its distinctive competencies

Disadvantages: "The availability of numerous potential partners can be a source of trouble.

a. Contracting out functions to separate suppliers/distributors may keep the firm out from discovering any synergies by combining activities.

b. If a particular firm overspecializes on-only a few functions, it runs the risk of choosing the wrong functions and thus becoming non-competitive.

c. Many workers become deskilled-that is, they cannot perform well in a new structure that often demands constant innovation and adaptation.

d. Modern structure requires that each worker become a self-motivated, continuous learner. Employees may tack the level of confidence necessary to participate actively in organization-sponsored learning experiences.

Companies like Nike, Reebok and Benetton use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost

6. Strategic business unit: The concept is relevant to multi-product, multi- business enterprises. It deals with grouping:

the products/businesses into a manageable number of strategically related business units and then take up for strategic planning.

Historically, large, multi-business firms were handling business planning on a territorial basis since their structure was territorial. When strategic planning was carried out treating territories as the units for planning, it gave rise to two kinds of difficulties:

a. since a number of territorial units handled the same product, the same product was getting varied strategic planning treatments; and

b. Since a given territorial planning unit .carried different and unrelated products, products with dissimilar characteristics were getting identical strategic planning treatment.

The principle underlying the grouping is that all related products-related from the standpoint of "function^-should fall under one SBU. The attributes of an SBU and the benefits a firm may derive by using the SBU idea.

- A scientific method of grouping the businesses of a multi-business corporation
- An improvement over the territorial grouping of businesses and strategic planning based on territorial units.
- Products/businesses within an SBU receive same strategic planning treatment and priorities
- The structure becomes **more function based rather than area based**
- it also facilitates the right setting for correct strategic planning and facilitates correct relative priorities and resources to businesses.
- Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives,, competition and strategy-one SBU will be distinct from another
- Each SBU will have its own distinct set of competitors and its distinct strategy.
- Each SBU will have a CEO. He will be responsible for strategic planning for the SBU and its profit performance;

In case of related SBU's being created some questions strike the mind that

Q 1. SBUs might build on similar technologies or all provide similar sorts of products or services ?

Q2. SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar.

- Technologies underpinning frozen food, washing powders and margarine production may be very different; but all are sold through retail operations, and Unilever operates in all these product fields.
- Unilever would argue that the marketing skills associated with the three product markets are similar,

The Value Chain Analysis

Originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved.

♦ Identifying separate activities

♦ Assessing the value added from each Highlights of value chain analysis

Highlights of value chain analysis

♦ It believes that organisations are much more than a random collection of machines, money and people.

♦ All things are to be recognised and routed in particular systems to get value

♦ The competency to perform particular activities and ability to manage activities gives the competitive advantage.

Identifying Core competencies

Value chain analysis is useful in

- describing the separate activities which are necessary to strengthen/support an organization's strategies and
- how they link together both inside and outside the organization.

Every organisation has to perform activities, which are the bare minimum required things for surviving in the market. That is termed as threshold competence

Something's which an organisation does which makes it different than others would be called as core competence i.e. the special factor which only that organisation has and nobody else

Basis		
Basic Skills Threshold Competence		
Core Competence Unique features		

Long-term competitive advantage needs to be secured by continually shifting the ground of competition.

PI note:

Year	Companies	USP

PI note:

How to identify core competency

Not only for reasons of ensuring or continuing, good 'fit' between these core competences and the changing nature of the markets or environment but core competences may be the basis on which the organization stretches into new opportunities.

- The ability to exploit the competence in more than one market or arena.
- The development of 'added value' services and/or geographical spread of markets are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

One wonders what one organisation does the other also copies but one is successful and other fails. How is it possible?

It is all about managing linkages; Core competences in separate activities may provide competitors may imitate competitive advantage for an organization, but overtime.

Core competences are likely to be **more robust and difficult to imitate if they relate to the management of linkages within the organization's value chain and linkages into the supply and distribution chains.** It is the management of these linkages, which provides

- 'leverage' and levels of performance, which are difficult to match.
- The ability to co-ordinate the activities of specialist teams or departments may create competitive advantage through improving value for money in the product or service.

This management of internal linkages in the value chain could create competitive advantage in a number of ways There may be important linkages between the primary activities. It is easy to miss this issue of managing linkages between primary activities in an analysis

The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructures, which provide the basis on which the company outperforms competition.

Linkages between different support activities may also be the basis of core competences.

Competitive advantage may also be gained by the ability to complement/co-ordinate the organization's own activities with those of suppliers, channels, or customers.

- Vertical integration attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization.
- Within manufacturing industry the competence in closely specifying requirements and controlling the performance of suppliers (sometimes linked to quality checking and/or penalties for poor performance) can be critical to both quality enhancement and cost reduction.
- Total quality management, which seeks to improve performance through closer working relationships between the specialists within the value system. For example, many manufacturers will now involve their suppliers and distributors at the design stage of a product or project.

Leadership And Strategic Implementation

Sometimes it is useful to be authoritarian and hardnosed;

Sometimes it is best to be a perceptive listener and a compromising decision maker;

Sometimes a strongly participative, collegial approach works best; and Sometimes being a coach and adviser is the proper role.

Many occasions call for a highly visible role and extensive time commitments, while others entail a brief ceremonial performance with the details delegated to subordinates.

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

1. **Staying on top of what is happening,** closely monitoring progress, ferreting out issues,
2. **Promoting a culture** and esprit de corps **that mobilizes and energizes organizational members** to execute strategy in competent fashion and perform at a high level.
3. Keeping the organization responsive to changing conditions, **bubbling with innovative ideas, and ahead of rivals**
4. Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.
5. **Pushing corrective actions to improve strategy execution** and overall strategic performance

Effective Strategic

Leadership

Shapes the formulation of

Strategic Intent ———— **Strategic Mission**

Influence

Successful

Strategic Actions

Formulation of Strategies

Implementation of Strategies

Strategic Competitiveness

Above-Average Returns

The strategic leader has **several responsibilities**, including the following:

1. **Managing human capital** (perhaps the most critical of the strategic leader's skills). Effectively managing the company's operations.
2. **Sustaining high performance** overtime.
3. Being willing to make **candid, courageous, yet pragmatic, decisions**.
4. Seeking **feedback through face-to-face communications**.
5. **Having decision-making responsibilities that cannot be delegated.**

Thus, the strategic leadership skills of a company's managers represent resources that affect company performance. And these resources must be developed for the company's future benefit.

Building A Strategy-supportive Corporate Culture

Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal environment. Every company has a unique organizational culture. Each has

- its own business philosophy and principles,
- its own ways o; approaching problems and making decisions,
- its own work climate,
- its own embedded patterns of "how we do things around here,"

Wal-Mart's culture is dedicated to

Walmart Save money. Live better.

- customer satisfaction,
- zealous pursuit of low costs,
- a strong work ethic.

At Microsoft, there are

- Stories of the long hours programmers put in.
- The emotional peaks and valleys in encountering and overcoming coding problems.
- The exhilaration of completing a complex on schedule, the satisfaction of working n cutting-edge projects,
- The rewards of being part of a team responsible for a popular new software program, and
- The transaction of competing aggressively.

A company culture is a combination of the following:

- values and business principles that management preaches and practices,
- in its ethical standards and official policies,
- in its stakeholder relationships (especially its dealings with employees, unions, stockholders, vendors, and the communities in which it operates),
- in the traditions the organization maintains,
- in its supervisory practices,
- in employees' attitudes and behaviour,
- in the legends people repeat about happenings in the organization,
- in the peer pressures that exist, in the organization's politics, and
- in the "chemistry" and the "vibrations" that permeate the work environment.

How culture can promote better strategy execution a culture

Strong cultures promote good strategy execution when there's fit and hurt execution when there's little fit.

(Attitude comes from cultures and ideas come from thoughts and open dialogues)

Type of Culture	Strategy Execution
a culture where economy and saving are values strongly shared by organizational members	
Where creativity, embracing and challenging the status quo are pervasive them	
built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility.	

Where the culture matches the conditions for good strategy execution. It does the following positives to the organisation

1. Provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job.
2. shape the mood, temperament, and motivation the workforce, positively affecting organizational energy, work habits and operating practices, the degree to which organizational units cooperate, and how customers are treated.
3. nurtures and motivates people to do their jobs in ways conducive to effective strategy execution;
4. it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy.
5. this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish.

Changing a problem culture

It is not necessary every time that whatever we want to do can be achieved with what we have.

So, Where the culture DOES NOT matches the conditions for good strategy execution. It does the following negatives to the organisation. Changing problem cultures is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy supportive. While correcting a strategy-culture conflict can occasionally mean revamping strategy to produce cultural fit, more usually it means revamping the mismatched cultural features to produce strategy fit.

1. The first step is to diagnose which aspect of the present culture are strategy supportive and which are not.
2. Then, managers have to talk openly to all concerned about those aspects of the culture that have to be changed.
3. The talk has to be followed by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture in tune with the strategy.

Culture-Changing Actions

While being out front personally and symbolically leading the push for new behaviours is crucial, strategy implementers have to convince all those concerned that the culture-changing effort is more than cosmetic. Talk and symbolism have to be complemented by substantive actions and real movement.

The strongest signs that management is truly committed to creating a new culture include

1. revising policies and procedures in ways that will help drive cultural change,
2. altering incentive compensation (to reward the desired cultural behavior),
3. visibly praising and recognizing people who display the new cultural traits,
4. recruiting and hiring new managers and employees who have the desired cultural values and can serve as role models for the desired cultural behavior
5. replacing key executives who are strongly associated with the old culture, and
6. taking every opportunity to communicate to employees the basis for cultural change and its benefits to all concerned.

   Until a large majority of employees join the new culture and share an emotional commitment to its basic values and behavioral norms, there's considerably more work to be done. The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail; it is unrealistic to expect an overnight transformation.

Speed Technologies is an Indian company with three major divisions: (1) notebooks, (2) desktops and (3) accessories. Its total revenue for the last year approximated Rs. 1130 crores, and its net operating income was Rs. 53 crores.

The organizational structure of the company is considered to be quite formal. Each division operates as an independent unit and is responsible for its own activities, with only modest direction from the corporate office. It also has offices located in Nepal and Sri Lanka. These offices function as liaising office for local importers. The monthly requisitions from the importers are directly despatched by the corporate office. The sales of the company from these two countries is marginal and their market share in markets is also low. However, there is huge potential. Considering this, the company intends to expand its network in both the countries with little control from the head office. It intends to increase the workforce and setup local assembling units.

(a) Is the present structure of Speed Technologies functional or divisional? Discuss.

(b) What kind of structure will you suggest in two countries?

Question from My Desk (very Important) For Strategy Implementation & Control

Q.1 What is strategic control? Briefly explain the different types of strategic control.

Q.2 Explain Value Chain Analysis and give a brief about its Component.

Q.3 What do you mean by leadership and strategic Implementation?

Q.4 Explain SBU Structure and its Advantages.

Q.5 Short Notes on Importance of Corporate Culture.

Q.6 Short Notes on Network structure.

Q.7 Explain briefly the role of culture in promoting better strategy execution.

Q.8 Elaborate the interrelationship between strategy formulation and implementation.

Q.9 Give a brief about Matrix Structure and its development.

CHAPTER - 7

Reaching Strategic Edge

Bench Marking

A short story : Two men were passing through a jungle. They saw a tiger at a distance. One of them immediately started running away. 'No use the other claimed 'We cannot outrun him. We are sure to be killed'.

Q. What should the first person have replied?

A. The first person replied ………………………………………………….

Organizations possess a large amount of information that helps them in taking strategic and other important decisions. Companies that translate this information to knowledge and use it in their planning and decision-making are the winners. Benchmarking helps organization to get ahead of competition.

Definition:

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performances can be measured.

It studies the circumstances and processes that help in superior performance. **Better processes are not merely copied**. Efforts are made to learn, improve, and evolve them to suit the organizational circumstances.

Benchmarking is a process of continuous improvement in search for competitive advantage. It measures a company's products, services, and practices against those of its competitors or other acknowledged leaders in their field. Xerox pioneered this process in late 70's by benchmarking its manufacturing costs against those of domestic and Japanese competitors and got dramatic improvement in the manufacturing cost.

Firms can use benchmarking process to achieve improvement in diverse range of management function like:

Maintenance operations	
Assessment of total manufacturing costs	
Product development	
Product distribution	
Customer services	
Plant utilization levels	
Human resource management	

The Benchmarking Process

Identifying the need for benchmarking and planning

Organisation identify realistic opportunities for improvements.

Clearly understanding existing business processes:

(Compiling information and data on performance. Data is collected by different methods for example, interviews, visit and filing of questionnaires)

Identify best processes:

Best processes are identified. These may be within the same organization or external to them.

Compare own processes and performance with that of others

(Gaps in performance between the organization and better performers is identified. Further, gaps in performance is analysed to seek explanations. Such comparisons have to be meaningful and credible.)

Prepare a report and Implement the steps necessary to close the performance gap:

Report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.

Evaluation:

Results of the benchmarking process in terms of improvements vis-a-vis objectives and other criteria set for the purpose. It periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

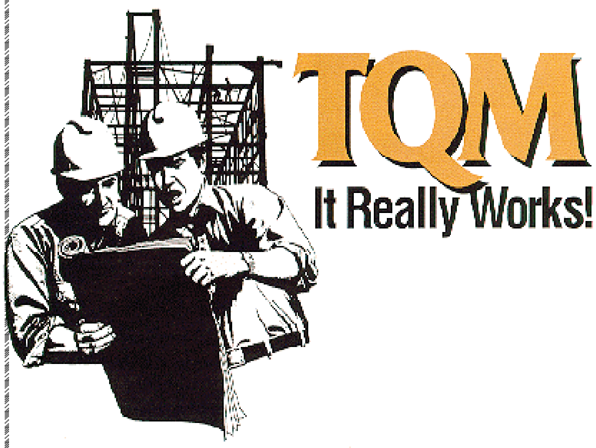
A Benchmarking Scorecard

Total Quality Management

Total Quality Management (TQM) is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost.

Earlier definition of Quality Control

Quality control was intended simply to control, or limit, the creation of defective items in industrial processes. Perhaps simply sorting good products from bad, they reasoned, was not the most efficient way to assure a quality output.



Modern view about Quality Control

A more effective management philosophy might focus on actions to prevent a defective product from ever being created, rather than simply screening it out.

Assuring quality could also be applied to administrative processes service industries and all sphere of organization activity.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy; it works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain.

History of TQM: TQM philosophy greatly emerged under Deming's guidance, who many be regarded as the father of TQM.

- Deming believed quality management should be pervasive, and should not focus on merely sorting good products from bad.
- Deming recognized that most quality problems were system-induced and were therefore not related to workmanship.

Rise of Japan in the world post world war-II: Deming was brought to Japan by General Douglas Mac Arthur to serve as a management consultant to the Japanese. The Japanese had no preconceived approaches about sorting defective products from acceptable ones. They were willing to learn. The Japanese dominated almost every market they chose to enter.

electronics,	automobiles,	shipbuilding,
cameras,	steel,	motorcycles.

Superior quality became a common theme of Japanese market dominance. Much of the Japanese quality superiority occurred as a result of statistical manufacturing methods and other management philosophies now recognized as Total Quality Management.

They developed new areas of variability reduction, problem solving, teamwork, and defining and satisfying customer expectations.

Principles guiding TQM

1. **A-sustained management commitment to quality:** The tone at the top should be right in regard to TQM. All the talk about TQM is tested in pressure timings for e.g.

   Scenario: During a month end is the management ready to sent defected / substandard products to complete sales target or are they ready to accept a loss. A single action would set the tone about the seriousness of organisation about quality.

2. **Focusing on the customer**: Lee Iacocca had only three rules:

1. Satisfy the customer,
2. Satisfy the customer, and
3. Satisfy the customer.

3 **Preventing rather than detecting defects:** An ounce of prevention is worth a pound of cure." TQM is a management philosophy that seeks to prevent poor quality in products and services, rather than simply to detect and sort out defects.

4. **Universal quality responsibility:** Another basic TQM precept is that the responsibility for quality is not restricted to an organizations quality assurance department. Everyone takes responsibility for quality.

As quality improves, the quality assurance department gets smaller. A few companies fully committed to TQM have done' away completely with their quality assurance departments.

5. **Quality measurement:** A basic TQM concept is that quality is a measurable commodity, and in order to improve, we need to know

   - ♦ where we are (or stated differently, what the current quality levels are), and
   - ♦ We need to have some idea where we are going (or what quality l evels we aspire to).

6. **Continuous improvement and learning:**

   "Continuous improvement" refers to both incremental and "breakthrough" improvement. Improvements may be of several types:

   - ♦ Enhancing value to the customer through new and improved products and services;
   - ♦ Developing new business opportunities;
   - ♦ Reducing errors, defects, and waste;
   - ♦ Improving responsiveness and cycle time performance; and
   - ♦ Improving productivity and effectiveness in the use of all resources

   "Learning" refers to adaptation to change, leading to new goals or approaches. This means they should be a regular part of daily work, seek to eliminate problems at their source, and be driven by opportunities to do better as well as by problems that need to be corrected.

7. **Root cause corrective action:** Most of us have experienced instances where problems which were corrected earlier continued to occur. TQM seeks to prevent this by identifying the root causes of problems, and by implementing corrective actions that address problems at the root cause level.

8. **Employee involvement and empowerment**: Employee involvement means every employee is involved in running the business and plays an active role in helping the organization meet its goals. Employee empowerment means employees and management recognize that many obstacles to achieving organizational goals can be overcome by employees who are provided with the necessary tools and authority to do so.

9. **The synergy of teams :** Taking advantage of the synergy of teams is an effective way to address the problems and

   challenges of continuous improvement.

10. **Thinking statistically**: Quality efforts often require reducing process or product-design variation, and statistical methods are ideally suited to support this objective.

11. **Inventory Reduction**: The concept of JIT (Just in time) was pioneered by Japanese under TQM

12 **Value improvement**: Quality is the ability to meet or exceed customer requirements and expectations. The essence of value improvement is the ability to meet or exceed customer expectations while removing unnecessary cost. Simply cutting costs will not improve value if the focus does not remain on satisfying customer requirements and expectations

13 **Supplier teaching**: Another principle of the TQM philosophy is to develop long-term relationships with a few high-quality suppliers, rather than simply selecting those suppliers with the lowest initial cost.

14. **Training:** Training is basic to the TQM process. The concept is based on of empowering employees by providing the tools necessary for continuous improvement. One of the most basic tools is training.

TQM and traditional management practices

TQM is quite different from traditional management practices, requiring changes in organizational processes, beliefs and attitudes, and behaviours. "Traditional management" means the way things are usually done in most organizations in the absence of a TQM focus.

Strategic Planning and Management:

- Quality planning and strategic business planning are indistinguishable in TQM. Quality goals are the cornerstone of the business plan.
- **Measures such as customer satisfaction, defect rates, and process cycle times receive as much attention in the strategic plan as financial and marketing objectives.**

Changing Relationships with Customers and Suppliers: In TQM, quality is defined as products and services beyond present needs and expectations of customers. Innovation is required to meet and exceed customers' needs.

- **Traditional management places customers outside of the enterprise** and under marketing and sales, **TQM views everyone inside the enterprise as a customer** of an internal or external supplier, and a supplier of an external or internal customer.
- Marketing concepts and tools can be used to assess internal customer needs and to communicate internal supplier capabilities.

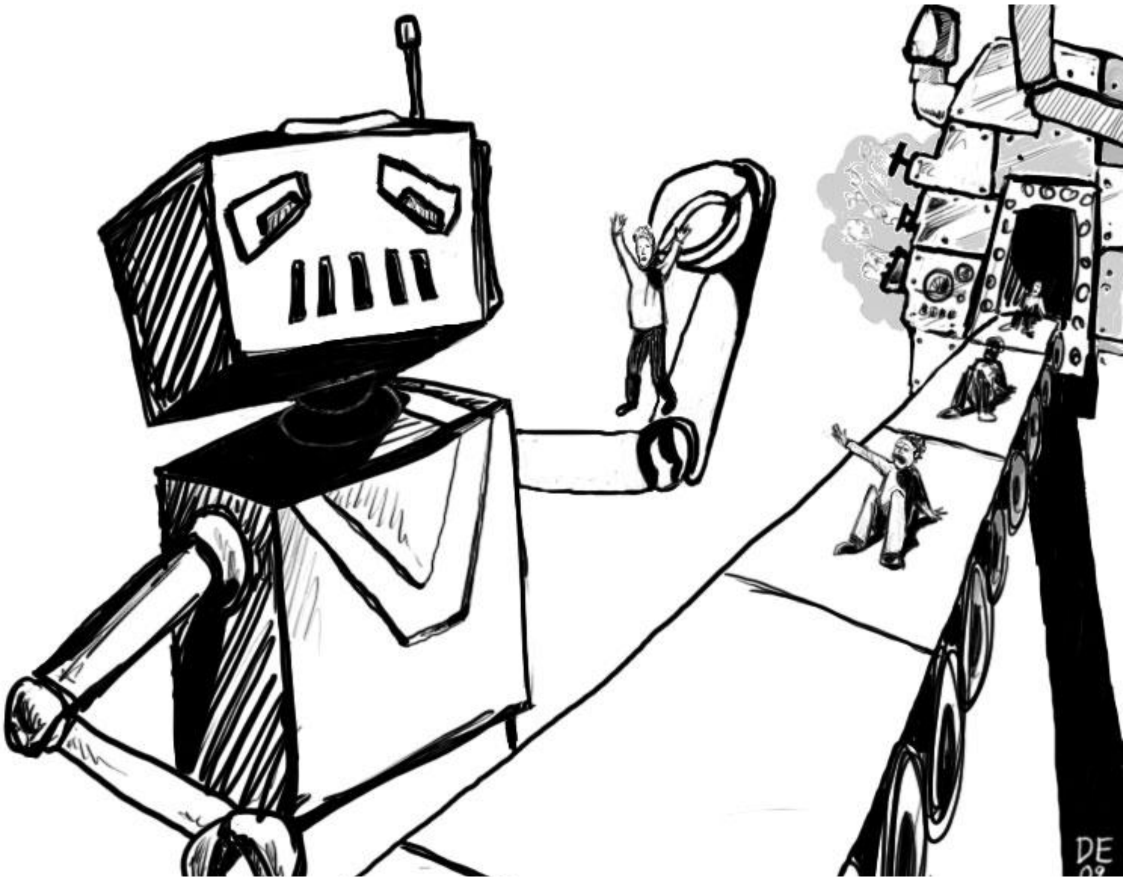
Organizational Structure: TQM views the enterprise as a **system of interdependent processes, linked laterally overtime through a network of collaborating (internal and external) suppliers and customers**. Each process is connected to the enterprise's mission and purpose through a hierarchy of micro- and macro-processes. Every process contains sub-processes and is also contained within a higher process. This structure of processes is repeated throughout the hierarchy.

Organizational Change: In TQM the environment is considered to be changing constantly. **Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services.** External change is inevitable, but a favourable future can be shaped.

Teamwork: In TQM individuals cooperate in team structures such as quality circles, steering committees, and self-directed work teams. Departments work together toward system optimization through cross-functional teamwork.

Motivation and Job Design: **TQM managers provide leadership rather than overt intervention in the processes of their subordinates, who are viewed as process managers rather than functional specialists.** People are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society. The **system enables people to feel like winners.**

Some industrial pictures to illustrate quality control



CHINA QUALITY FOCUS
secure your business

Business Process Re-engineering

"Business process reengineering means starting all over, starting from scratch" Forgetting how work has been done so far, and deciding how it can best be done now.

BPR is an approach to unusual, improvement in operating effectiveness through the redesigning of

a. Critical, business processes and
b. Supporting business systems.

Business Process Reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. They try to find out answers to such questions like

- Why do we do what we do? And
- Why do we do it the way we do?

An attempt to find out answers to such questions may startlingly reveal certain rules, assumptions, and operational processes as obsolete and redundant (useless and old).

Objective of BPR

- To obtain quantum gains in the performance of the process in terms of time, cost, output, quality., and responsiveness customers.
- The redesign effort aims at simplifying and streamlining a process by eliminating all redundant and non-value adding steps, activities and transactions, reducing drastically the number of stages or transfer points of work, and speeding up the work-flow through the use of IT systems.

It is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern.

It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done BPR focuses on the process of producing the output and output of an organization is tee it's i the process because if the process is good then the output will naturally be good!)

Business Process Defined

Typically, a business process involves a number of steps performed by different people in different departments; A process is a set of logically related tasks or activities oriented towards achieving a specified outcome.

"A process is a collection of activities which creates an output of value to the customer. Business s process or business activities are not discrete or unrelated pieces of work. They are parts of regular work processes within which they are located, sequenced, and organized.

Core Process

Some processes turn out to be extremely critical for the success and survival of the enterprise. BPR focuses on seen critical business processes out of the many processes that go on in any company.

A core business process creates value by the capabilities it provides to the competitiveness. Core business processes are critical in a company's evaluation by its customers. They are crucial for generating competitive advantages, for a firm in the marketplace.

The core processes of a company may change over a period according to the shifting requirements of its competitiveness. Since the objective of reengineering is to provide competitive advantage to the enterprise, it is extremely important to identify those core processes, which need to be focused for achieving excellence.

Industry wide core business process

Industry	Core business process
insurance industry	
banking industry,	
fast moving consumer goods industry	
electronics and semi-conductor industries	

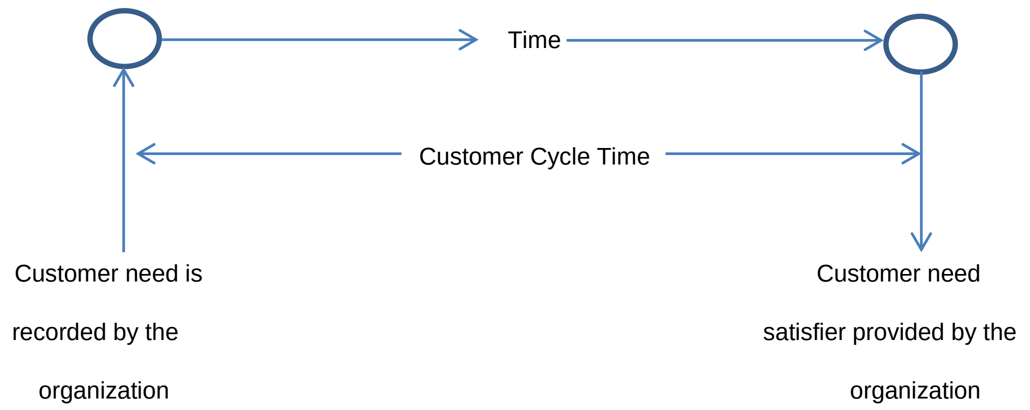
The generic business processes of a firm needing redesign may be classified into three broad categories as follows:

- **Processes pertaining to development and delivery of product(s) and/or services** (research, design, engineering, manufacturing, and logistics, besides purchasing / procurement and materials management.
- **Process involving interface (s) with customers**, (marketing, advertising, order fulfillment, and service,)
- **Process comprising management activities** (strategy formulation, planning and budgeting, performance measurement and reporting, human resource management building infrastructure.)

BPR may be view I as a means of solving business problem through an imaginative leveraging of IT capabilities.

Central Thrust of BPR

Although BPR is a multi-dimensional approach in improving the business performance it's thrust area may be identified as "the reduction of the total cycle time of a business process, BPR aims at reducing the cycle time of process by eliminating the unwanted and redundant steps and by simplifying the systems and procedures and also by eliminating the times as far as passable. Even after redesigning of a process, BPR maintains a continuous effect for more and more improvement.



Common time cycle

BPR Process

FUNDAMENTAL RETHINKING

challenge tradition : why ?

DRAMATIC IMPROVEMENT

orders of magnitude

RADICAL REDESIGN

assume a clean slate

1. **Determining objectives and Framework:** Objectives are the desired end results of the redesign process which the management a id organization attempts to realise

2. **Identify Customers and Determine their Needs:**

   The designer's nave to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.

3. **Study the Existing Process:** The existing processes will provide an important base for the redesigned The purpose

   is to gain an understanding of the 'what', and 'why' of the targeted process,

   However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.

4. **Formulate a redesign process plan:**

   The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts,

   Customer focused redesign concepts are identified and formulated. In this step alternative processes are consider and the best is selected.

5. **Implement the redesign:**

   It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalize the new process.

Problems in BPR

Reengineering is a major and radical improvement in the business process. Only a limited number of companies are able to have enough courage for having BPR because of the challenges posed.

- ❖ It disturbs established hierarchies and functional structures and creates serious repercussions and involves resistance among the work-force,
- ❖ Reengineering takes time and expenditure, at least in the short run, that many companies are reluctant to go through the exercise.

- Even there can be loss in revenue during the transition period. Setting of targets is tricky and difficult. If the targets are not properly set or the whole transformation not properly carried out, reengineering efforts may turn out as a failure.

The Role of Information Technology in BPR

The accelerating p ace at which information technology has developed during the past few years had a very large impact in the transformation of business processes.

A reengineered business process, characterized by IT-assisted speed, accuracy, adaptability and integration of data and service points, is focused on meeting the customer needs and expectation quickly and adequately, thereby enhancing his/her satisfaction level. IT-initiatives, thus, provide business values in three distinct areas:

- Efficiency - by way of increased productivity,
- Effectiveness - by way of better management,
- Innovation - by way of improved products and services

All these can bring about a radical change in the quality of products and services, thereby improving the competitiveness and customer satisfaction. Information technology (IT) is a critical factor in the success of bringing this change.

Six -Sigma

Q. If a company has lots of customers, some defects are hound to slip through, right?

The problem is that even a seemingly low percentage of defects can mean a lot of unhappy customers. If company processed 250,000 credit card bills a month and operated at 99.38 percent accuracy , we would have about 1,550 unhappy customers every month.

Six Sigma recognizes that there's always some potential for defects, even in the best run processes or best-built product But at 99.9997 percent performance, Six Sigma sets a performance target where defects in many processes and products are almost nonexistent.

Q. How do we define quality? What is difference between customer satisfaction, and customer ecstasy?

Quality refers to the degree of excellence and standard. Better quality is often correlated with superior processes and products. Strategically, a product of good quality should be able to meet the specifications of customer and should be able to satisfy him**. (That is customer satisfaction)**

Eg: If battery of a wristwatch lasts for eight months, but is expected to last for a year by the customer, then the product battery is not of desired quality.

Good quality should not always be associated with good products. Another dimension of quality is that it. should not be restricted to satisfying the existing desires of customers. It should not put a boundary on quality by limiting it to the current perspective of customers. Rather it should be futuristic, i.e., in addition to meeting customer's present expectations, it should be able to improve them**. (That's customer ecstasy)**

A 5 percent increase in customer retention has been shown to increase profits more than 25 percent. It is estimated that companies lose 15 percent to 20 percent of revenues each year to ineffective, inefficient processes-although some might suggest that it's even higher.

The background of Six Sigma stretches back eighty-plus years, from management science concepts developed in the United States to Japanese management breakthroughs to "Total Quality" efforts in the 1970s and 1980s.

Introduction

Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

Salient features:

- Six-Sigma strives that 99.99966% of products manufactured are defect free.
- Six-Sigma puts the customer first and uses facts and data to drive better solutions.
- Six Sigma efforts target three main areas:
  - Improving customer satisfaction
  - Reducing cycle time
  - Reducing defects
- Although it involves measuring and analyzing an organization's business processes,
- ***In statistical terms, "reaching Six Sigma" means that your process or product will perform with almost no detects.***

- Six Sigma is a total management commitment and philosophy
  - of excellence,
  - customer focus,
  - process improvement, and
  - ***the rule of measurement rather than gut feel.***

- Six Sigma is about making every area of the organization better able to meet
  - the changing needs of customers,
  - markets, and .
  - technologies - with benefits for employees, customers, and shareholders.

Six Themes of Six Sigma

***Theme one* - genuine focus on the customer:**

***Theme two* - data and fact-driven management:**

***Theme three* - processes are where the action is:**

***Theme four* - proactive management:**

***Theme five* - boundary-less collaboration:**

***Theme six* - drive for perfection; tolerate failure:**

Six sigma methodology

Two separate key methodologies for existing and new processes.

DMAIC:

DMAIC methodology is an acronym for five different steps used in six sigma directed towards improvement of existing product, process or service. The five steps are as follows:

- **Define:** To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the se- e managers so as to define what needs to done.
- **Measure:** The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring relevant processes.
- **Analyze**: Verify cause-and-effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make an comprehensive analyses to identify hidden or not so obvious factor.
- **Improve:** On the basis of the analysis experts make a detailed plan to improve.

- **Control:** Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.

DMADV: DMADV is again acronym for the steps followed in implementing six sigma. It is a strategy for designing new product processes and services.

- **Define:** As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
- **Measure**: Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
- **Analyze:** Develop and design alternatives. Create high-level design and evaluate to select the best design.
- **Design:** Develop details of design and optimize it. Verify designs may require using techniques such as simulations.
- **Verify:** Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

Working of NMTBSA Facts and Figures

(New Mumbai Tiffin Box Suppliers Association)

♦ Error Rate: 1 in 16 million transactions

♦ Six Sigma performance (99.999999)

♦ Technological Backup: Nil

♦ Cost of service -Rs. 300/month ($ 7.50/month)

♦ Standard price for all (Weight, Distance, Space)

♦ Rs, 36 Cr. Turnover [6000*12*5000=360000000 i.e. Rs. 36 crore p.a.]

♦ "No strike" record as each one a share holder

♦ Diwali bonus: one month's from customers.

♦ Earnings-5000to 6000 p.m.

Question from My Desk (very Important) For Reaching Strategic Edge

Q.1 What is Benchmarking? Explain briefly the elements involved in Benchmarking process.

Q.2 What is Six Sigma? How is it different from other quality programs? Explain in brief themes of Six Sigma.

Q.3 Define Business Process Re-engineering. Briefly outline the steps therein.

Q.4 Define TQM. Distinguish between TQM and Traditional Management Practices.

Q.5 The main focus of Six Sigma is on the shareholders? (correct/incorrect) Explain.

Q.6 Benchmarking and BPR are one and the same? (correct/incorrect) Explain.

Q.7 "The growing use of the internet by businesses and consumers is changing the competitive scenario." Identify the characteristics of the E-commerce environment doing so.

Q.8 Describe briefly the use of Strategic Management techniques in Educational Institutions.

Q.9 Elaborate the following principles that guide the TQM philosophy:
a. Universal Quality Responsibility
b. Preventing Rather than Detecting Defects.
c. Continuous Improvement and learning.

Q.10 Fill in the Blank.

iii. The orientation of the redesign effort refers to a total________ and rethinking of entire business process.

iv. Benchmarking is a process of continuous improvement in search of_______ advantage.

v. TQM is a people focused management system that aims at continual increase in __________ at continually lower real cost.

i. Deconstruction, ii. Competitive, iii. Quality