Chapter:1	Business Environment

What to Study in this Chapter: (Only 5 Concepts)

1. Business
    a. Meaning
    b. Business objectives
    c. Environment effect
    d. Problem to understand Environment effect
2. Business environment
    a. Meaning
    b. Characteristics
    c. Element (It will take time)
3. PESTLE Analysis
4. Strategic response to Environment
5. Five force Model for Competitive Analysis

Business: Meaning

Business

State of being busy

Of any human being or organization or society

These activities are of two types

Economic

Non-Economic

Involve risk

Do not Involve risk

It is not a business

It is a business it includes production or exchange or use of any product or service

Peter Ducker gives following conclusion about business

People

Profit

Business is Established and managed by people

Business is not only for the profit motive, but also for

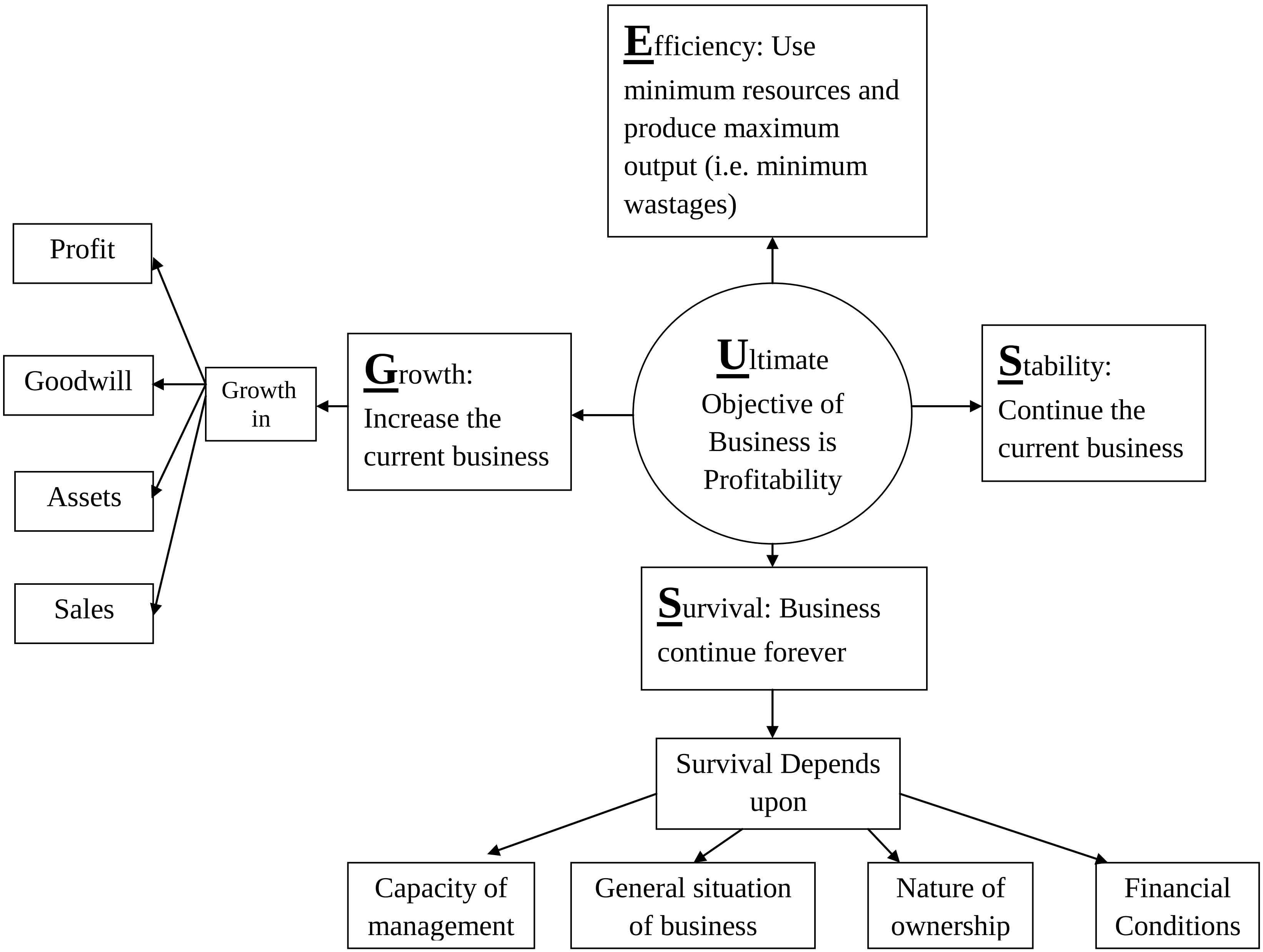
Long term survival

Social responsibilities

Goodwill

1. ***The basic objective of a business enterprise is to monitor the environment?***
2. ***Profit may not be a universal objective but business efficiency is definitely an objective common to all business?***

Business: Objectives (GUESS)



Business: Environmental Effect

Environment → Input → Man / Money / Machinery → Processing → Output → Final product / Profits / Growth

1. Businesses function in isolation?
2. Environmental constituents exist in isolation and do not interact with each other?

Business: Problem to understand Environmental influences

Quantity of Influences in Environment
↓
It is possible to list out the changes in environment but it is hard to understand the impact of those changes.

Uncertainty & speed of Changes in Environment
↓
If management finds any change and searching for its impact, environment feels new changes.

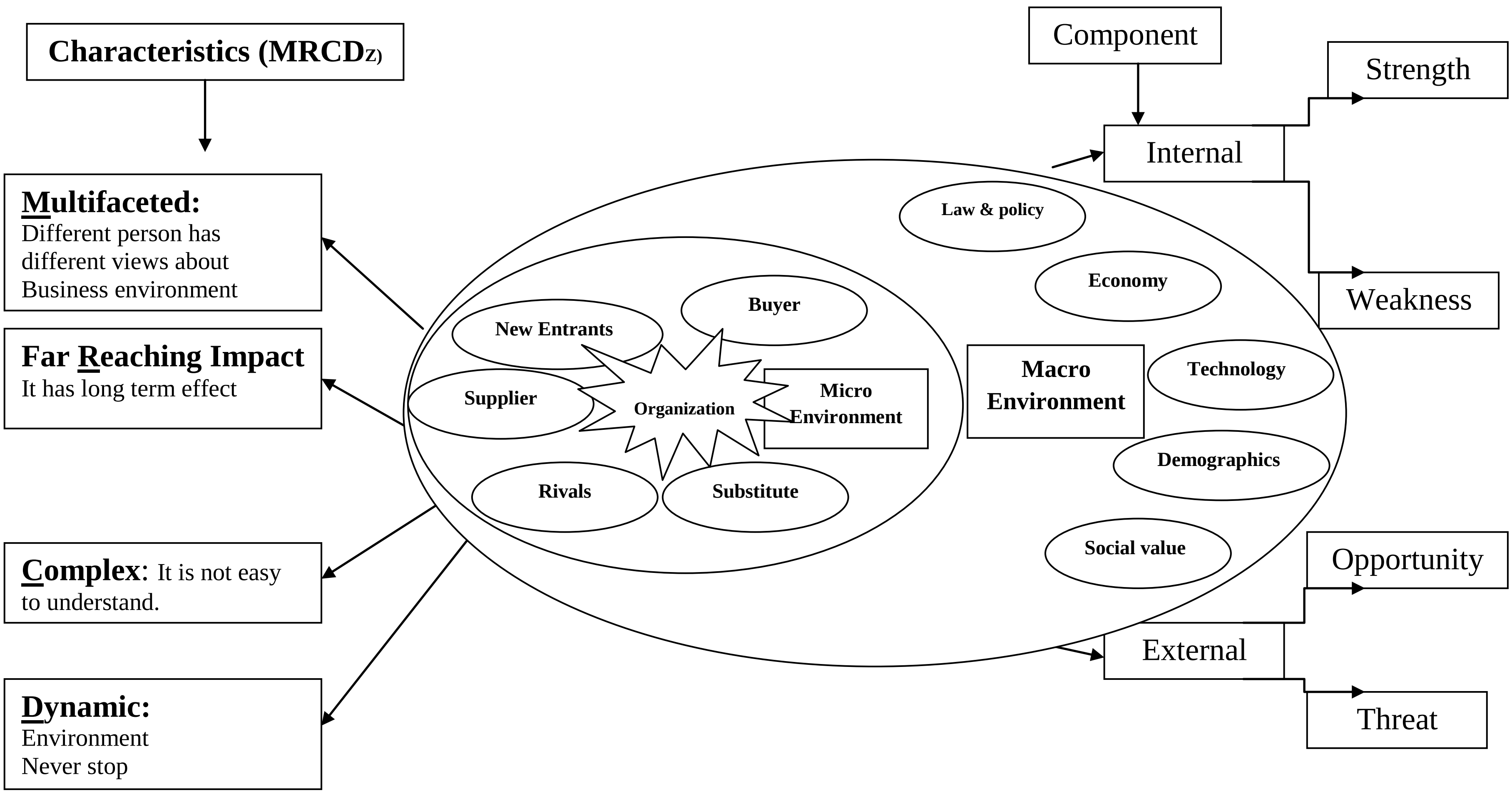
Limitations of Management
↓
Managers are not different from other individual; they need to simply the problem and then solve it.

Managers must list and analyse all environmental influences for proper strategic Understanding ?

Solution: Process →

Understand the uncertainty of the organizations environment
↓
Audit the environmental influences, to find out how they affect the organization
↓
Focus on explicit consideration of immediate environment

Business Environment: Meaning and Characteristics



Element of Micro Environment [IPCC-SM]

Customers: Peter Ducker said that aim of business is to create customers.

- Customers are those, who use the product or service of organization
- Organization must know:
  1. who are our customer
  2. What Benefit required by them.
  3. Their Buying pattern.

Competitors

- Direct: who sell same or similar goods
- Indirect: Who sell different Goods
- Organization must know:
  1. who are our competitors
  2. Who is most powerful.
  3. What is their strategy and business objectives

Personal/ Organization: Pogo said we have met enemy and he

- Owners: individuals, shareholder, groups.
- BOD: In companies
- Employees: Who Actually work in organizations

Market

- Organization must know:
  1. cost structure,
  2. price sensitivity
  3. technology structures
  4. Is market mature

Suppliers

- They provide: RM Equipment Services, etc

Intermediate

- They are: Local retainers, Wholesaler Or Departmental stores.

Element of Macro Environment: [D-PESTG]

Explain the meaning of Demographic Environment?

Demographic

Characteristics of Population: e.g. age, race, income, education, assets, employment and location

Business must know
- What demographic trends will affect the market size of industry?
- What demographic trends represent opportunity and treats?

Population Size
- Large
- Small
- Change
  - -In Nation's birth rate
  - -Increase/decline in total population
  - -Effect on natural resources

Geographic distribution
- i.e. Place of population
- Change
- Metropolitan
- Non-Metropolitan
- Effect:
  - -Govt. support,
  - -Relocation by company

Ethnic mix
- i.e. Cast/realign of population
- Change: Shifting from one realign to another.
- Effect:
  - -potential customers
  - -work force

What do you understand by ethnic mix?

Income distribution
- Earning pattern of individuals
- Change in purchasing power /income earning
- Change in purchasing power /income earning, affect the change the spending and saving pattern.

Political legal → i.e.
- -law and order
- -Political stability
- -Practice of ruling party
- - Govt. intervention
- -Govt. policy

→ Government
→ Legal
→ Political

Economic → i.e. Nature and direction of economy in which company compete or may compete

It influences the supply, cost, quality, availability

Of money, man, material, and machine.

Socio cultural → e.g.
- -Educational level
- -awareness of rights
- -family structures
- -Role of women in society.

Technological → Factors to be considered :
1. Pull to technological change
2. opportunity arising out of change
3. Risk arising out of change

Global environment	**Globalization**
i.e. several things for several people	
i.e. integration of world into huge market	

For company it means

Compete in foreign market with foreigners

Compete in domestic market with foreigners

These companies have following characteristic :

1.Multiple units

2. Common ownership

3. Common resources pull

3.Common Strategy

Why companies go global:

1. Rapid shrinking of time and distance
2. Domestic market is not adequate and rich
3. Foreign marker is large enough to justify the foreign investments
4. Law cost and
5. Efficient resources
6. Reduced transport cost

Manifestation of globalization [BERHM-IPCC]

1. Formation of regional **B**locks:
 (eg NAFTA(North America free trade area),SAARC(South asian association of regional cooperation)
2. **E**ntrepreneur and his unit have a central economic role,
3. Infrastructural **R**esources and input at international prices
4. Market side **H**igh efficiency,
5. **M**obility of skilled resources,
6. **I**nterlinked and independent economies
7. **P**rivatization
8. **C**onfiguring anywhere in world,
9. **C**utting trade and tariff barriers

PESTLE Analysis

It Involves:

- Identifying → - **P**olitical -**E**conomic -**S**ocio-cultural -**T**echnological -**L**egal -**E**nvironmental → Influences on organization
- Provide the way of scanning these influences on → Organization or it policies

	Political	**E**conomic	**S**ocio-cultural	**T**echnological	**L**egal	**E**nvironmental
FACTOR	-Political stability -Govt. policy -Taxation policy -Trust area of political leaders -Regulatory bodies	-Economic situation -Interest Rate -Exchange Rate -Inflation -Unemployment -Specific industry factors	-Demographic -customer buying pattern -religious factors -Consumer attitudes -life style trends	-Replacement technology -Maturity of Technology -Innovation potential -Intellectual property right	-Business law -corporate law -Employment Law -Competition law -Health and safety law	-Environment law -Energy consumption -waste disposal
EFFECT	**-How the company operate**. E.g .Govt. subsidy can increase health, education and infrastructure sectors	**-How the company operate** e.g. interest cost increases cost of capital	**-How the company operate** -Demand of company's product	**-How the company operate** -Minimum efficient product level -Cost of product -Demand of Product	**- How company operate**, -Its costs -Demand of its product	**-How the company operate** Affected Industries: - Tourism -Framing -Insurance

Strategic Response to the Environment → i.e. Reaction of organization in case of Environment Changes

Minimum Resistance
- Not Ambitious
- Manage to Survive
- Simple goal oriented units

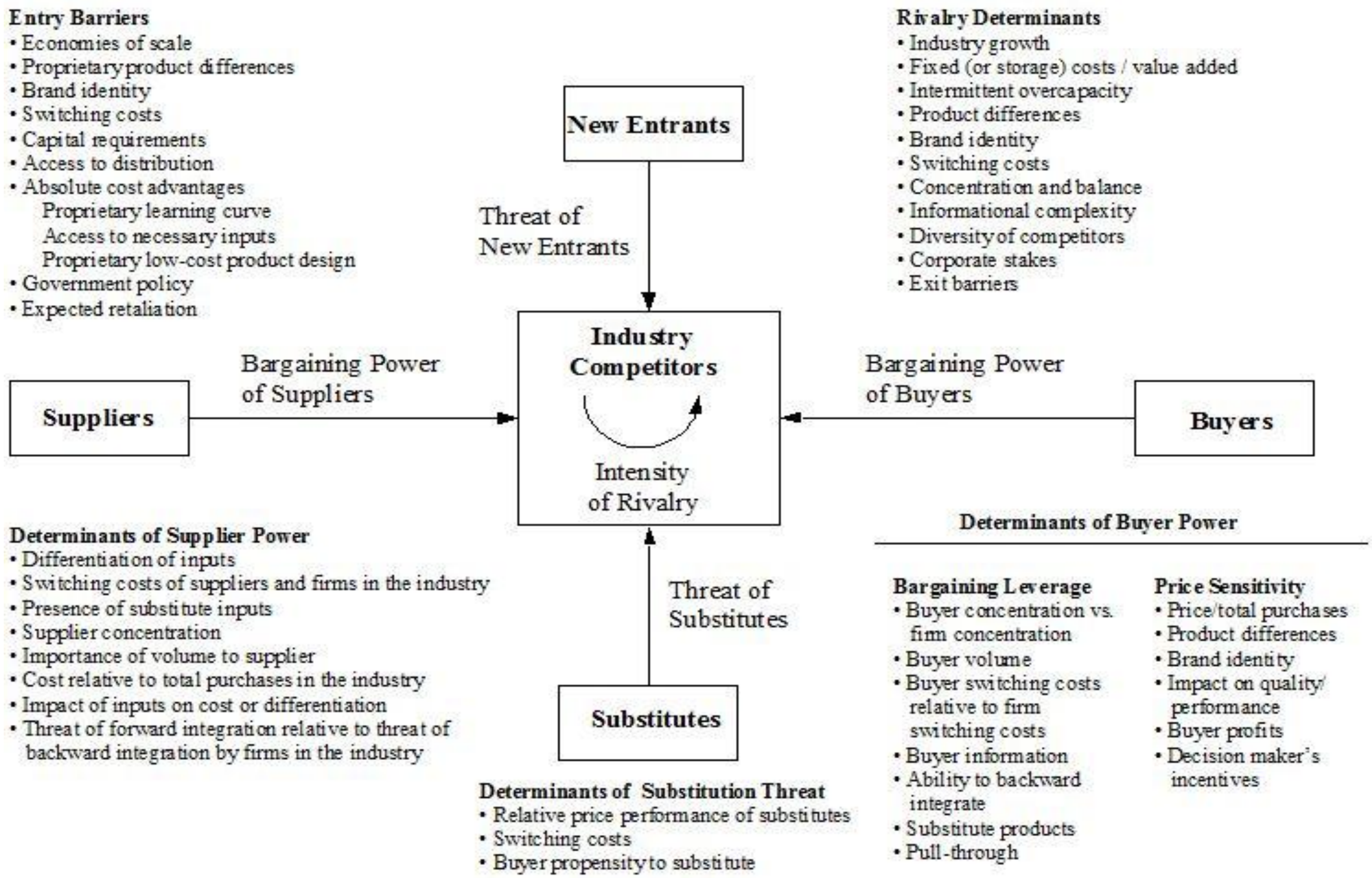
Proceed with Caution
- Intelligent to adopt changing need
- Monitor & analyze Change
- Translate their assessment in strategy for survival, stability and strength.

Dynamic Response
- Highly conscious and confident about their own strengths and weaknesses
- Not merely recognize threat but convert it into opportunity

Certain important terms

Oligopoly	In this small number of only sellers may join together to have monopolistic behavior.
Kieretsus	It is a Japanese term, Kietetsus is a loosely coupled group of companies in related industry, Members are peers, Members have share in owner ship of each other, Members have common board of directors But this is different form conglomerates, consortium and association They have common strategy to prefer to do business members, both when buying and selling.

Competitive Analysis: Petor's five forces Model



Chapter 2	Business policy and Strategic Management

Strategy | Management

Peter drucker-Management is a Function, discipline, task and Managers who done FDT

Strategy

Way to win over enemy

Long range blueprint of organization's desired image, direction and destination

Strategy is a game plan, used to
-Take market position,
- Conduct its operation,
-Attract and satisfy customers,
-compete successfully,
-Achieve organizational goals.

William Glueck: I.C.U. plan designed to assure that basic objective of organization are achieved.
I-Integrated
C- Comprehensive
U-Unified

Proactive

On part of managers, to improve Market position

Reactive

Reactions is required to unanticipated development and Fresh market condidition.

Management

Group, which is in-charge of affairs of organization

They entrusted to integrate the recourses of organization viz. Man, Machine, Money, Material.

Interrelated functions and processes, Which design the organization, determine the goal and activities, mobilization and acquisition of resources, allocation of resources.

Corporate Strategy

It is a Growth design of organization

It spells out the Growth-
-Objective -Direction
-Extent -pace and
-Timing

Characteristics: **{TOLD IF MAD}**
-Formed at **T**op management
-Flow out of Goals and **O**bjectives
-**L**ong Range
-**D**ynamic
-**I**ntegrated
-**F**lexible
-**M**ultipronged
-**A**ction oriented
-Help in **D**ecision making

Strategic Management

It is a Management Process for forming a strategic vision, setting objectives, crafting, executing and implementing a strategy and review.

Framework for Strategic Management

Stage 1: Where are we Know (Beginning) - find market position, corporate image, strength, weakness, Treat & opportunity

Stage 2: Where we are want to be (End): Setting Goal, mission and Vision of organization

Stage 3: How might we get there (Means): Here organization deals with various alternative it has

Stage 4: Which way is best (Evaluation): Out of the alternatives organization select suitable for it.

Stage 5: How we can ensure arrival (Control) : It is a implementation and control stage.

<u>Importance of Strategic Management: [CA-PDO]</u>

1. Help to Create **<u>C</u>**ompetitive Advantage,
2. Help to **<u>A</u>**void costly mistake
3. Help to be **<u>P</u>**roactive rather than reactive,
4. Help in **<u>D</u>**ecision Making,
5. Help to identify available **<u>O</u>**pportunity.

<u>Strategic Decision Making</u> [LATE-FM]

1. Impact on **<u>L</u>**ong term prosperity of firm
2. Involve the **<u>A</u>**llocation of Large amount of company resource
3. Required **<u>T</u>**op management Decision
4. Considered Firm's **<u>E</u>**xternal Environment
5. **<u>F</u>**uture Oriented
6. **<u>M</u>**ulti-Functional

<u>Strategic Management Model:</u>

Perform External Audit → (into the Develop vision / Establish objectives link)

Develop vision and Mission statement — **Establish long term objectives** — **Generate, Evaluate and select Strategy** — **Implement Strategic Management issues** — **Implement Strategies, Marketing, Finance, Accounting, R&D, MIS issues** — **Measure and Evaluate Performance**

Perform Internal Audit → (into the Develop vision / Establish objectives link)

Strategic Vision: Where we are going (Hope and ambitions)

Strategic Vision is a road map of company's future, Provide specific about- Technology and customer focus, market to pursued and kind of company that management trying to create

Mission Statement: Who we are/ what we do (motivation/purpose)

Mission statement clearly described an organization present capability, customer focus, activities and business make up.

Why organization should have mission: **{UMESH}**
1. **U**nanimity of purpose
2. **M**otivating the use of organization's resources
3. **E**stablished the organizational climate
4. **S**pecify the organizational goal and translate it into goals.
5. **H**elp to translate objectives and goals in work structure.

Peter Drucker emphasized that each business should clarify its corporate strategy, for this it need to answer following questions

What
1. is our mission
2. is ultimate purpose
3. we want to be
4. growth we want
5. business we are in
6. would be the nature of business in future.

Do We
1. Understand our business
2. Know our customers

Point which must be considered while writing mission statement- **(RCP)**

1. **R**ole of Mission statement- Give organization own identity.
2. **C**ompany's business defined by
   - Need it satisfy
   - Customer it target
   - Technology it use
   - Activities it perform
3. Good Mission statement are highly **P**ersonalized.

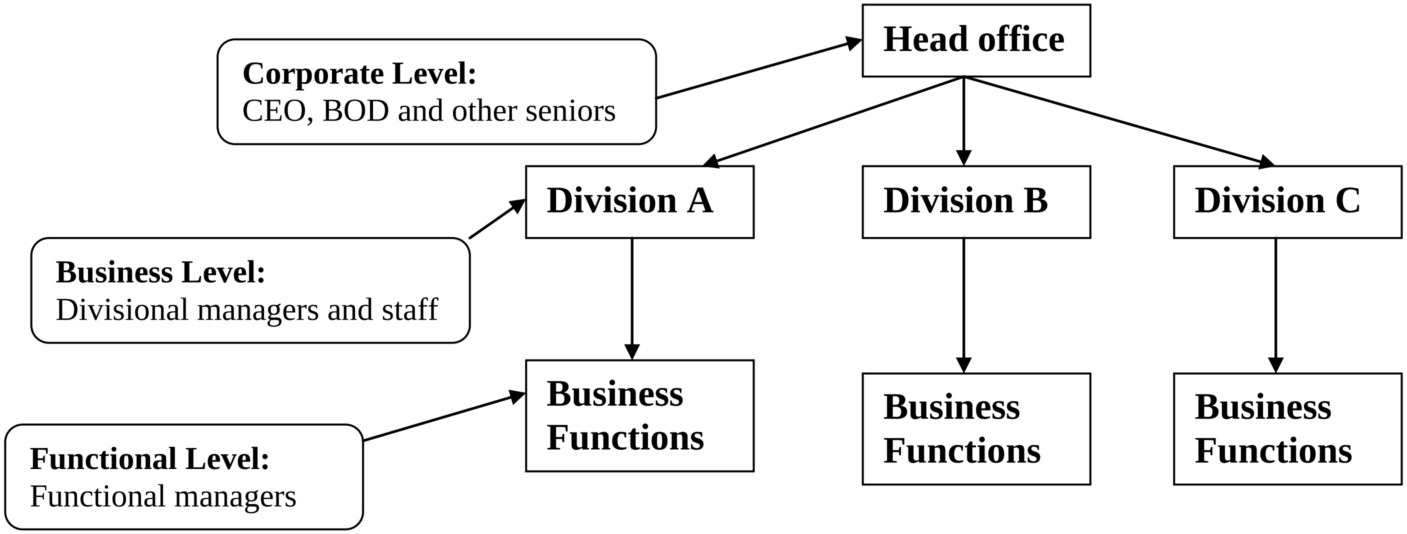
Some Mission Statement:
1. Ranbaxy- To became $1 billion research based global pharmaceuticals company.
2. Reliance- To become major player in global chemical business and simultaneously grow in other industry like infrastructure.
3. Cadbury India- To attain leadership position in confectionary market and achieve a strong presence in food drinks sector.

Objective and Goal: How we gauge our degree of success.(Plan)

Objectives are organization's performance targets i.e. result and outcome it want to achieve. It function as yardstick for tracking an organizations performance and progress.

Characteristics of objectives: {PM-USE-STC} Objective should-
1. Provide standard for **P**erformance 2. be **M**easurable and controllable 3. Be **U**nderstandable 4. be Specific 5. Define relationship with **E**nvironment 6. Provide basis for **S**trategic Decision making 7. be related to **T**ime frame 8. be **C**hallenging

Strategic Level in organization



Characteristics of Strategic levels:

Characteristic	Corporate	Business	Funcational
1. Type	Conceptual	Mixed	Operational
2. Measurability	Value judgments dominant	Semi quantifiable	Quantifiable
3. Frequency	Sporadic	Periodic	Periodic
4. Relation to present activities	Innovative	Mixed	Supplementary
5. Risk	Wide range	Moderate	Low
6. Profit potential	Large	Medium	Small
7. Cost	Major	Medium	Modest
8. Time	Long range	Medium	Short
9. Flexibility	High	Medium	Low
10. Cooperation	Considerable	Moderate	little

Chapter 3	Strategic Analysis

Strategic Analysis → Analyze - External environment and Internal Situations for deciding what strategy to use?

- Industry and Competitive Conditions
- Companies own competitive Capabilities

Issue to consider for Strategic Analysis (TBR)

- **Strategy evolved over a period of Time:** Strategy of a business at particular point of time is a result of series of decision taken over extended period of time
- **Balance:** Strategic Analysis Balance the External Environment and internal potential of the organization
- **Risk:** An important aspect of strategic analysis is to identify potential imbalance or risk and assess consequences

Strategic Risk	Short Term	Long Term
External	Error in interpreting environment cause strategic failure	Change in environment lead to obsolescence of strategy
Internal	Organizational capacity is unable to cope with strategic demand	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

Situational Analysis (PinCode)

Situation analysis refers to a collection of methods that manages use to analyze an organization's internal and external environment to understand the organization's capabilities. Following point should be Considered.

Product Situation: -
What are current products,
-Core Product,
-Secondary product – supporting Product

Competitive Situation:
-Who are Main Competitors
-How they better,
-How they compare
-competitive advantage .

Opportunity Analysis:
-Current opportunity in market
-Main threats
-Main Strengths
-Main weaknesses

Distribution Situation:
-Review distribution situation
i.e. how are you getting your product in market

Environmental Factors:
-All environmental Factors
-like economic and socio logical factors that impact performance

Industry and Competitive Analysis (EK M STAR)

Steps/Factors to be considered for industry and competitive analysis

Dominant Economic features of Industry (DR.SP GET CLB)

Industry is a group of firms whose product have same or similar attribute so that compete for same buyer

-**D**istribution Channel -Number of rivals and scope of **R**ivalry -Market **S**ize -**P**rofitability -Market **G**rowth Rate -**E**conomic of Scale -Pace of **T**echnological change -**C**apital required -clustered in **L**ocation -Number of **B**uyers and their size.

Key Success Factors (KSF): What make you successful?

Things Mostly affect industry members' ability to prosper in the market e.g. resources, product, attribute, Strategy, competitive capacity etc Different organization has different KFS and may have more than one.

Answer to Three questions will help to identity Industry's key success factors-
1.On what basis do customers choose between the competing brands of seller? (What customer see)
2. What resources and competitive capabilities does a seller need to have to be competitively successful?
3. What does it take for seller to achieve a sustainable competitive advantage.

1For Apparel Business :Apparel designs and color combination and low cost manufacturing efficiency.
2. For aluminum cans because the cost of shipping empty cans is substantial one of the KFS is having plants located close to end use customers.

Strategic Group Mapping

-Technique of revealing the competitive positions of industry participants.
-It compares the market position of each firm separately or if there are many firms, group them according to their position
-Procedure for constructing strategic group
1. Identify competitive Characteristics
e.g. price, Quantity, Geographic coverage etc
2. Plot the firm on the two variable map using of these characteristics
3. Assign firms same strategy space
4. Draw circles around each strategic group making,

	High	***		
Price	Medium		*	**
	Low			
		High	Medium	Low

Nature and Strength of Competition	-What is the main source of competitive pressure -How strong such forces are Five force model of Porter is useful to understand the nature and strength of competition.
Trigger of Change	-Factors which are responsible for any change in business -Stage of industry in life cycle also helps to understand the industry change but it is incomplete **-Driving Forces:** Factors which have biggest influences on what kinds of changes will take place in industry's structure and competitive environment. Analyzing Driving forces in two steps Step 1: Identify the driving forces Step 2: Assessing the impact they have on the industry e.g. 1.E-Commerce 2. Globalization 3. Innovations
Prospects and financial Attractiveness of industry (Analysis result of above)	Factors that affects the prospects and financial attractiveness of industry -Industry growth potential -Degree of Risk and uncertainty -sever ity of problems Etc
Likely strategic Moves of Rivals (Competitive Intelligent)	Firm must have the knowledge of the competitors movements, otherwise it will not survive in market

SWOT and TOWS Analysis

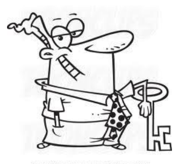
Strengths	Weakness	Opportunity	Threat
1. A powerful strategy 2. A strong financial condition 3. Economies of scale 4. Strong brand image/reputation 5. Attractive customer base 6. Superior technological skills 7. Superior intellectual capital 8. Cost advantages. 9. Strong global distribution capability 10. Sophisticated use of e-commerce technologies and processes.	1. No clear strategic direction. 2. Short on financial resources 3. Obsolete facilities 4. Weak brand image or reputation 5. Not attracting new customers 6. Behind on technological knowhow 7. A deficiency of intellectual capital 8. Higher overall unit costs 9. lack of adequate global distribution capability 10. Subpar e-commerce systems and capabilities relative to rivals	1. Serving additional customer groups 2. Expanding into new geographic markets or product segments. 3. Expanding the company's product line 4. Integrating forward or backward 5. Using the internet and e-commerce technologies **6.** Falling trade barriers in attractive foreign markets. **7.** Acquisition of rival firms or companies. 8. Alliances or joint ventures	1. Likely entry of potent new competitors. 2. Loss of sales to substitute products. 3. Growing bargaining power of customers or suppliers. 4. Technological changes or product innovations 5. Slowdowns in market growth. 6. Adverse shifts in foreign exchange rates. 7. Costly new regulatory requirements. 8. A shift in buyer needs and tastes 11. Adverse demographic changes

SWOT Analysis

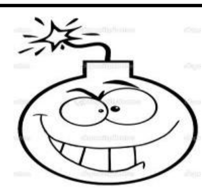
SWOT analysis is an analysis of Strengths, weakness, opportunity and threat. It is not a method to rank companies

Strengths:Inherent Capacity

Weakness:Inherent Limitation



Opportunity:Favorable condiations



Threat:Unfavorable Conditions

Significance of SWOT Analysis:
-It helps the organization to craft business model that help to achieve competitive advantage in industry.
-Competitive advantage leads to increase profitability and maximize company's chances to survive:
1.It provide Logical framework
2.It presents competitive account
3.It guide Strategist in strategy identification.

TOWS Analysis

-Heinz weihrich developed the TOWS matrix.
-In SWOT analysis it is difficult for management to choice the strategy
-TOWS help in Strategic planning.

Elements	Strengths	Weakness
Opportunity	**SO:** Strengths can be used to capitalized or build or existing or emerging opportunities	**WO**: Weakness should be overcome by use of strategies, if existing or emerging opportunities are to be exploited
Threats	**ST:** Strengths in the organization can be used to minimize existing or emerging threats.	**WT:** Strategy pursued must minimize weakness and should cope with exiting or emerging threats.

Portfolio Analysis

-A tool by which management identifies and evaluates the various **businesses** that makes up the company
-In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns
-The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in environment
-It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms.
-They may also be used in less-diversified firms, if these consist of a main business and other minor complementary interests
-The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that posses the greatest potential.

Strategic business unit

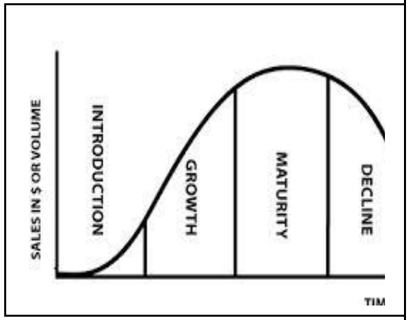
-company division/product line/single product/brand
-has a separate mission and objectives
-planned independently
-Has its own set of competitors
-Has a manager who is responsible for strategic planning and profit.

Experience Curve

-Akin to a learning curve
-It says units costs decline as a firm accumulates experience in terms of a cumulative volume of production.
-The implication is that larger firms in an industry would lower unit costs as compared to other
-Experience curve results from learning effects, economies of scale, and technological improvements in production.

Product Life Cycle

-An S-shaped curve which Shows relationship of sales with respect of time
-product that passes through the four successive stages of
1. Introduction (slow sales growth),
2. Growth(rapid market acceptance)
3. Maturity (slowdown in growth rate)
4. Decline (sharp downward drift).



Boston Consulting Group (BCG) Growth-Share Matrix:

One of the method of portfolio analysis.

Four strategies that can be pursued
1. **Build:** increase market share
2. **Hold:** preserve market share
3. **Harvest:** increase short-term cash flow
4. **Divest:** sell or liquidate the business

By Umesh Vyas (CA,CS,B.Com)

Run to Win

Ansoff's Matrix- By Igor Ansoff

It is a 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

Ansoff's Matrix

	Existing product	New product
Existing market	**Market penetration** Increase sales to the existing market Penetrate more deeply into the existing market	**Product development** New product developed for existing markets
New market	**Market development** Existing products sold to new markets	**Diversification** New products sold in new markets

The General Electric Model

-developed by GE with the assistance of the consulting firm McKinsey & Company
-similar to the BCG growth-share matrix
Differences
Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate.
Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

Business Unit Strength

Market Attractiveness	High	Medium	Low
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

ADL Matrix

Competitive Position		Industry Life Cycle Stage			
		Embryonic	**Growth**	**Mature**	**Aging**
	Dominant	All out push for share. Hold Position	Hold Position. Hold Share.	Hold Position. Grow with industry	Hold Position.
	Strong	Attempt to improve position. All out push for share	Attempt to improve position. Push for share.	Hold Position. Grow with industry	Hold Position or Harvest.
	Favorable	Selective or all out put for share. Selective attempt to improve position.	Attempt to improve position. Selective push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phased out withdrawal.
	Tenable	Selectively push for position	Find niche and protect it.	Find niche and hang on, or phased out Withdrawal.	Phased out withdrawal, or Abandon
	Weak	Up or out	Turnaround or abandon	Turnaround, ophaned out withdrawal.	Abandon

The ADL matrix has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle.

Chapter:4	STRATEGIC PLANNING

What to Study in this Chapter: (Only 3 Concepts)
1. Strategic Planning
2. Stage of Corporate Strategy formulation
3. Strategic Alternative

Planning

- Planning is future oriented
- deciding what needs to done in the future
- And generating blueprints for action

It has two types:

- Strategic Planning → Establish overall objectives
- Operational Planning → Individual objectives

Strategic Planning

-Process of determining organizational strategy
-The process is organization-wide
-It is a top level management function

Deals with **key questions**
-**What** are we doing?
-**For whom** do we do it?
-**How** to improve and excel?

Two approaches for strategic planning

Top down -Head office determines mission, strategic intent, objectives and strategies for the organization as a whole and for all parts.	**Bottom up**-Unit managers determining the mission, objectives, or strategies of its operational activities.

Strategic uncertainty –
Uncertainty that has strategic Implication

Impact-Each strategic uncertainty has impact on present, proposed, and even potential strategic business units(SBUs)
-depend on the importance of the impacted SBU to a firm

Dealing- Grouped into logical themes
-Then assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis
-Scenario analysis

The Stages of Corporate Strategy Formulation Implementation Process [DO-SIM]

Developing a Strategic Vision → Setting **O**bjectives → Crafting **S**trategy to Achieve the Objectives and Vision → **I**mplementing & Executing the Strategy → **M**onitoring Developments, Evaluating performance and Making Corrective Adjustments

Revise as Needed in light of actual performance, changing conditions, new opportunities and new ideas

Strategic Alternatives

Glueck and Jauch Generic Strategic Alternative
(William F Glueck and Lawrence R Jauch)

Stability	-A stability strategy is pursued by a firm when: 1. It continues to serve in the same or similar markets and deals in same products and services. 2. The strategic decisions focus on incremental improvement of functional performance It is not a 'do nothing' strategy. -It involves keeping track of new developments to ensure that the strategy continues to make sense. -This strategy is best for mature business organizations.
Expansion	-Implemented by redefining business(by adding scope of business) -Involve substantially increasing the efforts of the current business **Expansion through diversification-** entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge **Expansion through acquisitions and mergers** - instant means of achieving the expansion - Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair. E.g. Acquisition of Nokia by Windows
Retrenchment	-A business organization can redefine its business by divesting a major product line or market. -Retrenchment becomes necessary for coping with particularly hostile and adverse situations -Nature, extent and timing of retrenchment are decided by management, depending upon each contingency 1. In cases of temporary setbacks the enterprise can to cut back on its capital and revenue expenditures-replacement of worn-out machinery, advertising, R & D activities, employee welfare subsidies etc 2. In somewhat more serious cases: Inventory levels, manufacturing level, manpower, plant maintenance, dividend to shareholders and interest on deposits, are some of the areas for slashing or postponement as the case may be 3. In the next stage: withdrawing from some marginal markets, withdrawal of some brands and sizes of products, withdrawal of even some slow moving products, winding up some branch offices, abolition of some executive positions 4. In the fourth stage: the enterprise may resort to sale of some manufacturing facilities and individual product divisions which are a drag on the enterprise's resources. It may also seek retirement either from the production or the marketing stage. It is also possible to think of offering itself for take-over by another more viable enterprise.
Combination	The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others

Michael Porter's Generic Strategies

Cost Leadership

This strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals

-The first approach is achieving a high asset turnover: These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost

-The second dimension is achieving low direct and indirect operating costs

Commonly Required Skills and Resources	♦ Sustained capital investment and access to capital ♦ Process engineering skills ♦ Intense supervision of labour ♦ Products designed for ease in manufacture ♦ Low-cost distribution system

Common Organizational Requirements	♦ Tight cost control ♦ Frequent, detailed control reports ♦ Structured organization and responsibilities ♦ Incentive based on meeting strict quantitative targets

Differentiation

A differentiation strategy is appropriate

-Where the target customer segment is not price-sensitive,

-The market is competitive,

-Customers have very specific needs which are possibly under-served, and

-The firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy.

These could include patents or other Intellectual Property (IP), unique technical expertise (e.g. Apple's design skills), talented personnel (e.g. a sports team's star players or a brokerage firm's star traders), or innovative processes.

Commonly Required Skills and Resources	♦ Strong marketing abilities ♦ Product engineering ♦ Creative flair ♦ Strong capability in basic research ♦ Corporate reputation for quality or technological ♦ Strong cooperation from

Common Organizational Requirements	♦ Strong coordination among function in R & D, product development, and marketing. ♦ Subjective measurement and incentives instead of quantitative measures ♦ Amenities to attract highly skilled labour, scientists, or creative people

Focus

This dimension is not a separate strategy per se, but describes the scope over which the company should compete based on cost leadership or differentiation The firm can choose to compete in the mass market (like Wal-Mart) with a broad scope, or in a defined, focused market segment with a narrow scope. In either case, the basis of competition will still be either cost leadership or differentiation.

-In adopting a narrow focus, the company ideally focuses on a few target market (also called a segmentation strategy or niche strategy)

-In adopting a broad focus scope, the principle is the same: the firm must ascertain the needs and wants of the mass market

Commonly Required Skills and Resources	Combination of the above policies directed at the particular strategic target

Common Organizational Requirements	Combination of the above policies directed at the particular strategic target

Grand Strategies/Directional Strategies

Stability

Expansion

- **Intensification**
  - Market Penetration
  - Market Development
  - Product Development
- **Diversificatio**
  - Vertical Diversification
    - Forward integration
    - Backward Integration
  - Horizontally diversification
    - Concentric Diversification
      - New business is linked to the existing businesses through process, technology or marketing. In concentric diversification, there 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.
    - Conglomerate Diversification
      - No linkages exist with existing process; the new Businesses / products are disjointed from the existing businesses/ products in every way; it is a totally unrelated diversification.

Retrenchment

- **Divestment**
  - If it
    Cuts off the **loss-making units, divisions, or SBUs,**
    Curtails its **product line**, or
    Reduces the **functions** performed.
  - <u>**NEED:**</u> ♦ A business that cannot be integrated within the company.
    ♦ Negative cash flows from a particular business
    ♦ Severity of competition and the inability of a firm to cope
    ♦ Technological up gradation is required but it is not possible for the firm to invest in it.
    ♦ A better alternative may be available for investment.
- **Liquidation**
  1. Most extreme and unattractive
  2. Closing down a firm and selling its assets
  3. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of court.
- **Turnaround**
  - **Internal retrenchment strategy** where emphasis is laid on **improving internal efficiency.**
    Action plan for turnaround strategy
    1. Analysis of product, market, production processes, competition, and market segment positioning.
    2. Clear thinking about the market place and production logic.
    3. Implementation of plans by target-setting, feedback, and remedial action

  - <u>**Need:**</u>
    1. Persistent negative cash flow
    2. Negative profits
    3. Declining market share
    4. Deterioration in physical facilities
    5. Over manning, high turnover of employees, and low morale
    6. Uncompetitive products or services
    7. Mismanagement

  - **Ten elements that contribute to turnaround are:**
    1. Changes in the top management
    2. Initial credibility-building actions
    3. Neutralizing external pressures
    4. Initial control
    5. Identifying quick payoff activities
    6. Quick cost reductions
    7. Revenue generation
    8. Asset liquidation for generating cash
    9. Mobilization of the organizations
    10. Better internal coordination

Combination

Best-Cost Provider Strategy

Type of Feature	Low-Cost Provider	Broad Differentiation	Best-Cost Provider	Focused Low-Cost and Focused Differentiation
Strategic target	A broad Cross section of the market	A broad cross section of the market	Value conscious buyer	A narrow market niche where buyer needs and preferences are distinctively different from the rest of the market
Basic of competitive advantage	Lower costs than competitors	An ability to offer buyers Something different from competitors	More value for the money	Lower cost in serving the niche (focused low cost) or special attributes that appeal to the tastes or requirements of niche members (focused differentiation)
Market emphasis	Try to make a virtue out of product features that lead to low cost	♦ Build in whatever features buyers are willing to pay for ♦ Charge a premium price to cover the extra cost of differentiating features	Either under price rival brands with comparable features or match the price of rivals and provide better features-to build a reputation for delivering the best value	Communicate how the focuser's product attributes and capabilities aim at catering to niche member tastes and/or specialized requirements
Sustaining the strategy	♦ Offer economical prices/good value ♦ Aim at contributing to a sustainable cost advantage the key is to manage costs down, year after year, in every area of the business	♦ Communicate the points of difference in credible ways ♦ Stress constant improvement and use innovation to stay ahead of initiative competitors ♦ Concentrate on a few Differentiating features; tout them to create a reputation and brand image.	Develop unique expertise in Simultaneously managing costs down and up scaling features and attributes	Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's image and efforts by entering other segments or adding other product categories to widen market appeal.
Product line	A good basic product with few frills (acceptable quality and limited selection)	Many product variations, wide selection, strong emphasis on differentiating features	Good-to excellent attributes, several-to many upscale features	Features and attributes that appeal to the tastes and/or special needs of the target segment
Product Emphasis	A continuous search for Cost reduction without Sacrificing acceptable quality and essential features	Creation of value for buyer; strive for product superiority	Incorporation of upscale features and attributes at low cost	Tailor-made for the tastes and requirements of niche members

FUNCTIONAL STRATEGY

Provide details to business strategy & governs as to how key activities of the business will be managed

Two Roles

Provide support to the overall business strategy	Spell out as to how functional managers will work so as to ensure better performance in their respective functional areas

-Help in bringing harmony and coordination
- Reduction in decision making time
- Facilitate flow of strategic decisions to different parts of organization
-Act as basis for controlling activities
-Similar situations occurring in different functional areas are handled in a consistent Manner

Marketing Strategy Formulation

Marketing is a **social and managerial process** by which individuals and groups obtain what they need and want through creating, offering and exchanging products

Examples of marketing decisions that may require special attention are as follows:
1. Kind of distribution network
2. Amount and the extent of advertising
3. Price leader or a price follower
4. Complete or limited warranty
5. Limit or enhance the share of business

The Marketing Process:
The **marketing process** is the process of
1. Analyzing market opportunities,
2. Selecting target markets,
3. Developing the marketing mix, and
4. Managing the marketing effort.

Delivering value to Customer

To succeed 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 than the competition (**market positioning**).

Marketing Mix

Marketer's angle 4 Ps-
product, price, place and promotion

Buyers angle
4 Cs-customer, cost ,convenience and communication.

Product stands for the "goods-and-service" combination the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees

Place stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate marketing channel.

Price stands for the amount of money customers have to pay to obtain the product.
In pricing a really new product at least three objectives must be kept in mind.
(a) Making the product acceptable to the customers.
(b) Producing a reasonable margin over cost.
(c) Achieving a market that helps in developing market share.

For a new product price strategies may be

Skimming prices are set at a very high level. For example call rates of mobile telephony were set very high initially.

Penetration firm keeps a low price for a new product. A very large number of the potential consumer may be able to afford

Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. There are at least four major direct promotional methods or tools

Personal Selling: Personal selling is one of the oldest forms of promotion It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them.

Advertising: Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisings are several such as pamphlets, newspapers, magazines, hoardings, television and internet.

Publicity: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Tools for publicity are press releases, press conferences, reports, stories, and internet

Sales promotion: Sales promotion includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, installments etc

Marketing Strategy Techniques

Social Marketing: Design, implementation and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking in Delhi

Augmented Marketing. It is provision of additional customer services and benefits built around the care and actual products like movies on demand, on-line computer repair services, secretarial services, etc

Direct Marketing: Marketing through various advertising media that interact directly with consumers, like calling for the consumer to make a direct response. It includes Mail, Electronic Marketing, Shopping, and TV

Relationship Marketing: The process of creating, maintaining, and enhancing strong relationships with customers and other stakeholder. For example, British Airways offers special offer for frequent flyers.

Services Marketing: It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible

Person Marketing: People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people. E.g. Politicians

Organization Marketing: It consists of activities undertaken to create, maintain, or change attitudes and behavior of target audiences towards an organization

Place Marketing: Place marketing involves activities undertaken to create, maintain, or change attitudes and behavior towards particular places say tourism marketing.

Differential Marketing: A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each

Synchro-marketing: When the demand for the product is irregular due to season, some parts of the day, or on hour basis synchro maketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other

Concentrated Marketing: A market-coverage strategy in which a firm goes after a large share of one or few sub-markets.

Demarketing: Marketing strategies to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it. his happens when there is overfull demand

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

Financial Strategy Formulation

Some examples of decisions that may require finance/accounting policies are:
1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock.
2. To lease or buy fixed assets.
3. To determine an appropriate dividend payout ratio.
4. To extend the time of accounts receivable.
5. To establish a certain percentage discount on accounts within a specified period of time.
6. To determine the amount of cash that should be kept on hand.

Acquiring capital to implement strategies / sources of funds
Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt equity. Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation

Projected financial statements / budgets
- Projected financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various actions and approaches.
- A financial budget is also a document that details how funds will be obtained and spent for a specified period of time
-There are almost as many different types of financial budgets as there are types of organizations.
- Some common types of budgets include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expense budgets, divisional budgets, variable budgets, flexible budgets, and fixed budgets

Management / usage of funds:
Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors regarding which plans and policies are to be made are: capital investment; fixed asset acquisition; current assets; loans and advances; dividend decisions; and relationship with shareholders.

Evaluating the worth of business
Thousands of transactions occur each year in which businesses are bought or sold in the United States. In all these cases, it is necessary to establish the financial worth or cash value of a business to successfully implement strategies.
-Net worth or stockholders' equity
-Firm grows
-Market determine a business's worth- three method
1.Selling price of a similar company
2.Price-earnings ratio method
3.Outstanding shares method

Production Strategy Formulation

The strategy for production are related to the production system, operational planning and control, and research and development (R&D).
Production System
The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors
Operations Planning and Control
Strategies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment.

Logistics Strategy

Management of logistics is a process which integrates the flow of supplies into, through and out of an organization to achieve a level of service which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost. For a business organization effective logistic strategy will involve raising and finding solutions to the following questions:
♦ Which sources of raw materials and components are available?
♦ How many manufacturing locations are there?
♦ What products are being made at each manufacturing location?
♦ What is the nature of distribution facilities?
♦ What modes of transportation should be used for various products.
♦ Should the business organization own the transport vehicles?
♦ What is the nature of materials handling equipment possessed? Is it ideal?
♦ What is the method for deploying inventory in the logistics network?

By Umesh Vyas (CA

Supply Chain Management

Supply Chain: linkages between suppliers, manufacturers and customers

Supply Chain Management : Involve all activities like -sourcing and procurement of material, - conversion, and - logistics.
Management of supply chains include closely working with channel partners –suppliers, intermediaries, other service providers and customers.

Is logistic management same as supply chain management:
-Supply chain management is an extension of logistic management.
-Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption. Supply chain management includes more aspects apart from the logistics function.

Implementing Supply Chain Management Systems

- Product development
- Procurement
- Manufacturing
- Physical distribution
- Outsourcing
- Customer services
- Performance measurement

Research and Development

Guidelines for decision to acquire R&D expertise from external firms & develop R&D expertise internally

Market Growth	Technological Changes: Rapidly	Technological Changes: Low
Moderate	Then a major effort in R&D may be very risk	Then in-house R&D *is* the preferred solution.
High	R&D expertise should be obtained through acquisition of a well-established firm in the industry?	The prescribed approach is to obtain R&D expertise on an exclusive or nonexclusive basis from an outside firm.

There are at least three major R&D approaches for implementing strategies-
-The first strategy is to be the first firm to market new technological products. This is a glamorousand exciting strategy but also a dangerous one. Firms such as 3M and General Electric have been successful with this approach, but many other pioneering firms have fallen, with rival firms seizing the initiative.
-A second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of start up. This approach entails allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists. Then, laggard firms develop a similar product. This strategy requires excellent R&D personnel and an excellent marketing department.
-A third R&D strategy is to be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced. As a new product accepted by customers, price becomes increasingly important in the buying decision. Also, mass marketing replaces personal selling as the dominant selling strategy.

Human Resource Strategy Formulation

Human Resource Manager Role

Providing purposeful direction	**Creating competitive atmosphere**
Facilitation of change	**Diversion of workforce**
Empowerment of human resources	**Building core competency**

Chapter: 7	REACHING STRATEGIC EDGE

Business Process Reengineering

Process

-Set of logically related tasks or activities oriented towards achieving a specified outcome
-Collection of activities which creates an output of value to the customer.

Business Process

A business process comprises a combination of number of such independent or interdependent processes as:
♦ Developing new product ♦ Customer order processing ♦ Bill payment system

Reengineering

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.

Business Process Reengineering

Reengineering is the **fundamental rethinking** and **radical redesign** of business processes to achieve **dramatic improvements** in critical contemporary measures of performance such as cost, quality, service and speed.
Fundamental rethinking- Find out answers to questions like "Why do we do what we do? And why do we do it the way we do?" Ignores what the existing process is and concentrates on what it should be. If something is not required to be done it is outright discarded
Radical redesign: involves completely discarding all existing structures and procedures and evolving completely new ways of doing the work. It is a business reinvention – not business improvement, business enhancement, or business modification
Ramatic improvements: It means 80-90% reduction in cost and not merely 5-10% reduction
Central Thrust of BPR: The reduction of the total cycle time of a business process.

Generic business processes needing redesign

♦ Processes pertaining to development and delivery of product(s) and/or services.
(Research, design, engineering, manufacturing, and logistics, besides purchasing / procurement and materials management)
♦ Process involving interface(s) with customers. (Marketing, advertising, order fulfilment, and service)
♦ Process comprising management activities:
(Strategy formulation, planning and budgeting, performance measurement and reporting, human resource management etc)

Steps in BPR (DIS FiR

1. Determining objectives and framework: Objectives are desired end results of redesign process which management and organization attempts to achieve. This will provide required focus, direction, and motivation for the redesign 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.
3. Study the existing process: The existing processes will provide an important base for the redesigners. 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.
5. Implement the redesign: Implementation of redesigned process and application of other knowledge gained from previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

The Role of IT in BPR

-Information technology is going to play a significant role in changing business processes.
A reengineered business process, characterised by IT-
-Assisted speed, -Accuracy, -Adaptability and integration of data and service points,
Impact of IT-systems are identified as:
- Compression of time -Overcoming restrictions of geography and/or distance -Restructuring of relationships.
IT-initiatives provide business values in three distinct areas:
♦ Efficiency– by increased productivity, ♦ Effectiveness–by better management, ♦ Innovation–by improved products and services

Problems in BPR

-It disturbs established hierarchies and functional structures and creates serious effects like
-Resistance among the work-force.
-Takes time and expenditure,
-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

-Benchmark is a standard against which something can be measured and judged
-Benchmarking is an approach of setting goals and measuring productivity based on best industry practices
-Benchmarking is not a panacea for all problems. Rather, it studies the circumstances and processes that help in superior performance
-Benchmarking is a process of continuous improvement in search for competitive advantage.

The Benchmarking Process Benchmarking processes lack standardization. However, common elements are as follows:
(1) **Identifying the need for benchmarking and planning:** It will define objectives benchmarking exercise. It will also involve selecting type of benchmarking
(2) **Clearly understanding existing business processes:** This step will involve compiling information and data on performance. Information and data is collected by for example, interviews, visits and filling of questionnaires.
(3) **Identify best processes:** Within the selected framework, best processes are identified. These may be within the same organization or external to them.
(4) **Compare own processes and performance with that of others:** While comparing gaps in performance between the organization and better performers is identified. Further, gaps in performance is analyzed to seek explanations.
(5) **Prepare a report and Implement the steps necessary to close the performance gap:** A report on Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.
(6) **Evaluation:** Business organizations evaluate the results of the benchmarking process in terms 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 impact the performance.

Total Quality Management (TQM)

-It is a people-focused management system 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 highlevel strategy,
-It works horizontally across functions and departments, involves all employees top to bottom, and extends backward and forward to include the supply chain and customer chain
-TQM stresses learning and adaptation to continual change as keys to organizational success.

Principles guiding TQM (IF IT IS SUPER TQM)

Inventory reduction
Focusing on the customer
Value **I**mprovement
Thinking statistically
Continuous **I**mprovement and learning
The **S**ynergy of teams
Supplier teaming
Universal quality responsibility
Preventing rather than detecting defects
Employee involvement and empowerment
Root cause corrective action
Training
Quality measurement
Sustained **M**anagement commitment to quality

Six Sigma and Management

-Motorola has invented six sigma
-**Six Sigma** is a set of strategies, techniques, and tools for process improvement.
-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

TQM and Traditional Management Practices (SM R CPT)

♦ **Organizational Structure:** TQM views the enterprise as a system of interdependent processes, linked laterally over time through a network of collaborating (internal and external) suppliers and customers. Every process contains sub-processes and is also contained within a higher process.
♦ **Motivation and Job Design:** Under TQM People 'are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society. The system enables people to feel like winners
♦ **Changing Relationships with Customers and Suppliers:**
In TQM, quality is defined as products and services beyond present needs and expectations of customers.
Innovation is required to meet and exceed customers' needs. Traditional management places customers outside of the enterprise and within the domain of marketing and sales.
TQM views everyone inside the enterprise as a customer of an internal or external supplier, and a supplier of an external or internal customer.
♦ **Organizational Change:** In TQM the environment in which the enterprise interacts is considered to be changing constantly
♦ **Strategic Planning and Management:**
-Quality planning and strategic business planning are indistinguishable in TQM.
-Customer satisfaction, defect rates, and process cycle times receive as much attention in the strategic plan as financial and marketing objectives.
♦ **Teamwork:** In TQM individuals cooperate in team structures such as quality circles, steering committees, and self-directed work teams.

GE's Key Concepts of Six Sigma	
At its core, Six Sigma revolves around a few key concepts.	
Critical to Quality:	Attributes most important to the customer
Defect:	Failing to deliver what the customer wants
Process Capability	What your process can deliver
Variation:	What the customer sees and feels
Stable Operations	Ensuring consistent, predictable processes to improve what the customer sees and feels
Design for Six Sigma:	Designing to meet customer needs and process capability

Six Sigma Methodology

1. **D-MAIC**: The five steps are as follows: **(For Existing product)**
♦ **Define:** To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands.
♦ **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 trials 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.

D-MADV: (For New product)
♦ **Define:** 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.

What's New About Six Sigma? Three key characteristic separate Six Sigma from other quality programs of the past. .
1. Six Sigma is customer focused. It's almost an obsession to keep external customer needs in plain sight, driving the improvement effort. (External customers are mostly those who buy business's products and services.)
2. Six Sigma projects produce major returns on investment. GE's CEO, Jack Welch, wrote in the annual report that in just three years, Six Sigma had saved the company more than $2 billion.
3. Six Sigma changes how management operates. Six Sigma is much more than improvement projects. Senior executives and leaders throughout a business are learning the tools and concepts of Six Sigma: new approaches to thinking, planning, and executing to achieve results. In a lot of ways, Six Sigma is about putting into practice the notions of working smarter, not harder.

Six Themes of Six Sigma: (C D AMBE)
Theme one − genuine focus on the customer: 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: 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 and assumptions. Six Sigma discipline begins by clarifying what measures are key to gauging business performance and then gathers data and analyzes key variables. Six Sigma helps managers answer two essential questions to support data-driven decisions and solutions.
♦ What data/information do I really need? ♦ How do we use that data/information to maximum benefit?
Theme three − processes are where the action is: Whether focused on designing products and services, measuring performance, improving efficiency and customer satisfaction, or even running the business, Six Sigma positions the process as the key vehicle of success.
Theme four − proactive management: Most simply, being proactive means acting in advance of events rather than reacting to them. 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. 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: How can you be driven to achieve perfection and yet also 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. If people who see possible ways to be closer to perfect are too afraid of the consequences of mistakes, they'll never try.

Strategy-shaping characteristics of the E-Commerce environment

- ♦ The Internet makes it feasible for companies everywhere to compete in global Markets

♦ Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals

♦ Entry barriers into the e-commerce world are relatively low

♦ Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors

♦ 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:

♦ Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions:

♦ The internet results in much faster diffusion of new technology and new idea across the world:

♦ The e-commerce environment demands that companies move swiftly

♦ E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains:

♦ The Internet can be an economical means of delivering customer service

♦ The capital for funding potentially profitable e-commerce businesses is readily Available

♦ The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how

Strategic management in:

1. **Non-profit and government organization**

The strategic-management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation productivity, and strategic management. Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

2. **Educational institutions**

Educational institutions are using strategic-management techniques and concepts more frequently. Richard Cyert, president of Carnegie-Mellon University, says, "I believe we do a far better job of Strategic management than any company I know ". The significant change in the competitive climate has taken place in the educational environment. Hence, they are adopting different strategies for attracting best students.

The academic institutions have also joined hands with industries in order to deliver education to make graduates more employable. The educational delivery system has also undergone considerable changes with the introduction of computers and internet technologies. The first all-Internet law school, Concord University School of Law, boasts nearly two hundred students who can access lectures anytime and chat at fixed times with professors. Online college degrees are becoming common and represent a threat to traditional Colleges and universities.

3. **Medical organizations**

Hospitals are creating new strategies today as advances in the diagnosis and treatment of chronic diseases are undercutting that earlier mission. Hospitals are beginning to bring services to the patient as much as bringing the patient to the hospital. Pathological laboratories have started collecting door-to-door samples. Chronic care will require day treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.

A successful hospital strategy for the future will require renewed and deepened collaboration with physicians, who are central to hospitals' well being, and a reallocation of resources from acute to chronic care in home and community settings.

Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services. Millions of persons research medical ailments online, which is causing a dramatic shift in the balance of power between doctor, patient, and hospitals.

Governmental agencies and departments

Central, state, municipal agencies, Public Sector Units, departments are responsible for formulating, implementing, and evaluating strategies that use taxpayers' money in the most cost-effective way to provide services and programs. Strategic-management concepts increasingly are being used to enable some organizations to be more effective and efficient. But strategists in governmental organizations operate with less strategic autonomy than their counterparts in private firms.