MBA II SEMESTER

CORPORATE STRATEGY

SYLLABUS

CORPORATE STRATEGY

UNIT- I STRATEGY AND PROCESS

Conceptual framework for strategic management, the Concept of Strategy and the Strategy Formation Process – Stakeholders in business – Vision, Mission and Purpose – Business definition, Objectives and Goals - Corporate Governance and Social responsibility-case study.

UNIT – II COMPETITIVE ADVANTAGE

External Environment - Porter's Five Forces Model-Strategic Groups Competitive Changes during Industry Evolution-Globalisation and Industry Structure - National Context and Competitive advantage Resources- Capabilities and competencies–core competencies-Low cost and differentiation Generic Building Blocks of Competitive Advantage- Distinctive Competencies- Resources and Capabilities durability of competitive Advantage- Avoiding failures and sustaining competitive advantage-Case study.

UNIT - III STRATEGIES

The generic strategic alternatives – Stability, Expansion, Retrenchment and Combination strategies - Business level strategy- Strategy in the Global Environment-Corporate Strategy-Vertical Integration-Diversification and Strategic Alliances- Building and Restructuring the corporation- Strategic analysis and choice - Environmental Threat and Opportunity Profile (ETOP) - Organizational Capability Profile - Strategic Advantage Profile - Corporate Portfolio Analysis - SWOT Analysis - GAP Analysis - Mc Kinsey's 7s Framework - GE 9 Cell Model - Distinctive competitiveness - Selection of matrix - Balance Score Card-case study.

UNIT – IV STRATEGY IMPLEMENTATION & EVALUATION

The implementation process, Resource allocation, designing organizational structure-Designing Strategic Control Systems- Matching structure and control to strategy-Implementing Strategic change-Politics-Power and Conflict-Techniques of strategic evaluation & control-case study.

UNIT – V OTHER STRATEGIC ISSUES

Managing Technology and Innovation- Strategic issues for Non Profit organizations. New Business Models and strategies for Internet Economy-case study

UNIT- I

STRATEGY AND PROCESS

Conceptual framework for strategic management, the Concept of Strategy and the Strategy Formation Process – Stakeholders in business – Vision, Mission and Purpose – Business definition, Objectives and Goals - Corporate Governance and Social responsibility-case study.

Concept of strategy:

The term strategy is derived from Greek word strategies which mean generalship. A plan or course of action or a set of decision rules making a pattern or creating a common thread.

Strategy word derives from the greek word stratçgos, which derives from two words: stratos (army) and ago (ancient greek for leading). Stratçgos referred to a 'military commander' during the age of Athenian Democracy.

Conceptual framework for strategic management:

Decision relating to the future of an organization is also referred to as strategy.

Meaning of strategy: Strategy means 'the art of the general'. Strategy is now used in all fields where the horizon is long term, there is a competition for the use of resources, and the objective is to realize some goals.

Definitions of strategy:

According to Chandier, "strategy is the determinator of the basic long term goals of the enterprise".

According to learned, "strategy is the pattern of objectives, purposes or goals and major policies or plans for achieving these goals."

"Strategic Management involves relating the goals of the organization to its operational environment - not simply in a reactive way but in a consciously planned way which is designed to exert leverage and influence, if not control over the organization".

Definition for strategic management:

Strategic Management is defined as the dynamic process of formulation, implementation, evaluation and control of strategies to realize the organizations strategic intent.

Definition of strategy:

Johnson and Scholes (Exploring Corporate Strategy) define strategy as follows:

"Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations".

In other words, strategy is about:

* Where is the business trying to get to in the long-term (direction)
* Which markets should a business compete in and what kind of activities is involved in such markets? (markets; scope)
* How can the business perform better than the competition in those markets? (Advantage)?
* What resources (skills, assets, finance, relationships, technical competence, and facilities) are required in order to be able to compete? (Resources)?
* What external, environmental factors affect the businesses' ability to compete? (Environment)?
* What are the values and expectations of those who have power in and around the business? (Stakeholders)

THE CONCEPT OF STRATEGIC MANAGEMENT:

Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives.

It is the process of specifying the organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization's objectives.
Strategic management, therefore, combines the activities of the various functional areas of a business to achieve organizational objectives.

It is the highest level of managerial activity, usually formulated by the Board of Directors and performed by the organization's Chief Executive Officer (CEO) and executive team.
Strategic management provides overall direction to the enterprise and is closely related to the field of organization Studies.

"Strategic management is an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment."

- Strategic Advantage
- Organizational capability
- Competencies
- Synergistic Effects
- Strengths and weaknesses
- Organizational Resources

- organizational behavior

Meaning for Goal:
Goal denotes what an organization hopes to accomplish in a future period of time
.
Meaning for Objectives:
Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals that are generalized.

Role of Objectives:
- Objectives define the organizations relationship with its environment.
- Objectives help an organization pursue its vision and mission.
- Objectives provide the basis for strategic decision making.
- Objectives provide the standards for performance Appraisal.

Characteristics of Objectives

- Objectives should be understandable.
- Objectives should be concrete and specific.
- Objectives should be related to a time frame
- Objectives should be measurable and controllable
- Objectives should be challenging

Need of Strategic Management:-
1. Due to change
2. To provide guide lines
3. Research and development
4. Probability for business performance
5. Systemized decision
6. Improves Communication
7. Allocation of resource
8. Improves Coordination
9. Helps the managers to have holistic approach

Importance of Strategic Management:-

1. To the shape the Future of business
2. Effective strategic idea
3. Mangers and employer are innovative and creative
4. Its decentralized the Management
5. Its helps to increase the productivity

6. To Makes discipline

A central aim of strategic management is to help organizations adapt and respond to environment changes. As such, a planning process which evaluates environmental threats and opportunities is a necessary first step to strategic management.

Strategy Formulation:

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats. To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation. Michael Porter identified three industry-independent generic strategies from which the firm can choose.

Strategy Implementation

The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.

The way in which the strategy is implemented can have a significant impact on whether it will be successful. In a large company, those who implement the strategy likely will be different people from those who formulated it. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if lower-level managers resist its implementation because they do not understand why the particular strategy was selected

Evaluation & Control:

The implementation of the strategy must be monitored and adjustments made as needed.

Evaluation and control consists of the following steps:

1. Define parameters to be measured

2. Define target values for those parameters

3. Perform measurements

4. Compare measured results to the pre-defined standard

5. Make necessary changes.

The Strategic Management Process:

Strategic management as a process that includes the various aspects of strategy formulation, implementation and evaluation and control. The purpose of this section is to provide a brief overview of the strategic management process. As was stated earlier, strategic management is a Comprehensive approach to management aimed at helping organizations achieve strategic objectives. Basically, strategic management can be broken down into three phases: strategic planning, strategy implementation and strategic control.

Strategic planning has become exceptionally important in management circles today, it includes those activities that involve defining the organization's mission, setting its objectives, analyzing the external and internal environment of the organization, and developing and selecting strategies to enable it to operate successfully in its environment.

The figure illustrates that strategic planning starts with a clear understanding of the organizational mission. Secondly, organizational objectives must be established so that everyone knows what management wants to accomplish. Thirdly, management identifies the strategic alternatives available to achieve those objectives. This steps entails examining the organization's strengths and weaknesses, forecasting the future environment, and so on.
Finally, to complete the planning process, strategic choices are made.

Meaning of vision:
A vision statement is sometimes called a picture of your company in the future. Vision statement is

your inspiration; it is the dream of what you want your company to accomplish.

Meaning for mission:
A mission statement is a brief description of a company’s fundamental purpose. The mission statement articulates the company’s purpose both for those in the organizations and for the public.

Mission. Organizations simply cannot survive if they do not know where they are going and what they are all about.

An organizational mission defines the fundamental, unique purpose that sets a company apart from other companies of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served In other words, mission statement describes an organization's purpose, its customers, its products (often in functional terms, that say what need or needs are being met), and its technology (that is, how it delivers its products or services). Thus, it is the purpose or reason for the organization's existence.

Mission statements should be sufficiently narrow to help the company determine it’s proper market niche. One of the easiest ways to fail is to attempt to satisfy everyone. Because of the different characteristics of customers and geographic areas, and varying product preferences, a company attempting to satisfy a large group of diverse customers is forced to make compromise decisions in virtually every aspect of its pricing, product features, and service policies.

Consequently, it finds itself failing to satisfy anyone completely.
Other competitors are likely to move into the industry and develop plans that focus on narrow market niches.
And the original company, in its attempt to retain a large, diverse market, frequently finds this market disappearing into small slices that are served by other companies with narrower focuses.
Drucker stated that "only a clear definition of the mission and the purpose of the organization make possible clear and realistic business objectives".

Objectives:
An organization without objectives is an organization without direction. Objectives are the end results, goals, or targets that all organizational activities seek to attain.

They are an important part of planning process because they become the focal point for directing strategies.

Although objectives can vary widely from organization to organization, normally they can be categorized as follow: profitability, service to customers, employee needs and well-being, social responsibility, and others.

The following items provide potential areas for establishing long-term objectives for most organizations: profitability, markets, productivity, product, financial resources, physical facilities, research and innovation, organization structure and activities, human resources, customer services, social responsibility.

Generally, long-term objectives need to be established for every area of the organization where performance and results directly influence the survival and prosperity of the organization. Long-term objectives must support and not be in conflict with the organization's mission.
They should be clear, concise, and quantified whenever possible and should be detailed enough so that the organization's personnel can clearly understand what the organization intends to achieve.
They should span all significant units or areas of the organization and not concentrate on just one area.
Objectives for different areas of the organization can serve as checks on each other, but should be reasonably consistent with each other.
Finally, objectives should be dynamic in that they need to be reevaluated in light of changing conditions.

They then become measurable points which indicate how the organization is making definite progress towards its mission.
Organizational mission statements, policies, objectives, and strategy are not mutually exclusive components of strategic planning process.

Rather, they are highly interdependent and inseparable. One cannot talk about attaining objectives without knowing the policies that must be followed.
Similarly, a strategy cannot be determined without first knowing the objectives that are to be pursued and the policies that are to be followed. Furthermore, strategy implementation impacts upon the strategic planning process. The figure which shows the entire strategic management process as a series of sequential steps should be considered merely as a method for analyzing the entire process and not as a step-by-step process that should be sequentially followed.

Internal organizational analysis and external environmental analysis:
Before an organization can set realistic objectives and establish strategies, it must determine its present status. An internal organizational analysis is designed to answer in part the question "Where are we now?" It is an evaluation of all relevant factors within the organization. In practice, a checklist of factors is used in performing an internal organizational analysis.

A typical checklist might include the following factors: financial position, organizational structure, quantity and quality of personnel, product line, competitive position, condition of facilities and equipment, marketing capability, research and development capability, past objectives and strategies.

Based on understanding of these areas, managers can determine their company's weaknesses or strengths vis-à-vis other companies.
The external environmental analysis is also part of the process of answering the question "Where are we now"? It includes those factors that may influence the success of the Organization but are external to and not under the total control of the organization.

Developing an awareness of the present and future external environment enables the organization to respond more effectively to change. An organization exists within an industry environment, the industry environment and the individual organization within the industry are influenced by political, economic, ecological, social, and technological forces.

The external environmental analysis is performed to identify the external opportunities and threats. The firm also must know its own capabilities and limitations in order to select the opportunities that it can pursue with a higher probability of success. The situation analysis therefore involves an analysis of both the external and internal environment. The external environment has two aspects: the macro-environment that affects all firms and a micro-environment that affects only the firms in a particular industry.

Developing an industry profile is an important element in understanding present environmental conditions. An industry profile answers questions about key areas of a particular industry. Some of the areas that might be examined are marketing practices, market structure, financial condition, competition, operating conditions, and production techniques. The industry environment is also influenced by forces outside the industry itself.

Identifying strategic alternatives:
Strategies need to be set at the corporate, business, and functional levels. The formulation of these strategies follows the decision-making process. Specifically, management needs to identify and evaluate alternative strategies and then select a set that is compatible at each level and will allow the organization to best capitalize on its resources and the opportunities available in the environment.

In choosing a strategy, an organization has a wide variety of options; therefore, evaluation of alternative strategies considers an important step in strategy formulation.

Schendel and Hofer have described four criteria for evaluating strategic alternatives: (1) The strategy and its component parts should have consistent goals, objective, and policies; (2) It should focus resources and efforts on the critical issues identified in the strategy formulation process and separate them from unimportant issues; (3) It should deal with sub-problems capable of solution, given the organization's resources and skills; and (4) The strategy should be capable

of production the intended results - that is, it should show promise of actually working.

In evaluating alternatives, it is also important to focus on a particular product or service and on those competitors who are direct rivals in offering it. A strategy that does not create or exploit the organization's particular advantage over its rivals should be rejected.

Strategy selection and strategy implementation:

In choosing among the available possibilities, successful managers will select the strategies that are best suited to the organization's capabilities and give their organization the more favorable competitive advantage; then they will try to sustain that advantage over time. The strategic management process does not end when the organization decides what strategy or strategies to pursue.
There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the organization understand the business, feel a part of the company, and through involvement in strategy-formulation activities have become committed to helping the organization succeed.

Strategy implementation involves those activities necessary in carrying out the chosen strategy. These activities include developing an organizational structure, managing the day-to-day organizational activities, and evaluating the effectiveness of the strategy.
Implementing strategy affects an organization.

Concept of strategy:

Strategy is the total plan of firm deploying its resources to establish a positive position and complete successful against its rivals.
Strategy describes a framework for charting a course of action.
A Strategy includes:

a) Competitive advantage
b) A plan or course of action
c) Set of decision making a pattern
d) It is a good fit with the firm’s external environment
e) It builds on its strength
f) Special capabilities, skills, technologies or resources.
g) Pitts and lie.
h) Strength and distinctive competence
i) Creating a command threat
j) Policies, objectives and goals.

k) Current position to future desired state.
l) Firms goals and action.
m) Art of the general.
In simple word strategy means to achieve objectives.

Elements of strategy:

- Goals- indicate long term towards which all efforts are directed.
- Scope- the kind of product the firm will offer the markets it will pursue and the board areas of activity it will undertake.
- Competitive advantage – it arises when a firm is able to perform an activity that is distinct or different from that of its rivals.
- Logic- this is most important elements of strategy.

The logic of the complete strategy:

Different levels of Management:

1. **Corporate level:** Corporate level strategy is an overarching plan of action covering the various functions that are performed by different strategic business units(SBUs).The plan deals with the objectives of the company ,allocation of resources and coordination of the BSUs for optimum performance.

2. **Business Level:** Business level strategy is comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between then for making optimal contribution to the achievement of the corporate level objectives.
3. **Functional Level:** it deals with a relatively restricted plan, providing objectives for a specific function ,allocation of resources among different operations operations

within that functional areas and coordination between them for optimal contribution to the achievement of the SBU and corporate level objectives.

Definition for Business:

A company should define its business in terms of three dimensions:

1. Who is being satisfied (what customer groups)
2. What is being satisfied (what customer needs)
3. How customer needs are being satisfied (by what skills, knowledge or distinctive competencies)

Stake holders in Business:

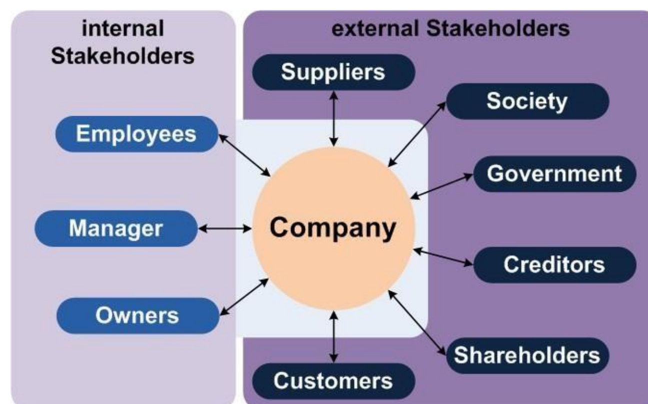
Stake holders are the individuals and groups who can affect by the strategic outcomes achieved and who have enforceable claims on a firm‟s performance. Stake holders can support the effective strategic management of an organization.

Stakeholders in business

Definition:

Stakeholder is a person, group, or organization that has direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives and polices.

Key stake holders in a business organization include creditors, customers, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions and the community from which the business draws it resources.



Stake holder's relationship management

Stake holders can be divided into:

1. **Internal Stakeholders**
    - Shareholders
    - Employees
    - Managers
    - Directors
2. **External Stakeholders**
    - Customers
    - Suppliers
    - Government
    - Banks/creditors
    - Trade unions
    - Mass Media

Stake holder's Analysis:

- Identify the stake holders.
- Identify the stake holders expectations interests and concerns
- Identify the claims stakeholders are likely to make on the organization
- Identify the stakeholders who are most important from the organizations perspective.
- Identify the strategic challenges involved in managing the stakeholder relationship.

Key aspects of Good Corporate Governance

- Transparency of corporate structures and operations
- Corporate responsibility towards employees, creditors, suppliers and local communities where the corporation operates.

Corporate Governance Mechanisms:

- Ownership concentration
- Board of Directors
- Top management compensation
- Threat of takeover

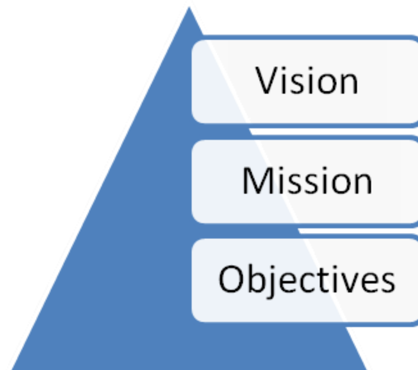
Internal Stakeholders – Market (or primary) stakeholders are those that engage in economic transactions with the business.

(For eg: Stockholders, customers, suppliers, ceditors, and employees)

External Stakeholders- non-market (or secondary) Stakeholders are those who=although they do not engage in direct economic exchange with the business- are affected by or can affect its actions(For example: the general public,communities.activist groups,business support groups and the media.)

In management the word "stakeholder" has become more commonly used to mean a person or organization that has a legitimate interest in a project or entity.

Vision, Mission and Purpose:



A Mission Statement is a declaration as to why an organization exists and defines the business the organization is currently in. Mission Statements concentrate on the present and are a reflection of an organization's core competencies – the basic skills or products provided.

A Vision Statement focuses on the future. It states what you want the organization to be. Vision Statements come from the heart as well as the head. A Vision Statement represents a realistic dream for an organization and forces it to take a stand for a preferred future.

Mission and Vision Statements are critical to the success of strategic planning. A Mission Statement identifies a starting point or current state of business, but a Vision Statement is necessary for an organization to determine the direction that should be pursued.

A strategic plan that is not constructed using a Mission Statement as its foundation and a Vision Statement as the way to set attainable goals for a foreseeable future usually send an organization into planning limbo.

In addition to their importance in strategic planning, effective Mission and Vision Statements have other visible benefits. These statements:

- ✓ Help with decision making
- ✓ Articulate a reason for being
- ✓ Create organizational unity
- ✓ Help link diverse organizational units
- ✓ Provide focus and direction
- ✓ Motivate organizational members toward a more desirable future

Once Mission and Vision Statements have been developed, they must be continually communicated, tested and lived by those within the organization.

This is key to ensuring that the vision stays alive and works. Mission and Vision Statements are essential for an organization's successful future but they do not come about without deliberate effort and commitment, by both employees and management.

The often time hesitation by an organization's leadership is understandable. By their very nature, Mission and Vision Statements will bring about change and change is typically accompanied by additional costs and risks. However, rather than fear it, management must embrace the concept. Some management tools fail to affect any change; but here is one that will do so if properly implemented. Therefore the focus should be on ensuring that an organization's mission(s) and vision(s) are properly aligned and used so that their benefits can be realized. Be a vision driven business or organization rather than the typical problem driven business.

The Business Vision and Company Mission Statement

While a business must continually adapt to its competitive environment, there are certain core ideals that remain relatively steady and provide guidance in the process of strategic decision-making. These unchanging ideals form the business vision and are expressed in the company mission statement
In their 1996 article entitled **Building Your Company's Vision**,James Collins and Jerry Porras provided a framework for understanding business vision and articulating it in a mission statement. The mission statement communicates the firm's core ideology and visionary goals, generally consisting of the following three components:

1. Core values to which the firm is committed
2. Core purpose of the firm
3. Visionary goals

the firm will pursue to fulfill its mission.
The firm's core values and purpose constitute its core ideology and remain relatively constant. They are independent of industry structure and the product life cycle. The core ideology is not created in a mission statement; rather, the mission statement is simply an expression of what already exists. The specific phrasing of the ideology may change with the times, but the underlying ideology remains constant.

The three components of the business vision can be portrayed as follows:

Core Values

The core values are a few values (no more than five or so) that are central to the firm. Core values reflect the deeply held values of the organization and are independent of the current industry environment and management fads. One way to determine whether a value is a core value to ask whether it would continue to be supported if circumstances changed and caused it to be seen as a liability. If the answer is that it would be kept, then it is core value. Another way to determine which values are core is to imagine the firm moving into a totally different industry. The values that would be carried with it into the new industry are the core values of the firm. Core values will not change even if the industry in which the company operates changes. If the industry changes such that the

core values are not appreciated, then the firm should seek new markets where its core values are viewed as an asset. For example, if innovation is a core value but then 10 years down the road innovation is no longer valued by the current customers, rather than change its values the firm should seek new markets where innovation is advantageous. The following are a few examples of values that some firms has chosen to be in their core:

• Excellent customer service
• pioneering technology
• Creativity
• Integrity
• Social responsibility

Core Purpose

The core purpose is the reason that the firm exists. This core purpose is expressed in a carefully formulated mission statement. Like the core values, the core purpose irrelatively unchanging and for many firms endures for decades or even centuries. This purpose sets the firm apart from other firms in its industry and sets the direction in which the firm will proceed. The core purpose is an idealistic reason for being. While firms exist to earn a profit, the profit motive should not be highlighted in the mission statement since it provides little direction to the firm's employees. What is more important is How the firm will earn its profit since the "how" is what defines the firm. Initial attempts at stating a core purpose often result in too specific of a statement that focuses on a product or service. To isolate the core purpose, it is useful to ask "why" in response to first-pass, product-oriented mission statements. For example, if a market research firm initially states that its purpose is to provide market research data to its customers, asking "why" leads to the fact that the data is to help customers better understand their markets. Continuing to ask "why" may lead to the revelation that the firm's core purpose is to assist its clients in reaching their objectives by helping them to better understand their markets. The core purpose and values of the firm are not selected - they are discovered. The stated ideology should not be a goal or aspiration but rather, it should portray the firm as it really is. Any attempt to state a value that is not already held by the firm’s employees is likely to not be taken seriously.

Visionary Goals

The visionary goals are the lofty objectives that the firm's management decides to pursue. This vision describes some milestone that the firm will reach in the future and may require a decade or more to achieve. In contrast to the core ideology that the firm discovers, visionary goals are selected. These visionary goals are longer term and more challenging than strategic or tactical goals.

Most visionary goals fall into one of the following categories:

• Target - Quantitative or qualitative goals such as a sales target or Ford's goalto "democratize the automobile."
• Common enemy - centered on overtaking a specific firm such as the 1950'sgoal of Philip-Morris to displace RJR.

• Role model - to become like another firm in a different industry or market. For example, a cycling accessories firm might strive to become "the Nike of the cycling industry."
• Internal transformation - especially appropriate for very large corporations. For example, GE set the goal of becoming number one or number two in every market it serves. While visionary goals may require significant stretching to achieve, many visionary companies have succeeded in reaching them. Once such a goal is reached, it needs to be replaced; otherwise, it is unlikely that the organization will continue to be successful. For example, Ford succeeded in placing the automobile within the reach of everyday people, but did not replace this goal with a better one and General Motors overtook Ford in the 1930's.

Relating corporate Governance to strategic management:

- Corporate Governance and strategic intent
- Corporate Governance and strategy formulation
- Corporate Governance and strategy implementation
- Corporate governance and strategy Evaluation

Corporate Governance:
Corporate Governance involves a set of relationships amongst the company's management its board of directors, shareholders and other stakeholders. These relationships which various rules and incentives provide the structure through which the objectives of the company are set and the means of attaining the objectives and monitoring performance are determined.

Social Responsibility of Business:

Meaning:

Social Responsibility of business refers to all such duties and obligations of business directed towards the welfare of society. The obligation of any business to protect and serve public interest is known as social responsibility of business.

Why should business be socially responsible?

- Public image
- Government Regulation
- Survival and growth
- Employee satisfaction
- Consumer Awareness

Social Responsibility towards different Interest groups:

1. Responsibility towards owners:

Owners are the persons who own the business. They contribute capital and bear the business.

- Run the business efficiently
- Proper utilization of capital and other resources.

- Regular and fair return on capital invested.

2. Responsibility towards Investors:

Investors are those who provide finance by way of investment in shares, bonds, etc. Banks, financial institutions and investing public are all included in this category.

- Ensuring safety of their investment
- Regular payment of interest.

3. Responsibility towards employees:

Business needs employees or workers to work for it. If the employees are satisfied and efficient, then the business can be successful.

- Timely and regular payment of wages and salaries.
- Opportunity for better career prospects.
- Proper working conditions
- Timely training and development
- Better living conditions like housing, transport, canteen and crèches.

4. Responsibility towards customers:

- No business can survive without the support of customers.
- Products and services must be able to take care of the needs of the customers.
- There must be regularity in supply of goods and services.
- Price of the goods and services should be reasonable and affordable
- There must be proper after sales-service

5. Responsibility towards competitors:

- Competitors are the other businessmen or organization involved in a similar type of business.
- Not to offer to customer's heavy/discounts and or free products in every sale.
- Not to defame competitors through false advertisements

6. Responsibility towards suppliers:

- Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders.
- Giving regular orders for purchase of goods
- Availing reasonable credit period
- Timely payment of dues.

7. Responsibility towards Government:

- Business activities are governed by the rules and regulations framed by the

government.

- o Payment of fees, duties and taxes regularly as well as honestly
- o Conforming to pollution control norms set up by government
- o Not to indulge in restrictive trade practices

8. Responsibility towards society:

A society consists of individuals, groups, organizations, families etc. They all are the members of the society.

- To help the weaker and backward sections of the society.
- To generate employment.
- To protect the environment
- To provide assistance in the field of research on education, medical science, technology etc.

UNIT – II

COMPETITIVE ADVANTAGE

External Environment - Porter's Five Forces Model-Strategic Groups Competitive Changes during Industry Evolution-Globalization and Industry Structure - National Context and Competitive advantage Resources- Capabilities and competencies–core competencies-Low cost and differentiation Generic Building Blocks of Competitive Advantage-Distinctive Competencies-Resources and Capabilities durability of competitive Advantage- Avoiding failures and sustaining competitive advantage-Case study.

Concept of Environment:

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions events and influences that surround and affect it.

Characteristics of Environment:

- ✓ Environment is Complex:
- ✓ Environment is Dynamic
- ✓ Environment is Multi-faceted
- ✓ Environment has a far- reaching impact

Macro Environmental Factors:

- Demographic Environment
- Technological Environment
- Socio-cultural Environment
- Economic Environment
- Political Environment
- Regulatory Environment
- International Environment
- Supplier Environment
- Task Environment

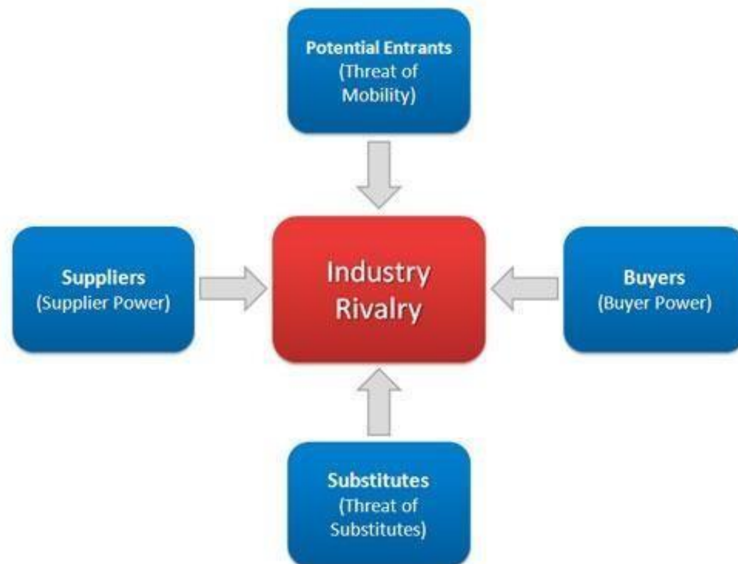
Environmental Scanning:

Environmental scanning plays a key role in strategy formulation by analyzing the strengths and weaknesses and opportunities and threats in the environment.

Environmental scanning is defined as monitoring, evaluating, and disseminating of information from external and internal environments to managers in organizations so that long term health of the organization will be ensured and strategic shocks can be avoided.

Porter's five forces model:

- Risk of entry by potential competitors
- Bargaining power of suppliers
- Bargaining power of buyers
- Intensity of Rivalry among established firms
- Threat of substitutes



THE FIVE FORCES

INDUSTRY COMPETITORS:

Rivalries naturally develop between companies competing in the same market. Competitors use means such as advertising, introducing new products, more attractive customer service and warranties, and price competition to enhance their standing and market share in a specific industry. To Porter, the intensity of this rivalry is the result of factors like equally balanced companies, slow growth within an industry, high fixed costs, lack of product differentiation, overcapacity and price-

cutting, diverse competitors, high-stakes investment, and the high risk of industry exit. There are also market entry barriers.

PRESSURE FROM SUBSTITUTE PRODUCTS:

Substitute products are the natural result of industry competition, but they place a limit on profitability within the industry. A substitute product involves the search for a product that can do the same function as the product the industry already produces. Porter uses the example of security brokers, who increasingly face substitutes in the form of real estate, money-market funds, and insurance. Substitute products take on added importance as their availability increases.

BARGAINING POWER OF SUPPLIERS:

Suppliers have a great deal of influence over an industry as they affect price increases and product quality. A supplier group exerts even more power over an industry if it is dominated by a few companies, there are no substitute products, the industry is not an important consumer for the suppliers, their product is essential to the industry, the supplier differs costs, and forward integration potential of the supplier group exists. Labor supply can also influence the position of the suppliers. These factors are generally out of the control of the industry or company but strategy can alter the power of suppliers.

BARGAINING POWER OF BUYERS:

The buyer's power is significant in that buyers can force prices down, demand higher quality products or services, and, in essence, play competitors against one another, all resulting in potential loss of industry profits. Buyers exercise more power when they are large-volume buyers, the product is a significant aspect of the buyer's costs or purchases, the products are standard within an industry, there are few changing or switching costs, the buyers earn low profits, potential for backward integration of the buyer group exists, the product is not essential to the buyer's product, and the buyer has full disclosure about supply, demand, prices, and costs. The bargaining position of buyers changes with time and a companies (and industry's) competitive strategy.

POTENTIAL ENTRANTS:

Threats of new entrants into an industry depend largely on barriers to entry. Porter identifies six major barriers to entry:

- Economies of scale, or decline in unit costs of the product, which force the entrant to enter on a large scale and risk a strong reaction from firms already in the industry, or accepting a disadvantage of costs if entering on a small scale.
- Product differentiation, or brand identification and customer loyalty.
- Capital requirements for entry; the investment of large capital, after all, presents a significant risk.
- Switching costs or the cost the buyer has to absorb to switch from one supplier to another.
- Access to distribution channels. New entrants have to establish their distribution in a market with established distribution channels to secure a space for their product.
- Cost disadvantages independent of scale, whereby established companies already have product technology, access to raw materials, favorable sites, advantages in the form of government subsidies, and experience.

New entrants can also expect a barrier in the form of government policy through federal and state regulations and licensing. New firms can expect retaliation from existing companies and also face changing barriers related to technology, strategic planning within the industry, and manpower and expertise problems. The entry deterring price or the existence of a prevailing price structure presents an additional challenge to a firm entering an established industry.

In summary, Porter's five-forces models concentrates on five structural industry features that comprise the competitive environment, and hence profitability, of an industry. Applying the model means, to be profitable, the firm has to find and establish itself in an industry so that the company can react to the forces of competition in a favorable manner. For Porter, Competitive Strategy is not a book for academics but a blueprint for practitioners-a tool for managers to analyze competition in an industry in order to anticipate and prepare for changes in the industry, new competitors and market shifts, and to enhance their firm's overall industry standing.

Throughout the relevant sections of Competitive Strategy, Porter uses numerous industry examples to illustrate his theory. Since those examples are now over twenty years old, changes in technology and other industrial shifts and trends have made them somewhat obsolete. Although immediate praise for the book and the five-force model was exhaustive, critiques of Porter have appeared in business literature. Porter's model does not, for example, consider nonmarket changes, such as events in the political arena that impact an industry. Furthermore, Porter's model has come under fire for what critics see as his under-evaluation of government regulation and antitrust violations

The threat of substitute products

The existence of close substitute products increases the propensity of customers to switch to alternatives in response to price increases (high elasticity of demand).

- buyer propensity to substitute
- relative price performance of substitutes
- buyer switching costs
- perceived level of product differentiation

The threat of the entry of new competitors

Profitable markets that yield high returns will draw firms. The results is many new entrants, which will effectively decrease profitability. Unless the entry of new firms can be blocked by incumbents, the profit rate will fall towards a competitive level (perfect competition).

- The existence of barriers to entry (patents, rights, etc.)
- economies of product differences
- brand equity
- switching costs or sunk costs
- capital requirements
- access to distribution
- absolute cost advantages
- learning curve advantages
- expected retaliation by incumbents
- government policies

The intensity of competitive rivalry

For most industries, this is the major determinant of the competitiveness of the industry. Sometimes rivals compete aggressively and sometimes rivals compete in non-price dimensions such as innovation, marketing, etc.

- number of competitors
- rate of industry growth
- intermittent industry overcapacity
- exit barriers
- diversity of competitors
- informational complexity and asymmetry
- fixed cost allocation per value added
- level of advertising expense

The bargaining power of customers

Also described as the market of outputs. The ability of customers to put the firm under pressure and it also affects the customer's sensitivity to price changes.

- buyer concentration to firm concentration ratio
- bargaining leverage
- buyer volume
- buyer switching costs relative to firm switching costs
- buyer information availability
- ability to backward integrate
- availability of existing substitute products
- buyer price sensitivity
- price of total purchase
- RFM Analysis

The bargaining power of suppliers

Also described as market of inputs. Suppliers of raw materials, components, and services (such as expertise) to the firm can be a source of power over the firm. Suppliers may refuse to work with the firm, or e.g. charge excessively high prices for unique resources.

- supplier switching costs relative to firm switching costs
- degree of differentiation of inputs
- presence of substitute inputs
- supplier concentration to firm concentration ratio
- threat of forward integration by suppliers relative to the threat of backward integration by firms
- cost of inputs relative to selling price of the product

This 5 forces analysis is just one part of the complete Porter strategic models. The other elements are the value chain and the generic strategies.

Strategic groups within Industries:

Meaning:

Companies in an industry often differ significantly from each other with respect to the way they strategically position their products in the market in terms of such factors as the distribution channels they use, the market segments they serve, the quality of their products, technological leadership, customer service, pricing policy, advertising policy, and promotions. As a result of these differences, within most industries it is possible to observe groups of companies in which each company follows a business model that is similar to that pursued by other companies in the group. These different groups of companies are known as strategic groups.

Proprietary group:

The companies in this proprietary strategic group are pursuing a high risk high return strategy. It is a

high risk strategy because basic drug research is difficult and expensive. The risks are high because the failure rate in new drug development is very high.

Generic group:

Low R&D spending, Production efficiency, as an emphasis on low prices characterizes the business models of companies in this strategic group. They are pursuing a low risk, low return strategy. It is low risk because they are investing millions of dollars in R&D. It is low return because they cannot charge high prices.

Competitive changes during Industry Evolution:

An industry can be defined as a group of companies offering products services that are close substitutes for each other that is product or services that satisfy the same basic customer needs.
A company's closest competitor its rivals are those that serve the same basic customer needs.

Industry and sector:

An important distinction that needs to be made is between an industry and a sector.
A sector is a group of closely related industries.

Industry and market segments:

Market segments are distinct groups of customers within a market that can be differentiated from each other on the basis of their distinct attributes and specific demands.

Industry life cycle Analysis:

The task facing managers is to anticipate how the strength of competitive forces will change as the industry environment evolves and to formulate strategies that take advantage of opportunities arise and that counter emerging threats.

Stages in Industry life cycle Analysis:

- Embryonic Stage
- Growth Stage
- Industry shakeout
- Maturity stage
- Declining stage

Globalization and Industry Structure:

In conventional economic system, national markets are separate entities separated by trade barriers and barriers of distance, time and culture. With globalization, markets are moving towards a huge global market place. The tastes and preferences of customers of different countries are converging on common global norm.
Products like coco-cola, Pepsi, Sony walkman and McDonald hamburgers are globally accepted.

The intense rivalry forces all firms to maximize their efficiency, quality, innovative power and customer satisfaction.
With hyper competition, the rate of innovation has increased significantly.

Companies try to outperform their competitors by pioneering new products, processes and new ways of doing business.
Previously protected national markets face the threat of new entrants and intense rivalry. After regulation of Indian economy the industrial sector has witnesses enormous changes. The banking sector reforms also contributed to changes in the economic conditions of India.
Merger, acquisition and joint venture with MNCs take place in large number. Ultimately intense competition is felt in the industrial scene. A vibrant stock market has emerged.

National Context and Competitive advantage:
In spite of globalization of markets and production successful companies in certain industries are found in specific countries

- Japan has most successful consumer electronics companies in the world
- Germany has many successful chemical and engineering companies in the world
- United states has many of the world's successful companies in computer and biotechnology
- It shows that national context has an important bearing on the competitive position of the Companies in the global market

Economists consider the cost and quality of factors of production as the major reason for the competitive advantage of some countries with respect to certain industries.
Factors of production include basic factors such as labor, capital, raw material, land and advanced factors such as technological know-how, managerial talent and physical Infrastructure
The competitive advantages U.S enjoys in bio-technology due to technological know-how, low venture capital to fund risky start-ups in industries.
According to Michael porter the nation s competitive position in an industry depends on factor conditions, Industry rivalry, demand conditions, and related and supporting industries

The determinants of national competitive advantage:

- Intensity of Rivalry
- Factor conditions
- Local Demand conditions
- Competitiveness of related and supporting industries

Strategic Types:
They have classified the strategic types into:

- **Defenders:**

The defender strategic type companies have a limited product line and they focus on efficiency of existing operations.

- **Prospectors:**

These firms with broad product items focus on product innovation and market opportunities. They are pre-occupied with creativity at the expense of efficiency.

- **Analyzers:**

Analyzers are firms which operate in both stable and variable markets. In stable markets the companies emphasize efficiency and in variable markets they emphasize innovation, creativity and differentiation.

- **Reactors:**

The firms, which do not have a consistent strategy to pursue, are called reactors. There is an absence of well-integrated strategy structure culture relationship. Their strategic moves are not integrated but piecemeal approach to environmental change makes them ineffective.

Internal Analysis: Distinctive Competencies, Competitive advantage, and Profitability:

Internal Analysis is a three step process:

Manager must understand process by which companies create value for customers and profit for themselves and they need to understand the role of resources, capabilities and distinctive competencies in this process

They need to understand how important superior efficiency, innovation, quality and responsiveness to customers are in creating value and generating high profitability.

They must be able to identify how the strengths of the enterprise boost its profitability and how any weaknesses lead to lower profitability

Competencies, Resources and Competitive advantage:

Meaning of Competitive advantage:

A company has a competitive advantage over its rivals when its profitability is greater than the average profitability of all companies in its industry. It has a sustained competitive advantage when it is able to maintain above average profitability over a number of years.

Distinctive Competencies:

Distinctive competencies are firm specific strengths that allow a company to differentiate its product and achieve substantially lower costs than its rivals and thus gain a competitive advantage.

Resources:

Resources are financial, physical, social or human, technological and organizational factors that allow a company to create value for its customers.

Capabilities:

Capabilities refer to a company's skills at co-coordinating its resources and putting them to productive use

A critical distinction between Resources and capabilities:

The distinction between resources and capabilities is critical to understanding what generates a distinctive competency.
A company may have valuable resources, but unless it has the capability to use those resources effectively, it may not be able to create a distinctive competency.
For Example:
The steel mini-mill operator Nucor is widely acknowledged to be the most cost efficient steel maker in the United States. Its distinctive competency in low cost steel making does not come from any firm specific and valuable resources. Nucor has the same resources as many other mini-mill operators. What distinguishes Nucor is its unique capability to manage its resources in a highly productive way.

Strategy, Resources, Capabilities and competencies:

The relationship of a company's strategies distinctive competencies and competitive advantage. Distinctive competencies shape the strategies that the company pursues which lead to competitive advantage and superior profitability. However, it is also very important to realize that the strategies a company adopts can build new resources and capabilities or strengthen the existing resources and capabilities thereby enhancing the distinctive competencies of the enterprise. Thus the relationship between distinctive competencies and strategies is not a linear one, rather it is a reciprocal one in which distinctive competencies shape strategies and strategies help to build and create distinctive competencies.

Competitive advantage of a company becomes depends on three factors:

- The value customers place on the company's products
- The price that a company charges for its products
- The costs of creating those products.

Resources and Capabilities

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear.

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources:

- Patents and trademarks
- Proprietary know-how
- Installed customer base
- Reputation of the firm
- Brand equity

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors.

Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate. The firm's resources and capabilities together form its distinctive competencies.

These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

Cost Advantage and Differentiation Advantage

Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low cost or differentiation. This decision is a central component of the firm's competitive strategy. Another important decision is how broad or narrow a market segment to target. Porter formed a matrix using cost advantage, differentiation advantage, and a broader narrow focus to identify a set of generic strategies that the firm can pursue to create and sustain a competitive advantage.

Value Creation:

The firm creates value by performing a series of activities that Porter identified as the value chain. In addition to the firm's own value-creating activities, the firm operates in a value system of vertical activities including those of upstream suppliers and downstream channel members. To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation).

Core Competencies:

In their 1990 article entitled, The Core Competence of the Corporation, C.K.Prahalad and Gary Hamel coined the term core competencies, or the collective learning and coordination skills behind the firm's product lines. They made the case that core competencies are the source of competitive advantage and enable the firm to introduce an array of new products and services.

According to Prahalad and Hamel, core competencies lead to the development of core products. Core products are not directly sold to end users; rather, they are used to build a larger number of end-user products. For example, motors are a core product that can be used in wide array of end products. The business units of the corporation each tap into the relatively few core products to develop a larger number of end user products based on the core product technology.

The intersection of market opportunities with core competencies forms the basis for launching new businesses. By combining a set of core competencies in different ways and matching them to market opportunities, a corporation can launch a vast array of businesses. Without core competencies, a large corporation is just a collection of discrete businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio.

Developing Core Competencies

According to Prahalad and Hamel, core competencies arise from the integration of multiple technologies and the coordination of diverse production skills. Some examples include Philip's expertise in optical media and Sony's ability to miniaturize electronics.

There are three tests useful for identifying a core competence. A core competence should:

1. Provide access to a wide variety of markets, and

2. Contribute significantly to the end-product benefits, and3. be difficult for competitors to imitate.

Core competencies tend to be rooted in the ability to integrate and coordinate various groups in the organization. While a company may be able to hire a team of brilliant scientists in a particular technology, in doing so it does not automatically gain a core competence in that technology. It is the effective coordination among all the groups involved in bringing a product to market those results in a core competence. It is not necessarily an expensive undertaking to develop core competencies. The missing pieces of a core competency often can be acquired at a low cost through alliances and licensing agreements. In many cases an organizational design that facilitates sharing of

competencies can result in much more effective utilization of those competencies for little or no additional cost.

The Loss of Core Competencies

Cost-cutting moves sometimes destroy the ability to build core competencies. For example, decentralization makes it more difficult to build core competencies because autonomous groups rely on outsourcing of critical tasks, and this outsourcing prevents the firm from developing core competencies in those tasks since it no longer consolidates the know-how that is spread throughout the company. Failure to recognize core competencies may lead to decisions that result in their loss.

For example, in the 1970's many U.S. manufacturers divested themselves of their television manufacturing businesses, reasoning that the industry was mature and that high quality, low cost models were available from Far East manufacturers.

In the process, they lost their core competence in video, and this loss resulted in a handicap in the newer digital television industry.

Similarly, Motorola divested itself of its semiconductor DRAM business at 256Kblevel, and then was unable to enter the 1Mb market on its own. By recognizing its core competencies and understanding the time required building them or regaining them, a company can make better divestment decisions.

Core Products

Core competencies manifest themselves in core products that serve as a link between the competencies and end products. Core products enable value creation in the end products. Examples of firms and some of their core products include:

- 3M - substrates, coatings, and adhesives
- Black & Decker - small electric motors
- Canon - laser printer subsystems
- Matsushita - VCR subsystems, compressors
- NEC - semiconductors
- Honda - gasoline powered engines

The core products are used to launch a variety of end products.

For example, Honda uses its engines in automobiles, motorcycles, lawn mowers, and portable generators. Because firms may sell their core products to other firms that use them as the basis for end user products, traditional measures of brand market share are insufficient for evaluating the success of core competencies. Prahalad and Hamel suggest that

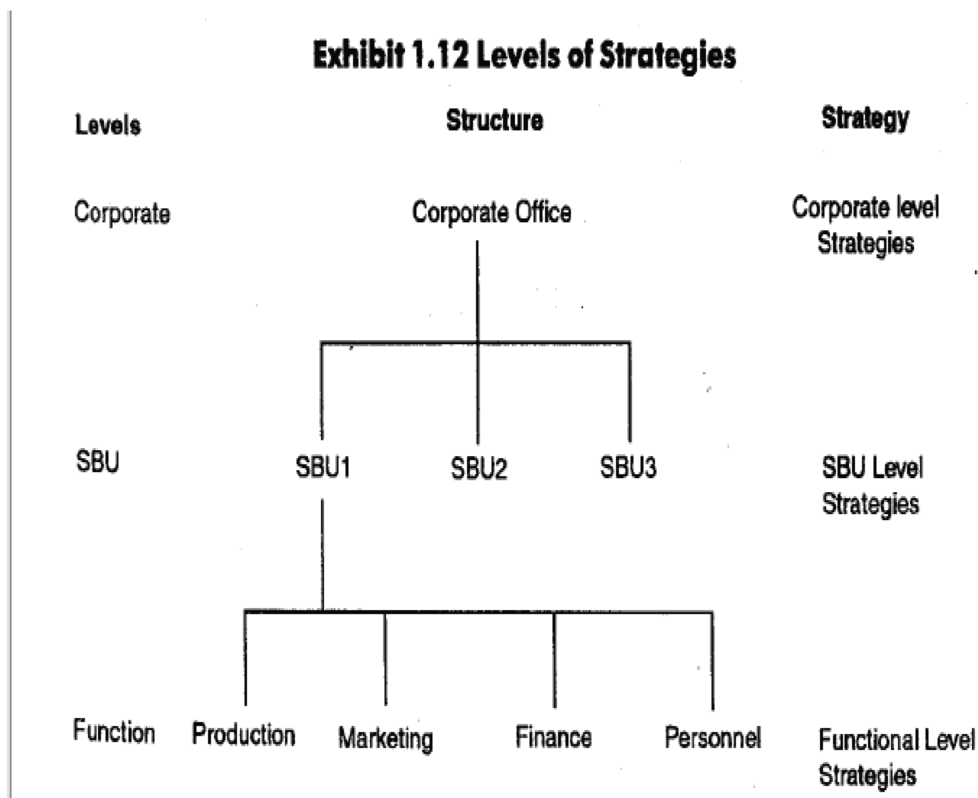
Core product share

It is the appropriate metric. While a company may have a low brand share, it may have high core product share and it is this share that is important from a core competency stand point. Once a firm has successful core products, it can expand the number of uses in order to gain a cost advantage via economies of scale and economies of scope.

LONG RANGE PLANNING AND STRATEGIC PLANNING

Difference Between Long-Range Planning and Strategic Planning

	Long-Range Planning	Strategic Planning
Focus	Present	Growth
Objective	Annual Profits	Future Profits and share
Constraints	Present Resources Environment	Future Resources Environment
Rewards	Efficiency, Stability	Development of Future Potential
Risks	No growth	Slow Process, Requires Effort
Information	Present Business	Present Business, Future Opportunities, threats etc.
Organization	Bureaucratic/Stable	Entrepreneurial/Flexible
Leadership	Conservative	Creative
Problem Solving	Reacts, Relies on Past Experience	Anticipates, Discovers Creative Approaches
	Low Risk	High Risk



Strategic Management Concepts:

Although the term "strategic management" is bantered around a lot in the businesses world, it is not understood very well by most people.

Essentially strategic management answers the questions of "where do you want your business to go"(goals), "how is your business going to get there" (strategy) and "how will you know when you get there" (evaluation).

A strategic management analogy is taking a trip during your vacation. First you decide where you want to go – the natural beauty of Yellowstone or the bright lights of Las Vegas. Then you develop a strategy of how to get there – take an airplane (which flights), drive your car (which highways), etc

This will be influenced by the amount of money, time and other resources you have available. Then you monitor your trip to see if your strategy takes you to your destination and how your strategy worked (missed Flights, poor road conditions, etc.). Below are concepts to help expand your understand of strategic management for a business.

These will help sharpen your focus for using Strategic Management for a Value-added Farm Business.

1) Strategic management involves deciding what is important for the long-range success of your business and focusing on it.

2) Strategic management asks, “How should I position my business to meet management and business goals?”

Table 5.1. Five Facets of Strategic Management

Goal-Setting	Goal-setting enables you to articulate your vision: identify what needs to be accomplished, define short- and long-term objectives, and relate them to what your organization needs to do. A "mission statement" summarizes your purpose and goals in terms easily understood by both staff and external stakeholders.
Analysis	Analysis guides you to collect and consider information so that you fully understand your situation. Assess external environments and internal situations to identify the strengths and weaknesses of your organization and the opportunities and threats you face as you seek to reach your goals.
Strategy Formation	To determine a strategy, you reflect, prioritize, develop options, and make decisions. Review the results of the analyses, identify the issues that you and your implementing partners need to address, and prioritize them in terms of their urgency and magnitude. Use these results to design alternative strategies and plans that address the key strategic issues.
Strategy Implementation	To implement your strategy, assemble the necessary resources and apply them. Put the chosen plans into practice, marshal the resources and commitments necessary for moving ahead, tap existing capacity and/or build new capacity, and seek to achieve results.
Strategy Monitoring	Monitoring allows you to check your progress toward achieving your goals and assess whether any changes in the environment necessitate alterations to your strategy. Modify plans and actions to adjust to the impact of changes in the operating environment. Effective monitoring allows you to react and anticipate. Monitoring also feeds back into analysis, strategy design, and implementation in the immediate term and into goal-setting over the longer term.

Competitive Advantage:

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage.
Michael Porter identified two basic types of competitive advantage:

- Cost advantage
- Differentiation advantage

A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation

Generic Building Blocks of Competitive advantage:

- Superior Quality
- Superior Efficiency
- Superior Customer responsiveness
- Superior Innovation
- Competitive advantage
- Low cost
- Differentiation

1. Superior Efficiency:

A business is simply a device for transforming inputs into outputs. Inputs are basic factors of production such as labor, land, capital, management, and technological know-how. Outputs are the goods and services that the business produces.

The simplest measure of efficiency is the quantity of inputs that it takes to produce a given output. That is efficiency outputs/Inputs.

Two important components of efficiency:

- Employee productivity
- Capital productivity.

2. Superior quality:

A product can be thought of as a bundle of attributes. The attributes of many physical products include their form, features, performance, durability, reliability, style and design.

3. Superior Innovation:

Innovation refers to the act of creating new products or processes. Product innovation is the development of products that are new to the world or have superior attributes to existing products. Process innovation is the development of a new process for producing products and delivering them to customers.

Superior customer Responsiveness:

To achieve superior responsiveness to customers a company must be able to do a better job than competitors of identifying and satisfying its customer needs. Customers will then attribute more utility to its products and creating a differentiation based on competitive advantage.

Core competencies:

Core competence is a fundamental enduring strength which is a key to competitive advantage. Core competence may be a competency in technology, process, engineering capability or expertise which is difficult for competitors to imitate. One core competence gives rise to several products. Honda’s core competence in designing and manufacturing engines had led to several products and business such as cars, motorcycles, lawnmowers, generators etc.

The durability of competitive advantage:

- Barriers to Imitation

- Capability of competitors
- General dynamism of the Industry environment

Avoiding failures and sustaining competitive advantage

When a company loses its competitive advantage, its profitability falls.

The company does not necessarily fail; it may just have average or below average profitability and can remain in this mode for considerable time although its resource and capital base is shrinking.

A failing company is one whose profitability is new substantially lower than the average profitability of its competitors, it has lost the ability to attract and generate resources so that its profit margins and invested capital is shrinking rapidly.

Reasons for failure:

- Inertia
- Prior strategic commitments
- The Icarus Paradox

Steps to Avoid failure:

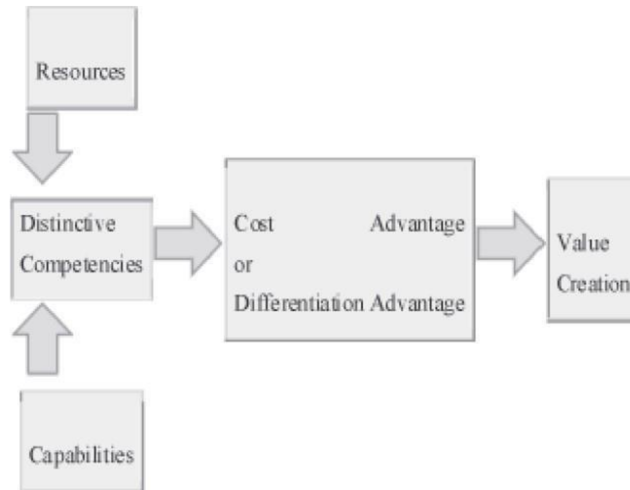
- Focus on the building blocks of competitive advantage
- Institute continuous improvement and learning
- Track Best Industrial Practice and Benchmarking
- Overcome Inertia

Evaluation of key resources :(VRIO)

Barney has evolved VRIO framework of analysis to evaluate the firm's key resources.
The following questions are asked to assess the nature of resources.

- Value- Does it provides competitive advantage?
- Rareness- Do other competitors possess it?
- Imitability- Is it costly for others to imitate?

A Model of Competitive Advantage:



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The firm's resources and capabilities together form its **distinctive competencies**.
These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

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Another important decision is how broad or narrow a market segment to target.
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To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation).

In ***Competitive Advantage***, Michael Porter analyzes the basis of competitive advantage and presents the value chain as a framework for diagnosing and enhancing it.

This landmark work covers:
The 10 major drivers of the firm's cost position

- Differentiation with the buyer's value chain in mind
- Buyer perception of value and signals of value
- How to defend against substitute products
- The role of technology in competitive advantage
- Competitive scope and its impact on competitive advantage
- Implications for offensive and defensive competitive strategy

1. What is Evaluation and control?

Evaluation and control is the process by which corporate activities and performance results are monitored so that actual performances can be companied with desired performance. Manager at all levels use resulting information to take corrective action and resolve problems.

2. What is a defender?
Defenders are Romanics with a limited product line. That fours on improving the officered of their existing operations they won't try to innovate in new areas.

3. What are prospectors?
Prospectors are companies with fairly broad product line that four on product innovation and market opportunities. This sales orientation makes them somewhat inefficient. They tend to emphasis inactivity over efficiency.

4. What are analyzers?
Analyzers are companies that operate in at least different product market areas, one stable and one variable. In the stable area efficiency is emphasized. In the variable area innovation is emphasized.

5. What are reactors?
Reactors are companies that lack a consistent strategy-structure-culture relationship. Their responses to environment presume fend to be piece-meal strategic changes.

6. How do resources determine competitive advantage?

1. Identify and classify the firm's resources in terms of strengths and weaknesses.
2. Combine the firm's strengths into specific capabilities-these are core competitive
3. Appraise the profit potential of there resources and competencies in terms of their potential for sustainable. Competitive advantaged the ability to harvest the profits resulting from the use of these resources and capabilities.
4. Select the strategy that best exploits the firms resources and competencies relative to external opportunities.
5. Identify resource gaps and invest in upgrade weaknesses

Unit-III
Strategies
Generic Strategic Alternatives

The generic strategic alternatives – Stability, Expansion, Retrenchment and Combination strategies - Business level strategy- Strategy in the Global Environment-Corporate Strategy-Vertical Integration-Diversification and Strategic Alliances- Building and Restructuring the corporation- Strategic analysis and choice - Environmental Threat and Opportunity Profile (ETOP) - Organizational Capability Profile - Strategic Advantage Profile - Corporate Portfolio Analysis - SWOT Analysis - GAP Analysis - Mc Kinsey's 7s Framework - GE 9 Cell Model - Distinctive competitiveness - Selection of matrix - Balance Score Card-case study.

Meaning of Corporate Strategy:

Corporate strategy helps to exercise the choice of direction that an organization adopts. There could be a small business firm involved in a single business or a large, complex and diversified conglomerate with several different businesses. The corporate strategy in both these cases would be about the basic direction of the firm as a whole.

According to Gluek, there are four strategic alternatives:

- Expansion strategies
- Stability strategies
- Retrenchment Strategies
- Combination strategies

1. Expansion strategies:

   The corporate strategy of expansion is followed when an organization aims at high growth by substantially broadening the scope of one or more of its businesses in terms of their respective customer groups, customer functions and alternative technologies singly or jointly in order to improve its overall performance.

2. Stability strategies:

   The corporate strategy of stability is adopted by an organization when it attempts an incremental improvement of its performance by marginally changing one or more of its businesses in terms of their respective customer groups, customer functions and alternative technologies respectively.

3. Retrenchment strategies:

   The corporate strategy of retrenchment is followed when an organization aims at

contraction of its activities through a substantial reduction or elimination of the scope of one or more of its businesses in terms of their respective customer groups customer functions or alternative technologies either singly or jointly in order to improve its overall performance.

4. Combination strategies:

   The combination strategy is followed when an organization adopts a mixture of stability, expansion and retrenchment strategies either at the same time in its different businesses or at different times in one of its businesses with the aim of improving its performance

5. Growth strategy:

   Growth strategy is a corporate level strategy, designed to achieve increase in sales, assets and profits.

   Growth strategies may be classified as follows:

   - Vertical growth
   - Horizontal growth

   Vertical growth occurs when one function previously carried over by a supplier or a distributor is being taken over by the company in order to reduce costs, to maintain quality of input and to gain control over scarce resources. Vertical growth results in vertical integration

1. Horizontal integration:

   A firm is said to follow horizontal integration if it acquires another firm that produces the same type of products the same type products with similar production process/marketing practices.

2. Vertical integration:

   Vertical integration means the degree to which a firm operates vertically in multiple locations on an industry's value chain from extracting raw materials to manufacturing and retailing. Vertical integration occurs when a company produces its own inputs or disposes of its own outputs.

3. Backward Integration:

   Backward integration refers to performing a function previously provided by a supplier.

4. Forward integration:

   Forward integration means performing a function previously provided by a retailer.

Diversification:

Diversification is considered to be a complex one because it involves a simultaneous departure from current business, familiar products and familiar markets. Firms choose diversification when the growth objectives are very high and it could not be achieved within the existing product/market scope.

Types of diversification:

•**Related diversification:**

In related diversification the firm enters into a new business activity, which is linked in a company's existing business activity by commonality between one or more components of each activity's value chain.

•**Unrelated diversification**:

In unrelated diversification, the firm enters into new business area that has no obvious connection with any of the existing business. It is suitable, if the company's core functional skills are highly specialized and have few applications outside the company's core business.

•**Concentric diversification:**

Concentric diversification is similar to related diversification as there are benefits of synergy when the new business is related to existing business through process, technology and marketing.

CORPORATE-LEVEL STRATEGY:

Corporate-level strategies address the entire strategic scope of the enterprise.

This is the "big picture" view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate.

For multi-business firms, the resource allocation process—how cash, staffing, equipment and other resources are distributed—is typically established at the corporate level.

In addition, because market definition is the domain of corporate-level strategists, the responsibility for diversification, or the addition of new products or services to the existing product/service line-up, also falls within the realm of corporate-level strategy.

Similarly, whether to compete directly with other firms or to selectively establish cooperative relationships—strategic alliances— falls within the purview corporate-level strategy, while requiring ongoing input from.

Strategic Alliance:

Meaning:

A strategic alliance is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations.

Types of Strategic Alliances:

- Joint Venture
- Equity Strategic Alliance
- Non-equity Strategic Alliance

- Global Strategic Alliance
- Stages of Alliance operation:
- Strategy Development
- Partner Assessment

Contract Negotiation:

- Alliance Operation
- Alliance Termination
-

Advantages of Strategic alliance:

- Allowing each partner to concentrate on activities that best match their capabilities
- Learning from partners developing competences that may be more widely exploited elsewhere.
- Adequacy a suitability of the resources competencies of an organization for it to survive

Disadvantages of strategic Alliance:

- Alliances are costly
- Alliances can create indirect costs by blocking the possibility of cooperating with competing companies, thus possibly even denying the company various financing options.
- Joint ventures also expose the company to its partners and the unique technologies that it has are sometimes revealed to its partner company.

McKinsey's 7S Model:

This was created by the consulting company McKinsey and company in the early 1980s. Since then it has been widely used by practitioners and academics alike in analyzing hundreds of organizations.

The Paper explains each of the seven components of the model and the links between them.

It also includes practical guidance and advice for the students to analyze organizations using this model. At the end, some sources for further information on the model and case studies available.

The McKinsey 7S model was named after a consulting company, McKinsey and company, which has conducted applied research in business and industry. All of the authors worked as consultants at McKinsey and company, in the 1980s, they used the model to analyze over 70 large organizations. The McKinsey 7S Framework was created as a recognizable and easily remembered model in business. The seven variables, which the authors terms "levers", all begin with the letter "S".

Description of 7S:

Strategy: Strategy is the plan of action an organization prepares in response to, or anticipation of changes in its external environment.
Structure: Business needs to be organized in a specific form of shape that is generally referred to as organizational structure. Organizations are structured in a variety of ways, dependent on their objectives and culture.
Systems: Every organization has some systems or internal processes to support and implement the strategy and run day-to-day affairs. For example, a company may follow a particular process for recruitment.
Style/culture: All organizations have their own distinct culture and management style. It includes the dominant values, beliefs and norms which develop over time and become relatively enduring features of the organizational life.
Staff: Organizations are made up of humans and it the people who make the real difference to the success of the organization in the increasingly knowledge-based society. The importance of human resources has thus got the central position in the strategy of the organization, away from the traditional model of capital and land.
Shared Values/super ordinate Goals: All members of the organization share some common fundamental ideas or guiding concepts around which the business is built. This may be to make money or to achieve excellence in a particular field.
The seven components described above are normally categorized as soft and hard components:

- Hard components
- Soft components

Hard components are:

- Strategy
- Structure
- Systems

Soft components are:

- Shared values
- Style
- Staff
- Skills

Distinctive Competitiveness:

Meaning:

Distinctive Competence is a set of unique capabilities that certain firms possess allowing them to make inroads into desired markets and to gain advantage over the competition; generally, it is an activity that a firm performs better than its competition. To define a firm's distinctive competence, management must complete an assessment of both internal and external corporate environments.

When management finds an internal strength and both meets market needs and gives the firm a comparative advantage in the market place, that strength is the firm distinctive competence.
Defining and Building Distinctive Competence:

To define a company's distinctive competence, managers often follow a particular process.

1. They identify the strengths and weaknesses in the given marketplace.
2. They analyze specific market needs and look for comparative advantages that they have over the competition.

Balanced Scorecard:

The balanced scorecard is a strategic performance management tool- a semi- standard structured report supported by proven design methods and automation tools that can be used by managers to keep track of the execution of activities by staff within their control and monitor the consequences arising from these actions.
The balance score card is a self of measures are directly half are directly linked the company's strategy allows managers to evaluate the company from four perspectives financial performance anisomery knowledge internal business processes learning growth.

The financial box represents the financial perspective and answers the question "To succeed financially, hoe should we appear to our shareholders. The internal business process box represents the internal business process perspective and address the question to satisfy our growth perspective answers, what business process must we excel at? The learning and growth perspective answers the question. To achieve our vision how will we sustain our ability to change and improve.

Four Perspectives:

1. Financial: Encourages the identification of a few relevant high-level financial measures.
2. Customer: Encourages the identification of measures that answer the question "How do customers see us?"
3. Internal Business Process: encourages the identification of measures that answer the question "What must we excel at?"
4. Learning and Growth: encourages the identification of measures that answer the question "Can we continue to improve and create value?"

Business level strategy:

This chapter examines how a company selects and pursues a business model that will allow it to Complete effectively in an industry and grows its profits and profitability. A successful business model results from business level strategies that create a competitive advantage over rivals and achieve superior performance in an industry.
In this chapter we examine that competitive decisions involved in creating a business model that will attract and retain customers and continue to do so over time so that a company enjoys growing profits and profitability.

To create a successful business model, strategic managers must:

1. Formulate business- level strategies that will allow a company to attract customers away from other companies in the industry.
2. Implement those business level strategies which also involve the use of functional level strategies to increase responsiveness to customers, efficiency, innovation and quality.

Competitive positioning and the Business model:

1. To create a successful business model, managers must choose a set of business-level strategies that work together to give a company competitive advantage over its rivals
2. To craft a successful model a company must first define its business, which entails decisions about
   a. Customer needs or what is to be satisfied
   b. Customer groups or what is to be satisfied
   c. Distinctive competencies or how customer needs are to be satisfied.

The decision managers make about these three issues determine which set of strategies they formulate and implement to put a company's business model into action and create value for customers.

Formulating the Business model: Customer needs and product Differentiation:

1. Customer needs: are desires, wants that can be satisfies by means of the attributes or characteristics of a product a good or service.

For Example: A persons craving for something sweet can be satisfied by chocolates, ice-cream, spoonful of sugar.

Factors determine which products a customer chooses to satisfy these needs:

The way a product is differentiated from other products of its type so that it appeals to customers

- The price of the product
- All companies must differentiate their products to a certain degree to attract customer
- Some companies however decide to offer customers low prices products and do not engage in much product differentiation

Companies that seek to create something unique about their product differentiation, their products to a much greater degree that others so that they satisfy customers needs in ways other products cannot.

Product differentiation: It is the process of designing products to satisfy customer's needs.

A company obtains a competitive advantage when it creates makes and sells a product in a way that better satisfies customer needs than its rivals do. If managers devise strategies to differentiate a

product by innovation, excellent quality, or responsiveness to customers they are creating a business model based on offering customers differentiated products.

2. **Customer groups:** The second main choice involved in formulating a successful business model is to decide which kind of products to offer to which customer groups. Customer groups are the sets of people who share a similar need for a particular product. Because a particular product usually satisfies several different kinds of desires and needs, many different customer groups normally exist in a market. In the car market, for example some customers want basic transportation and others want the thrill of driving a sports car. Some want for luxury purpose.

3. Identifying customer groups and market segments: In the athletic shoe market the two main customer groups are those people who use them for sporting purposes those who like to wear them because they are casual and comfort. Within each customer group there are often subgroups composed of people who have an even more specific need for a product. Inside the group of people who buy athletic shoes for sporting purposes, for example are subgroups of people who buy shoes suited to a specific kind of activity, such as running, aerobics, walking and tennis.

A company searching for a successful business model has to group customers according to the similarities or differences in their needs to discover what kinds of products to develop for different kinds of customers. Once a group of customers who share similar or specific need for a product has been identified, this group is treated as a market segment.

Three Approaches to Market Segmentation:

No Market segmentation: First a company might choose not to recognize that different market segments exist and make a product targeted at the average or typical customer. In this case customer responsiveness is at a minimum and the focus is on price, not differentiation.

High Market segmentation: Second a company can choose to recognize the differences between customer groups and make a product targeted toward most or all of the different market segments. In this case customer responsiveness is high and products are being customized to meet the specific needs of customers in each group so the emphasis is on differentiation not price.

Focused Market segmentation:

Third a company might choose to target just one or two market segments and decide its resources to developing products for customers in just these segments. In this case, it may be highly responsive to the needs of customers in only these segments, or it may offer a bare-bones product to undercut the prices charged by companies who do focus on differentiation.

Generic Business- level strategies:

Cost leadership: A company’s business model in pursuing a cost-leadership strategy is based on doing everything it can to lower its cost structure so it can make and sell goods or services at a lower

cost than its competitors. In essence a company seeks to achieve competitive advantage and above average profitability by developing a cost leadership business model that positions it on the value creation frontier as close as possible to the lower costs/lower prices axis.

Focused Cost leadership: A cost leader is not always a large national company that targets the average customer. Sometimes a company can target one or a few market segments and successfully pursue cost leadership by developing the right strategies to serve those segments.

Differentiation: A differentiation business model is based on pursuing a set of generic strategies that allows a company to achieve a competitive advantage by creating a product that customers perceive as different or distinct in some important way.

Focused Differentiation: In the case of the focused cost leader, a company that pursues a business model based on focused differentiation chooses to specialize in serving the needs of one or two market segments of niches. One it has chosen its market segment. A focused company position itself using differentiation

Gap Analysis:

Gap analysis is generic tools to compare the difference between two similar quantities. For example Gap Analysis may be used compare a company's actual performance against a standard set for the purpose. Gap Analysis is a tool that is often used compares actual performance with potential performance which a strategist aspires to attain. Gap analysis may also be used to identify the gap between the optimized allocation and integration of the resources and the current level of allocation. Gap analysis flows from bench marking company's current level of performance against industry performance.
Gap analysis is performed at three levels:

- Business processes
- Business direction
- Organization (Human Resources)

An example of gap analysis is the estimation Marketing Gap which defined as the difference between market potential and existing usage. The market potential is the number of consumers available for the product. This data is available from the statistics collected and published by government agencies. One can obtain the estimate of existing usage by gathering and cumulating market share of all competing companies in the industry. This data may be obtained from third party survey companies like Ac Nielsen.
From the above two quantities the market gap can be calculated as
Market Gap = Market potential – Existing usage

Meaning: In gap Analysis, the strategist examines what the organization wants to achieve (desired

performance) and what it has really achieved (actual performance). The gap between what is desired and what is achieved widens as the time passes no strategy adopted.

Corporate portfolio Analysis

Meaning:

Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business in a firms portfolio. It is primarily used for competitive analysis and strategic planning in multi- product and multi-business firms. They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests. The main advantages in adopting a portfolio approach in a multi-product multi-business firm is that resources could be targeted at the corporate level to those businesses that possess the greatest potential for creating competitive advantage.

Environment Threat and Opportunity Profile (ETOP):

Meaning of Environmental Scanning:

Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

Appraising the Environment:

In order to draw a clear picture of what opportunities and threats are faced by the organization at a given time. It is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal identifying the environmental factors and structuring the results of this environmental appraisal.

Structuring Environmental Appraisal:

The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie.
There are many techniques to structure the environmental appraisal.
The preparation of an ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization.

Environment threat and opportunity profile (ETOP) for a bicycle company:

S.NO	Environmental sectors	Nature of Impact	Impact of each sector
1	Economic	Up Arrow	Growing affluence among urban consumers rising disposable incomes and living standards Organized
2	Market	Horizontal Arrow	Sector a virtual oligopoly with four major

			manufacturers, buyers critical and better informed overall industry growth rate not encouraging unsaturated demand traditional distribution systems
3	International	Down Arrow	Global Imports growing but India's share Shrinking major importers are the US and EU but India exports mainly to Africa

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favorable impact on the organization. By the means of an ETOP, the organization knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organization in formulating appropriate strategies to take advantage of the opportunities and counter
the threats in its environment.

Meaning of organizational Appraisal:

The purpose of organizational appraisal is to determine the organizational capability in terms of strengths and weaknesses that lie in different functional areas. This is necessary since the strengths and weaknesses have to be matched with the environmental opportunities and threats for strategy formulation to take place.

Strategic Advantage Profile (SAP):

A SAP can also be prepared directly when students analyses cases during classroom learning, without making a detailed OCP. An SAP provides a picture of the more critical areas which can have a relationship with the strategic picture of the firm in the future.

Organizational Capability Profile (OCP)

Meaning:

The organizational capability profile is drawn in the form of a chart. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from values of -5 to +5

Strategy in Global Environment:

Introduction:

In international business operations business enterprises pursue global expansion to support generic business level strategies such as cost leadership and differentiation. Companies expand their operations globally in order to increase their profitability. They perform the following activities

towards this end.

- Transferring their distinctive competencies
- Dispersing various value creation activities to favorable locations
- Exploiting experience curve effects.

Global Strategies:

International Strategy
Multi-domestic strategy
Global Strategy
Transnational Strategy

Entry Mode:

Global companies have five options to enter into a foreign market

- Exporting
- Licensing
- Franchising
- Subsidiary
- Joint venture
- Wholly owned subsidiaries

Global Strategic Alliance:

A strategic alliance is a cooperative agreement between companies who are competitors from different companies. It may take the form of formal joint venture or short-term contractual agreement with equity participation or issue-based participation.

- To gain access to foreign market
- To reduce financial risk
- To bring complementary skills
- To reduce political risks
- To achieve competitive advantage
- To set technological standards

GE Nine-cell Matrix:

This corporate portfolio analysis technique is based on the pioneering efforts of the General Electric Company of the United States, supported by the consulting firm of McKinsey& company. The vertical axis represents industry attractiveness, which is a weighted composite rating based on eight different factors.

These factors are: market size and growth rate, Industry profit margin, competitive intensity, seasonality, cyclicality, economies of scale, technology and social, environmental, legal and human impacts. The horizontal axis represents business strength competitive position, which is again a weighted composite rating based on seven factors.

These factors are: relative market share, profit margins, ability to compete on price and quality, knowledge of customer and market, competitive strengths and weaknesses, technological capability and caliber of management.

Strategic Analysis and choice

Meaning of strategic choice:

Choice of a strategy involves an understanding of choice mechanism and issues involved in it.

Definition:

It has defined strategic choice as the process of selecting the best strategy out of all available strategies.

Steps in strategic choice:

- Focusing on strategic alternatives
- Evaluating strategic alternatives
- Considering Decision factors
- Choice of strategy

Objective factors are grouped into two categories:

Environmental factors: It includes volatility of environment, input supply from environment and powerful stakeholders.

Organizational factors: It includes organizations mission, the strategic intent, its business definition and its strengths and weaknesses.

Subjective factors:

Various subjective factors may be classified as:

- Organizations past strategies
- Personal factors
- Attitude to risks
- Internal political consideration
- Pressure from stakeholders

Process of Strategic choice:

Strategic choice involves evaluation of the pros and cons of each strategic alternative and selection of the best alternative. Three techniques are used in the process of selection of a strategy.

- Devil's Advocate
- Dialectical Enquiry
- Strategic shadow Committee

1. Devils Advocate in strategic decision making is responsible for identifying potential pitfalls and problems in a proposed strategic alternative by making a formal presentation.
2. Dialectical inquiry involves making two proposals with contrasting assumptions for each strategic alternative. The merits and demerits of the proposal will be argued by advocates before the key decision makers. Finally one alternative will emerge viable for implementation.
3. A strategic shadow committee consists of members drawn below executive level. They serve the committee for two years. They inspect all materials and attend all meetings of executive strategy. The members generate views regarding constraints faced by management. Their report is submitted to Board of Directors.

1. Describe Functional Level Strategies

Functional level strategies are concerned with coordinating functional areas of the organization. These include marketing, finance, human resources, manufacturing, R & D etc. The aim of functional level strategies is to uphold and contribute to individual business level strategies and overall corporate level strategy. The functional level strategies facilitate coordination of activities involved in design, manufacture, delivery, and support of products and services within each business. They are mainly concerned with

1. Efficient utilization of specialists within the functional area: The capabilities of an organization reside in its specialist manpower in areas like advertising, promotion, marketing, purchasing, inventory management, logistics etc.
2. Ensuring that functional level strategies mesh with higher level strategy: Functional level strategies are less abstract and closer to action than corresponding business and corporate level strategies. They therefore are action oriented. Functional level managers develop these strategies making sure that they are aligned to higher level strategies.
3. Timing of functional strategy: Timing ensures that functional activities above are properly coordinated and synchronized. Since time horizon of functional level strategies is short immediate results are available and corrective actions must be quick.
4. People involved in developing Functional Level Strategies: Functional level strategies are managed by lower level functional managers as against business and corporate strategies which are managed by top managers.

Some of the strategic approaches in functional strategies are:

1. Achieving Superior Innovation: Superior innovation leads better differentiation. A company that wants pursue superior innovation has to control the following factors to ensure that efforts place in innovation does not fail.
   a. Uncertainty
   b. Poor Commercialization
   c. Poor positioning
   d. Technological myopia
   e. Slowness to market
2. Achieving Superior Efficiency: Companies pursuing cost leadership strategies must scale their efficiency in comparison to the competition. Achieving superior efficiency involves better & flexibly designed and process, removing non-value adding activities, better intra-organizational cooperation, Staff training and innovative use of technology. A strong learning culture is also an important aspect for achieving superior efficiency.
3. Achieving Customer Responsiveness: Customer responsiveness is an important for companies pursuing differentiation or focus strategies. The best way to achieve superior customer responsiveness is through ensuring customer satisfaction, developing good after sales service, training the sales force and investing in customer relationship management technology.
4. Achieving superior quality: Improved quality leads to decreased costs through lower rework, less warranty claims. It also leads better customer satisfaction. Therefore quality is an important aspect for companies pursuing all the generic strategies.

Even though these aspects are discussed under functional level strategies it is important to note that all the above should not be isolated within functions but cross functional boundaries and be developed as organization wide capability, core and distinctive competencies.

2. Describe Business Level Strategies

Business level strategies are similar to corporate level strategies except that they focus on single business line rather than a portfolio of businesses. Therefore diversification related or unrelated may not be a strategy pursued at business level. Strategic Business Unit (SBU) represents a business division dealing with a product line entirely within an industry segment. It takes entire responsibility for its own profits and losses and reports to corporate head quarters on measures like ROI. One essential element of SBU concept is that the SBU independently develops its own strategies, programs, budgets and procedures.

However different business units may experience different stages in their product life cycle and therefore may contribute differently in the corporate portfolio. Therefore a corporate strategy called corporate parenting is required to manage various business units under it for new product introduction and movement of funds and cash flows between the business units.

Business level strategies are mainly concerned with:

1. Coordinating and integrating the unit's activities so that they conform to corporate strategies.
2. Developing distinctive competencies and competitive advantage in each unit.
3. Identifying product and service niches and developing strategies to exploit them.
4. Continuously monitor the markets and align the strategies on an on-going basis so that their currency is ensured.

In single product companies corporate and business strategies tend to be the same.

Business level strategies are generally the adaptation of Porter's generic strategies. These are

1. Overall Cost Leadership
2. Differentiation
3. Focus in niche leading to
    a. Cost Focus
    b. Differentiation Focus

Cost leadership allows a firm to manipulate the price to gain higher profits or higher market share. Thus the strategy involves

1. Construction of efficient scale facilities
2. Tight cost and overhead control
3. Avoiding marginal customer accounts
4. Minimizing operating expenses
5. Reduction of input costs
6. Reduction of labor costs
7. Lowering distribution costs

A cost leader does not attempt to build a brand and his products are more akin to commodity goods.

Differentiation strategies require firm to create something about the product that is perceived as unique compared to competing products. The customer for a differentiated product must be less sensitive to price. Adding features to the product means that it incurs more production and distribution costs and therefore is to be priced higher than generic, non-differentiated product. If this strategy has to succeed the customer must be willing to pay more.

Possible strategies to achieve differentiation are

1. Superior Technology (64 bit vs 32 bit processors)
2. Extended warranties
3. Brand image
4. More features

Differentiators do not ignore costs but are able to pass on the additional costs incurred in creating the differentiation to their customers. Competitors continuously try to close the differentiation gaps at lower costs and therefore as the product enters maturity it sells like a commodity. Therefore a differentiator must constantly innovate new products or more features to sustain the differentiation.

Focus the third generic strategy involves concentrating on a specific customer segment or geographic area or channel of distribution. The underlying premise of this strategy is that the firm is better able to serve its limited segment better that the broad segment competitors. Within this limited segment a cost leadership or differentiation strategy is applied. The focus strategy is appropriate to small businesses that do not have resources for a large scale nation-wide operation. Many entrepreneurial ventures start as a focus player before growing into a broad market organization.

3. What are competitive tactics?

A tactic is a specific operating plan that details how a strategy is to be implemented in terms of when and where it is to put into action. Tactics are narrower in scope and have a shorter time horizon. They are more like policies that link strategy formulation to strategy implementation. Tactics can be classified into two types:

1. Timing tactic which deals with when a company should implement the strategy. A company which manufactures and sells a new product or service is called first mover. A first mover has the advantage of establishing a reputation, move on the learning curve early on and assume a position of cost leadership. It also since it has a differentiated product initially it can earnhigh profits because of pricing flexibility. A first mover also sets a sort of standard which can lock in the customer providing an entry barrier to the other movers. On the other hand companies who enter the market late are called late movers. The late mover benefits from the initial research, product and market development activities done by the first mover. In case the late mover is a financially strong company he may acquire superior technology and process capability to produce the product at a lower cost and assume cost leadership. Second mover advantage occurs when a firm who follows the lead of the first-mover is actually able to capture greater market share, despite having entered late. First-mover firms often face high

research and development costs and the marketing costs necessary to educate the public about a new type of product. A second-mover firm can learn from the experiences of the first mover firm and may not face such high research and development costs if they are able create their own similar product using existing technology. A second-mover firm also does not face the marketing task of having to educate the public about the new project because the first mover has already done so. As a result, the second-mover can use its resources to focus on making a superior product or out-marketing the first mover.

2. Market Location tactic deals with the question of where a company should implement its strategy. Also a company has a choice to pursue the implementation in an aggressive or defensive manner. An offensive tactic is adopted in a competitor's market territory to gain a market share and a defensive tactic is pursued in the company's home turf to thwart any possible attack from the competition. Offensive tactics can be categorized as
   i. Frontal attack which is a matching every move of the competition with a matching reaction of the same nature from price to promotion to distribution. A firm adopting such a strategy must have superior resources and more perseverance. This is a very risky and expensive tactic which can diminish the profitability of the whole industry.
   ii. Flanking maneuver which is avoiding a frontal attack but choosing a part of the market where the competitor is weak. A firm adopting this strategy may identify a geographical area or product niche where the competition is weak and attack that part to gain the competitive advantage there.
   iii. Bypass attack occurs when company entirely bypasses the standard product and service offerings of the competitor but introduce a product or service that renders the standard offering useless. A good example of Apple's IPOD which replaced Microsoft's handheld PC or palm pilot.
   iv. Guerilla Warfare is when a company instead of adopting a resource expensive attack, chooses to attack a small segment which does not seriously threaten the market leader. The guerilla warfare is also characterized by small and intermittent attacks, which does not significantly affect the market leader and therefore he may not retaliate.

   Defensive tactics aim to lower the probability or intensity of an offensive attack. Defensive tactics are usually adopted by establish leaders to make the gains from an offensive attack less attractive. Three types of defensive tactics exist.

   i. Raise the structural barriers is to block the challenger's possible avenues of attack. Some of the forms of this tactic are to close all the market niches, block distribution from selling competing products, provide more value added services (like training) to reduce profitability, reduce prices etc.
   ii. Increase expected retaliation is when the company reacts in a more than expected way by steeply reducing prices or assuming a more aggressive and penetrative advertisement than the challenger. This tactic will scare away the challenger.
   iii. Lower the inducement for attack is a defensive tactic that reduces the challenger's expectations of future profits in the industry. This is normally achieved through price reductions and offering value added services at low costs.

4. What are cooperative Strategies?

Cooperative strategies are sources of gaining competitive advantage by working with other firms. There are two types of cooperative strategies namely **Collusion** and **Strategic Alliances**

Collusion: Collusion refers to active cooperation amongst competing firms to overcome normal economic law of competition. The colluding firms indulge in increasing prices or decreasing supply. Explicit collusions are illegal and prohibited by enacting appropriate laws to prevent the practice. In India Competition Commission of India attends to collusion issues and take necessary punitive actions to refrain the industry from formation of collusion.

However sometimes firms indulge in collusive tactics in an indirect way by tacitly agreeing for price or supply cuts without any direct communication. This is done via alluring price increases and implied media communications. Tacit collusions are most likely to succeed if

- There few competitors
- Costs are highly similar
- One firm tends to act as price leader
- An industry culture that accepts cooperation
- Industry has high entry barriers for new competition

Strategic Alliance: A strategic alliance is a long term cooperative arrangement between two or more independent firms that engage in business activities for mutual economic gain. Now-a-days alliances are very common in almost all industries. The duration of an alliance can be short or long depending on cultural cohesion and strategy alignment of the cooperating companies. A long alliance may lead to the merger of the companies. The reasons for which companies form strategic alliances are

1. To obtain or learn new capabilities: A company lacking in technology may form a strategic alliance with a company having that technology who may be looking for larger market or better cash flows. A strategic alliance is one of the preferred ways of developing capabilities based on tacit knowledge.
2. To obtain access to specific markets: Companies form valuechain alliances with local suppliers when operating in geographical territories where they have inadequate resources. Also some governments may impose stipulations of localization which forces strategic alliances with local firms of that country. A major reason for strategic alliance is the need to gain fast and low cost entry into new territories.
3. To reduce financial risk: When an alliance is formed it takes much less financial expenses than setting up own facility. It is therefore easier to exit in case the venture becomes financially unviable. Using alliances is a popular way when building in-house capability does not provide economy of scale, usage of the capability is intermittent or the activity is very expensive for the company.
4. To reduce political risk: Forming alliances with local partners is a good way to overcome risks associated with unknown and less understood environments with different political systems and cultures. The following components influence political risk assessment
    i. Government Attributes: Stability, investment profile, democratic accountability, law and order, military in politics, religion in politics, and quality of bureaucracy.
    ii. Social attributes: Cultural diversity, corruption, ethnic tensions, socio-economic conditions

iii. External attributes: Conflicts with neighboring countries.

Strategic Alliances fall on a continuum based on the duration of relationship from strong and close to weak and distant. The types of alliances range from mutual service consortia, to joint ventures and licensing arrangements to value chain partnerships.

Mutual Service Consortia: This is a partnership of similar companies in similar industries that pool their resources to gain a benefit that is too expensive to develop alone. Such cooperation is usually undertaken for access to expensive advanced technology. The mutual service consortia is a fairly weak relationship and participating companies do not share core competencies; nor do they have much interaction and communication amongst the partners.

Joint ventures: A joint venture is a cooperative business activity formed by two or more separate organizations for strategic purposes. This creates an independent business entity and the ownership, operational responsibilities and financial risks and rewards to each member. The owner companies maintain their independent identity. The relationship between the partnering companies is neither too distant nor too close. There is no intension of the part of the partners to merge and JV is only a way to temporarily combine different strengths of the partners to achieve an outcome of value to all. JVs are very popular in international undertakings without incurring political-legal risks. Disadvantages of JVs are loss of control, lower than potential profits, probability of conflict between partners, and likely unintended transfer of technology to other firms.

Licensing Arrangements: A licensing arrangement is an arrangement in which a company (licensor) grants rights to another company in another country (licensee) to produce and or market its product. The licensee pays compensation to the licensor for providing the expertise. Licensing is a useful strategy if the product has significant brand name. MNCs who do not have intensions of expansion take the licensing route. KFC, McDonalds Pizza Hut are some popular firms who successfully used this strategy. The disadvantage is that over a period of time the licensee may develop sufficient competence and become a competitor.

Value-Chain partnership: This is a strong and close alliance in which one company forms a long term arrangement with a key supplier or distributor for mutual advantage. The value chain partnerships are entered to improve quality of products or services. Just-in-time is an example of supplier partnership to eliminate inventory costs and improve response times. Companies outsource activities that were hitherto done internally to those firms specializing in that activity to achieve quality improvement and economy of scale advantage.

Disadvantages of Strategic Alliances: All forms of strategic alliances have some downside. These are

1. Alliance partners may become competitors in future.
2. Company may create some uncertainty in cost or performance
3. The company may not be able to sustain its distinctive advantage

5. What are the strategies for marketing function?

Marketing strategy is a form of functional strategy. Marketing strategies deal with pricing, selling and distributing a product. Marketing Strategies may be divided into Market development strategy and product development strategy.

Market Development strategies are concerned with developing new markets or developing new uses for existing products. They may also address strategies for improving the market share. By adopting appropriate positioning and packaging tactics companies are able to extend the product life cycle indefinitely. Colgate and P& G are very popular in this regard.

Product development strategies are concerned with developing new products for existing markets or developing new products for new markets. Using a successful brand name market other products is called line extension which exploits the company's current customer base.

Promotional strategies deal with usage of advertisement and media for popularizing company's offerings. Two widely used promotional strategies are push and pull strategies. Push strategies use the advertising to pull customers to the point of sale and effect a purchase. Push strategies on the other hand involve trade promotion to gin shelf space and faster inventory turnovers.

Distribution strategies affect decisions like whether to involve a distribution channel or direct sale to the end customers. A company may also opt for multiple distribution channels.

Pricing is an important factor that decides market share and profitability. A company can follow one of the two pricing strategies. These are (1) skim pricing and (2) penetration pricing. In skim pricing the company with a new product positions the product on the high of the demand curve and achieves better margins. On the other hand with a penetration pricing strategies a company attempts to broaden the market share with a lower price and continue to milk the market using the experience curve, economy of scale and cost leadership.

6. Explain different Financial strategies

Financial strategies are mainly concerned with the best financial course of action for the corporate and business strategies. The financial strategy involves decisions regarding

- Raising and utilization of funds.
- To ensure adequate and regular supply of capital to the organization, keeping the present and future requirements of business in mind.
- Judicial employment of capital.

Finance can be a great source of competitive advantage. Companies that manage their inventory, creditors and debtors better gain a competitive advantage by reducing cost of funds.

By managing expenses better a company can ensure that more funds are available for new opportunities thus ensuring long term sustainability.

With a better return on investment the company's reputation will go up and along with it, its market capitalization. This helps the company in borrowing funds at more attractive terms.

Financial strategies revolve around strategic investment decisions, risk management, allocation of funds (budgeting) and ensuring that funds are utilized properly and continuous monitoring of use of financial resources.

A popular financial strategy is leveraged buyout (LBO). In a LBO a company is acquired largely by debt obtained from a third party. The acquired company generates surpluses and pays for the cost of acquisition.

Companies are also concerned about dividend strategies to keep the investor community happy and maintain its market capitalization. Companies also use dividend strategies to retain major part of earning to fuel growth when the markets are expanding.

Some companies when in difficulty use profit strategy to ensure that its reputation is not diluted.

7. Describe various Operations Strategies

Operations strategy deals with the question of manufacturing products and locating the facilities there for. They also determine the depth and breadth of vertical integration, deployment of physical resources and the management of the supply chain. These days it is common to locate manufacturing facilities overseas to exploit cost advantage the developing countries have to offer. Technology plays a major role in operations strategy. Some of the avenues for absorbing technology are

1. Advanced manufacturing technology
2. Computer Aided Design & manufacture (CAD/CAM)
3. Flexible manufacturing Systems
4. Robotics
5. Enterprise Resource Planning

These technologies help a company to crash development life cycle and provide quicker response to variations in demand patterns and supply and market uncertainties. Increasing competition intensity is forcing companies to abandon traditional mass production assembly lines to flexible continuous improvement strategy.

Some of the key components of operations strategy are:

Product Mix deals with what to produce in what quantities that profit may be maximized while resources are optimally utilized.

Capacity planning deals with question of using machine and labor resources efficiently with minimum idle time.

Location decisions decide where to locate manufacturing and warehousing facilities so that sourcing and distribution costs and customer response time are minimized.

Process & technology decision deal with appropriateness of technology to leverage cost effective manufacture.

Quality is providing maximum value to the customer at minimum cost and getting things first time right.

Scheduling & Inventory is the planning exercise to match production to demand and complete elimination of inventory towards just-in-time. Push and pull systems cater to made-to-stock and made-to-order strategies respectively.

8. Explain strategies relevant to R & D function.

R & D strategy deals with product and process innovation and improvement and also with appropriate mix of basic, product and process research. Decisions regarding whether technology should be internally developed or accessed through external acquisition fall under the purview of R & D strategy.

One of the basic choices a firm has to make early in its life is whether it should be a technology leader or a technology follower. This choice decides the firm's position as differentiator or a cost leader. Companies like Nike spend most of their time in R&D to bring differentiated products to the market and sustain this unique position where as cost leaders like WalMart wait for product to stabilize and come out with cost effective production methods to produce the same product at a lower cost and capture sizable market.

A new approach to R&D is open innovation in which firms use alliances and connections with government, academia, research institutes and consumers to develop new products and processes. In some industries R&D is essential for survival. One example is pharmaceutical industry. Firms in this industry invest significantly to innovate products and services to sustain the competitive advantage.

9. Explain strategies associated with Human Resource Function.

HR strategy addresses the issue relating to activities in the human resource functional area. These strategies relate to

1. Hiring people
2. Shaping careers for the staff
3. Ensuring employee motivation
4. Training employees for higher performance
5. Nurturing strong organizational culture to develop tacit competencies.
6. Ensuring that staffing follows strategy
7. Making critical sizing decisions during growth and retrenchment

HR plays a critical role in implementing corporate and division strategies relating to growth and retrenchment. During growth HR should see that people with right skills are hired and existing people should be trained to handle ne managerial roles created by the growth. During retrenchment decisions may be taken regarding retrenching people whose skills are no longer needed and retraining people to fill-in the gaps created by exiting people. It is also important to redesign the roles of existing employees and ensuring that they continue to be motivated and can assume increased responsibility.

Companies are regularly faced with the choice of hiring low skilled people at lower costs. This ensures lower HR costs and higher employee retention. But quality suffers because of low skills. On the other hand hiring highly skilled employees at higher costs increases the costs and also attrition since people with better skills can find jobs easily. Therefore HR strategies must strike a balance between these choices.

Now-a-days the trend is towards using highly skilled cross functional self managing work teams. As work increases in complexity, these teams become and more effective and the productivity increases. Research also has proved that diverse workforce can be a competitive advantage, Diversity in age, culture and ethnicity which all contribute to higher productivity.

10. What strategies should a firm avoid?

Some of the strategies that could be candidates for corporate, business or functional strategies can in fact be dangerous. Managers with poor vision, analysis or lacking in creativity may be trapped into considering the following strategies which are best avoided.

1. **Follow the leader**: Blindly imitating the leading competitor may appear to be a good idea but it ignores a firm's particular strengths and weaknesses. It also duplicates the leader's mistakes. When Fujitsu blindly followed IBM it had to close the shutters when mainframe business failed.
2. **Hit another Home Run:** A company who has pioneered an extremely successful product gambles vainly for another such product and in this pursuit it may lose sight of risks. Polaroid a successful instant camera maker went down spending a lot of effort to invent an instant movie camera but was overtaken by the invention of camcorder.
3. **Arms Race:** A company entering into a frontal attack with a competitor may indulge in overspending in media promotion, trade promotion and expenses and narrower margins due to price cuts that more than offset the market share gain. Ultimately the firm stands to lose.
4. **Do everything:** When faced with several opportunities, management may tend to grab all of them. As initial costs are low it may be able to pursue all of them but as resource constraints and costs increase to that extent that company may not be able to sustain the development of all the opportunities and valuable resources may be wasted.
5. **Losing Hand:** A corporation might get over passionate and invested so much in a strategy that it may pursue it in spite of obvious failure signals. Thus management may throw good money after bad and finally wind up even its successful ventures.

11. What is strategic intent?

The traditional process of strategic formulation tries to match a company's current strengths against the current opportunities available in its environment. This approach completely ignores future opportunities. So some companies having a passion to be number 1 in its industry in spite of its low current position have to develop a passion, resources and capabilities beyond those required by current opportunities. This obsession for global leadership and excellence is called strategic intent. Firms pursing strategic intent must have the following characteristics:

1. Focusing on essence of winning
2. Motivating people by communication this value proposition
3. Using strategic intent for resource allocation
4. Encouraging individual and team contribution towards the intended goal.

12. What are strategic options?

An option is a several possible courses of action a firm may pursue to realize a strategy. These options are linked to each other and together form a strategic process. Some examples of options are product options (which products to develop?) or market options (which markets to attack?). Doing nothing is also a valid option; for example whether or not to enter a foreign market. Some option may be feasible and some may not. For example for a nuclear equipment manufacturer, entering foreign market may not be a feasible option due to laws of the domestic country in force.

A strategic option is a set of related options combined to form a comprehensive end-to-end strategy. A strategic option may combine options for product and market and resources. A strategy to enter new market in a new country with an existing or new product will involve options for methods of assembly, packaging, distribution, promotion, service delivery etc.

13. What is strategic choice?

When several strategic options are available from which the firm has to choose one, these alternative options are called strategic alternatives. The process of choosing one best alternative from the available strategic alternative choices is called strategic choice. The process of setting up criteria for selection and assessing the alternative choices is called strategic assessment. Generally the best alternative is one which

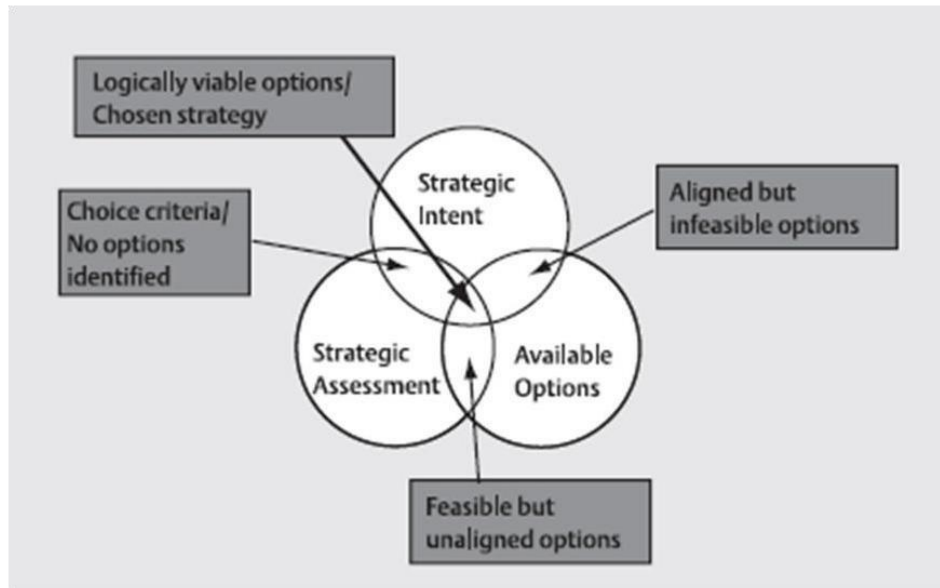
- Maximally utilizes opportunities and strengths
- Minimally affected by threats and weakness
- And incurs lowest cost of implementation.

Apart from objective selection criteria, the strategic choice may also be influenced by the following subjective factors

- Management attitude towards risk
- Pressures from Stakeholders

- Pressure from corporate culture
- Needs of Top/Key managers

The following diagram depicts the evolution of feasible options given the intent, options, and assessment.

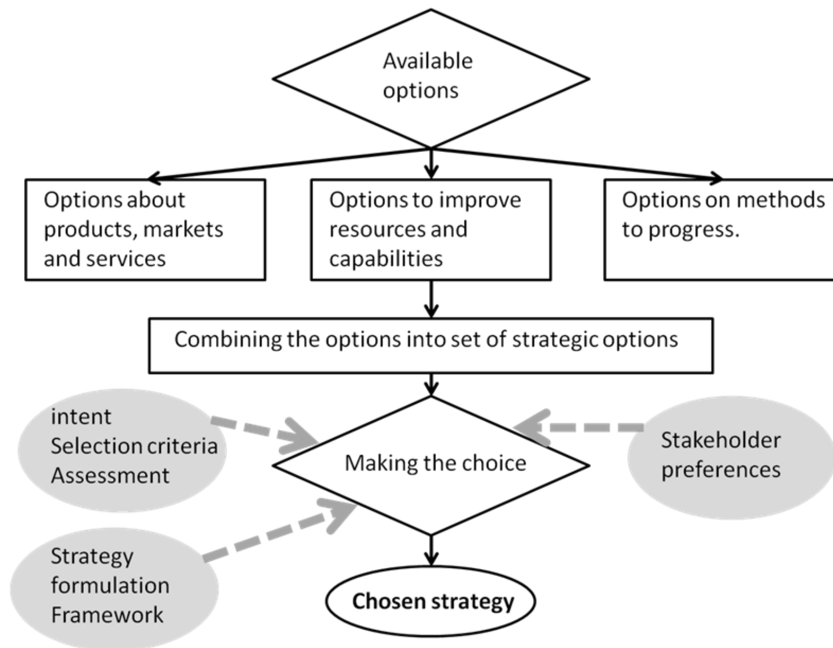


14. Describe the process of making strategic choice.

The process of strategic choice is divided into four steps.

1. In step one all possible options are identified given the available opportunities and the relative strengths of the company. Brain storming and SWOT may be the appropriate tools for this purpose. Some of the identified options may be infeasible.
2. In step two, related options are combined to generate end-to-end strategic options.
3. In step three the strategic options are evaluated against preferred criteria and other subject factors to identify the best option.
4. In step four, the chosen option is taken up implementation.

The following diagram shows the process of strategic choice.



15. What is GAP analysis?

Gap analysis is generic tools to compare the difference between two similar quantities. For example Gap Analysis may be used compare a company's actual performance against a standard set for the purpose. Gap Analysis is a tool that is often used compares actual performance with potential performance which a strategist aspires to attain. Gap analysis may also be used to identify the gap between the optimized allocation and integration of the resources and the current level of allocation.

Gap analysis flows from bench marking company's current level of performance against industry performance.

Gap analysis is performed at three levels:

- Business processes
- Business direction
- Organization (Human Resources)

An example of gap analysis is the estimation Marketing Gap which defined as the difference between market potential and existing usage. The market potential is the number of consumers available for the product. This data is available from the statistics collected and published by government agencies. One can obtain the estimate of existing usage by gathering and cumulating market share of all competing companies in the industry. This data may be obtained from third party survey companies like Ac Nielsen.

From the above two quantities the market gap can be calculated as

Market Gap = Market potential – Existing usage

16. Explain SWOT Analysis

SWOT analysis is the assessment of comparative strengths and weaknesses of a firm in relation to its competitors; and environmental opportunities and threats, which a company may have to face in the future. It should be based on logic and rational thinking such that a proper strategy improves an organization's business strength and opportunities and at the same time reduces the weaknesses and threats. Strength and weakness are internal forces and factors that are to be assessed from continuously since more and more competitive organizations with state of the art technology and services are entering into the market and competition is getting intensified day by day. Opportunities and threats are the external factors and forces in the business environment which are also changing day by day with the change of government policy, industrial policy, monetary policy, political situation at national and international levels, formation of various trade blocks and trade barriers including the changes in legal and social environment in the business world.

Strengths: Strength is the power and excellence with the resources, skills and advantages in relation to the competitors. A strength is a distinct technical superiority with best technical know-how, financial resources and skill of the people in the organization, goodwill and image in the market for the product and services, company's access to best distribution network, the discipline, morale, attitude and mannerisms of the employees at all levels with a sense of belonging.

Weakness: Weakness is the incapability, limitation and deficiency in resources such as technical, financial, manpower, skills, brand image and distribution pattern. It refers to constraints or obstacles, which check movement in a certain direction and may also inhibit an organization in gaining a distinct competitive advantage.

Opportunities: Environmental opportunity is an alternative area for company's action in which the particular company would enjoy a competitive advantage. An opportunity is a major favorable advantage to a company. Proper analysis of the environment and identification of new market, new and improved customer group with better product substitutes or supplier's relationship could represent opportunities for the company.

Threats: Environmental threat is the challenge posed by the unavoidable trend or development that would lead, in the absence of purposeful action to the erosion of the company's position. Slow market growth, entry of resourceful multinational companies, increase bargaining power of the buyers or sellers because of a large number of options, quick rate of obsolescence due to major technological change and adverse situation because of change of government policy rules and regulation is disadvantageous to any company and may pose a serious threat to business operation.

17. What are the sources of information for SWOT Analysis?

The sources of information could be classified as formal and informal. They could be:

Documentary or secondary sources: Companies collect information on environmental factors through bulletins of Government, Banks and their competitors. Many organizations often release periodic internal reports analyzing the environment

Mass media: Mass media like TV, Radio etc could be used to collect information like the taste, social values, and standard of life of the public.

Internal sources: Companies could use internal sources like employees to collect the information about the public and the competitor.

External agencies: The company could use various external agencies like Associations, clubs etc also to collect the environmental information. It could also use its own sales force to collect the information.

Formal studies: Company could do the formal study either themselves or through some research agencies to collect the information to reevaluate their strategies.

Spying and surveillance: Companies could use their own employees, sales agents, and retired employee etc to collect the information.

18. Explain ETOP and how it can be used for developing an opportunity threat profile?

Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

In order to draw a clear picture of what opportunities and threats are faced by the organization at a given time. It is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal identifying the environmental factors and structuring the results of this environmental appraisal.

Identifying external environmental factors: A feasible approach in identifying environmental factors is to study the impact and the probability of impact of such factors on the business organization. The following matrix helps to identify the high priority environmental factors.

Impact on Business

Probability of Impact	High	Medium	Low
High	Critical	High priority	Low priority
Medium	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

Identifying High Priority Environmental Issues: The importance of the factors that were identified by the environmental scanning could be judged by the intensity of their impact and their relative probability of impact on the organization. According to the matrix above the environmental factors could bedistributed across nine cells. The issues that are having high probability of impact and high intensity of impact are critical which the company has to give more attention, while high priority should be given to issues having medium impact with medium probability. All the other issues having low intensity and low probability of impact are low priority issues, which need to be watched at regular moments since the environment may keep changing. Thus, the strategists get a clear picture of the environmental factors and their impact and could narrow down the factors that need special attention.

Structuring Environment Appraisal: Structuring environmental factors is complex since the factors cannot be clearly classified into the particular environment. The strategist should use personal experience and judgment to place the various factors under each type of environment so that a clear picture of threat and environment can be obtained. One such technique is Environment Threat Opportunity Profile (ETOP).

The preparation of ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization. A comprehensive ETOP requires subdividing each environmental sector into sub factors and then the impact of each sub sector on the organization is described in the form of a statement. An example of the ETOP prepared for a two wheeler manufacturer is given below:

Environmental Sectors		**Impact of each sector**
Social	↑	Customer prefers 2 wheeler to public Transport
Political	→	No Significant change
Economic	↑	Growing affluence of urban consumer. Export potential
Regulatory	↑	2-Wheeler industry – a thrust area for exports
Market	↑	Industry growing at 7 to 8%
Supplier	↑	Mostly ancillaries, Availability is increasing
Technological	↑	Industry is upgrading technology
Up indicate favorable, down unfavorable & Flat arrows indicate neutral impact. The preparation of an ETOP provides a clear picture to the organization to know where it stands with respect to the environment.		

Up arrows indicate favorable impact, down arrows unfavorable impact, while horizontal arrows indicate neutral impact. The preparation of an ETOP provides a clear picture to the organization to know where it stands with respect to the environment.

Assessing the Impact of opportunities and threats:

The Threat Matrix

The impact of each threat and opportunity could be analyzed with the help of opportunity threat matrix. A company after identifying various threats can use its judgments to place the threats in any of the four cells in the following matrix:

Attractiveness		High Probability of Occurrence	Low Probability of Occurrence
	High	Major Threat	Moderate Threat
	Low	Moderate Threat	Minor Threat

The Opportunity Matrix

Similar to the threat matrix we have an opportunity matrix that the opportunities are placed according to their attractiveness as given below:

Attractiveness		High Probability of Occurrence	Low Probability of Occurrence
	High	Very Attractive	Moderate
	Low	Moderate	Less Attractive

The Impact matrix

The impact of the trend on various strategies could be visualized using an impact matrix. After identifying the emerging trends in mega, micro and relevant environments, the degree of their impact can be assessed with the help of the impact scale. The matrix enables us to have a consolidated view of the impact on different strategies, which a firm may be following. The strategies may relate to various functional areas within a specific business unit or they may relate to overall company for all its business units. To assess the degree and quality of impact of each trend on different strategies a five-point impact scale could be used. The pattern of scoring can be:

- +2 extremely favorable impact
- +1 moderately favorable impact
- 0 no impact
- -1 moderately unfavorable impact
- -2 extremely unfavorable impact

Trends	Probability of Occurrence	Impact on Strategies			
		S1	S2	S3	S4
T1					
T2					
T3					

A proper scanning of internal and external environment enables generation of strategic alternatives to utilize the strengths and overcome the weaknesses in the light of the opportunities and threats that operate in the environment.

19. How do you use TOWS Matrix to generate strategic alternatives?

The efficiency of the strategic planning process lies in the formulation of the strategy. A firm's strategy determines the path that it takes towards its goals and objectives. The degree of the aptness of the strategy formulated decides the extent of the firm's success. Hence, generating strategic alternatives and making a strategic choice form the crux of the strategic planning process.

Generating Alternative Strategies Using A Tows Matrix: The formation of TOWS matrix results in four sets of possible strategic alternatives after matching the company's internal strengths and weaknesses with the external opportunities and threats. It forces strategic mangers to create growth as well as retrenchment strategies. It can be used to generate corporate as well as business strategies.

In the Opportunities (O) block, list the external opportunities available in the company's or business unit's current and future environment. In the Threats (T) block, list the external threats facing the company or unit now and in the future. In the Strengths (S) block, list the specific areas of current and future strengths for the company or the unit. In the Weaknesses (W) block, list the specific areas of current and future weakness for the company or the unit.

Generate a series of possible strategies for the company or the business unit under consideration based on particular combinations of the four sets of strategic factors.

The TOWS Matrix

INTERNAL FACTORS (IFAS) **EXTERNAL FACTORS (EFAS)**	**Strengths (S)** List 5 – 10 internal strengths here	**Weaknesses (W)** List 5 –10 internal weaknesses here
Opportunities (O) List 5 – 10 external opportunities here	**SO** Strategies Generate strategies that use strengths to take advantage of opportunities	**WO** Strategies Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) List 5 –10 external threats here	**ST** Strategies Generate strategies here that use strengths to minimize threats	**WT** Strategies Generate strategies here that avoid threats and avoid weaknesses

- SO Strategies are generated by thinking of ways in which a company or business unit could use its strengths to take advantage of opportunities.
- ST Strategies consider company's or unit's strengths as a way to avoid threats.
- WO Strategies attempt to take advantage of opportunities by overcoming weaknesses.
- WT Strategies are basically defensive and primarily act to minimize weaknesses.

Thus TOWS matrix generates four set of strategies that could be used for the organization as a whole or for any specific business unit within the organization.

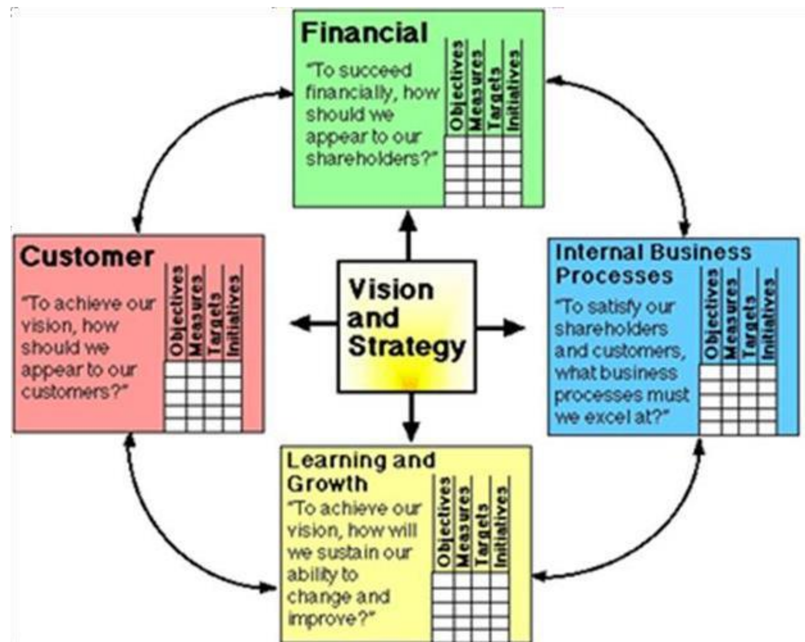
20. What is a balance score card?

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

The balanced scorecard is a full strategic planning and management system. The balanced scorecard transforms an organization's strategic plan from an attractive but passive document into a dynamic, action for the organization to control and monitor strategic performance on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

The balanced scorecard uses traditional financial measures like ratios, ROI etc to measure performance. But financial measures measure only past performance which is not adequate for evaluating the complete gamut activities that involve creating future value through investment in customers, suppliers, employees, processes, technology, and innovation.

The components of Balance Score Card are graphically shown below:



The balanced scorecard views the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives.

The Learning & Growth Perspective: This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Companies often find themselves unable to hire new technical workers, and at the same time there is a decline in training of existing employees. Metrics can be put into place to guide managers in focusing on training and ensure continuous availability of right skills.

The Business Process Perspective: This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes. In addition to the strategic management process, two kinds of business processes may be identified: a) mission-oriented processes, and b) support processes. Mission oriented processes are the special functions of the corporation, and many unique problems are encountered in these processes. The support processes are more repetitive in nature and hence easier to measure and benchmark using generic metrics.

The Customer Perspective: Recent management trend has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which the company is providing a product or service to those customer groups.

The Financial Perspective: the balance score card does not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. With the implementation of a corporate database more of the processing can be centralized and automated. But the only emphasis on financials leads to the “unbalanced” situation with regard to other perspectives. There is a need to include additional financial-related data, such as risk assessment and cost-benefit data, in the finance category.

The balanced scorecard is a measurement-based management system. It is developed on the lines of some key concepts of Total Quality Management (TQM), including customer-defined quality, continuous improvement, employee empowerment, measurement-based management and feedback.

Double-Loop Feedback: The balanced scorecard incorporates feedback around internal business process outputs, as in TQM, but also adds a feedback loop around the outcomes of business strategies. This creates a “double-loop feedback” process in the balanced scorecard.

Outcome Metrics: One can’t improve what he can’t measure. So metrics must be developed based on the priorities of the strategic plan, which provides the key business drivers and criteria for metrics that managers most desire to watch. Processes are then designed to collect information relevant to these metrics and reduce it to numerical form for storage, display, and analysis. Decision makers examine the outcomes of various measured processes and strategies and track the results to guide the company and provide feedback. So the value of metrics is in their ability to provide a factual basis for defining:

- Strategic feedback to show the present status of the organization from many perspectives for decision makers
- Diagnostic feedback into various processes to guide improvements on a continuous basis
- Trends in performance over time as the metrics are tracked
- Feedback around the measurement methods themselves, and which metrics should be tracked
- Quantitative inputs to forecasting methods and models for decision support systems

Steps involved in developing a Balance Score Card are shown in the table below:

Step	Description	Detail
1	Choose targeted stakeholder segments	Strategic intent. Focus limited organizational resources to chosen market segments.
2	Identify their requirements	Identify each customer segment's own unique set of requirements.
3	Determine performance gaps (external perspective)	By asking customers how we are meeting their needs we can identify our performance gaps.
4	Set stakeholder improvement priorities	Focus improvement efforts on major gaps in prioritized customer requirements. High importance and low performance is the basis.
5	Link stakeholder requirements to internal processes	Link of external improvement priorities to internal processes.
6	Establish process improvement (PI) priorities (internal perspective)	Identify internal processes that drive the most important customer needs to set PI priorities
7	Establish metrics and goals for the process improvement priorities - the BSC	Define process output metrics and relate them to internal performance metrics.
8	Improve critical processes	Reengineer the critical processes to meet the performance criteria.
9	Reassess strategy	Check the results and take corrective actions on continual basis.

21. Explain the concept of technological myopia.

Due to increased competition and accelerated product development cycles, usage of technology is becoming crucial to corporate success. The creation, development and application of technology are major forces, which make organizations successful. The most successful and admired organizations are

those that are in the forefront of technological innovations. Therefore technology and its absorption are important sources of competitive advantage.

However the managers who are involved in the corporation's strategy formulation process may not have sufficient background or familiarity with technology that they are not able foresee the direction of technology and its likely impact on the organization's future. This inability of the strategic manager is called technological myopia.

Classic examples of managements that have been unsuccessful in managing firms' technological innovations were Apple and IBM in the mid to late 1980s. In both cases their strategic managers did not see the emerging technological as well as the business discontinuities and changes associated with them. Therefore management became the enemy of their own successes. In both cases the strategic managers were asked to resign.

There are two groups of variables that influence organizations' choice of technology strategy: external and internal. The external variables are: technological progress, technology life cycle, product life cycle and competitive dynamics. The internal ones are: leadership role and power centre.

The interpretation and assessment of the external and internal variables help strategic management choose the firm's technology strategy by:

- forecasting the future technological direction
- diagnosing the organization's present technological aggressiveness,
- determining the organization's future technology gap
- designing actions and priorities for future technology development

Strategic managers need to seek advice especially from outside the firm in order to:

- examine the existence of technological myopia of the firm's technologists, and
- understand and get an unbiased view of the future technology developments in the firm's industry

There are three major areas that strategic managers focus on while addressing issues in managing firms' technology:

- Identification of future technologies and their impact on their organization's environment;
- Assessment of the firm's internal technology capability
- Integration of technology in the organization's strategy

One of the tools that strategic managers can use to determine an organization's future technologies is a technology surveillance system. This tool is installed in the organization to track technology developments and their impact on the firm and the organization's environment. This is accomplished by identifying and assessing trends, opportunities, discontinuities and threats of the organization's future environment. This technological information system collects and analyses information pertinent to

strategic managers' decision-making needs. This system helps determine the intensity of technology innovation and its relative importance to the organization and the organization's future technology environment.

Another area that a strategic manager needs to assess is the organization's internal technology capability. Strategic managers could identify the strength of the firm's technological capability by assessing the existence of a gap between the future technology turbulence and the organization's technological capability.

Based on the existence and size of gaps strategic management would develop action priorities.

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Unit-4
Strategy Implementation and Evaluation

The implementation process, Resource allocation, Designing organisational structure-Designing Strategic Control Systems- Matching structure and control to strategy-Implementing Strategic Change-Politics-Power and Conflict-Techniques of strategic evaluation & control-case study.

Introduction:

Organizational structure and culture can have a direct bearing on a company‟s profits. This chapter examines how managers can best implement their strategies through their organization‟s structure and culture to achieve a competitive advantage and superior performance.

Implementing strategy through organizational design:

Strategy implementation involves the use of organizational design, the process of deciding how a
company should create, use and combine organizational structure control systems and culture to pursue a business model successfully.
Strategy Implementation through Organizational design:
The implementation of strategy involves three steps:

- Organizational structure
- Organizational culture
- control systems

Basics of designing organization structure:

The following basic aspects which require a strategist‟s attention while designing structure

- Differentiation
- Integration
- Bureaucratic cost
- Allocating Authority and Responsibility

Span of control:

Span of control means the number of subordinate‟s manager controls effectively. The term span of control refers to the number of subordinates who report directly

to a manager.

- Grouping Tasks, functions and Divisions
- Tall and Flat organizations
- Centralization
- Decentralization

Integration and Integrating Mechanisms:

Much coordination takes place among people, functions and divisions through the hierarchy of authority, often however as a structure becomes complex, this is not enough and top managers need to use various integrating mechanisms to increase communication and coordination among functions and divisions. Greater the complexity of an organizations structure the greater is the need for coordination among people, functions and divisions to make the organizational structure work efficiently.

Three kinds of integrating mechanisms:

- Direct contact
- Liaison Role
- Teams

Designing Strategic Control Systems:

Introduction:

Strategic control systems provide managers with required information to find out Whether strategy and structure move in the same direction. It includes target setting, monitoring, evaluation and feedback system.

Steps in Strategic Control process:

- Establish standards and Targets
- Create Measuring and monitoring systems
- Compare Actual with targets
- Evaluate and take corrective actions

Levels of control:

- Corporate level managers
- Divisional level managers
- Functional level managers
- First level managers

Types of control system:

- Personal control
- Output control

- Behavior control

Organizational power and Politics:

Organizational power:

The organizational power is the ability to influence people or things usually obtained through the control of important resources.

Organizational Politics:

The organizational politics may be viewed as the tactics by which self interested individuals and groups try to power to influence the goals and objectives of the organization to further their own interest.

Sources of power

- Ability to cope with uncertainty
- Centrality
- Control over information
- Non-substitutability
- Control over contingencies
- Control over resources

Organizational Conflict:

Conflict may be defined as a situation when the goal directed behavior of one group blocks the goal directed behavior of another.

Organizational conflict process:

- Latent conflict
- Perceived conflict
- Felt conflict
- Manifest conflict
- conflict aftermath

Conflict Resolution strategies:

- Changing task Relationship
- Changing controls
- Implementing strategic change
- Changing Leadership

Managing the organization:

The basic principles for organization change are as follows:

- Unfreezing
- Movement
- Refreezing

Techniques of Strategic Evaluation and control:

Strategic Control:

Strategy formulation is based on assumptions about environmental and organizational factors which are nebulous and dynamic in nature. The time gap between strategy formulation and implementation is the major reason for these assumptions turned out to be invalid.

Types of strategic controls:

- Premise control
- Implementation control
- Strategic Surveillance
- Special Alert control

Techniques of Strategic Evaluation and control:

There are two methods in strategic evaluation and control:

- Strategic momentum control
- Strategic leap control
- Strategic Issue Management
- Strategic field Analysis
- Systems Modeling
- Scenarios

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UNIT-5

Other Strategic Issues

Managing Technology and Innovation- Strategic issues for Non Profit organisations. New Business Models and strategies for Internet Economy-case study

Strategic Issues in Managing Technology and Innovation

The strategic issues in managing technology and innovation and their influence on environmentalscanning, Strategy formulation, Strategy implementation, Strategy evaluation and control are worth studying from the perspective of strategists in modern organization.

Research studies have pointed out that innovative companies such as 3M, Procter Gamble and Rubbermaid are slow in introducing new products and their rate of success is not encouraging

Role of Management:

The top management should emphasize the importance of technology and innovation and they Should provide proper direction.

- Environmental scanning:
- External scanning
- Impact of stakeholders on innovation
- Lead users
- Market Research
- New product Experimentation
- Internal scanning
- Resource allocation issues

Time to Market Issues:

The new product development period is again a crucial issue. Within four years many new products are imitated. Shorter the period, more beneficial for the company. Japanese auto manufacturers have gained competitive advantage over their rivals due to relatively short product development cycle.

Strategy Formulation:

The following crucial questions are raised in strategy formulation

- Is the firm a leader or follower in respect of R&D strategy?
- Should we develop our own technology?
- Or should we go for technology outsourcing?
- What should be the mix of basic and applied research?

Technology sourcing:

There are two methods for acquiring technology. It involves make or buy decision. In-house R&D capability is one method and tapping the R&D capabilities of competitors, suppliers and other organizations through contracts is another choice available for companies.

Strategic R&D alliance involves

- Joint programmes to develop new technology
- Joint ventures establishing a separate company to take a new product to market.
- Minority investments in innovative firms.

It will be appropriate for companies to buy technology which is commonly available from others but make technology themselves which is rare, to remain competitive. Outsourcing of technology will be suitable under the following conditions.

- The technology is of low significance to competitive advantage
- The supplier has proprietary technology
- The supplier‟s technology is easy to adopt with the present system
- The technology development needs expertise
- The technology development needs new resources and new people

Technology competence:

In the case of technology outsourcing, the companies should have a minimal R&D capability in order to judge the value of technology developed by others.

Strategy Implementation:

To develop innovative organizations deployment of sufficient resources and development of appropriate culture are crucial at all stages of new product development.

Innovative Culture:

Entrepreneurial culture is a part of innovative culture which presupposes flexibility and dynamism into the structure. "Diffusion of Innovation" observes that an innovative organization has the following characteristics.

- Positive Attitude to change
- Decentralized Decision Making
- Informal structure
- Inter connectedness
- Complexity
- Slack resources
- System openness

The employees who are involved in innovative process usually fulfill three different roles such as:

- ❖ Product champion
- ❖ Sponsor
- ❖ Orchestrator

Corporate entrepreneurship:

Corporate Entrepreneurship is also known as intrapreneurship. According to Gifford Pinchot an intrapreneur is a person who focuses on innovation and creativity and who transforms and dreams of an idea into a profitable venture by operating within the organizational environment. Intrapreneur acts like an entrepreneur but within the organizational environment.

Evaluation and control:

The purpose of research is to gain more productivity at a speedy rate. The effectiveness of research function is evaluated in different ways in various organizations.

Improving R&D:

The following best practices can be considered as benchmark for a company‟s R&D activities.

- Corporate and business goals are well defined and clearly communicated to R&D department.
- Investments are made in order to develop multinational R&D capabilities to tap ideas throughout the world.
- Formal, cross functional teams are created for basic, applied and developmental projects.

New Business models and strategies for the Internet Economy

INTERNET ECONOMY:

The internet economy is an economy is based on electronic goods and services produced by the electronic business and traded through electronic commerce. The Internet Economy refers to conducting business through markets whose infrastructure is based on the internet and world-wide web. An internet economy differs

from a traditional economy in a number of ways, including communication, market segmentation, distribution costs and price.

Impact of the Internet and E-commerce

1. Impact on external industry environment
2. Changes character of the market and competitive environment
3. Creates new driving forces and key success factors
4. Breeds formation of new strategic groups
5. Impact on internal company environment
6. Having, or not having, an e-commerce capability tilts the scales
7. toward valuable resource strengths or threatening weaknesses
8. Creatively reconfiguring the value chain will affect a firm‟s competitiveness rivals.

Characteristics of Internet Market Structure:

Internet is composed of

1. Integrated network of user‟s connected computers
2. Banks of servers and high speed computers
3. Digital switches and routers
4. Telecommunications equipment and lines

Strategy-shaping characteristics of the E-Commerce Environment

Internet makes it feasible for companies everywhere to compete in global markets.

- Competition in an industry is greatly intensified by new e-commerce. Strategic initiatives of existing rivals and by entry of new, enterprising e-commerce rivals.
- Entry barriers into e-commerce world are relatively low
- On-line buyers gain bargaining power
- Internet makes it feasible for firms to reach

Effects of the Internet and E-commerce:

Major groups of internet and e-commerce firms comprising the supply side include

1. Makers of specialized communications components and equipment
2. Providers of communications services
3. Suppliers of computer components and hardware
4. Developers of specialized software
5. E-Commerce enterprises

Overview of E-Commerce Business Models and Strategies:

Business Models: Suppliers of communications Equipment:

1. Traditional business model of a manufacturer is being used by most firms to make money.

2. Sell products to customers at prices above costs
3. Produce a good return on investment
4. Strategic issues facing equipment makers
5. Several competing technologies for various components of the internet infrastructure exist
6. Competing technologies may have different performance pluses and minuses and be compatible

Strategy options for suppliers of communications Equipment:

1. Invest aggressively in R&D to win the technological race against rivals
2. Form strategic alliances to build consensus for favored technological approaches
3. Acquire other companies with complementary technological expertise
4. Hedge firm‟s bets by investing sufficient resources in mastering one or more of the competing technologies

Business Models: Suppliers of Communication Services:
1. Business models based on profitably selling selling services for a fee-based on a flat rate per month or volume of use
2. Firms must invest heavily in extending lines and installing equipment to have capacity to provide desired point-to- point service and handle traffic load.
3. Investment requirements are particularly heavy for backbone providers, creating sizable up-front expenditures and heavy fixed costs

Strategic Options:
1. Provide high speed internet connections using new digital line technology
2. Provide wireless broadband services or cable internet service
3. Bundle local telephone service, long distance service, cable TV service and Internet access into a single package for a single monthly fee

Business Models: suppliers of Computer Components and Hardware:
Traditional business model is used-Make money by selling products at prices above costs
Strategic approaches
Stay on cutting edge of technology
Invest in R&D
Move quickly to imitate technological advances and product innovations of rivals
Key to success- Stay with or ahead of rivals in introducing next-generation products
Competitive advantage will most likely be based on strategies key to low cost
- Business Models: Developers of Specialized E-Commerce Software
- Business model involves
- Investments in designing and developing specialized software

- Marketing and selling software to other firms
- Profitability hinges on volume
- Strategic approaches: Sell software at a set price per copy
- Collect a fee for every transaction provided by the software.
- Rent or lease the software

Business Models: Media Companies and content providers:

- Using intellectual capital to develop music, games, video, and text, media firms
- Charge subscription fees or
- Rely on a pay-per-use model
- Business model of content providers involves creating content to attract users, then selling advertising to firms wanting to deliver a message
- Key success factors for content providers
- Create a sense of community
- Deliver convenience and entertainment value as well as information.

Business Models: E-Commerce Retailers:

- Sell products at or below cost and make money by selling advertising to other merchandisers
- Use traditional model of purchasing goods from manufacturers and distributors, marketing items at a web store
- Filling orders from inventory at a warehouse
- Operate website to market and sell product/ service and outsource manufacturing, distribution and delivery activities to specialists.

Strategic Approaches: E-Commerce Retailers:

- Spend heavily on advertising to build widespread
- Add new product offerings to help attract traffic to firm‟s website.
- Be a first-mover or at worst on early mover
- Pay consideration attention to website attractiveness to

generate “buzz” about the site among surfers

- Keep the web site innovative, fresh, and entertaining

Key Success Factors: Competing in the E-Commerce Environment:

- Employ an innovative business model
- Develop capability to quickly adjust business model and strategy to respond to changing conditions
- Focus on a limited number of competencies and perform a relatively specialized number of value chain activities
- Stay on the cutting edge of technology
- Use innovative marketing techniques that are efficient in reaching the targeted audience and effective in stimulating purchases
- Engineer an electronic value chain that enables differentiation or lower costs or better value for the money.

Strategic issues for Non-Profit organizations

Meaning:

“A non-profit organizations also known as a not-for- profit organization is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to help pursue its goals/

Types of non-profit-organizations:

- Private non-profit organizations
- Public governmental units

Two Major Reasons:

Society needs certain goods services

Private not for profit organization are exempted.

Sources of Revenue:

Profit making organization (Sales of goods or services)

Not for profit organization (Sponsor or donations)

Constraints in Not-for-profit organization:

- Service is intangible in nature.
- The clients have very little influence.
- The sponsor mainly donate the fund for not for profit organization
- the professional people is going to join
- Restraints on the use of rewards and punishments.

Problems in the strategy formulation:

- The main aim is to collect the funds.
- They don’t know how to frame strategy.
- Internal conflict with the sponsor

- Worthless will be rigid.

Problems in Strategy implementation:

- The problem in decentralization
- Links in internal external
- Rewards and punishment.

Popular Strategies for Not-for-profit organizations:

- Strategic piggybacking
- Mergers
- Strategic Alliances

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PART-A

1. Define Strategy:

Strategy is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process". A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

2. What is mission?

Definition: A sentence describing a company's function, markets and competitive advantages; a short written statement of your business goals and philosophies.

A **mission statement** is a statement of the purpose of a **company** or **organization**. The mission statement should guide the actions of the organization, spell out its overall goal, provide a path, and guide decision-making. It provides "the framework or context within which the company's strategies are formulated."

3. Mention the five forces in Michael E Porter Model.

- Threat of new competition
- Threat of substitute products or services
- Bargaining power of customers (buyers)
- Bargaining power of suppliers
- Intensity of competitive rivalry.

4. What is Competitive advantage?

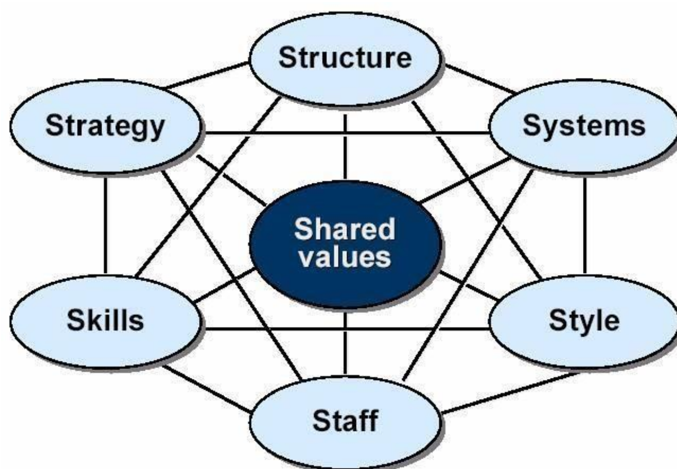
Competitive advantage is defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment.

An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retains more customers than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support.

5. What is Stability strategy?

A firm is said to be following a stability strategy if it is satisfied with the same consumer groups and maintaining the same market share, satisfied with incremental improvements of functional performance and the management does not want to take any risks that might be associated with expansion or growth.

6. Mention the 7s in Mckinsey framework.



7. What is power and conflict?

Definition: Power is the time rate at which work is done or energy is transferred. In calculus terms, power is the derivative of work with respect to time. The SI unit of power is the watt (W) or joule per second (J/s). Horsepower is a unit of power in the British system of measurement.

Conflict: A battle, contest of opposing forces, discord, antagonism existing between primitive desires and instincts and moral, religious, or ethical ideals. Conflict occurs when two or more people oppose one another because their needs, wants, goals, or values are different. Conflict is almost always accompanied by feelings of anger, frustration, hurt, anxiety, or fear.

Conflict management is the practice of identifying and handling conflict in a sensible, fair, and efficient manner. Conflict management requires such skills as *effective communicating, problem solving,* and *negotiating* with a focus on *interests.*

8. What is organizational Structure?

Explicit and implicit institutional rules and policies designed to provide a structure where various work roles and responsibilities are delegated, controlled and coordinated. Organizational structure also determines how information flows from level to level within the company. In a centralized structure, decisions flow from the top down. In a decentralized structure, the decisions are made at various different levels.

An organizational structure is the pattern or arrangement of jobs and groups of jobs within an organization. This pattern pertains to both reporting and operational relationships, provided they have some degree of permanence.

9. Mention the role of technology in strategy development.

It is a particular generation of an organization's overall objective(s), principles and tactics relating to the technologies that the organization uses. Such strategies primarily focus on the technologies themselves and in some cases the people who directly manage those technologies. The strategy can be implied from the organization's behaviors towards technology decisions, and may be written down in a document.

Technology-related strategies primarily focus on: the efficiency of the company's spending on technology; how people, for example the organization's customers and employees, exploit technologies in ways that create value for the organization.

10. Highlight any four strategic issues in non profit organizations.

3. Discuss distinctive competencies. How will you develop a sustainable competitive advantage for the company? Give example.

Distinctive competence of a firm refers to a set of activities or capabilities that a company is able to perform better than its competitors and which gives it an advantage over them.

Distinctive competence can lie in different area such as technology, marketing activities, or management capability.

A company needs to develop its strategy that utilizes its distinctive competence to gain competitive advantage.

It must be remembered that what distinctive competence of a firm may change with time as other companies develop new capabilities and with change in market requirements.

Therefore companies need to identify their distinctive competence by careful analysis, and if required, strive to develop new competences to meet changing market requirements and competitive situation.

The concept of distinctive competence was first put forward by Philip Sleznick in 1957. Kenneth R Andrews further elaborated it in 1971.

The concept of distinctive competence is quite similar to the concept of core competence.

While some authors consider these two term to mean the same thing, as per authors like C.K. Prahlad core competences must satisfy two additional criteria. One, it must be difficult to copy or replicate by competitors. Second, it should provide competitive advantage for multiple products and multiple markets.

Distinctive competence is a set of unique capabilities that certain firms possess allowing them to make inroads into desired markets and to gain advantage over the competition; generally, it is an activity that a firm performs better than its competition. To define a firm's distinctive competence, management must complete an assessment of both internal and external corporate environments. When management finds an internal strength that both meets market needs and gives the firm a comparative advantage in the marketplace, that strength is the firm's distinctive competence. Taking advantage of an existing distinctive competence is essential to business strategy development. Firms can possess distinctive competence in a wide variety of areas, including technology, marketing, and management.

THEORETICAL ORIGINS:

Distinctive competence was the set of activities that an organization could perform especially well in relation to its competitors. In 1976, Howard H. Stevenson released a study that examined the strategic planning of six companies. He found that top managers had a wide variation in perception of their own organization's strengths and weaknesses, and not surprisingly, in their distinctive competencies as well.

FORMULATING STRATEGY:

Strategy can be defined as the tool managers use to adjust their firms to ever-changing environmental conditions. Unless a firm produces only one type of merchandise or service, it must devise strategies at both the corporate and business levels.

Corporate strategy defines the underlying businesses and determines the best methods of coordinating them. At the business level, strategy outlines the ways that a business will compete in a given market. Strategic planning is often closely tied to the development and use of distinctive competencies, and having an area of distinctive competence can present a major strategic advantage to any firm.

To devise corporate strategy, firm managers must consider a host of influences in their surrounding environment that can affect the firm's ongoing operations as well as the internal strengths and weaknesses that characterize the firm.

When assessing the external business environment, management must analyze the given situation, forecast potential changes to it, and either try to change the situation or adapt to it. The assessment must include an evaluation of current and projected market needs and an evaluation of any existing comparative advantage over competitors.

Moreover, to determine the best strategy for their firm, managers must realistically assess their own firm's status. A firm's internal strengths and weaknesses make it better suited to pursue some strategic paths than others. When looking for a match between opportunities and capabilities, managers must try to build upon the strongest qualities of the firm and avoid activities that rely on more vulnerable areas or are adverse to the firm's existing corporate culture. Further, it is important for managers to account for potential problems involved in carrying out a strategy before they embark upon it. Thus, managers should examine potential strategies, while keeping in mind their firm's history, its culture and experiences, and its basic proficiencies. Once this assessment is complete, management must decide which opportunities in the business environment to pursue and which ones to pass up. Even if a firm does not have a distinctive competence, as is the case for many, it must devise its overall strategy to build upon its strengths and best use its resources.

Obviously, many successful business strategies are built around a determined distinctive competence. To truly succeed, a firm will have a competitive advantage over its rivals, giving it some sort of strategic advantage. Logically, strengthening a competitive position is made a great deal easier for a firm with one or more distinctive competencies. Having a distinctive competence can allow a firm to follow a different path than rival firms, utilize a strategy difficult for them to imitate, and end up in a better position over the long term. If

other firms in the marketplace do not have a similar or countervailing competence, they will have a very difficult time remaining competitive.

DEFINING AND BUILDING DISTINCTIVE COMPETENCE:

To define a company's distinctive competence, managers often follow a particular process. First, they identify the strengths and weaknesses of their firm. Next, they determine the strategic importance of these strengths and weaknesses in the given marketplace. Then, they analyze specific market needs and look for comparative advantages that they have over the competition. Importantly, while managers generally follow this process, they often undertake more than one step simultaneously.

Distinctive competence can be built in a number of ways. Firms can hire more qualified professionals than those employed by competitors; they can find and exploit previously neglected market niches; and they can be especially innovative or can gain advantage over competitors through sheer strength of management.

There are numerous areas in which a firm can have a distinctive competence. Some companies have distinctive competence because they manufacture a product with superior quality.

Other firms excel in technological innovation, research and development, or new product introduction. Still other firms have advantages in low-cost production, customer support, or creative advertising. For example, McDonald's distinctive competence is its system of controls for operating its fast-food restaurant franchises, which gives the company an unusually high profit margin.

PREDICTING FUTURE DISTINCTIVE COMPETENCE:

Since business environments and marketplaces are always changing, the challenge for strategists is to maintain the firm's distinctive competence. As defined earlier, distinctive competencies are distinctive skills and capabilities firms can use to achieve an unusual market position or to gain an advantage over the competition.

Thus, a firm's advantage comes largely from the fact that it has differentiated itself from its competition.

It follows that if the environment changes such that numerous rivals have obtained competencies identical to those characterizing a particular firm, the firm is in a very poor position and would do well to reconsider its strategy.

Future strategic success requires that firms keep their distinct advantages over their rivals. Thus, firms must continuously assess their surrounding environments.

They must be aware of potential shifts in industrial standings and must realistically evaluate whether the distinctive competency continues to yield an advantage.

They should also look to new markets and evaluate the potential use of their distinctive competencies in those markets.

As business conditions and markets change, many of the strengths and weaknesses that characterize a firm will also change.

Through strategic planning and leadership, management will be able to determine how the basis for competition may be changing and whether the firm's distinctive competencies need to be realigned.

Indeed, some vulnerabilities and strengths will be exaggerated, while others will be eliminated. Success in these changing conditions can only come from taking advantage of opportunities highlighted by close scrutiny of a firm's internal and external environment.

The most successful firms will be those that are able to locate and use distinctive competencies found in these assessments.

4. What is Strategic analysis and choice? How will you do this? Explain with examples.

5. Discuss the importance of GE matrix and Balance score card with Indian examples.

6. Explain the techniques for strategic evaluation and control.

Strategic evaluation and control constitute the final step in strategic management process. The main aim of strategic control is to find out whether strategy moves in the desired direction yielding desired gains.

Strategic Control:

Strategy formulation is based on assumptions about environmental and organizational factors which are nebulous and dynamic in nature. The time gap between strategy formulation and implementation is the major reason for these assumptions turned out to be invalid.

The strategic controls serve as early warning system which facilitates continuous evaluation.

These are four types' strategic controls:

- Premise Control
- Implementation Control
- Strategic Surveillance and
- Special Alert Control.

Premise Control:

The purpose of premises control is to monitor regularly whether the assumption underlying a strategy generated during the time of formulation is valid during implementation also.

Premises are the expected environments in which the strategy is likely to operate. If these assumptions are not valid, there is a need to change the strategy to make it effective. These assumptions are related to two types of factors such as environment and industry.

<table>
<tr><td colspan="2">Strategic Surveillance</td></tr>
<tr><td colspan="2">Premise Control</td></tr>
<tr><td rowspan="3">Strategy Formulation</td><td>Special Alert Control</td></tr>
<tr><td>Implementation Control</td></tr>
<tr><td>Strategy Implementation</td></tr>
</table>

Environmental Factors:

The business enterprise I usually influenced by economic, political, social, demographic, technological, legal and cultural environment. Any change in these factors between the time of formulation and implementation results in change in strategy.

Industry Factors: Every firm makes assumptions about industry structure and nature of competition in it. If there is a change in industry structure or competition, changes should be made with regard to assumptions about industry.

The following steps are taken for effective premise control:

1. Key Premises, which are likely to change, are selected for close monitoring. These key premises are identified at the level of strategy formulation and may change during implementation stage.

2. Responsibility are assigned to employees for collecting required information with respect to the key premises. For instances, field staff may be entrusted with the task of monitoring the competitors moves.

3. Change in strategy is pursued when a trigger point is noticed. For instance, when the competitor assumes offensive strategy with respect to the firm's new product launch, it is preferable not to go for head-on competition but for indirect competition by changing product positioning.

7. Critically evaluate the match between **strategy and structure** .Discuss the **strategic issues involved in compatibility of strategy and structure.**

8. Highlight the role of technology and innovation in strategic management with examples.