CA Intermediate
(New Syllabus)

1FIN
BY INDIGOLEARN

Paper-6B

Strategic Management
(SM)

2nd Edition

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CA Inter May-23

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CA Inter Dec-21

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What Our Students have to Say....

Aman Mahajan (CA AIR 19)

I really liked your classes, especially the practical linkages explained with amazing graphics. The full subject test serieshelped a lot in improving my writing speed and presentation skills.

Sundar Sri Renganathan B (AIR 33)

I took Accounting from IndigoLearn and the classes were really good. They emphasized on conceptual clarity over getting things done quickly, which is really vital to score good marks in practical papers. Other resources like Notes, Quizzes and Forum was beneficial too.

Dwarakesh

Thank you IndigoLearn team for the guidance and support throughout the past few months. I had great conceptual clarity in all the subjects and the revision classes by Suraj Sir were very helpful. Study planner and Free resources were very useful. Thank you Team IndigoLearn.

Yug Manoj Kumar Bhattad

I have cleared my CA Foundation examination with the total of 286. And this was not possible without the efforts and support of IndigoLearn. The way of teaching with utmost conceptual clarity is the best thing at Indigolearn.

Prakash Bhatt

Superb, one stop solution for All CA and Accountancy students they serve real Education at very very reasonable price

Naveen Kumar S

Good experience, unlimited views helped a lot in last one month preparation. Looking forward for

Bhagyasree Chougule

It was only because of Indigolearn that my concepts became very clear, and I was able to crack the exam. I wasn't 100% prepared I needed more practice but luckily I got through. I'm definitely choosing IndigoLearn for group 2 preparation. A big thanks!

Mohd Thayyab

Theoretical subjects made easier through story based examples and charts. Concept clarity 100%. Fully exam+practical oriented classes will help not only to retain the concepts during exams but for the longer duration.

Lalit Chetan Sanpal

Indigolearn has been fantastic and brilliant. Helped me alot in my preparations. I cleared both the groups in first attempt with your brilliant classes and notes. Thanks to all the faculties, coordinators, forum admins and everyone at Indigolearn. Really grateful. Will go for CA Finals at Indigolearn For sure. Thank you so much Indigolearn.

#StudentFirst

Abishek M

I'd like to thank IndigoLearn for all the support they've provided me with. Modules were great. They were time saving and straight to the point. I extensively used the materials provided before exams, they were so helpful. Also I'd appreciate them for providing unlimited views as I kept looking into the maths modules till the end.

Munnur Nandini Sree

Accounting classes I have taken from IndigoLearn. Now I feel that it's a great choice that I have made (after seeing my result) because only in Accounting I got exemption. Thank you IndigoLearn.

Harshita G

Thank u so much IndigoLearn for your guidance. This is only possible because of u people.... For my finals also my journey will continue with IndigoLearn.

Bharathsha PS

I purchased Economics, IT, FM, EIS and Audit from Indigolearn. All your classes are superb and anyone can easily crack the CA exams. What makes u special is your classes help us to understand the concepts very well.Special thanks to the FM faculty, I studied only 2 chapters in economics,and still managed to score excemption in the 8th paper.

Nayi Mihir kumar

This platform is very helpful in all activity like mcq practise, notes, teaching activities, revisions and the forum interaction with all students which I like the most. If anybody want to clear their exams in first attempt then IndigoLearn is the best platform for them. My all regards to IndigoLearn. Thank you so much.

**Rajalaxmi
CA Inter**

Can't believe I cleared.Sathya Sir, Suraj Sir, Yogita Mam ... thanks to all my faculties. Basically an Eng student with zero accounts knowledge. Thanks IndigoLearn for making me clear in first attempt.

Priyanka Udeshi

All the faculties have excellent knowledge of the subject and deliver it in very crisp & effective manner. Also, quick response at Forums never let any of my doubts go unresolved no matter how small they were. Thank you once again to all the teachers & staff at IndigoLearn!

Naveen Kumar T

It been a great journey with indigo learn team. Thanks to all the facilities and forum friends who support me a lot.

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Index

1. Introduction

This chapter deals with the significance of strategic management. With the increased competition, the management of business has acquired strategic dimensions. All executives and professionals, including the Chartered Accountants, working towards growth of business must possess sound knowledge of strategic management.

Business must win over competition and survive in an ever changing business environment. Strategy plays an important role in helping business achieve their objectives.

Objectives of Strategy/ Strategic Management

- To create Competitive advantage, So that the company can outperform the competitors in order to have dominance over the market.
- To guide the company successfully through all changes in the environment.

2. Concept of Strategy

- 'Strategy' is something that has to do with war and ways to win over enemy.
- Businesses have a set of goals, objectives and mission
- Businesses function in a dynamic and ever-changing environment.
- Strategy seeks to relate the goals of the organization to the means of achieving them. It is the action plan for achieving the long- term goals of an organization.
- Strategies help businesses to reduce the impact uncertainties caused by environment.
- Strategies also help business to gain control over situations [caused by internal as well as external environments] with a long-range perspective.
- Strategies help businesses to secure advantageous position
- Strategies are consciously considered [It doesn't happen on its own]

2.1 Definitions

'Strategy' relates to the ways, the business decides to respond to dynamic and often hostile external forces while pursuing their vision, mission and ultimate objectives.

A long-range *blueprint* of an organization's *desired image, direction* and *destination*
- **what it wants to be,**
- **what it wants to do and**
- **where it wants to go**

Strategy is the *game plan* that the *management* of a business *uses* to take
- **market position,**
- **conduct its operations,**
- **attract and satisfy customers,**
- **compete successfully, and**
- **achieve organizational objectives .**

Strategy is **consciously considered and flexibly designed scheme** of corporate intent and action
- to mobilise resources,
- to direct human effort and behaviour,
- to handle events and problems,
- to perceive and utilise opportunities, and

- to meet challenges and threats for corporate survival and success.

A unified, comprehensive and integrated plan designed to assure that the basic *objectives of the enterprise are achieved.* - William F. Glueck

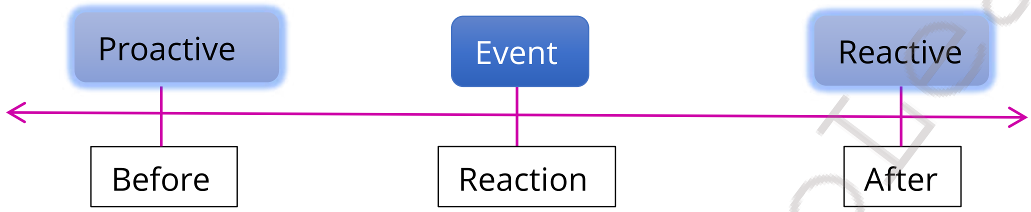
The common thread among the organization's activities and product-markets that defines the *essential nature of business that the organization has or planned* to be in future. - Igor H Ansoff

2.2 Goals and objectives

- Objectives and goals do not provided direction to organizations.
- An organization needs direction and focus.
- Strategy provides a sense of direction to achieve goals and objectives.

2.3 Strategies are both Proactive and Reactive

A company uses both proactive and reactive strategies to cope up the uncertain business environment.



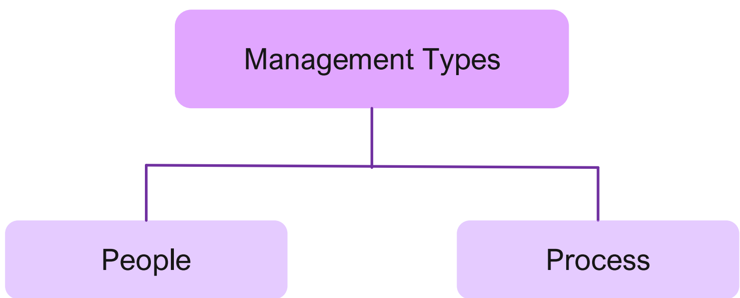
Proactive Strategy	Reactive /Adaptive Strategy
Proactive actions on the part of managers to improve the company's market position and financial performance	***Reactions*** to unanticipated developments and fresh market conditions
Developing new strategy instead of improving existing	It is responsive to new learnings (improvements to existing strategy)
Proactive strategy is planned strategy	Reactive strategy is adaptive

Exam Tip : Strategies are partly proactive and partly reactive.

2.4 Characteristics of Strategy

- Managers formulate organizational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes in the environment.
- Strategy is not a substitute to management.
- Strategies are flexible and require intervention of management to respond to the changing environment.
- Strategies are not perfect or flawless.
- A sound and alert management is necessary to execute the best of strategies

3. Concept of Management



What?	A Group of People	Set of Inter related functions and processes carried out by the management
Purpose	To make an organization a purposeful entity	To attain organisation objectives
How?	By bringing together and integrating resources like money, material, manpower, machinery, tech etc.	Performing functions like planning, organising, directing, staffing and controlling
Importance	To determine goals, mobilize resources, design organization, allocation of tasks and achieving the objective	To attain organization objectives

4. Strategic Management

4.1 Understanding Strategic management

Companies can operate successfully by creating and delivering superior value to target customers by

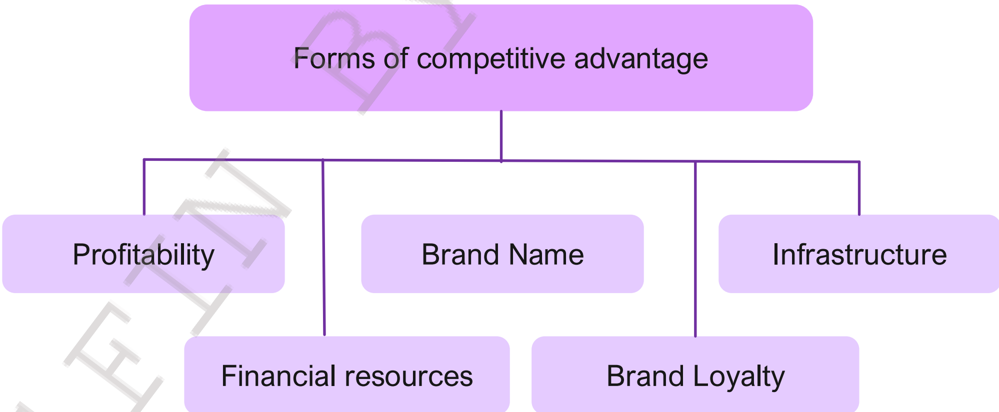
- Adapting to continuously changing business environment
- Catering and delivering to targeted customers
- Developing a long-term strategy

Strategic Management – A managerial process of developing ***Strategic vision, setting objective, crafting strategy, Implementing*** the strategy, ***evaluating*** strategy and ***Initiating corrective adjustments*** where deemed appropriate

- Accommodating effects of changes and developments expected into the strategy

4.2 Importance of Strategic Management

- Help organisation to develop core competencies and competitive advantages
- Helps them in working with the and changing environment and shaping it



4.2.1 Definition

Strategic management – "Strategic management involves developing the company's ***vision***, ***environmental scanning*** (both external and internal), strategy ***formulation***, strategy ***implementation*** and ***evaluation*** and ***control***".

4.2.2 Need and importance of Strategic Management

- It gives a direction to the company to move ahead.
- It defines the goals and mission.
- It helps organisations to be proactive instead of reactive in shaping its future.
- It helps management to define realistic objectives and goals which are in line with the vision of the company.
- Provides framework for all major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure.
- It seeks to prepare the organisation to face the future.
- Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- It serves as a corporate defence mechanism against mistakes and pitfalls.
- It helps organisation to avoid costly mistakes in product market choices or investments
- It helps the organisation to develop certain core competencies and competitive advantages that would facilitate assist in its fight for survival and growth.
- It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- They are able to control their destination in a better manner.
- It helps to enhance the longevity of the business.

Memory Technique

C,	**C**ore competencies / Competitive Advantage
L	**L**ongevity
A	**A**voiding mistakes
P	**P**roactive
O	Looking at **O**pportunities
D	Providing **D**irection
D	**D**ecision Making

4.3 Limitation of Strategic Management

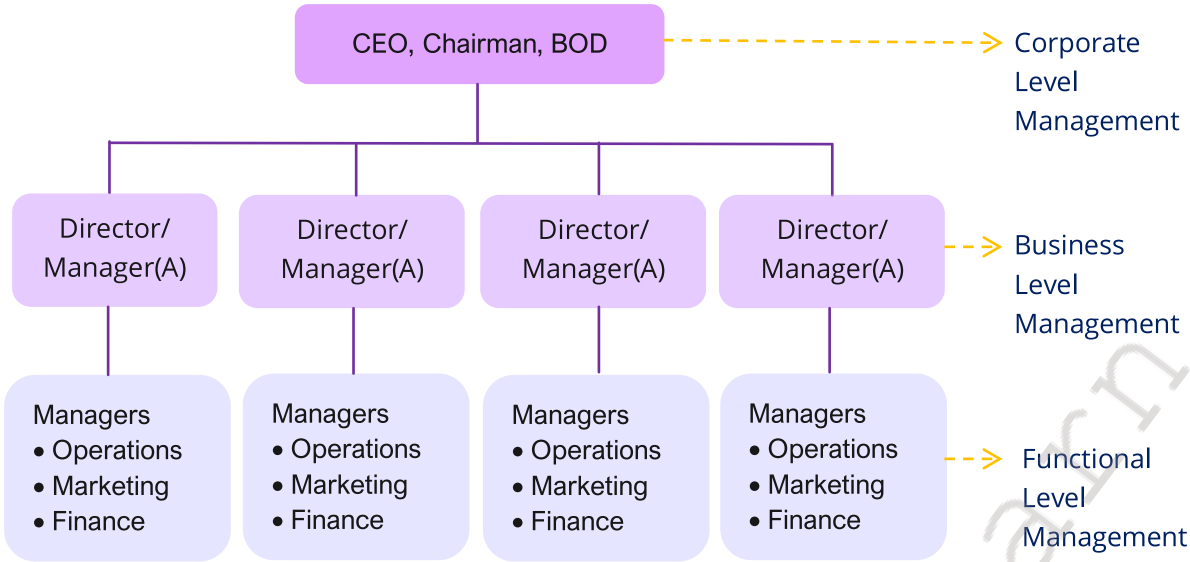
- Environment is highly complex and turbulent – The environment affect as the organisation must deal with, suppliers, customers, governments and other external factors
- It is a time-consuming process – Organisations spend lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business
- It is a costly process – Expert strategic planners need to be engaged
- Competitive responses to strategy - All trying to move strategically and makes difficult to estimate the competitive response to organization strategy.

5. Strategic Levels in an organisation

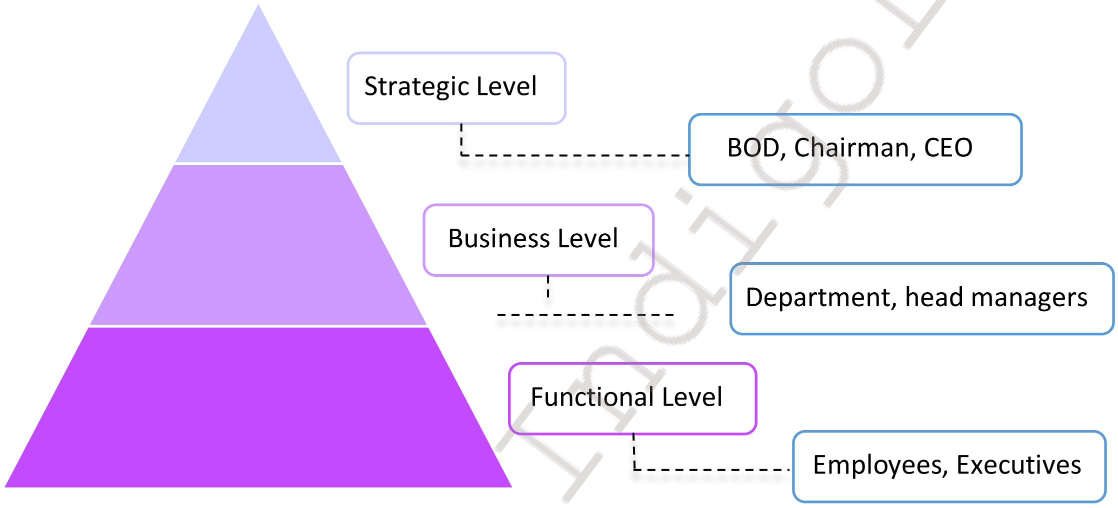
5.1 Levels in an organisation

Corporate level management gives an overall direction and strategy for the company / organisation as a whole. Bussiness level management are responsible for implementing the corporate strategy in each business within the company. Functional level is responsible for executing various functions like marketing, finance, operations etc.

For e.g. The corporate level chooses the strategy for ITC as a whole. Business level management chooses strategy for each business like tobacco, paper, hotels etc. Functional level takes decision for each function within a business.



5.2 Managers at different levels



5.3 Role played by managers at each level

	Board of Directors CEO, Chairman	Department / Business Heads, General Managers	Managers / Employees, Executives
Role	Oversee the development of strategies for the whole organization	Translate the general statement of direction and intent that come from corporate level into concrete strategies for individual business	Responsible for specific business functions or operations like marketing.
Activities	Set Vision, Defining Mission, Deciding businesses to be in, allocating resources among different Business, Formulating and implementing strategies, providing leadership, Managing divestment and acquisition processes.	Setting goals, Design strategies, implementing strategies for particular product line in align with Corporate stratey.	To develop functional strategies in their area that help fulfil the Strategic objectives set by business and corporate level general Manager.

5.4 Strategic Business Unit (SBU) – Definition [More on this in organisational structure]

Strategic Business Unit (***SBU***) – A ***self-contained division*** (with its functions like finance, purchasing, production and marketing departments) that provides a product or service for a particular market

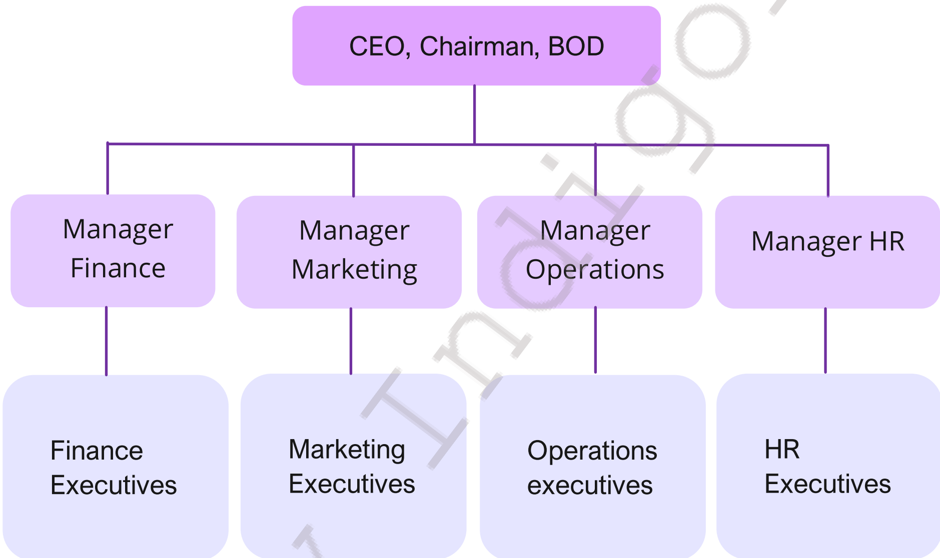
5.5 Network of relationship between the three levels

There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;

Functional and Divisional Relationship: It is an independent relationship, where each function or a division is run independently headed by the function/division head, who is a business level manager, reporting directly to the business head, who is a corporate level manager.

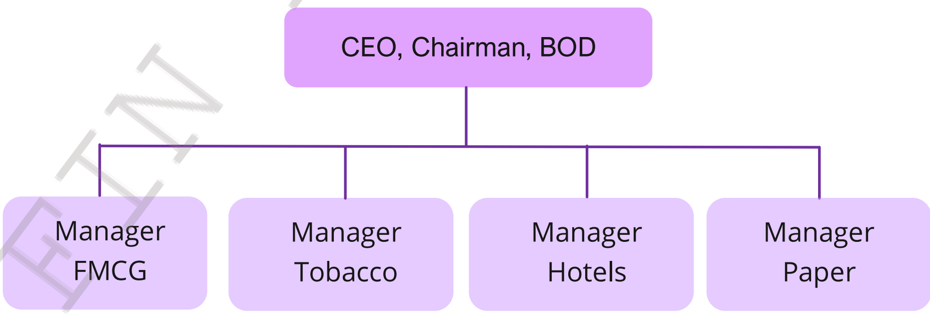
- Functions – Finance, Human Resources, Marketing, etc
- Divisions depend on the products

Example of a Functional Relationship



Various products may be handled by operations manager.

Divisional



Each Division may have functional divisions within them

Horizontal Relationship: All positions, from top management to staff-level employees, are in the same hierarchical position. It is a flat structure where everyone is considered at same level. This leads to openness and transparency in work culture and focused more on idea sharing and innovation. This type of relationship between levels is more suitable for startups where the need to share ideas with speed is more desirable.

Matrix Relationship: It features a grid-like structure of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects. This relationship helps manage huge conglomerates with ease where it is nearly impossible to track and manage every single team independently.

In Matrix relationship - there are more than one business level managers for each functional level teams. It is complex for smaller organisations, but extremely useful for large organisations.

	Finance Manager	Production Manager	Marketing Manager	Operations Manager
Project A Manager	Finance Executives	Production Executives	Marketing Executives	Operations Executives
Project B manager	Finance Executives	Production Executives	Marketing Executives	Operations Executives

In a matrix structure there is a dual reporting structure. For e.g. finance executives would report to both finance manager and project managers. Matrix structures can be used in companies like construction companies where multiple construction projects are executed. Matrix structures can also be used in multinational companies where dual reporting (locally as well as internationally) is required.

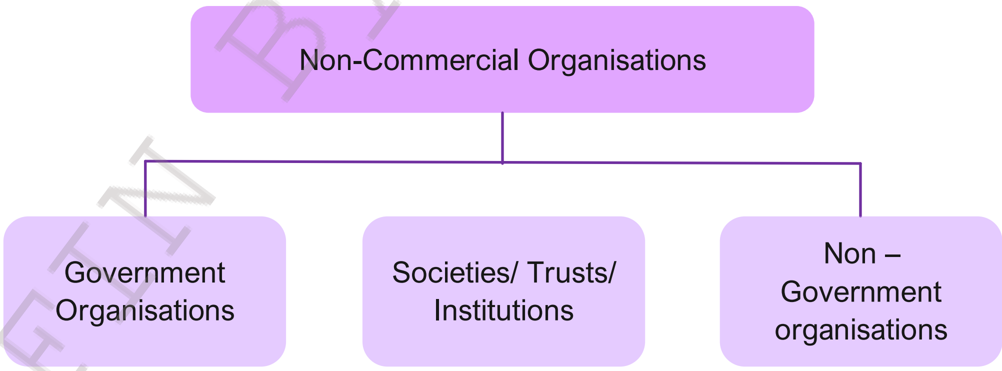
6. Strategic management in Government and Not-for-profit Organisations

6.1 Not for profit organisations

An organisation which starts with a purpose of social, charitable and educational objective, is called a Not for profit organisation or Non-commercial organisation

- Not having commercial objective of making profit and
- have a social welfare objective.
- They are service oriented.

6.2 Types of Non-commercial organisations



6.3 Strategic Management for Non-commercial Organisations

Some of the Non-Commercial organization majorly have no competition.
Example Indian Railway

- Then why is Strategic management required:
  - To improve operational efficiency
  - To minimize costs and reduce burden of subsidies.
  - To expand the service to public.

- To Justify the needs for Financing.

6.3.1 Educational Institutions

- Require Strategy to attract best student and to get Competitive advantage.
- The motive is not to make profits but to attract best students who get placed rightly and get best career opportunities.
- For Example: IIMs. IIMs also have strategic management. Firstly, IIMs provide only 2-year MBA programme but now IIMs have 1-year program as well to match the competition. IIMs change the structure of programmes and introduce new programme in order to fulfil the demands of students and corporates.
- With changes in technology online education is overtaking traditional education system.

6.3.2 Medical Organization :

- New strategies to provide more value to patients like door to door sample facility, monitoring at home etc.
- Backward Integration strategies like waste disposal services, acquiring ambulances, labs etc.
- Internet has changed the way of providing service.
- Diagnosis and treatments using internet and robotics/computers.
- Distance counselling

6.3.3 Government agencies and department:

- Develop strategy to use taxpayer money in most cost-efficient way.
- Although there is no profit motive, but they have Social welfare goals. In order to achieve the goal, they should have a proper direction.
- Strategies required:

    - for effective utilization of fund invested
    - Efficient allocation of resources
    - Systematic development of sector.
    - There is less autonomy in changing the strategies for business as compared to private enterprises.

7. Strategic Intent (Vision, Mission, Goals, Objectives & Values)

7.1. Strategic Planning

Strategic planning is the process of

- determining ***resources*** required
- to ***attain the objectives*** set for the firm and
- formulation of ***policies***
- to ***govern*** the acquisition, use and disposition of resources

Strategic Planning	Operational Planning
• Long term in nature • Top management • Gives overall direction to the business • Basis or foundation of operational planning	• Short to medium term in nature • Middle or lower management • Restricted to particular SBU or product • Derived from strategic planning

7.2. Strategic Decision Making

Decision making is a ***managerial process*** of selecting the best ***course of action*** out of several alternative courses for accomplishing ***organizational goal.***

Strategic decisions encompass,

- the definition of the business,
- products to be handled,

- markets to be served,
- functions to be performed and
- major policies needed for the organization to execute these decisions to achieve the strategic objectives

- Jauch and Glueck

Major Dimensions of Strategic Decisions

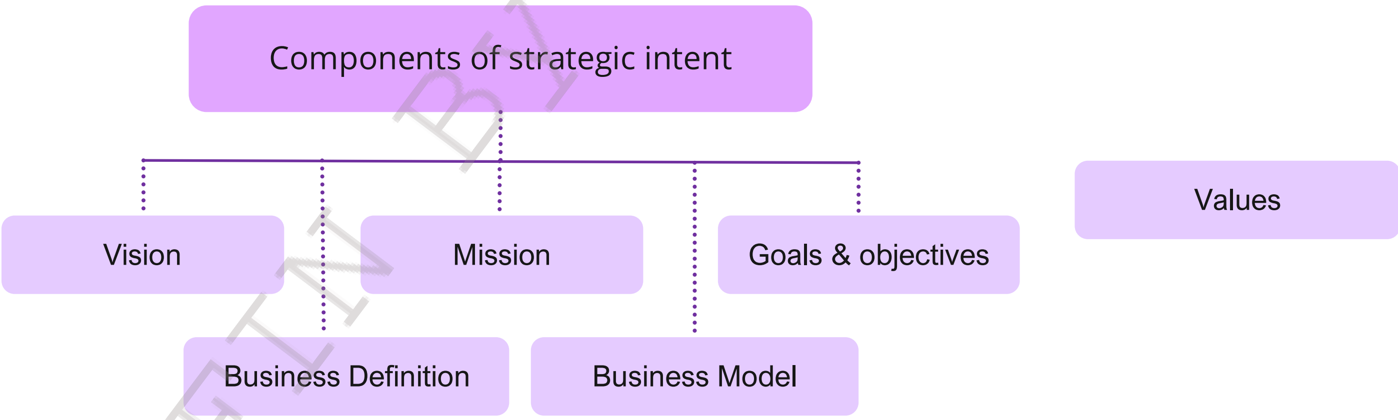
- It requires ***top management*** involvement
- Involves ***commitment*** of organisational resources
- Necessitate consideration of factors in the firm's ***external environment***
- It is likely to have a significant impact on the ***long-term prosperity*** of the firm
- They are ***future oriented***
- They have major ***multi-functional or multi-business*** consequences

Differences between Strategic and Operational decision making

Strategic Planning	Operational Planning
• Done by top management • Requires organizational resources • Long term vision • Affected by external environment • Impacts direction or overall objectives of the company	• Done by middle or lower level management • Short term management • Affected by internal environment • Impacts SBU or product level objectives

7.3. Strategic Intent

- Defines why the company is in ***existence***
- Provides a sense of ***destiny***
- Provides a sense of ***direction***
- Refers to **purposes** that an organisation wants to achieve
- Why they want to do? represents the strategic intent of the firm.



7.3.1. Vision

Strategic vision is a road map of 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.

It represents the blue print of the company's future position and depicts company's aspirations.

Key Elements of Vision

- Answers the question – **where we want to go?**
- Talks about ***future*** state of the company
- It must be ***inspiring***
- Show ***core value*** in some way (expressly or indicative)
- They should be ***bold*** and ***challenging***
- It should be ***creative***, yet ***clear***
- Is usually ***broad*** (though can be specific at sometimes too)
- Creates enthusiasm among members of the organisation

Other aspects

- It is one of the ***first step*** in strategic management process
- Not having a vision or ***lack of clear vision*** would lead to chaos
- It can be ***short and crisp*** or detailed
- It could be specific and ***short term or slightly generic*** and long term
- Either ways, a vision statement should be ***clear and well-articulated***
- It is an exercise in intelligent entrepreneurship

A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

Company	Vision	Mission
	to provide access to the world's information in one click	to organise the world's information and make it universally accessible and useful
	A trans-nationally competitive financial conglomerate of significance to societies and Pride of India	Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development.
	To be world's leading accounting body	To explore and exploit all available and potential opportunities whereby newer avenues for professional development and growth may be assured for the Institute's members.

7.3.2. Mission Statement

- Mission statement talks about "***what business are we in and what we do***"
- It gives the organisation a ***special identity*** by setting apart from the rest
- An ideal mission statement answers the following questions
  - What is the ***ultimate purpose*** of the business?
  - ***What business*** are we in?
  - Do we ***understand*** our business and define it accurately?
  - Whom do we intend to serve? ***Target customers***?
  - What ***human needs*** do we intend to serve through our offer?
  - What is the ***nature of business*** and in future what would the business look like?
- By answering such questions, we get to know
  - What is the ***purpose*** of business?
  - What is the need for the ***existence*** of the business?

- What is the business ***doing currently?*** Vision and mission statements are corelated, yet they are different
- It is an expression of the ***growth ambition*** of the firm
- Acts as ***foundation*** for the network of goals and objectives that the firm builds

Difference

Vision

Where a company wants to be - ***Desired future state***

Mission

Where a company is – The ***current state***

- Importance of mission statement –
  - It tells about the ***purpose*** behind company's existence and how it will achieve its vision
  - Helps in ***allocation of resources***
- Features of mission statement
  - Precise
  - Clear
  - Feasible
  - Distinctive
  - Motivating
- Thus, a mission statement is typically focused on company's present business scope – ***"Who we are and what we do"***. It describes company's present capabilities; customer focus activities and business make up
- The term ***mission*** is often used ***along*** with the word ***purpose***

Importance of mission statement

Why should an organisation have a mission?

- To ensure unanimity of purpose within the organisation.
- To develop a basis, or standard, for allocating organisational resources.
- To provide a basis for motivating the use of the organisation's resources.
- To establish a general tone or organisational climate, to suggest a business- like operation.
- To serve as a focal point for those who can identify with the organisation's purpose and direction.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
- To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled

7.3.3. Goals and Objectives

- When the vision is broken into smaller measurable targets to be pursued in a relatively shorter time frame, they are known as goals and objectives
- While mostly synonymous, sometimes both terms – goals and objectives – are distinguished on some specific aspects by some authors
- Goals are open ended attributes that denote the future outcomes
- Objectives are close ended attributes that are precise, and expressed in specific terms
- However, the terms are used interchangeably in this chapter

- Goals / Objectives are organization's performance targets – the results and outcomes it wants to achieve.
- They function as yardsticks for measuring the organization's progress.
- Thus, there are two perspectives of looking at what 'goals' are:
- **Goals are the targets that the organization wants to achieve, in line with its vision.**
  - E.g.: Vision of a company is to be the best quick service restaurant, providing customers quality food and great experience.
  - Goals towards achieving this vision could be to reduce average waiting time over the next 1 one year by 25% (to become quick service restaurant), keep all outlets clean (to enhance customer experience) etc.
- **Goals work as benchmark to analyse progress and whether the organization is on the right path to achieve its vision.**
  - E.g.: In above example, where the vision is to be the best quick service restaurant, where average waiting time has increased rather than decreasing, it would serve as a check for the organization to alter its planning and take some other steps to move towards its vision.
- Organizational structure and activities are designed around goals and objectives
- The pursuit of objectives is a continuous, unending process

What are the Characteristics of a goal ?

Acronym– **"SMART"**

- They must be clear and ***specific***, not vague
- They should be quantifiable i.e., ***measurable*** in terms of growth, market share, value, money or percentage
- They must be challenging or ***aggressive*** not very easily attainable
- They must be in sync with the vision
- They must be ***realistic*** as in, practical and achievable within the available resources and time considering the present situation
- They must be ***time bound***, meaning, there must be a time factor involved
- They should be ***facilitative*** towards achievement of mission and purpose
- They should provide ***standards for performance*** appraisal
- They should be set ***within the constraints*** of the organisational resources and external environment
- Different objectives should ***correlate*** with each other

Memory Technique

S	**S**pecific
M	**M**easurable
A	**A**ggressive
R	**R**ealistic
T	**T**ime bound

Importance of goals and objectives

provide direction
allow synergy
aid in evaluation
establish priorities
reduce uncertainty
minimize conflicts
stimulate exertion
aid in allocation of resources and design of jobs
provide direction

What is the time frame for setting goals and Objectives -

Target should be set for smaller periods so that it can be reviewed and corrected if there is deviation. Hence, company should have both short-term and long-term objectives.

- **Long-term objectives**
  - represent the results expected from pursuing certain strategies

- usually range from 2-5 years
- established usually in following 7 areas:
- profitability
- productivity
- competitive position
- employee development
- employee relations
- technological leadership
- public responsibility

- **Short-term objectives**
  - can be derived from long-term objectives
  - can sometimes be identical to long-term objectives, especially if the company is already achieving the objective
  - most important situation when short-term differ from long-term objectives is when managers are trying to elevate organizational performance and the long-term objective cannot be achieved in one year. Thus, short-term objective act as steps towards achieving the long-term objective

Areas where goals and objectives can be set

Revenue
Profitability
Earnings per share
Market price per share
Competitive position
Diversification
Corporate social responsibility
Employee development and retention
Productivity and quality
Financial issues

7.3.4. Values

Values in a business and strategic context refer to the guiding principles and beliefs that shape an organization's culture, decision-making, and overall approach to achieving its goals. These values help define the company's identity, influence its strategic choices, and can have a significant impact on its success.

Integrity:	Acting with unwavering honesty and ethics in all actions and decisions, even when no one is watching.
Trust:	Building confidence through consistent reliability and transparent communication in relationships and transactions.
Accountability:	Taking responsibility for one's actions and their consequences, whether positive or negative.
Humility:	Demonstrating a modest and open-minded approach, acknowledging one's limitations and the contributions of others.
Innovation:	Fostering creative thinking and adapting to change to drive progress and solve problems effectively.
Diversity:	Embracing differences in people, perspectives, and backgrounds to promote a more inclusive and enriching environment.
Customer-Care:	Prioritizing exceptional customer service and satisfaction to build long-term relationships and brand loyalty.
Excellence:	Striving for the highest standards in all aspects of the business, from products and services to employee performance and operations.

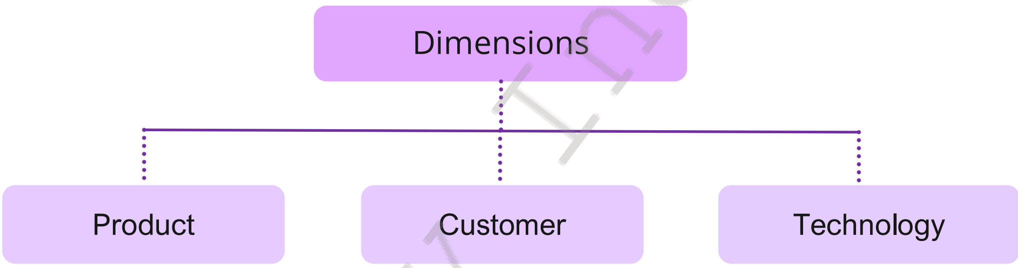
Transparency:	Operating with openness and clarity in communication, decision-making, and business practices to build trust and accountability.
Resilience:	Demonstrating the ability to adapt and recover from setbacks and challenges, ensuring the organization's sustainability.

Why are values important?

- A company's value sets the tone for how the people of think and behave, especially in situations of dilemma.
- It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success.
- Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life.
- Customers prefer to buy products and services from companies that have a purpose that reflects their own value and belief system.
- Values serve as a guiding light during times of crisis or difficult decision-making (e.g during Covid pandemic)
- Values such as innovation and adaptability can foster a culture of continuous improvement

7.3.5. Business Definition

- Explains the business undertaken of the company, hence closely linked to mission statement
- Three dimensions of business definition:



- Thus, it is done in the context of target markets, customer needs and alternative technologies.
- Helps in ascertaining strategic alternatives
- Also aids organizational restructuring

7.3.6. Business Model

- Refers to the manner in which business is run – what assets are owned, what operating costs are incurred, how revenues are earned, how are funds raised etc.
- Different companies in same industry can have different business models

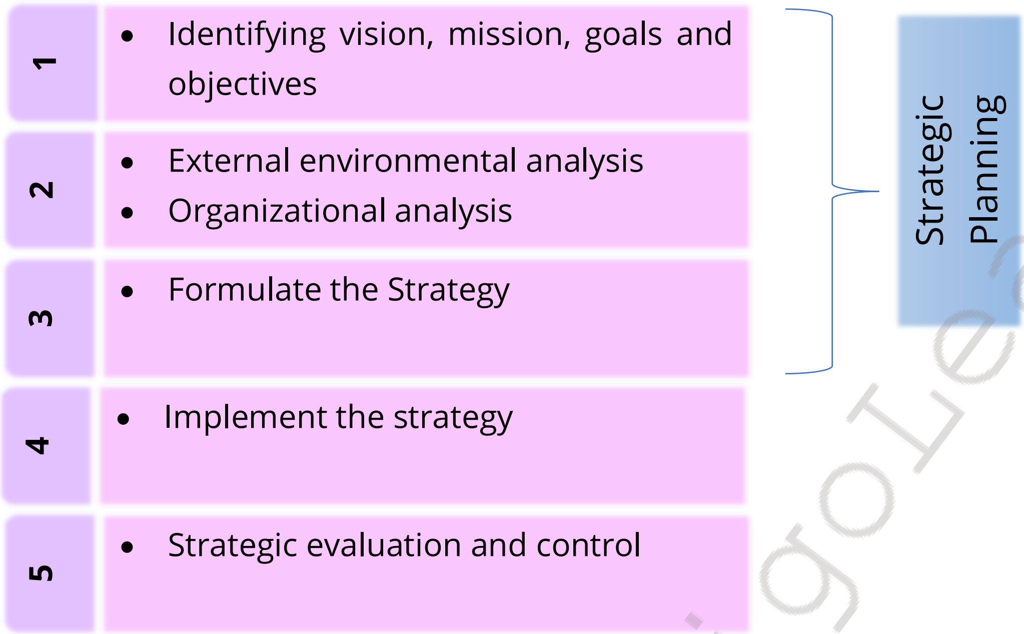
E.g.: For providing taxi on hire to customers, Company A could own the cars and hire drivers as employees to run them. On the other hand, Company B could enter into service arrangements with drivers who own cars and avail their services to provide taxi on hire to its customers.

8. Strategic Management Process

Strategic management is a dynamic process of formulation, implementation, evaluation and control of strategies to realize strategic intent.

A Strategic Management Model lists down all the stages / steps of Strategic Management Process.

8.1 Steps involved in strategic management process



STEP 1 – DEVELOPING STRATEGIC INTENT, i.e. VISION, MISSION, GOALS AND OBJECTIVES

- As a first step in the Strategic Management Process, a company must identify its vision, mission, goals and objectives, as they provide a sense of direction and destination to the company.
- Having a clearly defined strategic intent ensures that all the efforts made by the company and its people are in sync with the intent, thus leading to a coordinated action towards achieving the common goal. It prevents confusion or chaos at all stages.
- It not only helps insiders, but also makes the purpose of company's existence clear to the external environment.
- It serves as the basis for subsequent steps of analysis and strategy formulation, as these steps are undertaken keeping in mind the strategic intent of the company.

STEP 2 - UNDERTAKING ENVIRONMENTAL AND ORGANIZATIONAL ANALYSIS

Next stage is undertaking a diagnosis of various forces that affect a company's working. This involves two types of analysis

- Environmental scanning
  - External environment consists of political, economic, social, technological, legal, competitive, environment factors etc.
  - Such external environment is dynamic and uncertain, and the organization usually has no control over it.
  - Hence, it is important for every organization to analyse the same and logically pre-empt, to the extent possible, the opportunities/ threats that such environment offers / poses.
- Organizational analysis
  - This involves a review of internal environment – financial resources, technological resources, productive capacity, manpower, marketing and distribution effectiveness, research and development, human resource skills etc.
  - Thereafter, a SWOT (strengths-weaknesses-opportunities-threats) analysis is undertaken to help management in decision-making and strategy formulation. [Discussed in detail in Chapter 2]

STEP 3 – FORMULATING STRATEGY

- A list of strategic alternatives is developed in light of the SWOT analysis made by the company.
- Thereafter, a deep analysis of each of these alternatives is done, and the most appropriate alternative is chosen (discussed in detail in Strategy Decision Making above). There could be various strategies like:
  - stability strategy
  - growth or expansion strategy
  - retrenchment strategy
  - combination strategy

  [These strategies are discussed in detail in Chapter 4.]
- Strategy chosen depends upon the vision of the company and results of SWOT analysis.

STEP 4 – IMPLEMENTATION of STRATEGY

- This is the most demanding and time-consuming phase of the strategy management process
- It is in this phase that strategic plans are converted into actions, which then yield results.
- It involves constant endeavours by the organization and its people, in terms of:
  - developing budgets
  - staffing the organization with needed skills
  - keeping employees motivated
  - use best known practices to perform core business activities
  - create a conducive company culture and work environment
  - removing stumbling blocks, addressing issues that arise in the course of implementation of strategies formulated etc.
- Effective implementation of strategy depends upon:
  - clear ***communication*** of strategy chosen to the employees who need to implement the same
  - allocation of ***sufficient resources,*** commensurate with the requirement, to various activities
  - allocation of adequately trained ***skilled manpower***, and if not available, suitably hiring of such manpower
  - ensure that ***policies and procedures align*** with the chosen strategy, and are not in conflict
  - ***effectively managing changes***, as when changes are made, there could be resistance
  - ***Leadership*** skills by top management
  - Adopt ***best practices*** – culture and value system to align with strategy
  - ***Motivated workforce*** is present in the organisation

STEP 5 – EVALUATION AND CONTROL

- It is the final stage in the process – evaluating the company's progress and making corrective adjustments, as required.
- Evaluation -
  - It involves analysing actual vs. targets, and determining gaps or deviations
- Deviations -
  - Reconsidering external and internal factors
- Taking corrective actions -
  - Where the company's performance seems in line with strategy, only smaller updations or fine-tuning to strategic plans would be required.
  - However, where there have been significant disruptions, whether external or otherwise, the organization would need to re-visit its direction and strategy and determine cause-effect relationship with respect to various factors. Thereafter, suitable modifications would need to be made, to the strategy or goals or vision, as the case may be.
- This exercise is an ongoing process and cannot just be annually or semi-annually.

9. Strategic uncertainty and how to deal with it?

Strategic uncertainty refers to the unpredictability and unpredictability of future events and circumstances that can impact an organization's strategy and goals. It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors. Dealing with strategic uncertainty can be challenging and organizations need to have the flexibility, resilience, and agility to quickly respond to changes in the environment and minimize its impact.

To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

How to handle uncertainty?

- Flexibility: Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.
- Diversification: Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.
- Monitoring and Scenario Planning: Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.
- Building Resilience: Organizations can invest in building internal resilience, such as strengthening their operational processes, increasing their financial flexibility, and improving their risk management capabilities.
- Collaboration and Partnerships: Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets and technologies.

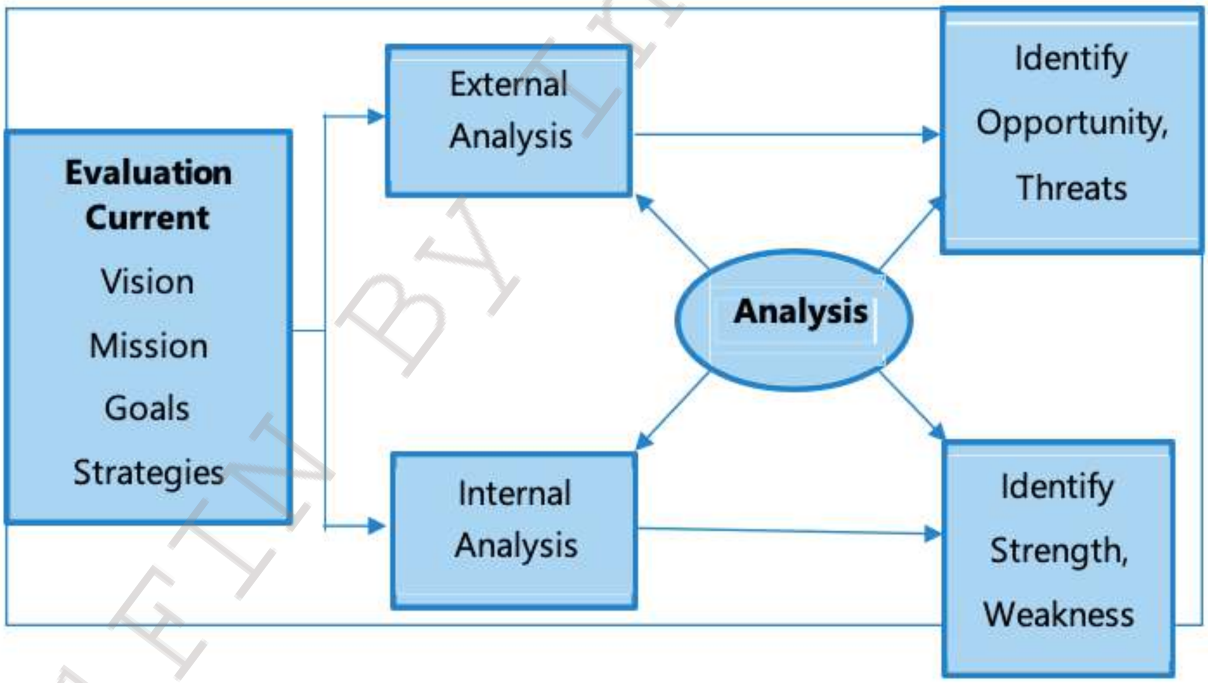
Impact of uncertainty: Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses., a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty.

1. Strategic Analysis

Strategic formulation ***does not involve intuition, opinions, instincts or creative thinking.*** It flows directly from an analysis of firm's external environment & internal resources & capabilities.

The majority of the rapidly expanding organisations use strategic planning throughout various stages of their operations. The strategic analysis is a component of business planning that has a methodical approach, makes the right resource investments, and may assist business in achieving its objective. It forces to think about the rivals and aids in the evaluation of business plans to stay ahead of the competition.

- Two most important situational considerations are-
  - Industry & competitive conditions [Competitive/External environment Analysis]
  - Organization's own competitive capabilities, resources, market position, strengths & weakness [Internal Analysis]
- Accurate diagnosis of the company's situation is necessary for deciding on a sound long-term plan, setting appropriate objectives and crafting winning strategy.
- Without understanding of the strategic aspects of the external & internal environment, the chances are higher that managers will finalise a strategic plan that does not fit the situation well.



1.1. Issues to consider for strategic analysis

1.1.1. Strategy evolves over a period of time:

- Everyday decisions impact and shape the strategy. It doesn't happen on a single day.
- The important aspect of strategic analysis is to consider the possible implications of routine decisions.
- Strategies are a result of a series of small decisions taken over an extended period of time.
- Strategies is influenced by experience and has to be updated when results are seen.

1.1.2. Balance of external & internal factors:

- Matching of internal potentials with external opportunities
- A perfect match as above is not feasible & hence a workable balance between diverse & conflicting decisions is necessary
- (example) There may be pressures driving towards entering a new market but, constraints such as existence of a big competitor may exist
- The impact of these constraining forces may vary in nature, degree, magnitude & importance where some can be managed & several beyond the control of the manager

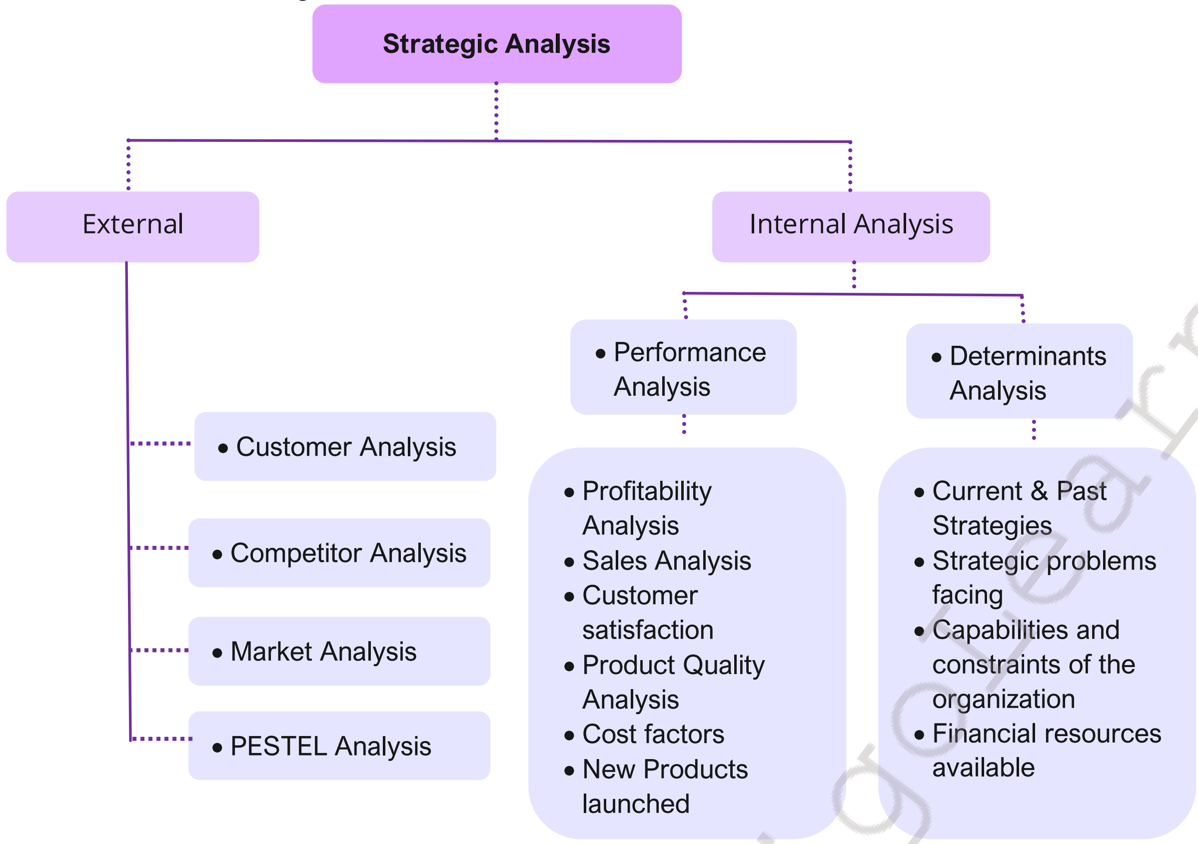
1.1.3. Strategic risks

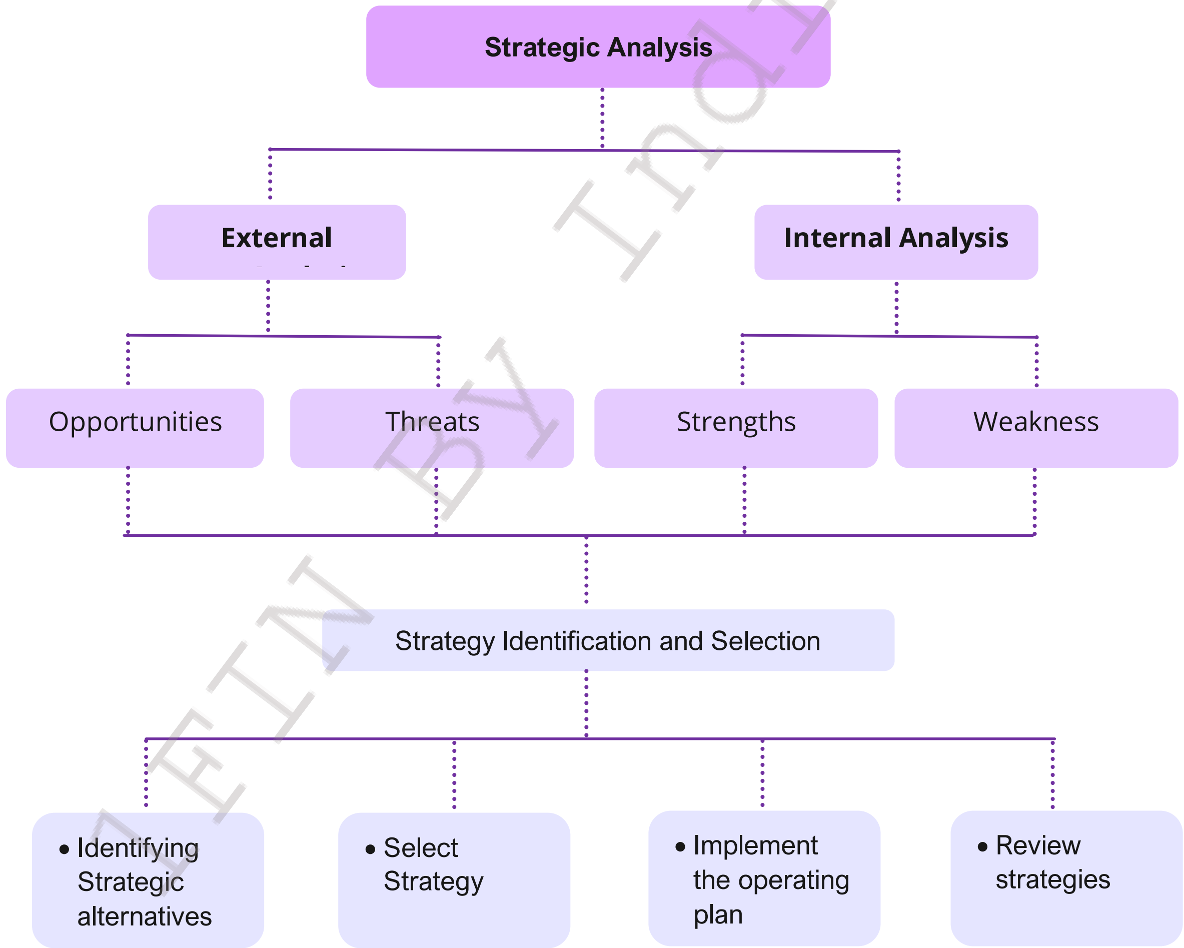
- Every strategy has a certain amount of risk involved in it. It may be Political, Legal, Economic etc.,
- Industries differ widely in their economic characteristics, competitive situations & future profit prospects.
- An important aspect of strategic analysis is to identify potential imbalances or risks & assess their consequences.
- A broad classification of strategic risk that requires consideration in strategic analysis is given below-

	Short - term	**Long - term**
External Risk	Errors in interpreting the external environment	Dynamic nature of business environment leads to the obsolescence of strategy in the Long - run
Internal Risk	Organizational capacity and resources are unable to cope up with strategic demands	Organizational internal capabilities and preferences changes over time, which makes the current strategy redundant or inappropriate

- ***External risk*** is on account of inconsistencies between strategies & the forces in the environment. (opportunities, threats, trends, uncertainties)
- ***Internal risk*** occurs on account of forces that are either within the organisation or are directly interacting with the organisation on a routine basis.
  (strategic strengths, weakness, problems, constraints, uncertainties)

1.2. Summary of Strategic analysis





2. Strategy and Business Environment

- The business environment is highly dynamic & evolving and hence businesses need to find unique strategies to stay competitive & succeed. The external environment affects the internal environment of the firm.
  The objective of a competitive strategy is to –

Generate competitive advantage —Which→ Increase in Market Share —Which→ Beats Competition

- Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals. What is more important is whether the competitive advantage is sustainable.

- A competitive strategy consists of these actions-
- Attract customers
- Withstand competitive pressures
- Strengthen market position

2.1. How does interaction with Environment help business?

Strategic management is involved with choosing a long-term direction in relation to these resources and opportunities. There is a close and continuous interaction between a business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. It helps the business in the following ways:

- Determine opportunities and threats:

  The interaction between the business and its environment would explain opportunities and threats to the business. It helps to find new needs and wants of the consumers, changes in laws, changes in social behaviours, and tells what new products the competitors are bringing in the market to attract consumers.

- Give direction for growth:
  The interaction with the environment enables the business to identify the areas for growth and expansion of their activities. Once the business is aware and understands the changes happening around, it can plan and strategise to have successful business.

- Continuous Learning:
  The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.

- Image Building:
  Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. For example, in view of the shortage of power, many companies have set up captive power plants with their factories to meet their own requirement of power as well as extend surplus capacities in the vicinity. Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs. It creates a positive image and helps it to prosper and win over the competitors.

- Meeting Competition:
  It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

  To flourish, a business must be aware of, assess, and respond to the many opportunities and threats present in its environment. In order to succeed, the business must not only be aware of the numerous aspects of its surroundings but also be able to handle and adapt to them. The business must continuously evaluate its environment and modify its operations in order to thrive and expand.

3. Micro & Macro Environment

The environment in which an organization exists can be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment.

The external environment can be categorised in two major types as follows:

- Micro environment
- Macro environment

3.1. **Micro-environment** is related to small area or immediate periphery of an organization. It influences an organization regularly and directly. Micro environment consists of suppliers, consumers, marketing intermediaries, competitors, etc. These are specific to the said business or firm and affect its working on a direct and regular basis. Within the micro or the immediate environment in which a firm operates we need to address the following issues:

- The employees of the firm, their characteristics and how they are organised.
- The existing customer base on which the firm relies for business.
- The ways in which the firm can raise its finance.
- Who are the firm suppliers and how are the links between the two being developed?
- The local community within which the firm operates.
- The direct competition and their comparative performance.
-

The factors in micro environment often relate an organization to the macro issues influencing the way a firm reacts in the market place. The macro environment is the portion of the outside world that significantly affects how an organisation operates but is typically much beyond its direct control and influence.

3.2. Elements of Macro Environment

Macro environment has broader dimensions consisting of

- economic,
- socio- cultural,
- technological, political and
- legal factors.

The classification of the relevant environment into components or sectors helps an organization to cope with its complexity, comprehend the different influences operating, and relating the environmental changes to its strategic management process.

The external environment of an organisation is made up of all the individuals, teams, organisations, agencies, and factors that it routinely interacts with when conducting business.

3.3. Demographic Environment

Demographics are the characteristics of a population that have been classified and explained according to certain criteria, such age, gender, and income, in order to understand the features of a specific group.

Demographical analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education. Data about these qualities across homes and within a demographic variable are of importance to both businesses and economists. Marketers and other social scientists regularly divide up populations based on their demographic makeup. India has relatively younger population as compared to many other countries. Many multinationals are interested in India considering its population size.

Considering demographics is of immense importance for any business. Business Organizations need to study different demographic factors. Particularly, they need to address following issues:

- What demographic trends will affect the market size of the industry?
- What demographic trends represent opportunities or threats?
-

The size, age distribution, geographic dispersion, ethnic mix, and income distribution of a population are all of great importance to the organisation. Identifying the implications of changing demographic characteristics or population components for a future strategic competitiveness is often a challenge for strategists.

3.4. Socio-Cultural Environment

A general factor that influences almost all enterprises in a similar manner. It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth. It differs from demographics in the sense that it is not the characteristics of the population, but it is the behaviour and the belief system of that population.

Socio-cultural environment consists of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the operations of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.

The core beliefs of a particular society tend to be persistent. It is difficult for a business to change these core values, which becomes a determinant of its functioning. This means, that businesses have to adjust to social norms and beliefs to operate successfully. The social environment primarily affects the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.

3.5. Economic Environment

Economic conditions have a direct bearing over the business strategies. The economic environment refers to the overall economic situation around the business and include conditions at the regional, national and global levels. It encompasses conditions in the markets for resources that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determine the business possibilities. The important point to consider is to find out the effect of economic prospect, growth and inflation on the operations of the business.

The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market, interest rates, disposable income, unemployment, inflation, etc. All these factors generally tell the state of the economy. Whether it is doing good or is it performing poorly.

3.6. Political-Legal Environment

Political-legal environment takes into account elements like the general level of political development, the degree to which business and economic issues have been politicised, the degree of political morality, the state of law and order, political stability, the political ideology and practises of the ruling party, the effectiveness and purposefulness of governmental agencies, and the scope and type of governmental intervention in the economy and industry. It is partly general to all similar enterprises and partly specific to an individual enterprise.

Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business. A business has to consider the changes in the regulatory framework and their impact on the business. Taxes and duties are other critical areas that may be levied and affect the business.

Businesses prefer to operate in a country where there is a sound legal system. However, in any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations. Businesses must understand the relevant laws relating to companies, competition, intellectual property, foreign exchange, labour and so on.

3.7. Technological Environment

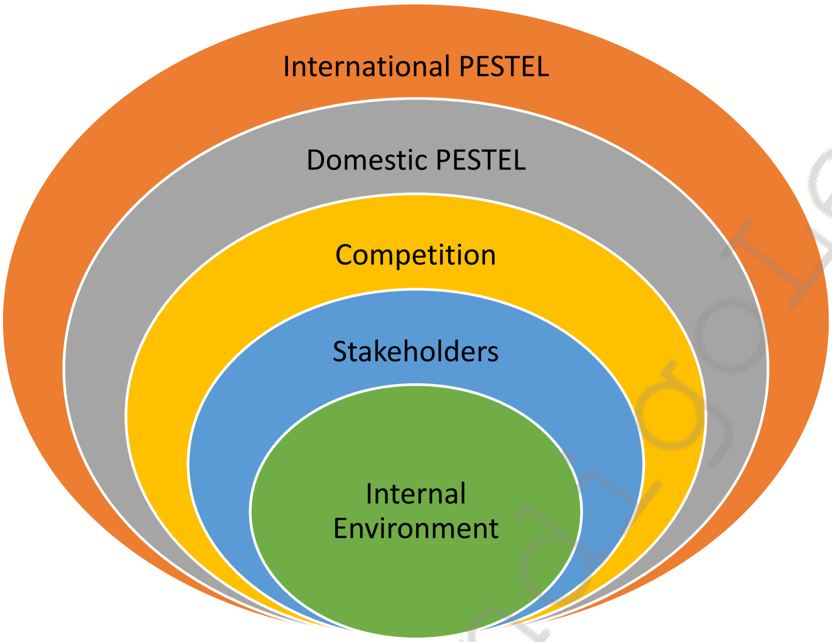
A highly important factor in the present times is technology. Technology has changed the way people communicate and do things. Technology has also changed the ways of how businesses operate now. Technology and business are linked and are interdependent on one another. Businesses help society access the outcomes of technological research and development, raising everyone's standard of living.

As a result, business leverages technology. Businesses use new discoveries to adapt themselves for the advancement of society. Technology has impacted on how businesses are conducted. With use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, are able to coordinate inventories efficiently and effectively. This helps to reduce costs of companies, and shrink time and distance, thus, capturing a competitive advantage for the company.

Technology is leading to many new business opportunities as well as making obsolete most of the existing business products and services. Technology can act as opportunity, when a business effectively adopts technological innovations to their strategic advantage. However, at the same time technology can act as a threat too. Artificial intelligence, machine learning, robotic process automation is some of the new technological tools that businesses are adopting and can act as both opportunity and threat to a business.

1. Business Environment

The business environment refers to the sum of all external and internal factors that influence an organization's operations, performance, and decision-making. These factors play a crucial role in shaping the success and sustainability of a business. Business environments can be categorized into two main components: internal and external.

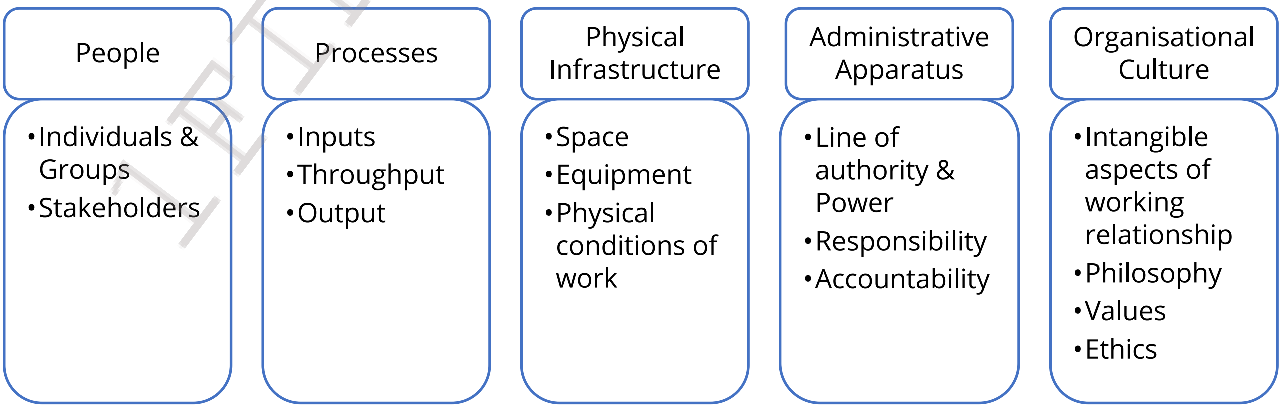


- PESTEL – Political, Economic, Social, Technology, Environment and Legal : These are part of external environment.
- Competition is also a part of external environment

2. Internal Environment

Internal environment refers to the sum-total of

- People
- Process
- Physical Infrastructure
- Administrative apparatus
- Organisational Culture



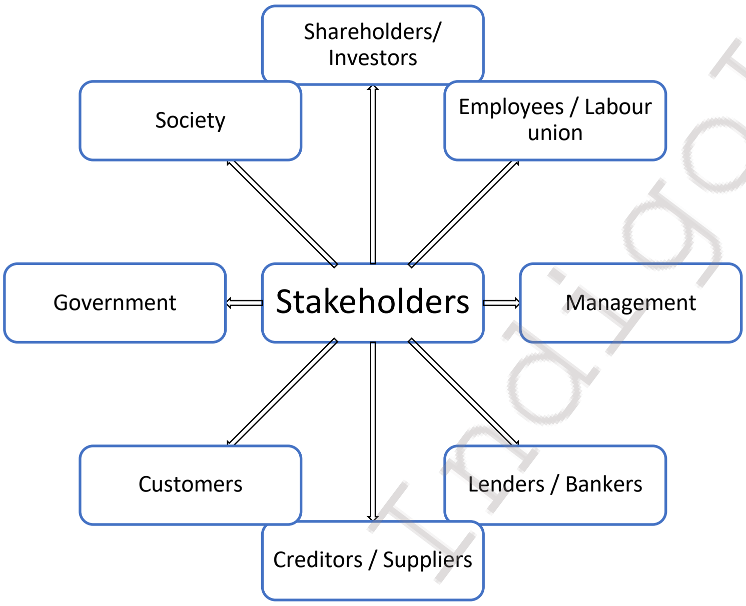
Internal Environment

- is specific to each organisation.
- is based on its structure and business model*
- includes all stakeholders like top management, investors, employees, board of directors, investors, etc.
- involves understanding of the ethics, principles, work environment, employee friendliness, confidence of investors and other philosophical and cultural aspects of business, which aim for the success of the organisation.

** A business model is a strategic framework that outlines how a company creates, delivers, and captures value. It describes the fundamental way in which a business operates and generates revenue.*

3. Stakeholders

3.1. Meaning – Someone who is interested in the organisation

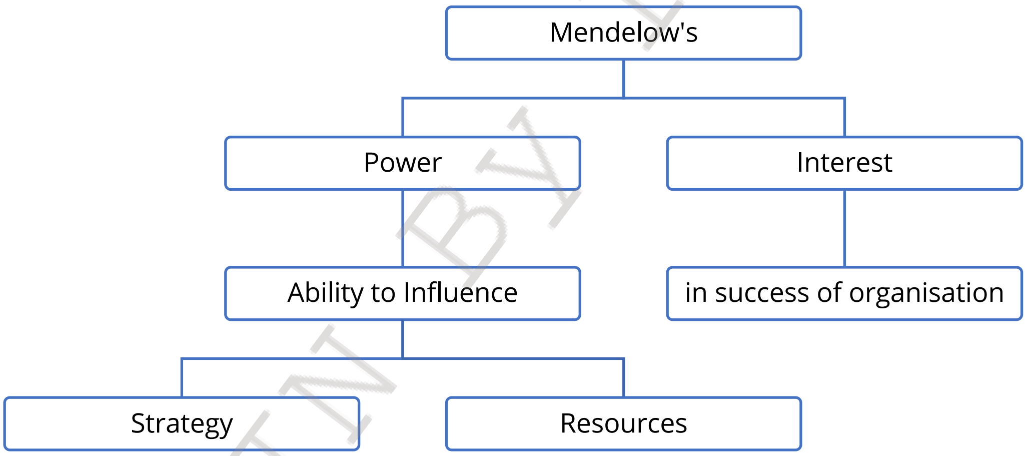


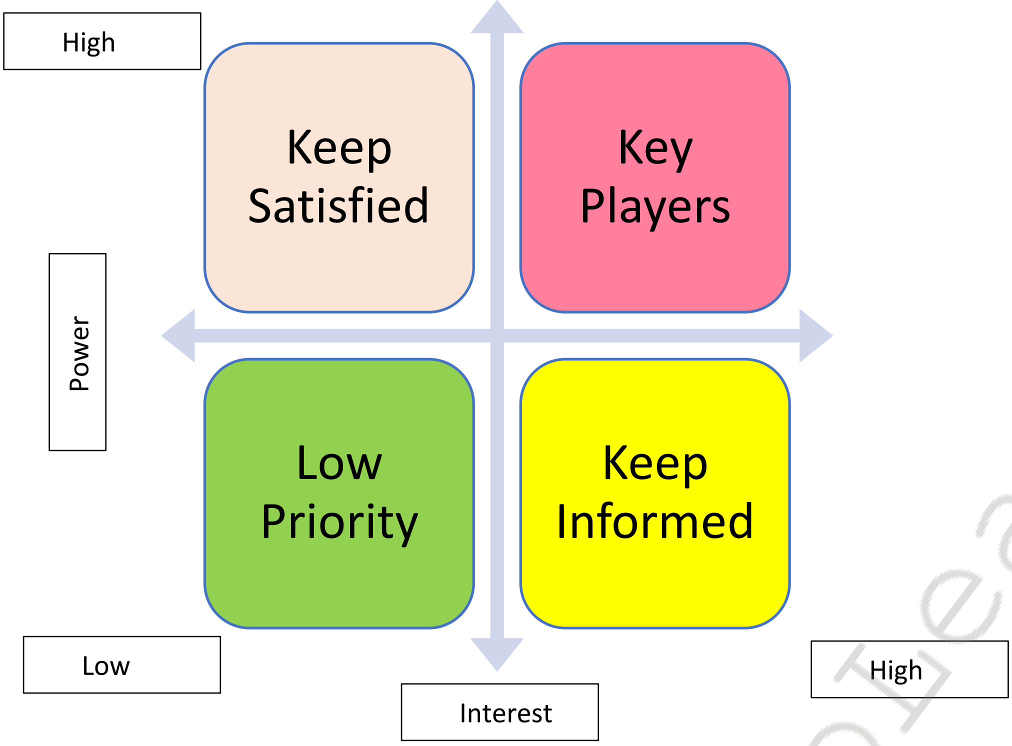
- Stakeholders can be defined as
    - any person/group of individuals,
    - internal or external,
    - that has an interest in,
    - or impact on the business or corporate strategy of the organisation.
- They have the power to influence the strategy or performance of that organisation.
-
- Each stakeholder or stakeholder group will be affected by the business strategy that the organisation chooses and implements.
- Each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation.
- Since the expectations of key stakeholders can influence the organisation's strategy, a clash of objectives may have unfavourable consequences for the organisation.

3.2. Example

Stakeholders	Requirements
Shareholders	♦ Innovation and continuous creative content ♦ Total shareholder return (RoI) ♦ Corporate social responsibility ♦ Top rankings of the organisation ♦ Highest market share
CEO and Board of Directors	♦ Prestige ♦ Market share ♦ Revenue and profit growth ♦ Market rankings
Major Vendors (Production Houses)	♦ Growth ♦ Stability of ordering ♦ Stable margins
Consumers (Viewers)	♦ New content – Innovation ♦ Better deals – Pricing Benefits ♦ Value for money ♦ Continuous supply
Employees	♦ Wages and benefits ♦ Stability of employment ♦ Pride of working for a reputed organisation

4. Mendelow's /Stakeholders Analysis / Power Interest Matrix





Key Players	Keep Satisfied	Keep Informed	Low Priority
Manage Closely	Consult often	Utilise high interest by engaging in decisions	Monitor only
Involve in decision making	Increase their interest	Consult in their areas of expertise and interest	No engagement
Engage regularly and build strong relationship	Can be hindrances to new idea or Strategic choices		General/Occasional communication

KEY PLAYERS Stakeholders: High power, highly interested people – Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. For example, Shareholders, CEO, Board of Directors, etc.

KEEP SATISFIED Stakeholders: High power, less interested people – Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis. For example, banks, government, customers, etc.

KEEP INFORMED Stakeholders: Low power, highly interested people – Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation. For example, employees, vendors, suppliers, legal experts, etc.

LOW PRIORITY Stakeholders: Low power, less interested people – Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change. For example, business magazines, media houses, etc.

5. Strategic Drivers

Strategic drivers refer to the key factors or forces that influence an organization's strategic choices, decisions, and direction. These drivers shape the overall strategy of a company and guide its actions in achieving its long-term goals.

Analysis of strategic drives includes studying the important markets, customers, products, services, delivery channels, and competitive advantage of an organization. Some elements are connected, like markets and products, and channels and key customers. Evaluating a business's current performance can be done in different ways, depending on the management's chosen metrics and priorities, such as focusing on profit, purpose, or other criteria.

Key Strategic Drivers of Organisation include

- Industry & Markets
- Customers
- Products – goods & services
- channels

6. Industry and Markets (technically this forms part of external analysis)

It is very important for an organisation to understand it's relative position in the industry and in the market in which it operates. Similar companies based on products and services are grouped together into industries.

Industry	Companies
Automobiles	Maruti, Mahindra, Tata Motors etc
FMCG	ITC, HUL, Nestle etc
Petroleum	BPCL, HPCL, IOC, RIL etc
Telecom	Jio, Airtel, BSNL, Vi

A market is defined as the sum total of all the buyers and sellers in the area or region under consideration. The value, cost and price of items traded are as per forces of supply and demand in a market. The market may be a physical entity or may be virtual like e-commerce websites and applications. It may further be local or global, depending on which all countries the business sells its products in.

6.1. Strategic Group Mapping for Industry Analysis

It is important to study the market positions of rival companies.

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

A Strategic Group consists of those rival firms which have similar competitive approaches & positions in the market which maybe-

- Comparable product-line breadth
- Same price/quality range
- Same distribution channels
- Same product attributes
- Similar line of buyers
- Identical technological approach
- Offer buyers similar services

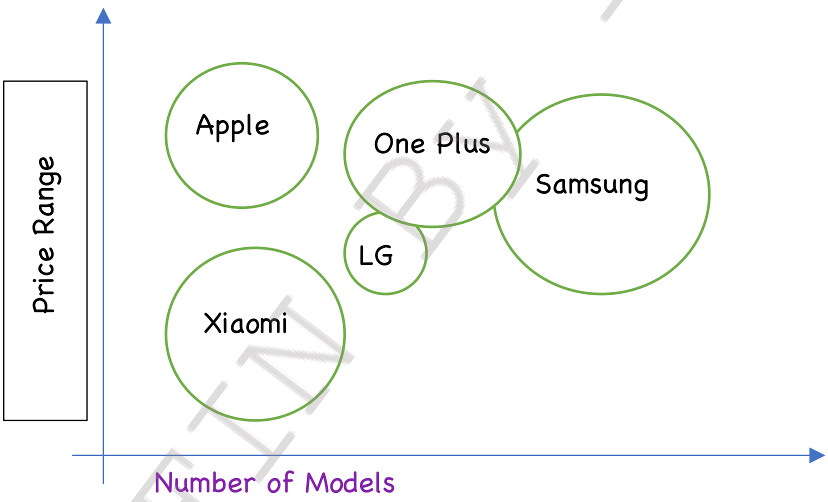
Procedure for constructing a strategic group map & deciding which firms belongs to which strategic group is as follows-

Acronym- **"iPAD"**

- ***Identify*** the competitive characteristics that differentiate firms in the industry
- ***Plot*** the firms on a two variable map using pairs of these differentiating characteristics
- ***Assign*** the firms that fall in about the same strategy space to the same strategic group
- ***Draw*** circles around each strategic group making the circles proportional to
  the size of the group's respective share of total industry sales revenue

Memory Technique

I	**I**dentify
P	**P**lot
A	**A**ssign
D	**D**raw



In the above illustration of a strategic group mapping, the Y axis represents the price range and the X axis represents number of models. The size of circles represent the market size.

7. Customers

Customers are individuals, businesses, or entities that purchase goods or services from a seller or provider. Consumers are individuals or entities that use the purchased goods or services for their personal use or consumption.
Consumers are a subset of customers. Not all customers are consumers; for example, a business buying office equipment is a customer but not a consumer, whereas an individual buying a laptop for personal use is both a customer and a consumer.

Understanding the different types of customers to whom the organisation's products/services are sold or provided, is not only important but also the first step in deciding the product/service. Different customers may have different needs and require different sales models or distribution channels.

As customers are often responsible for the generation of profits obtained by an organisation, it is important to be able to collect and display data in order to show customer trends and profitability. Issues with customers can be identified, and target areas for growth can be pursued based on the findings.

8. Product/Services

Product stands for the combination of "goods-and-services" that the company offers to the target market. Strategies are needed for managing existing product over time, adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warranties. The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.

Products and services are closely linked and interrelated with the markets that the organisation wants to serve. The question that is asked is - What business are we in and what should be done to win over competition in each product/service we serve.

Some products have shorter life cycle and others have a longer life cycle. Products can also be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer's product is different from others.

Fun Fact – Volkswagen group owns Audi, Skoda, Bentley, Bugatti, Lamborghini, Porche and Ducati!

Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products and even firms' image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:

- Have customer-centric approach while making a product.
- Produce sufficient returns through a reasonable margin over cost.
- Increasing market share.

8.1. Marketing Techniques

What is marketing?

Companies produce goods and provide services to satisfy the needs and wants of the customers and the customer pays the price to the company. Customer is the central focus in marketing

Marketing encompasses all the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration.

Some techniques of marketing are given below

8.1.1. Social Marketing

It refers to the design, implementation and control of programs seeking to increase the acceptability of social ideas, cause or practice among a target group

For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and cannot smoke

8.1.2. Augmented Marketing

It refers to provision of additional customer services and benefits built around the actual products, and introduction of hi-tech services

E.g. movies on demand, online computer repair services, secretarial services etc. Such innovative offerings provide a set of benefits that promise to increase customer service to much higher levels

8.1.3. Direct Marketing

Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response

Direct marketing includes catalogue selling, email, telecomputing, electronic marketing, shopping, and TV shopping

8.1.4. Relationship Marketing

It is the process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders

This results in provision of special benefits to select customers, in order to strengthen bonds and build lasting customer relationships

E.g. Sending birthday wishes, giving access to VIP lounges, providing exclusive privileges

8.1.5. Services Marketing

It is applying the concepts, tools, and techniques of marketing to services

Services is any activity, or benefit that one party can offer to another that is essentially intangible and does not result in the banking, savings, retailing, educational or utilities

8.1.6. Person Marketing

It consists of activities undertaken to create, maintain or change attitudes and behaviour towards a particular person.

For example, politicians, film stars, sport icons etc. market themselves to get votes or promote their careers

8.1.7. Organization Marketing

It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization

Both profit and non-profit organizations practice organization marketing

8.1.8. Place marketing

It involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, business sites marketing, tourism marketing etc

8.1.9. Enlightened Marketing

It is 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,
- Value marketing,
- Societal marketing
- Innovative marketing,
- Sense of mission marketing and
- Societal Marketing

8.1.10. Differential Marketing

It is a market coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in Premium segment

8.1.11. Synchro Marketing

When the demand for a product is irregular due to season, some parts of the day or on an hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives

For example, products such as movie tickets can be sold at lower price over weekdays to generate demand

8.1.12. Demarketing

It includes marketing strategies to reduce demand temporarily, or permanently. The aim is to not destroy the demand, but only reduce or shift it. This occurs when there is overfull demand Example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand

8.1.13. Concentrated Marketing

It is a market coverage strategy in which a firm goes after a large share of one or few sub-markets

9. Channels

Channels in the context of business refer to the distribution systems through which an organization delivers its products or provides its services to customers. These channels play a crucial role in connecting producers or service providers with their target audience. Channels can vary widely and may involve different intermediaries and methods based on the nature of the product or service and the target market.

Some examples of channels

Direct Sales channel	Producer directly sells to the consumer. For e.g. a local bakery
Wholesalers / Distributors	They buy products in bulk from manufacturers and sell to retailers
Retailers	They buy products from wholesalers / distributors and sell to end customer
E-Commerce	Products are sold online through websites/app
Franchisee	They are authorised by companies to sell products under franchisor's brand. For e.g a fast food chain like McDonalds.

All the above are the channels via which companies sell their products and services to the customers. The wider and stronger the channel the better position a business has to fight and win over competition. Also, having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.
There are typically three channels that should be considered:

The sales channel - These are the intermediaries involved in selling the product through each channel and ultimately to the end user. Typically the manufacturer sells to the wholesaler/distributor who in turns sells it to the retailer and then to the customer.
The key question is: Who needs to sell to whom for your product to be sold to your end user?

The product channel - The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This channel focusses on the logistics aspect.

The service channel - The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.
Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.

10. Building Core Competency

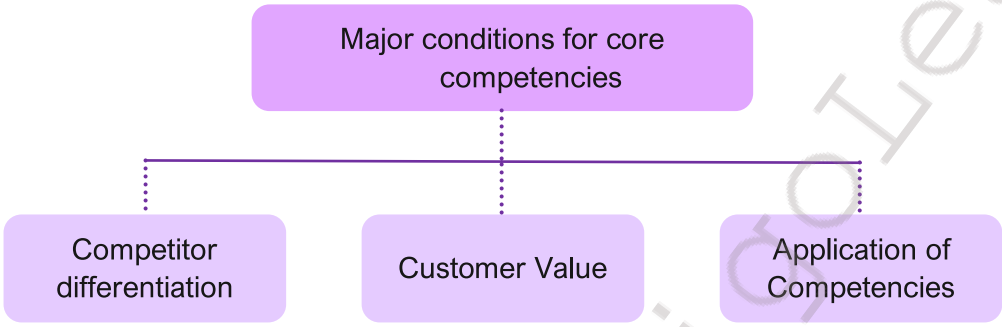
- Competency is defined as a combination of skills & techniques rather than individual skill or separate technique which makes the whole organization utilize these several separate individual capabilities.
- It has to be the integration of many resources. The optimal way to define core competence

is to consider it as a sum of 5-15 areas of expertise.

Core competencies is the collective learning in the organisation, especially coordinating diverse production skills and integrating multiple streams of technologies

An organisation's combination of
- technological & managerial know-how
- wisdom & experience

Are a complex set of capabilities & resources that can lead to a competitive advantage compared to a competitor.
- by, C.K. Prahalad & Gary Hame



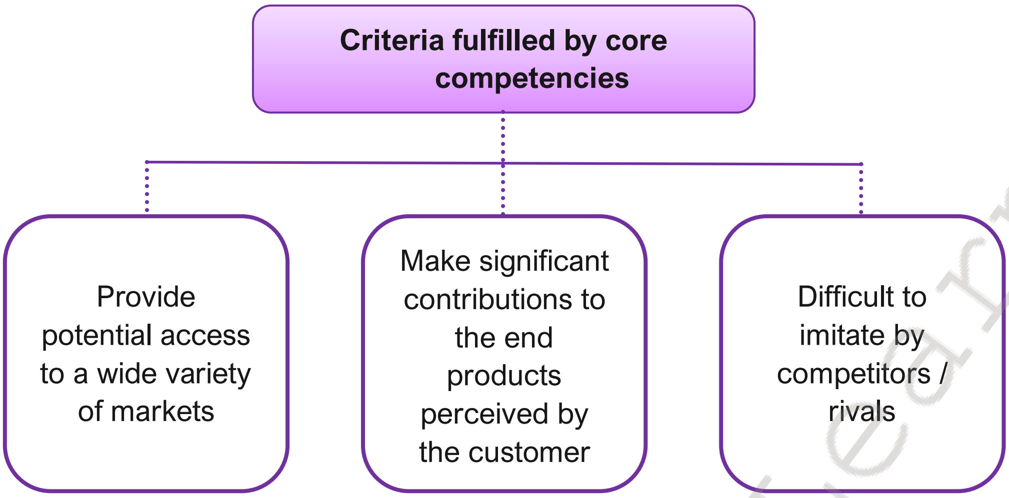
- **Competitor Differentiation:** The company is considered to have core competence if the competence ***is unique & difficult to imitate*** thereby providing a competitive edge over its competitors.

  Although all companies operating in the same market would have the equal skills & resources, if one company can outperform significantly better, the company has obtained a core competence.

- **Customer value:** When purchasing a product or service it must deliver a fundamental benefit to the end customer to be a core competence. The product/service must have a real impact on the customer for them to choose it. If customer has chosen the product without this impact, then competence is not a core competence & it will not affect the company's market position
- **Application of competencies:** Core competence must be applicable to the whole organization; it cannot be one skill or specified area of expertise. If it is not fundamental from the whole organisation's point of view, it will not be considered as core competence even if it is a special capability.

- Core technological competencies are also corporate assets; & as assets, they facilitate corporate access to a variety of markets & businesses.
- Core competencies distinguish a company competitively & reflect its personality. These competencies emerge over a period through a process of accumulating & learning how to deploy different resources & capabilities.
- It is important to identify core competencies because it is difficult to retain those competencies in a price war & cost-cutting environment.
- Core competencies are the knowledge, skills, and facilities necessary to design and produce core products.

- Core competencies are created by superior integration of technological, physical and human resources.
- They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities.



10.1. How to build Core competencies?

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies are –

Valuable	♦ Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. ♦ If capabilities do not help organisation as explained above, they cannot be considered core competency
Rare	♦ Core competencies are very rare capabilities and very few of the competitors possess this. ♦ Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. ♦ Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.
Costly to Imitate	♦ Costly to imitate means such capabilities that competing firms are unable to develop easily. ♦ The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.
Non-Substitutable	♦ Capabilities that do not have strategic equivalents are called non-substitutable capabilities. ♦ There must be no strategically equivalent valuable resources that are themselves either not rare or imitable

10.2. Areas of Core Competencies

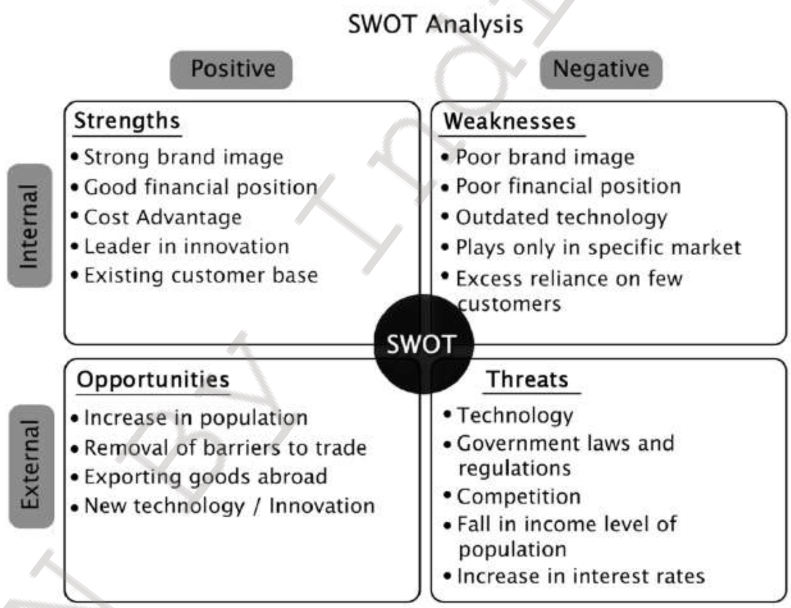
- Technological Resource
- Human resource
- Tangible resources
- Specified distribution channel
- Access to wide customer base

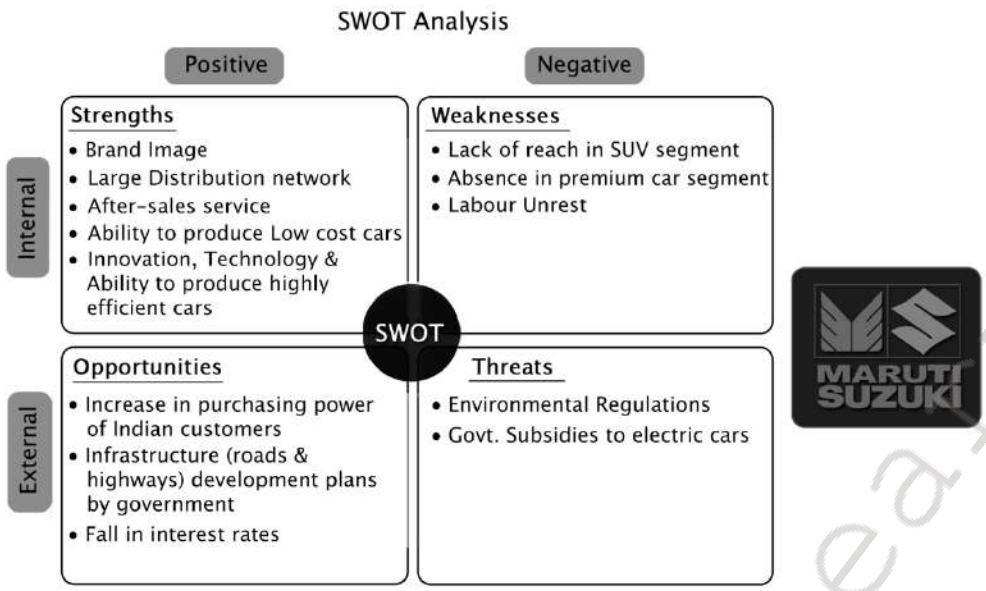
- Innovation
- Research and development
- Brand value
- Managerial skills

11. SWOT Analysis

The identification & analysis of Strength, Weakness, Opportunities and Threats is normally referred to as SWOT analysis.

	Helpful	Harmful
Internal	**Strength**	**Weakness**
	Inherent capability Gain Strategic Advantage	Inherent limitation/Constraint Creates Strategic Disadvantage
External	**Opportunity**	**Threat**
	Favourable Environment Condition Strengthen Position	Unfavourable Environment Condition Causes Risk/Damage to Position





- The organization's performance in the marketplace is significantly influenced by the following three factors:
  - Organisation's correct market position
  - Nature of environmental opportunities & threats
  - Organisation's resource capability to capitalize the opportunities & to protect against the threats
- The major purpose of SWOT analysis is to enable the management to create a firm- specific business model that will best align firm's resources & capabilities with environmental demands.
- Strategic managers compare & contrast various alternative strategies against each other w.r.t their ability to achieve major goals & superior profitability

Corporate Level	• What businesses should we be in to maximize the long-run profitability
Business Level	• How to do the above to gain competitive advantage • Encompasses business's overall competitive theme • Different positioning strategies that can be used in different industry settings to gain competitive advantage
Functional Level	• Directed at improving the effectiveness of operations within the company • Production, finance, marketing, materials management, product development, customer service, etc
Global Level	How to expand operations outside the home country to grow & prosper and to compete in a global level

11.1. Significance of SWOT Analysis

- **It provides a logical framework of analysis-**
  - Variation in managerial perception about the organizational strengths, weaknesses & environmental opportunities & threats lead to the approaches to specific strategies & finally the choice of strategy that takes place through an interactive process.

- **It presents a comparative account-**

- Presents a structures form where it is possible to compare external & internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship.

- **It guides the strategist in strategy identification-**
  - It is possible that the organisation may have several opportunities & some serious threats and also may have powerful strengths coupled with major weaknesses. In such situations, SWOT analysis guides the strategist to think of overall position that helps to identify the major purpose of the strategies under focus.

Potential Resource Strengths & Competitive Capabilities **A**	**Potential Resource Weaknesses & Competitive Deficiencies** **B**
Potential Company Opportunities **C**	**Potential External Threats** **D**

Analysis

- **Potential resource strengths and competitive capabilities**
  - Powerful strategy
  - Strong financial position
  - Brand image
  - Cost advantages
  - Product innovation skills
  - E-commerce technologies & processes
  - Strong advertising & promotion
  - Superior supply chain management
  - Reputation for good customer service
- **Potential resource weakness and competitive deficiencies**
  - No clear strategic decision
  - Obsolete facilities/technology
  - Weak balance sheet/too much debt
  - Higher overall unit costs as compared to competitors
  - Internal operating problems
  - Underutilized plant capacity
  - Unable to attract new customers
  - Narrow product line in comparison to rivals
- **Potential company opportunities**
  - Expanding into new markets/segments
  - Exploiting emerging new technologies
  - Acquisition of rival firms
  - Ability to grow due to rising demand
  - Openings to take away market share from rivals
  - Using e-commerce to cut costs or pursue new growth opportunities

- Forward/backward integration
- Falling trade barriers in attractive foreign markets

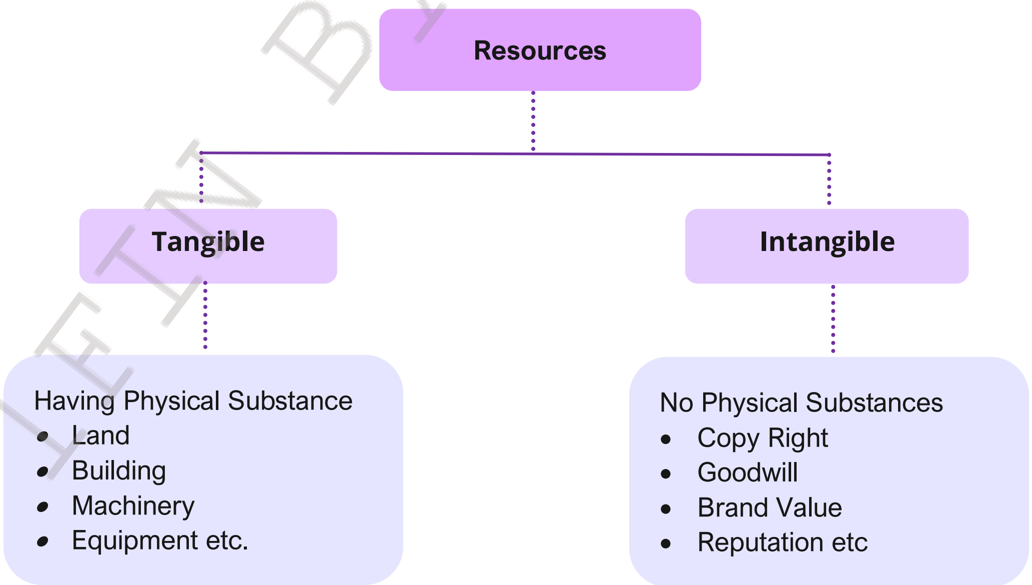
- **Potential external threats to company's well-being**
  - Entry of potent new competitors
  - Loss of sales to substitute products
  - Slowdowns in market growth
  - Costly new regulatory requirements
  - Shift in buyer's tastes
  - Adverse demographic changes
  - Vulnerability to industry driving forces

12. Competitive advantage

- Competitive advantage is the ***achieved advantage*** over rivals when a company's ***profitability*** is greater than the average profitability of firms in its industry.
- It can be said that a firm is successful in achieving competitive advantage only after rivals efforts to ***duplicate or imitate it fails.***
- It is often strongly related to the resources firm holds & how they are managed.
- ***Unique bundles of resources*** are the foundation for strategy & lead to wealth creation.
- If a firm possesses resources & capabilities which are superior to those of competitors, then as long as the firm adopts a strategy that ***utilizes*** these ***resources & capabilities effectively,*** it should be possible for it to establish a competitive advantage.
- Resources & capabilities ***create value*** only when the firm can use them to perform certain activities that result in competitive advantage.
- However, profitability from this competitive advantage can be assured only based on the ***time period over which the firm can sustain*** its position since all competitive advantages have a limited life.

12.1. Sustainable competitive advantage

Role of Resources, Capabilities and Value creation in achieving competitive advantage



- Capability to manage , co-ordinate and put resources into productive use
- Examples of capabilities
  - Effective customer service

- Product and design quality
- Innovative merchandising
- Effective use of logistics management techniques

- A long-term competitive advantage that is not easily duplicable by the competitors
- It can be maintained through continuous improvement of capabilities
- The sustainability of competitive advantage & a firm's ability to earn profits from its competitive advantage depends upon 4 major characteristics of resources & capabilities

12.2. Reasons for sustainable competitive advantage

Durability –

- The rate at which the firm's resources & capabilities deteriorate is of concern
- If industry product innovation is fast, patents may become obsolete soon
- However, many brand names have a highly durable appeal

Transferability –

- Durability is likely to be eroded by rivals
- It depends on the rivals gaining access to the resources & capabilities
- The easier it is to transfer the resources & capabilities, the less sustainable is the competitive advantage

Imitability –

- If resources & capabilities can be purchased by a potential imitator, they must be built from scratch
- True test of imitability is how easily/quickly rivals can build the resources & capabilities on which the firm's competitive advantage is based

Appropriability –

- Ability of the firm's owners to appropriate the returns on its resource base
- Even when the resources & capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources

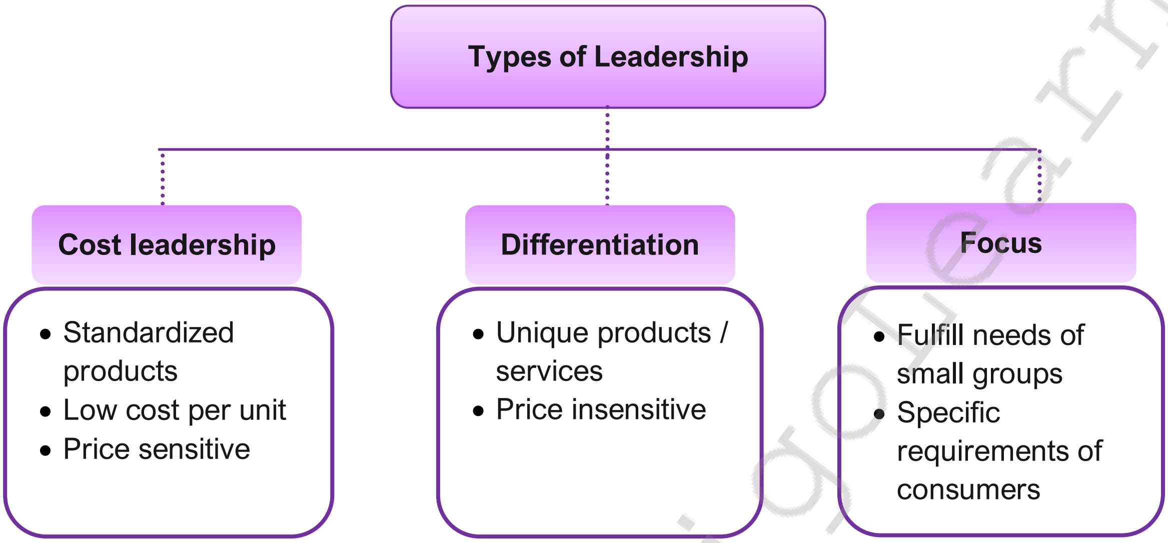
13. Michael Porter's generic strategies

- According to Porter, strategies allow organizations to gain competitive advantage from three different bases
- These are also called generic, as they can be pursued by any type and size of business
- Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis whereas smaller firm often compete on a focus basis.

		COMPETITIVE ADVANTAGE	
COMPETITIVE SCOPE		Low Cost	Product uniqueness
	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Focussed Cost Leadership	Focussed Differentiation

- Strategists need to perform cost benefit analysis to evaluate ***"sharing opportunities"*** among the firm's existing & potential business units

- Sharing resources enhances ***competitive advantage*** by either lowering costs or raising differentiation
- Porter stresses the need for firms to ***"transfer"*** skills & expertise among autonomous business units to gain competitive advantage
- Depending on ***type of industry,*** size of firm & nature of competition, the firm could yield advantages in cost leadership, differentiation & focus
- Larger firms with greater access to resources compete on a cost leadership &/or differentiation basis, whereas smaller firms often compete on a focus basis



13.1. Cost Leadership

- Low cost competitive strategy
- Aims at broad mass market
- Cost reduction in areas of
  - Procurement
  - Production
  - Storage
  - Distribution
- Economies in OH costs
- Cost leader is able to
  - Charge same price and make high profits
  - Charge low price and make satisfactory profits
- Method of cutting cost, attain cost leadership position and pass on the benefit to the customers
  - Goods to be sold at lesser price which will attract more customers with same profits
  - When goods are sold at same price which will give higher profits

In cost leadership key decision making factor is ***"Pricing"***

- Cost elements that affect the attractiveness of generic strategy
  - Economies/diseconomies of scale
  - Learning curve effect
  - Maximum capacity utilization
  - Linkages with suppliers/distributors
- Other cost elements to consider
  - R&D costs of new products

- Costs of modifying existing products
- Labour costs
- Tax rates

- Striving to be low cost provider in an industry can be especially effective when
  - ***Price sensitive*** buyers
  - ***Low*** opportunity for ***product differentiation***
  - Buyers ***not inclined to brand***
  - ***Large*** number of buyers
  - ***Significant bargaining power*** of buyers
- Achieving cost leadership strategy

  Acronym– **"FOREST"**
  - ***Forecast demand*** of product/service promptly
  - ***Optimum utilization*** of resources to get cost advantages
  - ***Resistance*** to differentiation till it is essential
  - Achieving ***Economies of scale*** leading to lower cost p.u
  - ***Standardisation of products*** for mass production
  - Invest in cost saving Technologies/advance ***technologies***

13.1.1. Advantages of Cost Leadership

Entrants – Barriers to market entry through continuous focus on cost reduction

Substitutes –

- o Lower costs further to induce customers to stay with their products
- o Invest to develop substitutes
- o Purchase patents

Buyers – Powerful buyers will not be able to exploit the cost leader firm & will continue to buy

Suppliers – Cost leaders are able to absorb greater price increases before it must raise price to customers

Rivalry –

- o Competitors likely to avoid price wars
- o Low cost firm will continue to earn profits even if competitors compete away for profits

13.1.2. Disadvantages of Cost Leadership

- Cost advantage may not be remaining for long as competitors may also follow cost reduction technique.
- Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
- Technology changes are a great threat to the cost leader.
- Cost leadership can succeed only if the firm can achieve higher sales volume

13.2. Differentiation

- Differentiation is creation of product/service that is perceived as unique by buyer
  - Product design
  - Brand image

- Features
- Technology
- Dealer network
- Customer service

13.2.1. Benefits of Product Differentiation

- Due to differentiation, the business can charge a premium for its product
- When firms decide not to charge premium, the sales volume would increase resulting in increase in revenue and profits

13.2.2. Reason for not achieving competitive advantage

- Differentiation does not guarantee competitive advantage when
  - Rapid ***imitation*** is possible by competitors
  - Standard products ***sufficiently meet customer needs***

13.2.3. Reason for achieving competitive advantage

- Customers may become ***strongly attached*** to the differentiation features, thereby the business gains customer loyalty
- Customer must be ***willing to pay*** the premium for such distinct features
- Successful differentiation can mean
  - Greater product flexibility
  - Greater compatibility
  - Price insensitive buyers
  - Lower costs
  - Barriers to quick copying by competitors
  - Improved service
  - Less maintenance
  - Greater convenience
  - Advanced features
- Differentiation should be adopted only after careful study of buyer's needs & preferences

13.2.4. Basis of differentiation

- Strategy that provides a unique product different from that of competitors
- Customer is always willing to pay premium prices
- Success of this strategy is dependent on the value attributed by the customer
- Differentiation can be achieved at three levels as follows

Basis of differentiation

Product
- Innovative & meet customer needs
- Costly due to R&D, production & marketing costs
- High payoff due to customer loyalty

Pricing
- Charging high prices
- Influenced by customers ideal value for the product

Organization
- Maximizing the power of brand
- Facilitates premium price

13.2.5. Essential for differentiation

Acronym– **"PUPPER"**

- Elevate the ***Performance*** of the product
- Offer ***Utility*** to the customers & match the products with their tastes & preferences
- Offer the ***Promise*** of high-quality product/service for buyer satisfaction
- Fixing ***product Prices*** based on –
  - unique feature of the product, &
  - buying capacity of the customer
- Taking steps for ***Enhancing image*** & its brand value
- ***Rapid*** product ***innovation***

Memory Technique

P	**P**erformance evaluation
U	**U**tility
P	**P**romise quality
P	**P**roduct pricing
E	**E**nhancing product & brand
R	**R**apid innovation

13.2.6. Advantages of differentiation

Advantages of Differentiation

- **Entrants** –
  - Innovative features are expensive
  - Tough to provide these features at comparable price
- **Substitutes** – Less possibility to replace differentiated products which have high brand value & enjoy customer loyalty
- **Buyers** –
  - They do not negotiate premium price as they get special features
  - Fewer options available in the market
- **Suppliers** –
  - Since a premium is charged, firm can afford to absorb higher costs of supplies
  - Customers are willing to pay extra too
- **Rivalry** –
  - Brand loyalty acts as safeguard
  - Customers will be less sensitive to price increases if firm can satisfy the needs

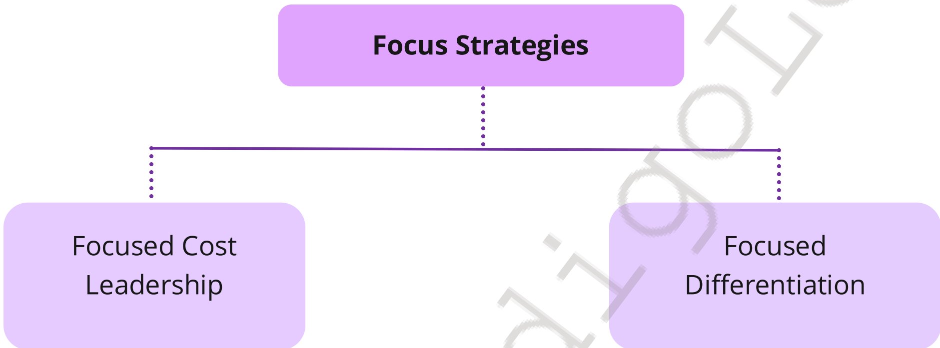
13.2.7. Disadvantages of differentiation

- Uniqueness is ***difficult to maintain*** in the long run
- Charging too high for the differentiated features may cause the customer to ***switch to an alternative***
- Differentiation ***fails to work*** if the basis is not valued as high by the customers

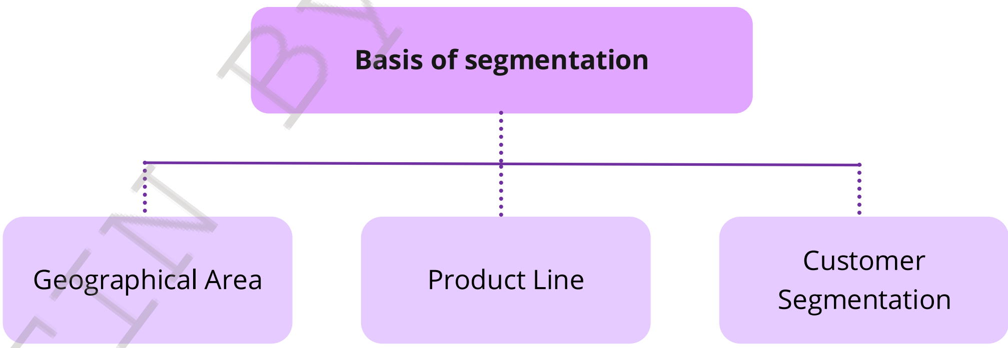
13.3. Focussed Strategy

- A strategy that is dependent on an industry segment that has
  - Sufficient size
  - Growth potential
  - Independent of competitors success
  - Consumers with distinctive requirements
  - Rivals not attempting to imitate

  Is a "Focus Strategy"



- Strategies such as market penetration & market development offer substantial focusing advantages
- Midsize & large firms can pursue focus-based strategies only in conjunction with differentiation or cost leadership
- Logically, all firms follow a differentiated strategy since only one firm can differentiate itself as a low-cost provider. The remaining firms need to differentiate its products in other ways



13.3.1. Reasons for choosing Focus Strategy

- To ***focus on the narrow segment*** to offer the better products/ services in that specific segment
- When ***competitors are not attempting to specialize*** in the target segment, to utilize that opportunity

13.3.2. Types of focus strategies

Focused Cost Leadership	Focused Differentiation
• Compete based on price and target narrow market	• Compete based on uniqueness and target Specific narrow market
• Does not necessarily charge lowest prices in the industry	• Concentrate efforts on a particular sales channel
• Charges prices lower than competitors competing in target market	• May target a particular demographic group

13.3.3. Achieving Focus Strategy

- ***Selecting*** specific niches which are not covered by cost leaders & differentiators.
- ***Creating superior skills*** for catering to such niche markets.
- ***Generating high efficiencies*** for serving such niche markets.
- ***Developing innovative ways*** in managing the value chain.

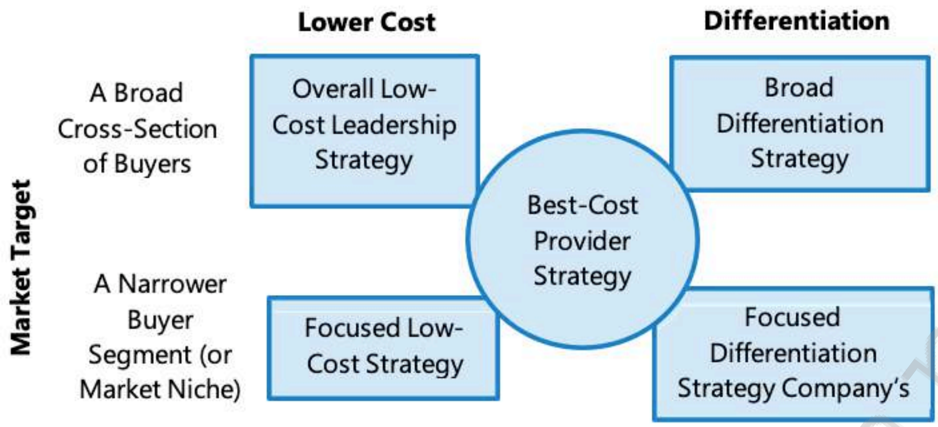
13.3.4. Advantages and disadvantages of Focus Strategy

Advantages	Disadvantages
• ***Premium prices*** can be charged by the organizations for their focused product/services	• Due to ***limited demand*** of products/services, high costs
• ***Rivals & new entrants*** may find it ***difficult to compete*** due to tremendous expertise of the goods/services that the focused organization offers	• In the long run, the ***niche could disappear*** or be taken over by larger competitors by acquiring the same features
	• Firms lacking in ***distinctive competencies*** may not be able to pursue focus strategy

14. Best Cost Provider

- It is a further development of cost leadership, differentiation & focus generic strategies
- It is directed towards
  - giving customers more value for the money
  - emphasizing both low cost & upscale differences
- Objective is to keep costs & prices lower than those of other sellers of comparable products
- Best-cost provider strategy can be adopted by doing the following-
  - Charging similar price as the rivals for products with much higher quality & features
  - Offering products at a lower price than what is being offered by rivals for products of comparable quality & features

> Best cost provider has a risk of overtaking the business by powerful cost leaders and differentiators existed in the industry


Lower Cost
Differentiation
A Broad Cross-Section of Buyers
Overall Low-Cost Leadership Strategy
Broad Differentiation Strategy
Market Target
Best-Cost Provider Strategy
A Narrower Buyer Segment (or Market Niche)
Focused Low-Cost Strategy
Focused Differentiation Strategy Company's

Strategic Analysis – External Environment

In this chapter we will understand various frameworks and tools to analyse the external environment including industry, competition and customers.

1. PESTLE Framework

It is a very simple & quick tool and is mainly used for the study and analysis of macro environmental factors. It helps management of an organisation in strategic decision-making function.
PESTLE is an acronym for: -
P- Political
E- Economic
S- Socio-Cultural
T- Technological
L- Legal
E- Environmental

PESTLE analysis is frequently used to assess the business environment in which a firm operates. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy.

Political Factors:

Political factors encompass the role of government in the business environment. Governments can intervene in the economy through regulations, taxation policies, and trade agreements. For instance, changes in tax policies can impact the profitability of businesses, while trade tariffs can influence the cost of importing and exporting goods. Political stability is crucial for business operations, as an unstable political climate can lead to uncertainty and risks.

Political factors may also influence goods and services which the government wants to provide or be provided and those that the government does not want to be provided. Furthermore, governments have great influence on the health, education and infrastructure of a nation.

Example: In 2017 , the Indian Government implemented GST which impacted the way businesses were carried out.

Economic Factors:

Economic factors significantly impact business operations. Interest rates, inflation, and exchange rates can affect a firm's cost of capital, pricing strategy, and international trade. Economic indicators such as GDP growth, unemployment rates, and consumer spending patterns provide insights into the overall health of the economy and guide business decisions.

Example: A rise in interest rates can increase borrowing costs for businesses, impacting their expansion plans and potentially slowing down economic activity.

Social Factors:

Social factors reflect the cultural and demographic aspects of a society. They influence consumer behavior, preferences, and the demand for products or services. Understanding social trends is crucial for businesses to align their strategies with societal values and lifestyle changes.

Example: The increasing focus on health and wellness has led to a growing demand for organic and health-oriented food products, influencing the strategies of food and beverage companies.

Technological Factors:

Technological factors encompass the impact of innovation on business operations. They include advancements in technology, research and development, and automation. Technology can create new opportunities, streamline processes, and change the competitive landscape.

Example: The rise of e-commerce and mobile technologies has transformed the retail sector, influencing consumer shopping habits and requiring traditional retailers to adapt to online platforms.

Legal Factors:

Legal factors refer to the laws and regulations that businesses must adhere to. They include labor laws, product safety standards, and industry-specific regulations. Compliance with legal requirements is essential for avoiding fines, lawsuits, and maintaining a positive business reputation.

Example: Changes in data protection laws, such as the implementation of GDPR in Europe, have compelled businesses to enhance their data privacy practices to avoid legal consequences.

Environmental Factors:

Environmental factors focus on the impact of the natural environment on businesses. Issues such as climate change, sustainability, and environmental regulations can affect industries like tourism, agriculture, and insurance.

Example: The increasing awareness of climate change has led to a surge in demand for eco-friendly products and sustainable practices, influencing companies to adopt environmentally responsible strategies.

Political	Economic	Social
Political stability Political principles and ideologies Current and future taxation policy Regulatory bodies and processes Government policies Government term and change Thrust areas of political leaders	Economy situation and trends Market and trade cycles Specific industry factors Customer/end-user drivers Interest and exchange rates Inflation and unemployment Strength of consumer spending	Lifestyle trends Demographics Consumer attitudes and opinions Brand, company technology image Consumer buying patterns Ethnic/religious factors Media views and perception

Technology	Legal	Environmental
Replacement technology/solutions Maturity of technology Manufacturing maturity and capacity Innovation potential Technology access, licensing, patents, property rights and copyrights	Business and Corporate Laws Employment Law Competition Law Health & Safety Law International Treaty and Law Regional Legislation	Ecological/environmental issues Environmental hazards Environmental legislation Energy consumption Waste disposal

2. Internationalisation of Business

Internationalization has emerged as the dominant commercial trend over the last couple of decades. It enables a business to enter new markets in search of greater earnings and less expensive resources. Additionally, expanding internationally enable a business to achieve greater economies of scale and extend the lifespan of its products.

The strategic-management process is essentially the same for global firms as it is for domestic firms; nevertheless, international processes are much more complicated due to additional variables and linkages. A business can approach internationalisation systemically with the aid of international strategy planning. One method for an organization to identify opportunities and threats in global markets is by scanning the external environment. The development of effective strategies and the formulation of global strategic objectives are made feasible by internationalisation.

Characteristics of a global business

- It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.
- Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
- The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.

Developing internationally

International development is expensive and challenging. Moving on in a thorough and structured manner is thus the ideal approach to adopt. The steps in international strategic planning are as follows:

- Evaluate global opportunities and threats and rate them with the internal capabilities.
- Describe the scope of the firm's global commercial operations.
- Create the firm's global business objectives.
- Develop distinct corporate strategies for the global business and whole organisation.

Why do businesses go global?

Technological developments and evolving political views are two important factors in the rapid rise of multinational organisations. Because of technological advances, the process of internationalisation is now simpler than it was previously. Worldwide communication makes it easier to define and implement global strategy by linking corporate headquarters with their abroad operations. In addition, introduction of improved transportation has increased the mobility of money, people, raw materials, and finished items. There are several reasons why companies go global. These are explained as follows:

- There is a **need to grow**. It is basic need of every organisation. Often finding opportunities in the other parts of the globe, organisations extend their businesses and globalise their operations.
- There is **rapid shrinking of time and distance** across the globe, because of **faster communication**, speedier transportation, growing financial flow of funds and rapid technological changes.
- It is being realised that the **domestic markets are no longer adequate**. The competition present domestically may not exist in some of the international markets.
- Need for **reliable or cheaper source of raw-materials**, cheap **labour**, etc. Many foreign businesses shift and set up some of their operations to take advantage of availability of vast pool of talent.
- **Reduce high transportation costs**. It may be cheaper to produce near the market to reduce the time and costs involved in transportation.
- When **exporting organisations** find foreign markets to open up or grow big, they may naturally look at overseas **manufacturing plants** and sales branches to generate higher sales and better cash flow.
- The rise of **services to constitute the largest single sector** in the world economy; and regional economic integration, which has involved both the world's largest economies as well as certain developing economies.
- The apparent and real collapse of i**nternational trade barriers** redefines the roles of state and industry. The trend is towards increased privatization of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain marketplace competitiveness. The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.
- Globalization has made companies in different countries to form **strategic alliances** to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

3. International Environment

The social, cultural, demographic, environmental, political, governmental, legal, technological factors that an international organisation faces are nearly limitless, and the number and complexity of these factors increase manifold as the number of products produced and geographic areas served increase. An assessment of the external environment is the first step toward internationalisation. Analysing international environment is important since it allows organisation to discover opportunities in the global market and evaluate feasibilities of capitalising on these opportunities. Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis involves identifying, anticipating, and monitoring significant components of the global environment on a large scale. Understanding global developments covering economic and other macro elements is important. Governments may have free or interventionist tendencies in economies that needs to be carefully considered. These characteristics are evaluated based on their present and expected future impact.

Regional environmental analysis is a more in-depth evaluation of the critical factors in a specific geographical area. The emphasis would be on discovering market opportunities for a goods, services, or innovations in the chosen location.

Country environmental analysis has to take a deeper look at the important environmental factors. Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful. The analysis must be customised for each of the countries to develop effective market entrance strategies.

4. Product & Industry

Businesses sell products. A product can be either a good or a service. It might be physical good or a service, an experience. Business products have certain characteristics as follows:

Products are either tangible or intangible.
A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on. Alternatively, an intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.

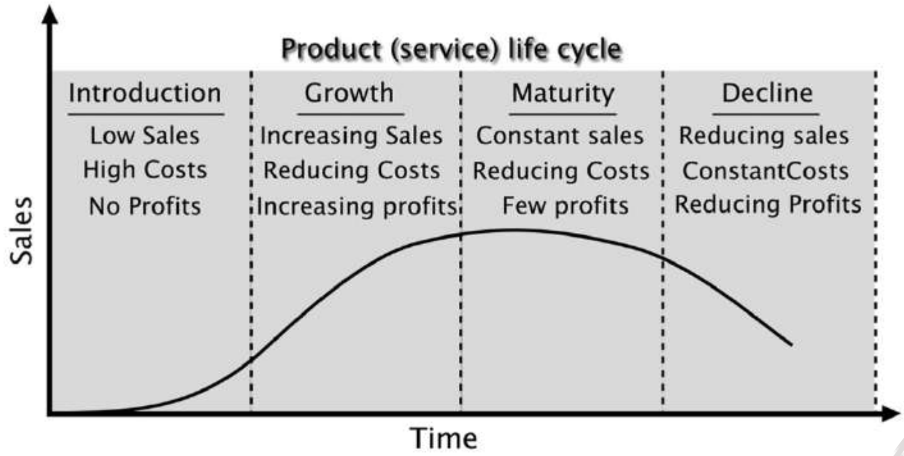
Product has a price.
Businesses determine the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service. The market price is the price at which quantity provided equals quantity desired. The price that may be paid is determined by the market, the quality, the marketing, and the targeted group. In the present competitive world price is often given by the market and businesses have to work on costs to maintain profitability.

Products have certain features that deliver satisfaction.
A product feature is a component of a product that satisfies a consumer need. Features determine product pricing, and businesses alter features during the development process to optimise the user experience. Products should be able to provide value satisfaction to the customers for whom they are meant.
Features of the product will distinguish it in terms of its function, design, quality and experience. A customer's cumulative experience with a product from its purchase to the end of its useful life is an important component of a product feature.

Product is pivotal for business.
The product is at the centre of business around which all strategic activities revolve. The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.

A product has a useful life. Every product has a usable life after which it must be replaced, as well as a life cycle after which it is to be reinvented or may cease to exist. We have observed that fixed line telephone instruments have largely been replaced by mobile phones

5. Product Life Cycle



- PLC is an S-shaped curve which exhibits the relationship of sales with respect to time for a product that passes through the four successive stages.

Introduction **(slow sales growth)**	• Competition is almost negligible • Prices are relatively high • Markets are limited • Lower rate of sales growth due to lack of knowledge by customers
Growth **(rapid market acceptance)**	• Demand expands rapidly • Fall in prices • Competition increase • Market expands • Customer has knowledge & is interested in buying
Maturity **(slowdown in growth rate)**	• Market gets established • Competition gets tough • Profit reduces due to stiff competition • Organizations have to work for maintaining stability
Decline **(sharp downward drift)**	• Sales & profits fall down sharply • Some new product replaces existing product • Combination of strategies can be used to stay in the market • Either diversification or retrenchment

Experience curve

- Concept is similar to ***learning curve***
- ***Efficiency increases*** by workers through ***repetitive productive work***

- ***Unit costs decline*** as a firm accumulates experience in terms of ***cumulative volume*** of production
- Larger firms in industry gain ***competitive cost advantage*** due to this
- It is a result of variety of factors- learning effects, economies of scale, product redesign & technological improvements in production
- It is a ***barrier for a new firm*** entering the industry
- Used to ***build market share*** & ***discourage competition***

6. Value Creation

- Value is measured by a product's features, quality, availability, performance, durability & by its services for which customers are willing to pay
- Value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes
- This concept gives business a competitive advantage in the industry & helps them to earn above average profits
- How profitable a company becomes depends on three factors-
  - Value customers place on the company's products
  - Price the company charges for its products
  - Costs of creating those products
- The value customer place on a product reflects the utility they get
- Utility is a function of the attributes of the product, such as its design, performance, quality & point-of-sale & after-sale-service
- Companies are ultimately aiming to achieve sustainable competitive advantage which enables them to succeed in the long run

7. Value Chain analysis

- It is a means of ***describing the activities within and around*** an organization.
- Ability to assign or provide ***value for money,*** product or services.
- Assessing the ***competitive strength*** of an organization.

Why value chain analysis?

- Organizations are much more than just a random collection of machines, material, money and people.
- These resources are of no value unless deployed into appropriate activities.
- It is important to know the value which is perceived by the final consumer/user.
- Source of competitive advantage: Competencies to perform particular activities and the ability to manage linkages between these activities.

7.1. Porter's Value Chain

- As per Michael Porter, an understanding of the strategic capability must start with identifying these separate value adding activities. The two basic steps of
  - identifying separate activities &
  - assessing value added from each

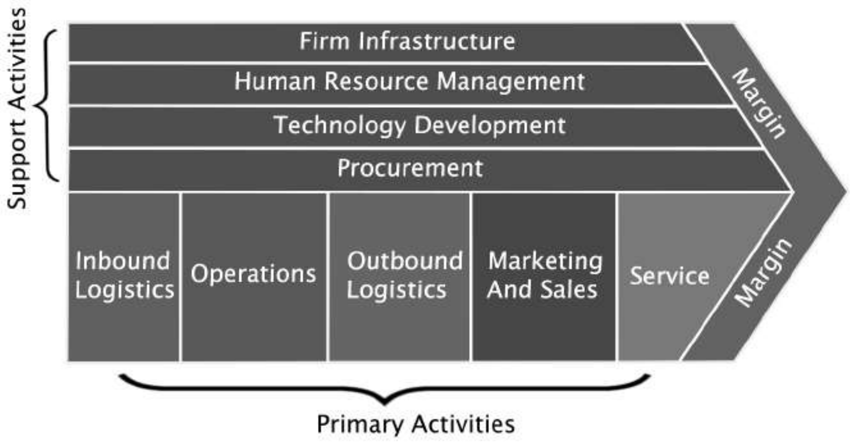
  were linked to an analysis of competitive advantage by Michael Porter.

Primary Activities

Inbound Logistics	Receiving, storing, distributing inputs to the product/service
	Includes material handling, stock control, transport, etc
Operations	Transform inputs into final product/service
	Machining, packaging, testing, assembly, etc
Outbound Logistics	Collect, store, distribute product to the customers
	For tangible products-warehousing, material handling, transport
	For services- arrangements for bringing customers to the service
Marketing and Sales	Consumers are made aware of the product/service
	Able to purchase it
	Includes sales admin, advertising, selling, etc
	Communication network helps users access a particular service
Service	Enhance/maintain the value of product/service
	Installation, repair, training, spares, etc

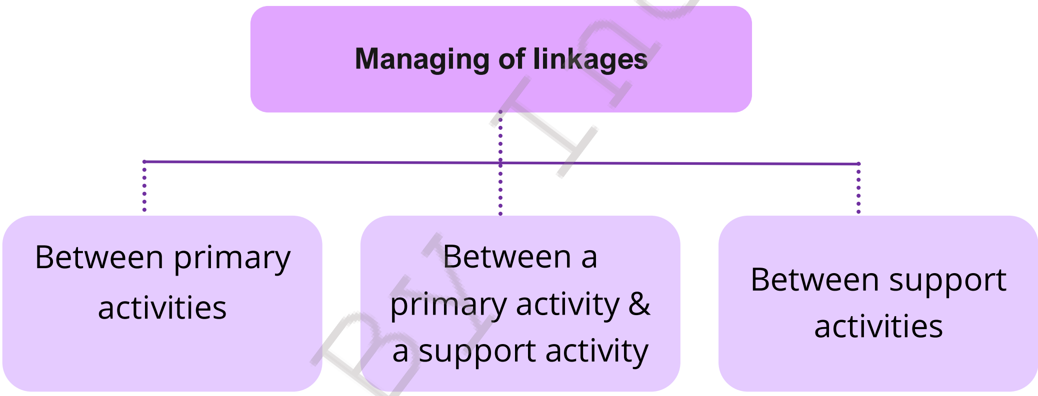
Secondary Activities

Inbound Logistics	Process of acquiring the various resource inputs to the primary activities
	Includes material handling, stock control, transport, etc
Technology Development	All value activities have technology (even if it is just know-how)
	Key technologies may be directly concerned with the product (R&D) or process (process development) or a resource (RM improvement)
Human Resource Development	Important area which covers all primary activities
	Recruiting, training, managing, developing, rewarding, etc
Infrastructure	Structures & routines of the organization which sustain its culture
	Systems of planning, finance, quality control, info management are crucially important to performance of primary activities



7.2. Managing Linkages

- Core competences may be imitated by competitors over time.
- But it may be robust & difficult to imitate if they relate to management of linkages within the organisation's value chain & linkages into the supply & distribution chains.
- Specialization of roles & responsibilities is one way in which high levels of competence in separate activities is achieved.
- However, it often results in an incompatible situation – different departments pulling in different directions – which adds to overall cost / diminishes value.
- This management of internal linkages in the value chain could create competitive advantage in a number of ways:



- In addition to the management of internal linkage, competitive advantage may also be gained by the ability to complement/co-ordinate the organisation's own activities with those of suppliers, channels or customers.
- This could occur in a number of ways:
  - ***Vertical integration*** attempts to improve performance through ownership of more parts of the value system. Practical ***difficulties & cost of coordination may outweigh*** the benefits.
  - Specifying requirements & controlling the performance of suppliers can be critical to both quality ***enhancement & cost reduction.***
  - ***Total quality management*** seeks to improve performance through closer working relationships between the specialists within the value system.

8. Industry Environmental Analysis

A combination of ideas and methodologies may be utilised to create a clear picture of key industry traits, competition intensity, industry change drivers, rival firms' market positions and tactics, competitive success, and profit forecasts. Industry analysis enable strategic understanding about the entire state of any industry and make decisions about whether the industry is a lucrative or not.

The analysis entails seeing the firm in the context of a bigger framework. The purpose of industrial analysis is to get insight into a wide range of elements within and outside the business. Analysing these elements enhances knowledge of surrounding and serves as the foundation for aligning strategy with changing industry circumstances and realities.

The goal of the industry environment analysis, which is typically an important step of strategic analysis, is to estimate the amount of competitive pressures the business is presently facing and is expected to face in the near future.

9. Competitive Landscape

- Competitive landscape is about identifying & understanding the competitors & at the same time it permits the comprehension of their mission, vision, core values, niche market, strengths & weaknesses.
- Understanding of competitive landscape requires an application of "competitive intelligence".
- In-depth investigation & analysis of a firm's competition allows it to assess the competitor's strengths & weaknesses in the market & helps it to choose & implement effective strategies that will improve its competitive advantage.

9.1. Steps to understand Competitive Landscape

Identify the competitor	Who are the competitors?
	What is their market share?
Understand the competitor	What are their products and services?
	Use Market research report, internet and other sources
Determine strengths of competitors	Why do customers give them business?
	What is their financial position?
	What gives the cost & price advantage?
Determine weakness	Where are they lacking?
	Go through consumer reports, complaints available in various media
Put all information together	What improvement does the firm need to make?
	Areas that need to be strengthened?
	How can firm exploit the weakness of the competitors?

9.2. Key success factors for competitive success

- An industry's Key Success Factors (KSFs) are those that ***most affect industry member's ability to prosper in the marketplace*** (resources, competencies, capabilities, etc) & ultimately achieve competitive success/failure.
- KSF's are so important that all firms in the industry must pay close attention to them because they are the rules that ***shape whether a company will be financially & competitively successful.***
- At the very least, managers need to understand the industry situation well enough to know what is more ***important to competitive success*** & what is not.
- Misdiagnosing the industry factors critical to long term success greatly raises the risk of misdirected strategy.
- In contrast, an organisation with perceptive understanding of the industry's KSF's & stand out on a particular KSF enjoy a stronger market position.
- Hence, using the industry's KSF's & trying to gain sustainable competitive advantage by ***excelling at one particular KSF*** is a fruitful competitive strategy approach.
- How to identify industry's KSF's:

Questions to identify Key success factor
• On what basis do customers choose between the competing brands of sellers?
• What resources and competitive capabilities that a seller need to have to be successful?
• How can seller achieve a sustainable competitive advantage?

- Key success factors ***vary from industry to industry*** & even from ***time to time*** within the same industry as driving forces & competitive ***conditions change.***
- An industry at a time has only about ***three or four KSF*** & even among these only one or two outrank the others in importance.
- If managers compile a list of every factor that matters even a little bit, then it defeats the whole purpose of identifying & concentrating attention on the KSF's truly critical to long-term competitive success.

9.3. Prospects and financial attractiveness of industry

Draw conclusions on the relative attractiveness or unattractiveness of the industry using the results of analysis of the previous six issues.

The important factors on which to base such conclusions include-

- Industry's ***growth potential***
- ***Competitive*** forces will become stronger or weaker
- ***Profitability*** will be favourable or unfavourable due to present driving forces
- ***Degree of risk & uncertainty*** in the industry's future
- ***Competitive position*** is likely to grow stronger or weaker
- ***Potential to capitalise*** on vulnerabilities of weaker rivals
- ***Severity of problems*** confronting industry as a whole

If an industry's overall profit prospects are above average, the industry can be considered attractive; if below average it is unattractive. However, attractiveness is relative, not absolute.

Industry environments maybe unattractive to weak competitors & attract to strong ones.

10. Porter's Five Forces Model

Porters Five-Force Model of competition is a powerful & widely used tool for systematically diagnosing the significant competitive pressures in a market & assessing the strength & importance of each.

- Five forces model

- The interrelationship among these five forces gives each industry its own particular competitive environment and helps the manager to assess their own firm's strength, weakness and future opportunities
  - Competitive pressures associated with the market maneuvering and jockeying for buyer patronage that goes on among rival sellers in the industry.
  - Competitive pressures stemming from supplier bargaining power & supplier- seller collaboration
  - Competitive pressures stemming from buyer bargaining power & seller-buyer collaboration
  - Competitive pressures associated with threat of new entrants into the market.

10.1. Threat of new entrant

- Barriers to entry represent economic forces/hurdles that slow down or impede entry by other firms.
- Common barriers to entry: *Acronym*- **"BIG SPACE"**

Capital Requirements

- When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry.
- This enhances the profitability of the existing firms in the industry

Economies of scale

- Economies of scale refer to the decline in the per unit cost of production as activity grows

- A large firm that enjoys economies of scale can produce high volumes at lower costs which is not available to a new entrant

Product differentiation

- Cost of creating genuine differentiated product may be too high for new entrants
- It refers to physical or perpetual differences or enhancements that make the product special/unique
- Higher the product differentiation – higher will be the barrier to entry
- Lower the product differentiation – lower will be the barrier to entry

Switching cost

- New entrant must be able to persuade existing customer of other firms to switch to its product
- Buyers often incur substantial costs in switching between firms & are often reluctant to change
- Examples of switching cost –
  - Financial costs
  - Implicit costs (Psychological comfort or Brand image)
- Higher the switching cost – higher will be the barrier to entry
- Lower the switching cost – lower will be the barrier to entry

Brand image

- It is particularly important for infrequently purchased products that carry a high unit cost to the buyer
- Significant difficulties are faced in building up the brand identity, since to do so they must commit resources over a long period of time
- Higher the brand image of existing customers – higher will be the barrier to entry
- Lower the brand image of existing customers – lower will be the barrier to entry

Access to distribution channels

- Existing firms have significant influence over the distribution channels & can control/restrict their use by new firms
- Unavailability of distribution channels poses significant entry barrier
- If distribution network of existing players is strong – High barrier to entry
- If distribution network is not relevant in the industry – low barrier to entry

Government regulations

- Government rules and regulations can form barriers to entry
- Where an industry are regulated by the government, entry into it cannot be made without government permissions
- Example – defence, railways etc

Intellectual Properties

- Sometimes intellectual properties like patents, trademarks also act as barrier to entry

Possibility of Aggression

- Mere threat of aggressive retaliation by existing firms can act as a barrier to entry
- Introduction of a product by a new firm may agitate the incumbent firms to indulge in extreme activities such as drastically reducing prices and increasing advertisement budgets

Memory Technique

B	**B**rand image
I	**I**ntellectual property rights
G	**G**overnment regulations
S	**S**witching cost
P	**P**ossibility of aggression
P	**P**roduct differentiation
A	**A**ccess to distribution channels
C	**C**apital requirements
E	**E**conomies of scale

10.2. Threat of substitutes

- A force that can influence industry profitability is the availability of substitutes for an industry's product.
- Firms must search for products that perform the same/nearly the same function as theirs.
- Substitutes can be either from the same industry (digital filmless cameras replaced film cameras) or other industry (smart phones replaced cameras to a great extent).
- Where threat of substitutes is high profitability is impacted
- Where threat of substitutes is low profitability will not be impacted

10.3. Bargaining power of Buyers

- Quite often, users of industrial products come together formally or informally and exert pressure on the producer.
- Buyers can sometimes exert considerable pressure on the firms to lower their prices or improve their services. It is evident when-
  - Buyers have ***full knowledge*** of the source of products and their substitutes
  - They spend a lot of money on the industry's products i.e. they are ***big buyers***
  - The industry's product is ***not perceived as critical*** to the buyer's needs
  - Buyers are ***more concentrated than firms*** supplying the product.
  - They can easily ***switch*** to the ***substitutes available.***

10.4. Bargaining power of suppliers

- The more specialised the offering from the supplier, greater is his clout.
- The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry
- Suppliers can command bargaining power over a firm when:
  - Their products are crucial to the buyer and ***substitutes are not available***.
  - They can erect ***high switching costs***.
  - They are more ***concentrated*** than their buyers.

Difference between Bargaining power of buyers and suppliers

Bargaining power of buyers	Bargaining power of suppliers
• Customer is large • Fewer customers – many suppliers • Product has many substitutes	• Supplier is large • Many customers – fewer suppliers • Product has fewer substitutes

10.5. Rivalry in the industry

- The rivalry among existing players is quite obvious. This is what is normally understood as competition.
- The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability
- The more intense the rivalry in an industry, the less attractive the industry is. The intensity of rivalry can influence attractiveness, profitability, cost of suppliers, distribution.
- Rivalry among competitors tends to be cutthroat & industry profitability lowers due to these factors –

  Acronym-"LC FC EPS"

Industry leader

- Existence of a ***dominant player*** in the industry
- A strong industry leader can ***discourage price wars***
- Due to its greater financial resources, a leader can ***outlast smaller rivals*** in a price war
- Due to this, smaller rivals usually avoid initiating such a war

Number of Competitors

- As ***competitors*** in an industry ***increase in number***, even when a leader exists, his ability to ***exert pricing discipline diminishes*** as communication between the leader and the players becomes difficult

Fixed costs

- When ***rivals*** operate at high fixed cost, they have the need to utilise their full/excess capacity & therefore end up ***cutting prices***
- Price cutting causes ***profitability to fall for all firms*** in the industry
- ***Sales volume*** must be ***increased*** to recover fixed costs
- Production must be increased to ***lower the cost per unit***

Memory Technique

L	Industry **L**eader
C	Number of **C**ompetitors
F	**F**ixed **C**ost
E	**E**xit Barriers
P	**P**roduct differentiation
S	**S**low growth

Exit Barriers

- ***Rivalry*** among competitors ***declines*** if some ***competitors leave an industry***.
- ***Profitability increases*** in industries with few exit barriers
- When barriers to exit are powerful competitors desiring exit may refrain from leaving

Product differentiation

- Firms can sometimes insulate themselves from price wars by ***differentiating their products from those of rivals***
- Competitors have ***little opportunity*** to differentiate their offerings
- Profitability is higher in industries that ***offer opportunity*** for differentiation
- Profitability is lower in industries involving ***undifferentiated commodities***
- Customers are ***loyal*** to the brand
- ***Competition is less***

Slow growth

- Industries whose growth is slowing down ***face more intense rivalry***
- As growth slows, ***rivals must fight*** harder grow or even maintain their existing market share
- This intense rivalry tends to ***decrease the overall profitability***

Example of a car company (Porter's five forces model)

	Force	Intensity	Reason
Car Industry	• Threat of new entrant	• Low	• Entry Barriers
	• Threat of new	• High	• Not much of product differentiation
	• Bargaining power of suppliers	• High	• Depends on number of size and suppliers
	• Bargaining power of customers	• Low	• Customer is not valuable
	• Intensity of competition	• High	• Product differentiation • More players • Brand loyalty

11. Attractiveness of Industry

The industry analysis culminates into identification of various issues and draw conclusions about the relative attractiveness or unattractiveness of the industry, both near-term and long-term. Strategists assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and profit prospects are gloomy. This is important because companies invest capital, either the promoters or from the public and should be inherent careful in choosing an industry. The important factors on which the management may base such conclusions include:

- The industry's growth potential, is it futuristically viable?
- Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
- Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces?
- The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker. (Being a well-entrenched leader or strongly positioned contender in an otherwise lackluster industry can still produce good profitability; however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry unattractive).
- The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make the industry unattractive?

- The degrees of risk and uncertainty in the industry's future.
- The severity of problems confronting the industry as a whole.
- Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

As a general proposition, if an industry's overall profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is unattractive. However, it is a mistake to think of industries as being attractive or unattractive to all firms in the industry and all potential entrants. Attractiveness is relative, not absolute. Industry environments unattractive to weak competitors may be attractive to strong competitors.

An assessment that the industry is fundamentally attractive typically suggests that current industry participants employ strategies calculated to strengthen their long- term competitive positions in the business, expanding sales efforts and investing in additional facilities and equipment as needed.

If the industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to invest cautiously, look for ways to protect their long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right; over the longer term, strong companies may consider diversification into more attractive businesses.

Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

12. Market and Customer

A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for a price. The market might be physical, such as a departmental store where people engage in person. They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal.

Market might be used to describe the stock exchange, where securities are traded. It may also refer to a group of individuals trying to buy a specific commodity or service in a specific place, such as grain or vegetable market where farmers come to sell their produce. It may also be used to define a business or industry, such as the global oil market. The market is a place, business strategist work on marketing to improve the chances of success.

The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution. Often market activities are categorised and explained in terms of four Ps of marketing – product, place, pricing, and promotion. These four kinds of marketing activities help marketers identify customer needs so they may meet their demands and deliver satisfaction. Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the main goals of marketing.

- The orientation of product marketing has evolved and acquired different dimensions centred around product, production, sales and customers.
- Businesses that have product orientation think that buyers will choose those products that have the best quality, performance, design, or features.
- Production- oriented businesses believe that customers choose low price products.

- Sales oriented businesses believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.
- In a customer or market-oriented approach strategists prioritise efforts on their customers. In order to create better value propositions for customers, businesses gather, disseminate, and use customer and competitive information.
- A customer- centric business is one that continuously learn from its customers' needs and market dynamics. In the present times success, many business lies in customer centric approaches.

12.1. Customer

A customer is a person or business that buys products or services from another organisation. Customers are important because they provide revenue and organisations cannot exist without them.

All businesses look for customers, either by aggressively marketing their products or by lowering their pricing to boost their customer bases.

The terms customer and consumer are practically synonymous and are frequently used interchangeably. There is, however, a thin distinction. Individuals or businesses that consume or utilise products and services are referred to as consumers. Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers. In homes groceries are often bought by a parent and consume by all the members of family.

Businesses routinely research the characteristics of their consumers in order to fine- tune their marketing strategies and adjust their inventory to attract the most customers. Customers are frequently categorised based on demographics like as age, race, gender, ethnicity, economic level, and geographic region, which may all assist businesses in developing a profile of a perfect customer.

12.2. Customer Analysis

Customer analysis is an essential marketing component of any strategic business plan. It identifies target clients, determines their wants, and then defines how the product meets those needs. Thus, it involves the examination and evaluation of consumer needs, desires, and wants.

Customer analysis includes the administration of customer surveys, the study of consumer data, the evaluation of market positioning strategies, development of customer profiles, and the selection of the best market segmentation techniques.

Using the facts generated by customer analysis, an effective profiling of customers may be established. Customer profiles can reveal demographic information about customers. A number of parties, including buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors, can assist in gathering information to effectively assess the needs and desires of consumers. Successful businesses constantly monitor the behaviour of existing and prospective customers.

12.3. Customer Behaviour

Customer behaviour explains how they purchase products. It examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings.

Understanding these details allows businesses to communicate with customers in an effective manner. Understanding the behaviours of customers enables businesses to establish effective marketing and advertising campaigns, provide products and services that meet their needs, and retain customers for repeat sales.

Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following three conceptual domains:

- **External Influences:**
  External influences, like advertisement, peer recommendations or social norms, have a direct impact on the psychological and internal processes that influence various consumer decisions. The focus of external effects is on the numerous elements that have an impact on customers as they choose which needs to satisfy and which products to use to do so. These aspects are divided into two groups – the company's marketing efforts and the numerous environmental elements.

- **Internal Influences**: Internal processes are psychological factors internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.

- **Decision Making**: A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product. After weighing the advantages and disadvantages of each option, they would make a decision. The stages of decision making process can be described as:
  - Problem recognition, i.e., identify an existing need or desire that is unfulfilled
  - Search for desirable alternative and list them
  - Seeking information on available alternatives and weighing their pros and cons.
  - Make a final choice

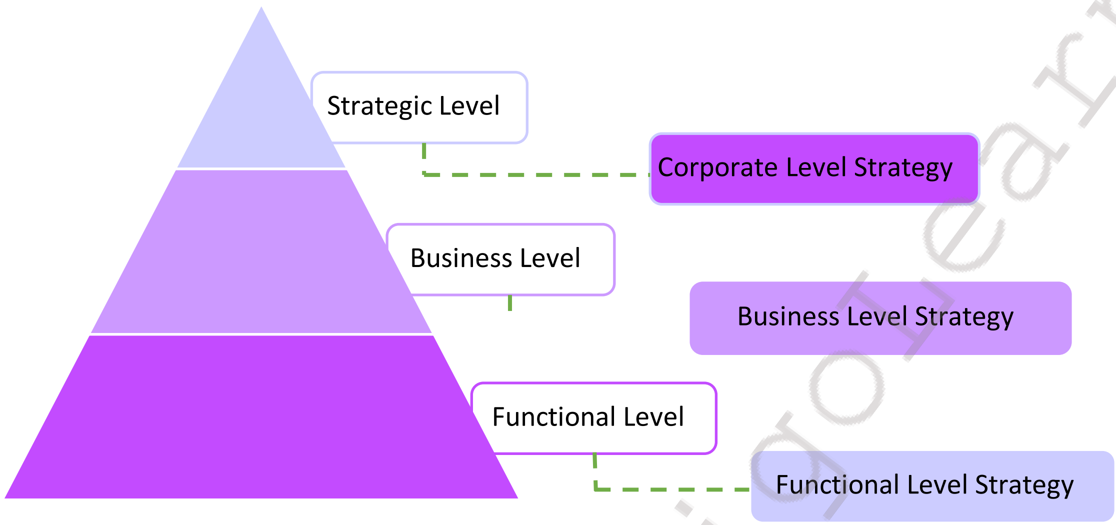
This behaviour of making decisions happens very frequently. However, it mostly applies when the purchase is one that is significant to the customer, such as when the product could have a significant influence on their health or self-image. The process is extremely valid when purchasing a car, television or a refrigerator in contrast to purchase of ice creams or soft drinks.

Post-decision Processes: After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome. The consumer's reaction may vary depending upon the satisfaction. While a happy customer may make repeat purchase and recommend to others, customer with dissonance will neither purchase the product again nor recommend it to others.

STRATEGIC CHOICES

1. Introduction

Strategies are formulated at different levels of an organization – corporate, business, and functional.

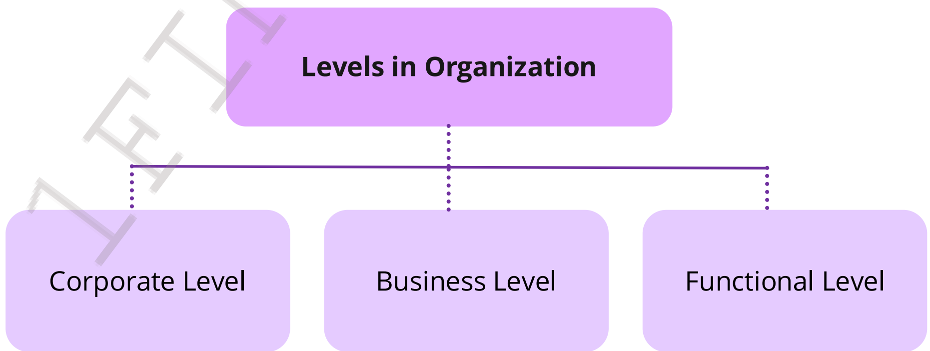


- Corporate level strategies occupy the highest level of strategic decision making
- Top management of the organization makes strategic decisions
- They deal in
    - Objective of firm
    - Acquisition
    - Allocation of resources
    - Coordinating strategies of various SBU's

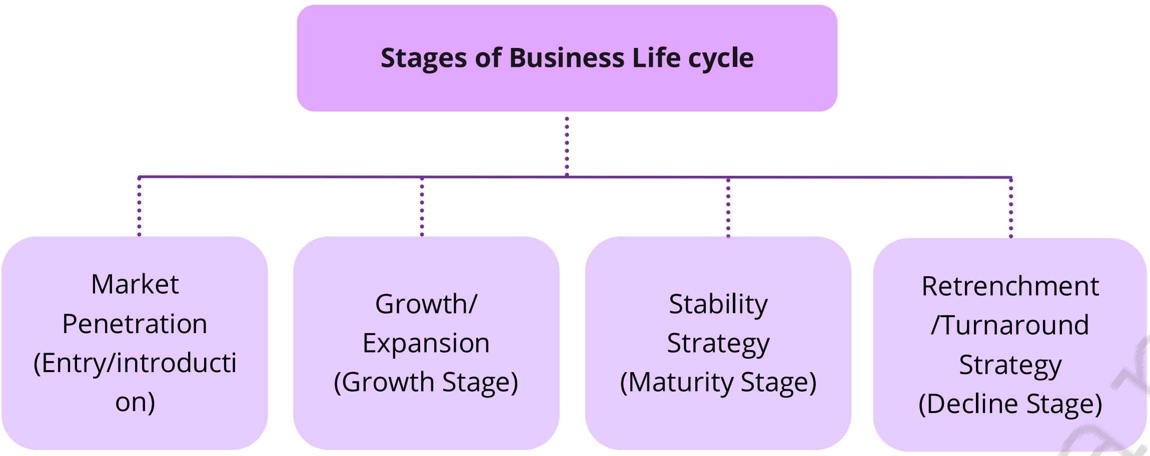
2. Types of Strategies

We can classify the different types of strategies on the basis of levels of organisation, stages of business life cycle and competition

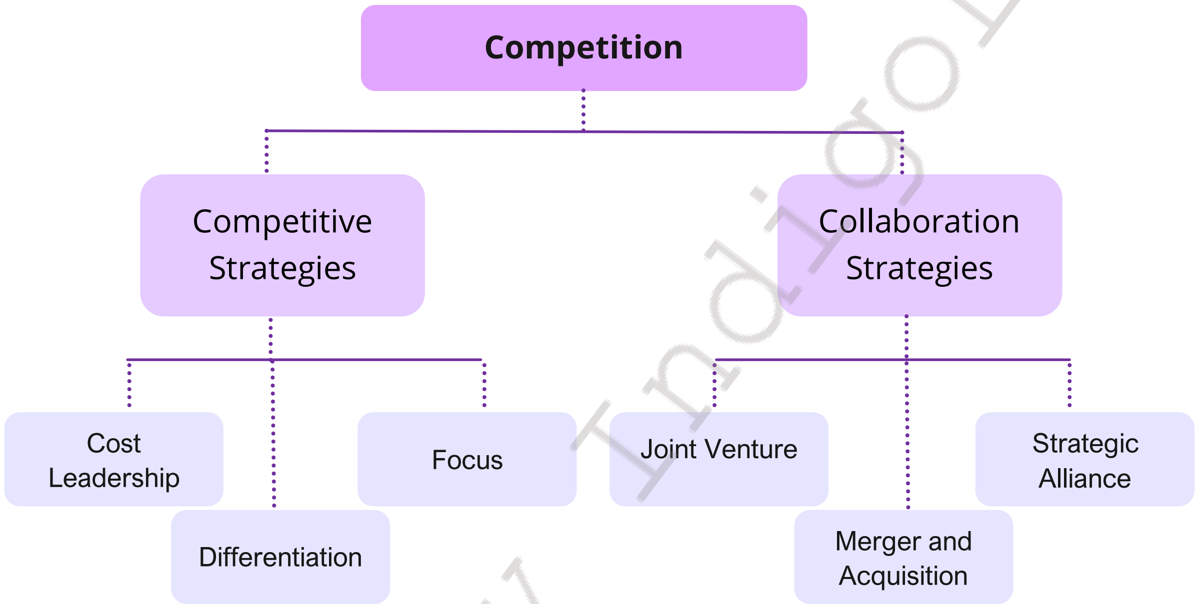
Level of the organisation



2.1.1 On the basis of Stages of Business Life Cycle



2.1.2 On the basis of competition



The corporate strategies a firm can adopt may be classified into four broad categories:

1. Stability strategy
2. Expansion strategy
3. Retrenchment strategy
4. Combination strategy

2.1 Stability Strategy

- It is a ***status quo-oriented*** strategy – may involve minor improvements in product and / or packaging.
- It is staying in and concentrating on the same business, same market and ***maintaining same level*** of effort as today.
- It is not a ***'do nothing'*** strategy – it involves keeping track of new development to ensure current strategy continues to make sense.
- It is a way of ***attempting to enhance*** functional efficiencies in an incremental way.

- It tries to ***protect existing strengths*** with very minimal additional investment and functional efficiencies.

Focus of business enterprise

- ***Safeguarding*** its existed interests and strengths
- Pursuing well established and ***tested objectives***
- Continuing in the ***chosen business path***
- Maintaining the ***operational efficiency*** on a sustained basis
- Consolidating the ***commanding position*** already reached
- ***Optimise returns*** on the resources committed in the business

Features of Stability Strategy

- The ***goal*** is ***to serve in the same / similar markets***, and deal in same / similar products
- It is pursued when the ***focus*** of strategic decisions is ***on incremental improvement*** of performance
- It is taken by those ***firms*** whose product have ***reached the maturity stage*** of product life cycle
- When expansion is ***perceived*** as being threatening and therefore less changes are desirable
- Small organizations who want to ***consolidate their market position*** and prepare for launch of growth strategy

Characteristics of Stability Strategy

- ***Nothing new*** is being done i.e. same products, same business, same markets
- This strategy represents ***"Status quo"***
- ***Least risky*** strategy
- This does not warrant much of ***fresh investment***
- Involves ***minor improvements*** in the product and its packaging
- Company focuses on utilisation of its existing resources into existing products and markets to get the ***maximum achievable benefit***
- Company endeavours to enhance in an ***incremental way*** but not for exponential growth
- Only those companies with ***modest growth objective*** choose for this strategy

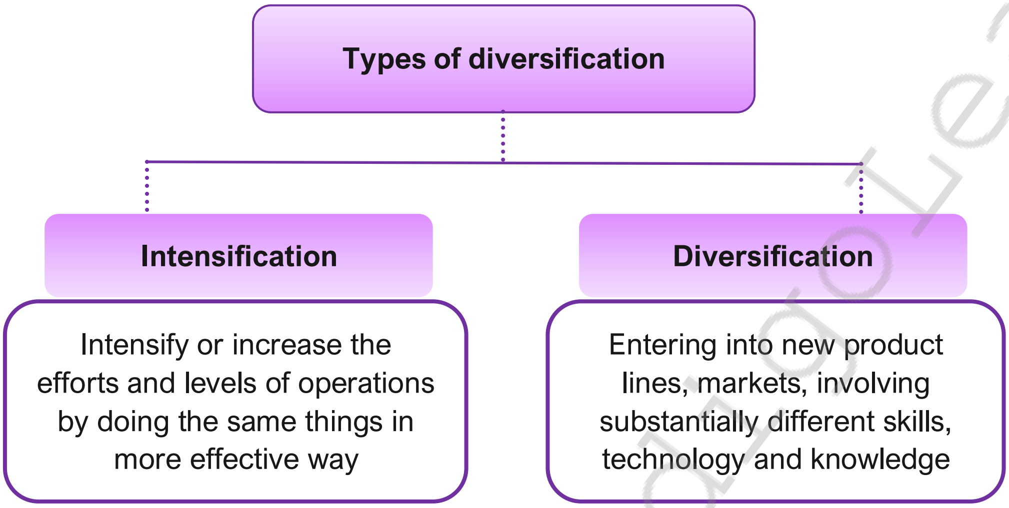
Major reasons for choosing Stability Strategy

- A product has reached the ***maturity*** phase
- Management and employees feel ***comfortable*** with the status quo
- Management is ***Risk averse*** in nature
- Expansion may be perceived as being ***threatening***
- Environment in which business operates is ***stable***
- After a period of rapid expansion/growth, for ***consolidating the market position***

2.2 Growth / Expansion Strategy

- When environment demands ***increase*** in pace of activity at a large scale
- It Involves ***redefining*** the business by enlarging scope of business without continuing the status quo leading to new products, new markets, and innovative decisions
- When expansion may lead to greater control over the market vis-à-vis competitors
- When advantages from the experience curve and scale of operations are likely to accrue
- It requires ***substantially increase*** in the fresh investments

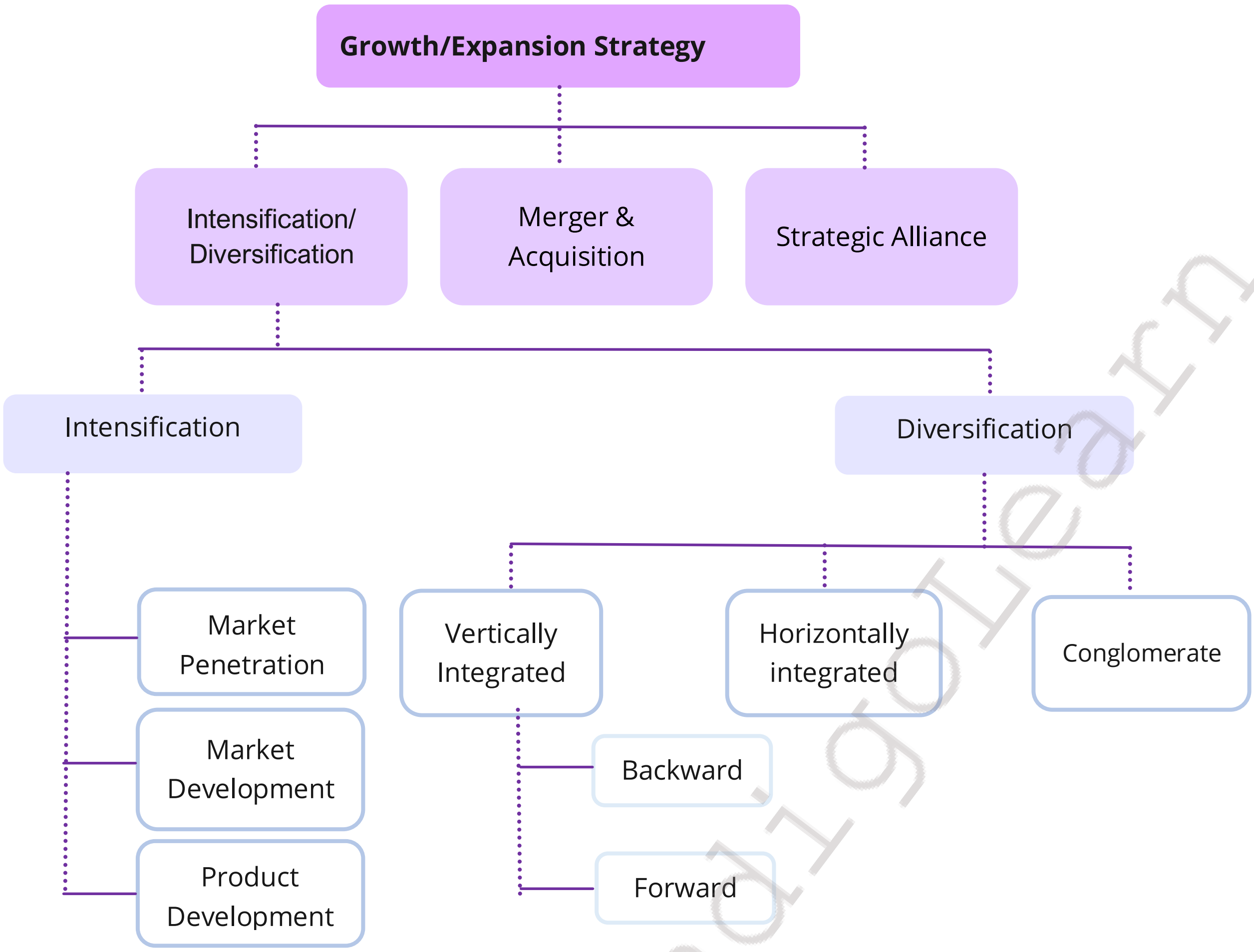
- It is opposite of stability strategy – here, risks are high, and so are rewards.
- It will also include mergers and acquisitions
- Redefining business products, divisions markets
- Opposite to Stability Strategy
- High risks are compensated with high rewards
- Leads to Business growth
- Requires newer investments
- Highly versatile strategy
- Internal Growth Strategies has two routes.
    - Intensification
    - Diversification



2.3.1 Major reasons for Growth/Expansions Strategy

- High growth environment with opportunities
- Growth oriented management
- After initial Consolidation when firm wants to grow exponentially
- To become strong player in the market, to take advantage over competitors
- Economies of scale

2.3.2 Kinds of growth Strategy



Intensification and Diversification are internal whereas mergers, acquisitions and strategic alliances are external.

3 Internal Growth Strategies

This can happen in two ways

3.1 **Intensification** – Intensifies or increases the efforts and level of operations by doing the same things in a more effective way

- Market Penetration – Existing products in existing markets
- Market Development – Existing products in new markets
- Product Development – New products in existing markets

Intensification	Market Penetration	Market Development	Product Development
	• Increase market share, i.e. grow in existing markets • Increase frequency of usage • Increase quantity used • Find new application for new users	• Expand geographically to target new markets/segments with existing products. • by adding new distribution channels etc.	• Substantial modification of existing products or creation of new but related items, to market to current customers in existing markets.

3.2 Diversification – It is a strategy adopted by those firms which want to launch new products in new markets. When a firm tries to grow and expand by diversifying into various products or fields, it is called growth by diversification.

This is also an internal growth strategy. Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship using their internal resources. They feel that diversification offers greater prospects of growth and profitability than intensification.

Diversification is defined as an entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.

This diversification can be classified on the basis of relation to existing business as

- Concentric – Related to existing business in some way and
- Conglomerate

Concentric diversification can be further classified as

- Vertically integrated
- Horizontally integrated

Diversification Types	Vertically integrated	Horizontally integrated
	• Engage in business which is related to existing business • Firm remains vertically within the same product-process sequence, and enter into product/process within that chain • Could be ***backward integration*** i.e. enter business of input providers • Could be ***forward integration***, i.e. enter lines that use existing products • Benefits of synergy	• Acquisition of similar business, operating at the same stage of the production-marketing chain, i.e. going into complementary products, by-products, taking over competitors' products
	Concentric Diversification	**Conglomerate Diversification**
	• New business is linked to existing business through process, technology or marketing • New product is spin-off from existing facilities and products / processes – benefits of synergy	• New business is disjoint from the existing business/ products in every way • No common thread (process/technology/function) with firm's present position

Vertically integrated diversification

- Backward and forward integration
  - **Backward integration** – Firm engaging in any business which is currently being done by the suppliers
    - ☞ For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.
  - Reasons –
    - To secure the raw materials supply
    - To improve the profitability
    - To reduce the cost of raw material consumed
  - **Forward integration** – Firm engaging in business which reduces the intermediaries between the firm and the customer
    - ☞ For example, A coffee bean manufacture may choose to merge with a coffee cafe.

- Reasons –
  - To control the distribution (or) create better distribution network
  - To increase the profitability

Horizontally integrated diversification

A firm gets horizontally diversified by integrating through acquisition of one or more similar businesses operating at the same stage of the production-marketing chain. They can also integrate with the firms producing complementary products or by-products or by taking over competitors' products.

Conglomerate Diversification

In conglomerate diversification, no linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. For example, A cement manufacturer diversifies into the manufacture of steel and rubber products.

- **Related diversification** – Exchange or share assets or competencies by exploiting
  - brand name
  - marketing skills
  - sales and distribution capacity
  - manufacturing skills
  - R&D / new product capabilities
  - economies of scale

  ☞ Example: Concentric diversification
- **Unrelated diversification** – Investment in new product portfolios
  - Employment of new technologies
  - Focus on multiple products
  - Reduce risk by operating in multiple product markets
  - Defend against takeover bids
  - Provide executive interest

  ☞ Example: Conglomerate diversification

3.3 Innovation

Innovation drives upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction. Innovation has following benefits

- **Helps to solve complex problems:** A business strives to find opportunities in existing problems of the society, and it does so though planned innovation in areas of expertise.

  This guided innovation help solve complex problems by developing customer centric sustainable solutions.

  For example – Vehicles with driver assistance help reduce accidents.

- **Increases Productivity:** Innovation leads to simplification and in most cases automation of existing tasks. Productivity is defined as a measure of final output from a task or a process, and companies are willing to spend millions on increasing their productivity, Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organisation as a whole.

  For example, with automation, companies can ensure automatic dispatches of products using robots and technology. Such digital innovation which leads to improved productivity, creates opportunities to further develop processes and products within and outside the organisatoin. Thus, innovation creates a ripple effect that has a far and wide impact across industries.

- **Gives Competitive Advantage:** A business which innovates faster is ahead of competition. For example Apple is pioneer in innovation and is considered as one of the leading companies in mobile and technology. The faster a business innovates, the farther it goes from its competitor's reach. Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage. Innovation not only helps retain the existing customers but helps acquire new ones with ease.

4 Expansions through Merger and acquisition

- Merger and Acquisition (M&A) is the process of combining two or more organizations together
- Merger is a process of two or more companies ***coming together*** to expand their business operations
- Acquisition is when one organization ***takes over*** another, and controls all its business operations. Usually, acquirer is financially stronger than the organization being acquired. Often unfriendly – a forced association for the acquired entity
- Instant means of achieving expansion – saves time and skills involved in screening internal growth opportunities and building up the resource base to pursue them
- Helps in achieving synergies from various perspectives - physical facilities, technical skills, distribution channels, R&D etc.
- The combination brings ***positive synergy***
- Reasons
  - Due to economies of scale
  - The unnecessary plants after merger will get shutdown
  - Different expertise/ specialisation processed by each companies are brought together
- Result
  - Increased Market Share
  - Increased Revenue
  - Lower Costs
  - Higher Profits
- The combination might bring ***negative synergy*** **–** when expected synergies are not achieved
- Reasons
  - Diverse work culture
  - Inefficient utilisation of resources
- Result
  - Failure of business
  - Losses to organisation

Types of Mergers

Merger Types

Vertical Merger

- Merger with organization in same industry but at different stage of production or distribution system
- ***Backward Integration*** - taking over suppliers/ producers of raw material
- ***Forward integration*** - taking over buyers/ distribution channels
- Results in increased synergies, operating and financial economies, helps control competition (by restricting raw material supply or by not letting use the distribution channel)

Horizontal Merger

- Merger with direct competitor, thus combination of firms in same industry
- Existing company acquiring another company engaged in same industry
- ***Objective***: to achieve economies of scale in production process, widen line of products, decrease working capital etc.
- Shedding out the duplication of resources and functions
- E.g.: Brooke Bond + Lipton India = Brook Bond Lipton India Ltd.

Co-generic Merger

- Merger of organizations that are associated in some way or the other related to the production processes, business markets, or basic technologies
- Helps to diversify around a common set of resources
- E.g.: Business of refrigerators merging with business of kitchen appliances

Conglomerate Merger

- Merger of unrelated organizations - no linkage to customer groups or technologies or R&D or production and marketing

Horizontal Merger
Competitive firms in similar line of business merge together to save the time, efforts and resources that are used in competing against each other

5 Expansion through Strategic Alliance

- A ***relationship*** between two or more businesses which is entered into ***to achieve specified objectives***
- Neither of the business organization loses its ***independence and separate identity***
- Merely ***share controls and benefits*** over the partnership and ***mutually make contributions to the alliance*** until terminated
- Often formed across countries / regions

Advantages

- Sharing of resources in the form of marketing skills, distribution network, Production skills, Asset base, technical knowhow etc.,
- Greater economies of scale can be obtained in an alliance, as production volume can increase, with same fixed costs causing the cost per unit to decline
- Rivals can join together to cooperate instead of compete
- Vertical integration can be created where partners are part of supply chain
- Strategic alliance are formed with players in foreign markets
- These advantages usually accrue to all parties involved-

Advantages of Strategic Alliance

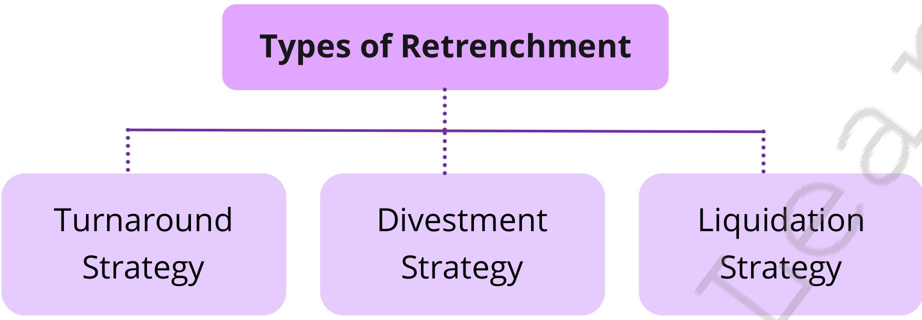
Organizational	Economic
• Improving necessary skills • Obtaining certain capabilities • Enhance productive capacity • Provide a distribution system	• Reduction in costs and risks • Achieving greater economies of scale • Utilizing co-specialization • Offering additional value to customers
Strategic	**Political**
• Pool resources and skills, thus creating competitive advantage • Get access to new technologies • Pursue joint R&D	• To gain entry into foreign markets, one may ally with local foreign business • To improve influence and position, one may ally with politically influential partners

Disadvantages

- Requirement to share profits, resources, knowledge, skills etc., such things organizations may not like, especially problematic when there are trade secrets involved
- Risk of creating a competitor – an ally may turn one, when it separates out in the future

6 Retrenchment Strategy / Strategic Exits

- This strategy is pursued when, an organisation substantially reduces the scope of its activities.



- Major reasons for retrenchment
  - Continuous losses and unavailability
  - Persistent negative cash flows
  - Severity of competition
  - Technology upgradation is required
  - New facilities required
  - Mismanagement

6.1 Turnaround Strategy

- When organisation wants to reverse the process of decline it adopts turnaround strategy
- It is a strategy to revive the growth for the company
- It is internal retrenchment to improve internal efficiencies
- Action plan for turnaround – Stages
  - ***Assess*** current problems, ***identify root causes*** and damage caused
  - ***Identify*** strategies, ***develop action plan*** and evaluate chances of survival with each of such plans
  - ***Implementing the action*** plan by taking HR, financial, operations, marketing actions to restructure debts, reduce costs, improve working capital etc.
  - ***Analyse*** and review cash forecasts, assets & debts position, etc., and take steps to ***restructure*** the business on the basis of
    - People
    - Product
    - Financial Assets
  - ***Evaluate*** if there are signs of returning to normal
- Important elements:
  - Changes in top management
  - Neutralise external pressures
  - Quick cost reductions
  - Revenue generation efforts
  - Asset liquidation for cash
  - Improve internal coordination

- Initiate credibility-building

6.2 Divestment Strategy

- It involves sale or liquidation of a portion / division of business or a profit centre / SBU
- It is adopted when turnaround has been unsuccessful.
- It is a rehabilitation / restructuring plan
- Reason for divestment –
  - An acquisition proves to be a ***mismatch***, and cannot be integrated
  - There are persistent ***negative cash flows***
  - Inability to deal with ***severe competition***
  - Unable to invest in ***technological upgradation*** which otherwise is a must
  - A ***better alternative*** for investment is available

6.3 Liquidation Strategy

- It involves closing down the firm and selling assets
- It leads to unemployment, loss including reputational, hence the last resort
- Selling assets may be difficult and also it might become hard to find buyers
- It is the most unpleasant stage, yet desirable if closing down is less loss-making than running the business

6.4 Combination Strategy

- All the strategies are not mutually exclusive
- Companies may adopt a suitable mix – stability in some areas, expansion in some, and retrenchment in others.
- Main reasons for adopting combination strategy are:
  - organization is large and environment complex
  - it is composed of different businesses, in different industries

6.5 Major Reasons for retrenchment/turnaround strategy

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- The management feels that business could be made viable by divesting some of the activities or liquidation of unprofitable activities.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- Severity of competition and the inability of a firm to cope with it may cause it to divest.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

7 Strategic Options

In the context of strategic management, strategic options refer to the various alternatives or courses of action that an organization can consider and pursue to achieve its long-term goals and objectives. Strategic management involves the process of analyzing the external environment, assessing internal capabilities, and formulating strategies to guide the organization toward success.

Strategic options are critical because they provide decision-makers with a range of choices for how to position the organization in relation to its competitors, adapt to changes in the business environment, and capitalize on opportunities. These options help organizations navigate uncertainties and make informed decisions about the direction they want to take.

Strategic options need to be carved out from existing products and innovations that are happening in the industry. There are a set of models that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential.

For instance, a diversified company may decide to divert resources from its cash- rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

In order to design the business portfolio, the management must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses management may develop growth strategies for adding new products or businesses to the firm's portfolio.

7.1 Ansoff's product market growth matrix

- Companies should always be looking to the future & one useful tool for identifying growth opportunities for the future is the product/market expansion grid.
- Ansoff's product market growth matrix is a useful tool that helps businesses decide their product & market growth strategy.
- It is a portfolio-planning tool for identifying growth opportunities for the company.

7.1.1 Market Penetration

- Selling ***existing products*** into ***existing markets***
- More sales to present customers without majorly changing product
- Greater spending on ***advertising*** & personal selling
- Aggressive promotional campaign
- ***Pricing strategy*** that makes market unattractive for competitors
- Increase usage by ***existing customers***

7.1.2 Market Development

- Selling ***existing products*** into ***new markets***
- Identifying & developing new markets for current products
- Maybe achieved through
  - New ***geographical*** markets
  - New product dimensions/***packaging***
  - New ***distribution channels***
  - Different ***pricing policies***

7.1.3 Product Development

- Introduce ***new products*** into ***existing markets***
- May require the ***development of new competencies***
- Develop modified products which is appealing to existing customers

7.1.4 Diversification

- The business markets ***new products*** in ***new markets***
- ***Starting up***/acquiring businesses outside the company's current products
- & markets
- ***Risky*** strategy since it does not rely on the current successful position of the company in the market
- Moving into markets where company has little/no experience

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

7.2 ADL Matrix

The ADL matrix approach forms a two-dimensional matrix based on stage of industry maturity (environmental assessment) & the firm's competitive position (business strength assessment).

Dominant	• Rare position • Monopoly • Strong & protected technological leadership
Strong	• Considerable degree of freedom • Act without its market position being threatened by rivals
Favourable	• Fragmented industry • No one competitor stands out clearly • Reasonable degree of freedom
Tenable	• Satisfactory performance • Staying in the industry is justifiable • Vulnerable in the case of intense competition from strong rivals
Weak	• Unsatisfactory performance • Opportunities for improvement exist

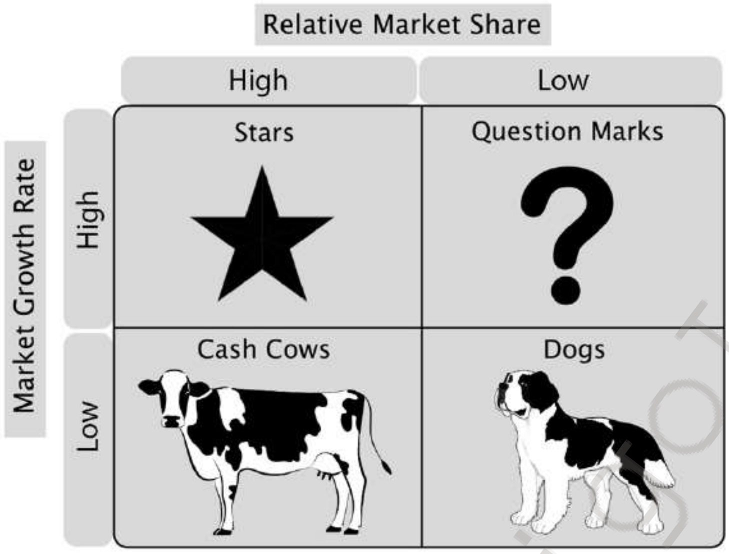
INDUSTRY MATURITY

COMPETITIVE POSITION	Embryonic	Growth	Mature	Ageing
Dominant	• Increase customers • Act offensively	• Retain customers • Grow fast • Optimisation	• Retain market share • Grow • Re-invest	• Defend postion (or) • Withdraw
Strong	• Grow fast • Differentiate	• Defend market share • Grow fast	• Retain market share • Grow	• Defend • Reduce expenses (or) withdraw
Favourable	• Gain market share • Differentiate	• Defend market share • Grow fast	• Retain market share • Try to differentiate	• Harvest (or) withdraw
Tenable	• Grow with industry • Find Niche	• Hold the niche position (or) • Withdraw	• Hold the niche position (or) withdraw.	• Hold (or) withdraw
Weak	• Continue (or) • Withdraw	• Try to differentiate (or) • Withdraw	• Turn around (or) withdraw.	• Withdraw

7.3 Boston Consulting Group (BCG) Growth Share Matrix

The BCG growth share matrix is used for resource/investment allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two- dimensional growth-share matrix. In the matrix

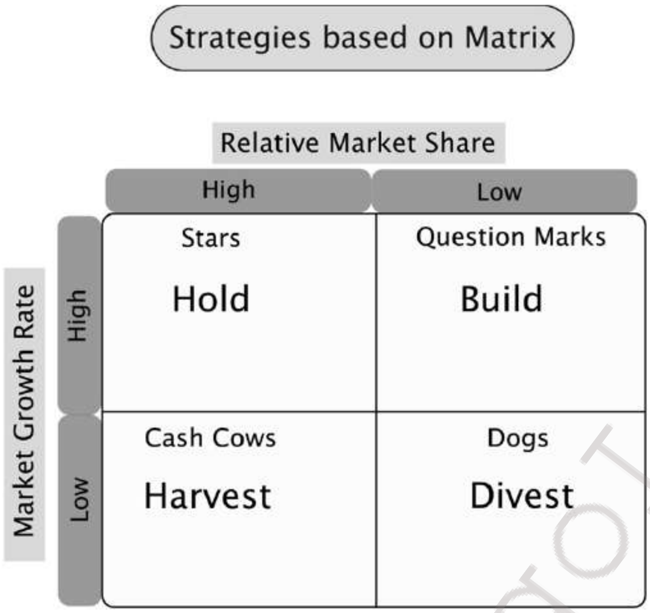
- Vertical axis represents ***market growth rate*** & a measure of ***market attractiveness***
- Horizontal axis represents ***relative market share*** & a measure of ***company strength***



Star	• Products or SBU's that are growing rapidly • Need heavy maintenance to finance their rapid growth potential • Represent best opportunity for expansion
Cash Cows	• Low growth, high market share • Generate cash & have low costs • Established, successful, need low investment • Stars become cash cows in the long run when growth rate slows down
Question Mark	• Called as problem child or wildcats • Low market share in high growth market • Need heavy investments with low potential to generate cash • If left unattended, capable of cash traps • Due to high growth rate, expansion is easier • Organization should strive to turn them to stars & then to cash • cows when growth rate reduces
Dogs	• Low growth, low share business/products • May generate cash to maintain themselves • Do not have much future • Sometimes may need cash to survive • Minimize dogs by divestment/liquidation

- After a firm has classified its products/SBU's as above, it must determine what role each will play in the future. The four strategies that can be adopted are:
  - ***Hold*** - preserve market share

- ***Build*** - increase market share even by forgoing short term income to build large market share
- ***Harvest*** – Increase cash flows
- ***Divest*** - sell/liquidate since resources can be better used elsewhere



7.3.1 Limitations of the BCG growth share matrix

- Limitations of the BCG growth share matrix:
  - Difficult, time consuming, costly to implement
  - Difficult to define SBU's & measure market share and growth
  - Focuses on classifying current businesses while providing little advice for future planning
  - Places too much emphasis on increasing market share, growth & expansion into new markets which leads to risky ventures or divesting established units too quickly

7.4 General Electric Matrix (Stop – light Strategy Model)

The strategic planning approach in this model has been inspired from traffic control lights: green for go; yellow for caution; red for stop.

- The vertical axis indicated ***market attractiveness*** & the horizontal axis shows the ***business strength*** in the industry.

Market attractiveness is measured by factors like:

Acronym-**"DISCS AT DOOR"**

- ***Demand*** variability
- ***Industry*** profitability
- ***Size*** of the market
- ***Competitive*** intensity
- ***Segmentation***
- ***Availability*** of technology
- Pricing ***Trends***
- ***Distribution*** structure
- ***Overall Risk*** of returns in the industry
- ***Opportunity*** for differentiation

- Market growth ***Rate***

Business strength is measured by drivers like:

Acronym- **"CM PLATE RIMS"**

- Relative ***Cost*** position
- ***Management*** calibre
- ***Production*** capacity
- Customer ***Loyalty***
- ***Ability*** to compete on price & quality
- ***Technological*** capability
- Distribution ***Efficiency***
- ***Rate of market share*** growth
- Brand ***Image***
- Profit ***Margin***
- Market ***Share***

STRATEGY IMPLEMENTATION AND CONTROL

1. Introduction

- Strategic management process does not end when the firm decides what strategies to pursue
- There must be a translation of strategic thought into strategic action
- Strategy implementation requires introduction of change in the organisation to make organisational member adapt to the new environment

2. Strategy Implementation

- Strategy implementation concerns the ***managerial exercise*** of putting a freshly chosen strategy ***into action***
- It deals with ***translating*** a strategic decision into action
- ***Allocation of resources*** to new course of action
- Adapting the ***organization's structure*** to handle new activities as well as training personnel and devising appropriate systems

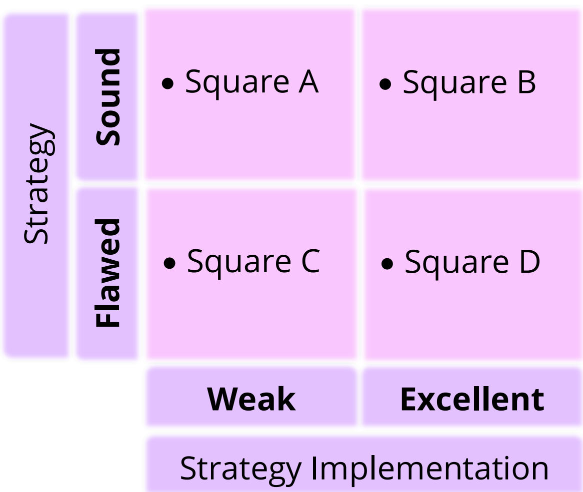
A good strategy with bad implementation will not result in success

2.1 Relationship with Strategy Formulation

- There is a difference between strategy formulation and strategy implementation
- Both require different skill set.
- A company would be successful only if the strategy formulation is sound and implementation is excellent.

Strategy implementation is linked with strategy formulation, they are not independent

2.2 Strategy formulation and implementation



Understanding the strategies execution and formulation	
Square A	• Very competitive strategy but difficulties in implementing it Successfully. • ***Reason*** – Lack of experience, lack of resources, missing leadership • ***How to improve*** – Appoint a team with experience
Square B	• ***Ideal Situation*** – Combination of sound and competitive strategy and has been successful in implementing it
Square C	• Have not succeeded in coming up with a sound strategy formulation and are bad at implementing their flawed strategy. • ***How to Improve*** – Business Model redesign and implementation readjustment
Square D	• Strategy formulation is flawed but the company is showing excellent. • ***How to improve*** – Redesign their strategy

Strategy is not a synonymous with 'long term plan'. It consists of an enterprise's attempts to reach some preferred future state by adapting its competitive position as circumstances change

2.3 Concept of Efficiency and Effectiveness

Concept

- **Efficiency** – The result of output for a given input
- **Effectiveness** – To be able to do the right things

Exam Tip

- ***Effectiveness*** – to do the right things
- ***Efficiency*** – to do the thing right

2.3.1 Effectiveness

- It refers to level of effectiveness of strategy formulation
- We can have ***Effective Strategy Formulation***

2.3.2 Efficiency

- It refers to the implementation of strategy
- We can have ***Efficient Strategy Implementation***

		Strategy Formulation	
		Effective	**Ineffective**
Strategy Implementation	**Efficient**	• Thrive – 1	• Die Slowly – 2
	Inefficient	• Survive – 3	• Die Quickly – 4

	Understanding the strategies execution and formulation
Square 1	• Well-placed and thrives(flourish). • Organization has efficient input/output ratio and effective for changing environment
Square 2	• Doomed position • Organization is efficient but not effective to the changing environment
Square 3	• Organization is effective but not efficient. • It ensures survival as organization Strategic direction present to ensure effectiveness. • Efficiency is not necessary for survival
Square 4	• Inefficient and ineffective. • Worst situation and organization collapse quickly

2.3.3 Efficiency Vs. Effectiveness

Nature	Efficiency	Effectiveness
• Meaning	• To do the things in right manner	• To do the right things
• Focus	• On relationship between inputs and outputs	• On end Objective
• Nature	• Generally, short-term and more operational in nature	• Generally, more long-term and strategic in nature
• Responsibility	• Responsibility for efficiency lies with Operational managers	• Responsibility of Strategic management lies with the top management

Imperfect plan + well Implemented will achieve more than the Perfect plan + worst implementation

2.3.4 Strategy Formulation Vs. Implementation

Nature	Strategy Formulation	Strategy Implementation
• Focus	• Focus on ***effectiveness***	• Focus on ***efficiency***
• Process	• Primarily an ***intellectual*** process	• Primarily an ***operational*** process
• Skills	• Requires ***Conceptual*** intuitive and analytical skills	• Requires ***Motivation*** and leadership skills
• Coordination	• Requires ***coordination*** among the executives at the ***top level***	• Requires ***coordination*** among the executives at ***middle and lower levels***
• Type of activity	• Entrepreneurial activity and based on strategic decision making	• Administrative activity and is based on both strategic and operational decision making

2.3.5 Linkages

- Strategy formulation and Strategy implementation are interlinked with each other
- The two processes are intertwined and have two types of linkages
- Forward Linkages – Implementation of strategy is determined by formulation of strategy
  - Strategy formulation starts with ***objective setting*** through environmental and organizational appraisal.
  - ***Evaluating*** different ***alternatives*** for achieving objective and choose one of them.
  - Formulation of new strategies or changes in the existing strategies leads to ***many changes in the organization*** for implementation of decided strategy. Changes like change in ***organization structure, style of leadership***
- Backward Linkages – Formulation of strategy is also affected by factors related with implementation
  - The ***past strategic action*** helps in determining the choice of strategy.
  - Organization adopt those strategies which can be implemented with the help of the ***present structure*** of resources ***combined*** with some ***additional efforts***

3. Issues in Strategy Implementation

3.1 Issues in Strategy implementation

- Strategic plans are a ***statement of intent*** while implementation tasks are meant to realize the intent

- Strategies are therefore activated through implementation
- Strategic implementation should be done properly to ensure that, they achieve the desired results

- Strategies should lead to formulation of different kinds of ***programs***
    - A program is a broad term, which includes goals, policies, procedures, rules, and ***steps to be taken in putting a plan into action***
    - Example: Organization has a Research and development Program for gaining competitive advantage
- Program lead to the ***formulation of projects***
    - A project is a highly ***specific program*** for which the time schedule and costs are predetermined
    - Projects ***require resources***
    - It would be essential to see that a
        - proper ***organizational structure*** is designed,
        - ***systems*** are installed,
        - functional ***policies are devised***, and
        - various behavioral ***inputs are provided*** so that plans may work
    - Example: Research and development program may consist of several projects, each of which is intended to achieve a specific and limited objective within a set time schedule and cost

3.2 Challenges faced by strategist in implementing strategy

- Given below in sequential manner the issues in strategy implementation which are to be considered
    - Project implementation
    - Procedural implementation
    - Resource allocation
    - Structural implementation
    - Functional implementation
    - Behavioural implementation
- Each of the above activities can be performed simultaneously, certain activities may be repeated over time and some may be performed only once
- It is essential that divisional and functional managers be involved as much as possible in the strategy-formulation process
- Managers and employees throughout an organization should participate early and directly in strategy-implementation activities

3.3 Challenges faced by strategist in implementing strategy

Top management Responsibilities

- Management issues central to strategy implementation include
  - establishing annual objectives,
  - devising policies,
  - allocating resources,
  - altering an existing organizational structure,
  - restructuring and reengineering,
  - revising reward and incentive plans,
  - minimizing resistance to change,
  - developing a strategy- supportive culture,
  - adapting production/operations processes,
  - developing an effective human resource system and, Establishing a conducive organization environment

- Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees
- Top-down flow of communication is essential for developing bottom-up support
- This is a challenge for strategists of the firm. Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers

3.4 Key success factors that help in successful strategy implementation

Key success factors

- Assigning clear roles and responsibilities for implementation
- The transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers
- Allocate enough resources necessary for implementation
- Monitor and manage change process properly
- Evaluate the results and improve the strategy from those learnings

3.5 Factors that lead to failure of strategy implementation

Factors leading failure

- Lack of accountability
- Non-involvement of top management
- Existence of too many teams
- Lack of communication & coordination
- Employees resistant to change
- High emphasis on short run

4. Strategic Change through digital transformation

- Changes in environmental forces requires business to make modifications in their existing strategies
- Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business
- Factors leading to change in an organization
  - Increasing competition

- Potential competition
- Change in environment
- Change in technology

- If organization fail to recognize the importance of change, they are bound to die
- Changes are integral part of organization's journey
- Resistance to change has to be minimized

4.1 Reasons for employees resisting to change

- Fear of job security
- Averse to disrupt status quo
- They just resist the change despite the lack of knowledge
- To protect the interest of other employees
- Finding new targets as too difficult to achieve

4.2 Steps to initiate strategic change

Steps	Reasons	Purpose
• Recognize the ***need for change***	• ***Analyzing*** the present corporate culture which parts of corporate culture are strategy supportive and which are not • Involves ***environmental scanning*** through SWOT analysis	• Determining where ***lacuna lies*** and scope for change exists
• Create a ***shared vision*** to manage the change	• ***Objectives*** of both individuals and organization ***should coincide*** • Senior ***managers*** need to constantly and consistently ***communicate*** the vision to all the organizational members • Make employees part of change	• Management has to ***convince*** that the change in business culture is not superficial or cosmetic
• ***Institutionalize*** the change	• Basically, an ***action stage*** which requires implementation of changed strategy • Creating and ***sustaining*** a ***different attitude*** towards change is essential	• To ***implement changes*** in strategy of the organization

4.3 Kurt Lewin's Model of change

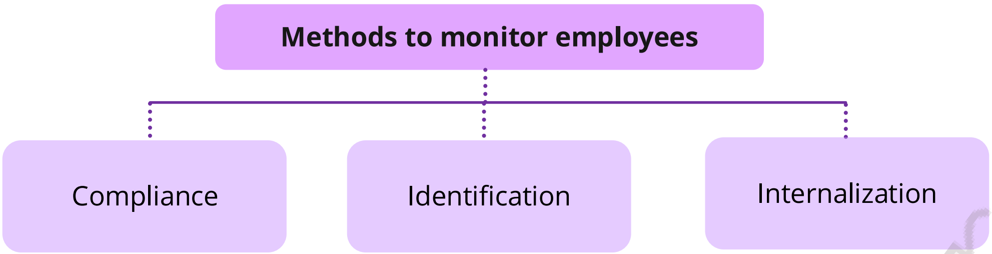
Three phases of the change process for moving the organization from the present to future

4.3.1 Unfreezing the situation

- Definition – Process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate.
- Process – Reasons for change to be explained to the employees
  - Making announcements, holding meetings and promoting the new ideas throughout the organization.
  - To make individuals ***aware of the necessity for change***
  - ***Prepare*** them for such a change because sudden and unannounced change would be socially destructive and morale lowering.

4.3.2 Change to new situation

- Definition – Process of reassigning new patterns of behaviour for member of the organization
- Process – This happens in three ways



- **Compliance** – strictly enforcing the ***reward and punishment strategy*** for good or bad behaviour.
- **Identification** – occurs when members are psychologically impressed upon ***identify themselves with some role models*** whose behaviour they would like to adopt.
- **Internalization** – change in individuals ***thought processes*** in order to adjust to the changes introduced. Provide independence to learn and adopt new behaviour

4.3.3 Refreezing the situation

- Definition – Process of ***Stabilizing the new behaviour*** and continuously reinforced so that this new acquired behaviour does not diminish or extinguish
- Process – It occurs when the new behaviour becomes a ***normal way of life***. The new behaviour must replace the former behaviour completely for successful and ***permanent change to take place***

> Change process is not a one-time application but a continuous process due to dynamism and ever-changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

4.4 Digital Transformation

The use of digital technologies to develop fresh, improved, or entirely new company procedures, goods, or services is known as "digital transformation." It's a fundamental adjustment that can be challenging to identify and even more challenging to implement.

Change management enters into the picture here. Organizations can plan, prepare for, and carry out changes to their operations, including digital transformations, with the aid of the discipline of change management. When implemented correctly, change management may assist firms in overcoming the obstacles posed by the digital transition and reaping the full rewards of their investment.

Change management in the digital transition consists of four essential elements:

1. Defining the goals and objectives of the transformation
2. Assessing the current state of the organization and identifying gaps
3. Creating a roadmap for change that outlines the steps needed to reach the desired state
4. Implementing and managing the change at every level of the organization

How does change management work?

Change management is a process or set of tools and best practices used to manage changes in an organization. It assists in making changes in a safe and regulated manner, reducing the possibility of detrimental effects on the company. Any sort of organisation, including enterprises, organisations, governmental bodies, and even families, can utilise change management to manage changes.

Change management models and methods come in a wide variety, but they all have key things in common. These include creating a clear vision for the change, involving stakeholders in the process, coming up with a plan for putting the change into action, and keeping an eye on the results. Although change management is frequently viewed as a difficult and complicated process, it is vital for ensuring that digital transformation projects are successful.

The role of change management in digital transformation

Digital transformation is a process of organizational change that enables an organization to use technology to create new value for customers, employees, and other stakeholders. A good change management strategy is necessary for a successful digital transformation.

Change management is the process of planning, implementing, and monitoring changes in an organization. It provides organizations in achieving their objectives while reducing risks and disruptions. For any organisation undergoing a digital transition, change management is crucial.

A properly implemented change management strategy can help an organization to:

- Specify the parameters and goals of the digital transformation
- Determine which procedures and tools need to be modified.
- Make a plan for implementing the improvements.
- Involve staff members and parties involved in the transformation process.
- Track progress and make required course corrections

4.5 Change Management Strategies for Digital Transformation

The five best practices for managing change in small and medium-sized businesses are:

- **Begin at the top:**
  A focused, invested, united leadership that is on the same page about the company's future is reflected in change that begins at the top. The culture that will motivate the rest of the organisation to accept change can only be generated and promoted in this way.

- **Ensure that the change is both necessary and desired:**

  Any digital change should be necessary (required for the company) and desired (by employees). The fact that decision-makers are unaware of how to properly handle a digital transformation and the effects it will have on their firm is one of the main causes of failed digital transformation. If a corporation doesn't have a sound strategy in place, introducing too much too fast can frequently become a major issue.

- **Reduce disruption:**

Employee perceptions of what is required or desirable change can differ by department, rank, or performance history. It's crucial to lessen how changes affect staff. The introduction of new tactics or technologies intended to improve management and corporate operations causes employee concern about change. It is possible to reduce workplace disruption by:

- Getting the word out early and preparing for some interruption.
- Giving staff members the knowledge and tools, they need to adjust to change.
- Creating an environment that encourages transformation or change.
- Empowering change agents to provide context and clarity for changes, such as project managers or team leaders.
- Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.

- **Encourage communication:**
  Create channels so that workers may contact senior management with queries or complaints. Encourage departmental collaboration to propagate ideas and innovations as new procedures take root. Communication promotes efficiency and has the power to influence culture, just like company's vision. The people who will be affected the most by these changes are reassured that they are not in danger through effective communication, which keeps everyone on the same page.

- **Recognize that change is the norm, not the exception:**

  Change readiness may be defined as "the ability to continuously initiate and respond to change in ways that create advantage, minimize risk, and sustain performance." In order to keep up with the customers, businesses must also adapt their operations. They must prepare for change in advance and expect them.

4.6 How to manage change during digital transformation?

Any organisation may find the work of digital transformation challenging and overwhelming. To ensure that a digital transition is effective, change management is essential. Here are some pointers for navigating change during the digital transformation:

- **Specify the digital transformation's aims and objectives:**
  - What is the intended outcome?
  - What are the precise objectives that must be accomplished?
  It will be easier to make sure that everyone is on the same page and pursuing the same aims if everyone has a clear grasp of the goals.

- **Always, always, always communicate:** It might be challenging for people to accept change and adjust to it. Ensure that you routinely and honestly discuss the objectives of the digital transformation and how they will affect stakeholders, including employees, clients, and other parties.
- **Be ready for resistance**: Even when a change is for the better, it can be challenging for people to embrace it. Have a strategy in place for dealing with any resistance that may arise.
- **Implement changes gradually**: Changes should ideally be implemented gradually rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will give people time to become used to the new way of doing things.

- **Offer assistance and training**: Workers will need guidance in the new procedures, software applications, etc.

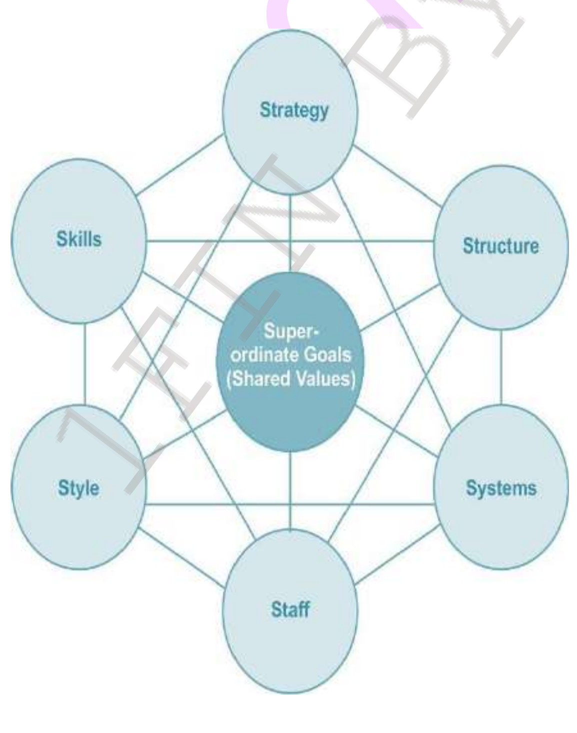
In conclusion, effective completion of the massive project known as digital transformation depends on meticulous planning and change management. Digital transformation efforts are more likely to fail without change management. Organizations can successfully integrate a new digital system by planning for and managing the changes that must take place. Any project involving digital transformation must include it.

5. Organisational Framework (McKinsey 7S Model)

The McKinsey 7S Model refers to a tool that analyzes a company's "organizational design." The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of hard and soft elements. The McKinsey 7s Model focuses on how the "Soft Ss" and "Hard Ss" elements are interrelated, suggesting that modifying one aspect might have a ripple effect on the other elements in order to maintain an effective balance.

The Hard elements are directly controlled by the management. The following elements are the hard elements in an organization.

- **Strategy:** the direction of the organization, a blueprint to build on a core competency and achieve competitive advantage to drive margins and lead the industry
- **Structure:** depending on the availability of resources and the degree of centralisation or decentralization that the management desires, it choses from the available alternatives of organizational structures.
- **Systems:** the development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner



Hard elements are:
Strategy: What steps does the company intend to take to address current and futures challenges?
Structure: How is work divided, how do different departments work and collaborate?
Systems: Which formal and informal processes is the company's structure based on?

Soft elements are:
Shared Values: What is the idea the organization subscribes to? Is this idea communicated credibly to others?
Staff: This elements refers to employees development and relevant processes, performances and feedback programs etc.

	Skill: What is the company's base of skills and competencies? **Style:** This depicts the leadership style and how it influences the strategic decisions of the organization.

The Soft elements are difficult to define as they are more governed by the culture. But these soft elements are equally important in determining an organization's success as well as growth in the industry.

The following are the soft elements in this model;

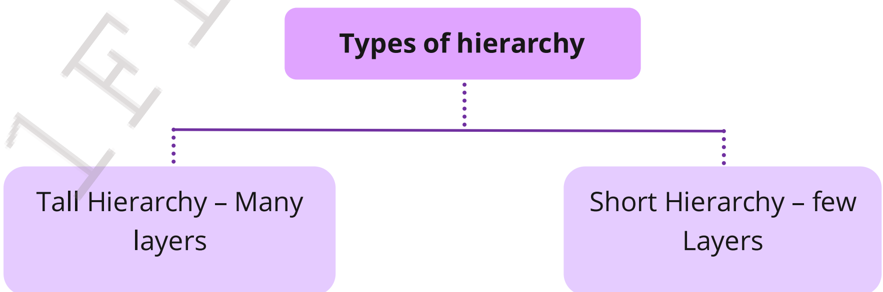
- **Shared Values:** The core values which get reflected within the organizational culture or influence the code of ethics of the management.
- **Style:** This depicts the leadership style and how it influences the strategic decisions of the organisation. It also revolves around people motivation and organizational delivery of goals.
- **Staff**: The talent pool of the organisation.
- **Skills:** The core competencies or the key skills of the employees play a vital role in defining the organizational success.

Limitations

- It ignores the importance of the external environment and depicts only the most crucial elements within the organization.
- The model does not clearly explain the concept of organizational effectiveness or performance.
- The model is considered to be more static and less flexible for deicion making.
- It is generally criticized for missing out the reals gaps in conceptualization and execution of strategy.

6. Organisation Structure

- The word organisation means groups of individual working together to achieve specific objective. The word structure means part of a system or object arranged for a particular purpose.
- There is a defined hierarchy in an organisation



- Organizational structure is the company's formal configuration of its intended
  - Roles
  - Procedures

- Governance mechanisms
- Authority and
- Decision making process

- Organizational structure acts as a framework which reflects ***manager's determination*** of what a company does and how tasks are completed.
- Organization structure influence by factor such as
  - organization's age
  - organization's size
  - Type of organization

6.1. Definition

An organizational structure is defined as "a system to define a hierarchy within an organization. It defines each job, its function and where it reports to within the organization"

6.2. Reasons for having a formal organizational structure

- Reasons for having a formal organizational structure
  - Roles and responsibilities
  - Personnel to whom reports should be submitted
  - Line of communication
  - Which issues to be reported
- The company's structure must be congruent with or fit with the company's strategy.
- Changes in corporate strategy often require changes in the way an organization is structured for two reason
  - Structure largely dictates how operational objectives and policies will be established to achieve the strategic objectives
  - Organization Structure dictates how resources will be allocated to achieve strategic objectives.

7. Types of Organisation Structure

- Differing from one organization to another there are different types of organizational structures

7.1 Simple Structure

- Simple structure is appropriate for
  - Where operations are limited to specific geographical market.
  - Implementing focused cost leadership or focused differentiation strategies.

Definition

A simple structure is an organizational form in which the ***owner-manager*** makes all major decisions directly and monitors all activities, while the company's staff merely serves as an ***executor.***

Characteristics

- Little specialization of tasks
- Few rules
- Little formalization

- Unsophisticated information systems
- Direct involvement of owner-manager in all phases of day-to-day operations

Advantages

Advantages

- Communication is frequent and direct
- New products tend to be introduced to the market quickly.
- Competitive advantage.
- Ability to respond more rapidly to environmental changes.
- Greater structural flexibility.

Disadvantages

- As small companies grow, the company outgrows the simple structure due to following reason:
  - As small company grows, there are significant increase in the amount of competitively relevant information that requires processing. As a result, it put ***pressure on owner-manager***.
  - To coordinate ***more complex*** organizational functions.

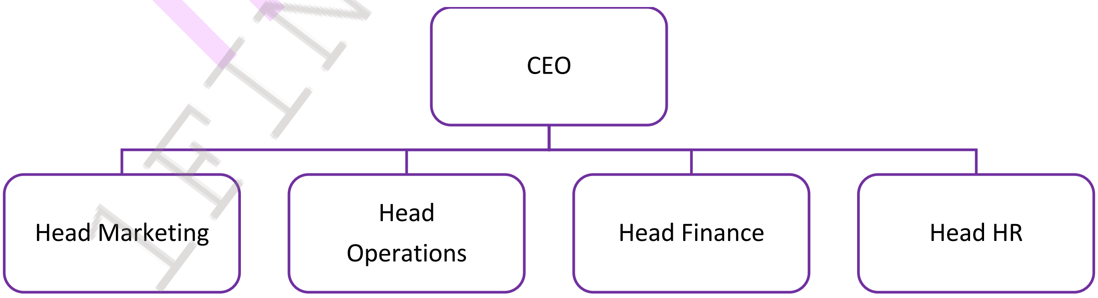
7.2 Functional Structure

Definition

A functional structure groups tasks and activities by business function, such as

- production/operations,
- marketing,
- finance/accounting,
- research and development, and

This structure is helpful when the organisation is in the growth stage (in terms of people, geographic location). This structure will not be appropriate for organizations with multiple products or operating in multiple geographies



Advantages and disadvantage

Advantages	Disadvantages
• Simplicity and ***low cost*** • Promotes ***specialization*** of labour • Encourages ***efficiency*** • Minimizes the need for an elaborate ***control system*** • Allows rapid ***decision making***	• Differences in functional specialization and orientation may impede ***communications and coordination*** • Functional specialists often may develop a ***narrow perspective*** • Losing sight of the company's strategic ***vision and mission***

Comparison with simple structure

	Basis	Functional Structure	Simple Structure
Comparison	• Decision Making	• Corporate decision by CEO or MD and respective functional decision making by respective functional line manager.	• Done by owner or manager (single person)
	• Specialization	• It leads to specialization in a particular task.	• Less specialization of task.
	• Communication	• Differences in Functional specialization hamper communication and coordination.	• Frequent and direct communication.

7.3 Divisional Structure

Organisation arranged in following ways

- The divisional structure can be organized in one of the ways:
  - by product or service, or
  - by geographic area, or
  - by customer, or
  - by process or
  - combination of the above
- In divisional Structure, functional activities are performed both centrally and, in each division, separately.
- Each division is managed by divisional manager
- Common divisions
  - Corporate Human resource
  - Corporate Finance
  - Corporate IT
  - Corporate Logistics

Divisional structure by Product (or service) wise

- When specific products or services need ***special emphasis***.
- When an organization offers only a ***few*** products or services.
- When an organization's products or services differ ***substantially***.
- Advantages and disadvantages

Advantages	Disadvantages
• Allows ***strict control*** over and attention to product lines.	• Require a more ***skilled management*** force and reduced top management control.

Divisional structure by geography

- Organizations whose strategies are formulated to fit the particular needs and characteristics of customers in ***different geographic areas***.
- Organizations that have ***similar branch facilities*** located in widely dispersed area.

Advantage
• Allows local participation in ***decision making*** and ***improved coordination*** within a region.

Divisional structure by customer

- When a few major customers are of paramount importance and ***many different services*** are provided to these customers

Advantage
• Allows an organization to cater effectively to the requirements of clearly defined customer groups.

Divisional structure by process

- Similar to a functional structure, activities are organized according to the way work is actually performed.
- E.g. : In a manufacturing company
  - Production division
  - Packaging division

Advantages and disadvantages of Divisional Structure

Advantages	Disadvantages
• ***Accountability*** is clear. Divisional managers can be held responsible for sales and profit level. • ***Employee morale*** is generally higher in a divisional structure than it is in centralized structure because managers and employees can easily see the results of their good or bad performances. • Divisional managers can ***respond in better ways***. • Allows ***new businesses and products*** to be added easily. • Allows ***local control*** of local situations • Leads to a ***competitive climate*** within an organization. • It creates ***career development opportunities*** for managers.	• Division structure requires ***functional specialists*** who must be paid. • There exists some ***duplication of staff*** services, facilities, and personnel. • Involves ***additional cost.*** The divisional design forces delegation of authority better • Qualified individuals require higher salaries. • Certain regions, products, or customers may sometimes receive special treatment which is ***biased*** • It requires an ***elaborate***, headquarters-driven control system.

Important points

- Divisional structure is beneficial especially when the organization has multiple products, services, and markets
- Divisions are controlled based on financial performance

7.4 Multi-Divisional (M-Form) Structure

- It is just an extension of the divisional structure
- Multidivisional structure calls for:
  - Creating ***separate divisions,*** each representing a distinct business
  - Each division would house its ***functional hierarchy***;
  - Division managers would be given ***responsibility for managing*** day-to-day operations;
  - A small corporate office that would ***determine the long-term strategic direction*** of the firm and exercise overall financial control over the semi-autonomous divisions.
- When the firm is less diversified, strategic controls are used to manage divisions.

7.5 Strategic Business Unit (SBU)

Definition

An SBU is a ***grouping*** of related businesses, which is agreeable to composite planning treatment. A multi-business enterprise groups its businesses into a few distinct business units in a ***scientific way.***

Divisional Vs. SBU

Historical territorial structure problems

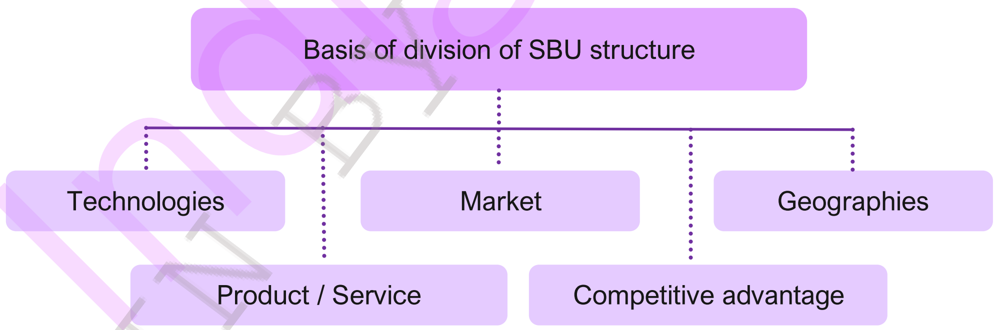
- Different structure for same products under different territories
- Single strategy for all products/ business under territory

Characteristics of SBU

Divisional Structure	Strategic Business Unit
• The responsibility for overall direction for each division lies with ***Corporate head office*** • Financial performance indicator is not relevant as authority to take decisions is the ***Corporate Head Office***	• The responsibility for overall direction for each division lies with the ***Strategic Business Unit (SBU)*** • Financial performance indicator is relevant for evaluation as ***SBU managers*** are autonomous to great extent

- It is a single business or a ***collection of related businesses*** which offer scope for ***independent planning*** and which might feasibly standalone from the rest of the organization
- It offers scope for ***independent planning*** for the respective SBU
- It has its ***own set of competitors***
- It has a ***manager who has responsibility*** for strategic planning and profit performance and control of profit-influencing factors
- Each SBU is a ***separate business*** from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition, and strategy-one SBU will be distinct from another
- Each SBU will have a ***separate CEO***. He will be responsible for strategic planning for the SBU and its profit performance.
- Some functions which operate commonly can be shared between the SBU's

SBU structure – Basis



Advantages of an SBU

Advantages

- Within each SBU, divisions producing similar products and/or using similar technologies can be organized to achieve ***synergy***.
- A ***scientific method*** of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.
- An improvement over the ***territorial grouping*** of businesses and strategic planning based on territorial units.
- Products/businesses within an SBU receive ***same strategic planning*** treatment and priorities.
- Enables the company to more ***accurately monitor*** the performance of individual businesses.
- Facilitates ***comparisons*** between divisions.
- Improving the ***allocation of resources***.
- Simplifying ***control*** problems.
- Stimulate managers of ***poorly performing divisions*** to seek ways to improve performance

7.6 Matrix Structure

Definition

- In matrix structure, ***functional*** and ***product*** forms are combined simultaneously at the same level of the organization.
- Employees have two superiors, a ***product*** or ***project*** manager and a functional manager.
- A matrix structure is the ***most complex*** of all designs because it depends upon both vertical and horizontal flows of authority and communication .
- Simply matrix structure is a ***combination of Divisional and functional*** structure.

Limitations in a Matrix structure

Limitations

- ***Higher overhead*** because it has more management positions
- Dual lines of ***budget authority***
- ***Dual sources*** of reward and punishment
- ***Complexity*** in shared authority
- ***Dual reporting*** channels
- ***Need*** for an extensive and ***effective communication*** system
- Might be a continuous ***battle for power*** between product and functional manger
- Difficulties in ***implementation*** and trouble in managing

Advantages in a Matrix structure

Advantages

- Employee can adopt best practice from one division in another division
- It is easy to drop and add specific projects due to the availability of functional pools
- Stability of both functional and divisional structure
- It is very useful when the external environment is very complex and changeable
- Project objectives are clear

Need for Matrix Structure

> Matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form

Conditions

- Idea needs to be shared across projects or products
- Resources are scarce
- Improve the ability to process and make information

Phases of Developing Matrix Structure

- **Cross Functional Task forces –**
  - Involves people from different functions forming a ***temporary task force*** under charge of project manager.
  - Temporary cross-functional task forces are initially used when a ***new product line*** is being introduced.
  - A ***project manager*** is ***in charge*** as the key horizontal link
- **Product / Brand Management –**
  - When the cross-functional task forces become more permanent, the ***project manager*** becomes a product or ***brand manager***.
  - Function is still the primary organizational structure, but product or brand managers act as the ***integrators of semi-permanent products*** or brands
- **Mature Matrix –**
  - Involves a ***true dual-authority*** structure.
  - Both the functional and product structures are ***permanent***.
  - All employees are connected to both a vertical functional superior and a horizontal product manager.
  - Functional and product managers have ***equal authority*** and must work well together to resolve disagreements over resources and priorities

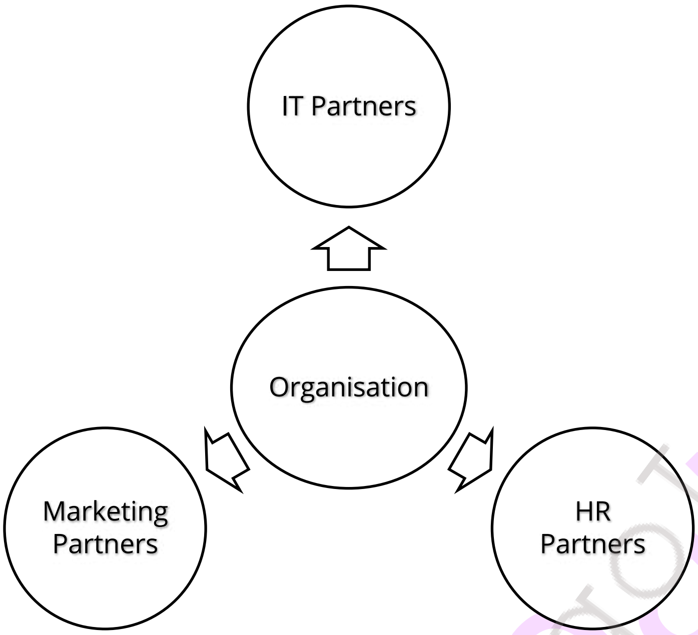
7.7 Network Structure

Definition

> A network organization is one that is created around a central organization which is also called the hub organization that has relationships and arrangements with some other organizations
> ***For example*** – Manufacturing, marketing, accounts processing etc., performed by external organizations for the central or core organizations

- Network structure is termed a "non-structure" by its virtual elimination of in- house business functions

- A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks



Development of network structure

- When the ***environment*** of a firm is ***unstable*** and is expected to remain so and there is usually a strong need for innovation and quick response
- As many activities of organization are outsourced. It can be called as a ***virtual organization***
- Instead of having salaried employees, it may contract with 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
- Works on "***BUY***" over a "***MAKE***" decision
- It is not located in a single building or area, an organization's business ***functions are scattered*** at different ***geographical locations***

Advantages

Advantages	
	• ***Flexibility*** in uncertain business environment • 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. • While gathering ***efficiencies*** from other firms who are concentrating their efforts in their areas of expertise

Disadvantages

Disadvantages

- The availability of ***numerous potential partners*** can be a source of trouble.
- Contracting out functions to ***separate suppliers/distributors*** may keep the firm from discovering any synergies by combining activities.
- If a particular firm over specializes on only a few functions, it runs the ***risk of choosing the wrong functions*** and thus becoming non- competitive

7.8 Hourglass Structure

Definition

- Hourglass organization structure consists of ***three layers*** with constricted middle layer.
- The structure has a short and ***narrow middle-management*** level
- Information ***technology links*** the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers

> The managers in the hourglass structure are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production

7.8.1 Traditional vs. Modern

Traditional	Modern
• ***One corporate*** to manage all the operation	• ***Multiple*** and smaller business units managing themselves to a large extent
• Focus on ***vertical*** communication	• Focus on ***Horizontal*** Communication
• ***Centralized*** decision making	• ***Decentralized*** decision making
• ***Vertical*** Integration	• ***Outsourcing*** non-core activities
• ***Acquire units*** or firms in the supply chain as part of vertical integration	• ***Outsourcing*** preferred over acquiring
• ***Specialized*** job designed focusing on an individual	• ***Value chain-based*** job design and creation.

7.9 Factors affecting the nature of organisation structure

Factors affecting organization structure

- Strategic – Directions & decisions
- Kind of company
- Nature of Business
- Nature of Business Environment

- The Organization structure determines how the operational policies are set
- Method of allocation of resources such as manpower money management

- Organization structure should change with change in strategy, otherwise the organization will become ineffective

7.10 Symptoms of an ineffective Organizational Structure

- Many levels of management
- Large span of controls
- Large number of unproductive meetings
- Objectives not achieved
- Inter-departmental or inter-unit conflicts

8. Aligning Strategy and Organisational Structure

Corporate strategy and organizational structure are intricately connected, often requiring adjustments to maintain alignment. This connection is vital for two main reasons.

Firstly, the organizational structure significantly influences how operational objectives are established to achieve strategic goals. For instance, a geographic structure frames objectives in geographical terms, while a product-based structure formulates objectives around product groups. The chosen structural format impacts various strategy-implementation activities.

Secondly, organizational structure determines resource allocation to achieve strategic objectives. If the structure is based on customer groups, resources are allocated accordingly; likewise, a functional structure allocates resources by functional areas. According to Chandler, changes in strategy necessitate changes in organizational structure. Structure should be designed or redesigned to facilitate strategic pursuits, with the principle that structure should follow strategy.

Chandler identified a recurring structural sequence as organizations grow and change strategies over time. While there's no universal optimal structure for a given strategy, successful firms in an industry tend to organize similarly.

For example, consumer goods companies often adopt a divisional structure by product. Small firms are typically functionally structured, medium-size firms are divisionally structured, and large firms often use a strategic business unit (SBU) or matrix structure.

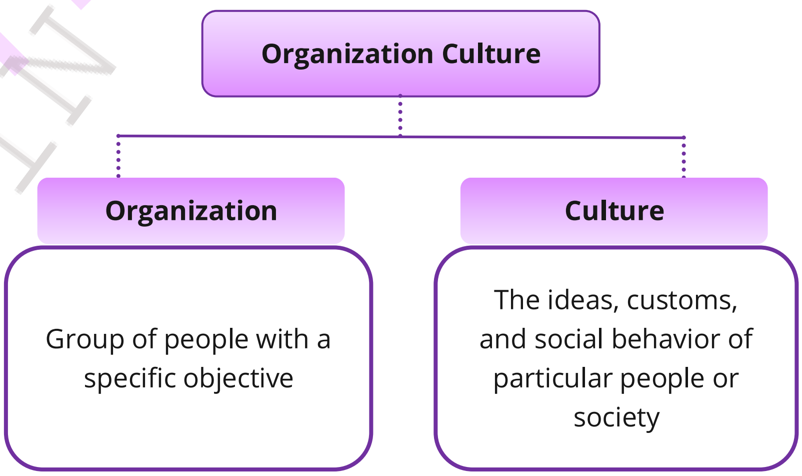
Chandler's Strategy-Structure Relationship:

Organizational performance decline may signal an ineffective structure, with symptoms such as excessive management levels, numerous meetings, interdepartmental conflicts, large spans of control, and unachieved objectives. Changes in structure can facilitate strategy implementation, but they won't transform a bad strategy or solve managerial or product issues.

Structure can also influence strategy choice; if a strategy requires extensive structural changes, it may not be an attractive option. However, the focus should be on determining the needed structural changes to implement new strategies effectively. Common organizational structures include functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

In conclusion, as companies formulate new strategies, increase in size, or alter diversification levels, adjustments to the organizational structure become essential for effective strategy implementation and management.

9. Organisation Culture



- Every organization has,
  - Its own philosophy and principles

- Its own history, values, and rituals.
  - Its own way of approaching problems and making decision.
  - Its own work climate.
  - Its own embedded patterns of how to do things.
  - Its own ingrained beliefs and thought patterns and practices
- All the above constitutes the ***Corporate culture***

Definition

Corporate culture refers to a company's

- values,
- beliefs,
- business principles,
- traditions,
- ways of operating, and
- internal work environment

It provides structure, standards, and a value system in which the company operate

Corporate culture

- A company culture Displayed in
  - ***Values*** and ***business principles*** that management preaches and practice
  - ***Ethical standards*** and ***official policies***
  - ***Stakeholder's relationship*** policies
  - ***Supervisory practice***
  - ***Employee's attitude*** and behaviour
  - ***Stories*** about the organization
  - ***Peer Pressure***
  - ***Organizational Politics***

Company culture – Ally or Obstacle

Organization Culture

Ally

When beliefs vision, objectives, and business approaches and practices of a company ***are compatible*** with its culture

Obstacle

When beliefs vision, objectives, and business approaches and practices of a company ***are not compatible*** with its culture

If the organization strategy is compatible with organizational culture, strategy implementation will be successful

Role of culture in the successful strategy implementation

- Well-intentioned corporate culture required for good strategy execution.
- It helps to energize people throughout the company to do their jobs.
- Adding significantly to the power and effectiveness of strategy execution.
- It provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job

Perils of Strategy culture conflict

- When a company's culture is ***out of sync*** with corporate strategy then there is a strategy culture conflict.
- For resolving it, there will be ***overhauling of strategy*** to produce cultural fit or ***overhauling the mismatched cultural*** features to produce strategy fit.
- Strategy maker's responsibility – In every corporate culture there are some ***unchangeable parts***. To select a strategy compatible with the unchangeable parts of prevailing corporate culture.
- Strategy implementer's responsibility – To change whatever aspects of the ***corporate culture hinder*** effective execution

> Generally, Organization culture is changed to align with the organization strategy or make it ***strategy-fit***

Changing a problem culture

- Culture is built over a period of time. Changing the culture is very difficult. As a matter of fact, human beings resist change, hence it becomes difficult
- Identifying – First step is to ***diagnose*** which aspects of the present culture are strategy supportive and which are not.
- Communicating – Managers have to ***talk openly and straightforwardly*** to all concerned people about those aspects of the culture that have to be changed. Make them understand the reason for change and take their feedback
- Action for implementation – An ***aggressive action*** to modify the culture are intended to establish a new culture more in tune with the strategy.

  The culture changing ***action includes*** –
  - ***Revising policies and procedures*** in ways that will help drive cultural change
  - Altering ***incentive compensation***
  - Visibly ***praising and recognizing*** people who display the new cultural traits.
  - ***Recruiting and hiring*** new managers and employees who have the desired cultural values.
  - ***Replacing key executives*** who are strongly associated with the old culture.
  - Capitalize every opportunity to ***communicate to employees*** the basis for cultural change and its benefits to all concerned

Adoption of change in an organization

- Changes must be adopted by all levels in an organization
- If employees at operational level do not adopt change, the change will not be successful
- Organizational changes are seldom accomplished successfully from an office
- Resolution – Communicate and explain the change. If change is not accepted, managers might have to be replaced
- Change in culture is not an overnight transformation, it takes longer time

- Major cultural change requires many initiatives from many people. Senior managers, department heads, and middle managers to create culture-strategy fit

Implanting the needed culture-building values and behavior depends on a sincere, sustained commitment by the chief executive coupled with extraordinary persistence in reinforcing the culture at every opportunity through both words and deed

10. Strategic Leadership

Leaders are individuals leading a group of people to achieve a common goal

Leadership

Type -1	**Type - 2**
Group of people responsible for leading an organization	Activity of leading a group of people in an organization

Strategic Leadership

- Strategic leadership ***sets the direction*** for the organization by
  - Developing and ***communicating vision*** of future
  - ***Formulate strategies*** in the light of internal and external environment
  - Brings about changes required to ***implement strategies***
  - Inspire the staff to contribute to ***strategy execution***
- Strategic leadership needs the ***ability*** to
  - Anticipate and imagine
  - Maintain flexibility
  - Empower others to create strategic change as necessitated by external environment

Leadership roles

- Strategic leader is –
  - Visionary
  - Chief strategist
  - Chief Entrepreneur

- Resource acquirer & allocator
- Chief administrator
- Culture builder
- Negotiator in case of conflicts
- Crisis manager
- Chief Spokesperson
- Chief arbitrator
- Capabilities builder
- Motivator
- Policy maker
- Policy enforcer

Leadership roles required for strategy execution – "M.T - CREPS"

	Roles
Leadership Roles	• ***Staying on top*** of what is happening, closely monitoring progress, solving out issue and learning what obstacles lie in the path of good ution.
	• ***Promoting*** a culture of ***ESPRIT DE CORPS*** i.e. the common spirit existing in members of group ,mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level
	• Keeping the organization ***responsive to changing*** conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities
	• Exercising ***ethical leadership*** and insisting that the company conduct its affairs like a model corporate citizen.
	• Pushing ***corrective actions*** to improve strategy execution and overall strategic performance.

"***Esprit de corps***" is a feeling of loyalty & pride shared by the members of the group, who consider themselves to be different from others in some special way

Leadership roles in implementation

The strategic leaders must be able to use the strategic management process effectively by –

- Guiding the company in ways that result in the formation of strategic intent and strategic mission
- Facilitating the development and implementation of appropriate strategic plans and

- Providing guidance to the employees for achieving strategic goals

Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessitated by external environment. In other words, strategic leadership represents a complex form of leadership in companies. A manager with strategic leadership skills exhibits the ability to guide the company through the new competitive landscape by influencing the behaviour, thoughts, and feelings of co-workers, managing through others and successfully processing or making sense of complex, ambiguous information by successfully dealing with change and uncertainty.

Leadership role in case of change management

- Strategic leader plays a very important role in managing changes in an organization
- Leadership must be convinced that the change is required
- Reasons of change must be communicated to all those who are affected
- Major changes should be carried out in a top-down approach

Responsibilities of a strategic leader

Responsibilities

- Making ***strategic decisions***
- Formulating ***policies and action plans*** to implement strategic decision.
- Ensuring ***effective communication*** in the organization.
- ***Managing human capital*** (perhaps the most critical of the strategic leader's skills).
- ***Managing change*** in the organization.
- Creating and ***sustaining strong corporate culture***.
- Sustaining ***high performance*** over time

11. Leadership Styles

- Strategic leadership ***sets the firm's direction*** by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short- term, day-to-day activities
- Two basic approaches to leadership can be ***transformational leadership*** style and ***transactional leadership*** style

Transformational	Transactional
Charisma and enthusiasm to inspire people to exert them for the good of the organization	On designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation.
Appropriate ○ In turbulent environments ○ In industries at the very start or end of their life cycles ○ In poorly performing organizations when there is a need to inspire a company to embrace major changes	Appropriate in ○ Static environment ○ In mature industry ○ In organization that are performing well.
Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission. Produce more dramatic changes in organizational performance	Prefer more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

12. Strategic Control

Definition

- The controlling function involves
  - ***monitoring*** the activity and
  - ***measuring*** results against pre-established standards,
  - ***analysing*** and correcting deviations as necessary and
  - ***maintaining***/adapting the system
- Controls are necessary to influence the behaviour of events and ensure that they conform to plans

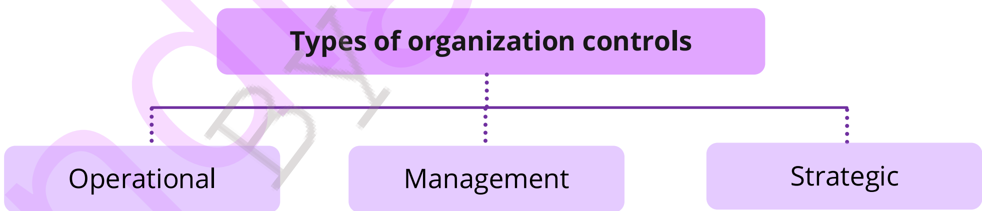
Need for control

- To ensure and make possible the ***performance*** of planned activities
- To regulate and ***check the behaviour*** of events and people
- To ***place restraints*** on undesirable tendencies
- To make people ***conform to certain norms*** and standards
- To ensure ***proper use of resources***

Process of control has following elements

- Objectives of the business system which could be operationalized into measurable and controllable standards
- Mechanism for –
  - Monitoring and ***measuring the performance*** of the system
  - ***Comparing*** the ***actual results*** with reference to the standards
  - ***Detecting deviations*** from standards
  - ***Learning new insights*** on standards
  - ***Providing feedback*** and instruction ***for correction*** in system

Types of organization Controls



Operational Controls

- Thrust of operational control is on ***individual tasks*** or transactions
- There is a ***measurable relationship between inputs and outputs*** which could be predetermined or estimated with least uncertainty
- Most of the control are operational control in organization
  - Each operational activity should have a ***standard***
  - Actual performance will be ***measured*** against those standards
  - Need to set a ***tolerance*** level
- Example of Operational control are stock control, production control quality control etc

Management Controls

It is the process by which managers assures, that the resources are obtained and used effectively and efficiently in the accomplishment of organization's objectives

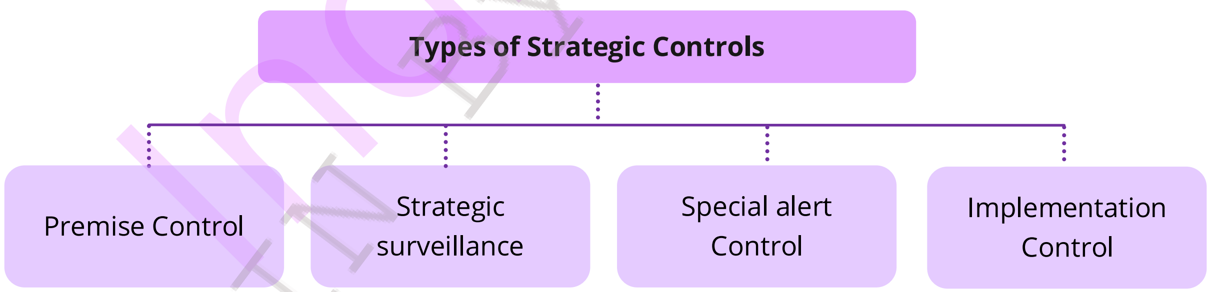
- Management control is more ***inclusive*** and more aggregative when compared with operational control.
- Its ***integrated activities*** of a complete department, division or even entire organization, instead or mere narrowly circumscribed activities of sub-units.
- The basic purpose of management control is the achievement of ***enterprise goals*** – short range and long range – in a most effective and efficient manner

Strategic Controls

Strategic control is the ***process of evaluating strategy*** as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments

Focuses is on the dual questions of whether
  - the strategy is being ***implemented as planned***
  - the results produced by the ***strategy are those intended***
- There is often ***time gap*** between strategy formulation and implementation
- A ***strategy might be affected*** on account of changes in internal and external environments of organization.
- So, there is a ***need for warning*** systems to track a strategy as it is being implemented.
- It is directed towards ***identifying problems*** and changes in premises and making necessary adjustments

Types of Strategic Controls



Premise Control

- Certain assumption about the complex and turbulent organizational environment. A strategy is formed on the ***basis of certain premises***
- It is a tool for ***systematic and continuous monitoring*** of the environment to verify the validity and accuracy of the premises on which the strategy has been built
- Premise control involves monitoring two types of factors –
  - Environmental factors such as economic Technology, social and legal-regulatory.
  - Industry factors such as competitors, suppliers, substitutes
- Controlling premises –
  - It is ***neither feasible nor desirable*** to control all types of premises

- Also, different premises may require ***different amount of control***
- Thus, managers are required to ***select those premises*** that are ***likely to change*** and would severely impact the functioning of the organization and its strategy

Strategic Surveillance

- It involves ***general monitoring*** of various sources of information ***to uncover unanticipated information*** having a bearing on the organizational strategy
- We can say it is a ***casual environment browsing***
- Strategic surveillance may be loose form of strategic control but is ***capable of uncovering information*** relevant to the strategy.
- Example – Reading financial and other newspaper, attending conference, meetings etc

Special alert Control

- ***Unexpected events*** may force organizations to ***reconsider*** their strategy.
- To cope up with such eventualities, the organizations form ***crisis management teams*** to handle the situation.
- Examples of Unexpected events – change in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters

Implementation Control

- Strategy implement by ***converting*** major plan into concrete, sequential actions. These Sequential actions are ***incremental step*** in implementation process.
- Implementation control is directed towards ***assessing the need for changes*** in the overall strategy in light of unfolding events and results associated with incremental steps and actions
- Two basic forms of Implementation controls

    - Monitoring strategic thrusts –
        - It helps managers to determine whether the overall strategy is ***progressing as desired*** or whether there is need for readjustments
    - Milestone reviews –
        - It normally involves a complete ***reassessment*** of the Strategy.
        - All major activities which are necessary for implementation of ***strategy are segregated*** in terms of time, events or major resources allocation.
        - It also assesses the need to continue or ***refocus the direction*** of an organization

13. Strategic Performance Measures

A strategic performance measure is a metric or key performance indicator (KPI) used to assess the effectiveness and efficiency of an organization in achieving its strategic objectives. In the field of strategic management, performance measures are crucial for evaluating how well a company is executing its strategy and whether it is making progress toward its long-term goals.

Strategic performance measures are typically aligned with the key elements of an organization's strategy and are designed to provide insights into its overall performance. These measures can cover various aspects of the business, including financial performance, customer satisfaction, internal processes, and learning and growth initiatives.

Strategic performance measures are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation. The measures provide a snapshot of the organization's performance, enabling leaders to assess whether their strategies are aligned with their goals and objectives and to make necessary adjustments to improve their performance.

A company's performance depends heavily on execution of strategy. Companies that continuously outperform their competitors are those who execute well. Executives in a variety of businesses should explore about utilizing strategic performance measurement (SPM).

SPM is a method that increases line executives' understanding of an organization's strategic goals and offers a continuous system for tracking progress towards these objectives using clear-cut performance measurements. SPM helps to eliminate silos (singularity) by establishing a common language among all divisions of the organisation so they may communicate openly and productively

Key performance measures and indicators must be created, selected, combined into reports and acted upon so that strategy implementation can have tangible outcomes.

- Firstly, there needs to be a clear cause and effect relationship between the indicators and strategic outcomes.
- Secondly, KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation. However, managers should be aware of paralysis by over analysis.

Managing the political aspects of implementing a strategy

People involved in the planning process for the implementation of a strategy may be affected by two sets of forces. The "rational" forces of openness, communication, and self-analysis can exist on the one hand. On the other hand, there could be political forces concerned with preserving empires and fostering internal rivalry that urge knowledge retention, selective communication, and caution. When these two techniques conflict, the politically acceptable aspects may end up in the explicit strategy while the sensitive elements may form an unspoken plan that contains the implicit strategy.

Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

- **Financial Measures:** Financial measures, such as revenue growth, return on investment (ROI), and profit margins, provide an understanding of the organization's financial performance and its ability to generate profit.
- **Customer Satisfaction Measures:** Customer measures, such as customer satisfaction, customer retention, and customer loyalty, provide insight into the organization's ability to meet customer needs and provide high-quality products and services.
- **Market Measures**: Market measures, such as market share, customer acquisition, and customer referrals, provide information about the organization's competitiveness in the marketplace and its ability to attract and retain customers.

- **Employee Measures:** Employee measures, such as employee satisfaction, turnover rate, and employee engagement, provide insight into the organization's ability to attract and retain talented employees and create a positive work environment.
- **Innovation Measures**: Innovation measures, such as research and development (R&D) spending, patent applications, and new product launches, provide insight into the organization's ability to innovate and create new products and services that meet customer needs.
- **Environmental Measures**: Environmental measures, such as energy consumption, waste reduction, and carbon emissions, provide insight into the organization's impact on the environment and its efforts to operate in a sustainable manner.

Importance of SPM

Strategic performance measures are essential for organizations for several reasons:

- **Goal Alignment**: Strategic performance measures help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.

- **Resource Allocation:** Strategic performance measures provide organizations with the information they need to make informed decisions about resource allocation, enabling them to prioritize their efforts and allocate resources to the areas that will have the greatest impact on their performance.
- **Continuous Improvement:** Strategic performance measures provide organizations with a framework for continuous improvement, enabling them to track their progress and make adjustments to improve their performance over time.

- **External Accountability:** Strategic performance measures help organizations demonstrate accountability to stakeholders, including shareholders, customers, and regulatory bodies, by providing a clear and transparent picture of their performance.

Choosing the Right Strategic Performance Measures

Organizations should choose strategic performance measures that are aligned with their goals and objectives and that provide relevant and actionable information. In selecting the right measures, organizations should consider the following factors:

- **Relevance**: The measure should be relevant to the organization's goals and objectives and provide information that is actionable and meaningful.

- **Data Availability:** The measure should be based on data that is readily available and can be collected and analyzed in a timely manner.

- **Data Quality**: The measure should be based on high-quality data that is accurate and reliable.

- **Data Timeliness**: The measure should be based on data that is current and up-to-date, enabling organizations to make informed decisions in a timely manner.

These measures provide a way for organizations to assess the success of their strategies, identify areas for improvement, and make informed decisions about how to allocate resources and adjust their strategies to achieve their desired outcomes. Effective strategic performance measures should be relevant, meaningful, and easy to understand and should be regularly reviewed and updated to ensure their continued alignment with the organization's goals and objectives.

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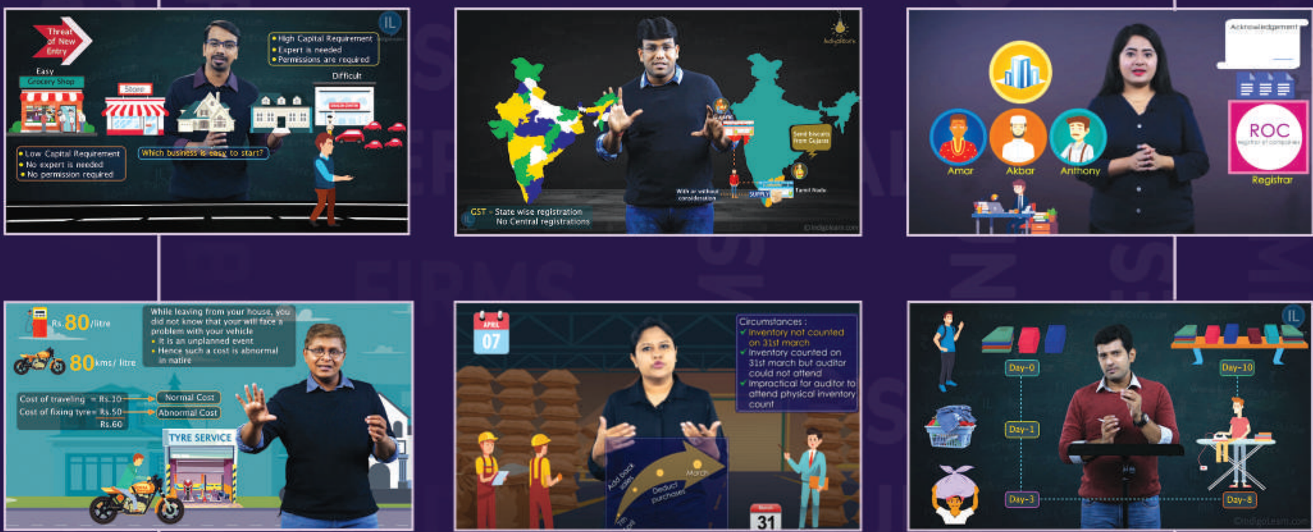
A Glimpse of our e-learning modules



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