



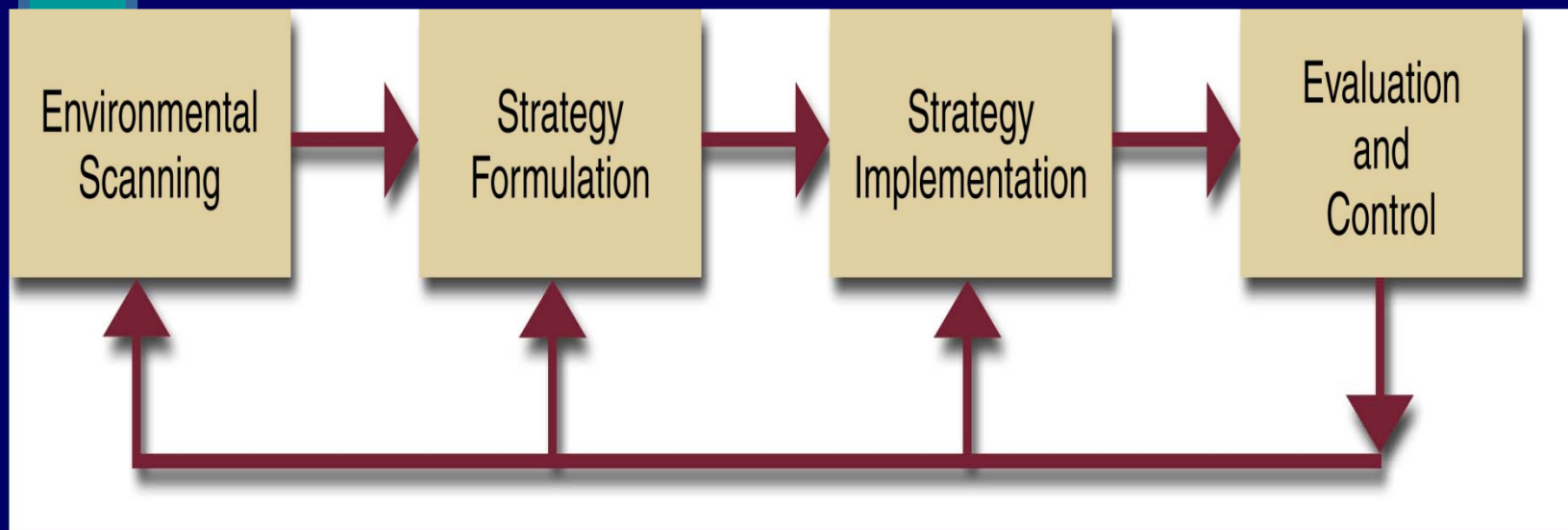
Understanding Strategies

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Basic Model of Strategic Management

Four Basic Elements



Relationship Between Planning & Control Systems

Activity

Types of End Products

Strategy Formulation

Goals, Strategies, Policies

Management Control

Implementation of Strategies

Task Control

Efficiency and Effectiveness

Strategy Formulation

Environment Analysis

Competitor
Customer
Supplier
Regulatory
Social/Political

Internal Analysis

Technology know-how
Manufacturing know-how
Marketing know-how
Distribution know-how
Logistics know-how

Opportunities & Threats

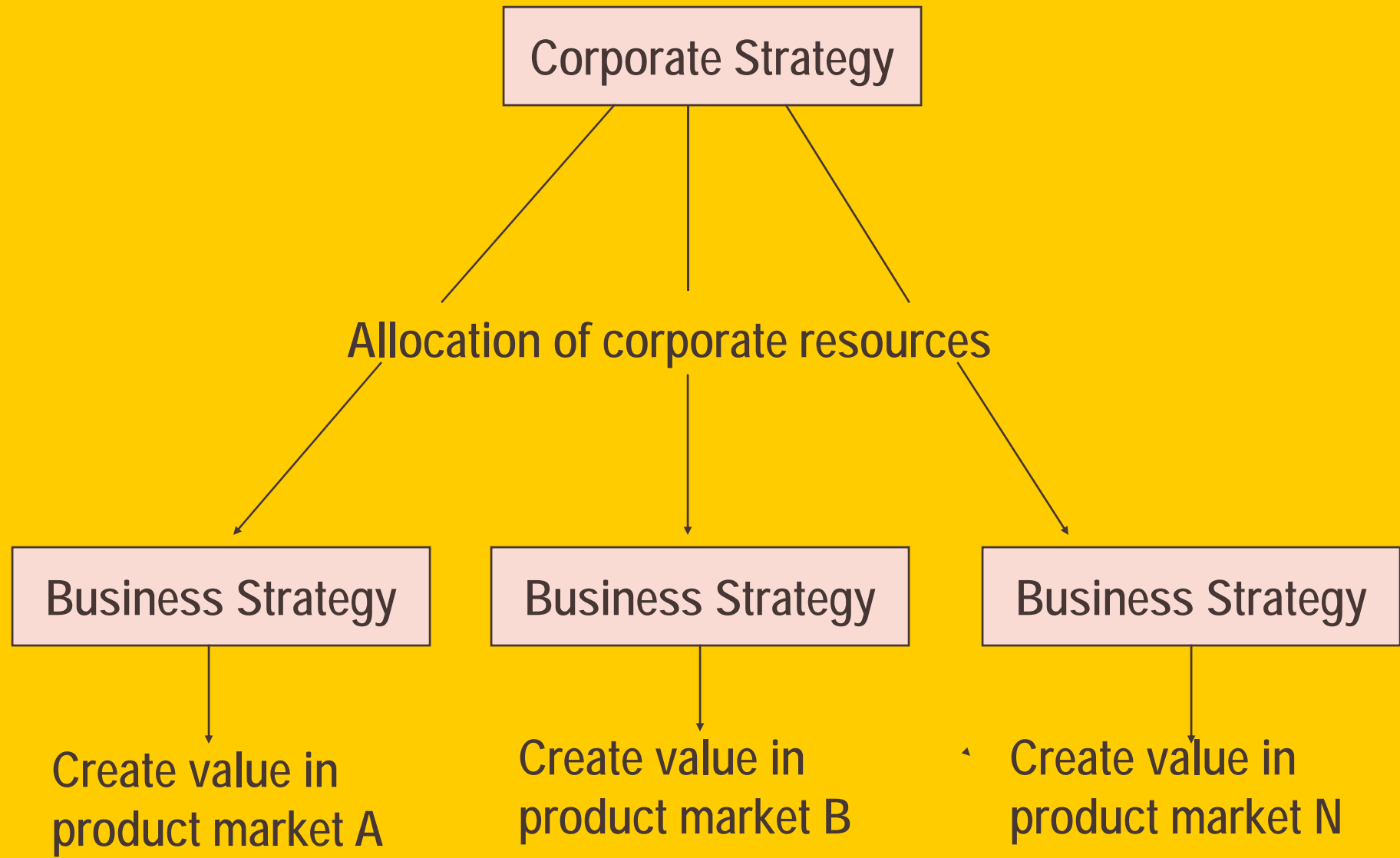
Identify opportunities

Strengths & Weaknesses

Identify core competencies

Fit internal competencies
with external opportunities
→ Firm's strategies

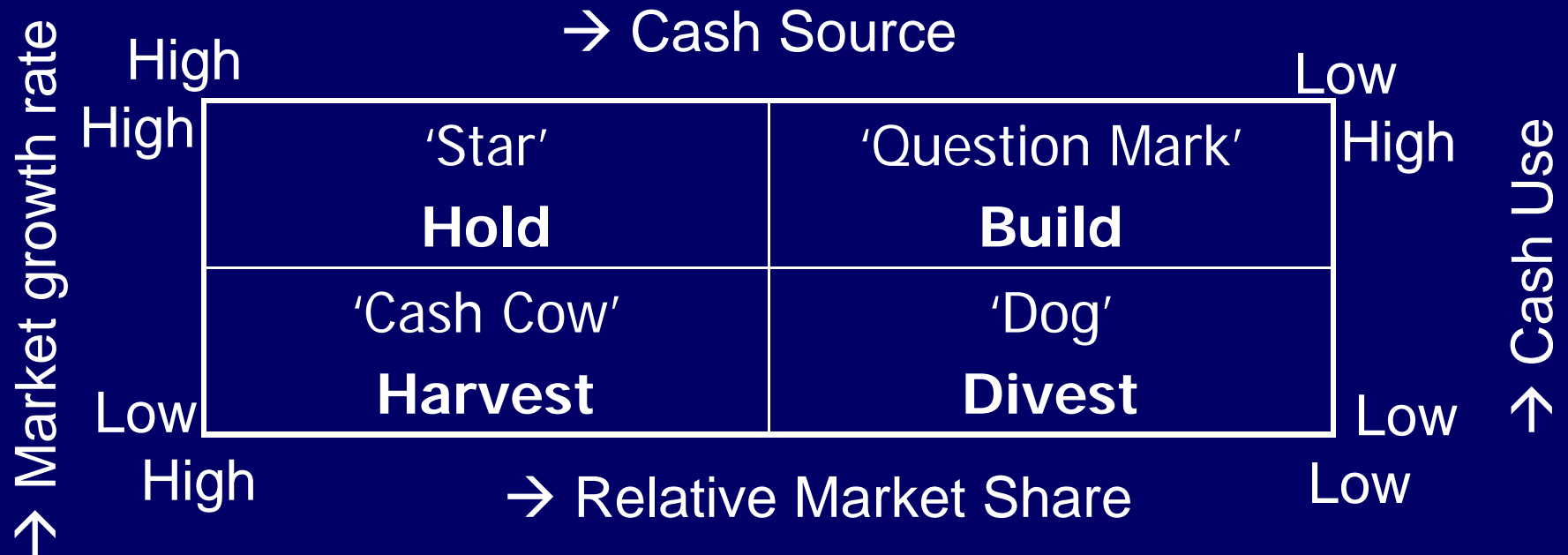
Corporate and Business Strategy



Two Levels of Strategy

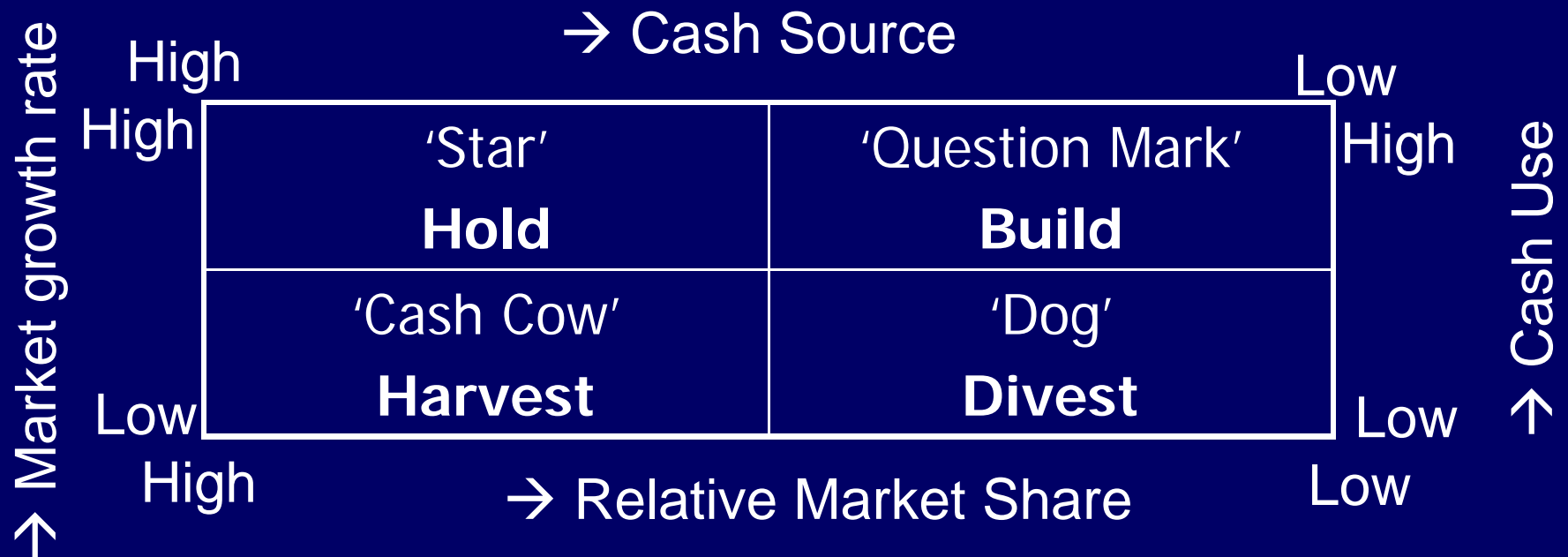
Strategy Level	Key Strategic Issues	Generic Strategic Options	Primary Involvement
Corporate level	Are we in the right mix of industries? What industries or sub-industries should we be in?	Single industry. Related diversification. Unrelated diversification.	Corporate office
Business unit level	What should be the mission of the business unit?	Build. Hold. Harvest. Divest.	Corporate office and business unit general manager
	How should the business unit compete to realize its mission?	Low cost. Differentiation.	Business unit general manager

Business Unit Mission: BCG Model



- Relative market share indicates industry competitive position
- Market growth rate indicates industry attractiveness
- Build: Increase market share even at the expense of s.t. cash flow
- Hold: Protect market share and competitive position
- Harvest: Maximize s.t. earnings even at the expense of market share
- Divest: Withdraw from business by liquidation/sale

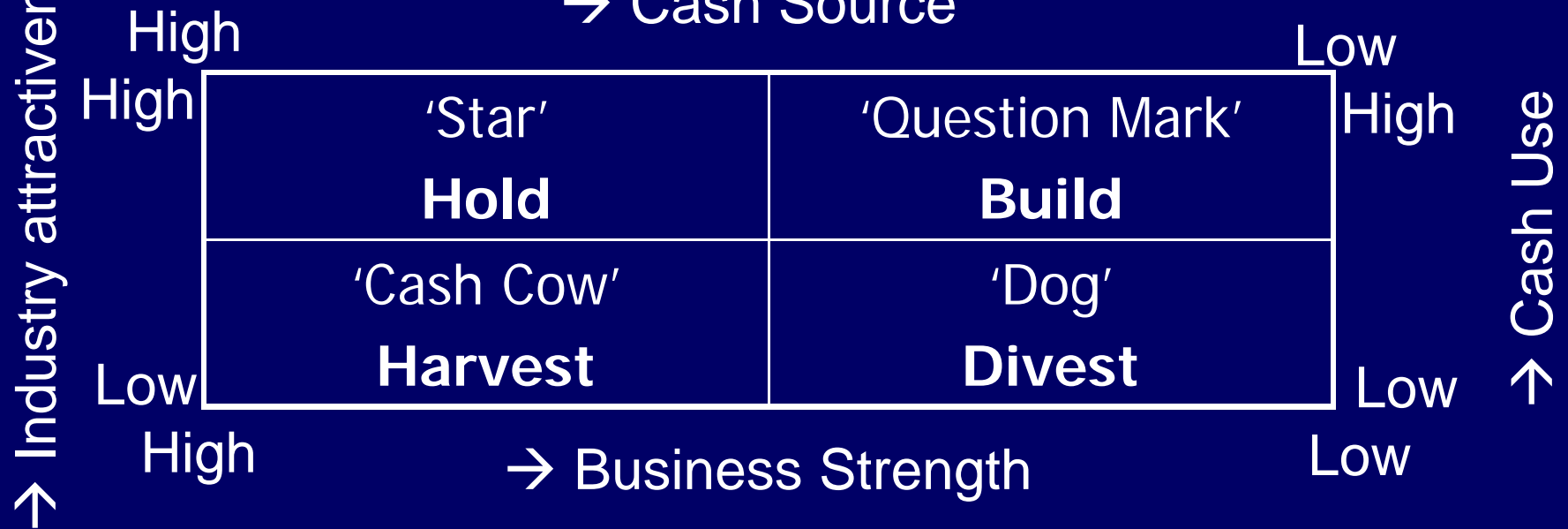
Business Unit Mission: BCG Model



- BCG Model emphasizes too much importance to experience curve
- In certain situations new process technology may have a greater impact on the reduction of per unit cost than cumulative volume per se (Contra example – Cipla)
- Other cost drivers are scale scope, technology, and complexity
- It also assumes undifferentiated products where primary basis of competition is price (Contra example – Mercedes)

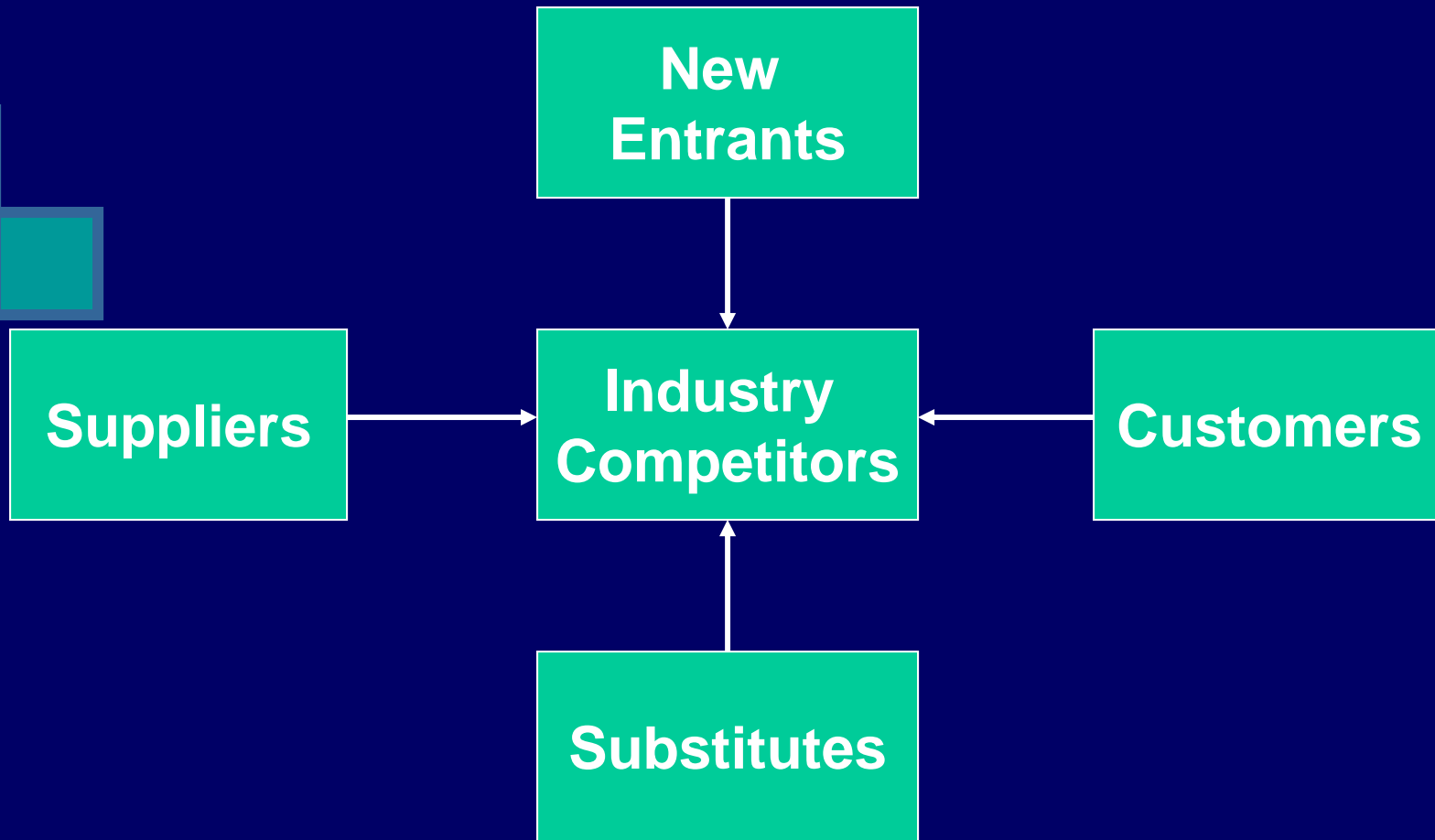
BCG → General Electric Planning

→ Cash Source



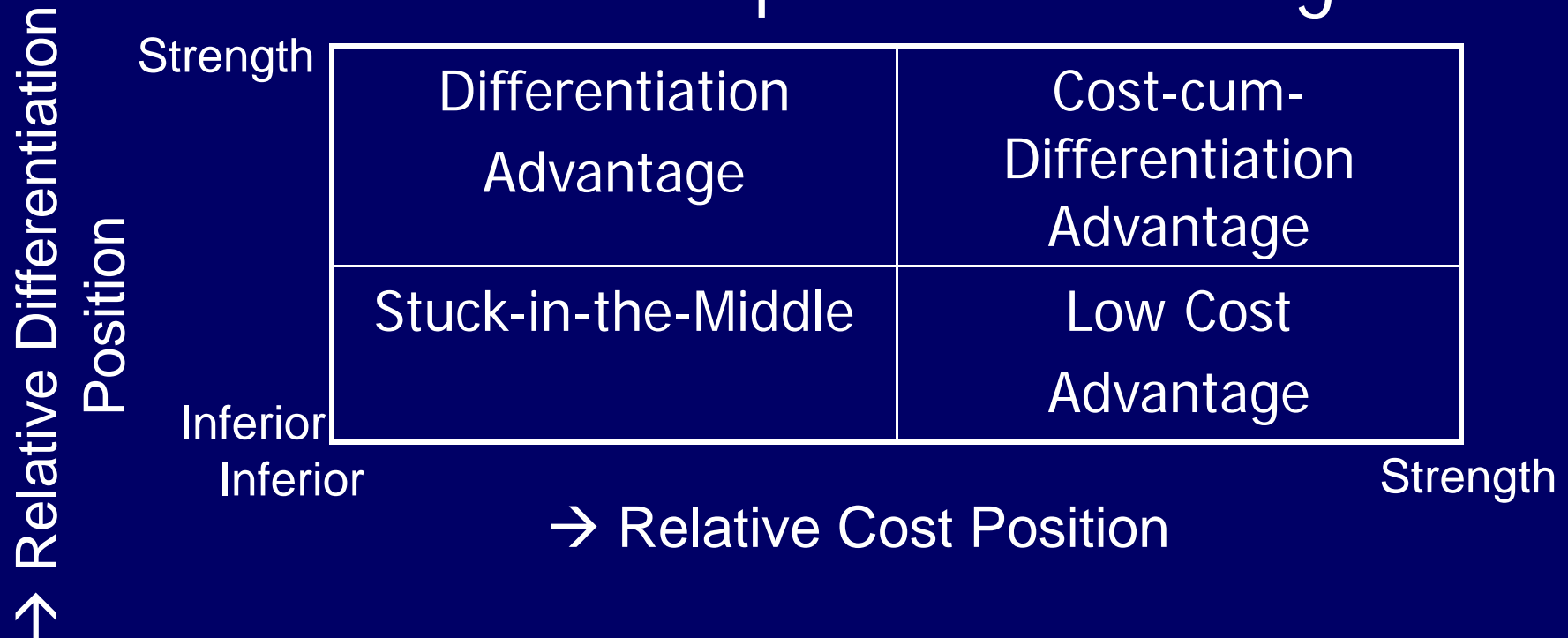
- Industry attractiveness is based on market size, growth, entry barriers, technology obsolescence, etc.
- Business strength is based on market share, distribution strengths, engineering strengths, etc.
- In reality, the above model is a 3X3 portfolio matrix with recommended business strategies

Industry structure analysis: Porter's five forces model



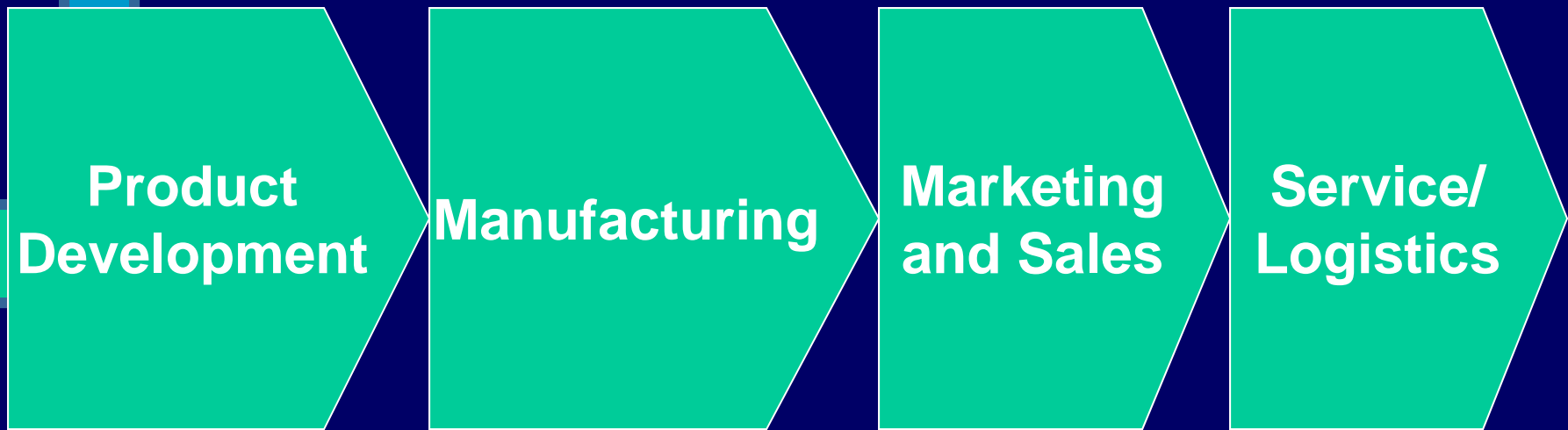
Intensity of competition among competitors	Growth, product differentiability, number and diversify of competitors, level of fixed costs, intermittent overcapacity, and exit barriers
Bargaining power of customers	Number, switching costs, ability to integrate backwards, impact of the business units product on buyers total costs, performance, and significance of the business unit's volume to buyers
Bargaining power of suppliers	Number, supplier's ability to integrate forward, presence of substitute inputs, and importance of the business unit's volumes to suppliers
Threat of substitutes	Relative price/performance of substitutes, buyer's switching costs, and propensity to substitute
Threat of new entry	Capital requirements, access to distribution channels, economies of scale, product diversification, technological complexity of the product/process, expected retaliation from the existing firms, and government policy

Basis for competitive advantage



- These are also known as Generic strategies
- Some times they are divided into three: Low Cost, Differentiation, and Focus
- While the first two can be industry wide the third one is for a particular segment only

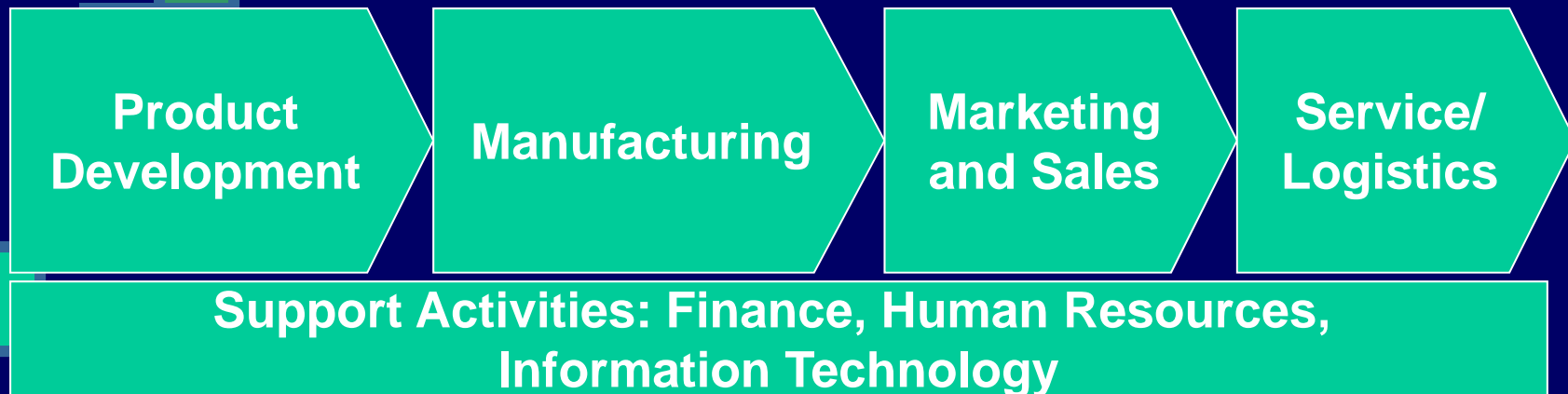
Value chain analysis for a business



Support Activities: Finance, Human Resources, Information Technology

- Looks at the complete set of activities involved in a product/service (and its comparative competitive position)
- It seeks to determine where in the company's position – customer value can be enhanced or costs lowered

Value chain analysis for a business



So, questions are:

1. Can we decrease costs keeping value/revenue constant
2. Can we increase value/revenue keeping costs constant
3. Can we decrease assets, holding costs/revenue constant
4. Can we do 1, 2, & 3 simultaneously
5. One should also look at customers' customer and suppliers' supplier

Strategic Management Model

