TALDA LEARNING CENTRE

CA IPC

STRATEGIC MANAGEMENT

By

CA Amit Talda

Chapter 1:

BUSINESS ENVIRONMENT

"It is not the strongest of the species that survive, Nor the most intelligent, but the one most responsive to change."

- **Charles Darwin**

BUSINESS ENVIRONMENT

BUSINESS & OBJECTIVES OF A BUSINESS

Meaning of business:

Business refers to the state of being busy for an individual, group or organization. It is also interpreted as one’s regular occupation or profession. A business for our purpose can be any activity consisting of purchase, sale, manufacturing, processing and/or marketing of products and/or services.

Objectives Of A Business:

1. **SURVIVAL**: It is a basic, implicit objective of most organizations. While survival is an obvious objective for all origination, it is more important during the initial stage of an organization. The ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on.

2. **STABILITY**: One of the most important objective of business enterprise is stability. It is a conservative objective. A stable and steady enterprise minimizes managerial tensions and demands less dynamism from managers.

3. **GROWTH**: This is a popular objective which is equated with dynamism and success. Enterprise growth may take one or more forms like increase in assets, manufacturing facilities, increase in sales volume in existing products or through new products, improvement in profits and market share, Acquisition of other business and so on.

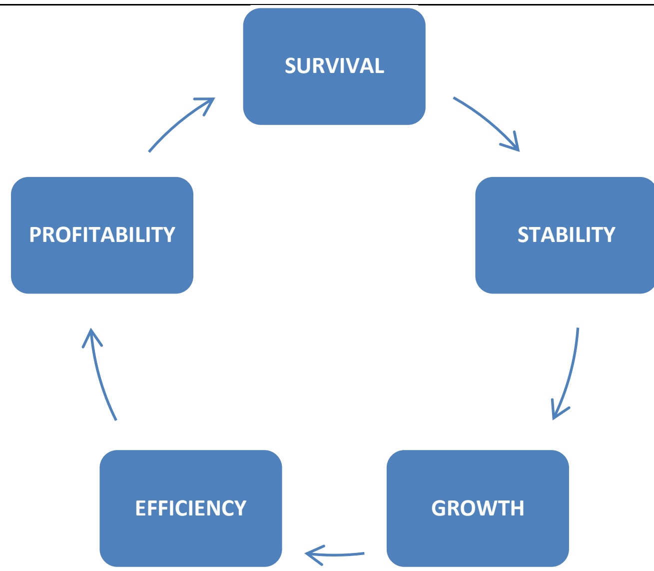
4. **EFFICIENCY**: Business enterprise needs efficiency in rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilizing resources in a most suitable combination to get highest productivity. Efficiency is a very useful operational objective.

5. **PROFITABILITY**: It is generally said that private enterprises are primarily motivated by the objective of profit. Some even go further and say that profit is the sole motive of business enterprises. It is the common yardstick to compare businesses and measure efficiency in operations of business.

<u>Questions Asked:</u>
1. The basic objective of a business enterprise is to monitor the environment. True or False.

2. Profit may not be a universal objective but the business efficiency is definitely an objective common to all business. True or False.

3. How would you analyse the meaning and importance of efficiency and profitability as objectives of business. (Nov 12)

	
ENVIRONMENTAL INFLUENCES	Business does not function in an isolated vacuum. Business function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business grows depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually fade away. To be successful business has to not only recognise different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continually monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may indicate extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise and respond to the various opportunities and threats in its environment. Environment is the sum of several external and internal forces that affect the functioning of the business. A strategist looks on the environment as posting threats to a firm or offering immense opportunities for exploitation. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors and government. ***Problems in understanding environment influence:*** i) The first difficulty is in **diversity**. Listing all possible environmental influences may be possible, but it may not be of much use because no overall picture emerges of really important influences on the organization. ii) The second difficulty is that of **uncertainty**. Managers typically claim that the pace of technological change and the speed of global communication mean more and faster change now than ever before. It is very difficult to chase the uncertain future possibilities. iii) Managers are no different from other individuals in the way they cope with **complexity**. Because different elements of environment are diverse, they are also interacting with each other, making it complex to understand their outcome on the organization.

	Why Environmental Analysis? i) The analysis should provide an understanding of current and potential changes taking place in the environment. It is important that one must be aware of the existing environment. At the same time one must have a long term perspective about the future too. ii) Environment analysis should provide inputs for strategic decision making. Mere collection of data is not enough. The information collected must be useful for and used in the strategic decision making. iii) Environment analysis should facilitate and foster strategic thinking in organization typically a rich source of ideas and understanding of the context within which a firm operates. It should challenge the current wisdom by brining fresh viewpoint into the organization.
COMPONENTS OF BUSINESS ENVIRONMENT  	1) The environment in which an organization exists could be broadly divided into two parts; The external and the internal environment. 2) As the environment is complex, dynamic, multi faceted and has a far reaching impact, dividing it into external and internal components enables us to understand it better. 3) External environment includes all the factors outside the organization which provide opportunity or pose threats to the organization. 4) The Internal Environment refers to all the factors which an organization which impart strengths and weaknesses of a strategic nature. 5) The environment in which an organization exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from strength and weaknesses existing in the internal environment. 6) Four environmental influences could be as follows: i) An **OPPORTUNITY** is a favourable condition in the organization's environment which enable it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides. ii) A **THREAT** is a unfavorable condition in the organization environment which creates a risk for, or causes damage to, the organization. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an Industry. iii) A **STRENGTH** is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of strength is superior research and development skills which can be used for new product development so that the company gains competitive advantage. iv) A **WEAKNESS** is an inherent limitation or constraint which creates a

	strategic disadvantage. An example of a weakness is over dependence on a single product line, which is potential risk for a company in times of crisis. An effective organizational strategy, therefore, is one that capitalizes on the opportunities through the use of strength and neutralizes the threats by minimizing the impact of weakness. <u>Questions:</u> 1. Environmental constituents exist in isolation and do not interact each other. True or false. 2. There is both opportunity and challenge in Change. True or False.
RELATIONSHIP BETWEEN ORGANISATION AND ITS EVIRONMENT	1) ***Exchange Of Information***: a) The organization understands the external environmental variables, their behavior and changes, generates information and uses it for its planning, decision making and control purposes. b) Information generation is one way to get over the problem of uncertainty and complexity of the external environment. c) Information is to be generated on: ✓ Economic activity ✓ Market conditions, ✓ Technological developments, ✓ Social and demographic factors ✓ Political & government policies, ✓ Activities of other organizations and so on. Both current and projected information is important for the organization. d) Apart from gathering information, the organization itself transmits information to several external agencies either voluntarily, inadvertently or legally. Examples, ✓ Annual report for investors, ✓ Reports to Regulatory agencies, (Monthly/Quarterly return to RBI/SEBI) ✓ Annual reports are also available at company's website, etc. ✓ Report to professional bodies like ICAI, ICSI, etc) 2) ***Exchange Of Resources***: a) The organization receives inputs – ✓ Men, ✓ Material, ✓ Machines, ✓ Money from external environment through contractual and other arrangement. (also known as Factors of Production "4 M's") b) The organization is dependent on the external environment for disposal of

<table>
<tr><td></td><td>its output of products and services to a wide range of clientele.

c) This is also an interaction process – perceiving the needs of the external environment and catering to them, satisfying the expectations and demands of the clientele groups such as:
✓ Customers,
✓ Employees,
✓ Shareholders,
✓ Creditors,
✓ General Public
✓ Local Community and so on.

3) Exchange Of Influence And Power.
a) Another area of organizational environmental interaction is in the exchange of power and influence. The external environment holds considerable power over the organization both by <u>virtue of its being inclusive</u> as also by <u>virtue of its command over resources</u>, information and other inputs.

b) Other organization, competitors, markets, customers, suppliers, investors, etc also exercise considerable collective power and influence over the planning and decision making processes of the organization.
✓ If Shortage of Raw material or Only One supplier of Raw material, then they dictate the prices and credit period and modes of delivery.
✓ If there is Shortage of Skilled Labour, then they dictate the wages, leaves, bonus, etc.
✓ If supply of money is less in the market, then Money Lenders dictate the Interest Rate and Security to be provided.

c) In turn, organization itself is sometimes in a position to exercise considerable power and influence over some of the elements of external environment by virtue of its command over resources and information. (WE ARE MONPOLIST like Indian Railways or We are the only producer or Manufacturer of a product)

<u>Question:</u>

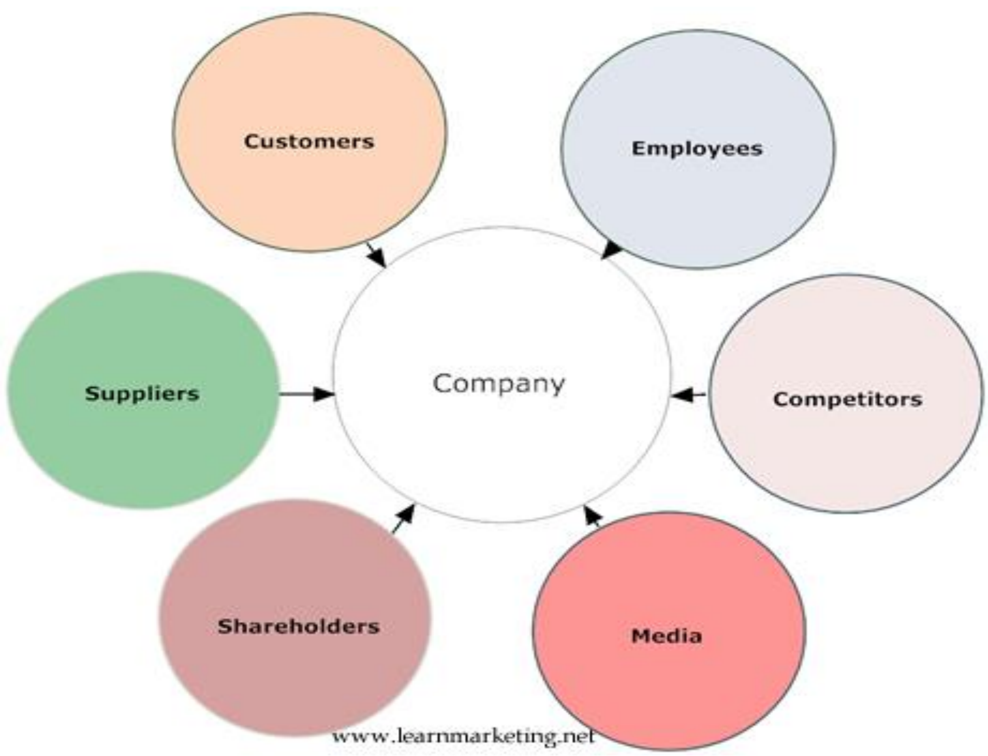
1. A business enterprise is a sub system of the larger environmental system. Discuss the relationship between the organization and its business environment. (May 13)</td></tr>
<tr><td>CHARACTERISTICS OF BUSINESS ENVIRONMENT</td><td>i) Environment Is Complex:
✓ Environment consists of a number of factors, events, conditions and influences arising from different sources.

✓ All these factors do not exist in isolation but interact with each other to create entirely new set of influences.

✓ Hence, Environment is complex, easier to understand in parts but difficult to grasp in totality.

✓ <u>Example</u>: Many factors change simultaneously like change in government policy, change in customer taste & preferences, Change in technology, etc.</td></tr>
</table>

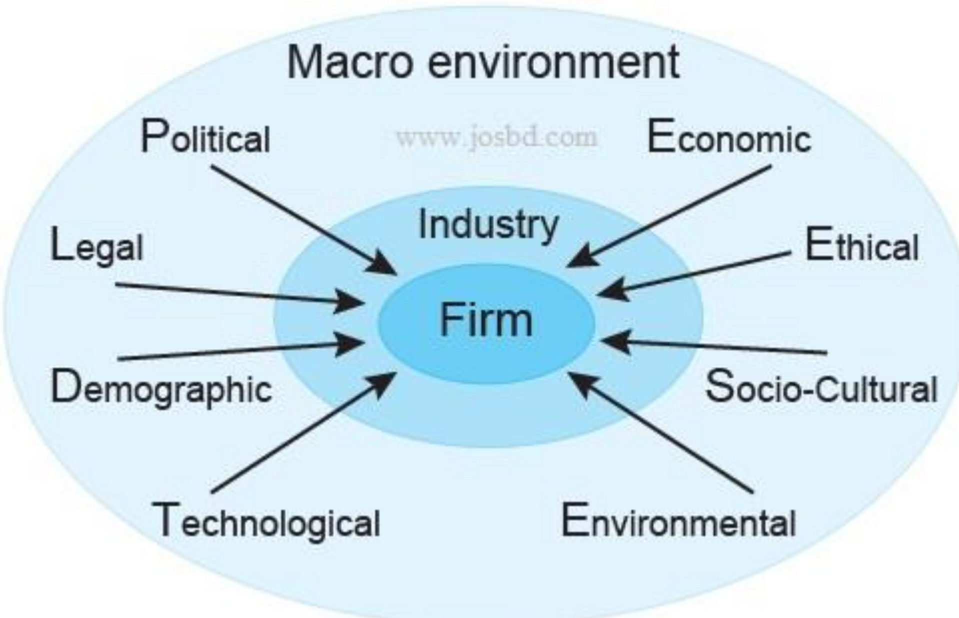
	we can study the impact of one factor on our organization at a time, but understanding the overall impact of change of all the factors is very complex. ii) ***Environment Is Dynamic***: ✓ Environment is constantly changing in nature. Due to the complex nature and many influences, it changes in its shape and character. ✓ Examples: Evolution of Laptops & Palmtops have decreased the demand for Desktops, Evolution of Online & Virtual Classes have decreased the demand of Face to Face Classes, etc. iii) ***Environment Is Multi Faceted***: ✓ A particular change in the environment or a new development may be viewed differently by different people. ✓ This is evident when same development is welcomed as an opportunity by one company while another company perceives it as a threat. iv) ***Environment Has A Far Reaching Impact***: ✓ The environment has a far reaching impact on organizations. The growth and profitability of an organization depends on the environment in which it exists. Questions Asked: 1. Elaborate the characteristics of business environment with reference to decision making. (Nov 11) 2. Business Environment exhibits many characteristics. Explain (Nov 13) 3. Environment is the sum of several external and internal forces that affect the functioning of business. Explain. (May 12)
ELEMENTS OF MICRO ENVIRONMENT "COMICS"	The environment of business can be categorized into two broad categories, Micro Environment and Macro Environment. Micro Environment is related to small area or immediate periphery of an organization. Micro Environment influences an organization regularly and directly. Developments in the micro environment have direct impact on the working on the organizations. Micro Environment includes the company itself, its suppliers, customers, competitors, intermediaries, etc. The elements of micro environment are specific to the said business and affects its working on short term basis. i) **CONSUMERS**: customers may or may not be consumers. Customers are the people who pay money to acquire organizations products and services. Consumer is the one who ultimately consumes or uses the product or service. The business has to closely monitor and analyse the changes in the consumers **taste and preferences and their buying habits**. ii) **COMPETITORS**: Competitors are the other business entities that compete for resources as well as market. A study of the competitive scenario is essential for the marketer, particularly threats from competition.

	iii) **ORGANISATION**: Individuals occupying different positions or working in different capacities in organization consists of individuals who come from outside. They have different and varied interests. Owners, Board of directors and employees form part of an organization. iv) **MARKET**: The market is larger than customers. The market is to be studied in terms of its actual and **potential size**, its **growth prospects** and also its **attractiveness**. The marketer should study the **trends and development** and key success factors of the market. v) **SUPPLIER**: The Suppliers provide raw material, equipment, services and so on. Supplier with their own **bargaining power** affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry. vi) **MARKET INTERMEDIARIES**: Intermediaries bridge the gap between the organizations and customers. They are in form of stockiest, wholesalers and retailers. They exert considerable influence on the business organization. In many cases, consumers are not aware of the manufacturer of the products they buy as they buy it from local retailers or big departmental stores. <u>Questions asked:</u> 1. What do you mean by micro environment? Explain its elements. (May 13) 

ELEMENTS OF MACRO ENVIRONMENT "SET GDP"	Macro Environment is largely external to the enterprise and thus beyond the direct influence and control of organization, but exerts powerful influence over its functioning. The external environment consists of individuals, groups, agencies, events, conditions and forces which the organization comes into frequent contact in the course of its functioning. Macro Environment consists of demographics and economic conditions, socio cultural factors, political and legal systems, technological developments, etc. these constitute the general environment which affects the working of all the firms. i) **DEMOGRAPHICS**: The term demographics denotes characteristics of population in a area, district, country or in world. It includes factors such as race, age, income, education, asset ownership, employment status, home ownership and location. Business organization need to study these different demographic factors to understand how these factors will influence the demand of its products and services. ii) **ECONOMIC ENVIRONMENT**: The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, Condition in the resource markets like money market, manpower market, raw material components, etc. Economic environment determines the strength and size of the market. The important point to consider is to find out the effect of economic prospect and inflation on the operations of the firms. iii) **POLITICAL & LEGAL ENVIRONMENT**: It includes factors such as general state of political development, Level of political morality, The law and order situation, Political stability, efficiency of government agencies, government policies, Specific legal enactments, etc. There are three important elements in political legal environment namely Government, Legal and Political. iv) **SOCIO-CULTURAL ENVIRONMENT**: Socio Cultural Environment consists of factors related to human relationships and impact of social attitudes and cultural values which has bearing on the business of organization. The beliefs, values and norms of a society determine how individuals and organization should be interrelated. v) **TECHNOLOGICAL ENVIRONMENT**: Technology has changed the way people communicate with the advent of internet and telecommunications system. Technology has changed the way of how business operates today. Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time, technology can act as threat if organization are not able to adopt it to their advantage. vi) **GLOBAL ENVIRONMENT**: Today's competitive landscape require that companies must analyse global environment as it is also rapidly changing. The new concept of global village has changed how individuals and organizations relate to each other. Due to economic reforms, Indian businessmen are also out to see beyond the physical boundaries of the country. The indian companies are acquiring business in different countries.

Question Asked:

1. Can a change in the elected government affect the business environment? Briefly explain. (June 09)



PESTLE ANALYSIS

Political • Political stability • Current and future tax policy • Political principles • Government policies • Government term and change	**Economic** • Economy Situation & Trends • Market and Trade cycle • Interest and Exchange Rate • Inflation and Unemployment • Strength of consumer spending
Social • Lifestyle trends • Demographics • Consumer buying patterns • Religious factors • Media view & perceptions	**Technological** • Maturity of technology • Innovation potential • Intellectual property rights and copyrights • Technology access, licensing, patents.
Legal • Business and corporate laws • Employment laws • Competition law • Health & safety Law • International Treaty and law	**Environmental** • Waste disposal • Environmental Hazards • Energy Consumption • Environment Issues • Environment laws

GLOBALIZATION, GLOBAL COMPANIES & STRATEGIC APPROACHES	**Introduction: (What is a global company)** Globalization means several things to several people. For some it is a new paradigm – a set of fresh beliefs, working methods, and economic, political and socio cultural realities in which the previous assumption are no longer valid. For developing countries, it means integration with the world economy. In simple economic terms, Globalization refers to the process of integration of world into one huge market. At company level, globalization means two things: a) The company commits itself heavily with several manufacturing location around the world and offers products in several diversified industries; b) it also means ability to compete in domestic markets with foreign competitors. A company which goes global is also called a Multinational company (MNC). The global company views the world as one market minimizes the importance of national boundaries. A global company has three attributes: (i) It is a conglomerate of multiple units located in different parts of the globe but all linked with common ownership. (ii) Multiple units draw a common pool of resources such as money, credit, patents, trade name, etc. (iii) The units respond to common strategy. ***Why do companies go global?*** There are several reasons why companies go global. They are: i) One reason could be the rapid shrinking of time and distance across the globe thanks to **faster communication**, speedier transportation, growing financial flows and rapid technological changes. ii) it is being realized that the **domestic markets** are no longer adequate and rich. iii) Companies that develop attractive **new products** sell them first in their home market. Sooner or later, foreigners may learn about these products. At this stage, most companies would export the product or service rather than produce it abroad. But as foreign demand grows, the economics of foreign production change. Eventually, the foreign market becomes large enough to justify foreign investment. iv) Company often go global to secure a reliable or **cheaper source of raw materials**. For example, cheap labour in India have attracted foreign investors. v) Companies often set up overseas plants to **reduce the high transportation costs**. The higher the ratio of unit cost to the selling price per unit, the more significant the transportation factor becomes. vi) Motivation to go global for high tech industries is slightly different. Companies in electronics and telecommunication must spend large sums on research and development for new products and thus they are compelled to

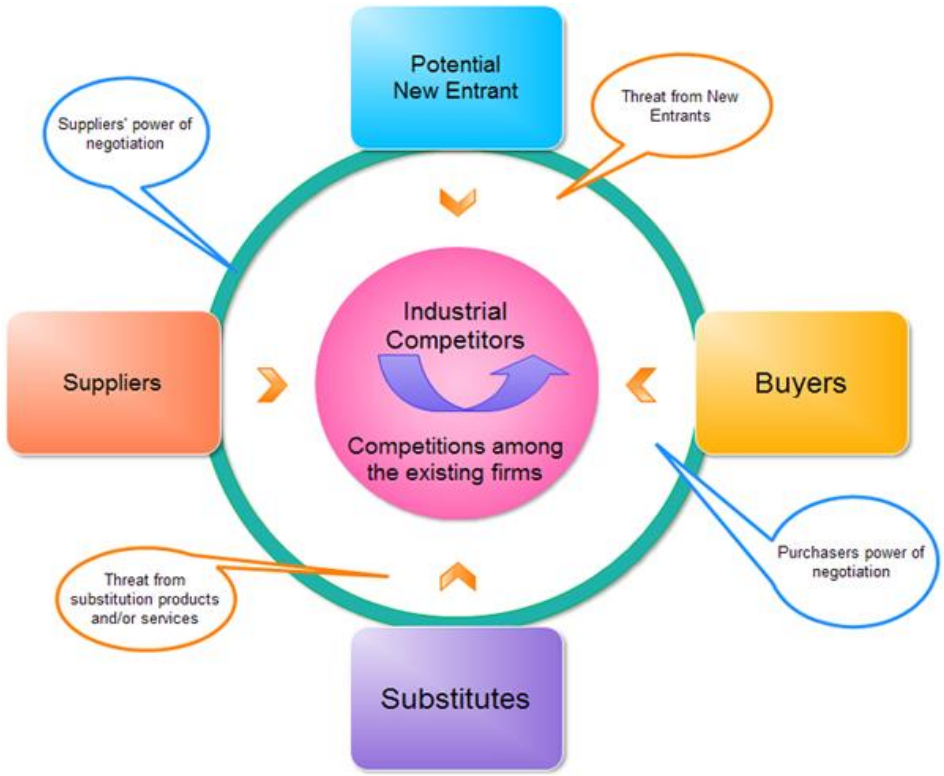
	seek ways to improve sales volume to support high **overhead expenses**. If domestic sales and export do not generate sufficient cash flow, companies might look to overseas manufacturing plants and sales branches to generate higher sales and better cash flow. ***Strategic Approaches*:** (i) ***Multi Domestic Strategy***: A multi domestic strategy focuses on competition within each country in which the firm operates. This strategy is adopted when a company tries to achieve a high level of local responsiveness by matching their products and services offering to national conditions prevailing in the countries they operate in. The organization attempts to extensively customize their products and services according to the local conditions of different countries. (ii) ***Global Strategy***: A global strategy assumes more standardization of products across country boundaries. Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations across the world. Competitive strategy is centralized and controlled by the home office. (iii) ***Transnational Strategy***: Many large multinational firms, particularly those with many diverse products, may use a multi domestic strategy with some product lines and a global strategy with others. A transnational strategy seeks to combine aspects of both multi domestic and global strategy. Thus there is emphasizes on both local responsiveness and global integration and coordination. Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness. When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through following options: • Exporting • Franchising • Joint Venture • FDI
PORTER'S FIVE FORCE MODEL	Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressure in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of overall market. These five forces are: 1. ***Threat Of New Entrants***: New Entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

	2. ***Bargaining Power Of Customers***: This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in the industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investment of the producer because powerful buyers usually bargain for better services which involve cost and investment on the part of producer. 3. ***Bargaining Power Of Suppliers***: Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialized the offering from the supplier, greater is his bargaining power. And if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and therefore industry attractiveness and profitability. 4. ***Rivalry Among Current Players***: The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being changed, advertising and pressure on cost, product and so on. 5. ***Threat From Substitutes***: Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and or performance improvement to the consumer can drastically alter the competitive character of an industry. Any they can bring it about all of a sudden.  The five forces together determine industry attractiveness/profitability. This is so because these forces influences the causes that determine industry attractiveness and profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability and all such elements are governed by these forces. The collective strength of these five competitive forces determine the scope to earn attractive profits. The strength of these five forces may vary from industry to industry. <u>Questions:</u> 1. What are the five competitive forces in an Industry as identified by Michael Porter? (Nov 09) (10 marks)

<table>
<tr>
<td></td>
<td>

2. Industry is a composite of competitive pressures in five areas of overall market. Briefly explain the competitive pressures. (Nov 2011)

3. Explain the factors that affect the strength of competitive pressures from substitute products. (Nov 2012)



</td>
</tr>
<tr>
<td>STRATEGIC RESPONSE TO ENVIRONMENT</td>
<td>

1) ***Least Resistance***: some businesses just manage to survive by way of coping with their changing external environments. They are simple goal maintaining units. They are very passive in their behaviour and are solely guided by the signals of the external environment. They are not ambitious but are content with taking simple paths of least resistance in their goals seeking and resource transforming behaviour.

2) ***Proceed With Caution*:**
At the next level are the business that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength.

3) ***Dynamic Response***:
At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They are not merely recognise and understand threats; they convert threats into opportunities. They are highly confident of their own strength and the weaknesses of their external environment adversaries.

</td>
</tr>
</table>

Chapter 2:

Business Policy & Strategic Management

There are no secrets to success, it is the result of preparation, hardwork and learning from failure.

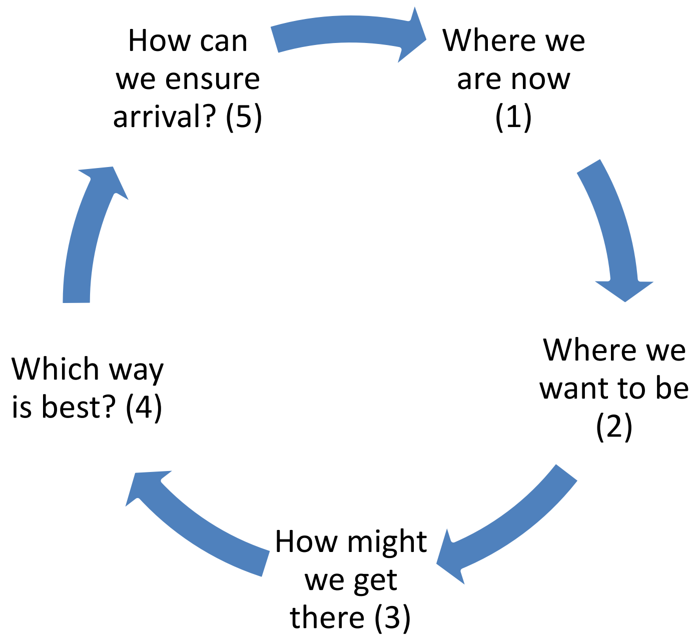
- *Colin Powell*

Meaning & Nature of Management	✓ It is used with reference to a key group in an organization in charge of its affairs. In relation to an organization, management is chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganized resources of manpower, money, material and machinery into a functioning unit. ✓ The survival and success of an organization depend on a large extent on the competence and character of its management. ✓ The functions and process of management are wide ranging but closely interrelated. They range all the way from design of the organization, determination of goals and activities, mobilization and acquisition of resources, allocation of tasks and resources among the personnel and activity units.
What is a Strategy?	1) A Strategy is the game plan management is using to: ✓ Take market position; ✓ Conduct its operations; ✓ Attract and satisfy customers; ✓ Compete successfully; ✓ Achieve organizational objectives. 2) We may define strategy as a long range blueprint of an organization's desired image, direction and destination, ✓ What it wants to Be; ✓ What it wants to Do; ✓ Where it wants to Go. 3) Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, R & D, and so on. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, and personnel development and so on. 4) Strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. It is in very nature of strategy that it is flexible and pragmatic; 5) Strategy is partly proactive and partly reactive: A company's strategy is typically a blend of: ✓ Proactive actions on the part of managers to improve the company's market position and financial performance; ✓ As needed reactions to unanticipated developments and fresh market conditions. A part of company's strategy is proactive with respect to factors which have already happened in the past and which can be anticipated in the future.

	However, remaining part of company's strategy is reactive as market and competitive conditions take an unexpected turn due to unforeseen developments.
What is a Corporate Strategy?	Corporate strategy is basically the growth design of the firm; it spells out the growth objective – the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth.
Characteristics of Corporate Strategy	1) It is generally **long range in nature**, though it is valid for short range situations also and has short range implications. 2) It is **action oriented** and is more specific than objectives. 3) It is flexible and **dynamic**. 4) It is **formulated at the top management level**, though middle and lower level managers are associated in their formulation and in designing sub strategies. 5) It is generally meant to **cope with the competitive environment**. 6) It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities. 7) It is concerned with **perceiving opportunities and threats** and taking initiatives to cope with them. It is also concerned with deployment of limited organizational resources in the best possible manner. 8) It flows out of the goals and objectives of the enterprise and is meant to **translate goals into realities**. 9) It is also concerned with deployment of limited organizational resources in the best possible manner. 10) It provides unified criteria for managers in function of decision making.
Nature, Scope and Concerns of Corporate Strategy?	✓ It can also be viewed as the objective –strategy design of the firm. ✓ It is the design for filling the firm's strategic planning gap. ✓ It ensures that right fit is achieved between the firm and its environment. ✓ It helps build the relevant competitive advantage for the firm. ✓ It spells out the businesses in which the firm will play, the market in which it will operate and the customer needs it will serve. ✓ Corporate objectives and corporate strategy together describe the firm's concept of business.

What does corporate strategy Ensure? (Nov 2012)	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) It helps to build the relevant competitive advantage. 3) Masterminding and working out the right fit between the firm and its external environment is the primary contribution of corporate strategy. 4) The basic purpose of the corporate strategy is to **tap the opportunities** available in the environment, countering the threats embedded therein. 5) It accomplishes this by **matching** the unique capabilities of the firm with the promises and threats of the environment that it achieves this task. 6) It is obvious that **responding to environment** is part and parcel of firm's existence. The question is how good or how methodical is the response. This is where strategy steps in. 7) Strategy is the opposite of Adhoc responses to the changes in the environment – in competition, consumer tastes, technology and other variables. 8) It amounts to long term, well thought out and prepared responses to the various forces in the business environment.
Strategic Management, Objectives & Benefits (Nov 2007, May 2011, May 2013, May 2012)	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 over times initiating whatever corrective adjustments in the vision, objectives, strategy and execution are deemed appropriate. 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 utilize all facets of organization) and ✓ Functional plans (plans to carry out daily operations from the different disciplines. ***The overall objectives of strategic management are twofold***: (i) To **create competitive advantage**, so that the company can outperform the competitors in order to have dominance over the market. (ii) To **guide the company** successfully through all changes in the environment. ***The major benefits of strategic management are***: 1) Strategic management helps organization to be **more proactive** instead of reactive in shaping its future. Organizations are able to analyse and take actions

	instead of being mere spectators. Therefore, they are able to control their own destiny in a better manner. 2) SM provides **framework** for all major business decisions of an enterprise such as decisions on businesses, product, markets, manufacturing facilities, investments and organization structure. 3) SM is concerned with ensuring a **good future for the firm**. it seeks to prepare the corporation to **face the future** and act as pathfinder to various business opportunities. Organization are able to identify the available opportunities and identify the ways and means as how to reach them. 4) SM serves as a corporate **defense mechanism** against mistakes and pitfalls. It helps organizations to avoid costly mistake in product market choices or investments. 5) Over a period of time SM helps organization to evolve certain **core competencies** and **competitive advantages** that assist in its fight for survival and growth.
Framework of Strategic Process	The five stages are as follows: ***1) Stage One: Where are we Now? (Beginning):*** This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context: ✓ Here the firm must find out its relative market position. ✓ Corporate Image ✓ Its strength and weaknesses and ✓ Also environmental threats and opportunities; This is also known as SWOT analysis. ***2) Stage Two: Where we want to be (ends):*** ✓ This is a process of goal setting for the organization after it has finalized its vision and mission. ✓ A strategic vision is a roadmap of the company's future – providing specifics about technology and customer focus, the geographic and product markets to be perused, the capabilities it plans to develop, and kind of company that management is trying to create. ✓ An organization's mission states that what customer it serves, what need it satisfies, and what type of product it offers. ***3) Stage Three: How might we get there? (means)*** Here the organization deals with the various strategic alternatives it has. ***4) Which way is best? (evaluation)*** Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT Analysis.

	5) How can we ensure arrival? (Control) This is an implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages again. 
Strategic Decision making & its DIMENSIONS (Nov 2011, Nov 2013)	Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decision may relate to general day to day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day to day working of the organization. The major dimensions of strategic decisions are given below: 1) **Strategic issue require top management decisions**: Strategic issue involve thinking in totality of the organization and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management. 2) **Strategic issue involve the allocation of large amount of company resources**: It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them. 3) **Strategic issues are likely to have a significant impact on the long term prosperity of the firm**: Generally the results of strategic implementation are seen on a long term basis and not immediately.

<table>
<tr><td></td><td>
4) Strategic issues are future oriented: Strategic thinking involves predicting the future environmental conditions and how to prepare for the changed conditions.

5) Strategic issue usually have major consequences: As they involve organization in totality they affect different sections of the organization with varying degree.

6) Strategic issues necessitate consideration of factors in the firm's External environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.
</td></tr>
<tr><td colspan="2">
Strategic Management Model

Develop vision and mission statement → Establish Long term Objectives → Generate Analyse and Select Strategies → Implement Strategies management issues → Implement Strategies Marketing, Finance, Accounting, R & D, MIS Issue → Measure and Evaluate Performance

Formulation | Implementation | Evaluation
</td></tr>
<tr><td>VISION</td><td>
VISION:


1) Top management's views and conclusions about the company's direction and the product-customer-market-technology focus constitute a strategic vision for the company.
</td></tr>
</table>

2) A strategic vision delineates management's aspirations for the business, providing a **panoramic view** of the "where we are going" and a convincing rationale for why this makes good business sense for the company.

3) A Strategic vision thus points an organization in a particular director, charts a strategic path for it to follow in preparing for the future, and molds organizational identity.

4) A Clearly articulated strategic vision communicates management's aspiration to stakeholders and helps steer the energies off company personnel in a common direction.

5) ***The three elements of a strategic vision: (Nov 2012, May 2013)***
i) Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "who we are and where we are now?"

ii) Using the mission statement as basis for deciding on a long term course making choices about "where we are going?"

iii) Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

<u>Example of Vision:</u>

The Institute of Chartered Accountants of India	"World's leading accounting body, a regulator and developer of trusted and independent; professionals with world class competencies in accounting, assurance, taxation, finance and business advisory services."
facebook	"To give people the power to share and make the world more open and connected."
Google	"To make the world's information universally accessible and useful."

***How to develop a Strategic Vision*:**

i) The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.

ii) Forming a strategic vision is an exercise in intelligent entrepreneurship.

iii) Many successful organization need to change direction not in order to survive but in order to maintain their success.

iv) A well articulated strategic vision creates enthusiasm for the course

	management has charted and engages members of the organization. v) The best worded vision statement clearly and crisply illuminates the direction in which organization is headed.
MISSION	***Why organizations should have mission?*** i) To ensure **unanimity of purpose** within the organization. (*everyone in the organization should know what the company wants to achieve, from board of director to the one engaged in clerical work*) ii) To provide a basis for **motivating** the use of organization's resources. iii) To develop a **basis or standard**, for allocating organization resources. iv) To establish a general tone or organization climate. v) To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating further in the organization's activities. vi) To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization. vii) To specify organization purpose and the translation of these purpose into goals in such a way that cost, time and performance parameters can be assessed and controlled. *A Company's Mission Statement is typically focused on its present business scope – "who we are and what we do"; mission statement broadly describe an organizations present capabilities, customer focus, activities and business makeup. (May 2007)* ***Following point must be kept in mind while writing mission statement of a company: (Nov 2009, May 2010)*** i) One of the role of a mission statement is to give the organization its own special identity, business emphasis and path for development – one that typically sets it apart from other similar situated companies. ii) A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs. iii) Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operations. iv) Good mission statement are highly personalized – unique to the organization for which they are developed. <u>Example of Mission Statement:</u> ICAI: ICAI will leverage technology and infrastructure and partner with its

	stakeholders to: • Impart world class education, training and professional development opportunities to create global professionals. • Develop an independent and transparent regulatory mechanism that keeps pace with the changing times. • Ensure adherence to highest ethical standards. • Conduct cutting edge research and development in the areas of accounting, assurance, taxation, finance and business advisory services. • Establish ICAI member and firms as Indian Multi-national service providers.
Objectives and Goals	✓ Business organization translates their vision and mission into objectives. ✓ As such the term objectives are synonymous with goals. However, we will make an attempt to distinguish the two. ✓ Objectives are open ended attributes that denote the future outcomes. ✓ Goals are close ended attributes which are precise and expressed in specific terms. ✓ Thus goals are more specific and translate objectives into short term perspective. ✓ All organizations have objectives. They provide meaning and sense of direction to organizational endeavor. ✓ They also act as a benchmark for guiding organizational activity and for evaluating how the organization is performing. ***Characteristics of Objectives:*** ✓ Should be understandable. ✓ Should be measurable and controllable. ✓ Should be challenging. ✓ Should be related to a time frame. ✓ Should be set with constraints. ✓ Different objectives should correlate with each other. ✓ Should provide for performance appraisal ✓ Should provide basis for strategic decision making ✓ Should define organization relationship with its environment.
Strategic Levels in Organizations (Nov 2010)	A typical large organization is a multi divisional organization that competes in several different businesses. It has separate self contained divisions to manage each of these. There are three main levels of management: CORPORATE, BUISNESS and FUNCTIONAL. ***Corporate Level of Management:*** The corporate level of management consists of : ✓ The chief executive officer (CEO) and ✓ Other top level executive; ✓ Board of directors; ✓ Corporate Staff. ✓ These individuals occupy the apex of decision making within the organization. ✓ The role of corporate level managers is to oversee the development of strategies for the whole organization.

- ✓ This role includes defining the mission and goal of the organization, while determining what businesses it should be in, allocating resources among different businesses and so on rest at the corporate level.

Business Level of Management:

- ✓ The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers.
- ✓ A business unit is a self contained division with its own functions – for example finance, production, and marketing.
- ✓ The strategic role of business level manager, head of the division, is to translate the general statement of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional level of Management:

- ✓ Functional level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on.
- ✓ Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operations of whole company or division.

Characteristics of a strategic management decisions at different levels

Characteristic	Corporate	Business	Functional
Type	Conceptual	Mixed	Operational
Measurability	Value judgments dominant	Semi quantifiable	Usually quantifiable
Frequency	Periodic or Sporadic	Periodic or Sporadic	Periodic
Risk	Wide Range	Moderate	Low
Profit Potential	Large	Medium	Small
Relation to present activities	Innovative	Mixed	Supplementary
Cost	Major	Medium	Modest
Time	Long range	Medium Range	Short range
Co-operation required	Considerable	Moderate	Little

Chapter 3:

Strategic Analysis

"A Dream (Vision) written down with a date, becomes a goal, A Goal broken down into steps becomes a Plan, A Plan backed by Action makes your dreams come true."

STRATEGIC ANALYSIS	
Introduction	❖ The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of environment in which all organizations work as sub systems. ❖ The environment scanning covers both scanning of external environment and internal environment. ❖ The scanning of external environment leads to the identification of the opportunities and threats open to organizations while the internal analysis leads to the study of strength and weaknesses which will decide as to what extent each company is going to capitalize the opportunities and threats thrown open.
Situational Analysis	Some form of analysis should form an essential part of any business plan and should be reviewed over time to ensure that it is kept current. A preliminary introduction as to what to taken into account when conducting an analysis and provide a checklist of the important factors to consider are: i) **ENVIRONMENT FACTORS**: What external and internal environment factors are there that needs to be taken into account. This can include economic, political, demographic or sociological factor that have a bearing on the performance. ii) **OPPORTUNITY AND ISSUE ANALYSIS**: What are the current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weakness that may affect the business performance? iii) **COMPETITIVE SITUATION**: Analyse main competitors of organization: who are they what are they up to – how do they compare. What are their competitive advantages? Analyse their strength and weakness. iv) **PRODUCT SITUATION**: The details about current product. The details about current product may be divided into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core needs of customer. <u>Question:</u> 1. Write short note on elements considered for situational analysis. (May 12)
Strategic Analysis	Strategy formulation is not a task in which managers can get by with intuition, opinions, good instinct and creative thinking. Judgement about what strategy to pursue need to flow directly from analysis of an organizational external environment and internal situation. The two most important situational considerations are: (i) industry and competitive conditions and (ii) An organizations own competitive capabilities, resources, internal strengths and weaknesses, and market position.

	Issue to be considered for strategic Analysis: ***1) Strategy involves over a period of time:*** ✓ Strategy of a business is result of a series of small decisions taken over an extended period of time. ✓ A Sound Strategy cannot be finalized instantaneously. ✓ It requires consideration of possible implications of routine decisions. ***2) Balance:*** ✓ The process of strategy formulation is often described as one of the **matching** the internal potential of the organization with the environmental opportunities. ✓ However, in reality, as perfect match between the two may not be feasible, strategic analyses involve a workable balance between diverse and conflicting considerations. ✓ A manager working on a strategic decision has to balance opportunities, influences and constraints. ✓ There are pressures that are towards a particular choice such as entering a new market. Simultaneously there are constraints that limit the choice such as existence of a big competitor. ✓ Some of these factors can be managed to an extent, however, there will be several others that are beyond the control of a manager. ***3) Risk:*** ✓ Competitive markets, ✓ Liberalization, (Global competition) ✓ Globalization, (Global competition) ✓ Booms, (Economy is growing at great pace resulting in higher demand) ✓ Recession, (Lack of demand; slowdown of whole economy) ✓ Technological advancements, (Desktops=>Laptops=>Mini Laptops=>etc) ✓ Inter country relationship (India vs. Pakistan) All affect businesses and pose risk at varying degree. ✓ An important aspect of strategic analysis is to identify potential imbalances and assess their consequences. ✓ External risk is on account of inconsistencies between strategies and the forces in the environment. (*difference in expected government laws and actual laws, competitor's moves, Customers taste & preferences*) ✓ Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis. (*difference in expectations of employees regarding bonus & Increment and Customers regarding trade discount & cash discount and supplier regarding time of delivery, discount)*
Industry and Competitive Analysis	✓ The analysis entails examining business in the context of a wider environment. Industry and competitive analysis aims at **developing insights in several issues**. ✓ Analyzing these issues build understanding of a firm's surrounding environment and collectively, for the basis for matching its strategy to changing industry conditions and competitive realities.

Dominant Economic features of the industry:

Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. The factors to consider in profiling an Industry's economic features are fairly standard and are given as follows;

- Number of rivals and their relative sizes.
- Size and Nature of the business?
- Market growth rate and position of business life (early development, rapid growth and takeoff, early maturity, maturity, saturation and stagnation, decline)
- Capital requirements and the ease of entry and exit.
- Whether industry profitability is above/below par.
- Pace of technological change in both production process and new product introductions.
- Types of distribution channels used to access customers.
- Whether the products and services of rival firms are highly differentiated, weakly differentiated or essentially identical.
- Whether high rates of capacity utilization are crucial to achieving low cost production efficiency.

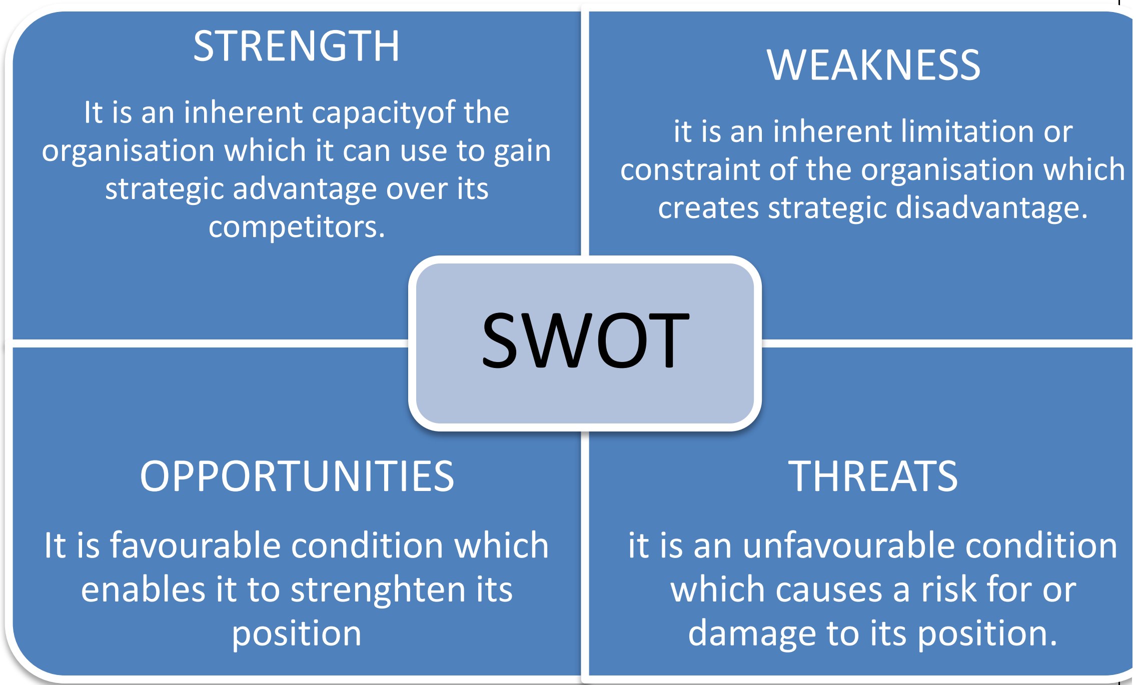
Nature & Strength of Competition:

- One important component of industry and competitive analysis involves examining industry's competitive process to discover what the main sources of competitive pressures are and how strong each competitive force is.
- This analytical step is essential because managers cannot devise a successful strategy without in dept understanding of the Industry's competitive character.
- Even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces.
- Porter's five forces model is useful in understanding the competition. It is a powerful tool for systematically diagnosing the principle competitive pressure in a market and assessing how strong and important each one is. Not only is it the widely used technique of competition analysis, but it is also relatively easy to understand and apply.

Triggers of Change:

Some of the categories or examples of drivers are follows:

- Entry or Exit of Major Firms.
- Product Innovation
- Increasing Globalization
- The internet and the new e-commerce opportunities and threats it breeds in the Industry. (Online stores are a big threat to traditional stores)
- Marketing Innovation
- Change in cost and efficiency.
- Changes in the long term Industry growth rate

SWOT Analysis	
Examples	***STRENGTHS:*** ❖ Strong Brand Name, Image or Reputation. ❖ Superior Technological Skills ❖ Cost Advantages ❖ Product Innovation Skills ❖ Strong Advertising and promotion ❖ A reputation for good customer service ❖ Sophisticated use of E Commerce Technology and Process. ❖ Economies of Scale and learning curve effects ❖ A strong Financial Condition ❖ Better product quality compared to rivals ❖ Wide Geographic coverage ***WEAKNESS:*** ❖ Weak Balance Sheet; overburdened by debt ❖ Obsolete facilities ❖ No clear strategic direction ❖ Weak brand name, image or reputation ❖ Narrow product line ❖ Underutilized plant capacity ❖ Short of financial resources to fund promising strategic initiatives ❖ Weaker dealer network ❖ Behind on product quality and / or technology and R & D

	OPPORTUNITIES: ❖ Using the internet and e-commerce technologies to dramatically cut cost and/or to pursue new sales growth opportunities. ❖ Expanding product line to meet broader range of customer needs' ❖ Openings to exploit emerging new technologies ❖ Acquisition of rival firms with attractive technological expertise ❖ Falling trade barriers in attractive foreign markets ❖ Integrating Forward or Backward ❖ Alliances or Joint Ventures that expand firm's market coverage ***THREATS:*** ❖ Loss of sales to substitute products ❖ Likely entry of potent new competitors ❖ Slowdowns in market growth ❖ Costly new regulatory requirement ❖ Growing bargaining power of customers or suppliers ❖ A shift in buyer needs and taste away from industry's product.
TOWS Matrix	o Through SWOT analysis organizations identify their strengths, weakness, opportunities and threats. While conducting the SWOT analysis managers are often not able to come to terms with the strategic choices that the outcome demands. o Heinz Weihrich developed a matrix called TOWS matrix by matching strength and weakness of an organization with the external opportunities and threats. o The incremental benefit of TOWS matrix lies in the systematically identifying relationships between these factors and selecting strategies on their basis. Thus, TOWS matrix has a wider scope when compared to SWOT Analysis. o TOWS matrix is an action tool whereas SWOT analysis is a planning tool. o The TOWS matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified. o By using TOWS Matrix, one can look intelligently at how one can best take advantage of the opportunities open to him, at the same time that one can minimize the impact of weaknesses and protect oneself against threats. o Used after detailed analysis of threats, opportunities, strength and weaknesses, it helps one to consider how to use the external environment to his strategic advantage, and so one can identify some of the strategic options available to him.

The Organization	Strengths – S	Weakness – W
Opportunities – O **(New Markets, New Products, Favourable Government Policies, etc)**	**SO Strategies:** SO is a position that any firm would like to achieve it. Strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to take the competitive advantage. ***Attacking Strategy***	**WO Strategies:** The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited to maximum. ***Build Strength For Attacking Strategy***
Threats – T **(New Entrants, New competitive products, Chance in customer choice, etc)**	**ST Strategy:** ST is a position in which a firm strives to minimize existing or emerging threats through its strengths. ***Defensive Strategy***	**WT Strategies:** WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which pursued to minimize weaknesses and as far as possible, cope with existing or emerging threats. ***Build Strengths for Defensive Strategy***

Question:

1. How is TWOS Matrix an improvement over SWOT analysis? Describe the construction of TWOS Matrix. (May 13) (4 Marks)

2. Discuss the relevance of TOWS matrix in strategic planning process. (Nov 2009)

Portfolio Analysis	❖ Portfolio analysis can be defined as a set of techniques that help strategist in taking strategic decisions with regard to individual products in a firm's portfolio. (Continue or Shut Down a particular product) ❖ It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms. ❖ The main advantage in adopting a portfolio approach in a multi product, multi business firm is that resources could be channelized at the corporate level to

	those businesses that posses the greatest potential. ❖ For example, a diversified company may decide to divert resources from its cash risk business to more prospective one that hold promise of a faster growth so that the company achieves its corporate level objectives in an optimal manner. ❖ 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. Three Important Concepts which are pre-requisite to understand different models of Portfolio Analysis: ***Strategic Business Unit:*** ✓ Analyzing portfolio may begin with identifying key businesses also termed as Strategic Business units (SBU). ✓ SBU is a unit of the company that has a separate mission and objectives and which can be planned independently from other company businesses. ✓ SBU can be a: o Company Division o A Product Line within a division or o Even a Single Product or Brand. ✓ SBUs are common in organizations that are located in multiple countries with independent manufacturing and marketing startups. ***Characteristics of a SBU:*** ✓ Has its own set of Competitors. ✓ Has a manager who is responsible for strategic planning and profit. ✓ Single business or collection of related businesses that can be planned for separately. After identifying SBUs the businesses have to assess their respective attractiveness and decide how much support each deserves.
Experience Curve	❖ Experience curve is an important concept used for applying a portfolio approach. ❖ The concept is similar to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. ❖ Experience curve is based on the commonly observed phenomenon that units cost decline as a firm accumulates experience in terms of a cumulative volume of production. ❖ Experience curve results from a variety of factors such as: o Learning effects, (Past experience) o Economies of scale (production in large volumes) o Production redesign; (kick start to self start) o Technological improvements in production. (Keypad to touch screen) ❖ 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.

- For example, in a two wheeler market, the experience curve seems to be working in favour of Bajaj Auto which for the past decade has been selling on an average 5 lakh scooter a year and retains more than 60% of market share. The primary advantage that Bajaj Auto has is in terms of Costs.

Questions:
1. Explain the concept of experience curve and highlight its relevance in strategic management. (Nov 2012)

Product Life Cycle (PLC)

- It is a useful concept for guiding strategic choice.
- Essentially, PLC is an S-Shaped curve which exhibits the relationship of sales with respect to time for a product that passes through four successive stages of :
    - Introduction (Slow Sales Growth),
    - Growth (Rapid Market acceptance),
    - Maturity (Slowdown in growth rate) and
    - Decline (Sharp downward drift).

INTRODUCTION STAGE	The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is at a lower rate because of lack of knowledge on the part of customers.
GROWTH STAGE	The second phase of PLC is growth stage. In the growth stage, the demand expands rapidly, prices fall, competition increase, and market expands. The customer has knowledge about the product and shows interest in purchasing it.
MATURITY	The third phase of PLC is maturity stage. In this stage, the competition gets tough and market gets stabilized. Profit comes

STAGE	down because of stiff competition. At this stage organization may work for maintaining stability. .
DECLINING STAGE	In the declining stage of PLC, the sales and profits fall down sharply due to some new product replaces the existing product. So a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

The main advantage of PLC is that it can be used to diagnose a Portfolio of products 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 can 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 business. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC Concept.

Questions:
1. PLC is an S Shaped curve. True or False. (June 09)
2. Explain Growth Stage of Product Life Cycle. (May 08)
3. Short note on Product Life Cycle. (Nov 13) (4 Marks)

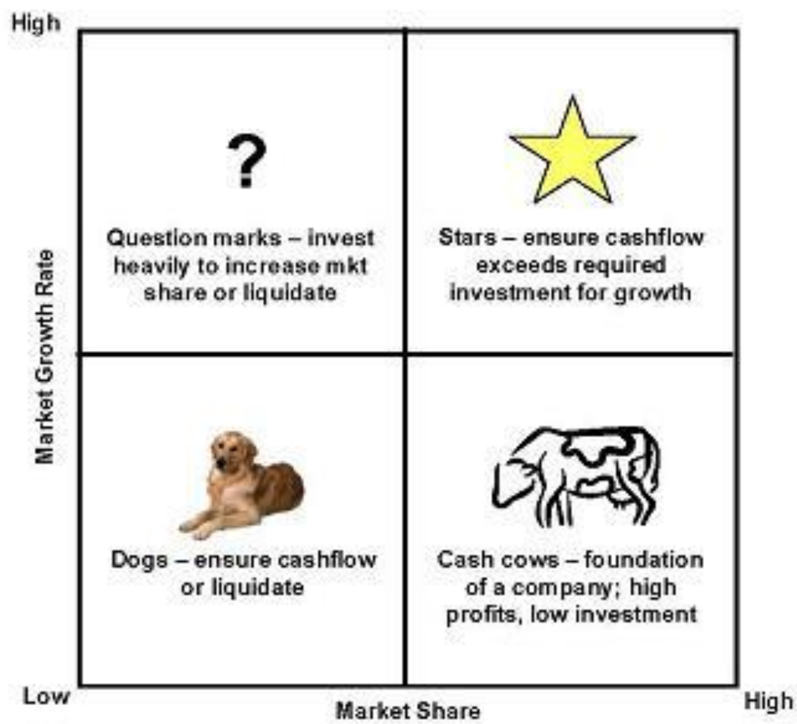
<table>
<tr><th colspan="2">Portfolio Analysis Models</th></tr>
<tr><td>Boston Consulting Group (BCG) Growth share Matrix</td><td>

❖ The BCG Growth Share matrix is the simplest way to portray a corporation's portfolio of investments. Growth Share matrix is also known as for its COW and DOG Metaphors is popularly used for resource allocation in a diversified company.

❖ Using BCG approach, a company classifies its different businesses on a two dimensional growth share matrix.

❖ In the matrix:
- The vertical axis represents market growth share 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, organization can identify four different types of products or SBU as follows:



<table>
<tr><td>Question Marks (BUILD)</td><td>Sometimes called as Problem Childs or Wildcats, are low market share business in high growth markets. They require a lot of cash to hold their share. They need heavy investment 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 organization to turn them stars and then to cash cows when growth rate reduces.</td></tr>
<tr><td>Stars (HOLD)</td><td>Stars are products or SBU that are growth rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for</td></tr>
</table>

</td></tr>
</table>

	expansion.
Cash Cows (HARVEST)	Cash Cows are low growth, high market share business or products. They generate cash and have low costs. They are established, successful, need less investment to maintain their market share. In long run when the growth rate slows down, star becomes cash cows.
Dogs (LIQUIDATE)	Dogs are low growth, low share business 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 minimized by means of divestment or liquidation.

Once the organizations have classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be perused 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.

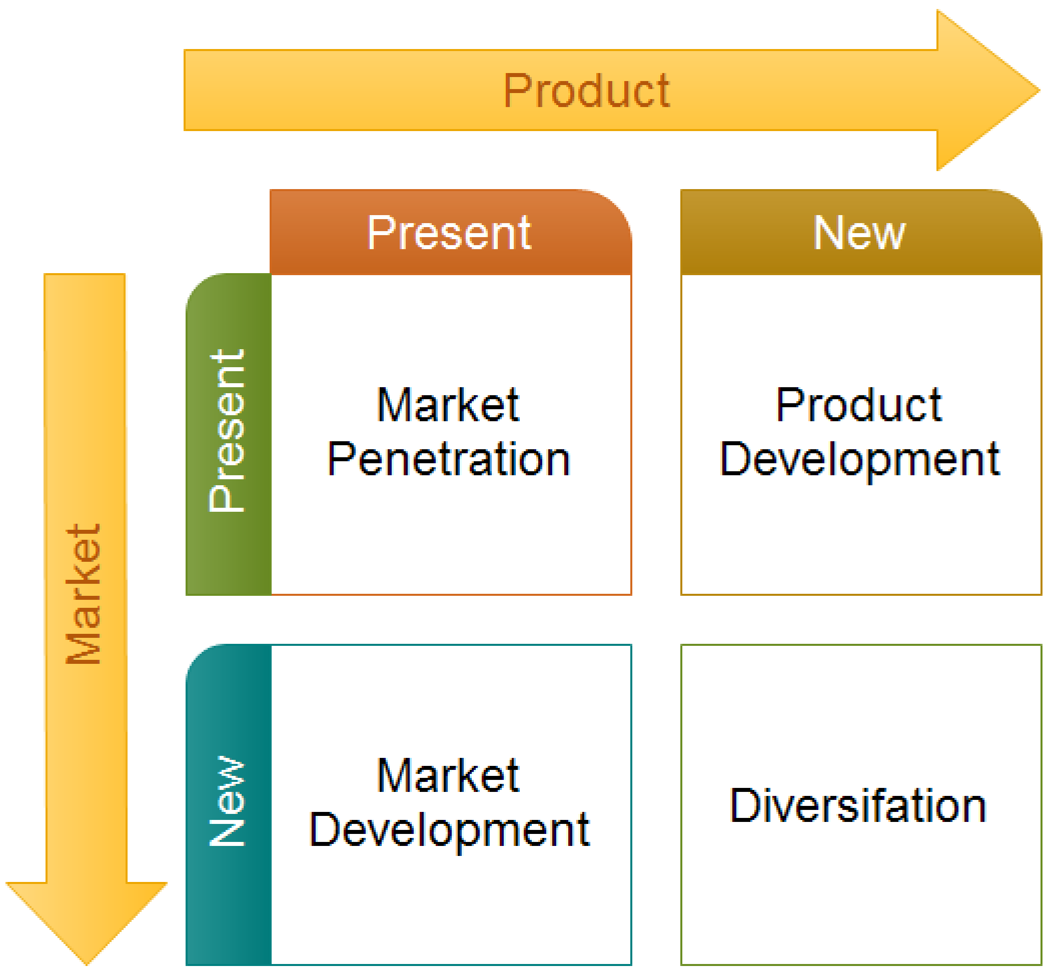
Limitations of BCG:

The growth share matrix has done much to help strategic planning study; however, there are problems and limitation with the method. BCG matrix can be difficult, time consuming, and costly to implement. Management can find it difficult to define SBU and measure market share and growth. It also focuses on classifying current business but provide little advice for future planning. They can lead the company to placing too much emphasis on market share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

Questions:
1. Explain the term Star in the context of BCG matrix. (Nov 2007)

2. In BCG matrix for what the metaphors like stars, cows and dogs are used? (May 2007)

3. In the light of BCG Growth Matrix state the situation under which the following strategic options are suitable:
a. Build
b. Hold
c. Harvest
d. Divest (Nov 2011)

	4. Describe the construction of BCG matrix and discuss its utility in Strategic management. (June 2009)
Ansoff's Product Market Growth matrix	• It was proposed by Igor Ansoff. • The Ansoff's product market growth matrix is a useful tool that 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. • Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio planning tool for identifying company growth opportunities. 

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. ❖ 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.
MARKET DEVELOPMENT	❖ Market development refers to a growth strategy where the business seeks to sells its existing products into new markets. ❖ It is a strategy for company growth by identifying and developing new market for current company products. ❖ This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.
PRODUCT DEVELOPMENT	❖ Product development refer 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. ❖ This strategy may require the development of new competencies and requires business to develop modified products which can appeal to existing markets.
DIVERSIFICATION	❖ Diversification refers to a growth strategy where a business markets new products in new market. It is strategy by starting up or acquiring businesses outside the company's current products and markets. ❖ This strategy is risky because it does not rely on either company's successful product or its position in established markets. ❖ Typically the business is moving into markets in which it has little or no experience.

Questions:

1. Explain the meaning of Market penetration. (May 2012)

2. Aurobindo, the Pharmaceutical company wants to grow its business. Draw Ansoff's product market growth matrix to advise them of the available options. (Nov 2014)

3. The Ansoff's product market growth matrix is a useful tool that help businesses their product and market growth strategy. Elucidate this statement. (May 2013)

<table>
<tr>
<td>ADL Matrix</td>
<td>

The ADL Matrix has derived its name from Arthur D. Little is a portfolio analysis that is based on Product Life Cycle.
The approach forms a two dimensional matrix based on:

<u>Stage of Industry Maturity</u>: it is an environmental assessment that represents a position in Industry’s life cycle.
<u>Firm’s Competitive Position, environmental assessment and business strength assessment</u>: it is a measure of business strength that helps in categorization of products or SBUs into one of five competitive positions: Dominant, Strong, Favourable, Tenable and Weak.

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

<table>
<tr><td>Dominant</td><td>This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technology leadership.</td></tr>
<tr><td>Strong</td><td>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 competitors.</td></tr>
<tr><td>Favourable</td><td>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.</td></tr>
<tr><td>Tenable</td><td>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.</td></tr>
<tr><td>Weak</td><td>The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.</td></tr>
</table>
Questions:
1. Explain the meaning of ADL Matrix. (Nov 2012)
</td>
</tr>
<tr>
<td>General Electric Model (Stop Light)</td>
<td>

This model has been used by General Electric Company (developed by GE with assistance of consulting firm McKinsey & Co). this model is also known as Business Planning matrix, GE Nine Cell Matrix and GE electric model.
The strategic planning approach in this model has been inspired from traffic control lights.
The lights that are used at crossings to manage traffic are: Green for GO, yellow for CAUTION, and Red for STOP.
This model uses two factors while taking strategic decisions: Business strength and market attractiveness.
The vertical axis indicates market attractiveness and horizontal axis shows the business strength in the Industry.

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

Size of the market
Market growth rate
Industry profitability

</td>
</tr>
</table>

	○ Competitive intensity ○ Availability of Technology ○ Pricing trends ○ Overall risk of returns in the industry ○ Demand Variability ○ Segmentation ○ Distribution structure Business Strength is measured by considering the typical drivers like: ○ Market Share ○ Market Share Growth rate ○ Profit Margin ○ Distribution Efficiency ○ Brand Image ○ Ability to compete on price and quality ○ Customer loyalty ○ Production capacity ○ Relative Cost position ○ Management Caliber ○ Technological capability

Chapter 4:
Strategic Planning

"Strategic Planning is worthless, unless there is first a Strategic Vision."

- *John Naisbitt*

WHAT IS PLANNING?	❖ Planning is future oriented. It relates to deciding what needs to be done in the future (today, next week, next month, next year, over the next couple of years, etc) and generating blueprints for action. ❖ Good planning is an important constituent of good management. Planning involves determining what resources are available, what resources can be obtained, and allocating responsibilities according to the potential of the employees. ❖ Planning can be strategic (Long range decisions) or operational (Short term day to day decisions). ❖ Strategic plans are organization wide, establish overall objectives, and position the organization with relation to its environment. On the other hand, operational planning specify details on how individual objectives are to be achieved. ❖ Strategic planning deals with one or more of the three key questions: o What are we Doing? o For whom do we do it? o How to improve and Excel? ❖ Strategic planning determines where an organization is going over the next year or more and ways for going there. ❖ As such strategic planning is a top level management function. The flow of planning can be from corporate to divisional level or vice versa. ❖ There are two approaches for strategic planning – Top Down or Bottom Up. ❖ Top Down Strategic planning describes a centralized approach to strategy formulation in which the corporate centre or head office determines mission, strategic intent, objectives and strategies for the organization as a whole and for all parts. Unit managers are seen as implementers of pre-specified corporate strategies. ❖ Bottom Up Strategic planning is the characteristic of autonomous or semi autonomous divisions or subsidiary companies in which corporate centre does not conceptualize its strategic role as being directly responsible for determining the mission, objectives or strategies of its operational activities. It may prefer to act as a catalyst and facilitator.
STAGES OF CORPORATE STRATEGY FORMULATION PROCESS	Crafting and Executing a company's strategy is a five stage managerial process as given below: 1) ***Developing a Strategic Vision*** of where the company needs to head and what its future product-consumer-market-technology focus should be. 2) ***Setting objectives*** and using them as yardsticks for measuring the company's performance and progress. 3) ***Crafting a strategy to achieve the desired outcomes*** and move the company along the strategic course that management has charted.

4) ***Implementing and executing the chosen strategy*** efficiently and effectively.

5) ***Monitoring developments and initiating corrective adjustments*** in the company's long term direction, objectives, strategy or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

Stage 1: Developing a Strategic Vision;

- First the 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.
- Top Management's views and conclusions about the company's direction and the product-market-customer-technology focus constitute a strategic vision for the company.
- A strategic vision describes management's aspirations for the business and points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future and molds organization identity.
- A clearly articulated strategic vision communicates management's aspiration to stakeholders and helps steer the energies of company personnel in a common direction.

Stage 2: Setting Objectives:

- Corporate objectives flow from the mission and growth ambition of the organization. Basically, they represent the quantum of growth the firm seeks to achieve in the given time frame.
- Through the objective setting process, the firm is tackling the environment and deciding the focus it should have in the environment.
- 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 yardstick for tracking the company's progress and performance.
- **Balanced Score Card Approach**:
    - The balanced score card approach for measuring the company performance requires setting both financial and strategic objectives and tracking their achievement.
    - Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.
- **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 objective focuses attention on delivering immediate performance improvements.
    - Targets are to be achieved within 3 to 5 years down the road.
- **Long term Objectives:**
    - Profitability

- Productivity
- Employee Development
- Employee relations
- Technology Leadership
- Public Responsibility
- Competitive position

➢ **Qualities of Long Term Objectives:**

- Acceptable
- Flexible
- Measurable
- Motivating
- Suitable
- Understandable
- Achievable

➢

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. To achieve this unity, the strategizing process generally has proceeded from the corporate level to the business level and then from business level to the functional level and operating levels.

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

➢ Achieving unity in strategy making is partly a function of communicating the company's basic strategy themes effectively across the whole organization and establishing clear strategic principles and guidelines for lower level strategy making.

➢ The greater the number of company personnel who know, understand and buy in to the company basic direction and strategy, the smaller the risk that people and organization units will go off in conflicting strategic direction when decision making is pushed down to frontline levels and many people are given a strategic making role.

➢ Good communication of strategic themes and guiding principles thus serves a valuable strategy unifying purpose.

➢ 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 assessment. The first concerns organizational strengths and weakness. The second evaluates competitor strengths, weaknesses and strategies, because an organizations strength is of less value if it is neutralized by a competitor's strength or strategy. The third assesses the competitive context, the customers and their needs, the market, and the market environment.

➢ The goal is to develop a strategy that exploits business strengths and competitor's weaknesses and neutralizes business weaknesses and competitors strength.

Stage 4: Implementing & Executing the Strategy:

In most situations, managing the strategy execution process includes the following principal aspects:

- ❖ **Staffing the organization with the needed skills and expertise** consciously building and strengthening strategy supporting competencies and competitive capabilities and organizing the work effort.
- ❖ **Developing budgets** that steer ample resources into those activities critical to strategic success.
- ❖ **Ensuring that policies and operating procedures facilitate** rather than impede effective execution.
- ❖ **Using the best known practices** to perform core business activities and pushing for continuous improvement.
- ❖ **Installing information and operating system** that enable company personnel to better carry out their strategic roles day in and day out.
- ❖ **Motivating people** to pursue the target objectives energetically.
- ❖ **Rewards and incentives** directly to the achievement of performance objectives and goods strategy execution.
- ❖ **Creating a company culture** and work climate conducive to successful strategy implementation and execution.
- ❖ **Exerting the internal leadership** needed to drive implementation forward and keep improving strategy execution.

Stage 5: Monitoring developments, evaluating performance and making corrective adjustments:

- o 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.
- o So long as the company's direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may decide to stay the course.
- o But whenever a company encounters disruptive changes in its external environment, question need to be raised about the appropriateness of its direction and strategy.
- o Successful strategy execution entails vigilantly searching for ways or continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

<table>
<tr><th colspan="3">STRATEGIC ALTERNATIVES</th></tr>
<tr><td><u>Glueck and Jauch</u>
GENERIC Strategic Alternative</td><td colspan="2">There are four generic ways in which strategic alternatives can be considered.</td></tr>
<tr><td></td><td>STABILITY STRATEGIES</td><td>One of the important goals of a business enterprise is stability – to safeguard its existing interest and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimize returns on the resources committed in the business.

A stability strategy is pursued by a firm when:
o It continues to serve in the same or similar markets and deals in same products and services.
o The strategic decision focus on incremental improvement of functional performance.

It's not a Do Nothing strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for mature business organizations.

Characteristics of Stability Strategy:

o A firm opting for stability strategy stays with the same business, same product market and maintaining same level of effort as at present.
o The Endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.
o Naturally, the growth objective of firms employing this strategy will be quite modest.
o Stability strategy does not involve a redefinition of the business of the corporation.
o It is basically a safety oriented, status quo-oriented strategy.
o It does not warrant much of fresh investments.
o The risk is also less.
o It is a fairly frequently employed strategy.
o With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing business/products and markets.
o But the strategy does not permit the renewal process of bringing in fresh investment and new product and market for the firm.

Major reason for organization adopting stability strategy:
o It is less risky, involves less changes and people feel comfortable with things as they are.</td></tr>
</table>

<table>
<tr><td></td><td></td><td>

The environment faced is relatively stable.
Expansion may be perceived as being threatening.
Consolidation is sought through stabilizing after a period of rapid expansion.

</td></tr>
<tr><td></td><td>EXPANSION STRATEGY</td><td>

Expansion is often characterized by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and introduction of new products, new technology and new markets, innovative decisions and so on.
Expansion through Diversification:

Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.
When an established firm introduces a new product which has little or no relation with its present product line and which is meant for a new class of customers different from the firm’s existing customer’s groups, the process is known as Conglomerate diversification. (Example Reliance and Tata Group)
For some firms, diversification is a means of utilizing their existing facilities and capabilities in a more effective and efficient manner. They may have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, managerial and other manpower, research and development, etc.

Expansion through Acquisition and Mergers:

Acquisition or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting option in the sense that it save the time, risks and skills involved in building internal growth opportunities.
Organizations consider Merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.
Acquisition and merger are also resorted to for the purpose of achieving a measure of synergy between the parent and the acquired enterprises.
Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on.

Characteristics of Expansion Strategy:

Expansion strategy is the opposite of stability strategy.

</td></tr>
</table>

While in stability strategy, rewards are limited, in expansion strategy they are very high.

- Expansion strategy is the most frequently used generic strategy.
- Expansion strategy involves a redefinition of the business of the company.
- The process of renewal of the firm through fresh investment and new business/ products/ markets is facilitated only by expansion strategy.
- Expansion strategy is highly versatile strategy; it offers several permutations and combinations for growth. A firm opting for the expansion strategy can generate many alternatives within the strategy by altering its propositions regarding products, markets and functions and pick the one that suits it most.
- Expansion strategy holds within its fold two major strategy routes:
    - Intensification and
    - Diversification.
- Both of them are growth strategies; the difference lies in the way in which the firm actually pursues the growth;
- With intensification strategy, the firm pursues growth by working with its current businesses.
- Intensification, in turn, encompasses three alternative routes:

1) Market Penetration Strategy:

The most common expansion strategy is market penetration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

2) Market Development Strategy

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

3) Product Development Strategy

Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through established channels.

- Diversification strategy involves expansion into new businesses that are outside the current businesses and markets.
- There are three broad types of diversification:

1) Vertically integrated diversification:

In 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 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 and backward Integration:

- Forward and backward integration forms part of vertically integrated diversification.

- In vertically integrated diversification, firm opt to engage in businesses that are vertically related to the existing business of the firm.

- The firm remains vertically within the same process. While diversifying firms opt to engage in businesses that are linked forward or backward in the chain and enter specific product/process steps with the intention of making them into new businesses for the firm.

- Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profit and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. On the other hand forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organization enter into businesses of distribution channels.

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 product or taking over competitor products.

Related Diversification	**Unrelated Diversification**
Exploiting the following: ❖ Brand Name ❖ Marketing skills ❖ Sales and distribution capacity ❖ Manufacturing skills ❖ Economies of scale ❖ R & D and New Product capability	❖ Obtain high ROI ❖ Manage and allocate cash flow ❖ Tax benefits ❖ Obtain liquid assets ❖ Vertical integration ❖ Defend a takeover

			2) Concentric Diversification: Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin off from the existing facilities and product/process. This means that in concentric diversification too, there are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. While in vertically integrated diversification, the new product has with the existing current process-product chain, in concentric diversification, ether is a departure from this vertical linkage. The new product is only connected in a loop like manner at one or more points in the firm's existing process/technology/product chain. ***3) Conglomerate diversification*** o Vertically integrated diversification involves going into new businesses that are related to the current ones. o It has two components – forward integration and backward integration. o The firm remains vertically within the given product – process sequence; the intermediaries in the chain become new businesses. o In Concentric diversification, too, the new products are connected to the firm's existing process/technology. But the new products are not vertically linked to the existing ones. They are not intermediaries. They serve new functions in new markets. A new business is spinned off from the firm's existing facilities. o In Conglomerate Diversification, too, a new business is added to the firm's portfolio. But it is disjoined from the existing business; in process/ technology/ function, there is no connection between the new businesses and the existing one. It is unrelated diversification. ***Major Reasons for adopting expansion strategy:*** ▪ It may become imperative when environment demands increase in pace of activity. ▪ Strategist may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth oriented. ▪ Increasing size may lead to more control over the market vis a vis competitors. ▪ Advantages from the experience curve and scale of operations may accrue.
		RETRENCHMENT STRATEGY	❖ A Business organization can redefine its business by divesting a major product line or market. ❖ The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon

each contingency.

- It is not a matter of failure of business planning, rather well planned exercise to get rid of unprofitable parts of business which will help the organization concentrate its total attention to the most profitable and promising areas of business only.
- It leads to:
    - Reduction in number of employees.
    - Sale of assets
    - Financial restructuring
    - Liquidation of the firm, in exceptional cases.

Characteristics of Retrenchment Strategy:

- Divestment strategy involves retrenchment of some of the activities in a given business of the firm or sell out of some of the business as such.

- Retrenchment is necessary in the following firm's conditions:
    - High Competition
    - Business becoming Unprofitable
    - Failure of strategy
    - Industry Overcapacity

A firm opting for retrenchment strategy can do it in three different steps:

1) Turnaround Strategy:

Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as Turnaround Strategy.

Major signs that indicates that organization needs a turnaround:

- Persistent Negative Cash Flow
- Continuous Losses
- Mismanagement
- Uncompetitive products or services
- Over Manning, high turnover of employees and low morale
- Declining Market Share

A set of ten elements that contribute to turnaround are:

- Changes in Top Management
- Identifying quick payoff activities
- Quick Cost reductions
- Revenue generation
- Asset Liquidation for generating cash
- Better internal coordination

2) Divestment Strategy:

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

Reasons for adopting a divestment strategy:

- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- Severity of competition and the inability of a firm to cope with it may cause it to divest. (Closure of small stores because of Malls and shopping complex opened in the locality)
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest. (Single screen theaters closed because of emergency of multiplexes)
- A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

3) Liquidation Strategy:

- A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets.
- It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities.
- Many small scale units, proprietorship firms, and partnership ventures liquidate frequently but medium and large sized companies rarely liquidate in India.
- The company management, government, banks and financial institutions, trade unions, suppliers and creditors and other agencies are extremely reluctant to take a decision or ask, for liquidation.

<table>
<tr><td></td><td>
<table>
<tr><td></td><td>

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.
Liquidation strategy may be unpleasant as a strategic alternative but when a dead business is worth more than alive, it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual return from doing business.
Under the companies act, 2013 liquidation may be either by the court, voluntary or subject to the supervision of the court.

</td></tr>
</table>
Questions:
1. What is conglomerate diversification? (Nov 2010)
</td></tr>
<tr><td>MICHAEL PORTER'S GENERIC STRATEGY</td><td>
<table>
<tr><td>COST LEADERSHIP STRATEGIES</td><td>

A primary reason for pursuing forward, backward and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation.
A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage capacity utilization achieved, and linkages with suppliers and distributors.
Striving to be the low cost producer in an industry can be especially effective when the market is composed of many price sensitive buyers, when there are few ways to achieve product differentiation, 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 is utilization of entire firm in the form of:

Higher efficiency
Low Overhead
Limited perks to human resources
Minimize the waste
Use of advance technology
Bulk buying to enjoy quantity discount
Rewards linked to cost reduction

</td></tr>
<tr><td>DIFFERENTIATION STRATEGY</td><td>

Differentiation does not guarantee competitive advantage especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible.

</td></tr>
</table>
</td></tr>
</table>

		➢ Durable products protected by barriers to quick copying by competitors are best. ➢ Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience. ➢ A differentiation strategy should be pursued 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. ➢ A successful differentiation strategy allows a firm to charge a higher price for its products and to gain customer loyalty because customers may become strongly attached to the differentiation features. ➢ Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, ease of use, etc. ➢ Common organizational requirement for a successful differentiation strategy include strong coordination among R & D and marketing functions and substantial amenities to attract scientist and creative people. ➢ A risk of pursuing a differentiation strategy is that unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. ➢ Another risk of pursuing differentiation strategy is that competitors may develop ways to copy the differentiation features quickly. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.
	FOCUS STRATEGY	➢ 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. ➢ Strategies such as market penetration and market development offer substantial focusing advantages. ➢ Midsize and large firms can effectively pursue focus strategy only in conjunction with differentiation or cost leadership based strategies. ➢ All firms in essence follow a differentiation strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find

		other ways to differentiate their products. ➢ 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 focus strategy include possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer preferences will drift towards 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.

Merger and Acquisition Strategy	➢ Merger and acquisition in simple words are defined as a process of combining two or more organization together. ➢ Merger is a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organization share profits in the newly created entity. In a merger two organization combine to increase their strength and financials gains with breaking the trade barriers. ➢ When one organization takes over the other organization and controls all its business operations, is known as Acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization. ***Types of Mergers:***

HORIZONTAL MERGER	➢ Horizontal mergers are combinations of firm engaged in the same industry. ➢ It is a merger with a direct competitor. ➢ The principle objective behind this type of merger is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening of line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on. ➢ For example, formation of brook bond Lipton India Ltd through merger of Lipton India and Brook Bond.

	VERTICAL MERGER	❖ It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. ❖ If any organization takes over its supplier/producer of raw material, then it leads to backward integration. ❖ On the other hand, forward integration happens when an organization decides to take over its buyer organization or distribution channels. ❖ Vertical merger results in many operating and financial economies. ❖ Vertical merger helps to create an advantageous position by restricting the supply of inputs to other players, or by providing the inputs at a higher cost.
	CO-GENERIC MERGER	✓ In Co-generic merger two or more organization are associated in some way or the other related to the production processes, business markets, or basic required technologies. ✓ Such merger include extension of the product line or acquiring components that are required in the daily operations. ✓ It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements. ✓ For example, organization in the goods categories such as refrigerators can diversify by merging with another organization having business in kitchen appliances.
	CONGLOMERATE MERGER	○ Conglomerate merger are the combination of organization that are unrelated to each other. ○ There are no linkages with respect to customer groups, customer functions and technologies being used. ○ There are no important common factors between the organization in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

Chapter 5: Formulation of Strategy	
Introduction	✓ Functional strategies play two important roles: o Firstly, they provide support to the overall business strategy. o Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. ✓ In terms of the levels of strategy formulation, functional strategies operate below the SBU or business level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organization. ✓ 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.
Need of Functional Strategies	❖ The development of functional strategies is aimed at making the strategies formulated at the top management level practically feasible at the functional level. ❖ Functional strategies facilitate flow of strategic decisions to the different parts of an organization. ❖ They act as basis for controlling activities in the different functional areas of business. ❖ The time spent by functional managers in decision making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken. ❖ Functional strategies help in bringing harmony and coordination as they remain part of major strategies. ❖ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.
Marketing strategy Formulation	o Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others. o In the present day for business, it is considered to be the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. In marketing it is more important to do what is strategically right than what is immediately profitable. o The term marketing constitutes different processes, functions, exchanges and activities that create perceived value by satisfying needs of individuals. Marketing helps in moving people closer to making a decision to purchase and facilitate a sale. o Marketing in recent decades has gained a lot of importance. It is an immediate cause and effect of rapid economic growth, globalization, technological upgradation, development of ever increasing human needs and wants and

	increasing purchasing power. ***Examples of marketing decisions that may require special attention are as follows:*** ✓ The **kind of distribution network** to be used. Whether to use exclusive dealerships or multiple channels of distribution. ✓ The **amount and extent of advertising**. Whether to use heavy or light advertising. What should be the amount of advertising in print media, television, or internet? ✓ Whether to **limit or enhance the share of business** done with a single or a few customers? ✓ Whether to be a price leader or a price follower? ✓ Whether to offer a complete or limited warranty? ✓ Whether to reward salespeople based on straight salary, straight commission, or on a combination of salary/commission?
Delivering Value to Customer	➢ Marketing alone cannot produce superior value for the customer. It needs to work in coordination with other departments to accomplish this. ➢ Marketing acts as part of the organizational chain of activities. Marketers are challenged to find ways to get all departments to think with focus on customer. ➢ In its search for competitive advantage, the firm needs to look beyond its own chain of activities and into the chains of its suppliers, distributors, and ultimately customers. This partnering will produce a value delivering network. ***Connecting with customers:*** To succeed in today's competitive marketplace, companies must be customer centered. They must win customers from competitors and keep them by delivering greater value. Since companies cannot satisfy all consumers in a given market, they must divide up the total market (Market Segmentation), choose the best segments (Market targeting) and design strategies for profitably serving chosen segments better then the competitors. (market positioning)
Marketing Process	1) Once the strategic plan has defined the company's overall mission and objectives, marketing plays a role in carrying out these objectives. 2) The marketing process is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort. 3) Target customers stand at the centre of marketing process.
Marketing Mix	✓ The marketing mix is the set of controllable marketing variables that the firm blends to product the response it wants in the target market. ✓ The marketing mix consists of everything that the firm can do to influence the demand of its product.

- ✓ These variables are often referred to as the “4Ps”. The 4 Ps stand for product, price, place and promotion.
- ✓ An effective marketing program blends all the marketing mix elements into a coordinated program designed to achieve the company’s marketing objectives by delivering value to consumers.
- ✓ The 4Ps are from a marketer’s angle. When translated to the perspective of buyers, they may be termed as 4 Cs. Product may be referred as customer solution, price as customer cost, place as convenience and promotion as communication.

<table>
<tr>
<td>PRODUCT</td>
<td>

Product stands for the goods and service combination the company offers to the target market.
Strategies are needed for:

For managing existing product over time
Adding new products
Dropping failed products

Strategic decisions must also be made regarding:

Branding
Packaging
Other product features such as warranties
Design
Safety

Products can be differentiated on the basis of size, shape, color, packaging, brand names, after sales services and so on.
Organizations seek to hammer into customers minds that their products are different from others. It does not matter whether the differentiation is real or imaginary.
Organizations formalize the product differentiation through Brand Names to their respective products. Brand names enable the customers to identify the product and the organization behind it. The product’s and even firm’s image is build around brand through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

</td>
</tr>
<tr>
<td>PRICE</td>
<td>

✓ Price stands for the amount of money customers have to pay to obtain the product.
✓ Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale.
✓ The price of a product is its composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.
✓ Theoretically, organizations may also adopt cost plus pricing wherein a margin is added to the cost of the product to determine its price. However, in the competitive environment such an approach may not be feasible.
✓ More and more companies of today have to accept the market price with minor deviations and work towards their costs. They reduce their cost in order to maintain their profitability.
✓ For a new product an organization may either choose to skim or penetrate the market.

</td>
</tr>
</table>

<table>
<tr><td></td><td></td><td>

In Skimming prices are set at a very high level. The product is directed to those buyers who are relatively priced insensitive but sensitive to novelty of the new product.
In penetration firm keeps a tempting low price for a new product which itself is selling point. A very large number of potential consumer may be able to afford and willing to try the product.

</td></tr>
<tr><td></td><td>PLACE</td><td>

Place stands for company activities that make the product available to target consumers.
Strategies should be taken for the management of channels by which ownership of product is transferred from producers to consumers and in many cases, the systems by which goods are moved from where they are produced from they are purchased by the final consumers.
Goods must be at the right place at the right time. Example: A soft drink seller cannot tell a customer to come tomorrow.

</td></tr>
<tr><td></td><td>PROMOTION</td><td>

Promotion stands for the activities that communicate the merits of the product and persuade target consumers to buy it.
Strategies needed to combine individual methods such as advertising, personal selling and sales promotion into a coordinated campaign.
Modern marketing is highly promotional oriented. It is simultaneously a communication & persuasion process.
There are at least four major direct promotional methods:

Personal selling
Advertising
Publicity
Sales promotion

<table>
<tr><td>Personal Selling</td><td>

Oldest forms of promotion
Face to face interaction of sales force with the customers.
Oral communication is made
Suffers from very high cost as sales personnel are expensive.
It is highly effective method to persuade a potential consumer

</td></tr>
<tr><td>Advertising</td><td>

It is a Non Personal, highly flexible and dynamic promotional method.
Example: Pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet.

</td></tr>
<tr><td>Publicity</td><td>

It is also a non personal form of advertising.
Publicity is communication of a product, brand or business by placing information

</td></tr>
</table>
</td></tr>
</table>

		about it in the media without paying for the time or media space directly. • Thus it is a way of reaching customers with negligible cost. • Basic tools of publicity are press release, press conference, reports, stories and internet releases.
	Sales Promotion	✓ Sales promotion is a term that includes activities that are undertaken to promote business but are not specifically included under personal selling, advertising or publicity. ✓ Activities like discounts, contests, money refunds, installments, exhibitions and fairs constitute sales promotion. ✓ All these are meant to give a boost to the sales.

Questions:
a. Enlist the components of Marketing Mix. (June 2009)
b. Write short note on elements of marketing mix. (Nov 2010)

Marketing Strategy Techniques	Social marketing facebook	❖ It refers to the design, implementation and control of programs seeking to increase the acceptability of a social ideas, cause or practice among a target group. ❖ For instance, campaign for promotion of smoking in Delhi explained the place where one can and can't smoke in Delhi.
	Augmented Marketing	✓ It is provision of additional customer services and benefits build around the care and actual products that relate the introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. ✓ Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
	Direct Marketing	➢ Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. ➢ Direct Marketing includes catalogue selling, mail, tele-computing, electronic marketing, shopping and TV Shopping.
	Relationship Marketing	▪ The process of creating, maintaining, and enhancing strong, value laden relationships with consumers and other stakeholders. ▪ For example, Airlines offer special lounges at major airports for frequent flyers. ▪ Thus, providing special benefits to select customers to strengthen the bonds. It will go a long way in building relationships.

	Services Marketing	o It is applying the concepts, tools, and techniques of marketing to services. o Services is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the banking, saving, retailing, educational or utilities.
	Person marketing	➢ People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people. ➢ For example, politicians, sport stars, film stars, professional i.e market themselves to get votes, or to promote their careers and income.
	Organization marketing	It consists of activities undertaken to create, maintain or change attitudes and behavior of target audiences towards an organization. Both profit and non-profit organization practice organization marketing.
	Place Marketing	Place marketing involves activities undertaken to create, maintain, or change attitude and behavior towards particular places, say tourism marketing. (Madhya Pradesh tourism says "Hindustan ka dil dekho".
	Enlightened marketing	A marketing philosophy holding that a company's marketing should support the best long run performance of the marketing system; its five principles include customer oriented marketing, innovative marketing, value marketing, societal marketing & Sense of mission marketing.
	Differential marketing	A market coverage strategy in which a firm decide to target several market segments and designs separate offer for each. For example, HUL has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in Premium Segment.
	Synchro Marketing	When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities Synchro marketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion and other incentives. For example, products such as movie tickets can be sold at lower price over week days to generate demand. (Morning shows at lower price)
	Concentrated marketing	A market coverage strategy in which a firm goes after a large share of one or few sub markets.
	Demarketing	➢ Marketing strategy to reduce demand temporarily or permanently- aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. ➢ For example, buses are overloaded in the morning and evening, roads are busy for most of the times, Zoological parks are over crowded on Saturdays, Sundays and Holidays. Here Demarketing can be applied to regulate demand.

	Explain the meaning of following concepts: a. Service marketing (Nov 11) b. persons marketing(Nov 11) c. Differential marketing (May 12) d. Demarketing (May 12) e. Synchro marketing(Nov 12)
Financial Strategy Formulation	The financial strategies of an organization are related to several finance/accounting concepts considered to be central to strategy implementation. These are: ➢ Acquiring needed capital/sources of funds; ➢ Developing financial statements/budgets; ➢ Management /usage of funds ➢ Evaluating the worth of a business. Some examples of decisions that may require finance policies are: ➢ To raise capital with short term debt, long term debt, preferred stock or common stock ➢ To lease or buy assets ➢ To determine an appropriate dividend payout ratio. ➢ To extend the time of account receivable ➢ To establish a certain percentage discount on account within a specified period of time ➢ To determine the amount of cash that should be kept on hand
Supply Chain Management	Implementing and successfully running supply chain management system will involve: **1. Product development:** Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive. **2. Procurement:** Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process. **3. Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle. **4. Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.

	5. Outsourcing: Outsourcing is not limited to the procurement of materials and components, but also includes outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced. **6. Customer services:** Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn helps in producing positive feelings in the organization and the customers **7. Performance measurement:** There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.
Strategic Role of Human Resource Management	The prominent areas where the human resource manager can play strategic role are as follows: **1. Providing purposeful direction:** The human resource management must be able to lead people and the organization towards the desired direction involving people right from the beginning. The most important tasks of a professional management is to ensure that the object of an organization has been internalized by each individual working in the organization. Goals of an organization state the very purpose and justification of its existence. The management have to ensure that the 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:** Present's globalized market maintaining a competitive gain is the object of any organization. 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 under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce. **3. Facilitation of change: T**he Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personnel function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo. **4. Diversion of workforce: I**n the modern organization management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc. Moreover, many organizations also have people of different castes, religious and nationalities. 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 member of a society or organization to take of his/her own destiny realizing his/her full potential. It involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them. **6. Building core competency:** The human resource manager has a great role to play in developing core competency by the firm. 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 organized on the basis of core competency, it is likely to generate competitive advantage. Because of this reason, many organizations have restructured their businesses by divesting those businesses which do not match core competence. Organization of 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. **6. Development of works ethics and culture:** Greater efforts will be needed to achieve cohesiveness because workers will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary. Focus will shift from extrinsic to intrinsic motivation. A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.
Logistics Strategy	Management of logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy it is defining the service levels at which its logistics is smooth and is cost effective. A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers because of constant changes in supply chains. There are different areas that should be examined for each company that should be considered and should include: ♦ Transportation: Does the current transportation strategies help service levels required by the organisation? ♦ Outsourcing: Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation is also to be examined.

	♦ Competitors: Review the procedures adopted by competitors. It is also to be judged whether adopting the procedures followed by the competitors will be overall beneficial to the organisation. This will also help in identifying the areas that may be avoided. ♦ Availability of information: The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis. ♦ Strategic uniformity: The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.

<table>
<tr><th colspan="2">Chapter 6: Strategy Implementation & Control</th></tr>
<tr><td>Strategy Formulation vs Strategy Implementation</td><td>
Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the difference between the two because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus organizational success is a function of good strategy and proper implementation.
Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something than to say you are going to do it.
<table>
<tr><th>Strategy Formulation</th><th>Strategy Implementation</th></tr>
<tr><td>Strategy Formulation is positioning forces before the action.</td><td>Strategy Implementation is managing forces during the action.</td></tr>
<tr><td>Strategy Formulation focuses on effectiveness.</td><td>Strategy Implementation focuses on efficiency.</td></tr>
<tr><td>Strategy Formulation is primarily an intellectual process.</td><td>Strategy Implementation is primarily an operational process.</td></tr>
<tr><td>Strategy Formulation requires goods intuitive and analytical skills.</td><td>Strategy Implementation requires special motivation and leadership skills.</td></tr>
<tr><td>Strategy formulation requires coordination among a few individuals.</td><td>Strategy Implementation requires combination among many Individuals.</td></tr>
</table>
</td></tr>
<tr><th colspan="2">Organizational Structure</th></tr>
<tr><td>Functional Structure</td><td>

A widely used structure in business organisations is functional type because of its simplicity and low cost.
A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems.
Besides being simple and inexpensive, a functional structure also promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making.
Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes times characterized by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets. Most large companies abandoned the functional structure in favour of decentralization and improved accountability.

</td></tr>
<tr><td>Divisional Structure</td><td>As a small organization grows, it has more difficulty in managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations. The divisional structure can be organized in one of four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each separate division.</td></tr>
</table>

	A divisional structure has some clear advantages. First and perhaps foremost accountability is clear. That is, divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances. As a result, employee morale is generally higher in a divisional structure than it is in centralized structure. Other advantages of the divisional design are that it creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products In be added easily. The divisional design is not without some limitations. Perhaps the most important limitation is that a divisional structure is costly, for a number of reasons. First, each division requires functional specialists who must be paid. Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities. Third, managers must be well qualified because the divisional design forces delegation of authority better-qualified individuals requires higher salaries. A divisional structure can also be costly because it requires an elaborate, headquarters-driven control system.
Strategic Business Unit	SBU is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests. **Its Advantages are:** • Establishing coordination between divisions having common strategic interests. • Facilitates strategic management and control on large and diverse organizations. • Fixes accountabilities at the level of distinct business units. • Allows strategic planning to be done at the most relevant level within the total enterprise. • Makes the task of strategic review by top executives more objective and more effective. • Helps allocate corporate resources to areas with greatest growth opportunities. Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability.

Matrix Structure	Most organizations find that organising around either functions (in the functional structure) or around products and geography (in the divisional structure) provides an appropriate organizational structure. The matrix structure, in contrast, may be very appropriate 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. In matrix structures, 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. A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication. A matrix structure can result in higher overhead because it more management positions. The matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form. The matrix structure is very useful when the external environment (especially its technological and market aspects) is very complex and changeable.
Network Structure	• A newer and somewhat more radical organizational design, the network structure is an example of what could be termed a "non-structure" by its virtual elimination of in house business functions. Many activities are outsourced. • A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. • The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. • Electronic markets and sophisticated information systems reduce the transaction costs of the marketplace, thus justifying a "buy" over a "make" decision. • Rather than being located in a single building or area, an organization's business functions are scattered worldwide. The organization is, in effect, only a shell, with a small headquarters acting as a "broker", electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent companies. • In its ultimate form, the network organization is a series of independent firms or business units linked together by computers in an information system that designs, produces, and markets a product or service.

Leadership Role in Strategy Implementation	A strategic leader has several responsibilities, including the following: ♦ Environment Scanning. ♦ Dealing with the diverse and cognitively competitive situations. ♦ Managing human capital. ♦ Effectively managing the company's operations. ♦ Sustaining high performance over time. ♦ Willing to make candid, courageous, and yet pragmatic decisions. ♦ Decision-making responsibilities that cannot be delegated. ♦ Seeking feedback through face-to-face communications. ♦ Being spokesman of the organisation.
Difference between Transformational and Traditional leadership style:	1. Traditional leadership borrowed its concept from formal Top-down type of leadership such as in the military. The style is based on the belief that power is bestowed on the leader, in keeping with the traditions of the past. This type of leadership places managers at the top and workers at the bottom of rung of power. In transformational leadership, leader motivates and empowers employees to achieve company's objectives by appealing to higher ideas and values. They use charisma and enthusiasm to inspire people to exert them for the good of the organization. 2. Traditional leadership emphasizes characteristics or behaviours of only one leader within a particular group whereas transformational leadership provides a space to have more than one leader in the same group at the same time. According to the transformational leadership style, a leader at one instance can also be a follower in another instance. Thus there is element of flexibility in the relationships. 3. Traditional leadership is more focused in getting the work done in routine environment. Traditional leaders are effective in achieving the set objectives and goals whereas transformational leaders have behavioural capacity to recognize and react to paradoxes, contradictions and complexities in the environment. Transformational leadership style is more focus on the special skills or talents that the leaders must have to practice to face challenging situations. Transformational leaders work to change the organisational culture by implementing new ideas. 4. In traditional leadership, followers are loyal to the position and what it represents rather than who happens to be holding that position whereas in transformational leadership followers dedicate and admire the quality of the leader not of its position.
Strategic Change	**Steps to initiate strategic change:** For initiating strategic change, three steps can be identified as under: (i) ***Recognize the need for change***: The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may it be through SWOT analysis and then

determine where the lacuna lies and scope for change exists.

(ii) ***Create a shared vision to manage change***: Objectives and vision of both individuals and organization should coincide. There should be no conflict between them. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance through proper communication. Strategy implementers have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

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

To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.
(i) **Unfreezing the situation:** The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.

(ii) **Changing to New situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

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

Change process is not a onetime application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action. By the change management process, organizations can better manage the required strategic change.

Strategy Control	
Operational Control	The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty. Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans and instructions. Some of the examples of operational controls can be stock control (maintaining stocks between set limits), production control (manufacturing to set programmes), quality control (keeping product quality between agree limits), cost control (maintaining expenditure as per standards), budgetary control (keeping performance to budget).
Management Control	When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units. The basic purpose of management control is the achievement of enterprise goals – short range and long range – in a most effective and efficient manner. The term is defined by Robert Anthony as 'the process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives. Controls are necessary to influence the behaviour of events and ensure that they conform to plans.
Strategic Control	Strategies once formulated are not immediately implemented. There is time gap between the stages of strategy formulation and their implementation. Strategies are often affected on account of changes in internal and external environments of organisations. There is need for warning systems to track a strategy as it is being implemented. Strategic control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments. **Types of Strategic Control:** There are four types of strategic control as follows: ♦ **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors: (i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and regulatory.

	(ii) Industry factors such as competitors, suppliers, substitutes. It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy. ♦ **Strategic surveillance:** Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, meetings, conferences, discussions at clubs or parties and so on can help in strategic surveillance. Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy. ♦ **Special alert control:** At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. Organizations to cope up with these eventualities, form crisis management teams to handle the situation. ♦ **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions. Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basis forms of implementation control are: (i) Monitoring strategic thrusts: Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments. (ii) Milestone Reviews. All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.
Building a strategy Supportive Corporate Culture	
How culture can promote better strategy execution?	Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strat*egy* execution. For example, a culture where frugality and thrift are values

	strongly shared by organizational members is very conducive to successful execution of a low cost leadership strategy. A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy. A culture 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 is very conducive to successful execution of a strategy of delivering superior customer service. A tight culture-strategy alignment acts in two ways to channel behaviour and influence employees to do their jobs in a strategy-supportive fashion. A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job. Strategy-supportive cultures 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. A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; 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. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to fruition.

Chapter 7: Reaching Strategic Edge

Business Process Reengineering	**Definition of BPR:** • Business Process Reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. • The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. • Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers. • The redesign effort aims at simplifying and streamlining a process by eliminating all redundant and non-value adding steps, activities an transactions, reducing drastically the number of stages or transfer points of work, and speeding up the work-flow through the use of IT systems. • BPR is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. • It is revolutionary redesign of key business processes that involves examination of the basic process itself. 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 the result of its process. • "Business process reengineering means starting all over, starting from scratch." Reengineering, in other words, means pulling aside much of the age-old practices and procedures of doing a thing developed over hundred years of management experience. It implies forgetting how work has been done so far, and deciding how it can best be done now. • Reengineering begins with a fundamental rethinking. BPR involves the following steps: **1. Determining objectives and framework:** Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process. **2. Identify customers and determine their needs*:*** The designers have 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 redesigners. 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 considered 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 operationalise 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.
Benchmarking	**What is Benchmarking?** • In simple words, 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. • For example, a customer support engineer of a television manufacturer attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark. • Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. • Benchmarking is not a panacea for all problems. Rather, 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. Further, benchmarking exercises are also repeated periodically so that the organization does not lag behind in the dynamic environment. • Benchmarking is a process of continuous improvement in search for competitive advantage. It measures a company's products, services and

<table>
<tr><td></td><td>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. Subsequently ALCOA, Eastman Kodak, IBM adopted benchmarking.

Firms can use benchmarking process to achieve improvement in diverse range of management function such as mentioned below:
1. maintenance operations,
2. assessment of total manufacturing costs,
3. product development,
4. product distribution,
5. customer services,
6. plant utilisation levels; and
7. human resource management.

The Benchmarking process elements: Some of the common elements of benchmarking process are as under.

(i) Identifying the need for benchmarking process: This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organisations identify realistic opportunities for improvements.

(ii) Clearly understanding existing business processes: This will involve compiling information and data on performance. This will include mapping processes also. Information and data is collected by different methods for example, interviews, visits and filling of questionnaires.

(iii) Identify best processes: Within the selected framework best processes are identified. These may be within the same organisation or outside of them.

(iv) Comparison of own processes and performance with that of others: Benchmarking process also involves comparison of performance of the organisation with performance of other organisation. Any deviation between the two is analysed to make further improvements.

(v) Prepare a report and implement the steps necessary to close the gap in performance: A report on benchmarking initiatives containing recommendations is prepared. Such report also contains the action plans for implementation.

(vi) Evaluation: Business organisations evaluate the results of benchmarking process interms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that influence the performance.</td></tr>
<tr><td>Total Quality Management</td><td>Total Quality Management (TQM) is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost.

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</td></tr>
</table>

departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

Principles guiding TQM:

Preventing rather than detecting defects: TQM is a management philosophy that seeks to prevent poor quality in products and services, rather than simply to detect and sort out defects. "An ounce of prevention is worth a pound of cure." A little precaution before a crisis occurs is preferable to a lot of fixing up afterward. This also saves cost and time.

Continuous improvement and learning: TQM espouses a philosophy of continuous improvement in all areas of an organization. This philosophy ties in closely with the quality measurement and universal quality responsibility concepts mentioned above. Quality measurement is needed in order to focus improvement efforts appropriately.

Focusing on the customer: According to Lee Iacocca had only three rules: Satisfy the customer, satisfy the customer, and satisfy the customer. This sums up the importance of customer focus in the TQM philosophy. Ultimately it the satisfaction of the customers that determines the success of an organisation.

Universal quality responsibility: Another basic TQM precept is that the responsibility for quality is not restricted to an organization's quality assurance department, but is instead a guiding philosophy shared by everyone in an organization. TQM requires that everyone takes responsibility for quality. As quality improves, the quality assurance department gets smaller. In fact, world over, a few companies fully committed to TQM have done' away completely with their quality assurance organizations.

Root cause corrective action: Most of us have experienced instances in which problems we thought were corrected 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.

The synergy of teams: In addition to the TQM concepts of empowerment and involvement of employees, taking advantage of the synergy of teams is an effective way to address the problems and challenges of continuous improvement. Dr. Kaoru Ishikawa first formalized the teams concept as part of the TQM philosophy by developing quality circles in Japan.

Thinking statistically: Statistical thinking is another basic TQM philosophy. Quality efforts often require reducing process or product-design variation, and statistical methods are ideally suited to support this objective.

Employee involvement and empowerment: Another fundamental TQM concept is that employees must be involved and empowered. 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. **Value improvement:** The linkage between continuous improvement and value improvement is simultaneously obvious and subtle. This linkage becomes apparent when one considers the definition of quality, which 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. But simply cutting costs, however, will not improve value if the focus does not remain on satisfying customer requirements and expectations. **Supplier teaming:** 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. **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.
Six Sigma	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. It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. Six sigma has its base in the concept of probability and normal distribution in statistics. Six sigma strives that 99.99966% of products manufactured are defect free. **Six sigma efforts target three main areas:** ♦ Improving customer satisfaction ♦ Reducing cycle time ♦ Reducing defects **Characteristics of Six Sigma:** (i) Six sigma is customer focused. It strives to provide better satisfaction to the customer owning the product. (ii) Six sigma is a total management commitment and philosophy of excellence, process improvement and the rule of measurement. (iii) Six sigma induces changes in management operations - new approaches to thinking, planning and executing to achieve results. (iv) Six sigma combines both leadership and grassroots energy and involvement for its success. **Six themes of six sigma** The critical elements of six sigma can be put into six themes as follows: ♦ ***Theme one*** − *genuine focus on the customer:* Companies launching six sigma

	often to find that how little they really understand about their customers. In six sigma, customer focus becomes the top priority. For example, the measures of six sigma performance begin with the customer. Six sigma improvements are defined by their impact on customer satisfaction and value. ♦ ***Theme two −*** *data and fact-driven management:* Six sigma takes the concept 'of "management by fact" to a new, more powerful level. Despite the attention paid in recent years to improved information systems, knowledge management, and so on, many business decisions are still being based on opinions, assumptions and gut feeling. Six sigma discipline begins by clarifying what measures are key to gauging business performance and then gathers data and analyzes key variables. Problems are effectively defined, analyzed, and resolved. Six sigma also helps managers to answer two essential questions to support data-driven decisions and solutions. • What data/information is really required? • How to use the data/information for maximum benefit? ♦ ***Theme three −*** *processes are where the action is* Designing products and services, measuring performance, improving efficiency and customer satisfaction and so on. Six sigma positions the process as the key vehicle of success. One of the most remarkable breakthroughs in Six Sigma efforts to date has been convincing leaders and managers. Process may relate to build competitive advantage in delivering value to customers. ♦ ***Theme four −*** *proactive management:* In simple terms, being proactive means acting in advance of events rather than reacting to them. In the real world, though, proactive management means making habits out of what are, too often, neglected business practices: defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention rather than fire-fighting, and questioning why we do things instead of blindly defending them. Far from being boring or overly analytical, being truly proactive is a starting point for creativity and effective change. Six sigma, encompasses tools and practices that replace reactive habits with a dynamic, responsive, proactive style of management. ♦ ***Theme five*** – *boundaryless collaboration:* "Boundarylessness" is one of Jack Welch's mantras for business success. Years before launching six sigma, GE's chairman was working to break barriers and to improve teamwork up, down, and across organizational lines. The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause: providing value to customers. ♦ ***Theme six −*** *drive for perfection; tolerate failure:* Organizations need to make efforts to achieve perfection and yet at the same time tolerate failure. In essence, though, the two ideas are complementary. No company will get even close to six sigma without launching new ideas and approaches-which always involve some risk.

Six Sigma Methodology

For implementing six sigma there are two separate key methodologies for existing and new processes. Conceptually there is some overlapping between the two. The two methodologies as follows:

1. **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 senior 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.

2. DMADV: DMADV is again acronym for the steps followed in implementing six sigma. It is a strategy for designing new products, 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 optimise 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.
Internet Technology	The Internet is an integrated network of banks of servers and high-speed computers, digital switches and routers, telecommunication equipments and lines, and individual computers. The backbone of the internet consists of telecommunication lines criss-crossing countries, continents, and the world that allow computers to transfer data in digital form at very high speed. Internet has made significant changes in the way businesses are being conducted. Communications has become faster, with many interlinkages promoting globalization. While markets have expanded, the competition has also increased manifolds. E-commerce is a new area which has developed on account of internet technology. **Characteristics of E-commerce environment** changing competitive scenario are as under: (a) The Internet makes it feasible for companies everywhere to compete in global markets This is true especially for companies whose products are of good quality and can be shipped economically. (b) There are new e-Commerce strategic initiatives of existing rivals and new entrants in form of e-commerce rivals. The innovative use of the Internet adds a valuable weapon to the competitive arsenal of rival sellers, giving them yet another way to jockey for market position and manoeuvre for competitive advantage. (c) Entry barriers into the e-commerce world are relatively low. Relatively low entry barriers explain why there are already hundreds of thousands of newly formed e-commerce firms, with perhaps millions more to spring up around the world in years to come. In many markets and industries, entry barriers are low enough to make additional entry both credible and likely. (d) Increased bargaining power of customers to compare the products, prices and other terms and conditions of rival vendors. Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors. (e) Possibility for business organizations to locate the best suppliers across the world to gain cost advantage. The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings. Organisations can extend their geographic search for suppliers and can collaborate electronically with chosen suppliers to systemise ordering and shipping of parts and components, improve deliveries and communicate speedily and efficiently. (f) Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions. Such changes are often bringing in new opportunities and challenges. (g) Faster diffusion of new technology and new idea across the world. Organisations in emerging countries and elsewhere can use the internet to monitor the latest technological developments and to stay abreast of what is

	transpiring in the developed markets. (h) The e-commerce environment demands that companies move swiftly. In the exploding ecommerce world, speed is a condition of survival. New developments occur on one front and then on another occur regularly. (i) E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains. Using the internet to link the orders of customers with the suppliers of components enables just-in-time delivery to manufacturers, slicing inventory costs and allowing production to match demand. (j) The Internet can be an economical means of delivering customer service. Organisations are discovering ways to deliver service in a centralised manner – online or through telephone. Thus curtailing the need to keep company personnel at different locations or at the facilities of major customers. (k) The capital for funding potentially profitable e-commerce businesses is readily available. In the Internet age, e-commerce businesses have found it relatively easy to raise capital. Venture capitalists are quite willing to fund start-up enterprises provided they have a promising technology or idea, an attractive business model, and a well thoughtout strategic plan (l) The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how. While some e-commerce companies have their competitive advantage lodged in patented technology or unique physical assets or brand-name awareness, many are pursuing competitive advantage based on the expertise and intellectual capital of their personnel and on their organizational competencies and capabilities.