STRATEGIC MANAGEMENT PROCESS

Strategic Planning

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy.

Strategic Decision Making

Strategic decision making, or **strategic planning**, involves in the process of creating an organization's mission, values, goals and objectives

Dimensions of Strategic Decisions are as follows

- Strategic Decisions require top management involvement
- Strategic Decisions involve commitment of organisational resources
- Strategic Decisions necessitate consideration of factors in the firm's external environment
- Strategic Decisions are likely to have a significant impact on the long term prosperity of the firm
- Strategic Decisions are future oriented
- Strategic Decisions have major multi-functional or multi business consequences

Strategic Intent

Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives

Strategic intent could be in the form of vision and mission statement for the organisation at the corporate level

Vision

A **vision statement** is a declaration of an organization's objectives, intended to guide its internal decision-making

A vision statement is a company's road map, indicating both what the company wants to become and guiding transformational initiatives by setting a defined direction for the company's growth

Mission

- It is a long term plan on which the company operates to achieve its mission and vision objectives and goals
- The sole purpose of a mission statement is to serve as a company's goal/agenda, it outlines clearly what the goal of the company is.
- Some generic examples of mission statements would be,
    - "To provide the best service possible within the banking sector for our customers." or
    - "To provide the best experience for all of our customers."
- The reason why businesses make use of mission statements is to make it clear what they look to achieve as an organization, not only to themselves and their employees but to the customers and other people who are a part of the business, such as shareholders

Business Definition

- Seeks to explain the business undertaken by the firm, with respect to customer needs, target markets, and alternative technologies

Business Model

- It is the strategy for the effective operation of the business, ascertaining the sources of income, desired customer base and financial details

Goals and Objectives

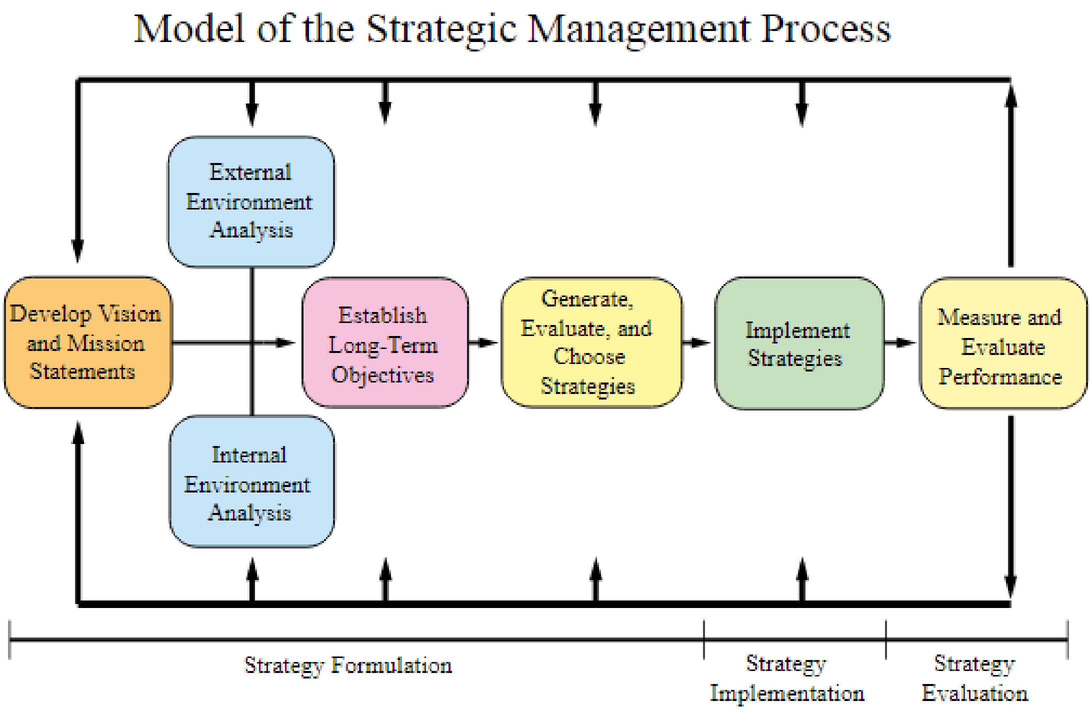
- Goals are the end results, organisation attempts to achieve
- Objectives are time based measurable targets, which help in accomplishment of goals

E.g,

The mission and vision of Amazon.com is: "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.

"**McDonald's brand mission** is to be our customers' favourite place and way to eat and drink. Our worldwide operations are aligned around a global strategy called the Plan to Win, which centre on an exceptional customer experience – People, Products, Place, Price and Promotion

Strategic Management Model



Stages in Strategic Management

- Developing a strategic vision and objectives
- Environmental and Organisational analysis
- Formulation of Strategy
- Implementation of Strategy
- Strategic Evaluation and Control

Developing a strategic vision and objectives

- Company to determine what path it should take and what changes in the product would improve the company's position
- Managers need to be clear about what they see as the role of their organisation, and it is expressed in terms of a statement of mission

Environmental and Organisational Analysis

- Two types of analysis are involved here
    - Environmental Scanning and
    - Organisational Analysis
- External environment consists of economic, social, technological, market and other forces which affect its functioning
- Organisational analysis is the review of financial resources, technological resources. Productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on

Formulating Strategy

- First step here is to develop alternatives –analysing the strength, weakness, opportunities and threats in the environment
- Second step is the deep analysis of strategic alternatives

Implementation of Strategy

- This involves conversion of strategic plans into actions and results, and be able to manage people and direct the change
- Normally involves the following
    - Developing budgets
    - Staffing the organisation
    - Policies and procedures facilitate the execution and not impede it
    - Using the best known practices
    - Installing information and operating system to enable company personnel to carry out their strategic goals
    - Motivating people to pursue their target
    - Creating a company culture and work climate
    - Exerting the internal leadership needed to drive implementation

Strategic Evaluation and Control

- Evaluating the company's progress, assessing impacts of new developments, and making corrective adjustments
- A company's direction, objectives and strategy have to be revisited anytime external or internal conditions warrant

CORPORATE LEVEL STRATEGIES

Classification of Strategies

On the basis of **Levels**

- Corporate Level, Business Level, Functional Level

On the Basis of Stages of **Business Life Cycle**

- Entry/Introduction Stage:- Market Penetration Strategy
- Growth Stage:- Growth/Expansion Strategy
- Maturity Stage:- Stability Strategy
- Decline Stage:- Retrenchment Strategy

On the Basis of **Competition**

- Competitive Strategies:- Cost Leadership, Differentiation Focus

- Collaboration Strategies:-Joint Venture, Merger and Acquisition, Strategic Alliance

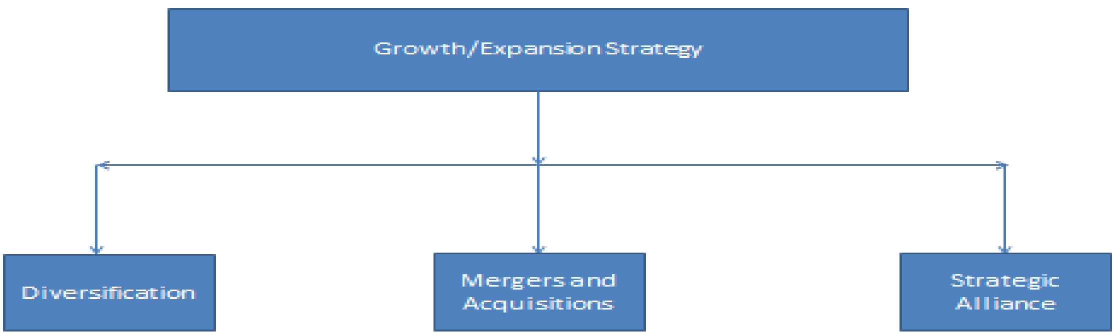
Corporate Strategies a firm can adopt can be classified into four broad categories

- Stability Strategy:- Staying with the current businesses and products
- Expansion Strategy:- Significant growth-within current businesses-entering new markets or introducing new products
- Retrenchment Strategy:-Drops out businesses by sell out or liquidation
- Combination Strategy :-Combines all in some permutation or combination so as to suit the firm requirements

Stability Strategy

- A **stability strategy** refers to a strategy by a company where the company **stops the expenditure on expansion,**
- In other words it refers to situation where **company do not venture into new markets or introduce new products.**
- **Characteristics**
    - Stays with same business
    - Enhance functional efficiencies
    - Not involve redefinition of business
    - Safe Strategy
    - Not warrant fresh investments
    - Minor improvements in product
    - Risk is less
- Reasons
    - Product has reached maturity stage
    - Less risky
    - Environment is stable
    - Expansion is considered as threatening

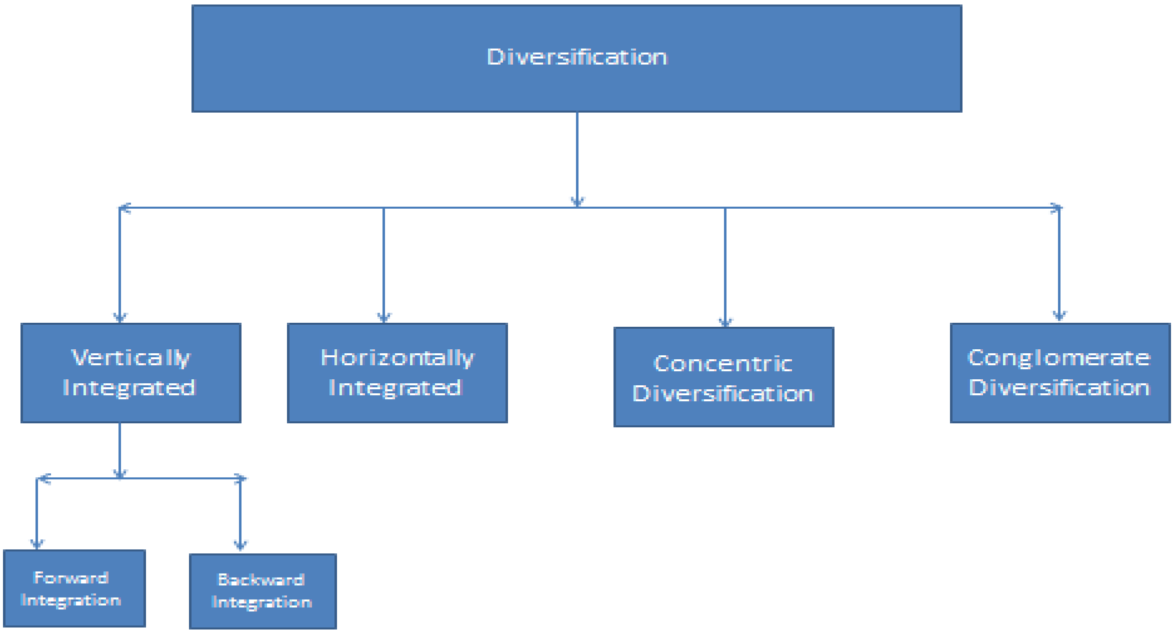
Growth/Expansion Strategy



- **Intensification Options** available to a firm are as per Ansoff's matrix which are-market penetration, market development and product development

Expansion through Diversification

Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market



Vertically Integrated Diversification

- **Vertical integration** is a strategy where a company expands its business operations into different steps on the same production path, such as when a manufacturer owns its supplier and/or distributor.
    - **Forward integration** is when a company at the beginning of the supply chain controls stages farther along. Examples include *iron mining companies that own "downstream" activities such as steel factories*
    - **Backward integration** is a form of vertical integration that involves the purchase of, or merger with, suppliers up the supply chain. A simple example of backward vertical integration strategy is an ice cream company that buys a dairy farm. The company requires milk to make ice cream and either can buy milk from a dairy farm or other milk supplier or could own the dairy farm itself.

Horizontally Integrated Diversification

- When a company wishes to grow through a horizontal integration, it is looking to acquire a similar company in the same industry.

- E.g. Facebook’s 2012 acquisition of Instagram (social media), and Disney's 2006 acquisition of Pixar (entertainment media).

Concentric Diversification

Concentric diversification is a type of business strategy where a company acquires or creates new products or services to reach more consumers

Conglomerate Diversification

Conglomerate diversification is growth strategy that involves adding new products or services that are significantly different from the organization's present products or services

Expansion through Mergers and Acquisitions

- A **merger** involves two companies joining together to become one company,
- An **acquisition** generally involves one company buying out or taking over another company.
- The company which has been taken over or '**acquired**' then ceases to exist.

Types of Mergers

- Horizontal Mergers
- Vertical Mergers
- Co-Generic Merger

- Conglomerate Merger

Horizontal Merger

- A **horizontal merger** is a merger or business consolidation that occurs between firms that operate in the same space

Vertical Merger

- A **vertical merger** is a merger between two companies that operate at separate stages of the production process for a specific finished product
- An example of a vertical merger is a car manufacturer purchasing a tire company.

Co-Generic Merger

- A **congeneric merger** is a type of merger where two companies are in the same or related industries but do not offer the same product
- An example of a congeneric merger is **Citigroup's acquisition of Travelers Insurance**. While both were in the financial services industry, they had different product lines.

Conglomerate Merger

A **Conglomerate Merger** is "any merger that is not horizontal or vertical; in general, it is the combination of firms in different industries or firms operating in different geographic areas

Example: Walt Disney Pictures acquisition of American Broadcasting Company

Expansion through Strategic Alliance

- A **strategic alliance** (also see **strategic** partnership) is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations.
- A **strategic alliance** will usually fall short of a legal partnership entity, agency, or corporate affiliate relationship.
- E.g:-ICICI Bank, India's largest private sector bank and Vodafone India, one of India's largest telecom service providers, announced a strategic alliance to launch a unique mobile money transfer and payment service called 'm-pesa'

Advantages of Strategic Alliance

- Organisational:-Helps to learn skills and obtain the capabilities from strategic partners, e.g. enhance production capacity, extend supply chain
- Economic:- Reduction in costs and distributing them across the members
- Strategic:- Rivals can also join to cooperate instead of compete
- Political:- Entry into a foreign market

Disadvantages of strategic alliance

- Sharing:- Sharing of resources and profits and also trade secrets
- Create a potential competitor:- when the ally opts out of the alliance

Retrenchment/Turnaround Strategy

- The **Retrenchment Strategy** is adopted when an organization aims at reducing its one or more business operations with the view to cut expenses and reach to a more stable financial position.
- E.g.TATA group divested their non-core business TOMCO(Tata Oil Mills Company) and sold the same to Hindustan Levers as soaps and detergents were not considered as core business for the TATAs

- **A turnaround is the financial recovery** of a company that has been performing poorly for an extended time. To effect a turnaround, a company must acknowledge and identify its problems, consider changes in management, and develop and implement a problem-solving strategy.
- Eg. Xerox revealed a turnaround programme in December 2000, including cutting $1 billion in costs and raising $4 billion through sale of non-core assets

Action Plan for turnaround

A workable action plan for turnaround would involve the following stages

- *Assessment of current problems*:- get to root causes and the extent of damage the problem has caused

- *Analyse the situation and develop a strategic plan*:- Determine the chances of the business's survival. Identify strategies and develop a prelimnary action plan
- *Implementing an emergency action plan*:-If organisation is in a critical stage, an appropriate action plan must be developed to allow the organisation to survive
- *Restructuring the Business*:- If the Core business is irreparably damaged, then the outlook for the entire organisation could be bleak –product mix may be changed, attention to core products which were neglected earlier
- *Returning to normal*:-:-Organisation shows sign of profitability

Elements of Turnaround Strategy

- Changes in Top Management
- Initial Credibility Building actions
- Neutralising external pressures
- Quick Cost reductions
- Revenue Generation

Characteristics of Retrenchment/Turnaround Strategy

- Retrenchment /divestment of some of the activities in a given business of the firm or sell-out some of the businesses as such
- Divestment to be viewed as an integral part of corporate strategy
- Divestment involves a redefinition of the business of the corporation
- Compulsion for divestment can be many and varied such as
    - Obsolescence of product/process
    - Business becoming profitable and unviable
    - Inability to cope up with cut throat competition
    - Industry overcapacity
    - Failure of existing strategy

Reasons for Turnaround Strategy

- Management no longer wishes to be in business either partly or wholly due to continuous losses and unviability
- Management feels business to be made viable by divesting
- Business acquired proves to be a mismatch
- Persistent negative cashflows from particular business create financial problems
- Severity of competition and inability to cope up with same
- Technological upgradation is required in cases, and not able to implement, then exit

Divestment Strategy

- **Divestment**, also known as divestiture, is the opposite of an investment, and it is the process of selling an asset for financial, social or political goals. Assets that can be divested include a subsidiary, business department, real estate, equipment and other property.

Liquidation Strategy

- **The Liquidation Strategy** is the most unpleasant strategy adopted by the organization that includes selling off its assets and the final closure or winding up of the business operations.

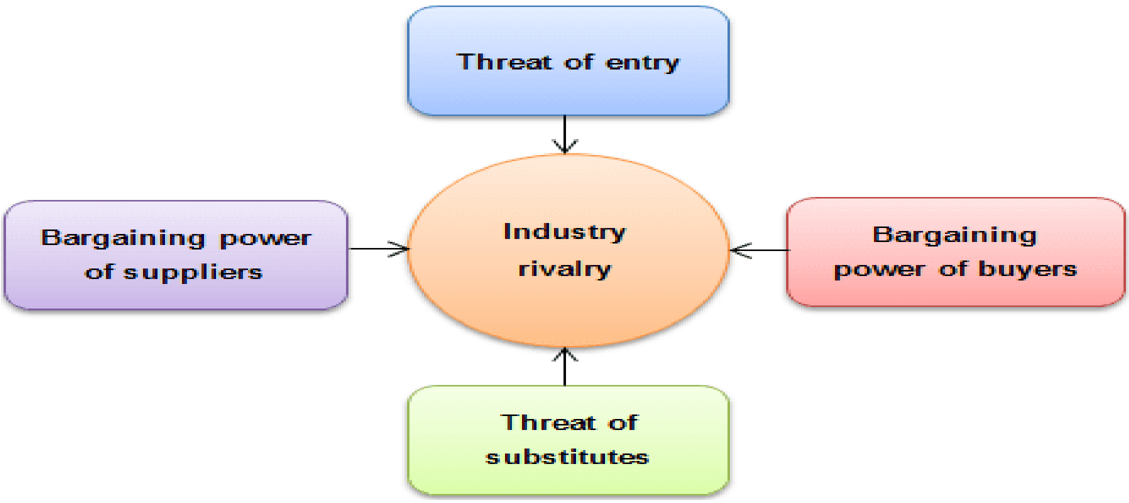
Combination Strategy

- Mix of the above strategies to suit the particular situations.
- Retrenchment of siling business followed by stability and expansion in some areas may be thought of ‘
- Reasons for combination strategy
    - Organisation is large and faces complex environment
    - Organisation is composed of different businesses, each lying in different industry requiring a different response

BUSINESS LEVEL STRATEGIES

- Organisation’s Core competencies should be focussed on satisfying the customer needs or wants to achieve the organisational objectives

Porter’s Five Forces Model-Competitive Analysis



The strategists can use the five forces model to determine what competition is like in a given industry by undertaking the following steps

- Identify the specific competitive pressures
- Evaluate the pressures comprising each of five forces
- Determine whether the collective strength of five forces is conducive to earn attractive profits

Threat of new entrants

- Profitability tends to be higher when other firms are blocked from entering the industry
- New entrants can reduce the profitability –they add new production capacity leading to increase in supply at lower price. Barriers to entry include
    - Capital Requirements
    - Economies of Scale
    - Product differentiation
    - Switching Costs
    - Brand identity

- Access to distribution channel
- Possibility of aggressive retaliation by existing players

Capital Requirements	Large Number of funds required and firms lacking the same are barred from industry
Economies of Scale	Reduction in per unit cost due to growth in volume. Large firm having economies of scale can produce volumes at lower costs. It discourages new entrants
Product differentiation	Differences or enhancements that make a product special or unique in the eyes of customers. Firms in Personal care engage in product differentiation to enhance the product features
Switching Costs	New entrant must be able to persuade existing customers of other companies. Buyers incur the substantial psychological and financial costs in switching between firms , and when such costs are high, they are reluctant to change
Brand Identity	This is important for a not frequently purchased product. Eg Cars, new entrants will find it difficult to build a brand identity
Access to distribution channels	Unavailability of distribution channels pose a barrier. Despite growing e-commerce, many firms continue to rely on physical distribution channels to sustain a barrier to entry .e.g. HUL. Godrej, P&G
Possibility of Aggressive Retaliation	Mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry

Bargaining Power of Buyers

- Buyers can insert pressure on the existing firms to secure lower prices or better services. This is when
    - Buyers have full knowledge about products and substitutes
    - Lot of Money is spent on the products, i.e. large consumers
    - Industry Product is not critical –buyers can switch to substitutes

Bargaining Power of Suppliers

- Suppliers can command bargaining power over a firm when
    - Products are crucial and substitute not available
    - Can erect high switching costs
    - More concentrated than the buyers

Nature of Rivalry in the industry

- Intensity of rivalry can influence the costs of supplier and distribution and can directly affect profitability. More intensive the rivalry, less attractive the industry
- Rivalry among competitors tends to be cutthroat and industry profitability low when
    - Industry has no clear leader
    - Competitors are numerous

- Competitors operate with high fixed costs
- Competitor facing high exit barriers
- Competitor has less opportunity to differentiate their offerings
- The industry faces slow or diminished growth

Industry Leader	Strong Leader can discourage price wars-greater financial resources and it can outlast smaller rivals
Number of Competitors	Even if firm is industrial leader, ability to exert the pricing discipline diminishes with increased number of rivals
Fixed Costs	More fixed costs- utilisation of capacity-have to cut prices when they have excess capacity.
Exit Barriers	Rivalry among competitors declines if competitors leave industry. Profitability will be higher with few exit barriers. Barriers to exist are powerful, the same would make the competitors remain in the market and exert pressure on all rivals
Product Differentiation	Firms can insulate from price wars by product differentiation. Profitability tends to be higher where there is more differentiation
Slow Growth	Industries whose growth is slowing down faces more intense rivalry

Threat of Substitutes

- Firms have to search for these products that perform the same, or nearly the same functions as their existing products
- E.g:- Real estate, insurance and bonds are substitutes for the common stocks., Mobile phones have replaced the camera

BUSINESS LEVEL STRATEGIES

- Core competencies of the organisation to focus on satisfying customer needs or wants to achieve the average returns
- Business Level Strategies detail actions taken to provide value to customers
- Who are customers?
    - Knowing one’s customers is important in obtaining and sustaining a competitive advantage
- How to satisfy customer needs ?
    - How to bundle the resources and capabilities to form core competencies
    - Business Level Strategies to be taken to provide value to customers. Business Level Strategies are concerned with issues such as
        - Meeting needs of key customers
        - Achieving advantage over competitors
        - Avoiding Competitive Disadvantage

Michael Porter's Generic Strategies

- According **to Porter's Generic Strategies model**, there are **three basic strategic options** available to organizations for gaining competitive advantage.
- These are:
    - Cost Leadership,
    - Differentiation and
    - Focus.

Cost Leadership

- Cost leadership is a concept developed by Michael Porter and utilised in business strategy.
- It describes a way to establish the competitive advantage.
- Cost leadership, basically, means the lowest cost of operation in the industry.
- Cost leadership is often driven by company efficiency, size, scale, scope and cumulative experience
- Achieve Cost leadership following actions to be taken
    - Forecast demand of a product or service promptly
    - Optimum use of resources to get cost advantages
    - Achieving economies of scale – lower per unit cost
    - Standardisation of products for mass production
    - Invest in cost saving technologies
    - Resistance to differentiation till it is essential
- Advantages of Cost Leadership Strategy
    - Rivalry-Competitors likely to avoid price wars-low cost firm will earn profits
    - Buyers-Not able to exploit the cost leader
    - Suppliers- Cost leaders absorb the greater price increases before it raises price to customers
    - Entrants:- Low cost leaders create barriers to market entry
    - Substitutes:- More likely to lower costs to induce customers
- Disadvantages of Cost Leadership Strategy
    - May not be remaining for long as competitors may copy
    - A Firm can succeed only of sales volumes are high
    - Cost leadership through lesser advertising, market research and research and development can prove to be expensive in the long run
    - Technology Changes are threat to cost leader

Differentiation Strategy

- A **differentiation strategy** calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition.
- Basis of Differentiation

Product Differentiation: - Innovative Products that meet customer needs can be an area where company has advantage over competitors

- Price Differentiation:- Companies here try to offer lowest price or can attempt to establish superiority through higher prices
- Organisation Differentiation:- Maximising brand power or using specific advantages that an organisation possess can be instrumental to a company's success

- Achieving Differentiation Strategy
  - Offer utility to customers and match products with tastes and preferences
  - Elevate the performance of the product
  - Offer the promise of high quality product/service for buyer satisfaction
  - Rapid Product innovation
  - Taking steps for enhancing image and brand value
  - Fixing Product prices based on unique features of the product
- Advantages of Differentiation Strategy:- helps to remain profitable even with rivalry, new entrants, supplier's power, substitute products and buyer's power
  - Rivalry:-Brand loyalty will act as safeguard-Customers will be less sensitive to price increases
  - Buyers:-Not negotiate for price as they get special features and have fewer options
  - Suppliers:- Differentiators charge a premium price, they can afford to absorb higher cost of supplies
  - Entrants:- Innovative features are expensive. New entrants generally avoid these features
  - Substitutes:- Can't replace the differentiated products which have high brand value and enjoy customer loyalty
- Disadvantages of Differentiation Strategy:-
  - Long term uniqueness is difficult to sustain
  - Charging too much price-customer may switch-off to another alternative
  - Fails to work-when customer does not value the basis

Focus Strategies

- A marketing strategy in which a company concentrates its resources on entering or expanding in a narrow market or industry segment.
- A focus strategy is usually employed where the company knows its segment and has products to competitively satisfy its needs
- Focused cost leadership:- Competing based on price to target a narrow market
- Focused differentiation:- Offering unique features that fulfil the demands of a narrow market
- Achieving Focused Strategy
  - Selecting specific niches not covered by cost leaders and differentiators
  - Creating Superior skills for catering to such niche markets
  - Generating High efficiencies for serving such niche markets
  - Developing innovative ways in managing value chain
- Advantages of Focussed Strategy
  - Premium Prices can be charged
  - Due to tremendous expertise about the goods and services , rivals and new entrants find it difficult to compete
- Disadvantages of Focussed Strategy
  - Firms Lacking Distinctive Competencies may not be able to pursue focus strategy
  - Due to limited demand of product/services, costs are high which can cause problems
  - Long run, niche could disappear to be taken over by large competitors by acquiring the same distinctive competencies

Best Cost Provider Strategy

- New model is further development of the above three generic strategies.
- Directed towards giving customers more value for money
- Best Cost provider strategy can be done by
  - Offering Products at a lower price than offered by rivals
  - Charging similar price as by the rivals for products with much higher quality

Distinguishing Features of the Five Generic Competitive Strategies

	Low-Cost Provider	Broad Differentiation	Focused Low-Cost Provider	Focused Differentiation	Best-Cost Provider
Strategic target	• A broad cross-section of the market.	• A broad cross-section of the market.	• A narrow market niche where buyer needs and preferences are distinctively different.	• A narrow market niche where buyer needs and preferences are distinctively different.	• Value-conscious buyers. • A middle market range.
Basis of competitive strategy	• Lower overall costs than competitors.	• Ability to offer buyers something attractively different from competitors' offerings.	• Lower overall cost than rivals in serving niche members.	• Attributes that appeal specifically to niche members.	• Ability to offer better goods at attractive prices.
Product line	• A good basic product with few frills (acceptable quality and limited selection).	• Many product variations, wide selection; emphasis on differentiating features.	• Features and attributes tailored to the tastes and requirements of niche members.	• Features and attributes tailored to the tastes and requirements of niche members.	• Items with appealing attributes; assorted features; better quality, not best.
Production emphasis	• A continuous search for cost reduction without sacrificing acceptable quality and essential features.	• Build in whatever differentiating features buyers are willing to pay for; strive for product superiority.	• A continuous search for cost reduction for products that meet basic needs of niche members.	• Small-scale production or custom-made products that match the tastes and requirements of niche members.	• Build in appealing features and better quality at lower cost than rivals.