Strategic Managemet for Competitive Advantage
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Lecture 12
Strategy Formulation - I

Welcome to the course Strategic Management for Competitive Advantage. Today we will be covering Module 5. That is, Strategy Formulation and Choices. So, first, we will go for the Strategy Formulation.

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So, the concept, that will be covered during this session is strategy formulation. Like generic strategic alternatives, how do you generate strategic alternatives? How do you classify strategic alternatives? What are the managerial factors? And the strategy that has influence on your strategy formulations and the strategy formulation framework and TOWS matrix.

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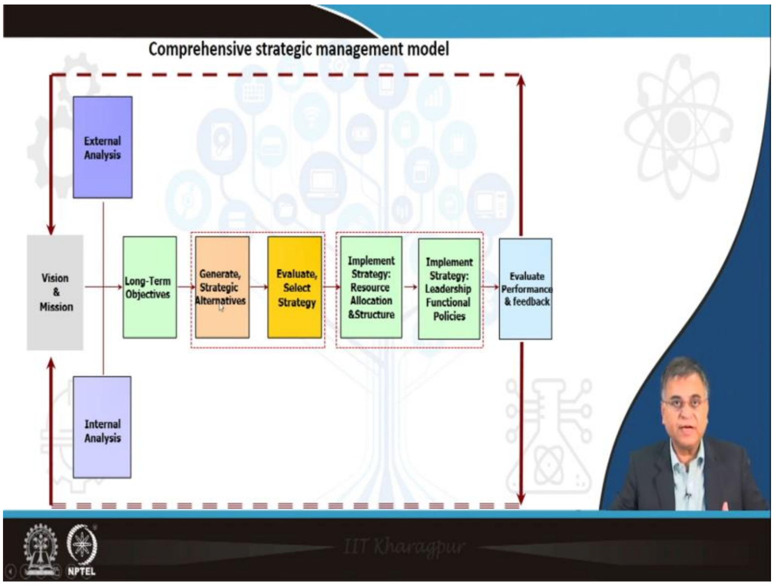

Starting with this comprehensive strategic management model, we are familiar with this, and we have shown it. So, we have already covered this vision-mission statement, and then the external analysis, and internal analysis based on that, we developed our long-term objectives. Now, from today onwards, we will go for, how to formulate a strategy. These two boxes are the formulation of strategy. So, today we will be talking about how to generate strategic alternatives and from that, we will go for evolution and selection of strategy.

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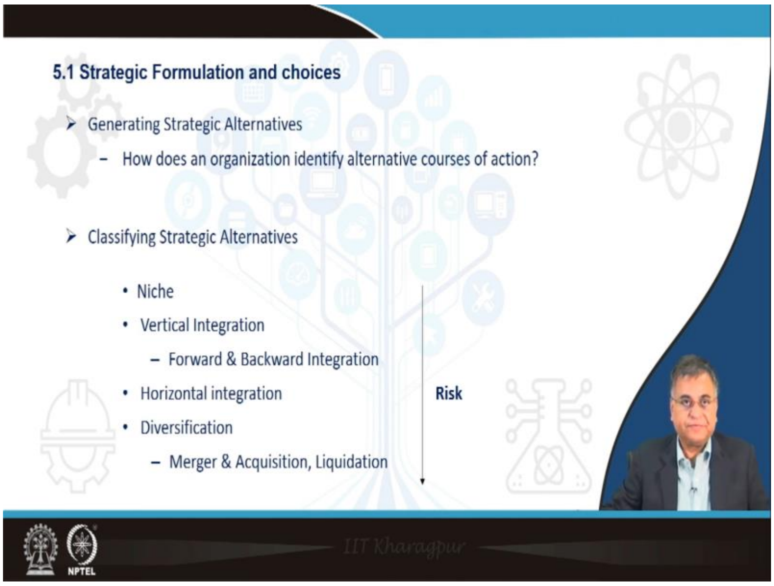

So, first thing, for generating strategic alternatives, how does an organization identify alternative courses of action? An organization identifies alternative courses of action through various means. It depends on organizational size, it depends on management style, it depends on work ethos of the organizations, it depends on industry characteristics. So, all these influences the organizations to decide how to derive strategic alternatives.

Take the case of a small organization, they develop their strategies, and their strategic alternatives are basically owner-driven, owner or manager-driven, or CEO driven. CEO may be appointed by the owner. And take the case of the startups, it is owner driven, similarly to small organizations. In these small organizations, what happens?

The strategic alternatives making and all are not done in a systematic and planned way, it is rather done mostly in an intuitive way. It needs that gut feeling, and the owners or the strategy makers, CEOs, or may be influenced by some external personality, maybe a bureaucrat, maybe an industrialist, maybe an icon. So, they may be get influenced by that.

So, these are for small organizations. But for big or large, or the medium size organizations, these are done in a planned manner. Firstly, they hold brainstorming sessions to develop the strategy and strategic alternatives.

Brainstorming sessions may consist of different groups of organizations. Then it may be through the special meeting, organizing special meetings where all the representatives of the different stakeholders are present, even the internal and external stakeholders may be present, and you hold a special meeting for strategic alternatives generations.

Another way to do this is, you engage outside consultants i.e., management consultants. They may help you to develop strategic alternatives or strategic decisions making. Also, you may hold a joint meeting between the consultant and the top management, their things are concretized. These are some of the ways organizations identify the alternative course of action for strategy making.

Then comes classifying the strategic alternatives. How do you classify strategic alternatives? What is the basis for the classification of strategic alternatives? Generally, organizations classify strategic alternatives in terms of risk. Say, it may be a high-risk strategy, it may be a medium-risk strategy, or it may be a low-risk strategy. In this way, you classify the different strategies.

So, I will give you an example, say the niche strategy, you must have heard about it. Then comes the vertical integration strategy - it may be a forward integration; it may be a backward integration as you are going down, your risk increases.

Then comes the horizontal integration strategy. Then comes the diversification and diversification strategy. Under that, there is merger and accusations. So, what is it? As you are going down, you can see your risk increases. The least risk is in the niche strategy. Then the vertical integrations, then the horizontal integration, then the diversifications. Diversifications are riskier than the horizontal, and vertical, niches. So, this is one way of classifying your strategic alternatives based on risk.

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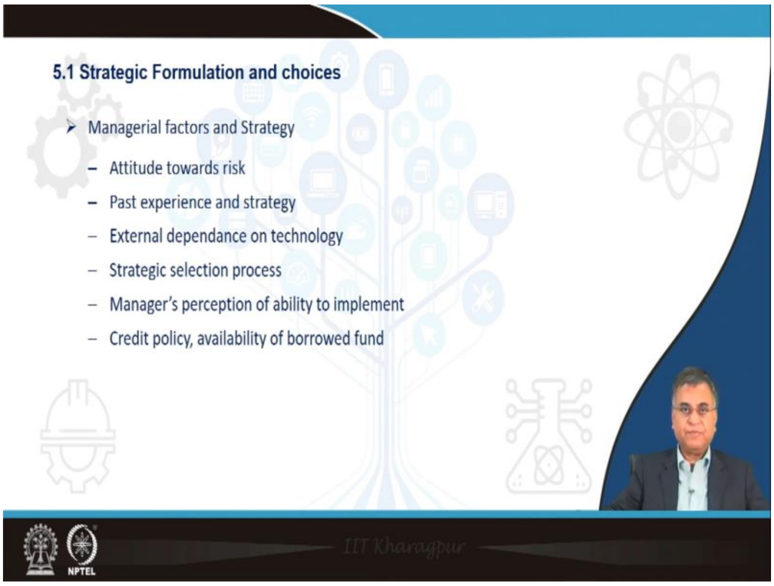

Next, there are some managerial factors that moderate or influence your organization's strategy. Managers' attitude toward risks - is a potential factor that influences strategic alternatives generations and choosing of strategic alternatives. Every person has a somewhat risk-taking attitude or risk aversion ability, and all things are there.

Some managers may be risk averse, and some managers may be high-risk-prone like they want to take high risks and all. If a manager is risk aversion, then what strategy will he follow? He will probably follow the stability strategy. Stability strategy is what? It is that you maintain your activity level as it is. You maintain the status quo. Your activity level and your operations level remain the same. That is what a risk-averse manager will try to do.

If a manager is risk-taking, he always wants challenging jobs. So, naturally, what strategy will he follow? He will follow a growth strategy. A growth strategy is the expansion of work and the expansion of activities. And a manager, if he is a balanced manager, what strategy will he follow? A balanced person or a balanced manager will probably follow a combination strategy.

So, under these managerial factors, one is the attitude towards risk then another factor is past experience and strategy. Past experience has an enormous value, it provides you value. If those managers who have developed and implemented a strategy previously, are much more experienced and they will be knowing while formulating the next strategy, they will be knowing what are the bottlenecks, and what are obstacles, they will face during the implementation.

Because strategy formulation is one thing, but implementation is the success of the strategy, it depends on its effective implementation. If that cannot be implemented, your strategy formulations will not give you any advantage. So, if a manager has past experience in implementing a strategy, that experience is invaluable.

For the next strategy formulation, he can take care of those essential real-life experiences, which one will work and which one will not work. So, these are the pragmatic experiences which will be very helpful. So, this past experience and handling the past strategies and all is a very invaluable factor.

Next is the external dependence on technology. Suppose, you employ technology, and that technology has a great bearing on your strategy. Suppose, you deploy a conventional technology, then your strategy may be something. If you deploy state-of-the-art technology then your strategy might be different.

Furthermore, where are you getting the technology from? If you develop your own technology, you are confident, and you do not depend on outsiders. So, your strategy will be a very bold strategy. But if you are dependent on the technology from someone else, say, your partners, joint venture having the technology, state of the art technology which you do not possess, then you have to depend on him.

So, your strategy cannot be that demanding, your strategy cannot be that bold. This also depends on the dependence on technology. Then comes the strategy selection process.

Actually, the strategy selection process varies from rational to political. Rational is what we are doing, the formulations and all, it is mostly the rational processes they follow.

But in real-life organizations, there are always organizational dynamics and organisational politics that are cutters which cannot be done away with. So, if some powerful managers or directors think, this strategy should not be taken and all, this strategy should not be implemented or taken as granted. So, they may have some political angle. Also, these may influence the selection process of the strategy.

Also, managers' perceptions of the ability to improve are also important factors. Suppose, key managers, who will be implementing that strategy, if those key managers are not comfortable with it, they do not want to do that perception then the strategy will not be successful. This is the perception of the ability to implement by the managers.

And lastly, the strategy also depends on the credit policy. Suppose, the credit policy is very favourable, then you can easily do the fund availability, borrowing funds etc. available, and then you may follow an aggressive strategy. But if the availability of the fund is not there or is very constrained and the credit policy is also unfavourable, then you cannot, your strategy cannot be that aggressive. Your strategy has to be some moderately or low-key profile. So, these are some of the managerial factors for formulations of strategy one must take care of.

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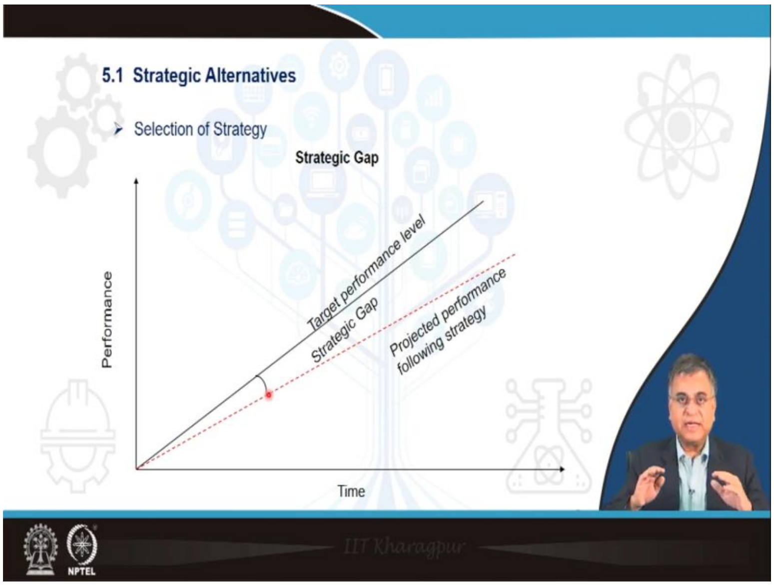

Next comes the selection of strategy. How do you select this strategy? So, look at this diagram. Here, what are we finding? We will find, say, when you develop a strategy, what do you do? A strategy is a long-term plan for your organization. So, say 10 years. So, your strategy is you increase your production output by 10 times in the next 10 years. So, in your strategy, you also develop a target performance level.

Suppose, those strategies' target performance level is this line, it is going on. So, now, once you are implementing the strategy, you are constantly monitoring the strategy. Suppose, after one or two years, you find your strategy is following this red line, what should you do?

You project it for the rest of the years, the rest of the period of your project. And you can find the performance versus time, there is a gap between your target performance levels when you have made the strategy, you have given this target performance level and actual. Actual happens up to two years then you are projecting it, projecting strategy will give outcomes.

So, this is a strategic gap. So, if this gap is narrow, what strategy will you follow? If the gap is narrow, you will follow a stability strategy, like it is going on and this gap is narrow, you do not have to worry, you follow a stability strategy. That is, you follow the activity level, the operations level what it is going on.

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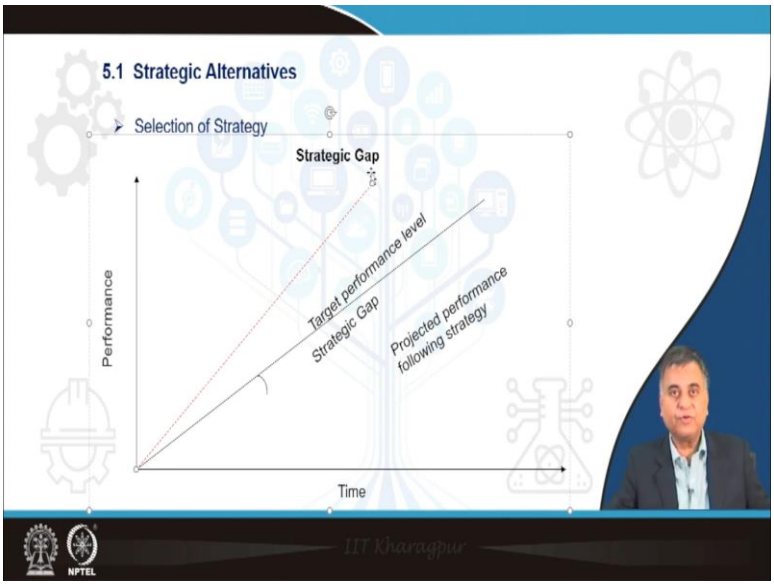

Now, if you see that your gap is supposed to go here, so, it is a large positive gap. What does it mean? If the gap goes positive, in a positive way, but it is a large gap, what does it mean? What strategy you will follow in such a case? You will follow, as it is a positive gap, which means you will follow a growth strategy. And why did it happen? Why did it have positive things? It might happen because an environmental opportunity might have come, and this is due to environmental opportunity. Now, so, you follow a growth strategy.

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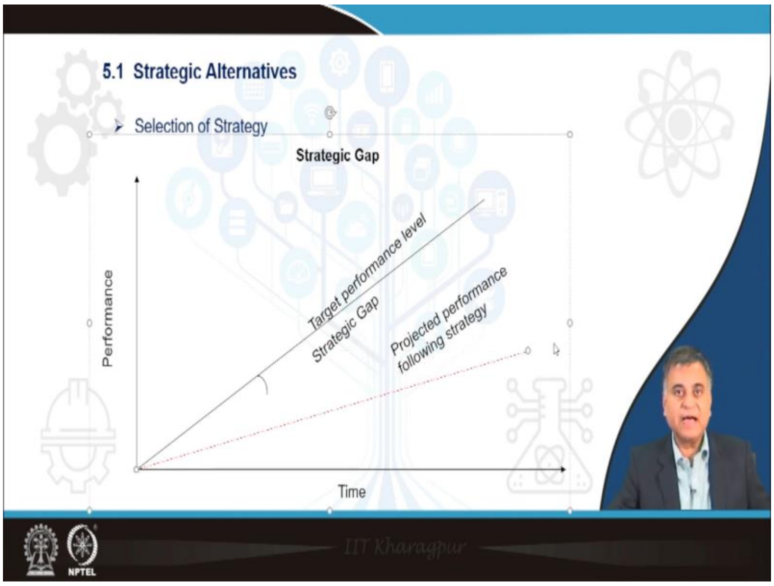

Now, if the gap goes, say negative, large negative gap, if it comes a large negative gap, say, what strategy will you follow? Then you will follow a retrenchment strategy. This means you will reduce your activity level because your activity is going to shrink. Because it may happen only because in the environment you are facing a threat.

Like, for say, when Reliance JIO came, then Airtel, Vodafone, and Idea, they felt that threat, and their profit came down. So, they had to take a retrenchment strategy. So, when the gap is large and negative, you follow the retracement strategy and vice versa. So, you have seen that this is one way of selecting your strategic alternatives.

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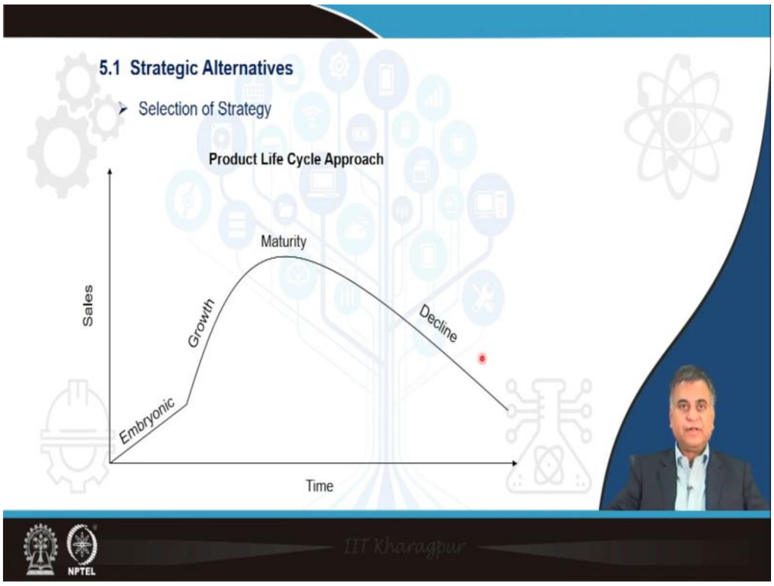

Then we can also do this in a product life cycle approach. It is a useful concept for the selection of a strategy. All of you are aware of this product life cycle approach. Your business life cycle also follows the same. All of it is a, say, embryonic or the introduction stage, then the growth stage, maturity stage and the decline stage, every business also follows it.

Suppose your business or your product is in the growth stage. So, what strategy will follow? You will definitely not follow the same strategy at the growth stage and the maturity stage, decline stage, or embryonic stage. So, at the growth stage, what is your need?

Your need is a huge investment. Like at the growth stage, you require the plant, and machinery, huge advertising and the marketing investment are required. But in the maturity stage of the business or the product, the growth rate is not there, growth rate is stabilized.

So, the main strategy will be the low-cost efficient process and here, in the maturity stage, generally the only cost you may be requiring is the advertisement cost and you operate on low cost-efficient processes. And it is a cash producer or generates cash. Maturity stage generates cash and that cash you pump in to the other businesses for growth of other businesses.

Say, take the case of Reliance Jio. Jio is in growth stage. It requires huge investment. Where from those investment comes? It comes from the Reliance Oil and Gas. That is a mature thing, petrochemicals, those are the matured business, those are cash cows. Those cash are pumped in here, so that today's growth can become the stars and mature in the future.

And similarly for the declining phase. Here, you try to extend the product life or the business life as much as you can. At embryonic stage that is the introductory stage, there your strategy will be to look more on the resource requirement, the R&D requirement and your attention should be on those R & D resources.

So, the point of this is that at different stages of the business, your strategies will require different attention, different types of strategy, strategic alternatives you have to deploy. This is another way for selections of your strategic alternatives. And in fact, in all different business stages, all this timing should match with each other. So, cash in one can be deployed in other for its growth. This is another way.

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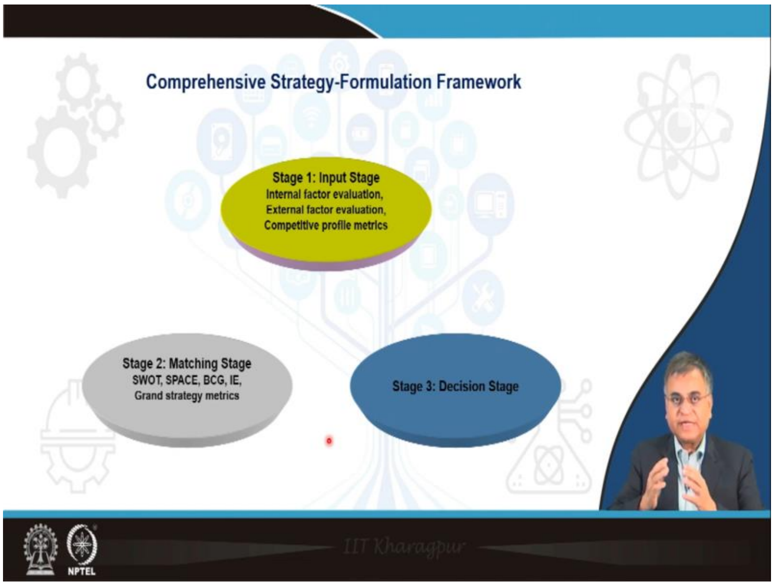

So, let us move. Now, after all these, what you do? You do comprehensive strategy-formulation framework. What is this comprehensive framework? In this framework, Stage 1, what you do? This is the input stage, where we have already discussed that the internal factor evolutions, that strength, weaknesses and external factor evolutions, those are opportunities, threats.

Then comes competitive profile matrix. Competitors profile, competitors' analysis you have done. These are in the input stage. Then what you do? Then we do the stage 2. It is the matching stage, like you do the situational analysis. You do the SPACE. You do the BCG matrix. You draw internal environment, grand strategy matrix, all these we will be discussing in the future modules.

Then after this stage 2, matching stage is done, what we do? We go for the decision stage, what strategy to be followed, what strategy to be chosen, this is the decision stage. We will be going by this stage 2, stage 3 in the next way.

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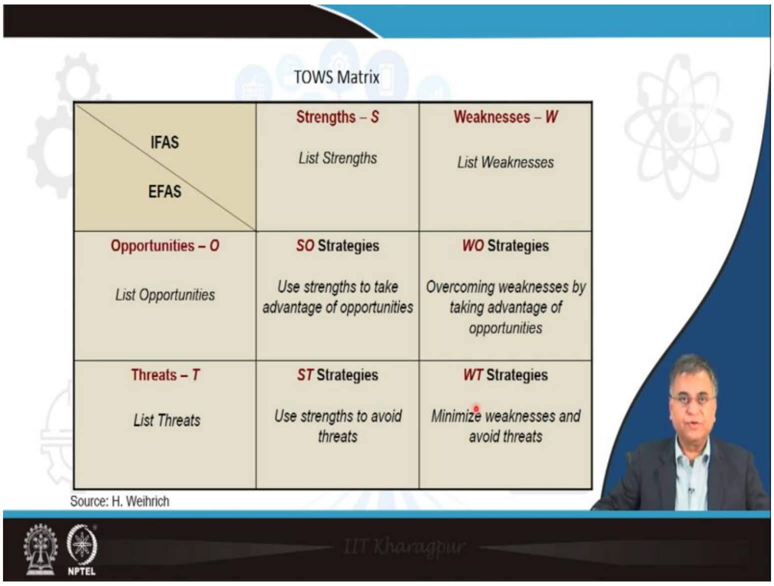

So, this is another one called TOWS matrix. It is nothing but that inverse of the SWOT matrix. The management consultants, management authors and all, they are very fond of jargons and all. So, they have coined this one. It is just the inverse of the SWOT analysis. So, it is called TOWS matrix. What is this?

These are the internal factors analysis. What are the internal factors of an organization? These are strength and weaknesses. You make out the list of strengths, list of weaknesses that we have done it in the earlier module. You remember that we have shown the SWOT analysis, then there we have taken that list of strengths, the list of weaknesses, similarly, we have also done list of opportunities, list of threats. These opportunities and threats are the external factor analysis.

So, based on this, we can find out, strength and opportunity. This is called "SO". Some strategy you deploy based on your strength and opportunity. That is to use your strength to take advantage of environmental opportunities. It is called "SO" strategy. Now comes "WO" strategy. Like you try to overcome your weakness by taking advantage of the environmental opportunity.

Now, say "ST" strategy. That is strength and threats. You use your strength to avoid the threats. Then "WT" strategy, it is you minimize your weakness and avoid the threat. So, these are the various combinations you can make your strategy. We will be giving some examples on this.

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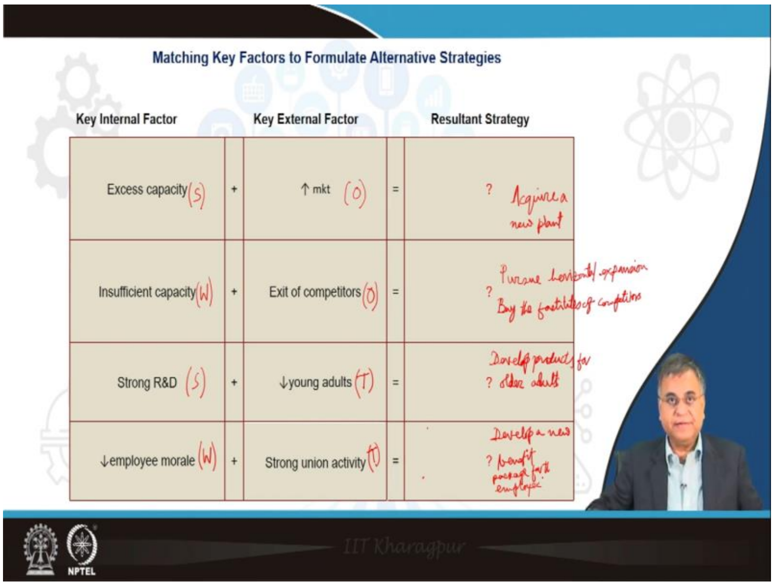

So, let us go to the next slide to have some examples. Now, we will be giving the matching key factors for formulation the alternative strategies. So, we have seen “SO” strategy, “WO” strategy. Now, we will take some examples. Key internal factors that will give you the resultant strategy. What are key internal factors?

Internal factors are strength and weaknesses. What are key external factors? It is opportunities and threat. So, suppose, you have excess capacity in your plant, what it is, you have excess capacity in your plant. What it is? It is a strength. No? So, suppose, the market is projected to increase at the rate of 10 percent per year for the next 10 years.

Then, this is what? This is an opportunity. So, strength and opportunity should be your resultant strategy. So, you have some excess capacity in your plant, it is your strength. Now, market is growing for your product by 10 percent per annum, it will continue for next 10 years, and it will exceed your excess capacity, may make you that for one year two years.

So, your resultant capacity strategy may be to acquire a new plant, which are producing the same product. So, this may be your strength, this is strength-opportunity resultant strategy. Suppose, now, you have insufficient capacity in your plant. So, what it is? It is a weakness. You are insufficient.

Now, suppose two of your competitors, foreign competitors have exited from the market. So, what it is for you? It is an opportunity for you. So, it is an opportunity. So, what should be the resultant strategy?

It is a “WO”, weakness and opportunity strategy. The resultant strategy maybe you pursue horizontal expansion strategy. That means you buy the facilities of the competitors who has exited the market. Now, you have strong R&D in your organization. What it is? It is a strength.

Now, say number of young adults in the society is decreasing. So, what it is? It is a threat. So, strength and threat, what should be your resultant strategy? Resultant strategy maybe, you develop the products for the older adults. So, it may be to develop products for older adults. This may be the strength and threat strategy.

Now, suppose your employee morale is poor in the organization. What it is? It is a weakness of the organization. Then strong union activity. So, what it is? It is a threat. So, it is weakness and threat. What should be the resultant strategy? Resultant strategy you develop a new benefit package for the employee.

So, this is a weakness and threat strategy. This is the resultant strategy. So, this way, you can match key factors to formulate your alternative strategies. These are just an illustration. So, the concept of strength-opportunity strategy, weakness-opportunity strategy, strength-threat strategy, weakness-threat strategy has been explained.

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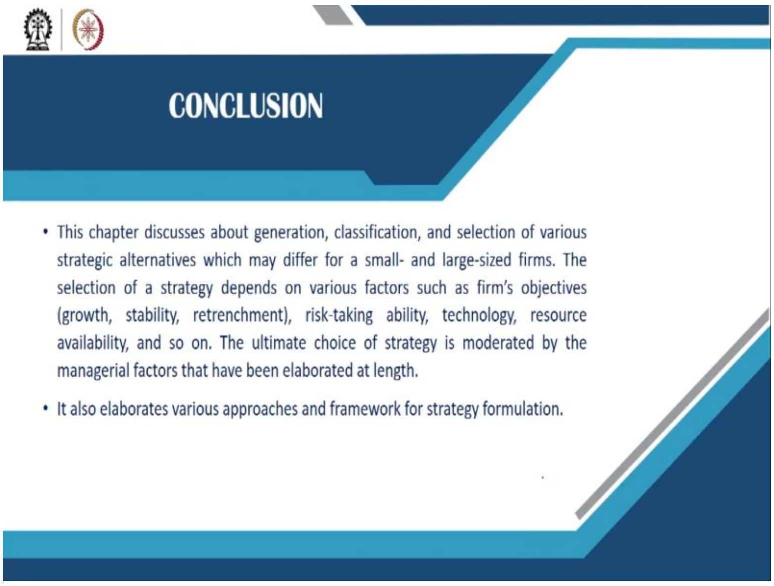

Next, so, in this chapter, what we have covered? In this chapter we discussed about generations of strategic alternatives, classifications of strategic alternatives and selection of various strategic alternatives, which may differ for a small organization and a large size organization.

The selection of strategy depends on various factors as we have explained that is the growth of the firm, stability or retracement, what is its objective, risk taking ability, technology, resource availability and other factors. The ultimate choice of strategy is moderated by the managerial factors that we have also discussed. Then it also discusses the various approaches and framework for strategy formulation.

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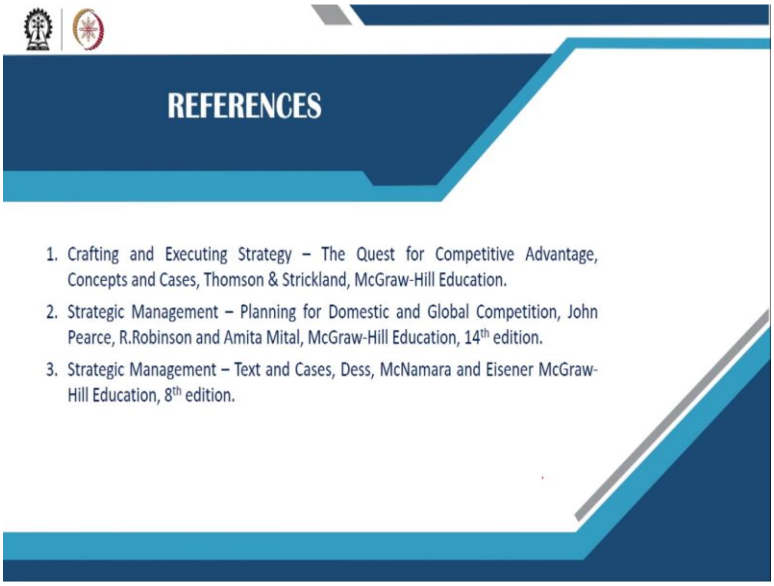

Then these are the some of the references you can go through these books and can enrich yourself. Thank you for attending.