Preface

It has been great pleasure in presenting the present edition of the book in a user friendly, detailed and interactive way.

The subject, Management, as is generally understood is more practical oriented than to be compiled and taught on paper. Every effort has been made to present a feel of such practical base of this subject by giving examples from our day-to-day situation that one can easily find. To cater the needs of CA-IPCC student the language has been kept quiet simple, the contents are planned and balanced which at times resulted to a bit detailed material to understand the entire back ground of the topic so that it can be easily grasped.

The Strategic Management subject is in effect since history but has been taught as a syllabus of recent, to win over the various limiting factors attached with the organisation. The subject is situational and so a script will never be enough but is meant to imbibe in student a sense and direction of tact of management.

A manager has be to be focused, sincere, far-sighted in his approach, motivating and tactful in handling the most precious resources the manpower and the most vital factor time.

Let me bring to your notice that the material provided to you by Institute is unique which must be gone through.

My special thanks to Mr. Ayush Agarwal for keeping the language simple, Mr. Vikash Agarwal and Mr. Saras Singhania (CA-IPCC passed Nov. 2010) for helping me in having student perspective by clearly mentioning where and what topic is tougher for student and need examples, detailed or cut short method.

I also wish to express thanks to all other who directly and indirectly stood behind me and helped in designing the present shape of this material, specially the student of my Nov. 2010 batch who had been constant source of the detailed and chapter-wise feedback and shaping a mere 54 page class-notes to a book of over 125 pages.

I also acknowledge due respect to various authors who have enriched the subject and helped in getting the concepts and influencing and attracting me towards the subject.

I sincerely apologise for any mistake that are still there in spite of my best effort and would be thankful to receive these being brought forward from my intelligent reader, critics and well-wisher.

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Date: 09\textsuperscript{th} March, 2011.
KOLKATA
## Examination Pattern

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The Material provided here is prepared considering the syllabus for the students of IPCC as prescribed by ICAI.

In no case this could be considered as a guarantee for mistakes and contents and for the same the students are requested to check the same from relevant and reliable sources and neither “Simplified”, “Publisher” nor the resource provider should be held liable for whatsoever reason.

The material is worth the syllabus of many Universities upto Graduation level and even beneficial for students of ICWAI.
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Strategic Management
CHAPTER - 1 BUSINESS ENVIRONMENT

Topics covered under this chapter:

- Business environment
- Objectives of business
- Environmental influences of business
- Characteristics of business environment
- Environment analysis
- Environmental influences and problems in understanding it
- Components of business environment
  - Internal environment known as micro environment
  - External environment known as macro environment
- Relationship between organization and environment
- Micro/internal environment
  - Elements of micro environment
    1. Customers/consumers
    2. Suppliers
    3. Organization
    4. Competitors: Direct competition and Indirect competition
    5. Market
    6. Intermediaries
- Macro/external environment
  - Elements of macro environment
    1. Economic environment
    2. Demographic environment
    3. Global environment
    4. Technological environment
    5. Legal-political environment
    6. Social-cultural environment
      (a) Conservative/slow-moving
      (b) Cautious/adaptive
      (c) Confident/aggressive: trend setter or mover and shaker of market
- Competitive environment
  - Effect of competitions
  - Cooperation in competitive environment
    1) Cartelization
    2) Kieretsus and conglomerate
    3) Internal co-operation (family owned co-operation)
- Porter's Five Forces Model: competitive analysis
Man is a social animal. Every human being needs society for their survival and growth. From society it gains almost everything it requires. These requirements can be fulfilled from natural resources created by God as air, water, sun, etc. or it can be a form of man-made resources school, hospital, temples, etc.

These man-made resources are created by the people from different sectors of the society either for their own use or is meant to exchange the same with certain other resources available with other person. This exchange of resources to satisfy mutual requirements is technically called as Business.

Business can never grow in complete isolation. It need input person or technology for further processing and finally the finished product or services, all these are provided by the society. These all that affect the business directly or anything that effect even indirectly is the environment of the business.

Business environment is the combination of two words - Business and Environment.

**Business** means conducting some activities to achieve some specific objective(s). It is a state of being busy. In normal sense, any sort of engagement with commercial aspect related to it is business.

Business is used as a noun also to represent a functional entity, e.g. Company, firm, etc.

**Environment** is anything in and around a person, place or thing. A human being is surrounded by his relatives, friends, peers and seniors. Our living environment comprises of air, water, light, etc. All these are an example of environment. Environment of Business system or business is employee, vendor, customers, competitor, etc.

**Business Environment** is the interaction and influence of business and the environmental factors. The combined effect transforms a given input into resultant output.

**OBJECTIVES OF BUSINESS**

A business always has some purpose and no doubt the most important purpose of business is achieving profitability and growth yet some other purpose also subsists:

**S** Survival: Initially, the business has the biggest challenge to enter and stay long in the market. It should have the capability to survive markets pressure. A business should think with a vision of long term and not to earn profit, expansion and efficiency since start of the business. This **objective is the basic and understood objective** for almost every organisation at the day when it has started the business.

**S** Stability: Stability means continuity of business even in adverse condition. An enterprise or business should achieve stability in terms of customer satisfaction, employee satisfaction etc. This is the **least resistance objective** and quiet common when the environment is not favourable.

**P** Profitability: This one of the most important and but natural objectives of business. But, to earn profit and continue the same an organisation should not work by hook or crook but should earn profit working under rules and regulations, considering and not compromising long-term effect.

**G** Growth: The growth should be in terms of profit, revenue, employee prosperity, etc. which is next most sought objectives of a business. Growth might take the form of expansion, diversification, integration, acquisition, etc.

**E** Efficiency: A long term object is successful when it is working efficiently in its’ entire field. A business
should always try to achieve the best in its field. Efficiency is considered in terms of productivity, energy consumption and waste reduction, balanced accounting and financial ratios, etc. Due to repeated and continuous movement in the same direction the people feel comfortable and at the same time tries to find the newer and improved means to achieve the same target quicker and thus reduces time and also find ways and means to avoid any wastes. It is an economic version of the technical objective of productivity.

ENVIRONMENTAL INFLUENCES OF BUSINESS

Business Environment

Surrounding of any living creature be it natural or man-made is known as environment e.g. friends, family, neighbors, hospitals and schools, etc. Business is also surrounded by an environment as technology, competition, supply and demand, etc. It doesn’t exist in isolation. Similar to environment living creature business environment too is surrounded by many a things which are not within it’s control. Like living creature business also interact with it’s environment to gain certain advantage and for the same influences environment and get influenced by it. The success or failure of a business depends on how it handles the environmental factors and how better it can harness it. The environment is a vital source of not only the provider of all input but after processing and conversion for getting return the business gets potential customer and that is again an environment.

Characteristics of Business Environment

Some of the important characteristics of business environment are as follows:

- **Environment is complex**: An environment consists of many interrelated factors and understanding these factors in group are difficult tasks and hence complex. It can be easily understood in parts and taking every factors independently.

- **Environment is dynamic**: Business environment changes continuously due to changing needs of customers and effect of competitions.

- **Environment is multi-faceted**: Environmental developments are taken differently by different people. What is Strength or opportunity from one point of view is weakness or threat from other.

- **Environment has a far reaching impact**: The effect of environment and environmental factor is long lasting and effects several issues related to business. Since the environment can effect in many ways and can harm even future the environmental factors need to be handled carefully.

Why Environment Analysis is important?

When a company does not react to environmental changes it cannot achieve its objectives in the long-run. Organization should, therefore, continuously analyze its environment and changes in it to achieve its objectives and accordingly should form a strategy to overcome any negative impact of the environment.

Environmental analysis serves the following 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, changes in functionality, pricing, tastes and preferences etc.;
3. **Facilitate strategic thinking** in the organization which helps to provide rich source of ideas for growth of organization.

**Understanding the environmental influences:**

*‘To move in dark is not better than walk with dim light’*

Organization cannot move without planning even if the external factors and quiet unpredictable and changeability exist. To understand the environment the management has to create a framework to deal with environment. The framework can take the following form and ways:

1. **Understanding Environment:** Organization should take initial view on environment in terms of uncertainty, complexity, etc. This will help to analyse factors that are within control of entity and those that are not.

2. **Impact of environment on organisation:** Impact in terms of continuity, growth, profit, etc. and accordingly organisation should handle those factors in the most careful ways.

3. **Handling competition:** Competitors are also a part of environment. Competitors are that man/entity providing same or similar goods or services and compete for the same customer (group). Final step is to focus on competition factor of environment because this is the factor for which organization should have a special strategy and focus to deal with.

**Problems in understanding Environmental Influences of Business:**

Understanding influences of environment on business is important for strategy formulation in future and react in present and future but it is quiet critical because:

1. **Multifaceted impact:** The environment comprises many different influences; it becomes a tough job to comprehend the impact in statistic format. The manager should list down all alternative impact. But, it will not give a very clear picture as environment is most dynamic in nature.

2. **Uncertainty:** The second difficulty is uncertainty. It is an open threat to managers to counter change of technology and change of broader social aspect. The rate of global communication is faster than ever and this results prediction of environmental influences more difficult.

3. **Personal opinions:** Managers are also human being and is not different from normal individual. They too want to cope with complexity and want to make an attempt to simplify the situation. One of the tasks of the strategic manager is to find ways and means to handle oversimplification or personal opinion or feelings in the understanding of environment and presenting an effective analysis.

**RELATIONSHIP BETWEEN ORGANIZATION AND ENVIRONMENT**

Business cannot exist without interacting with their environment. It is only environment which provide opportunities to business to grow and also provide an indication about their strength and weaknesses and at the same time if organisation doesn’t respond or react and prepare well handle the situation threatens the organisation.

Organisation interacts with environment for different things which could take any of the following form:
1. **Exchange of Information**: Organization continuously, exchange information with environment which helps them in better planning and functioning of business. It takes information as product requirement (demand), pricing structure (based on competition), and at the same time passes certain information to the environment in the form of product availability, advertisement, etc.

2. **Exchange of Resources**: Organization gets the resources from environment for their functioning. It consumes material, labour, capital, etc. all belongs to society and the society gets product or services from it as organizational output.

3. **Exchange of Power and Influences**: This exists in the form of Government controls, regulations, etc. that enforce business to work in a controlled manner. Organisation gets power of monopoly that is possible only when the society puts reliance on product or services delivered by an organisation and on the same time the quality product or services society gets from those organisations.

### COMPONENTS OF BUSINESS ENVIRONMENT

The environment of organization can be divided into two parts:

A. **Internal Environment known as Micro Environment**

B. **External Environment known as Macro Environment**

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.

Business firms undertake SWOT (Strength, Weakness, Opportunity and Threat) analysis to understand the external and internal environment and can be effectively utilized for strategy formulation.

![Figure: A Company's Business Environment](image-url)
THE MICRO AND MACRO ENVIRONMENT

A. MICRO/INTERNAL ENVIRONMENT

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

The Micro Environment being internal environment is in little control of organisation.

Elements of Micro Environment:

The elements/components of Micro Environment are:

1. **Customers/Consumers**: Customers are the most important components for organization without which no organization can survive. Customers are buyers while consumers of users. 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 the use and acceptance of goods and consider feedback by consumers to sustain competition.

2. **Suppliers**: Suppliers provide the raw material for production of goods. Suppliers also form an important part of competition. Nowadays even the manpower supplier is in light and most sought avenue and services as Human resources are the most sought, sensitive and rare resources among all.

3. **Organization**: The organizations are formed with many individuals and these individual influences the workings of organization in direction with the long term goals and objectives of organizations. Organization's individuals are normally divided into Governing Body (Board of Directors), Working group (Employees) and Controlling/Owning group (Owners/Entrepreneurs).

4. **Competitors**: Competitors are other business entities who compete for same resources and market. Competition forces and provides the correct shape to business. Competition can be direct or indirect. Competition between two Accounts or two Tax teachers is direct competition and competition between Accounts and Audit or Strategic Management teacher is indirect competition.

5. **Market**: Market is an extended form of customers and consumers. Market provides a structure to organization and an opportunity to their growth. The important elements of market are: Cost structure, Price sensitivity, Distribution system, Technological structure, Market stability.

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

B. MACRO/EXTERNAL ENVIRONMENT

The Macro Environment covers the broader areas or issues with which organization deals for its long terms working and plays an important role in strategic planning of organization growth. It provides opportunities and threats which may results in either growth or decay of organization.
Elements of Macro Environment:

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:

Economic environment in itself is a very broad component. It covers 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. It represents the size of market, income distributions, taste and preferences of consumers etc. There are many economic indicators or factors to be considered for strategic planning such as:

(a) GDP size and growth rate
(b) Unemployment, Interest, Taxation and Inflation Rates
(c) Liquidity position and Monetary and Fiscal policies (SLR, CRR, etc)
(d) Income Distribution
(e) Consumption pattern and regional disparity
(f) Foreign exchange reserve, rates and policies
(g) Stock market conditions, etc.

2. Demographic Environment:

Demography means characteristics of population. It includes factors such as race, age, income, education level, employment status and location. Businesses often analyze the demographic data and trend to understand what factors determines Opportunities and Threats and what determines/creates Market Size of industry, e.g. most of the software companies like to open their centers in Bangalore, Pune and other metropolitan cities because the demographic environment of these cities best suits their skilled manpower requirements. These cities provide opportunities as manpower at appropriate cost but also present threats in the form high turnover of manpower.

Different types of companies have different types of demographic interest and the major factors in demographic environment are:

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

Globalization refers to integration of world into one huge market as organization can’t think to be performing at regional or national level. The globalization is also a part of organization planning and growth. The global organizations are known as MNC (Multi National Corporation) or TNC (Trans National Corporation), e.g.
Unilever, Nestle, Nokia and Microsoft, etc. These organization setup manufacturing facilities at one place, R&D centers at other place and raise the capital and other resources at third place wherever from 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 (information, goodwill, etc.)
- Units respond to common strategy.

### Reasons of globalization / Why do companies go global?

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

i) The **shrinking time, distance and low cost communication**.

ii) **Domestic markets are no longer adequate**.

iii) **International demand** for the product forces companies to setup the facilities in the other part of world.

iv) **Cheap labour and Government incentives/ subsidy or relief**.

v) Consolidation of business and resources to achieve economy of scale

vi) Environmental restrictions also forces organizations to go global.

### Benefits of Globalisation:

There are many effects of globalization such as

a) **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.

b) **Infrastructure Development**: Globalization has helped in providing better infrastructure in the form of better roads, ports, airport and telecom network, etc.

c) **Improvised Entrepreneurship**: Globalization has given great opportunities to professionals by way of entrepreneurship to setup their own enterprise by way of providing cheap capital.

### 4. Technological Environment:

Technology and business are inter-related and inter-dependent. Newer and advanced technology makes the way for business innovations and advancement. Use of technologies influences business operations which and present many opportunities for business and also makes many existing operation obsolete. Therefore, it is very important to analyze the impact of technology environment carefully on business functioning.

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

- **Impact of technology on business operation**, e.g. banks, auditor, software, etc. technology dependent organisations. 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**
Issues for consideration in selection of technology

a) Type of technologies used by business
b) Technologies are developed in-house or procured externally.
c) If procured externally will these be always available or there is a risks of discontinuity
d) Technologies used are latest and ahead of used by competitors
e) Technologies which are must and which require to be curtailed, etc

5. Legal- Political Environment:

There are three important elements organization should analyze to understand the legal political impact:


The government has great influences on businesses. It guides the business environment in country. No business can isolate itself from legal-political system of country.

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

- General state of political development
- Degree of political impact on business and economic activity.
- Political stability
- Law and order situation
- Legal framework of country and implications of various laws under which business need to functions
- Effectiveness of implemented laws
- Government policies such as labour, fiscal, EXIM, FDI (foreign investment) and industrial development

6. Social- Cultural Environment:

Organizations are an entity only still it responses to environment similar to human entity and this response can be in three forms:

(a) Conservative/Slow-moving: Such enterprises are passive in their operation and these enterprises react only when external environment force them to do so e.g. Nationalised banks, PSU, etc. These entity moves slowly to change themselves in response to environment.

(b) Cautious/Adaptive: These organizations take intelligent approach to response to environment. These organizations adapt themselves to changing environment quickly but take a cautious approach before taking actions, e.g. TATA.

(c) Confident/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, e.g. Reliance.
ENVIRONMENTAL SCANNING/ MONITORING

The process of Gathering information regarding company’s environment, Analyzing it and Forecasting the impact of all predictable environmental changes is called Environmental Scanning.

COMPETITIVE ENVIRONMENT:

Competition is the major threat of losing market and thus become obsolete and accordingly dealing it is the most vital for strategic management. While preparing strategic plans, organizations should seriously consider the competitors strategies, products, cost and profits level, etc.

Organization should consider followings major points 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 major strength: financial positions, regional dominance, resource/market advantage?
5. What are their potential strategies?

Effect of Competitions:

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. Sometimes too much competition is bad for organization and economy as whole.

Cooperation in Competitive Environment: Businesses cooperate with each other to maximize the profit out of their products or cutting the cost to minimum.

There are three types of cooperation in competition:

1) Cartelization:

Enterprises sometimes 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, e.g. OPEC try to create the price and supply scenario of oil to protect their interest. Cartel in reference to the stock market implies set of brokers grouping together to manipulate the price of any particular stock.

Cartelization is not good for development of industry, consumers and country as whole because it does not provide true economic value of products.

2) Kieretsus:

Cooperative network of business is known as Kieretsus (a Japanese term). This is cooperation in business to extract the maximum benefits of already existing setup. The cooperation between two entity in completely diverse operation is one such example as Black Berry and Airtel, Mother Dairy and BSNL even cooperation of similar business enterprise also take the form e.g. Tata Motors selling Fiat cars through its dealer and distributors network.

Kieretsus is different from conglomerate as in Kieretsus every member is an independent company but conglomerates means same owner own the majority of capital in different companies. Members remain
independent, the only strategy they have in common is to prefer to do business with other members, both when buying and when selling.

3) **Internal Co-operation (Family Owned co-operation):**

Cooperation in business owned by same family is normally an automatic process. 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. 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.

**PORTER’S FIVE FORCES MODEL: COMPETITIVE ANALYSIS:**

Competition is the factor both best and worst from the angle of economy. To sustain, grow and become successful understanding the competition and competitive forces is very important. To help in focusing on competitive analysis a powerful and widely used tool is known as Porter’s Five Forces Model.

Followings are the five areas of forces of competition analysis:

1. **Bargaining power of buyers** by Formation of Cartels or Groups to influences prices, costs.
2. **Bargaining Power of Suppliers:** Number of supplier and their bargaining power is inversely related.
3. **Rivalry among current players:** Competitor influences product quality, price, costs, etc.
4. **Threats from substitutes:** Limits the prices and profits and is advantageous for customers.
5. **Threats of New Entrants:** Threats can be due to new product range, size of entrant and pricings.

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?

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

Correct/incorrect with stating reasons

(i) The basic objective of a business enterprise is to monitor the environment. M ‘07
(ii) The first step of strategy formulation in strategic management model is to undertake internal analysis. M ‘07
(iii) Environmental constituents exist in isolation and do not interact with each other. N ‘07
(iv) “Profit may not be a universal objective but business efficiency is definitely an objective common to all business.” M ‘08
(v) The rate and magnitude of changes that can affect organisation are decreasing dramatically. M ‘09
(vi) A business, even if it continually remains passive to the relevant changes in the environment, would still grow and flourish. N ‘09
(vii) Globalisation means different things to different people. M ‘10

Short answer Questions
1. What is a kieretsus?
2. What is demographic environment of business?
3. Write a short note on micro environment.

Descriptive Questions

(1) Discuss strategic alternatives with reference to Michael Porter’s strategies.
(2) Do you advocate that organizations should concern themselves with the elements of its outside world? Why?
(3) Discuss the relations between organizations and their external environment? How organizations strategically respond to their environment?
(4) What do you mean by micro and macro environment?
(5) Briefly discuss various elements of macro environment.
(6) What is competitive environment? Discuss the five forces driving industry competition as given by Porter. Modified N ‘09
(7) What is meant by a Global Company? Explain briefly different strategic approaches for Globalisation by a company. N ‘08
(8) Can a change in the elected Government affect the business environment? Explain. M ‘09
Case Study

Information technology (IT) exports from the Software Technology Park in Sohanpur in Uttar Pradesh has increased from Rs 1005 crore to Rs 1455 crore in the last five years. To further this growth and discuss the common issues various IT professionals of different companies assembled for a meeting. Their agenda included discussion on the issues relevant for the development of the technology park and available opportunities in IT industry for companies planning to set up IT and processing businesses in Sohanpur.

It was felt by a few persons that the absence of an airport and availability of uninterrupted round the clock power supply were major hurdles towards the development of the park. The nearest airport is 600 km away in New Delhi.

One of the participant highlighted the importance of world-class telecommunication facilities in the area. He felt that the telecommunications technology in the region is primitive and is not able to meet the present needs of the region. He also spoke at length about the problems of frequent job changes by present youth. He highlighted that a major problem is lack of patience in the young generation of IT professionals. He said retention was a major problem in Sohanpur as professional also preferred bigger cities. He suggested that the IT businesses should get together to create a conducive working climate for retention as well as growth.

Read the above case and answer the following questions:
(1) List out different environmental factors for a new entrepreneur who wants to start a new IT project in the Technology park. Segregate them as positive and negative.
(2) What is importance of an Airport in the city? Discuss.
(3) Suggest how manpower issues can be dealt by the businesses in the park.
CHAPTER-2 BUSINESS POLICY AND STRATEGIC MANAGEMENT

Topics covered in this chapter

- Business policy
- Strategy
- Strategic management
- Characteristics of business strategy
- General strategic alternatives
  - A. Stability strategy or do nothing strategy
  - B. Expansion strategy
    1) Same product new market
    2) Expand business through diversification
    3) Expand business through acquisition and mergers
  - C. Retrenchment strategy
  - D. Combination strategy or business restructuring
- The dynamics of competitive strategy
- Strategic management
- Strategic management framework
  - Stage 1: Analysis of current situation
  - Stage 2: Planning and policy making
  - Stage 3: Evaluation of alternatives
  - Stage 4: Selecting the best
  - Stage 5: Implementing the selected decision/alternatives
- Importance of strategic management
- Strategic decision making
  - Strategic decisions require top-management involvement
  - Strategic decisions involve the allocation of large amounts of company resources
  - It affects long-term and are future oriented.
  - Strategic decisions usually involve major multifunctional or multi-business consequence.
- Tasks of strategic management
- Strategic management model
  1. Strategy formulation
  2. Strategy implementation
  3. Strategy evaluation
- Vision, mission and objectives in business
- Guidelines for formulation of mission statement
- Objectives and goals
- Strategic levels in organization
  1. Corporate level
  2. Business level
  3. Functional level
Strategic management and business policy is a stream of instructions, guidance, directions for decisions and actions with view to develop effective long term and short term planning of the organisation. Strategic management and business policy decisions help organisation for accomplishment of goals and objectives of the business.

Strategic management and business policy includes strategic analysis, strategy formulation, strategy implementation and strategic controlling and monitoring of all events of the organisation. Strategic decisions might be to deploy resources in the organisation into new business opportunities. Strategy decisions is the effect of representation of the environment analysis, value chain concept and analysis, integration, diversification, mergers and acquisitions, product redesigning, up gradation, marketing, technology, customers, finance, etc.

**Business Policy:** Business policy is set of rules for functions and the responsibility of senior management towards those functions. It is predefined rules or guidelines.

Business policy is “the study of the functions and responsibilities of senior management, the crucial problems that affect success of the total enterprise, and the decisions that determine the direction of the organisation and shape its future. The policy framing required for the moulding of organisational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of the competition or adverse circumstances.

**Strategy:** Strategy is popularly related to war, as means or methods to defeat enemy. Strategy is now used for business, meaning methods or means adopted to achieve business's objectives defeating constraints.

The term strategy is derived from the Greek word ‘strategia’ which means “generalship.” In the military concept, strategy refers to arranging troops into position before the enemy is actually engaged in the war. Once the enemy has been engaged, attention shifts to tactics how to win war. Here, the employment of troops is central point of strategy formulation, implementation and controlling of war. And this concept transfers to the business world today which begins to take form in terms of formulation, implementation and controlling business policy to achieve strategic goals of the business enterprise.

**Strategic Management** refers to the process of forming a vision, setting objectives, building a strategy, implementing and executing the strategy and then initiating adjustments to achieve the objectives.

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

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

Business responds to adverse or hostile environment with strategy. In business, Strategy is considered as:

- a plan by management to conduct operation, attract customers and compete successfully;
- a comprehensive and 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;
- a plan adopted for survival, stability and growth of business

CHARACTERISTICS OF BUSINESS STRATEGY

- Formulated by Top Management
- Long Term oriented
- Integrated: Consider all elements of business
- Flexible: Can be modified as per changed Environment
- Purposeful: It is for making organization ready to cope-up to a competitive and complex business environment successfully
- Action Oriented and Goal Directed: It should help to start action to help in the achievement of goal.
- Allowances for Uncertainties and contingencies and should predict all possible chances of deviation.

GENERAL STRATEGIC ALTERNATIVES (By W.F. Glueck and Lawrence R Jauch)

These general strategic alternatives are also known as Master Strategies, help organizations to face competition and achieve its objectives successfully. These alternatives are categorized in four broad head:

A. Stability Strategy or Do Nothing Strategy or Status Quo strategy: It states that business should focus on their core products and should strive to improve functional efficiency, and also the quality of products. By formulating this strategy, business wants to achieve unique position for their products in the market, by continuously improving at all fronts as quality, customer service, R&D and distribution, etc. It primarily focus on two issues:

1) Deal in similar products or services and markets
2) Focus on functional performance improvements

B. Expansion or Growth Strategy is one of the most important strategies. Profitable business always looks for new avenues for efficient utilization of their profit. Expansion strategy can be in many forms:

1) **Expand business of similar product to new markets** To catch new customer and market.
2) **Expand business through diversification** Add new product and services.
3) **Expand business through acquisition and mergers** Businesses acquire the other related or diversified businesses, or merge themselves with it. It helps expansion in the shortest possible time with lower risk. It is marriage of new business without divorce of existing business with same management.

C. **Retrenchment/ Stop Loss Strategy** Products or business units which are not performing as per their expectation, enterprises may divest such business units from their portfolio, as ‘stop loss’ strategy. Following are the major characteristics of this strategy:
a. Divesting a major product line or market.

b. necessary for coping with hostile and adverse situations in the environment and

c. when any other strategy is likely to result more negative impact, actions to be taken are:

   i. **Temporary and partial setbacks**: Reduce capital and revenue expenditures, replacement of assets, advertising, R & D activities, employee welfare subsidies, community development projects, executive’s perks.

   ii. **More serious cases of hard times**: inventory and manufacturing level, manpower, plant maintenance, dividend to shareholders and interest on deposits can be postponed.

   iii. **Next stage**: withdrawing from some marginal markets, withdrawal of some brands and sizes of products, withdrawal of some slow moving products, winding up some branch offices, abolition of some executive positions.

   iv. **Fourth stage**: sale of some manufacturing facilities and individual product divisions, retirement either from the production or the marketing stage, offering itself for takeover or even seek liquidation.

D. **Combination Strategy or Business Restructuring**: It is a mix of different strategies adopted to develop the best possible portfolio of business. Organizations may divest some business units, use the cash generated to expand the remaining business through acquisitions and by entering into new markets, adding product and services.

**THE DYNAMICS OF COMPETITIVE STRATEGY**

Strategic management thinking involves orientation of the enterprise's internal environment with the changes of the external environment in business operations.

Competitive strategy depends on strengths and weaknesses, opportunities and threats of the company like economic and technical which are based on the internal and external factors of the company. These are considered valuable tool for competitive strategy handling.

Economic and technical component of the external environment are considered as the major factor that leads to new opportunities to the business enterprise.

The organizations can survive by competing in the market through careful and systematic formulation and implementation of an effective and competitive strategy. The competitive strategy can be formulated effectively by using Porter's five forces model.

Environment, especially external, is dynamic, complex and uncertain therefore, the competitive strategy should also be equally dynamic to face competition with confidence. It is an internal environment's strengths, which respond to external environment's opportunities and threats.

**STRATEGIC MANAGEMENT**

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

Stage One: Where are we now? (Beginning)

Stage Two: Where we want to be? (Ends)

Stage Three: How might we get there? (Means)

Stage Four: Which way is best? (Evaluation)

Stage Five: How can we ensure Arrival? (Control)

Fig. Framework of Strategic Management

Stage 1: Analysis of current Situation: Organization analyze about their present situation in terms of their Strengths, Weaknesses, Opportunities and Threats.

Stage 2: Planning and Policy making: Organizations setup their missions, goals and objectives by analyzing where they want to go in future.

Stage 3: Evaluation of Alternatives: Organization analyses 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: Selective Best: In this organisations select the best suitable alternatives in line with their SWOT analysis.

Stage 5: Implementing the selected decision/alternatives: Organization implement and execute the selected alternatives to achieve their strategic goals and objectives.

Importance of Strategic Management:

- To find the strengths and weaknesses
- Identify the available opportunities and possible threats
- Align business objectives and goals with its’ strengths and available opportunities
- Implement changes to overcome weakness and manage the threats
- Provide vision/mission or direction to future of organizations
- Build a dynamic and strong organization
STRATEGIC DECISION MAKING

Decision making involves selecting a particular course of action out of several alternatives for achieving organization's objectives and goals. Strategic decisions are different in nature than all other decisions. The major issues of strategic decisions are:

- Strategic decisions require top-management involvement
- Strategic decisions involve the allocation of large amounts of company resources
- It affects long-term and are future oriented.
- Strategic decisions usually involve multifunctional or multi-business consequence.

STRATEGIC MANAGEMENT MODEL

Strategic management model is prepared for better understanding of strategic management tasks. The model consists of three stages:

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

Organization formulates strategies by forming long term vision, mission and objectives considering all their strengths and weaknesses and by looking into opportunities and threats in the environment.

- It provides a visual representation of the major components of the entire strategic management process. This model also shows how the components are related and how they are related throughout the process.
- This model provides the general overview of the strategic management process of the organisation.
- This model widely accepted and is comprehensive.
- It's identifying the vision, mission, objectives, strategic analysis and its choice for each goal.
- It determines the changes of the organisation.
- It defines the strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or half-yearly or quarterly.
- For management process, good communication and feedback are needed in order to ensure accountability in business.
- It is formal in larger and well established organisations and the participant's responsibilities, authority, duties, and approach are specified.
- This model usually associated with the cost, comprehensiveness, accuracy and success of planning across all types and sizes of organisation.
VISION, MISSION AND OBJECTIVES IN BUSINESS

**Vision** There is a quote that ‘great visionary can foresee the future in advance and take steps accordingly to be at forefront’.

- 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 purpose, 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 conducive environment to steer the company with great excitement in selected direction.
4. Promote creativity in every member of company to prepare company for future.

**Mission**

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

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, 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
**Guidelines for formulation of Mission Statement**

Organization can not declare the mission just on some great whim and fancy. Mission should be based on organization’s existing capabilities and should be achievable.

A few guiding factors for formulation of mission statement are:

- 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 include 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.

<table>
<thead>
<tr>
<th>Company</th>
<th>Production-oriented answer</th>
<th>Marketing-oriented answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT&amp;T</td>
<td>We operate a long-distance telephone company.</td>
<td>We provide multiple forms of reliable, efficient and inexpensive telecommunication services</td>
</tr>
<tr>
<td>Indian Oil</td>
<td>We produce oil and gasoline products</td>
<td>We provide various types of safe and cost-effective energy.</td>
</tr>
<tr>
<td>Indian Railways</td>
<td>We run a railroad</td>
<td>We offer a transportation and material-handling system</td>
</tr>
<tr>
<td>Eastman</td>
<td>We make cameras and film.</td>
<td>We help preserve beautiful memories</td>
</tr>
<tr>
<td>Kodak</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revlon</td>
<td>In the factory, we make cosmetics.</td>
<td>In the drugstore, we sell hope</td>
</tr>
</tbody>
</table>

**OBJECTIVES AND GOALS**

Objectives and goals are future oriented direction/target based on Strength and opportunity analysis.

**Some of the 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 as:

- Objectives should **define clearly** the organisation’s relationship with its environment.
- Objectives should **facilitate the accomplishment of mission and vision**.
- It should provide the **basis for strategic decision making**.
- It should provide standards for **performance appraisal**.
- It can be **understandable**.
- It can be **concrete and specific**.
- It should be **challenging** in nature.
- It can be **set within constraints**.
- **Different type of objectives should be correlated** with each other.
- It can be related to a **time frame**.
- It can be **measurable and controllable**.

**STRATEGIC LEVELS IN ORGANIZATION**

1. **Corporate Level:** The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. In consultation with other senior executives, the role of corporate-level managers is to oversee the development of strategies for the whole organization.

   **Characteristic of Strategic Management Decisions at Corporate Level**

   - Corporate level decisions tend to be value oriented, conceptual, and less concrete than those at the business or function level.
   - Corporate level decisions are characterized by greater risk, cost and profit potential, as well as by longer time planning and greater needs for flexibility.
   - Instance of corporate level decisions include the level of choice of business, dividend policies, source of long term financing and priorities for growth. This role includes defining the mission and goals of the organization, formulating and implementing strategies that cover individual businesses, and providing leadership for the organization.

2. **Business Level:** The executive 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 cover individual business; business-level general managers are concerned with strategies that are specific to a particular business.
Characteristic of Strategic Management Decisions at Business Level

• Bridging corporate and functional level decisions are those made at the business level.

• Business level decisions are less costly, risky, and potentially profitable than corporate level decisions, but they are more costly, risky, and potentially profitable than functional level decisions.

• Business level decisions involve plant location, marketing segmentation and geographic coverage and distribution channels.

3. **Functional Level**  Functional-level managers are responsible for the specific business functions (Accounts, Sales, etc.) that form a company or one of its divisions. Functional managers develop functional strategies in their area that help fulfill the strategic objectives set at business and corporate-level. Moreover, functional managers provide the information that makes it possible for business and corporate-level people formulate realistic and attainable strategies because they are closer to the customer.

Characteristic of Strategic Management Decisions at Functional Level

• Functional level decisions principally involve action-oriented operational issues.

• These decisions are made periodically and lead directly implementation of some part of the overall strategy formulated at the corporate and business levels

• Functional level decisions are relatively short range and involve low risk and modest costs because they are dependent on available resources.

• Functional decisions usually determine actions requiring minimal organisation wide co-operations.

• Functional level decisions are usually concrete and quantifiable; they receive critical attention even though their comparative profit potential is low.

• Functional level decisions include generic versus brand name labeling, high versus low inventory levels, and close versus loose supervision.
For your practice

Correct/incorrect with stating reasons

(i) Retrenchment implies downsizing of business. \( \text{M '07} \)
(ii) “Efficiency and effectiveness means the same in strategic management.” \( \text{M '08} \)
(iii) Strategy is a substitute for sound, alert and responsible management. \( \text{N '08} \)
(iv) Strategic management is not needed in non-profit organisations. \( \text{N '08} \)
(v) All strategies emerge from corporate vision. \( \text{N '08} \)
(vi) Strategic management is a bundle of tricks and magic. \( \text{M '09} \)

Short answer questions

1. Write a short note on business policy.
2. Explain diversification as strategy.
3. What is Mission Statement? \( \text{M '07} \)
4. What is meant by Retrenchment Strategy? \( \text{M '08} \)

Descriptive Questions

1. What do you understand by Strategy? What are major strategic alternatives available to a business organisation? \( \text{M '08} \)
2. Discuss different strategic levels in organizations.
3. Discuss the process of strategic management.
4. What is Strategic Management? What benefits accrue by following a Strategic Approach to managing? \( \text{N '07} \)
5. State the points that may be considered while writing a mission statement? \( \text{N '09, Modified M '10} \)

DISTINGUISH BETWEEN

a) Forward and backward integration. \( \text{M '07, M '09} \)
b) 'Shared vision' and 'vision shared'. \( \text{M '10} \)

Case Study

Delhi-based Ace International is close to acquiring popular household brands Yummy and Tasty from Beetroot Ltd. The deal, at Rs. 35 crores was announced at a joint press conference. It was sometime back that Beetroot felt the need to restructure its unwieldy product portfolio and exit brands which had low business potential for the company. Beetroot had put these brands on sale late last year. Ace has emerged as the highest bidder for them. The company, stated in the press release that Ace is buying the brands but not their manufacturing facility at Noida (near Delhi), because the plant also makes other food products which are Beetroot’s core food brands.

While Yummy and Tasty are marginal businesses for Beetroot, (around Rs 20 crore per annum) management consultants felt that they are a good fit in Ace’s product portfolio. The company makes the same genre of products and can grow the brands without additional input or distribution costs. Tasty and Yummy are food brands that Ace can manufacture in its existing
plants spread across seven locations in Punjab and Maharashtra. The company can also use the same set of distributors to place these brands in shops. Financial Analysts expect them to add 8-10% to Alpha’s Rs 250 crore turnover in the first year.

(a) Discuss the business strategy for Ace

(b) Discuss the business strategy for Beetroot.
CHAPTER 3 STRATEGIC ANALYSIS

Topics to be covered:

- STRATEGIC ANALYSIS
  - Industry and Competitive analysis and
  - Analysis of organization's SWOT

- Issues to consider
  - Timeline
  - Balance
  - Risks

- SITUATION ANALYSIS
  - Product Position
  - Competition Situation
  - Distribution Situation
  - Environment
  - Opportunities and Issues analysis

- Framework of Strategic Management
- External Analysis
- Internal analysis

- INDUSTRY AND COMPETITIVE ANALYSIS
  - Strategic Group Mapping
  - Strategic Moves of Rivals

- KEY FACTORS FOR COMPETITIVE SUCCESS
  - Prospects and Financial attractiveness of industry

- SWOT ANALYSIS
- Strategy Levels
  - Functional-Level Strategy
  - Business-Level Strategy
  - Global Strategy
  - Corporate-Level Strategy

- SIGNIFICANCE OF SWOT ANALYSIS

- TOWS MATRIX

- PORTFOLIO ANALYSIS
  - Strategic Business Unit
  - Experience Curve/Learning Curve
  - Product Life Cycle (PLC)

- PORTFOLIO ANALYSIS MODELS
  - BOSTON CONSULTING GROUP (BCG) GROWTH-SHARE MATRIX
  - ANSOFF'S PRODUCT MARKET GROWTH MATRIX
  - ADL MATRIX: Dominant, Strong, Favorable, Tenable, Weak (and non-viable).

THE GENERAL ELECTRIC / MCKINSEY MODEL
Strategic analysis is the most important feature of overall strategic management. This helps in formulation of the overall strategy of organization. Strategic analysis provides a detailed view of industry, competitors, organization's strengths and weaknesses, etc.

Strategic Analysis requires analysis of numerous issues before finalizing and implementing organization long term strategy. Strategy formation is not a one-time event/step, but it's a process. Organizations with their past experience accordingly keep adjusting their strategy to capture the opportunities and minimize the threats provided by environmental changes.

**STRATEGIC ANALYSIS**

After formulating strategy including **VISION, MISSION AND OBJECTIVES**, next step is analysis of every step or processes to achieve those objectives and for the same critical analysis of our environment is necessary to formulate a long term strategy as per changed environment.

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

(1) Industry and Competitive analysis and

(2) Analysis of organization's core competitive capabilities, resources, internal strengths and weaknesses and market position or situations.

**Issues to consider**

Strategy analysis and then revision of strategy formulated originates through a continuous interaction between management and organization's capabilities and environment and is assisted by a few analysis tools. These strategic analysis tools are as discussed below:

• **PEST Analysis**: It is a technique for understanding the environmental factors like political, economic, social and Technology in which a business operates.

• **Five Forces Analysis**: it is a technique for identifying the forces which affect the level of competition in an industry level and business level.

• **Market Segmentation**: It is a technique which seeks to identify similarities and differences between groups of customers or users of company's products and services.

• **Competitor Analysis**: It is a wide range of techniques and analysis that seeks to summarise a businesses’ overall competitive position in business level and industry level.

• **Critical Success Factor Analysis**: it is a technique to identify those areas in which a business must outperform the competition in order to succeed in the market and business.

• **SWOT Analysis**: it is a useful summary technique for summarizing the key issues arising from an assessment of a business's "internal" position and "external" environmental influences to company.

• **Strategic Choice**: This process involves understanding the nature of stakeholder expectations along with identifying strategic options, and then evaluating and selecting strategic options in the business.

• **Strategy Implementation**: it is often the hardest part in strategic analysis.

When a strategy has been analyzed and selected, this task is ready to put the resultant into organizational action.
Following issues should be considered for strategic analysis:

a) **Timeline**: Strategy analysis and formulation is the effect of various steps and stages and takes times to come in perfect shape. It’s a matter of experiences, various past decisions, a bit of prediction and projections, and includes even certain routine decisions.

b) **Balance**: Perfection is Vision and not a stage to be achieved. Our strategy should be finely balanced based on our potential and considering weaknesses as far as practicable to optimum harness of the opportunities of the external environment.

c) **Risks**: Environmental dynamism is what everybody is certain. And because of interaction and integration of different factors environmental complexity it posses various changed shape and degree of risk in the form of competition, boom, recession and technological changes, etc. Strategic Analysis fulfill this gap by identifying these risks and their consequences on business. Strategic analysis helps us to plan and reduce the gap between the internal/external environment and internal strength. Risks can be classified as internal and external, further, short term and long term.

<table>
<thead>
<tr>
<th>Time</th>
<th>Short Term</th>
<th>Long Term</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Errors in interpreting the environment cause strategic failure.</td>
<td>Changes in the environment lead to obsolescence of strategy.</td>
</tr>
<tr>
<td></td>
<td>Organizational capacity is unable to cope up with strategic demands.</td>
<td>Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences</td>
</tr>
</tbody>
</table>

Short term risks have implications to organization for small period of time, but short term inconsistencies, causing risks if not corrected immediately or within reasonable time period, may affect organization in long run also.
SITUATION ANALYSIS

Strategic analysis involves study of organization's situation or position with respect to environment.

External and internal environment presents various uncertainties and complexities and only their clear understanding helps in correct strategy formulation.

The situational analysis is performed on consideration of various elements in and around the company and the important ones are:

a) **Product Position**: The type of products produced by company, i.e. Core products (main product, directly used by consumers) and Non Core or allied products (used in other products as one of the component); customers’ preferences for the product, their utility, pricing, etc.

b) **Competition Situation**: The level of competition, main competitors, expected moves and competitive advantages, etc.

c) **Distribution Situation**: The company distribution channel plays an important role in availability of product/services and thus the market share.

d) **Environment**: All internal and external environment factors and their possible influences should be analyzed.

e) **Opportunities and Issues analysis**: It’s the next stage wherein environmental situation analysis is given shape by concluding all the possible opportunities and threats to company and the possibility to materialize the opportunities and handling of threats.

Framework of Strategic Management

Framework of strategic management includes many elements, and strategic analysis is the most important element of strategic management. Under Strategic analysis we categorise various environmental factors into:

- **External Analysis** consisting of
  - **Customer Analysis** (Segments, motivations, unmet needs),
• **Competitor Analysis** (Identity, objectives, strategies, culture, cost structure),
• **Market Analysis** (Size, projected growth, profitability, entry barriers, cost structure) and
• **Environmental Analysis** (Technological, government, economic, demographic)

**Internal analysis** covering of

• **Performance Analysis** (Profitability, sales, shareholder value analysis, customer satisfaction, product quality, brand associations, employee capability, product portfolio analysis) and

• **Determinates (Defined) Analysis** (Past and current strategies, strategic problems, organizational capabilities and constraints, Financial resources and Constraints).

Only the in-depth analysis of the two results to a better **Strategy Identification & Selection** which could take the form of **Identification of strategic alternatives** (Product-mix investment strategies, Functional area strategies, Asset acquisitions strategies), **Selection of strategy**, **Implementing the operating plan**, **Reviewing the strategies**.

**INDUSTRY AND COMPETITIVE ANALYSIS**

An industry as a whole is like a system and a particular organisation is a part (sub-system) of it. To better understand one’s status in the industry and also to decide its strategy or direction for future it is better to understand various factors related to industry as a whole and at the same time the competitors’.

Following key factors are analyzed in this strategic analysis and are explained as follows:

1. Dominant economic feature of industry
2. Nature and strength of competition
3. Triggers of industry change
4. Identifying strongest and weakest positioned companies
5. Likely strategic moves of rivals
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 firm/enterprise with similar products and/or services and competes for same group of buyers. It analyses the key economic industry indicators as:

a) Market size
b) Number of competitors and their relative size/share
c) Industrial growth position in business life cycle (introduction, growth, maturity and decline)
d) Pace of technological change in production process as well as new product introduction
e) Products differentiation
f) Expansion of firms/enterprises
g) Types of industry: Capital intensive, entry and exit barriers

h) Rate of return of the industry

**Nature and Strength of Competition:**

Level of competition is measured by analyzing different forces of competition. To analyse the same it needs to have the understanding of the position and image of competitor; product, cost and location differentiation.

The above factors and all other factors discussed under Porter’s Five Forces Model helps in better and more systematic analysis.

**Triggers of Change:**

Triggers are basically the factor that is the prime input for a change. The organisational trigger is different between one to other and is dependent on the factors to avoid those challenges. So the entity is required to find and measure the trigger root cause and trigger position. Here, company determines the driving forces and their impacts on competition through two steps:

**First,** identifying the most common driving forces causing the competition,

**Secondly,** finding or analyzing their individual contribution to competition.

Some of common driving forces of competition are:

- Increasing globalization (providing an increased market size throughout the globe)
- Marketing innovations (TV, News Print, Internet, Tele Calling)
- Product innovations (shorter life cycle and frequent introduction of new products)
- Entry and exit of firms (mergers and acquisitions); easy availability of funds and JV
- Internet and E-commerce use (new medium to reach to large and far extent customers)
- Changes in cost and efficiency (causing decreased cost and increased production)

**Identifying Companies in Stronger and Weakest Companies:**

There are various factors on which one company differs from other and thus could have different potential of handling competition or putting pressure on firms in the industry. These factors could be price, geography, after sale services and product range, etc. It is not practicably possible or even feasible to study each competitor so it is better to categorize similar natured competitor and the technique of grouping is called as "Strategic Group Mapping".

The procedure of Group mapping 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)
   - 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 falling in same strategy to the same group
4. Draw circle around each strategic group making size of circle respective to market share

**Strategic Moves of Rivals:**

Constant watch on competitor is a strategy to reach at top and be there. A company to become successful has to provide better quality of product or services than that of its' competitor and the same is possible only when we are conscious about competitors’ actions, understanding their strategy, and anticipating what moves they are likely to make next. We have to plan and outperform our rival and then only we can save our existing market share and even capture their share to increase our current market base.

**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. It varies from industry to industry. KSFs are the rules helping to achieve success to firm, if followed.

KSFs help us to analyse the factors on which customers categorise between various vendors and accordingly help to improve the desired field. Understanding the following questions' help the firms to identify the KSFs:

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

**Prospects and Financial attractiveness of industry**

The final step of competitive analysis is attractiveness of industry. To analyse the attractiveness and demand of an industry one vital factor is the stage of economy and tastes and trend of the same. It require great vision and solid analysis to predict correct attractiveness of industry. Industry attractiveness can be analyzed from both short term and long term perspective. Industry's prospects can be analyzed by:

- 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

Normally, an industry is considered attractive, if overall profit is above average and considered unattractive, if profit is below average but is not valid for all the existing participants and all potential entrants equally.
SWOT ANALYSIS

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 an organisation/firm to gain strategic advantages over others.

**Weakness:** Weakness is the limitation within an organization that are responsible for strategic disadvantages.

**Opportunity:** Opportunity is favorable condition for organization that can be harnessed or availed by the organization utilised its' strength to make its position stronger in the industry.

**Threat:** Threat is an unfavorable situation, creating some risks which arises due to one or other limitations or weakness with the organization.

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

To identify various alternatives strategies the managers need to identify the set of strategies to create and sustain competitive advantages. These set of strategies are:

1. **Functional-Level Strategy:** This is formed to improve the effectiveness of operation within a company, e.g. - manufacturing, marketing, CRM, MM and R&D.

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

3. **Global Strategy:** This strategy is aimed to expand business operations globally so as to achieve optimum competitive advantages. E.g. Mitsubishi to have R&D unit at one location, production at other Accounts at third and Marketing throughout the globe.

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

SIGNIFICANCE OF SWOT ANALYSIS

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

Following are the significance of SWOT analysis:

a) **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. 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.
b) **Comparative Analysis:**

SWOT analysis provides an important tool in the hand of managers to analyse the different combination between high and low or positive and negative strengths and weaknesses or opportunities or threats and then a careful calculated selection of strategy can be done.

c) **Strategy Identification:**

The detailed analysis of all logical framework and the impact of those framework due to the SWOT leads to identification of all possible outcome when faced in different situation or examined for different criteria and the best possible strategy could be chosen.

<table>
<thead>
<tr>
<th>Potential Resource Strengths and Competitive Capabilities</th>
<th>Potential Resource Weaknesses and Competitive Deficiencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Potential Company Opportunities</td>
<td>Potential External Threats to Company’s Well-Being</td>
</tr>
<tr>
<td>C</td>
<td>D</td>
</tr>
</tbody>
</table>


EXAMPLES OF SWOT ANALYSIS

A. Potential Resources Strengths and Competitive Capabilities

- A powerful strategy supported by competitively valuable skills and experience in key areas.
- A strong financial condition; ample financial resources to grow the business.
- Strong brand name, image/company reputation.
- Ability to take advantage of economies of scale and/or learning and experience curve.
- Cost advantages.
- Strong advertising and promotion.
- Sophisticated use of e-commerce technologies and processes.
- Better product quality relative to rivals.
- Wide geographic coverage and/or strong global distribution capability.

B. Potential Resource Weaknesses and Competitive Deficiencies

- No clear strategic direction.
- Obsolete facilities.
- A weak balance sheet, burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Weak brand image or reputation.
- Short on financial resources to fund promising strategic initiatives.
- Not attracting new customers as rapidly as rivals.

C. Potential Company Opportunities

- Expanding the company’s product line to meet a broader range of customer needs.
- Utilizing existing company skills or technological know-how to enter new product lines/businesses.
- Using the internet and e-commerce technologies to cut costs and pursue new sales opportunities.
- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Joint ventures to expand market coverage or gain competitive capability.
- Openings to exploit emerging new technologies.
- Market openings to extend the company’s brand name or reputation to new geographic areas.

D. Potential External Threats to Company’s Well-Being

- Chances of entry of prospective or new competitors.
- Loss of sales to substitute products.
- Technological changes or product innovations that undermine demand for the firm’s product.
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Growing bargaining power of customers or suppliers.
- A shift in buyer needs and tastes away from the industry’s product.
TOWS MATRIX

Developed by Heinz Weihrich, TOWS matrix is similar to SWOT analysis, for comparing the strengths and weaknesses of an organization with that of market opportunities and threats. This matrix is an expansion of SWOT analysis wherein the terms S, W, O and T were identified individually whereas TOWS prepares a combination of the factors. Post TOWS, SWOT analysis was criticized on the ground that the managers frequently fail to come up with appropriate strategic choices to overcomes threats and weaknesses.

Identifying Strategic Options

SWOT or TOWS analysis helps to get a better understanding of the strategic choices that we face. It questions and thereby tries to find answers for the Strategic options on issues related to

How can we:

- Make the most of our strengths?  
- Capitalize on our opportunities? and

- Get around our weaknesses?  
- Manage our threats?

TOWS Matrix helps to find the options that could be undertaken by matching/balancing external opportunities and threats with our internal strengths and weaknesses through matrix in table provided.

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

- Strategies that use 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?

<table>
<thead>
<tr>
<th>Internal Elements</th>
<th>Organizational strengths</th>
<th>Organizational weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Elements</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environmental opportunities (and risks)</th>
<th>Strategic options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SO</strong> : strengths can be used to capitalize or build upon existing or emerging opportunities</td>
<td></td>
</tr>
<tr>
<td><strong>ST</strong> : strengths in the organization can be used to minimize existing or emerging threats</td>
<td></td>
</tr>
<tr>
<td><strong>WO</strong> : the strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited</td>
<td></td>
</tr>
<tr>
<td><strong>WT</strong> : the strategies pursued must minimize or overcome weaknesses and as far as possible, cope with threats existing or emerging threats</td>
<td></td>
</tr>
</tbody>
</table>
PORTFOLIO ANALYSIS

The basic feature of any business is to manage set of products/services, business units and Companies and these sets comprise to make a portfolio. And this management is the major task of the business. Each product or services has its’ unique demand, margin and future. Businesses cannot carry on all the products and business units when one of its’ product and services is quiet in demand or profitable and other not so viable. They need to analyze their portfolio from time to time to identify products and business units to be continued and which to switch over by sale, closure, etc. and where it should further invest/expansion.

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 and these are:

1. **Strategic Business Unit**

   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, Tata Sons is major company for Tata organization that has many strategic business units in which Tata Sons has stake like TISCO, TELCO, TATA Tea, TCS and Tata Indicom, etc. Though, each SBUs have their own objectives but one objective is common, and that objective is maximize return on TATA SONS's shareholders' investment.

   a) SBU is single business or collection of businesses that can be planned separately

   b) Has its own set of competitors

   c) 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.

2. **Experience Curve/Learning Curve**

   It is based on the common understanding that because of repetition the average cost per unit decreases because of savings in terms of time, wastage, etc.

   Experience curve helps in achieving economies of scale, product-redesign and technological improvements in production, etc. The experience helps to gain competitive cost advantage over the new or lesser experienced competitors.
3. **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 shows product's sales volume over successive stages of product's life cycle i.e.

a) Introduction (slow sales growth)  
b) Growth (rapid market acceptance)  
c) Maturity (slowdown in growth)  
d) Decline (sharp downward shift)

![Product Life Cycle](image)

**Figure: Product Life Cycle**

**PORTFOLIO ANALYSIS MODELS:**

Portfolio analysis is done through all or any of the following models:

1. **BOSTON CONSULTING GROUP (BCG) GROWTH-SHARE MATRIX**

Bigger Companies that are having units to be organized into strategic business units face the challenge of allocating resources among themselves and thus compete even within the group. 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:

a) **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.

b) **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.

c) **Question Mark/Wildcats/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.

d) **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.

Once the organisations have classified its products or SBU, it must determine what role each will play in the future. The four strategies that can be pursued are:

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

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

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

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

2. **ANSOFF’S PRODUCT MARKET GROWTH MATRIX**

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

Ansoff’s product/market growth matrix suggests that a firm’s chances to grow depend on the type of product (new or existing products) and the market it caters to (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:

a) **Market Penetration (Same product – Same Market)**

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 growing 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

b) Market development (Same product – New Market)

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

c) Product development (New product – Same Market)

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.

d) Diversification (New product – New Market)

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 should have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

3. ADL MATRIX

Given by Arthur D. Little, 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 (six) 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.
<table>
<thead>
<tr>
<th>Competitive position</th>
<th>Stage of industry maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Embryonic</td>
</tr>
<tr>
<td>Dominant</td>
<td>Fast grow</td>
</tr>
<tr>
<td></td>
<td>Build barriers</td>
</tr>
<tr>
<td></td>
<td>Act offensively</td>
</tr>
<tr>
<td>Strong</td>
<td>Differentiate</td>
</tr>
<tr>
<td></td>
<td>Fast grow</td>
</tr>
<tr>
<td></td>
<td>Attack small firms</td>
</tr>
<tr>
<td>Favourable</td>
<td>Differentiate</td>
</tr>
<tr>
<td></td>
<td>Focus</td>
</tr>
<tr>
<td></td>
<td>Fast grow</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenable</td>
<td>Grow with industry</td>
</tr>
<tr>
<td></td>
<td>Focus</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Weak</td>
<td>Find niche</td>
</tr>
<tr>
<td></td>
<td>Catch-up</td>
</tr>
<tr>
<td></td>
<td>Grow with industry</td>
</tr>
</tbody>
</table>

**Figure: Arthur D. Little Strategic Condition Matrix**

**Defining the line of business in the ADL matrix**

In the ADL Matrix approach, the strategist must identify common business line using the following criteria as guidelines:

- Common rivals
- Customers
- Product Substitutability
- Prices
- Quality/Style

**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:
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 is from monopoly position due to certain entry restrictions, patents, specific know-how, high capital cost.
- **Strong:** A strong company can follow a strategy without too much consideration of moves by rival companies but to be constantly at top it should always be at look out for efficiency.
- **Favorable:** Industry is fragmented. No clear leader among stronger rivals. To get better edge the firm should always be vigilant about rivals, utilize SO and minimize its’ WT.
- **Tenable:** The firm/business has a niche, either geographical or defined by the product. This is the case where there is no competition either for the product or the market.
- **Weak:** Business is too small to be profitable or survive over the long term.

4. **THE GENERAL ELECTRIC / MCKINSEY MODEL**

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

It 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.

<table>
<thead>
<tr>
<th>Market Attractiveness</th>
<th>Business Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Invest</td>
</tr>
<tr>
<td>Medium</td>
<td>Invest</td>
</tr>
<tr>
<td></td>
<td>Protect</td>
</tr>
<tr>
<td>Low</td>
<td>Protect</td>
</tr>
<tr>
<td></td>
<td>Harvest</td>
</tr>
<tr>
<td></td>
<td>Divest</td>
</tr>
</tbody>
</table>

Figure: The GE Matrix

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.
### Market Attractiveness of Business Units

Market Attractiveness of business units is evaluated for the following factors:

<table>
<thead>
<tr>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>Share by Segment</td>
</tr>
<tr>
<td>Customer Loyalty</td>
</tr>
<tr>
<td>Margins</td>
</tr>
<tr>
<td>Distributions</td>
</tr>
<tr>
<td>Technology Skills</td>
</tr>
<tr>
<td>Patterns</td>
</tr>
<tr>
<td>Marketing</td>
</tr>
<tr>
<td>Flexibility</td>
</tr>
<tr>
<td>Organization</td>
</tr>
<tr>
<td>Customer Satisfaction Level</td>
</tr>
<tr>
<td>Competition: Quality, Types, Effectiveness, Commitment</td>
</tr>
<tr>
<td>Price Level</td>
</tr>
<tr>
<td>Profitability</td>
</tr>
<tr>
<td>Technology</td>
</tr>
<tr>
<td>Government Regulations</td>
</tr>
<tr>
<td>Sensitivity to economic trends</td>
</tr>
</tbody>
</table>
For your practice

Correct/incorrect with stating reasons

(i) "Industry is a grouping of dissimilar firms."  
   M '08
(ii) The purpose of SWOT analysis is to rank organizations.  
    M '09
(iii) PLC is ‘S’ shaped curve.  
     M '09
(iv) “B” in BCG Matrix stands for balance.  

Descriptive Questions

1. In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?  
   M '07, Modified M '09
2. Why organisations undertake portfolio analyses? Discuss any one model of portfolio analysis in detail.
3. What is TOWS matrix? Is it same as SWOT analysis? Discuss.
4. Discuss the relevance of TOWS Matrix in strategic planning process.  
   N '09

SHORT NOTES

   M '08
2. What is a key success factor?  
3. What is product development?
4. Explain dogs in BCG matrix? Explain star in BCG matrix?  
   N '07
5. Strategic groups.  
   M '08

Case Study

The Managing Director of Big Ltd. called an internal meeting of senior managers to discuss issues involved in acquiring Small Ltd. for about Rs. 350 crores. He started the meeting with following observations:

'After acquiring Small Ltd., we will become the second largest consumer goods company in India with sales of over Rs. 4500 crores. We will have more money for marketing initiatives, product launches and aggressive price-cuts. The key reason behind buying Small is to create shareholder value over and above that of the sum of the two companies. Recent years have been tough for both the companies with strong competition. The merged company hopes to gain a greater market share and achieve greater efficiency.'

Different issues were discussed between the managers. Pertinent points that were raised were as follows:

Head Production: 'Although, I am involved little, till now, in the discussion regarding the acquisition, I have closely studied various production facilities available to both the companies. I feel production facilities of both the companies need to be synergised. There is also need to close down production facilities of two locations out of seven locations of Small. The costs of production of these locations are very high and also they are located in eastern India, whereas our major sale is in south and west.'

Head Marketing: We need to analyze it further. The market of the products is in mature phase with low growth rate. Small Ltd. has little presence in some regions and is not a major competitor for us. Further, there is marginal gap between our existing third position and second position. We can easily achieve second position if we are able to fully utilise our capacities.

(a) In a low growth product what are the different options available to a company.
(b) If you are appointed as a consulted, advise the Big Ltd. how to proceed before arriving at decision
to acquire any company.

(c) Conduct SWOT analysis from the facts given in the case.
CHAPTER-4 STRATEGIC PLANNING

Topics to be covered:

o CORPORATE STRATEGY
  • Growth Oriented
  • Futuristic
  • Competitive-Advantage
  • Balance
  • Decision-Making

o Pro-Active and Re-Active Strategy
  • Strategic Uncertainty: How to deal with it?
  • Uncertainty

THE STAGES OF CORPORATE STRATEGY FORMULATION-IMPLEMENTATION PROCESS

o Stage 1: Developing Strategic Vision
o Stage 2: Setting Objectives
  • BALANCE SCORE CARD APPROACH
    ▪ Long-term and Short-term objectives
    ▪ Qualities of Long-Term Objectives
    ▪ Concept of Strategic Intent

o Stage 3: Crafting a strategy to achieve the objectives and vision
o Stage 4: Implementing & executing the strategy
o Stage 5: Monitoring Implemented Strategy and making corrective adjustments

o STRATEGIC ALTERNATIVES
  • Cost Leadership Strategies
  • Differentiation Strategies
  • Focus Strategies

o Stability strategy
o Expansion strategy: Intensification and Diversification.

o Divestment Strategy or Retrenchment Strategy
  • Turnaround Strategies
  • Divestment Strategy
  • Liquidation Strategy
Once the strategic analysis is over the next step starts, **strategic planning**, to bridge the gap between the situation analysis and situation proposed/target.

Strategic planning/formulation are the key steps of strategic management, implemented to achieve desired objectives.

**CORPORATE STRATEGY**

Every company frames a strategy known as corporate strategy. Corporate strategy is basically concerned with the choice of businesses, products and markets.

- It can also be viewed as the **objective-strategy design** of the firm.
- It is the designed for **filling the firm’s strategic planning gap**.
- It denotes the **changes / additions / deletions in the firm’s existing product-market positions**.
- It ensures that the **right fit** is **achieved between the firm and its environment**.
- It helps **build** the relevant **competitive advantages** for the firm.

Corporate objectives and corporate strategy together **describe the firm’s concept of business**.

**Characteristics of Strategy:** This strategy consists is characterized by:

a) **Growth Oriented:** Strategy can facilitate the growth of the organization and help in attainment of it’s objectives and mission.

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 the same time beat its previous performances.

d) **Balance:** Should help to achieve a balance between organization environment and objectives through critical analysis of its Strength and weaknesses and at the same time harnessing the opportunities provided by the environment and to handle the threats thrust on it.

e) **Decision-Making:** Should help organization in the decision making at each critical stage. Strategy preparation is not a one shot game and is process applicable at each stages of management.

**THE STAGES OF CORPORATE STRATEGY FORMULATION- IMPLEMENTATION PROCESS**

- **Vision** — Objective — Strategy — Implementation — Monitoring — Correcting

  Revise as needed in light of actual performance, Changing Conditions, new opportunities & new Ideas
Pro-Active and Re-Active Strategy:

Corporate strategy should be a mix of pro-active (i.e. taking first move) and re-active (i.e. reacting to competitors’ moves). It ensures organization to face competition, out-perform competition and stay ahead the competitions to achieve desired objectives.

Every entity has certain limitations and accordingly for everything it can’t be leader or first mover. And at the same time it could, for one or other thing, be the initiator. Therefore, organization should have open approach to both strategies: pro-active and re-active (in certain proportion).

Strategic Uncertainty: How to deal with it?

Uncertainty means unpredictability and here it implies unpredictability of business environment because of multiple factors and dynamism attached with those factors.

Strategic uncertainty refers to unpredictable future trends and events that may impact outcome of organization strategic planning. Organization should take proper care of such uncertain trends and events during formation of corporate strategy. It can be managed only through analysis of current scenario. The same is then analysed and planned for future direction and then the future is analysed for possible future outcome.

THE STAGES OF CORPORATE STRATEGY FORMULATION-IMPLEMENTATION PROCESS

The Strategy formulation and implementation involves the following stages:

Stage 1: Developing Strategic Vision:

- Vision specifies what direction or path to follow.
- Specify what products, markets, technologies and customer policies to follow.
- 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.

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 provides a basis to measure company performance against set 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

Short-range objectives should be in alignment with long-range objectives and should be a step to achieve the long term objectives.

Concept of Strategic Intent:

Intent means intention that implies working for shaping the desired outcome. A company exhibits strategic intent when it relentlessly (continuous) tries to pursue a successful strategic objective and concentrates and directs its resources and competitive actions on achieving that objective.

Ambitious companies begin with strategic intents that are out of proportion to their immediate capabilities and market positions. Moreover, on achieving one target they stretch the set objectives and again pursue the other whole-heartedly.

The need for objectives at all organizational levels:

Objective setting should not be limited to top management's setting the companywide performance targets. It needs 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 outcomes and results. This means that objectives should be given to each and every business units and those should be combined with overall 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. 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 various assessments are performed out of which three assessments are most 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.

In this stage all stages upto strategy formulation are given actions. Here, based on company and competitor's strength and weaknesses various activities are implemented as:

• **Staffing** the organization with the needed skills and expertise

• **Developing budgets and organizing resources**

• **Motivating** people to pursue the target objectives energetically

• Rewards, recognition and incentives for employees and management

• Perform best-known practices

• Installing information and operating systems

• Creating an environment and atmosphere of company good culture and work climate for successful strategy implementation and execution.

Good strategy execution involves creating strong fits between strategy and

• organizational capabilities.

• the reward structure

• internal organization working systems, 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 - managing strategy is an ongoing process.

• The most vital thing of the corporate strategy management is monitoring and evaluating the company's progress.

• The company's strategy if going well, executives may remain stick to implemented strategy but changes are required with time to meet the dynamisms of environment.
• Where a company faces frequent changes in its market positions, managers are required to search the reasons of such changes if due to poor strategy, poor execution, or both to take timely corrective action.

• A company's direction, objectives, and strategy have to be assessed at times.

• A company can, if desired, modify its strategic vision, direction, objectives, and strategy over time, if required.

**STRATEGIC ALTERNATIVES**

According to Michael Porter, strategies allow organizations to gain competitive advantage from three different angles and these are **cost leadership, differentiation, and focus**.

<table>
<thead>
<tr>
<th>Industry wide</th>
<th>Low cost position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRASTRATEGIC TGCIE TARGET</strong></td>
<td><strong>DIFFERENTIATION</strong></td>
</tr>
<tr>
<td>Particular Segment Only</td>
<td></td>
</tr>
</tbody>
</table>

a) **Cost Leadership Strategies**

A primary reason for using forward, backward, and horizontal integration strategies is to gain cost leadership benefits. 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 e.g. **T-series** in sector of audio and video cassettes, CDs and DVDs; **Micromax, Zen** and various other mobile handsets.

**Characteristics**

- Spreads to entire firm
- High efficiency,
- Low overhead, limited perks,
- Intolerance of waste,
- Rewards linked to cost control.

**Risks in Pursuing this Strategy**

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

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

**b) Differentiation Strategies**

Differentiation strategies means offering products with different features what competitors bring to market. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, ease of use, etc. Differentiation does not guarantee competitive advantage, if standard products sufficiently meet customer needs or if rapid imitation (copying) by competitors is possible.

A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences. A successful differentiation strategy allows the firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features.

A risk of pursuing a differentiation strategy is that the unique product may net be valued highly enough by customers to justify the higher price. 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 e.g. Airtel is the telecom company that is different in its’ sector because of congestion free network even though comes at a bit higher call rates.

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

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

**Requirements**
- Strong marketing abilities
- Product engineering
- Creative talent
- Corporate reputation for quality or technological leadership
- Long tradition in the industry or unique combinations of skills drawn from other businesses
c) **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. E.g. BMW, Mercedes etc. caters only to the premium category of customers.

**Risks in Pursuing this Strategy**

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

**Requirements**

Combination of the above policies directed at the particular strategic target

<table>
<thead>
<tr>
<th>Type of Competitive Advantage Being Pursued</th>
<th>Differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Cost</td>
<td></td>
</tr>
</tbody>
</table>

**MARKET TARGET**

<table>
<thead>
<tr>
<th>A Broad Cross-Section of Buyers</th>
<th>A Narrower Buyer Segment (or Market Niche)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall Low-Cost Leadership Strategy</strong></td>
<td><strong>Focused Low-Cost Strategy</strong></td>
</tr>
<tr>
<td><strong>Broad Differentiation Strategy</strong></td>
<td><strong>Focused Differentiation Strategy</strong></td>
</tr>
</tbody>
</table>
Distinctive features of the generic competitive strategies are given below

<table>
<thead>
<tr>
<th>Type of Feature</th>
<th>Overall Low cost</th>
<th>Broad Differentiation</th>
<th>Best Cost Provider</th>
<th>Focused low cost &amp; Diff Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Strategic Target</td>
<td>Broad Cross Section of Market</td>
<td>Broad Cross Section of Market</td>
<td>Value-Conscious Buyer</td>
<td>Narrow Market</td>
</tr>
<tr>
<td>2 Basis of Competitive Advantage</td>
<td>Lower Cost</td>
<td>Different Product feature</td>
<td>More Value for Money</td>
<td>Lower cost &amp; some special attrib to cater the needs of niche members</td>
</tr>
<tr>
<td>3 Market Emphasis</td>
<td>Achieve Low cost</td>
<td>Different features, charging premium to cover cost of differentiation.</td>
<td>Underprice rival with comparable features or Equal price with better features</td>
<td>Communicate about your aim of catering to needs of niche members</td>
</tr>
<tr>
<td>4 Sustaining the strategy</td>
<td>Economical price, cost reduction</td>
<td>Advertising, stressing innovation, to create brand image &amp; reputation</td>
<td>Develop Expertise in Cost Reduction &amp; Upscaling features</td>
<td>Totally dedicated to serving the niche than competitors</td>
</tr>
<tr>
<td>5 Product Line</td>
<td>Basic product with acceptable features</td>
<td>Products with many different features</td>
<td>Good-to-excellent attributes, several-to-many upscale features</td>
<td>Products with Features that appeal targeted segment</td>
</tr>
<tr>
<td>6 Product Emphasis</td>
<td>Continuous cost reduction without impairing quality</td>
<td>Value for buyer; product superiority</td>
<td>Upscale features at low cost</td>
<td>According to niche members’ specification</td>
</tr>
</tbody>
</table>
STABILITY STRATEGY:

A firm opting for stability strategy stays with the same business, same product, market and functions. It normally maintain same levels of effort as it was contributing in past. It is never a "DO NOTHING STRATEGY". It only believes in maintaining status quo in terms of methods and paths. It follows tried and tested strategy only.

- The main aim of this strategy is to enhance functional efficiencies, better deployment and utilization of resources.
- It does not warrant much of fresh investments and risk of losses are also less.
- It is a 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 prospects

Reasons for organizations adopting Stability strategy:

- 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.
EXPANSION STRATEGY:

Expansion strategy is the opposite of stability strategy. While in stability strategy rewards and risks both are limited, in expansion strategy they are very high.

- 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 can be of two main forms: **Intensification** and **Diversification**.

**INTENSIFICATION STRATEGY**: The firm pursues growth by working with its current businesses through three alternative routes as **Market penetration**, **Market development** and **Product development strategy**. E.g. Eten classes has now captured the market through satellite classes which it previously did through Educom, even though it has focus only on the same sector/student category.

**DIVERSIFICATION STRATEGY** involves expansion into new businesses that are outside the current businesses and markets through three broad routes as **Vertical integration**, **concentric** and **conglomerate**.

**Situation when Expansion strategy can be adopted:**

- When environment demands increase in pace of activity.
- Strategists may feel more satisfied with the prospects of growth from expansion.
- Increasing size may lead to more control over the market in comparison to competitors.

**Wipro** is an excellent example in this sector as it has started from household goods and now is catering to electronic goods, IT and IT enabled services.

**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. Occasionally, divestment can be for the reasons as:

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

An example could be best from student's angle and more so when we consider the case of a CA student who selects at later stage to leave attempt of both group and focus on only one group.
DIVERSIFICATION STRATEGY

Diversification strategies can be classified into four broad categories:

a) **Vertically integrated diversification**: Here, firms choose to engage in businesses that are related to the existing business of the firm. E.g. Reliance fresh has venture with different mediators and direct producer of agriculture products.

b) **Horizontal integrated diversification**: Here business units acquire one or more similar business operating at the same stage of the production marketing chain. E.g. Tata acquiring Corus

c) **Concentric 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/in exchange 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 other points in the firm's existing process/technology/product chain. Kwality producing Ice-cream is now capturing the domestic through its’ new product curds.

d) **Conglomerate diversification**: In conglomerate diversification, no such linkage exists. The new businesses/ products are different from the existing businesses/products in every way. Videocon entering market of mobile and telecom operator from consumer durables.

RETRENCHMENT, DIVESTMENT AND LIQUIDATION STRATEGIES

Retrenchment 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. After diagnosing problem one of the following alternatives is adopted to reduce the effect of problem:

a) **Turnaround Strategies**: Turn around strategies derives their name from the action involved that is reversing a negative trend. There are certain conditions or indicators which point out that a turnaround is needed for an organization to survive. They are:

- Continuous Negative cash flows
- Negative Profits
- Declining market share
- Deterioration in Physical facilities
- Over staffing, high turnover, and low morale
- Uncompetitive products or services
- Mismanagement

An organization which faces one or more of these issues is referred to as a ‘sick’ company.

There are three ways in which turnarounds can be managed

(i) The existing chief executive and management team handles the entire turnaround strategy with the advisory support of a external consultant.

(ii) In another case the existing team withdraws temporarily and an executive consultant or turnaround specialist is employed to do the job.
(iii) The last method involves the replacement of the existing team specially the chief executive, or merging the sick organization with a healthy one.

**Ten elements that contribute to turnaround are:**

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

b) **Divestment Strategy:** A divestment strategy involves the sale or liquidation of a portion of business, a major division, a Profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. If an organisation cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy. Many of the loss-making concern were privatized and the funds were encashed by selling stake in it by Government, e.g Maruti. Other examples in this category are Modern Foods to Hindustan Unilever, IPCL to Reliance Industries and VSNL to Tata group.

c) **Liquidation Strategy:** A retrenchment strategy which is considered the most extreme and unattractive is the liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, and other consequential effects. It is like auction of assets by banks, etc. to recover their loan amount. In these situations the industries and markets and consequently the companies face the danger of decline and will go for adopting retrenchment strategies. E.g: fountain pens, manual type writers, tele-printers, steam engines, jute and jute products, calculators and wooden toys are some products that have either disappeared or face decline.
For your practice

Correct/incorrect with stating reasons

(i) Acquisition is a strategy.  
N ’07

(ii) A company’s strategy has always to be pro-active in nature.  
N ’08

(iii) Concentric diversification amounts to unrelated diversification.

(iv) Vertical diversification integrates firms forward or backward in the product chain.

(v) Balance scorecard is a combination of strategic and marketing objectives.

Short answer questions

1. What do you understand by focus strategy?
2. What is differentiation strategy?
3. Explain conglomerate diversification.
4. What is meant by concentric diversification?  
N ‘07
5. Need for Turnaround strategy.  
M ‘10
M ‘10
7. Top-down and Bottom-up Strategic Planning – Find differences  
N ‘10
8. The three levels of strategy formulation  
N ‘10

Essay type questions

1. Strategy is partly proactive and partly reactive. Discuss.
2. Discuss various stages in strategic formulation and implementation process.
3. Discuss strategic alternatives with reference Michael Porter’s strategies.
4. Under what conditions would you recommend the use of Turnaround strategy in an organization? What could be a suitable work plan for this?  
M ‘08
5. Explain the meaning of the following strategies and also give suitable examples (one each):  
N ‘10
   a) Forward Integration
   b) Backward integration
   c) Horizontal integration
   d) Conglomerate diversification
   e) Divestment
   f) Liquidation
   g) Concentric Diversification

Case Study

Meters Limited is a company engaged in the designing, manufacturing, and marketing of instruments like speed meters, oil pressure gauges, and so on, that are fitted into two and four wheelers. Their current investment in assets is around Rs. 5 crores and their last year turnover was Rs. 15 crores, just adequate enough to breakeven. The company has been witnessing over the last couple of years, a fall in their market share prices since many customers are switching over to a new range of electronic instruments from the range of mechanical instruments that have been the mainstay of Meters Limited. The company has received a firm offer of cooperation from a competitor who is similarly placed in respect of product range. The offer implies the following: (i) transfer of the manufacturing line from the competitor to Meters Limited; (ii) manufacture of mechanical instruments by Meters Limited for the competitor to the latter's specifications and brand name; and (iii) marketing by the competitor. The benefits that will accrue to Meters Limited will
be better utilization of its installed capacity and appropriate financial compensation for the manufacturing effort.

The production manager of Meters Limited has welcomed the proposal and points out that it will enable the company to make profits. The sales manager is doubtful about the same since the demand for mechanical instruments is shrinking. The Chief Executive is studying the offer.

**Questions**

(a) **What is divestment strategy? Do you see it being practised by Meters Ltd.? Explain.**

(b) **What is stability strategy? Should Meters Limited adopt it?**

(c) **What is expansion strategy? What are the implications for Meters Limited in case it is adopted?**

(d) **What is your suggestion to the Chief Executive?**

**Answer**

(a) Divestment strategy implies exit of one or more of existing business activities or lines due to strategic reasons. Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful or the option of divestment is the only answer.

In the given case study, technological obsolescence appears to be a major reason leading to divestment. The competitor firm making offer to Meters Limited seems to be interested in divesting in manufacturing activities and concentrate on marketing.

(b) One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same products and services.
- The strategic decisions focus on incremental improvement of functional performance.

Stability strategy doesn’t seem to be the appropriate strategy for Meters Limited. In view of fast approaching product obsolescence, Meters Limited should look for such strategy that would help in gaining market share in the new segment rather than battling in a segment that is declining. As there are significant changes in their external environment, they need to make adjustments for their sustenance.

(c) Expansion Strategy is a proactive strategy implying new investments and venturing into new business, products and/or markets. It is true growth strategy, having lot of business risk but nevertheless resulting in good rewards. Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success.

The markets for products of Meters Ltd with their existing technology are in the state of decline. They are being replaced by newer electronic technology. It would be a good idea to acquire the electronic technology and move out of the market that is reducing and has little scope. They may also consider expanding through diversification in other related and unrelated products.

(d) A combination Strategy is recommended for Meters Limited. The competitor is trying to adopt divestment. They are outsourcing manufacturing and retaining marketing with them. It would be very convenient for them to get out of the market in future. If Meters Limited accepts this proposition, they run the risk of continuing manufacturing in dwindling market followed by product obsolescence. At the same
time, they have a medium-term objective of utilizing their installed capacity and making some profits. The following package is recommended:

(i) Invest in new product development to facilitate quick switchover to the new technology.

(ii) Meters Ltd also need time to invest in emerging new technology and pursue expansion strategy. The offer of competitor may be considered for acceptance, in case there is clear buy-back arrangement for bringing in sales revenue and profits with less competition.

(iii) In longer run, they should divest the existing products.

(iv) They should identify other areas for expansion. This will enable Meters Ltd to spread their risks.
CHAPTER-5 FORMULATION OF FUNCTIONAL STRATEGY

Topics to be covered:

- MARKETING STRATEGY FORMULATION
  - Marketing Issues and
  - Marketing Process
- OTHER KEY MARKETING STRATEGIC ELEMENTS
  - Dealing with the Marketing Environment
  - Marketing strategy techniques:
- FINANCIAL STRATEGY FORMULATION
  - Evaluating the worth of a business
- PRODUCTION STRATEGY FORMULATION
- LOGISTICS STRATEGY
- RESEARCH AND DEVELOPMENT STRATEGY
- HUMAN RESOURCE STRATEGY FORMULATION

Strategic decisions though taken at corporate level normally but are implemented in parts at functional level. The development of functional strategies is aimed at making the strategies formulated at the top management level practically feasible at the functional level.

Normally functional strategy circulates in and around the broad coverage of Marketing, Finance, Production, Logistics, R&D, and Human Resources.
MARKETING STRATEGY FORMULATION

Marketing is considered as one of the most important functions of organization. It is considered as the activities related to identifying the needs of customers and passing the same to the organisation. In marketing it is more important to do what is strategically right than what is immediately profitable i.e. marketing always look for long term profit and growth rather immediate profit.

Marketing stress for creating a value chain or value delivery network to efficiently distribute goods and services of organization and maintain a strong relationship with all the components of this value chain i.e. customers, supplier, distributors and internal departments of organizations. Marketing play a role of mediators between all departments.

For Successful Implementation of strategy marketing need to take care of two elements:

1. Marketing Issues and
2. Marketing Process

Marketing Issues:

Marketing is required to deal with numerous issues/decisions for successful marketing strategy implementation and these are:

1. To use exclusive **dealerships** or multiple **channels** of distribution.
2. To use heavy, light, or no **TV advertising**.
3. To limit (or not) the share of **business** done with a **single customer**.
4. To be a **price leader** or a **price follower**.

5. To offer a complete or limited **warranty**.

6. To **reward salespeople** based on straight salary, straight commission, or a combination of salary/commission.

7. To **advertise online** or not.

---

**Marketing Process:**

The marketing process is to analyze market opportunities, select target markets, develop the marketing mix, etc. Services to customers are the central focus of the marketing process.

The key component of Marketing Process is

(i) **Connecting Customers**

- **Market segmentation** - Divide the total market
- **Market targeting** - choose the best segments
- **Market positioning** - design strategies for profitably serving chosen segments better than the competition

(ii) **Developing the marketing mix.**

The marketing mix consists of everything that the firm can do to influence the demand for its product.

**Marketing mix** is

- the set of controllable marketing variables
- that the firm blends to produce the response
- it wants in the target market

These variables are often referred to as the "four Ps."

**Product** stands for the "goods and service" the company offers to the target market. Strategic decisions
must also be made regarding branding, packaging and other product features such as warranties.

**Price** is the amount of money customers have to pay to obtain the product.

**Place** stands for location of company activities that make the product available to target consumers. Strategies should be taken for the management of distribution to goods to customers.

**Promotion** stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, etc.

The 4 Ps described above are then further expanded into 4 Cs from buyer’s perspectives.

### 4 Cs are linked with 4 Ps as:

<table>
<thead>
<tr>
<th>4 P’s</th>
<th>4 C’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Customer Solution</td>
</tr>
<tr>
<td>Price</td>
<td>Customer Cost</td>
</tr>
<tr>
<td>Place</td>
<td>Convenience</td>
</tr>
<tr>
<td>Promotion</td>
<td>Communication</td>
</tr>
</tbody>
</table>

### OTHER KEY MARKETING STRATEGIC ELEMENTS

**Expanded Marketing Mix:**

In addition to the traditional four Ps the new marketing mix are:

1. **People:** All human beings who play a part in delivery of the market offering and thus influence the buyer’s perception namely the firm’s personnel and the customer.

2. **Physical evidence:** The environment in which the market offering is delivered and where the firm and customer interact.

3. **Process:** The actual procedures, mechanisms and flow of activities by which the product / service is delivered.

**Marketing Analysis**

Marketing analysis involves a complete analysis of the company's situation. The company performs analysis by:

- **Identifying** environmental opportunities and threats.
- **Analyzing company strengths and weaknesses** to determine Opportunities best pursued.
- **Providing information** and other inputs to all other concerned management functions.
Marketing Planning

Marketing planning involves deciding on marketing strategies that will help the company achieve its overall strategic objectives. A detailed plan is needed for each business, product, or brand.

A plan may include the following:

1. The **executive summary** is a short summary of the main goals and recommendations to be presented in the plan.

2. The **current marketing situation** is the section of a marketing plan that describes the target market and the company’s position in it. Important sections include:
   - A market description.
   - A product review.
   - Analysis of the competition.
   - A section on distribution.

3. **Threats and opportunities section** anticipate important developments that can have an impact, either positive or negative, on the firm.

4. **Objectives**: It should be stated as goals that the company would like to attain during the plan’s term.

5. **Marketing strategy** is the marketing logic by which the business unit hopes to achieve its marketing objectives. Strategies should be created for all marketing mix components.

6. The **marketing budget** is a section of the marketing plan that shows projected revenues, costs, and profits.

7. **Controls** - will be used to monitor progress. This allows for progress checks and corrective action.

Dealing with the Marketing Environment

The company must carefully analyze its environment in order to avoid the threats and take advantage of the opportunities. Areas to be analyzed are:

- customers,
- competitors
- other department/divisions,
- economic forces,
- political and legal forces,
- technological and ecological forces,
- social and cultural forces.

**Marketing strategy techniques**: There are various marketing strategies or techniques that companies follow:

- **Social Marketing**: It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group E.g. Tata Tea advertisement campaign during election season “Jago grahak Jago”, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can’t smoke.

- **Augmented Marketing**: It is provision of additional customer services and benefits that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unique levels.

- **Direct Marketing**: Marketing through various advertising media that interact directly with consumers like telemarketing, door to door sale. E.g. Eureka Forbes sending its’ Customer Sales Representative to consumer’s home.

- **Relationship Marketing**: The process of creating a network marketing chain. E.g. Amway, Avon, Ebiz.

- **Services Marketing**: Marketing of Services or activities like banking, savings, retailing, educational or utilities.

- **Person Marketing**: Marketing of person and not product or services. Under this people promote their careers and income. This is normally for individual services. E.g. Baba Ramdev appearing through Yoga is taking the path of Politics.

- **Organization Marketing**: Both profit and nonprofit organizations practice marketing, e.g. TATA market its trust and reliable image. This is normally called loyalty or brand value.

- **Place Marketing**: It is the marketing of a particular place and is generally undertaken by Government (Central, State, and Local) based on scenic beauty, natural resources, etc., e.g. “Malaysia truly Asia”, “Kolkata- The city of Love”, “Delhi dilwalon ki”.

- **Enlightened Marketing**: A marketing philosophy holding that a company’s marketing should support the best long-run performance of the marketing system.

  Its five principles include
  - customer-oriented marketing,
  - innovative marketing,
  - value marketing,
  - sense-of-mission marketing, and
  - Societal marketing.
• **Differential Marketing:** Product and customer category differentiation. Soap and cold drinks of different flavours depending upon season and age category.

• **Synchro-Marketing:** Marketing as per seasonal or particular segment requirement. When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchro-marketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives. E.g. Raincoat, woolen sweater.

• **Concentrated Marketing:** To cover particular set of customers only. E.g. Priority banking for privileged customer, credit card category, etc.

• **De-marketing:** Marketing strategies to reduce demand temporarily.

  IPCL using the concept of demarketing while showing its advertisement as "Save Oil, Save India". Tata Nano had used the demarketing strategy when they were short of supply of Nano while the demand for the product was increasing day by day. Hence they applied the demarketing strategy by promoting/ advertising other Tata products and by completely stopping Nano’s promotion.

  Statutory warning on Cigarettes (Smoking is injurious to health), Pan-masala (Chewing Pan-masala is injurious to health) and insurance and financial product (Insurance/ Market investment is the subject matter of solicitation, Read offer document carefully before investing) are examples of De-marketing.

**FINANCIAL STRATEGY FORMULATION**

The financial strategy is another most important strategy with marketing. Finance is considered as life blood of business. Finance and Accounts is considered to be central to any strategy implementation. Some of the key strategies of finance are for:

• acquiring needed capital/sources of fund,

• developing projected financial statements/budgets,

• management usage of funds,

• valuation of business.

Strategists need to formulate strategies in these areas so that they are implemented. Some examples of decisions that may require finance/accounting policies are:

• To raise capital with short-term/long-term debt or through equity.

• To lease or buy fixed assets.

• To determine an appropriate dividend payout ratio.

• To extend the time of accounts receivable.

• To establish a certain percentage discount on accounts within a specified period of time.

• To determine the amount of cash that should be kept on hand.
Acquiring capital/sources of funds

Strategy implementation often requires additional capital. Besides internal generation of capital in two forms as net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Determining an appropriate mix of debt and equity in a firm’s capital structure can be vital to successful strategy implementation.

The major factors regarding this to be decided by strategists are:

- Selecting right capital structure;
- procurement of capital and working capital borrowings;
- reserves and surplus as sources of funds;
- relationship with lenders, banks and financial institutions.

Projected financial statements/budgets

Projected financial statement analysis is a key to implement financial strategy because it allows an organization to examine the expected results of various actions and approaches.

Projected financial statements can be used to forecast the impact of various revenue and cost provisions of the future cash flow. Nearly all financial institutions require projected financial statements whenever a business seeks capital. A projected income statement and balance sheet allow an organization to compute projected financial ratios under various strategy-implementation scenarios.

Projected financial budget is a document that summarizes how funds will be obtained and spent for a
specified period of time. Annual budgets are most common, although the period of time for a budget varies from one purpose to another (Monthly, quarterly, half-yearly, etc.). Financial budgets can be viewed as the planned allocation of a firm's resources based on forecasts of the future.

Budgets can of various types depending on its function/purpose as:

- cash budgets,
- operating budgets,
- sales budgets,
- profit budgets,
- capital budgets,
- expense budgets,
- divisional budgets,
- variable budgets,
- capital budgets,

When an organization is experiencing financial difficulties, budgets are especially important in guiding strategy implementation.

Financial budgets have some limitations.

- Budgetary programs can be sometimes detailed and are **tough and time taking**.
- **Over budgeting or under budgeting** can cause problems.
- **Budgets are not a substitute for objectives/implementation**; a budget is a tool & not an end in itself.

Management/ usage of funds

Plans and policies for the usage of funds deal with investment or asset-mix decisions i.e. which asset to be purchased and which to dispose off, etc. Some key decisions related to this are:

- investment;
- fixed asset acquisition;
- current assets;
- loans and advances;
- dividend decisions; and
- Relationship with shareholders.

Usage of funds is important since it relates to the efficiency and effectiveness of resource utilization in the process of strategy implementation. Payout policies for dividends and bonus distribution play an important role in the usage of funds.

Evaluating the worth of a business

Evaluating the worth of a business of itself or other concern is of prime importance now-a-days in light of mergers and acquisitions.

All the methods of evaluating a business's worth can be grouped into three main approaches:

**Under the first approach**, the worth of a business is determined through net worth or stockholders' equity. Net worth represents the sum of common stock, additional paid-in capital, and retained earnings. After calculating net worth, add or subtract an appropriate amount for goodwill and overvalued or undervalued assets. This total provides a reasonable estimate of a firm's monetary value.

\[
\text{[Share Capital +Reserve and Surplus –Goodwill + Under Valued Assets - Overvalued Assets]}
\]

**Under the second approach**, the future benefits business owners may derive through net profits. A conservative rule of thumb is to establish a business's worth as five to ten times the firm's current annual profit.

\[
(5 \text{ or } 10 \times \text{Current Annual Profit})
\]
In the third approach, market can be regarded as business worth through three popular methods:

(i) The firm’s worth on the selling price of a similar company per unit of its capacity, if similar transaction has taken place.

(ii) Price-earnings ratio method: To use this method, divide the market price of the firm’s common stock by the annual earnings per share and multiply this number by the firm’s average net income for the past five years.

(iii) The third approach as the outstanding shares method: Under this method, multiply the number of shares outstanding by the market price per share and add a premium (premium shows per-share amount that a person or firm is willing to pay acquire the other company).

PRODUCTION STRATEGY FORMULATION

The strategies for production are related to the production system, production planning and control, and research and development (R&D). All these collectively influence the operations system structure and ultimately the objectives of company. The operations system structure, which is concerned with the manufacturing service and supply/delivery system, and operations system objectives, which are related to customer service and resource utilization, both determine what operations, plans and policies are set.

Production System

The production system is concerned with the production capacity, location of manufacturing, layout of shop-floor, degree of automation, extent of vertical integration, etc. Strategies related to production system are significant as they involve decisions which are long-term in nature and influence not only the operations capability of an organization but also its ability to implement other strategies and achieve objectives.

Production / Operations Planning and Control

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

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

LOGISTICS STRATEGY

Logistic means flow of material/goods from source to destination i.e. from supplier to customers.

Management of logistics is a process which

- Integrates the flow of supplies into, through and out of an organization.
to achieve a level of service
which ensures that the
right materials are available at the right place, at the right time, of the right quality, and at the right cost
and ultimately rightly to right market/customers.

Supply chain management helps in implementation of logistics strategies. Effective logistic strategy will have ready solutions to the following questions:

- Which sources of raw materials and components are available?
- How many manufacturing locations are there?
- What products are being made at each manufacturing location?
- What modes of transportation should be used for various products?
- Should the business organization own the transport vehicles?

Improvement in logistics can result in savings in cost of product/services and thus increased profits. Effective logistics strategy can help a business in:

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

RESEARCH AND DEVELOPMENT STRATEGY

Research and development (R&D) can play an integral part in overall company's strategy implementation. R&D department perform tasks related to transforming complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications. Strategies such as product development, market penetration, and concentric diversification depend upon new products successfully developed and significantly improved.

An R&D policy tries to match market opportunities with internal capabilities and accordingly tries to:

- Emphasize product or process improvements.
- Stress on basic or applied research
- Spend a high, average, or low amount of money on R&D.
- Perform R&D within the firm or to outsource it through university or private sector researchers.

There must be effective interactions between R&D departments and other functional departments in implementing different types of generic business strategies.

There are mainly three R&D approaches for implementing strategies:

a) **To be the first firm** to market new technological products. This is a glamorous and exciting strategy but also a dangerous one.

b) An innovative **imitator** of successful products, thus minimizing the risks and costs of start up. This type
of organisation allows a pioneer firm to develop the first version of the new product and to demonstrate that a market exists then they follow and develop a similar product. This strategy requires excellent R&D personnel and an excellent marketing department.

c) To be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced. This R&D strategy requires substantial investment in plant and equipment, but fewer expenditures in R&D than the two approaches described earlier.

**HUMAN RESOURCE STRATEGY FORMULATION**

Human resources are considered as biggest assets to any organization success. Strategic responsibilities of the human resource manager include assessing the staffing needs and developing a staffing plan for effectively implementing the other formulated strategies.

The HRS develops performance incentives that clearly link performance with pay. The process of empowering managers and employees through their involvement yields the greatest benefits to organizations. A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension.

Organization should have effective human resource planning, employment, training, appraisal and rewarding system. An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence.

The following points are important:

- **Recruitment and selection**: The workforce will be more competent if a firm can successfully identify, attracts, and select the most competent applicants.

- **Training**: The workforce will be more competent if employees are well trained to perform their jobs properly.

- **Appraisal of Performance**: The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies: once identified, can often be solved through counseling, coaching or training.

- **Compensation**: A firm can usually increase the competency of its workforce by offering pay and benefit packages that are more attractive than those of their competitors. This practice enables organizations to attract and retain the most capable people.

**Strategy and Human Resource Management**

An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optimal contribution is ensured. This implies selecting the best available personnel; ensuring a fit between the employee and the job and retaining, motivating and empowering employees to perform well in direction of corporate objectives. **Right men, right job and right compensation**.

Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance.
Strategic Role of Human Resource Management

The prominent areas where the human resource manager can play strategic role are as follows:

<table>
<thead>
<tr>
<th>providing purposeful direction</th>
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<tbody>
<tr>
<td>creating competitive atmosphere</td>
</tr>
<tr>
<td>facilitation of change</td>
</tr>
<tr>
<td>diversified workforce</td>
</tr>
<tr>
<td>empowering human resources</td>
</tr>
<tr>
<td>building core competency</td>
</tr>
<tr>
<td>developing ethical work culture</td>
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</tbody>
</table>

Areas of Human Resources Management

- **Providing purposeful direction**: The human resource management must be able to lead people and the organization towards the desired direction. The management have to ensure that the objectives of an organization becomes the objectives of each person working in the organization.

- **Creating competitive atmosphere**: By creating committed and competitive atmosphere through opportunities organisation can groom the employees.

- **Facilitation of change**: The Human resources are more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The human resources should be provided enough opportunities for the same.

- **Diversified workforce**: In the modern organization management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc.

- **Empowering human resources**: Empowerment means authorizing everyone to take decision to certain extent.

- **Developing ethical work culture**: A vibrant work culture should be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people.
For Your Practice

Correct/incorrect with stating reasons
(i) Teleshopping is an instance of direct marketing. N '07
(ii) Production strategy implements, supports and derives higher strategies. M '10
(iii) In the factory, we make cosmetics. In the drugstore we sell ............... N '10

Short answer questions
1. Write a short note on marketing mix? Modified N '10
2. Write a short note on evaluating worth of a business.
3. How proper logistics management helps business.
4. Explain in detail the 4 P's of Marketing Mix. or How 4P is correlated to 4C.

Essay type questions
1. What is human resource management? Discuss its role in implementation of strategy.
2. Discuss the concept of production strategy formulation
3. What is financial strategy? How worth of a business can be evaluated?
4. What is supply chain management? Discuss the various steps in implementing supply chain management system.
5. What is logistics strategy? What are the areas to examine while developing a logistics strategy? N '08

Case Study
1) Read the following case and answer the questions given at the end: N '09

The ripple efforts of the 2008 Global Economic meltdown had begun to hurt the Rupees 1,268 crore J.K. Paper Ltd. also. Like all other business houses in India, J.K. Paper Ltd. was also finding the going though. The general trend of soaring prices and contraction in demand had started affecting the sale of J.K. Paper Ltd. products also. Its customers were focusing on correcting their inventory positions (using existing stocks of materials to keep production lines and marketing activities rolling). Consequently, they were not buying much from J.K. Paper Ltd. Even the investors did not like what they saw – J.K. Paper Ltd. stock fell from Rs.57.20 on 1 January, 2008 to a low of Rs.14.12 on 12 March, 2009. The company was in the midst of Economic crisis. Mr. Harshpati Singhania, Managing Director of the Company, realised that some strong measures must be taken to extricate the Company from its present crisis. To this end, Mr. Singhania held several brainstorming sessions with the top management team and finally identified the focus areas: Managing working capital flows, cutting costs and paying attention to employee productivity. Moving away from the traditional approach one usually follows during the recessionary periods, Mr. Singhania instead of shutting down company’s plants and cutting production, decided to continue to operate the Company’s two plants at Gujarat and Orrisa at 100% capacity. To match sales with production, he planned to reach out to newer customers by widening Company’s distribution network. He identified packaging boards to be marketed in rural areas where the meltdown had minimal effect. As the market conditions were still difficult, the company also decided to cut the prices by 2 to 3%. Alongwith the price cut, its marketing thrust in rural areas ensured that the sales were not impacted much. Net sales remained flat throughout 2008-09, though the profitability of the Company suffered because of the lower margins it received from its rural thrust. For
raising capital, the Company did not approach banks and investors, rather it intensified its efforts to recover its debits from its clients. The efforts resulted in fast recovery of crores of rupees. Disputed debts were also settled expeditiously to raise more cash. To cut costs further, the Company took steps to improve productivity and reduce its wage bill. Inefficient employees were asked to leave. No new appointments were made unless they were critically important. In addition, employees received lower increments for 2008-09; even Mr. Singhania did not take any increment. When the global slowdown sent the international prices of the pulp, the main raw material for the paper industry, crashing from Rs.36960 per tonne in April, 2008 to Rs.18,240 per tonne in September, 2008 the company bought enough pulp to last for about 9 months against its policy of buying, in the normal course, pulp for about 2-3 months. According to Mr. Singhania, this decision also resulted in a huge saving. Mr. Singhania and his senior management team also re-evaluated the organisational structure to improve efficiency in the organisation. When all the above strategic decisions had been successfully implemented, Mr. Singhania knew that the worst for the company was over. This was also reflected in gradual increase in the quarterly profits of the company, Mr. Singhania however sounded very modest about his stewardship of the Company while appreciating his Senior management team for the great job done to ride out the slowdown.

Questions (a) Where did the recession hit J. K. Paper Ltd.?  
(b) Explain with reasoning the corporate strategy the Company had adopted for its survival.  
(c) What functional strategies were undertaken by the Company to overcome its crisis?  
(d) State the basic responsibilities of a strategic leader in a business house. Explain whether or not Mr. Singhania provided strategic leadership to the Company.  
(e) What lessons are learnt from the experience of J. K. Paper Ltd. to ride out the economic meltdown?

Answer  
(a) The economic recession of 2008 hit J. K. Paper Ltd. primarily in three areas: (i) contraction in demand for its products due to general trend of soaring prices all over, (ii) financial crunch, and (iii) fall in its share prices. 
The customers of the company were not buying much and they started focusing on correcting their inventory. This led to decrease in demand and reduction in funds for their working capital needs.  
(b) The company had followed the stability strategy to tide out the economic crisis. It decided to maintain its production at pre-melt down period. It reflected in the decision of the top management to operate its two plants in Gujarat and Orissa at 100% capacity. It also decided to widen its distribution network to counter the challenge of contraction in demand. It identified rural sector to market aggressively its packing boards. 
The company had rightly decided against divestment or liquidation strategies as it knew that the meltdown was only a passing phase, so the need of the hour was to stay afloat and then to wait for the appropriate time to plan for expansion, if needed.  
(c) The top management team of the company under the leadership of Mr. Harshpati Singhania, MD of the company decided to adopt various functional strategies to ride out the slowdown. After several rounds of brainstorming sessions with the top management Mr. Singhania identified the focus areas and took initiatives on the following functional strategies: 
Production Strategy: Instead of shutting down plants and cutting production he decided to operate the company’s two plants in Gujarat and Orissa at 100% capacity. Moreover, he also took another unusual decision to buy pulp - the main raw material for the paper industry, when its prices crashed substantially, in
huge quantity to build up its massive stock pile to last for about 9 months as against the usual practice of buying pulp stock for about 3 months in the normal course. This resulted in a huge saving for the company.

**Marketing strategy:** To maintain the production and subsequent sales, the company decided to identify new customers and widen its distribution networks to reach out to new customers. The thrust was laid to push the sales of its packaging boards material to consumers in the rural areas where the effects of meltdown were minimum. Prices were reduced by 2-3% to give thrust to sales.

**Financial strategy:** For managing working capital, the company again took an unusual step of not approaching banks and investors. Instead the company decided a unique strategy to intensify its efforts to collect its debts from the clients. The company succeeded in collecting crores of rupees in a very short period through debt recoveries. It even decided to settle its disputed debts outside the court very expeditiously and the plan was successful. The company also took decisions that led to cost reduction. It reduced its work force. It also made bulk purchase of pulp, main raw material to reduce the costs.

**Human Resources Management Strategy:** The Company took steps to improve employee’s productivity and reduction in wage bill. The top management also gave to all its employees’ lower increments. Even Mr. Singhani did not accept any increment for himself. Non performing employees were asked to leave the company. New recruitment of employees was stopped unless it was critically important.

**Review of Organization Structure:** For the successful implementation of company's strategies to ride out the slow down, the organisational structure of the company was re-evaluated and reviewed. It was directed towards improving efficiency within the organisation.

(d) In the company a strategic leadership is provided by its managing director who discharges his responsibility through the following well thought out strategies:

i. To manage the employees of all classes for effective and efficient working.

ii. Sustaining high performance over a time.

iii. Willingness to take candid, bold and, at times, unusual and contrarian decisions.

iv. Taking such decision making responsibilities which cannot be delegated.

v. Effective feedback through face to face communication.

When J. K. Paper Ltd. was in the midst of financial crises due to economic meltdown its Managing Director realized that it was the time to plan and act. Like a truly effective leader, he took some contrarian decisions to put company back on its track. Some of the important decisions were:

- To operate the company's plants in Gujarat and Orissa at their 100% capacity so that production remains at pre-melt down period levels.

- To match sales with production and to overcome the effects of recession on the company’s sales it was decided to widen the distribution network to reach out to new customers.

- He also stopped from easy decision to approach banks and investors for funds to manage working capital requirements. Instead, he initiated steps for speedy recovery of debts from its clients including recovery of disputed debts through negotiated settlements.

- He set an example before employees by refusing to accept any increment in his own salary. Employees also accepted lower increments for 2008-09.

- Decision to buy pulp in bulk when its prices crashed so that the stock of pulp lasts for a much longer period resulting in huge savings in costs.

(e) There are lessons to be learnt from any crisis. The lessons to be learnt from the J. K. Papers can be summarized as follows:
• **Do not Panic:** There is no need to panic even if the company is facing difficult times such as contraction in demand or is facing liquidity crunch. On the contrary, one should look towards the strong points of the organization to convert threats into opportunities.

• **Consult others:** During recession when the company is facing crisis, MD of J.K. Paper Ltd. held several brainstorming sessions. The issues were discussed with the team to identify ways and means to overcome the situation. Through the process, the company identified focus areas such as managing working capital flows, cost cutting and improving employee’s productivity.

• **Go to micro level:** While analyzing different aspects of the crisis, consider all relevant aspects of the business. Novel ideas may emerge in the process. Identify major areas of improvement and then break them into micro plans and decisions.

• **Take bold decisions:** When the situation is not as desired the company should take bold decisions for its sustainability. Identifying new markets or asking unproductive employees to leave are some of the bold decisions taken by J.K. Ltd.

• **Leaders should set an example:** The virtues reflected in the behaviour of the leaders are often imbibed by the followers. Hard work, dedication and commitment also trickle down in the organisational hierarchy. Individuals in an organisation can also accept decisions better if they are uniformly applicable. In the given case, employees can accept the low increments better as the leader has also decided to forgo increments.

2) **Read the following case and answer the questions given at the end:**

Many companies are harping on making their products affordable to the mass consumers as part of their growth strategy. Two years back Clean Head Ltd started selling their shampoo at an affordable price of Rs 10 for 40 ml bottle. The price of 100 ml and 200 bottles were retained at Rs 45 and 85 respectively. The product was aggressively pushed in small and mofussil towns. The company expected that the existing customers would continue with the convenience of bigger bottles and purchase them. Contrary to the expectations, big cities also witnessed a shift towards smaller size bottles. There was some increase in the volumes, but squeeze in the margins tremendously reduced the profits. Moreover, the turnover did not increase as forecasted.

The chairman of the company called a meeting of all the functional heads and made following observations:

“We have to chart out long-term strategies for our company. At this moment, sustainable but profitable growth is sacrosanct for us, but may prove to be elusive. We are not in a position to offer lower-priced shampoos with declining profits. If we continue like this, gradually the company may start incurring losses. Our competitors have also followed us by reducing their prices. My dilemma is if we roll back our prices, our competitors may not do so.”

(a) What went wrong? Give your assessment of the situation
(b) How competitors are related to the internal decisions?
(c) What is the strategy used by Clean Head Ltd.
CHAPTER- 6 STRATEGY IMPLEMENTATION AND CONTROL

Topics to be covered in this chapter:
- Strategy implementation
- Strategy control
- Relationship between strategy formulation and implementation
- Principal combinations of efficiency and effectiveness
  - Forward and backward linkages
- Issues in strategy implementation
- Organization and strategy implementation
  - Functional structure
  - The Divisional Structure
  - Strategic Business Units (SBU) structure
  - Matrix organization structure
  - Network structure or non-structure
- Strategic business units (SBU) & Core Competence
- The Value Chain Analysis
  - Identifying core competences
  - Managing Linkages
- Leadership and strategic implementation
- Building a strategy-supportive corporate culture

**Strategy Implementation:** Implementation is putting in place the planned or formulated strategy into action.

Obviously planning is much easier in comparison to execution which is faced with several factors that might creep up after strategy formulation and before implementation or even before strategy formulation (which was ignored or was missed out in giving effect to strategy formulation) or during continuity of strategy implementation or carrying of. So, the decided or formulated strategy is reviewed or revised in the light of existing scenario and this existing situation monitoring is termed as system control.

**Strategy Control:** Control is monitoring the implemented strategy and then making changes in the strategy as per the requirement of environment.

**RELATIONSHIP BETWEEN STRATEGY FORMULATION AND IMPLEMENTATION**

Strategy Formulation and thereafter Implementation is quiet different from one another and require different skills and potential. An organisation can’t be successful unless both of the two functions are equally well equipped.
**Strategy formulation** | **Strategy implementation**
---|---
Strategy formulation is positioning forces before the action. | Strategy implementation is managing forces during the action.
Strategy formulation focuses on effectiveness. | Strategy implementation focuses on efficiency.
Strategy formulation is primarily an intellectual process. | Strategy implementation is primarily an operational process.
Strategy formulation requires good intuitive and analytical skills. | Strategy implementation requires special motivation and leadership skills.
Strategy formulation requires coordination among a few individuals. | Strategy implementation requires combination among many individuals.

Thus organizational success is a function or formulation of good strategy and proper implementation. The matrix in the figure below represents various combinations of strategy formulation and implementation.

![Strategy formulation and implementation matrix](image)

**Figure: Strategy formulation and implementation matrix**

**Square A** is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully which can be attached to various factors, as the lack of resources, missing leadership, etc. In this situation company will be aiming at moving from square A to square B.

**Square B** is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it. This stage is possible only when the implementation team is equally efficient.

**Square C** is the stage where organisation doesn’t have a sound strategy formulation and even don’t have strong implementation team. But it is ready to go success when it goes through business moral redesign and implementation with re-adjustment in projects.

**Square D** is the situation where the strategy formulation is even though not strong, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills.
PRINCIPAL COMBINATIONS OF EFFICIENCY AND EFFECTIVENESS

Cell 1: An organization here has both strength of effective strategic team and efficient operational team.

Cell 2: Here the organisation is ineffective in strategy formulation but has got efficient implementation personnel. By the force of efficient operational team it will at least survive for a limited period unless there is no requirement of fresh strategy formulation.

Cell 3: Here the operational or execution portion is inefficient but is possible to run the set-up/organisation only because the formulation team has got good capability and the lacunae on the part of operation team is somehow managed by effective strategy framed.

Cell 4: This is the stage of no hope since none of the strategy formulation or implementation team is strong to move the company to run viably.

Forward and Backward Linkages: The resources and planning should be balanced and has direct relation with each other. When the resources are limited we should plan accordingly or when the plan has already been done the resources should be brought to match the same desired planning.

Forward Linkages: Here we look for the effective strategy formulation and for this we sometime require changes in the organization for implementation. The changes can be in the form of:

- Organization Structure
- Style of Leadership
- Flexibility to adapt new technologies, etc.

In this case the Management, their working style, decision and direction are changed as per plan. E.g. In case of PSU, the autonomy was desired to turn the sick and loss making unit competitive and so the decision discretion was approved and moreover in many cases it has been privatized. Even performance based incentives is now announced.
Backward Linkages: The effectiveness and the ultimate outcome of a strategy depend upon successful implementation of the formulated strategy and for the same we have to look into the resources required to implement. These require even sometime add/revise the existing resources.

Selecting resources at competitive price, capable manpower irrespective of caste-creed, region and religion, imported or modern technology, etc. is the example of backward linkages.

While strategy formulation is primarily an entrepreneurial activity, base on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making.

ISSUES IN STRATEGY IMPLEMENTATION:

Implementation of strategies is not limited to formulation of plans, programs and projects. It also requires resources. Apart from all the above things even a proper organizational structure is required to be designed, systems to be installed and functional policies devised so that plans may work.

Given below are some issues in strategy implementation which are to be considered in sequence as it indicates the shift of steps and responsibilities and is not meant that only after completion of one the other can be undertaken:

- Project implementation i.e. group of activities
- Procedural implementation i.e. method of conducting different activities
- Resource allocation
- Structural implementation i.e. organization structure
- Functional implementation
- Behavioral implementation

Managers and employees throughout the organization should participate in strategy implementation and this can be much effective if they do have prior involvement in strategy-formulation activities. The rationale for objectives and strategies should be clearly communicated and understood throughout the organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers and employees' questions should be answered. Top-down flow of communication is essential for developing bottom-up support.

ORGANIZATION AND STRATEGY IMPLEMENTATION

Changes in strategy sometime require change in the organisation structure. It is required for two major reasons:

- First, organization structure indicates how objectives and policies will be established.
- Second, organization structure dictates how resources will be allocated.

There are many forms of organization structures which can be adopted by organization to implement and monitor business strategies. The various organisational structures are:
(1) Functional Structure
(2) Divisional Structure
(3) SBU Structure

**Functional Structure**

This structure is created by grouping together similar tasks into different functions like Finance, Marketing, Production and HR, etc.

Normally a functional structure consist of

- Corporate Level: CEO or MD and other heads
- Functional Level: Heads/line managers for major functions like Marketing, Finance, HR, etc

**Advantages:**

- Promote specialization and thus efficiency
- Expert managed the respective jobs hence provide better supervision
- Better co-ordination due to familiarity with respective tasks
- Allow quick decision making
- Provides better control over individual tasks from functional experts

**Disadvantages:**

- Accountability remains with top management only
- Minimises career development
- May provide low employee morale
- Problems in inter-functional communication, etc
The Divisional Structure:

The Divisional structure is composed of operating division where each division is represented as separate business.

Advantages:
- Promoters accountability since divisional heads are responsible for individual center profitability
- Career development opportunities are higher in this structure
- Allow better control of local situation
- Provides a better control competitive environment in the organization
- Easy to add new products and dimensions to business

Disadvantages:
- Duplications of staff and service
- Require experts at each division-costly approach
- Requires separate office at each location-integration of each division with Head Office is complex process.
- May provide inconsistent approach to tackle customers, etc because each division may work in its own way to handle situations.
**Strategic Business Units (SBU) Structure:**

SBU groups similar divisions into "Strategic Business Units" and then delegate's authority and responsibility of each unit to a senior executive who is normally identified as CEO or MD of that SBU. It is an extension of Divisional structure.

![Diagram of Strategic Business Units (SBU) Structure]

Big organization like Unilever, etc have many SBUs for their different categories of products like Cosmetics, Food products and Beverages, etc, and each is managed through separate unit head.

**Advantages:**

a) Promotes accountability since units heads are responsible for individual SBU profitability

b) Allow better control of categories of products manufacturing, marketing and distributions

c) Helps to expand in different related and unrelated businesses

**Disadvantages:**

a) May provide inconsistent approach to tackle customers, etc, because each unit may work in its own way to handle situations.

b) High cost approach

**Matrix Organization Structure:**

Functional, Divisional and SBU organisation strategy consist of flow of authority from top to bottom i.e. vertical flow whereas Matrix structure contains both vertical and horizontal flow of communications or authority. This type of structure is frequently used in IT organization for managing different projects. Each individual project is managed by a project manager and projects manager will have his team arranged under him.
Advantages:

a) Useful for some specific industries like Information Technology, Healthcare etc
b) Employee can see visible results of their efforts
c) Remove barrier to communications
d) Managing projects are easy
e) Effective structures when environment is very dynamic

Disadvantages

a) Complex structure as this contains both vertical and horizontal flow of information
b) High cost approach due to more management positions
c) Dual lines of authority
d) Conflicts arises in the allocation of resources

For Matrix Organization Structure, Davis and Lawrence have proposed three distinct phase as:

1. **Cross-functional task forces**: When a new product line is being introduced, a project manager is in-charge as the key horizontal link and cross functional tasks.

2. **Product/brand management**: When a product is in development stage the product or brand managers act as the integrators of semi permanent products or brands.

3. **Mature matrix**: When product is in maturity stage both the functional and product structures becomes permanent. All employees are connected to both a vertical functional superior and a horizontal product manager.

Network Structure or Non-structure:

Here companies use the concept of outsourcing the in-house functions by subcontracting manufacturing to other companies in low-cost.

The network organization structure provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition. It allows a company to concentrate on its distinctive competencies.

The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may hire people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. Rather than being located in a single building or area, an organization's business functions are scattered worldwide.

**Strategic Business Units (SBU) & Core Competence**

- SBU is a grouping of related businesses, which is open to complex planning treatment.
- Multi-business enterprise groups its various businesses into a few distinct business units in a scientific
way known as SBUs.

- The purpose is to provide effective strategic planning treatment to each one of its products/businesses.
- SBU concept is relevant to multi-product, multi-business enterprises.

The SBU concept helps a multi-business organisation in scientifically grouping its businesses into a few distinct business units. Such a grouping helps to carry out its strategic management practices in better manner.

**The three most important Characteristics of SBU are:**

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

**THE VALUE CHAIN ANALYSIS**

An organisation undertakes several activities to produce final product or services. They can be related to each other in the form of a chain and from this set of activities organization has to analyze activities that are necessary to add value to organization. This analysis is known as value chain analysis.

Value chain analysis is used as a means of assessing the competitive strength of an organization based on its activities.

Michel Porter divided company activities into two set of activities:

(i) **Primary Activities**

(ii) **Support Activities**

Fig.: Value Chain (Michael Porter)
The primary activities of the organization are grouped into five main areas:

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

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

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

- **Marketing and sales** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales, administration, advertising, selling and so on.

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

Each of these groups of primary activity is linked to support activities that can be divided into four areas:

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

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

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

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

**Identifying Core Competences**

Although a high competence in all of activities is necessary to the organization's successful operation, but it is important to identify those competences which critically support the organization's competitive advantage.

**Activities which provide competitive advantages are known as the core competences.**

Core competencies will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing. It might be low-cost competencies, geographical coverage, premium services. Core competences help expansion strategy formulation.
**Managing linkages**

Core competences provide competitive advantage for an organization, but over time it may be imitated by competitors and thus the advantage might not work to that level. Core competences are a bit difficult to copy and imitate if it is for the entire activities or more than one activity in comparison to a single core competence position/activity. It is the management of these linkages which provides leverage and levels of performance which are difficult to match.

This management of internal linkages in the value chain could create competitive advantage in a number of ways:

- There may be important linkages between the primary activities. For example, a decision to hold high level of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the value added to the customer by this faster response through holding stocks is greater than the added cost. But this issue of managing linkages between primary activities in an analysis is not possible if the organization's divisional competences are assessed separately.

- The management of the linkages between a primary activity and a support activity may be the basis of a core competence e.g. use of Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.

- Linkages between different support activities may also be the basis of core competences.

- The merchandising activities which manufacturers undertake with their distributors are now much improved and are an important.

**LEADERSHIP AND STRATEGIC IMPLEMENTATION**

The formulation and implementation of good strategic management is simple enough. A strategy manager has many different leadership roles to play as visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, crisis solver, spokesperson, policy maker, policy enforcer, and head cheerleader.

A leader should be reactive as well as pro-active. He should be strict and rigid and at the same time a keen listener and a compromising decision maker, a coach and an adviser.

Leadership normally is top-down and vision-driven. A proper leadership is required to achieve success in set objectives and goals.

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

a) **Staying on top** of what is happening, closely monitoring progress, in-depth analysis of issues, and learning and understanding the obstacles in the execution.

b) **Promoting a culture and esprit de corps** (united we stand concept) that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.

c) **Keeping the organization responsive to changing conditions**, alert for new opportunities, fueled with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
d) **Exercising ethics** in leadership and insisting that the company conduct its affairs like a model corporate citizen.

e) **Pushing corrective actions** to improve strategy execution and overall strategic performance.

A manager with strategic leadership skills exhibits the ability to guide the company through the new competitive landscape by influencing the behavior, thoughts, and feelings of co-workers, managing through others and successfully processing or making sense of complex, ambiguous information by successfully dealing with change.

The strategic leader has several responsibilities, including the following:

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

Thus, the strategic leadership skills of a company's managers represent resources that affect company performance. And these resources must be developed for the company's benefit.

**BUILDING A STRATEGY-SUPPORTIVE CORPORATE CULTURE**

Every company has a unique organizational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own work climate, etc. and all these together termed as corporate culture.

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

An organization's culture is originated from a complex combination of socio-logical forces operating within its boundaries. A company’s culture indicates the values and business principles that management preaches and practices. It indicates its ethical standards and official policies through its stakeholder relationships (especially its dealings with employees, unions, stockholders, vendors, and the communities in which it operates).

**Culture: Ally or Obstacle to strategy execution?**

An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, and business approaches and practices supporting a company's strategy may be compatible with its culture or they may not. When they are, the culture becomes a valuable ally in strategy implementation and execution. When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture obstructs strategy implementation and execution.
How culture can promote better strategy execution?

A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it promotes strong employee identification with the company's vision, performance targets, and strategy. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

The Dangers of Strategy-Culture Conflict

The more, deep-rooted the mismatched aspects of the culture, the greater the difficulty of implementing new or different strategies until better strategy culture alignment emerges. A sizable and prolonged strategy-culture conflict weakens and may even defeat managerial efforts to make the strategy work.

Creating a strong fit between strategy and culture

It is the strategy maker's responsibility to select a strategy compatible with the corporate culture. It is the strategy implementer's task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution. Once a culture is executed, it is difficult to change.

Changing a problem culture

Changing a company's culture to align it with strategy is among the toughest management tasks. Changing problem cultures is very difficult because of the heavy anchor of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture.

• The first step is to diagnose which aspects of the present culture are supportive and which are not.
• Managers have to inform those aspects of the culture that have to be changed.
• The Managers have to make the move swiftly by visible, aggressive actions to modify the culture-actions so that everyone can understand new culture more in tune with the strategy.

Culture-changing actions

The culture-changing actions includes:

• Revising policies and procedures in ways that will help drive cultural change;
• Incentive compensation (reward the desired cultural behaviour);
• Praising and recognizing people who display the new cultural traits;
• Recruiting and hiring new managers and employees who have the cultural values; and
• Replacing key executives strongly associated with the old culture, and communicating the basis for cultural change and its benefits.
For Your Practice

Correct/incorrect with stating reasons

(i) “Resistance to change is an impediment in building of strategic supportive corporate culture”.  M ‘08
(ii) “Changes of any type are always disquieting, sometimes they may be threatening.” M ‘08
(iii) Functional level constitutes the lowest hierarchical level of strategic management. M ‘07
(iv) A core competence is a unique strength of an organization which may not be shared by others. N ‘07
(v) An organisation culture is always an obstacles to successful strategy implementation. N ‘08
(vi) SBU concept facilitates multi business operations. M ‘09
(vii) A corporate culture is always identical in all the organisations. N ‘09
(viii) There is both opportunity and challenge in ‘Change’.

Short answer questions

1. What is corporate culture?
2. Compare newer form of organisational structure with the traditional structure.
3. Explain the concept of backward linkages in strategy formulation and implementation.
4. Explain in detail the value chain analysis.
5. Network Structure. N ’10
6. Difference between strategy formulation and strategy implementation. N ‘08

Essay type questions

(1) Explain in detail the value chain analysis. Modified M ‘07
(2) What is a Strategic Business Unit?
(3) Explain the components of Value Chain Analysis. N ‘08
(4) Define corporate culture. Explain the statement “Culture is a strength that can also be a weakness”.
(5) What do you mean by strategic leadership? What are two approaches to leadership style? To bring in strategic change which three steps may be initiated?

Case Study

Speed Technologies is an Indian company with three major divisions: (1) notebooks, (2) desktops and (3) accessories. Its total revenue for the last year approximated Rs. 1130 crores, and its net operating income was Rs. 53 crores.

The organizational structure of the company is considered to be quite formal. Each division operates as an independent unit and is responsible for its own activities, with only modest direction from the corporate office. It also has offices located in Nepal and Sri Lanka. These offices function as liaising office for local importers. The monthly requisitions from the importers are directly dispatched by the corporate office. The sales of the company from these two countries is marginal and their market share in markets is also low. However, there is huge potential. Considering this, the company intends to expand its network in both the countries with little control from the head office. It intends to increase the workforce and setup local assembling units.

(a) Is the present structure of Speed Technologies functional or divisional? Discuss.
(b) What kind of structure will you suggest in two countries?
CHAPTER-7 REACHING STRATEGIC EDGE

Topics covered under this chapter
- Business Process Re-engineering
  - Principles of BPR
  - Role of Information Technology in BPR
  - Business engineering.
- Benchmarking
- Total Quality Management (TQM)
- Six Sigma
  - Six Sigma Methodologies
    1) DMAIC
    2) DMADV
    - What is New in Six Sigma?
    - Themes of Six Sigma
- Internet and E-Commerce

BUSINESS PROCESS RE-ENGINEERING:

It consists of three broad terms which needs to be understood first:

Business: It means conducting some activities with an objective (Survival, Profitability, Growth, etc.)


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

Re-engineering means re-designing of methods to conduct business activities.

The combined effect of these three terms is Business Process Re-Engineering.

BPR: BPR refers to the analysis and redesign of workflows and processes both within and between the organizations to achieve dramatic changes in terms of costs, time, performance, quality, customer responses, etc.

Example: The recent changes adopted by ICAI. The pen-pencil mode examination of CA-CPT has been changed with an optional online examination. To handle the student queue and even to avoid paper cost, form handling cost, etc. the same is now available through online form filing facility and to implement it effectively indirectly the same form is available without any cost through online and is heavily charged at Rs. 500/- (for CA-Final) which was till previous term at cost of Rs. 100/-.

Business Processes: Business Processes are simply set of activities that transform a set of inputs into desired output (goods or services).

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

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

The BPR concept can be better stated as restart of a business from scratch (zero) and doesn’t refer to make-up, reconstruction, manipulation and new addition. It is quiet equivalent to term in Budgeting called Zero-Base Budgeting.
It refers to complete new Vision, Mission and Process. It starts with definition, scope, objective, focus on learning, R&D, knowing customers attitude, understanding employees, adopting new technology, redesigning the businesses, new plan of action.

In today's competitive market place, the business processes needs to be improved to stay in the market because of the multiple affect of competition and globalisation. Now, customers have command over the market, and they want better quality products and services and companies are forced to improve their products or services in order to satisfy the customer need.

BPR is fundamental rethinking and radical redesign (reinventing) of business process to achieve dramatic improvement in business process in terms of cost, quality, service and speed.

**Principles of BPR**

Following are major principles of BPR:

a) **There should be single point responsibility for any business process.**

b) **If work is to be performed in parallel then there should be perfect co-ordinations among persons / resources performing work in parallel.**

c) **There should be a common database through which everyone can share the common data to avoid duplicity.**

Using these principles of BPR the processes in the organization are redesigned to improve the processes in terms of cost, accuracy, quality and speed etc.

**Role of Information Technology in BPR:** The merger of two concepts, BPR and Information Technology, has resulted in a new technology term known as Business Engineering. Business Engineering combines the innovations of Information Technology with BPR and focus on better business processes. The main thrust of using information technology in BPR lie in far-reaching (best procedure based) processes oriented solutions.

**Impact of IT-systems**

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

**Summarizing:** \[ \text{BPR} + \text{Information Technology} = \text{Business Engineering} \]

**Business values provided by IT** in three distinct areas as **Efficiency** – by way of increased productivity, **Effectiveness** – by way of better management, and **Innovation** – by way of improved products and services

**Rationale (Reasons of accepting) of BPR**

**New technologies** (like Information Technology) are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically. Opening up of a local economy into a global economy has increased competition in terms product/service quality, pricing, etc. and even Customers are also demanding better products and services and greater value for their money and time.
Implementation of BPR:

BPR implementation is a few steps process:

1) **Determining objectives and Framework:**
   
   Objectives provide required **focus, direction, and motivation** for the redesign process and helps in building a comprehensive foundation for the reengineering process.

2) **Identify Customers and Determine their Needs:**
   
   a) Designers should understand customers - their profile, their logics in accepting and discarding a product or services.
   
   b) The redesigned business process should clearly provide added value to the customer.

3) **Study the Existing Process**

   Existing processes provide an important base for the redesign. It is studied with a Purpose to gain an understanding of the ‘what’, and ‘why’ of the targeted process, problems with current product, services or process(s).

4) **Formulate a redesign process plan**

   a) Information gained through the earlier steps is translated into an ideal redesign process. It is the real crux of the reengineering efforts.

   b) Customer focused redesign concepts are identified and formulated after careful study and evaluation of every Alternative processes the best is selected.

5) **Implement the redesign**

   Formulation is given shape only by effective implementation. Implementation is the only key to achieve dramatic improvements.

   Implementation of the new process is the responsibility and the joint effort of the designers and management both.

Central Thrust of BPR:

The reduction of the total cycle time of a business process by eliminating the unwanted and unnecessary steps, by simplifying the systems and procedures, by eliminating the transit and waiting time and by maintaining a continuous effort for more and more improvement.

Problems in BPR:

1) **Only few companies** adopt BPR because it disturbs established hierarchies and functional structures. It creates serious affect and involves resistance from the work-force.

2) As it takes time and expenditure, many companies are unwilling to adopt BPR. Even chances of losses in the transition period are possible.

3) **Target setting** is tricky and difficult. It may turn-out as a failure if targets are not properly set or the whole transformation is not carried out properly.
**BENCHMARKING**

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. Benchmarking provides standards against which performances can be measured.

Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out methods to reduce the gaps and also to improve the situations so that the gaps are positive for the organization.

Benchmarking is a process of continuous improvement in search for competitive advantage. It measures a company's products, services and practices against those of its competitors or other renowned leaders in their field. It can be intra-firm, inter-firm, intra-industry or even inter-industry.

For example, many of the placement consultancy firms provide manpower at a professional charges @8.33% and free replacement period (period within which an employee leaves the organisation) of 60 days others at the charges of 7.5% giving a period of 30 days for free replacement but **Simplified Manpower Solutions** owned and managed by S.K.Jha and run basically from Kolkata is charging only 7.5%, turnaround time (within which candidate will be offered after order from concerned company) is 7 days and free replacement provided by other consultancy is 30 days period that this company provides of 60 days. This changes for charges and duration is benchmarking.

Organisation can use benchmarking process to achieve improvement in diverse range of areas like:

- Maintenance operations
- Product costing
- Product distribution
- Customer services
- Plant utilization levels
- Human resource management

**The Benchmarking Process or Steps**

Benchmarking processes lack standardization because it varies from activity to activity that has been selected for benchmarking. However, common steps are as follows:

1) **Identifying the need for benchmarking and planning** by defining the objectives and selecting the type of benchmarking

2) **Clearly understanding existing business processes:**

   Compiling information and data on performance by different methods such as interviews, visits and filling of questionnaires helps understanding their processes.

3) **Identify best processes:**

   Within the selected framework, best processes are identified. These may be within the same organization or external to them.

4) **Compare own processes and performance with that of others:**

   a. Comparing gaps in performance between the organization
   b. Identifying better performers.
   c. Analyzing gaps to seek explanation and justification for such gap.
d. Feasibility and possibility (because of certain limitations) of making the improvements is also examined.

5) **Prepare a report and Implement the steps necessary to close the performance gap:**

A report containing recommendations is prepared. The report includes the action plan(s) for implementation.

6) **Evaluation:**

   a. Evaluate the results of the benchmarking process in terms of improvements in terms of objectives and other criteria set for the purpose.

   b. Periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact the performance.

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**TOTAL QUALITY MANAGEMENT (TQM):**

TQM refers to Total Quality Management.

The definitions of these three terms are:

- **Total**: Involving the entire organization, supply chain, and/or product life cycle.
- **Quality**: Providing output (goods or services) as per specifications or without fault.
- **Management**: Management is a process including steps like Planning, Organizing, Staffing, Directing and Controlling.

Combined result of all these term forms the TQM definition and that definition is:

“TQM is a management approach for an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, and benefits to all members of the organization and to society.”

TQM ensures things are done at right time and that defects and waste are eliminated from operations.

TQM is a management concept to encourage all associated with the organisational processes to realize the importance of quality. It is a concept that state adoption of quality in every step of your work and process.

The TQM philosophy greatly emerged under Deming’s guidance (regarded as the father of TQM). Deming believed quality management should be pervasive, and should not focus on merely sorting good products from bad. Deming believed the responsibility for quality should be shared by everyone in an organization. Deming recognized that most quality problems were system-induced and were therefore not related to workmanship.

**Principles of TQM**: Followings are some guiding principles of TQM

1. Management **Commitment** to Quality

2. **Continuous Improvement** i.e. preventing rather than detecting defects

3. Focus of **Customers** i.e. design and utility considering customers need and convenience

4. Universal quality **responsibility** i.e. quality responsibility on everyone

5. **Quality measurement** i.e. continuous evaluating quality to determine
6. **Continuous improvement and learning**: Through employee involvement and empowerment

7. **Inventory reduction**

8. **Value improvement**: It is adding value for satisfying customer requirements and expectations.

9. **Supplier teaming**: Quality and committed suppliers.

10. **Training**

**TQM focuses on 6C:**

(i) Commitment

(ii) Culture

(iii) Continuous Improvement

(iv) Customer

(v) Co-ordination

(vi) Control

**TQM and Traditional Management Practices**

1) **Strategic Planning and Management:**

   a) Quality planning and strategic business planning is same and not separable in TQM.

   b) Customer satisfaction, Defect rates, and Process Cycle Times is equally important like financial and marketing objectives.

2) **Changing Relationships with Customers and Suppliers:**

   Traditional management places customers outside the enterprise whereas TQM views everyone inside the enterprise including customer, supplier, etc.

3) **Organizational Structure:**

   TQM views the enterprise as a system of interdependent processes, linked through a network of suppliers and customers. Each process is connected to the enterprise's mission and purpose and every process contains sub-processes.

4) **Organizational Change:**

   In TQM the environment in which the enterprise interacts is considered to be changing constantly. Management's job, therefore, is to provide the leadership continual improvement and innovation.

5) **Teamwork:**

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

6) **Motivation and Job Design:**

   TQM managers provide leadership. Subordinates are viewed as process managers rather than functional specialists. People are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society.
SIX SIGMA

Six Sigma is a careful and disciplined methodology that uses data and statistical analysis to measure and improve a company’s operational performance by identifying and eliminating "defects" in manufacturing and service-related processes. Six Sigma standards are 3.4 defects per million parts or 99.99966% of products manufactured are defect free.

Six Sigma is driven by understanding customer needs, disciplined use of facts, data and statistical (probability and normal distribution) analysis, and diligent attention to managing, improving and reinventing business processes.

Six Sigma efforts target three main areas:

- Improving customer satisfaction
- Reducing process cycle time
- Reducing defects

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Strategic Management

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Six Sigma Methodologies

Two separate key methodologies for existing and new processes.

1) **DMAIC** stands for **Define, Measure, Analyse, Improve, and Control.** It is directed towards improvement of existing product, process or service.

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

   - **Measure** key aspects of the current process and collect relevant data.

   - **Analyze**
     - i. Verify **cause-and-effect relationship** between the factors in the processes.
     - ii. Identify the **relationship** between the factors.
     - iii. Make a **comprehensive analysis** to identify hidden or not so obvious factor.

   - **Improve** or optimize the process based upon data analysis using techniques.

   - **Control**
     - i. **Initial trial** run to **establish process capability** and transition to production.
     - ii. Then the **process is continuously measured** to ensure that **variances** are identified and corrected before they result in **defects**.

2) **DMADV** stands for **Define, Measure, Analyse, Design, and Verify.**

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

   - **Define** formally the goals of the design activity that are consistent with customer demands and the enterprise strategy.

   - **Measure** and identify CTQs (Critical To Quality), product capabilities, production process capability, and risks.

   - **Analyze** to develop and design alternatives to develop a high-level design and evaluate to select the best design.

   - **Design** details, optimize the design, and plan for design verification.

   - **Verify** the design, set up pilot runs, implement the production process and hand it over to the process owners.
**Six Sigma Vs. TQM**

Total Quality Management (TQM) concept was replaced by Six Sigma.

Three key characteristic separate Six Sigma from other quality programs of the past.

1. **Six Sigma is customer focused** keeping customer needs and satisfaction in mind.
2. **Six Sigma projects produce major returns on investment.**
3. **Six Sigma changes how management operates.**

Six Sigma requires teamwork. It means having the systems to provide customers what they want, when they want.

**Themes of Six Sigma:**

Six Sigma works primarily on the following themes:

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

The impact of the Internet and the rapidly emerging e-commerce environment is known to everyone. Internet and online networks changes everything. Internet is a driving force of historical and revolutionary proportions. The coming of e-commerce has changed the character of the market, created new driving forces and key success factors and resulted the formation of new strategic groups. The creativeness with which a company incorporates e-commerce practices holds enormous potential for reconfiguring its value chain and affecting its company's competitiveness. Internet economy presents opportunities and threats that demand strategic response and that require managers to craft bold new strategies.

Strategy-shaping characteristics of the E-Commerce environment

We need to understand how growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. The following features stand out:

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

**Educational institutions**

a) They are adopting different strategies for attracting best students.

b) Campus Interview

c) Introduction of computers and internet technologies.

d) Online college degrees are becoming common and represent a threat to traditional Colleges and universities.
Medical organizations

a) Pathological laboratories have started collecting door-to-door samples
b) Day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.
c) Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services.
d) Sharing results of medical tests and prescribing medicine on the Internet,
e) Ten most successful hospital strategies today are providing
   i. free-standing outpatient surgery centers,
   ii. outpatient surgery and diagnostic centers,
   iii. physical rehabilitation centers,
   iv. home health services,
   v. cardiac rehabilitation centers,
   vi. preferred provider services,
   vii. industrial medicine services,
   viii. women’s medicine services,
   ix. skilled nursing units, and
   x. Psychiatric services.

Strategic management in non-profit and government organization

1) There are many NPO which do not have any commercial objective of making profits.
2) They are formed for purposes like promotion of art, science, commerce, charity, religion, education etc.
3) They come to existence to meet the needs not met by business enterprises.
4) These organizations may not have owners in true sense
5) Many of them use the strategic-management process effectively.
6) Many of the NGO functions better than Private Organisations by using their innovations, motivations, productivity, and strategic management e.g. ICAI, Help-Age or Child Relief and You.
7) Often function as a monopoly, NGO produces a product or service that offers little or no measurability in terms of performance, and are totally dependent on outside financing in the form of Donation, aid, etc.
For Your Practice

Correct/incorrect with stating reasons 2 marks each
(i) The focus of six sigma is on customers. M '07
(ii) Benchmarking and Business Process Re-engineering are one and the same. M '10
(iii) TQM is the modified and final form of Six sigma

Short answer questions
1. What is product development? M '07
2. Define BPR, ERP and Benchmarking and analyse its role is implementation.

Essay type questions
1. What is TQM? Compare it with traditional management practices. Modified N '07
2. Explain business process reengineering. How can it be implemented? Modified M '09
3. What is Bench-marking? Explain elements involved in Bench-marking process. N '08
4. What is Six-sigma and how is it different from other quality programs. Explain themes of Six-sigma. N '09

Case Study
High Growth Enterprises, a business owned by Ram Swaroop and his brothers posted a two-fold rise in net profit at Rs. 60 crore in the third quarter of the current financial year as against Rs. 20 crore during the corresponding period last year. Sales during the period climbed 90 % at Rs. 663 crore. The company in the first nine months of the current year posted a net profit of Rs. 145.7 crore.
Ram attributed the good performance and ongoing improvement in quality in manufacturing processes. His younger brother Vinod displayed his happiness on the performance and said that we can further improve the performance by using six sigma methodology.
Ram Swaroop felt that the existing focus on quality is good enough as it was giving good results.
(a) Do you agree with Ram Swaroop to keep focus on quality? Why.
(b) What is six sigma? How can it be useful to the company?
 CHAPTER : 8  CASE STUDIES

A case study based questions is asked in the question to test the potential of students to understand the actual business situation and also the problems involved in it. The question can normally be asked for marks anywhere between 14-25 marks (generally of 20 marks). Under this, a short story of either actual or imaginary Establishment/firm is taken composed of single to 3-4 paragraphs. After the given story a few questions are given. In 70% of the cases either the question does not require the paragraph to be read or has no relevance with it and can be answered purely on theoretical depth of the syllabus.

However when question asked has some relation and required to be read and considered in answering those questions the best way to mark those required/relevant lines with pencil while going through the paragraph. It means the question is to be gone through and understood clearly before reading the story/paragraphs, quiet contrary to our usual practice to read the paragraph first then going through the questions.

Remember, there is no rigid solution to a case problem. You can arrive at your own solutions. The opinions differ and your approach will also be different. However, you must offer supporting for your views and judgments. You should draw inferences from theoretical concepts of strategic management and integrate them in the decisions. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective.

In the study material of strategic management the theory that you study helps you in acquiring sound educational base. In this subject the learning can be reinforced, made more meaningful and given practical dimensions with the help of practical cases. In management schools it is normal practice to teach this subject largely with the help of cases.

What is case study?

Case study method was first developed in the 1871 by Christopher Langdell at the Harvard Law School to keep students to learn for themselves by independent thinking. A collateral object is to keep them to develop skills in using their knowledge. The method is based upon the belief that managerial competence can best be attained through the study, contemplation and discussion of concrete cases. The case method is indeed learning by doing. Cases offer a viable substitute by bringing a variety of business organisational problems and permitting students to assume the managers role. Cases, therefore, provide the readers with a kind of experimental exercise through which they enhance their ability to apply textbook knowledge.

When the case is given, students are asked to analyse, identify the problems and to recommend tentative solutions for the same. It diagnoses and deals with real life situations. A case study is primarily useful as a technique of developing decision-making skills as well as communication skills and for broadening the perspective of students.

In case study method students are expected to:

a. Master the facts of the case.

b. Define the objectives sought in dealing with the issues in the case.

c. Identify the problems in the case and uncover their probable causes.

d. Develop alternative courses of action.

e. Screen the alternatives using the objectives as the criteria.

f. Select the alternative that is most suitable in keeping with stated objectives.

g. Define the controls needed to make the action effective.
OBJECTION OF THE CASE METHOD

Case studies provide an excellent opportunity of developing confidence in problem solving amongst the students. It serves following objectives:
1. It helps to acquire the skills of putting textbook knowledge about strategic management in practice.
2. Getting them out of the habit of being receiver of facts and get into the habit of diagnosing problems, analysing and evaluating alternatives and formulating workable solutions.
3. It trains them to work out answers and solutions, as opposed to rely upon others.
4. Provides them with exposure to a range of practical situations thus offering them a basis for comparison when they begin their own career.

The purpose of cases is not to learn specific answers but to become skilled in the process of designing a workable and hopefully effective plan of action after evaluating various alternatives and approaches. Briefly stated the purpose of case method is to inculcate in students ways of thinking strategically and exercising responsible judgment.

PREPARING A WRITTEN CASE ANALYSIS

It is typical for a comprehensive written case analysis to emphasise three points:

1. **Identification:** It is essential that answers reflect a sharply focused diagnoses of strategic issues and key problems and further demonstrate good business judgment in sizing up the present situation.
2. **Analysis and evaluation:** This is the most significant and difficult part. Analysis is hard work. In doing this students should bear in mind the following points:
   a. They must offer supporting evidence for their views and judgments. They should not rely upon unsupported opinions and over generalisations.
   b. They should point out key factors which are crucial.
   c. Some information in the case is well established fact, some may be in the form of opinions, judgments and beliefs. You are expected to assess the validity of such information.
   d. Students should present that their interpretation of the evidence is reasonable, logical and objective.
3. **Recommendations:** The last part in written cases should consist of recommendations or plan of action. The recommendations should be logical and consistent with the analysis and make sure that the company is financially sound to carry out what has been recommended. Furthermore recommendations should be in detail to be meaningful. Students should indicate how their plan should be implemented by use of different leadership styles, psychological approaches, motivation and incentive which may bring desired result.

You should pay special attention to the following points to avoid common errors in the Case Analysis:

(i) **Inadequate definition of the problem:** Focus should be on key issues and problems and avoid the error of analysing symptoms without determining and defining the root problems.

(ii) **Search for the answer:** Remember there is no one 'correct' answer to a case. There are always several reasonable alternative solutions.

(iii) **Avoid generalities:** In answering specific recommendations, use of generalities should be avoided. Try to be specific.

(iv) **Narrow vision:** Cases are often classified as a specific type such as 'Manpower Planning', 'Recruitment', 'Job Evaluation', 'Leadership Style' etc.

(v) **Unrealistic solution:** Solutions should not be unrealistic. Such as a wage increase is suggested which is beyond the capacity of the company.

(vi) **Rehashing the case material:** Students waste time and effort in rewriting unnecessary long history of the company as given in the case. This should be avoided as it is superfluous.

(vii) **Hasty conclusions:** Students jump to the conclusion after the first reading of the case. This is not correct.
A FEW PRACTICAL CASES

1. DD is the India’s premier public service broadcaster with more than 1,000 transmitters covering 90% of the country’s population across estimated 70 million homes. It has more than 20,000 employees managing its metro and regional channels. Recent years have seen growing competition from many private channels numbering more than 65, and the cable and satellite operators (C & S). The C & S network reaches nearly 30 million homes and is growing at a very fast rate.

DD’s business model is based on selling half-hour slots of commercial time to the programme producers and charging them a minimum guarantee. For instance, the present tariff for the first 20 episodes of a program Rs.30 lakhs plus the cost of production of the programme. In exchange the procedures get 780 seconds of commercial time that he can sell to advertisers and can generate revenue. Break-even point for procedures, at the present rates, thus is Rs.75,000 for a 10 second advertising spot. Beyond 20 episodes, the minimum guarantee is Rs.65 lakhs for which the procedures has to charge Rs.1,15,000 for a 10 second spot in order to break-even. It is at this point the advertisers face a problem - the competitive rates for a 10 second spot is Rs.50,000. Procedures are possessive about buying commercial time on DD. As a result the DD’s projected growth of revenue is only commercial time on DD. As a result the DD’s projected growth of revenue is only 6-10% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy.

DD has options before it. First, it should privatise, second it should remain purely public service broadcaster and third, a middle path.

The challenge seems to exploit DD’s immense potential and emerge as a formidable player in the mass media.

i. What is the best option, in your view, for DD?

ii. Analyse the SWOT factors the DD has.

iii. Why do you think that the proposed alternative is the best? M ’07

Answer

(i) For several years Doordarshan was the only broadcaster of television programmes in India. After the opening of the sector to the private entrepreneur (cable and satellite channels), the market has witnessed major changes. The number of channels have increased and also the quality of program, backed by technology. In terms of quality of programmers, opportunity to advertise, outreach activities, the broadcasting has become a popular business. Broadcasters too have realised the great business potential in the market. But for this, policies need to be rationalised and be opened to the scope of innovativeness. Strategically the DD needs to undergo a policy overhaul.

DD, out of three options, namely privatisation, public service broadcaster or a middle path, can choose the third one, i.e. a combination of both. The whole privatisation is not possible under the diversified political scenario. Nor it would be desirable to hand over the broadcasting in the private hand as it proves to be a great means of communication of many socially oriented public programmers. The government could also think in term of creating a corporation (as it did by creating Prasar Bharti) and provide reasonable autonomy to DD. So far as its advertisement tariff is concerned that can be made fairly competitive. Cost of advertising is to be compared with the reach enjoyed by the doordarshan.

(ii) The SWOT analysis involves study of strengths, weaknesses, opportunities and threats of an organisation. SWOT factors that are evidently available to the Doordarshan are as follows:

**S – Strength**: More than 1000 transmitters; Covering 90% of population across 70 million homes against only 30 million home by Cable & Satellite; More than 20,000 employees.
**W – Weakness:** Rigid pricing strategy; Low credibility with certain sections of society; Quality of program is not as good as compared to C & S network

**O – Opportunities:** Infrastructure can be leased out to cable and satellite channel; Regional focused channels. Allotment of time, slots to other broadcasters.

**T – Threats:** Deseretion of advertisers and producers may result in loss of revenues. Due to quality of program the reach of C & S network is continuously expanding; As the C & S network need the trained staff, some employees of DD may switchover and take new jobs; Best of the market-technology is being used by the private channels.

(iii) It is suggested that the DD should adopt a middle path. It should have a mix of both the options. It should economise on its operational aspects and ensure more productivity in term of revenue generation and optimisation of use of its infrastructure. Wherever, the capacities are underutilised, these may be leased out to the private operations. At the same time quality and viewetship of programmes should be improved. Bureaucracy may reduce new strategic initiatives or make the organisation less transparent. Complete privatisation can fetch a good sum and may solve many of the managerial and operational problems. However, complete public monopoly is not advisable because that denies the government to fully exploit the avenue for social and public use. The government will also lose out as it will not be able to take advantage of rising potential of the market.

2. In 2006-07 PTC Food division decided to enter the fast growing (20-30% annually) snacks segment, an altogether new to it. It had only one national competitor-Trepsico's Trito. After a year its wafer snack brand Ringo, fetched 20% market share across the country. Ringo's introduction coincided with the cricket world cup. The wafer snacks market is estimated to be around Rs. 250 crores.

The company could take the advantage of its existing distribution network and also source potatoes from farmers easily. Before the PTC could enter the market a cross-functional team made a customer survey through a marketing research group in 14 cities of the country to know about the snacks eating habits of people. The result showed that the customers within the age-group of 15-24 years were the most promising for the product as they were quite enthusiastic about experimenting new snack taste. The company reported to its chefs and the chefs came out with 16 flavours with varying tastes suiting to the target age-group.

The company decided to target the youngsters as primary target on the assumption that once they are lured in, it was easier to reach the whole family.

Advertising in this category was extremely crowded. Every week two-three local products in new names were launched, sometimes with similar names. To break through this clutter the company decided to bank upon humour appeal.

The Industry sources reveal that PTC spent about Rs. 50 crores on advertisement and used all possible mediaprint and electronic, both including the creation of its own website, Ringoringoyoungo.com with offers of online games, contests etc. Mobile phone tone downloading was also planned which proved very effective among teenagers. The site was advertised on all dotcom networks. Em TV, Shine TV, Bee TV and other important channels were also used for its advertisement along with FM radio channels in about 60 cities with large hoardings at strategic places.

Analysts believes that Ringo's success story owes a lot to PTC's widespread distribution channels and aggressive advertisements. Humour appeal was a big success. The 'Ringo' was made visible by painting the Railway bogies passing across the States. It has also been successful to induce Lovely Brothers' Future Group to replace Trito in their Big-Bazaar and chain of food Bazaars. PTC is paying 4% higher margin than Trepsico to Future group and other retailers.
Ringo to giving Trepsico a run for its money. Trito’s share has already been reduced considerably. Retail tie-ups, regional flavours, regional humour appeals have helped PTC. But PTC still wants a bigger share in the market and in foreign markets also, if possible.

Answer the following questions:

a) What is SWOT Analysis?

b) What are the strength of PTC?

c) What are the weaknesses of PTC for entering into the branded snacks market?

d) What kind of marketing strategy was formulated and implemented for Ringo?

e) What else need to be done by Ringo so as to enlarge its market?

M ‘08

Answer

(a) SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strength, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

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

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

Opportunity: An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

Threat: An unfavourable condition in the external environment which causes a risk for, or damage to the organisation’s position.

(b) The strengths of PTC are:

(i) PTC has an existing distribution network that is used to its advantage.
(ii) The company has strengths in the area of procurement of potato, raw material to make the wafers.
(iii) Financially the company is very strong as they are spending 50 crores on advertising in a market worth 250 crores.
(iv) The company has diverse flavours of wafers in its portfolio that are according to the different tastes of the target group.
(v) PTC has done good bargaining deals with food bazaars and food chains.
(vi) The cross-functional team of PTC made a virtuous marketing research.

(c) Weaknesses are inherent limiting factors of an organization. They are internal by nature to the working of the organization. The case study does not clearly mention the points that can conclusively be weaknesses of the company. However, a deeper analysis will bring out that the company is totally new to the snacks business and is highly aggressive in its approach. The experience in the food business may not result in the required competencies in the business of chips. Seemingly, the company has also gone overboard in its advertisement expenditure. It may be that the margins justify expenditure of 20% in value of the total market size of Rs. 250 Crores. Otherwise, the company may come into financial difficulties. Creating market may also be difficult as already there are many players who are trying to get attention of existing and new customers. The business is already cluttered with regional and national players and is highly competitive. Further, the company is overly relying on young segment of the population. This segment can be highly receptive to the new products and the company may lose them easily to the competitors.
(d) Formulation and Implementation of marketing strategy was as under:

The Product: To launch its snack product, an easy to remember brand name RINGO was decided upon. To understand the snacking habits of Indian customers, a large survey was undertaken. Chefs on the basis of the market survey came out with sixteen flavours. The target group was identified as youngsters of 15 – 24 years.

The Promotion: The company spent about Rs.50 crore on marketing communication. Different media including print, electronic and outdoor advertising were put to use. Appeal used was that of humour. A huge visibility through point-of-sale was also arranged. Promotion policy was very aggressive considering that 50 crores were spent in a market of 250 crores.

The Place: Getting Trito replaced by Ringo in Big-Bazaar and food Bazaar chain of stores was a great success for PTC. To motivate a higher margin than the Trepsico was provided for. PTC even otherwise has extensive distribution network.

(e) A perfect blend of marketing mix has made it possible to go so far and so early. Since the marketing strategy has remained successful, they need to carry it forward. However, they also need to keep a restrain on promotion as spending huge amount of money on marketing for a share in the market of 250 crores seems to be too high. Such an expensive campaign is only suitable if the company is able to increase the market size itself and not merely its own in the existing market share. To achieve this it requires competencies. Otherwise, it might be difficult to sustain high expenditure over a very long period of time.

3. Dr. Sukumar inherited his father's Dey's Lab in Delhi in 1995. Till 2002, he owned 4 labs in the National Capital Region (NCR). His ambition was to turn it into a National chain. The number increased to 7 in 2003 across the country, including the acquisition of Platinum lab in Mumbai. The number is likely to go to 50 within 2 - 3 years from 21 at present. Infusion of Rs.28 crores for a 26% stake by Pharma Capital has its growth strategy. The lab with a revenue of Rs.75 crores is among top three Pathological labs in India with Atlantic (Rs.77 crores) and Pacific (Rs.55 crores). Yet its market share is only 2% of Rs.3,500 crores market. The top 3 firms command only 6% as against 40 - 45% by their counterparts in the USA.

There are about 20,000 to 1,00,000 stand alone labs engaged in routine pathological business in India, with no system of mandatory licensing and registration. That is why Dr. Sukumar has not gone for acquisition or joint ventures. He does not find many existing laboratories meeting quality standards. His six labs have been accredited nationally whereon many large hospitals have not thought of accreditation. The College of American Pathologists accreditation of Dey's lab would help it to reach clients outside India.

In Dey's Lab, the bio-chemistry and blood testing equipments are sanitized every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1650 variety of tests. Same day reports are available for samples reaching by 3 p.m. and by 7 a.m. next day for samples from 500 collection centres located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting is also available.

There is a huge unutilized capacity. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to encash preclinical and multi-centre clinical trials.

N '07

a) What do you understand by the term Vision? What is the difference between 'Vision' and 'Mission'?

b) What vision Dr. Sukumar has at the time of inheritance of Dey's lab? Has it been achieved?
c) For growth what business strategy has been adopted by Dr. Sukumar?

d) What is the marketing strategy of Dr. Sukumar to overtake its competitors?

e) In your opinion what could be the biggest weakness in Dr. Sukumar’s business strategy?

Answer

(i) A Strategic vision is a road map of a company’s future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity.

A company’s Mission statement is typically focused on its present business scope – “who we are and what we do”. Mission statements broadly describe an organisation’s present capabilities, customer focus, activities, and business makeup. Mission is also an expression of the vision of the corporation. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

Dr. Sukumar’s vision at the initial stage was to turn his one pathological laboratory firm into a national chain of pathological laboratories. He is in the process of achieving the vision as a number of Labs have been opened and others are in pipeline. However, at the same time the market share is low when compared with the external benchmark from US market.

(ii) To a large extent Dr. Dey’s Lab has opted the business strategy of internal growth rather than going in for acquisitions or joint ventures. The reason for such a strategy is that Dr. Sukumar does not find many existing laboratories meeting the quality standards. To fund its growth and raise funds it has also given a 26% stake to Pharma Capital.

(iii) Dr. Sukumar’s marketing strategy is superior to its competitors. Over a period of time it is able to evolve itself as reference lab for many leading hospitals. This is a testimony of the level of confidence it enjoys among the medical professionals. It provides a high level of customer services because of the following:

- **Product mix:** It possesses technical expertise to conduct 1650 variety of tests.
- **Quality:** The laboratories use modern methods to conduct tests. Even routine tests are conducted with highly sophisticated procedures. Technology such as bar coding and automated registration of patients is also used. Thus there are no mistakes in the identity of samples. There is also daily sanitisation and validation of lab equipments.
- **Speed:** Laboratories are working round-the-clock. Further, using modern systems the company is able to deliver test results faster.
- **Convenience:** There are 500 collection centres for the laboratory, thereby the reach is more. Additionally, system of collection of samples from home also provide convenience to the patients and others.

(iv) A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it. In the case it is given that Dr Sukumar has not gone for mergers and acquisition as he does not find many prospective laboratories meeting the quality standards. Thus its biggest weakness is its inability to capitalise the opportunities through mergers and acquisitions. Acquisitions and partnerships can help in leveraging the existing goodwill.

Many of these labs must be enjoying a lot of goodwill in their region. In fact, a business in the medical field such as a pathological laboratory, trust and faith are important. On account of its size and available resources Dey’s Lab could have easily acquired some of these labs and built upon their names. With resources it should be feasible to modernize them to make them compatible with the business ideology and quality systems of the Dey’s Lab. However, it appears that the company lacked capability to modernise an existing laboratory.
4. BB Ltd., is a business organized as three divisions and head office. The divisions are based on market groupings, which are retail, wholesale and Government. The divisions do not trade with each other.

The main method of control of the divisions has been the requirement to earn a return on investment (ROI) of 15% p.a. The definition of return and capital employed is provided by head office, at the criterion ROI rate of 15%.

The recent experience of BB Ltd., is that the group as a whole has been able to earn the 15% but there have been wide variations between the results obtained by different division. This infringes another group policy that forbids cross-subsidization, i.e. each and every division must earn the criterion ROI.

BB Ltd. is now considering divestment strategies and this could include the closure of one or more of its divisions.

The head office is aware that the Boston Product Market Portfolio Matrix (BPMPM) is widely used within the divisions in the formulation and review of marketing strategies. As it is so widely known within the group and is generally regarded by the divisions as being useful, the head office is considering employing this approach to assist in the divestment decision.

You are required to:

a) Evaluate the use by BB Ltd. Of the concept of ROI and its policy that forbids cross-subsidization.

b) Describe the extent to which the BPMPM could be applied by BB Ltd. in its divestment decision.

    Evaluate the appropriateness of the use of the BPMPM for this purpose.

c) Recommend, and justify, two other models that could be used in making a divestment decision.

    Demonstrate how BB Ltd. could utilize these models to make this decision.

Answer:

(a) Evaluation of the use of the concept of ROI by BB Ltd.

ROI is an accounting measure that estimates the level of profits as a proportion of the capital employed over the year. The concept of ROI is widely used by different companies to measures its performance. Therefore BB Ltd. is not unusual in using this concept of ROI as a means of performance monitoring of its different divisions.

Perhaps one division of BB Ltd., may have failed to meet its ROI because it might have recently purchased new fixed assets, another division might be using old assets that have been written off, still other division might be riskier than another division are all reasons for non achievement of unit-wise ROI target.

ROI and cross subsidization:

There could be a lot of problems with cross subsidy. This issue of cross subsidies is more complex than it first appears.

We do not know how the investment funds have been allocated if the head office allocates them, and the divisions cannot take their own investment decisions, there is a cross subsidization by the back door as it were.

Further one division’s hard earned cash might be used to buy another division’s assets. Arguably, cross-subsidization is the advantage of a business like BB Ltd.

Further, if the businesses have different business cycle, they are able to bail each other out when appropriate, whilst ensuring that the shareholders receive a fairly constant return.

(b) Application of BPMPM by BB Ltd. In its divestment decision:

BPMPM aims to link the overall growth of the market for a product, the growth in the market share of a product, with the product’s cash-generative activities.

BPMPM classifies a company’s products in terms of potential cash generation and cash expenditure requirements into cash cows, dogs, stars and question marks.

- Stars are products with a high share of a high growth market. In short term, it require capital expenditure in excess of the cash they generate, in order to maintain their market position, but promise high returns in the future. In due course, however, stars will become cash cows, which are characterized by a high market share, but low sales growth.
• Cash cows need very little capital expenditure and generate high level of cash income. The important strategic feature of cash cows is that they are already generating high cash returns that can be used to finance the stars.
• Question marks are products in a high-growth market, but where they have a low market share. A decision needs to be taken about whether the products justify considerable capital expenditure in the hope of increasing their market share, or whether they should be allowed dying quietly.
• Dogs products with a low share of a low growth market. Dogs should be allowed to die, or should be killed off.

**Appropriateness of use of BPMPM:**
BPMP is conventionally assumed to apply to products and it is perhaps unusual to see it applied to businesses and divisions.

The problem is that we do not know enough about the firm’s product range to suggest how the matrix could be applied.

Rather than assuming that a whole division is a dog and divesting it, is possible that a through review of the product range of each division could be examined to see whether certain products can be pruned from the range.

BPMPM should not be used in isolation. Further it needs to be modified from time to time.

(c) **Models for making a divestment decision:**
A no. of models is available, which could be used by the co. in making a divestment decision.

Two such models could be:
• Porter’s five forces model and
• The product life cycle.

**Porter’s five forces model:**
This model can be used to place each division in the competitive context. The five forces model suggests that the competitive environment is determined by five factors viz.
- The threat of new entrants.
- The threat of substitute products,
- The bargaining power of customers,
- The bargaining power of suppliers and
- The state of competitive rivalry within the industry.

The value of this model is that it examines each division’s strengths in a competitive context. If the trend is for entry barriers to get lower, or if a major new entrant is no the horizon, this must influence the divestment decision, if the business is a marginal player in the market or if the resources required to fight off such a challenge are too expensive.

Similarly, if the customers are powerful or suppliers are powerful, then the margins would get eroded steadily and firm’s business would become less attractive. Similarly if the threat of substitute products becomes serious, then divestment might become a sensible choice.

**The product Life cycle:**
This model bears similarities to the BCG matrix. This model suggests that a firm’s products have a natural life cycle that can be analyzed into the phases of **introduction, growth, maturity and decline.**

In the **introduction phase**, the product still has to make money.
In the **growth phase**, it starts to make profit.
**Maturity** occurs when the demand is no longer growing. The demand and the profit are at its peak.
In the **decline phase**, demand falls off, profits fall and eventually no profits are made.

Thus BB Ltd. Can use this model to examine the condition of the products in each of the divisions.

5. **Sahni Auto Industries** is a manufacturer and exporter of Auto parts with an annual turnover of Rupees one thousand crores. It employs about 2,000 persons in its factory in Punjab and its other offices in India and abroad. The Personnel Administration and Human Resources Department of the company is headed
by Mr. Amit Kapoor—the Chief Personnel Manager. Mr. Amit Kapoor, an Automobile Engineer joined the company 5 years ago as Product Development Manager. After a successful stint of 4 years as Product Development Manager, he was transferred to Personnel Administration and Human Resources Department as the Chief Personnel Manager as a part of Career development plan. Mr. Vikas, MBA in Human Resources from a renowned Business school, joined the company as Personnel Manager only 3 months back. He reports to Mr. Amit Kapoor—the Chief Personnel Manager. He handles all routine personnel and industrial relations matters.

One day, during informal discussion with Mr. Amit Kapoor, Mr. Vikas suggested him of linking Human Resources Management with Company’s strategic goals and objectives to further improve business performance and also to develop Organisational culture that fosters more innovative ideas. He also advocated creating abundant ‘Social Capital’ on the ground that people tend to be more productive in an environment which has trust and goodwill embedded in it rather than which is highly hierarchical and formal. Mr. Amit Kapoor disagreed with Mr. Vikas and told him that the role of Human Resources Department was only peripheral to the business and all his suggestions about its strategic role were beyond the purview of Personnel Administration and Human Resources Department. After this, Mr. Vikas started having number of arguments with Mr. Amit Kapoor in several issues relating to personnel and industrial relations since he felt that a person with a degree in Human Resources Management was in a far better position to run Personnel Administration and Human Resources Department. Mr. Amit Kapoor – the Chief Personnel Manager had often shown his displeasure on Mr. Vikas's argumentative tendency and had made it known to the General Manager. The General Manager called Mr. Amit Kapoor in his office to inform him that he has been elected for an overseas assignment. He further told him to find a suitable person as his successor; he even suggested Mr. Vikas as a possible candidate. Mr. Amit Kapoor, however, selected Mr. Balram, who was working as Training Manager in a Multinational Company for the last 5 years. Mr. Vikas, soon started having arguments with Mr. Balram also over number of issues relating to industrial relations since he felt that he had no experience in handling industrial relations matters. Mr. Balram now realised that Mr. Vikas was trying to make things difficult for him. After a series of meetings with the General Manager, Mr. Balram eventually succeeded in convincing him to transfer Mr. Vikas to an office outside Punjab. On learning about his impending transfer, Mr. Vikas wrote a letter to the General Manager joining details of various instances, when Mr. Balram had shown his incompetence in handling problematic situations. When asked for explanation by the General Manager, Mr. Balram had refuted almost all the allegations. The General Manager accepted his explanation and informed Mr. Vikas that most of his allegations against Mr. Balram were unwarranted and baseless. He further advised him to avoid confrontation with Mr. Balram. Mr. Vikas then wrote a letter to the Chairman repeating all the allegations against Mr. Balram. On investigation, the Chairman found most of the allegations were true. He then called all the three—the General Manager, the Chief Personnel Manager and the Personnel Manager in his office and implored them to forget the past and henceforth to work in coordination with each other in an environment of Trust and Goodwill.

Questions:
(a) Indentify and discuss the major issues raised in the case.
(b) Comment on the recruitment of the two Chief Personnel Managers.
(c) Would you justify Mr. Vikas’s argumentative tendency with the Chief Personnel Managers? Give reasons for your answer.
(d) Do you agree with suggestion offered by Mr. Vikas to link Human Resources Management with the company's strategic goals? If yes, suggest prominent areas where Human Resources Department can play role in this regard.

Answer (a) The first major issue raised in the case pertains to failure of the administration to realize the significant role Personnel Administrative and Human Resources Department can play in corporate strategy. This is evident from the remarks made by Mr. Amit Kapoor – the Chief Personnel Manager that the role of his department was only peripheral to company business and the strategic role playing was beyond its purview. He advised his Personnel Manager Mr. Vikas to confine his functions to routine personnel and industrial relation matters. The company has also failed to follow the principle of matching an appropriate candidate to the job requirements when it comes to appointment of Chief Personnel Manager. The company decided to send Mr. Amit Kapoor an automobile engineer from manufacturing department to Personnel Administration and Human Resources Department as head without realizing that latter job needed a person with qualification and experience in management of human resources. The company had almost adopted a similar attitude when it appointed Mr. Balram as replacement of Mr. Amit Kapoor. Even there seems to be lack of clarity in the career development plans of the company as Mr. Amit Kapoor a qualified automobile engineer is transferred to the personnel department. The whole idea behind career development plans is to develop a person’s skills to match with his present job with the job he would be expected perform in future. The company has also failed to pay attention in developing organization culture in which superior–subordinate relationship, team work are strengthened to contribute to professional well-being, motivation and pride of employees. This become clear when the Personnel Manager’s frequent arguments with the Chief Personnel Manager are not taken seriously and Mr. Vikas is just let off free without any strictures or warning for his behaviour by the higher authorities. There is also need for a system to encourage social networking amongst different employees in the organization which can help to create “Social Capital” as was made clear by Mr. Vikas when he suggested Mr. Amit Kapoor to take necessary measure in building ‘Social Capital’. Even the transfer policies of the company need improvement. Mr. Amit Kapoor is transferred to Personnel Administration and Human Resources Department, and later to different assignment at company’s overseas office. Even the General Manager had agreed to transfer Mr. Vikas to another office of company outside Punjab simply at the insistence of Mr. Balram, the Chief Personnel Manager.

(b) On the matter of appointment of Chief Personnel Manager and in particular of Mr. Amit Kapoor the company ignored to match the qualification, experience and merit of the candidate with the job description and profile. The company should have recruited a person with degree in human resource management with adequate work experience to the position of the Chief Personnel Manager. Practically, the same mistake was committed in the appointment of Mr. Balram who had essentially experience of working as a Training Manager. In both the cases persons appointed lacked the needed qualification and experience for the top job in the personnel department. The direct fallout of this was that Mr. Vikas, the Personnel Manager did not have faith in the competence of his superior and he had frequent arguments whenever he differed with them in manner in which they handled some important issues relating to the industrial relations.

(c) Mr. Amit Kapoor the Chief Personnel Manager did not possess any formal degree in personnel management and industrial relations. However, this did not give any right to Mr. Vikas, Personnel Manager who reports to him to have frequent arguments on the manner of handling issues relating to personnel and industrial relations. If at all Mr. Vikas had some serious differences with Mr. Amit Kapoor and later with Mr. Balram who succeeded Mr. Amit Kapoor, he should have brought his view points to their notice in a more
dignified manner keeping in view the hierarchy of the department. There could be two possible reasons for this tendency of Mr. Vikas. First, he appears to have complex that he is superior on account of his relevant qualification and as a result he developed ego. Secondly, it also seems that Mr. Vikas was rather impatient to rise in the career ladder and become the Chief Personnel Manager without gaining much work experience. To achieve this end, he wanted to belittle the Chief Personnel Managers on every opportunity that came his way. In any case, the argumentative tendencies tantamount to indiscipline and insubordination and cannot be justified. On the contrary, the top management should have sought his explanation on his frequent arguments with Chief Personnel Managers.

(d) Human resources policies and plans deal with the most precious resources of an organization. It is the people who carry out the various functions in production, marketing, finance, etc. and the success of an organization depends upon the quality of people selected to their functions. This presupposes an integrated approach towards human resources functions and overall business functions of an organization. The human resources management practices of an organization can be important sources of competitive edges. In this context human resources manager / department can play an important strategic role in the following important areas:

i. The human resources management must be able to lead people and organization towards desired goals and direction involving people right from the beginning.

ii. The human resources management can also help developing core competency by the firm.

iii. A significant role can also be played in building a highly committed and competent work force.

iv. The human resources management can also help in developing healthy work ethics and culture and create an atmosphere of trust and goodwill to encourage creative and innovative ideas. Jobs can be redesigned to make them more challenging and rewarding.

6. AO Swift (Pvt.) Ltd. was promoted nineteen years back as company manufacturing automobile parts with an investment of Rupees 5 crores by Abhishek Oberoi. He took over as its chief executive and is occupying the same position till date. Abhishek an automobile engineer himself possessed rich experience of working abroad and in Hindustan Motors Ltd in India. He is dynamic and ready to take risk. He always emphasized on maintaining high quality standards. Initially, the products were supplied to automobile service centers all across the country. The market was small and the company suffered some losses. Eight years after its inception the company entered into an agreement with Maruti Udyog Ltd to manufacture and supply specific components for their small car. This agreement was a turning point for the company. Later the company was able to enter agreements with other companies entering India. The company is able to manage a growth rate of over 25% in last five years. Its turnover in the last financial year exceeded 800 crores. The overall market is also witnessing a very high growth rate. Abhishek also possessed strong behavioural skills and allowed some autonomy and discretion to the senior managers of the company. A year back in an internal meeting Abhishek felt that the company can grow still faster if it enters other markets outside India. Various options were analysed and efforts were made to discuss and negotiate with major manufacturers of the world. Getting some response from two manufacturers in European Union the company opened an office in London.

Abhishek closely monitored the day-to-day working of this office. Having strategic implications all major decisions were taken by himself. He will also visit London every month to have first hand information about its working. However, as the company is growing it is becoming increasing difficult for him to manage this office. He also wants to expand further. He called a meeting with head of various department. In the
meeting following alternatives were considered for foreign market:

- Continue to manufacture products in India and export them to other countries.
- Initiate manufacturing activities in other countries.
- Takeover existing manufacturers of the products.

Answer the following questions:

a. Write a note on reasons for AO Swift Ltd to open office in London?
b. What should be the strategy of the company in a high growth market? Why?
c. Make an analysis of various alternatives that are being considered for expanding in foreign markets?

7. Sweet Drinks Ltd is a drinks company whose core business is manufacturing and selling soft drinks to 80,000 outlets throughout India. The business of the company is good with annual turnover exceeding three billion rupees. Profits are good and shareholders are often rewarded with lucrative dividends and bonuses. Four years back the company has diversified into the alcoholic drinks industry and has taken-over two small breweries located in western India. The company has also diversified into hotels with purchase of twenty-five hotels of three/four star category across the country. To its advantage the company has been able to obtain a monopoly for the sale of its soft drinks in its hotels and is beginning to establish itself as a brand name in the brewery industry. Part of the strategy of the company is to continue to purchase hotels, particular by targeting National Capital Region of Delhi where tourism is likely to pick up with the forthcoming Commonwealth Games. The company also intends to construct a five star hotel in Gurgaon to take tax advantage announced recently by the finance ministers. Everything was going on well until recently, when a Public Interest Litigation from NGO accused the company of indulging in surrogate advertising of its brewery products. In fact the company has similar brand names for its soft drinks and brewery products. This triggered a lot of protests and demonstrations against the company. Newspapers were flooded with the articles against the company. There were also some demonstrations and some small incidents of stone pelting in a few of its hotels.

Answer the following questions:

a) Discuss the factors related to SWOT analyses for the company?
b) Explain how Sweet Drinks Ltd is achieving synergy?
c) Explain the nature of diversification adopted by the company.

8. A transport company was engaged in handling cargo between selected inter-city routes and had a fleet of trucks numbering ten. After recent elections to the State Assembly, the Chief Minister of the State announced infrastructure development to be taken up as the top priority by the State Government. Bids were invited for road construction on a large scale. Work started within six months. Accordingly, the transport company decided to expand its operations adding on more trucks to its fleet. Meanwhile, industrial growth rate in the State had a setback due to labour unrest which seriously hampered production in several industries. The transport company found its operations unprofitable.

a) What was the flaw in the planning for expanded operations?
b) Is there any remedy to the situation?

9. For more than ten years till 1995, Laboni Stores Ltd. was successfully running a number of retail stores selling cosmetics and skin care products. From 1996, sales were stagnating and now after a
year had started declining. The general manager of the company made enquiries from stores in charge at various location of stores. All of them reported that ladies, particularly the younger generation, were found to be highly discriminating about choice of products. Demand for certain branded items widely fluctuated due to movie artists’ preferences shown on the TV. Also there is a marked tendency to equate quality with rice. The general manager decided to have environmental analysis carried out with a focus on changes in social and cultural factors among urban ladies. On that basis he even thought of recommending to the Board of Directors a complete change in the product lines to be decided.

a) **Do you think the GM was right in his approach regarding environmental scanning?**

b) **What other factors in the environment needed analysis?**

c) **If there was a clear change in the tastes and preferences of buyers of certain products, is it essential for the company to switch over to a different product line?**

10. Samuel Enterprises had started producing and selling liquor in 1980 and gradually expanded its business to include manufacture of chemicals for pharma companies as well as construction work. With three different divisions, there was a clear change noticeable after 1991 in their sales performance profitability. Earlier, 60% of sales revenue was from liquor business, while the share of other two divisions was about 20% each. While the market for liquor was gradually shrinking due to prohibition in many areas, sales of chemicals had an uncertain potential due to the expansion of Indian producers and entry of multinational companies and introduction of new technology.

The construction industry on the other hand had a high growth potential due to emphasis on infrastructure development as a part of government economic policy.

The company wanted to hive off one of the divisions and focus on developing of the other two divisions. The Managing Director was in favour of undertaking an exercise in portfolio analysis for a strategic decision. However, some non-executive directors were of opinion that analysis of division-wise capabilities was also necessary besides using any portfolio matrix model before arriving at a strategic decision.

**Comment on the suggestions of MD and other directors giving your comment on their respective views.**

11. A company manufacturing certain well-known brands of malted food, chocolates and biscuits for more than a decade ventured into manufacture of apple juice in 1981, but had to sell off the plant in 1984. During the year 1987, the company’s sales were higher by 19% over the previous year despite new competition. Production of chocolates increased by 14% and of malted food by 22%. The sale of biscuits was also higher although these were processed by third parties and sold under popular brand names of the company. Having satisfactory financial results in 1987, the company decided to diversify into computer software business.

a) **Was it the right strategic decision?**

b) **What could be the possible reasons underlying the company’s decision to diversify into software business?**

12. A well-known company engaged in manufacturing metal containers and packaging had diversified its operations in early 2000s investing a huge amount in a bearings factory. After 8 years, the company was suffering from a high cost structure, mounting losses, shortage of liquid funds and large scale exodus of technicians and managers. Management’s proposal for reduction in workforce and wage cuts is not
acceptable to labour unions with the result that 3 of its packaging units had to be shut down. The factories need to be opened immediately for revival of business which depends upon cost reduction through reduction in the excess workforce.

**Suggest, with proper justification, a suitable turnaround strategy for the company.**

13. A company manufacturing small electric appliances (irons, toasters and mixers) is planning to add room air-conditioners to its product line by buying out another firm. Made in a separate plant in a different city the air-conditioners would be sold by a sales force under a different brand name to the same customers-retail chain stores, large departmental stores, and hardware and appliance wholesalers.

a) **Does this seem to be a wise addition to the product line? Why or why not? Explain.**

b) **How will the central marketing managers be affected by it?**

14. The Chief Executive of a company manufacturing light engineering goods (pump sets and 2 H.P. motors) stated, “Our wage rates should continue to be among the highest in the country. Our competitors will have to match any increase we give and the higher wage cost can be passed on to the customers.” The finance manager of a competing enterprise observed, “We have a social responsibility to check the wage-price spiral. Our men are already well paid and further increase will only add fuel to inflation.”

a) **Which of the above wage policies is more reasonable and pragmatic?**

b) **Under what conditions can a company be able to pass on wage increases to its customers through a price rise?**

c) **What importance, if any, should a company attach to the inflationary effect of its wage policy?**

15. Avik Industries Ltd. was a family-owned conglomerate with diversified business activities including consumers durables, switchgears, batteries, and both toilet and washing soaps. For a number of years the company prospered with growth in volumes and market share. But its performance had setback in 1999, when the net margins in switchgears, the most profitable product, declined from 12 to 11%, while in consumer durables it had halved to 6%, the batteries business was under pressure, and the ailing soaps division had just started looking up. The Chief Executive of the switchgear unit observed that the results would have been worse but for the focus on operational efficiency. For years, Avik had been organised along four divisions as independent profit centres. Except for HR and finance, all other functions were decentralised. The advantage was that each of the businesses had a strong focus. It also facilitated customer focus. The flipside was that divisions became insular and inward-looking. Each division had its own ad budget-even separate ad agencies. The sales force was pushed to look at short-term product promotions in the face of competitive pressure. The cost of sales was rising much faster than rate of growth in sales. It seemed divisional autonomy had been pushed too far down the line.

a) **Should the divisional set-up be disbanded? Or, should the divisions be converted into SBU and spun off into separate companies?**

b) **Is there any other alternative structure possible?**

16. Agrico Ltd. was in chemical, fertiliser and pesticide business since 1998. The company had reasonable earnings till 2002. For the next 3 years, sales in all the divisions went on declining and by 2005, the company was in the red. The Managing Director was thinking of internal benchmarking as a possible way out. A senior executive suggested that functional benchmarking would be more appropriate. The Finance
Manager was of the view that the problem was that of economic recession in the relevant product lines. The M.D. was unable to decide on the matter.

Suggest the most suitable benchmarking for Agrico Ltd. with justification.

17. Nath Ltd. is a small family controlled manufacturing company of Howrah. In its around 60-year history, the company has grown to the extent that it now employs 75 staff, producing a wide and diverse range of industrial products and special components: The company has increased in size from its small original base. However, it has never employed a strategic management approach for its development and has relied on operational decision-making to determine priorities. Nath Ltd. has never gathered any information relating to its markets. In recent years, the company has experienced a reduction in turnover and profitability and is assessing how it might redress the situation.

a. You explain how strategic management differs from operational management to your father and uncles, the directors of Nath Ltd. After being convinced, the directors of Nath Ltd. have now decided to introduce a strategic management approach which will assist in the selection of appropriate strategies for future development of the company.

b. Discuss the cultural and organisational changes which Nath Ltd. will need to implement in order to successfully introduce strategic management.

18. In 1997, a leading manufacturer of personal computer took the decision to set up its Indian manufacturing base near Bangalore. Its decision was seen as a success for the Karnataka Development Corporation (KDC), which had been hoping since 1993 to attract the computer manufacturer to Karnataka.

a. What do you think would be the objectives of the KDC and how might its objectives and those of the computer manufacturer be expected to coincide in the matter of choosing a location for the Indian manufacturing base?

b. Describe the environmental factors which you think might have been influential in making the computer manufacturer decide to locate its operation near Bangalore in Karnataka, and how the KDC might have tried to exploit these influences.

19. You have recently been appointed to head the management accounting department of A (P) Ltd (APL), which is a small engineering company engaged in the manufacture of precision parts. The market in which the company sells its products is small and APL faces severe competition. Due to the production facilities available, the company is able to undertake only small-scale engineering work. Large scale engineering jobs are turned away as the company does not possess the manufacturing facilities to undertake them. At best, it can act only as an agent for another contractor to do the work.

The board of APL is aware that the volume of work which is being turned away is increasing. This is particularly frustrating as the company is unable to utilise its capacity to the fullest extent all the time. APL has achieved a steady increase in profit over the last few years. Nevertheless, the board of the company believes that it could increase profitability still further by expanding and thus being able to carry out the larger scale work which is currently being turned away.

Budgetary control and standard costing information has, for many years, been provided as the sole output of the management accounting department. The previous management accountant prided himself on the punctuality and comprehensiveness of the reports produced. Each job is priced by adding a percentage of its total cost calculated in accordance with the company’s standard costing procedures. The annual cost
budget is split into monthly parts and flexed to take account of a particular period’s actual production. Monthly cost variances, comprising those for direct materials, direct labour, variable and fixed production overheads, are produced and provided to the relevant managers. In addition, sales price and volume variances are produced by the management accounting department each period. The company does not have a marketing department although new customers are obtained from advertising within professional engineering journals and by attendance at trade shows. At one such trade show, the managing director was introduced to the concept of benchmarking. He believes that there may be advantages in APL undertaking benchmarking.

Required:

a) In consideration of the need for the board of APL to be provided with information which assists its strategic decision making, comment critically on the management accounting reports, currently provided.

b) State and justify what changes you, as management accountant, would make in providing information which facilitates strategic planning in the company. (Within your answer, describe what financial and non-financial information you would supply which is different from that, already provided).

c) Explain the concept of benchmarking and suggest how it might be applied to information for strategic planning in APL.

20. Birsa Mining Ltd. (BML), has said in its mission statement that it will endeavour to make the maximum possible profit for its shareholders, whilst recognising its wider responsibility to society. BML has an opportunity to mine for gold at Nilachal Plateau, a remote and sparsely populated area. The mining process proposed, in this instance, means that all vegetation will be removed from the land concerned; after mining has finished, there will remain substantial lagoons full of poisonous water for at least a century. This mining process is a profitable one given the current price of gold. However, if the company were to reinstate the mined land, the process would be extremely unprofitable. The company has received permission from the Government to carry out the mining. The few local residents are opposed to the mining.

a) Discuss the extent to which BML’s mission statement is contradictory.

b) Discuss how BML could establish a procedure whereby its wider responsibilities to society could be routinely considered when making strategic decisions.

c) Advise BML how it could deal with strategies that present a conflict of objectives.

d) Discuss the ethical dimensions of the decision to mine for gold.

21. Cool Garments is exploring options of picking up a strategic equity stake in north based Jazzy Wear, a Kanpur based garment manufacture catering to gents segment. The takeover may boost its production of premium garments. This will also increase Cool Garments’ presence in the North. The size of the acquisition would be small within Rs 50 crore compared to Cool Garments recent big deals in other states. Jazzy Wear special products fit perfectly into Cool Garment’s future plans. Acquiring Jazzy will give it a bigger product portfolio and also a considerable presence in the north Indian market.

With the fragmented shareholding the top managers of Jazzy Wear know that the Cool Garments will be definitely able to acquire controlling share in their company. They feel that if a deal is struck it would also be in their favour. However, they are not clear how to formulate right strategy for the Jazzy Wear.
a) If you are appointed as strategic consultant by the Jazzy Wear, how you would explain their top managers the process of strategy formulation.

b) Discuss the nature of strategy for both the companies.
CHAPTER : 9 CHECK YOURSELF

OBJECTIVE QUESTIONS
Correct/incorrect with stating reasons

(i) Tele-shopping is an instance of direct marketing.
(ii) Successful businesses have to recognize different elements of environment.
(iii) A strength is an inherent capacity of an organization.
(iv) Socio-cultural environment consists of factors related to government and politics.
(v) Strategies provide an integrated framework for the top management.
(vi) SWOT analysis merely examines internal environment of an organization.
(vii) Growth share matrix is popularly used for resource allocation.
(viii) Corporate strength is an inherent capacity of an organization.
(ix) Socio-cultural environment consists of factors related to government and politics.
(x) Divesting a major product line or market in an organization can be termed as retrenchment strategy.
(xi) Skimming means maintaining price very low.
(xii) Primarily, strategy formulation is an operational process and strategy implementation is an intellectual process.
(xiii) Supply chain management is conceptually wider than logistic management.
(xiv) “Profit may not be a universal objective but business efficiency is definitely an objective common to all business”.
(xv) Under BCG wildcat stands for Cashcows.
(xvi) Communication and strategic management has no relation/impact on one another.

DESCRIPTIVE QUESTIONS

(1) Can a change in the elected government affect the business environment? Explain.
(2) What is a mission statement?
(3) What are forward and backward integration?
(4) What is meant by retrenchment strategy?
(5) Growth phase of product life cycle.
(6) What are the various bases on which an existing firm can diversify strategically?
(7) Briefly discuss various elements of micro environment.
(8) Discuss in brief the contribution of Glueck and Jauch in generic strategic alternatives.
(9) What is Benchmarking? What are the areas where benchmarking can help.
(10) Explain in detail the various stages of corporate strategy formulation/implementation process.
(11) Briefly discuss the difference between vision and mission.
(12) Explain in detail the term corporate strategy with its characteristics.
(13) Describe in detail the SWOT analysis. What is its significance in organizations?
(14) Write an explanatory note on strategic business units.
(15) Explain the concept of value chain analysis.
(16) What is strategy implementation? How far it is different from strategy formulation?
(17) Discuss in detail the two main styles of strategic leadership.
(18) Briefly discuss various elements of macro environment.
(19) What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?

(20) What are two pricing policy and under what situation it is adopted?

(21) What are the methods of evaluating the worth of business?

**SHORT NOTES**

a) What is strategic decision making?

b) What is strategic vision?

c) Define Total Quality Management.

d) What do you mean by core competencies?

e) Define competitive advantage.

f) Discuss network structure.

g) How internet has helped business?

h) What is six sigma?

i) Does HRM function play a role in organizational strategy?

j) Define Benchmarking.

k) What is Total Quality Management (TQM)?

l) Define Demarketing.

m) What is meant by retrenchment strategy?

n) Experience or learning curve.

o) Stages of product life cycle.

p) Explain Balance Score card.

q) Themes of six-sigma

**DISTINGUISH BETWEEN**

a) Forward and backward integration.

b) ‘Shared vision’ and ‘Vision shared’.

c) Cartelization and Kieretsus

d) Intensification and diversification

e) Forward and backward integration and linkages
CHAPTER 10: PREVIOUS TERM QUESTIONS

November - 2009

Answer all Questions

6. State with reasons which of the following statements is correct or incorrect:
   (a) A business, even if it continually remains passive to the relevant changes in the environment, would still grow and flourish.
   (b) A corporate culture is always identical in all the organizations.
   (c) There is both opportunity and challenge in 'Change'.

7. (a) Discuss the relevance of Tows Matrix in strategic planning process.
   (b) State the points that may be considered while writing a mission statement of a Company.

8. What are the five competitive forces in an industry as identified by Michael Porter? Explain.

9. What is Six Sigma? How is it different from other quality programs? Explain in brief themes of Six Sigma.

10. Question based on case study (Given on Chapter 5)

May-2010

Answer all Questions

6. State with reasons which of the following statements is correct or incorrect:
   (a) Globalization means different things to different people.
   (b) Production strategy implements, supports and drives higher strategies.
   (c) Benchmarking and Business Process Reengineering are one and the same.

7. Briefly answer the following:
   (a) Need for Turnaround Strategy
   (b) Grand Strategy Alternative during Recession
   (c) 'Shared Vision' and 'Vision Shared'.

8. (i) What tips can you offer to write a 'right' Mission Statement?
   (ii) An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

<table>
<thead>
<tr>
<th>Product</th>
<th>Revenues (in Rs.)</th>
<th>Percent Revenues</th>
<th>Profits (in Rs.)</th>
<th>Percent Profits</th>
<th>Percentage Market Share</th>
<th>Percentage Industry Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>48</td>
<td>6 crores</td>
<td>120 lakh</td>
<td>48</td>
<td>80</td>
<td>+ 15</td>
</tr>
<tr>
<td>B</td>
<td>32</td>
<td>4 crores</td>
<td>50 lakh</td>
<td>20</td>
<td>40</td>
<td>+ 10</td>
</tr>
<tr>
<td>C</td>
<td>16</td>
<td>2 crores</td>
<td>75 lakh</td>
<td>30</td>
<td>60</td>
<td>- 20</td>
</tr>
<tr>
<td>D</td>
<td>5</td>
<td>50 lakh</td>
<td>5 lakh</td>
<td>2</td>
<td>5</td>
<td>- 10</td>
</tr>
</tbody>
</table>

Total 12.5 crores 100 250 lakh 100

9. Michael E. Porter has suggested three generic strategies. Briefly explain them. What is the basic objective to follow a generic strategy? In what situations can the three Strategies be used? Identify the type of strategy used in the following examples:
   (a) Dell Computer has decided to rely exclusively on direct marketing.
   (b) "Our basic strategy was to charge a price so low that microcomputer makers couldn't do the software
internal for that cheaply."

(c) "NDTV", a TV Channel has identified a profitable audience niche in the electronic media. It has further exploited that niche through the addition of new channels like 'NDTV Profit' and 'Image'.

10. Read the following case and answer the questions given at the end:

Subhiksha (prosperity in Sanskrit) began with a single grocery store at Chennai in 1997. Subhiksha stores increased from 50 in 2000 to 140 by 2002-03 (spread across 30 towns in Tamilnadu) to 670 by 2006-07 to 1650 by September, 2008. Its early success was due to its business model based upon no-frills/deep discount and high level of neighborhood focus. Its decision in 2004 to go national from a regional player at a rapid pace proved wrong. With the growing ambition to go national, focus shifted from value to customers to creating valuation for self. The company had recruited all the employees to foray into consumer durables also. Its revenue increased from Rs. 278 crores from 140 stores in 2005 to Rs. 2305 crores in 2008 with a capital base of Rs. 32 crores. Subhiksha's profit after tax for 2007-08 was Rs. 41 crores. It had invested heavily, largely using debt, and paybacks took longer than expected. Repayment of debt had no relationship to cash flow. In the end the company had liabilities of Rs. 900 crores.

Around January, 2009, the company had started to shut down stores pan-India and in February, the top management quit the firm, not just because it defaulted on rentals of its outlets and salaries since October, 2008. Today all the stores are closed. Major suppliers had stopped supplies after it defaulted on payments. It asked its employees to take home groceries; and go on leave without pay. Many employees did not get their salaries. Initially the company was confident to restructure and remain in business. Indian retail industry comprises of 12 million mom-and-pop stores and kirana stores (many of whom have also started innovating) and unknown number of hawkers in the unorganized sector working on small-sized stores and with low or no rentals and salaries and the organized retailers (market share not more than 5%).

The emergence of a large young population and a growing middle class with strong disposable incomes and credit card culture are the drivers of the organized retail, a mix of two types - ones going in for huge expansion announcements and others following "slow and steady wins the race strategy". The industry operates not on a very hefty margin. The yearly top-line growth is likely to remain around 10-15% as against forecasted 35% this year. Compared with players like Pantaloon, Reliance, More, RPG and even Nilgiri's (which has private equity funding), Subhiksha has no large group's backing (except Shri Azim Premji having 10% stake). The strategy was to raise more debt and keep equity low. During 2006, Subhiksha had a good chance to make an initial IPO or raise private equity money, but it was in quest of creating higher valuations. Suddenly retail was no longer so hot and the capital tap had gone dry. Due to inability to raise more debt, working capital was diverted to expand. Many of the organized retailers have survived the downturn through transformation in their strategies and tactics. However, one thing is certain that footfalls have declined for the organized retail.

Debt-ridden retailer Subhiksha Trading Services Ltd. has begun its second innings in February, 201 0, with the launch of its first cash-and-carry store (the board outside the outlet reads Subhiksha Maligai Arisi Mandi) in Thiruvanmiyur in Chennai - at its first ever retail outlet. "Subhiksha's model will be different this time around and will not directly engage with customers," said an industry source.

Questions:

(a) "To understand the nature of competition certain questions need to be answered." What those
questions are? (3 Marks)
(b) Who were the competitors of Subhiksha? Do you think they were better equipped than it? (5 marks)
(c) What, where and how the business strategy of Subhiksha might have gone wrong? (4 marks)
(d) If you were the strategy consultant to the Organized Retailers Association of India what will you advise to control the cost and convert the threat of dropping footfalls and declining sales into an opportunity? (6 marks)
(e) How is a Cash-and-carry store different from a Retail store? Name any other such Cash-and-carry store in India. (2 marks)

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Answer all Questions

8. Read the following case and answer the questions given at the end:

Godrej, still managed by a family board, is a 113-year-old brand and has a great brand value. But younger generation's reaction has been - "it's my parents' or my grandparents' brand. Hence the Group launched a rebranding exercise in 2008, the most visible part being a new logo, uniform across all group companies. It has well diversified businesses - cyclical (property: owning 3000 acres in Mumbai's Vikhroli alone, Ahmadabad, Pune and Kalyan), stable (fast moving consumer goods), rural (Agrovat stores) and urban (organised retail stores-Nature's Basket, domestic appliances and furniture). The group sells fatty acids to tyre manufacturers; animal feed to 1, 00,000 farmers; and premium wine in Mumbai and Delhi. Its customers range from five-year olds (nutrine), ageing man (hair dye), to housewives (soaps & locks), IT companies (renting sprawling spaces), to Government of India (like rockets for Chandrayan), and to 50,000 barbers (Godrej dye). But it abstains in new-age, sunrise industries like health care and information technology. Godrej Consumer Products Limited (GCPL) has adopted a '3 by 3' strategy, sticking to emerging markets in three regions - Asia, Africa and Latin America as their culture, tastes and even skin colours are quite similar to India and in three categories-personal care, hair-care and insecticides. Since 2005, GCPL has made seven acquisitions, including its biggest acquisition of Indonesia's Megasari Group for Rs. 1200 crores, in 2010. "Acquisitions overseas add status and pedigree to brand-owners in the domestic market" says an expert. Prashant Goenka (Emami) questions "When Indian companies such as Dabur, Godrej and Marico can make it big in international markets, why can't Emami?" Anil Chug (Wipro) says, "By having a presence in multiple markets our risk assessment neutralized". Marico's Harish opines- "the global play has helped Marico expand its footprint and given it another avenue for growth."

Recently Godrej's top honchos toured the hinterlands, an indicator of the renewed focus on consumer. To reach out to new customers, especially in rural India, it has gone in for destructive innovation. The group has been manufacturing refrigerators for more than 50 years, but its penetration has been only 18%. It found out that people do not need a 180 liter fridge due to space and cost constraints. It came out with 'Chotukool' - a square 45 liter minifridge priced at just Rs. 3,250. Another example of destructive innovation is the launch of 'U & Us' - a 'by appointment' design studio where customers co-design their furniture as customers see furniture as an extension of their personality. Thus Godrej group is transiting from manufacturing-oriented to consumer oriented.

Questions:
(i) What are the strengths of Group Godrej? (3 marks)
(ii) What are the weaknesses of Group Godrej? (3 marks)
(iii) What is the Group Godrej's perception with regard to innovation and consumers now? (3 marks)
(iv) Why do firms go global? (6 marks)

9. (a) State with reasons which of the following statements is correct or incorrect.
   (i) Not-for-profit organizations are not required to have a strategy. (2 marks)
   (ii) Control systems run parallel with strategic levels. (2 marks)

(b) Fill in the blanks in the following statements with the most appropriate word:
   (i) "In the factory, we make cosmetics. In the drugstore, we sell ____________
   (ii) Product Life Cycle portrays the distinct ____________ in the sales history of a product.
   (iii) Vision is always ____________ oriented. (3 x 1 = 3 marks)

10. Explain the meaning of the following strategies and also give suitable examples (one each): (7 marks)
   (i) Forward Integration
   (ii) Backward Integration
   (iii) Horizontal Integration
   (iv) Conglomerate Diversification
   (v) Divestment
   (vi) Liquidation
   (vii) Concentric Diversification

11. (a) Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options. (4 marks)
   (b) To which industries the following development offers opportunities and threats? 'The number of nuclear families, where husband and wife both are working, is fast increasing. (3 marks)

12. "The growing use of the internet by businesses and consumers is changing the competitive scenario."

Identify the characteristics of the E-commerce environment doing so. (7 marks)

13. Distinguish between the following:
   (a) Top-Down and Bottom-Up Strategic Planning. (4 marks)
   (b) The Three Levels of Strategy Formulation. (3 marks)

14. Write short notes on the following:
   (a) Network structure (4 marks)
   (b) Elements of Marketing Mix. (3 marks)