INTRODUCTION TO STRATEGIC MANAGEMENT

Business Policy:

- *Business Policy is "the study of the functions and responsibilities of senior management.*
- *It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.*

What is Management?

The term 'management' can be used in two major contexts.

- One, It is used with reference to a key group in an organisation in-charge of its affairs.
- Two, The term is also used with reference to a set of interrelated functions and processes

What is a Strategy?

- A typical dictionary will define the word strategy as something that has to do with war and ways to win over enemy.
- In business sense, it can be defined as a plan of action designed to achieve a long-term or overall aim.

Strategy is Partly Proactive and Partly Reactive

- Company's Strategy is combination of
  - Proactive actions on the part of managers- to improve company's market position and financial performance
  - Reactions to unanticipated developments and fresh market conditions

Strategic Management

- The term strategic management refers to the managerial process of
  - forming a strategic vision,
  - setting objectives,
  - crafting a strategy,
  - implementing and evaluating the strategy and
  - initiating corrective adjustments where deemed appropriate
- Overall objectives of Strategic Management
  - Create Competitive Advantage
  - Guide the company successfully through all the changes
- Benefits of Strategic Management
  - Gives a direction to the company to move ahead- by defining goals and mission

  - Helps organisations to be more proactive instead of reactive –able to control their own destiny
  - Provides framework for all major decisions of an enterprise- Products, Markets, Manufacturing, investments and organisational structure
  - Seeks to prepare the organisation to face the future and act as pathfinder to various business opportunities
  - Serves as a corporate defence mechanism against mistakes and pitfalls
  - Helps to enhance the longevity of the business-it ensures that the organisation survive in the long run
  - Helps the organisation to develop certain core competencies and competitive advantages
- Limitations of Strategic Management
  - Difficulty in Understanding the Complex and Turbulent(Confusing) Environment
  - Time Consuming Process-Organisations take a lot of time in planning, preparing and communicating the strategies
  - Costly Process-Expert planners need to be engaged for analysis of internal and external environments

<u>Strategic Levels in Organisations</u>

- An organisation is divided into several functions and departments that work together to bring a particular product or service into the market. There are three main levels of Management
  - Corporate Level:-
    - Consists of CEO, other senior executives, board of directors and corporate staff. Their role is to oversee the development of Strategies for the whole organisation
  - Business Level:-
    - General Managers at this level are concerned with the strategies specific to a particular business
    - Role of these managers is to translate the general statements into concrete strategies
  - Functional Level
    - Managers at this level are responsible for the specific business functions or operations (HR, Purchasing, Product Development, Customer Service and so on)
- Strategic Business Unit
  - SBU is a unit of the company that has a separate mission and objectives and which can be planned independently from other business of the company

  - E.g.- LG is a company that makes consumer durables. It makes refrigerators, air conditioners, washing machines as well as televisions. These small units are formed as separate SBUs so that revenues, costs as well as profits can be tracked independently

Strategic Management in Government and Not for Profit Organisations

- On the basis of the interests of the organisation they can be classified into
  - Commercial Organisation:-has profit as the main aim, and
  - Non Commercial Organisation:-for social, charitable or educational purposes
- Educational Institutions
  - Low Resource Wastage
  - Effectiveness in learning
- Medical Organisations
  - Hospitals are beginning to bring services to patient
  - Improve Quality and Reduce Cost
  - Laboratories collecting door to door samples
  - Hospitals acquiring ambulance services
- Government Agencies and Departments
  - Using taxpayers money in the most effective way
  - Government strategists suffer from limitations like less chances to alter the organisations mission or objectives

DYNAMICS OF COMPETITIVE STRATEGY

- Business environment is dynamic and evolving, changes in the external environment challenge organisations to find new ways to remain in business and succeed
- Strategic thinking and strategic management arte relevant and important for all the managers

Competitive Strategy

- It evolves out of consideration of external factors
- External environment affects the internal environment-economic and technical components are the major factors
- Firm must identify its position relative to the competitors in the market
- Objective of competitive strategy is to
  - Generate competitive advantage
  - Increase market share
  - Beat competition
- Competitive strategy consists of moves to
  - Attract customers

- Withstand Competitive Pressures
- Strengthen Market position

Competitive Landscape

- A form of business analysis which identifies direct or indirect competitors – not only identifying the competitors but also comprehending their vision, mission, core values, niche market, strength and weaknesses
- Steps to identify the competitive landscape
    - Identify the Competitor:-Identify the Competitor and have actual idea about their respective market share
    - Understand the Competitor:- Strategist to use the market research report, internet, newspapers, social media to understand the products and services offered by them
    - Determine the Strengths of the Competitor:-What are the strengths of the competitors? What do they do well ? Do they offer great products
    - Determine the weakness of the competitor:- Weakness can be identified by going through the consumer reports and reviews
    - Put all the information together:-Draw inference about what they are not offering and what the firm can do to fill the gaps

Strategic Analysis

- Judgements about what strategy to pursue must flow directly from solid analysis of a company's external environment and internal situation
- Two most important situational considerations are
    - Industry and competitive conditions
    - Company's own competitive capabilities
- Issues to consider for strategic analysis
    - Strategy evolves over a period of time
        - It is the result of the small decisions taken over an extended period of time
    - Balance of external and internal factors
        - Matching the internal potential of the organisation with the environmental opportunities
- Risk:- Competitive Markets, liberalisation, globalisation, all affect the business and pose risk at the various degrees
    - External Risk:- this is due to the inconsistencies between the strategies and the forces in the environment
    - Internal Risk:-Forces within the organisation

Methods of Industry and Competitive Analysis

- Industries differ in their basic character and structure

- Factors to be considered in profiling an industry's economic features are as follows
    - Size and Nature of market
    - Scope of Competitive rivalry
    - Number of rivals and their relative market share
    - Types of distribution channels to access consumers
    - Pace of technological change in both production process innovations and new product introductions
    - Whether products or services are highly differentiated, weakly differentiated or essentially identical

Nature and strength of competition

- Discover what the main source of competitive pressure are and how strong each competitive force is

Triggers of Change

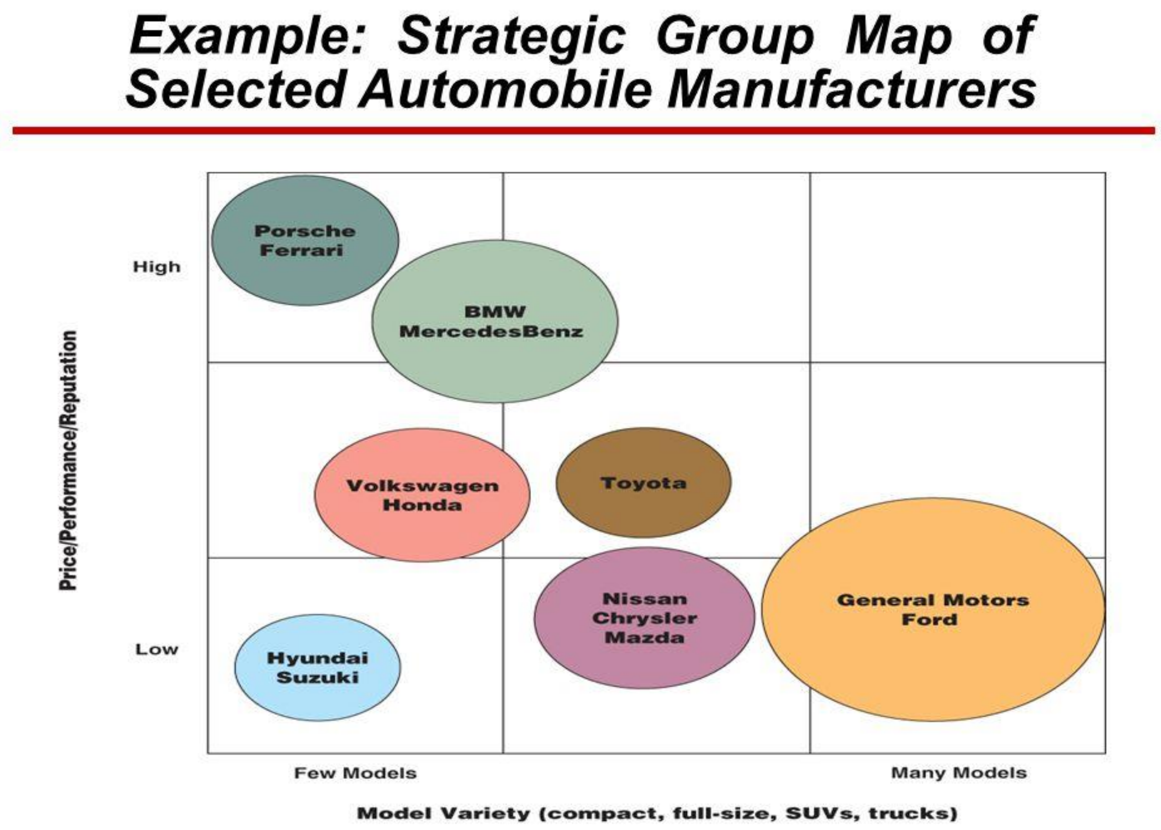
- Industry and the competitive conditions change because forces are in motion that creates incentives or pressures for changes
- Most common driving forces are as follows
    - Internet and E-Commerce
    - Increase in Globalisation
    - Changes in long term industry growth rate
    - Product innovation
    - Marketing Innovation

Identifying the Strongest or Weakest Companies (Strategic Group Mapping)

- Understand the market position of the rival companies
- Technique for revealing the competitive positions is strategic group mapping
- Strategic Group consists of those rival firms which have similar competitive approaches and positions in the market
- Companies in same strategic group resemble the other in different ways as
    - Comparable Product line
    - Sell in the same price/quality range
    - Sane distribution channel
    - Same product attribute
    - Similar buyers
    - Similar technological approach
- Procedure for constructing a strategic group map and deciding which firms belong to which strategic group
    - Identify the characteristics differentiating firms (E.g. Price/quality, geographical coverage)

- Plot the firms on a two-variable map using pairs of differentiating characteristics
- Assign firms that fall in the same strategic group
- Draw circles around each strategic group

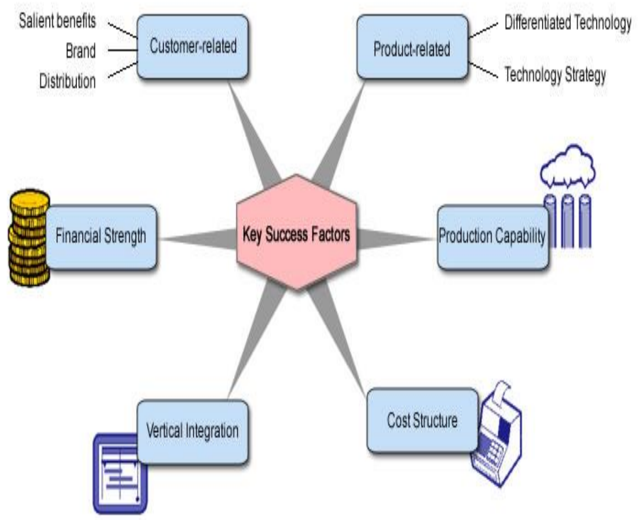
- Sample of Strategic Group map is as follows



<u>Likely strategic move of rivals</u>

- Company cannot expect to evade an opponent without
  - monitoring their actions
  - Understanding their strategies and
  - Anticipating what moves they are likely to make next

<u>Key Factors for Competitive Success</u>



Key Success factors are those things that affect ability of an organisation to prosper in the marketplace

Key Success factors – Basis

- Customer choosing between competitive brands
- Resources needed by seller to be successful
- Sellers to achieve competitive advantage

<u>Prospects and Financial Attractiveness of Industry</u>

- Draw conclusions using the analysis of the previous issues to draw conclusions about the attractiveness or unattractiveness of the industry
- Factors on which to base the conclusions include
    - Industry growth potential
    - Competition permits adequate profitability
    - Industry profitability affected by the prevailing driving forces
    - Potential to capitalise on the vulnerability of the weaker rivals
    - Company is able to defend its unattractive factors
    - Degree of risk and uncertainty in the industry future

<u>Core Competencies</u>

Core Competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals

Competency is a combination of skills and techniques rather than individual skill or separate technique

Major Competencies are identified in three areas

- **Competitor differentiation**:- if competence is unique and is difficult for the competitors to imitate
- **Customer Value**:-A product needs to deliver the value to the end consumer
- **Application of Competencies to other markets**:- Core competency must be applicable to the entire organisation and not to one specified area

Core competencies provide access to variety of markets

Core competencies distinguish a company competitively and reflect its personality

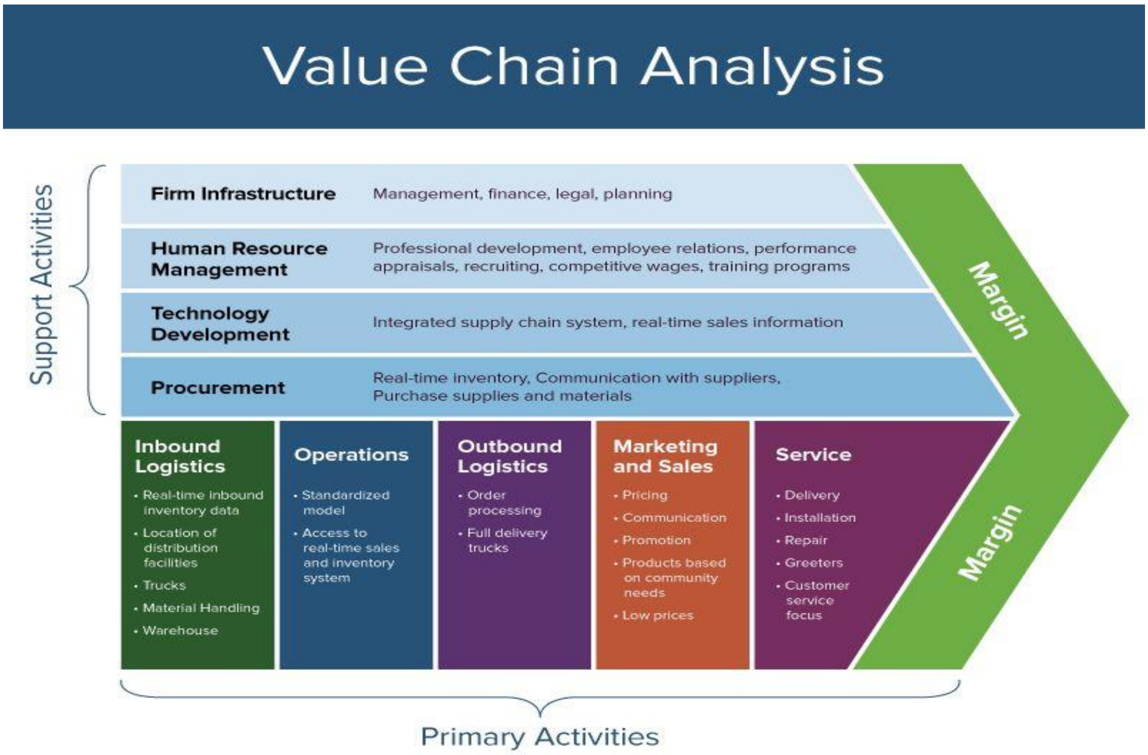
A Core Competency fulfils three criteria

- Provide potential access to wide variety of markets
- Significant contribution to perceived customer benefits
- Difficult to imitate for competitors/rivals

Building Core Competencies –Four Specific Criteria

- **Valuable**:-Firms to exploit opportunities and avert the threats
- **Rare**:- Rare capabilities and few competitors possess this
- **Costly to imitate**:-Unable to develop easily
- **Non-Substitutable**:-No strategically equivalent valuable resources

Value Chain Analysis



Use of Value Chain Analysis for Identifying Core Competencies

- Value Chain analysis helps to describe the activities that are necessary to underpin the strategies of the organisation
- Managing Linkages
    - Management of Linkages in the Value Chain would create competitive advantage in a number of ways
        - Important Linkages between primary activities
        - Easy to miss the issue of managing linkages
        - The management of linkages between primary and support activity may be the basis of core competence
        - Linkages between the different support activities may also be basis of core competencies