Conceptual Additions

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1. Introduction

As the world is getting smaller and competition is increasing, organizations have increasing pressure to develop their business and strengthen its competitiveness. Strategic thinking and strategic management are highly relevant and important for all the managers in organizations in order to achieve competitive advantage, high performance for success and to ensure company's survival and growth.

Competitive strategy of a firm evolves out of consideration of several factors that are external to it. The external environment affects the internal environment of the firm. The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organization and also creating threats.

2. Competitive Landscape

Competitive landscape is a business analysis which identifies competitors, either direct or indirect. Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses. Understanding of competitive landscape requires an application of "competitive intelligence".

An in-depth investigation and analysis of a firm's competition allows it to assess the competitor's strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

Hyundai is an important player in the Indian Automobiles (car) market. The company has achieved success year after year since its entry into the Indian market where Maruti has been the industry leader. Hyundai has a deep understanding of its competitive landscape where Tata motors, Mahindra & Mahindra, Toyota, Honda, Ford etc. are competing besides Maruti. To succeed in the competitive environment, it brings out new cars and improved models of existing cars every year to cater to various segments of customers.

1.1. Steps to understand the Competitive Landscape

i. **Identify the competitor:** Who are the competitors?

ii. **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers etc., to understand the products and services offered by them in different markets. What are their product and services?

iii. **Determine the strengths of the competitors:** What are the strength of the competitors? What are their financial positions? What gives them cost and price advantage? What are they likely to do next? How strong is their distribution network? What are their human resource strengths?

iv. **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. Where are they lacking?

v. **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm. What will the business do with this information? What improvements does the firm need to make?

3. Strategic Analysis

The Methods of doing analysis of Industry and Competition provide a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for company funds.

Strategic analysis includes understanding and analysis of two vital factors:

1. Industry and competitive conditions and
2. Organization's resources, competitive capabilities, internal strengths and weaknesses, and market position.

Without perceptive understanding of the strategic aspects of a company's external and internal environments, the chances are greatly increased that managers will finalise a strategic game plan that doesn't fit the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.

3.1. Issues to consider for Strategic Analysis

- **Strategy evolves over a period of time:** An important aspect of strategic analyses is to consider the possible implications of routine decisions. Strategy of a firm, at a particular point of time, is result of a series of small decisions taken over an extended period of time.
- **Balance of external and internal factors:** The process of strategy formulation is often described as one of the matching the internal potential of the organization with the environmental opportunities. In reality, as perfect match between the two may not be feasible, strategic analysis involves a workable balance between diverse and conflicting considerations. Some of these factors can be managed to an extent; however, there will be several others that are beyond the control.

3.2. Risk

Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degrees. An important aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences. A broad classification of the strategic risk that requires consideration in strategic analysis is given below:

	Short-Term	Long-Term
External Risk	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy.
Internal Risk	Organizational capacity is unable to cope up with strategic demands.	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

External risk is on account of inconsistencies between strategies and the forces in the environment. Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis

Strategic Analysis	
External Analysis	**Internal Analysis**
▪ **Customer Analysis** Segments, Motivations, unmet needs. ▪ **Competitor Analysis** Identity, strategic groups, performance, image, objectives, strategies, culture, cost structure, strengths, weaknesses. ▪ **Market Analysis** Size, projected growth, profitability, entry barriers, cost structure, structure, strengths, weaknesses. ▪ **Environmental Analysis** Technological, government, economic, cultural, demographic, scenarios, information-need areas. Opportunities, Threats, Trends, Strategic Uncertainties	▪ **Performance Analysis** Profitability, sales, shareholder value analysis, customer satisfaction, product quality, brand associations, relative cost, new products, employee capability and performance, product portfolio analysis. ▪ **Determinates Analysis** Past and current strategies, strategic problems, organizational Capabilities and constraints, Financial resources and Constraints, strengths, and weaknesses. Strategic Strengths, Weaknesses, Problems, Constraints, and Uncertainties

4. Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing insight in several issues. Analysing these issues build understanding of a firm's surrounding environment and, collectively, form the basis for matching its strategy to changing industry conditions and competitive realities. The issues are discussed below:

4.1. Dominant Economic Features of the Industry

Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. Industry is "a group of firms whose products have same and similar attributes such that they compete for the same buyers."

The factors to be considered in profiling an industry's economic features are fairly standard and are given as follows:

a. Size and nature of market
b. Scope of competitive rivalry (local, regional, national, international, or global)
c. Number of rivals and their relative market share
d. The number of buyers and their relative sizes.
e. The pace of technological change
f. Whether the products and services of rival firms are differentiated or identical?
g. Whether organization can realize economies of scale?
h. Capital requirements and the ease of entry and exit.
i. Whether industry profitability is above/below par?

4.2. Nature and Strength of Competition

This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character. Even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces.

Porter's five forces model is useful in understanding the competition. It is a powerful tool for systematically diagnosing the main competitive pressures in a market and assessing how strong and important each one is.

4.3. Triggers of Change

All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response from participating firms. The life-cycle stages are strongly linked to changes in the overall industry growth rate (which is why such terms as rapid growth, early maturity, saturation, and decline are used to describe the stages). Yet there are more causes of industry change than an industry's position in the life cycle.

Driving forces: Industry and competitive conditions change because forces are in motion that creates incentives or pressures for changes. The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. Analyzing driving forces has two steps: *identifying what the driving forces are* and *assessing the impact they will have on the industry*.

Most common driving forces: Many events can affect an industry powerfully enough to qualify as driving forces. Some are unique and specific to a particular industry situation, but many drivers of change fall into general category affecting different industries simultaneously.

Some of the categories/examples of drivers are follows:

a. The internet and e-commerce opportunities and threats it breeds in the industry.
b. Increasing globalization.
c. Changes in the long-term industry growth rate.
d. Product innovation.
e. Marketing innovation.
f. Entry or exit of major firms.
g. Changes in cost and efficiency.

4.4. Identifying the Strongest/Weakest Companies (Strategic Group Mapping)

The next step in examining the industry's competitive structure is to study the market positions of rival companies. One technique for revealing the competitive positions of industry participants is strategic group mapping, which is useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth.

A strategic group consists of those rival firms which have similar competitive approaches and positions in the market. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group:

a. Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
b. Plot the firms on a two-variable map using pairs of these differentiating characteristics.
c. Assign firms that fall in about the same strategy space to the same strategic group.
d. Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

4.5. Likely Strategic Moves of Rivals

Unless a business organization pays attention to what competitors are doing, it ends up flying blind into competitive battle. A company can't expect to gain an advantage over its rivals without monitoring their actions, understanding their strategies, and anticipating what moves they are likely to make next. Competitive intelligence about the strategies rivals are deploying, their latest moves, their resource strengths and weaknesses, and the plans they have announced is essential to anticipating the actions they are likely to take next and what bearing their moves might have on a company's own best strategic moves.

4.6. Key Factors for Competitive Success

An industry's **Key Success Factors (KSFs)** are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between competitive success or failure

KSFs are the rules that shape whether a company will be financially and competitively successful. The answers to three questions help identify an industry's key success factors:

- On what basis do customers choose between the competing brands of sellers?
- What product attributes are crucial?
- What resources and competitive capabilities does a seller need to have to be competitively successful?

Example, in apparel manufacturing, the KSFs is appealing designs and color combinations (to create buyer interest) and low-cost manufacturing efficiency (to permit attractive retail pricing and ample profit margins).

Using the industry's KSFs as cornerstones for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach. Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance. The purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important.

4.7. Prospects and Financial Attractiveness of Industry

The final step of industry and competitive analysis is to use the results of analysis of previous six issues to draw conclusions about the relative attractiveness or unattractiveness of the industry, both near-term and long-term.

The important factors on which to base such conclusions include

a. The industry's growth potential.
b. Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
c. Whether industry profitability will be favorably or unfavorably affected by the prevailing driving forces?
d. The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
e. Whether the company is able to defend against or counteract the factors that make the industry unattractive?
f. The degrees of risk and uncertainty in the industry's future.
g. Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

5. Core Competence

Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor. Competency is defined as a combination of skills and techniques rather than individual skill or separate technique.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - **competitor differentiation, customer value,** and **application to other markets**.

Competitor Differentiation: The Company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it. The company has to keep on improving these skills in order to sustain its competitive position.

Customer Value: When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits.

Application of Competencies: Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view.

Example: Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.

A core competency for a firm is whatever it does best

Example: Wal-Mart focuses on lowering its operating costs. The cost advantage that Wal-Mart has created for itself has allowed the retailer to price goods lower than most competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

It is important to identify core competencies because it is difficult to retain those competencies in a price war and cost-cutting environment.

A Core competency fulfills three criteria:

a. It should provide potential access to a wide variety of markets.
b. It should make a significant contribution to the perceived customer benefits of the end product.
c. It should be difficult to imitate for competitors/rivals.

Examples:

A. Small retail shop has core competencies and gain competitive advantage in the areas:
(i) Personal service to customers, (ii) extended working hours, (iii) easy credit, (iv) free home deliveries, (v) amicable style of the owner (vi) proximity.

B. Big retail stores (for e.g. Big Bazaar) have special core competence in the areas of-
(i) Merchandising, (ii) securing supplies at lower cost, (iii) in-house activity management, (iv) computerized stock ordering, billing systems (v) own brand labels.

C. Supermarkets compete with one another with core competencies as to –
(i) Locational advantage, (ii) quality assurance, (iii) customer convenience in shopping

5.1. How to build Core Competencies (CC)?

There are tools that help the firm to identify and build its core competencies.

1. **Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.**
   Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

   i. **Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. Human capital is important in creating value for customers.

   ii. **Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them.

   iii. **Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily.

   iv. **Non-substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities.

Example: For years, firms tried to imitate Tata's low-cost strategy but most have been unable to duplicate Tata's success. They did not realize that Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage. The strategic value of capabilities increases as they become more difficult to substitute.

Example: Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.

2. **Value Chain Analysis**

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. The two basic steps of **identifying separate activities** and **assessing the value added from each** were linked to an analysis of an organization's competitive advantage by Michael Porter.

The primary activities of the organization are grouped into five main areas

a. **Inbound logistics** are the activities concerned with receiving, storing and distributing the inputs to the product/service.
b. **Operations** (transform these inputs into the final product or service): machining, packaging, assembly, testing.
c. **Outbound logistics** collect, store and distribute the product to customers.
d. **Marketing and sales** provide the means whereby consumers are made aware of the product/service and are able to purchase it.
e. **Services** are all those activities, which enhance or maintain the value of a product/ service, such as installation, repair, training and spares.

Each of these groups of **primary activities** is **linked to support activities**. These can be divided into four areas

a. **Procurement:** This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves).
b. **Technology development:** The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).
c. **Human resource management:** This is a particularly important area which transcends all primary activities.
d. **Infrastructure:** The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

6. Competitive Advantage

Company's achieving superior performance relative to rivals is the ultimate challenge. If a company's strategies result in superior performance, it is said to have a competitive advantage.

Competitive advantage allows a firm to gain an edge over rivals when competing. *'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'*

"If you don't have a competitive advantage, don't compete"

\- Jack Welch

Role of Resources, Capabilities and Value Creation in achieving Competitive Advantages

Resources	Capabilities
Tangible resources are assets that can be seen and quantified. Example: Production equipment, manufacturing plants etc.	Capabilities exist when resources have been purposely integrated to achieve a specific task or set of tasks. These tasks range from human resource selection to product marketing and research and development activities.
Intangible resources include assets that typically are rooted deeply in the firm's history and have accumulated over time. Because they are embedded in unique patterns of routines, intangible re- sources are relatively difficult for competitors to analyze and imitate. Example: Knowledge, trust between managers and employees, managerial capabilities, organization-al routines, scientific capabilities, the capacity for innovation, and the firm's reputation for its goods or services and how it interacts with people such as employees, customers, and suppliers.	Examples: i. Effective use of logistics management techniques. ii. Effective and efficient control of inventories. iii. Effective customer service. iv. Innovative merchandising. v. Product and design quality. vi. Digital Technology.

Competitive advantages and the differences they create in the firm's performance are often strongly related to the resources firms hold and how they are managed. Resources are the foundation for strategy and unique bundles of resources generate competitive advantages leading to wealth creation. To identify and successfully use their resources over time, those leading firms need to think constantly about how to manage them to increase the value for customers.

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:
Durability: The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete.

Transferability: The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

Imitability: How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. For Example: In financial services, innovations lack legal protection and are easily copied.

Appropriability: Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

6.1. What is Value Creation?

Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.

Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:

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

Michael Porter argues that a company can generate **competitive advantage in two different ways**, either through **differentiation** or **cost advantage**. According to Porter's, differentiation means the capability to provide customers superior and special value in the form of product's special features and quality or in the form of aftersales customer service. As a result of differentiation, a company can demand higher price for its products or services. A company will earn higher profits due to differentiation in case the expenses stay comparable to the costs of competitors.

Michael Porter used the concept of value chain to explore closer different functions of the organizations and mutual interactions among those functions. Value chain analysis provides an excellent tool to examine the origin of competitive advantage. It divides the organizations into two different strategically important groups of activities, namely, primary activities and supporting activities, which can help to comprehend the potential sources for differentiation and to understand an organization's costs behavior.

7. Internal and External Analysis (Portfolio Analysis)

In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. A business portfolio is a collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelized at the corporate level to those businesses that possess the greatest potential. For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

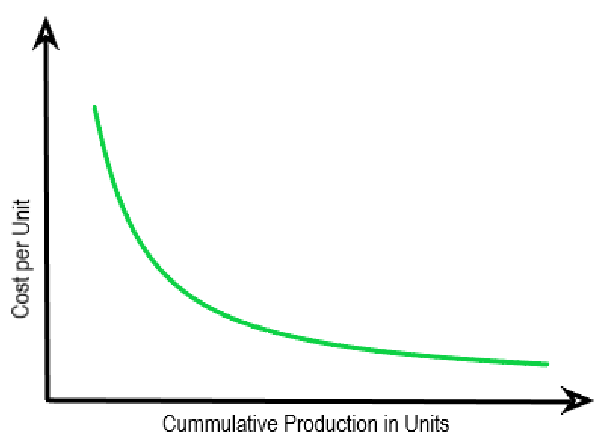
There are three important concepts, the knowledge of which is a prerequisite to understand different models of portfolio analysis:

a. **Strategic Business Unit:** SBU is a unit of the company that has a separate mission and objectives and which can be run independently from other company businesses. The SBU can be a company division, a product line within a division, or even a single product or brand. An SBU has the following characteristics:
   1. It has single business or collection of related businesses that can be planned for separately.
   2. It has its own set of competitors.
   3. It has a manager who is responsible for strategic planning and profit.

b. **Experience Curve:** The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

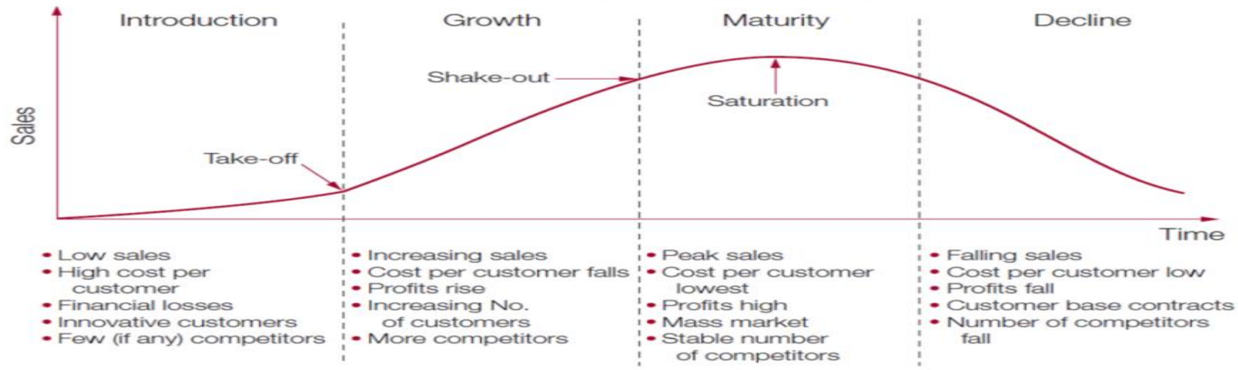
   Experience Curve has following features:
   - As business organization grow, they gain experience.
   - Experience may provide an advantage over the competition. Experience is a key barrier to entry
   - Large and successful organisation possess stronger "experience effect".

   A typical experience curve may be depicted as follows:



c. **Product Life Cycle (PLC):** PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well.

The 4 Life Cycle Stages and their Marketing Implications



7.1. Boston Consulting Group (BCG) Growth-Share Matrix

The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company.

Using the matrix, organizations can identify four different types of products or SBU as:

a. **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.

b. **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

c. **Question Marks** sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier.

d. **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimized by means of divestment or liquidation.

After a firm, has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

1. **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favor of building a strong future with large market share.
2. **Hold:** Here the objective is to preserve market share.
3. **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.
4. **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

7.2. Ansoff's Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon the markets in new or existing products in both new and existing markets. One useful device for identifying growth opportunities for the future is the product/market expansion grid.

1. **Market Penetration:** Market penetration refers to a growth strategy where the business focuses on **selling existing products into existing markets**. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. Penetration is also done by effort on increasing usage by existing customers.

2. **Market Development:** Market development refers to a growth strategy where the business seeks to **sell its existing products into new markets**. It is a strategy for company growth by identifying and developing new markets for current company products. This strategy may be achieved through new geographical markets, new distribution channels or different pricing policies to attract different customers or create new market segments.

3. **Product Development:** Product development refers to a growth strategy where business aims to introduce **new products into existing markets.** It is a strategy for company growth by offering modified or new products to current markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

4. **Diversification:** Diversification refers to a growth strategy where a business markets **new products in new markets.** It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets.

7.3. ADL Matrix

The ADL matrix has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle.

The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle.

	Competitive position Vs. Maturity Stage	Embryonic	Growth	Mature	Ageing
1	Dominant	Fast grow Build barriers Act offensively	Fast grow Attend cost leadership Renew Defend position Act offensively	Defend position Attend cost leadership Renew Fast grow Act offensively	Defend position Renew Focus Consider withdrawal
2	Strong	Differentiate Fast grow	Differentiate Lower cost Attack small firms	Lower cost Focus Differentiate Grow with industry	Find niche Hold niche Harvest
3	Favourable	Differentiate Focus Fast grow	Focus Differentiate Defend	Focus Differentiate Harvest Find niche Hold niche Turnaround Grow with industry Hit smaller firms	Harvest Turnaround
4	Tenable	Grow with industry Focus	Hold niche Turnaround Focus Grow with industry Withdraw	Turnaround Hold niche Retrench	Divest Retrench
5	Weak	Find niche Catch-up Grow with industry	Turnaround Retrench Niche or withdraw	Withdraw Divest	Withdraw

Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions.

- **Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
- **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.
- **Favorable:** This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.
- **Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
- **Weak:** The performance of firms in this category is generally unsatisfactory although the opportunity for improvement does exist.

7.4. General Electric Model ["Stop-Light" Strategy Model]

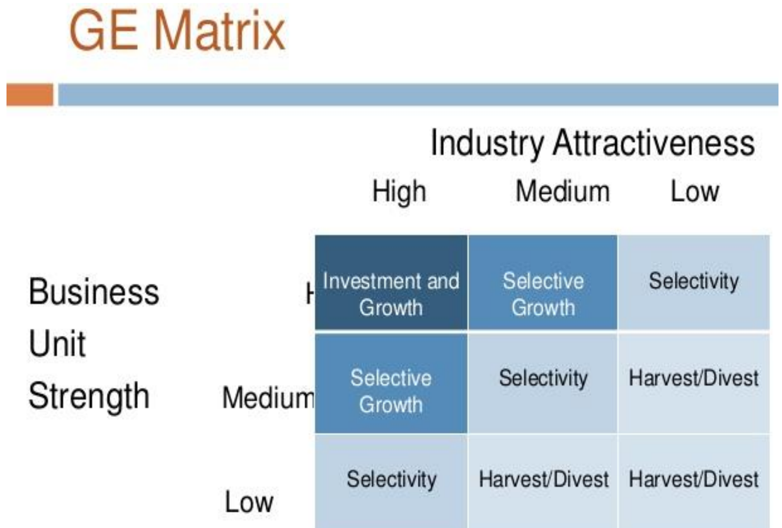
The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) is similar to the BCG growth-share matrix, the difference are:

Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate.

Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

This also uses two factors in a matrix / grid situation as shown below:

The matrix model is based on stop light strategy which works on analogy of traffic control lights at street crossing i.e. green (go i.e. invest) Yellow (caution i.e. protect) and Red (Stop i.e. divest)



Evaluating the ability to compete: Business position	Evaluating the Market Attractiveness
Size	Size
Growth	Growth
Share by segment	Customer satisfaction levels
Customer loyalty	Competition: quality, types, Effectiveness, commitment
Margins	Price levels
Distribution	Profitability
Technology skills	Technology
Patents	Government regulations
Marketing	Sensitivity to economic trends
Flexibility	
Organization	

The criteria used to rate market attractiveness and business position assigned different ways because some criteria are more important than others. Then each SBU is rated with respect to all criteria.

Finally, overall rating for both factors is calculated for each SBU. Based on these ratings, each SBU is labeled as high, medium or low with respect to (a) market attractiveness, and (b) business position. Every organization has to make decisions about how to use its limited resources most effectively.

8. SWOT Analysis

Another part of conducting strategic analysis is generation of a series of strategic alternatives. These alternatives should be based on the company's internal strengths and weaknesses and its external opportunities and threats.

Strength: Strength is an inherent capability of the organization which is can use to gain strategic advantage over its competitors.	**Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
Opportunity: An opportunity is a favourable condition in the organization's environment which enables it to strengthen its position.	**Threat:** A threat is an unfavorable condition in the organization's environment which causes a risk for, or damage to, the organization's position.

SWOT

The major purpose of SWOT analysis is to enable the management to create a firm- specific business model that will best align, fit, or match an organizational resources and capabilities to the demands of the environment in which it operates. Strategic managers compare and contrast the various alternative possible strategies against each other with respect to their ability to achieve major goals and superior profitability.

a. **Corporate-level strategy**, which answers the primary questions. What business or businesses should we be in to maximize the long-run profitability of the organization?
b. **Business-level strategy**, which encompasses the business's overall competitive theme, the way it position; itself in the marketplace to gain a competitive advantage, such as cost leadership, differentiation.
c. **Functional-level strategy**, directed at improving the effectiveness of operations within a company, such as production, finance, marketing, materials management, product development, and customer service.
d. **Global strategy**, addressing how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.

8.1 The significance of SWOT analysis lies in the following points:

1. **It provides a logical framework of analysis:** Variation in managerial perceptions about organizational strengths and weaknesses and the environmental opportunities and threats lead to the approaches to specific strategies and finally the choice of strategy that takes place through an interactive process in dynamic backdrop.

2. **It presents a comparative account:** SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses.
   This in-turn helps to develop strategies to match four combinational patterns arising out of high/low strength-weakness with high/low opportunity-threat.

3. **It guides the strategist in strategy identification:**
   It might be difficult for a manager involved in strategic decision making when the organization doesn't fit into the above-mentioned four patterns, where one of the factors is always high and the other is low.
   It is possible that the organization may have both high opportunities and some serious threats, high strengths coupled with major weaknesses.
   In such situation, SWOT analysis guides the strategist to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

4. **It helps managers to craft a business model:**
   It helps preparing a business model to gain a competitive advantage in industry.

   Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, global competitive environment that characterizes most industries today.

	S		***W***
A	Potential Resource, Strengths and Competitive Capabilities	*B*	Potential Resource, Weaknesses and Competitive Deficiencies
	O		***T***
C	Potential Company Opportunities	*D*	Potential External Threats to Company's Well Being

8.2 What to look for in Sizing up a Company's Strengths, Weaknesses, Opportunities, and Threats.

A. Potential Resource Strengths and Competitive Capabilities:

- A powerful strategy supported by competitively valuable skills and experience in key areas.
- A strong financial condition; ample financial resources to grow the business
- Strong brand name, image/company reputation
- Cost advantages
- Product innovation skills
- A reputation for good customer service
- Better product quality relative to rivals
- Wide geographic coverage and/or strong global distribution capability

B. Potential Resource Weaknesses and Competitive Deficiencies:

- No clear strategic direction
- Obsolete facilities
- A weak balance sheet, burdened with too much debt
- Plagued with internal operating problems
- Too narrow a product line relative to rivals
- Short on financial resources to fund promising strategic initiatives

C. Potential Company Opportunities:

- Serving additional customer groups or expanding into new geographic markets or product segments
- Expanding the company's product line to meet a broader range of customer
- Falling trade barriers in attractive foreign markets
- Ability to grow rapidly because of sharply rising demand in one or more market segments
- Acquisition of rival firms or companies with attractive technological expertise

D. Potential External Threats to Company's Well-Being:

- Likely entry of potent new competitors
- Mounting competition from new Internet start-up companies pursuing e-commerce strategies
- Increasing intensity of competition among industry rivals – may cause squeeze on profit margins
- Technological changes or product innovations that undermine demand for the firm's product
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies
- Costly new regulatory requirements
- Growing bargaining power of customers or suppliers

9. TOWS Matrix

Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and weaknesses of organization with that of market opportunities and threats.

It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to term with the strategic choices that the outcomes demand.

The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. Thus TOWS matrix has a wider scope when compared to SWOT analysis. **TOWS analysis is an action tool whereas SWOT analysis is a planning tool.** The TOWS Matrix is tool for generating strategic options.

Through TOWS **matrix four alternative kinds of strategic choices** can be identified:

- **SO (Maxi-Maxi):** SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to build up the competitive advantage.
- **ST (Maxi-Mini):** ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.
- **WO (Mini-Maxi):** The firm needs to overcome internal weaknesses and make attempts
- to exploit opportunities to maximum.
- **WT (Mini-Mini):** WT is a position that any firm will try to avoid. A firm facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

	Internal Elements	
External Elements	Organizational Strengths	Organizational Weaknesses
Environmental Opportunities (And Risks)	**SO** : Strengths can be used to capitalize or build upon existing or emerging opportunities	**WO**: the strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental Threats	**ST**: Strengths in the organization can be used to minimize existing or emerging threats	**WT**: the strategies pursued must minimize or overcome weaknesses and as far as possible, cope with threats existing or merging threats

10. Globalization

For developing countries, it means integration with the world economy. In simple economic terms, globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries.

At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) the company's ability to compete in domestic markets with foreign competitors.

A global company has three characteristics:

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

A further development, perhaps, will be the super-national enterprise. It is a worldwide enterprise chartered by a substantially non-political international body such as WTO, IMF or World Bank.

10.1 Reasons for Company going global

1. Need for growth.
2. Rapid shrinking of time and distance across the globe due to faster communication, speedier transportation.
3. It is being realized that the domestic markets are no longer adequate.
4. Need for reliable or cheaper source of raw-materials, cheap labor etc.
5. Companies often set up overseas plants to reduce high transportation costs.
6. The apparent and real collapse of international trade barriers (Trade Tariffs, Custom Barriers) redefines the roles of state and industry.

11. Brain-Teaser Round

Question 1: Short Answer Type Questions

i. Define competitive advantage.
ii. What do you mean by core competencies?
iii. Components of a Value Chain of an organisation.

Question 2: State with reasons - True/False

i. Competitive strategy is designed to help firms achieve competitive advantage.
ii. Strength is an inherent capacity of an organization.
iii. The purpose of SWOT analysis is to rank organizations.
iv. SWOT analysis merely examines internal environment of an organization.
v. "B" in BCG Matrix stands for balance.
vi. Growth share matrix is popularly used for resource allocation.
vii. A core competence is a unique strength of an organization which may not be shared by others.

Question 3: Briefly answer the following questions:

i. What is an opportunity?
ii. Write a short note on SWOT analysis.
iii. Discuss the relevance of Tows Matrix in strategic planning.
iv. In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?
v. In the light of BCG Growth Matrix, state the situations under which the following strategic options are suitable:
   (i) Build
   (ii) Hold
   (iii) Harvest
   (iv) Divest
vi. Explain the concept of Experience Curve and highlight its relevance in strategic management.
vii. Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.
viii. To which industries the following developments offer opportunities and threats? "Increasing trend in India to organize IPL (Cricket) type of tournaments in other sports also."

Question 4:

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	*Revenues (in `)*	*Percent Revenues*	*Profits (in `)*	*Percent Profits*	*Percentage Market Share*	*Percentage Industry Growth rate*
A	*6 crore*	*48*	*120 lakh*	*48*	*80*	*+ 15*
B	*4 crore*	*32*	*50 lakh*	*20*	*40*	*+ 10*
C	*2 crore*	*16*	*75lakh*	*30*	*60*	*-20*
D	*50 lakh*	*4*	*5 lakh*	*2*	*5*	*-10*
Total	*12.5 crore*	*100*	*250 lakh*	*100*		

Answer

Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:

Retain Market Share

Market Growth Rate	*High*	*Low*
High	*Product A* *[80% Market Share* *+15% Growth Rate]* **Stars**	*Product B* *[40% Market Share* *+10% Growth Rate]* **Question Marks**
Low	*Product C* *[60% Market Share* *-20% Growth Rate]* **Cash Cows**	*Product D* *[05% Market Share* *-10% Growth Rate*] **Dogs**

Product A is in best position as it has a high relative market share and a high industry growth rate. On the other hand, product B has a low relative market share, yet competes in a high growth industry. Product C has a high relative market share, but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run. Product D is in the worst

Question 5:

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

(i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.

(ii) A business giant in hotel industry decides to enter into dairy business.

(iii) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.

(iv) A renowned auto manufacturing company launches ungeared scooters in the market.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organisation might follow.

(i) Market Penetration: A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.
(ii) Diversification: A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.
(iii) Market Development: One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.
(iv) Product Development: A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

Question 6:

"Management of internal linkages in the value chain could create competitive advantage in a number of ways". Briefly explain.

Answer

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

- There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, an assessment needs to be made whether the value added to the customer by this faster response through holding stocks is greater than the added cost.
- It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost of production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So competence in separate activities needs to be compatible.
- The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.
- Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.