SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE
www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – I - STRATEGIC MANAGEMENT- SBAA5207

UNIT I

UNDERSTANDING STRATEGY

Concept of strategy ,corporate ,business and functional levels of strategy meaning and characteristics of strategic management, Strategic management process: Stakeholders in business and their roles in strategic management . Strategic intent-vision-mission ,business definition using Abell's three dimension -Critical success factors (CSF),Key performance indicators (KPI),Key result areas (KRA)

Introduction:

- Strategy comes from Greek word " Strategos " which means a plan to compete with enemy (in army).
- Strategy means that a plan of action designed to achieve a long term overall goals.
- So, the Strategic management meant that making an action plan to achieve the organisational goals effectively and efficiently.
- We can say that it a game plan of any organisation to compete with competitors and stay for long time in market on top position.
- It is an integrated system, which focuses on all departments of an organisation (marketing, finance ,production ,R&D and so on ..) to achieve the organisational goals successfully.

Strategy - Meaning

Strategy is the determination of the long term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carring out these goals. Strategy is management's plan game plan for strengthening the organisation's position, pleasing customers, and achieving performance targets.

Strategy - Definition

- Strategy is "a unified comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved "-Glueck
- Strategy is " a determination of the basic long term goals and objectives of an enterprise and the adoption of course of action and the allocation of resources necessary for carrying out these goals – Alfred Chandler

- Strategic management is “a stream of decisions and actions ,which leads to the development of an effective strategy to help achieve corporate objectives “-Glueck

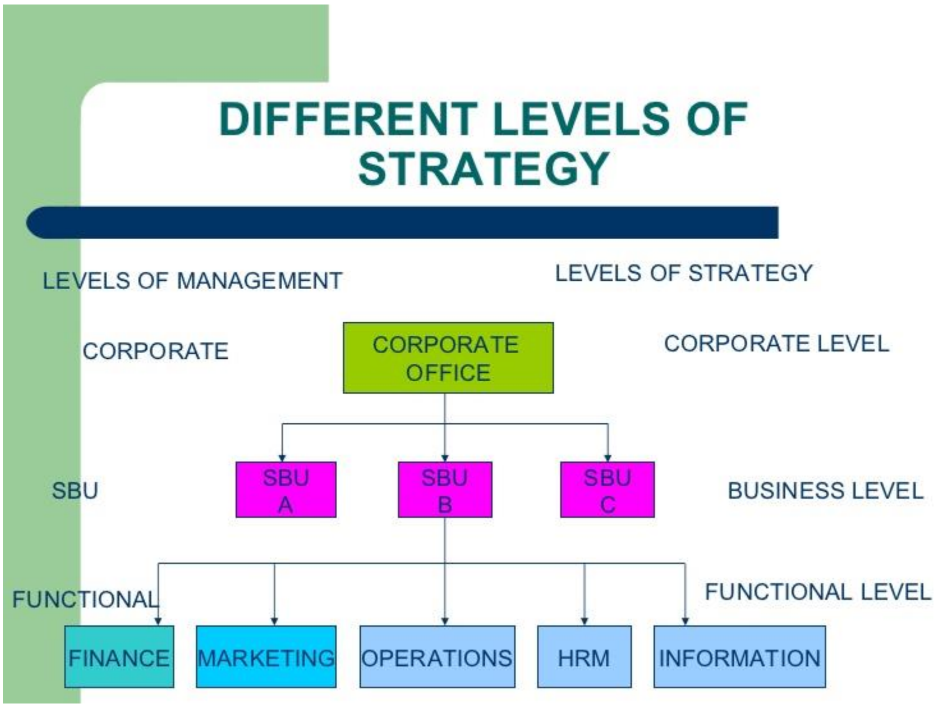
Nature of Strategy

- Strategy is a major course of action through which organisation relates itself to its environment. (External)
- Strategy is blend of internal &external factors. Face opportunities & threats provided by external factors, internal factors are matched with them.
- Strategic actions are different for different situations. Strategy is combination of actions to solve a certain problem to achieve a desirable end
- Strategy may involve contradictory actions simultaneously or with a gap of time like closing down some operations and expanding some at same time.
- Strategy is future oriented. New situations, which have not arisen in past will require revised Strategic Actions.
- Strategy requires some systems and norms for its efficient adoption in any organisation.
- Strategy provides overall framework for guiding enterprise thinking and action.

Types of strategy

Strategy can be formulated on three different levels :

- Corporate level
- Business unit level
- Functional or departmental level



Business level:

Business level strategies are formulated for specific strategic business units and relate to a distinct product -maker area. It involves defining the competitive position of a strategic business unit. The business level strategy formulation is based upon the generic strategies of overall cost leadership, differentiation, and focus . For example , your firm may choose overall cost leadership as a strategy to be pursued in its steel business , differentiation in its tea business , and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate .

- Involves defining the competitive position of a strategic business unit .
- Decided upon by the heads of strategic business units and their teams .

Functional level:

Functional level strategies relate to the different functional areas which a strategic business unit has , such as marketing , production and operations , finance , and human resources . These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short – term functional objectives , the attainment of which will lead to the realization of the business level strategy .

For example, the marketing strategy for a tea business which is following the differentiation strategy may translate into launching and selling a wide variety of tea variants through company -owned retail outlets. This may result in the distribution objective of opening 25 retail outlets in a city : and producing 15 varieties of tea may be the objective for the production department . The realization of the functional strategies in the form of quantifiable and measurable objectives will result in the achievement of business level strategies as well .

- Formulated by the functional heads along with their teams .
- Involves setting up short -term functional objectives.
- Understand the three levels of strategy for an organisation

Corporate level :

Corporate level strategy defines the business areas in which your firm will operate. It deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategies formulation at this level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The top management team is responsible for formulating the corporate strategy. The corporate strategy reflects the path toward attaining the vision of your organisation . For example , your firm may have four distinct lines of business operations , namely , automobiles, steel, tea , and telecom. The corporate level strategy will outline whether the organisation should compete in or withdraw from each of these lines of businesses , and in which business unit , investments should be increased , in line with the vision of your firm .

- Defines the business areas in which your firm will operate.
- Involves integrating and managing the diverse business and realizing synergy at the corporate level .
- Top management team is responsible.

Evolution of Business Policy as discipline .

- <u>Origin -1911</u>- Harvard Business School – Integrated Course in Management aimed at providing general management capability.
- <u>Hofer : Strategic Management</u> – A Casebook in Policy and Planning : The Business Policy evolution has undergone four Paradigm Shifts. This transition is of overlapping nature.

- Development of subject of Business Policy has always followed the demands of real life business.
- 1930 -1960: Environment change : New Products Continuously changing market : Ford Foundation recommended report , by Gorden and Howell , suggested a **“Capstone** “ course of Business Policy which would give the students an opportunity to pull together what they have learned in the separate business fields and utilise this knowledge in the analysis of complex business problems .
- 1969: The course was made mandatory by American Assembly of Collegiate School of Business (AACSB)
- 1990 :The course has become an integral part of management education curriculum.

Evolution of Business Policy has undergone four Paradigms

- <u>Paradigm One ;**Ad -hoc Policy – making.**</u>
- 1900-1930 : **Era of Mass Production –** Maximising output , Normally a Single Product , Standardised and low cost product , catering to unique set of customers servicing limited geographical area -Informal control amnd co-ordination . The Strategic planning was centred on maximising output.
- <u>Paradigm Two – **Integrated Policy Formulation**</u> **.**
- 1930-1940:**Changes in Technology ,** Turbulence in Political environment , Emergence of new industries , Demand for novelty products even at higher costs , Product Differentiation , Market segmentation in increasingly competitive and changing markets . These all made investment decisions increasingly difficult. This was era of integrating all functional areas and framing policies to guide managerial actions.
- <u>Paradigm Three – **The Concept of Strategy**</u> **.**
- 1940-1960 : Planned policy became irrelevant due to increasingly complex and accelerating changes . Firms had to anticipate environmental changes . A strategy needed to be formed with critical look at basic concept of Business and its relationship to the existing environment then .
- <u>Paradigm Four – **The Strategic Management**</u>
- 1980 & onwards : The focus of Strategic Management is on the strategic process of business firms and responsibilities of general management.

- Everything out side the four walls is changing rapidly and this phenomenon is called as " **Discontinuity "**by Mr. Peter Drucker. Past experiences are no guarantee as science and technology is moving faster . The future is no more extension of the past or the present .
- The world is substantially compressed and managing the External & Internal environment becomes crucial function.
- What to produce , where to market , which new business to enter , which one to quit and how to get internally stronger and resourceful are the new stakes.
- Strategic Planning required to be done to endow the enterprise with certain fundamental competencies/distinctive strengths which could take care of eventualities resulting from unexpected environmental changes.

The Indian Scenario:

However, the evolution of this fourth phase is still continuing and is yet not formed into a theory of how to manage an enterprise. But Strategic Management is a very important tool for and way of thinking to resolve strategic issues .

- IIMS and Administrative Staff College of India formed in early sixties were based on American Model. IIM -A is based on Harvard Model. The All India Council of technical Education (AICTE), The Association of Indian Management Schools (AIMS) has recommended a standard curriculum including "Business Policy and Strategic Management "as a compulsory course. Business policy is the preferred nomenclature but Strategic management is being progressively adapted.

Evolution of Strategic Management in India is divided in three periods .

Till 1980: **Pre – liberalisation Stage**:

- Strategic management of Government fringes.
- Entwining enterprise objectives into the national planning framework.
- Grabbing opportunities, high diversification, non- competitive scales, and weak technology.
- Secretive & one man Strategic Management Process.

Till 2000: **Liberalisation Stage:**

- 'Foreign Complex 'governed strategy.

- Strategy of focus on rationalisation and operations improvement.
- Strategy of growth through acquisitions, internationalisation and product market expansion.
- Employing international consulting firms in Strategic Management.

2000-2010: **Post Liberalisation Stage**

- **'Global maverick '**mind-set & Acquire professional skill in Strategic Management and synergise entrepreneurial flair.
- Portfolio rationalisation, entry into emerging sectors.
- Mobilise resources and ensure adequate growth through existing business.
- De – merge businesses as independent companies and improve market capabilities
- Development of Technology capabilities

Decentralise organisations, develop institutionalised control mechanism.

Strategic Management

Definition: The term 'strategic management' is used to denote a branch of management that is concerned with the development of strategic vision, setting out objectives, formulating and implementing strategies and introducing corrective measures for the deviations (if any) to reach the organization's strategic intent. It has two-fold objectives:

- To gain competitive advantage, with an aim of outperforming the competitors, to achieve dominance over the market.
- To act as a guide to the organization to help in surviving the changes in the business environment..

Benefits of Strategic Management

1. Strategic management is the process of formulating, implementing and evaluating strategies to achieve its organization objectives.

2. Organization acts proactively rather than reactive to any situation.

3. Communicates the mission, vision, objectives and policies to all the employees to understand the purpose of organization

4. Gathers information from external and internal environment assists in formulating strategies for the future success of an organization.

Dis-advantages of Strategic Management

1. Time Consuming
2. Ignorance of other Managerial Functions
3. Unsatisfaction in employees
4. Depression due to failure in target
5. Protest of employees
6. Demand for more reward and facilities
7. Dependability on-practical planning
8. Changes in technical factors

Need of Strategic Management

1. Increasing Rate of Changes:

The environment in which the business operates' is fast, changing. A business concern which does not keep its policies up-to-date, cannot survive for a long time in the market. In turn, the effective strategy optimises profits over a long run.

2. Higher Motivation of Employees:

The employees (human resources) are assigned clear cut duties by the top management viz. what is to be done, who is to do it, how to do it and when to do it. ? When strategic management is followed in any organisation, employees become loyal, sincere and goal oriented and their efficiency is also increased.They also get rewards and promotions resulting in higher motivation for the employees. A strategy must respect human values and duly consider the aspirations of individual members.

3. Strategic Decision-Making:

Under strategic planning, the first step is to set the goals or objectives of a business concern. Strategic decisions taken under strategic management help the smooth sailing of an enterprise. Strategic planning is the overall planning of operations for effective implementation of policies.

4. Optimization of Profits:

An effective strategy should develop from policies of a concern. It takes into account actions of competitors. It considers future operations in respect of market area and opportunity, executive competence, available resources and limitations imposed by the Government. An effective strategy should optimise profits over the long run.

5. Miscellaneous:

Mr. H.N Broom in his book on ‘Business Policy and Strategic Action’ has mentioned that a strategy has a primary concern with the following:

(a) Marketing opportunity: Products, prices, sales potential and sales promotion.

(b) Available distribution channel and costs.

(c) The scale of company operations.

(d) The manufacturing process required to implement their scale of operations (with an optimal production cost)

(e) The research and innovation programme.

(f) The type of organisation

(g) The amounts and proportions of equity and credit capital available to the firm and their combined adequacy.

(h) The planned rate of growth.

Thus, strategy is important because it makes possible the implementation of policies and long range plans for attaining company goals, creation of effective business strategy requires a basic knowledge of economic theory, management principles, accounting, statistics, finance and administrative practice.

Characteristics of Strategic Management

Understanding Strategy Fundamentals

To engage in strategic management, managers must first have an excellent grasp of what strategy means. Managers must learn the impact of both individual and team contributions on the direction of the organization. Through a process of curiosity, inquiry and knowledge transfer – top-down, bottom-up and lateral – managers learn to understand the actions that further the organizational mission, as well as those actions that detract from the organization's values and principles.

Scanning Outside-In and Inside-Out

There are a variety of analysis tools available that can be used to inform management strategy. The SWOT analysis is a common tool for analyzing external and internal factors. SWOT stands for strengths, weaknesses, opportunities and threats. It is used to examine which environmental and internal factors affect the organization's position and how successfully they are meeting the goals and objectives of the organization and its departments. Characteristics that leaders exhibit during this step in the strategic process include strong analytical skills, as well as the ability to synthesize and present data.

Creating Strategy

Formulating strategy can only begin once the leadership team has a good understanding of what strategic management entails. Determining the strategic direction for an organization is a major undertaking, and executive leadership is primarily responsible for this task. A strategic plan is only as useful as the quality of information that goes into it. Gathering requirements that are accurate and measurable is key. If executive leadership considers input and feedback from multiple business areas, the organization is far more likely to create a robust, inclusive and feasible strategic plan.

Formulating a strategic plan involves discussions on what constitutes wise business decisions, how to recognize competition and how to respond to it. Also, strategic versus day-to-day business practice must be determined. Leadership characteristics during this phase of strategic management include forward thinking and the rationale to determine what constitutes in-time action. One of the differences between strategic and day-to-day business operations is time – strategy occurs over time and has a long-term impact while day-to-day business operations produce immediate or instant measures that may have a short-term effect.

Implementing the Structure

Putting a structure in place is the fourth step in the strategic management process. The University of Minnesota course on strategic management teaches students to consider corporate culture when constructing an organization's strategic framework. It states that integral components of strategic management are corporate governance, social responsibility and sustainability. At a minimum, leadership characteristics necessary for this stage in the strategic management process include the ability to operationalize strategic plans, craft innovative solutions, consider long-term goals and how leadership's decision-making affects stakeholders..

Importance of Strategic Management

Strategic Management offers both financial & non financial benefit to an organisation as listed below

1. It allows identification, Prioritization &exploitation of opportunities
2. Provides objective view of management problems
3. Framework for Improved co-ordination .
4. It minimizes the effect of adverse conditions
5. It allows major decisions to better support established objectives
6. It allows more efficient allocation of time.
7. It allows fewer resources and less time to be devoted
8. It creates a framework for internal communication
9. It helps to integrate the behaviour of individuals
10. It provides basis for the clarification of individual responsibility.
11. It encourages to forward thinking
12. It provides a co operative , integrated approach to tackling problems.
13. It encourages a favourable attitude
14. It gives a degree of discipline.

Strategic Management Process

1. Defining the levels of strategic intent of the business:
   - Establishing vision
   - Designing mission
   - Setting objectives
2. Formulation of strategy
   - Performing environmental and organizational appraisal
   - Considering strategies
   - Carrying out strategic analysis
   - Making strategies
   - Preparing strategic plan
3. Implementation of strategy
   - Putting strategies into practice
   - Developing structures and systems
   - Managing behavioural and functional implementation

4. Strategic Evaluation and Control
    - Performing evaluation
    - Exercising control
    - Recreating strategies

Strategic Management is all about specifying organization's vision, mission and objectives, environment scanning, crafting strategies, evaluation and control.

Strategic Intent

Definition: Strategic Intent can be understood as the philosophical base of the strategic management process. It implies the purpose, which an organization endeavor of achieving. It is a statement, that provides a perspective of the means, which will lead the organization, reach the vision in the long run.

Strategic intent gives an idea of what the organization desires to attain in future. It answers the question what the organization strives or stands for? It indicates the long-term market position, which the organization desires to create or occupy and the opportunity for exploring new possibilities.

Strategic Intent Hierarchy

1. **Vision**: Vision implies the blueprint of the company's future position. It describes where the organization wants to land. It is the dream of the business and inspiration, base for the planning process. It depicts the company's aspirations for the business and provides a peep of what the organization would like to become in future. Every single component of the organization is required to follow its vision.
2. **Mission**: Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the business. It is designed to help potential shareholders and investors understand the purpose of the company. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and business makeup.
3. **Business Definition**: It seeks to explain the business undertaken by the firm, with respect to customer needs, target audience, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices. The corporate restructuring also depends upon the business definition.
4. **Business Model**: Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financing details. Rival firms, operating in the same industry relies on the different business model due to their strategic choice.
5. **Goals and Objectives**: These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable actions, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period.

The vision, mission, business definition, and business model explains the philosophy of business but the goals and objectives are established with the purpose of achieving them.

Strategic Intent is extremely important for the future growth and success of the enterprise, irrespective of its size and nature.

Environmental Analysis

Definition: Environmental Analysis is described as the process which examines all the components, internal or external, that has an influence on the performance of the organization. The internal components indicate the strengths and weakness of the business entity whereas the external components represent the opportunities and threats outside the organization.

To perform environmental analysis, a constant stream of relevant information is required to find out the best course of action. Strategic Planners use the information gathered from the environmental analysis for forecasting trends for future in advance. The information can also be used to assess operating environment and set up organizational goals.

It ascertains whether the goals defined by the organization are achievable or not, with the present strategies. If is not possible to reach those goals with the existing strategies, then new strategies are devised or old ones are modified accordingly.

Advantages of Environmental Analysis

The internal insights provided by the environmental analysis are used to assess employee's performance, customer satisfaction, maintenance cost, etc. to take corrective action wherever required. Further, the external metrics help in responding to the environment in a positive manner and also aligning the strategies according to the objectives of the organization.

Environmental analysis helps in the detection of threats at an early stage, that assist the organization in developing strategies for its survival. Add to that, it identifies opportunities, such as prospective customers, new product, segment and technology, to occupy a maximum share of the market than its competitors.

Steps Involved in Environmental Analysis

1. **Identifying**: First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.
2. **Scanning**: Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.

3. **Analysing**: In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.
4. **Forecasting**: After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

Environmental analysis is an ongoing process and follows a holistic approach, that continuously scans the forces effecting the business environment and covers 360 degrees of the horizon, rather than a specific segment.

Strategy Formulation

Definition: Strategy Formulation is an **analytical process of selection of the best suitable course of action to meet the organizational objectives and vision**. It is one of the steps of the strategic management process. The strategic plan allows an organization to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

It is examined through **SWOT** analysis. SWOT is an acronym for strength, weakness, opportunity and threat. The strategic plan should be informed to all the employees so that they know the company's objectives, mission and vision. It provides direction and focus to the employees.

Steps of Strategy Formulation

The steps of strategy formulation include the following:

1. **Establishing Organizational Objectives**: This involves establishing long-term goals of an organization. Strategic decisions can be taken once the organizational objectives are determined.
2. **Analysis of Organizational Environment**: This involves SWOT analysis, meaning identifying the company's strengths and weaknesses and keeping vigilance over competitors' actions to understand opportunities and threats.

   Strengths and weaknesses are internal factors which the company has control over. Opportunities and threats, on the other hand, are external factors over which the company has no control. A successful organization builds on its strengths, overcomes its weakness, identifies new opportunities and protects against external threats.

3. **Forming quantitative goals**: Defining targets so as to meet the company's short-term and long-term objectives. Example, 30% increase in revenue this year of a company.
4. **Objectives in context with divisional plans**: This involves setting up targets for every department so that they work in coherence with the organization as a whole.

5. **Performance Analysis**: This is done to estimate the degree of variation between the actual and the standard performance of an organization.
6. **Selection of Strategy**: This is the final step of strategy formulation. It involves evaluation of the alternatives and selection of the best strategy amongst them to be the strategy of the organization.

Strategy formulation process is an integral part of strategic management, as it helps in framing effective strategies for the organization, to survive and grow in the dynamic business environment.

Levels of strategy formulation

There are three levels of strategy formulation used in an organization:

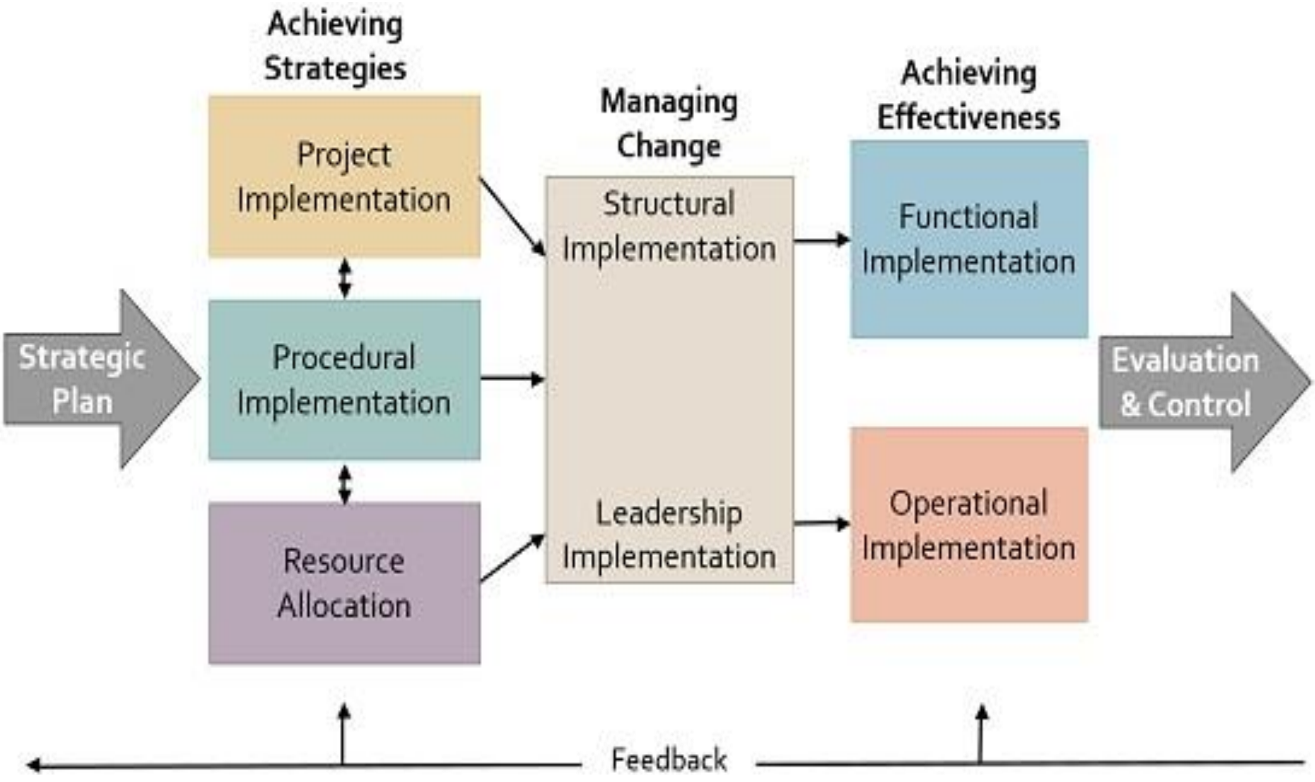
- **Corporate level strategy**: This level outlines what you want to achieve: growth, stability, acquisition or retrenchment. It focuses on what business you are going to enter the market.
- **Business level strategy**: This level answers the question of how you are going to compete. It plays a role in those organization which have smaller units of business and each is considered as the strategic business unit (SBU).
- **Functional level strategy**: This level concentrates on how an organization is going to grow. It defines daily actions including allocation of resources to deliver corporate and business level strategies.

Hence, all organisations have competitors, and it is the strategy that enables one business to become more successful and established than the other.

Strategy Implementation

Definition: Strategy Implementation refers to the **execution of the plans and strategies**, so as to accomplish the long-term goals of the organization. It converts the opted strategy into the moves and actions of the organisation to achieve the objectives.

Simply put, strategy implementation is the technique through which the firm develops, utilises and integrates its structure, culture, resources, people and control system to follow the strategies to have the edge over other competitors in the market.



Strategy Implementation is the **fourth stage of the Strategic Management process**, the other three being a determination of strategic mission, vision and objectives, environmental and organisational analysis, and formulating the strategy. It is followed by Strategic Evaluation and Control.

Strategy Evaluation

Strategic Evaluation is the final phase of strategic management process. Strategy Evaluation throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results as stated during strategy formulation. The management assesses the validity of current strategy in existing environment with respect to dynamic socio-economic, political and technological innovations.

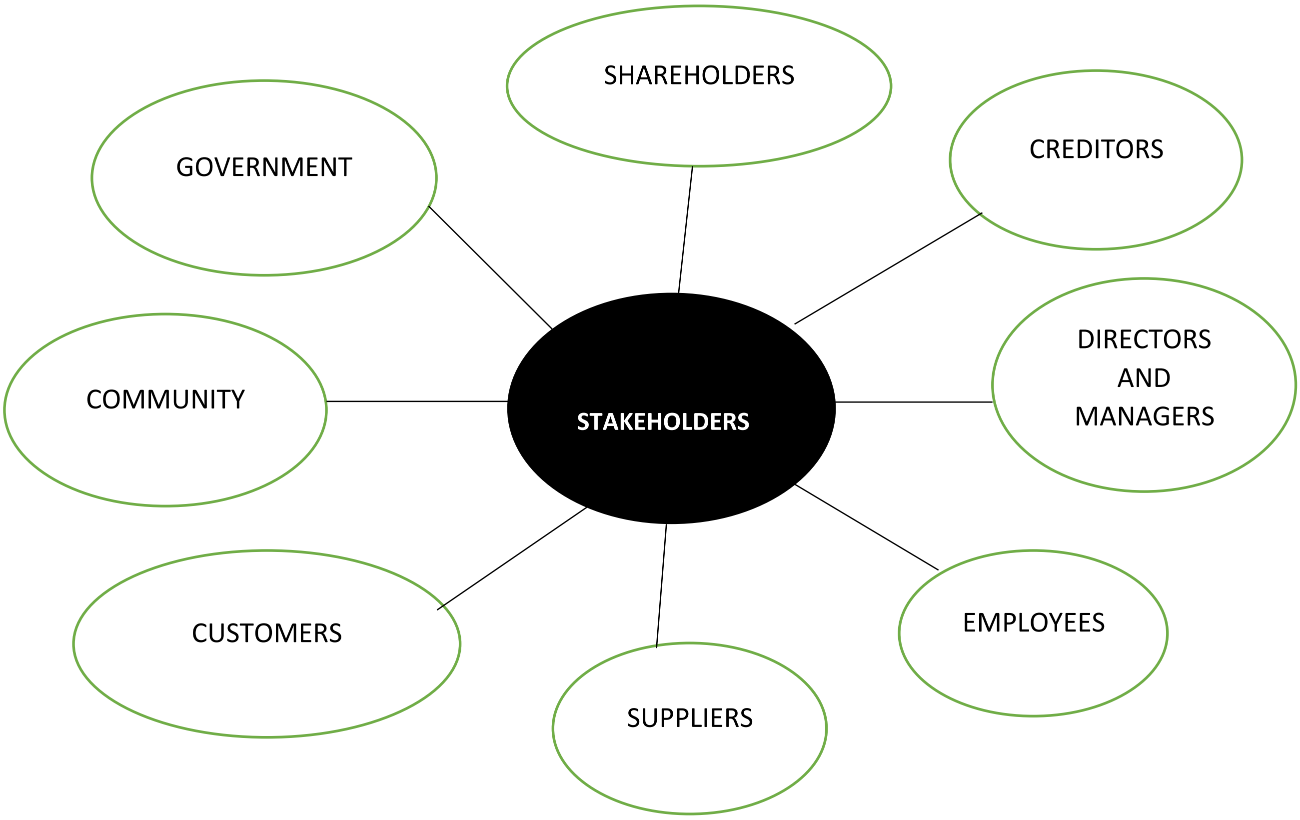
The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as – developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

STAKEHOLDERS IN BUSINESS

A corporate stakeholder is a party that can affect or be affected by the actions of the business as a whole . Stakeholders groups vary both in terms of their interest in the business activities and also their power to influence business decisions . Here is the summary :

The stake holders of a company are as follows

- Shareholders
- Creditors
- Directors and managers
- Employees
- Suppliers
- Customers
- Community
- Government



Stakeholder	Main Interests	Power and influence
Shareholders	Profit growth, Share price growth, dividends	Election of directors
Banks & other Lenders	Interest and principal to be repaid, maintain credit rating	Can enforce loan covenants Can withdraw banking facilities
Directors and managers	Salary ,share options, job satisfaction, status	Make decisions, have detailed information
Employees	Salaries & wages, job security, job satisfaction & motivation	Staff turnover, industrial action, service quality
Suppliers	Long term contracts, prompt payment, growth of purchasing	Pricing, quality, product availability
Customers	Reliable quality, value for money, product availability, customer service	Revenue / repeat business Word of mouth recommendation
Community	Environment, local jobs, local impact	Indirect via local planning and opinion leaders
Government	Operate legally, tax receipts, jobs	Regulation, subsidies, taxation, planning

Strategic Intent

Definition: Strategic Intent can be understood as the philosophical base of the strategic management process. It implies the purpose, which an organization endeavor of achieving. It is a statement, that provides a perspective of the means, which will lead the organization, reach the vision in the long run.

Strategic intent gives an idea of what the organization desires to attain in future. It answers the question what the organization strives or stands for? It indicates the long-term market position, which the organization desires to create or occupy and the opportunity for exploring new possibilities.

VISION, MISSION AND PURPOSE

VISION STATEMENT

Vision statement provides direction and inspiration for organizational goal setting. Vision is **where you see your self at the end of the horizon** OR milestone therein. It is a **single statement dream** OR aspiration. Typically a vision has the flavours of Being Most admired, Among the top league, Being known for innovation, being largest and greatest and so on .

Typically most profitable, Cheapest etc. don’t figure in vision statement. Unlike goals, vision is not SMART. **It does not have mathematics** OR timelines attached to it.

Vision is **a symbol, and a cause** to which we want to bond the stakeholders, (mostly employees and sometime share-holders). As they say, the people work best, when they are working for a cause, than for a goal. Vision provides them that cause .Vision is **long-term statement and typically generic & grand**. Therefore a vision statement does not change unless the company is getting into a totally different kind of business.

Vision **should never carry the 'how'** part . For example To be the most admired brand in Aviation Industry is a fine vision statement, which can be spoiled by extending it toy be the most admired brand in the Aviation Industry by providing world-class in-flight services. The reason for not including how is that how may keep on changing with time.

Challenges related to Vision Statement:

Putting-up a vision is not a challenge. The problem is to make employees engaged with it. Many a time, terms like vision, mission and strategy become more a subject of scorn than being looked up-to. This is primarily because leaders may not be able to make a connect between the vision/mission and people's every day work. Too often ,employees see a gap between the vision, mission and their goals & priorities. Even if there is a valid/tactical reason for this mis-match, it is not explained.

Horizon of Vision:

Vision should be the horizon of 5-10 years. If it is less than that, it becomes tactical. If it is of a horizon of 20+ years (say), it becomes difficult for the strategy to relate to the vision .

Features of a good vision statement:

• Easy to read and understand.

• Compact and Crisp to leave something to people's imagination.

• Gives the destination and not the road-map.

• Is meaningful and not too open ended and far-fetched.

• Excite people and make them get goose-bumps.

• Provides a motivating force, even in hard times.

• Is perceived as achievable and at the same time is challenging and compelling, stretching us beyond what is comfortable.

Vision is a dream/aspiration, fine-tuned to reality:

The Entire process starting from Vision down to the business objectives, is highly iterative. The question is from where should we start. We strongly recommend that vision and mission statement should be made first without being coloured by constraints, capabilities and environment. This can said akin to the vision of armed forces, that's Safe and Secure country from external threats. This vision is a non-negotiable and it drives the organization to find ways and means to achieve their vision, by overcoming constraints on capabilities and resources. Vision should be as take in the ground, a position, a dream, which should be prudent, but should be non-negotiable barring few rare circumstances .

4 components of vision statement

1. **Define your customers.** Even the most gigantic businesses have a defined customer base. Walmart sells clothing but their target customer is not the same customer as those who shop at Neiman Marcus.
2. **Define your customer's needs.** All businesses, and I mean all businesses even those who are non-profit ones, are in the problem-solving business. Someone, your target customer has a need that must be fulfilled, a problem to be solved, and your company will solve that problem. A restaurant does not sell prepared food. It sells satisfaction of hunger, the satiation of an appetite. A furniture store does not sell sofas or beds. It sells devices upon which to sit and sleep. Non-profits have a leg up on this component because their validation for existence is almost always very clearly defined – feed the hungry, house the homeless, care for the sick, etc.

3. **Define your product or service.** What will your company provide or your organization supply to solve your customer's problem and satisfy their need(s)?
4. **Define your company's values.** Here is a list of examples of business values. Consider them and identify five or six which represent how you want your business TO BE PERCEIVED. This is all about perceptions, your value as a business or organization lies in how the public in general and your customers in particular see you.

Mission Statement

Mission of an organization is the purpose for which the organization is. Mission is a gain a single statement, and carries the statement in verb. Mission in one way is the road to achieve the vision. For example, for a luxury products company, the vision could be To be among most admired luxury brands in the world and mission could be 'To add style to the lives'.

Mission Statement

• Is the description of org. mission. Explicit mission statement is desirable as it serves the purpose of communicating to the organization's members about the corporate philosophy , character and image of the org. which govern their behaviour in org.

Following points should be kept in mind while formulating mission statement:

• It should be feasible

• It should be precise

• It should be clear

• It should be motivating

• It should be distinctive

• It should include major components of strategy

• It should indicate how objectives are to be accomplished

A good mission statement will be :

• **Clear and Crisp**: While there are different views, We strongly recommend that mission should only provide what, and not how and when. We would prefer the mission of Making People meet their career to Making people meet their career through effective career counselling and education. A mission statement without how & when element leaves a creative space with the organization to enable them take-up wider strategic choices.

• Have to have a **very visible linkage** to the business goals and strategy: For example you cannot have a mission (for a home furnishing company) of Bringing Style to People’s lives while your strategy asks for mass product and selling. Its better that either you start selling high-end products to high value customers, OR change your mission statement to Help people build homes.

• **Should not be same as the mission** of a competing organization. It should touch upon how its purpose it unique.

Mission follows the Vision:

The Entire process starting from Vision down to the business objectives, is highly iterative. The question is from where should be start. I strongly recommend that mission should follow the vision. This is because the purpose of the organization could change to achieve their vision.

For example, to achieve the vision of an Insurance company To be the most trusted Insurance Company, the mission could be first making people financially secure as their emphasis is on Traditional Insurance product. At a later stage the company can make its mission as Making money work for the people when they also include the non-traditional unit linked investment products.

Examples:

• **Infosys:** To achieve our objectives in a environment of fairness, honesty and courtesy towards our clients, employees, vendors and society at large

• **Tata tea:**

- Achieve market and thought leadership for branded tea in India
- Drive long term profitable growth
- Co create enhanced value for stakeholders
- Make tata tea a great place for work

TOYOTA

Vision

-Toyota aims to achieve long-term, stable growth economy, the local communities it serves, and its stakeholders.

Mission

-Toyota seeks to create a more prosperous society through automotive manufacturing.

IBM

Vision

Solutions for a small planet

Mission

At IBM, we strive to lead in the invention, development and manufacture of the industry most advanced information technologies, including computer systems, software, storage systems and microelectronics.

We translate these advanced technologies into value for our customers through our professional solutions, services and consulting businesses worldwide.

BUSINESS, OBJECTIVES AND GOALS

A business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers. Businesses are pre dominant in capitalist economies, in which most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning.

_Goals : It is where the business wants to go in the future, its aim. It is a statement of purpose, e.g. we want to grow the business into Europe. Objectives: Objectives give the business a clearly defined target. Plans can then be made to achieve these targets. This can motivate the employees. It also enables the business to measure the progress towards to its stated aims.

The Difference between goals and objectives

• Goals are broad; objectives are narrow.

• Goals are general intentions; objectives are precise.

• Goals are intangible; objectives are tangible.

• Goals are abstract; objectives are concrete.

• Goals cant be validated as is; objectives can be validated

WHAT IS THE THREE DIMENSIONAL BUSINESS DEFINTION MODEL ?

The Abells Model recognises three dimensions:

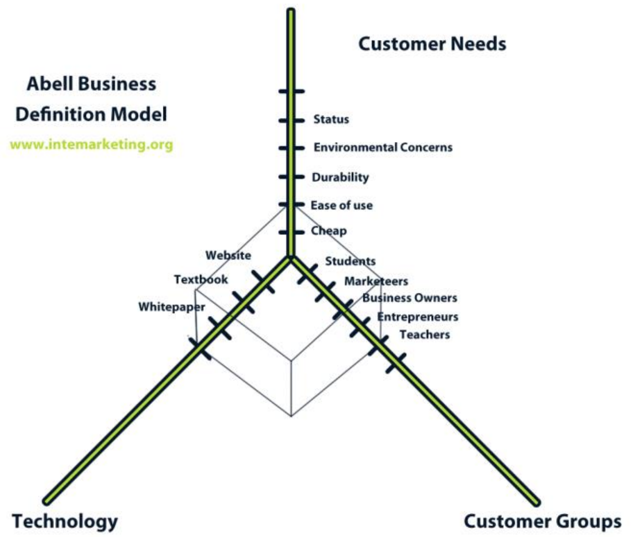
1.**Customer Groups-**(WHO)- Target groups of ,for example ,''age 65+

2.**Customer Needs / Demands (WHAT)-** The consumers demand , for example , ''quality"

3.**Technologies HOW?** – In what way can the demands of the customer be addressed ? For example ,'' men's fashion ''' Combination (product market combinations) are created from the Abell Model .

Abell's Model provides a clear market delineation of the current activities of an organisation. Besides that, it can be used to tune a business's future strategic policy to changes in the market.

How does Abell's Model look like ?



.

Differences between a Mission Statement and a Vision Statement

	Mission Statement	Vision Statement
About	• A Mission statement talks about HOW you will get to where you want to be. • Defines the purpose and primary objectives related to your customer needs and team values.	• A Vision statement outlines WHERE you want to be. • Communicates both the purpose and values of your business.
Answer	• It answers the question, "What do we do? What makes us different?"	• It answers the question, "Where do we aim to be?"
Time	• A mission statement talks about the present leading to its future.	• A vision statement talks about your future.
Function	• It lists the broad goals for which the organization is formed. Its prime function is internal; to define the key measure or measures of the organization's success and its prime audience is the leadership, team and stockholders.	• It lists where you see yourself some years from now. It inspires you to give your best. It shapes your understanding of why you are working here.
Change	• Your mission statement may change, but it should still tie back to your core values, customer needs and vision.	• It lists where you see yourself some years from now. It inspires you to give your best. It shapes your understanding of why you are working here.
Developing a statement	• What do we do today? For whom do we do it? What is the benefit? In other words, Why we do what we do? What, For Whom and Why?	• Where do we want to be going forward? When do we want to reach that stage? How do we want to do it?
Features of an effective statement	• Purpose and values of the organization: Who are the organization's primary "clients" (stakeholders)? What are the responsibilities of the organization towards the clients?	• Clarity and lack of ambiguity: Describing a bright future (hope); Memorable and engaging expression; realistic aspirations, achievable; alignment with organizational values and culture.

.

Critical success factor (**CSF**) is a management term for an element that is necessary for an organization or project to achieve its mission. To achieve their goals they need to be aware about each **key success factor** (**KSF**) and the variations between the keys and the different roles **key result area**(**KRA**).

Main success keys.

A CSF is a critical factor or activity required for ensuring the success of a company or an organization. The term was initially used in the world of data analysis and business analysis. For example, a CSF for a successful Information Technology project is user involvement.

Critical success factors should not be confused with success *criteria*. The latter are outcomes of a project or achievements of an organization necessary to consider the project a success or the organization successful. Success criteria are defined with the objectives and may be quantified by key performance indicators (KPIs).

There are many tools to help to implement The keys Success Factor like Canvas that will help to achieve a Business model or just a goal.

KEY SUCCESS FACTORS

In project management, multiple cross-cultural studies spread over decades have shown that the basic Key Success Factors can be summarized as follows:

Dominant strategy	
Plan	
Clear definition of the project chart, goals, roles, and impacts	Clarity (transparency)
Access to financial resources	Efficacy
Set norms of quality	Efficacy
Realistic calendar of tasks and activities	Efficacy
Balanced budget	Efficacy
Processes	
Formal work methodology	Efficiency
Solid infrastructures	Efficiency

People	
Team work	Collaboration
Competencies	Competencies (Trust)
Commitment	Commitment
Power	
Experienced managers	Control and transparency
Sense of fairness	Fairness
Contingency strategy	
Risk and vulnerability assessments	Efficacy and efficiency

Steps to achieve the Key Success Factors

The company needs to be aware that it is essential to pull together the team that will be working with the CSFs, its necessary to have employees submit their ideas or give feedback. Never forget to have multiple frameworks to examine the key elements of your long-term goals. Before implementing your company-wide strategic plan with your critical success factors in mind, determine which factors are key in achieving your long-term organizational plan.

Skills

The leader needs to be trained and prepared to put the company in the line of success. Some of the skills that can be learned are financial management, marketing sales, and customer service, communication and negotiation, project management and planning, leadership, problem-solving and, lastly, but one of the most important skills, networking.

Communication

The company needs to put together all the staffs, all of the giving opinions about what could be better to achieve their goal. The company needs to pay attention in two parts of the communication process: the Initial Launch Communications, which will set the plan to be achieved and the Ongoing Communications, which will be the part where the KSF progress (Contact us is a way to know if the KSF is working well).

Planning

To use the CSFs everything needs to be planned, how employees will do it and why. Tools can be used to make planning work faster and easier. A strategy for each department can be planned separately.

Team Work

A good teamwork is the key to success, when all the staff collaborate more ideas and opinions can be discussed to find the best way to achieve success.

Process

A business process or business method is a collection of related, structured activities or tasks by people or equipment which in a specific sequence produce a service or product (serves a particular business goal) for a particular customer or customers. Business processes occur at all organizational levels and may or may not be visible to the customers. A business process may often be visualized (modeled) as a flowchart of a sequence of activities with interleaving decision points or as a process matrix of a sequence of activities with relevance rules based on data in the process. The benefits of using business processes include improved customer satisfaction and improved agility for reacting to rapid market change.

KEY RESULT AREAS

Key result areas or KRAs refer to the rules for a specific role in a company. The terms highlight the scope of the job profile for the employee, enabling them to have a better view of their possible role in the company. Which KRA will defer from each other depending of the department.

The Key Result Area is a specific role which each department need to follow to deliver the goods or services in perfect condition to the final customer or to another department which will have different KSFs.

What is KPI

- Definition of Key Performance Indicators - KPI'

  A set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals. KPIs vary between companies and industries, depending on their priorities or performance criteria. Also referred to as "key success indicators (KSI)".

Objectives of KPI

• Improve personnel's understanding of KPIs.

• Improve personnel's awareness of maintenance performance.

• KPIs are directly linked to the overall goals of the company.

• KPIs are measurements that define and track specific business goals and objectives.

- The larger or smaller organizational strategies require monitoring, improvement, and evaluation.
- Once an organization has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals.
- KPIs are utilized to track or measure actual performance against key success factors.
- Key Success Factors (KSFs) only change if there is a fundamental shift in business objectives.
- Key Performance Indicators (KPIs) change as objectives are met, or management focus shifts.

Why Use KPI's

- ➢ Performance effectiveness
- ➢ For the accuracy, actual reflection of the process, efficacy in delivering the outcome.
- ➢ The effects of a change can be monitored reliably, repeatedly and accurately by KPI.
- ➢ A KPI can be used to closely monitor the results of actions.
- ➢ Detect potential problems and it can drive improvement.
- ➢ It is reasonable to use the KPI as a tool to improve ongoing process performance.

Uses of KPI

- A key performance indicator (KPI) or performance indicator is used to measure the performance.
- To make the decision making process easier.
- Key Performance Indicators (KPIs) help organizations to understand how well they are performing in relation to their strategic goals and objectives.
- They are used by an organization to evaluate its success or the success of a particular activity in the organization.
- To analyze the operational details of the organization.
- It helps to focus on the facts clearly.
- Key performance indicators are used periodically assess the performances of organizations, business units, and their division, departments and employees.

_How to design KPI's

- KPIs should be clearly linked to the strategy, i.e. the things that matter the most.
- KPIs have to provide the answers to our most important questions.
- KPIs should be primarily designed to empower employees and provide them with the relevant information to learn.

Identifying the KPI's

- Related to strategic aims.
- Identify what makes the organization success or failures.

- Controllable and accountable. Qualitative and quantitative.
- Long term and short term.
- Consider Stakeholder needs. Identify important aspects.
- Establish Company Goals and KPIs.
- Select Performance Indicators and Metrics.
- Set Targets and Track Performance.

_How Are KPIs Evaluated

- ❖ A KPIs status and score are determined by comparing its actual value against the thresholds that you define.
- ❖ The performance status of a KPI is represented by the status icon that you assign to each range.

_Advantages

- ✓ Identifies everything that is easy to measure and count.
- ✓ Visibility on performance and strategic goal
- ✓ Agility in decision making
- ✓ Efficient management
- ✓ A team work on the basis of shared and measurable objectives.
- ✓ KPI's do not give answers, rather they raise questions and direct once attention.
- ✓ It helps to measure both the financial and operational goals of a company.
- ✓ Improve operations. Increase project flexibility.
- ✓ Better job costing processes.
- ✓ KPIs focus employees attention on the tasks and processes.

_Disadvantages

- ✓ The KPI's is intended to simply improve future results without reference to external parties and benchmarks.
- ✓ In that case one must develop KPI's which use existing data available to the organization.
- ✓ Frequency of Data Collection.
- ✓ Should be measured frequently.
- ✓ No connection with the external database.
- ✓ Short – termist.

- ✓ Backward looking.
- ✓ Used to punish rather than to motivate and equip.
- ✓ Too many measurements.
- ✓ Limits are to be set by the company itself.

Types of KPI

- ✓ **Process KPIs** - measure the efficiency or productivity of a business process.
- ✓ Examples - Days to deliver an order.
- ✓ **Input KPIs** - measure assets and resources invested in or used to generate business results.
- ✓ Examples - Dollars spent on research and development, Funding for employee training, Quality of raw materials.
- ✓ **Output KPIs** - measure the financial and nonfinancial results of business activities
- ✓ Examples - Revenues, Number of new customers acquired.
- ✓ **Leading KPI** measure activities that have a significant effect on future performance.
- ✓ Drive the performance of the outcome measure, being predictor of success or failure.
- ✓ Lagging KPI is a type of indicator that reflect the success or failure after an event has been consumed.
- ✓ Such as most financial KPIs, measure the output of past activity.
- ✓ Outcome KPI - Reflects overall results or impact of the business activity in terms of generated benefits, as a quantification of performance.
- ✓ Examples are customer retention, brand awareness.
- ✓ **Qualitative KPI** - A descriptive characteristic, an opinion, a property or a trait.
- ✓ Examples are employee satisfaction through surveys which gives a qualitative report.
- ✓ **Quantitative KPI** - A measurable characteristic, resulted by counting, adding, or averaging numbers. Quantitative data is most common in measurement and therefore forms the backbone of most KPIs.
- ✓ Examples are Units per man-hour.

Characteristics of a good KPI

- KPI is always connected with the corporate goals.
- A KPI are decided by the management.
- They are the leading indicators of performance desired by the organization.

- Easy to understand

A KPI need to be:

- Specific
- Measurable
- Achievable
- Result-oriented or Relevant
- Time-bound

Shipping and Logistics

The main five KPI’s in shipping and logistic industries are:

- Sales forecasts.
- Inventory.
- Procurement and suppliers.
- Warehousing.
- Transportation.

Infrastructure sector

The main five KPI’s in Infrastructure sector are:

- Client Satisfaction.
- Construction Time & Cost.
- Productivity.
- Defects.
- Profitability.

Part A

1. Explain the concept of Strategy.
2. Bring out the distinguishing features of strategic management.
3. Define Vision statement with example.
4. Assess the term mission statement with example.
5. How do the terms Programs, Budgets, Procedures differ in the true sense?
6. Why are Critical Success factors (CSF) important?
7. Elaborate Key Result Areas (KRA).
8. Outline Abell's three dimensional business definition models.
9. Summarize the term Key performance Indicators.
10. How do objectives relate to measure overall organizations performance such as KPIs?

Part B

1. Demonstrate the Phases of Strategic Management.
2. Explain the factors responsible for an effective strategy.
3. Examine the different levels of strategy with examples.
4. Discuss the benefits of Strategic Management for a business organization.
5. The Strategic management process encompasses three phases – Strategy Formulation, Implementation, Evaluation and control. Discuss.
6. 'Stakeholders and their roles in Strategic Management'. Examine
7. 'Objectives provide the foundations for strategic business decisions'. Explain the role of objectives for a business with reference to the above statement.

Part C

1. Consider the case of Nokia that was once a household name and a market leader in the feature phone segment in India in the last decade. Analyse market insights on the mobile handset industry and find out reasons behind the fall of Nokia in the recent past.
2. Choose the vision statements of any five companies that you like. Prepare a presentation on how these vision statements inspire you and how these companies went about fulfilling their vision.

TEXT / REFERENCE BOOKS

1. Azhar Kazmi, Strategic Management and Business Policy, Tata McGraw Hill, Latest Edition, 2018
2. JA Pearce & RB Robinson, Strategic Management Formulation Implementation and Control, TMH, 12th Edition, 2017.
3. Arthur A. Thompson Jr. & A.J Strickland III, Crafting and Executing Strategy, Tata McGraw Hill, 19th Edition, 2014.
4. Gerry Johnson & Kevan Scholes, Exploring Corporate Strategies, PHI, 11th Edition, 2017.
5. Upendra Kachru: Strategic Management, Excel books, 2005.

SCHOOL OF MANAGEMENT STUDIES

UNIT – II - STRATEGIC MANAGEMENT- SBAA5207

UNIT II

ENVIRONMENTAL APPRAISAL

Environmental Threat and Opportunity Profile [ETOP] Industry analysis -Porter's 5 forces Model of Competition , Entry and Exit Barriers , Strategies group Analysis. Analysing companies Internal Environment -Resource based view of a firm , Source of competitive advantage – VIRO framework , Co -Competence , Benchmarking- Value Chain Analysis Strategic Advantage Profile, Business Portfolio Analysis – BCG Matrix – GE 9 Cell Model .

BUSINESS ENVIRONMENT

A firm's environment represents all internal or external forces, factors, or conditions that exert some degree of impact on the strategies, decisions and actions taken by the firm. There are two types of environment:

Internal environment – pertaining to the forces within the organization (Ex: Functional areas of management) and

External environment – pertaining to the external forces namely macro environment or general environment and micro environment or competitive environment (Ex: Macro environment – Political environment and Micro environment – Customers).

EXTERNAL ENVIRONMENT

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. The two types of external environment are microenvironment and macro environment.

a) MICRO ENVIRONMENTAL FACTORS

These are external factors close to the company that have a direct impact on the organizations process. These factors include:

i) **Shareholders**

Any person or company that owns at least one share (a percentage of ownership) in a company is known as shareholder. A shareholder may also be referred to as a "stockholder". As organization requires greater inward investment for growth they face increasing pressure to move from private ownership to public. However this movement unleashes the forces of shareholder pressure on the strategy of organizations.

ii) **Suppliers**

An individual or an organization involved in the process of making a product or service available for use or consumption by a consumer or business user is known as supplier. Increase in raw material prices will have a knock on affect on the marketing mix strategy of an organization. Prices may be forced up as a result. A closer supplier relationship is one way of ensuring competitive and quality products for an organization.

iii**) Distributors**

Entity that buys non-competing products or product-lines, warehouses them, and resells them to retailers or direct to the end users or customers is known as distributor. Most distributors provide strong manpower and cash support to the supplier or manufacturers promotional efforts. They usually also provide a range of services (such as product information, estimates, technical support, after-sales services, credit) to their customers. Often getting products to the end customers can be a major issue for firms. The distributors used will determine the final price of the product and how it is presented to the end customer. When selling via retailers, for example, the retailer has control over where the products are displayed, how they are priced and how much they are promoted in-store. You can also gain a competitive advantage by using changing distribution channels.

iv) **Customers**

A person, company, or other entity which buys goods and

services produced by another person, company, or other entity is known as customer. Organizations survive on the basis of meeting the needs, wants and providing benefits for their customers. Failure to do so will result in a failed business strategy.

v) **Competitors**

A company in the same industry or a similar industry which offers a similar product or service is known as competitor. The presence of one or more competitors can reduce the prices of goods and services as the companies attempt to gain a larger market share. Competition also requires companies to become more efficient in order to reduce costs. Fast-food restaurants McDonalds and Burger King are competitors, as are Coca-Cola and Pepsi, and Wal-Mart and Target.

vi) **Media**

Positive or adverse media attention on an organisations product or service can in some cases make or break an organisation.. Consumer programmes with a wider and more direct audience can also have a very powerful and positive impact, h forcing organisations to change their tactics.

b) MACRO ENVIRONMENTAL FACTORS

An organizations macro environment consists of nonspecific aspects in the organizations surroundings that have the potential to affect the organizations strategies. When compared to a firms task environment, the impact of macro environmental variables is less direct and the organization has a more limited impact on these elements of the environment. The macro environment consists of forces that originate outside of an organization and generally cannot be altered by actions of the organization. In other words, a firm may be influenced by changes within this element of its environment, but cannot itself influence the environment. Macro environment includes political, economic, social and technological factors. A firm considers these as part of its environmental scanning to better understand the threats and opportunities created by the variables and how strategic plans need to be adjusted so the firm can obtain and retain competitive advantage.

i) **Political Factors**

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:

• tax policy

• employment laws

• environmental regulations

• trade restrictions and tariffs

• political stability

ii) **Economic Factors**

Economic factors affect the purchasing power of potential customers and the firms cost of capital. The following are examples of factors in the macroeconomy:

• economic growth

• interest rates

• exchange rates

• inflation rate

iii) **Social Factors**

Social factors include the demographic and cultural aspects of the external macro environment. These factors affect customer needs and the size of potential markets. Some social factors include:

• health consciousness • population growth rate • age distribution

• career attitudes

• emphasis on safety

iv) **Technological Factors**

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include:

• R&D activity

• automation

• technology incentives

• rate of technological change

Environmental Scanning

What is environmental scanning?

Environmental scanning is the process of continually acquiring information on events occurring outside the organization to identify and interpret potential trends .

Environmental scanning is a process of gathering, analysing, and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or consider entering.

Definition

Strategic Management3 In the field of environmental scanning, the first notable study was carried out by Aguilar (1967). Aguilar defines environmental scanning as acquiring information about events and relationships in a company's outside environment, the knowledge of which would assist top management in its task of charting the company's future course of action.

Aaker (1983) pointed out that environmental scanning should focus on target information needs

Daft and Weick (1984), the way an organisation deciphers its environment in order to learn from it may be divided into three phases: scanning (information seeking), interpretation (giving meaning to the collected data) and learning (taking action based on the data).

Lester and Waters (1989) define environmental scanning as a management process of using information from the environment to aid decision-making

Hough and White (2004) view environment scanning as a process of identifying, collecting, processing and translating information about external influences into useful plans and decisions

Environmental scanning in Strategy planning and implementation process

Objectives of Environmental Scanning

Coates (1985) identified the following objectives of an environmental scanning system:

1) Detecting scientific, technical, economic, social, and political trends and events important to the institution,

2) Defining the potential threats, opportunities, or changes for the institution implied by those trends and events,

3) Promoting a future orientation in the thinking of management and staff, and

4) Alerting management and staff to trends that are converging, diverging, speeding up, slowing down, or interacting.

Importance of Environmental Scanning

Oladele (2006) stated some importance to environmental scanning as follows:

a) The environment is dynamic in nature, therefore scanning is necessary to keep abreast of change.

b) It reveals the elements or factors that constitute threats and opportunity to the overall objectives of the organization.

c) Competitor's activities can be monitored and appropriate strategies put in place to check market incursion.

d) It gives necessary inputs to the formulation and implementation of potent marketing strategies.

Methods of Environmental Scanning

This aspect of environmental scanning has caused much debate among the scholars in the field of Management. However, the following are therefore suggested:

➢ Secondary data collection approach such as articles, textbooks, magazines and ready-made information etc...

➢ Primary data collection approach, using research instruments such as questionnaire,

➢ Personal interview, personal observation etc.

➢ Establish a unit within the organization which will responsible to

scan wide range of environmental factors and makes forecast about specific variables through qualitative and quantitative means.

Kinds of environmental scanning

1.Ad-hoc scanning - Short term, infrequent examinations usually initiated by a crisis

2.Regular scanning - Studies done on a regular schedule (e.g. once a year)

3.Continuous scanning (also called continuous learning) - continuous structured data collection and processing on a broad range of environmental factors

Environmental Threat and Opportunity Profile

(ETOP)

What is ETOP analysis?

ETOP analysis (environmental threat and opportunity profile) is the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

Why ETOP is needed?

• Helps organization to identify opportunities and threats

• To consolidate and strengthen organizations position

• Provides the strategists of which sectors have a favorable impact on the organization

• Help organization know where it stands with respect to its environment

• Helps in formulating appropriate strategy

• Helps in formulating SWOT analysis (Strategic weakness, opportunities and threats)

How to prepare an ETOP?

- Dividing the environment into different sectors such as economical, market, social, international, legal, technological, political, ecological, etc.
- Analyzing the impact of each sector on the organization
- Sub-dividing each environmental sector into sub factors
- Impact of each sub-sector on organization in form of a statement

ENVIRONMENTAL FACTORS

FACTORS	COULD INCLUDE
Political	international trade, taxation policy
Economic	interest rates, exchange rates, national income, inflation, unemployment, Stock Market
Social	ageing population, attitudes to work, income distribution
Technological	innovation, new product development, rate of technological obsolescence
Environmental	global warming, environmental issues
Legal	competition law, health and safety, employment law

OPPURINITY MATRIX

THREAT MATRIX

Example of ETOP Analysis

Lets take the example of the environment analysis of Hindustan Aeronautics Limited (HAL)

Variable	Opportunity	Threat
Economic	Infrastructural development is enhanced. This development includes power supply, transport and internal consumption	Resource constraints.
Technological	Organization's production increases and technology upgrades that helps the organization to grow	
Supplier		Scarcity of resources due to implementation often new technology.
Government	Liberalization of technology import policy.	Applying new rules and policies for the organization
Competitor		To hold the market, organization needs to take the risks based on new ideas to raise the market demand.

Strategic Advantage Profile

What is Strategic Advantage Profile (SAP)?

SAP is the technique of analyzing the internal factors of the organization by preparing a critical picture of different capacity factors. It is a relative strength of the company over its competitors.

Strategic advantage profile is a summary statement which provides an overview of the advantages and disadvantages in key areas likely to affect future operations of a firm.

it is a total for making systematic evaluation of strategic advantage factors which are significant for the company in its environment. it involves functional areas like marketing, production, finance, accounting, personnel, human resource and R&D

SAP is a summary statement of corporate capabilities,

STRATEGIC ADVANTAGE PROFILE (SAP)

Functional Area	Core Factors	(+) or (-)
Production & Operations	Good Prod. Facilities	(+)
	Old plant &machinery	(-)
Personnel Factors	Young & Motivated Force	(+)
	Poor union relations	(-)
Finance and Accounting	Tax holiday	(+)
	Costly finance	(-)
Marketing Operations	Effective comm. Mix	(+)
	Costly employees	(-)
	Rich experience in mkt.	(+)
R & D and Engineering	No design protection	(-)
	Well-developed laboratory	(+)
	Highly qualified research staff	(+)
Organization System	High-tech MIS	(+)
	Effective delegation and decentralization	(+)
	No Mgt. by exception	(-)

SWOT Analysis

A SWOT analysis (alternatively SWOT matrix) is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture.

A SWOT analysis can be carried out for a product, place, industry or person.

SWOT analysis was created in the 1960s by business gurus Edmund P. Learned, C. Roland Christensen, Kenneth Andrews and William D. Book in their book "Business Policy, Text and Cases" (R.D. Irwin, 1969). While the tool was originally intended for business use, it has since been adopted to aid personal development.

ANALYSIS OF INTERNAL ENVIRONMENT

Internal analysis is also referred to as “ internal appraisal “ “organisational audit “, “ internal corporate assessment “ etc . Over the years , research has shown that the overall strengths and weakness of a firm’s resources and capabilities are more important for a strategy than environment factors. Even where the industry was unattractive and generally unprofitable, firms that came out with superior products enjoyed good profits .

Managers perform internal analysis to identify the strength and weakness of a firm’s resources and capabilities . The basic purpose is to build on the strengths and overcome the weakness in order to avail of the opportunities and minimize the effects of the threats . the ultimate aim is to gain and sustain competitive advantage in the market place .

IMPORTANCE OF INTERNAL ANALYSIS

Strategic management is ultimately a “ matching game “ between environmental opportunities and organisational strengths . But , before a firm actually starts tapping the opportunities ,it is important to know its own strengths and weakness. Without this knowledge ,it cannot decide which opportunities to choose and which ones to reject. One of the ingredients critical to the success of a strategy is that the strategy must place “realistic “ requirements on the firm’s resources. The firm therefore cannot afford to go by some untested assumptions or gut feelings. Only systematic analysis of its strengths and weakness can be of help. This is accomplished in internal analysis by using analytical techniques like RBV,SWOT analysis , Value chain analysis , benchmarking , IFE matrix etc .

Thus , systematic internal analysis helps the firm :

• To find where it stands in terms of its strengths and weakness

• To exploit the opportunities that is in accordance with its capabilities

• To analyse and find ways to rectify its weakness

• To defend against threats

• To assess gaps in its capability and take steps to enhance its

capabilities with a view to achieve its growth objectives

This exercise is also the starting point for developing the competitive advantage required for the survival and growth of the firm.

Michael Porter’s 5 forces model

Porter’s 5 forces model is one of the most recognized framework for the analysis of business strategy. Porter, the guru of modern day business strategy, used the or ethical frameworks derived from Industrial Organization (IO) economics to derive five forces which determine the competitive intensity and therefore attractiveness of a market. This theoretical framework, based on 5 forces, describes the attributes of an attractive industry and thus suggests when opportunities will be greater, and threats less, in these of industries.

Attractiveness in this context refers to the overall industry profitability and also reflects upon the profitability of the firm under analysis. An “unattractive” industry is one where the combination of forces acts to drive down overall profitability. A very un attractive industry would be one approaching “pure competition”, from the perspective of pure industrial economics theory .

These forces are defined as follows:

a) The threat of the entry of new competitors b) The intensity of competitive rivalry

c) The threat of substitute products or services

d) The bargaining power of customers

e) The bargaining power of suppliers

The model of the Five Competitive Forces was developed by Michael E. Porter. Porters model is based on the insight that a corporate strategy should meet the opportunities and threats in the organizations external environment. Especially, competitive strategy should base on and understanding of industry structures and the way they change . Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization. Porters model supports analysis of the driving forces in an industry. Based on the information derived from the Five Forces Analysis, management can decide how to influence or to exploit particular characteristics of their industry.

The Five Competitive Forces are typically described as follows :

a) **Bargaining Power of Suppliers**

The term suppliers comprises all sources for inputs that are needed in order to provide goods or services.

Supplier bargaining power is likely to be high when:

• The market is dominated by a few large suppliers rather than a fragmented source of supply

• There are no substitutes for the particular input

• The suppliers customers are fragmented, so their bargaining power is low

• The switching costs from one supplier to another are high

• There is the possibility of the supplier integrating forwards in order to obtain higher prices and margins

This threat is especially high when

• The buying industry has a higher profitability than the supplying

industry

• Forward integration provides economies of scale for the supplier • The buying industry hinders the supplying industry in their development (e.g. reluctance to accept new releases of products)

• The Buying industry has low barriers to entry.

In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization .

b) **Bargaining Power of Customers**

Similarly, the bargaining power of customers determines how much customers can impose pressure on margins and volumes. Customers bargaining power is likely to be high when

• They buy large volumes; there is a concentration of buyers

• The supplying industry comprises a large number of small operators

• The supplying industry operates with high fixed costs

• The product is undifferentiated and can be replaces by substitutes

• Switching to an alternative product is relatively simple and is not related to high costs

• Customers have low margins and are price sensitive • Customers could produce the product themselves

• The product is not of strategical importance for the customer • The customer knows about the production costs of the product

• There is the possibility for the customer integrating backwards.

c) **Threat of New Entrants**

The competition in an industry will be the higher, the easier it is for other companies to enter this industry. In such a situation, new entrants could change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry. The threat of new entries will depend on the extent to which there are barriers to entry.

These are typically

• Economies of scale (minimum size requirements for profitable operations),

• High initial investments and fixed costs

• Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets

• Brand loyalty of customers

• Protected intellectual property like patents, licenses etc,

• Scarcity of important resources, e.g. qualified expert staff

• Access to raw materials is controlled by existing players ,Distribution channels are controlled by existing players

• Existing players have close customer relations, e.g. from long- term service contracts

• High switching costs for customers • Legislation and government action

d) **Threat of Substitutes**

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. This category also relates to complementary products. Similarly to the threat of new entrants, the treat of substitutes is determined by factors like

- Brand loyalty of customers
- Close customer relationships
- Switching costs for customers
- The relative price for performance of substitutes
- Current trends.

e) **Competitive Rivalry between Existing Players**

This force describes the intensity of competition between existing players (companies) in an industry. High competitive pressure results in pressure on prices, margins, and hence, on profitability for every single company in the industry.

Competition between existing players is likely to be high when • There are many players of about the same size

- Players have similar strategies
- There is not much differentiation between players and their products, hence, there is much price competition
- Low market growth rates (growth of a particular company is possible only at the expense of a competitor)
- Barriers for exit are high (e.g. expensive and highly specialized equipment)

Barriers to Entry and Exit

A barrier to entry is something that blocks or impedes the ability of a company (competitor) to enter an industry. A barrier to exit is something that blocks or impedes the ability of a company (competitor) to leave an industry.

In general, industries that are difficult for new competitors to enter may enjoy periods of good profitability and limited rivalry among competitors. Conversely, industries that are easy to enter attract new companies into the industry during periods of profitability. So, rivalry among competitors can be intense. On the other end, industries that are difficult to exit have more rivalry than industries that are easy to leave.

Some of the common barriers to entry and exit are listed below.

Typical Barriers to Entry

➢ Economies of size - The need for a large volume of production and sales to reach the cost level per unit of production for profitability is a barrier to entry.

➢ Capital intensive - A large capital investment per unit of output in facilities tends to limit industry entry.

➢ Intellectual property - Patents and other types of proprietary intellectual property are very effective in limiting industry entry.

➢ High switching costs - The tendency for buyers of an industry's products to be reticent about switching to a new supplier tends to limit entry.

➢ Established brand identity - Industries dominated by branded products are difficult to enter due to the large amount of time and money required to create a competing branded product.

➢ Permitting requirements - Industries where permitting and licenses are required to establish production tend to have limited entry.

➢ Government standards - Industries where rigid industry standards exist tend to have limited entry.

Typical Barriers to Exit

➢ Investment in specialist equipment - Investments in specialized equipment that cannot readily be used in other industries tends to be an impediment to leaving the industry.

➢ Specialized skills - Highly specialized skills by industry participants that cannot be utilized in other industries tend to be an impediment to leaving the industry.

➢ High fixed costs - High levels of dedicated fixed costs tend to be an impediment to leaving an industry

If we combine entry and exit, we can predict industry rivalry, stability and profitability. As shown in Figure 1, an industry that is easy to enter but difficult to leave has intense industry rivalry and low profitability. At the first sign of excess profitability in the industry, competitors flock to the industry. However, when profitability falls, it is difficult to leave the industry so profitability remains low.

STRATEGIC GROUPS

Strategic groups are sets of firms within an industry that share the same or highly similar competitive attributes. These attributes include pricing practices, level of technology investment and leadership, product scope and scale capabilities, and product quality. By identifying strategic groups, analysts and managers are better able to understand the different types of strategies that multiple firms are adopting within the same industry.

Strategic Group Maps

A useful way to analyse strategic groups is through the creation of strategic group maps. Strategic group maps present the various competitive positions that similar firms occupy within an industry. Strategic group maps are not difficult to create; however, there are a few simple guidelines managers want to use when developing them.

a) Identify Key Competitive Attributes. As mentioned previously, many firms share similar competitive attributes such as pricing practices and product scope. The first step in developing a strategic group map is to identify key competitive attributes that logically differentiate firms in a competitive set. This is not always known in advance of creating the map so it is important to be ready to create multiple maps using different variables.

b) Create Map Based Upon Two Key Attribute Variables. For the variables selected, assign each variable to the X and Y axis, respectively. Also, select a logical gradation value for each axis so that differences will be readily observable. When complete, plot each firm’s location on the map for the industry being analysed. As each firm is plotted use a third variable—such as revenue—to represent the actual plot size of each firm. Using a variable like revenue helps the reader understand the relative performance of each firm in terms of the third variable.

c) Identify Strategic Groups. Once all of the firms have been plotted, enclose each group of firms that emerges in a shape that reflects the positioning on the strategic group. At this point, assess whether or not the differences between each group are meaningful or whether other variables must be selected from which another set of strategic groups can be drawn.

The above is an example of a strategic group map for the retail Industry. Strategic group creation and analysis provides an effective way to develop a clearer understanding of how firms within an industry compete. Since each strategic group depicts firms with similar—if not identical—competitive attributes within the industry ,the map helps managers identify important differences among competitive positions. These differences can be subject to further analysis to helps explain more subtle differences in performance.

RESOURCE BASED VIEW STRATEGY OF COMPETITIVE ADVANTAGE

As a project resource manager, you very well know your teams' worth. With the right people on deck, you feel confident signing off on incoming projects. They use their wealth of experience and skills to resolve bugs that crop up. This also helps your future projects follow a better cyclic process. It's safe to say that so long as they're invested in productive efforts, your people remain a valuable resource and their contributions, even more so. After all, no other resource can be utilized without the right human resource!

Technology touches lives, and as such evolves in response to changing requirements. To keep up with these changes, you'd need to be on high- alert for resources and capabilities that give you a competitive advantage. The resource-based view strategy helps you accomplish this by letting you analyze diversified contributions coming in from different quarters. You can then match these to opportunities to develop your competitive advantage.

The original theory behind this view emerged from the works of Birger Wernerfelt, Prahalad and Hamel who argued that the internal environment can be a source of competitive advantages. Your job doesn't end at finding and developing a competitive advantage though. It's more about sustaining it with the effective and efficient utilization of your people.

CORE COMPETENCY

Core competencies make or break innovation. While everyone can have a business idea, not all of them have the feasibility to thrive in the market. Those that do, have to be relevant, useful and adaptive. Simply put, the activities, knowledge and internal organizational structure within the firm sets you apart from your competitors. The parameters deciding this are

1. Product reliability

2. Customer insight

3. Exploitation of emerging ideas and innovation

Core competencies point you to resources with different specializations which can lower your transactional expenses. This in turn, gives them the freedom to develop new products or modify existing services as per their skills and capabilities to suit market needs.

Here, heterogeneity plays a pivotal role because if every organization had the same set of skills and capabilities, they wouldn't be able to make decisions that strategically differ.

Toyota is one such example of an automobile giant that utilized its resources and capabilities to raise its product quality. It pioneered a lean production system that proved difficult to replicate. Further, It introduced the concept of just-in-time manufacturing which reduced its setup time. The lowered pricing model and lasting efficiency rapidly gained widespread popularity which helped Toyota retain consumer loyalty. Thus, it was able to still reap profits while competing against Mercedes and BMW models.

By now these questions would pop up in your mind :

1. Why would customers buy your products or services?

2. How are you different from your competitors?

3. How can you bundle your resources in order to gain a market advantage?

4. What are the key success factors that stamp out the competition?

Core competencies stem from the effective procurement and usage of your resources and capabilities bundled together. Capabilities drive your firm's ability to adapt its core competencies over time.

If your future plans include expanding your presence, you need to evaluate your internal environment beforehand so as to maximize the value added to the customer chain.

The VRIO Framework:

The first step of your competitive advantage starts with evaluating enterprise-wide internal strengths and weaknesses. It lets you filter out those resources and capabilities that fit like jigsaw pieces to give you a competitive advantage.

What's more, you'll also discover secondary sources of competitive advantages that can be exploited at a later stage. The questions a VRIO (Value, Rarity ,Imitability ,Organization) framework brings up are a particular resources' value, rarity, imitability and the organization’s means to exploiting these three. Let’s explore how a competitive advantage can be enhanced using this framework as an enterprise-wide corporate strategy:

1. **Value**

Your resources use their knowledge to create value. Besides transforming inputs to outputs, value-addition also occurs when your resources successfully exploit profitable ventures or bring down external costs

. A competitive advantage is based on the scope of knowledge integration internally. By widening this scope, you’ll have on board a wide variety of relevant and useful skills that complement your resources’ experience.

The more experienced your resource pool, the smarter their strategy is at embracing newer information. Which is why investing in training, workshops and certifications is a worthwhile cause. These measures can help your resources diversify their professional range which gives you a competitive advantage, especially against new entrants who are building up on their expertise.

2. **Rarity**

While resources devise and implement strategies, capabilities let you take full advantage of your resources. Immobilizing them may seem like a step backwards. But when you combine it with the heterogeneity that we mentioned earlier, both resources and capabilities acquire rarity. This ensures that your competitive advantage can’t be replicated neither easily nor quickly.

3. **Imitability**

A subset of rarity, if your resources and capabilities can’t be substituted or reproduced elsewhere, they’re said to possess lower imitability. Big decisions don’t offer you a competitive advantage because other firms would hear of it through public announcements.

But the same can’t be said for the cumulative effect of small decisions taken by your resources. From making your website friendly to disabled users to adopting a new methodology, smaller decisions can prolong your competitive advantage. The cost to mimic these capabilities and resources should be higher than the compensation offered. This makes it hard for firms to entice your best people away from your firm, immobilizing their capabilities.

4. **Organization**

Control mechanisms such as formal reporting structures, compensation packages and a collaborative environment tie these 3 points together, thus helping you capture the actual value they bring in.

GE Nine Cell Matrix

❖ The GE/McKinsey Matrix is a nine-cell (3 by 3) matrix used to perform business portfolio analysis as a step in the strategic planning process.

❖ The GE/McKinsey Matrix identifies the optimum business portfolio as one that fits perfectly to the company strengths and helps to explore the most attractive industry sectors or markets.

❖ The objective of the analysis is to position each SBU on the chart depending on the SBUs Strength and the Attractiveness of the Industry Sector or Market on which it is focused. Each axis is divided into Low, Medium and High, giving the nine-cell matrix as depicted below.

➢ Different factors can be used to define Industry Attractiveness. Like:- Market Size, Market Growth Rate, Demand variability, Industry Profitability, Competitive Rivalry, Global Opportunities, Entry and exit barriers, Capital requirement, Macro environmental Factors (PEST)

➢ Different factors can also be used to define SBU Strength. Like:- Market Share, Distribution Channel Access, Financial Resources, R&D Capability, Brand equity, Production Capacity, Knowledge of customer and market, Caliber of management. Relative cost position

➢ The factors and their relative weightings are selected. The rating values for each factor are entered for each SBU and Industry.

o **Grow** – Business units that fall under grow attract high investment. Firms may go for product differentiation or Cost leadership. Huge cash is generated in this phase. Market leaders exist in this phase.

o **Hold** – Business units that fall under hold phase attract moderate investment. Market segmentation, Market penetration, imitation strategies are adopted in this phase. Followers exist in this phase.

o **Harvest -** Business units that fall under this phase are unattractive. Low priority is given in these business units. Strategies like divestment, Diversification, mergers are adopted in this phase.

Market Attractiveness

➢ Annual market growth rate ➢ Overall market size

➢ Historical profit margin

➢ Current size of market

➢ Market structure

➢ Market rivalry

➢ Demand variability ➢ Global opportunities

Business Strength

➢Current market share

➢ Brand image

➢ Production capacity

➢ Corporate image

➢ Profit margins relative to competitors ➢R & D performance

➢ Promotional effectiveness Strength

a) It allows intermediate ratings between high and low and between strong and week .

b) It helps in channelling the corporate resources to business and achieving competitive advantage and superior performance.

c) It helps in better strategic decision making and better understanding of business scope.

Weakness

a)It tends to obscure business that are become to winners because their industries are entering at exit stage.

b)Assessment of business in terms of two factors is not fair. EXAMPLE OF GE NINE CELL MATRIX

About Maruti Udyog • Founded in 1981

• Products are Maruti 800, Omni, Alto,SX4,Swift Desire,Swift,A-star, Gypsy,Wagon R,Ritz,others.

• Vision – “The Leader in the Indian Automobile Industry, Creating Customer Delight and Shareholder’s Wealth;a Pride of India”

• Core Values : Our Core Values drive us in every endeavour-

➢Customer Obession,

➢ fast, Flexible & first mover, ➢ Innovation & creativity ➢Networking & Partnership ➢ Openess & Learning

VALUE CHAIN ANALYSIS

A **value chain** is a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product (i.e., goodand/or service) for the market. The concept comes through business management and was first described by Michael Porter in his 1985 best-seller, *Competitive Advantage: Creating and Sustaining Superior Performance*.[1]

Value chain analysis (VCA)

is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation.

Porter's Value Chain Analysis

Back in 1985, Michael Porter, a Harvard Business School professor, introduced a basic value chain model in his book *Competitive Advantage*. He identified several key steps common among all value chain analyses and determined that there are primary and supporting activities that when performed at the most optimal levels will create value for their customers, such that the value offered to the customer exceeds the cost of creating that value, resulting in higher profit. Porter's framework groups activities into primary and support categories

The primary activities focus on taking the inputs, converting them into outputs, and delivering the output to the customer. The support activities play an auxiliary role in primary activities. When a company is efficient in combining these activities to provide a superior product or service, then the customer is willing to pay more for the product than the cost to make and deliver the product which results in a higher profit margin.

The firm's primary activities include:

- **Investment team (portfolio managers, analysts)** – tasked with making the investment decisions.
- **Operations and traders** – tasked with ensuring the investments are in line with the guidelines set forth by the client, and the trades are at the best execution price.
- **Marketing and sales** – responsible for procuring clients.
- **Service (client relationship management)** – responsible for providing all the touch points to the client.

Support activities include:

- **Technology** – designs a trading and client module that is efficient and effectively allows the team to provide the highest level of service and make the best investment decisions.
- **Human Resources** – finds and retains the highest level of talent at the firm.
- **Infrastructure** – includes the lawyers and risk managers whose oversight is crucial to ensuring the client's guidelines are followed, the investment risk is controlled, and the firm is operating within the regulations established by the SEC.

BENCHMARKING

Benchmarking Analysis

Benchmarking analysis is a specific type of market research that allows organizations to compare their existing performance against others and adopt improvements that fit their overall approach to continuous improvement and culture.

Many types of benchmarking exist; the most commonly recognized are:

- Process — evaluates specific business processes (e.g., purchase planning, e-procurement, service delivery). Process maps are used to facilitate benchmarking.
- Performance — compares product and service as a way to assess the organization's competitive position against same-sector peers. Focuses on costs, technical quality, ancillary service features, and performance characteristics (also called competitive benchmarking).
- Strategic — seeks to evaluate the organization's strategic maturity against others across various sectors. Focuses on general approach to the development and management of core competencies, innovations, and change strategies.

Benchmarking analyses often rely on both quantitative and qualitative measures to generate meaningful results. Quantitative analysis can provide metric-based outcomes, while qualitative comparisons often reveal best practices. The benchmarking process usually encompasses four steps:

1. Planning.

2. Analysis.

3. Action.

4. Review.

Step 1: Planning

- Determine the broad business process and tasks to benchmark.
- Identify the resources required for the study.
- Confirm the key activity performance measures or indicators.
- Document the existing process for conducting the activity.
- Identify appropriate reference models as a starting point for your assessment.

Step 2: Analysis

- Collect information to identify the scope for improvement.
- Compare the existing process with that of appropriate reference models to identify differences and innovations.
- Agree on expected targets for improvement.

Step 3: Action

- Communicate the results of the study to key stakeholders.
- Develop an improvement plan to implement changes.
- Implement the improvement plan, monitoring progress and reviewing as necessary.

Step 4: Review

- Review performance when the changes have been implemented; identify and rectify bottlenecks.
- Communicate the results of the implemented changes.
- Schedule future benchmarking activities to continue the improvement process.

Advantages

- Easy to understand and use.
- If done properly, it’s a low cost activity that offers huge gains.
- Brings innovative ideas to the company.
- Provides you with insight of how other companies organize their operations and processes.

- Increases the awareness of your costs and level of performance compared to your rivals.
- Facilitates cooperation between teams, units and divisions.

Disadvantages

- You need to find a benchmarking partner.
- It is sometimes impossible to assign a metric to measure a process.
- You might need to hire a consultant.
- If your organization is not experienced at it, the initial costs could be huge.
- Managers often resist the changes that are required to improve the performance.
- Some of best practices won't be applicable to your whole organization.

Part A

1. How the sources of information collected for scanning the environmental forces?
2. Identify the criteria used for assessing internal environment.
3. Distinguish competencies and core competencies.
4. What is Strategic group mapping?
5. Outline the significance of synergy for an organization.
6. Define the term Resource based view of a firm.
7. List down the advantages and disadvantages of VRIO framework
8. Explain the term Benchmarking.
9. Summarize the barriers faced by the organization during Entry and Exit .
10. Prepare and discuss the Environmental Threat and Opportunity (ETOP) profile for a company.

Part B

1. Michael Porter's Five forces model of industry attractiveness enables any company to outperform their competitors. Illustrate you answer by analysing any industry of your choice.
2. Explain the environment's influencing business strategies.
3. Discuss external environmental scanning technique using an industry example.
4. Assess the Industry analysis in strategic management.

5. Critically examine the efficiency of BCG matrix as a tool of strategy management.
6. Develop SWOT Analysis for any two competitive firms of your choice.
7. Describe the GE Nine cell matrix technique used for analysing corporate portfolio.
8. Discuss SAP and illustrate with a case study of any organization.
9. Explain the Value chain analysis of a firm.
10. Discuss the various techniques of Organisational Appraisal.

Part C

1. Consider the case of Canon, which is into the production and sales of photocopier machines, cameras and the likes. What is the underlying core competence?
2. Consider the metals and mining industry in India. Outline the competitive forces that shall affect strategy formulation of a new entrant into the industry.
3. Walmart wants to enter into the Indian multi-brand retail industry. Conduct PESTLE analysis for Walmart's every strategy in India.
4. Parle has launched the first coffee flavoured soft drink in India called Café Cuba. Would it be prudent on the part of Parle to license the underlying technology in the present time?

TEXT / REFERENCE BOOKS

1. Azhar Kazmi, Strategic Management and Business Policy, Tata McGraw Hill, Latest Edition, 2018
2. JA Pearce & RB Robinson, Strategic Management Formulation Implementation and Control, TMH, 12th Edition, 2017.
3. Arthur A. Thompson Jr. & A.J Strickland III, Crafting and Executing Strategy, Tata McGraw Hill, 19th Edition, 2014.
4. Gerry Johnson & Kevan Scholes, Exploring Corporate Strategies, PHI, 11th Edition, 2017.
5. Upendra Kachru: Strategic Management, Excel books, 2005.

SCHOOL OF MANAGEMENT STUDIES

UNIT – III - STRATEGIC MANAGEMENT- SBAA5207

UNIT – III

GENERIC COMPETITIVE STRATEGIES

Meaning – Low cost, Differentiation, Focus. Grand strategies: Stability – Growth – Diversification Strategies, Vertical Integration Strategies, Mergers, Acquisition & Takeover Strategies, Strategic Alliances and Collaborative Partnerships, Retrenchment – Turnaround, Divestment, Liquidation, Outsourcing Partnerships.

INTRODUCTION

The results obtained through external and internal analysis provide the inputs needed by a firm to develop its strategic intent and strategic mission. Strategic intent shows how resources, capabilities and core competencies will be leveraged to achieve desired results in a competitive environment.

The mission is used to specify the product markets and customers a firm intends to serve through various strategies (Corporate, Business Unit and Functional level).

Corporate Strategies helps firms to leverage their resources and kills to extend their competitive advantage to new areas of activity.

Corporate Strategy is basically concerned with the choice of businesses, products and markets. It tries to answer certain key questions:

- What businesses the firm should be in, in terms of the range of products it Supplies?

  Hindustan Lever Ltd. is highly diversified with interests in soaps, tea, washing powders, detergents, tooth pastes, shampoos, creams, salt, hair oils etc.
- What should be the optional geographic spread of activities for a firm?

  In the restaurant business, most firms serve small local markets, whereas McDonald’s operates in more than one hundred countries throughout the world.
- What range of vertically linked activities should the firm encompass?

  Reliance Industries is a key player in each of the products in the Petrochemical – Fibre intermediate chain (Synthetic textiles, PSF, PFY, PTA, MEG)
- How the corporate office should manage its group its businesses?

Corporate Strategy spells out the businesses in which the firm will participate, the markets it will serve and the customer needs it will satisfy.

I. Corporate Level Strategy - DEFINITION:

Corporate-Level Strategy refers to the top management's approach or game plan for administering and directing the entire concern. These are based on the company's business environment and internal capabilities. It is also called as Grand Strategy or Master Strategy.

It reflects the combination and pattern of business moves, actions and hidden goals, in the strategic interest of the concern, considering various business divisions, product lines, customer groups, technologies and so forth.

Corporate Level Strategy -FEATURES:

(i) Corporate Level Strategies is developed by the company's **highest level of management** considering the company's **overall growth and opportunities** in future.

(ii) It describes the **orientation and direction** of the enterprise in the long run and the overall boundaries which acts as the basis for formulating the company's middle and low-level strategies, i.e. business strategies and functional strategies.

(iii) While formulating corporate-level strategies, the **company's available resources and environmental factors** are kept in mind.

(iv) It is concerned with the **decisions regarding the two-way flow of company's information and resources** between the various levels of management.

In better words, corporate-level strategy implies the topmost degree of strategic decision making, which covers those business plans which are concerned with the company's objective, procurement and optimal allocation of resources and coordination of business strategies of different units and divisions for satisfactory performance.

Grand Strategies – OBJECTIVES:

To achieve log-term prosperity, strategic planners commonly establish long-term objectives in seven areas:

(a) Profitability

(b) Productivity

(c) Employee Relations

(d) Competitive position

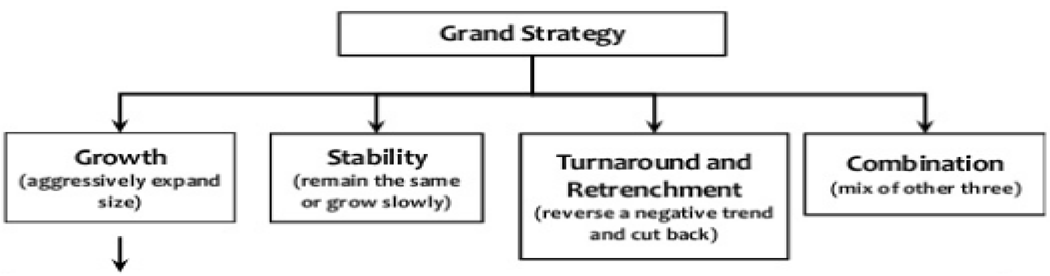
(e) Technological

(f) Leadership

(g) Employee Development

(h) Public Responsibility

Grand Strategies - TYPES



(I) STABILITY STRATEGY

The **Stability Strategy** is adopted when the organization attempts to maintain its current position and focuses only on the incremental improvement by merely changing one or more of its business operations in the perspective of customer groups, customer functions and technology alternatives, either individually or collectively.

Generally, the stability strategy is adopted by the firms that are risk averse, usually the small scale businesses or if the market conditions are not favorable, and the firm is satisfied with its performance, then it will not make any significant changes in its business operations. Also, the firms, which are slow and reluctant to change finds the stability strategy safe and do not look for any other options.

To have a better understanding of Stability Strategy go through the following examples in the context of customer groups, customer functions and technology alternatives.

- The publication house offers special services to the educational institutions apart from its consumer sale through the market intermediaries, with the intention to facilitate a bulk buying.

- The electronics company provides better after-sales services to its customers to make the customer happy and improve its product image.

- The biscuit manufacturing company improves its existing technology to have the efficient productivity.

In all the above examples, the companies are not making any significant changes in their operations, they are serving the same customers with the same products using the same technology.

Example: Steel Authority of India has adopted stability strategy because of overcapacity in steel sector. Instead it has concentrated on increasing operational efficiency of its various plants rather than going for expansion. Other industries are heavy commercial vehicle, coal industry.

Stability Strategies could be of three types:

(a) No – Change Strategy:

The **No-Change Strategy**, as the name itself suggests, is the stability strategy followed when an organization aims at maintaining the present business definition. Simply, the decision of not doing anything new and continuing with the existing business operations and the practices referred to as a no-change strategy.

When the environment seems to be stable, i.e. no threats from the competitors, no economic disturbances, no change in the strengths and weaknesses, a firm may decide to continue with its present position. Therefore, by analyzing both the internal and external environments, a firm may decide to continue with its present strategy.

The no-change strategy does not imply that no decision has been taken by the firm, however, taking no decision can sometimes be a decision itself. There should be a clear distinction between the firms which are inactive and do not want to make changes in their strategies and the ones which consciously decides to continue with their present business definition by scrutinizing both the internal and external conditions.

Generally, the small or mid-sized firms catering to the needs of a niche market, which is limited in scope, rely on the no-change strategy. This stability strategy is suitable till no new threats emerge in the market, and the firm feels the need to alter its present position.

Example: Cigarette, liquor industries fall in this category because of strict control over capacity expansion. Both these industries require license under the provisions of Industries (Development and Regulations) Act,1951.

(b) Profit Strategy

The **Profit Strategy** is followed when an organization aims to maintain the profit by whatever means possible. Due to lower profitability, the firm may cut costs, reduce investments, raise prices, increase productivity or adopt any methods to overcome the temporary difficulties.

The profit strategy can be followed when the problems are temporary or short-lived and will go away with time. The problems could be the economic recession or inflation, industry downturn, worst market conditions, competitive pressure, government policies and the like. Till then, the firm adopts the artificial measures to tackle these problems and sustain the profitability of the firm.

If the problem persists for long, then profit strategy would only deteriorate the firm's overall financial position. In the crisis, the companies may overcome the temporary difficulties by selling the assets such as land or building or setting off the losses of one division against the profits of another division. Also, the firms may offer the outsourcing facilities to those firms who are in need of it and can realize the temporary cash.

The profit strategy focuses on capitalizing the situation when the obsolete technology or the old technology is to be replaced with the new one. Here no new investment is made; the same technology is followed, at least partially with new technological domains.

Example: Sylvania, GE are among the firms that followed this strategy. They decided to stay in the vacuum tube market until the 'end of the game'.

(c) Pause/Proceed with Caution Strategy

The **Pause/Proceed with Caution Strategy** is well understood by the name itself, is a stability strategy followed when an organization wait and look at the market conditions before launching the full-fledged grand strategy. Also, the firm that has intensely followed the expansion strategy would wait till the time the new strategies seeps down the organizational levels and look at the changes in the organizational structure before taking the next step.

Like the Profit Strategy, the Pause/Proceed with Caution strategy is also a temporary strategy followed by the firms. But however, these both differ significantly; the profit strategy focuses on sustaining profitability until the temporary difficulties or the conditions become more hospitable. Whereas the Pause/Proceed with caution strategy is a deliberate action taken by the firm to postpone the strategic action till the best opportunity knocks at the door. Thus, waiting for the right strategy for the right time.

The pause/proceed with caution strategy is often followed by the manufacturing companies who study the market conditions thoroughly and then launch their new products into the market. It is more prevalent in the army attacks; wherein the reconnaissance party moves ahead to examine the situation before the troops, who comes in full strength to ultimately, attack the enemies.

Example: Hindustan Levers better known for soaps and detergents, produces substantial quantity of shoes and shoe uppers for the export market. In late 2000, it started selling a few thousand pairs in the cities to find out the market reaction. This is a pause proceed with caution strategy before it goes full steam into another FMCG sector that has a lot of potential.

(II) EXPANSION STRATEGY

The **Expansion Strategy** is adopted by an organization when it attempts to achieve a high growth as compared to its past achievements. In other words, when a firm aims to grow considerably by broadening the scope of one of its business operations in the perspective of customer groups, customer functions and technology alternatives, either individually or jointly, then it follows the Expansion Strategy.

The reasons for the expansion could be survival, higher profits, increased prestige, economies of scale, larger market share, social benefits, etc. The expansion strategy is adopted by those firms who have managers with a high degree of achievement and recognition. Their aim is to grow, irrespective of the risk and the hurdles coming in the way.

Go through the examples below to further comprehend the understanding of the expansion strategy. These are in the context of customer groups, customer functions and technology alternatives.

- The baby diaper company expands its customer groups by offering the diaper to old aged persons along with the babies.

- The stock broking company offers the personalized services to the small investors apart from its normal dealings in shares and debentures with a view to having more business and a diversified risk.

- The banks upgraded their data management system by recording the information on computers and reduced huge paperwork. This was done to improve the efficiency of the banks.

In all the examples above, companies have made significant changes to their customer groups, products, and the technology, so as to have a high growth.

The firm can follow either of the five expansion strategies to accomplish its objectives:

(a) **Expansion through Concentration**

The **Expansion through Concentration** When an organization focuses on intensifying its core businesses with a view on expanding through either acquiring a new customer base or diversifying its product portfolio, it is having a concentration strategy.

The organization may follow any of the ways to practice Expansion through concentration:

(i) ***Market penetration strategy***: It occurs when a company penetrates a market in which current or similar products already exist. A way to achieve this is by gaining competitor's customers(part of their market share).

- Adding channels of distribution or
- Changing content of advertising or promotion
- Frequently, changes in media selection, promotional appeals, and distribution are used to initiate this approach
- Product launch in New Market .

Divide the number of people who have purchased your product by the number of people in the targeted market to get your market. If you have a potential market of 100000 people and you have sold your product to 5000 people, then you have a market penetration of 0.05 or 5 percent.

Example: Nike features famous athletes in print and television ads designed to take market share within the athletic shoes business from Adidas and other rivals.

(ii) ***Market Development type of concentration***: It involves taking existing products and trying to sell them within new markets. One way to reach a new market is to enter a new retail channel.

Example: Starbucks has stepped beyond selling coffee beans only in its stores and now sells beans in grocery stores. This enables starbucks to reach consumers that do not visit in the coffeehouses.

(iii) ***Product Development type of Concentration***: The firms develop new products targeted to its existing market.

Example: Coca- cola and Pepsi regularly introduce new varieties – such as Coco-cola zero and Pepsi Cherry Vanilla – in an attempt to take market share from each other and from their smaller rivals.

MARKET PENETRATION	Selling more products in the same market
MARKET DEVELOPMENT	Selling same products to new markets
PRODUCT DEVELOPMENT	Selling new products to the same market

EXAMPLE: Bajaj Auto has undertaken all the above mentioned strategies.

(b) Expansion through Diversification

The **Expansion through Diversification** is followed when an organization aims at changing the business definition, i.e. either developing a new product or expanding into a new market, either individually or jointly. A firm adopts the expansion through diversification strategy, to prepare itself to overcome the economic downturns.

Generally, the diversification is made to set off the losses of one business with the profits of the other; that may have got affected due to the adverse market conditions. There are mainly two types of diversification strategies undertaken by the organization:

Example: Avon's move to market jewellery through its door- to –door sales force involved marketing new products through existing channels of distribution.

(i) Concentric Diversification: When an organization acquires or develops a new product or service that are closely related to the organization's existing range of products and services is called as a concentric diversification. **For example, the shoe manufacturing company may acquire the leather manufacturing company with a view to entering into the new consumer markets and escalate sales.**

Example: The addition of tomato ketchup and sauce to the existing 'Maggi' brand processed items of food specialties limited.

(ii) Conglomerate Diversification: When an organization expands itself into different areas, whether related or unrelated to its core business is called as a conglomerate diversification. Simply, conglomerate diversification is when the firm acquires or develops the product and services that may or may not be related to the existing range of product and services. Generally, the firm follows this type of diversification through a merger or takeover or if the company wants to expand to cover the distinct market segments.

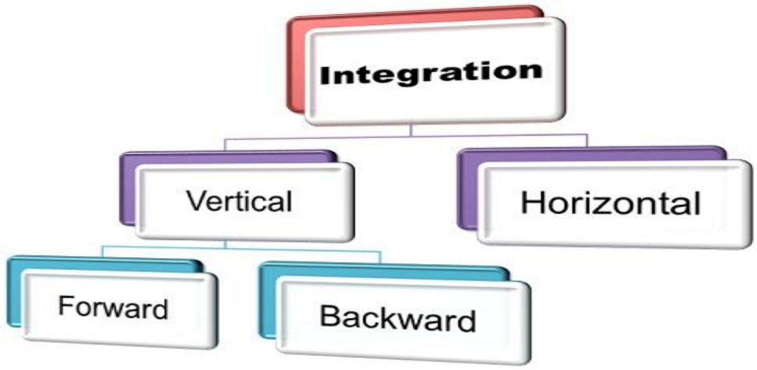
Example: **ITC is the best example of conglomerate diversification. (Hotel Industries, Paper, Agriculture)**

(c) Expansion through Integration

The **Expansion through Integration** means combining one or more present operation of the business with no change in the customer groups. This combination can be done through a value chain.

The value chain comprises of interlinked activities performed by an organization right from the procurement of raw materials to the marketing of finished goods. Thus, a firm may move up or down the value chain to focus more comprehensively on the needs of the existing customers.

The expansion through integration widens the scope of the business and thus considered as the grand expansion strategy. There are two ways of integration:



(j) **Vertical integration:** When pursuing a vertical integration strategy, a firm gets involved in new portions of the value chain. This approach can be very attractive when a firm's suppliers or buyers have too much power over the firm and are becoming increasingly profitable at the firm's expense.

The vertical integration is of two types: forward and en an organization moves close to the ultimate customers i.e. facilitate the sale of the finished goods is said to have made a forward integration. Example, the manufacturing firm open up its retail outlet .Whereas, if the organization retreats to the source of raw materials, is said to have made a backward integration. Example, the shoe company manufactures its own raw material such as leather through its subsidiary firm.

Example:

(ii) Horizontal Integration: A firm is said to have made a horizontal integration when it takes over the same kind of product with similar marketing and production levels. Example, the pharmaceutical company takes over its rival pharmaceutical company.

(d) Expansion through Cooperation

The **Expansion through Cooperation** is a strategy followed when an organization enters into a mutual agreement with the competitor to carry out the business operations and compete with one another at the same time, with the objective to expand the market potential.

The expansion through cooperation can be done by following any of the strategies as explained below:

(k) **Merger:** The merger is the combination of two or more firms wherein one acquires the assets and liabilities of the other in the exchange of cash or shares, or both the organizations get dissolved, and a new organization came into the existence. The firm that acquires another is said to have made an acquisition, whereas, for the other firm that gets acquired, it is a merger.

(a) Merger through Absorption – Absorption is combination of two or more companies into an existing company. All companies except one lose their identity.

Example: Absorption of Tata fertilizers Limited (TFL) by Tata Chemicals Limited (TCL) and Tata Oil Mills Limited (TOMCO) with Hindustan Lever Limited (HLL).

(b) Merger through Consolidation – A consolidation is a combination of two or more companies into a new company. All companies are dissolved to form a new company.

Example: Hindustan Computers Ltd+ Hindustan Instruments Limited +Indian Software Co.Ltd + Indian Reprographic Limited = Hindustan Computer Limited (HCL)

Types of Merger

- **Horizontal Merger –** It refers to the merger of two companies who are direct competitors of one another. They serve the same market and sell the same product.

Example: The formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond• The merger of Bank of Mathura with ICICI (Industrial Credit and Investment Corporation of India) Bank.

- **Vertical Merger –** This type of merger involves a customer and a company or a supplier and a company merging. Imagine a bat company merging with a wood production company. This would be an example of the supplier merging with the producer and is the essence of vertical mergers.

Example—• Pixar & Disney

- **Market - extension Merger –**This involves the combination of two companies that sell the same products in different markets. A market-extension merger allows for the market that can be reached to become larger and is the basis for the name of the merger.

Example- Dell's Alien ware Gaming Laptops

- **Product extension Merger –**It takes place between two business organizations that deal in products that are related to each other and operate in the same market. Companies which sell different products of a related category..
- **Conglomeration Merger -** It refers to the merger of companies, which do not either sell any related products or cater to any related markets. Here, the two companies entering the merger process do not possess any common business ties.

Example :Tata-Sky

ACQUISITION -An Acquisition may be an act of acquiring effective control by one company over assets or management of another company without any combination of companies……..Companies may remain independent, separate. But there may be change in control of Companies……..

Example: Godrej Consumer Care bought Keyline Brands-Dabur acquired Balsara

(ii) Takeover: Takeover strategy is the other method of expansion through cooperation. In this, one firm acquires the other in such a way, that it becomes responsible for all the acquired firm's operations. The takeovers can either be friendly or hostile. In the former, both the companies agree for a takeover and feels it is beneficial for both. However, in the case of a hostile takeover, a firm tries to take on the operations of the other firm forcefully either known or unknown to the target firm.

Types of Takeovers:

(a) Friendly Takeover- Also commonly referred to as 'negotiated takeover', a friendly takeover involves an acquisition of the target company through negotiations between the existing promoters and prospective investors. This kind of takeover is resorted to further some common objectives of both the parties.

(b) Hostile Takeover- A hostile takeover can happen by way of any of the following actions: if the board rejects the offer, but the bidder continues to pursue it or the bidder makes the offer without informing the board before hand. **Example**- HP taking over COMPAQ

Why Should Firms Takeover?

• To gain opportunities of market growth

• To seek gain benefits from economies of scale

• To gain a more dominant position in the market

• To acquire the skills or strengths of another firm to complement existing business

• To diversify its products or service range in the market

(iii) Joint Venture: Under the joint venture, both the firms agree to combine and carry out the business operations jointly. The joint venture is generally done, to capitalize the strengths of both the firms. The joint ventures are usually temporary; that lasts till the particular task is accomplished.

A joint venture is preferred when two or more firms lack the necessary components for success in a business. Many companies like joint ventures to overcome resource constraints and/or take advantage of the distinctive competencies of the partner companies.

Example: Foreign companies may have joint ventures with Afghanistan organizations for the development of infrastructure. The foreign company brings the capital and expertise whereas the Afghan company brings the local knowledge and logistical support to the joint venture.

Sony Ericsson, Maruti Suzuki, Google and Naasa developing Google earth

(iv) Strategic Alliance: Under this strategy of expansion through cooperation, the firms unite or combine to perform a set of business operations, but function independently and pursue the individualized goals. Generally, the strategic alliance is formed to capitalize on the expertise in technology or manpower of either of the firm.

Thus, a firm can adopt either of the cooperation strategies depending on the nature of business line it deals in and the pursued objectives.

(e) Expansion through Internationalization

The **Expansion through Internationalization** is the strategy followed by an organization when it aims to expand beyond the national market. The need for the Expansion through Internationalization arises when an organization has explored all the potential to expand domestically and look for the expansion opportunities beyond the national boundaries.

But however, going global is not an easy task, the organization has to comply with the stringent benchmarks of price, quality and timely delivery of goods and services, that may vary from country to country.

The expansion through internationalization could be done by adopting either of the following strategies:

(i) **International Strategy:** The firms adopt an international strategy to create value by offering those products and services to the foreign markets where these are not available. This can be done, by practicing a tight control over the operations in the overseas and providing the standardized products with little or no differentiation.**Example:** Harley Davidson

(ii) **Multidomestic Strategy:** Under this strategy, the multi-domestic firms offer the customized products and services that match the local conditions operating in the foreign markets. Obviously, this could be a costly affair because the research and development, production and marketing are to be done keeping in mind the local conditions prevailing in different countries .**Example:** Heinz, Mc Donald's

(iii)**Global Strategy:** The global firms rely on low-cost structure and offer those products and services to the selected foreign markets in which they have the expertise. Thus, a standardized product or service is offered to the selected countries around the world. **Example:** Caterpillar, Texas Instruments

(iv)**Transnational Strategy:** Under this strategy, the firms adopt the combined approach of multi-domestic and global strategy. The firms rely on both the low-cost structure and the local responsiveness i.e. according to the local conditions. Thus, a firm offers its standardized products and services and at the same time makes sure that it is in line with the local conditions prevailing in the country, where it is operating. **Example:** Coco- cola and Nestle

So, in order to globalize, the firm should assess the international environment first, and then should evaluate its own capabilities and plan the strategies accordingly to enter into the foreign markets.

(III) **RETRENCHMENT STRATEGY**

The **Retrenchment Strategy** is adopted when an organization aims at reducing its one or more business operations with the view to cut expenses and reach to a more stable financial position.

In other words, the strategy followed, when a firm decides to eliminate its activities through a considerable reduction in its business operations, in the perspective of customer groups, customer functions and technology alternatives, either individually or collectively is called as Retrenchment Strategy.

To further comprehend the meaning of Retrenchment Strategy, go through the following examples in terms of customer groups, customer functions and technology alternatives.

- The book publication house may pull out of the customer sales through market intermediaries and may focus on the direct institutional sales. This may be done to slash the sales force and increase the marketing efficiency.

- The hotel may focus on the room facilities which is more profitable and may shut down the less profitable services given in the banquet halls during occasions.

- The institute may offer a distance learning programme for a particular subject, despite teaching the students in the classrooms. This may be done to cut the expenses or to use the facility more efficiently, for some other purpose.

In all the above examples, the firms have made the significant changes either in their customer groups, functions and technology/process, with the intention to cut the expenses and maintain their financial stability.

The firm can either restructure its business operations or discontinue it, so as to revitalize its financial position. There are three types of Retrenchment Strategies:

(a) Turnaround Strategy

The **Turnaround Strategy** is a retrenchment strategy followed by an organization when it feels that the decision made earlier is wrong and needs to be undone before it damages the profitability of the company. Simply, turnaround strategy is backing out or retreating from the decision wrongly made earlier and transforming from a loss making company to a profit making company.

Now the question arises, when the firm should adopt the turnaround strategy? Following are certain indicators which make it mandatory for a firm to adopt this strategy for its survival. These are:

- Continuous losses
- Poor management
- Wrong corporate strategies
- Persistent negative cash flows

- High employee attrition rate
- Poor quality of functional management
- Declining market share
- Uncompetitive products and services

Also, the need for a turnaround strategy arises because of the changes in the external environment Viz, change in the government policies, saturated demand for the product, a threat from the substitute products, changes in the tastes and preferences of the customers, etc.

Example: Dell is the best example of a turnaround strategy. In 2006. Dell announced the cost-cutting measures and to do so; it started selling its products directly, but unfortunately, it suffered huge losses. Then in 2007, Dell withdrew its direct selling strategy and started selling its computers through the retail outlets and today it is the second largest computer retailer in the world.

(b) Liquidation Strategy

The **Liquidation Strategy** is the most unpleasant strategy adopted by the organization that includes selling off its assets and the final closure or winding up of the business operations. It is the most crucial and the last resort to retrenchment since it involves serious consequences such as a sense of failure, loss of future opportunities, spoiled market image, loss of employment for employees, etc.

The firm adopting the liquidation strategy may find it difficult to sell its assets because of the non-availability of buyers and also may not get adequate compensation for most of its assets. The following are the indicators that necessitate a firm to follow this strategy:

- Failure of corporate strategy
- Continuous losses
- Obsolete technology

- Outdated products/processes
- Business becoming unprofitable
- Poor management
- Lack of integration between the divisions

Generally, small sized firms, proprietorship firms and the partnership firms follow the liquidation strategy more often than a company. The liquidation strategy is unpleasant, but closing a venture that is in losses is an optimum decision rather than continuing with its operations and suffering heaps of losses.

(c) Divestment Strategy

The **Divestment Strategy** is another form of retrenchment that includes the downsizing of the scope of the business. The firm is said to have followed the divestment strategy, when it sells or liquidates a portion of a business or one or more of its strategic business units or a major division, with the objective to revive its financial position.

The divestment is the opposite of investment; wherein the firm sells the portion of the business to realize cash and pay off its debt. Also, the firms follow the divestment strategy to shut down its less profitable division and allocate its resources to a more profitable one.

An organization adopts the divestment strategy only when the turnaround strategy proved to be unsatisfactory or was ignored by the firm. Following are the indicators that mandate the firm to adopt this strategy:

- Continuous negative cash flows from a particular division
- Unable to meet the competition
- Huge divisional losses
- Difficulty in integrating the business within the company

- Better alternatives of investment
- Lack of integration between the divisions
- Lack of technological upgradations due to non-affordability
- Market share is too small
- Legal pressures

Example: Tata Communications is the best example of divestment strategy. It has started the process of selling its data center business to reduce its debt burden.

(IV) **COMBINATION STRATEGY**

The **Combination Strategy** means making the use of other grand strategies (stability, expansion or retrenchment) simultaneously. Simply, the combination of any grand strategy used by an organization in different businesses at the same time or in the same business at different times with an aim to improve its efficiency is called as a combination strategy.

Such strategy is followed when an organization is large and complex and consists of several businesses that lie in different industries, serving different purposes. Go through the following example to have a better understanding of the combination strategy:

- A baby diaper manufacturing company augments its offering of diapers for the babies to have a wide range of its products **(Stability)** and at the same time, it also manufactures the diapers for old age people, thereby covering the other market segment **(Expansion).** In order to focus more on the diapers division, the company plans to shut down its baby wipes division and allocate its resources to the most profitable division **(Retrenchment).**

In the above example, the company is following all the three grand strategies with the objective of improving its performance. The strategist has to be very careful while selecting the combination strategy because it includes the scrutiny of the environment and the challenges each business operation faces. The Combination strategy can be followed either simultaneously or in the sequence.

II. GENERIC COMPETITIVE STRATEGIES

Michael E. Porter has suggested 3 strategic tools for the for the development of strategic advantage & to win over competition.

1) **Porters 5 Forces** of Competition for Industry Environment Analysis
2) **Value Chain Analysis for** effective delivery of value to the customers
3) **Generic Strategies** for creation of competitive advantages over competitors.

BUSINESS LEVEL STRATEGIES – Meaning

Business level strategy deals with how a particular business competes. The principle focus is on meeting competition, protecting market share and earning profit at the business unit level by performing activities differently, offering superior value to customers.

A firm is able to deliver superior value to customers when it is in a position to perform an activity that is distinct or different from that of its competitors. This is popularly defined as **competitive advantage**.

Competitive advantage implies a distinct sustainable advantage over competitors. It is a kind of clear superiority or distinctive competence in some functions or area over the competitors. The areas may include finance, marketing, production, human resources, new product development, research etc.

Firms usually build competitive advantage by initiating certain unique steps that help them gain an edge over their rivals in attracting customers. These steps would include offering best customer service, producing at the lowest cost or focusing efforts on a specific segment or niche of the industry.

Michael E Porter studied a number of business organizations and proposed that business level strategies are the result of five competitive forces in the company's environment.

According to porter, buyers, product substitutes, Suppliers and potential new companies within the industry all contribute to the level of rivalry among industry firms.By applying these strengths in either a broad or narrow scope, three generic strategies result: **cost leadership differentiation, and focus**

- Three basic competitive approaches:

– Cost Leadership - To outperform competitors by doing everything it can to produce goods or services at the lowest possible cost.

– Differentiation- The differentiated product has the ability to satisfy a customer's need in a way that competitors cannot.

– Focus- Directed toward serving the needs of a limited customer group or segment.

According to Porter, two competitive dimensions are the keys to business- level strategy.

• The first dimension is a firm's source of competitive advantage.

• The second dimension is firms' scope of operations.

- **Competitive advantages** are conditions that allow a company or country to produce a good or service of equal value at a lower price or in a more desirable fashion. These conditions allow the productive entity to generate more sales or superior margins compared to its market rivals

Examples of Competitive Advantage

- Access to natural resources that are restricted to **competitors**.
- Highly skilled labor.
- A unique geographic location.
- Access to new or proprietary technology. ...
- Ability to manufacture products at the lowest cost.

- Brand image recognition.

- The **competitive scope** of an organization is defined as a function of the number of value chains (distinct but interrelated) in which the organization is engaged.
  There are **two types** of **competitive scope** – broad target and narrow target.
  Firms serving a broad target market seek to use• their **competitive** advantage on an industry- wide basis.
  A narrow• **competitive scope** means that the firm intends to serve the needs of a narrow target customer group.

Target Scope	Advantage	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	**Cost Leadership Strategy**	**Differentiation Strategy**
Narrow (Market Segment)	**Focus Strategy** (low cost)	**Focus Strategy** (differentiation)

(a) COST LEADERSHIP – Meaning

It is a strategy that focuses on making an organization more competitive by **producing its products more cheaply than competitors can.** Organizations can offer products to customers at lower prices than the competitors and thereby hope to increase market share.

Cost leadership is a part of marketing strategy. Although, it is highly effective in gaining market share as well as drawing the customers' attention, it is difficult to deploy. The management team of the company has to constantly work towards reducing the cost of not just one product, but the entire range of products in the company's portfolio. Cost leadership does not mean that a company produces goods which are of inferior quality at comparatively cheap rates. That strategy will ultimately lead to failure.

To deploy this strategy, a company has to produce goods which are of acceptable quality and specific to a set of customers at a price which is much lower or competitive than other companies producing the same product.

Example:

- Mc DONALD’s This fast food chain has proven to be very successful using this strategy. They keep costs low by maintaining a division of labor that allows them to employ and train inexperienced staff instead of skilled cooks. This method allows them to hire a few managers who usually receive higher wages.

- BIG BAZZAR They have positioned themselves as a low cost provider for a broad market to increase the conversion rate of footfalls into buying. By offering wide range of products at a low cost they are differentiating themselves from the other players in the market.

-TATA STEEL India’s largest steel company Tata Steel, the cost leader in the steel manufacturing sector owns raw material assets such as coal and limestone mines through joint ventures or completely, with the assets spread across countries such as Australia, Oman and Mozambique. Tata Steel has largely been able to withstand raw material price fluctuations due to captive iron ore mines.

-RELIANCE Reliance Industries has become a global leader in various business activities based on innovation and cost by achieving more efficient production arising from experience and economies of scale, innovation in production methods, and deferential Low-Cost Access to Productive Inputs

Organizations exhibiting cost-leadership often exhibit a number of traits and attributes which make them suited for this approach:

- Access to capital or technology required to drive costs down
- High levels of productivity

- High efficiency and capacity utilization
- A low-cost base (e.g. labour, materials, facilities) and a method of maintaining this
- Use of bargaining power to negotiate low production costs
- Access to effective distribution channels

(b) DIFFERETIATION STRATEGY – Meaning

The methods of achieving differentiation can vary broadly across industries, products and services; however, it can involve various features, functionality, durability, and also how the brand and the product are marketed to achieve an image which customers value. When designing products, the organization will focus on various criteria considered by consumers within the industry, and will then orient them uniquely to meet those criteria.

Though not universally, this strategy is often associated with charging premium prices for the products or services in question. This reflects the potentially higher production costs associated with developing unique items, and also the extra features and uniqueness exhibited by said product. As higher prices are often a forced measure to cover production costs, it is crucial that the differentiation of the product is appealing enough to justify these prices to consumers.

Here are the most important traits associated with differentiation-led organizations:

- Strong research, development and innovation
- Superior product quality
- Recognizable branding, effective branding and marketing
- Industry-wide distribution within all major channels (stocked by most retailers)

Types of Differentiation

- Unique taste – Dr. Pepper
- Multiple features – Microsoft Windows and Office
- Wide selection and one-stop shopping – Home Depot, Amazon.com
- Superior service - FedEx, Ritz-Carlton
- Spare parts availability – Caterpillar

- Engineering design and performance – Mercedes, BMW
- Prestige – Rolex
- Product reliability – Johnson & Johnson
- Quality manufacture – Toyota
- Technological leadership – 3M Corporation
- Top-of-line image – Ralph Lauren, Starbucks,

(c)FOCUS STRATEGY

A focus strategy involves offering the niche-customers a product customized to their tastes and requirements. It is directed towards serving the needs of a limited customer group.

According to Hitt, Ireland, and Hoskisson, a niche strategy/focus strategy is an integrated set of actions designed to produce or deliver goods and services that serve the needs of a particular competitive segment. A company usually follows a focus strategy when it can serve a narrow piece of the market better than competitors.

A niche can be identified based on certain issues:

-particular buyer group (such as women, youths, adolescents or aged 50+),

-geographic uniqueness (such as south of USA or South of France),

-special product attributes that appeal only to niche members (such as specially designed neck-tie or fancy Punjabi),

-a particular product line (such as lemon juice, children's shoes or detergent with bleach).

In a nutshell, it can be said that the focus strategy:

-Serves a limited segment by choice.

-The segment is understood and targeted.

-The organization has the resources, skill, and competence to serve the segment.

The organization can opt to offer a low cost or a high differentiation advantage to the served segment.

Examples of Focus Strategies .

1.Animal Planet and History Channel

• Cable TV

2.Porsche

• Sports cars

3.Cannondale

• Top-of-the line mountain bikes

4. Enterprise Rent-a-Car

• Provides rental cars to repair garage customers

Types of Focus Strategy

A company can pursue a focus strategy either with a low-cost approach or a differentiation approach.

There can, thus, be 2 types of focus strategy;

(a) Focused Low-Cost Strategy.

(b) Focused Differentiation Strategy.

Focused Low-Cost Strategy

The focused low-cost strategy of entering into a niche market at a low cost with a unique type of product that has a special need among the customers in the niche market. This strategy is targeted to those via so desire to have unique products at a low cost. the company that follows this strategy competes against the cost leader in the niche market where it has a cost advantage.

With this strategy accompany concentrates on small volume custom-built products for which it has a cost advantage. The company may adopt this strategy to serve a buyer segment whose needs can be satisfied with less cost compared to the rest of the market.

Focused Differentiation Strategy

‘Focused Differentiation Strategy’ is the strategy of operating a business with a differentiated product in a chosen niche market. When a company pursues a focused strategy based on differentiation, it concentrates on a harrow buyer-segment and offers customized attributes in products better than competitors’ products.

Here, the focuser company competes against competitors not based on low-cost, rather based on product differentiation. Since the focuser company knows the needs of niche customer-groups, it can successfully differentiate its products.

Examples: Coca-Cola Company has introduced ‘diet cola’ to serve the niche market consisting of diabetic patients.

Part A

1. Distinguish between Business Level Strategy and Corporate Level Strategy.
2. How the generic building blocks of competitive advantage related to each other?
3. Outline the basic issues of global business?
4. Under what circumstances a company should follow stability strategy?
5. Why do companies pursue diversification Strategy?
6. Discuss the pros and cons of focus strategy.
7. Identify the key elements considered to develop and formulate with master strategy.
8. Explain the term Strategic Alliances.
9. Summarize Retrenchment strategy and its types.

Part B

1. Explain the SBU structure with its benefits and limitations.
2. Discuss the various corporate level strategies that can be adopted for growth and expansion of the organization, with the help of practical examples.
3. Business units have a choice of three generic strategies. Explain these strategies.
4. 'Joint Ventures are emerging as the best tool for reaching new markets'. Comment.
5. Discuss how innovation is fostered in any two industries of your choice.
6. Taking a firm of your choice. Explain how competitive advantage is developed and sustained over a long period of time.

Part C

1. Rajiv Bajaj opines that strategy is specialisation. Analyse the brand led growth strategy behind the launch and marketing of Pulsar, KTM and Boxer in this context.
2. Consider a diversified business conglomerate like ITC. How has ITC tweaked its business model and strategic thrust areas in the recent past?

TEXT / REFERENCE BOOKS

1. Azhar Kazmi, Strategic Management and Business Policy, Tata McGraw Hill, Latest Edition, 2018
2. JA Pearce & RB Robinson, Strategic Management Formulation Implementation and Control, TMH, 12th Edition, 2017.
3. Arthur A. Thompson Jr. & A.J Strickland III, Crafting and Executing Strategy, Tata McGraw Hill, 19th Edition, 2014.
4. Gerry Johnson & Kevan Scholes, Exploring Corporate Strategies, PHI, 11th Edition, 2017.
5. Upendra Kachru: Strategic Management, Excel books, 2005.

SATHYABAMA

INSTITUTE OF SCIENCE AND TECHNOLOGY

(DEEMED TO BE UNIVERSITY)

Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE

www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – IV - STRATEGIC MANAGEMENT- SBAA5207

UNIT – IV

STRATEGY IMPLEMENTATION

Components of a strategic plan – Barriers to implementation of Strategy – Mintzberg's 5ps – Deliberate and Emergent Strategies –Mckinsey's 7s framework ; Organization structure for Strategy Implementation – Matching structure to Strategy, Organization Design for Stable Vs. Turbulent environment; Changing Structures and processes: Reengineering and Strategy Implementation, Principles of Re-engineering.

Strategic Planning – Meaning

Strategic planning …..is the process by which the guiding members of an organization envision its future and develop the necessary procedures and operations to achieve that future..

Why do Strategic Planning?

• If you fail to plan, then you plan to fail – be about the future proactive
• Strategic planning improves performance
• Counters excessive inward and short-term thinking
• Solves major issues at a macro level
• Communicates to everyone what is most important

Components of a Strategic Plan

Strategic plans can come in many different shapes and sizes, but they all have the following components. The list below describes each piece of a strategic plan in the order that they're typically developed.

- **Mission statement:** The mission statement is an overarching, timeless expression of your purpose and aspiration, addressing both what you seek to accomplish and the manner in which the organization seeks to accomplish it. It's a declaration of why you exist as an organization.

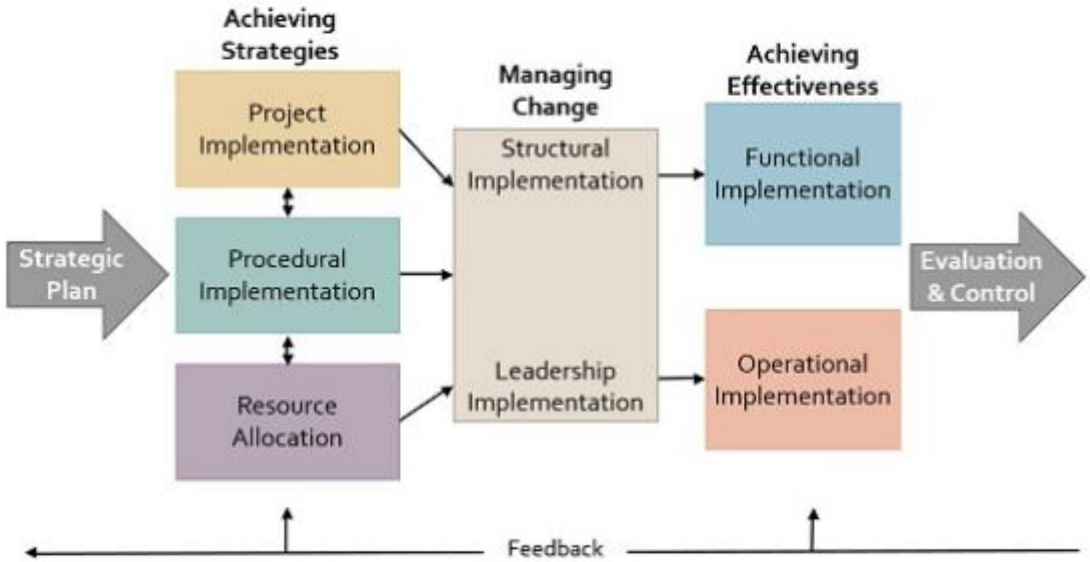
- **Vision statement:** This short, concise statement of the organization's future answers the question of what the company will look like in five or more years.
- **Values statement or guiding principles:** These statements are enduring, passionate, and distinctive core beliefs. They're guiding principles that never change and are part of your strategic foundation.
- **SWOT:** A SWOT is a summarized view of your current position, specifically your strengths, weaknesses, opportunities, and threats.
- **Competitive advantage:** Your competitive advantage includes what you're best at compared to the competition.
- **Long-term strategic objectives:** These long-term strategic focus areas span a three-year (or more) time horizon. They answer the question of what you must focus on to achieve your vision.
- **Strategies:** Strategies are the general, umbrella methods you intend to use to reach your vision.
- **Short-term goals/priorities/initiatives:** These items convert the strategic objectives into specific performance targets that fall within the one- to two-year time horizon. They state what, when, and who and are measurable.
- **Action items/plans:** These specific statements explain *how* a goal will be accomplished. They're the areas that move the strategy to operations and are generally executed by teams or individuals within one to two years.
- **Scorecard:** You use a scorecard to report the data of your key performance indicators (KPIs) and track your performance against the monthly targets.
- **Financial assessment:** Based on historical record and future projections, this assessment helps plan and predict the future, allowing you to gain much better control over your organization's financial performance.

Strategy Implementation – Definition

Strategy Implementation refers to the **execution of the plans and strategies**, so as to accomplish the long-term goals of the organization. It converts the opted strategy into the moves and actions of the organization to achieve the objectives.

Simply put, strategy implementation is the technique through which the firm develops, utilises and integrates its structure, culture, resources, people and control system to follow the strategies to have the edge over other competitors in the market.

Strategy Implementation is the **fourth stage of the Strategic Management process**, the other three being a determination of strategic mission, vision and objectives, environmental and organizational analysis, and formulating the strategy. It is followed by Strategic Evaluation and Control.



Process of Strategy Implementation

(a) Building an organization, those possess the capability to put the strategies into action successfully.

(b) Supplying resources, in sufficient quantity, to strategy-essential activities.

(c) Developing policies which encourage strategy.

(d) Such policies and programs are employed which helps in continuous improvement.

(e) Combining the reward structure, for achieving the results.

(f) Using strategic leadership.

The process of strategy implementation has an important role to play in the company's success. The process takes places after environmental scanning, SWOT analyses and ascertaining the strategic issues.

Prerequisites of Strategy Implementation

(a) Institutionalization of Strategy: First of all the strategy is to be institutionalized, in the sense that the one who framed it should promote or defend it in front of the members, because it may be undermined.

(b)Developing proper organizational climate: Organizational climate implies the components of the internal environment that includes the cooperation, development of personnel, the degree of commitment and determination, efficiency, etc., which converts the purpose into results.

(c) Formulation of operating plans: Operating plans refers to the action plans, decisions and the programs, that take place regularly, in different parts of the company. If they are framed to indicate the proposed strategic results, they assist in attaining the objectives of the organization by concentrating on the factors which are significant.

(d) Developing proper organizational structure: Organization structure implies the way in which different parts of the organisation are linked together. It highlights the relationships between various designations, positions and roles. To implement a strategy, the structure is to be designed as per the requirements of the strategy.

(e) Periodic Review of Strategy: Review of the strategy is to be taken at regular intervals so as to identify whether the strategy so implemented is relevant to the purpose of the organisation. As the organization operates in a dynamic environment, which may change anytime, so it is essential to take a review, to know if it can fulfill the needs of the organization.

Even the best-formulated strategies fail if they are not implemented in an appropriate manner. Further, it should be kept in mind that, if there is an alignment between strategy and other elements like resource allocation, organizational structure, work climate, culture, process and reward structure, then only the effective implementation is possible.

Aspects of Strategy Implementation

Creating budgets which provide sufficient resources to those activities which are relevant to the strategic success of the business.

Supplying the organization with skilled and experienced staff.

Conforming that the policies and procedures of the organisation assist in the successful execution of the strategies.

Leading practices are to be employed for carrying out key business functions.

Setting up an information and communication system, which facilitates the workforce of the organisation, to perform their roles effectively.

Developing a favourable work climate and culture, for proper implementation of the strategy.

Strategy implementation is the time-taking part of the overall process, as it puts the formulated plans into actions and desired results.

Barriers to Strategy Implementation

(a) Vision Barrier – Only 5% of the workforce understands the vision.

(**b) People Barrier** – Only 25% of the Managers have incentives linked to strategy.

(c) Management Barrier – 85% of the executive teams spends less than one hr/month discussing strategy.

(d) Resource Barrier – 60% of organizations don't link budget strategy.

Mintzberg's 5 P's of Strategy:

The 5 P's of Strategy model was developed by the Canadian management scientist Henry Mintzberg with an objective to develop five distinguished strategic visions for the organizations. The Five strategic visions are Plan, Pattern, Position, Perspective, and Ploy. All the five components allow the organizations to implement the strategy in a more effective manner.

As per the theory of Mintzberg, it is very difficult for the organizations to develop a good and an effective strategy. And with the help of his 5 P's of Strategy model, you include and consider various aspects and possible approaches to the strategy from different angles and perspectives.

The strategy should have a long-term and futuristic approach considering the various facets and business operations of the organization. The factor competition should be considered whilst formulating the strategy, but it will be totally wrong if the entire strategy is based and developed to beat the competition in the market.

In fact, the strategy should consider the culture of the organization and the various possibilities of the development within the organization.

5 P's of Strategy by Mintzberg:

1) Plan

It is always better for the organizations to have a plan of action much in advance to be prepared for any unforeseen internal and external situations. And a well-planned strategy is a plan to deal with such situations. A plan needs to be made with a long-term and a futuristic approach in mind with its execution and development followed up in a detailed and intricate manner.

The business goals and objectives can be attained with a good plan plus it enables the management and the key employees of the company with a clear vision and mission in hand.

2) Ploy

The facet of ploy is also one of the strategic options to beat the competition in the market and gain the advantage. In this scenario, the organizations can come up with something very outlandish and unexpected and surprise the market environment that also creates the waves of the ruckus within the minds of the competitors.

It can be a well placed promotional tool or a feature in the product or service that is sure to outsmart and beat the competitors as a ploy.

3) Pattern

As mentioned earlier, the aspect is the plan in the 5 P's of Strategy model by Mintzberg focuses on the intended strategy but the aspect of pattern comes into the picture where the strategies have already been implemented before.

The earlier patterns that have worked wonders for the organization before are an integral part of developing the new strategy. The regular pattern that has been quite successful in nature is used in the decision making flow and process. The strengths of such patterns are included in the future strategies as intentionally or unintentionally, there is a consistent positive behavior of employees and internal teams is displayed towards these patterns and are well accepted without any prejudice and issues.

4) Position

The aspect of position in formulating the organizational strategy needs to be carefully understood, designed, planned, and executed as it will define the overall position of the organization in the market considering all the internal and external factors.

It focuses on how the organization wants to portray itself in the market and in the minds of the consumers that will gain it a competitive advantage. What will be the core values, unique selling propositions, nature and attributes of the offerings of products and services, and the overall brand strength and value proposition? Working on all these factors in a detailed manner will help the organization carve a distinctive position in the market with an edge over others.

5) Perspective

The facet of perspective in the model of 5 P's of Strategy is quite indifferent to all of the above-mentioned paths this one draws a larger perspective keeping the organization at the focal point.

The organization formulates the strategy by dwelling on the crucial and important details such as how does the target audience think about the organization? How do employees of the company perceive the management and the brand as a whole? What are the perspective of the investors and other stakeholders of the organization? The culmination and thought patterns of all these individual perspectives work as the valuable source of information for the company and help it to make a strategic choice.

Example of 5 P’s of Strategy:

APPLE

Plan: The technology giant continues to plan and come up with the consumer electronics that offer operational excellence and are easy to use. They also plan and come up with the various software updates expanding their ecosystem.

Ploy: The Company is highly renowned for offering the products that are innovative, unique, and outlandish in nature that gives them a competitive edge in the market. They threaten to sue their competitors that copy their technology or features of the company’s products.

Pattern: Apple uses the previous innovations that have been quite successful in the past and follows the same pattern to challenge the competition in the market.

Position: Apple has successfully carved a niche for itself in the market and in the consumers’ minds as a niche and premium brand that offers only high-end products that are difficult to compete against in terms of both hardware and software capabilities.

Perspective: The core values of Apple are innovation and to think differently and they work as an integral part of their company culture. And their product offerings to stand as a testimony to the same.

Difference between Emergent and Deliberate Strategy

S.No.	Emergent Strategy	Deliberate Strategy
1	Emergent strategy refers to the process that the business has to identify and assess unexpected outcomes in the business and it has to use them to formulate new plans and strategies that will help the company to survive in the long run	Deliberate strategy refers to formal planning that is intended on helping the company ahead with expected outcomes.
2	Emergent strategies focus on unforeseen circumstances	Deliberate strategies are completely blinds towards unexpected circumstances.
3	Emergent strategies infuse innovation to the planning process	Deliberate strategies can get obsolete with time
4	Emergent strategies work in the absence of goals and objectives and help to create new ones in future	Deliberate strategies work on specified goals and objectives.
5	Emergent strategies are flexible	Deliberate strategies are rigid and inflexible.

McKinseys Framework

The model was developed in the late 1970s by Tom Peters and Robert Waterman, former consultant at Mckinsey & Company. They identified seven internal elements of an organization that need to align or it to be successful.

When to Use the McKinsey 7-S Model

You can use the 7-S model in a wide variety of situations where it's useful to examine how the various parts of your organization work together.

For example, it can help you to improve the performance of your organization, or to determine the best way to implement a proposed strategy.

The framework can be used to examine the likely effects of future changes in the organization, or to align departments and processes during a merger or acquisition. You can also apply the McKinsey 7-S model to elements of a team or a project.

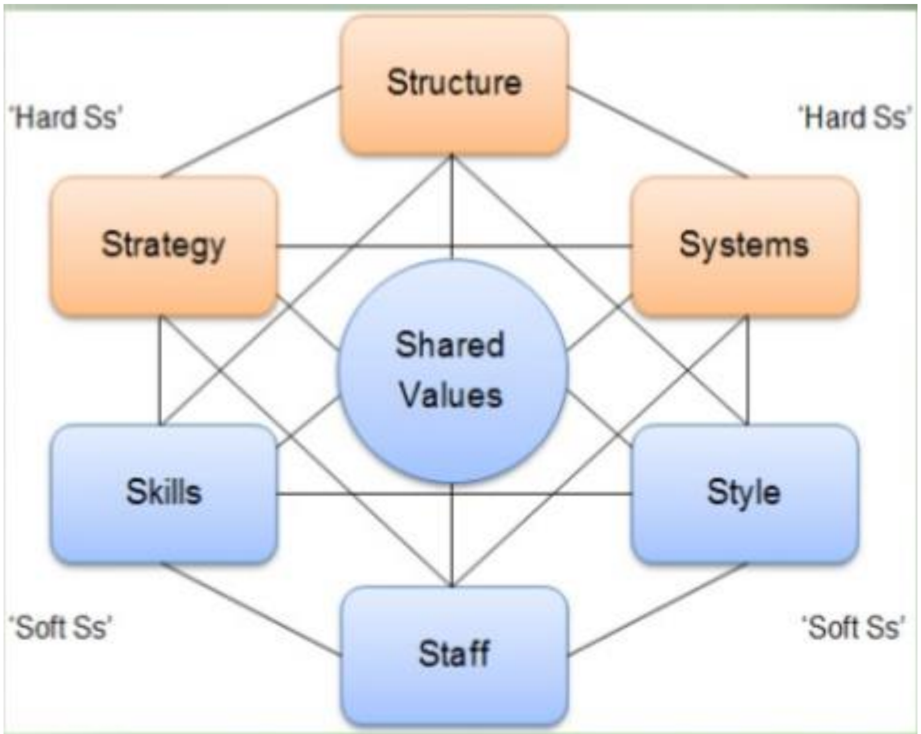
The Seven elements of the Mckinsey 7s Framework

The model categorizes the seven elements as either “hard” OR “soft”.

HARD ELEMENTS	SOFT ELEMENTS
Strategy, Structure, Systems	Shared Values, Skills, Style, Staff

The three **"hard"** elements are strategy, structures (such as organization charts and reporting lines), and systems (such as formal processes and IT systems.) These are relatively easy to identify, and management can influence them directly.

The four **"soft"** elements, on the other hand, can be harder to describe, less tangible, and more influenced by your company culture. But they're just as important as the hard elements if the organization is going to be successful.



Let's look at each of the elements individually:

THE HARD S-1- Strategy: this is your organization's plan for building and maintaining a competitive advantage over its competitors.

Examples. • Low-cost strategy through economic production or delivery • Product differentiation through distinct features or innovative sales

THE HARD S-2- Structure: • Ways in which task and people are specialized and divided, and authority is distributed.

Four main structures • Functional Structure • Divisional Structure • Matrix Structure • Network Structure

THE HARD S-3-**Systems:** • Formal processes and procedures to manage the organization. **Examples: • Performance Measurements • Reward Systems • Planning • Budgeting • Resource Allocation • Information System • Distribution System**

THE Soft S-1:-: Shared values: these are the core values of the organization, as shown in its corporate culture and general work ethic. They were called "superordinate goals" when the model was first developed. Organization's approach to recruitment, selection, socialization, and training and employee development is important for effective staffing..

THE Soft S-2 Skills • Distinctive competencies in the organization. • Can be of People, Management Practices, Systems and/or Technologies.

THE Soft S-3 Style • Leadership style of top management and overall operating style of organization. • Impacts norms followed by people, how they work and interact with each other and customers.

THE Soft S-4 Shared Values • Core values shared in the organization and serve as guiding principles of what is important. • Helps focus attention and provides a broader sense of purpose.

Placing shared values in the center of the model emphasizes that these values are central to the development of all the other critical elements.

The model states that the seven elements need to balance and reinforce each other for an organization to perform well.

Using the McKinsey 7-S Model

You can use it to identify which elements you need to realign to improve performance, or to maintain alignment and performance during other changes. These changes could include restructuring, new processes, an organizational merger, new systems, and change of leadership.

Follow these steps:

Start with your **shared values**: are they consistent with your structure, strategy, and systems? If not, what needs to change?

Then look at the **hard elements**. How well does each one support the others? Identify where changes need to be made.

Next, look at the **soft elements**. Do they support the desired hard elements? Do they support one another? If not, what needs to change?

As you **adjust and align the elements**, you'll need to use an iterative (and often time-consuming) process of making adjustments, and then re-analyzing how that impacts other elements and their alignment. The end result of better performance will be worth it.

Objectives of McKinsey's Model

To analyze how well an organization is positioned to achieve its intended objective

1. Improve the performance of a company
2. Examine the likely effects of future changes within a company
3. Align departments and processes during a merger or acquisition
4. Determine how best to implement a proposed strategy

Organisation structure for Strategy Implementation

Organizing

"Arranging the activities & resources of the enterprise in such a way that they systematically contribute to the enterprise's goals."

Organizational structure

"It refers to formalized patterns of interactions that link a firm's tasks, technologies, and people"

Organization Chart

"A chart that shows the structure of the organization including the title of each manager's position and, by means of connecting lines, who is accountable to whom and who has authority for each area"

Organization Design & Structure

"A process in which managers develop or change their organization's structure"

Work specialization

"A component of organization structure that involves having each discrete step of a job done by a different individual rather than having one individual do the whole job"

Different Types of Org. Structures

• Functional Structure (U Form)

• Divisional Structure (M Form or H Form)

• Matrix Organization (Matrix Form)

• Network Organization Structure

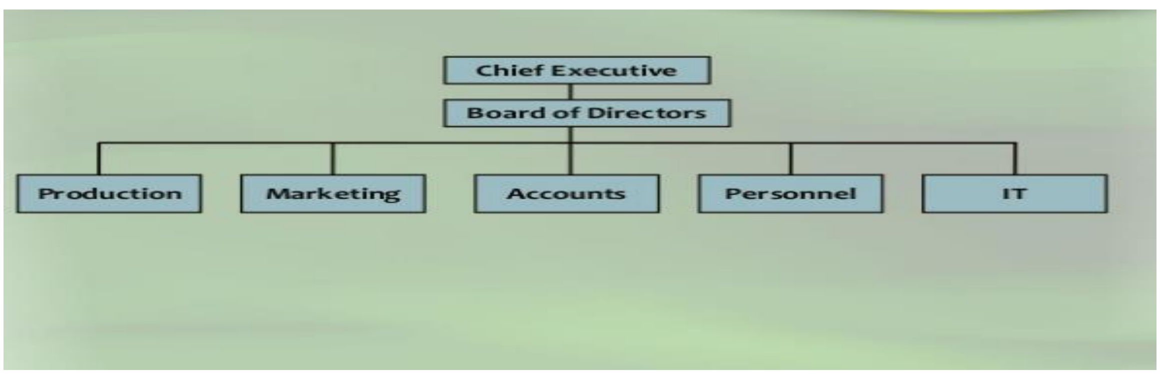
• Cellular Organization Structure

• Modular Organization Structure

Functional Structure

• This kind of organisational structure classifies people according to the function they perform in the organization.

• The organisation chart for a functional based organisation consists of: Vice President, Sales department, Customer Service Department, Engineering or production department, accounting department and Administrative department.



Advantages of Functional structure

• Specialisation – each department focuses on its own work

• Accountability – someone is responsible for the section

• Clarity – know your and others' roles

Disadvantages of Functional Structure

• Closed communication could lead to lack of focus

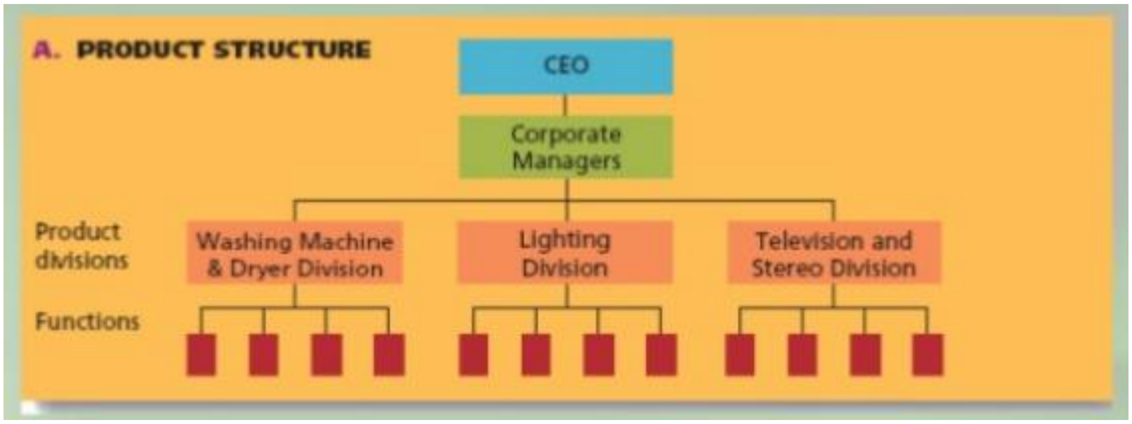
• Departments can become resistant to change

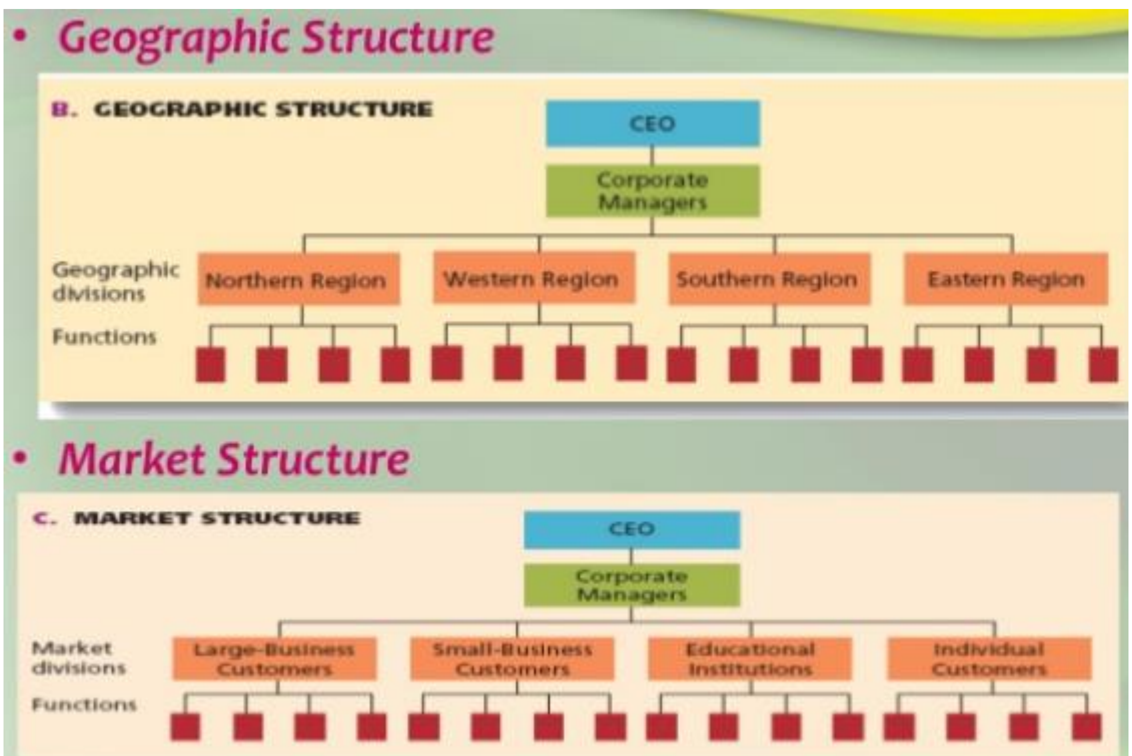
• Coordination may take too long time

• Gap between top and bottom

Divisional Structures

Managers create a series of business units to produce a specific kind of product for a specific kind of customer.





Types of Divisional Structures

• Managers place each distinct product line or business in its own self-contained division

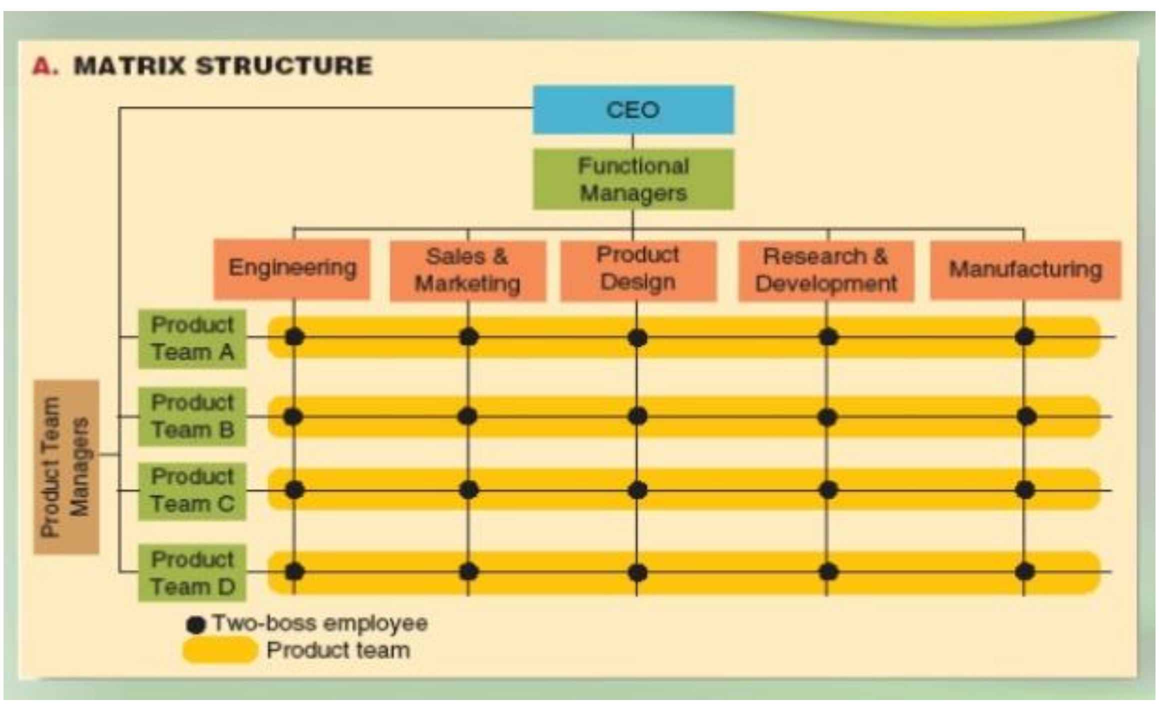
• Divisional managers have the responsibility for devising an appropriate business-level strategy for goals

Advantages of Divisional Structure

- Specialize in one product area
- Managers become experts in their area
- No direct supervision of division by Top managers
- Improves the use of resources

Matrix Design Structure

• An organizational structure that simultaneously groups people and resources by function and product - Complex network - Flexible & can respond rapidly to the change - Each employee has two bosses (functional manager and product manager)



Modular Structure Modular organization

• An organization in which non-vital functions are outsourced, which uses the knowledge and expertise of outside suppliers while retaining strategic control.

Matching Structure to Strategy (Organization Design & Change)

• There is no perfect organizational structure

• There is an only structure that matches or do not match with requirements of strategy.

• If they match, it's a right structure or else is a bad structure.

• Organization designing is the process to create a right structure.

• Organization Design means modifying existing structure to fit the strategic requirement

Organization Design

• Organization Design has two dimensions;

(a) Structural Dimension

• Formalization: Written documentation, procedures, regulations & policies

• Specialization: Division of tasks on expertise

• Hierarchy of Authority: Who reports to whom & span of control

• Centralization & Decentralization: Decision making by one/top management & decentralization is decision is delegated to lower levels of management

• Professionalism: formal education & Training

• Personnel Ratios: Deployment of people to various functions & departments

(b) Contextual Dimension

•Formalization

•Specialization

•Hierarchy of Authority

•Centralization

•Decentralization

•Professionalism

•Personnel Ratios Environment Goals & Strategy Culture Technology Size

Organizational Structure & Design

The environment can be stable, that is, one in which there is little unpredictable change. ... A turbulent environment exists when changes are unexpected and unpredictable. The key environmental issues concern the nature of the pressure for change and the speed at which the organization must be able to respond an act.

• Organizations moves from one stage of growth to next

• Internal & external environment affects organization design.

• Organization facing a stable environment may use a functional structure as there will be less interdepartmental coordination required.

• A turbulent environment requires a rapid response capability, flexibility & quick decision making.

• In such Turbulent environment Matrix or Divisional form of Structure is suitable

Organizational Structure & Design

• In case of Internal Environment type;

1) A slow or bureaucratic organization may work well with a functional Structure while,

2) Dynamic & Innovative nature of organization may require Divisional structure for effective implementation of strategies.

Organizational Change

• Organizational change takes place in two broad dimensions

1) Structural Changes

2) Behavioral Changes to absorb impact of changes.

The restructuring can be done either as… ReOrganization, ReEngineering, DeLayering Flatter Structures

Changing Structures and Processes

Matching Structures to Strategies • Change in structure is dependent on change in external environment. • Structural changes also require compensating the impact of how people will react to the changed situations & how to manage the new relationships.

Structure for Strategy • For Example @ Corporate Level Strategy:

1) A company has implemented a STABILITY strategy & has a simple functional structure working.

2) Now the company has planned to implement Concentric Diversification.

3) In such case the company should move from a Functional Structure to a Divisional Structure

4) As products will increase need to have a better coordination, company can create few departments & for the related product line

5) Personnel & Finance departments can be retained as centralized department

Structure for Strategy • For Example @ Business Level Strategy:

1) A company is pursuing a low cost leadership strategy in mature industry, can work well with Functional Structure.

2) Now the company has planned to implement Differentiation Strategy in a Turbulent environment, a divisional structure could serve better.

3) In such case the company can cater to changing customer needs more effectively.

Business Process Reengineering (BPR)

• Business Process Re-engineering or BPR is "The analysis and redesign of workflow and processes within and between Organizations"

• BPR is the • Fundamental rethinking and Radical redesign of Business Processes to achieve Dramatic improvements in critical measures of performance such as Cost, Quality, Service and Speed.

BPR Principles - Derived

• Redesign process steps such that they can be performed in a correct order.

• Combine several process steps into one.

• Design for parallel sub-processes whenever possible to reduce waiting time between tasks.

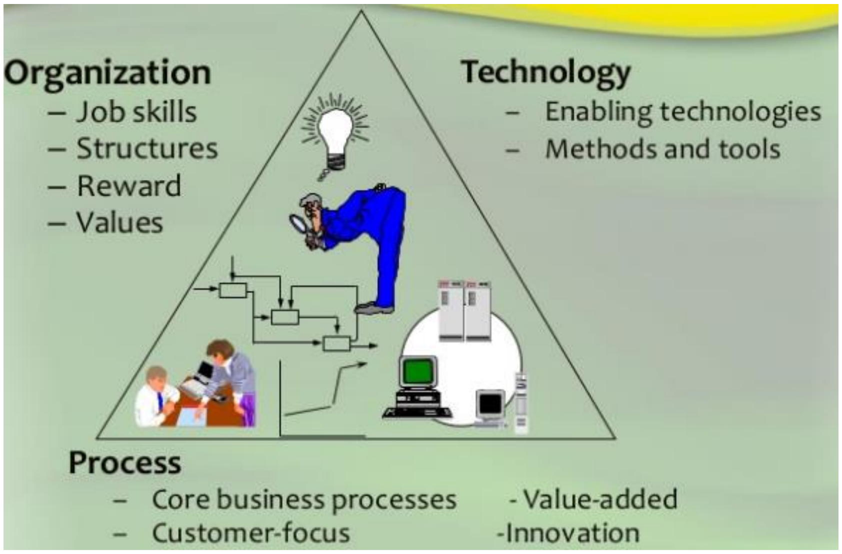
• Processes may have multiple versions. Remove complex, exceptions, and special cases.

• Empower human potentials. Give front-line workers the responsibility to make decisions.

• Provide mechanism (Machines) in the process to encourage individual, team, and organizational learning

• An individual without information cannot take responsibility

BPR Framework



Approaches to BPR

• Focus on core business processes.

• Use information technology to enable new business processes, not just to automate existing ones.

• Start with a clean sheet of paper and think out-of-the- box. (Do not rework old process)

• Consider all aspects of the process.

• Adopt a BPR methodology.

• Use proven methods and tools in analyzing and redesigning the process.

• Manage the implementation and change process from the beginning.

PART A

1. Why Strategic planning is required?
2. Illustrate the Components of a Strategic Plan,
3. What is the role of top leadership in defining organizational structure?
4. Is politics part of Strategy Implementation?
5. Outline the Pre requisites of strategy implementation.
6. Identify the Barriers for implementing strategy.

7. Recommend Organisation design for stable vs. Turbulent environment
8. Difference between emergent strategy and deliberate strategy
9. Explain the term Business process Reengineering.

Part B

1. Draft a conceptual model for creating a ‘strategic plan’ for a company.
2. Discuss the role of Organisation structure in Strategic Management.
3. ‘Resource Allocation as a vital part of strategy’. Why this is vital?
4. Critically evaluate the different types of organisational structures and their relevance in effective Strategic Implementation.
5. Compare and contrast the relationship between Strategy and Structure.
6. Examine Mckinsey’s 7s framework and its utility to strategists.
7. Explain Mintzberg’s 5Ps of strategy.
8. Explain the Procedural issues in strategy implementation
9. Discuss the sequence in which strategy implementation issues are to be considered.

Part C

Hindustan Motors the maker of the Ambassador car shut down recently. Write a 200 words report on prima facie corporate restructuring of the company.

TEXT / REFERENCE BOOKS

1. Azhar Kazmi, Strategic Management and Business Policy, Tata McGraw Hill, Latest Edition, 2018
2. JA Pearce & RB Robinson, Strategic Management Formulation Implementation and Control, TMH, 12th Edition, 2017.
3. Arthur A. Thompson Jr. & A.J Strickland III, Crafting and Executing Strategy, Tata McGraw Hill, 19th Edition, 2014.
4. Gerry Johnson & Kevan Scholes, Exploring Corporate Strategies, PHI, 11th Edition, 2017.
5. Upendra Kachru: Strategic Management, Excel books, 2005.

SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE
www.sathyabama.ac.in

SCHOOL OF MANAGEMENT STUDIES

UNIT – V - STRATEGIC MANAGEMENT- SBAA5207

UNIT 5 STRATEGY EVALUATION

Operations control and Strategic control -Symptoms of malfunctioning of strategy – Use of balanced Scorecard – Principles of Blue Ocean Strategy – Red Ocean strategies, Strategy Canvass& Value Curves , Business Models – Internet Strategies for Traditional Business – Virtual Value Chain .Sustainability & Strategic Management : Threat to sustainability , Integrating Social & environmental sustainability issues in strategic management , meaning of triple bottom line , people – planet – profits.

STRATEGIC CONTROL AND OPERATIONAL CONTROL

STRATEGIC CONTROL

Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended." Strategic control is "the critical evaluation of plans, activities, and results, thereby providing information for the future action". There are four types of strategic control: premise control, implementation control, strategic surveillance and special alert control

- **Premise Control**: Planning premises/assumptions are established early on in the strategic planning process and act as a basis for formulating strategies. Premise control has been designed to check systematically and continuously whether or not the premises set during the planning and implementation processes are still valid. It involves the checking of environmental conditions. Premises are primarily concerned with two types of factors:

➢ Environmental factors (for example, inflation, technology, interest rates, regulation, and demographic/social changes).

➢ Industry factors (for example, competitors, suppliers, substitutes, and barriers to entry).

All premises may not require the same amount of control. Therefore, managers must select those premises and variables that (a) are likely to change and (b) would a major impact on the company and its strategy if the did.

- **Implementation Control**: Strategic implantation control provides an additional source of feed forward information. "Implementation control is designed to assess whether the overall strategy should be changed in light of unfolding events and results associated with incremental steps and actions that implement the overall strategy." The two basis types of implementation control are:

1. Monitoring strategic thrusts (new or key strategic programs). Two approaches are useful in enacting implementation controls focused on monitoring strategic thrusts: (1) one way is to agree early in the planning process on which thrusts are critical factors in the success of the strategy or of that thrust; (2) the second approach is to use stop/go assessments linked to a series of meaningful thresholds (time, costs, research and development, success, etc.) associated with particular thrusts.
2. Milestone Reviews. Milestones are significant points in the development of a programme, such as points where large commitments of resources must be made. A milestone review usually involves a full-scale reassessment of the strategy and the advisability of continuing or refocusing the direction of the company. In order to control the current strategy, must be provided in strategic plans.

- **Strategic Surveillance:** is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy. The basic idea behind strategic surveillance is that some form of general monitoring of multiple information sources should be encouraged, with the specific intent being the opportunity to uncover important yet unanticipated information. Strategic surveillance appears to be similar in some way to "environmental scanning." The rationale, however, is different. Environmental, scanning usually is seen as part of the chronological planning cycle devoted to generating information for the new plan. By way of contrast, strategic surveillance is designed to safeguard the established strategy on a continuous basis.

- **Special Alert Control:** Special alert controls are the need to thoroughly, and often rapidly, reconsider the firm's basis strategy based on a sudden, unexpected event. Â (i.e., natural disasters, chemical spills, plane crashes, product defects, hostile takeovers etc.). Special alert controls should be conducted throughout the entire strategic management process.

OPERATIONAL CONTROL

Operational control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. It focuses on events in a recent period. Operational control systems are derived from the requirements of the management control system. Corrective action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination.

Evaluation Techniques for Operational Control:

- Value chain analysis: Firms employ value chain analysis to identify and evaluate the competitive potential of resources and capabilities. Â By studying their skills relative to those associated with primary and support activities, firms are able to understand their cost structure, and identify their activities through which they can create value.
- Quantitative performance measurements: Most firms prepare formal reports of quantitative performance measurements (such as sales growth, profit growth, economic value added, ration analysis etc.) that manager's review at regular intervals. Â These measurements are generally linked to the standards set in the first step of the control process. Â For example if sales growth is a target, the firm should have a means of gathering and exporting sales data. Â If the firm has identified appropriate measurements, regular review of these reports helps managers stay aware of whether the firm is doing what it should do. Â In addition to there, certain qualitative bases based on intuition, judgement, opinions, or surveys could be used to judge whether the firm's performance is on the right track or not.
- Benchmarking: It is a process of learning how other firms do exceptionally high-quality things. Â Some approaches to bench marking are simple and straightforward. Â For example Xerox Corporation routinely buys copiers made by other firms and takes them apart to see how they work. Â This helps the firms to stay abreast of its competitors' improvements and changes.
- Key Factor Rating: Â It is based on a close examination of key factors affecting performance (financial, marketing, operations and human resource capabilities) and assessing overall organisational capability based on the collected information.

Distinguish between strategic control and operational control

Strategic evaluation and control can be defined as the process of determining the effectiveness of a given strategy in achieving the organizational objectives and taking corrective action wherever required. Operational control or task control is the process of assuring that specific tasks are carried out effectively and efficiently. The focus of operational control is on individual tasks or operations.

There are some differences between strategic control and operational control. These differences are shown below

BASIC	Strategic control	Operational control
1. Definition:	Strategic control is the process of continually evaluating the strategy as it is being implemented, and take necessary corrective actions it required	Operational control is the process of evaluating and correcting the performance of various organizational units to assess their contribution to the achievement of organizational objectives.
2.Basic question:	Are we moving in the right direction?	How are we performing?
3.Main concern: .	Steering the organization's future direction	Action control
4.Focus: .	External environment	Internal organization
5.Time horizon:	Long-term	Short-term.
6. An exercise of control:	Exclusively by top management. They may take the lower-level support	Mainly by mid-level management on the direction of the top management
7.Main techniques	Environmental scanning, information gathering, questioning, and review	Budgets, schedules and MBO.

SYMPTOMS OF MALFUNCTIONING OF STRATEGY

Symptoms Of Malfunctioning of Strategy is mainly related with Strategy Implementation and Evaluation .

Symptom Of Malfunctioning of Strategy are as follows :

1. Company is not performing as well as against its close rivals, similar companies or industry as ac whole .
2. Company is not performing in terms of stated objectives, return on Investment (ROI) , market share , profitability trends , EPS, etc.
3. Corporate culture is not aligned with strategy ,
4. Implementation of strategy is slow ,
5. Organisational conflict and interdepartmental bickering are often symptoms of strategy malfunction,
6. Managerial problems continue despite changes in personnel and if they tend to be issues – based rather than people based , their strategies may be inconsistent ,
7. If success for one organisational department means failure for another department then it is a symptom of strategy malfunction ,
8. If policy problems and issues continues to be brought to the top for resolution , then strategy may be malfunctioning ,
9. Overtaxing of available resources is a symptom of strategy malfunction,
10. Degree of risk is high as compared to rewards ,
11. Strategy is inconsistent with changing environment ,
12. If strategy implementation does not give due cognizance to time horizon , then it is symptom of strategy malfunction .

THE BALANCED SCORECARD APPROACH

What is a Balanced Scorecard?

The Balanced Scorecard is a strategic planning and management system used to align business activities to the vision and strategy of the organization by monitoring performance against strategic goals

Balanced Scorecard Concept

- Was first published in 1992 by Kaplan and Norton, a book followed in 1996.

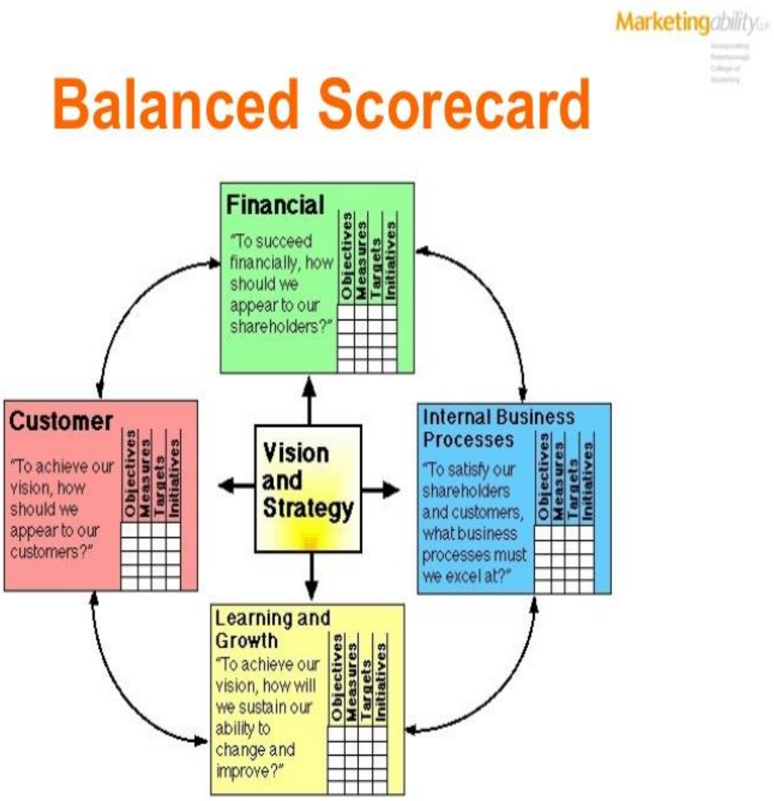
- Traditional performance measurement that only focus on external accounting data are obsolete.
- The approach is to provide 'balance' to the financial perspective.

Why Use a Balanced Scorecard?

- Improve organizational performance by measuring what matters
- Increase focus on strategy and results
- Align organization strategy with workers on a day-to-day basis
- Focus on the drivers key to future performance
- Improve communication of the organization's Vision and Strategy
- Prioritize Projects / Initiatives

4 Original Business Perspectives

- The Balanced Scorecard model suggests that we view the organization from 4 perspectives.
- Then Develop metrics, collect data and analyze it relative to each of these perspectives



Financial

- What must we do to create sustainable economic value?

Internal Business Process

- To satisfy our stakeholders, what must be our levels of productivity, efficiency, and quality?

Learning and Growth

- How does our employee performance management system, including feedback to employees, support high performance?

Customer

- What do our customers require from us and how are we doing according to those requirements?

BALANCED SCORECARD MEASUREMENTS

Perspective	Generic Measurements
Financial	Return of Capital Employed, Economic value added, Sales growth, Cash flow
Customer	Customer satisfaction, retention, acquisition, profitability, market share
Internal business process	Includes measurements along the internal value chain for: Innovation - measures of how well the company identifies the customers' future needs. Operations - measures of quality, cycle time, and costs. Post sales service - measures for warranty, repair and treatment of defects and returns.
Learning and growth	Includes measurements for: People - employee retention, training, skills, morale. Systems - measure of availability of critical real time information needed for front line employees.

Key Implementation Success Factors

- Obtaining executive sponsorship and commitment

- Involving a broad base of leaders, managers and employees in scorecard development
- Choose the right Scorecard Champion
- Beginning interactive (two-way) communication first
- Viewing the scorecard as a long-term journey rather than a short-term project
- Getting outside help if needed

BLUE OCEAN STRATEGIES

What exactly is a Blue Ocean Strategy?

- Blue Ocean Strategy is all about devising and acquiring the uncontested market forum by spawning a new demand.

- Since the industries are in a state of non-existence, there is absolutely no relevance of peer comparison. The strategy bags the new demand by familiarizing unique products with advanced features that stand apart from the crowd.

- In other words, the strategy spurs companies to offer extremely valuable products to the consumers. Thus, it supports the company to incur large profits and surpass the competition. The price tags of the products are generally kept on the steeper side because of their monopoly. Blue Ocean approach shuns the ideology of outperforming the competition and asserts to recreate the market boundaries and operate within the nascent space.

- The kind of leadership and management required to initiate a Blue Ocean Strategy differs from the management of corporations that have short-term ambitions and mainly concentrates on increasing shareholder value by pushing up the stock prices via buybacks, mergers, and acquisitions. The Blue Ocean Strategy can be applied to all the sectors or, businesses and is not limited to just one kind.

- On the contrary to the concept of Blue Ocean Industries, there exists Red Ocean Industries. Let us understand the concept in brief before moving to further analysis.

EXAMPLES OF BLUE OCEAN INDUSTRY

Let us learn how organizations that have followed the path of Blue Ocean Strategy has undergone outstanding growth and profitability!

1) UBER

Uber Cab is a brainchild of the Blue Ocean Strategy and has dramatically transformed the picture of the transportation industry by discarding the nuisance of booking cabs, denial of services, meter issues and unwanted arguments.

It is a ridesharing service that enables customers to book their rides with the ease of swipes and taps. It also permits users to trace a driver's progression towards the pickup point in real-time through the medium of a smartphone application called Uber App.

Uber devised a new market by the amalgamation advanced technology and modern devices. It tried to differentiate itself from the regular cab companies and in turn developed a low-cost business model that offers flexible payments, pricing strategies and generates good revenues for both the drivers and the company. In the initial stages, Uber was successful in capturing the uncontested market space but was eventually flooded by the competitors. In spite of that, it continues to command the market and is speedily expanding across the world. As of 2019, Uber approximately has 110 million riders worldwide and holds 69% of the market share in the United States.

2) ITUNES

Apple headed into the space of digital music with its unique and eminent product ie. iTunes in 2003. In previous days, conventional mediums like compact discs (CD) were put to use to disseminate and listen to music.

When iTunes ventured into the market, it solved the basic problems which were faced by the recording industry. As a result, iTunes cut down the practice of illegally downloading music while simultaneously catering to the demand for single songs versus entire albums in a digitalized version. High-quality music at a reasonable price offered by Apple became a talk of the town. All the available Apple products have iTunes to download music and have largely ruled the market space for decades. It is also recognized for driving the growth of digital music.

These examples of the Blue Ocean Strategy can enlighten future startups regarding the execution of a strategic planning scheme and successfully unlocking new demand.

How to find and develop/Launch them?

Blue Ocean Strategy becomes the need of the hour when supply surpasses demand in a market. When there is limited scope for further growth, businesses try and search for verticals for discovering new business lines where they can enjoy the advantage of uncontested market share or ‘Blue Ocean’.

In order to find and identify an attractive Blue Ocean, one needs to take into consideration the “Four Actions Framework” to devise the aspects of buyer value in creating a new value curve. The Four Actions Framework emulates strategic triumphs and guides towards the path of launching a Blue Ocean initiative.

The framework poses four key questions, namely:

A) Raise

It includes points that must be blossomed by industry in reference to the line of products, price tags and caliber of services. A startup must analyze the pros and cons of the existing organizations and their strategies for key aspects of differentiation.

2) Reduce

It points out the arenas of an organization’s product or, service which foreplays a crucial character in the industry but is not absolutely essential in nature. Therefore, the proportion of the products can be curtailed without entirely eradicating them.

3) Eliminate

It points out the arenas of an organization or industry which could be eliminated absolutely for the purpose of cutting down the costs and also to fabricate a completely new market. At times, newly invented products can lead to self-assassination of the existing products and thus, leads to an unwillingness to interfere with the current revenue source.

4) Create

It nudges the companies to shape up trailblazing products. The introduction of an entirely new product line or, service leads to the establishment of a new market and points of differentiation. Identification of the needs of the target market provides sound knowledge regarding the addition of unique measures and consequently tracking the progress for illustrating a Blue Ocean.

Now that we have discussed the Blue ocean strategy and how to find them, let us also discuss the pros and cons of this strategy.

PROS OF BLUE OCEAN STRATEGY

Here are a few of the advantages of using the blue ocean strategy:

1. Blue Ocean Strategy cooperates with organizations to find uncontested markets and avoid matured and saturated markets.
2. It assists to move from the impediments of competing within the existing industry and cost structure and to gradually migrate towards constructive value improvement. In short, it demonstrates how to break free from the traditional strategic models and to expand profitability and demand for the industry by using the analysis.
3. Value innovation is the backbone of a Blue Ocean Strategy. Value innovation is the alliance of innovation with price, utility, and cost positions. It eventually creates new value/demand for consumers and thereby, expands the chances of growth potential.
4. Blue Ocean Strategy enables a fundamental transformation in mindset. It develops mental horizons and helps in recognizing the opportunities.
5. Blue Ocean Strategy is based on "time and again" proven data rather than unproven theories. It is based on practical approaches that have proven results during live market executions.
6. Products under the concept of the Blue Ocean Strategy doesn't make a consumer choose between value and affordability. It is the simultaneous pursual of differentiation and low-cost theorem.
7. Creating blue oceans is non-zero-sum with high payoff possibilities.

CONS OF BLUE OCEAN STRATEGY

Let's us also look at a few of the common cons of using this strategy:

1. It's quite difficult to come up with futuristic ideas and identify colossal and untapped markets.
2. Nominating an articulate Blue Ocean Strategy is a result of a calculated and detailed research process backed by extensive analysis. It is to be kept in mind that there is no magic formula or, silver bullet.

3. Venturing into a market in the early phase comes with baggage of risk. There is a high possibility that the customers might not understand the grass root of the products and services because of the absence of a fully developed technology.
4. Production of a new market is never easy because an organization has to be smart and clear regarding its customer base and ways to impart education about new ideas, new products, and new solutions. It also requires clarity about the trade-offs, obstacles and the workforce.
5. Opting for a different ocean i.e the Blue Ocean, requires a lot of patience, persistence trust, preparation, and faith. It is also extremely paramount to look at initial indicators for confirming the fact that "fishing" is not being done in a dead sea.
6. On finding a new ocean, other sharks from the saturated markets aka the Red Oceans and other adjacent oceans will be lured to the new market. Thus, building strategically defensive alternatives would be a wise step. Defensive alternatives majorly consist of brand power, technological advancement, and speed of execution.

SUMMARY

A path-breaking strategy known as Blue Ocean Strategy is a pacifist marketing scheme and is considered a strategic planning tool for assessing a business. It is all about devising and acquiring the uncontested market forum by spawning a new demand. Since, the industries are in a state of non- existence, there is absolutely no relevance of peer comparison. The strategy bags the new demand by familiarizing unique products with advanced features that stand apart from the crowd. Blue Ocean approach shuns the ideology of outperforming the competition and asserts to recreate the market boundaries and operate within the nascent.

These days, the Blue Ocean Strategy becomes the need of the hour when supply surpasses demand in a market. In order to find and identify an attractive Blue Ocean, one needs to take into consideration the "Four Actions Framework" to devise the aspects of buyer value in creating a new value curve. The framework poses four key questions, namely, Raise, Reduce, Eliminate & Create.

THE RISKS OF A BLUE OCEAN STRATEGY

1. **Finding the right blue ocean.**

   Blue ocean sounds great: go to a new market. Yes, but which one? it's not that easy to come up with new ideas and identify large, untapped markets. There are thousands of stories of companies that could not find profitable new markets. By definition, these markets are new, uncontested, no one is there. Strategy is a choice. Choosing the right blue ocean strategy must be the result of a deliberate and detailed process, backed by the right research. There is no magic formula or silver bullet.

2. **Arriving too early**.

   First mover advantage is a myth. Kodak invented the first digital camera. The iPhone was a couple years late to the smartphone party. Entering a market too early is a clear risk. Customers might not understand what you are trying to sell. The technology might not be fully developed. The Amiga computer was a decade ahead of PCs and Macs, it was a technological marvel, and it died because the World was not ready for it. The Apple Newton and the first Microsoft Tablet PCs, were the right ideas, just a couple years too early.

3. **Being too new, too different**.

   Some blue oceans are free of predators, but also free of fish. Many companies come up with great ideas but the market is not ready. New markets introduce new terminology, solve new problems, or solve existing problems in new ways. Consumers don't like too much change. When P&G introduced their improved concentrated laundry detergents, it failed because consumers could not conceive how a few drops could clean as well as a cap-full of Tide. We don't like change. I am typing this post on a QWERTY keyboard layout, designed in the early mechanical typewriter era (1873) to slow typing down. The DVORAK keyboard, designed in 1936, is clearly superior for this age, yet we don't want to change.

4. **Strategy execution**.

   Entering a new market is difficult. You need to be smart about who is your customer, what problem you are solving, how to educate them on new ideas, new products, new solutions – and how to explain the value of the new way of doing business. Tassimo had a better product than Keurig when both entered the new single-pod coffee market. Tassimo did not execute, and it is all but dead now. Keurig did a better job in executing the same idea, with an inferior product. Corporate mindset is a challenge too.

5. **Strategic clarity and corporate mindset**.

   It's not enough to decide you want to go in a different direction, you need to shift the direction of your company. This requires clarity about the new destination, the trade-offs it requires, the challenges of getting there. Corporate culture, often has to shift. Everyone in the organization needs to understand the new set of customers, the new rules implicit in the new strategy. When Rack space pivoted to the cloud, it had to evolve the thinking prevalent in every one of its thousands of employees from hosting servers to providing a platform. Failing to get employees on board with the new direction can prevent you from getting to the blue ocean.

6. **Trust and patience**.

   Going to a different ocean, a blue ocean, requires a lot of trust, preparation and faith. Results most likely won't be immediate, so it requires patience. Investors, executives and employees should be realistic about the time required to be successful in a new market. Milestones that show meaningful progress are going to be important. It is also important to look at early indicators to confirm you are not fishing in a dead sea. Many companies when pivoting to a new strategy, don't do it gradually, they bet the farm. And they are not always right.

7. **Defensibility**.

   The moment you find a new ocean, other sharks from your former red ocean and other adjacent oceans will be attracted to your new market. Cirque's pristine blue ocean is being pursued by new competitors, like Wynn's La Reve. New markets where profits can be found don't remain the domain of a single player for long. You need to build defensibility into your strategy. Your strategy to defend your market (and profits) can consist of speed of execution, brand power, or technology – among others. It's better to start building defenses as soon as you arrive in your new market.

Yes, it is possible to be successful pursuing a Blue Ocean strategy. Many companies have done it. The number of companies that failed in the attempt is probably larger, their skeletons lie now at the bottom of the sea.

RED OCEAN INDUSTRIES

Red Oceans are those industries that are currently in existence or, what we call the contested market forum.

In Red Oceans, there are well-defined industry perimeters that are known and out in open to all. Due to the acquaintance with the competitive rules and acceptance of the drawn boundaries, the market space gets crowded and there is a consequent reduction in growth and profitability. When the product comes under the burden of pricing pressure there is always a chance that a firm's operations could come under notable menace.

Companies under Red oceans strive to outperform their rivals by grasping a higher proportion of existing market share at another company's loss. In order to keep themselves afloat in the marketplace, proponents of Red Ocean Strategy concentrate on creating competitive advantages by examining the blueprints of their peers/competitors. Such a saturated market space makes way for a toxic competition which ends up as nothing but an ocean full of rivals fighting over a dwindling profit pool. Such firms mainly seek to capture and redistribute wealth instead of creating wealth.

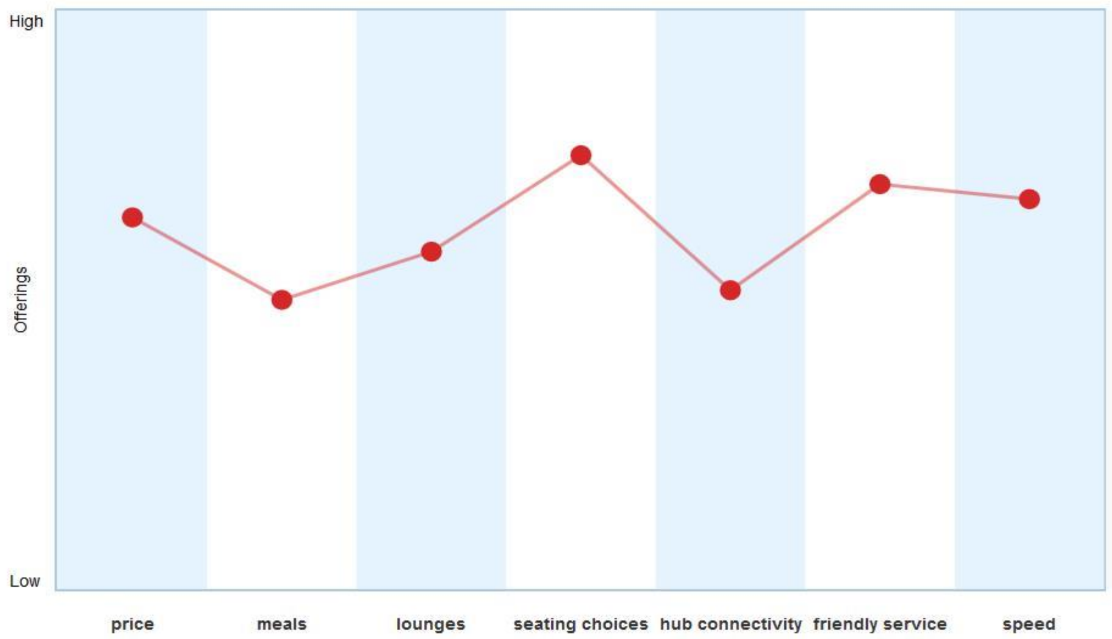
These kinds of market forums can be correlated with the shark-infested ocean waters which remain spilled with blood. Hence, the coinage of the term Red Oceans. Thus, the business world has pulled up their socks and is striving to skip the "Red Oceans" to create their very own "Blue Oceans".

WHAT IS A STRATEGY CANVAS?

A Strategy Canvas can be built in Quick Score our Balanced Scorecard Software tool.

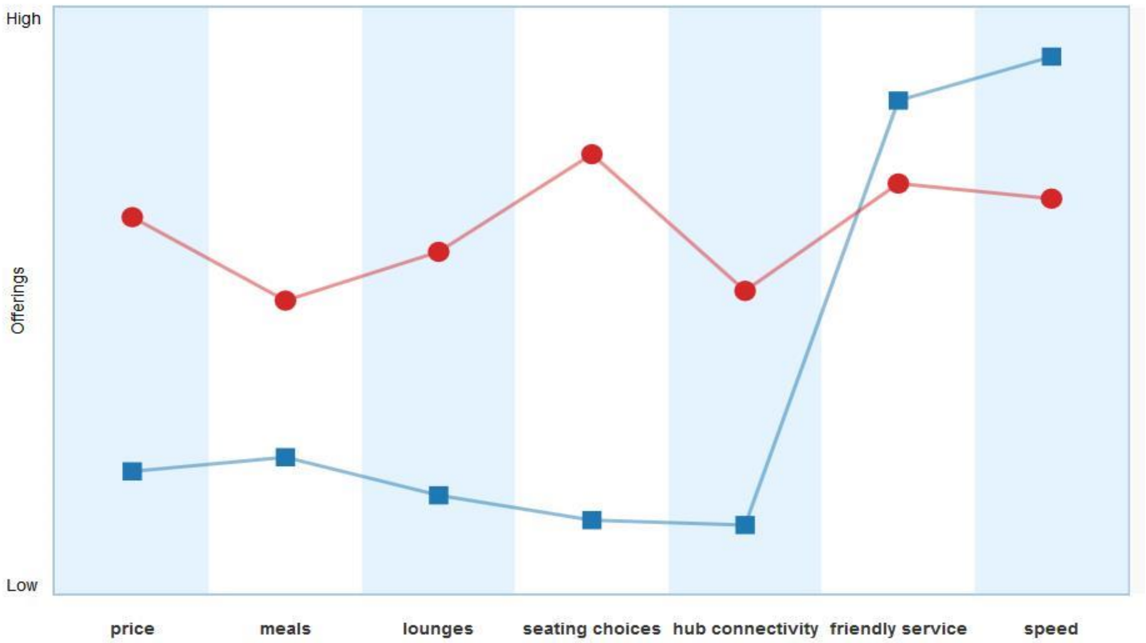
A strategy canvas is basically a line graph that plots functions/factors against importance for a company or an organisation and then overlays competitors or industry benchmarks. In this way, information can be built to help formulate a competitive strategy.

In the example below, we can see a strategy canvas for the Airline industry; along the bottom are the factors being considered plotted against their relative importance:



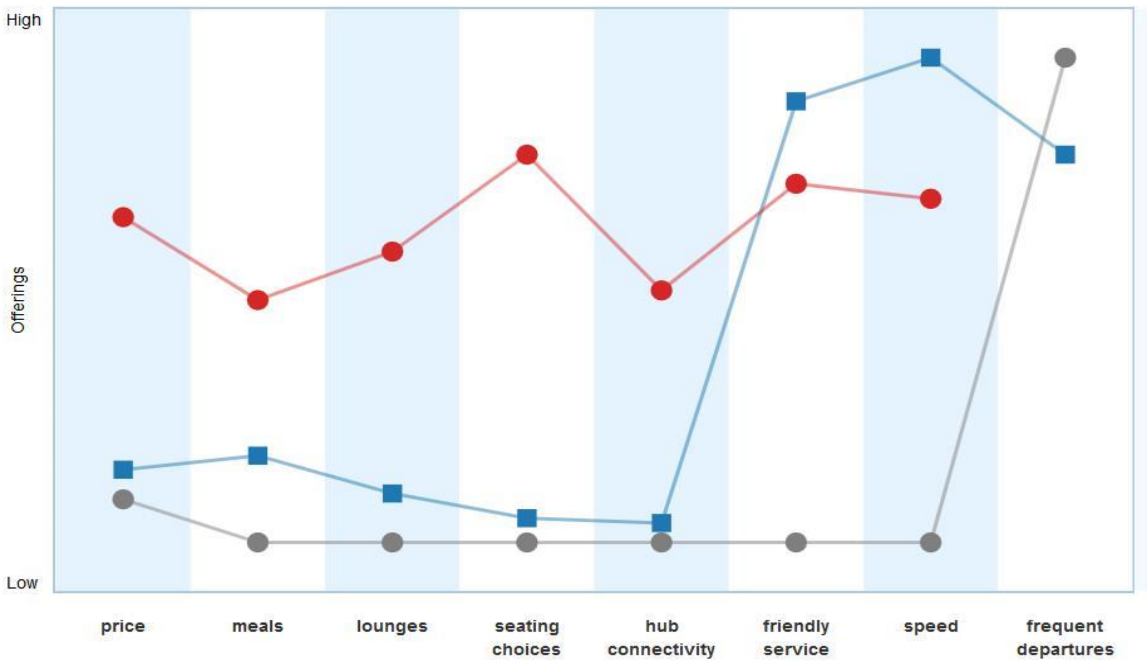
Under normal circumstances, we might consider plotting our own airline against this benchmark to see where our deficiencies were and then attempt to 'raise the bar' to ensure we were at least the same as the benchmark or preferably better. This type of thinking has been described as the "granddaddy of all mistakes" the flawed logic behind the statement is that everyone will go down the same path and everyone will achieve better results. Clearly, this will not happen.

The strategy canvas can allow us to communicate a wholly differentiated strategy. For example, if we overlay Southwest airlines on the graph above, it would look something like this:



The blue line is Southwest airlines. We can see here immediately that Southwest airlines has created a differentiated strategy where they have cut out major items that have been benchmarked as important in the airline industry in general. This has allowed them to vastly reduce the cost of the service and therefore price to a customer. Provided that the service offered is described correctly, and their customers know exactly what they will receive, this is a good differentiated strategy.

Returning to ideas for a Blue Ocean strategy, if we now overlay a different but related industry, for example, travel by car (the grey line), we can see a potential opportunity to capitalise on. Frequent departure is an area that has not been contemplated by the air industry in general. However, by restricting hub-connectivity, Southwest airlines has been able to provide frequent departures for the limited routes they supply. Thus they have created a Blue Ocean strategy.



In the example above we can see that Southwest Airlines has used 'car travel' thinking to create an area of differentiation to their strategy

What is the aim of a strategy canvas?

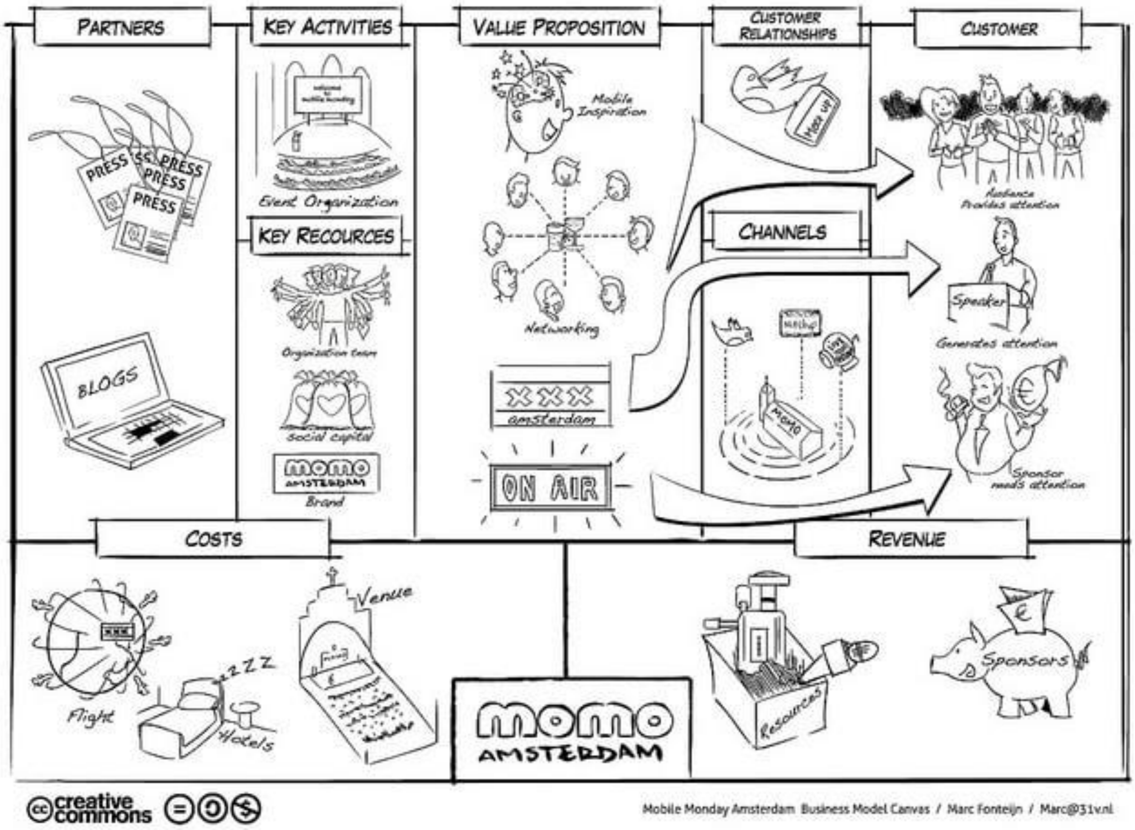
A Strategy Canvas Helps Finds Uncontested Markets. The purpose of a strategy canvas is to help identify blue ocean opportunities that you can dominate —markets your competition is ignoring. This includes identifying those untapped markets. A strategy canvas is very different than the typical SWOT analysis.

Value curve definition

The **Value Curve.** A Value Curve is a diagram which can be used to show instantly where value is created within an organization's products and services. The Value Curve shows graphically the way the company or the industry configures its consumer offering. It is thus a powerful tool to create new market spaces (blue ocean strategy).

BUSINESS MODEL CANVAS

A business model describes how a company creates, delivers and captures value. Everyone has their unique way of viewing the business model. During discussions about this, there has been an increasing need for an uniform template to define and discuss the business model. This template should be applicable to new and old businesses alike, across industries.



WHAT IS A BUSINESS MODEL CANVAS?

The Business Model Canvas, developed by Alexander Osterwalder, is a visual representation of current or new business models, generally used by strategic managers. The Canvas provides a holistic view of the business as a whole and is especially useful in running a comparative analysis on the impact of an increase in investment may have on any of the contributing factors.

The Business Model Canvas gives people a common language through which they can evaluate traditional processes and bring innovation into their business models.

THE TRADITIONAL APPROACH TO A BUSINESS MODEL

Most startups fail because entrepreneurs put all their faith in the idea of the product the organization exists to create. In their loyalty to this product or service, they fail to give in depth consideration to the business model their organization will follow. Usually the business model is either a one-size-fits-all model, common in the industry or it is a random amalgamation of systems and processes, created at the spur of the moment to further the main goal; sell the product or service.

Successful new ventures do not go to market with their first idea; instead, the product/ service has usually gone through several iterations before arriving at the final version. Similarly, organizations are more sustainable if they have considered several business models before deciding on a particular one.

THE 9 BUILDING BLOCKS

The Business Model Canvas categorizes the processes and internal activities of a business into 9 separate categories, each representing a building block in the creation of the product or service. These categories represent the four major aspects of a business; customers, offer, infrastructure, as well as financial viability. All 9 categories are listed and explained below.

1. Customer Segments

The total customer pie is divided into segments based on the manner in which an organization's products or services address a specific need for the segment. The customer segment is an essential part of an organization's business model and is key to ensuring that the product features are aligned with the segments characteristics and needs.

To carry out an effective customer segmentation, a company must first know its customers, both through their current and future needs. Then the organization must list its customers in terms of priority, including a list of potential future customers. Finally, the company should do a thorough assessment of its customers by understanding their strengths and weaknesses and exploring other kinds of customers who may benefit the company more if they are to focus on them.

Various customer segments are as below;

- **Mass Market**: An organization opting for this type of customer segment gives itself a wide pool of potential customers because it feels that its product is a relevant need amongst the general population. A potential product for such an organization could be Flour.
- **Niche Market**: This customer segment is based on highly specific needs and unique traits of its clients. An example of an organization with a niche customer segment is Louis Vitton

- **Segmented:** Organizations adopting the segmented approach create further segmentation in their main customer segment based on slight variations in the customer's demographics and resultantly, their needs.
- **Diversify: A**n organization with a Diversified Market Segment is flexible in the iterations of its product or service tweaking it to suit the needs of segments with dissimilar needs or traits.
- **Multi-Sided Platform/ Market:** This kind of segment serves customers who have a relationship to each other, i.e. blogging sites need a large group of active bloggers to attract advertisers. And they need advertisers to create cash flow. Hence, only by creating a pull with both segments will the blogging site be able to have a successful business model

2. Value Propositions

An organization's value proposition is the combination of products and services it provides to its customers. Osterwalder stated that these offerings need to be unique and easily differentiated from competition. Value propositions can be divided into two categories:

- Quantitative: this stresses the price or efficiency of the product or service
- Qualitative: this value proposition highlights the experience and results the product and its use, produce.

The value proposition provides value through a number of attributes such as customization, performance, "getting the job done", brand/ status, design, newness, price, cost and risk reduction, accessibility, as well as convenience/ usability.

When creating your product's value proposition, the first question an entrepreneur must ask himself is, what problem he is solving through his offered product or service. Then one needs to look into how the product, service or overall experience can be improved so that it provides greater value than the competition. Finally, it is imperative to identify the core value that your business provides. One way to identify this value is for an owner to specify what he/ she wants customers to remember about their interaction with the company.

3. Channels

The medium through which an organization provides its value proposition to its customer segment is known as a channel. There are various options for channels available to an organization, and the selection is based on the channel that is the quickest, most efficient with the least amount of investment required. There are two basic kinds of channels; Company owned channels such as store fronts or Partner Channels such as Distributors. A company can opt to choose either one or employ a combination of both.

For an entrepreneur, the first step in dealing with channels is to identify the customer channels. Touch points with customers can be limited or diverse depending on company strategy. Then he/ she needs to evaluate the strength of the channel by conducting an SWOT analysis on the channel. Finally, the company can identify and build new customer channels.

4. Customer Relationships

An organization must select the kind of relationship it will have with its customer segment in order to create financial success and sustainability. Customer Relationships can be categorized as follows;

- **Personal Assistance**: In this kind of relationship the company interacts with the customer directly through an employee who provides the human touch by assisting the customer presale, during the sale and even may provide after sales services.
- Dedicated Personal Assistance: This kind of relationship is characterized by a very close interaction between the customer and the company through a dedicated representative who is assigned a set of clients and is personally responsible for the entire experience the customer has with the company.
- **Self-Service**: Self-Service places the onus of the customer experience on the tools the company provides for the customer to serve him or herself.
- **Automated Services:** These are customized self-service relationships where the historical preference of the customer is taken into account to improve the overall experience.
- **Communities:** In today's electronic age creating communities of clients allows organizations to communicate with them directly. This allows for an enhanced client experience because the community allows clients to share their experiences and come up with common challenges and solutions.
- **Co-creation**: The customer has a direct hand in the form the company's product or service will take.

For an entrepreneur, the priority is to identify the type of relationship he/ she has with the customer. Then the value of the customer must be evaluated in terms of the frequency of his expenditure on the firms product and services. Loyal customers are relationships that the company should aim to invest in as they will yield steady revenue throughout the year.

5. Revenue Streams

A revenue stream is the methodology a company follows to get its customer segments to buy its product or service. A revenue stream can be created through the following ways;

- **Asset Sale**: the company sells the right of ownership over the good to the customer.
- **Usage Fee:** the company charges the customer for the use of its product or service.
- **Subscription Fee**: the company charges the customer for the regular and consistent use of its product or service.
- **Lending/ Leasing/ Renting**: the customer pays to get exclusive access to the product for a time-bound period.
- **Licensing:** the company charges for the use of its intellectual property.
- **Brokerage Fees:** companies or individuals that act as an intermediary between two parties charge a brokerage fee for their services.
- **Advertising:** a company charges for others to advertise their products using their mediums.

When setting up revenue streams, it is important to recognize that an effective price for the product and/or service will be arrived at through the process of elimination. Different iterations of prices should be listed and evaluated. It is important, in the end to take a break ad reflect on possible avenues open to you as a business.

6. Key Resources

These are the assets of the organization fundamental to how it provides value to its customers. Resources can be categorized as human, financial, physical and intellectual.

For an entrepreneur, it is important to begin with listing your resources. This gives you a clear idea of what final product or service your company needs to create for the customer and which resources are dispensable, resulting in cost savings for your company. Once the final list of resources is available, the company can decide on how much it needs to invest in these key resources to operate a sustainable business.

7. Key Activities

Activities that are key to producing the company's value proposition. An entrepreneur must start by listing the key activities relevant to his/her business. These activities are the most important processes that need to occur for the business model to be effective. Key activities will coincide with revenue streams. Now it is important to evaluate which activities are key by adding or removing some and evaluating their impact.

8. Key Partnerships

To create efficient, streamlined operations and reduce risks associated with any business model, an organization forms partnerships with its high-quality suppliers. Key partnerships are the network of suppliers and partners who complement each other in helping the company create its value proposition. Partnerships can be categorized as follows;

- Strategic alliance between competitors (also known as coopetition),
- Joint ventures and
- Relationships between buyers and suppliers.

An entrepreneur must begin by identifying its key partners followed by making future partnership plans. This can be done through an evaluation of the partnership relationship to judge which characteristics of the relationship need improvement and what kind of future partnerships will be required.

9. Cost Structure

This defines the cost of running a business according to a particular model. Businesses can either be cost driven i.e. focused on minimizing investment into the business or value driven i.e. focused on providing maximum value to the customer.

Following are some traits of common cost structures;

- **Fixed Costs**: costs that remain the same over a period of time
- **Variable Costs**: as the name suggests, these costs vary according to a variance in production
- **Economies of Scale**: costs decrease as production increases
- **Economies of Scope**: costs are decreased by investing in businesses related to the core product.

The first step for an entrepreneur is to obviously identify all costs associated with the business. A realistic understanding of the costs of the business is one of the hallmarks of a good business model. After identification, it is important to list all the costs on the canvas, so they are visually present and then create plans for each cost. Some costs may be decreased through certain measures while others may go up if you decide that an investment in a particular section will result in future gains.

WHY TO USE THE BUSINESS MODEL CANVAS

- **Visual Thinking**: The tool allows for easy, visual representation for decision makers to ponder upon. The tool provides a neat breakdown of the major considerations impacting the business and also makes clear the direction the organization is taking through its business model.
- **Iterate Quickly**: If a poster sized of the canvas printout is taken, it can be used in combination with sticky notes for executives to evaluate current and potential tweaks in the business model and their impact.
- **Grasp the relationship between the 9 blocks**: The Business Model Canvas allows the executive team to understand how the 9 building blocks relate to each other and the different ways these relationships can be changed to increase efficiency or effectiveness. An opportunity or innovation can be spotted through the use of this tool.
- **Short and Succinct**: The tool encourages teams to keep their suggestions short and simple enough to fit on post-it notes.
- **Easy to circulate**: The tool allows easy access and sharability. Pictures of the completed canvas or simply physically passing it around so people can grasp its gist as well as add to it, if need be, make the Canvas a very portable and convenient tool.

APPLYING THE BUSINESS MODEL CANVAS

The biggest Business Model success story is Apple. Apple was a game changer when it introduced the iPod to the world. Through iTunes, Apple integrated device, software and an online store into an experience that set the music industry on its ear. Even though Apple was in no way the first entrant into the mp3 player market, its unique and well-executed business model ensured lasting success. This business model was in essence the seamless coming together of the key components of the business model canvas to leverage its distinctive value proposition. Apple has lasting partnerships through the deals it negotiated with music producers so it could sell their music through its store.

Apple revenue stream comes from the sale of its iPods. However, the added benefit of the online store creates a package that competitors have been hard pressed to match.

WHAT IS E-COMMERCE?

The term commerce is define as trading of good & services or if ‘e’ for ‘electronic’ is added to this, the definition of e – commerce is defined as trading of goods, services, information or anything else of value between two entities over the internet.

HOW DOES E-COMMERCE WORKS?

• When the customer has browsed through your e-commerce websites and decided that they would like to buy, there has to be a process that accepts their order. The software that runs this process is called a shopping cart.

• The shopping cart performs several other tasks:

-computation of taxes and other levies -processing of coupons and other discounts

-capturing the billing and delivery address of the customer

-ensuring user acceptance of terms of service and other conditions of sale

-creation of codes, such as invoice numbers, order number, tracking number and the like presenting customers with delivery options and adding the corresponding fee forwarding customers to the payment gateway (in the case of downloadable digital goods) redirecting paid customers to the download page.

We Need a Payment Mechanism

• There are some ecommerce websites, especially in the business-tobusiness space that might provide credit for purchases. In most cases, an ecommerce transaction involves transacting money. This process is conducted by a piece of software called the payment gateway.

• The payment gateway: -presents a customers with payment options -accepts identification details, such as credit card numbers -authenticates customers using a password, CVV code, or multiple factors of authentication.

E**ffective logistics is the key to a successful ecommerce business**

As a result, ecommerce businesses need to ensure that the right product is delivered to the customer, in good condition, and within the period that the customer expected. Since logistics is a specialized function, several ecommerce businesses outsource it to third party logistics providers.

Reverse Logistics Need to Be Managed

There is no such thing as an error-free product. As a result, some products will be damaged or stop functioning right. Sometimes the wrong product will be delivered. Such error or damage triggers the reverse logistics process. In the usual mode, goods move from the ecommerce business to the customer. In reverse logistics, the flow is in the opposite direction.

Strategy Shaping Characteristics of e-commerce environment

• Impact on competitive rivalry -internet widens the geographical market and reduces the geographical barriers

• Impact on barriers to entry -entry barriers are relatively low -internet technology eliminates and minimizes the need for several resources that otherwise is quite costly

• Impact on bargaining power of buyers -can get to know about actual company cost -with just few clicks, buyers can compare competing offerings

• Impact on supplier bargaining power and supplier-seller collaboration -internet makes it feasible for companies to find the best suppliers providing better quality , prices.

E-COMMERCE BUSINESS MODELS AND STRATEGIES

- ✓ **Pure Dot-com strategies**
  -Innovative , fresh and Entertaining websites
  -Innovative marketing technique that are efficient in reaching targeted audience
  - delivering unique value to buyers and make online buying very appealing
- ✓ **Brick and click strategies**
  - is a business model by which a company integrates both offline (bricks) and online (clicks).
  - A popular example of the bricks and clicks model is when a chain of stores allows the customer to order products either online or physically in one of their stores, also

allowing them to either pick-up their order directly at a local branch of the store or get it delivered to their home.

- ✓ **Merchant model**

  - transferring an old retail model to the ecommerce using internet

- ✓ **Brokerage model**

  – brings sellers and buyers together on web and collects a commission on the transactions, ex e-bay which can generate additional revenue by selling banner advertisement on their sites.

- ✓ **Advertising model**

  – traditional advertisement, such as radio and television. Search engines charge advertises for putting ads or leasing spots on their sites

- ✓ **Infomediary model**

  – collect information on consumers and businesses and sell this information to interested parties.

- ✓ **Subscription model**

  – an e-business might sell digital products to its customers ex. AOL America On Line offers access to an internet whose service is provided by the private network which is leased from the public value added network service.

Internet Strategies for Traditional Business

Gather real-time data on customer tastes and buying habits, doing real-time market research, and use results to respond more precisely to customer needs and wants

♣ **Operating Website to handle Transactions**

-provides existing and potential customers with extensive product information -handles order and transactions

♣ **Using Online Sales**

- achieving incremental sales -gaining online sales experience and doing market research

♣ **Employing Brick-and-Click Strategy**

-employ this strategy to compete with the traditional wholesalers and retailers -ex. Software developers use internet as highly effective distribution channel

♣ **Greater Use of Build-To-order Manufacturing**

-ex. Most vehicle manufacturers have software on their internet site that permits shoppers to select model, color, etc -delivery time is reduced to 5 to 10 days from 30 to 60 days.

Key Success Factors in E-commerce

- Providing Value to Customers-offering product line that attracts the customers at a competitive price
- Providing Service and Performance -offering a responsive and user friendly experience
- Providing Attractive Website -use of tasteful colors, animation, photographs, fonts, etc
- Providing Incentive for customers to buy and to return -providing coupons, special offers and discounts.
- Providing Personal Attention -Personalized special offers and purchase suggestions
- Providing Reliability and Security - parallel servers, fail safe technology, information encryption and firewall
- Constructing Commercially Sound Business Model

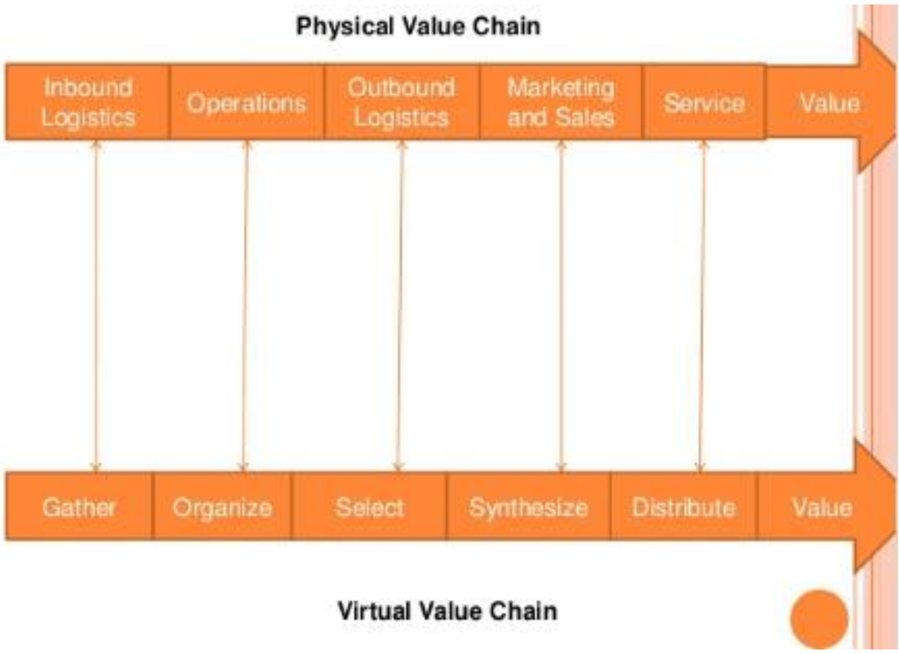
Virtual Value Chain

♣ The virtual value chain is the digital , networked, virtual world of information, which parallels the tangible world of goods and services or the physical supply chain.

♣ The ‘virtual’ indicates that the value adding steps are performed with information.

♣ Value creation through interactions over the network rather than through direct contact as per the traditional value chain.

♣VVC only apply to informational business



Objectives of Virtual Value Chain

• Building Direct cost-effective connections among value chain members and customers

• Providing end user customers with specific value service benefits

• Ensuring value delivery continuity.

SUSTAINABLE DEVELOPMENT

Sustainable development is the key to the stable growth of economy . It means that development should take place without damaging the environment , and development in the present should not compromise with the needs of the future generation .

Example of sustainable development

Using recycled material;s or renewable resources when building is an example of sustainable development . Building a new community in a previously undeveloped area without destroying the eco system or harming the environment is an example of sustainable development .

SUSTAINABILITY BIGGEST ISSUES

The environmental problems like global warming , acid rain, air pollution , urban sprawl , waste disposal , ozone layer depletion , water pollution , climate change and many more affect every human , animal and nation on this planet .

IMPORTANCE OF SUSTAINABILITY

Sustainability supports that mission by striving to improve the environmental health and quality of life for our campus and community .Sustainability is important for many reasons including :

Environmental Quality – In order to have healthy communities , we need clean air, natural resources , and a nontoxic environment .

Examples of sustainability

Harnessing wind energy to provide power for homes, offices and other buildings or to pump water is one of the best examples of sustainable development

HOW TO INTEGRATE SUSTAINABILITY INTO YOUR BUSINESS

Organizations today recognize the importance of incorporating social, environmental and governance considerations into the planning and operation of their core businesses. With plenty of opportunities arising from trends in worldwide sustainability, many companies and their leaders are adopting sustainable development plans in response to social and environmental issues that affect their business operations. In fact, consumers worldwide have become more and more likely to associate and remain loyal to a company that incorporates sustainable practices into its business.

1. Establish a clear sustainability objective

Corporate sustainability is an achievable goal, provided that organizations plan and include their sustainability strategies within their corporate agenda. As a business, you need to consider the four primary factors necessary for developing a sustainable plan. They include: eco-efficiency programs, management infrastructure, marketing programs and strategic initiatives. You should then appoint a sustainability leader who has the right credentials, abilities and experience to lead the company’s sustainability efforts. Fortune 500 companies have created positions such as Chief Sustainability Officers or Directors to ensure their sustainability objectives are met.

2. Engage your business partners

As a business, you can do everything possible to ensure the drive of your environmental and social impacts within your operations, but you can only advance in a big way if you align with your suppliers, distributors and other members in your value chain. Effective collaboration is the key to accelerating sustainability across your industry or value chain. This collaboration is bound to help you and your industry peers, as well as environmental organizations, to reduce the negative impact of your operations and potentially innovate new processes and products toward this end.

3. Engage customers regarding the need for sustainability

You can only do so much without the support of your customers. If they are unwilling to purchase products perceived to be environmentally friendly or fair-trade products, integrating sustainability into your business will be difficult. You need to engage customers nationally about sustainability so they can make decisions based on sustainable living as well as responsible consumption. Most customers purchase products depending on the price or features, and not whether they are using recycled materials or environmentally friendly packaging. Therefore, as a business you need to engage with customers and convince them to commit to recycling, responsible consumption, carpooling and more.

4. Communicate sustainability goals throughout your organization

It is highly important that you design a way to effectively communicate your business's vision of sustainability to everyone in your organization. Each and every individual, regardless of their role in the company, needs to understand and embrace that sustainability vision. Integration of sustainability into companies has been difficult, especially because sustainability and corporate social responsibility implementation remain the job of a single person or department within many companies.

5. Develop conditions that support sustainability-related innovations

The NBS's report on Innovating for Sustainability, produced in 2013, described various ways companies and businesses can reduce their negative impact on the environment, create positive social changes that benefit their business, and re-create/develop their business models. As a business, you should not consider integrating innovation-related sustainability plans as risky. Instead, drive your company's innovation by looking for trends in emerging economies and other industries, creating partnerships with colleges to fill any knowledge gaps within your organization, and developing incentives to reward employees who suggest ways to advance recycling, save energy, improve product sustainability and other ideas.

All in all, highlighting your company's sustainability efforts and being open to the public about it can noticeably profit your company. Work on promoting your company's use of green technology as well as other social and environmental initiatives. Your company will benefit greatly by receiving positive PR (public relations) with both your current and potential customers.

TRIPLE BOTTOM LINE (TBL)

What Is the Triple Bottom Line (TBL)?

The triple bottom line (TBL) is a framework or theory that recommends that companies commit to focus on social and environmental concerns just as they do on profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet. A TBL seeks to gauge a corporation's level of commitment to corporate social responsibility and its impact on the environment over time.

In 1994, John Elkington—the famed British management consultant and sustainability guru—coined the phrase "triple bottom line" as his way of measuring performance in corporate America. The idea was that a company can be managed in a way that not only earns financial profits but which also improves people's lives and the planet.1

KEY TAKEAWAYS

- The triple bottom line aims to measure the financial, social, and environmental performance of a company over time.
- The TBL consists of three elements: profit, people, and the planet.
- TBL theory holds that if a firm looks at profits only, ignoring people and the planet, it cannot account for the full cost of doing business.

Understanding the Triple Bottom Line

The Full Cost of Doing Business

In finance, when we speak of a company's bottom line, we usually mean its profits. Elkington's TBL framework advances the goal of sustainability in business practices, in which companies look beyond profits to include social and environmental issues to measure the full cost of doing business.

Moreover, the TBL tenet holds that if a company focuses on finances only and does not examine how it interacts socially, that company cannot see the whole picture, and thus cannot account for the full cost of doing business.

People + Planet = Social + Environmental Responsibility

According to TBL theory, companies should be working simultaneously on these three bottom lines:

1. **Profit**: The traditional measure of corporate profit—the profit and loss (P&L) account.
2. **People**: Measures how socially responsible an organization has been throughout its operations.
3. **The Planet**: Measures how environmentally responsible a firm has been.[2]

By focusing on these three interrelated elements, triple-bottom-line reporting can be an important tool to support a firm's sustainability goals.

CHALLENGES OF APPLYING THE TRIPLE BOTTOM LINE

Measuring the TBL

A key challenge of the TBL, according to Elkington, is the difficulty of measuring the social and environmental bottom lines. Profitability is inherently quantitative, so it is easy to measure. What constitutes social and environmental responsibility, however, is somewhat subjective. How do you put a dollar value on an oil spill—or on preventing one, for example?

Mixing Diverse Elements

It can be difficult to switch gears between priorities that are seemingly diverse, maximizing financial returns while also doing the greatest good for society. Some companies might struggle to balance deploying money and other resources, such as human capital, to all three bottom lines without favoring one at the expense of another.

Repercussions of Ignoring the TBL Framework

There can be dire repercussions of ignoring the TBL in the name of profits; three well-known cases are the destruction of the rainforest, exploitation of labor, and damage to the ozone layer.

Consider a clothing manufacturer whose best way to maximize profits might be to hire the least expensive labor possible and to dispose of manufacturing waste in the cheapest way possible. These practices might well result in the highest possible profits for the company, but at the expense of miserable working and living conditions for laborers, and damage to the natural environment and the people who live in that environment.

- Profits do matter in the triple bottom line—just not at the expense of social and environmental concerns.

Examples of Companies That Subscribe to the TBL or Similar

Today, the corporate world is more conscious than ever of its social and environmental responsibility. Companies are increasingly adopting or ramping up their social programs. Consumers want companies to be transparent about their practices and to be considerate of all stakeholders, and many consumers are willing to pay more for clothing and other products if it means that workers are paid a living wage, and the environment is being respected in the production process.

The number of firms—of all types and sizes, both publicly and privately held—that subscribe to the triple-bottom-line concept, or something similar is staggering; we cite a handful of these companies:

Axion Structural Innovations LLC (privately held; Zanesville, Ohio) is known for its commitment to sustainability. Axion builds railroad ties and pilings using recycled plastic bottles and industrial waste instead of standard materials such as wood, steel, and cement.

Ben & Jerry's (NYSE: UL) is the ice cream company that made conscious capitalism central to its strategy. As stated on its website, "Ben & Jerry's is founded on and dedicated to a sustainable corporate concept of linked prosperity." The company supports opposing the use of recombinant bovine growth hormone (rBGH) and genetically modified organisms (GMOs) and fosters myriad values such as fair trade and climate justice.

Interestingly, in 2000 Ben & Jerry's became a wholly-owned subsidiary of Unilever PLC, (NYSE: UL), the British-Dutch Multinational Corporation (MNC). Was Unilever's acquisition emblematic of corporations' renewed interest? Part of the deal was that Unilever agreed to encourage, and fund, Ben & Jerry's social missions; and in turn, Ben & Jerry's would help to strengthen Unilever's social practices worldwide.

The LEGO Group (privately held; Billund, Denmark) has formed partnerships with organizations like the non-governmental organization (NGO), World Wildlife Fund. In addition, LEGO has made a commitment to reduce its carbon footprint and is working towards 100% renewable energy capacity by 2030.[3]

Mars, Incorporated's (privately held; Mc Lean, Va.) Cocoa for Generations is a sustainable cocoa initiative that requires its cocoa farmers to be fair trade certified to ensure that they follow a code of fair treatment to those providing labor. In exchange for certification, Mars provides productivity technology and buys cocoa at premium prices.[4]

Starbucks Corporation (NASDAQ: SBUX), which has been socially and environmentally focused since its inception in 1971, promises to hire 25,000 veterans before 2025.

Part A

1. What is the significance of Strategic control and Operational control in determining the success of the strategy?
2. Identify new business models in Internet economy.
3. Assess the Symptoms of malfunctioning of strategy.
4. Define Strategy canvass.
5. What is the main purpose of Value curves?
6. Outline the term Virtual value chain.
7. Examine Strategic surveillance.
8. Summarize the term Red ocean industries.
9. How to integrate sustainability in to your business?
10. What are the three P's of the triple bottom line?

Part B

1. Explain the different types of strategic control systems.
2. Evaluate the techniques for Operational Control.
3. Discuss the issues to be taken care of in Strategy Evaluation and Control.
4. Explain the role of strategist in evaluation and control of strategic management.
5. Explain the most appropriate methodology for evaluation of strategy.

6. Discuss the impact of internet on strategies of business organisation. Give examples.
7. Formulate Blue Ocean Strategy and give examples.

Part C

South Korea based LG Electronics Inc. (LGE) was a technology innovator in electronics, information and communications businesses producing CDMA handsets, DVD players, Optical Storage devices, canister Vacuum cleaners, air conditioners and micro ovens. LGE had more than 72,000 employees working in about 77 subsidiaries and marketing units across the world.

In January 2006, the company launched ‘Blue ocean Management’ campaign to be one among the top 3 electronics, information and telecommunications firms in the world by 2010. But LGE was primarily known for its low-cost appliances, and faced challenges related to company’s image, low profitability and stiff competition across the world with the3 tough road ahead would LGE be able to achieve its target by 2010? Would it be able to make its competition irrelevant, especially Samsung, its home rival?

TEXT / REFERENCE BOOKS

1. Azhar Kazmi, Strategic Management and Business Policy, Tata McGraw Hill, Latest Edition, 2018
2. JA Pearce & RB Robinson, Strategic Management Formulation Implementation and Control, TMH, 12th Edition, 2017.
3. Arthur A. Thompson Jr. & A.J Strickland III, Crafting and Executing Strategy, Tata McGraw Hill, 19th Edition, 2014.
4. Gerry Johnson & Kevan Scholes, Exploring Corporate Strategies, PHI, 11th Edition, 2017.
5. Upendra Kachru: Strategic Management, Excel books, 2005.