CHAPTER 2

DYNAMICS OF COMPETITIVE STRATEGY

1. Competitive Strategy

- Competitive strategy of a firm evolves out of consideration of several factors that are external to it.
- The external environment affects the internal environment of the firm.
- The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organization and also creating threats.
- Similarly, the broader expectation of the society in which the organization operates is again an important factor to determine the competitive strategy.
- A firm must identify its position relative to the competitors in the market.
- The objective of a competitive strategy is to generate competitive advantage, increase market share and beat competition.
- A competitive strategy consists of moves to:
    - Attract customers and deliver value.
    - Withstand competitive pressures.
    - Strengthen market position.

- Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals. But what is more important is whether the competitive advantage is sustainable.

2. COMPETITIVE LANDSCAPE

- Competitive landscape is a business analysis which identifies competitors, either direct or indirect. Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses.

- An in-depth investigation and analysis of a firm's competition allows it to assess the competitor's strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

Steps to understand the Competitive Landscape

i. **Identify the competitor:** The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

   This answers the question:

   - Who are the competitors?

ii. **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

This answers the question:

- What are their product and services?

iii. **Determine the strengths of the competitors:** What is the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

This answers the questions:

- What are their financial positions?
- What gives them cost and price advantage?
- What are they likely to do next?
- How strong is their distribution network?
- What are their human resource strengths?

iv. **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

This answers the question

- Where are they lacking?

- **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

  This answers the questions:

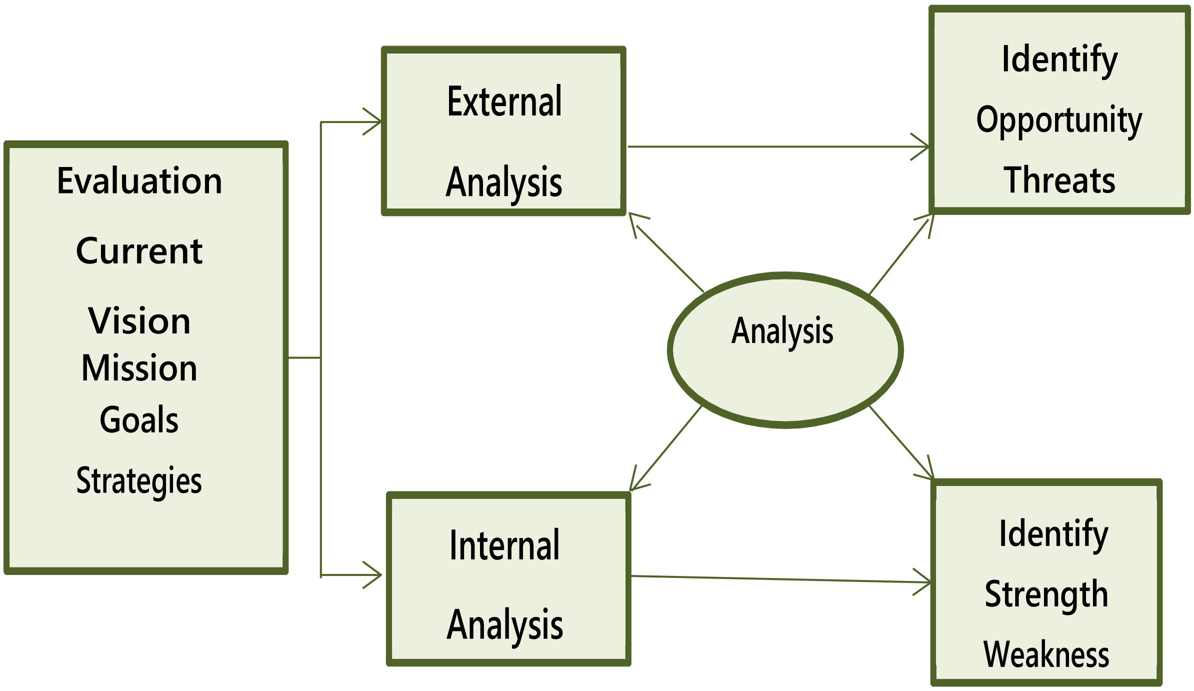
  - What will the business do with this information?
  - What improvements does the firm need to make?
  - How can the firm exploit the weaknesses of competitors?

3. STRATEGIC ANALYSIS

- Strategy formulation is not a task in which managers can get by with intuition, opinions, instincts, and creative thinking. Judgments about what strategies to pursue need to flow directly from analysis of a firm's external environment and its internal resources and capabilities.

- The two most important situational considerations are:

  - industry and competitive conditions, and
  - an organization's own competitive capabilities, resources, internal strengths, weaknesses, and market position.



- The analytical sequence is from strategic appraisal of the external and internal situation, to evaluation of alternatives, to choose of strategy. Accurate diagnosis of the company's situation is necessary for managerial preparation for deciding on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy.

- Without perceptive understanding of the strategic aspects of a company's external and internal environments, the chances are greatly increased that managers will finalize a strategic game plan that doesn't fit the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.

Issues to consider for Strategic Analysis

Strategy evolves over a period of time:

- There are different forces that drive and constrain strategy and that must be balanced in any strategic decision.
- An important aspect of strategic analyses is to consider the possible implications of routine decisions.
- Strategy of a firm, at a particular point of time, is result of a series of small decisions taken over an extended period of time.
- A manager who makes an effort to increase the growth momentum of an organization is materially changing strategy.

Balance of external and internal factors:

- The process of strategy formulation is often described as one of the matching the internal potential of the organization with the environmental opportunities.
- In reality, as perfect match between the two may not be feasible, strategic analysis involves a workable balance between diverse and conflicting considerations.
- A manager working on a strategic decision has to balance opportunities, influences and constraints.
- There are pressures that are driving towards a particular choice such as entering a new market.
- Simultaneously, there are constraints that limit the choice such as existence of a big competitor.
- These constraining forces will be producing an impact that will vary in nature, degree, magnitude and importance.

➢ Some of these factors can be managed to an extent, however, there will be several others that are beyond the control of a manager.

Time

Strategic Risks		Short Time	Long Time
	External	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy.
	Internal	Organizational capacity is unable to cope up with strategic demands.	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

- External risk is on account of inconsistencies between strategies and the forces in the environment. Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis.

- The economic character of industries varies according to such factors as overall size and market growth rate, the pace of technological change, the geographic boundaries of the market (which can extend from local to worldwide), the number and size of buyers and sellers, whether sellers' products are virtually identical or highly differentiated, the extent to which costs are affected by economies of scale, and the types of distribution channels used to access buyers.

- Competitive forces can be moderate in one industry and fierce, even cutthroat, in another.

- An industry's economic traits and competitive conditions, and how they are expected to change, determine whether its profit prospects are poor, average, or excellent.

- Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits, while even weak companies in attractive industries can achieve in good performances.

4. METHODS OF INDUSTRY AND COMPETITIVE ANALYSIS

- Industry and competitive analysis can be done using a set of concepts and techniques to get a clear picture on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, competitive success, and profit prospects.

- It provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for organisational funds.

- The analysis entails examining business in the context of a wider environment. Industry and competitive analysis aim at developing insight in several issues.

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

4.1 Dominant Economic Features of the Industry

- Industry is "a group of firms whose products have same and similar attributes such that they compete for the same buyers."

- The factors to be considered in profiling an industry's economic features are fairly standard and are given as follows:

- Size and nature of market.
- Scope of competitive rivalry (local, regional, national, international, or global).
- Market growth rate and position in the business life (early development, rapid growth and takeoff, early maturity, saturation and stagnation, decline).
- Number of rivals and their relative market share.
- The number of buyers and their relative sizes. Whether and to what extent industry rivals have integrated backward and/or forward.
- The types of distribution channels used to access consumers.

4.2 Nature and Strength of Competition

- This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character.

- Even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces.

- Porter's five forces model is useful in understanding the competition. It is a powerful tool for systematically diagnosing the main competitive pressures in a market and assessing how strong and important each one is.

- Not only is it the widely used technique of competition analysis, but it is also relatively easy to understand and apply.

4.3 Triggers of Chance

- An industry's economic features and competitive structure revealed a lot about its fundamental character but little about the ways in which its environment may be changing.

- All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response from participating firms.

- The popular hypothesis about industries going through a life cycle helps explain industry change but is still incomplete.

- The life-cycle stages are strongly linked to changes in the overall industry growth rate (which is why such terms as rapid growth, early maturity, saturation, and decline are used to describe the stages).

Driving forces:

- While it is important to judge what growth stage an industry is in, there's more analytical value in identifying the specific factors causing fundamental industry and competitive adjustments.

- Industry and competitive conditions change because forces are in motion that creates incentives or pressures for changes.

- The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment.

- Analyzing driving forces has two steps: identifying what the driving forces are and assessing the impact they will have on the industry.

Most common driving forces:

- Many events can affect an industry powerfully enough to qualify as driving forces.
- Some are unique and specific to a particular industry situation, but many drivers of change fall into general category affecting different industries simultaneously.
    - The internet and e-commerce opportunities and threats it breeds in the industry.
    - Increasing globalization.
    - Changes in the long-term industry growth rate.
    - Product innovation.
    - Marketing innovation.
    - Entry or exit of major firms.

5. Key Factors for Competitive Success

- An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

- KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success or, to put it another way, KSFs are the rules that shape whether a company will be financially and competitively successful. The answers to three questions help identify an industry's key success factors:

    - On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?
    - What resources and competitive capabilities does a seller need to have to be competitively successful?
    - What does it take for sellers to achieve a sustainable competitive advantage?

- Determining the industry's key success factors, given prevailing and anticipated industry and competitive conditions, is a top-priority analytical consideration.

- At the very least, managers need to understand the industry situation well enough to know what is more important to competitive success and what is less important.

- Indeed, business organisations that stand out on a particular KSF enjoy a stronger market position for their, efforts- being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage.

- Hence, using the industry's KSFs as cornerstones for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.

- Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change.

- To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

6. CORE COMPETENCIES

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

- C.K. Prahalad and Gary Hamel have advocated a concept of core competency, which is a widely-used concept in management theories.

- They defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies.

- An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

- Competency is defined as a combination of skills and techniques rather than individual skill or separate technique.

- For core competencies, it is characteristic to have a combination of skills and techniques, which makes the whole organization utilize these several separate individual capabilities.

- Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources. The optimal way to define core competence is to consider it as sum of 5- 15 areas of developed expertise.

- According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - **competitor differentiation, customer value, and application** to other markets.

- **Competitor differentiation:**

  - The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate.

  - This can provide a company an edge compared to competitors.

  - It allows the company to provide better products or services to market with no fear that competitors can copy it.

  - The company has to keep on improving these skills in order to sustain its competitive position.

- Competence does not necessarily have to exist within one company in order to define as core competence.

- **Customer value:**

  - When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence.
  - It will include all the skills needed to provide fundamental benefits.
  - The service or the product has to have real impact on the customer as the reason to choose to purchase them.

  - If customer has chosen the company without this impact, then competence is not a core competence and it will not affect the company's market position.

- **Application of competencies:**

  - Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise.
  - Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view.

- Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

7. How to build Core Competencies (CC)?

- Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

  - **Valuable:**

    - Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment.
    - A firm created value for customers by effectively using capabilities to exploit opportunities.
    - Finance companies build a valuable competence in financial services.
    - In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.

  - **Rare:**

    - Core competencies are very rare capabilities and very few of the competitors possess this.
    - Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them.

- Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

❖ **Costly to imitate:**

- Costly to imitate means such capabilities that competing firms are unable to develop easily.

- **For example:** Intel has enjoyed a first- mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor.

- The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

❖ **Non-substitutable:**

- Capabilities that do not have strategic equivalents are called non-substitutable capabilities.

- This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

- **For Example:** For years, firms tried to imitate Tata's low- cost strategy but most have been unable to duplicate Tata's success.

- They did not realize that Tata has a unique culture and attracts some of the top talent in the industry.

- The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.

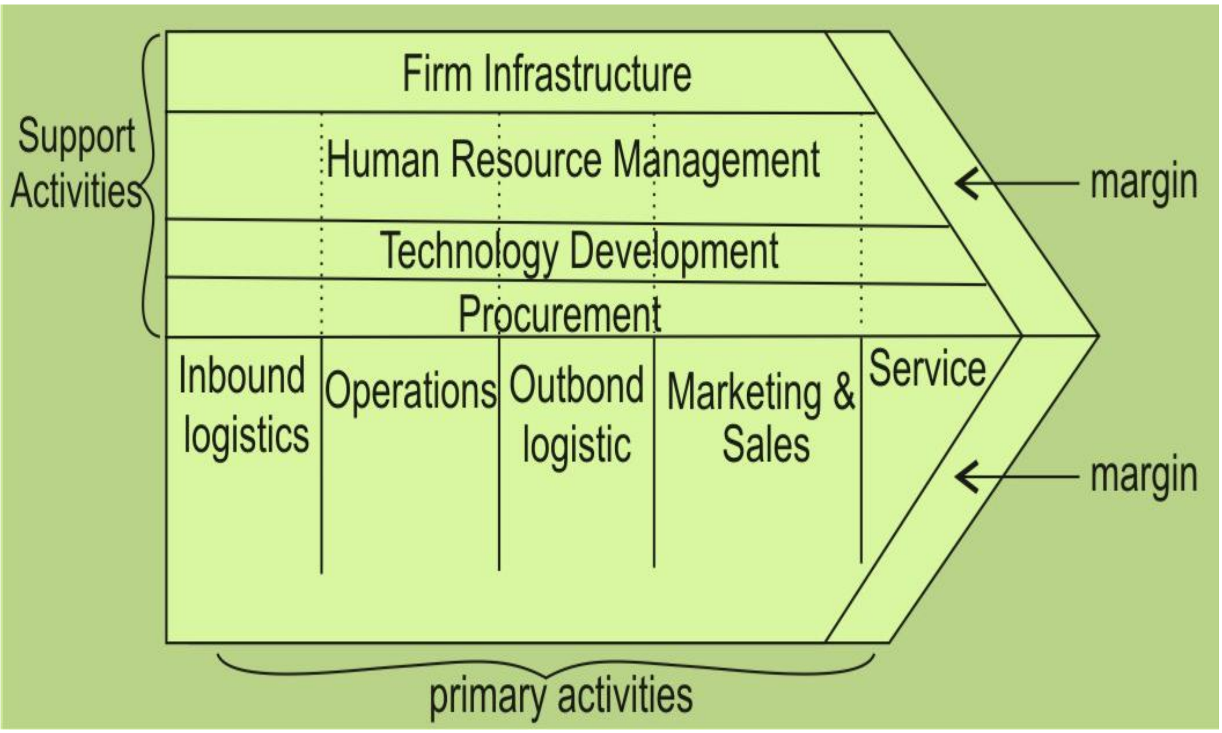
- The strategic value of capabilities increases as they become more difficult to substitute.

8. Value Chain Analysis

- Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services).

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

- The two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter.



- One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, material, money and people.

- These resources are of no value unless deployed into activities and organized into systems and routines which ensure that products or services are produced which are valued by the final consumer/user.

- The primary activities of the organization are grouped into five main areas:

  - Inbound logistics
  - Operations
  - Outbound logistics
  - Marketing and sales, and service

- ❖ **Inbound logistics** are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.

- ❖ **Operations transform** these inputs into the final product or service: machining, packaging, assembly, testing, etc.

- ❖ **Outbound logistics** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g. sports events).

- ❖ **Marketing and sales** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.

- ❖ **Service** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

- ➢ Each of these groups of primary activities are linked to support activities. These can be divided into four areas

  - ❖ **Procurement:** This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.

- **Technology development**: All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).

- **Human resource management**: This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

- **Infrastructure**: The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

9. Use of value Chain Analysis for Identifying Core Competences:

- Value chain analysis is useful in describing the separate activities which are necessary to underpin an organization's strategies and how they link together both inside and outside the organization.

- Although a threshold competence in all of these activities is necessary to the organization's successful operation, it is important to identify those competences which critically underpin the organization's competitive advantage.

- These are known as the core competences and will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing.

- **For example**, a typical 'corner shop' grocery store gains competitive advantage over supermarkets by concentrating more on convenience and service through different core competences.

- It is also important to understand that those unique resources and core competences which allow supermarkets to gain competitive advantage over corner shops are not unique resources or core competences in the competitive rivalry between supermarkets.

- It is important to identify an organization's core competences not only for reasons of ensuring or continuing good 'fit' between these core competences and the changing nature of the markets or environment.

- Core competences may also be the basis on which the organization stretches into new opportunities.

- So, in deciding which competences are core, this is another criterion which should be used - the ability to exploit the competence in more than one market or arena.

- The development of 'added value' services and/or geographical spread of markets are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

- Value chain analysis is a reminder that the long-term competitive position of an organization is concerned with its ability to sustain value for-money products or services, and it can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization.
- However, in order to do this, it is necessary to identify the basis on which an organization has gained competitive advantage and hence which are the core competences in sustaining this advantage.

10. COMPETITIVE ADVANTAGE

- Strategic management involves development of competencies that managers can use to achieve better performance and a competitive advantage for their organization.

- Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.

- In other words, an organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

- Competitive advantage is the achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry.

- It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate.

- Further, it can be said that a firm is successful in achieving competitive advantage only after other firm's efforts to duplicate or imitate it fails.

Resources	Capabilities
Tangible resources are assets that can be seen and quantified. Example: Production equipment, manufacturing plants etc.	Capabilities exist when resources have been purposely integrated to achieve a specific task or set of tasks. These tasks range from human resource selection to product marketing and research and development activities.
Intangible resources include assets that typically are rooted deeply in the firm's history and have accumulated over time. Because they are embedded in unique patterns of routines, intangible resources are relatively difficult for competitors to analyses and imitate. **Example:** Knowledge, trust between managers and employees, managerial capabilities, organizational routines, scientific capabilities, the capacity for innovation, and the firm's reputation for its goods or services and how it interacts with people such as employees, customers, and suppliers.	Examples: i. Effective use of logistics management techniques. ii. Effective and efficient control of inventories. iii. Effective customer service. iv. Innovative merchandising. v. Product and design quality. vi. Digital Technology.

- Competitive advantages and the differences they create in the firm's performance are often strongly related to the resource's firms hold and how they are managed.

- Resources are the foundation for strategy and unique bundles of resources generate competitive advantages leading to wealth creation.

- To identify and successfully use their resources over time, those leading firms need to think constantly about how to manage them to increase the value for customers.

- If a firm possesses resources and capabilities which are superior to those of competitors, then as long as the firm adopts a strategy that utilizes these resources and capabilities effectively, it should be possible for it to establish a competitive advantage.

- But in terms of the ability to derive profits from this position of competitive advantage, a critical issue is the time period over which the firm can sustain its advantage.

- Resources and capabilities are not inherently valuable, but they create value when the firm can use them to perform certain activities that result in a competitive advantage.

- In time, the benefits of any firm's value-creating strategy can be duplicated by its competitors.

- The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:

- **Durability:**
  - The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate.
  - In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete.
  - Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure.
  - On the other hand, many consumer brand names have a highly durable appeal.
- **Transferability:**
  - Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals.
  - The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities.

- The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

❖ **Imitability:**

- If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch.

- How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability.

- For Example: In financial services, innovations lack legal protection and are easily copied. Here again the complexity of many organizational capabilities can provide a degree of competitive defense.

- Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

❖ **Appropriability:**

- Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base.

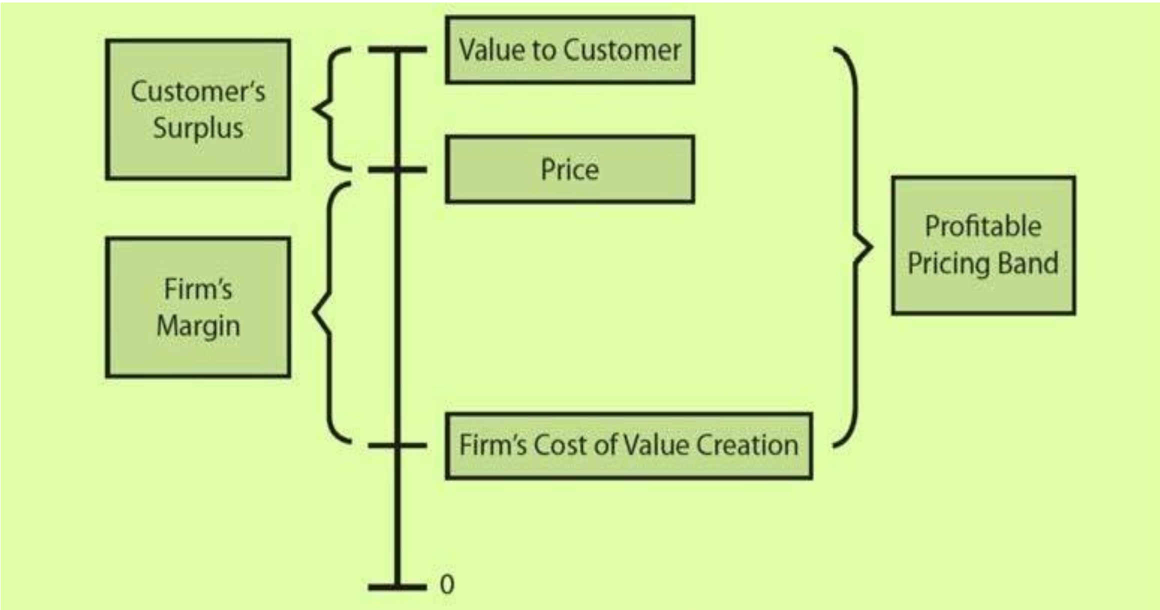
- Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

11. What is Value Creation?

- The concept of value creation was introduced primarily for providing products and services to the customers with more worth.

- Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.

- Further, the concept took more space in the business and organizations started discussing about the value creation for stakeholders.



- Thus, we can say that the value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes or even the whole business system.

- Many businesses now focus on value creation both in the context of creating better value for customers purchasing its products and services, as well as for stakeholders in the business who want to see their investment in business appreciate in value.

- Ultimately, this concept gives business a competitive advantage in the industry and helps them earn above average profits/returns.

- Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:

  (1) the value customers place on the company's products;

  (2) the price that a company charges for its products; and

  (3) the costs of creating those products.

- Place on a product reflects the utility they get from a product— the happiness or satisfaction gained from consuming or owning the product.

- It is a function of the attributes of the product, such as its performance, design, quality, and point-of-sale and after-sale service.

- Companies are ultimately aiming to achieve sustainable competitive advantage, which enables them to succeed in the long run. Michael Porter argues that a company can generate competitive advantage in two different ways, either through differentiation or cost advantage.

- According to Porter's, differentiation means the capability to provide customers superior and special value in the form of product's special features and quality or in the form of aftersales customer service.

- As a result of differentiation, a company can demand higher price for its products or services.

- A company will earn higher profits due to differentiation in case the expenses stay comparable to the costs of competitors.

- The above-mentioned differentiation and cost advantage will affect a company's ability to achieve competitive advantage, but there are many different organizational functions that will influence whether a company can achieve cost advantage or differentiation advantage.

- Michael Porter used the concept of value chain to explore closer different functions of the organisations and mutual interactions among those functions.

- Value chain analysis provides an excellent tool to examine the origin of competitive advantage.

- It divides the organisations into two different strategically important group of activities, namely, primary activities and supporting activities, which can help to comprehend the potential sources for differentiation and to understand an organization's costs behavior.

12. PORTFOLIO ANALYSIS

- In order to analyze the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company).

- In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns.

- A business portfolio is a collection of businesses and products that make up the company.

- The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

- Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.

- 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 channelized at the corporate level to those businesses that possess the greatest potential.

- For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

- There are three important concepts, the knowledge of which is a prerequisite to understand different models of portfolio analysis:

  - **Strategic Business Unit**:

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

    - SBU is a unit of the company that has a separate mission and objectives and which can be run independently from other company businesses.

    - The SBU can be a company division, a product line within a division, or even a single product or brand.

    - SBUs are common in organisations that are located in multiple countries with independent manufacturing and marketing setups.

- An SBU has the following characteristics:
  - It has single business or collection of related businesses that can be planned for separately.
  - It has its own set of competitors.
  - It has a manager who is responsible for strategic planning and profit.

❖ **Experience Curve:**

- Experience curve is an important concept used for applying a portfolio approach.

- The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work.

- Experience curve is based on the commonly observed phenomenon that unit 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 tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage.

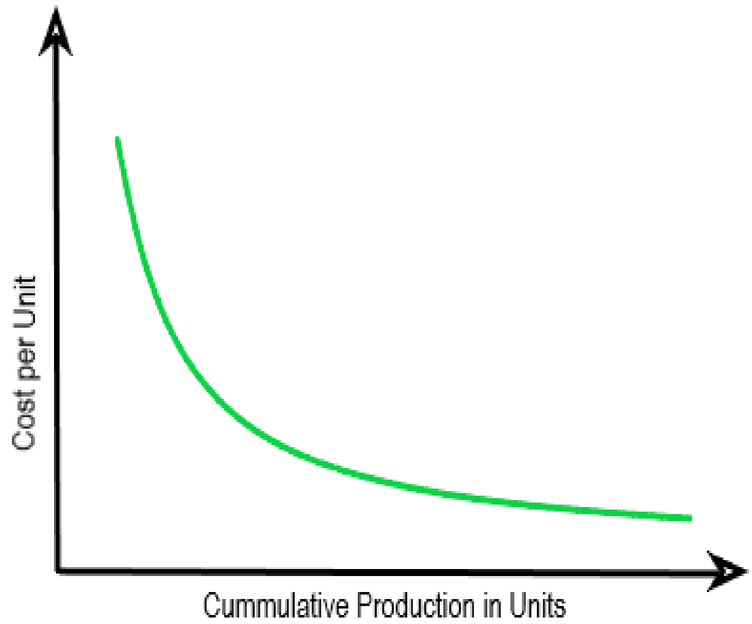
- Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

- Experience Curve has following features:

  - As business organisation grow, they gain experience.

  - Experience may provide an advantage over the competition. Experience is a key barrier to entry.

  - Large and successful organisation possess stronger "experience effect".



- The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry.

- It is also used to build market share and discourage competition. In the contemporary Indian automobile industry, the experience curve phenomenon seems to be working in Maruti Suzuki.

- The likely strategic choice for competitors can be a market niche approach or segmentation based on demography or geography.

- **Product Life Cycle:**
    - Another important concept in strategic choice is that of product life cycle (PLC).
    - It is a useful concept for guiding strategic choice.
    - Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).
    - If businesses are substituted for product, the concept of PLC could work just as well.
    - **First phase** of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited.
    - The growth in sales is at a lower rate because of lack of knowledge on the part of customers.

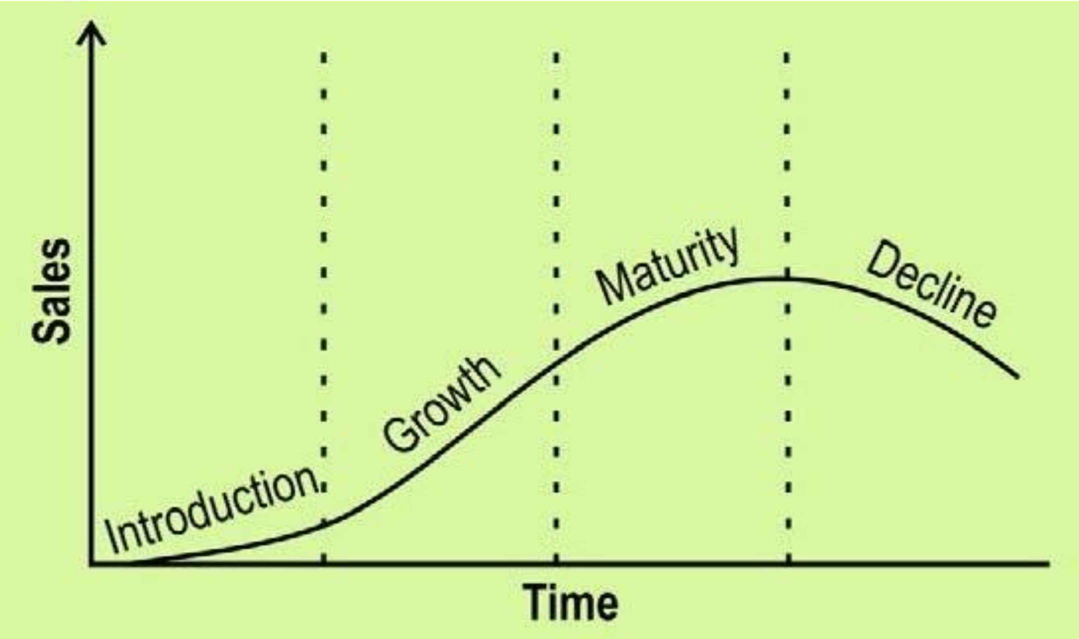
- **Second phase** of PLC is growth stage. In the growth stage, the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

- **Third phase** of PLC is maturity stage. In this stage, the competition gets tough and market gets stabilized.

- Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.

- In the declining stage of PLC, the sales and profits fall down sharply due to some new product replaces the existing product.

- So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.



- The main advantage of PLC approach is that it can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists.

- Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made.

- For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages.

- Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses.

13. PORTFOLIO ANALYSIS

- The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments.

- Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company.

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

- In the matrix:
  - The vertical axis represents market growth rate and provides a measure of market attractiveness.

  - The horizontal axis represents relative market share and serves as a measure of company strength in the market.
- Using the matrix, organisations can identify four different types of products or SBU as follows:

- **Stars** are products or SBUs that are growing rapidly.

- They also need heavy investment to maintain their position and finance their rapid growth potential.

- They represent best opportunities for expansion.

- **Cash Cows** are low-growth, high market share businesses or products.

- They generate cash and have low costs.

- They are established, successful, and need less investment to maintain their market share.

- In long run when the growth rate slows down, stars become cash cows.

- **Question Marks,** sometimes called problem children or wildcats, are low market share business in high-growth markets.

- They require a lot of cash to hold their share.

- They need heavy investments with low potential to generate cash.

- Question marks if left unattended are capable of becoming cash traps.

- Since growth rate is high, increasing it should be relatively easier.

- It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

- Dogs are low-growth, low-share businesses and products.

- They may generate enough cash to maintain themselves, but do not have much future.

- Sometimes they may need cash to survive. Dogs should be minimized by means of divestment or liquidation.

- After a firm, has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

  - **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favor of building a strong future with large market share.

  - **Hold:** Here the objective is to preserve market share.

  - **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.

  - **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

- The growth-share matrix has done much to help strategic planning; however, there are some problems and limitations with the technique.

- BCG matrix can be difficult, time-consuming, and costly to implement.

- Management may find it difficult to define SBUs and measure market share and growth.

- It also focuses on classifying current businesses but provide little advice for future planning.

- They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets.

- This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

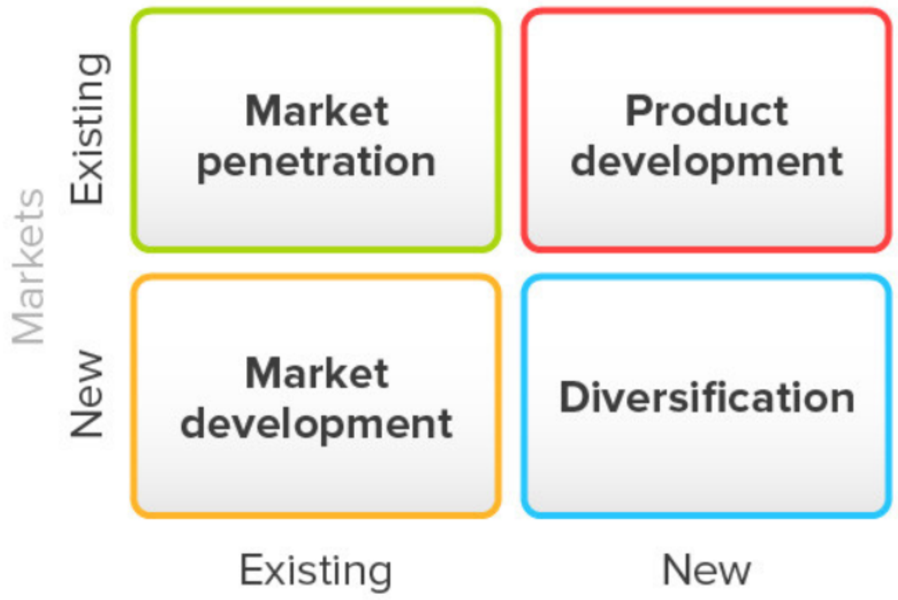
14. Ansoff's Product Market Growth Matrix

- The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy.

- With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets.

- Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid.

- The product/market growth matrix is a portfolio-planning tool for identifying growth opportunities for the company.



- **Market Penetration:**
  - Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets.
  - It is achieved by making more sales to present customers without changing products in any major way.
  - Penetration might require greater spending on advertising or personal selling.
  - Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors.

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

❖ **Market Development:**

- Market development refers to a growth strategy where the business seeks to sell its existing products into new markets.

- It is a strategy for company growth by identifying and developing new markets for current company products.

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

❖ **Product Development:**

- Product development refers to a growth strategy where business aims to introduce new products into existing markets.

- It is a strategy for company growth by offering modified or new products to current markets.

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

- **Diversification:**
  - Diversification refers to a growth strategy where a business markets new product in new markets.
  - It is a strategy by starting up or acquiring businesses outside the company's current products and markets.
  - This strategy is risky because it does not rely on either the company's successful product or its position in established markets.
  - Typically, the business is moving into markets in which it has little or no experience.

- As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

15. ADL Matrix

- The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle.

- The approach forms a two-dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and business strength assessment.

- Stage of industry maturity is an environmental measure that represents a position in industry's life cycle.

- Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favorable, tenable and weak. It is four by five matrix as follows:

	Stage of industry maturity			
Competitive position	**Embryonic**	**Growth**	**Mature**	**Ageing**
Dominant	Fast grow Build barriers Act offensively	Fast grow Attend cost leadership Renew Defend position Act offensively	Defend position Attend cost leadership Renew Fast grow Act offensively	Defend position Renew Focus Consider withdrawal
Strong	Differentiate Fast grow	Differentiate Lower cost Attack small firms	Lower cost Focus Differentiate Grow with industry	Find niche Hold niche Harvest
Favorable	Differentiate Focus Fast grow	Focus Differentiate Defend	Focus Differentiate Harvest Find niche Hold niche Turnaround Grow with industry Hit smaller firms	Harvest Turnaround
Tenable	Grow with industry Focus	Hold niche Turnaround Focus Grow with industry Withdraw	Turnaround Hold niche Retrench	Divest Retrench
Weak	Find niche Catch-up Grow with industry	Turnaround Retrench Niche or withdraw	Withdraw Divest	Withdraw

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

  - **Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

  - **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.

  - **Favorable:** This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

  - **Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

  - **Weak:** The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

16. General Electric Matrix [“Stop-Light” Strategy Model]

- This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey and Company).

- This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model. The strategic planning approach in this model has been inspired from traffic control lights.

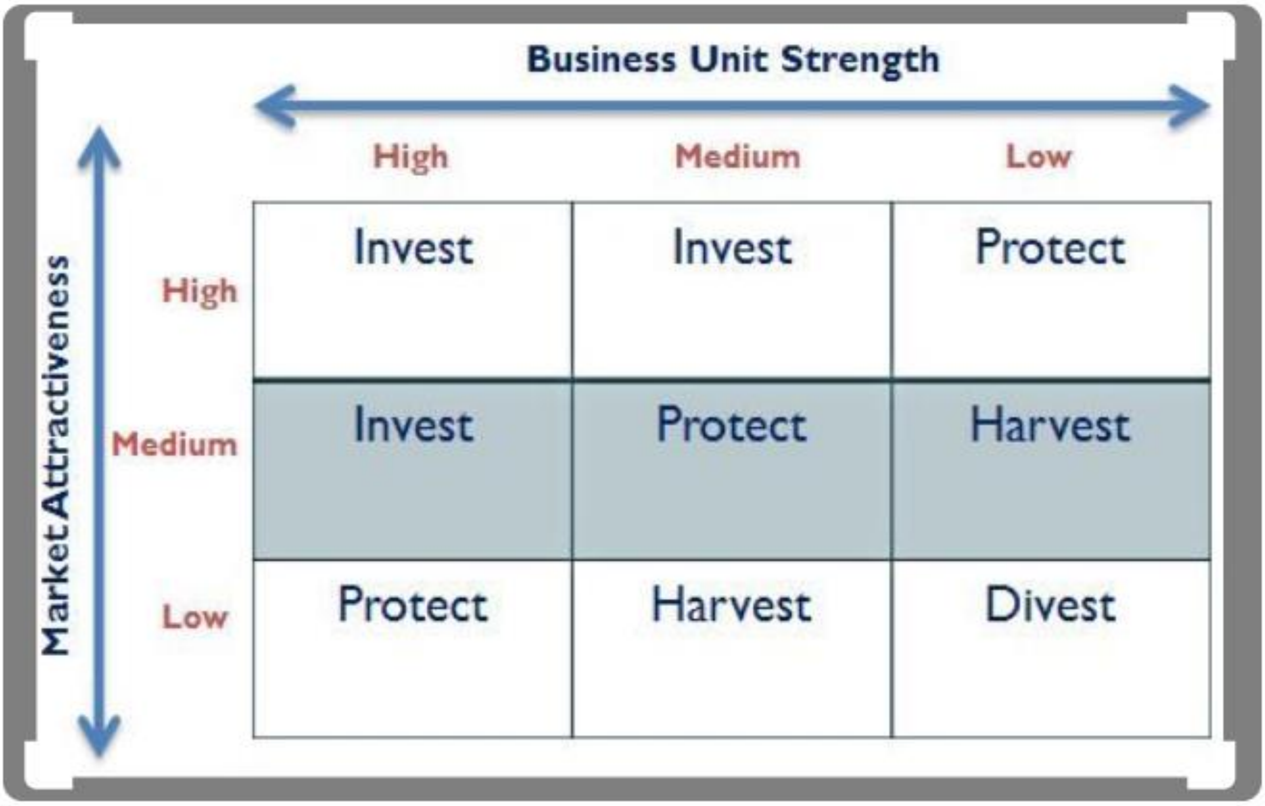
- The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.

- This model uses two factors while taking strategic decisions: Business Strength and Market attractiveness.

- The vertical axis indicates market **attractiveness** and the horizontal axis shows the business strength in the industry.

- The market attractiveness is measured by a number of factors like:
    - Size of the market.
    - Market growth rate.
    - Industry profitability.
    - Competitive intensity.
    - Availability of Technology.
    - Pricing trends.
    - Overall risk of returns in the industry.
    - Opportunity for differentiation of products and services.
    - Demand variability.
    - Segmentation.
    - Distribution structure (e.g. direct marketing, retail, wholesale) etc.

- Business strength is measured by considering the typical drivers like:
  - Market share.
  - Market share growth rate.
  - Profit margin.
  - Distribution efficiency.
  - Brand image.
  - Ability to compete on price and quality.
  - Customer loyalty.
  - Production capacity.
  - Technological capability.
  - Relative cost position.
  - Management caliber, etc.



- If a product falls in the green section, the business is at advantageous position.

- To reap the benefits, the strategic decision can be to expand, to invest and grow.

- If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.

- If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

- This model is similar to the BCG growth-share matrix.

- However, there are 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.

17. SWOT ANALYSIS

- For the generation of a series of strategic alternatives or choices, it is necessary to analyze the firm's internal strengths and weaknesses and its external opportunities and threats.

- The identification and analysis of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

  - **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

  - **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

  - **Opportunity:** An opportunity is a favorable condition in the organization's environment which enables it to strengthen its position.

  - **Threat:** A threat is an unfavorable condition in the organization's environment which causes a risk for, or damage to, the organization's position.

- The major purpose of SWOT analysis is to enable the management to create a firm- specific business model that will best align, fit, or match an organisational resources and capabilities to the demands of the environment in which it operates.

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

    - **Corporate-level strategy:** which answers the primary questions. What business or businesses should we be in to maximize the long-run profitability of the organization, and how should we enter and increase our presence in these businesses to gain a competitive advantage?

    - **Business-level strategy:** which encompasses the business's overall competitive theme, the way it positions; itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings-for example, cost leadership, differentiation, focusing on a particular niche or segment of the industry, or some combination of these.

    - **Functional-level strategy:** Directed at improving the effectiveness of operations within a company, such as production, finance, marketing, materials management, product development, and customer service.

    - **Global strategy:** addressing how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.

- The organization's performance in the marketplace is significantly influenced by the three factors:

    - The organization's correct market position.

    - The nature of environmental opportunities and threat.

    - The organization's resource capability to capitalize the opportunities and to protect against the threats.

- The significance of SWOT analysis lies in the following points:

  - **It provides a logical framework of analysis:**

    - SWOT analysis provides us with a logical framework for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and the choice of a strategy.

    - Variation in managerial perceptions about organizational strengths and weaknesses and the environmental opportunities and threats lead to the approaches to specific strategies and finally the choice of strategy that takes place through an interactive process in dynamic backdrop.

❖ **It presents a comparative account:**

- SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses.

- This helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship.

- The patterns are combinations say, high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths.

❖ **It guides the strategist in strategy identification:**

- It is natural that a strategist faces a problem when his organization cannot be matched in the four patterns.

- It is possible that the organization may have several opportunities and some serious threats.

- It is equally, true that the organization may have powerful strengths coupled with major weaknesses in the light of critical success factors.

- In such situation, SWOT analysis guides the strategist to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

- SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries).

- Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, global competitive environment that characterizes most industries today.

- Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat.

- The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

Potential Resource Strengths and Competitive Capabilities A	Potential Resource Weaknesses and Competitive Deficiencies B
Potential Company Opportunities C	Potential External Threats to Company's Well-Being D

- **A) Potential Resources Strengths and Competitive Capabilities**

    - A powerful strategy supported by competitively valuable skills and experience in key areas.
    - A strong financial condition; ample financial resources to grow the business.
    - Strong brand name, image/company reputation.
    - A widely recognized market leader and an attractive customer base.
    - Ability to take advantage of economies of scale and/or learning and experience curve effects.
    - Proprietary technology/superior technological skills/important patents.
    - Superior intellectual capital relative to key rivals.
    - Cost advantages.
    - Strong advertising and promotion.
    - Product innovation skills.

- Proven skills in improving product processes.
- Sophisticated use of e-commerce technologies and processes.
- Superior skills in supply chain management.
- A reputation for good customer service.
- Better product quality relative to rivals.
- Wide geographic coverage and/or strong global distribution capability.
- Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

B) Potential Resource Weaknesses and Competitive Deficiencies

- No clear strategic direction.
- Obsolete facilities.
- A weak balance sheet, burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Missing some key skills or competencies/lack of management depth/ a deficiency of intellectual capital relative to leading rivals.
- Subpar profitability; no cost control measures or cost accounting practices.
- Plagued with internal operating problems.
- Falling behind rivals in putting e-commerce capabilities and strategies in place.

- A product line that is too narrow in comparison to that of rivals.
- Weak brand image or reputation.
- Weaker dealer network than key rivals and/or lack of adequate global distribution capability.
- Subpar e-commerce systems and capabilities relative to rivals.
- Short on financial resources to fund promising strategic initiatives.
- Lots of underutilized plant capacity.
- Behind on product quality and/or R&D and/or technological know-how.
- Not able to attract new customers as rapidly as rivals.

- **C) Potential Company Opportunities**
  - Serving additional customer groups or expanding into new geographic markets or product segments.
  - Expanding the company's product line to meet a broader range of customer needs.
  - Utilizing existing company skills or technological know-how to enter new product lines or new businesses.
  - Using the internet and e-commerce technologies to dramatically cut costs and/or to pursue new sales growth opportunities.
  - Integrating forward or backward.
  - Falling trade barriers in attractive foreign markets.
  - Openings to take market share away from rivals.
  - Ability to grow rapidly because of sharply rising demand in one or more market segments.

- Acquisition of rival firms or companies with attractive technological expertise.
- Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.
- Openings to exploit emerging new technologies.
- Market openings to extend the company's brand name or reputation to new geographic areas.

- **D) Potential External Threats to Company's Well-Being**

- Likely entry of potent new competitors.
- Loss of sales to substitute products.
- Mounting competition from new Internet start-up companies pursuing e-commerce strategies.
- Increasing intensity of competition among industry rivals – may cause squeeze on profit margins.
- Technological changes or product innovations that undermine demand for the firm's product.
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly new regulatory requirements.
- Growing bargaining power of customers or suppliers.
- A shift in buyer needs and tastes away from the industry's product.

- Adverse demographic changes that threaten to curtail demand for the firm's product.
- Vulnerability to industry driving forces.

18. TOWS MATRIX

- Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats.

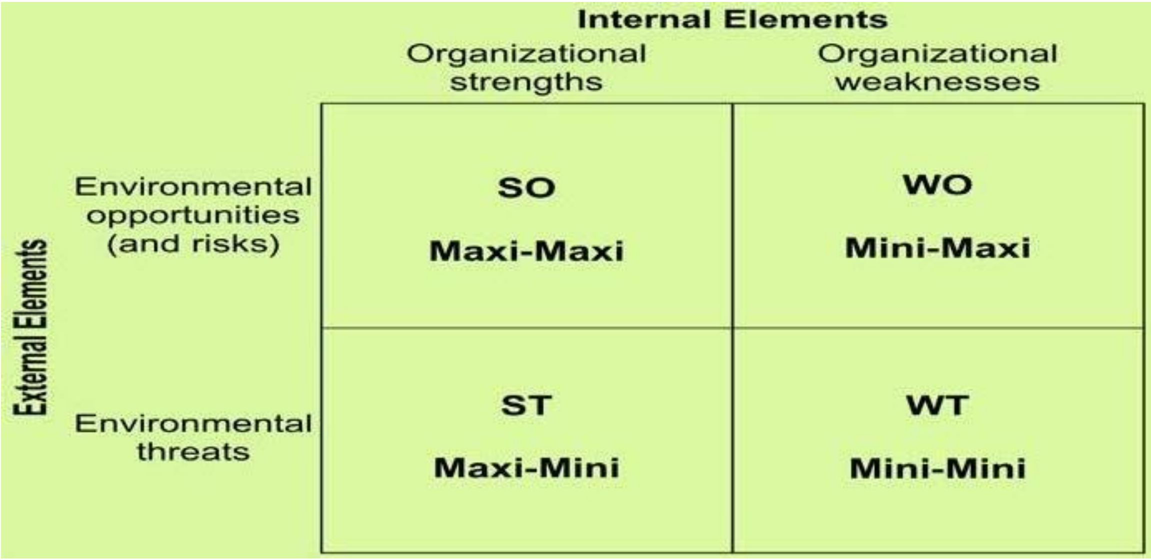
- While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand.

- Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats.

- The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis.

- Thus, TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an action tool whereas SWOT analysis is a planning tool.

- The TOWS Matrix is tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.



- **SO(Maxi-Maxi) – Aggressive strategy:**
  - SO is a position that any firm would like to achieve.
  - The strengths can be used to capitalize or build upon existing or emerging opportunities.
  - Such firms can take lead from their strengths and utilize the resources to build up the competitive advantage.

- **ST(Maxi-Mini) – Conservative strategy:**
  - ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

- **WO(Mini-Maxi) – Competitive strategy:**
  - The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

- **WT(Mini-Mini) – Defensive strategy:**

    - WT is a position that any firm will try to avoid.

    - A firm facing external threats and internal weaknesses may have to struggle for its survival.

    - WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

- By using TOWS Matrix, a strategist can look intelligently at how he can best take advantage of the opportunities open to him, at the same time that he can minimize the impact of weaknesses and protect himself against threats.

- Used after detailed analysis of threats, opportunities, strength and weaknesses, it helps the strategist to consider how to use the external environment to his strategic advantage, and so he can identify some of the strategic options available to him.

19. GLOBALIZATION

- **For developing countries:**
    - it means integration with the world economy.
    - In simple economic terms, globalization refers to the process of integration of the world into one huge market.
    - Such unification calls for removal of all trade barriers among countries. Even political and geographical barriers become irrelevant.

- **At the company level:** globalization means two things:
    - (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and
    - (b) the company's ability to compete in domestic markets with foreign competitors.
- A company which has gone global is called a multinational (MNC) or a transnational (TNC).

- An MNC is, therefore, one that, by operating in more than one country gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

- The global company views the world as one market, minimizes the importance of national boundaries, sources, raises capital and markets wherever it can do the job best.

- **Characteristics of a global company**

    - It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.

    - Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.

    - The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.