

Strategic Management



SUPER SUMMARY

Written by: *Bhavin Pathak*
(Student, CA-IPCC, Arihant Institute Pvt. Ltd.)

Features:

- * Full coverage of IMP aspects of Strategic Management
- * Summarized and conceptual
- * Based on Study Material of ICAI
- * Easy to remember format
- * Point-to-point approach towards subject
- * Diagrams and charts given wherever required
- * Useful for LMR (Last Minute Revision)

INDEX

TOPIC	PAGE NO.
1. Business Environment	2
2. Business Policy & Strategic Management	9
3. Strategic Analysis	14
4. Strategic Planning	17
5. Formulation of Functional Strategy	24
6. Strategic Implementation & Control	30
7. Reaching Strategic Edge	36

Rules of My Life:

“Don't use anyone, but being useful for everyone.”

“There is no tax on helping each other.”

“Live for other is more joyful rather than live for yourself.”

“If you light a lamp for somebody, it will also brighten your path.”

“Happiness is a by-product of an effort to make someone else happy.” ☺

– Me

DEDICATED TO MY FRIENDS

- Written by Bhavin Pathak

Chapter 1: Business Environment

What is *business*?

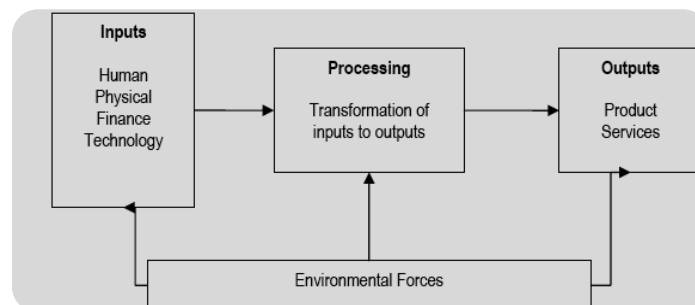
- Etymologically the term business refers to the state of being busy for an individual, group, organization or society.
- Business can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services.

What are the *objectives of a business*?

- **Survival:**
 - Basic, implicit objective of most organizations.
 - Survival of the fittest. Business and other enterprises are interested in more than mere survival.
- **Stability:**
 - It is a strategy of least resistance in a hostile external environment.
 - Minimizes managerial tensions and demands less dynamism from managers.
- **Growth:**
 - Promising and popular objective.
 - May take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.
- **Efficiency:**
 - Very useful operational objective.
 - Efficiency is an economic version of the technical objective of productivity-designing and achieving suitable input output ratios of funds, resources, facilities and efforts.
- **Profitability:**
 - Sole motive.
 - All other objectives are facilitative objectives and are meant to be subservient to the profit motive
 - Pvt Org lives for profit.
 - Reward for taking Risk

What is *environment*?

The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government.



What are the *problems in understanding the environmental influences*?

- Diversity of influences:
 - Understanding this can contribute to strategic decision-making.

- Mere Listing of all possible environmental influences may not help in getting overall picture of important influences on the organization
- Uncertainty of influences :
 - Technology and global communications are changing rapidly
 - So it is very difficult to understand future external influences on an organization
- Complexity of Influences:
 - Simplifying complexity by focusing on aspects of the environment, which, have been historically important, or confirm prior views may not help.
 - Strategic Manager should break out of oversimplification or bias in the understanding of their environment, while still achieving a useful and usable level of analysis.

Framework to understand the environmental influences

- Take an initial view to ascertain the uncertainty
 - Is it Static or changing? Simple or complex. This helps in deciding what focus the rest of the analysis is to take.
- Auditing of environmental influences
 - Aim is to identify which of the many different environmental influences are likely to affect the organization's development or performance.
 - Helpful to construct pictures - or scenarios - of possible futures, to consider the extent to which strategies might need to change.
- Focus on immediate environment of the organization
 - For example, the competitive arena in which the organization operates.
 - By analysis of the five forces, we can identify the key forces at work in the immediate or competitive environment and why they are significant

Why environmental analysis?

- To understand current and potential changes taking place in the environment.
- To provide inputs for strategic decision making
- To facilitate and foster strategic thinking in organizations

Characteristics of business environment

1. **Environment is complex:** Number of factors, events, conditions and influences arising from different sources. Interact with each other to create entirely new sets of influences
2. **Environment is dynamic:** constantly changing in nature
3. **Environment is multi-faceted:** A particular change in the environment or a new development may be viewed as a threat or an opportunity
4. **Environment has a far reaching impact:** growth and profitability of an organization is affected

Components of business environment

- External environment. (Macro)= all the factors **outside** the organization which provide **opportunity** or pose **threats** to the organization.
- Internal environment. (Micro)= all the factors **within** an organization which impart **strengths** or cause **weaknesses** of a strategic nature.

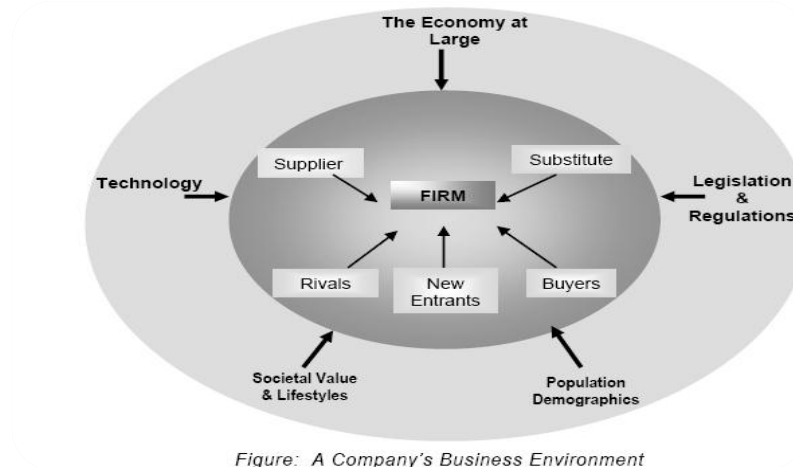


Figure: A Company's Business Environment

The four environmental influences could be described as follows:

- **Opportunity** is a **favorable** condition in the organization's environment which enables it to **consolidate and strengthen its position**.
- **Threat** is an **unfavorable** condition in the organization's environment which creates a **risk for, or causes damage to**, the organization.
- **Strength** is an **inherent capacity** which an organization can use to gain **strategic advantage** over its competitors.
- **Weakness** is an **inherent limitation** or constraint which creates a **strategic disadvantage**.

Examples:

Superior R & D skills – Strength

Over dependence on a single product line – Weakness

Growing demand for the products or services that a company provides – Opportunity

Emergence of strong new competitors – Threat

} SWOT

Relationship between organization and its environment

Exchange of information:

- Scanning the external environmental variables and using it for planning, decision-making and control purposes.
- Occasional advertisements and annual reports. Supply information on its activities to governmental agencies, investors, employees, trade unions, professional bodies and the like.

Exchange of resources:

- Finance, materials, manpower, equipment etc. from environment.
- Satisfying the expectations and demands of the clientele groups, such as customers, employees, shareholders, creditors, suppliers, local community, general public

Exchange of influence and power:

- It offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other. Eg: Govt Control
- Org can dictate terms on some of the external forces and mould them to its will.

Macro & micro environment:

Micro	Macro
1. Consumer/Customer	1. Demographic
2. Competitors	2. Economic
3. Organization	3. Government
4. Market size	4. Legal
5. Market situations	5. Political

6. Suppliers	6. Cultural
7. Intermediaries	7. Technological
	8. Global

Environmental Scanning (Environmental Monitoring)

The process of

- **Gathering information** regarding company's environment,
- **Analyzing** it and
- **Forecasting** the **impact** of all predictable environmental changes.

Micro Environment: Just explain all the Points in your own words

Macro environment

- **Demographic environment:** characteristics of population,
 - Population Size,
 - Geographic Distribution,
 - Ethnic Mix,
 - Income Distribution
- **Economic environment:** Nature and direction of the economy in which a company competes or may compete.
 - General economic situation in the region and the nation,
 - Conditions in resource markets (money market, manpower market, raw material components, services, supply markets and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.
- **Political-Legal Environment:**
 - Govt
 - Legal
 - Political
- **Socio-Cultural environment:**
 - Role of business in society
 - Environmental pollution, corruption, use of mass media, and consumerism.
 - Customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism.
 - Family structure
 - Family values.
 - Role of women in society,
 - Educational levels
 - Work ethics
- **Technological environment**
Eg: of Technology advancement:
 - Walking in the moon,
 - Traveling in spaceships, and
 - Go to the other side of the globe within few hours
 - Advent of Internet and telecommunication system

Factors

 - **Pull** of technological change.
 - **Opportunities** arising out of technological innovation.
 - **Risk** and uncertainty of technological development.
 - Role of **R&D** in a country and **government's R&D budget**.
- Global environment

Factors

 - Potential positive and negative **impact** of significant **international events** such as a sport meet or a terrorist attack.

- Identification of both important **emerging global markets and global markets that are changing**. This includes shifts in the newly industrialized countries in Asia that may imply the opening of new markets for products or increased competition from emerging globally competitive companies in countries such as South Korea and China.
- Differences between **cultural and institutional attributes** of individual global markets.

Global Companies

A global company has **three characteristics**:

- 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**
- **Eg: Nestle International -Managers & Shareholders of different nations**

Super-national enterprise

- **Worldwide enterprise** chartered by a substantially non-political international body such as IMF or World Bank.
- Operates as a **private business** without direct obligations.
- Function is **international business service**
- Only for nations which **permit** its entry

Why do companies go global?

1. Rapid shrinking of time and distance across the globe
2. Domestic markets are no longer adequate and rich.
3. foreign market becomes larger than domestic markets
4. to secure a reliable or cheaper source of raw-materials Eg: Petroleum and mining companies
5. To protect old markets or to seek new ones. Eg: Cheap labor in India attract FI
6. To reduce high transportation costs.
7. To generate higher sales and better cash flow. Eg: electronics and telecommunications cos , if they do not generate sufficient cash flow to cover their costs in domestic market
8. Increasing emphasis on market forces and a growing role for the private sector
9. Rapidly changing technologies
10. rise of services to constitute the largest single sector in the world economy

Manifestation of globalization

1. Configuring anywhere in the world: MNC
2. Interlinked and independent economies: Co-op necessary for growth
3. Lowering of trade and tariff barriers: SEZ, low rate of duties,
4. Infrastructural resources and inputs at International prices: Price advantage
5. Increasing trend towards privatization: LPG, efficiency, customer satisfaction
6. Entrepreneur and his unit have a central economic role: Risk and Reward
7. Mobility of skilled resources: Labor mobility,
8. Market-side efficiency: Efficient markets all over the world
9. Formation of regional blocks –
 - a. NAFTA (North American Free Trade Area) among North America, Canada, and Mexico
 - b. South Asian Association for Regional cooperation (SAARC). consist of seven South Asian Countries with India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Srilanka

Strategic responses to the environment

Least resistance:

- Simple goal-maintaining units,
- Passive in their behavior,

- Solely guided by the signals of the external environment,
- Not ambitious
- But are content with taking simple paths of least resistance in their goal-seeking and resource transforming behavior.

Proceed with caution:

- Adapt with the changing external environment.
- Monitor the changes in that environment,
- analyse their impact on their own goals and activities and
- Translate their assessment in terms of specific strategies for survival, stability and strength

Dynamic response:

- External environmental forces as partially manageable and controllable by their actions.
- They convert threats into opportunities.
- Highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'.

Competitive environment

- Who are the competitors?
- What are their product and services?
- What are their market shares?
- What are their financial positions?
- What gives them cost and price advantage?
- What are they likely to do next?
- Who are the potential competitors?

What is a Kieretsu?

- A kieretsu is a **loosely-coupled group of companies**, usually in related industries.
- Kieretsu members are **peers** and may **own significant amounts of each other's stock** and have many board members in common
- The primary **purpose** of a kieretsu is not to share information or agree industry standards, but to **share purchasing, distribution** or any other functions.
- In Kieretsu members remain independent companies in their own right:
- **Common Strategy** = is to prefer to **do business with other kieretsu members**, both when buying and when selling.

Porter's Five Forces Model - Competitive Analysis

- A powerful and widely used tool
 - For systematically diagnosing the principal competitive pressures in a market
 - And assessing the strength and importance of each is the five-force model of competition
- Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five "**competitive forces**" are:
- The threat of **entry of new** competitors (new entrants)
 - The threat of **substitutes**
 - The **bargaining power of buyers**
 - The **bargaining power of suppliers**
 - The degree of **rivalry** between existing competitors

Threat of new entrants:

- Product range they bring in
- Size of new entrant
- Price limitation placed by him

Bargaining power of customers:

- Formation of Cartels or Groups
- Influences prices, costs and investments of the producer

Bargaining power of suppliers

- No. of Suppliers in Market & Bargaining Power inversely related
- It determines the cost of raw materials, industry attractiveness and profitability.

Rivalry among current players:

- The competitors influence prices as well as the costs
- Production facilities product development, advertising, sales force, etc.

Threats from substitutes

- Limit the prices and profits in an industry.
- Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

Chapter 2: Business Policy & Strategic Management

What is a *strategy*?

A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.

What are the *characteristics of Corporate Strategy*?

1. Long-range in nature,
2. Action oriented and is more specific than objectives.
3. Multipronged and integrated.
4. Flexible and dynamic.
5. formulated at the top management level,
6. Meant to cope with a competitive and complex setting.
7. Flows out of the goals and objectives of the enterprise and translate them into realities.
8. Concerned with perceiving opportunities and threats and seizing initiatives to cope with them.
9. Concerned with deployment of limited organizational resources in the best possible manner.
10. Provides unified criteria for managers in decision making.

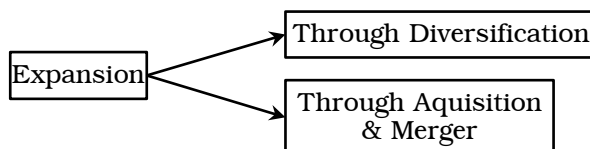
Generic Strategic Alternatives

According to William F. Glueck and Lawrence R Jauch there are four generic strategic alternatives:

1. Stability

- Safeguard its existing interests and strengths,
- Pursue well established and tested objectives,
- Continue in the chosen business path,
- Maintain operational efficiency on a sustained basis,
- Consolidate the commanding position already reached,
- Optimize returns on the resources committed in the business.
- It is pursued by a firm when:
- It continues to serve in the same or similar markets and deals in same products and services.
- The strategic decisions focus on incremental improvement of functional performance

2. Expansion



- Redefining the business
- Adding the scope of business
- Promising and popular strategy
- Equated with dynamism, vigor, promise and success.
- Significant reformulation of goals and directions,

- Major initiatives and moves involving investments,
- Exploration and onslaught into new products,
- New technology and new markets,
- Innovative decisions and action programmes

Diversifications & Mergers:

- **Expansion through diversification:** entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.
- **Conglomerate diversification-**
 - New product
 - Which has little or no affinity with its present product line
 - Meant for a new class of customers different from the firm's existing customer groups
- **Expansion through acquisitions and mergers:**
 - Attractive and tempting proposition
 - Circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialize growth.
 - Achieving a measure of synergy between the parent and the acquired enterprises.
 - Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development

3. Retrenchment

- Divesting a major product line or market.
- Becomes necessary for coping with hostile and adverse situations in the environment and
- When any other strategy is likely to be suicidal
- 1. **Temporary and partial setbacks** :Reduce capital and revenue expenditures, replacement of assets, advertising, R & D activities, employee welfare subsidies, community development projects, executives perks,
- 2. **More serious cases of hard times**: inventory levels, manufacturing level, manpower, plant maintenance, dividend to shareholders and interest on deposits can be postponed
- 3. **Next stage**: withdrawing from some marginal markets, withdrawal of some brands and sizes of products, withdrawal of even some slow moving products, winding up some branch offices, abolition of some executive positions
- 4. Fourth stage: sale of some manufacturing facilities and individual product divisions, retirement either from the production or the marketing stage, offering itself for take-over, seek liquidation(last)

4. Combinations:

- Above strategies are not mutually exclusive.
- Possible to adopt a mix of the above to suit particular situations.
- E.g. stability in some areas of activity, expansion in some and retrenchment in the others

Strategic Management

The term strategic management refers to the **Managerial process** of

- Forming a strategic **vision**,
- Setting **objectives**,
- crafting a **strategy**,
- **Implementing** and executing the strategy,
- And making **corrective adjustments** in the vision, objectives, strategy, and execution are deemed appropriate.

Framework of Strategic Process or task of SM

- Doing a situational analysis of the firm in the environmental context.—Do SWOT Analysis
- Finalizing vision and mission and setting Goals
- Dealing with the various strategic alternatives

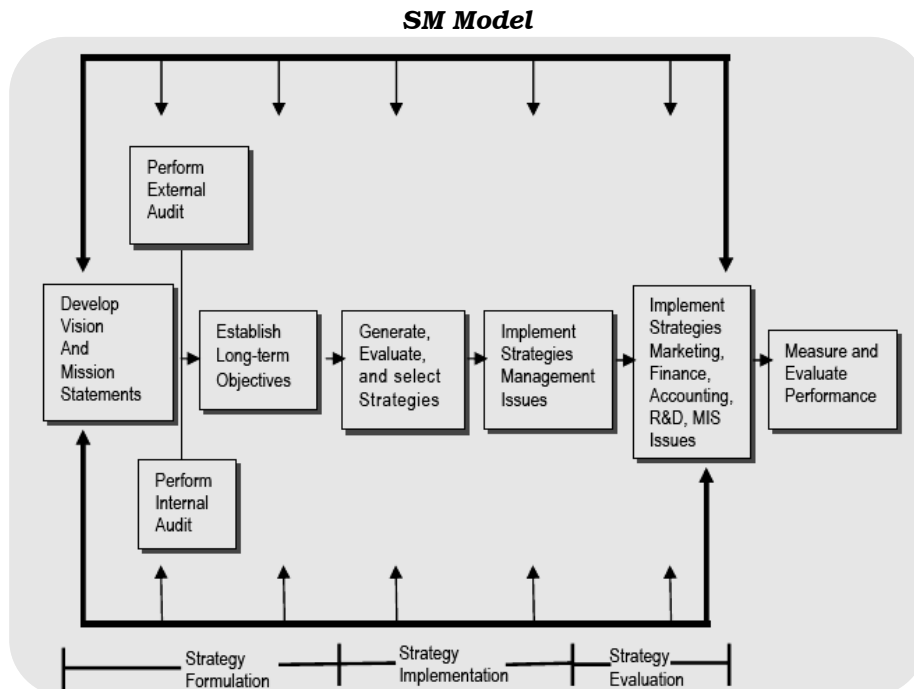
- Selection the best suitable alternative – in line with SWOT Analysis
- Implementation and control—Continuously doing situational analysis and repetition of stages

Strategic Decision Making

Dimensions of strategic decisions are:

Strategic issues:

- a) Require top-management decisions
- b) Involve the allocation of large amounts of company resources:
- c) Are likely to have a significant impact on the long term prosperity of the firm
- d) Is future oriented:
- e) Have major multifunctional or multi-business consequences:
- f) Necessitate consideration of factors in the firm's external environment:



Vision, Mission and Objectives

A **Strategic vision** is

- A **road map** of a **company's** future providing particulars about
 1. **Technology and customer focus**
 2. **Geographic and product markets** to be pursued,
 3. **Capabilities** it plans to **develop**,
 4. **Kind of company** that management is trying to **create**.

How to develop a strategic vision?

1. **Think creatively** about how to prepare a company for the future.
2. **Exercise intelligence** in entrepreneurship
3. **Change direction** not in order to survive but in order to maintain success.
4. A **well-formulated strategic vision** creates enthusiasm for the course of action management has planned and engages members of the organization.
5. The **best-expressed vision statement** clearly illuminates the direction in which organization is headed.

Mission

A company's Mission statement is typically focused on its **present business scope** – “**who we are and what we do**”;

Mission statements broadly describe an organizations **present capabilities, customer focus, activities, and business makeup**.

Why organization should have mission?

1. To ensure **unanimity of purpose** within the organization.
2. To provide a **basis for motivating** the use of the organization's resources.
3. To develop a basis, or **standard, for allocating** organizational resources.
4. To **establish** a general tone or **organizational climate**, for example, to suggest a businesslike operation.
5. To **serve as a focal point** for those who can identify with the organization's purpose and direction, and to **deter** those who cannot form participating further in the organization's activities.
6. To facilitate the **translation of objective and goals into a work structure** involving the assignment of tasks to responsible elements within the organization.
7. To specify **organizational purposes and the translation of these purposes into goals** in such a way that cost, time, and performance parameters can be assessed and controlled.

Following points are useful while writing mission of a company:

1. The mission is **not to make a profit**.
2. One of the roles of a mission statement is to give the organization its own special **identity, business emphasis and path for development** – one that typically sets it apart from other similarly situated companies.
3. A company's business is defined
 - a. by what **needs it trying to satisfy**,
 - b. by which **customer groups it is targeting** and
 - c. by **the technologies and competencies it uses** and
 - d. The **activities it performs**.
4. **Technology, competencies and activities** are important in defining a company's business because they indicate the **boundaries** on its operation.
5. Good mission statements are **highly personalized** – unique to the organization for which they are developed.

Objectives and Goals

Objectives are organizations'

- **Performance targets** –
- The **results and outcomes it wants to achieve**.
- They function as **yardstick for tracking an organizations performance and progress**.

Characteristics of Objectives:

1. Objectives should define the organization's **relationship with its environment**.
2. They should be facilitative towards **achievement of mission and purpose**.
3. They should provide the basis for **strategic decision-making**
4. They should provide standards for **performance appraisal**.
5. Objectives should be **understandable**.
6. Objectives should be **concrete and specific**
7. Objectives should be **related to a time frame**
8. Objectives should be **measurable and controllable**
9. Objectives should be **challenging**
10. Different objectives should **correlate with each other**

11. Objectives should be **set within constraints**

Strategic Levels in Organisations

- **Corporate Level:** CEO, other senior executives, board of directors, and corporate staff
- **Business Level:** Divisional managers and staff
- **Functional Level:** Functional managers

Difference between

No.	Characteristic	Level of Strategy		
		Corporate	Business	Functional
1.	Type	Conceptual	Mixed	Operational
2.	Measurability	Value Judgments dominant	Semi Quantifiable	Usually Quantifiable
3.	Frequency	Periodic or Irregular	Periodic or Irregular	Periodic
4.	Relation to Present activities	Innovative	Mixed	Supplementary
5.	Risk	Wide Range	Moderate	Low
6.	Profit Potential	Large	Medium	Small
7.	Cost	Major	Medium	Modest
8.	Time Horizon	Long Range	Medium Range	Short Range
9.	Flexibility	High	Medium	Low
10.	Co-op reqd.	Considerable	Moderate	Little

Chapter 3: Strategic Analysis

A **strategic group** consists of those rival firms with similar competitive approaches and positions in the market.

Companies in the same strategic group can resemble one another in any of several ways:

- They may have comparable **product-line breadth**,
- Sell in the same **price/quality range**,
- Emphasize the same **distribution channels**,
- Use essentially the same **product attributes** to appeal to similar types of buyers,
- Depend on identical **technological approaches**, or
- Offer buyers similar **services and technical assistance**.

Strategic Analyses

The two most important situational considerations are

- (1) **Industry and competitive conditions and**
- (2) **A company's own competitive capabilities, resources, internal strengths and weaknesses, and market position.**

Issues to consider for strategic analyses

- **Strategy evolves over a period of time:**
- **Balance:** matching the internal potential of the organization with the environmental opportunities.
- **Risk:**
 - 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.

Situational Analysis

The elements worth considering include:

- **Product situation:** What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.
- **Competitive situation:** Analyze your main competitors - who are they what are they up to - how do they compare. What are their competitive advantages?
- **Distribution situation:** Review your distribution Situation - how are you getting your product to market? Do you need to go through distributors or other intermediaries?
- **Environmental factors:** What external and internal environmental factors are there that need to be taken into account. This can include economic or sociological factors that impact on your performance.
- **Opportunity and issue analysis:** Things to write down here are what current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may effect the business performance

Strategic Analysis	
<p>External Analysis</p> <ul style="list-style-type: none"> ➤ Customer Analysis Segments, motivations, unmet needs. ➤ Competitor Analysis Identity, strategic groups, performance, image, objectives, strategies, culture, cost structure, strengths, weaknesses. ➤ Market Analysis Size, projected growth, profitability, entry barriers, cost structure, strengths, weaknesses ➤ Environmental Analysis Technological, government, economic, cultural, demographic, scenarios, information-need areas. 	<p>Internal Analysis</p> <ul style="list-style-type: none"> ➤ Performance Analysis Profitability, sales, shareholder value analysis, customer satisfaction, product quality, brand associations, relative cost, new products, employee capability and performance, product portfolio analysis. ➤ Determinates Analysis Past and current strategies, strategic problems, organizational Capabilities and constraints, financial resources and Constraints, strengths, and weaknesses.
Opportunities, threats, trends, and strategic, uncertainties.	Strategic strengths, weaknesses, problems, constraints, and uncertainties
<p>Strategy Identification & Selection</p> <ol style="list-style-type: none"> 1. Identify strategic alternatives 2. Product-maker investment strategies 3. Functional area strategies 4. Assets, competencies, and synergies 5. Select strategy 6. Implement the operating plan 7. Review strategies 	

What is an industry?

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

A **strategic group** consists of those rival firms with similar competitive approaches and positions in the market.

Strategic group mapping, is an useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in depth

The procedure for constructing a strategic group map

- **Identify the competitive characteristics** that differentiate firms in the industry.
Typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- **Plot the firms on a two-variable map** using pairs of these differentiating characteristics
- **Assign firms that fall in about the same strategy space** to the same strategic group
- **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues

Key Success Factors (KSFs)

An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace.

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 is 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**?

SWOT Analysis:

The significance of SWOT analysis lies in the following points:

- **It provides 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.
- **It presents a Comparative Account:** It 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.
- **It guides the strategist in Strategy Identification:** 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.

Strategic business unit:

SBU is a unit of the company that has a separate mission and objectives and which can be planned independently from other company businesses. The SBU can be a company division, a product line within a division, or even a single product or brand.

Characteristics

1. Single business or collection of related businesses that can be planned for separately.
2. Has its own set of competitors.
3. Has a manager who is responsible for strategic planning and profit.

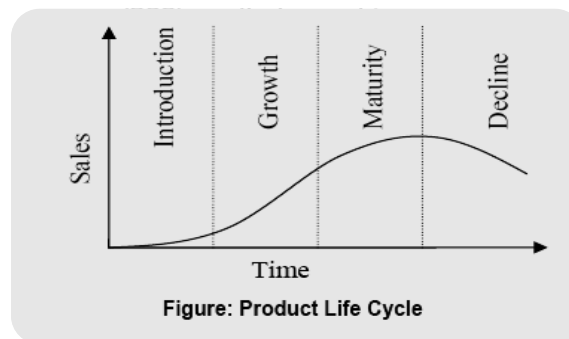
Experience Curve

Experience curve is based on the commonly observed phenomenon that units costs decline as a firm accumulates experience in terms of a cumulative volume of production.

Product Life Cycle:

PLC is an

- **S-shaped curve**
- Which exhibits the **relationship of sales** with respect to **time** for a product that passes through the four successive stages of
 - Introduction (slow sales growth),
 - Growth (rapid market acceptance)
 - Maturity (slow-down in growth rate) and
 - Decline (sharp downward drift).



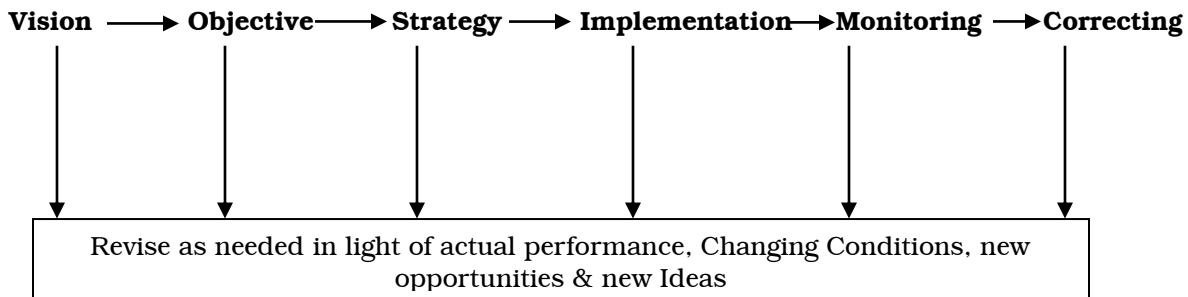
Chapter 4: Strategic Planning

What do you mean by a Corporate Strategy?

Corporate strategy is basically concerned with the **choice of businesses, products and markets.**

1. It can also be viewed as the **objective-strategy design** of the firm.
2. It is the design for **filling the firm's strategic planning gap.**
3. It is concerned with the **choice of the firm's products and markets;**
4. It actually denotes the **changes / additions / deletions in the firm's existing product-market postures.**
5. It spells out the **businesses** in which the firm will play, the **markets** in which it will operate and the **customer needs** it will serve.
6. It ensures that the **right fit is achieved between the firm and its environment.**
7. It helps **build** the relevant **competitive advantages** for the firm.
8. Corporate objectives and corporate strategy together **describe the firm's concept of business.**

THE STAGES OF CORPORATE STRATEGY FORMULATION- IMPLEMENTATION PROCESS



1. **Vision:** Explain about Vision, Mission
2. **Objective:** Explain about Objective, types-Long term, Short term (within 1 year) (Sales, Profit)

<i>Long term</i>	
<i>Area</i>	<i>Quality</i>
1. Profitability	Acceptable
2. Productivity	Achievable
3. Public Responsibility	Measurable
4. Employee Dept.	Motivating
5. Employee Relations	Suitable
6. Tech Leadership	Understandable
7. Competitive Position	Flexible

Strategic Intent: A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective.

Balanced scorecard: A combination of strategic and financial objectives for measuring company performance and tracking the achievement of strategic and financial objectives

3. **Strategy:** Three types of assessments:
 - Organizational strengths and weaknesses
 - Competitor strengths, weaknesses, and strategies,
 - Market Needs, Attractiveness, and Key Success
4. **Implementation: Most difficult, time consuming**
 Following Aspects to be covered:
 1. Staffing

2. Developing budgets
 3. Policies and operating procedures effective execution.
 4. Perform best-known practices
 5. Installing information and operating systems
 6. Motivating to pursue the objectives
 7. rewards and incentives
 8. Creating a company culture and work conducive to successful strategy implementation and execution.
 9. Using Internal Leadership to implement and improve strategy execution
- 5. Monitoring: Ongoing Process, never ending, not an every now and then task.**
Continue or Change vision, objectives, strategy, and/or strategy-execution methods.

STRATEGIC ALTERNATIVES **Michael Porter's Generic Strategies**

Cost leadership: producing **standardized products** at a very **low per-unit cost** for consumers who are **price-sensitive**

Characteristics

- Spreads to entire firm
- High efficiency,
- Low overhead, limited perks,
- Intolerance of waste,
- Intensive screening of budget requests,
- Wide spans of control,
- Rewards linked to cost containment, and
- Broad employee participation in cost control efforts.

Risks in Pursuing this Strategy

- Imitation of Strategy by Competitors
- Overall industry profits down;
- Technological breakthroughs in the industry may make the strategy ineffective
- Buyer interest may swing to other differentiating features besides price.

Requirements

- Sustained **capital investment** and access to capital
- Process **engineering skills**
- Intense **supervision of labor**
- **Products designed** for ease in manufacture
- **Low-cost distribution** system
- Tight Cost Control, Cost Control Reports, Clearly defined Responsibilities, incentive based on achievement

Differentiation: producing products and services considered **unique** industry wide and directed at consumers who are relatively **price-insensitive. e.g., Product Dept.**

Characteristics:

- Charge a higher price for its product
- Gain customer loyalty
- Superior service,
- Spare parts availability,
- Superior Engineering design,
- Superior product performance,
- Greater useful life,
- Ease of use.

Risks in Pursuing this Strategy

- Unique product may not be valued highly enough by customers to justify the higher price.
- Competitors may develop ways to copy the differentiating features quickly.

Requirements

- Strong marketing abilities
- Product engineering

- Creative talent
- Corporate reputation for quality or technological leadership
- Long tradition in the industry or unique combinations of skills drawn from other business
- Strong cooperation from channels
- R&D ,Marketing, Prod.Devt- Co-ordination
- Strong capability in basic research
- Incentive on a subjective basis
- Perquisites to attract labor

Focus: Producing products and services that fulfill the needs of **small groups of consumers**. Eg: market penetration and market development. Most effective when **consumers' preferences are diff** and **rivals are not attempting to specialize in the same target segment**

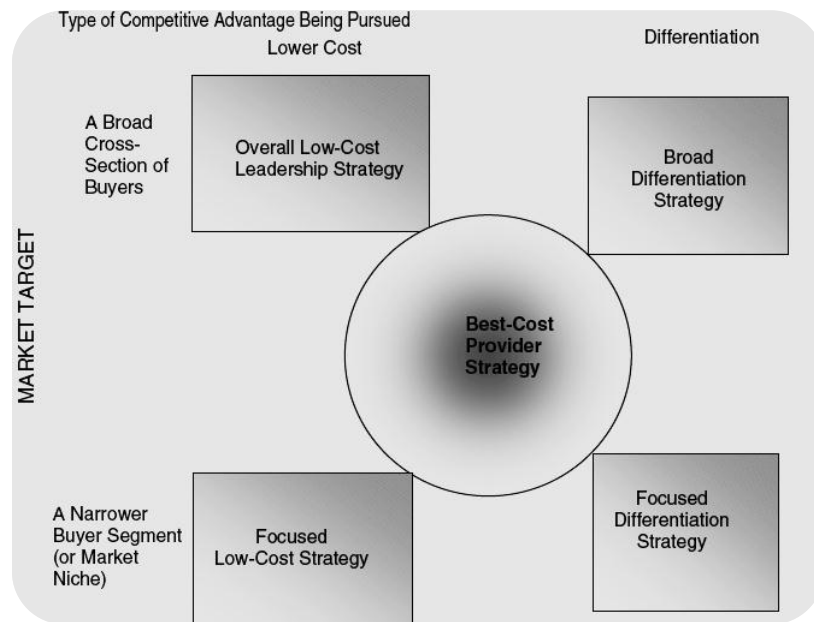
Risks in Pursuing this Strategy

- Numerous competitors will recognize the successful focus strategy and copy it,
- Consumer preferences will move toward the product attributes desired by the market as a whole.

Requirements

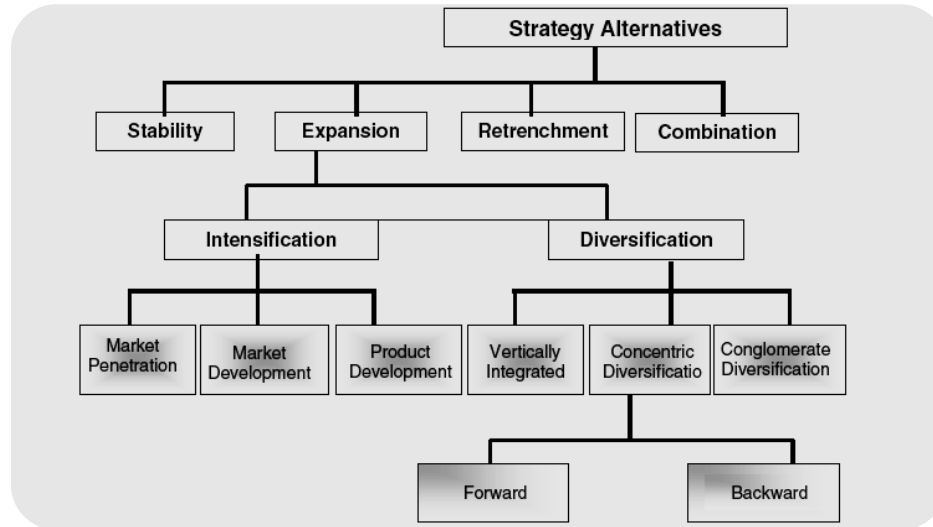
- Combination of the above policies directed at the particular strategic target

Best-Cost Provider Strategy



Distinctive features of the generic competitive strategies are given below

	Type of Feature	Overall Low cost	Broad Diff	Best Cost Provider	Focused low cost & Diff
1	Strategic Target	Broad Cross Section of Market	Broad Cross Section of Market	Value-Conscious Buyer	Narrow Market
2	Basic of Competitive Adv.	Lower Cost	Different Product feature	More Value for Money	Lower cost & some special attribute to cater the needs of niche members
3	Market Emphasis	Achieve Low cost	Diff features, charging premium to cover cost of diff.	Underprice rival with comparable features or Equal price with better features	Communicate abt your aim of catering to needs of niche mem.
4	Sustaining the strategy	Economical price, cost reduction	Advt., stressing innovation, to create brand image & reputation	Develop Expertise in Cost Reduction & Upscaling features	totally dedicated to serving the niche than competitors
5	Product Line	basic product with acceptable features	Products with many diff features	Good-to-excellent attributes, several-to-many upscale features	Products with Features that appeal targeted segment
6	Product Emphasis	continuous cost reduction without impairing quality	value for buyer; product superiority	Upscale features at low cost	According to niche members' specification

Grand strategies/directional strategies

- **Stability:** The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
- **Expansion:** Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
- **Retrenchment:** The firm retrenches some of the activities in a given business, or drops the business as such through sell-out or liquidation.
- **Combination:** The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirement of the firm.
- **Intensification:** The firm pursues growth by working with its current businesses.
- Intensification, in turn, encompasses three alternative routes:
- **Market penetration strategy:** The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.
- **Market development strategy:** marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.
- **Product development strategy:** involves substantial modification of existing products or creations of new but related items that can be marketed to current customers through establish channels.

Diversification Strategy**Can be related or unrelated to existing businesses of the firm?**

Classified into four broad categories based on relationship with existing business:

- **Vertically integrated diversification-** engages in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. the firm does not jump outside the vertically linked product-process chain
- **Horizontally integrated diversification** - acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.
- **Concentric diversification-** new business is linked to the existing businesses through process, technology or marketing. In concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.

- **Conglomerate diversification**- no linkages exist with existing pro/process; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification.

Vertically integrated diversification

- **Backward Integration**
 - Vertically moving up in the Product-process chain.
 - Example: An automobile assembly unit may itself start manufacturing the components and spare parts
- **Forward Integration**
 - Vertically moving down in the Product-process chain
 - Example: In the above example, if the same co. starts a distribution outlet to sell its cars, then it becomes Forward Integration

Horizontally integrated diversification

- Acquisition of one or more similar business
- Operating at the same stage of the production-
- Marketing chain is going into complementary products, by-products or taking over competitors' products.
- Eg: In the above example if the automobile co. starts producing luxurious and midsized automobiles also.

Divestment Strategy

If it

- Cuts off the **loss-making units, divisions, or SBUs**,
- Curtails its **product line**, or
- Reduces the **functions** performed.

Why is it needed?

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
4. Technological up gradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
5. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

Turnaround strategy

Internal retrenchment strategy where emphasis is laid on **improving internal efficiency**

When is it needed?

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

Action plan for turnaround strategy

1. Analysis of product, market, production processes, competition, and market segment positioning.
2. Clear thinking about the market place and production logic.

3. Implementation of plans by target-setting, feedback, and remedial action.

Ten elements that contribute to turnaround are:

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

Liquidation Strategies

1. Most extreme and unattractive
2. Closing down a firm and selling its assets
3. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

Chapter 5: Formulation of Functional Strategy

The reasons why functional strategies are needed:

1. Strategic decisions are **implemented by all the parts** of an organization.
2. They serve as a **basis for controlling activities** in the different functional areas of business.
3. **Time taken in DM by Functional Managers is reduced** as plans & policies are already designed.
4. **Similar situations** occurring in different functional areas are **handled in a consistent manner** by the functional managers.
5. **Coordination** across the different functions takes place where necessary.

Marketing Strategy Formulation

Relationship of Marketing with other Business Functions:

1. All company **departments must work together** to produce superior **value to consumer**. Marketing alone cannot accomplish this.
2. Each department is a **link in the value chain**
3. A company's value chain is only **as strong as the weakest link**.
4. Marketers are challenged to find ways to get all departments to "**think customer**."
5. The firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and ultimately customers. (This will produce VDN)

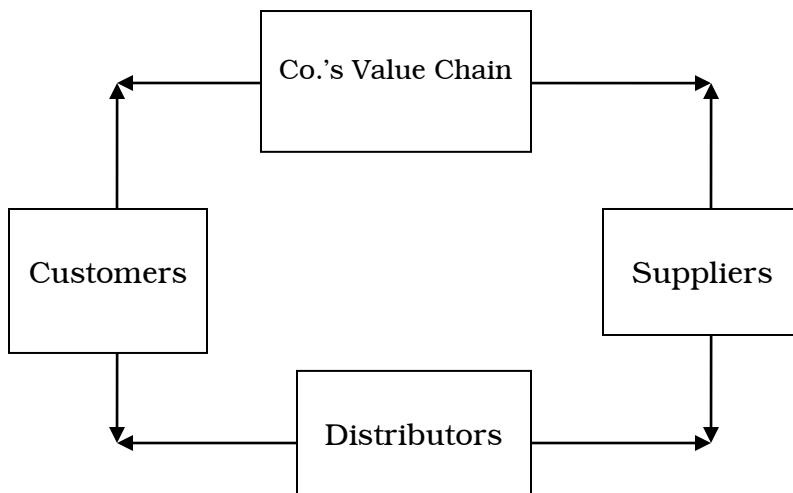


Fig.: Value Delivery Network

Some examples of marketing decisions that may require policies are as follows:

1. To use exclusive **dealerships** or multiple **channels** of distribution.
2. To use heavy, light, or no **TV advertising**.
3. To limit (or not) the share of **business** done with a **single customer**.
4. To be a **price leader** or a **price follower**.
5. To offer a complete or limited **warranty**.
6. To **reward salespeople** based on straight salary, straight commission, or a combination of salary/commission.
7. To **advertise online** or not.

The **marketing process** is the process of

1. Analyzing market opportunities,
2. Selecting target markets,
3. Developing the marketing mix, and
4. Managing the marketing effort.

Connecting with customers

Market segmentation: Divide the total market

Market targeting: choose the best segments

Market positioning: design strategies for profitably serving chosen segments better than the competition

Developing the marketing mix

Marketing mix is

- The set of controllable marketing variables
- That the firm blends to produce the response
- It wants in the target market

These variables are often referred to as the **4P's** or **4C's**

Product: "goods-and-service" combination the company offers to the target market.

Price: Amount of money customers have to pay to obtain the product.

Place: Company activities that make the product available to target consumers.

Promotion: Activities that communicate the merits of the product and persuade target consumers to buy it.

1. Product = Customer Solution.
2. Price = Customer Cost.
3. Place = Convenience.
4. Promotion = Communication.

Expanded Marketing Mix: The new marketing mix (particularly for services) includes

1. **People:** All **human** actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
2. **Physical evidence:** The **environment** in which the market offering is delivered and where the firm and customer interact.
3. **Process:** The **actual procedures**, mechanisms and flow of activities by which the product / service is delivered.

Marketing Analysis

- Identifying **environmental opportunities and threats**.
- Analyzing **company strengths and weaknesses** to determine which opportunities the company can best pursue.
- **Feeding information** and other inputs to each of the other marketing management functions.

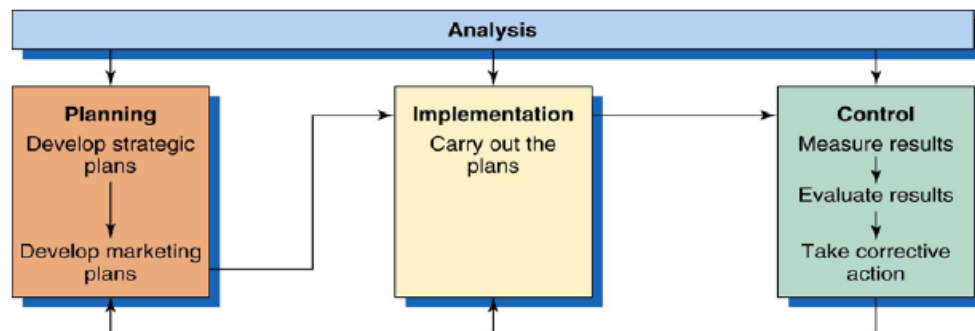


Figure: Managing the marketing effort

Market Planning

1. The **executive summary** is a short summary of the main goals and recommendations to be presented in the plan.
2. The **current marketing situation** is the section of a marketing plan that describes the target market and the company's position in it. Important sections include:
 - a. A market description.
 - b. A product review.
 - c. Analysis of the competition.
 - d. A section on distribution.
3. **Threats and opportunities section**- anticipate important developments that can have an impact, either positive or negative, on the firm.
4. **Objectives**: It should be stated as goals that the company would like to attain during the plan's term.
5. **Marketing strategy** is the marketing logic by which the business unit hopes to achieve its marketing objectives. Strategies should be created for all marketing mix components.
6. The **marketing budget** is a section of the marketing plan that shows projected revenues, costs, and profits.
7. **Controls** -will be used to monitor progress. This allows for progress checks and corrective action.

Marketing strategy techniques

1. **Social Marketing**: It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group.
→ For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke in Delhi.
2. **Augmented Marketing**. It is provision of additional customer services and benefits built around the core and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
3. **Direct Marketing**: Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response.
→ Direct marketing includes Catalogue Selling, Mail, Telecommuting, Electronic Marketing, Shopping, and TV shopping.
4. **Relationship Marketing**: The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholder.
→ For example, British Airways offers special lounges with showers at 199 airports for frequent flyers. Thus, providing special benefits to select customers to strength bonds. It will go a long way in building relationships.
5. **Services Marketing**: It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the, banking, savings, retailing, educational or utilities.
6. **Person Marketing**: People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people.
→ For example, politicians, sports stars, film stars, professional i.e., market themselves to get votes, or to promote their careers and income.
7. **Organization Marketing**: It consists of activities undertaken to create, maintain, or change attitudes and behavior of target audiences towards an organization. Both profit and nonprofit organizations practice organization marketing.
8. **Place Marketing**: Place marketing involves activities undertaken to create, maintain, or change attitudes and behavior towards particular places say, business sites marketing, tourism marketing.

9. **Enlightened Marketing:** A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system;
Its five principles include
 - Customer-oriented marketing,
 - Innovative marketing,
 - Value marketing,
 - Sense-of-mission marketing, and
 - Societal marketing.
10. **Differential Marketing:** A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each.
 - For example. Hindustan Lever Limited has Lifebuoy, Lux and Rexona in popular segment and Liril and Pears in premium segment
11. **Synchromarketing:** When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchromarketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives.
 - For example woollens or coolers; or hospitals underbooked on weekend or end of the week.
12. **Concentrated Marketing:** A market-coverage strategy in which a firm goes after a large share of one or few sub-markets.
13. **Demarketing:** Marketing strategies to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand.
 - For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

FINANCIAL STRATEGY FORMULATION

The financial strategies of an organization are related to several finance/accounting concepts considered to be central to strategy implementation.

Some examples of decisions that may require finance/accounting policies are:

- Cash Flow Management/Cash Management
- Capital Structure Decisions
- Financing Decisions
- Capital Budgeting Decisions
- Receivable Management – Credit Period, Credit Limit

Requirements for Strategy Implementation

- Determining an appropriate mix of debt and equity in a firm's capital structure
- Projected financial statements / budgets
- Financial budgets
- Investment or asset-mix decisions.
- Evaluating the worth of a business

There are **3 methods**:

- * **First Method:** Share Capital + Reserves/Surplus – Goodwill + Under Valued Assets – Overvalued Assets
- * **Second Method:** 5 × Current Annual Profit
- * **Third Method:**
 - **First Approach:** Base the firm's worth on the selling price of a similar company.
 - **Second approach**(price-earnings ratio method): $\frac{\text{MPS}}{\text{EPS}}$
 - **Third Approach:** No. of Shares × MPS

Production Strategy

The **production system** is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration etc.

Operations planning and control are concerned with

- Aggregate production planning;
- Materials supply;
- Inventory, cost, and
- Quality management;
- Maintenance of plant and equipment.

Here, the aim of strategy implementation is to see how efficiently resources are utilized and in what manner the day-to-day operations can be managed in the light of long-term objectives.

Quality as a strategic tool: Quality is a consideration not only at the inspection stage but is built into the design itself.

Logistics Strategy

Management of logistics is a process which

- Integrates the flow of supplies **into, through and out** of an organization
- To achieve a level of **service**
- Which **ensures** that the
- Right **materials** are available at the right **place**, at the right **time**, of the right **quality**, and at the right **cost**

Question to be raised and solved for an effective logistics strategy

- Sources of RM and Components
- No. of Manu. Locations
- Products Manufactured @ each Manu. Location
- Modes of Transport
- Distbn. Facilities
- Material Handling Equipments
- Deploying inventory in the logistics network
- Own Transport vehicles or not

Logistics can help a business in following ways:

- Cost savings
- Reduced inventory
- Improved delivery time
- Customer satisfaction
- Competitive advantage

Research and Development

Three major R&D approaches for implementing strategies:

First approach

- Be the first firm to market new technological products.
- Glamorous and exciting strategy but also a dangerous one.
- E.g.: 3M & GE

Second R&D approach

- Be an innovative imitator of successful products, thus minimizing the risks and costs of start-up.
- Allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists.
- Then, follower firms develop a similar product.
- This strategy requires excellent R&D personnel and an excellent marketing department.

Third R&D approach

- Be a low-cost producer
- By mass-producing products similar to but less expensive than products recently introduced.
- This R&D strategy requires substantial investment in plant and equipment, but less expenditure in R&D than the two approaches described earlier.

Human Resource Strategy Formulation

Recruitment and selection: The workforce will be more competent if a firm can

- Successfully identify,
- Attracts, and
- Select the most competent applicants.

Training: The workforce will be more competent if employees are

- Well trained to perform their jobs properly.

Appraisal of Performance: The performance appraisal is to

- Identify any performance deficiencies experienced by employees due to lack of competence.
- Such deficiencies, once identified, can often be solved through counseling, coaching or training.

Compensation: A firm can usually increase the competency of its workforce by

- Offering pay and benefit packages that are more attractive than those of their competitors.
- This practice enables organizations to attract and retain the most capable people.

Strategic focus should be given in the following points:

→ **Pre-selection practices**

- * Including human resource planning and job analysis.

→ **Selection practices**

- * Meant to staff various positions in the organization.
- * Both recruitment and selection policies and procedures should be designed keeping in view the mission and the purpose of the organization.

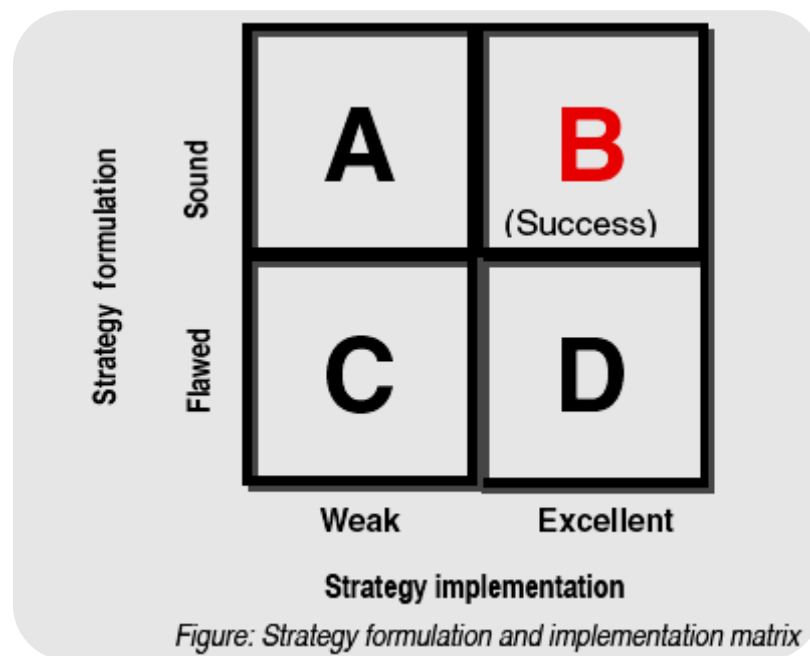
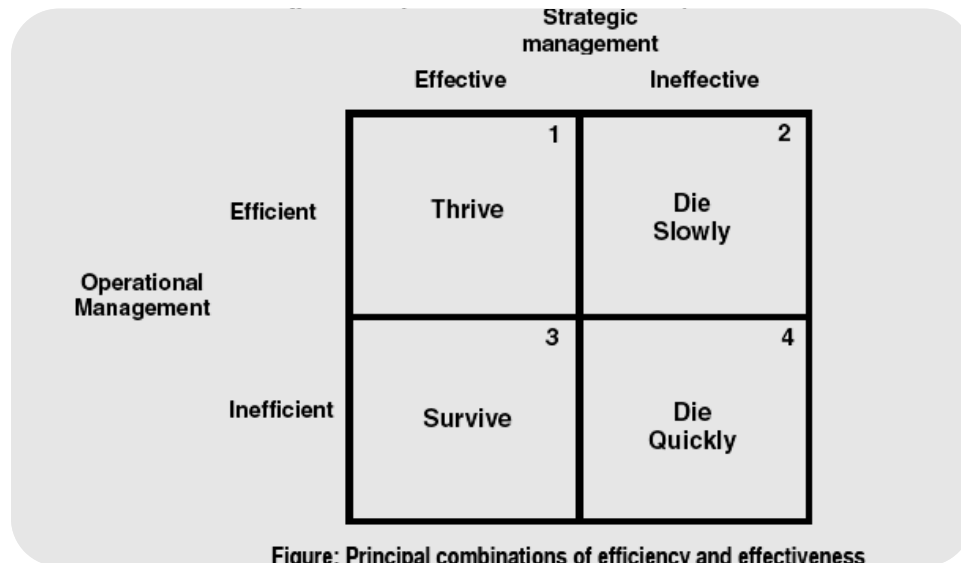
→ **Post-selection practices**

- * To maintain and improve the workers job performance levels.
- * Human Resources decisions related to training and development, performance appraisal, compensation and motivation should be based on corporate strategy of the organization.

Areas where HR Manager can play strategic role

1. Providing purposeful direction: Leadership, Co-ordination
2. Creating competitive atmosphere: cost leadership, differentiation
3. Facilitation of change: Diversion of workforce:
4. Empowerment of human resources
5. Building core competency: creative, courageous and dynamic leadership having faith in organization's human resources.
6. Development of works ethics and culture:

Chapter 6: Strategic Implementation & Control



Strategy formulation	Strategy implementation
Strategy formulation is positioning forces before the action.	Strategy implementation is managing forces during the action.
Strategy formulation focuses on effectiveness	Strategy implementation focuses on efficiency .
Strategy formulation is primarily an intellectual process .	Strategy implementation is primarily an operational process .
Strategy formulation requires good intuitive and analytical skills .	Strategy implementation requires special motivation and leadership skills
Strategy formulation requires coordination among a few individuals	Strategy implementation requires combination among many individuals .

ISSUES IN STRATEGY IMPLEMENTATION

Very IMP:

1. Strategies, by themselves, do not lead to action
2. Strategies should lead to plans.
3. Plans result in different kinds of programmes.
4. Programmes lead to the formulation of projects.
5. Projects create the needed infrastructure for the day-to-day operations in an organization.

The **issues in strategy implementation** which are to be considered:

- | | |
|------------------------------|------------------------------|
| 1. Project implementation | 4. Structural implementation |
| 2. Procedural implementation | 5. Functional implementation |
| 3. Resource allocation | 6. Behavioral implementation |

Changes in strategy often require changes in the way an organization is structured for two major reasons.

1. Structure largely dictates how objectives and policies will be established
2. Structure dictates how resources will be allocated.

Types of Organization Structure

- | | |
|---------------|------------|
| 1. Functional | 4. Matrix |
| 2. Divisional | 5. Network |
| 3. SBU | |

SBU (Strategic Business Unit)

An SBU is a grouping of related businesses, which is amenable to composite planning treatment.

The **attributes of an SBU** and the benefits a firm may derive by using the SBU idea.

1. Scientific Method of grouping
2. Improvement over territorial grouping
3. Pro/Buz within an SBU receive same SP treatment & priorities
4. Analysing, Segmenting & Re-grouping into few
5. Unrelated Pro/Buz are separated or made into separate SBUs
6. Helps in SP & Removes confusion & vagueness in grouping units
7. Each SBU is a separate business from the strategic planning standpoint.
8. Each SBU will have its own distinct set of competitors and its own distinct strategy.
9. Each SBU will have a CEO who will be responsible for strategic planning for the SBU and its profit performance

Relatedness might exist in different ways:

→ SBUs might build on similar technologies or all provide similar sorts of products or services.

- SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar.
- SBU may be that other competences on which the competitive advantage of different SBUs are built have similarities. Eg: Marketing Skills

The three most important Characteristics of SBU are:

- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand-alone from the rest of the organization.
- Has its own set of competitors.
- Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

The 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).
- One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organized into routines and systems 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:

- | | |
|------------------------|-----------------------------|
| 1. Inbound logistics, | 4. Marketing and sales, and |
| 2. Operations, | 5. Service. |
| 3. Outbound logistics, | |

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 various 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.

Services 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 is 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).

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.

Identifying Core Competences

Competences which critically support the organization's competitive advantage 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,

- Consider how small shops compete with supermarkets in **grocery retailing**.
- All shops need to have a threshold competence in the basic activities of purchasing, stocking, display, etc.
- But, **the supermarkets have core competences** in merchandising, low cost supplies, managing in-store activities effectively, computerized stock/ordering systems, own brand labels
- The **Small shops may have core competences** in personal service to customers, extended opening hours, informal credit, home deliveries, etc.
- The **key resources for the successful small shops** are the **style** of the owner and the choice of **location**.
- These aspects of service are valued by some consumers and are difficult for the supermarkets to imitate without substantially increasing their costs.

Two typical ways in which core competences can be exploited to maintain progress

The development of

- 'Added value' services and/or
- Geographical spread of markets
- Once traditional markets are mature or saturated.

What does the Core Competence Achieve?

- Provides potential access to a wide variety of markets
- Makes a significant contribution to the perceived customer benefits of the end product
- Difficult for competitors to imitate

Leadership and Strategic Implementation

Managers have five leadership roles to play in pushing for good strategy execution:

1. **Staying on top** of what is happening, closely monitoring progress, discovering issues, and learning what obstacles lie in the path of good execution.
2. **Promoting a culture and esprit de corps** that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
3. **Keeping the organization responsive to changing conditions**, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
4. **Exercising ethics leadership** and insisting that the company conduct its affairs like a model corporate citizen.
5. **Pushing corrective actions** to improve strategy execution and overall strategic performance.

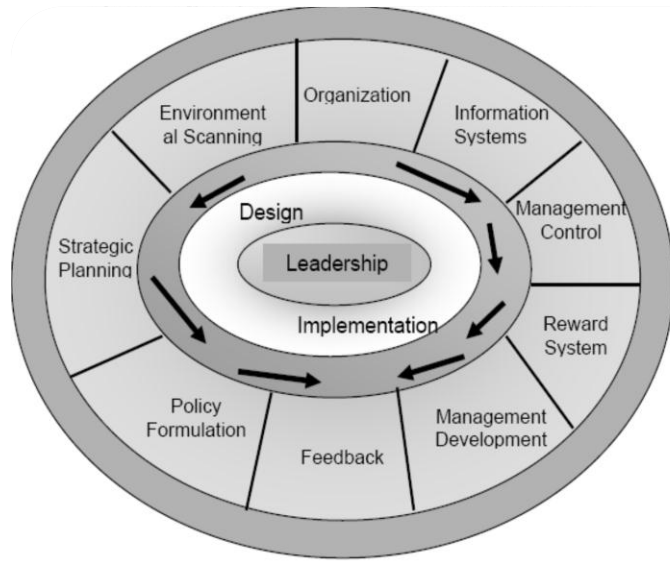


Figure : Strategy Design and Implementation: Interrelationship of Elements

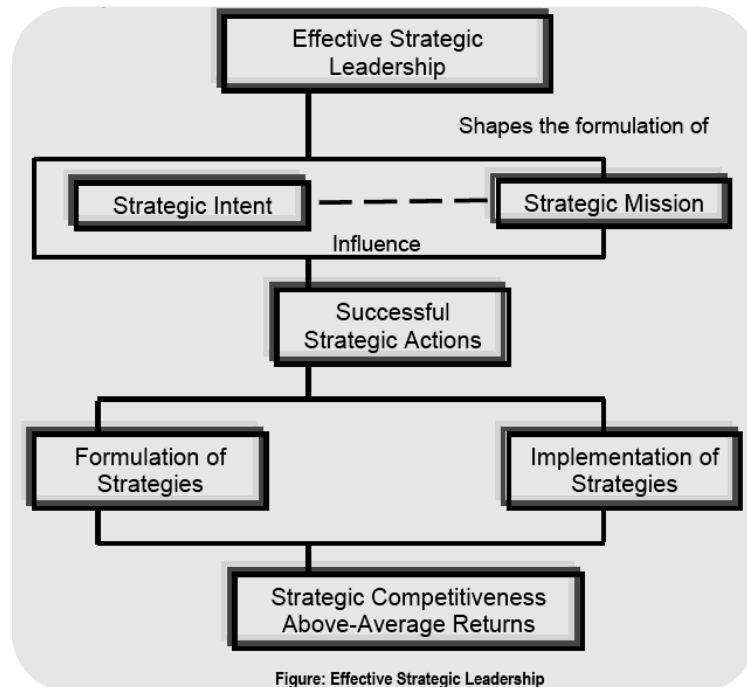


Figure: Effective Strategic Leadership

Some of the Responsibilities of a strategic leader:

1. **Managing human capital** (perhaps the most critical of the strategic leader's skills).
2. Effectively **managing the company's operations**.
3. **Sustaining high performance over time**.
4. Being willing to make **straightforward, courageous, yet pragmatic, decisions**.
5. Seeking **feedback through face-to-face communications**.
6. Having **decision-making responsibilities** that **cannot be delegated**.

Building a Strategy-Supportive Corporate Culture

Corporate culture refers to a Company's values, beliefs, business principles, traditions, ways of operating, and internal work environment

Origin of Corporate Culture

- The **sociological forces** combine to define an organization's culture, beliefs and practices that become embedded in a company's culture.
It can originate anywhere:
 - From one influential individual, work group, department, or division,
 - From the bottom of the organizational hierarchy or the top
- A significant part of a company's culture emerges from the **stories** that get told over and over again to illustrate to new-comers the importance of certain values and beliefs and ways of operating.

Culture: Ally or obstacle to strategy execution?

- When the beliefs, vision, objectives, and business approaches and practices supporting a company's strategy are compatible with its culture, then the culture becomes a valuable ally in strategy implementation and execution.
- When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes an obstacle that impedes successful strategy implementation and execution.

Chapter 7: Reaching Strategic Edge

Business Process Re-engineering (BPR)

A **process** is a collection of activities which creates an output of value to the customer and often goes beyond departmental or functional boundaries.

A **business process** comprises a combination of number of independent or interdependent processes as:

- Developing new product ➤ Customer order processing ➤ Bill payment system

Core business process

- **Creates value** by the capabilities it provides to the competitiveness.
- Core business processes are **critical** in a company's **evaluation** by its customers.
- They are **vital for success** in the industry sector within which the company is positioned.
- They are **crucial for generating competitive advantages** for a firm in the marketplace.
- **Eg:** In a **FMCG Industry** -marketing and brand management is a core process.
- In the **electronics and semi-conductor industries**, **new product development** is a core process.

BPR: refers to the analysis and redesign of workflows and processes both within and between the organizations

1. Reengineering begins with a **fundamental rethinking**.
2. Reengineering does **not begin with anything given or with any assumptions**.
3. Reengineering involves **radical redesigning of process**.
4. It aims at achieving **dramatic improvement in performance**.
5. Its main **focus is on the process**

Rationale of BPR

- (1) **New technologies** (like Information Technology) are rapidly bringing **new capabilities** to businesses, thereby **raising the strategic options** and the need to improve business processes dramatically.
- (2) Opening up of Indian economy has increased competition.
- (3) Customers are also demanding better products and services.

Implementation of BPR

(1) Determining objectives and Framework:

- a) Objectives provide reqd **focus, direction, and motivation** for the redesign process.
- b) Helps in **building a comprehensive foundation** for the reengineering process.

(2) Identify Customers and Determine their Needs:

- a) Designers should **understand customers** - their profile, their steps in acquiring, using and disposing a product.
- b) The redesigned business process should clearly **provide added value to the customer**.

(3) Study the Existing Process:

- a) **Existing processes** provide an important **base** for the redesigners.
- b) **Purpose** gain an **understanding** of the '**what**', and '**why**' of the **targeted process**.
- c) Some companies **do not** lay **emphasis** on the **past processes**.

(4) Formulate a redesign process plan:

- a) **Information** gained through the **earlier steps** is translated into an ideal redesign process.
- b) It is the **real crux** of the reengineering efforts.
- c) **Customer focused** redesign concepts are identified and formulated.

- d) **Alternative processes** are considered and the **best** is selected.
- (5) **Implement the redesign:**
- a) Easier to formulate than to implement new process.
 - b) Key to achieve dramatic improvements –
 - i) **Implementation** of the redesigned process and
 - ii) **Application of other knowledge** gained from the previous steps is.
 - c) **Operationalise** the new process.-Joint responsibility of the **designers and management**

Premises of BPR

- (1) The **operational excellence** of a company is a major **basis for its competitiveness**.
- (2) The business **strategy** of a company should be **oriented towards leveraging** its **operational excellence into the marketplace**.
- (3) A **customer-focused organization needs to be realigned in terms of a process orientation**.
- (4) **Process** need to **managed, not functions**.
- (5) For considering totally new ways of redesigning processes, each and every **concept, assumption, purpose, and principle**, needs to **abandon temporarily**.
- (6) Continuous improvement is a deficient approach when a company is far behind the industry standards, and needs **rapid quantum leaps in performance**.
- (7) **Dramatic improvement** in performance is the prerequisite for **overcoming competition**.
- (8) **How** to compete is more **important than** deciding about **where to compete**.

Impact of IT-systems

- Compression of time
- Overcoming restrictions of geography and/or distance
- Restructuring of relationships.

Business values provided by IT in three distinct areas:

- (1) **Efficiency** – by way of increased productivity,
- (2) **Effectiveness** – by way of better management,
- (3) **Innovation** – by way of improved products and services

Central Thrust of BPR:

“THE REDUCTION OF THE TOTAL CYCLE TIME OF A BUSINESS PROCESS.” by

- 1. **Eliminating** the **unwanted and redundant steps**
- 2. By **simplifying** the **systems and procedures**
- 3. By **eliminating** the **transit and waiting times**
- 4. **Maintaining** a continuous effort for more and more **improvement**.

Problems in BPR

- (1) **Only few cost** have the courage of having BPR
- (2) It **disturbs established hierarchies and functional structures** and
- (3) Creates serious **repercussions** and involves **resistance** among the work-force.
- (4) As it **takes time and expenditure**, many companies are **reluctant** to go for BPR
- (5) **Possibility of losses** in the transition period.
- (6) **Target setting** is tricky and **difficult**.
- (7) It may **turn-out as a failure** if targets are not properly set or the whole transformation is not carried out properly

Benchmarking

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices

- Helps in improving performance by learning from best practices and the processes
- It involves
 - **Regularly comparing** different aspects of performance with the best practices,
 - **Identifying** gaps and
 - Finding out novel methods to **reduce the gaps** and
 - **Improve** the situations so that the gaps are positive for the organization.

Areas where Benchmarking can be used

- | | |
|---|-------------------------------|
| (1) Maintenance operations | (5) Customer services |
| (2) Assessment of total manufacturing costs | (6) Plant utilization levels |
| (3) Product development | (7) Human resource management |
| (4) Product distribution | |

The Benchmarking Process

Benchmarking processes lack standardization. Common elements are as follows:

- (1) **Identifying the need for benchmarking and planning:**
 - a. defining the objectives
 - b. selecting the type of benchmarking
- (2) **Clearly understanding existing business processes:**
 - a. Compiling information and data on performance by diff methods such as interviews, visits and filling of questionnaires.
 - b. Mapping processes.
- (3) **Identify best processes:**
 - a. Within the selected framework, best processes are identified.
 - b. These may be within the same organization or external to them.
- (4) **Compare own processes and performance with that of others:**
 - a. Comparing gaps in performance between the organization and
 - b. Identifying better performers.
 - c. Analyzing gaps to seek example.
 - d. Feasibility of making the improvements is also examined.
- (5) **Prepare a report and Implement the steps necessary to close the performance gap:**
 - a. A report containing recommendations is prepared.
 - b. Such a report includes the action plan(s) for implementation.
- (6) **Evaluation:**
 - a. Evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose.
 - b. Periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact the performance.

Total Quality Management (TQM)

Total Quality Management (TQM) is a **people-focused management system** that aims at **continual increase in customer satisfaction at continually lower real cost**

- TQM stresses **learning and adaptation to continual change** as keys to organizational success.
- TQM is a **total system approach** (not a separate area or program) and
- An **integral part of high-level strategy**;
- It works **horizontally across functions and departments**,
- Involves **all employees, top to bottom**, and
- Extends **backward and forward** to include the **supply chain and the customer chain**.

Principles guiding TQM

- (1) **A sustained management commitment to quality:** The commitment to implement has to start at the top, and the organization's senior management has to be firm in its commitment to quality.
- (2) **Focusing on the customer:** Lee Iacocca had only three rules: Satisfy the customer, satisfy the customer, and satisfy the customer.
- (3) **Preventing rather than detecting defects:** prevent poor quality in products and services, rather than simply to detect and sort out defects.
- (4) **Universal quality responsibility:** responsibility for quality is not restricted to an organization's quality assurance department, but is shared by everyone in an organization.
- (5) **Quality measurement:** quality is a measurable commodity, and in order to improve, one need to know what are the current quality levels what quality levels we aspire to achieve.
- (6) **Continuous improvement and learning:** "Continuous improvement" refers to both incremental and "breakthrough" improvement. It is part of the management of all systems and processes. "Learning" refers to adaptation to change, leading to new goals or approaches.
- (7) **Root cause corrective action:** identifying the root causes of problems, and by implementing corrective actions that address problems at the root cause level.
- (8) **Employee involvement and empowerment:** **Employee involvement** means every employee is involved in running the business and plays an active role in helping the organization meet its goals. **Employee empowerment** means employees and management recognize that many obstacles to achieving organizational goals can be overcome by employees who are provided with the necessary tools and authority to do so.
- (9) **The synergy of teams:** is an effective way to address the problems and challenges of continuous improvement.
- (10) **Thinking statistically:** Quality efforts often require reducing process or product-design variation which can be achieved through statistical methods
- (11) **Inventory reduction:** As inventories grew smaller, quality improved. This management philosophy became known as Just-in- Time (or JIT, for short) inventory management.
- (12) **Value improvement:** It is the ability to meet or exceed customer expectations while removing unnecessary cost.
- (13) **Supplier teaming:** develop long-term relationships with a few high-quality suppliers, rather than simply selecting those suppliers with the lowest initial cost.
- (14) **Training:** is based on of empowering employees by providing the tools necessary for continuous improvement. One of the most basic tools is training.

TQM and traditional management practices

- (1) **Strategic Planning and Management:**
 - a. Quality planning and strategic business planning is indistinguishable in TQM.
 - b. Measures such as customer satisfaction, defect rates, and process cycle times receive as much attention in the strategic plan as financial and marketing objectives.
- (2) **Changing Relationships with Customers and Suppliers:**
 - a. Traditional management places customers outside of the enterprise and within the domain of marketing and sales.
 - b. TQM views everyone inside the enterprise as a customer of an internal or external supplier, and a supplier of an external or internal customer.
- (3) **Organizational Structure:**
 - a. TQM views the enterprise as a system of interdependent processes, linked laterally over time through a network of collaborating (internal and external) suppliers and customers.
 - b. Each process is connected to the enterprise's mission and purpose through a hierarchy of micro- and macro-processes.
 - c. Every process contains sub-processes and is also contained within a higher process. This structure of processes is repeated throughout the hierarchy.
- (4) **Organizational Change:**

- a. In TQM the environment in which the enterprise interacts is considered to be changing constantly.
- b. Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services.

(5) Teamwork:

- a. In TQM individuals cooperate in team structures such as quality circles, steering committees, and self-directed work teams.
- b. Departments work together toward system optimization through cross-functional teamwork.

(6) Motivation and Job Design:

- a. TQM managers provide leadership.
- b. Subordinates are viewed as process managers rather than functional specialists.
- c. People are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society.
- d. The system enables people to feel like winners.

SIX SIGMA AND MANAGEMENT

- Primarily Six Sigma means **maintenance of the desired quality in processes and end products.**
- It means taking **systemic and integrated efforts toward improving quality and reducing cost.**
- Six Sigma has its base in the concept of probability and normal distribution in statistics.
- Six Sigma strives that 99.99966% of products manufactured are defect free.
- Six Sigma puts the customer first and uses facts and data to drive better solutions

Six Sigma efforts target three **main areas:**

- Improving customer satisfaction
- Reducing defects
- Reducing cycle time

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

Six sigma methodology

Two separate key methodologies for existing and new processes.

(1) DMAIC: - Stands for Define, Measure, Analyse, Improve, Control:

It is directed towards improvement of existing product, process or service.

➤ **Define:**

- **Define** the **process improvement goals** that are consistent with the strategy of the organization and customer demands
- **Discuss** different issues with the **senior managers** so as to define what needs to done.

➤ **Measure:**

- The **existing processes** are **measured** to facilitate **future comparison**.
- **Collect process data** by mapping and measuring relevant processes.
- **Analyze:**
 - Verify **cause-and-effect relationship** between the factors in the processes.
 - Identify the **relationship** between the factors.
 - Make a **comprehensive analysis** to identify hidden or not so obvious factor.
- **Improve:** On the basis of the analysis make a **detailed plan** to improve.
- **Control:**
 - **Initial trial** or are run to **establish process capability** and transition to production.
 - Then the **process is continuously measured** to ensure that **variances** are identified and corrected before they result in **defects**.

(2) DMADV: Stands for Define, Measure, Analyse, Design, Verify.

It is a strategy for designing new products, processes and services.

- **Define:** formally **define goals** of the design activity that are consistent with strategy of the organization and the demands of the customer.
- **Measure:** **identify** the factors that are **critical to quality** (CTQs). **Measure** factors such as **product capabilities and production process capability**. Also **assess the risks** involved.
- **Analyze:** Develop and design **alternatives**. Create high-level design and **evaluate** to **select the best design**.
- **Design:** Develop details of design and **optimize** it.
- **Verify:** Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

Key characteristics

1. **Six Sigma is customer focused.** It's almost an obsession to keep external customer needs in plain sight, driving the improvement effort. (External customers are mostly those who buy business's products and services.)
2. **Six Sigma projects produce major returns on investment.** GE's CEO, Jack Welch, wrote in the annual report that in just three years, Six Sigma had saved the company more than \$2 billion.
3. **Six Sigma changes how management operates.** Six Sigma is much more than improvement projects

Six Themes of Six Sigma

1. **Genuine focus on the customer:** Six Sigma improvements are defined by their impact on customer satisfaction and value.
2. **Data and fact-driven management:** Six Sigma helps managers answer two essential questions to support data-driven decisions and solutions.
 - a. What data/information do I really need?
 - b. How do we use that data/information to maximum benefit?
3. **Processes are where the action is:** Whether focused on designing products and services, measuring performance, improving efficiency and customer satisfaction, or even running the business, Six Sigma positions the process as the key vehicle of success.
4. **Proactive management:** proactive means acting in advance of events rather than reacting to them. It means defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention
5. **Boundary less collaboration:** The opportunities available through improved collaboration within companies and with vendors and customers are huge.
6. **Drive for perfection; tolerate failure:** the two ideas are complementary. No company will get even close to Six Sigma without launching new ideas and approaches-which always involve some risk.

Strategy-shaping characteristics of the E-Commerce environment

- (1) The Internet makes it feasible for companies everywhere to **compete in global markets**:
- (2) **Entry barriers** into the e-commerce world are relatively **low**:
- (3) **Online buyers gain bargaining power** because they have lesser obstacles to compare the products, prices, and shipping times of rival vendors:
- (4) The Internet makes it feasible for companies to reach **beyond their borders** to find the **best suppliers** and, further, to collaborate closely with them to achieve **efficiency gains and cost savings**:
- (5) The internet results in much **faster spread of new technology and new idea** across the world:
- (6) The e-commerce environment demands that **companies move swiftly**:
- (7) E-commerce technology opens up a host of **opportunities for reconfiguring industry and company value chains**:
- (8) The Internet can be an **economical means** of delivering **customer service**:
- (9) The **capital** for **funding** potentially profitable e-commerce businesses is **readily available**:
- (10) The needed e-commerce resource in **short supply is human talent**-in the form of both technological expertise and managerial know-how:

Strategic management in non-profit and government organization

- (1) There are many NPO which do not have any commercial objective of making profits.
- (2) They are formed for purposes like promotion of art, science, commerce, charity, religion, education etc.
- (3) Examples: ICAI, municipal corporations, Help-Age or Child Relief and You.
- (4) They come to existence to meet the needs not met by business enterprises.
- (5) These organizations may not have owners in true sense
- (6) Many of them use the strategic-management process effectively.
- (7) Infact, many of them do better than Pvt Org by using their innovativeness, motivation, productivity, and strategic management.
- (8) They often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing.

➤ Educational institutions

- They are adopting different strategies for attracting best students.
- Campus Interview
- Introduction of computers and internet technologies.
- Online college degrees are becoming common and represent a threat to traditional Colleges and universities.

➤ Medical organizations

- Pathological laboratories have started collecting door-to-door samples
- Day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.
- Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services.
- Millions of persons research medical ailments online, which is causing a dramatic shift in the balance of power between doctor, patient, and hospitals.
- sharing results of medical tests and prescribing medicine on the Internet,
- Ten most successful hospital strategies today are providing
 - a. free-standing outpatient surgery centers,
 - b. outpatient surgery and diagnostic centers,
 - c. physical rehabilitation centers,
 - d. home health services,
 - e. cardiac rehabilitation centers,
 - f. preferred provider services,

- g.* industrial medicine services,
- h.* women's medicine services,
- i.* skilled nursing units, and
- j.* Psychiatric services.