301

Strategic Management

COURSE PLAN

&

COURSE MATERTIAL

SEMESTER 3

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Subject Teacher

INSTITUTE OF MANAGEMENT EDUCATION

RESEARCH AND TRAINING, PUNE

COURSE PLANNER

A. GENERAL INFORMATION:

Course: 301 – Strategic Management

Semester: III

Type: Generic – Core

Faculty Name: PRANAV KAYANDE

B. COURSE MATERIALS:

Core Text Book/s Recommended:

1. Strategic Management and Business Policy by Azhar Kazmi Tata McGraw Hill Third Edition

2. Strategic Management by Subba Rao

3. Crafting the strategy : Concept and Cases in Strategic Management by Ranjan Das Tata McGraw Hill, 2004

**** THIS STUDY MATERIAL IS A COMBINATION OF THE CORE AND

REFERANCE TEXT BOOKS ALONGWITH ONLINE SOURCES****

C. COURSE OBJECTIVES:

. Acquaintance with the latest developments in the field of Strategic Management such as Blue, Red Ocean strategies.

. Understanding tools and techniques of Environmental appraisal (Internal & External).

. Unleashing the impact of different Strategies in managing a business.

. Understanding the use of Strategies to gain Competitive Advantage in business.

E. GRADING:

The course will be graded on the basis of assignments below. The assignments marks are as follows:

Individual Class Attendance 50 marks

Online test 1 20 marks

Online test 2 20 marks

Final internal exam 50 marks

Case Study Assignments (5 marks each marks) 10 marks

(For Case Study, kindly refer Teaching plan)

Total 150 marks*

* Internal marks will be prorated as per University pattern based on above scores.

F. FLOW OF COURSE

a. Strategic Management Process

b. Analyzing Company's Environment

c. Types of strategies

d. Strategy Implementation and Evaluation

H. CLASS SCHEDULE: (Daily session will be of 3 hours)

Day Topic/ Unit

1. Strategic Management Process

2. External Environment

3. Internal Environment

4. Organizational Capability Profile

5. Generic and Grand Strategies

6. Strategy Implementation

7. Strategy Evaluation

8. Blue Ocean Strategy

9. Sustainability

Day 1:

Business Policy

"Policies define how the company will deal with stakeholders, employees, customers, suppliers, distributors and other important groups. Policies narrow the range of individual discretion so that employees act consistently on important issues." Philip Kotler

"Policy is the statement or general understanding which provides guidance decision making to members of an organization in respect of any course of action."

Strategy

At first used in Military science, to mean what a manager does to offset actual or potential actions of competitors.

"Strategy is determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals." Alfred D. Chandler (Cambridge university)

Strategy	**Policy**
Competitive strategy	General strategy
Deploying of Resources to Maximize Goals	Guidelines to the action who make Decisions
Environmental constraints and opportunities	Concerned mainly with Internal management.
requires a last minute executive-decision	Delegated downward in organization

Example: new product introduction	Example: Promotion of employees on the basis of seniority

Mintzberg's 5 Ps for Strategy

Mintzberg provides five definitions of Strategy:

1. Plan : Strategy is a plan. They are made in advance of the actions to which they apply and they are developed consciously and purposefully.

To Drucker "Strategy is purposeful action" To Moore " Design for action" in essence "conception preceding action."

In the military "Strategy is drafting the plan of war" In Game theory "Strategy is a plan which specifies what choices the player will make in every possible situation."

2. Pattern: Strategy is a pattern - a pattern in a stream of actions.

Example: Every time a manager does the same thing to a competitor or to the senior mgt of his own firm, they are defining strategy as pattern in action

3. Position: Strategy is a position. By this definition strategy becomes the mediating force, or "match" between organization and environment, that is, between the internal and the external context.

4. Ploy (trick): a specific maneuver (action) intended to outwit an opponent or competitor

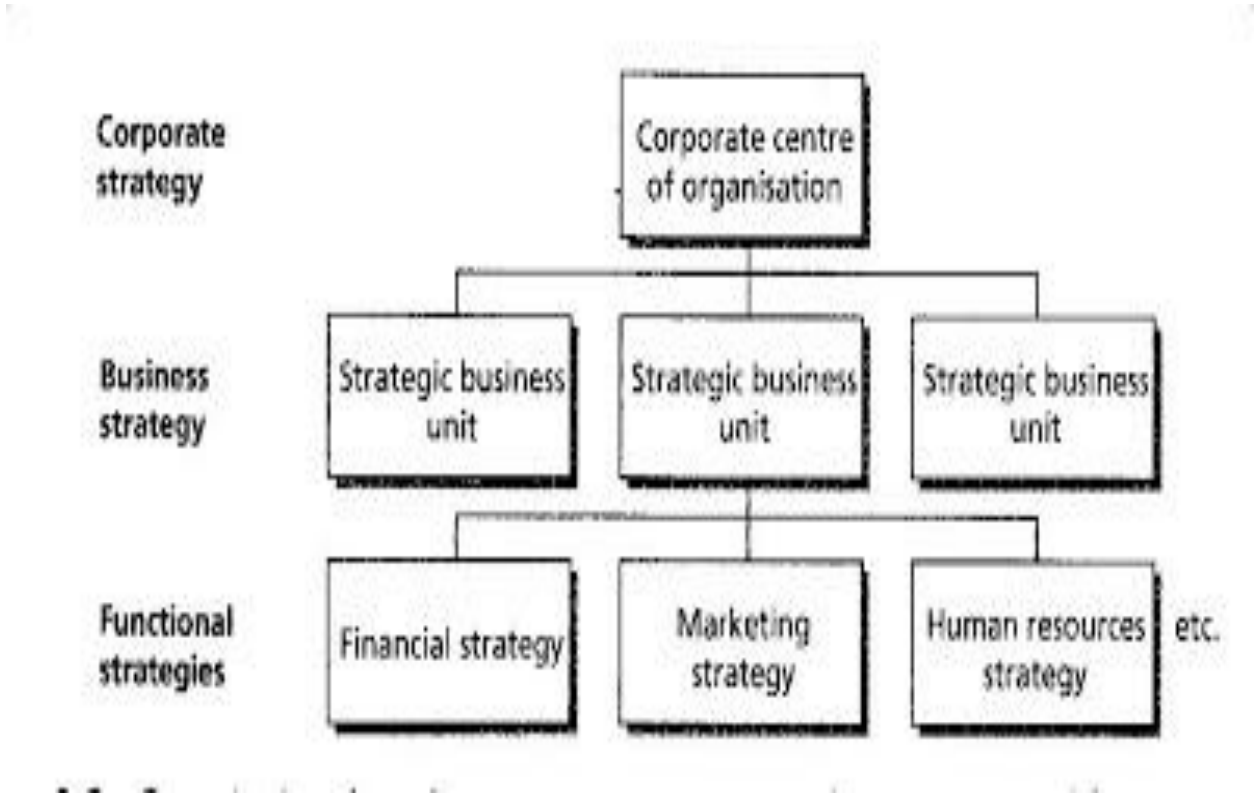
Example : In game theory, strategy is used as ploy in the context of 'two person game'. Definition of strategy as position allows us to open up to 'n-person game' (environment at large).

5. Perspective: Strategy is a perspective. Strategy in this respect is to the organization what personality is to the individual.

Strategy is a perspective shared by members of an organization, through their intentions and / or by their actions.

Example : Some organizations are aggressive in creating new technologies and exploiting new markets.. Some rely on political influence…some favor marketing (IBM)..some concentrate on productive efficiency.

Levels of Strategy



SBUs

- Multi-product companies have different businesses organized as different divisions.
- These are known as profit centers or Strategic Business Units (SBU).
- SBU concept was evolved by GE (General Electric) Company of USA.
- Identify discrete independent product / market segments**.**

Level s of Strategies

- **Corporate Level Strategy**
    - Objective of firm
    - Acquisition and Allocation of Resources
    - Coordination of SBUs

- **Business Level Strategy**
    - Courses of actions by an organization for each business
    - To serve identified customer groups

- **Functional Level Strategy**
    - Relates to a single functional operations and activities involved therein.

Strategic Management

"Strategic management is defined as the set of decisions and actions in formulation and implementation of strategies designed to achieve the objectives of an organization." Pearce and Robbinson

"Strategic management is a continuous process of relating the organization with its environment by suitable courses of action involving strategy formulation and ensuring that the strategy has been implemented effectively." L.M.Prasad

Characteristics of Strategic management

- **Uncertain :** Strategic management deals with future-oriented non-routine situation. They create uncertainty. Managers are unaware about the consequences of their decisions.

- **Open system approach :** Strategic management relate organization to its external environment. It emphasizes that there is continuous interaction between organization and its environment. Thus the organization must create adequate channels through which external information will pass to various points in the organization.

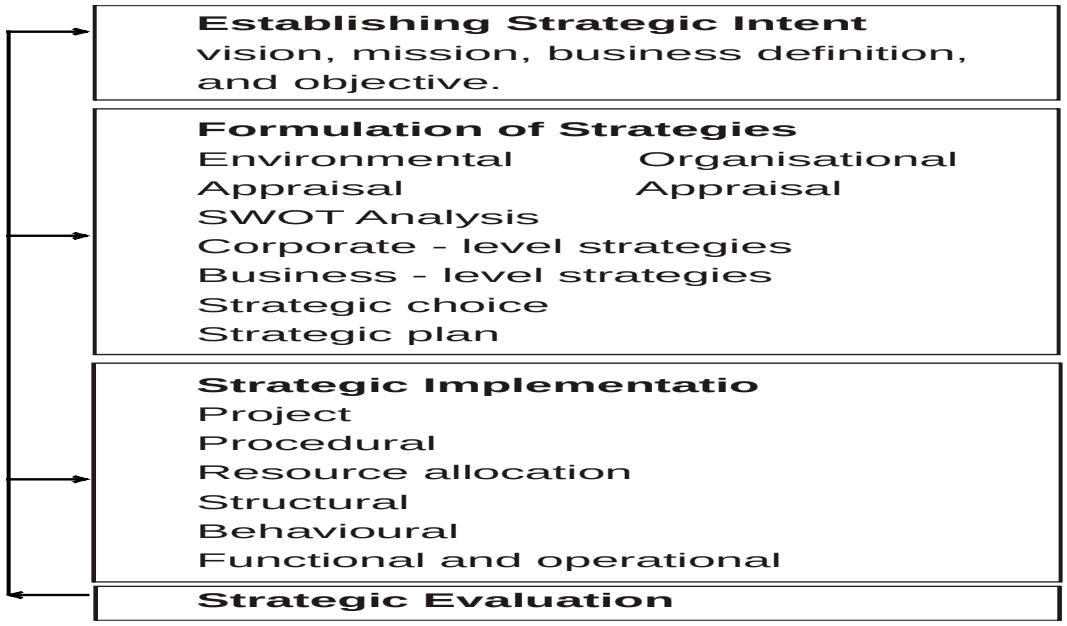
- **Organization wide :**Strategic management has organization wide implication. It is not operation specific. It is a systems approach. It involves strategic choice.

- **Long-term** :Strategic management is not concerned with day-to-day operation. It has long-term implications. It deal with vision, mission and objective.

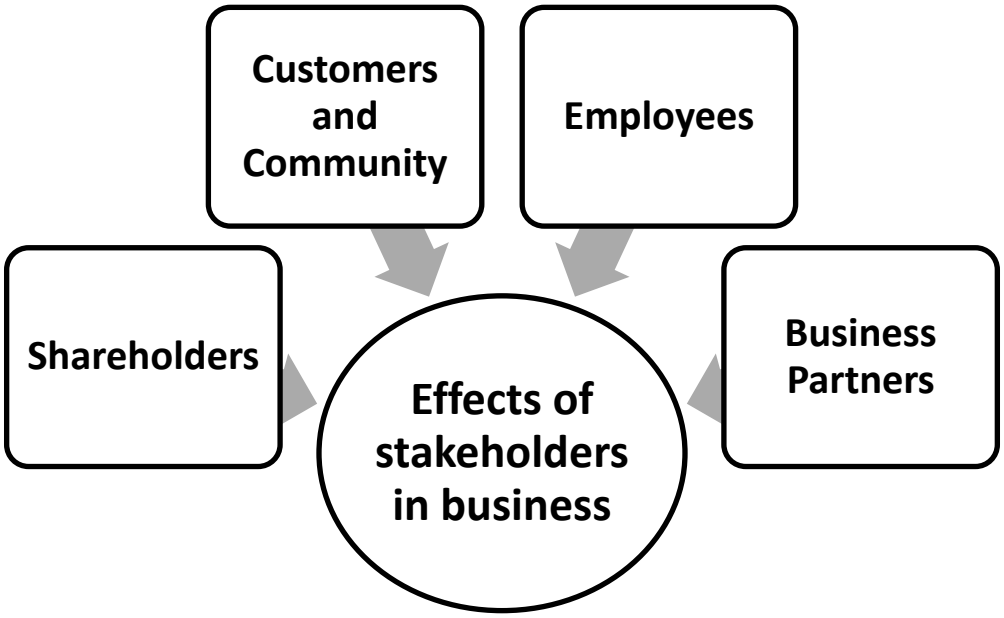
- **Implication** :Strategic management ensure that strategic is put into action, implementation is done through action plans.
- **Complex** : Managers face environment which is difficult to comprehend. External and internal environment is analyzed.

- **Top management function** : It is necessary that a distinction should be made between strategic management and operational management. So that top mgt can focus more on strategic aspect rather than emphasizing on day to day operations.

Strategic Management Process



Stake Holders in Businesses



Day 2:

Strategic intent

- The purposes the organization strives for.
- These could be Vision , Mission statement – Corporate level
- Business Definition , Business Model – Business Level
- Goals and objectives – Operational Level

Hamel and Prahalad coined the term 'Strategic intent'.

- Strategic intent is an obsession with an organization.
- An obsession of having ambitions that may even be out of proportion to their resources and capabilities.

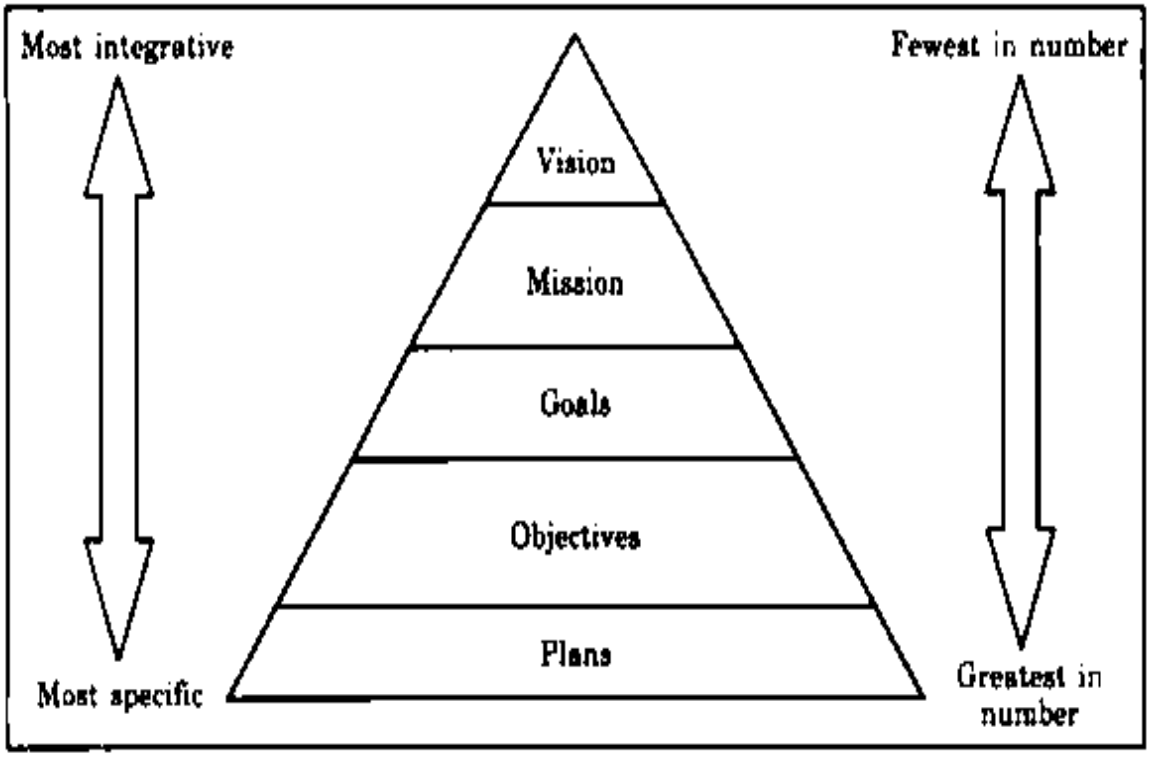
Examples –

Xerox India Limited's strategic intent is "to become the leader in the document market in India by helping improve customer work processes and positively impacting productivity and reducing costs."

"Global leader in producing lowest cost polyester products." Late Dhirubhai Ambani of Reliance group.

"Creation of globally competitive research based pharmaceutical gaint." Late Parvinder Singh of Ranbaxy group.

"Focus on growing our core brands across categories, reaching out to new geographies, within and



outside India, and improve operational efficiencies by leveraging technology" Dabur

Vision

- Aspirations, expressed as Strategic intent, should lead to tangible results.
- Those results are realization of vision of an organization or an individual.
- It is ultimately what a firm or a person would like to become.

Examples-

"Description of something (an organization, a corporate culture , a business, a technology , an activity) in future" Kotler

"Mental perception of the kind of environment an individual or an organization aspires to create within a broad time horizon and the underlying conditions for the actualization of his perception." El-Namaki

Online Retailer's Vision statement

"We intend to provide our customers with the best online shopping experience from beginning to end, with a smart, searchable website, easy-to-follow instructions, clear and secure payment methods, and fast, quality delivery."

From this statement example, you can clearly tell that this company is an online retailer. You can also tell they have put thought into the statement by making a list of goals. They don't simply say that they want to be "the best" online shopping site – they give a list of ways in which they intend to do that.

Vision statement: Characteristics

1. An organizational charter of core values and principles –

Example- "To demonstrate that running a business is legally and ethically possible in India through entrepreneurship" Narayana Murthy

2. Abstract and Challenging - The goal should not be stated too concretely (e.g., "to build a new building") but rather at a higher level of abstraction (e.g., "to create beautiful living spaces").

Example **-**"To be the company that best understands and satisfies the product, service and self-fulfillment needs of women - globally." Avon

3. Brevity (Concise and exact use of words) - Vision statements are less effective when they are too short (such as one-sentence vision statement) or too long (such as a two or three page vision statement).

Example - "Our vision is to be earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online.“ Amazon

4. Puller into Future (Not pusher)

“Self reliant India in steel making” Jamshetji Tata

5. Future Focused

“Our goal is to achieve 100% customer satisfaction for every product that we sell. We will be relentless in the pursuit of that goal and will never vary from the principles of customer satisfaction: Quality, Value, Company Image.”

6. Determination and publication of what makes us Unique-

Example – “Our salon will change the way you think about a haircut. Full service comfort, friendly staff, a relaxing atmosphere, and the best prices in town give you an experience that will leave you glowing both inside and out.”

7. The ultimate source of our priorities, plans and goals

Example – "We help the families of Main Town live happier and healthier lives by providing the freshest, tastiest and most nutritious local produce: From local farms to your table in under 24 hours."

8. A collective identity

“We will strive to be the professional team of choice, offering quality engineering and technical services focused on customer satisfaction. We will provide a quality product, on time and within budget, which will exceed our customers’ expectations.”

Mission

Vision is what an organization wishes to become, Mission is what an organization is and why it exists.

The mission statement makes the vision statement more tangible and comprehensible.

A mission statement clearly specifies:

i. Why the organization exists or the purpose?

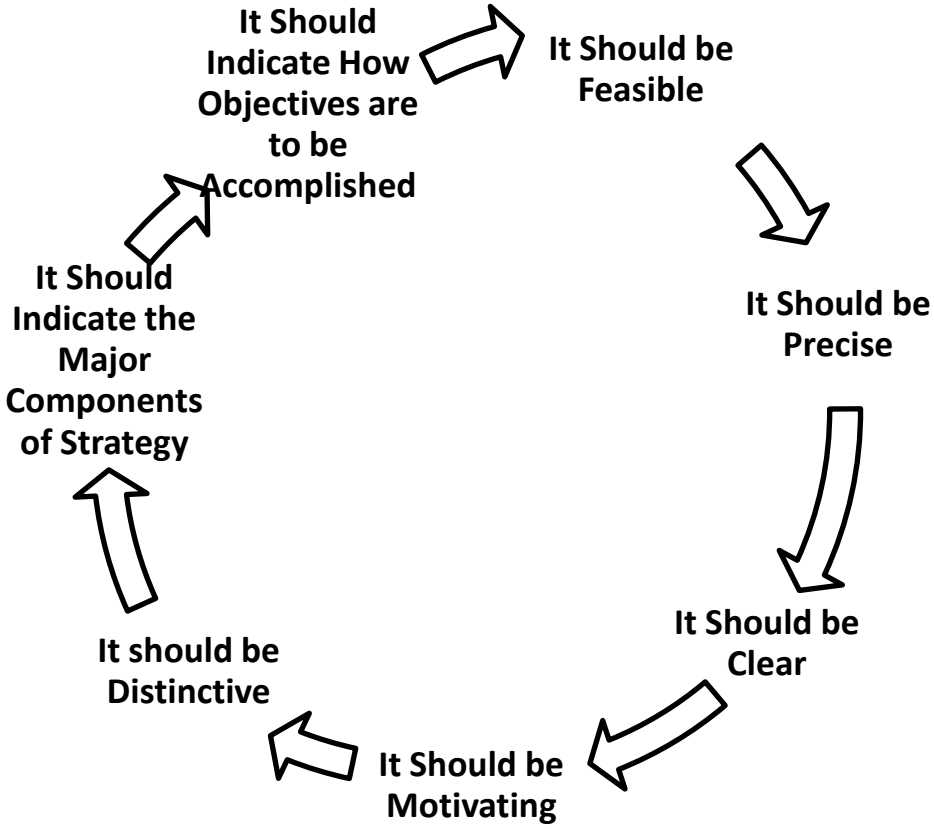
ii. What differentiates the organization from others, or the identity?

iii. The basic beliefs, values, and philosophy of the organization.

”Mission is the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business (es) it is in, and the customers it seeks to serve and satisfy.” Thompson

Key Elements of Mission Statement

Characteristics of Mission statement



Feasible – NASA had Mission to land on moon. It was feasible mission.

Precise - Mobility business is too broad. Manufacturing Bicycles is precise.

Clear - India Today – Complete News Magazine **,** HUL – Add Vitality to Life.

Motivating - BOB – Pursuing global best practices for delivering value.

Distinctive - Bajaj – Inspiring confidence

Indicate Major component of Strategy - HCL- Providing World class information technology solutions and services.

Indicate how objectives are to be accomplished - LG Electronics – Becoming 2/10 - double the sales volume and profit by 2010.

Vision	Mission
Category of intension's are broad, all inclusive and forward Thinking	**Mission is the fundamental, unique purpose that sets a business apart from other firms of its type and identifies the scope of its operations in product and market terms**
It states aspirations for the firm without stating the means to achieve them	**It states how it would achieve the vision of the firm**
Vision is dream, little hazy and intangible	**Mission is clear, tangibalize, or concretizes vision.**
It guides in formulation of mission.	**It guides in formulation of business definition, goals and objectives.**
It is futuristic in nature	**It is current in nature**
Vision is a mental image of a possible and desirable future stale of the organization.	**Mission is enduring statement of philosophy and a creed statement.**
Vision answers the question " What we want to become"	**Mission answers the question 'what is our business.".**

Business Definition

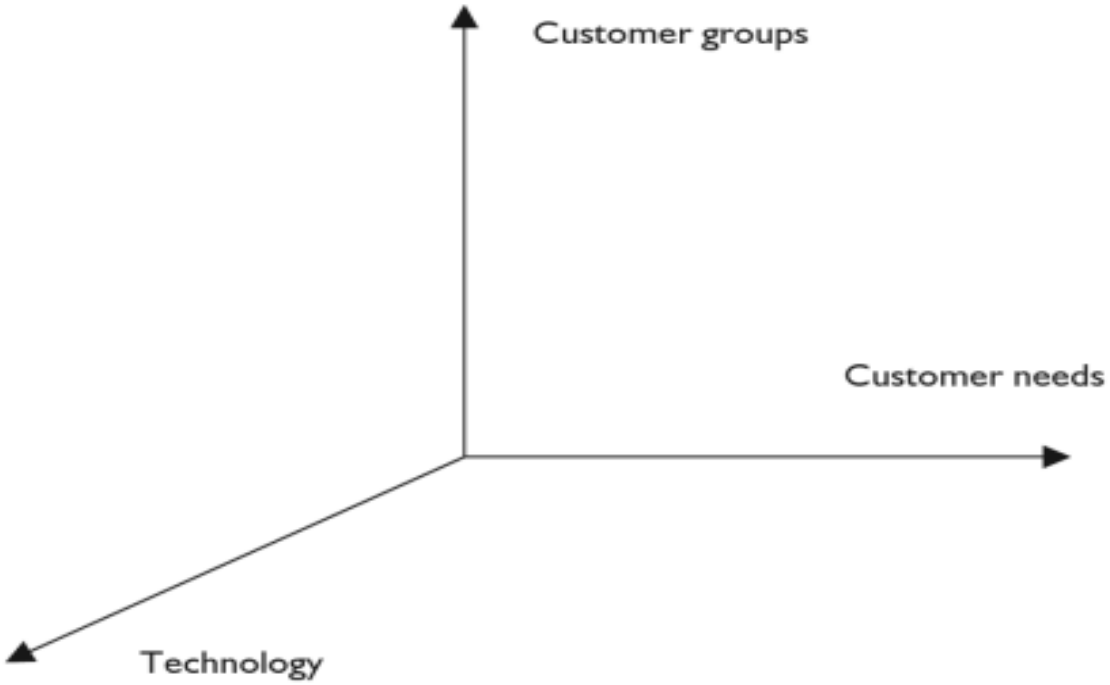
Business is a typical economic activity with the object of earning an income i.e. profit.

According to Abell (1980; Abell and Hammond, 1979), a business may be defined by three dimensions:

1) Customer groups describe the categories of customers, or whom the business satisfies.

2) Customer functions describe customer needs, or what is being satisfied.

3) Technologies describe the way the firm satisfies customer needs.



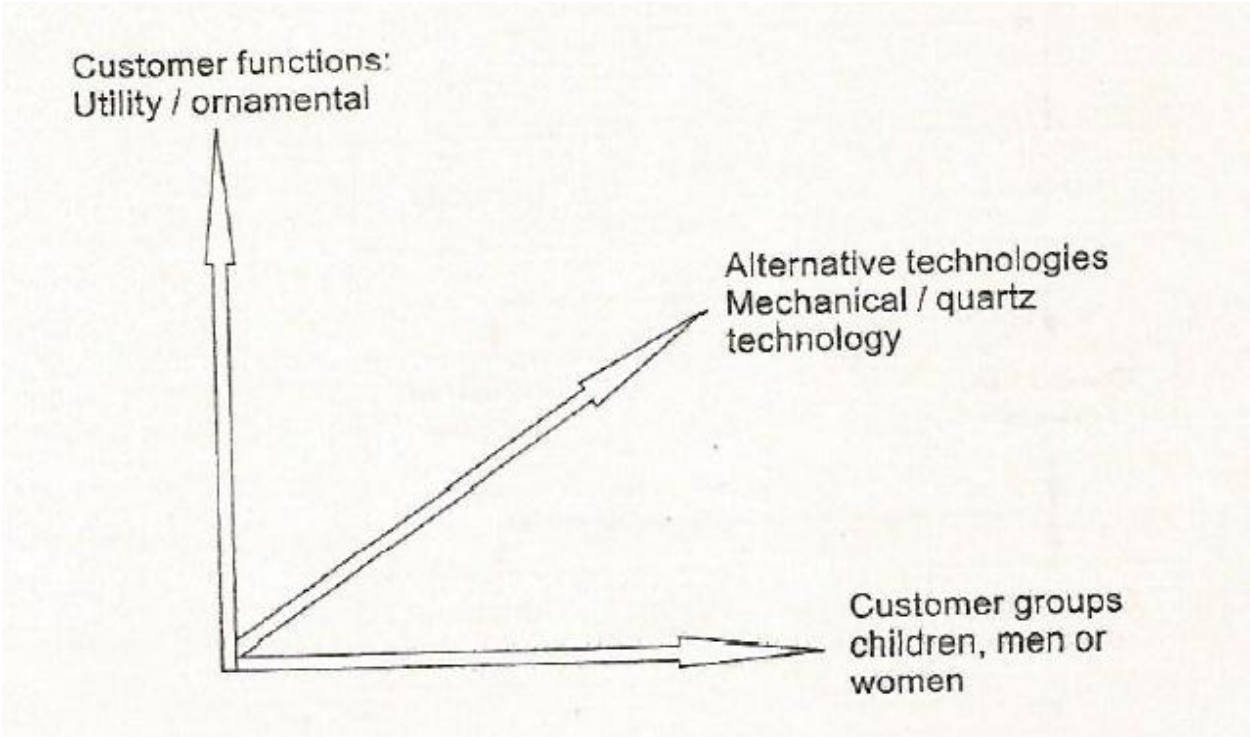
Example - Watch Business

Function - Provide Time, Date, Day and Direction

Customer Needs - Finding Time, fashionable accessories and gift items.

End usages – direct use by customers or indirect as subassemblies

Technology – Mechanical, Quartz digital, analog,…



Business definition examples –

1. Motorola – Mobile phones not only for making phone calls but also for Paying bills and as a personal identification.

2. NIIT – Not just a Computer training institution but a Service providing organization.

Business Models

A business model describes the rationale of how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts.

The process of business model construction is part of business strategy.

A representation of firm's underlying core logic. Strategic choices for creating and capturing value within a value network.

Examples –

Kirana Dukan (Provision Store) – applies mark up price and sells them at retail prices thus earning revenues.

E- Newspaper – offer free Internet editions on account of advertisements.

TCS- Clients pay on time related milestones

Infosys – Clients pay on amount of work done.

Bharati mobile services – outsourced its contact centre services to Nortel India. Thus Bharati focus on its core business.

Aptech – used franchise model for multilingual basic IT literacy course 'Vidya' to avoid high capital investment.

Business model design is distinct from business modeling. The former refers to defining the business logic of a company at the strategic level, whereas the latter refers to business process design at the operational level.

Goals & Objectives

Goals –

What an organization hopes to accomplish in a future period of time.

Objectives –

These are the ends that states specifically how the goals shall be achieved.

Goals	**Objectives**
Generalized	Specific
Qualitative	Quantitative
Broadly stated aims	Specifically stated aims

- ✓ Goals provide the basis for action towards the achievement of the organization's mission, in the form of specific milestones. Goals are financial and non-financial, and specify the route the organization takes to achieve its vision and mission. It is often seen that organizations pursue a range at financial and non-financial goals, which are not always perfectly consistent with one another.
- ✓ The goals statement also specifies the relative priorities and trade-offs between the various goals the organization intends to pursue. Goals that make the organization 'stretch' in order to achieve them are called stretch goals, and are considered to be more effective in extracting the best out of the people and the resources in control of the organization.

- ✓ Objectives are operational definitions of the organization‘s goals. They provide the measurable parameters for monitoring/evaluating the performance of the organization. Objectives also include a time dimension that delineates the specific goals the organization intends to achieve in defined periods.
- ✓ By providing a series of time-bound objectives, the organization demonstrates how it can move towards achievement of its goals, through consistently and periodically achieving its objectives.

Understandable

Something ought to be done to set things right. No action will be taken or even wrong action might be taken.

Concrete and Specific

“Our Company plans to achieve 12 % increase in its sales. “

Related to Time frame

“Increase its sales by 12% by the end of 2 years. “

Measurable and Controllable

“If the measures like number and quality of job application received, average emoluments offered or staff turnover per year could be devised it would be possible to measure and control the achievement of this objective with respect to comparable companies in a particular company. ”

Challenging

To set high sales target in a declined market does lead to success. Conversely a low sales target in a burgeoning market is easily achievable therefore leads to sub-optimal performance.

Different objectives should correlate with each other

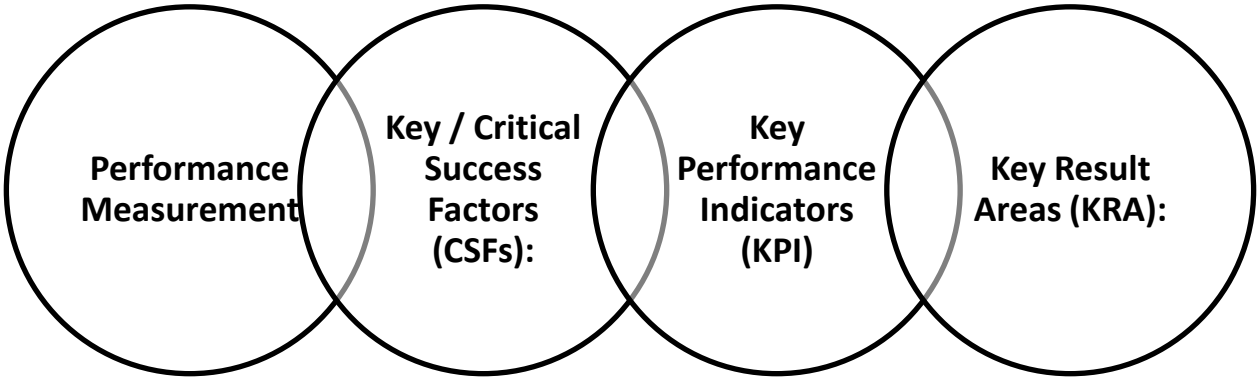
Marketing deptt insists upon wider variety of products to cater different market segments. While Production deptt prefer to have greater product uniformity in order to have economies of scale.

Objectives should be set within constraints

Internal Constraint Resource availability

External Constraint Legal requirement Consumer activism and environment protection

Strategic Performance Management Process:



The process of performance measurement considers collection, consolidation, and distribution of performance data to compile the performance information. Such performance information then gets related to the critical success factors (CSFs) and/or the performance indicators (KPIs).

Critical success factors (CSF) referred to as Strategic factors or Key factors for Success are those which are crucial for organizational success. When Strategists consciously look for such factors and take them into consideration for strategic management they are likely to be more successful while putting in relatively lesser efforts.

Examples –

Shoe manufacturing organization –

high manufacturing quality, cost efficiency, flexible product mix and product mage.

Tooth paste –

High brand loyalty, form, flavor, foam, freshness.

Courier Service-

Speedy dispatch, reliability and price.

If organizations keep in view the relevant CSFs, these can be used for objective setting and strategic choices. “CSFs are basic business strategies for competing wisely in any industry.”Ohmae . Ohmae suggests identification of CSFs into a business. Allocate resources into that area where company sees opportunity to gain strategic advantage over competitors.

Key Performance Indicators (KPI) are the measures in terms of which critical success factors are evaluated.

Example –

A shoe manufacturing company which considers manufacturing quality as CSF, has to think of metrics it terms of which it will measure these parameters. High manufacturing quality will have to be expressed in terms of indicators such as recall rate after delivery, product reject rate, on time delivery and number of complaints. KPIs thus help to quantify CSFs.

KPI give everyone in organization a clear picture of what is important and what they need to do to accomplish objectives. Information technology based tools such as Dash boards show organizational performance at glance in the form of visual charts and videos. KPIs can also be used for bench marking the performance of an organization over time to compare its performance with rivals in same industry.

Key Result areas - These are normally short term objectives that have a time horizon of one or two years. They form the bread and butter of the organization. These are areas where performance is essential for the ongoing success of the enterprise.

Example –

Curriculum sales –

Maintain customer relations with current accounts to obtain repeat orders. Grow current and new schools to purchase $_____by April 30 2016. Achieve the goal of 200 new schools to adopt the curriculum by April 30 2016.

Day 3

3 Environmental Appraisals

3.1 Analyzing company's external environment –

3.1.1 Scenario- Planning

Scenario planning is a strategic planning method that some organizations use to make flexible long-term plans.

It is in large part an adaptation and generalization of classic methods used by military intelligence. The original method was that a group of analysts would generate simulation games for policy makers.

Scenario planning helps policy-makers to anticipate hidden weaknesses and inflexibilities in organizations and methods. When disclosed years in advance, these weaknesses can be avoided or their impacts reduced more effectively. For example, a company may discover that it needs to change contractual terms to protect against a new class of risks.

The chief value of scenario planning is that it allows policy-makers to make and learn from mistakes without risking failures in real life. Further, policymakers can make these mistakes in a safe,

unthreatening, game-like environment, while responding to a wide variety of concretely presented situations based on facts. This is an opportunity to "rehearse the future," an opportunity that does not present itself in day-to-day operations where every action and decision counts.

Paul J. H. Schoemaker offers a strong managerial case for the use of scenario planning in business and had wide impact.

The appeal of scenario planning increased further in the wake of the September 11th 2001 terrorist attacks in the United States and the greater perceived uncertainty of the 21st century. According to Bain & Company's annual survey of management tools, fewer than 40% of companies used scenario planning in 1999. But by 2006 its usage had risen to 70%.

Scenarios planning starts by dividing our knowledge into two broad domains:

(1) Things we believe we know something about and

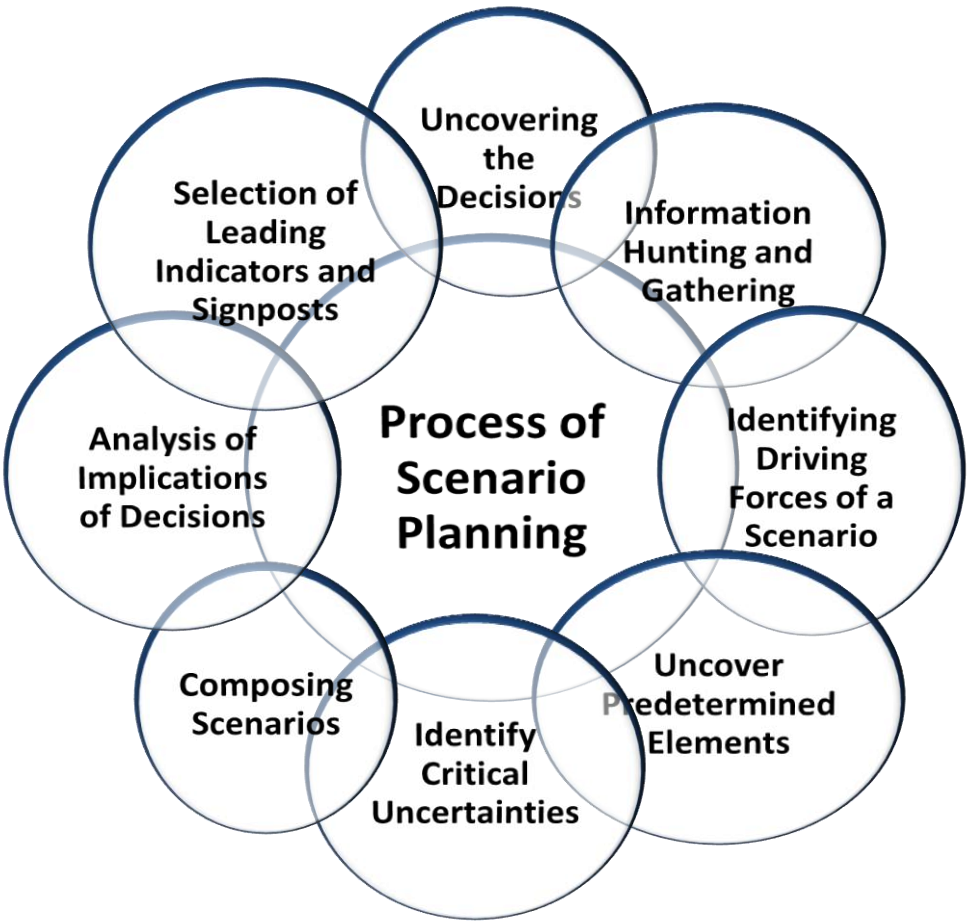
(2) Elements we consider uncertain or unknowable.

For example,

1. We can safely make assumptions about demographic shifts and, perhaps, substitution effects for certain new technologies.

The second component – true uncertainties – involve indeterminable such as future interest rates, outcomes of political elections, rates of innovation, fads and fashions in markets, and so on.

2. In the 1970s, many energy companies were surprised by both environmentalism and the OPEC cartel, and thereby lost billions of dollars of revenue by mis-investment. The dramatic financial effects of these changes led at least one organization, Royal Dutch Shell, to implement scenario planning. The analysts of this company publicly estimated that this planning process made their company the largest in the world.



Step 1. What problem are you trying to solve?

Example –

An Engineering college having MBA deptt faced problem - ***not financially self-sufficient.***

This could be solved by (and/or):
1. Increasing number of students in the program (tuition income), 2. Reducing program expenses and
3. Obtaining outside funding to support the program.
So maybe we do question 1 this year, and do the other questions over the following 2 years.

Step 2. Information Gathering

Discussion with experienced people apart from published literature and market intermediaries can be the options for gathering information. Changes in program or courses offered or proactive initiatives for admission or closing any course can be the alternatives as per gathered information.

Step 3. Identify Driving forces

Here is a list of categories of "standard" driving forces:

Political Driving Forces

Including:

An Open economy, Control of the Internet, Economic Growth, Islamic Fundamentalism, Power of the United Nations, Proliferation of nuclear weapons and World Unification, Olympic Games, Elimination the gap between poor and rich, Strikes

Economic Driving Forces

Including:

E-commerce in developing countries, Crisis of the capitalism, Families' economic condition, Shift to Alternative Energy Sources and Affective Issues on China Economy, continuing the low growth of economy, Foreign Exchange Rate

Societal Driving Forces

Including:

Aging population, teenagers, liberalization of the health care market, the rise of ethics in corporate, increasing leisure time, Community Feeling, Digital Literacy, Future Value of an MBA, Increasing Mobility, computer games, Time as a valuable resource

Technological Driving Forces

Including:

Artificial Neural Networks, Gaming Industry, Mobility, Nanotechnology, Peer-to-Peer Technology, The Rapid Increase in WiFi Transmission Rates, Virtual Communities and Voice-recognition system

Environmental Driving Forces

Including:
Introduction of greenhouse gases emissions trading, Global Dimming, Acid Rain, E-paper solution instead of the paper work, The change of children playing sports to children playing videogames and Chinese Pollution Problems by Rapid Growth, Increasing efforts to make Seoul a clean and green place to live

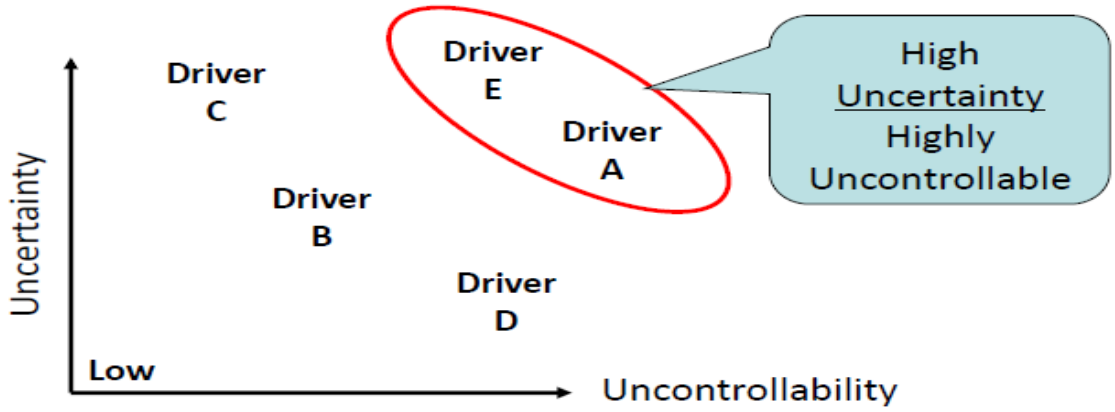
Name: For our example of Engineering college instead of “Demographic” call it call it “increase in no. of Teenagers” for Driving force. **What:** A short description of the driving force. **Enablers:** Factors which strengthen this driving force. **Inhibitors:** Factors which weaken this driving force. **Paradigms:** Changes in ways of thinking about the world due to driving force. **Experts:** Sources for additional information about this driving force. **Timing:** Dates for key milestones in the development of the driving force. **Web Resources:** Useful resources on the web relating to this force.

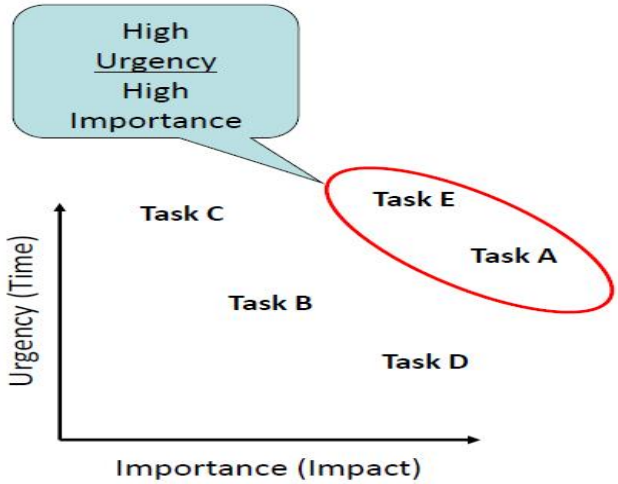
Step 4 : Uncover predetermined elements

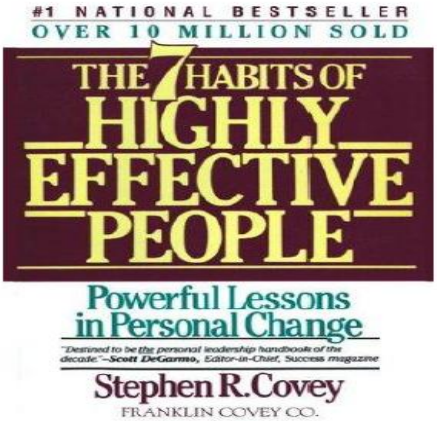
Predetermined elements are developments and logics that work in scenarios without being dependent on any particular chain of events. It means that a predetermined element is something that seems certain.

For example, the most commonly recognized predetermined element is demographics because it is changing so slowly.

Step 5 : Identify Critical uncertainties







Teenagers growing number fall into third quadrant and seem to be uninteresting. Engineering managers has some **interesting** dimensions, such as:

•Where will these engineering managers be working and what will be the primary **functions** of these managers?

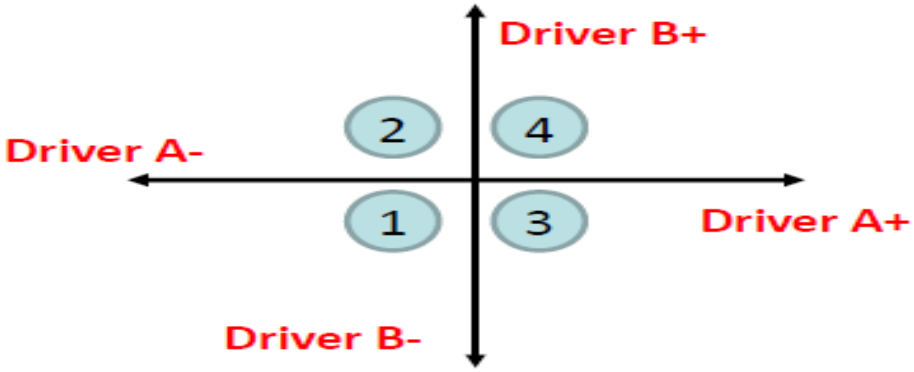
In our example, we will focus specifically on two critical functions (as Drivers) of engineering managers:-

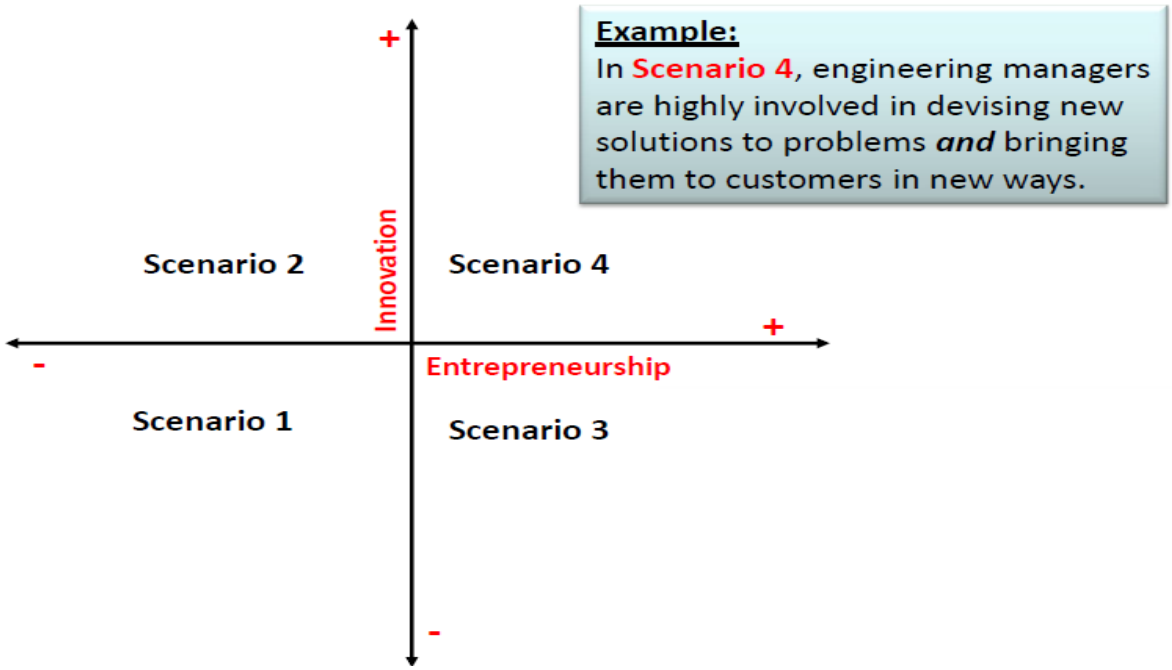
Innovation –Devising new solutions to problems.

Entrepreneurship –Bringing solutions to customers in new ways.

Step 5 : Create Scenarios

You have identified two highly important but highly uncertain drivers. Now, draw another four-quadrant plot, with the extremes on the axes:

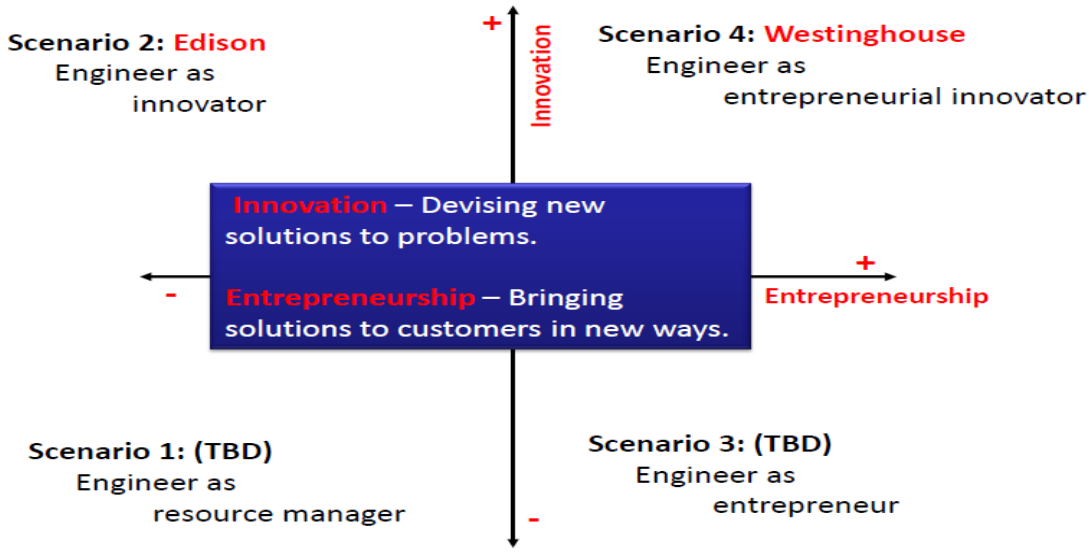




This is just one way to come up with scenarios. It's systematic, and generates a manageable number (four) of highly-differentiated scenarios. It's good way to start.

Step 6: Compose Stories

For **each** of your (4) scenarios, you must now write a short **story**. **Each** story should capture a **vision** of how the world will be under this scenario. It can be quite beneficial to come up with a catchy **name** for the scenario. Names stick in the mind and capture the essence of the scenario.



Step 7: Analysis of Implications of Decisions

Once the scenarios have been developed in some detail, then it is time to return to the decision identified in step one.

Step8: Selection of Leading Indicators:

For this purpose, a few indicators should be selected to monitor the strategy or decision in an ongoing way. Monitoring these indicators will allow a company to know what the future holds for a given industry and how that future is likely to affect strategies and decisions in the industry.

For our Engineering college example,

Internal indicators:
•Enrolment in program and courses
•Completion of Course

External indicators:
•Where are graduates working?
•What are they doing?

3.1.2 Preparing an Environmental Threat and Opportunity Profile (ETOP)

Environmental Threats and Opportunities Profile (ETOP) gives a summarized picture of environmental factors and their likely impact on the organization. ETOP is generally prepared as follows.

1) List Environmental Factors:

The different aspects of the general as well as relevant environmental factors are listed. For example, economic environment can be divided into rate of economic growth, rate of inflation, fiscal policy etc.

2) Assess Impact of each Factor:

At this stage, the impact of each factor is assessed closely and expressed in qualitative (high, medium or low) or quantitative factors (1, 2, 3). It is to be noted that not all identified environmental factors will have the same degree of impact. The impact is assessed as positive or negative.

3) Get a big picture:

In the final stage, the impact of each factor and its importance is combined to produce a summary of the overall picture.

ETOP Profit of a Bicycle Co

Environmental factors	Nature of Impact	Impact on each sector
Economic	↑	Growing affluence among Urban, rising disposable income, living standards

Market	→	Organized sector a virtual oligopoly with four major manufacturer, buyer are informed, Industry growth rate not encouraging, niche segments like sports, trekking, racing and fancy cycles is high, traditional distribution system
International	↓	Global imports growing but India's share shrinking, India second manufacturer, consumer and exporter after China, India exports mainly to Africa, Threat of cheap Chinese imports
Political	→	Bicycle principal mode of transport for lower income; industry has small for major political attention
Regulatory	→	Regulatory restrictions heavy, duty rates , parts reserved for small scale industry
Social	↑	Environment and health friendly transport option, wide usage at work and schools, used as recreation and physical fitness equipment

Environmental Sectors	**Impact**
Economic	High export potential.
Political	No significant factor.
Social	Preference for sports cycles and fashionable cycles
Technological	Technological up gradation of industry in progress. Import of machinery is possible.
Supplier	Ancillaries and associated companies supply parts and components. Imported raw material available.
Government	Liberalization for technology import and a thrust area for export.
Market	For sport cycles growth rate is 25% while others it is 7 to 9 per cent Increasing demand.

Looking to above chart, it can be concluded that many opportunities are operating in the environment for a bicycle company. A company can take advantage of Government policies and increase its production as per demand in the market. It can also take advantage of high expert potential. Though, all conditions are favorable for settled company, but for a new company much would depend upon supply of raw materials and how company can be able to acquire latest technology.

ETOP provides very useful information to a strategist. With the help of ETOP, organization knows where it stands with respect to its environment and this helps the strategist in formulation of an appropriate strategy.

3.2 Industry Analysis

The first step in industry analysis is to provide a basic description of the industry and the competitive forces that dominate it.

3.2.1 Porter's Five Forces Model of Competition:

Porter's Five Forces Model of Competition:

1) The Threat of Substitute Products:

If the product of an industry can be substituted by that of another, the purchaser of that product has choices that extend beyond rival products. For example, going to the cinema can be a substitute for a meal at a restaurant. Substitute products are a strong threat when:

a) They offer a similar level of benefits an proximate prices.

b) The consumer will not incur switching cost in moving between alternatives.

c) The consumer is price sensitive.

2) The Threat of New Entrants:

When new entrants enter an industry, they bring extra capacity to the Industry. If demand is increasing the new entrants can use this capacity to meet the increased demand. This is frequently the case during the growth stage of an industry, but as the industry matures demand growth slows and new entrants will have to start competing with existing companies for a share of existing demand. In this situation, the new entrants will have to gain market share by offering similar products at competitive prices or by redefining the market to increase products demand.

3) The Power of Buyers:

Buyers or customers are powerful when the following conditions exist:

a) There are few buyers who purchase in large quantities.

b) Buyer has low switching costs.

c) Buyer has choices because there is a large volume of sellers.

d) The product or service supplied is not an important one.

e) The buyer has the ability to produce the product supplied.

f) The buyer has information about the costs of production and other buyer's prices.

g) The impact of powerful buyers can be significant because they can negotiate prices down and reduce industry profitability.

4) The Power of Suppliers:

The factors that influence buyer's power are similar to those that influence supplier power; they just act in the opposite direction.

Supplier power is high when:

a) There are few alternative sources of supply and there are many buyers.

b) Particular buyer is not an important customer to the supplier.

c) The product or service supplied is an important input for the buyer.

d) The buyer cannot make the produce cheaper that the supplier can.

e) There are no substitutes for the supplied products.

f) The supplied product has a good brand reputation, especially when this branding is important to the final product.

5) The Rivalry Amongst Industry Members:

There are two extreme possibilities

a) Competition between industry members is low. Each industry member is content with its market share and gets involved only minimally with competitive activity. The main concern is to maintain industry profitability by tacit co-operation.

b) Competitive rivalry is high and is manifested in direct and indirect price cutting, promotional activities and discounted products.

Rivalry tends to be high when:

a) Demand is growing slowly or declining. This causes greater rivalry when it is difficult to leave the industry.

b) Customers can switch over to other products easily.

c) New entrants are seeking to gain market share by price cutting.

d) Industry members are of similar size and have similar market power.

e) There is excess capacity. In this situation, some industry members may be prepared to sell at prices that exceed variable costs but do not necessarily cover total costs.

3.2.2 Entry and Exit Barriers:

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

a) Barriers to Entry:

1) Economies of Size:

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

2) Capital Intensive::

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

3) Intellectual Property:

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

4) High Switching Costs:

The tendency for buyers of an industry`s products to be reticent about switching to a new supplier tends to limit entry.

5) Established Brand Identity:

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

6) Permitting Requirements:

Industries where permitting and licenses are required to establish production tend to have limited entry.

7) Government Standards:

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

b) Barriers to Exit:

1) Investment in Specialist Equipment:

An investment in specialized equipment that cannot readily be used in other industries tends to be an impediment to leaving the industry.

2) Specialized Skills:

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

3) High Fixed Costs:

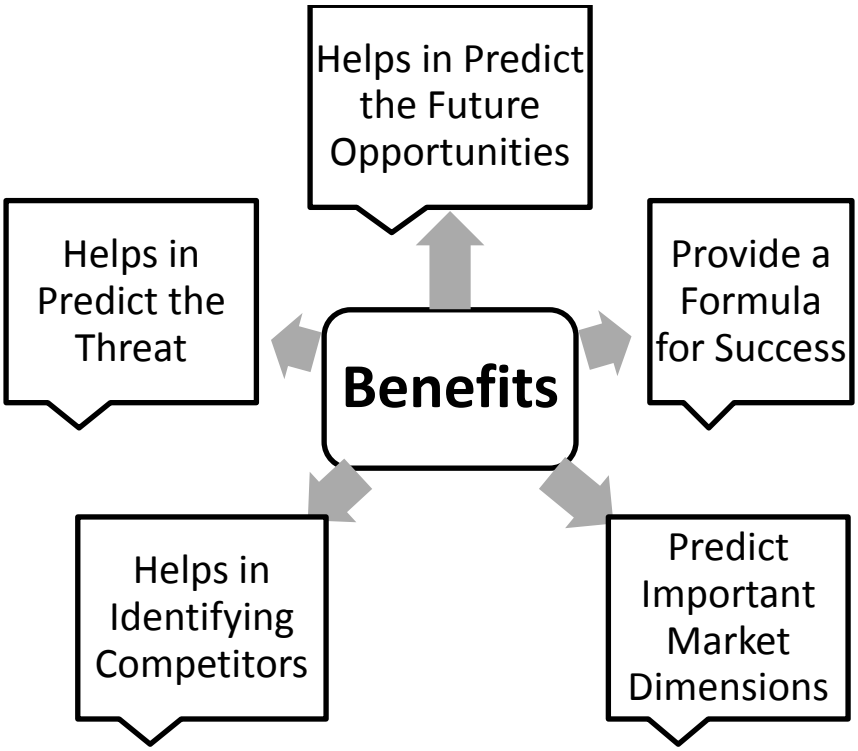
High levels of dedicated fixed costs tend to be an impediment to leaving an industry

3.2.3 Strategic Group Analysis:

After analyzing the environment it is necessary for a firm to analyze their competitors. The aim here is to focus on the group of firms that are the closest rivals to the organization in respect of the strategy positions they find themselves in. Specifically, a strategy group will generally share similar strategic characteristics, follow similar strategies and compete on similar bases.

a) Meaning:

Strategic groups are "conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry". They are conceptual as they are not formally identified groups or part of an industry association.



1) **Helps in Identifying Competitors:**

It serves as a purpose of indentifying the strategic groups and then analysing the industry from the view-point of the differences in the business strategies employed. This facilitates a direct comparison among the group of firms that compete directly with each other.

2) **Helps in Predict the Threat:**

It helps to understand the variance of threats and opportunities and competitive dynamics among firms within an industry.

3) **Helps in Predict the Future Opportunities:**

It helps to indentify strategic opportunities by revealing area in the industry I which no or very few firms currently compete.

4) **Provide a Formula for Success:**

It indicates a formula for success for a service category. Such insight may broader manager's view of important market needs.

5) **Predict Important Market Dimensions:**

It indicates important market dimensions or niches that are not being capitalized on by the existing competitors. Lack of attention to critical success factors by other competitive organizations offering the same or a similar service may provide an opportunity for management to differentiate its services.

Day 4

4.1 Company's Internal Environment

Internal environments refer to the quantity and quality of an organization's physical and human resources including finances, managerial talents and expertise in marketing production, research and development.

- **Strategic advantages** are the outcomes of organizational capabilities.
- They are the results of organizational activities leading to rewards in terms of financial parameters such as **profit or shareholder value** OR non financial parameters such as **market share or reputation.**
- Competitive advantage is special case of strategic advantage where there is one or more identified rivals against whom rewards or penalties could be measured.

- **Organizational behavior** is the manifestation of various forces and influences operating in the internal environment of an organization that create the ability for or place constraints on the usage of resources.

  Some of the important forces and influences that affect organizational behavior are: the quality of leadership, management philosophy, shared value and culture, quality of work environment and organizational politics, use of power etc.

- **Strength** is an inherent capability which an organization can use to gain strategic advantage. **Weakness** on the other hand is an inherent limitation or constraint which creates strategic disadvantage for an organization. Financial strength is a result of availability of sources of finance, low cost of capital, efficient use of funds. Weakness in operation area results due to inappropriate plant location, obsolete machinery, and uneconomical operations.

- **Synergy effect -** Synergy is an idea that the whole is greater than or lesser than sum of its parts. It is also expressed as 'two plus two equal to five or three effect.'

  Marketing the synergistic effect may occur when product, pricing, distribution and promotion aspects support each other resulting in higher level of marketing synergy. At a higher level, marketing and production area may support each other leading to operation synergy.

- **Competency** is special qualities possessed by an organization that make them withstand forces of competition in market place.

  Superior product quality on a particular attribute. Example- a two wheeler which is more fuel efficient than its competitors products.

  Creation of Marketing niche by supplying highly specialized products to a particular market segment.

  Differential advantage based on superior research and development skills of an organization not possessed by its competitors.

  Access to low cost financial source like equity share holders not available to competitors.

- **Core Competencies** - According to Prahalad and Hamel, the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies … it is also about the organization of work and the delivery of value…it is communication, involvement and deep commitment in working across organizational boundaries. It involves many levels of people and all functions …it does not diminish with use.

  To identify core competencies Prahalad and Hamel identified **three tests** –

  1. It should be able to provide access to wide variety of markets.

2. It should make a significant contribution to the perceived customer benefits of the end product.

3. It should be difficult for competitors to imitate.

Examples of Core competency-

- Canon's core competence lies in optics, imaging and microprocessor.
- NIIT's offering technology based learning.
- Reliance industry's skillful project management.
- Google's expertise in search algorithm.

4.2 Organizational Capability is the inherent capacity of an organization to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threats in its external environment.

- Skill for coordinating resources and putting them to productive use.
- Organizational capability factors are the strategic strengths and weaknesses existing in different functional areas within an organization which are of crucial importance to strategy formulation and implementation.

4.2.1 Financial Capability –

- Factors related to sources of funds – Controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus and relationships with lenders, banks and financial institutions

- Factors related to usage of funds – Capital investment , fixed asset acquisition, current assets, dividends distribution, relationship with shareholders.

- Factors related to management of funds – Accounting and budgeting systems, Management control system, cost reduction and control, tax planning.

Examples -

- Gujarat Ambuja accumulated high savings from higher cement prices and sales volume growth over the past few years.

- Holcim of Switzerland the world's second largest cement producer took over equity in Gujrat Ambuja. This helped develop considerable financial strength to raise finances.

- Mahindra & Mahindra low asset company accumulating a high surplus of nearly Rs.200 crore. It maintains a low debt – equity ratio, raising its borrowing capacity substantially.

Strengths that support financial capability

- Access to financial resources
- Amicable relationship with financial institutions
- High level of credit worthiness
- Efficient capital budgeting system
- High level of share holders confidence
- Tax benefit due to various government policies

4.2.2. Marketing Capability

- Product related factors – Variety , differentiation , mix , positioning , packaging
- Price related factors – objectives, policies, changes
- Promotion related factors – sales promotion, advertising, public relations
- Integrative and systematic factors – Marketing mix, market standing , marketing MIS, company image

Examples -

- Parle enjoys high market share with its biscuit brands – Parle G , Monaco and Krackjack
- LG takes pride in its extensive distribution network – with 43 branch offices , over 150 area offices, 10000 trading partners.
- Pfizer India has distinction of having brands – Becosules and Corex – gave Pfizer recognition

Strengths that support Marketing capability

- Wide variety of products
- Better quality of products
- Sharply focused positioning
- Low prices
- Price protection due to Govt policy
- Effective distribution system
- Effective sales promotion

- Favorable company or product image
- Effective Marketing MIS

4.2.3 Operations Capability

- Factors related to Production System – Capacity, location, layout, product and service design, degree of automation etc
- Factors related to Operations and Control System – Aggregate production planning, material supply , inventory, cost and quality control, maintenance systems
- Factors related to R & D – Product development, Patents rights, technical collaboration , level of technology used

Examples-

- JK Tyres faces strategic disadvantage owing to its lower operational capability.
- Bridgestone , its competitor , who have access to latest tread patterns have technologically proven to be better.
- Mumbai dabawalas, 120 year old organization, deliver 175,000 packages within hours. The entire system depends upon team work and meticulous timing.
- Capability to absorb imported technology is a great strength. Lakshmi Machine Works is one of the five companies in the world to make entire range of textile spinning machinery . It had collaboration with Rieter Machine Works of Switzerland from which it got its latest technology.

Strengths that support Operations capability

- High level capacity utilization
- Favorable plant location
- High degree of Vertical integration
- Reliable sources of supply
- Effective control of Operations cost
- Existence of good inventory control system
- Availability of high caliber R & D personnel
- Technical collaboration with reputed firms abroad.

4.2.4 Personnel capability

- Factors related to Personnel system – Systems for man power planning, selection , development, compensation , communication and appraisal.
- Factors related to organizational and employee characteristics – quality of managers , worker's perception about the organization, availability of development opportunities for employees.
- Factors related to industrial relations - Union - management relationship, collective bargaining, safety ,welfare and security, employee satisfaction and morale.
- IT companies face problem of attracting and retaining skilled employees. Covansys attempts to build a human resource friendly company environment through various measures.
- Metal Box India Ltd., highly profitable company. But owing to various problems, it had to shut down several plants. The root cause of the problem was sever crash crunch which was largely the result of high cost structure owing to wage bills.

Strengths that support personnel capability

- Effective personnel systems
- The organization perceived as model and fair employer
- Excellent training opportunities
- Congenial working environment
- Highly satisfied and motivated work force
- High level of Loyalty
- Low level of absenteeism
- Safe working conditions

4.2.5 Information Management Capability

- Factors related to acquisition and retention of information : Quantity, quality, timeliness and retention capacity and security of information
- Factors related to processing and synthesis of information : DBMS, software capability to synthesis info
- Factors related to retrieval and usage of info : Appropriate info formats, capacity to assimilate and use info
- Factors related to transmission and dissemination : Speed ,scope and willingness to accept info.

- Integrative and supportive factors : IT infrastructure, compatibility and up-gradation of facilities, investment in state of art systems

Examples

- NIIT due to information capability has widely spread offices in several countries
- Hero's product management is an extensive communication system interlinking various functional areas such as operations, materials management and services. In this way information capability is used to develop the product.

Strengths that support information management capability

- Ease and convenience of access to information sources
- Availability of high tech equipment
- Positive attitude of sharing info
- Wide coverage and networking of systems
- Presence of info security systems
- Buyers and suppliers conversant with IT applications

4.3 Methods & Techniques for Organizational Appraisal

Internal Analysis

1. VRIO framework

2. Value Chain analysis

3. Quantitative analysis

4. Qualitative analysis

Comparative analysis

1. Historical analysis

2. Industry norms

3. Benchmarking

Comprehensive analysis

1. Key factor rating

2. Business intelligence systems

3. Balance Score card

4.3.1. VRIO FRAMEWORK

Contribution by Barney

The acronym VRIO stands for Valuable, Rare, inimitable and Organized for usage.

Valuable - The organizational capabilities possessed by the firm that help it to generate revenues by capitalizing on opportunities and to reduce costs by neutralizing threats.

Examples – Ability to generate an amicable relationship with government or to provide high quality after sales service to the customers.

Rarity - is when a firm has a valuable resource or capability that is absolutely unique among a set of current and potential competitors.

Examples -"Is control of resource/capability in hands of a relative few?" 1. An Exclusive location, 2. Highly satisfied and motivated workforce.

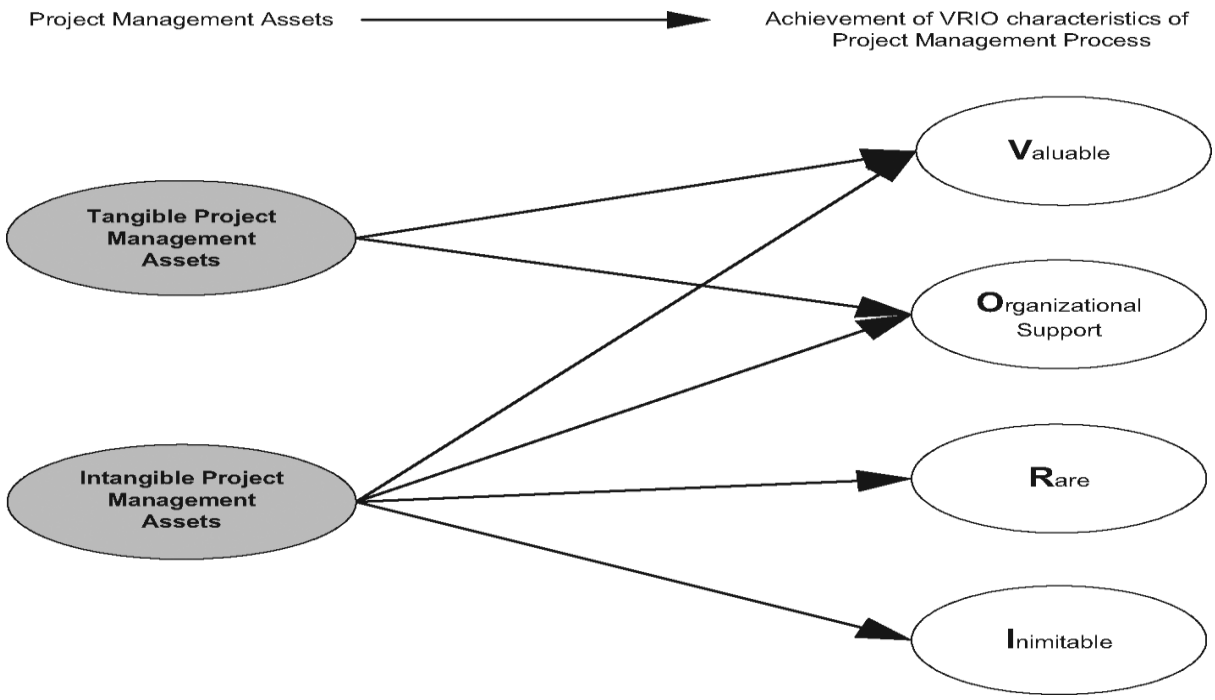
Imitability - Firms with valuable and rare resources, which are hard to imitate by other firms, can gain the first-mover advantages in the market and can hence gain competitive advantage.

Examples- corporate image, ability to acquire and integrate business

Organization - "Is the firm organized, ready, and able to exploit the resource/capability? "

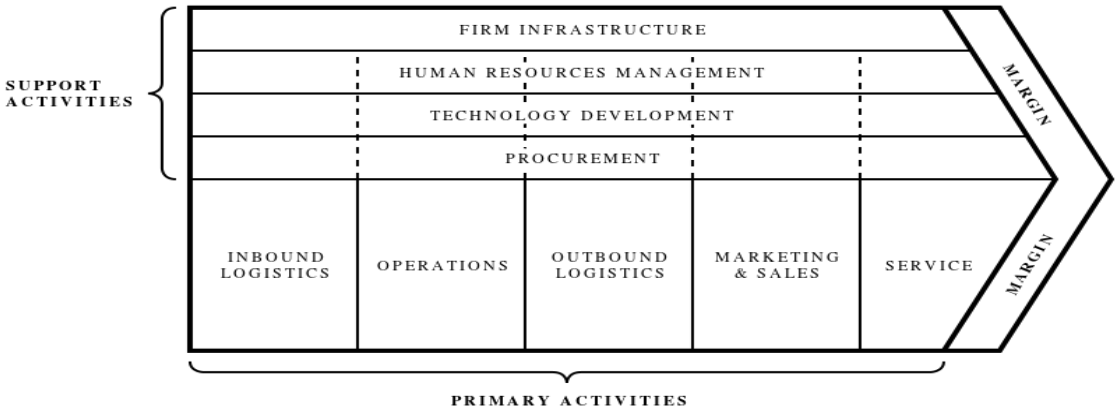
Once you have realized the value, rarity and imitability of your company's resources and capabilities, the next step is to organize your company in a way to exploit these resources.

Examples - They include, but are not limited to, the company's formal reporting structure, management control systems and compensation policies.



Valuable?	Rare?	Costly to imitate?	Exploited by the organization?	Competitive implication
No				Competitive disadvantage
Yes	No			Competitive parity
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	No	Unexploited competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

4.3.2. Value Chain Analysis



A **value chain** is a chain of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.

A value chain is a set of interlinked value creating activities performed by an organization.

The idea of the value chain is based on **the process view** of organizations, the idea of seeing a manufacturing (or service) organization **as a system**, made up of subsystems each with inputs, transformation processes and outputs.

Inputs, transformation processes, and outputs involve the acquisition and consumption of resources - money, labour, materials, equipment, buildings, land, administration and management.

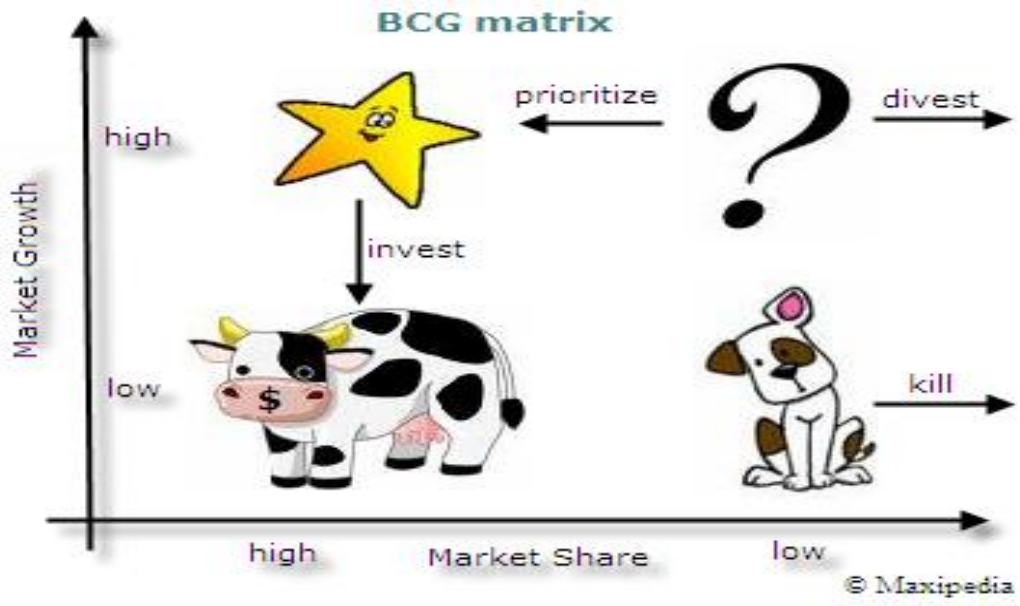
How value chain activities are carried out determines costs and affects profits.

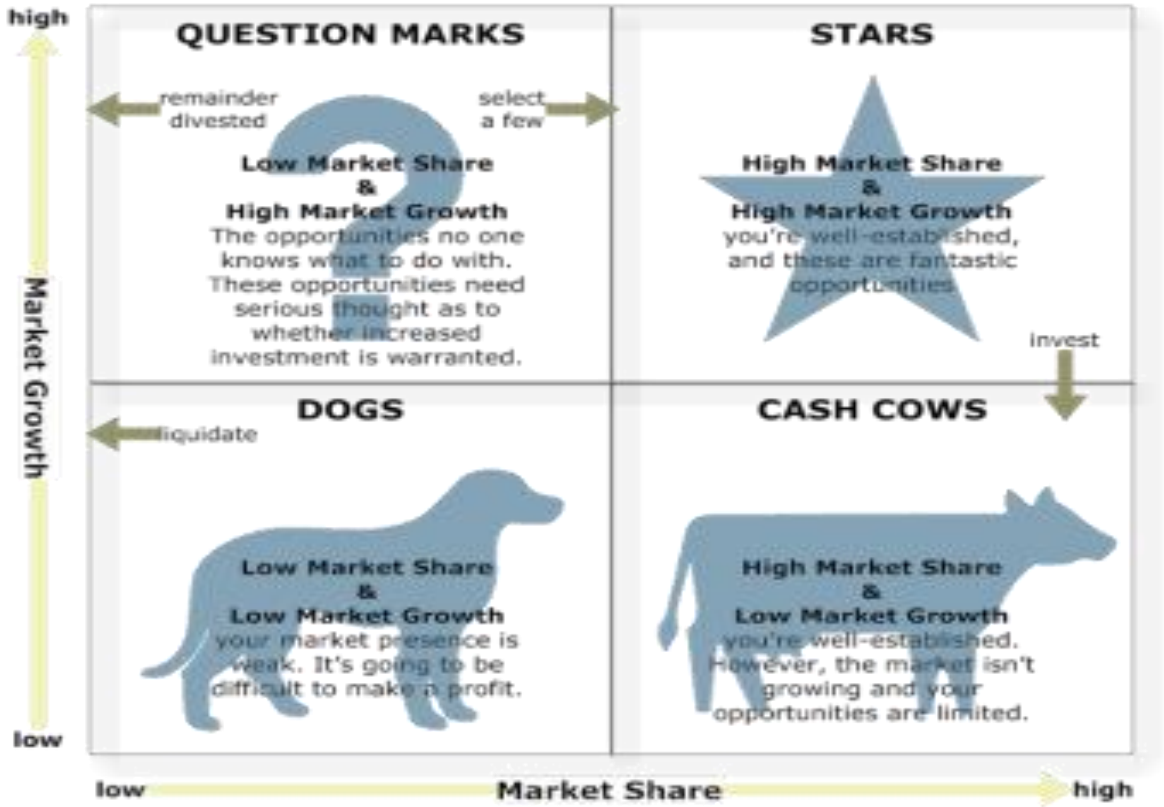
4.4. Business Portfolio analysis

4.4.1. BCG Matrix

The growth–share matrix (aka the product portfolio, BCG-matrix, Boston matrix, Boston Consulting Group analysis, and portfolio diagram) is a chart that was created by Bruce D. Henderson for the Boston Consulting Group in 1970 to help corporations to analyze their business units, that is, their product lines.

This helps the company allocate resources and is used as an analytical tool in brand marketing, product management, strategic management and portfolio analysis.





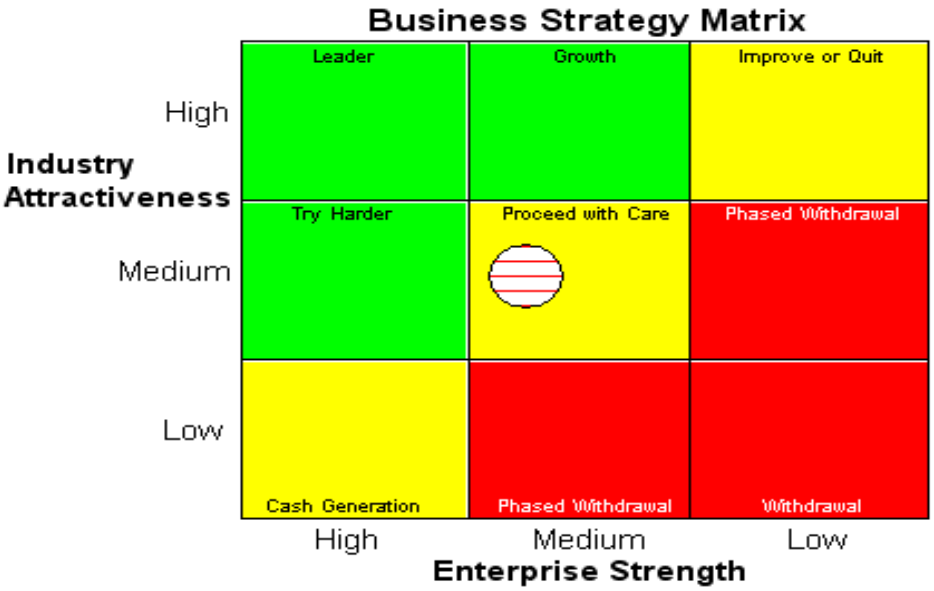
4.4.2. GE 9 Cell Matrix

GE Matrix is also known as **GE/McKinsey Matrix** . It was developed by McKinsey & Company to view GE's strategic business units in one table. For this purpose they developed a nine cell portfolio matrix as a tool for screening the units.

Here Industry attractiveness and Business unit strength are taken into consideration. Industry attractiveness is put on the vertical side and Business unit strength is put on the horizontal side. They are divided into three points as low, medium and high.

Each business unit is given a point based on its market performance and that point is based on both industry attractiveness and business unit strength.

SBU is a profit center which focuses on product offering and market segment. SBU may be a business unit within a larger corporation, or it may be a business unto itself or a branch.



The factors that are important in both industry attractiveness and business unit strength are as follows:

For Industry attractiveness

- Market size and growth rate
- Industry profit margins
- Competitive intensity
- Seasonable nature
- Cyclical nature
- Economies of scale
- Technology and
- Social, environmental, legal and human impacts.

For Business unit strength

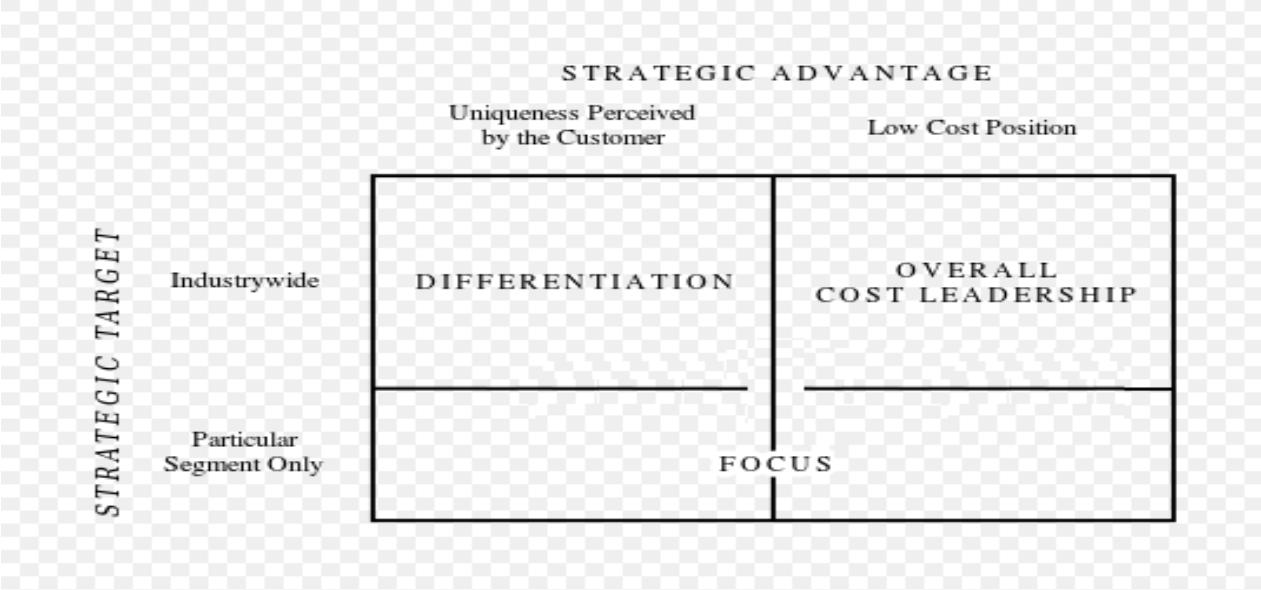
- Relative market share
- Profit margins

- Ability to compete on price and quality
- Knowledge of customer and market
- Competitive strength and weakness
- Technological capability and
- Calibre of the management.

Day 5

Generic Competitive Strategies

5.1 Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three generic strategies - lower cost, differentiated, or focus. Porter's generic strategies detail the cost minimization strategies, product differentiation strategies, and market focus strategies.



5.1.1 Cost Leadership

This strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive).

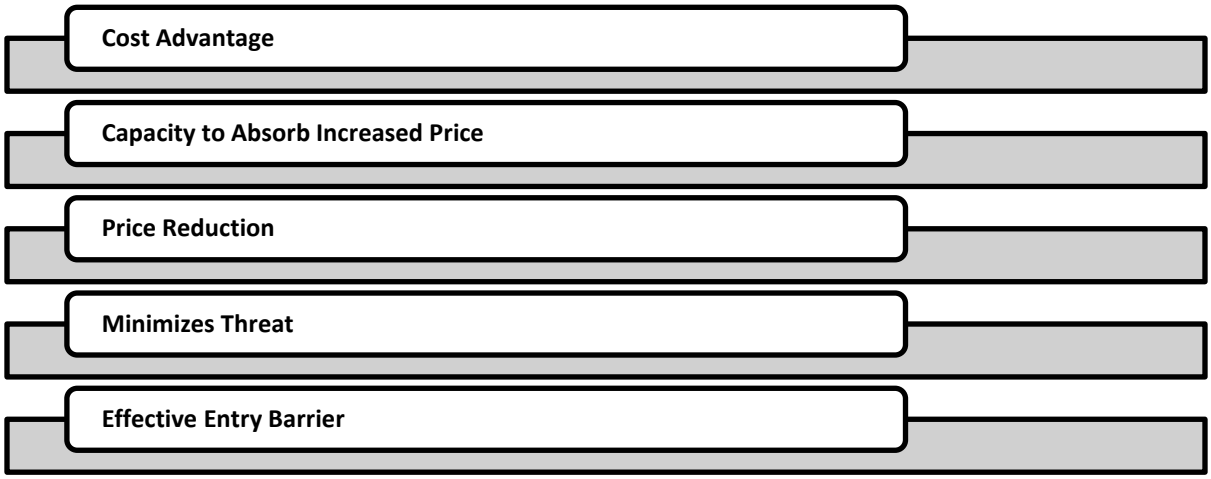
- The first approach in achieving this is high asset utilization. These approaches mean a lower unit cost, i.e. the firm hopes to take advantage of economies of scale and experience curve effects. Example-

A restaurant that turns tables around very quickly or an airline that turns around flights very fast. In manufacturing, it will involve production of high volumes of output.

- The second dimension is achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products and limiting customization and personalization of service.
  Example-
  Overheads are kept low by paying low wages, locating premises in low rent areas. It may also be done by outsourcing, controlling production costs, increasing asset capacity utilization, and minimizing other costs including distribution, R&D and advertising.

- The third dimension is control over the value chain encompassing all functional groups (finance, supply/procurement, marketing, inventory, information technology etc..) to ensure low costs.
  Example –
  For supply/procurement chain this could be achieved by bulk buying to enjoy quantity discounts, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep inventories low using methods such as Just-in-Time purchasing. Wal-Mart is famous for squeezing its suppliers to ensure low prices for its goods.

Benefits of Cot leadership



5.1.2 Differentiation

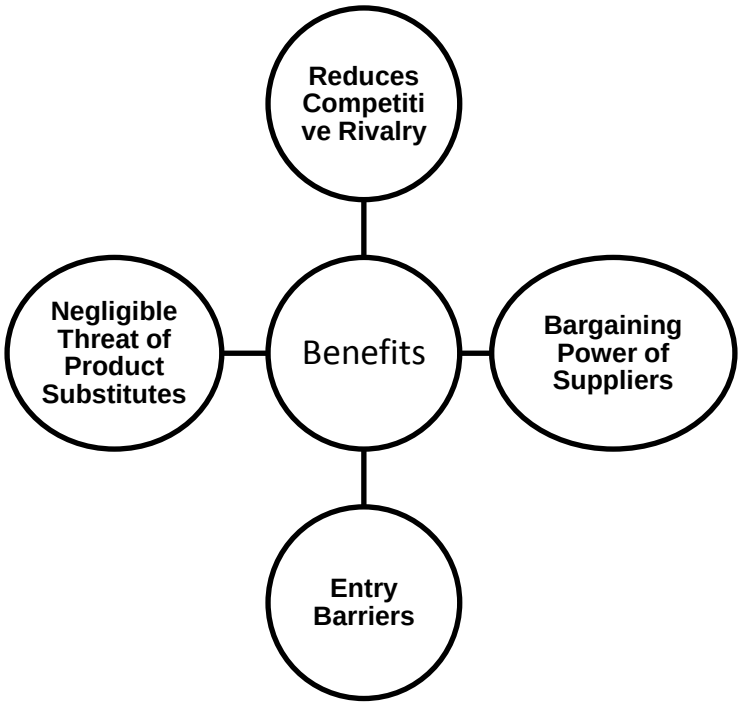
Differentiate the products/services in some way in order to compete successfully.

A differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy.

Differentiation strategy is not suitable for small companies. It is more appropriate for big companies.

Example -
These could include patents or other Intellectual Property (IP), unique technical expertise (e.g. Apple's design skills), talented personnel (e.g. a sports team's star players), or innovative processes.

Benefits of Differentiation



5.1.3 Focus

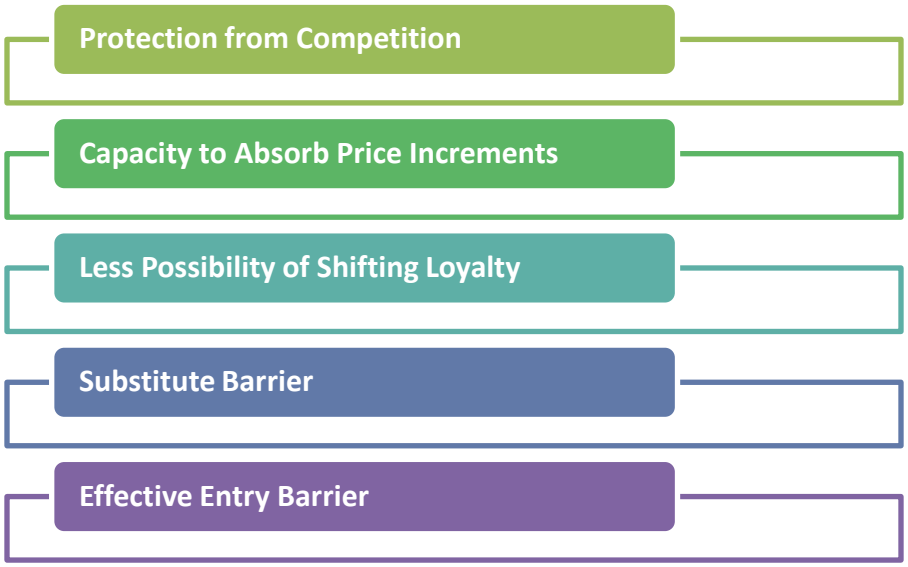
Big companies which chose applying differentiation strategies may also choose to apply in conjunction with focus strategies (either cost or differentiation). On the other hand, this is definitely appropriate strategies for small companies especially for those wanting to avoid competition with big ones. In adopting a narrow focus, the company ideally focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialized needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm.

Example –

A local restaurant in a low rent location can attract price-sensitive customers if it offers a limited menu, rapid table turnover and employs staff on minimum wage.

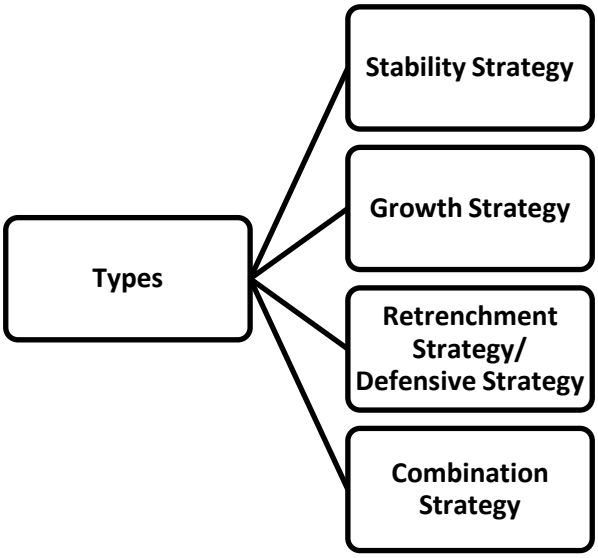
The success of low-cost budget airlines who despite having fewer planes than the major airlines, were able to achieve market share growth by offering cheap at prices much cheaper than those of the larger incumbents.

Benefits of Focus



Grand Strategies

Grand strategies are about decisions related to allocating resources among the different businesses of a firm.

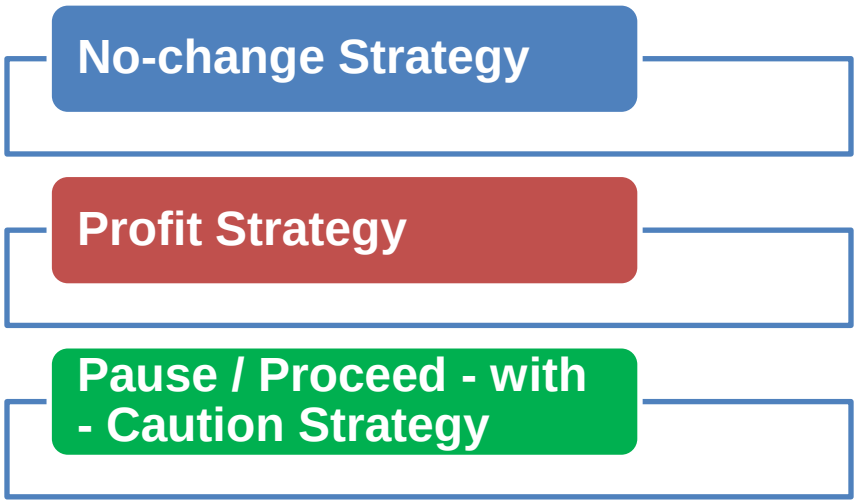


5.2 Stability Strategy:

Stability strategy is most likely to be pursued by small businesses or firms in a mature stage of development. Stability strategy implies continuing the current activities of the firm without any

significant change in direction. If the environment is unstable and the firm is doing well, then it may believe that it is better to make no changes.

Types of Stability Strategies



5.2.1 No-change Strategy:

This strategy indicates that the company has nothing to do new but to continue with the present business definition. It means that there is no change in the present strategy.

5.2.2 Profit Strategy:

Profit strategy is an attempt to artificially maintain profits by reducing investments and short-term expenditures. Rather than announcing the company's poor position to shareholders and other investors at large, top management may be tempted to follow this strategy.

Obviously, the profit strategy is useful to get over a temporary difficulty, but if continued for long, it will lead to a serious deterioration in the company's position. The profit strategy is thus usually the top management's short term and often self serving response to the situation.

5.2.3 Pause/Process with caution strategy:

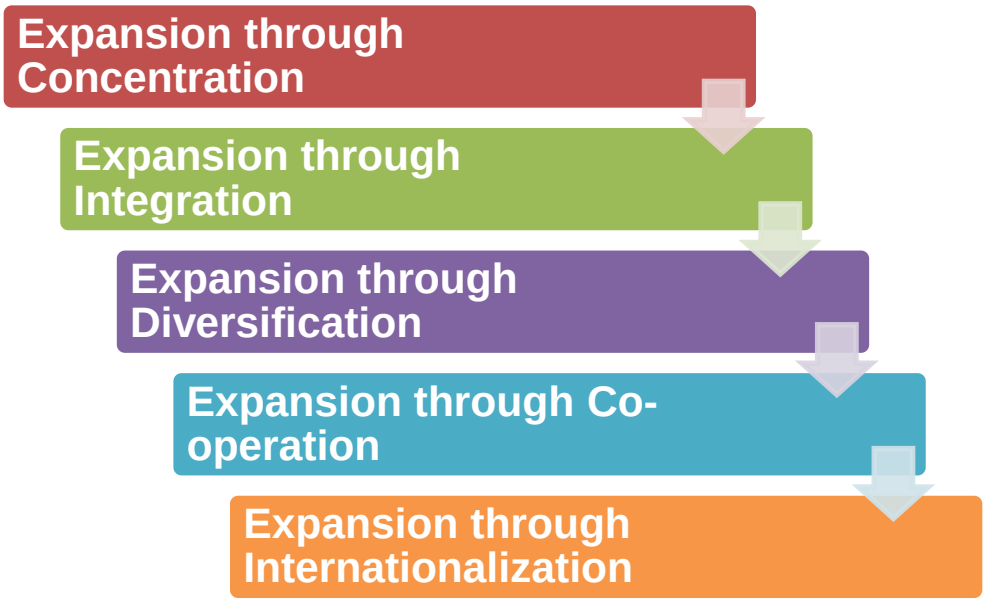
Some organizations pursue stability strategy for a temporary period of time until the particular environmental situation changes, especially if they have been growing too fast in the previous period. Stability strategies enable a company to consolidate its resources after prolonged rapid growth. Sometimes, firms that wish to test the ground before moving ahead with a full-fledged grand strategy employ stability strategy first.

Example –

In the Indian shoe market dominated by the Bata and Liberty, not many of them might be aware that Hindustan Levers, better known for FMCGs, produces substantial quantities of shoe uppers for the export markets. In late 2000, it started selling a few thousand pairs in the cities unobtrusively to gauge market reaction. This could possibly be a proceed-with-caution strategy before it goes full stream.

5.3 Growth Strategy

Strategy aimed at winning larger market share, even at the expense of short-term earnings. Five broad growth strategies are



5.3.1 A Concentrated Growth strategy involves focusing on increasing market share in existing markets. This strategy is also sometimes called a concentration or market dominance strategy. In a stable environment where demand is growing, concentrated growth is a low risk strategy.

Example -

Concentration may involve increasing the rate of use of a product by current customers; attracting competitor's customers; and/or attracting nonusers/ new customers.

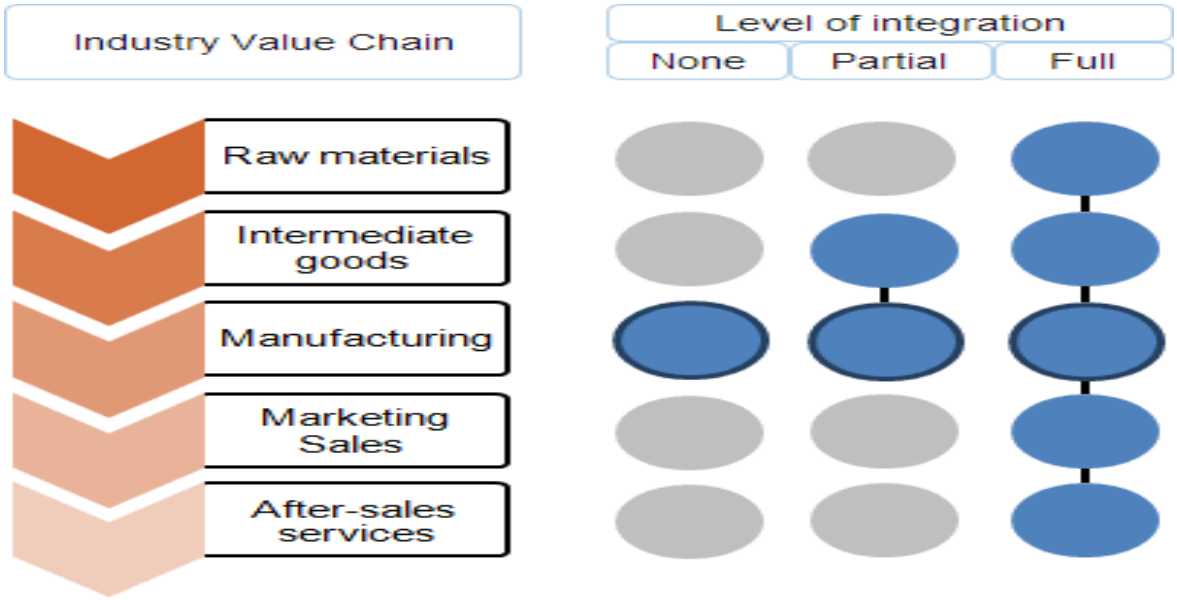
A strategic approach in which a business focuses on a single market or product. This allows the company to invest more resources in production and marketing in that one area, but carries the risk of significant losses in the event of a drop in demand or increase in the level of competition. Business concentration is much like a pond at your local park. There are hundreds of little fish. Some of these fish over time grow larger and as they grow larger they get hungrier. As this occurs the little fish who aren't as big and strong as the bigger fish begin to be consumed by the larger fish and die off. Example-

Microsoft dominates the PC operating system business.

5.3.2 Vertical integration is a strategy that many companies use to gain control over their industry's value chain. The important question in corporate strategy is, whether the company should participate in one activity (one industry) or many activities (many industries) along the industry value chain. *For example*, the company has to decide if it only manufactures its products or would engage in retailing and after-sales services as well. Two issues have to be considered before integration:

- *Costs*. An organization should vertically integrate when costs of making the product inside the company are lower than the costs of buying that product in the market.
- *Scope of the firm*. A firm should consider whether moving into new industries would not dilute its current competencies.

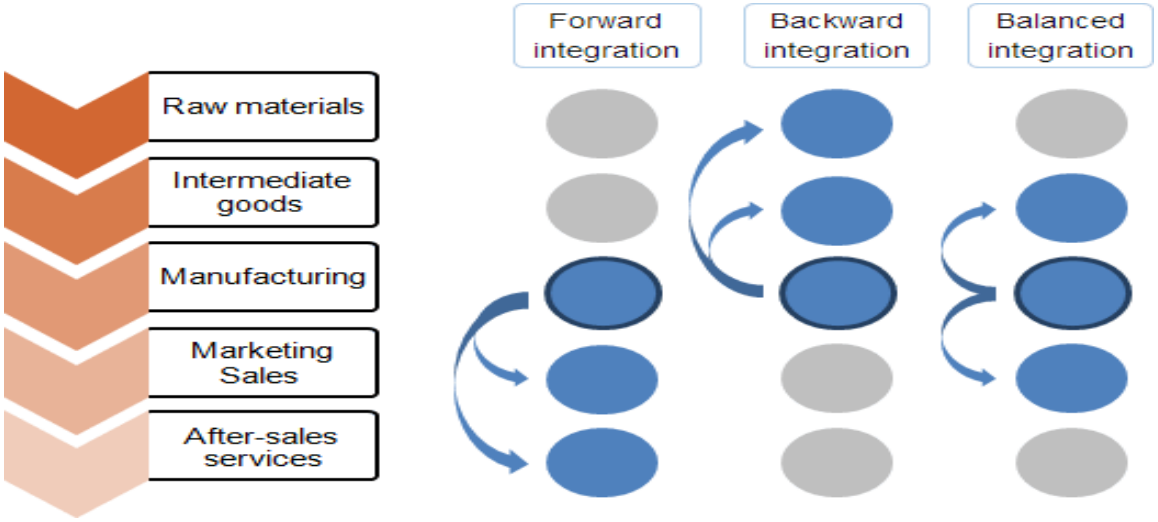
The example below illustrates a general industry value chain and none, partial or full VI of a corporate operating in that industry.



By using a vertical integration strategy, the firm attempts to expand the scope of its current operations by undertaking business activities formerly performed by one of its suppliers (backward integration) or by undertaking business activities performed by a business in its channel of distribution (forward integration).

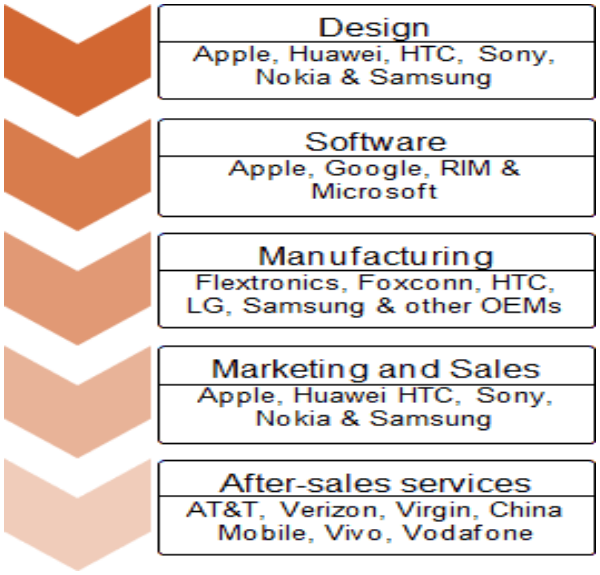
Types of vertical integration

Firms can pursue forward, backward or balanced VI strategies.

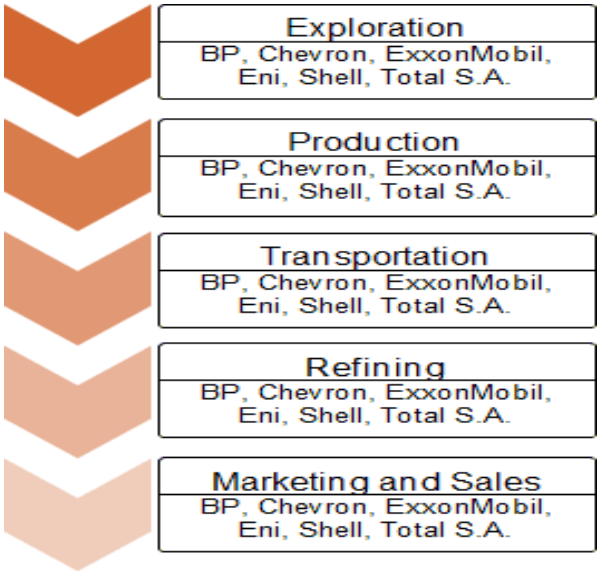


Examples -

1. Smart phones Industry



2. Oil Industry



3. A simple example of backward vertical integration strategy is an **ice cream company** that buys a dairy farm. The company requires milk to make ice cream and either can buy milk from a dairy farm or other milk supplier or could own the dairy farm itself. This ensures that it will have a steady supply of milk at its disposal and that it will pay a reasonable price. This can protect the ice cream maker in the event that there are several other buyers vying for the same milk supply.

Following News is another example of vertical integration -

4. BASIS Science is also the creator of the Basis band, the world's most advanced health tracker. The wrist-worn device and web and mobile service captures physiological metrics such as heart rate to help people get fit, sleep better and stress less. "**Intel** is a great fit for Basis products, employees and consumers," said Jef Holove, former BASIS Science CEO and now a general manager in Intel's New Devices Group. Intel Corporation today announced that it has completed the acquisition of BASIS Science Inc..

5. As a bookseller, **Amazon.com** buys books from various suppliers, such as publishing companies. By becoming a publisher itself, it has integrated into its business the role of supplier and can sell books that its own publishing company publishes.

Advantages of the strategy:

- Lower costs due to eliminated market transaction costs
- Improved quality of supplies
- Critical resources can be acquired through VI
- Improved coordination in supply chain
- Greater market share
- Secured distribution channels
- Facilitates investment in specialized assets (site, physical-assets and human-assets)
- New competencies

5.3.3 Diversification

“Diversification is producing new products for new markets involving quite different skills, process and knowledge from those associated with the present products, services or processes.”

Ansoff's Product/Market matrix:

		Products: Present	Products: New
Markets	Present	Market penetration	Product development
	New	Market development	**Diversification**

Types of Diversification Strategies:

1) Concentric Diversification :

When an organization takes up an activity in such a manner that it is related to the existing business definition of one or more of a firm's businesses, either in terms of customer groups, customer functions or alternative technologies, it is called concentric diversification.

For example, a company that manufactures industrial adhesives might decide to diversify into adhesives to be sold via retailers. The technology would be the same but the marketing effort would need to change.

2) Conglomerate Diversification :

When an organization adopts a strategy, which requires taking up those activities, which are unrelated to the existing business definition of one or more of its businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification.

A conglomerate is a large, often multinational, corporation that owns companies in different industry sectors. Conglomerates gained popularity in the 1960s as companies that generally engaged in one line of business began diversifying their business models.

Example

1. One of the successful conglomerates is **General Electric**, popularly known as "GE." General Electric, formed by Thomas Edison in 1890, began as a lighting business and has since transformed into a conglomerate that is more synonymous with "general" than "electric." Shortly after the company was formed, it engaged in horizontal mergers and other forms of expansion that resulted in producing radios, refrigerators and wind turbines. GE developed World War I aircraft and eventually became the largest manufacturer of jet engines through GE Aviation, a new line of business.

2. Time **Warner** included several tenuously linked businesses during the 1990s and 2000s, including Internet access, content, film, cable systems and television. Their diverse portfolio of assets allowed for cross-promotion and economies of scale. However, the company has sold or spun off many of these businesses – including Warner Music Group, Warner Books, AOL, Time Warner Cable, and Time Inc. – since 2004.

5.3.4 Cooperation Strategy - strategy in which firms work together to achieve a shared objective. Corporate strategies could take into account the possibility of mutual cooperation with competitors while competing with them at the same time so that the market potential could expand. The term co-operation expresses the idea of simultaneous competition and co-operation among rival firms for mutual benefit.

Types of Cooperation strategies -

1. **Mergers**
2. **Acquisitions & Takeovers**
3. **Collaborative partnerships**

1. Mergers

A merger is a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organizations. A *merger* usually involves combining two companies into a single larger company. In practice, both companies surrender their stock and issue new stock as a new company.

Types of Mergers:

1) Horizontal Mergers:

Horizontal mergers take place when there is a combination of two or more organizations in the same business or of organizations engaged in certain aspects of the production or marketing processes. Horizontal mergers may happen between two companies in the same industry, such as banks or steel companies.

Example-

A merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. The goal of a horizontal merger is to create a new, larger organization with more market share. Because the merging companies' business operations may be very similar, there may be opportunities to join certain operations, such as manufacturing, and reduce costs.

2) Vertical Mergers:

Vertical mergers take place when there is a combination of two or more organizations, not necessarily in the same business. They create complementarily either in terms of supply of material or marketing of goods and services. Vertical mergers occur between two companies in the same industry value chain, such as a supplier or distributor or manufacturer.

Example –

A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.

Synergy, the idea that the value and performance of two companies combined will be greater than the sum of the separate individual parts is one of the reasons companies merge.

2. Acquisitions and Take over

When one company takes over another and clearly establishes itself as the new owner, the purchase is called an acquisition.

Acquisition is generally considered negative in nature.

Boeing's largest investment of the last decade was not a new commercial aircraft but its acquisition of McDonnell Douglas in 1996.

Takeover – A corporate action where an acquiring company makes a bid for an aquiree. If the target company is publicly traded the acquiring company will make an offer for the outstanding shares.

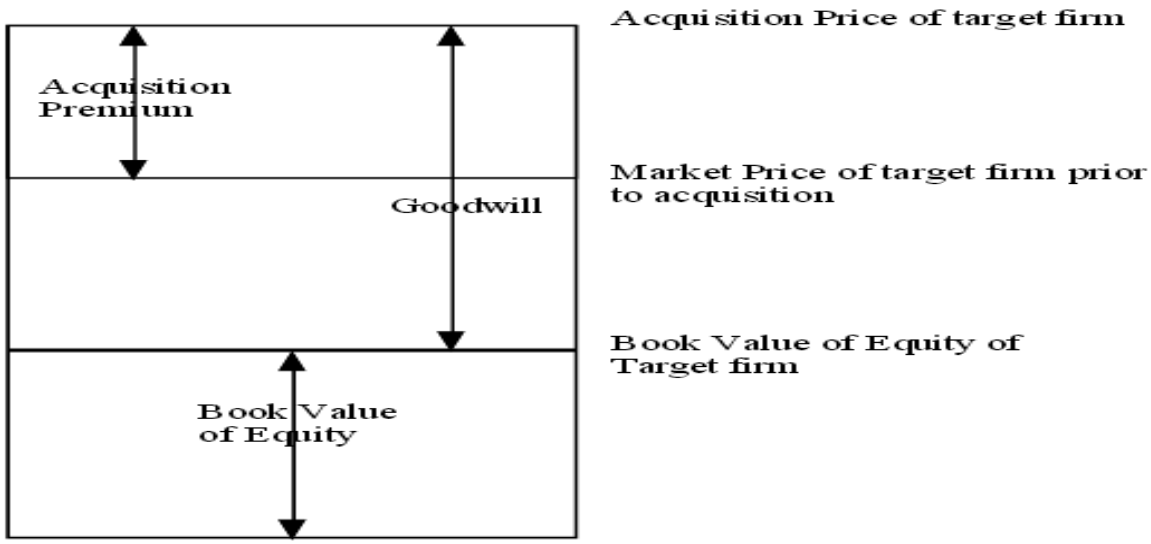
Hostile takeover - a takeover attempt that is strongly resisted by the target firm.

Friendly takeover – target company's management and board of directors agree to a merger or acquisition by another company.

Top Acquisitions

Rank	Year	Purchaser	Purchased	Transaction value (in mil. USD)
1	2000	America Online Inc. (AOL)	Time Warner	164,747
2	2000	Glaxo Wellcome Plc.	SmithKline Beecham Plc.	75,961
3	2004	Royal Dutch Petroleum Co.	Shell Transport & Trading Co	74,559
4	2006	AT&T Inc.	BellSouth Corporation	72,671
5	2001	Comcast Corporation	AT&T Broadband & Internet Svcs	72,041
6	2004	Sanofi-Synthelabo SA	Aventis SA	60,243
7	2000	*Spin-off*: Nortel Networks Corporation		59,974
8	2002	Pfizer Inc.	Pharmacia Corporation	59,515
9	2004	JP Morgan Chase & Co	Bank One Corp	58,761

Figure : Breaking down the Acquisition Price



The difference between the acquisition price and the market price prior to the acquisition is called the acquisition premium. The acquisition price, in the context of mergers and consolidations, is the price that will be paid by the acquiring firm for each of the target firm's shares.

Example-

For instance, in 1991, AT&T initially offered to buy NCR for $80 per share, a premium of $ 25 over the stock price at the time of the offer. AT&T ultimately paid $ 110 per share to complete the acquisition.

3. Collaborative partnerships –

A **strategic alliance** is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. The alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk.

Types of Strategic alliance –

1. **Horizontal strategic alliances**, which are formed by firms that are active in the same business area. That means that the partners in the alliance used to be competitors.

Example –

- Raue & Wieland (2015) describe the example of horizontal alliances between logistics service providers. They argue that such companies can benefit twofold from such an alliance.

On the one hand, they can "access tangible resources which are directly exploitable". This includes extending common transportation networks, their warehouse infrastructure and the ability to provide more complex service packages by combining resources.

On the other hand, they can "access intangible resources, which are not directly exploitable". This includes know-how and information and, in turn, innovativeness.

2. **Vertical strategic alliances**, which describe the collaboration between a company and it´s upstream and downstream partners in the Supply Chain, that means a partnership between a company it´s suppliers and distributors.

Example –

- Starbucks and Kraft had an alliance where Starbucks coffee will be distributed through Kraft only. Both companies will benefit : Starbucks gain quick entry into 25000 supermarkets in USA, supported by marketing muscle of 3500 Kraft sales people and Kraft tops off its coffee line with the best known premium brand and gains quick entry into the fast growing premium coffee segment.

- Individuals from a civil engineering, project management, construction, landscaping and interior design firms all have different areas of expertise, yet together can deliver a complete building solution. None of the firms could bid on a job of this magnitude independently, but as a team they can combine their expertise for as long as necessary.

3. **Joint ventures**, in which two or more companies decide to form a new company. Two or more organizations form an alliance/joint venture for the purpose of delivering a joint program. The

two business entities are taking advantage of their different skills and abilities in an effective manner.

Example –

- A group of independent consultants come together to develop a management-training program. This may include individuals with expertise in different areas such as human resources, leadership and communications skills, and conflict resolution. These consultants will utilize their different skills to develop the program and may then market it by using their respective client/contacts list.

5.3.5 Internationalization Strategy

International strategies are a type of expansion strategies that require firms to market their products or services beyond the domestic or national market.

General Agreement on Tariffs and Trade (GATT) negotiation rounds resulted in trade liberalization, and this was continued with the formation of the World Trade Organization (WTO) in 1995. At the same time, worldwide capital movements were liberalized by most governments, particularly with the advent of electronic funds transfers.

Example-
Although Walmart tends to be viewed as an American retailer, the firm earns more than one-quarter of its revenues outside the United States. Walmart owns significant numbers of stores in Mexico (1,730 as of mid-2011), Central America (549), Brazil (479), Japan (414), the United Kingdom (385), Canada (325), Chile (279), and Argentina (63). Walmart also participates in joint ventures in China (328 stores) and India (5).

Factors affecting Internationalization

a. Geographical location of the destination

In their article, Tsai H-T and Eisingerich A B indicate that companies start internationalizing by entering markets that are close to the domestic market. Also Ghemawat research displayed that "In general the farther you are from a country, the harder it will be to conduct business in that country."

b. The local cultural aspect

Countries being part of the European continent share a lot more similarities between each other than with any other Asian country. Before going further, we should define that we consider culture not only as the set of values, norms and traditions, but also as business customs and practices. Now, it is even clearer that the cultural behavior of the host country is an important variable of the strategy determination.

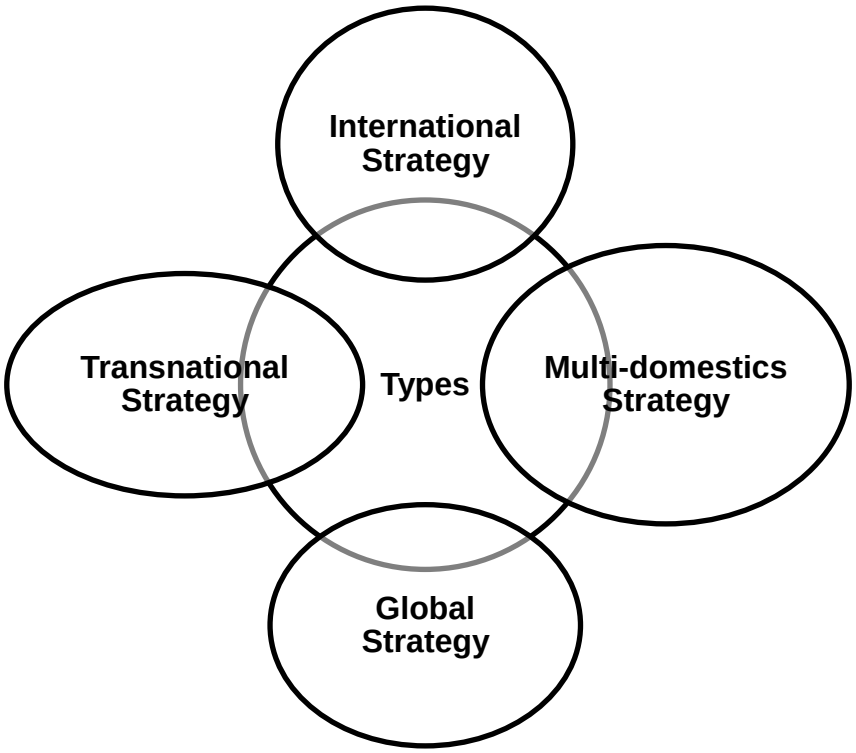
Standardized products are more successful and competitive as prices can be reduced comparing to competitors. But on the other side, standardization and quality of products have a negative relationship whereas adaptation has positive one.

c. Economical situation of the host country

The host country can have restrictive rules concerning investments. In some countries such as China, Argentina, India or Brazil, a joint venture, or substantial amounts of money are demanded by the government to deliver an authorization to a company to settle down in their market.

The more open the country is; the more it is willing to accept Foreign Direct Investments (FDIs) entering in its territory. This would mean that investments on infrastructures, as well as training and development have been made in the host country. Consequently, the country is able to welcome companies with high-technological requirements, which produce goods with important value-added

Types of International Strategies –



1) **International Strategy:**

Firms adopt an international strategy when they create value by transferring products and services to foreign markets where these products and services are not available.

2) **Multi-domestics Strategy:**

Firms adopt multi-domestic strategy when they try to achieve a high level of local responsiveness by matching their products and services offerings to the national conditions operating in the countries they operate in.

Example-

Rather than trying to force all of its American-made shows on viewers around the globe, MTV customizes the programming that is shown on its channels within dozens of countries, including New Zealand, Portugal, Pakistan, and India.

3) **Global Strategy:**

Firms adopt a global strategy when they rely on a low-cost approach based on reaping the benefits of experience-curve effects and location economies and offering standardized products and services across different countries.

A firm using a global strategy sacrifices responsiveness to local requirements within each of its markets in favor of emphasizing efficiency. Some minor modifications to products and services may be made in various markets, but a global strategy stresses the need to gain economies of scale by offering essentially the same products or services in each market.

Example –

Consumer goods maker Procter & Gamble attempts to gain efficiency by creating global brands whenever possible.

4) Transnational

Firms adopt a transnational strategy when they adopt a combined approach of low-cost and high local responsiveness simultaneously for their products and services.

For example, large fast-food chains such as McDonald's and Kentucky Fried Chicken (KFC) rely on the same brand names and the same core menu items around the world. These firms make some concessions to local tastes too. In France, for example, wine can be purchased at McDonald's. This approach makes sense for McDonald's because wine is a central element of French diets.

5.3.5 **Retrenchment Strategies:**

A strategic option which involves reduction of any existing product or services line along with the level of objectives set below the past achievement is known as retrenchment strategy. It is essentially a

defensive strategy adopted as a reaction to operating problems stemming from either internal mismanagement, unanticipated actions by competitors or changes in market conditions.

Favourable	Leadership or Niche	Harvest or Divest Quickly
Unfavourable Industry Conditions	Niche or Harvest	Divest Quickly
	Has Competitive Strength	Lacks Competitive Strength

Retrenchment is also reduction in expenditure to become financially stable. Retrenchment strategy is a strategy used by corporate in order to reduce the diversity or to cut the overall size of the operations of the company. Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or services in order to make a beneficial turn around.

Example –
A corporate hospital decides to focus only on special treatment and realize higher revenues by reducing its commitment to general case which is less profitable.

Types of Retrenchment strategies

1. Turn around Strategies

Turnaround strategy means backing out, withdrawing or retreating from a decision wrongly taken earlier in order to reverse the process of decline.

There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are as follows:

a) Persistent negative cash flow

b) Continuous losses

c) Declining market share

d) Deterioration in physical facilities

e) Over-manpower, high turnover of employees, and low morale

f) Uncompetitive products or services

g) Mismanagement

Turnaround can be done by selling assets, abandoning difficult markets, stopping unprofitable production lines, downsizing and outsourcing. It is therefore all about an efficient orientation and a refocus on the core business.

Before Turnaround it has to be first declared as a sick company. This is based upon the basis of Sick Industrial Act 1985, which provides for a quasi judicial body called the Board of Industrial and Financial Reconstruction (BIFR) which acts as the corporate doctor whenever fall sick.

Example-

Kirloskar Pneumatic Company Limited (KPC) was set up in 1958. It started operations with the manufacture of air compressors and pneumatic tools in collaboration with Broom and Wade Ltd., U.K. and then diversified into Airconditioning, Refrigeration and Transmission. Currently its activities are grouped into four major divisions: Air-Compressor, Air-conditioning and Refrigeration, Hydraulic Power Transmission and Process gas.

During the recession in the late 1990s, the sales bottomed out and the management realized that the business could not grow any more. This triggered a period of introspection and the company started looking inwards. Every time any business hits the bottom, there are two perspectives – external and internal. Since the management had little control over external factors, it focused on managing the internal working of the company. Fortunately, even on the external front, the company had a chance to buy out one of their major competitors – K G Khosla. The move started in 1994 when KG Khosla Company became sick and the ICICI requested the Kirloskars to manage this business. Subsequently both the companies, KPC & KG Khosla, were merged in the year 2000.

The first thing KPC management team did was to understand the business of KG Khosla - their product lines, style of business, etc. Then it started leveraging the synergies between the two companies. Since the sales of the KPC were already bottoming out and the Khosla product line with its manufacturing facilities was added to its plant in Pune, the company was left with no other option except to cut costs across the board. By the end of 2000, the management of KPC had through an understanding with the staff at Faridabad plant of KG Khosla reduced the employee strength considerably. The VRS at Faridabad was introduced with a total understanding with the parting staff. KPC then shifted 90 people from Pune

to Faridabad for about three months during which time the company saw to it that the production continued at Faridabad with these workers. After this activity at Faridabad, the company also restructured its Pune plant by reducing the strength by 650 people. The final strength of employees at both the plants after this whole downsizing exercise finally stood at 800.

The company then turned its attention on restructuring its debt to bring the interest costs down. The third element of improvement was adding new product lines to its existing range while concentrating on improving the efficiency of its existing products. As a result, KPC turned around after successful implementation of all these well planned initiatives during the period 1999 – 2002.

2. Divestment Strategies

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful or it was ignored. A divestment strategy may be adopted due to the following reasons:

a) A business cannot be integrated within the company.

b) Persistent negative cash flows from a particular business create financial problems for the whole company.

c) Firm is unable to face competition

d) Technological up gradation is required if the business is to survive which company cannot afford.

e) A better alternative may be available for investment

Example –

Tata group is highly diversified company with a range of businesses. They identified their non core business for divestment. TOMCO was divested and sold to Hindustan Levers as soaps and detergents were not considered as core businesses by Tatas. Similarly pharmaceutical companies of Tata – Merind and Tata Pharma were divested to Wockhardt. Cosmetics company Lame was divested and sold to Hindustan Levers.

3. Liquidation Strategies

Liquidation strategy means closing down the entire firm and selling its assets. It is considered the most extreme and the last resort because it leads to serious consequences such as loss of employment for employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

Generally it is seen that small-scale units, proprietorship firms, and partnership, liquidate frequently but companies rarely liquidate. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies do not generally prefer liquidation.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition.

For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.

Liquidation strategy may be difficult as buyers for the business may be difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.

Reasons for Liquidation include:

(i) Business becoming unprofitable

(ii) Obsolescence of product/process

(iii) High competition

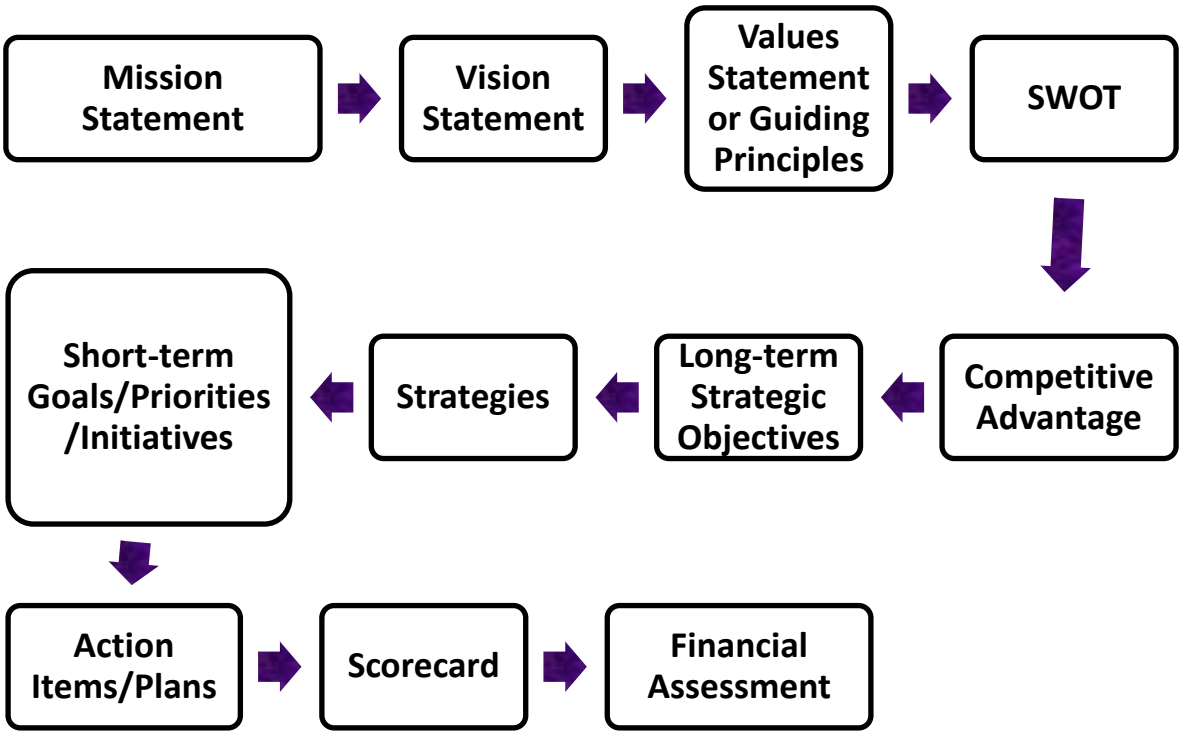
(iv) Industry overcapacity

(v) Failure of strategy

Example –
A retailer that suffered a loss on its business may find no one interested in buying the company as a going concern. To extract as much value out of the business as possible, the owner has a liquidation sale and sells all the inventory, fixtures and equipment before permanently closing the store's doors.

Day 6

6.1 Components of Strategic Plan:



1) Mission Statement:

The mission statement is an overarching, timeless expression of purpose and aspiration, addressing both what a company seeks to accomplish and the manner in which they seeks to accomplish it.

2) Vision Statement:

This short, concise statement of the Organization's future answers the question of what the company will look like in five or more years.

3) Values Statement or Guiding Principles:

These statements are enduring, passionate, and distinctive core beliefs. They're guiding principles that never changes and are part of company strategic foundation.

4) SWOT:

A SWOT is a summarized view of companies current position, specifically strengths, weaknesses, opportunities, and threats.

5) Competitive Advantage:

Company competitive advantage includes what they are best at as compared to its competitor.

6) Long-term Strategic Objectives:

These long-term strategic focus areas span a three-year (or more) time horizon. They answer the question of what company must focus on to achieve its vision.

7) Strategies:

Strategies are the general, umbrella methods you intend to use to reach company vision.

8) Short-term Goals/Priorities/Initiatives:

These items convert the strategic objectives into specific performance targets that fall within the one- to two-year time horizon. They state what, when, and who and are measurable.

9) Action Items/Plans:

These specific statements explain how a goal will be accomplished. They're the areas that move the strategy to operations and are generally executed by teams or individuals within one to two years.

10) Scorecard:

Company uses a scorecard to report the data of key performance indicators (KPIs) and track performance against the monthly targets.

11) Financial Assessment:

Based on historical record and future projections, this assessment helps plan and predict the future, allowing for gaining much better control over Organization's financial performance.

6.2 Barriers to Implementation Strategy:

1) Lack of Accountability:

No plan could be effectively implemented without reviewing progress of plans regularly. Plans could not be effective without proper monitoring system. When plans are not reviewed regularly then no corrective erasures could be made and as a result plans become irrelevant to the business operations. And without reviewing plans us accountability could not be take place which is very necessary for business plans.

2) Lack of Commitment:

Lack of commitment from management in the planning process is a main and root cause of all the obstacles in effective strategic planning. When management didn't take interest in formulation and implementation of strategy then all other hurdles create. Limited accountability, strict time limits on reviews and a strict scheduled for reviewing the plans all are the obstacles just due to lack of management commitment.

3) Inadequate Instructions to Employees:

Managers usually fail to adequately anticipate the required training and instructions for the employees in order to equip their employees with the skills required for the implementation of strategy. Sometime planners didn't link employee's performance with the reward system during implementation phase.

4) Power & Influence:

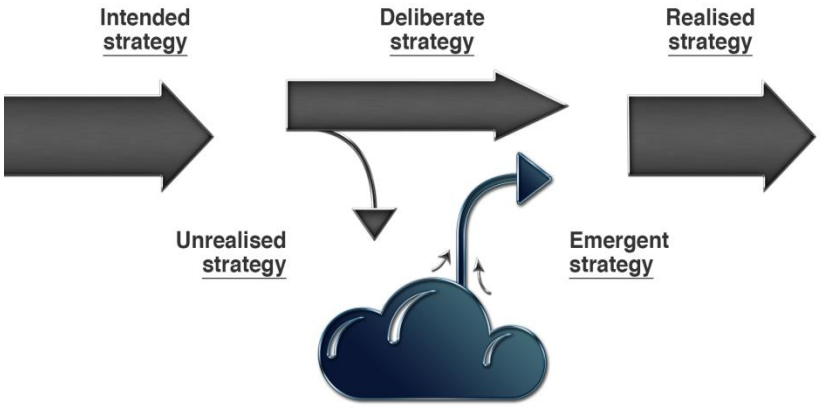
The way in which Organizations usually conduct its businesses provide some people in Organization with power and influence. Any strategy that could result in a change within Organization and which might disrupt their power and influence is generally opposed.

5) Culture:

In order to successfully implement a strategy we have to change our culture. As in Organizations usually culture is no support the risk taking, on the other hand for success entrepreneurial ship and risk taking is very much necessary. We need a culture which support risk taking, business cannot avoid risk by saying that we will not address it.

6.3 Deliberate and Emergent Strategies:

According to Mintzberg and Waters (1985), there are five kinds of strategies in their model (figure): emergent strategy, intended strategy, deliberate strategy, realized strategy and unrealized strategy.



a. **Intended Strategy**

An intended strategy is the strategy that an organization hopes to execute.

Example –

As an undergraduate student at Yale in 1965, Frederick Smith had to complete a business plan for a proposed company as a class project. His plan described a delivery system that would gain efficiency by routing packages through a central hub and then pass them to their destinations. A few years later, Smith started Federal Express (**FedEx**), a company whose strategy closely followed the plan laid out in his class project. Today, Frederick Smith's personal wealth has surpassed $2 billion, and FedEx ranks eighth among the World's Most Admired Companies according to *Fortune* magazine. Certainly, Smith's intended strategy has worked out far better than even he could have dreamed.

b. Deliberate Strategies :

A strategy can be described as deliberate where the collective vision, goals and / or intention(s) of an organization (in most cases, as determined by its leadership) is articulated as broadly and in as much

detail as possible, communicated to the actors (i.e. the employees – those responsible for implementation) within that organization in order to realize a given outcome.

Strategy is perfectly deliberate if the realized strategy (the pattern in actions) is formed exactly as intended.

c. Emergent strategies:

These strategies can be seen as responses to unexpected opportunities and problems and are usually developed from the locations at which business-level strategies are usually implemented, i.e. within business units and not at corporate headquarters.

Example-

- In 2007 -08 crash of the U.S. housing market preceded the global economic downturn, which in turn led to several foreign investors pulling their funds out of the Nigerian stock market (which had been enjoying a boom at the time). Instantly, most banks (which had adopted strategies to tap into the market boom of the period in order to maximize returns) had to either totally reverse or severely adjust their investment strategies in view of emergent economic events.

- In the mid-1980s, FedEx developed a service called ZapMail that involved documents being sent electronically via fax machines between FedEx offices and then being delivered to customers' offices. FedEx executives hoped that ZapMail would be a success because it reduced the delivery time of a document from overnight to just a couple of hours.

  Unfortunately, FedEx failed to anticipate that many businesses would simply purchase their own fax machines. ZapMail was shut down before long, and FedEx lost hundreds of millions of dollars following its failed emergent strategy. In retrospect, FedEx had made a costly mistake by venturing outside of the domain that was central to its intended strategy: package delivery.

d. **Realized Strategy:**

A realized strategy is the strategy that an organization actually follows. Realized strategies are a product of a firm's intended strategy (i.e., what the firm planned to do), the firm's deliberate strategy (i.e., the parts of the intended strategy that the firm continues to pursue over time), and its emergent strategy (i.e., what the firm did in reaction to unexpected opportunities and challenges).

Example –

In the case of FedEx, the intended strategy devised by its founder many years ago—fast package delivery via a centralized hub—remains a primary driver of the firm's realized strategy.

e. Non- realized strategy

A non-realized strategy refers to the abandoned parts of the intended strategy.

Example -

When aspiring author David McConnell was struggling to sell his books, he decided to offer complimentary perfume as a sales gimmick. McConnell's books never did escape the stench of failure, but his perfumes soon took on the sweet smell of success. The California Perfume Company was formed to market the perfumes; this firm evolved into the personal care products juggernaut known today as Avon. For McConnell, his dream to be a successful writer was a nonrealized strategy, but through Avon, a successful realized strategy was driven almost entirely by opportunistically capitalizing on change through emergent strategy.

Case:-

ESPN was founded by Bill Rasmussen, his son Scott Rasmussen and Aetna insurance agent Ed Eagan. Bill, who had an affinity with sports for much of his life, was fired from his position as the communications manager for the New England Whalers in 1978. During his tenure with the hockey team, Rasmussen had met Eagan, who displayed an interest in building a career in television. Eagan approached Bill with the idea of creating a monthly cable television program covering Connecticut sports. In the summer of 1978, the Rasmussens, with Eagan and his associate Bob Beyus – who owned a video production company – began to seek out support from cable operators and potential investors for the sports channel which they had come to name ESPN, the Entertainment and Sports Programming Network. ESP Network was incorporated on July 14, 1978 for a fee of $91.They got information that buying a continuous 24-hour satellite feed was less expensive than sending the signal across Connecticut via landlines; they agreed to buy the transponder for the satellite. Putting together money from various family members and associates, they put down $30,000 for the transponder. ESPN (along with the USA Network) was among the earliest cable-based broadcast partners for the National **Basketball** Association (NBA).

In 1990, ESPN added Major League **Baseball** to its lineup with the signing of a $400 million contract to broadcast the league's games. ESPN broadcast each of the **four major professional sports** leagues in North America from 2002 until 2004. ESPN set itself apart from its competition by using the **top reporters** for each of their respective sports by the early 1990s.

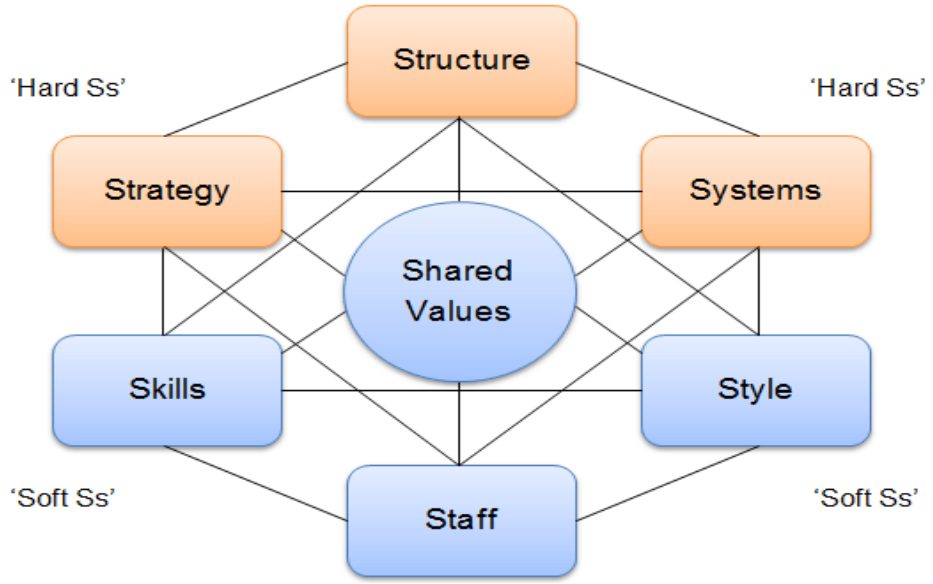
The West Coast headquarters and studio building for ESPN.

In the early 1990s, ESPN entered in Asia, Africa and Latin America by launching ESPN International; in 2004, into the European market by launching a version, ESPN Classic and in 2009 by launching a domestic channel in UK.

In this way it became **a global cable and satellite television channel** that focuses **on sports-related programming** including live and pre-taped event telecasts, sports highlight and talk shows, and other original programming.

6.4 Mc Kinsey's 7s Framework:

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company.



Above you can find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.

It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organizations.
- We'll use a simplified example to show how the model should be applied to an existing organization.

Example -

- **Current position #1**
- We'll start with a small startup, which offers services online. The company's main strategy is to grow its share in the market. The company is new, so its structure is simple and made of a very few managers and bottom level workers, who undertake specific tasks.
- **Alignment**
- So far the 7 factors are aligned properly. The company is small and there's no need for complex matrix structure and comprehensive business systems, which are very expensive to develop.

		Aligned
Strategy	Market penetration	Yes
Structure	Simple structure	Yes
Systems	Few formal systems. The systems are mainly concerned with customer support and order processing. There are no or few strategic planning, personnel management and new business generation systems.	Yes
Skills	Few specialized skills and the rest of jobs are undertaken by the management (the founders).	Yes
Staff	Few employees are needed for an organization. They are motivated by successful business growth and rewarded with business shares, of which market value is rising.	Yes
Style	Democratic but often chaotic management style.	Yes
Shared Values	The staff is adventurous, values teamwork and trusts each other.	Yes

- **Current position #2**
- The startup has grown to become large business with 500+ employees and now maintains 50% market share in a domestic market. Its structure has changed and is now a well-oiled bureaucratic machine. Trust and teamwork has disappeared due to so many new employees.
- **Alignment**
- First, the company's strategy is no longer viable. The business has a large market share in its domestic market, so the best way for it to grow is either to start introducing new products to the market or to expand to other geographical markets. Therefore, its strategy is not aligned with its goals.
- The top management is mainly comprised of founders, who don't have the appropriate skills. New skills should be introduced to the company.

		Aligned
Strategy	Market penetration	No
Structure	Bureaucratic machine	Yes
Systems	Order processing and control, customer support and personnel management systems.	No
Skills	Skills related to service offering and business support, but few managerial and analytical skills.	No

Staff	Many employees and appropriate motivation and reward systems.	Yes
Style	Democratic but often chaotic management style.	No
Shared Values	Enthusiasm and excellence	No

- **Current position #3**
- The company realizes that it needs to expand to other regions, so it changes its strategy from market penetration to market development. The company opens new offices in Asia, North and South Americas.
- Company hired new management, introduced new strategic planning systems, which brought new analytical, strategic planning and most importantly managerial skills.
- **Alignment**
- First, company's structure should have changed from well-oiled bureaucratic machine to division structure. Second, new shared values should evolve or be introduced in an organization, because many people from new cultures come to the company and they all bring their own values, often, very different than the current ones.

		Aligned
Strategy	Market development	Yes
Structure	Bureaucratic machine	No
Systems	Order processing and control, customer support, personnel management and strategic planning systems.	Yes
Skills	Skills aligned with company's operations.	Yes
Staff	Employees form many cultures, who expect different motivation and reward systems.	No
Style	Democratic style	Yes
Shared Values	Enthusiasm and excellence	No

Mc Kinsey's 7s Framework:

<u>7s Factors:</u>

Hard Ss

1) Strategy:

Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone.

2) Structure:

Structure represents the way business divisions and units are organized and include the information of who is accountable to whom.

3) Systems:

Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made.

Soft Ss

1) Skills:

Skills are the abilities that firm's employees perform very well. They also include capabilities and competences.

2) Staff:

Staff element is concerned with what type and how many employees and Organisation will need and how they will be recruited, trained, motivated and rewarded.

3) Style:

Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.

4) Shared Values:

Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every Organization

6.5 Organizational structure refers to the hierarchy within a business, how employees are grouped in relation to job tasks and activities, the authority lines within the business as well as how these groups interact and communicate with one another.

Organizational structures vary depending on the strategies implemented, the size of the business, the growth of the business, as well as managerial styles.

Importance of Organizational structure

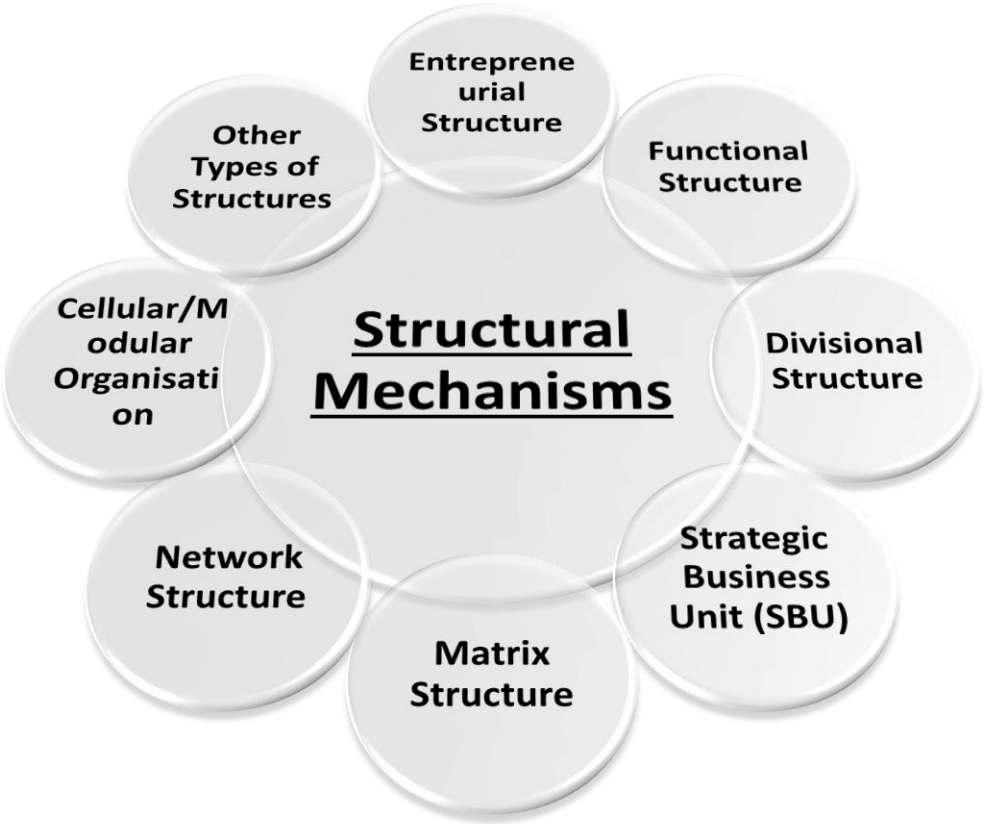
1) Improved Employee Satisfaction:
Effective Organization design creates a culture of commitment. The people fully understand their accountabilities, authorities, and goals of the business and see themselves as having a significant impact on the success or the Organization.

2) Improved Customer Satisfaction:
Employees are better able to deliver high quality services and products that meet customer expectations

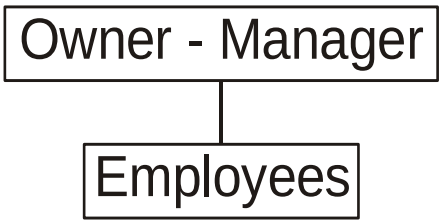
3) Improved Financial Performance:
When an Organizations' employees and goals are properly aligned, there is greater productivity and less waste which leads to significant returns for the business.

4) Improved Competitive Advantage:
Effective Organization design creates a well-aligned, flexible and productive business that is able to meet the demands

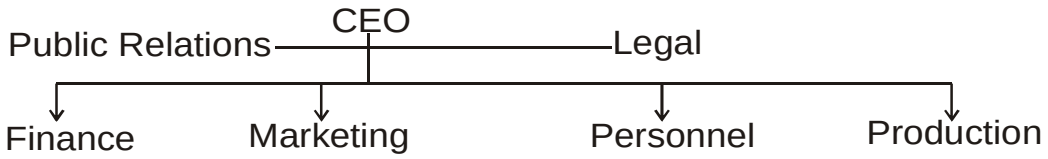
Types of Organizational Structures



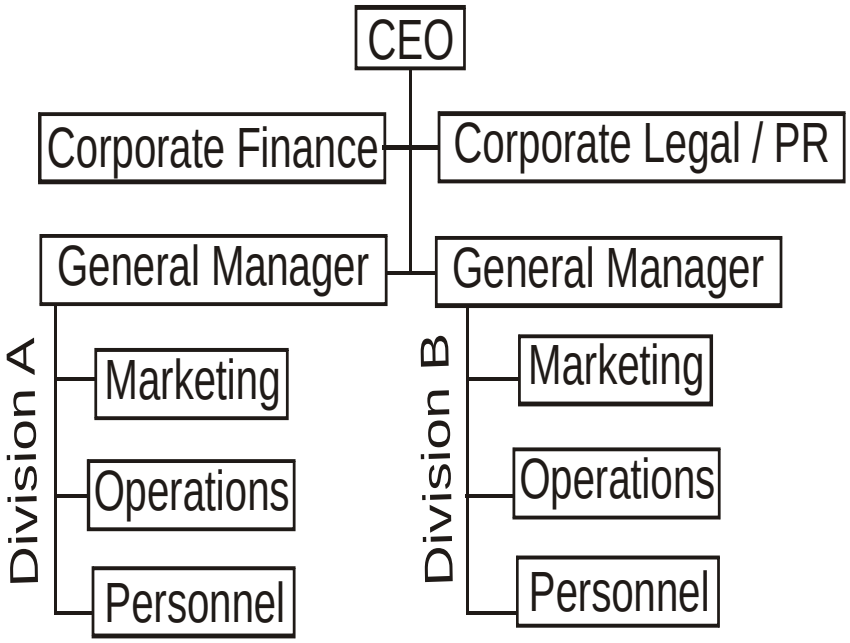
1. **Entrepreneurial Structure**



2. **Functional Structure**



3. **Divisional Structure**



Three Divisional Structures

1. Product Structure (HUL)
2. Market Structure (BPO)
3. Geographic Structure (SBI)

4. **Strategic Business unit:**

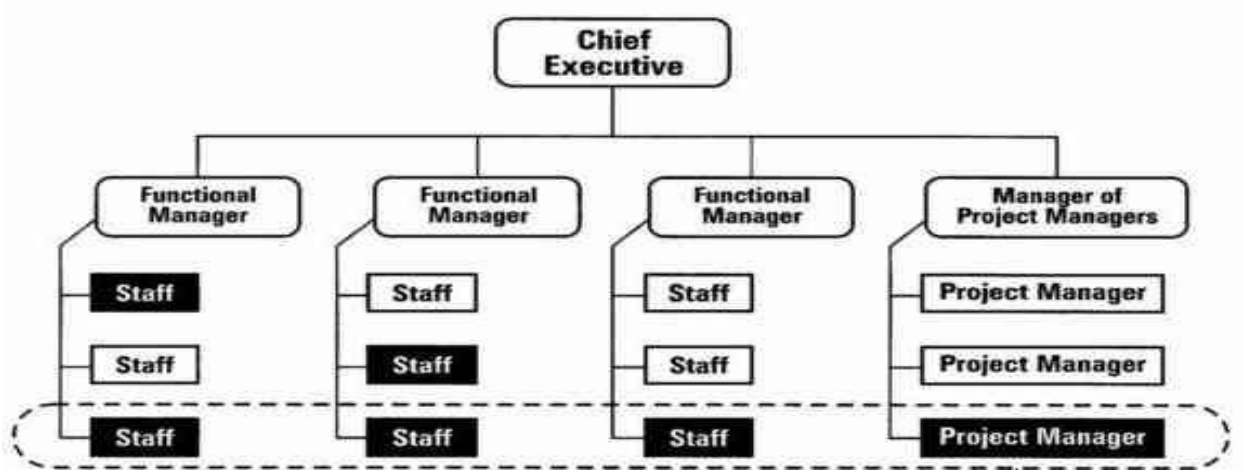
An SBU may be a business unit within a larger corporation, or it may be a business into itself or a branch. Corporations may be composed of multiple SBUs, each of which is responsible for its own profitability. A Business unit is an organizational entity with its own unique mission, set of competitors, and industry.

Example -

In the airline industry, for example, one strategic group may comprise carriers such as Southwest Airlines and Frontier that maintain low costs by offering low fares and no frills on a limited number of domestic routes. A second strategic group may comprise many traditional carriers such as Delta, United, and American that serve both domestic and international routes and offer extra services such as meals and movies on extended flights.

5. **Matrix Structure:**

Matrix Organization is hybrid grid structure wherein pure project Organization is superimposed on a functional structure. In large organization, there is often a need to work on major products or projects.



6. **Network Structure**

Network (also known as the spider's web structure or the virtual organization) is a structure where independent people and groups act as independent nodes, link across boundaries, to work together for a common purpose; it has multiple leaders, lots of voluntary links and interacting levels.

The notion of a network implies nodes and links. The nodes can be people, teams or even organizations - networks operating at many levels. The links are the various coordination and "agreement" mechanisms. In a network, high degrees of informal communications (both face-to-face and over electronic networks) achieve success where formal authority and communications in hierarchical organizations often fail.

Example –

Distributed geographic teams in large organizations or small organizations operating as networks to compete against large corporations.

Network organizations contract out any business function that can be done better or more cheaply. In essence, managers in network structures spend most of their time coordinating and controlling external relations, usually by electronic means.

Example -

H&M is outsourcing its clothing to a network of 700 suppliers, more than two-thirds of which are based in low-cost Asian countries. Not owning any factories, H&M can be more flexible than many other retailers in lowering its costs, which aligns with its low-cost strategy.

7. Modular Organization

Imagine if Toyota decides to stop selling cars today and instead start selling smart home appliances tomorrow. Or that Shell suddenly moves from being an oil & gas company and into environmental solutions. This would be what modular organization is capable of doing.

According to Miles and Snow "a cellular Organization is composed of cells (self-managing teams, autonomous business units, etc.) which can operate alone but which can interact with other cells to produce a more potent and competent business mechanism."

The impetus for such a new structure is the pressure for a continuous process of innovation. The idea is to build features of flexibility that will give the organization abilities to ride the ebb of a changing economic climate, better capture new opportunities and elbow room to restructure.

To compete, companies develop a set of core competencies, building what it believes to be a unique business model that delivers value to its customers. But in modular organization setup, these companies also continuously develop and maintain new competencies that can be completely different from the set of competencies that they have right now. In effect, modular organization can tap into the necessary competencies that not only allows it to adapt to structural changes in their current industry but to move into a new industry altogether.

In modular organization setup, modularity is gained on the manipulation of the three components;

1) Enhance the talent-skills of the people, eg. A computer hardware engineer of 20 years learns HTML5 and is now capable of producing apps for Facebook.

2) Introduce a new process, eg. Instead of the Suez canal route to Japan, ships from Europe can also use the Siberian route, which can be faster and safer.

3) Expand the utility of each asset, eg. Farmland used to grow tobacco can also be used to grow Cocoa.

In modular organizations, competencies are defined in the broadest of sense; it could be a product, service or a capability using the creative energy of the same people and assets that produce the organization's core competencies coupled with a new work process. But most importantly, these modular competencies are non-existence in the first place. They are invented and kept in the peripherals until circumstances require it to be made central to the organizational business model.

Example-

Amazon's business model is basically being an online retailer for everything. As its offering expanded, so does it computing capability. By developing new sales & marketing competencies in web services and mesh it up with existing competency in server management and storage, Amazon is able to offer an alternative business model, this time as cloud computing service company - an emerging IT trend with huge business potential. In its original business model, Amazon is competing with Barnes & Noble, Apple's iTunes and Macy. In the new business model of cloud computing, Amazon is competing with IBM, Oracle and EDS.

Reengineering

	Business Quality Improvement	Business Reengineering
Definition	Incrementally Improving Existing Processes	Radically Redesigning Business Systems
Target	Any Process	Strategic Business Processes
Potential Payback	10%-50% Improvements	10-Fold Improvements
Risk	Low	High
What Changes?	Same Jobs - More Efficient	Big Job Cuts; New Jobs; Major Job Redesign
Primary Enablers	IT and Work Simplification	IT and Organizational Redesign

One of the most important competitive strategies today is business process reengineering (BPR) most often simply called reengineering. Reengineering is more than automating business processes to make modest improvements in the efficiency of business operations. Reengineering is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in cost, quality, speed, and service. BPR combines a strategy of promoting business innovation with a strategy of making major improvements to business processes so that a company can become a much stronger and more successful competitor in the marketplace.

However, while many companies have reported impressive gains, many others have failed to achieve the major improvements they sought through reengineering projects.

Business quality improvement is a less dramatic approach to enhancing business success. One important strategic thrust in this area is called Total Quality Management (TQM). TQM emphasizes quality improvement that focuses on the customer requirements and expectations of products and services. This may involve many features and attributes, such as performance, reliability, durability, responsiveness etc.

TQM uses a variety of tools and methods to provide:

- More appealing, less-variable quality of products or services
- Quicker less-variable turnaround from design to production and distribution
- Greater flexibility in adjusting to customer buying habits and preferences

Lower costs through rework reductions, and non-value-adding waste elimination.

Six sigma

Sigma (upper case Σ, lower case σ) is the eighteenth letter of the Greek alphabet.

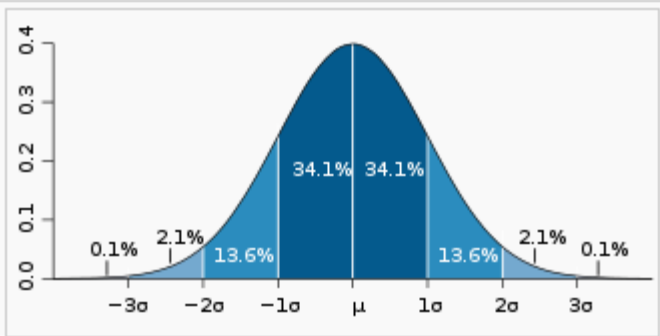
Lower case σ is used for:

- Sigma bonds in chemistry
- Sigma constant in science
- the Sigma receptor in biology
- the Standard deviation of a population or probability distribution in statistics
- a quality model for business, Six Sigma, based on the standard deviation, often referred to as "6σ"

Upper case Σ is used as a symbol for:

- the summation operator
- a class of baryons in particle physics
- macroscopic cross sections in nuclear and particle physics
- self-energy in condensed matter physics
- the balance of the invoice classes and the overall amount of the debts and demands in economics

Standard deviation is a widely used measure of variability used in statistics and probability theory.
It shows how much variation or "dispersion" exists from the average (mean μ or Expected value).



A plot of a normal distribution (or bell curve). Each colored band has a width of 1 standard deviation.

Example -

- Stock A over the past 20 years had an average return of 10 percent, with a standard deviation of 20 percentage points(pp) and

- Stock B, over the same period, had average returns of 12 percent but a higher standard deviation of 30 pp.

- On the basis of risk and return, an investor may decide that Stock A is the safer choice, because Stock B's additional two percentage points of return is not worth the additional 10 pp standard deviation (greater risk or uncertainty of the expected return).

Six Sigma seeks to improve the quality of process outputs by identifying and removing the causes of defects (errors) and minimizing variability in manufacturing and business processes.

A six sigma process is one in which 99.99966% of the products manufactured are statistically expected to be free of defects (3.4 defects per million).

Motorola set a goal of "six sigma" for all of its manufacturing operations, and this goal became a byword for the management and engineering practices used to achieve it.

In Six Sigma, a defect is defined as any process output that does not meet customer specifications. The core of Six Sigma was “born” at Motorola in the 1970s out of senior executive Art Sundry's criticism of Motorola’s bad quality. At that time, the prevailing view was that quality costs extra money. In fact, it reduced total costs by driving down the costs for repair or control. Bill Smith subsequently formulated the particulars of the methodology at Motorola in 1986.

Six Sigma is a business management strategy originally developed by Motorola, USA in 1986. As of 2010, it is widely used in many sectors of industry.

The term "six sigma process" comes from the notion that if one has six standard deviations between the process mean and the nearest specification limit, as shown in the graph, practically no items will fail to meet specifications.

This is based on the calculation method employed in process capability studies.

SIX SIGMA TOOLS & TECHNIQUES

- Methods, Tools & Techniques are vital to the success of any Six Sigma project. Every stage of a Six Sigma project recipe requires a mix of these methods, tools & techniques.
- Method is a way of doing something in a systematic way. Here word "systematic" implies an orderly logical sequence of steps or tasks.
- A tool provides a mechanical or mental advantage in accomplishing a task.
- A technique is a specific approach to efficiently accomplish a task in a manner that may not be immediately obvious.

Lean Six sigma

Lean Six Sigma is a process improvement programme that combines two ideas: Lean - a collection of techniques for reducing the time needed to provide products or services, and Six Sigma is a collection of techniques for improving the quality of products and services, substantially contributing to increased customer satisfaction.

Management by Objectives (MBO)

MBO is a style of management that relies on the participation of subordinates, allowing them a role in the decision making process. It's a somewhat different approach than the Management by Control (MBC) style, with many industry insiders actually believing the MBO is the far superior method.

Importance of MBO:

1) Better Management of Organisational Activities:

By applying MBO, organisational resources and activities can be better managed which shows improved results. How the performance of an Organisation can improve through MBO may be clarified on the following five assumptions laid down by L.M. Prasad, these are:

i) Clarity of objectives
ii) Role clarity
iii) Periodic feedback of performance
iv) Participation of managers in the management process

v) Realization that there is always scope for improvement of performance in every situation.

2) Clarity in Organisational Action:

MBO tends to provide the key result areas where organisational efforts are needed. A key factor in objective setting is the external environment in which the Organisation operates and any change in the external environment should be considered very carefully at the time of objective setting.

3) Provides Maximum Personnel Satisfaction:

MBO provides maximum opportunity for personnel satisfaction. It is possible due to two closely related phenomena (i) participation of individuals in goal setting, and (ii) rational performance appraisal. People are involved in goal setting and it is a source of inspiration to them.

4) Basis for Organisational Change:

MBO initiates and stimulates organisational change and it provide framework for planned change. Due to change in external and internal factors a change is required in any organisation. Sometimes change is resisted by the people in the organisation.

5) Promotes Participation:

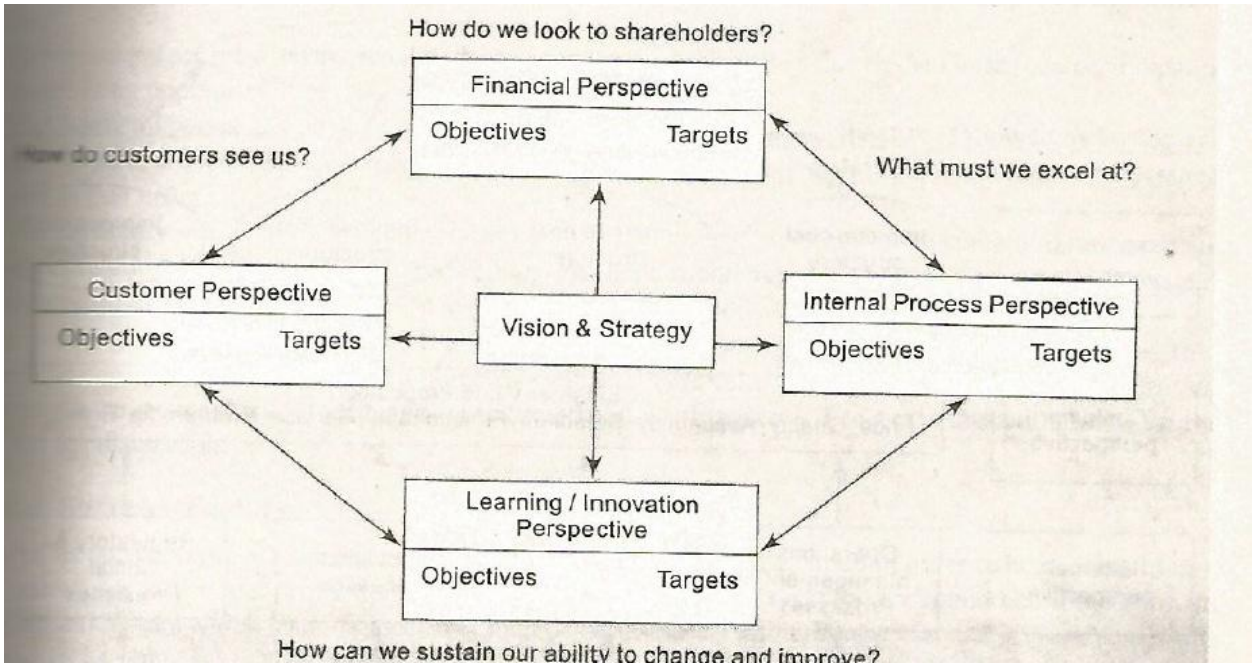
Other specific benefits of MBO are as follows which helps to promote participation of employees and managers:

i) It increases the effectiveness of management process.
ii) It effectively and efficiently uses the human resources.

Balanced Score Card (BSC)

BSC is a performance management tool which began as a concept for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy. This is the new technique used to measure the performance of an organisation.

The balanced scorecard (BSC) is a strategy performance management tool, supported by design methods and automation tools, that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions



- **Financial:** encourages the identification of a few relevant high-level financial measures. In particular, the answer to the question "How do we look to shareholders?"

Examples: cash flow, sales growth, operating income, return on equity.

- **Customer:** encourages the identification of measures that answer the question "How do customers see us?"

Examples: percent of sales from new products, on time delivery, share of important customers' purchases, ranking by important customers.

- **Internal business processes**: encourages the identification of measures that answer the question "What must we excel at?"

Examples: cycle time, unit cost, yield, new product introductions.

- **Learning and growth**: encourages the identification of measures that answer the question "How can we continue to improve, create value and innovate".

Examples: time to develop new generation of products, life cycle to product maturity, time to market versus competition.

Four steps required to design a balanced scorecard included in Kaplan & Norton's writing on the subject in the late 1990s:

- Translating the vision into operational goals;
- Communicating the vision and link it to individual performance;
- Business planning;
- Feedback and learning, and adjusting the strategy accordingly.

Balanced Scorecard is an example of a closed-loop controller applied to the management of the implementation of a strategy. Closed-loop control is where actual performance is measured, the measured value is compared to an expected value and based on the difference between the two corrective interventions are made as required.

A strategy map is a diagram that is used to document the primary strategic goals being pursued by an organization or management team. It is an element of the documentation associated with the Balanced Scorecard.

Strategic Performance Management

	Performance	Planning	Projects	Risk & Compliance	Processes	Quality	HR
Strategic Performance Management	Balanced scorecards, Strategy maps, scorecard reporting	Strategic reviews, top-down budgeting, prioritization	Strategic initiatives, project portfolio management	Risk assessments, risk mitigation plans, organizational risk management	Reporting, workflow, business rules	Compliance metrics, quality surveys	Employee surveys, performance appraisals

Operational Performance Management

	Performance	Planning	Projects	Risk & Compliance	Processes	Quality	HR
Operational Performance Management	Dashboards, Scorecards, KPIs, benchmarking, performance analysis	Bottom-up budgeting, financial reports, operational reports	Initiative alignment, project integration, status and alert reporting	Risk reporting, risk element monitoring, risk reduction, operational risk management	Collaboration, alerts, workflow automation	Benchmarking and analysis	HR metrics

Blue Ocean Strategy:

It is all about minimizing risks due to competition threat and maximizing opportunities by exploring new boundaries. However, formulating and executing Blue Ocean.

Strategy have their own principles that define and separate blue ocean strategy from competition-based strategic thought. Blue ocean strategy is about gaps rowing demand.

A) Meaning:

Blue ocean strategy means, the market where market boundaries and industry structure can be reconstruct by the actions and beliefs of industry players. The structure and market boundaries exist only in managers' minds; practitioners who hold this view do not let existing market structures limit their thinking. To them, extra demand is out there, largely untapped.

B) Definition:

"Blue ocean strategy generally refers to the creation by a company of a new, uncontested market space that makes competitors irrelevant and that creates new consumer value often while decreasing cost".

Characteristics of Blue Ocean Strategy:

1) Non Existent Industries:

In a Blue Ocean Strategy one tends to see a creation of a whole new industry as you innovate and create products and services that are highly unique and unseen. Blue Ocean Strategy denotes all the industries not in existence till today.

2) Undefined Market Space:

The market space in blue ocean strategy is unknown as it has been uncontested and is to be created and developed. The producer has a slight idea about its returns, but is completely oblivious of its potential, scope, and span of coverage.

3) Undefined Industry Boundaries:

Again even the Industries boundaries are undefined as these will be new industries and would mean that the scope of the industries can be as large as one's imagination, creativity, and potential.

4) Unknown Competitive Rules:

The rules of the market are not defined, the policies governing the industries are not even developed, the scope of the market, industry is just stipulated and the competition is almost negligible.

5) High Profit & Growth Opportunity:

Clearly when there is no risk of an immediate competitor on the product, the industry thus formed by the producer is in every sense skewed and inclined towards the producer.

6) Value Innovation:

Blue Ocean Strategy works on the principle of value innovation which means that it radically looks only towards an innovative idea to create new or an improved product which is far better than its counterparts.

7) Innovation & Creativity:

Innovation and Creativity are the essentials in this strategy as the producer's only aim is to develop an innovative and an efficient product that either out performs existing products far behind technologically or it is something never thought of and unheard to everybody.

8) Create a Market:

The benefit of going solo as an innovator is that you create the market for yourself, examining the need of the customer and segmenting the consumer pool. You can also installed utility of the product which makes it equally possible to be consumed by another segment of the market.

6) Developing Future Demand:

When the first press conference was conducted by Steve Jobs for I Phone, he didn't show case his product, but instead he built a relationship with the customers in his very presentation. He got their attention and he immediately made a blow by tempting them to buy the product.

10) Focus on Creating Future Customers:

It's not just about creating customers, but instead building a pool of high loyal customers who would look up to the brand as their own and idealize their every new product.

Principles of Blue Ocean Strategy:

1) Reconstruct Market Boundaries:

This principle identifies the paths by which managers can systematically create uncontested market space across diverse industry domains, hence attenuating search risk.

2) Focus on the Big Picture, not the Numbers:

This principle, which addresses planning risk, presents an alternative to the existing strategic planning process, which is often criticized as a number-crunching exercise that keeps companies locked into making incremental improvements.

3) Reach beyond Existing Demand:

To create the greatest market of new demand, managers must challenge the conventional practice of aiming for finer segmentation to better meet existing customer preferences, which often results increasingly small target markets.

4) Get the Strategic Sequence Right:

The fourth principle describes a sequence that companies should follow to ensure that the business model they build will be able to produce and maintain profitable growth.

5) Overcome Key Organizational Hurdles:

Tipping point leadership shows managers how to mobilize an organization to overcome the key organizational hurdles that block the implementation of a blue ocean strategy.

6) Build Execution into Strategy:

This principle introduces fair process to address the management risk associated with people's attitudes and behaviors. Because a blue ocean strategy represents a departure from the status quo, fair process is required to facilitate both strategy making and execution by mobilizing people for the voluntary cooperation needed for execution.

Red Ocean Strategy:

The Red Ocean Strategies suggest that there is no way that a corporation can achieve both kinds of competitive advantages. The Red Ocean companies try to outperform their rivals to grab a greater share of existing demand.

A) Meaning:

Red Ocean Strategy is a head-to-head battle where the players of a particular segment compete with each other remaining in the same market space i.e. within the boundaries of the same industry on the principle of 'competitive advantage.

B) Definition:

"Red oceans represent all the industries in existence today the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known".

Characteristics of Red Ocean Strategy:

1) Existing Industries:

Red Ocean strategy talks about existing, current industries and product or service segment. The producer or the company doesn't go away from its existing Industry and conduct business as competitive with its other competitors within the industry.

2) Defined Market Space:

Market space is space within which any producer conducts business and is able to sell its produce to the possible buyers. In this form of strategy the market space is known as it has existed since the inception of the industry.

3) Defined Industry Boundaries:

The boundaries around which the Industries scope and span revolves around is limited and very much defined and well accepted by the producer and his/her counterparts boundaries are defined and accepted.

4) Known Competitive Rules:

Competitive rules are known and defined, the policies on which the industry is governed is updated and modernized to its capacity of ensuring better and healthy environment within the industry.

5) Low Profit Growth Opportunity:

Fairly having a divided form of market share only ensures a low profit and growth opportunities as each producer is capable of sustaining while providing differentiated and higher quality product.

6) Competitive Advantage:

The market on a Red Ocean Strategy works on the principle of competitive advantage where, due to a higher technology or supply of cheaper raw material or marginally higher product quality or better logistics can be seen as a competitive advantage.

7) Low Cost or Differentiation:

The best way to survive or sustain in such a market condition is to either through a strategy of low cost if the producer has an advantage on cost of production, raw material, labour, logistics and warehousing.

8) Beat the Competition:

The company's only goal and outlook is to beat the competition by hook or crook to render them a better margin of profit or market share. Thus they put down every form of investment to compete and fight for even a single percent market share.

9) Exploit Existing Demand:

Pricing decisions are made tactfully to not just cover the cost incurred on production, but also to collect enough profits before their counterparts make a move to hamper their sales.

10) Focus on existing customers:

For any particular industry, market or economy of scale, the buyers are limited on the basis of gender, taste, preference, age, income etc. Thus the available consumer pool in most cases is mostly limited.

Difference between Red & Blue Ocean Strategies

Basis	Red Ocean Strategy	Blue Ocean Strategy
Industries	Red Oceans represent the fiercely competitive arena where most companies compete	Blue oceans, denote all the industries not in existence today-the unknown market space, untainted by competition.
Competition	This strategy focus on the competition within the existing market space.	This strategy focuses on creation of uncontested market space.
Approach	Approach of red ocean strategy is to beat the competition.	Approach of the red ocean strategy is to make the competition irrelevant
Demand	In Red Ocean strategy higher weightage is given to exploit existing demand.	In Blue Ocean strategy weightage is given to develop future demand.
Goal	Goal of this strategy plan is to make value-cost-trade-off	Goal of this strategy plan is to brake the value-cost-trade-off.

Alignment of System	Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation or low cost
Profit Opportunity	Profit opportunity of using Red Ocean Strategy is low.	Profit opportunity of using Blue Ocean Strategy is High.
Customer Focus	Red Ocean strategy focuses on existing stream of customers.	Blue ocean strategy focuses on creation of new customers.
System Approach	In Red Ocean strategy system approach is towards low cost and differentiation	In Blue Ocean strategy system approach is towards creativity and innovation.