Index

Chapter – 1 Business Environment

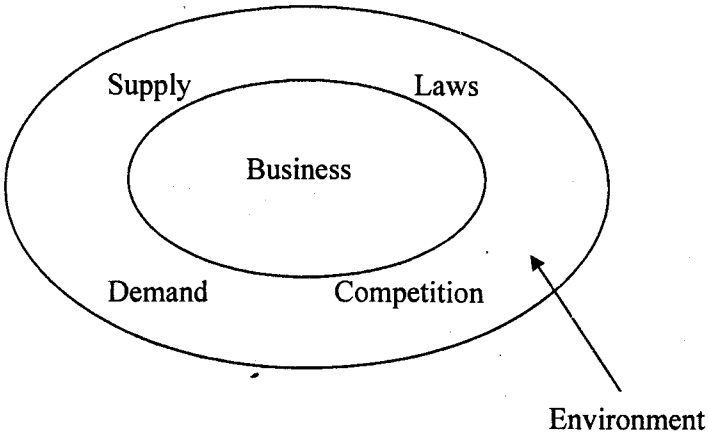
What will we study in this chapter?

As the name of this chapter indicates we are going to study about business environment, but the question is, what is the meaning of business environment? To under stand business environment we will have to study these two terms separately i.e. business and environment and then we can understand the meaning of business environment.

Business: Business means conducting some activities like sale, purchase, manufacturing, etc to achieve some objective such as growth, profit, etc. And as per the famous Management Guru 'Peter F Drucker' objective is primarily profit. He says businesses exist for profit.

Environment: Is surrounding. As our surrounding such as air, water, light, etc are our environment. Similarly businesses too have some surrounding and that surroundings are environment of business like demand, supply, competition, etc are environment of business.

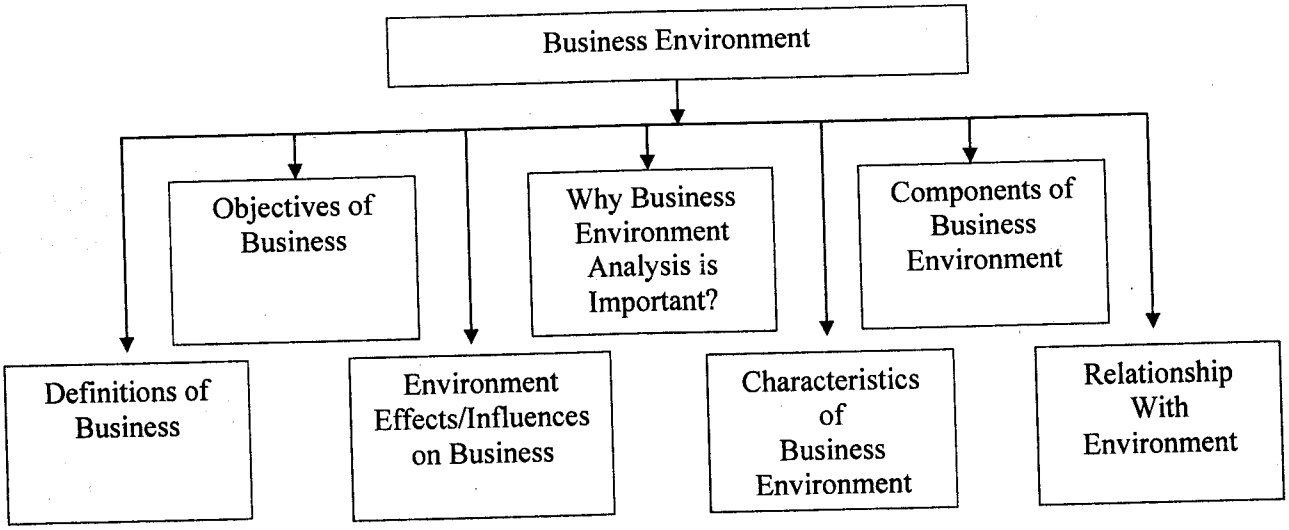
Business Environment: Now we can conclude that business environment is conducting set of activities to achieve profit by working and interacting with surrounding elements or environment. I believe the diagram below will put forward this definition with more clarity.

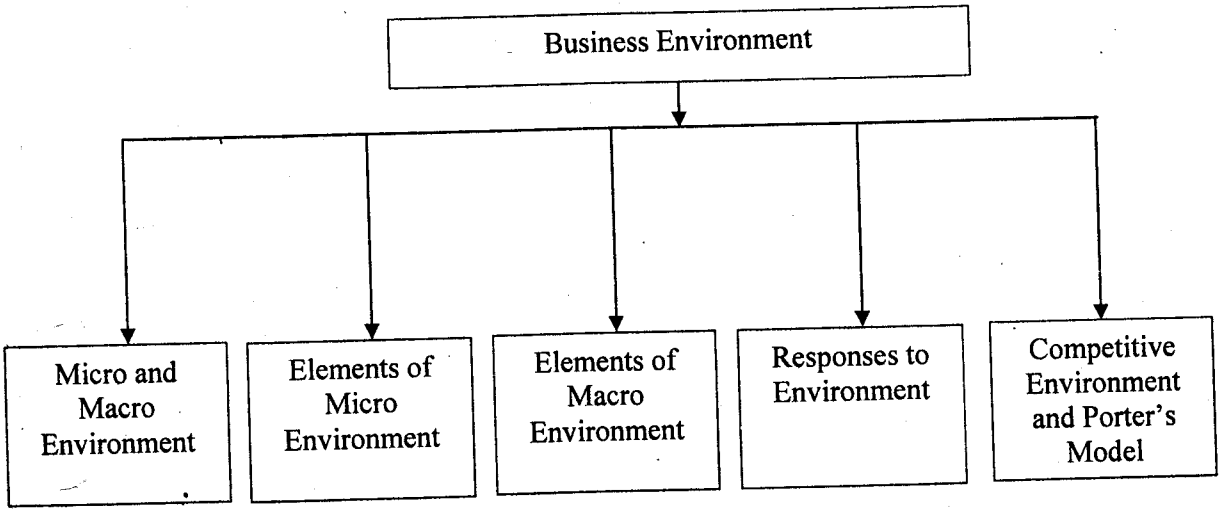


Business Environment

I believe the above diagram would make some concepts in the students thoughts about the business environment and about this chapter.

OK let us now show what all key topics we would be studying in this chapter.





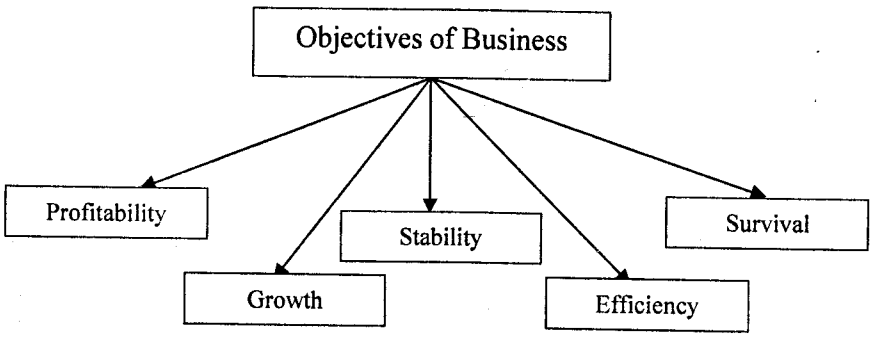
1.0 Business

- Business means busy in some activities.
- Business means conducting activities such as sale, purchase and manufacturing etc for profit and growth
- Business is some time referred in general to a particular company, enterprise or corporation

2.0 Objectives of Business

A business always has some purpose and no doubt the most important purpose of business is achieving profitability and growth.

Followings are some important purpose of business.



Profitability: This is one of the most important objectives of business. We normally setup business to achieve profits for its owner or shareholders. But, does it mean that business should somehow by hook or crook earn the profit? Our answer is no; it should earn profit by working under rules and regulations.

Growth: Another important objective of business is to achieve growth. The growth should be in terms of profit, revenue, capacity, number of employees and employee prosperity, etc

Stability: Stability means continuity of business. An enterprise or business should achieve stability in terms of customer satisfaction, creditworthiness, employees satisfaction etc. A stable organization can easily handle changing dynamics of markets

Efficiency: An efficient or aggressive working environment. A business should always try to achieve the best in its field. Efficiency is considered in terms of labor productivity, energy consumption, quality control etc.

Survival: A business should have the capability to survive markets jolts or shocks. A business should be there with a vision of long-term perspectives.

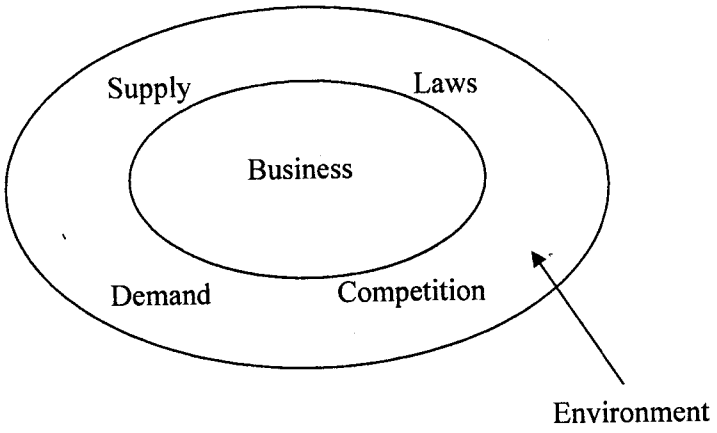
3.0 Environmental Influences of Business:

In this topic we will under business environment and its influences on business

Business Environment

- Surrounding of any living creature is known as environment such as friends, family, peers and neighbors. Environment also include man made structure such as buildings, roads, hospitals and schools, etc.

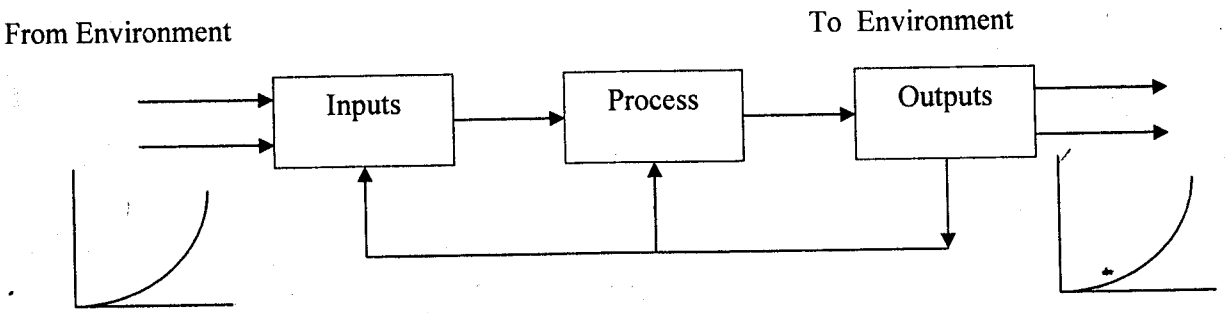
- Similar to living creature every business is also surrounded by an environment such as technology, competition, economic conditions, supply and demand, etc.



- Environmental is combinations of various factors which are largely not under control of business. Business continuously interact with these factors understand the threats and exploits the opportunities from these surrounding factors.

- In general we say business takes the some inputs from environment and after the processing of these inputs, environment provides the outputs to environment.

- The type of inputs from environment and outputs to environment depends upon business to business for example, a cement factory or business shall have different types of inputs and outputs than steel business or factory.



Growing Inputs Growing Outputs

- ***A successful business interact with environment and increases its growth i.e. an environment influences the business growth therefore, it is necessary that environment should be able to handle these influences successfully***

Environment Influences on Business:

Understanding influences of environment such as demand, supply, technology and competition, etc on business is very important for growth and continuity of business but it is not easy to understand these influences because;

1. Environment encapsulates many hidden aspects such as technology changes, etc which makes it difficult to understand
2. Changes in environment are uncertain such as changes in demand and supply

Framework to understand the environmental influences: In spite of problems in understanding the environment, organization can not ignore it and they need to create a framework to deal with such environment.

In general a framework consist the following

1. First organization should take initial view on environment in terms, how uncertain it is?, how complex it is?, etc
2. Second audit the impact of these environment factors on organization, in terms of continuity, growth and profit, etc and accordingly should deal with those factors which may impact the most on organization
3. Final step is to focus on competition factor of environment because this is that factor for which organization should have a special strategy and focus to deal with.

4.0 Why Environment Analysis is important?

When a company does not react to environment changes the result is; company can not achieve its objectives. Therefore, organization should continuously analyze its environment and its changes in environment to achieve its objectives. And as per the changes of environment organization should form a strategy to overcome on any negative impact of the environment.

In general environment analysis serve the following goals or purpose

1. Provide the understanding of current and potential changes in the environment
2. Provide needed inputs for strategic decision making such as; data on possible demand, etc
3. Facilitate strategic thinking in the organization which helps to provide rich source of ideas for growth of organization

5.0 CHARACTERISTICS OF BUSINESS ENVIRONMENT

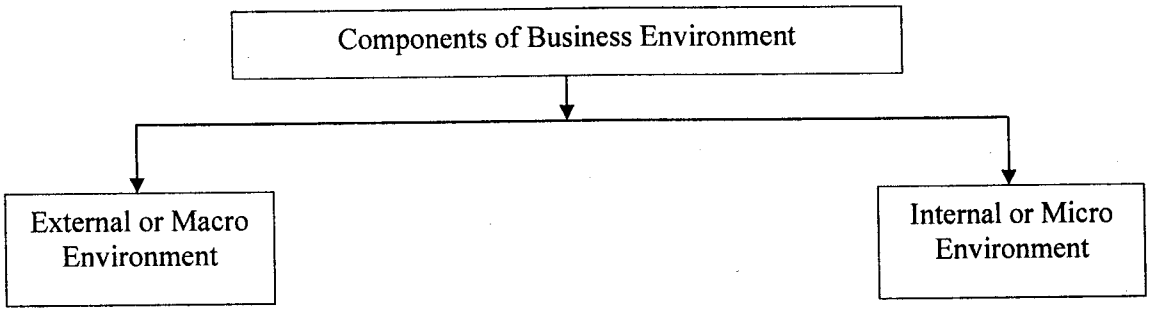
Business environment presents many characteristics. Some of the important characteristics are as follows:

- **Environment is complex:** An environment consists many interrelated factors and understanding these factors are difficult tasks. So we can say business environment is complex. It is somewhat easier to understand environment in parts but difficult to understand in totality.
- **Environment is dynamic:** Business environment changes continuously due to changing needs of customers and competitions.
- **Environment is multi-faceted:** Environment developments are taken differently by different people the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
- **Environment has a far reaching impact:** The environment has a far reaching impact on organizations, particularly, the growth and profitability of an organization depends critically on the environment in which it exists.

6.0 COMPONENTS OF BUSINESS ENVIRONMENT

The environment of organization can be divided into two parts

1. External Environment known as Macro Environment
2. Internal Environment known as Micro Environment



The external environment can further be divided into two parts

1 General (which does not effect much to organization working directly like law and order, politics, culture etc)and

2 Relevant.

The external environment also known as Macro Economic environment includes those factors which are not in the control of organization.

The internal environment is known as Micro Economic environment includes those factors which are in some control of organization.

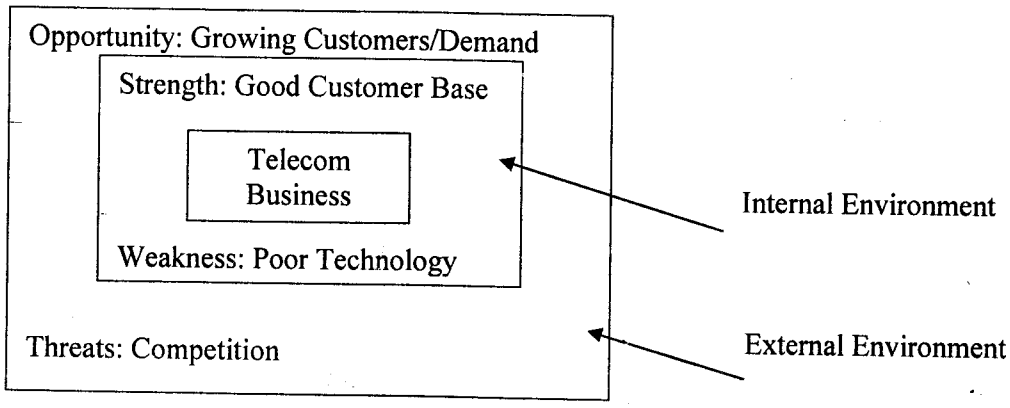
An external environment provides the opportunities and threats, and the internal environment need the understanding of the strengths and weaknesses for the existence, growth and profitability of any organization.

A systematic approach to understand the total environment is the SWOT analysis.

Business firms undertake *SWOT analysis* to understand the external and internal environment. SWOT, which is the acronym for *strengths, weaknesses, opportunities and threats and* through such an analysis, the strengths and *weaknesses existing* within an organization can be matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated.

7.0 RELATIONSHIP BETWEEN ORGANIZATION AND ENVIRONMENT

Business can not exist without interacting with their environment. It is only environment which provide opportunities to business to grow also provide an indication to business about their strength and weaknesses. You can relate for the time being a business with a student. It is student surrounding which provides him opportunities in the form of CA and MBA courses etc and it is also the surrounding which indicate (after interacting with other students, etc) what is the student strength and what is his weaknesses, etc.



The above opportunities, threats, strengths and weakness are known to organization through interactions with environments.. This interaction with environment happens in the following forms.

1. Exchange of Information: Organization continuously exchange information with environment which helps them in better planning and functioning of business
2. Exchange of Resources: Organization continuously require the resources such as manpower, machines, materials and money, etc from/to environment for their functioning.
3. Exchange of Power and Influences: This exist in the form of Govt controls, regulations, etc. Which enforce business to work in a controlled manner.

The degree of relationship between environment and business depends upon business to business.

8.0 The Micro and Macro Environment

Every organization works in two environments

1. Micro Environment:

The immediate environment with which organization interacts for its day to day operations is known as Micro Environment. The Micro Environment is also known as internal environment of organization. The Micro Environment components results in strengths and weaknesses of organization.

The Micro Environment deals with followings;

a. Employees
b. Customers
c. Suppliers
d. Local communities in which organization or firm operates
e. Direct competitors etc.

The Micro Environment influences organization day to day working

2. Macro Environment

The Macro Environment covers the broader areas or issues with which organization deals for its long terms working. The Macro Environment is also known as organization external environment. The Macro Environment provides opportunities and threats which may results in either growth or decay of organization.

The Macro Environment deals with followings;

1. Government
2. Economic Conditions
3. Legal setup
4. Political setup
5. Technological changes

6. Global Environment
7. Demography
8. Social and Cultural issues

The Macro Environment influences organization long term working. The Macro Environment play a very important role in strategic planning of organization growth.

9.0 Elements of Micro Environment:

I believe by now you all are aware that a Micro Environment is the internal environment. It deals with those components that help in day to day operations. The components of Micro Environment are;

1. Customers\Consumers
2. Suppliers
3. Organization (Employees, Directors, Owners)
4. Competitors
5. Market
6. Intermediaries

1. **Customers\Consumers:** Customers are the most important components for organization, no organization can survive without customers. Customers buy the product of organization and pay money which help organization to achieve growth and profitability. Consumers are actual users of goods of organization and these may be different from customers. Organization should continuously monitor their goods use and acceptance by consumers to sustain competition.
2. **Suppliers:** Suppliers are also important component of Micro Environment. Suppliers provide the raw material for production of goods. Big organizations procure raw materials from large numbers of suppliers. Suppliers also form an important part of competition.
3. **Competitors:** Competitors are other business entities who compete for same resources and market. Competition provides the correct shape to business. Organization should regularly analyze the competition in terms of who are main competitors? What are their present strategies and business objectives?

   Competition can be direct or indirect for example, competition between Hero Honda and Bajaj auto is direct competition and competition between Sony to sell 'Home Theater' and Suzuki to sell 'Car' to affluent persons is an example of indirect competition.
4. **Organization:** The organizations are formed with many individuals and these individual influences the day to day working of organization but keeping in mind the long term goals

and objectives of organizations. Organization's individuals are normally divided into following categories

(a) Board of Directors

(b) Employees

(c) Owners

5. **Market:** Market is an extended form of customers and consumers. Market provides a structure to organization working. Market provides opportunities to organization growth. The important elements of market which effect organization working are;

(a) Cost structure

(b) Price sensitivity

(c) Distribution system

(d) Technological structure

(e) Market stability

6. **Intermediaries:** The intermediaries such as distributors, dealers and retailers are also important components of Micro Environment. These components play an important role in establishing distribution system of goods and services to end users or consumers of goods.

10.0 Elements of Macro Environment:

We are now quite comfortable to assume that any business is surrounded by two types of environments: First is the internal environment or known as Micro Environment which effects organization day-to-day working and second environment is known as external environment or Macro Environment which effects organization long-term planning for business.

Macro Environment components are treated as broad components and these components are environments in themselves.

Followings are some important components of Macro Environment.

1. Economic Environment
2. Population and Demographic Environment
3. Global Environment
4. Technological Environment
5. Legal-Political Environment
6. Social-Cultural Environment

1. Economic Environment:

Economic environment in itself is a very broad component. In general it describe the situation in the region and nation in which firm operates. It broadly describes the conditions of money market, manpower markets, buying power of consumers, supply and demand for goods, etc.

Economic environment also represent the size of market, income distributions, taste and preferences of consumers in the market.

There are many economic indicators or factors to be considered for strategic planning such as;

(a) GDP size and growth rate

(b) Inflation Rates

(c) Interest Rates

(d) Tax Rates

(e) Money market rates (Repo, Reverse Repo and Call Money)

(f) Liquidity situation or availability of credit

(g) Monetary and Fiscal policies (SLR, CRR, etc)

(h) Budget deficit

(i) Income Distribution

(j) Consumption pattern and regional disparity

(k) Unemployment rates

(l) Labour productivity

(m) Shift to economy (service/manufacturing)

(n) External trade (import / export)

(o) Trade Deficit

(p) Foreign exchange reserve, rates and policies

(q) Stock market conditions, etc

2. Demographic Environment:

Demographic means characteristics of population in an area, district, country or in world. It includes factors such as race, age, income, education level, home ownership, employment status and location. Data with respect to these factors as trends over time for these data are of great interest to businessmen other than to economist. Businesses often analyze the demographic data and trend to understand what factors offers;

1. Opportunities and Threats
2. Market Size of Industry

We all know most of the software companies like to open their centers in Banglore and other metropolitan cities because the demographic environment of these cities best suits their requirement of skilled manpower. So these cities provide opportunities to get required manpower at appropriate cost but may also present threats in the form high turnover of manpower.

Different types of companies have different types of demographic interest. Normally a company look for following important factors in demographic environment

(a) Population Size
(b) Income Distribution
(c) Education level
(d) Ethnic Mix
(e) Geographic profile in terms of urban and rural distribution

3. Global Environment:

Now-a-days, it is very difficult for organizations to think only at regional or national level. The globalization is also a part of organization planning and growth. Globalization refers to integration of world into one huge market. This integration removes the trade barrier among countries. The global organizations are known as MNC (Multi National Corporation) or TNC (Trans National Corporation). These organization setup manufacturing facilities, R&D centers and raise the capital and resources wherever these can be raised in cheapest mode.

At organization level 'Globalization' means three things

- It is an organization of multiple units linked with common ownership
- Multiple units draw on common pool of resources, such as money, information, patents, brand name and credit, etc
- Units respond to common strategy

Example of global organizations are; Unilever, Nestle and Procter and Gamble, Nokia and Microsoft, etc

Why Do Companies Go Global?

There are many reasons for companies to go global, such as;

- There is an old saying 'world is a small place' thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes. The shrinking time, distance and low cost communication is one of the reason of company going global
- Domestic markets are no longer considered adequate and rich to grow continuously. For example, Japanese have flooded the U.S. market with automobiles and electronics because the home market was not large enough to absorb whatever was produced during 70s.
- The companies, which depends upon on mines and mineral resources such as steel and petroleum organization always look for to acquire such resources overseas through mines acquisitions for long term security.
- Whenever a company develop new product and first sell that product in domestic market; sooner or later foreigner also become aware about that product and increasing demand for the product force companies to setup the facilities in the other part of worlds to satisfy the demand
- Companies setup the manufacturing facilities and service centers in different parts of world to take benefits of cheap labour and govt. incentives
- Consolidation of business and resources to achieve economy of scale is another reason for going global
- New market, cost cutting, cheap labour, cheap resources and environment restrictions (climate change theme in developed world) at some places also forcing organizations to go global

Manifestation or Effects of Globalization:

There are many effects of globalization such as

- **Global Location of Different Operations:** Companies can locate their operation anywhere in the world depending upon the economy of operation, availability of raw material and low cost labour, etc.
- **Interlinked and Interdependent economies:** It is very difficult for any country's industries to work on independent basis. The industries work on interlined manner to achieve most economic operation
- **Lower Trade Barriers:** Globalization is helping to remove trade barriers in terms of removing duties, etc.
- **Infrastructure Development:** Globalization has helped in providing better infrastructure in the form of better roads, ports, airport and telecom network, etc
- **Importance of Entrepreneurship:** Globalization has given great opportunities to professionals by way of entrepreneurship to setup their own enterprise by way of providing cheap capital
- **Privatization:** It has helped in increased privatization, efficiency, labour productivity and competition

- **Mobility of skilled worker:** Skilled workers can now move to place to maximize their productivity and earning
- **Increased efficiency and quality:** Efficiency of business operation continuously increasing to make operation the least cost and with the highest quality
- **Creation of regional block to promote trade:** Regional blocks as NATO, SAARC, EU and OPEC helping to get maximum return for their regions.

4.0 Technological Environment:

I believe we all are reaping the benefits of continue advancement of technologies in the form of computers, air travel, mobile phone, internet access and television, etc.

Technology and business are highly inter-related and inter-dependent, technological innovations or advancement pave the way for business innovations and advancement. Use of technologies influences style of business operations which leads to many opportunities for business and also makes many existing operation obsolete. Therefore, it is very important for business to analyze the impact of technology environment carefully on business functioning for both short-term and long-term planning.

Followings are some of the factors that business should consider for technologies impact on business.

- Impact of technology on business operation, for example there are some business which are completely dependent on latest technology, such as telecom, banks, etc. so these organizations should make use of latest technology as an integral part of their business operation
- Opportunities arising out of technological innovations or advancement
- Risks and uncertainties from technological changes
- Role of R&D budgets and govt. support to R&D

Business can also analyze the impact of technologies on micro basis other than general or macro analysis such as;

- Type of technologies used by business
- Criticalness of use of these technology for business and process continuity
- Technologies are developed in-house or procured externally.
- If procured externally will these be always available or there is a risks of discontinuity
- Technologies used are latest and ahead of used by competitors
- Technologies which require more investment and which require to be curtailed, etc

5.0 Legal – Political Environment:

The government policies have great influences on businesses. The government guide the business environment in country. No business can isolate it-self from legal-political system of country. Therefore, it is very important that business should take care of legal-political environment in their strategic planning for appropriate growth and avoiding any risks of govt. interfaces and legal situation for business operation.

Business should analyze the followings for impact of legal-political system;

- General state of political development

- Degree of politicization of business and economic activity, Nano car plant of TATA MOTORS in West Bengal is an example of this category
- Political stability
- Economic policies of ruling party
- Law and order situation
- Legal framework of country and implications of various acts under which business need to functions
- Effectiveness of implemented laws
- Government policies such as labour, fiscal, export-import, FDI (foreign investment) and industrial development

In general there are three important elements which organization analyze to understand the legal-political impact and these are;

(1) **Government:** We all know businesses are highly guided and controlled by the governments, therefore business should carefully analyze the government policies of short-term and long-term planning. The government polices, particularly, related to taxes and duties, monetary polices, foreign direct investment policies and export-import policies should be carefully analyzed

(2) **Legal:** Business should always comply with various procedures and regulations enacted by government. Therefore, business must understand the laws related to intellectual property, foreign exchange, labour, competition, etc

(3) **Political:** Political groups normally put pressure on business for political gain by rasing the sensitive issues related to public. Recent closure of Nano car plant by TATA MOTORS is an example of this political pressure. Therefore, business should take into consideration of this aspect in their planning

6.0 Social – Cultural Environment:

Strategic Responses to Environment:

We all know organization or company is an entity and organization response to environment is similar to human entity response to its environment and this response can be in three forms;

(1) Conservative
(2) Cautious
(3) Confident or Aggressive

(1) **Conservative:** Such enterprise are passive in their operation and these enterprise react only when external environment force them to do so. Also known as slow moving organization. We all know government banks and organization are normally considered as conservative organizations and moves slowly to change themselves in response to environment

(2) **Cautious:** These organizations take intelligent approach to response to environment. These are also known as adaptive organizations and adapt themselves to changing environment quickly but

takes a cautious approach before taking actions. We can say TATA companies may fall under this category.

(3) Confident or Aggressive: These organizations work aggressively and some time converts threats into opportunities. These are highly dynamics organizations and known as trend setter or mover and shaker of market. Their feedback system is highly dynamic

11.0 Competitive Environment:

To deal with competition is the most important essence of strategic management. The organization growth and profitability primarily depends upon how effectively organization deals with competition. While preparing strategic plans, organizations should seriously consider the competitors strategies, products, cost and profits level, etc.

We all can see many examples of intense competitions between rival companies such as Coke and Pepsi, mobiles companies, etc to maintain their market share.

Organization should consider the followings to deal with competitions.

1. Who are the competitors?
2. What are their products and services?
3. What are their market shares?
4. What are their financial positions?
5. What are their prime regions for dominance?
6. Reasons of dominance in those regions
7. What put them to price and cost advantage?
8. How strong is their distribution network?
9. What are their potential strategies?
10. What is their manpower strengths and track record of key managers, etc?

Effect of Competitions:

Some time there is saying in the market that too much competition is bad for organizations and economy as whole because that may bring instability in the environment. But there is no disagreement in general that competition is good for both consumers and organizations and also for economy. It helps to bring the true economic value of any product and service to consumer and forces organization to invent cost effective and high quality products.

Cooperation in Competitive Environment: Businesses cooperate with each other to maximize the profit out of their products or cutting the cost to minimum. Particularly, business cooperation becomes more important at the time of competitions

There are three types of cooperation in competition.

1. Cartelization (Oligopoly)
2. Kieretsu
3. Internal cooperation (family owned business cooperation)

Cartelization:

In business some time enterprise form a group or cartel to create the market conditions to suits their interest. This type of cooperation provides a situation of oligopoly but indirectly it is a monopoly kind of situation. We all know about a famous cartel in world oil market known as OPEC, which try to create the price and supply scenario of oil to protect their interest.

We some time talk about cartel in reference to the stock market; where set of brokers group together to manipulate the price of any particular stock. It is a known fact that cartelization is not good for development of industry, consumers and country as whole because it does not provide true economic value of products.

Kieretsu:

Cooperative network of business is known as Kieretsu. This is another type of cooperation in business to extract the maximum benefits of already existing setup. And this type of cooperation in businesses is considered as fair and reasonable. The cooperation between Nokia and Airtel in which Airtel sell Noika mobile phone bundled with their talk plan is an example of this type of cooperation. We can find many examples of such type of cooperation among business enterprise such as McDonald selling Coke's products product, etc. Some tome there is cooperation of similar business enterprise also example Tata Motors selling Fiat cars through its dealer and distributors network.

Kieretsu is different from a word known as conglomerate or group of companies. In this every member is an independent company but may own some capital in peers or other cooperative member not like conglomerate in which same owner own the majority capital in different companies.

In Kieretsu members remain independent companies in their own right, the only strategy they have in common is to prefer to do business with other Kieretsu members, both when buying and when selling

Family Owned Cooperation:

Cooperation in business owned by same family is normally an automatic process. In India large numbers of business are family managed enterprise. These include large businesses, such as Birla, Reliance, Jindal, etc. Major decisions and sometime even minor decisions are made by family members who manage the enterprise. The interests of the family largely influence the managerial decisions and activities of the enterprise.

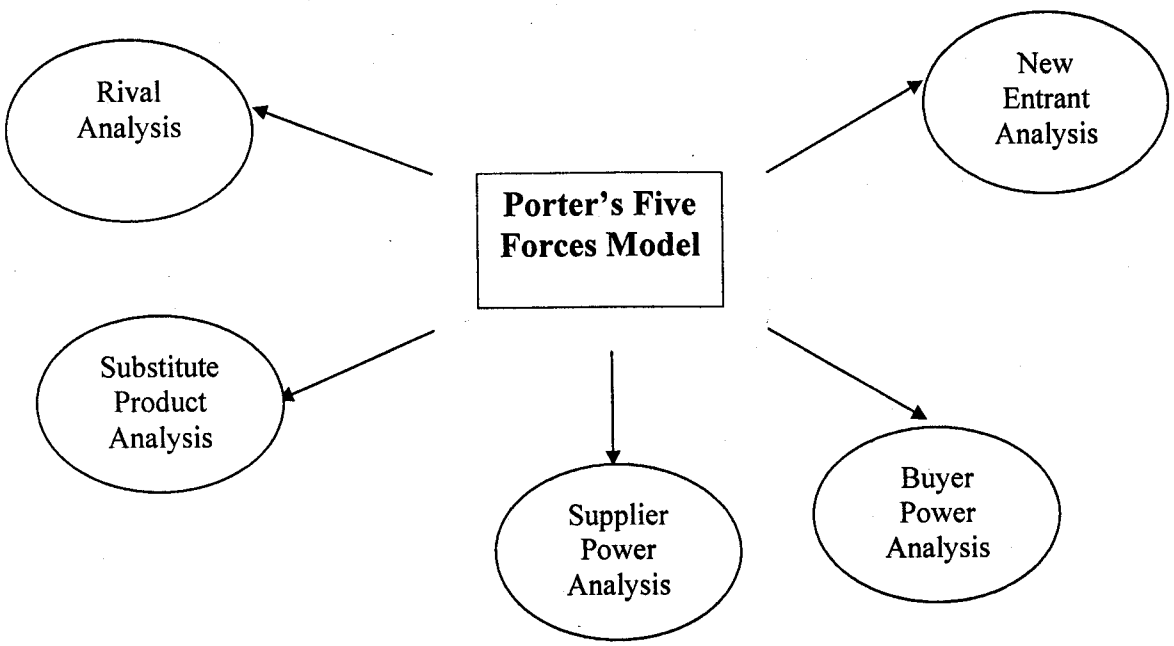
Sometime, quarrels and conflicts among the managing members of the family on family matters tend to distort their behavior in managing the enterprise also and thereby damage its functioning. Succession remains a tricky and conflicting issue in businesses. Be it the Ambanis of Reliance Industries, the Bajajs of Bajaj Auto, the Nandas of Escorts, or the Modis of Modi Rubber - each family has, in the recent past, faced succession and ownership issues and found them tough to resolve. However, one can count several counter examples of family-run businesses that have resolved these issues amicably. The Murugappa Group in the South, the Burmans of Dabur India and the Thapars have settled succession issues without coming in news from negative perspectives

12.0 Porter's Five Forces Model: Competitive Analysis:

To sustain in the market in the long run the competition analysis is very important aspect. The managers should not waste their entire time in just collecting information about competition and interpreting it, rather they should take a focused approach for competition analysis. To help in this focused approach of competition analysis a tool or approach known as Porter's Five Forces Model is used.

Following are the five areas or forces of competition analysis

1. Threats of New Entrants
2. Bargaining power of buyers
3. Bargaining Power of Suppliers
4. Threats from substitutes
5. Rivalry among current players



The above analysis is performed in three steps

Step 1: Identify competitive pressure associated with above forces

Step 2: Determine how strong is the pressure? (Fierce (Very Strong), Strong, Moderate to Normal or Weak)

Step 3: Determine whether the collective strength of five forces may help to earn attractive profits.

Chapter -2
Business Policy and Strategic Management

What will we study in this chapter?

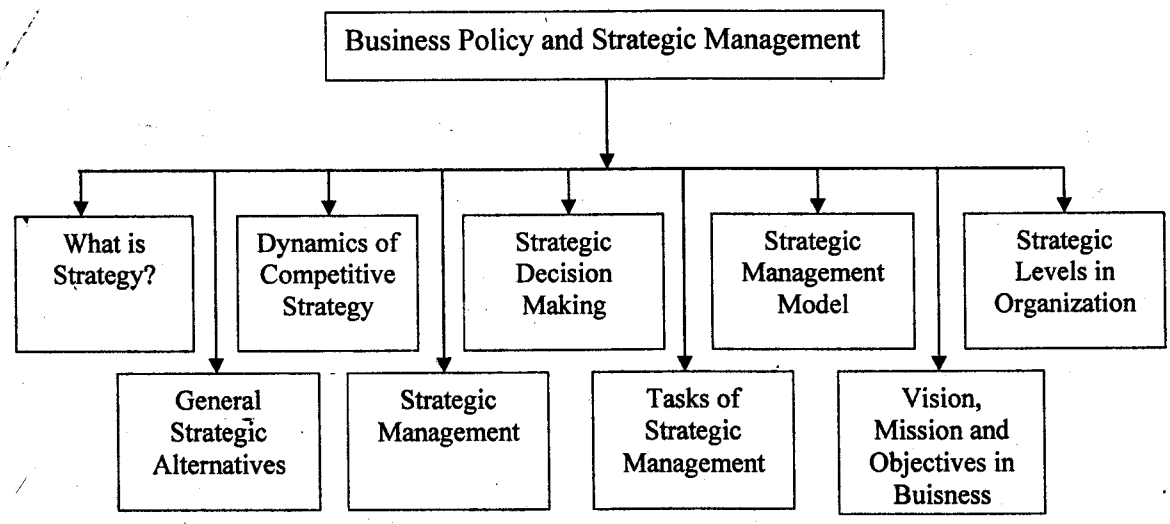
In last chapter, we learned about Business Environment and we learned that there are two types of business environments known as Internal or Micro and Externals or Macro environment. Here is now another chapter extending the concepts of previous chapter in the form of business policy and strategic management

Business Policy: Business policy is set of rules for functions and the responsibility of senior management towards those functions. For example, management functions such as marketing, finance, HR, production always have some predefined rules or guidelines and those rules are known as business policy of that respective area.

Strategy: Strategy is very popular word used in military related to war, as used means or methods to defy or defeat enemy. Strategy is now as popular word in business as in military, but in businesses, strategy is related to methods or means adopted to achieve business's objectives.

Strategic Management: The term strategic management refers to the process of forming a vision, setting objectives, building a strategy, implementing and executing the strategy and then initiating whatever corrective adjustments required in the vision, objectives and strategy, etc to achieve the objectives.

Following key concepts, we will study in this Chapter.



.0 *What is Strategy?*

As said above, the word 'Strategy' has emerged from military as; 'means or methods adopted to defeat enemy'. In general, we can say that strategy is an analysis of situation and then planning and implementation of activities to achieve desired goals or objectives.

Business respond to adverse or hostile environment with strategy just like military respond to war. In business, 'Strategy' is considered as:

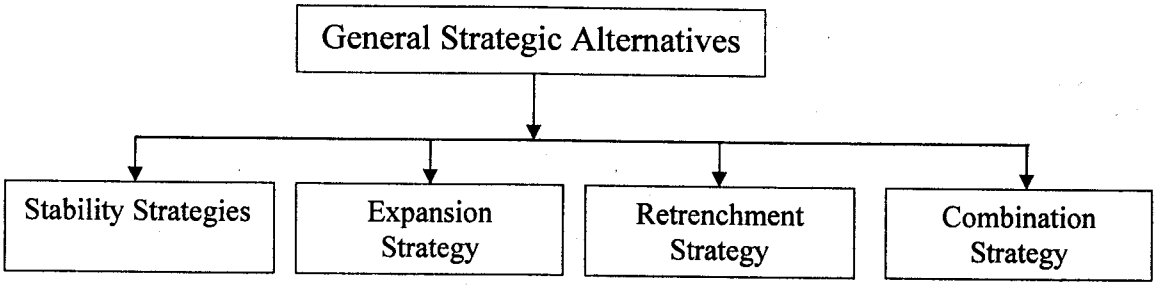
- a game plan by management to take position, conduct operation, attract customers and compete successfully;
- a comprehensive, unified or integrated plan and actions to achieve the desired business goals and objectives;
- a long-term plan or blue print to achieve desired image, direction and destination for organization;
- an analysis, planning and implementation of actions or activities to take successfully organization out from any adverse scenario and put organization in the league of winners; and
- a plan adopted for survival, stability and growth of business

Followings are some general characteristics of a 'Corporate Strategy'

- Formulated by Top Management
- Long Term or Long Range: It is meant for long term future growth and profits
- Integrated: Consider all elements of business
- Flexible: Can be modified as per changed Environment
- Action Oriented: It should not be planning only, it should be action oriented planning
- Goal Oriented: It is for achieving organization long term objectives of growth, profitability and sustainability
- Purposeful : It is for making organization ready to cope-up to a competitive and complex business environment successfully
- Efficient: it does not include unnecessary activities and elements
- Synchronized: All activities of strategy are well coordinated
- Allowances for Uncertainties : Includes contingencies

2.0 *General Strategic Alternatives*

We know every organization works hard to achieve its objectives such as growth, profitability and stability. Organizations encounter severe competition to achieve these objectives and organizations can successfully face competition when they formulate some competitive strategies. There are four general strategic alternatives also known as ***"Master Strategies"***, which help organizations to face competition and achieve its objectives successfully.



Stability Strategy:

We know that achieving stability is an important business objective. The stability strategy state that business should focus on their core products and should strive to improves functional efficiency, and also the quality of products. Sometime this type of strategy is called as, 'do nothing' strategy, but it is not 'do nothing' strategy. By formulating this strategy, business wants to achieve unique position for their products in the market, by continuously improving at all fronts- be it quality, customer service, R&D and distribution, etc.

Primarily, this strategy is based on two fundamentals

1. Organization wants to deal in similar products or services and markets
2. Organizations focus on functional performance improvements

Expansion Strategy:

This is considered one of the most important strategies by business organizations to grow the business exponentially. Profitable business always looks for new avenues for efficient utilization of their profit. Business expansion strategy can be in many forms.

1. Expand business of similar product to new markets
2. Expand business through diversification
3. Expand business through acquisition and mergers

Expand business of existing and similar products to new markets:

This type of expansion is considered as natural expansion of business, as business always wants to enter into new market in order to expand the reach of their product and services. For example, Reliance expansion from textile to petrochemicals and to refinery is an example of this category, and this type of expansion is referred as backward integration

Expand business through diversification:

Business objectives of achieving growth and profitability, some time can not be satisfied through similar products and services. In this situation expansion of business can be achieved by diversifying into

different products and services. For example, Reliance expansion from petrochemical and oil business to telecom and retail are examples of diversification

Expand business through acquisition and mergers:

In this strategy, businesses acquire the other related or diversified businesses, or merge themselves with other related or diversified businesses. This type of strategy can give expansion in the shortest possible time but need some time huge amount of money. Acquisition of Corus Steel by TATA Steel is an example of this category.

Retrenchment Strategy:

Sometime businesses have products or business units which are not performing as per their expectation. In this situation, business may divest such business units from their portfolio, as 'stop loss' strategy. The retrenchment over here is not related to retrenchment of staff but the retrenchment of business unit which is also known as divesting business unit. For example, Govt of India divested IPCL to Reliance and Maruti to Suzuki by selling its controlling stake.

Combination Strategy:

As its name suggests, it is a mix of different strategies which is adopted to develop the best possible portfolio of business. The organizations sometime may divest some business units but at same time use the cash generated through divested business to expand the remaining business through acquisitions and by entering into new markets. This type of strategy is also known as business restructuring.

Recently, L&T divested its cement business by selling it to Aditya Birla group but at the same time L&T expanded aggressively in infrastructures development and also entered into new markets.

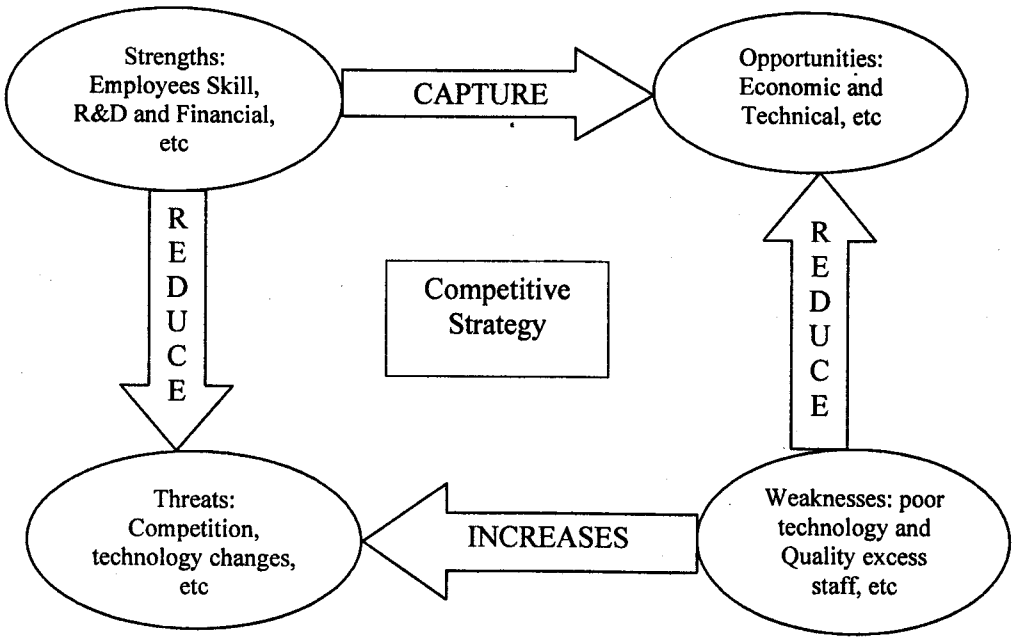
3.0 The Dynamics of Competitive Strategy

The organizations can survive by competing in the market and organizations can compete only when they formulate and implement an effective and competitive strategy. The competitive strategy can be formulated effectively by using Porter's five forces model, and by effectively looking at - strengths, weaknesses, threats and opportunities for the organization.

The organization reply to competition dynamics is always happen in the form of strategic response of organization internal environment to the external environment. We know that environment- particularly external environment is dynamic, complex and uncertain. Therefore, the competitive strategy should also be equally dynamic to deal effectively with competition.

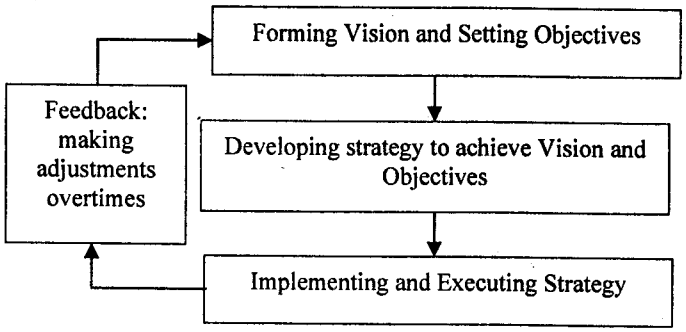
Practically, it is an internal environment's strengths, which respond to external environment's opportunities and to external environment's threats. The complexities and threats of external environment force organizations to remove internal weaknesses and shape the organization's competitive strategy

The diagram below details about; how dynamics emerges in the competitive strategy?



4.0 Strategic Management

The term 'strategic management' is combination of strategy + management. This term refers to the forming a strategic vision, setting objectives, developing a strategy, implementing and executing the strategy, and then overtimes initiating whatever adjustments are required in the vision and objectives then implementing these adjustments.



Strategic management initiate with setting a mission, objectives and goals. Thereafter building a business portfolio (business model/product mix) accordingly and carrying the functional activities to achieve the set mission, objectives and goals.

Strategic Management Framework

The basic framework of strategic management involves five stages:

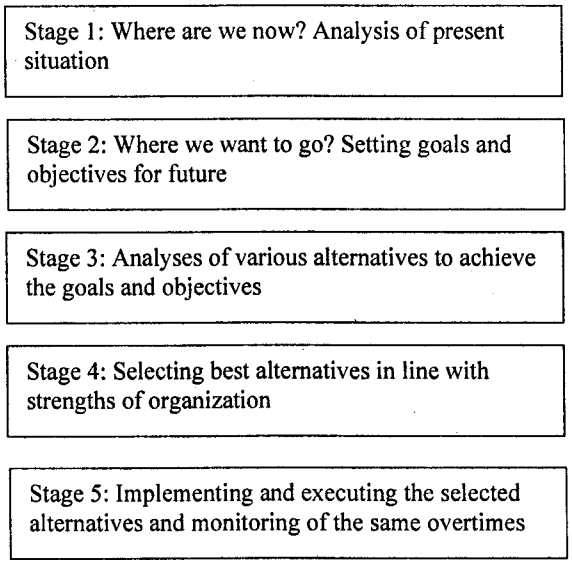
Stage 1: In this stage, organization analyze about their present situation in terms of their Strengths, Weaknesses, Opportunities and Threats.

Stage 2: In this stage, organizations setup their missions, goals and objectives by analyzing where they want to go in future.

Stage 3: In this stage organization analyze various strategic alternatives to achieve their goals and objectives. The alternatives are analyzed in terms of what business portfolio/product mix to adopt, expansion, merger, acquisition and divestment options etc are analyzed to achieve the goals.

Stage 4: In this organizations select the best suitable alternatives in line with their SWOT analysis

Stage 5: This is implementation stage in which organization implement and execute the selected alternatives to achieve their strategic goals and objectives.



Strategic Management Framework

Importance of Strategic Management:

- Discover organization strengths and weaknesses
- Identify the available opportunities and possible threats
- Discover the objectives and goals in line with organizations strengths and available opportunities
- Implement changes to overcome weaknesses and manage the threats.

- Provide vision/mission or direction to future of organizations
- Build a dynamic and strong organization
- Help to achieve growing and stable organization

5.0 Strategic Decision Making

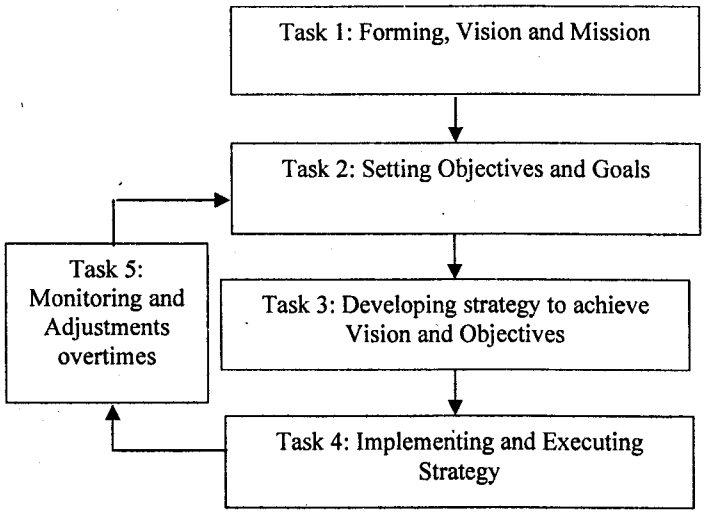
Decision making is a managerial process and it is a function of choosing a particular course of action out of several alternative courses for the purpose of achieving organization's objectives and goals. Decisions may relate to general day to day operations, can be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are:

- ***Strategic decisions require top-management involvement*:** Strategic decisions involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.
- ***Strategic decisions involve the allocation of large amounts of company resources*:** It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.
- ***Strategic decisions are likely to have a significant impact on the long term prosperity of the firm*:** Generally the results of strategic implementation are seen on a long term basis and not immediately.
- ***Strategic decisions are future oriented*:** Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ***Strategic decisions usually have major multifunctional or multi-business consequences:*** As they involve organization in totality they affect different sections of the organization with varying degree.
- ***Strategic decisions necessitate consideration of factors in the firm's external environment*:** Strategic focus in organization involves orienting its internal environment to the changes of external environment.

6.0 Tasks of Strategic Management

As discussed above, the strategic management consists of five interrelated tasks, these are;

1. Forming vision and mission
2. Setting objective and goals
3. Developing strategy to achieve these goals
4. Implementing and executing selected strategy
5. Evaluating and monitoring implemented strategy overtime

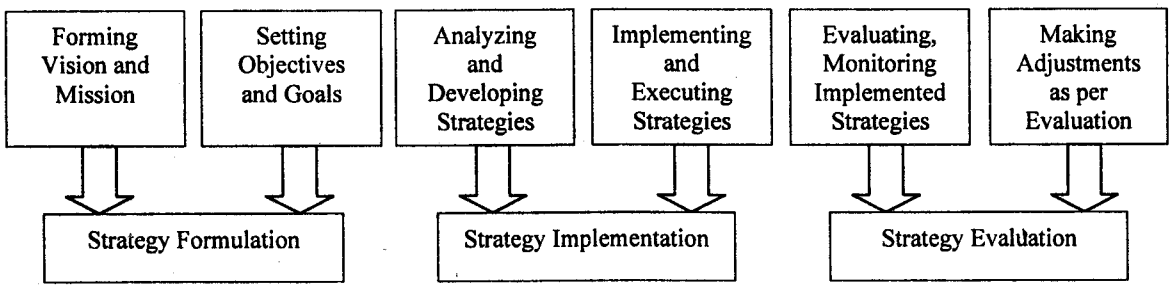


7.0 Strategic Management Model

The above strategic management tasks can be understood better by constructing a model known as strategic management model.

This model divides the strategic management tasks into three categories;

1. Strategy Formulation
2. Strategy Implementation
3. Strategy Evaluation



Strategic Management Model

Organization formulates strategies by forming long term vision and objectives considering all their strengths and weaknesses and by looking into opportunities and threats in the environment. For example, Infosys is working with single mind mission to achieve numerouno position in software services sector, and do not have any objective to enter into computer hardware and telecommunication/ISP business.

Once an organization is absolutely clear about their mission and objectives then it is easy to implement the formulated strategies. But, we all know business is very dynamic because it is governed by complex and uncertain external environment therefore, it is necessary that organization should evaluate their implemented strategies to make adjustments as per the environment needs with changing opportunities and threats of environment.

7.0 Vision, Mission and Objectives in Business

'Strategy Formulation' i.e. developing vision, mission, objectives and goals is the most important step of strategic management model. This step is considered as a path forming step, and provides the direction to organization for movement in future.

Vision:

There is a quote that 'great visionary can foresee the future in advance and take steps accordingly to be at forefront'

Steve Jobs, CEO of Apple Computer Inc. is one of the greatest visionary in computer industry. He and his organization are working on GUI and Multimedia applications of computer since last 30 years. Finally, his efforts are vindicated and it is well established that coming time in the computer and electronic devices would be more and more multimedia oriented. Apple exemplary products such as; iPod, iMac and iPhone's great success is an example of his great vision which he foresaw 30 years back.

So we can conclude that;

- Vision provide a road map to Company's future
- Vision indicates the kind of company management is trying to create for future.
- Vision specifies about company intention and capabilities to adapt to new technologies
- Vision also specifies management policies towards customers and societies

Strategic vision specifies primarily three elements;

1. Forming a mission statement that defines what business the company presently is in? And "who we are and where we are now?"
2. Using this mission statement as base to define long term path by indicating choices about "Where we are going?"
3. Finally, communicating above strategic vision in clear and committed term

Strategic Vision has important purposes, such as;

1. Clearly provide the direction that company wants to follow
2. Identify the need of changing from existing direction or products, if stated in vision statement
3. Create passionate environment in the organization to steer the company with great excitement in selected direction.
4. Create creativity in every member of company to prepare company for future
5. Promote entrepreneurship

Mission:

Mission is an element of company vision. Company management develops a vision based on their capabilities, experience and changes management foresee in future. Based on this vision company formulate a mission statement which becomes the basis for future orientation or direction of company.

Let us look at mission statement of some popular organizations

Mission of Cadbury: "To attain leadership position in the confectionary market and achieve a strong presence in the food drinks sector"

Mission of McKinsey & Co: "To help business corporation and governments to be more successful"

Mission of Reliance Industries: To become major player in chemical business and grow in other growth oriented industries like infrastructure"

As said above mission is a part of vision "Where company wants to be in future?"

Some of important features of mission are;

- It is an expression of company vision
- It is an expression of company future position and growth ambition
- It tries to combine the expansion of existing business portfolio to the preferred future portfolio, where company wants to make its presence.
- It provides a guiding principle and common purpose to each member of organization
- It provides foundation to the future aim of organization

Management advisors elaborate mission statement as guiding force to take organization in the planned direction.

Government of India has various mission statements

"Make India a Developed Nation by 2050"
"Electricity to all by 2012"

The statements like above keep reminding govt./people and organizations, strive to achieve the declared mission.

Guidelines for formulation of Mission Statement

Organization can not declare the mission just on some great whim and fancy, it should be based on organizations' existing capabilities and achievable milestones. Here are some guidelines for formulation of "mission" statement

- It should be based on existing business capabilities "Who we are and what we do?"
- It should follow the long term strategy principles
- Profit making should not be the only mission of organization
- It should be logical extension of business existing capabilities
- It should clearly and precisely present the future orientation of business
- It should includes achievable missions
- It should be stated in a form that it becomes the motivating force to every member of organization
- Mission statement once formed shall be communicated to every member of organizations
- It should include interest of customers and society
-

Objectives and Goals

We frequently use the term organization's "objectives and goals", the term "objective and goals" set target of any particular aspect like profit and revenue growth, etc.

Here are some common definitions of Objectives;

- Objectives are performance targets which organizations wants as result or outcomes in the specified periods
- Objectives achievements are used as benchmark of organization performance and success
- Objectives are formed from visions and mission statement of organizations
- Objectives are interchangeably used with goals but goals are defined as more precise and specific with closed ended attribute (in precise quantity form) whereas objectives are open ended for future states or outcome not as precise as goals. Objectives are for long term whereas goals are for short term

Characteristics of Objectives: Objectives characterize business long-term prospective, such as:

- Facilitate to achieve mission and goals
- Set the basis for strategic decision making
- Clear the relationship of organization with environment
- Should be understandable by each member of organization
- Should be measurable and controllable
- Should be related to time frame
- Should be challenging
- Should be concrete and specific
- Should be formed within the constraints
- Should motivate people.

8.0 Strategic Levels in Organization

There are primarily three levels of strategies in the organization.

1. Corporate Level
2. Business Level
3. Functional Level

Corporate Level:

The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals occupy the top-committee of decision making within the organization. The CEO is the principal general manager. In consultation with other senior executives, the role of **corporate-level managers** is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization. For example, strategies formed for Unilever Limited would be at corporate level.

Business Level:

A business unit is a self-contained division (with its own functions-for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business-level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Thus, whereas corporate-level general managers are concerned with strategies that span individual businesses, business-level general managers are concerned with strategies that are specific to a particular business. At GE, a major corporate goal is to be first or second in every business in which the corporation competes. Then the general managers in each division work out for their business the details of a strategy that is consistent with this objective. For example, strategies formed for Kwality Walls, a subsidiary of Unilever Limited would be at business level.

Functional Level:

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to *one* organizational activity, whereas general managers oversee the operation of a *whole* company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level general managers. Moreover, functional managers provide most of the information that makes it possible for business- and corporate-level general managers to, formulate realistic and attainable strategies. Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business-level plans. For example, strategies formed for employee retention by HR manager at Kwality Walls would be at functional level.

Chapter -3
Strategic Analysis

What will we study in this chapter?

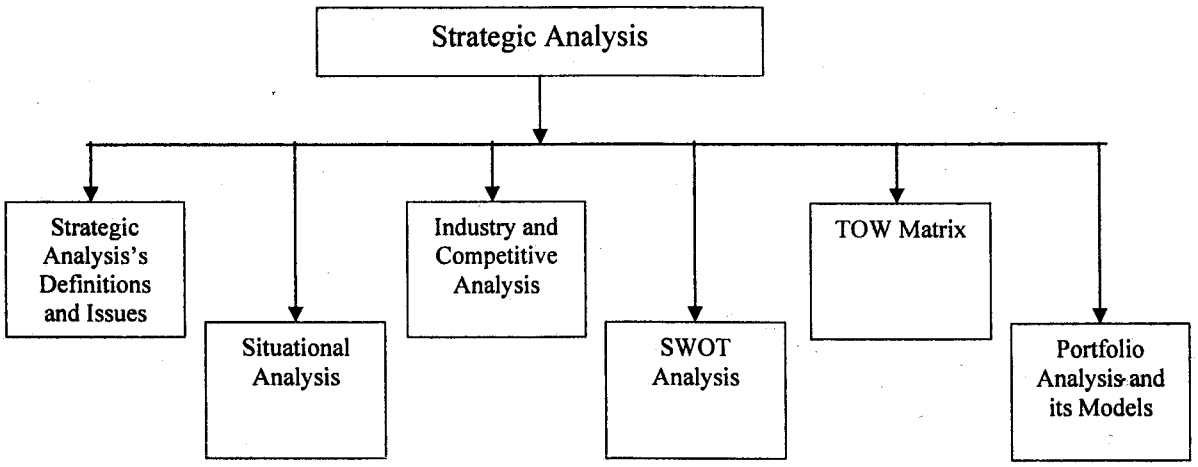
Look at the name of this chapter, "Strategic Analysis"! Strategic analysis is the most important feature of overall strategic management. This feature acts as a stepping stone in crafting the overall strategy of organization. Strategic analysis provides a detailed view of industry, competitors, organization's strengths and weaknesses, etc.

In this chapter, we will discuss numerous issues and models analyzed before finalizing and implementing organization long term strategy. Moreover, we will also find that strategy formation is not a one point event, but it evolves over time. Organizations with their past experience learn to deal with changes in the environment, and accordingly keep adjusting their strategy to capture the opportunities and minimize the threats provided by environment changes.

Specifically, strategy analysis plays an important role in understanding the dynamics of competition and external environment. Further, this analysis brings out all the issues and risks for organizations and their implications to business, in advance to management notice, which helps to form appropriate strategy to deals with these issues and risks.

Following concepts would be discussed in this chapter about the strategic analysis:

1. Strategic analysis's definitions and issues in this analysis
2. Situational analysis
3. Industry and competitive analysis
4. SWOT analysis
5. TOW matrix
6. Portfolio analysis and its models



1.0 Strategic Analysis

After formulating vision, mission and objectives of the organization, it is necessary to dissect the external and internal environment of organization to formulate a long term strategy to achieve these mission and objectives. Strategy formulation is not some talking event of managers, where managers can get by some creative thinking and opinions only. Decision about which strategy to pursue, is a follow up of solid analysis of organization's internal and external environment.

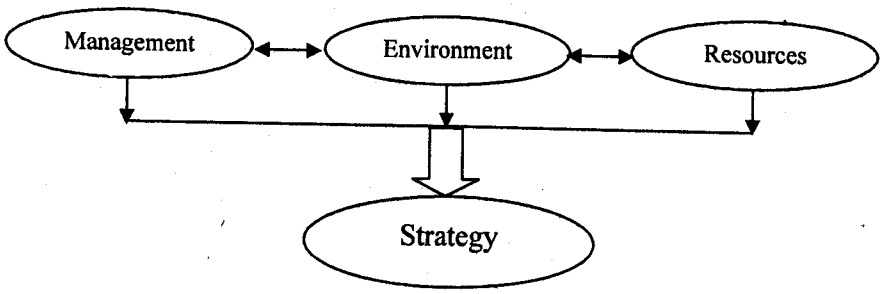
Two most important analyses of external and internal environments respectively are;

(1) Industry and Competitive analysis and
(2) Analysis of organization's strengths, capabilities, internal resources, weaknesses and market positions

Deciding on what strategy to follow involves sequence of analytical steps. First, detailed analysis of company internal and external situation is performed. After that, based on this analysis various strategic alternatives are formed. Finally, best possible alternative is selected matching organization capabilities and long term objectives.

Issues to Consider

Strategy analysis and then strategy formulation originates through a continuous interaction between management and organization's capabilities and environment.



Following issues should be considered for strategic analysis:

- Timeline
- Balance
- Risks

Timeline:

Strategy of organization is not like a machine bought and installed, rather it evolve over time. Therefore, strategy of a business at any particular time is result of sequence of small decisions taken over a period of time. Moreover, another important aspect to consider in this strategic analysis is; impact of various routine decisions on strategy formulations.

Balance:

Final strategy formulation emerges through a balance between organization internal potential and external environment opportunities. A perfect match between opportunities and internal potential may not be feasible, therefore strategic analysis involves a workable balance between opportunities, constraints and capabilities. For example, there are pressures to enter into particular markets, because it is offering tremendous opportunities but the resources or potential constraints are not allowing for this entry.

Risks:

We all know that environment in which business operate consists an element of uncertainty and complexity in the form of competition, boom, recession and technological changes, etc. This uncertainty and complexity of environment pose varying degree of risks to business. An important aspect of strategic analysis is, to identify these risks and their consequences on business. Risks can be classified as internal and external; further, short-term and long-term.

External risks are due to inconsistencies between existing strategies and forces in the external environment. For example, technology selected by organization is fast getting obsolete in the market. Internal risks occur primarily due to forces within the organization. For example, internal capacity is not enough to cope up the product demand, and as a result, company is losing market share to others.

Short-term risks have implications to organization for small period of time, and long-term risks for longer period of time, but short-term inconsistencies, causing risks if not corrected immediately or within reasonable time period, may effect organization in long-run also. For example, inconsistencies in internal capacity to cope up with rising demand; if not corrected immediately would effect organization in long-run also.

Long term risks may have very strong implications for organizations and these should be dealt very carefully. For example, wrong technology selection and wrong JV partner selection may impact organization working for extended period of time.

2.0 Situation Analysis

Strategic analysis involves detailed analysis of external as well internal environment, and based upon organization's situation or position with respect to environment provides the choices for strategy formulations.

External environment known as "Macro Environment" and internal environment known as "Micro Environment" presents various uncertainties and complexities which need to be understood in the strategic analysis for correct strategy formulation though, understanding external or macro environment is much more difficult than internal or micro environment

The situational analysis shall be performed keeping following elements about company situation into consideration-

1. **Product Situation:** The type of products produced by company should be analyzed in terms of, Core (main product, directly used by consumers) and Non Core or allied (used in other products as one of the component) products. Also the client preferences for their product, utility and price, etc should be analyzed to determine product position in the market.

2. **Competition Situation:** The situation or the intensity of competition, which company facing is analyzed to determine main competitors, their expected moves and competitive advantages

3. **Distribution Situation:** The company distribution channel plays a very important role in framing company growth and achieving its objectives. The distribution channel's situation analysis provides the strengths and weaknesses of company product's distribution channel

4. **Environment:** All internal and external environment factors with their possible influences on company objectives should be analyzed. All the factors, including economic, social, global and demographic shall be listed and their corresponding impacts on company shall be analyzed in detail.

5. **Opportunities and Issues analysis:** This is considered an extension to environment situation analysis. In this, organization shall list all the possible opportunities and threats to company from external environment, and thereafter shall list the possibility to capture listed opportunities and tackling of threats, considering company strengths and weaknesses.

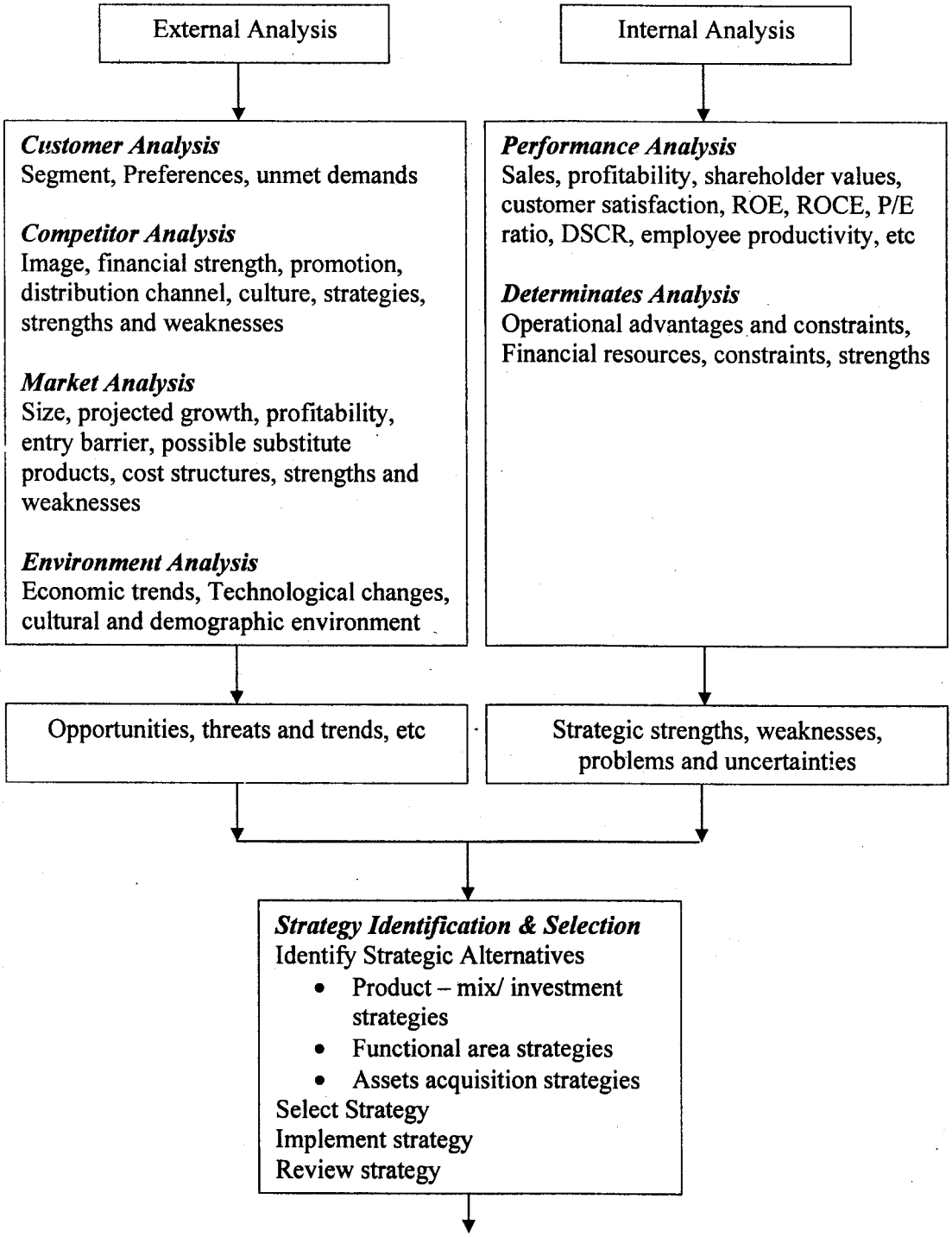
Broadly, entire strategic analysis can be divided into two categories:

1. External Analysis and
2. Internal Analysis

Strategic analysis is starting point of strategic management in which we ask the questions, 'Where are we now'?

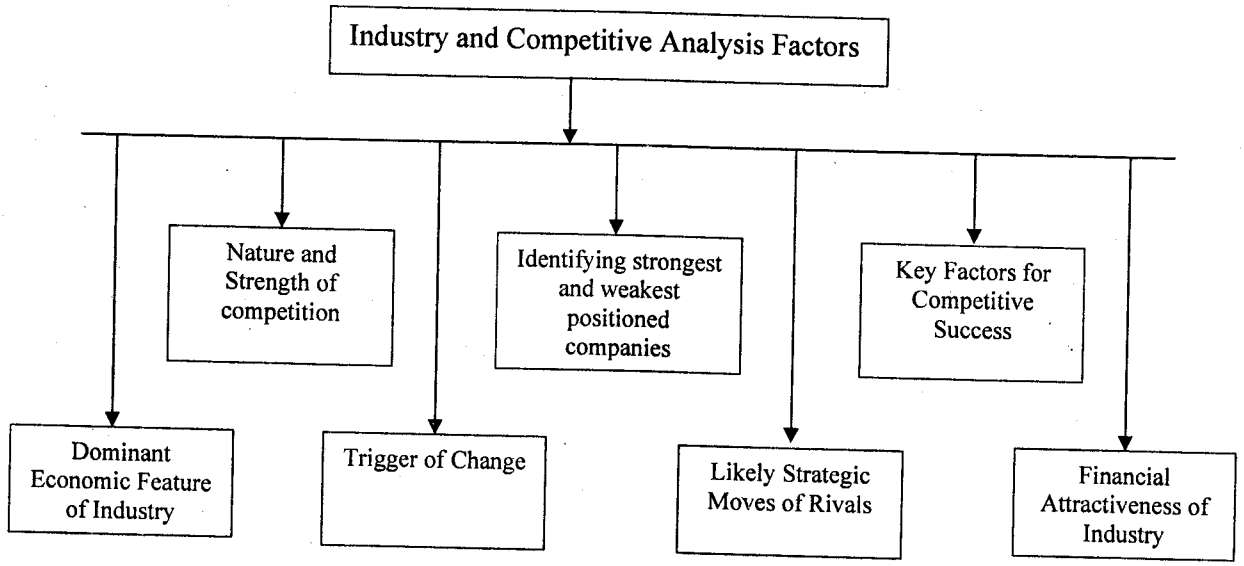
Framework of Strategic Management

Framework of strategic management includes many elements, and strategic analysis is the most important element of strategic management. The contents of this framework are shown below in the diagram



Framework of Strategic Management

3.0 Industry and Competitive Analysis



Industry and competitive analysis is the most important strategic analysis, this analysis present the Company standing in the industry, compare to competitors.

Following key factors are analyzed in this strategic analysis.

1. Dominant economic feature of industry (Key industry traits):
2. Nature and strength of competition (Intensity of competition)
3. Triggers of industry change (Driving forces of change)
4. Identifying strongest and weakest positioned companies (Market position of companies)
5. Likely strategic moves of rivals (competitive intelligence)
6. Key competitive success factors
7. Financial attractiveness of industry i.e. industry's profit outlook

Dominant Economic Feature of Industry

Industry is group of firms / business enterprises, whose products and services have similar attributes and compete for same group of buyers. Dominant economic feature of industry analysis analyses the key economic industry traits, such as;

1. Market size
2. Number of competitors and their relative size/share
3. Scope of competition (local, regional, national, global)

4. Industry growth position in business life cycle (early development, rapid growth, saturation and decline)
5. Number of buyers and their relative size. To what extent rivals have backward and forward integration
6. Small companies and dominant companies
7. Pace of technological change in production process as well as new product introduction
8. Products in the industry are highly differentiated, weakly differentiated or identical
9. Whether industry participant are clustered at particular location or distributed
10. Whether high capacity utilization is crucial to achieve profitability e.g. cement industry
11. Whether capital intensive and lots of barrier are there to enter the industry or ease of entry exist
12. Whether industry return is above or below the other industries' average return
13. Effect of learning curve on industry participants
14. Types of distribution channel used to access consumers

Nature and Strength of Competition:

Another important factor in competitive analysis is; intensity of competition. This is measured by analyzing different forces of competition, and also measured through how strong is each force in the competition. For example, Telecom is very competitive sector and reasons of competition are- nos. of players, network coverage of each player, large customer base, continuous entry of new players and value added services.

This analysis can be performed better and more systematically; by using Porter's Five Forces Model.

Triggers of Change:

In this analysis, company determines the driving forces and their impacts on competition. This analysis is two steps procedure; first, identifying the most common driving forces causing the competition, then finding or analyzing their individual contribution to competition.

Some of common driving forces of competition are;

- Decreasing cost or price i.e. companies are competing on price due to deceasing cost of production
- Increasing globalization; providing an increasing number of players
- Marketing innovations; using innovative marketing methods like TV, News Print, Internet, Tele Call
- Product innovations; frequent introduction of new products
- Entry and exit of firms (increasing mergers and acquisitions); easy availability of funds and JV
- Internet and E-commerce use; new medium to reach to large numbers of customers

Identifying Companies in Strongest and Weakest Position:

The companies pose competition to each others on many variables like price, geography, after sale services and product range, etc. Therefore, it is not easy to analyze the competitive position of rivals. One technique, which can be used to analyze the competition position of rivals is- "Strategic Group Mapping". In this technique, the companies with similar competitive approaches and position in market are placed into same strategic group. There can be many strategic groups in the industry competition analysis. Finally, based on constructed strategic group Company can analyze its position and this also help to identify the areas in which company can improve further.

The procedure of constructing strategic group map, and then deciding, which firm belongs to which strategic group involves the following steps:

1. Identify the different variables, which separate companies for competition, such as:
   - price/quality range (high, medium, low)
   - geographic coverage (local, regional, national, global)
   - degree of vertical integration (none, partial, full)
   - product-line breadth (wide, narrow)
   - use of distribution channel (one, some, all)
   - degree of service offered (no-frills, limited and full)
2. Plot the firm on multivariable map using these characteristics
3. Assign the firm fall in same strategy space by creating strategy group
4. Draw circle around each strategic group making size of circle respective to total industry sale

Likely Strategic Moves of Rivals:

Unless a company pay attention; what competitors are doing, it may ends up flying blind into competition battle. A company can't expect to outmaneuver its rivals without monitoring their actions, understanding their strategy, and anticipating what moves they are likely to make next. In business, competitors should acts as they are playing a sports event, with of-course true sportsmanship. Knowing rivals is competitive intelligence and this help company to determine whether it needs to defend against specific moves of rivals.

Key Factors for Competitive Success

The key success factors (KSFs) are the elements that affect the ability of a firm to prosper in the market or industry space. KSFs are rules, which when followed, then provide success to firm. Every industry has its own KSFs. For example, KSFs for telecom firm are: geographic coverage, call charges, areas of roaming facility and value aided services, etc.

KSFs are very important factors therefore every Firm pay attention to these and no firm can afford to avoid KSFs' analysis. The following questions' answers help to identify the KSFs.

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

Prospectus and Financial attractiveness of industry

The final step of competitive analysis is attractiveness of industry. From year 2006 to mid of 2008 there was unprecedented demand of steel and cement in the markets, and respective industry was looking very attractive for long perspective, but recent down-turn in the markets resulted in sharp decline in the demand of these products and now same industries are not looking that attractive as these were during beginning of year 2008.

Looking at the dynamics of year 2008, it seems it require great amount of vision and solid analysis to predict correct attractiveness of industry. However, in this analysis, industry attractiveness is analyzed from both short term and long term perspective. The industry's prospectus can be obtained by analyzing-

- Growth potential of industry
- Intensity of competition
- Effect of competition on profit margins
- Effects of triggers or changes on the profitability of industry
- Degree of risk and uncertainty in the industry's future
- Intensity of problems effecting industry as whole e.g. high excise duty
- Ability of company to withstand and counteract the unattractive industry's forces

Normally, an industry is considered attractive, if overall profit is above average and considered unattractive, if profit is below average. However, it is a mistake to consider the industry attractive or unattractive to all the existing participants and all potential entrants on average profit basis.

4.0 SWOT Analysis

Once industry and competitive analysis is over then next step is to form various strategic alternatives given company strengths, weaknesses and external opportunities and threats. The analysis of strengths, weaknesses, opportunities and threats is known as SWOT analysis. The components of SWOT analysis are:

Strength: Strength is an inherent capability of company, which organization can use to gain strategic advantages over others. For example, service centers of Maruti available all across India provide strategic advantages to Maruti over others auto manufacturers.

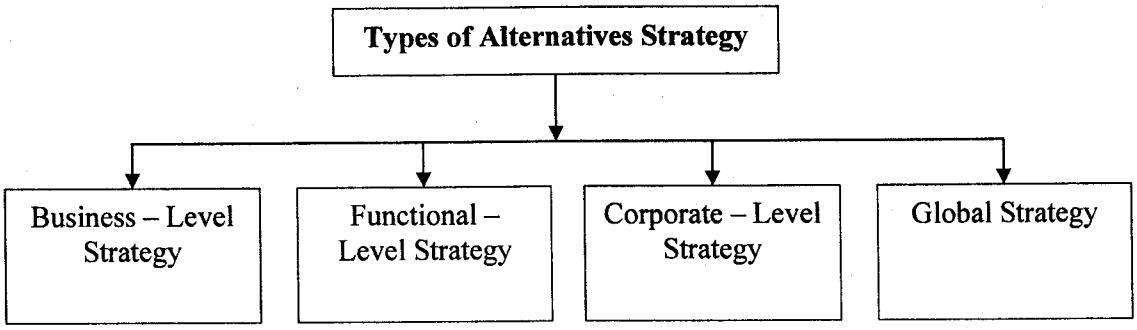
Weakness: Weakness is an inherent limitation of organization, which provides strategic disadvantages to organization. For example, weak dealer network of FIAT places it in strategic disadvantage position compared to others auto manufacturers.

Opportunity: Opportunity is favorable situation for organization, which organization can avail to strengthen its position in market place.

Threat: Threat is an unfavorable situation, which can provide some risks or damage to organization's position

SWOT analysis enables a firm in identifications of various strategic alternatives, by analyzing its internal strengths and weaknesses, by considering external opportunities and threats.

To identify various alternatives strategies the managers need to identify set of strategies to create sustainable competitive advantages such as:



1. **Business-Level Strategy:** This strategy enables business to position itself in a way to gain competitive advantage in its market place. For example, cost leadership, service network leadership, focus on particular segment of customers or combination of these can be adopted as business level strategy.

2. **Functional-Level Strategy:** This is formed to improve the effectiveness of operation within a company, e.g. - manufacturing, material management and R&D, etc.

3. **Corporate-Level Strategy:** This strategy is aim at, to increase the profitability of organization in long run, e.g. - maintaining least cost capital structure, to maximize the shareholder returns

4. **Global Strategy:** This strategy is aim at, to expand business globally; to expand business at places all over the world wherever business can achieve optimum competitive advantages

Significance of SWOT Analysis:

SWOT analysis help business managers to craft business model that helps to gain a competitive advantage in its industry, which also helps to increase profitability and achieve growth in fast changing global business environment.

Followings are the significance of SWOT analysis:

Logical Framework:

SWOT analysis provides a logical framework for systematic and clear understanding of all the issues which may have implications for organization in short and long term. Finally, it provides various strategic alternatives and their impacts on business. The alternatives are derived based on internal strengths and weakness and available opportunities with possible threats

Comparative Analysis:

SWOT analysis provides information in a structured form about both internal and external environment, where one can compare external opportunities and threats with internal strengths and weaknesses. SWOT analysis helps in developing pattern of relationship by matching opportunities, threats, strengths and weaknesses like ***high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths***, etc. This relationship helps to understand the internal and external environment in all aspects and then helps to choose the appropriate strategy.

Strategy Identification:

SWOT analysis provides a logical framework of all issues and their implications, further it provides a combination of patterns by matching external opportunities and threats and internal strengths and weaknesses. The logical framework which trashes all the issues in details, and patterns which explore all opportunities, threats, strengths and weaknesses in all combinations help finally to identify the suitable strategy for organization, as per the organization characteristics.

Example of Potentials Strengths and Weaknesses in the Competitive market place

Potential Strengths	**Potential Weaknesses**
Product:	
Better product quality than rivals	Behind on product quality than rivals
Strong brand/product image	Weak brand / product image
Wide product line or range	Narrow product line or range
Strong product innovation skill and R&D facility	Weak product innovation skill and R&D facility
Finance:	
Strong cash flow and availability of funds to grow business	Non availability of funds to grow business
High profitability	Non profitability or low profitability
Strong revenue and operating margins	Low operating margins
Able to go for economy of scale leading to cost advantages	Not able to achieve economy of scale or cost advantages
Customer:	
Attractive and loyal customer base	Poor customer base
Strong customer relationship and reputation of good customer service	Poor customer relationship and service
Technology:	
Availability of latest technology through in-house R&D or Joint Venture	Non availability of latest technology
Superior technical manpower available for use and innovation of	Inability to innovate and use sophisticated technology due to non

Potential Strengths	**Potential Weaknesses**
technology	availability of technical skill
Distribution:	
Strong domestic and global distribution channel	Weak product and service distribution capabilities
Superior skill and infrastructure in place for Supply Chain Management	Weaker Supply Chain Management
Use of e-commerce technologies and process for product and service distribution	Obsolete methods of product and service distribution
Strategy:	
Powerful strategy supported by competitive skill and experience in key area	No clear strategic direction

Example of Potentials Opportunities and Threats in the Competitive market place

Potential Opportunities	**Potential Threats**
Product:	
Expanding product range	Loss of sales to substitute product
Rising products' demand	Declining demand
Competition:	
Strong entry barrier, capital intensive, etc.	New entrants' threats
Capability to acquire rival firm or similar firm to increase market share	Threats of acquisition of company by rival
Increasing buying power and customer base	Recession and intense competition
Availability of skills and resources to use innovative methods to increase market share	Constraints in availability of skills and resources
Market:	
Falling trade barriers globally	Strong trade barriers
Expanding into new geography and product segments	Entry of international players in domestic market
Finance:	
Easy and cheap funds availability to expand and grow business	Tight liquidity and rising interest rates may increase operating cost
Rising demand and product prices and increasing the profitability	Declining demand and prices and declining profitability
Technology:	
Availability of skill and resources for easy adaptation to changing technologies	Finding difficult to adapt to changing technologies

TOWS Matrix

TOWS matrix is similar to SWOT analysis. This matrix was developed by Heinz Weihrich for comparing the strengths and weaknesses of an organization with that of market opportunities and threats. This matrix is an expansion of SWOT analysis. SWOT analysis, which was criticized that after conducting this, managers frequently fail to come up with appropriate strategic choices that overcomes threats and weaknesses.

TOWS matrix reorganizes SWOT inputs (Threats, Opportunities, Weaknesses and Strengths) and integrates them fully into strategic planning processes.

Identifying Strategic Options

SWOT or TOWS analysis helps us to get a better understanding of the strategic choices that we face. (Remember that "strategy" is the art of determining how you'll "win" in business and life.) It helps us ask, and answer, the following questions: How do we:

- Make the most of our strengths?
- Get around our weaknesses?
- Capitalize on our opportunities? and
- Manage our threats?

A next step of analysis, usually associated with the externally-focused TOWS Matrix, helps us think about the options that we could pursue. To do this, we match external opportunities and threats with our internal strengths and weaknesses, as illustrated in the matrix below:

TOWS Strategic Alternatives Matrix

	External Opportunities (O)	**External Threats (T)**
Internal Strengths (S)	**SO** ***"Maxi-Maxi" Strategy*** Strategies that use strengths to maximize opportunities.	**ST** ***"Maxi-Mini" Strategy*** Strategies that use strengths to minimize threats.
Internal Weaknesses (W)	**WO** ***"Mini-Maxi" Strategy*** Strategies that minimize weaknesses	**WT** ***"Mini-Mini" Strategy*** Strategies that

	by taking advantage of opportunities.	minimize weaknesses and avoid threats.

This helps us identify strategic alternatives that address the following questions:

- Strengths and Opportunities (SO) - How can we use our strengths to take advantage of the opportunities?
- Strengths and Threats (ST) - How can we take advantage of our strengths to avoid real and potential threats?
- Weaknesses and Opportunities (WO) - How can we use your opportunities to overcome the weaknesses we are experiencing?
- Weaknesses and Threats (WT) - How can we minimize our weaknesses and avoid threats?

Portfolio Analysis

The basic feature of any business is; to manage set of products, business units and Companies. This set of products, business units and Companies are known as portfolio. So businesses have a major task of managing this portfolio. Businesses can not carry on with all the products and business units in a static manner through a longer period of time. They need to analyze their portfolio from time to time to identify; which products and business units should be continued and which all should be divested, etc.

Portfolio analysis helps organization to maintain only those products and business units which make the best fit to organization strengths and provide maximum returns to shareholder values.

There are three important concepts; knowledge of which is pre-requisite to understand different models of portfolio analysis.

1. Strategic Business Unit:
2. Experience Curve
3. Product Life Cycle

Strategic Business Unit (SBU):

SBU is a unit of the Company that has a separate mission and objectives, which can be planned independently from other Company's businesses. For example, Hindustan Unilever Limited is an umbrella firm for Ponds, Kwality Walls, Knorr, Lakme, Soaps (Lux, Dove etc) and Detergent (surf, wheel etc) units etc. Though each SBU has its own objectives, but one objective is common and that objective is to maximize returns on the Hindustan Unilever Limited shareholders investment.

An SBU has the following characteristics

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

After analyzing SBUs the businesses have to assess their respective attractiveness and decide how much support each unit deserves.

Experience Curve:

Experience curve also known as learning curve is based on the commonly observed phenomenon that average cost per unit decreases as business accumulates experience in terms of cumulative volume of production.

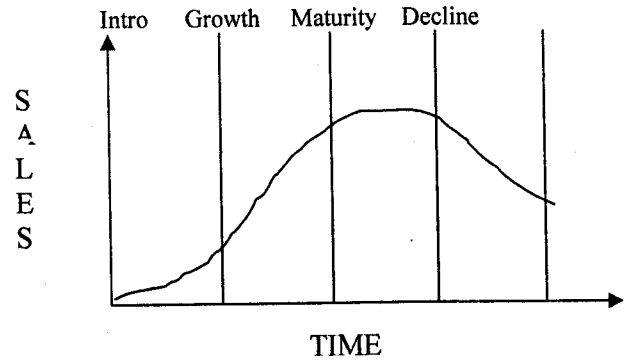
Experience curve helps in achieving economies of scale, product-redesign and technological improvements in production, etc. The experience is used to gain competitive cost advantage over the competitors.

Product Life Cycle (PLC):

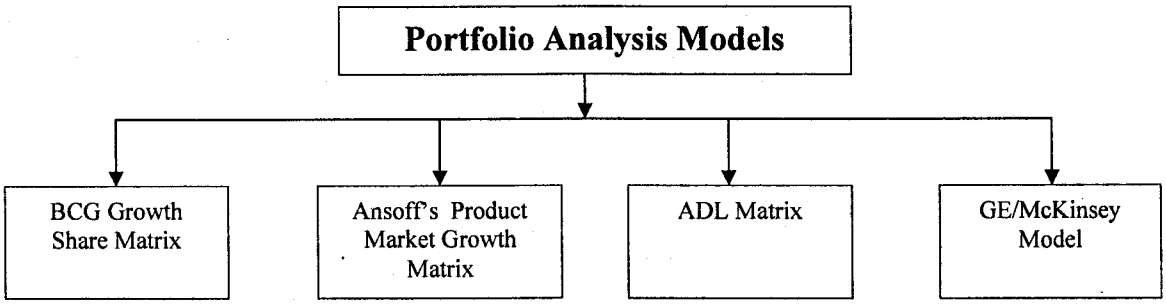
Every product passes through a life cycle, from 'Introduction' to 'Decline' stage. PLC is an S shaped curve of product's sales over time. The curve depicts product's sales volume over successive four stages of product's life cycle i.e.

1. Introduction (slow sales growth)
2. Growth (rapid market acceptance)
3. Maturity (slow down in growth)
4. Decline (sharp downward shift)

The advantage of PLC analysis is; one can use this to establish the product stage in portfolio analysis.

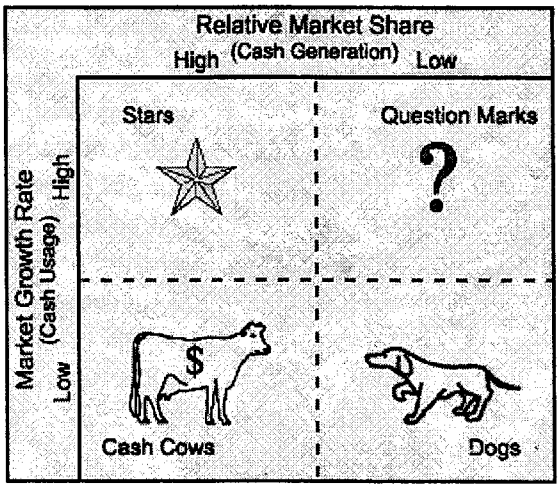


7.0 Portfolio Analysis Models



Boston Consulting Group (BCG) Growth-Share Matrix

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units (or major product lines). The BCG growth-share matrix displays the various business units on a graph of the market growth rate vs. market share relative to competitors:



Resources are allocated to business units according to where they are situated on the grid as follows:

Cash Cow - a business unit that has a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be used to invest in other business units.

Star - a business unit that has a large market share in a fast growing industry. Stars may generate cash, but because the market is growing rapidly they require investment to maintain their lead. If successful, a star will become a cash cow when its industry matures.

Question Mark (or Problem Child) - a business unit that has a small market share in a high growth market. These business units require resources to grow market share, but whether they will succeed and become stars is unknown.

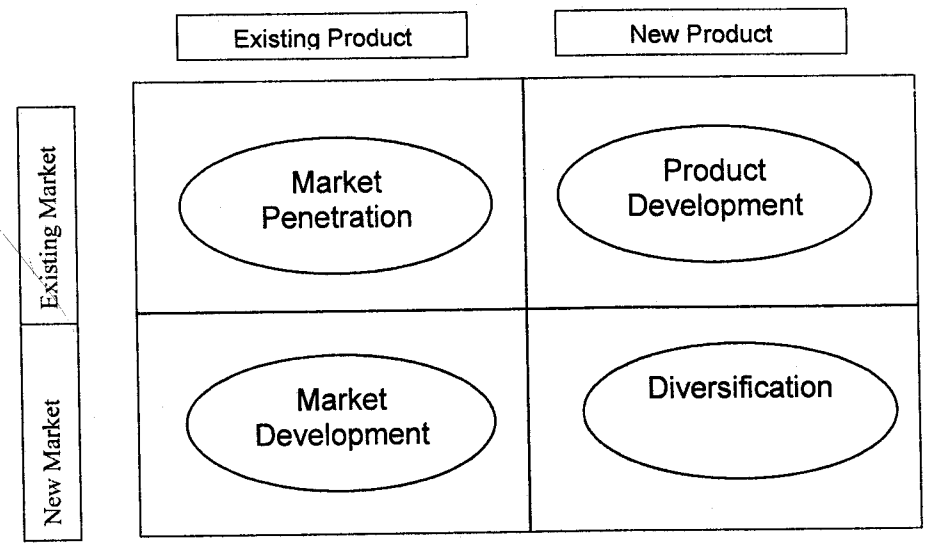
Dog - a business unit that has a small market share in a mature industry. A dog may not require substantial cash, but it ties up capital that could better be deployed elsewhere. Unless a dog has some other strategic purpose, it should be liquidated if there is little prospect for it to gain market share.

The BCG matrix provides a framework for allocating resources among different business units and allows one to compare many business units at a glance.

Ansoff's Product Market Growth Matrix

The Ansoff Growth matrix is a tool that helps businesses to decide their product and market growth strategy.

Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets **new or existing** products in **new or existing markets.**



The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy. These are described below:

Market Penetration
Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets.

Market penetration seeks to achieve four main objectives:

•Maintain or increase the market share of current products – this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to direct selling

•Secure dominance of growth markets

•Restructure a mature market by driving out competitors - this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors

•Increase usage by existing customers - for example by introducing loyalty schemes

Market development
Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets.
There are many possible ways of approaching this strategy, including:
• New geographical markets- for example, exporting the product to a new country
• New product dimensions or packaging
• New distribution channels
• Different pricing policies to attract different customers or create new market segments

Product development
Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

Diversification
Diversification is the name given to the growth strategy where a business markets new products in new markets. This is an inherently more risky strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

ADL Matrix

The ADL Matrix from Arthur D. Little is another popular portfolio management method.
The ADL portfolio management approach analyzes portfolio on two dimensions, first, on industry measurement, and second on business strength measurement. The **industry measurement** is an identification of the life cycle of the industry. The **business strength measure** is a categorization of the corporation's SBU's into one of five competitive positions: dominant, strong, favorable, tenable, weak (and non-viable). This yields a **matrix** of 5 competitive positions by 4 life cycle stages. Positioning in the matrix identifies a general strategy.

Defining the line of business in the ADL matrix
In the ADL Matrix approach, the strategist must identify businesses by finding commonalities among products and business lines using the following criteria as guidelines:

- Common rivals
- Prices
- Customers

- Quality/Style
- Substitutability
- Divestment or liquidation

Assessing the Industry Life Cycle stage in the ADL Matrix

The assessment of the Industry Life Cycle stage of each company is made on the basis of:

- Business market share,
- Investment, and
- Profitability and cash flow.

Assessing the competitive position in the ADL Matrix

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

- **Dominant**: Rare, often the result from a almost-monopoly position
- **Strong:** A strong company can follow a strategy without too much consideration of moves by rival companies.
- **Favorable**: Industry is fragmented. No clear leader among stronger rivals.
- **Tenable:** The company has a niche, either geographical or defined by the product.
- **Weak:** Business is too small to be profitable or survive over the long term weaknesses.

ADL MATRIX					
		Industry Life Cycle Stage			
		Embryonic (start-up)	**Growth**	**Mature**	**Ageing**
Competitive Position	**Dominant**	All out push for share. Hold position	Hold position. Hold share	Hold position. Grow with industry	Hold position.
	Strong	Attempt to improve position. All out push for share	Attempt to improve position. Push for share	Hold Position. grow with industry	Hold position or harvest
	Favorable	Selective or all out push for share. Selective attempt to improve position	Attempt to improve position. Selective push for share	Custodial or maintenance. Find niche and attempt to protect.	Harvest or phased out withdrawal
	Tenable (reasonable)	Selective push for position	Find niche and protect it	Find niche and hang on or phased out withdrawal	Phased out withdrawal or abandon
	Weak	Up or out	Turnaround or abandon	Turnaround, orphaned out withdrawal	Abandon

The General Electric / McKinsey Model

The General Electric (GE) McKinsey Matrix template is a nine-cell (3 X 3) matrix used to perform business portfolio analysis as one of the steps in the strategic planning process.

The GE/McKinsey Matrix template can be used in conjunction with, or as an alternative to,other tools such as SWOT Analysis and the Boston Consulting Group (BCG) Growth Share Matrix in basic strategic planning and analysis.

The GE/McKinsey Matrix differs from the other tools. Unlike a BCG Matrix template, it uses multiple factors to define Industry Attractiveness and Business Unit Strength and therefore overcomes one of the main BCG Matrix limitations.

The GE/McKinsey Matrix identifies the optimum business portfolio as one that matches the company's strengths to the most attractive industry sectors or markets.

Thus, the objective of the analysis is to position each Strategic Business Unit (SBU) on the chart depending on the **SBU's Strength** and the **Attractiveness of the Industry Sector** or Market on which it is focused. Each axis is divided into Low, Medium and High, giving the 3 by 3 nine-cell matrix as depicted below.

		Business Position		
		High	**Medium**	**Low**
Market Attractiveness	**High**	Invest	Invest	Protect
	Medium	Invest	Protect	Harvest
	Low	Protect	Harvest	Divest

The business position of units is evaluated for the following factors

- Size
- Growth
- Share by Segment
- Customer Loyalty
- Margins
- Distributions
- Technology Skills
- Patterns
- Marketing
- Flexibility
- Organization

Market Attractiveness of business units is evaluated for following factors

- Size
- Growth
- Customer Satisfaction Level
- Competition: Quality, Types, Effectiveness, Committement
- Price Level
- Profitability
- Technology
- Government Regulations
- Sensitivity to economic trends

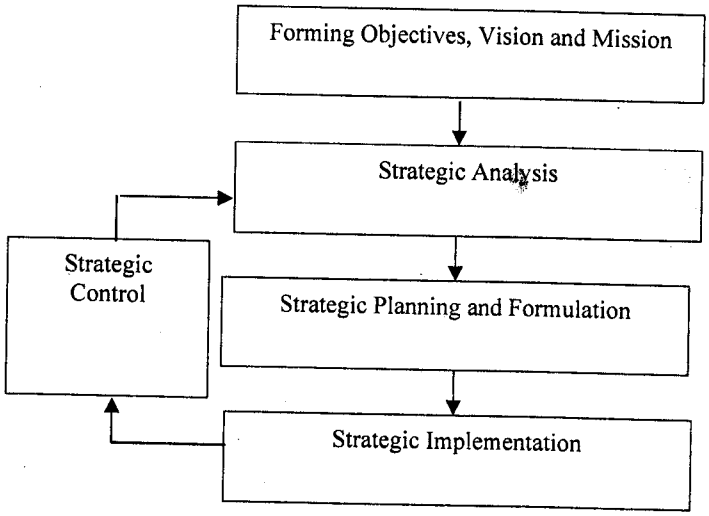
Chapter-4
Strategic Planning

What will we study in this chapter?

This chapter is an extension of previous chapter, once the strategic analysis is complete then the next step known as strategic planning is done to meet the organization objectives.

Strategic planning or strategy formulation is the key steps of strategic management. The planned or formulated strategy is implemented to achieve desired objectives.

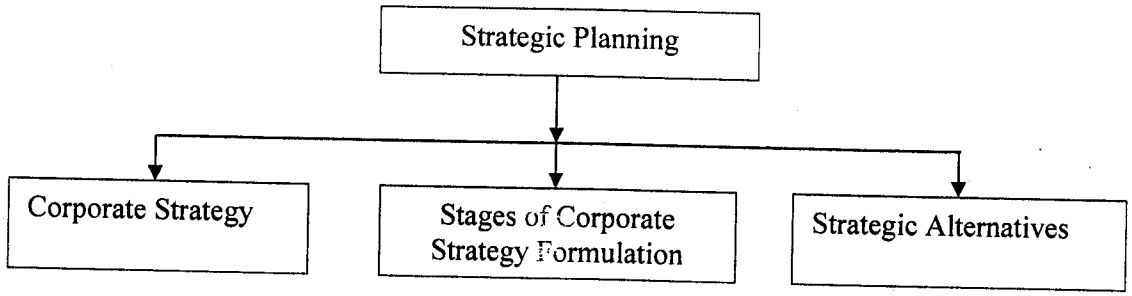
Let us again recall the strategic management steps:



Strategic Management Process

This chapter is about Planning and formulation of strategy. Planning of and strategy leads to strategy formulation.

Following key concepts would be discussed in this chapter.



1.0 Corporate Strategy:

Every corporate or company form a strategy known as corporate strategy. This strategy consists of competitive moves and approaches to achieve successful performance of company.

Features of Corporate Strategy:

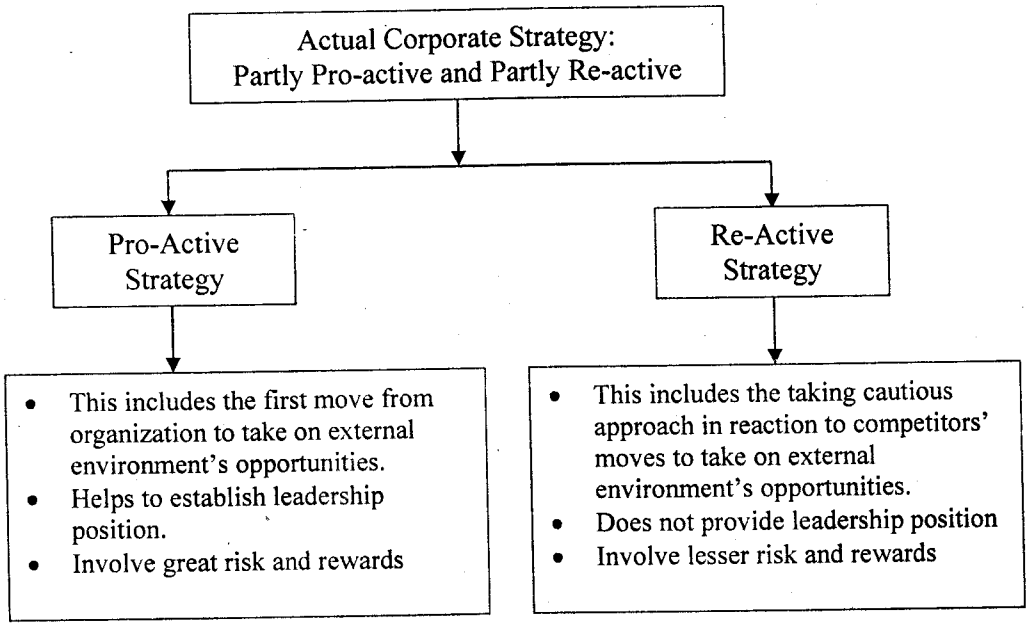
(a) Growth Oriented: Strategy should be intended to facilitate the growth to organization
(b) Futuristic: Corporate strategy should focus on to shape the future of company
(c) Competitive-Advantage: It should provide competitive advantages to company over similar companies
(d) Balance: should help to achieve a balance between organization environment and objectives.
(e) Decision-Making: Should help organization in the decision making at each critical stage.

Corporate strategy should be mix of pro-active (i.e. taking first move) and re-active (i.e. reacting to competitors moves)

All-in-all corporate strategy helps organization to face competition, out-perform competition and stay ahead the competitions to achieve desired objectives.

Pro-Active and Re-Active Strategy:

No organization can be first mover for all things in business environment. Therefore, organization should have partly pro-active and partly re-active strategy



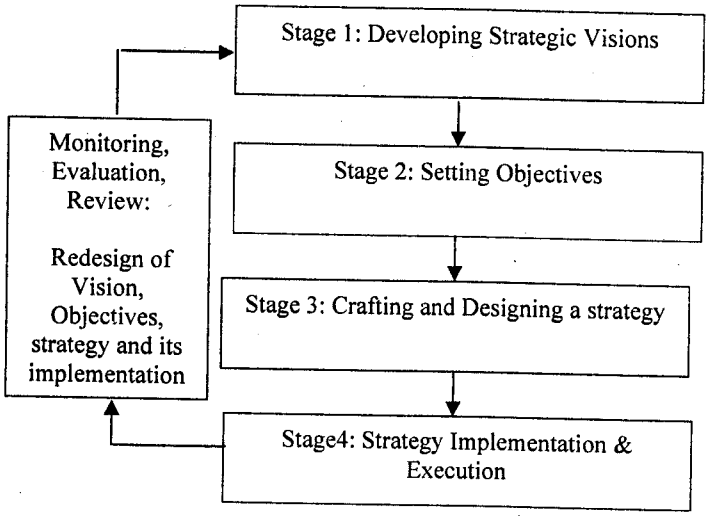
Dealing With Strategic Uncertainty:

- Uncertainty: means unpredictability and here it refers unpredictability of business environment.
- And strategic uncertainty refers to unpredictable future trends and events that may impact outcome of organization strategic planning.
- Therefore, organization should take proper care of such uncertain trends and events during formation of corporate strategy
- Strategic uncertainty can be managed through scenarios analysis, in which all the possible future trends and events are analyzed under scenario analysis category.
- The outcome of scenarios analysis warns in advance to organizations about possible outcome of future under various conditions.

2.0 The Stages of Corporate Strategy Formulation—Implementation Process:

Part of this topic has already been discussed in the chapter-2 and chapter-3 in the form of strategic visions, objectives and analysis. But, now we will be discussing these again in focus to strategic formulations.

The Strategy formulation and implementation involves the following stages.



Stage 1: Developing Strategic Vision:

- Vision specify what direction or path to follow
- Specify what products, markets, technologies and customer policies to follows
- Vision communicate management aspirations to stack holders of company
- Helps to boost morale of organization and engages them for a common direction
- Clear vision helps to provide a motivated and stimulated environment in the organization

- Vision specify management aspiration for the business in long-term

Stage 2: Setting Objectives:

Corporate objectives are outcome of "Mission and Vision" of organization. Objectives define specific performance targets, results and growth that organization wants to achieve.

To determine the objectives an approach known as Balance Score Card is used:

Balance Score Card Approach:

Overall a company should set both strategic and financial objectives. However, organization can achieve Balance Score Card approach for setting objectives. This approach state that "Organization should focus more on achieving strategic objectives – like "performance", "customer satisfaction", "innovation" and "profitability" – than financial objectives (i.e. profit and profit growth) only. Balance Score Card also provides a basis to measure company performance against set objectives.

Company strategic and financial objectives should be set both as, short-term and long-term objectives.

Long-term and Short-term objectives:

Long-term Objectives:

- Profitability.
- Productivity.
- Competitive Position.
- Employee Development.
- Employee Relations.
- Technological Leadership.
- Public Responsibility.

Long-term objectives represent the results expected from pursuing certain strategies, usually from two to five years.

Qualities of Long-Term Objectives

- Acceptable
- Flexible
- Measurable
- Motivating
- Suitable
- Understandable
- Achievable

Objectives are commonly stated in the following terms; growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility.

Short-range objectives can be identical to long-range objectives for example, if a company has long-term objective of 15 percent profit growth every year, then the company's short-term objective would also be 15% profit growth for current year.

Concept of Strategic Intent:

Here intent refers to intension. A company exhibits strategic intent when it relentlessly (aggressively) pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective.

A company's strategic intent can helps in many ways to the company, like:

- in becoming the dominant company in the industry;
- unseating the existing industry leader;
- delivering the best customer service in the industry (or the world);
- turning new technology into products which capable of changing the way people work and live.

Sometime ambitious companies begin with strategic intents that are out of proportion to their immediate capabilities and market positions. But they continuously work hard-- even achievement of objective may take a sustained effort of 10 years or more. Moreover, on reaching one target they stretch the set objectives and again pursue them relentlessly, sometimes even obsessively

The need for objectives at all organizational levels:

Objective setting should not stop with top management's setting the companywide performance targets. Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit. Company performance can't reach full potential unless each area of the organization does its part and contributes directly to the desired companywide outcomes and results. This means that objectives should be given to each and every business units and those should be combined with overall company objectives.

Stage 3: Crafting a strategy to achieve the objectives and vision

A company can achieve its mission and objectives when all the components of a company work together. A company's strategy is at full power only when its many pieces are united. Achieving unity in strategy planning and formulation is partly a function of communicating the company's basic strategy themes effectively across the whole organization.

A company's strategic plan lays out its future direction, performance targets, and strategy.

"Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks"

Vision, Objectives and crafting a strategy set the both short-term and long-term performance targets for organization. Together, they constitute a strategic plan to deal with industry and competitive conditions.

For crafting or developing a strategy many assessments are performed. However, three assessments are very important.

- The first determine organizational strengths and weaknesses.
- The second evaluates competitor strengths, weaknesses, and strategies, because an organization's strength is of less value if it is neutralized by a competitor's strength or strategy.
- The third assesses the competitive environment, the customers and their needs, the market, and the market environment.

These assessments, based on the strategy selected, focus on finding how attractive the selected market will be. The goal is to develop or formulate a strategy that exploits business strengths and competitor weaknesses and neutralizes business weaknesses and. competitor strength.

Stage 4: Implementing & executing the strategy:

Strategy implementation and execution is an operations-oriented activity. This stage is the most demanding and time-consuming part of the strategy-management process.

Till now, in the above stages every thing was planning only. In this stage above plans are given actions. In this stage, based on company and competitor's strength and weaknesses various activities are implemented.

This stage is like management process and includes followings:

- Staffing the organization with the needed skills and expertise
- Developing budgets and organizing resources to carry out those activities which are critical to strategic success.
- Using the best-known practices to perform business activities and pushing for continuous improvement.
- Motivating people to pursue the target objectives energetically
- Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution.
- Creating a company good culture and work climate for successful strategy implementation and execution.
- Keep on improving strategy execution and when the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Good strategy execution involves creating strong "fits":

- Between strategy and organizational capabilities.
- Between strategy and the reward structure

- Between strategy and internal organization working systems, and
- Between strategy and the organization's work climate and culture.

Stage 5: Monitoring Implemented Strategy and making corrective adjustments

A company's vision, objectives, crafting strategy, and implementing and execution of strategy are not final thing in strategic management -- managing strategy is an ongoing process.

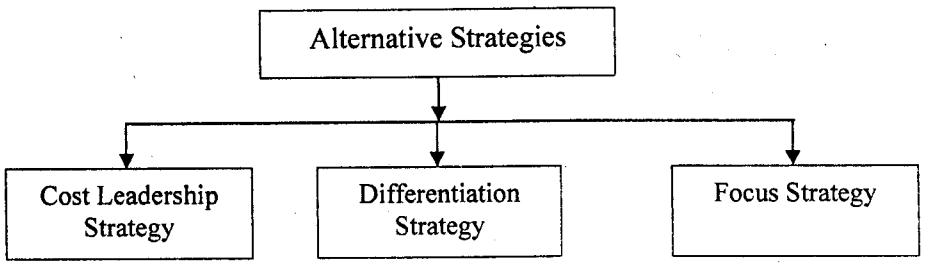
- There is one more stage in the corporate strategy management and that stage is—monitoting and evaluating the company's progress.
- As long as the company's strategy is going well, executives may remain stick to implemented strategy except more changes are required with time.
- But whenever a company encounters disruptive changes or downturn in its market positions then company managers are required to search out whether the reasons of downturn are due to poor strategy, poor execution, or both to take timely corrective action.
- A company's direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant.
- It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time, if required

3.0 STRATEGIC ALTERNATIVES

According to Porter, strategies allow organizations to gain competitive advantage from three different bases:

- cost leadership;
- differentiation; and
- focus

Porter calls these as base generic strategies:



Cost Leadership Strategies:

A primary reason for using forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Large numbers of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors.

Striving to be the low-cost producer in an industry can be especially effective when the market is composed of many price-sensitive buyers. But, some risks of pursuing cost leadership are that competitors may imitate the strategy, thus driving overall industry profits down or that buyer interest may swing to other differentiating features besides price.

Differentiation Strategies

Differentiation strategies include offering products with different features than competitors. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible.

A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms. Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people.

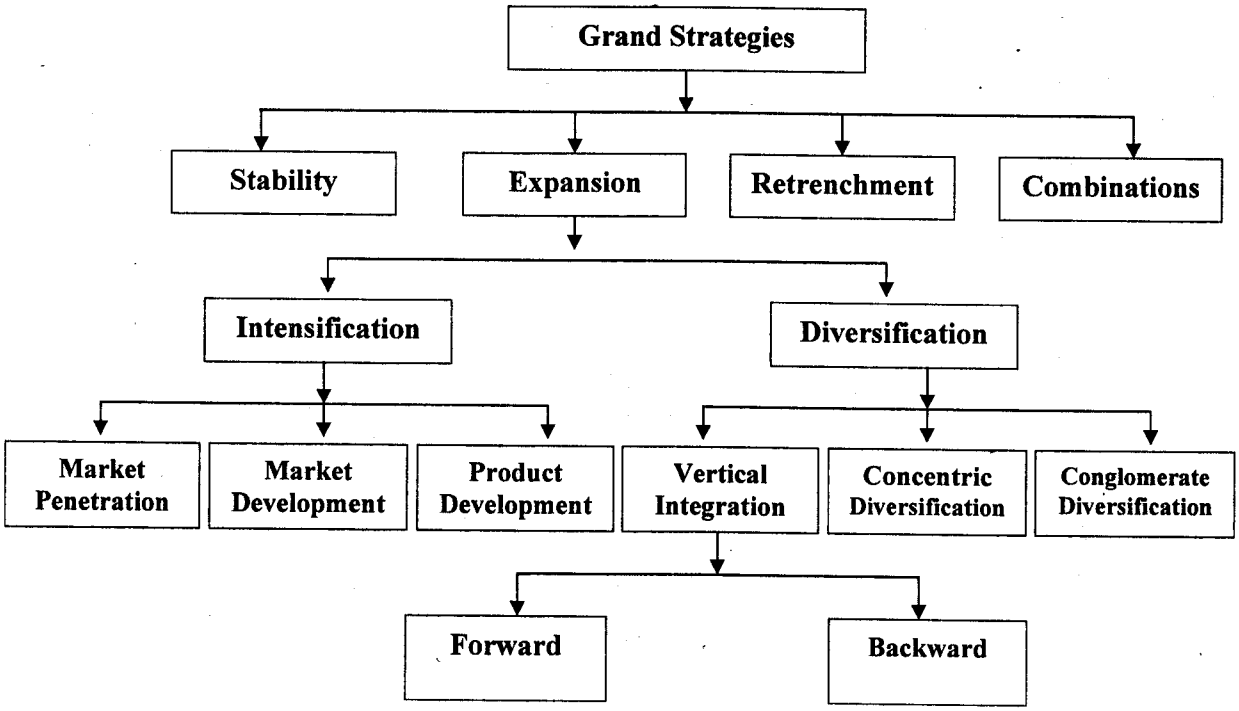
Focus Strategies

An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

Focus strategies are most effective when consumers have different preferences or requirements and when competitors are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it.

Grand Strategies:

Following chart represents Grand Strategies other than Alternative Strategies which organization can pursue.



Characteristics and Scope of Various Grand Strategies

Let us study one-by-one characteristics of above grand strategies:

Stability strategy:

A firm opting for stability strategy stays with the same business, same product, market and functions. And normally maintain same levels of effort as at present.

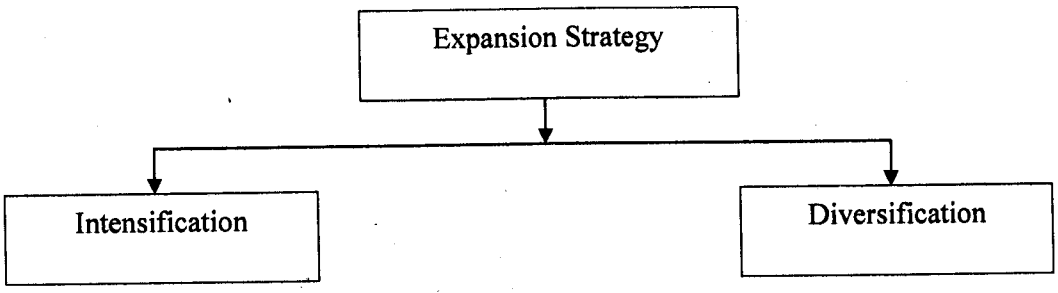
- The main aim of this strategy is to enhance functional efficiencies, better deployment and utilization of resources.
- Stability strategy does not involve a redefinition of the business of the corporation.
- It does not warrant much of fresh investments and risk of losses are also less.
- It is a fairly frequently employed strategy.
- With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses/products and markets.
- But the strategy does not permit high growth prospectus

Expansion strategy:

Expansion strategy is the opposite of stability strategy. While in stability strategy, rewards are limited, while in expansion strategy they are very high. And for risks also, the two are the opposites of each other.

- Expansion strategy is the most frequently employed generic strategy.
- Expansion strategy is the true growth strategy.
- Expansion strategy involves a redefinition of the business
- It requires fresh investments and new businesses/products/markets
- Expansion strategy is a highly versatile strategy; it offers several permutations and combinations for growth.

Expansion strategy holds within its fold two major strategy routes: Intensification Diversification

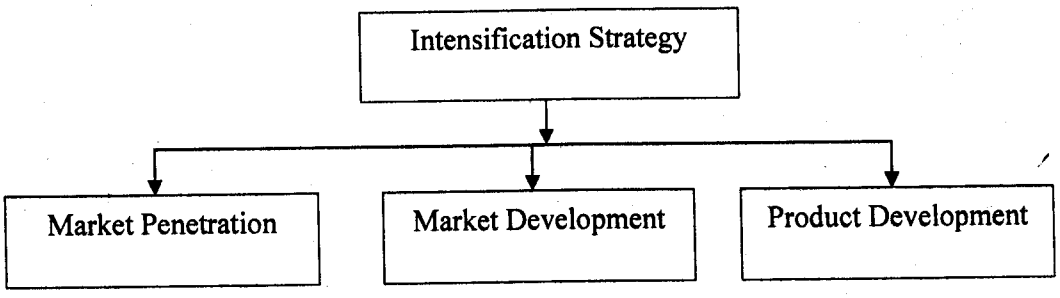


Both of them are growth strategies; the difference lies in the way in which the firm actually pursues the growth.

With intensification strategy, the firm pursues growth by working with its current businesses.

Intensification, in turn, encompasses three alternative routes:

- Market penetration strategy
- Market development strategy
- Product development strategy



Diversification strategy involves expansion into new businesses that are outside the current businesses and markets.

There are three broad types of diversification:

- Vertically integrated diversification
- Concentric diversification
- Conglomerate diversification

Vertically integrated diversification involves going into new businesses that are related to the current ones.

It has two components – forward integration and backward integration.

- The firm remains vertically within the given product-process sequence; the intermediaries in the chain become new businesses.

In concentric diversification, too, the new products are connected to the firm's existing process/technology. But the new products are not vertically linked to the existing ones. They are not intermediates. They serve new functions in new markets. A new business is spinned off from the firm's existing facilities.

In conglomerate diversification too, a new business is added to the firm's portfolio. But, it is disjointed from the existing businesses; in process/ technology/function, there is no connection between the new business and the existing ones. It is unrelated diversification.

Divestment Strategy or Retrenchment Strategy:

Divestment strategy involves retrenchment of some of the activities in a given business of the firm or sell-out of some of the businesses as such. Divestment is to be viewed as an integral part of corporate strategy without any stigma attached.

Like expansion strategy, divestment strategy, too, involves a redefinition of the business of the corporation. Compulsions for divestment can be many and varied, such as

- Obsolescence of product/process
- Business becoming unprofitable
- High competition
- Industry overcapacity
- Failure of strategy

Major reasons for organizations adopting different grand strategies:

A. Stability strategy is adopted because:

- It is less risky, involves less changes and people feel comfortable with things as they are.
- The environment faced is relatively stable.
- Expansion may be perceived as being threatening.

- Consolidation is sought through stabilizing after a period of rapid expansion.

B. Expansion strategy is adopted because:

- When environment demands increase in pace of activity.
- Psychologically, strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth-oriented.
- Increasing size may lead to more control over the market vis-a-vis competitors.

C. Retrenchment strategy is adopted because:

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unavailability.
- The environment faced is threatening.

Details of Diversification Strategy:

Diversification strategies can be classified into four broad categories:

(i) Vertically integrated diversification

(ii) Horizontally integrated diversification

(iii) Concentric diversification

(iv) Conglomerate diversification

Vertically Integrated Diversification

In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. Reliance Industries diversification from textile to petrochemical and to refinery is an example of vertically integrated diversification

Horizontal Integrated Diversification

In this organization diversify through the acquisition of one or more similar business operating at the same stage of the production-marketing chain. Reliance Industries acquisition of IPCL (Indian Petro Chemicals Limited) is an example of horizontal integrated diversification.

Concentric Diversification

Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a

loop-like manner at one or more points in the firm's existing process/technology/product chain. Example: Airtel diversification into Retail business is an example concentric diversification

Conglomerate Diversification

In conglomerate diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. Like Reliance Industries diversification into retail business.

Details of Retrenchment or Divestment / Liquidation Strategies

Retrenchment grand strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems.

These problems can be removed through various means:

Turnaround Strategies:

If organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. For example, govt. normally adopts this strategy to save loss making units by infusing more funds.

Divestment Strategy:

In this, organizations divest (sell-off) the loss-making units or divisions. By adopting divestment strategies organizations curtails its product line, or reduces the functions performed to focus on core areas. For example, L&T divestment of cement units to Aditya Birla group.

Liquidation Strategy:

If none of the above actions work then organization may choose to abandon the activities totally resulting to a liquidation strategy. It is like auction of assets by banks, etc to recover their loan amount.