

Strategic Management for Competitive Advantage
Professor Sanjib Chowdhury
Vinod Gupta School of Management
Indian Institute of Technology Kharagpur,
Lecture 14
Strategy Formulation-3

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Welcome to the course strategic management for competitive advantage. Today, we will be talking about this strategy formulation part 3.

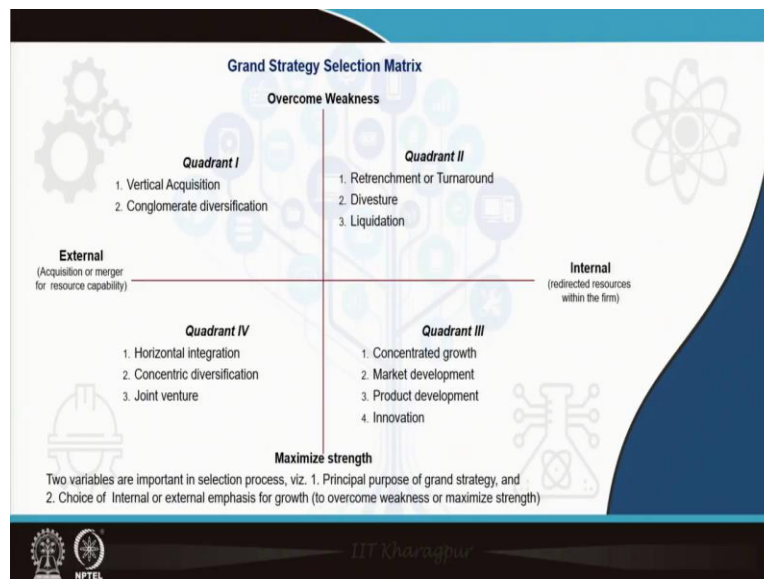
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In this lecture, we will cover the following concepts. We will talk about strategic choices such as grand strategy selection matrix, grand strategy clusters and SPACE matrix. In the last class, we talked about various strategic alternatives and choices. We talked about Porter's generic strategies. Then, we talked about grand strategies and their different types like stability strategy, growth strategy, retrenchment strategy, and combination strategy.

Today, we will talk furthermore about how to select a grand strategy. We have seen that grand strategy intends to provide basic directions for taking strategic action. Now, this is actually a comprehensive general approach that would guide the selection of major actions, which will help an organization to achieve its long-term goal and objectives.

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What is the grand strategy selection matrix? So, we have seen there are 15 grand strategies under growth stability, retrenchment and combinations.

Now, which grand strategy will you be choosing for which circumstances? There must be some guidance. So, this grand strategy selection matrix will guide the strategist to select a particular strategy, and how do you select that? For these, this grand strategy selection matrix is basically, a basic idea that underlines two variables. So, namely principal purpose of grand strategy and the second - choice of internal or external emphasis for grand strategy.

Now, what are these sets? Say, one principal selection purpose is to maximize your strength and overcome weaknesses. These are the principal purpose of the grand strategy and choice of internal or external emphasis for growth. Internal emphasis means internal resources within the organization (core competence). The external emphasis is that you acquire these capabilities through external acquisitions or mergers.

So, you are increasing your resource capability through external emphasis. So, these are generally what you are doing to maximize your strengths and overcome your weaknesses. Now, if you see, there are four quadrants. Now, what are these quadrants? This is a quadrant 1 here, what is your emphasis? This is you want to overcome your weakness through your external emphasis, that is, acquisitions or mergers, because you do not have that resource capability with you.

So, your weakness and your external emphasis, what will be your strategy in such cases, your strategy will be, vertical acquisition. It will be basically merger and acquisitions and conglomerate diversification. What is conglomerate diversification? It is unrelated diversification, we will talk more about this (conglomerate diversification) and vertical acquisitions.

So, your emphasis will be on your strategic directions to take strategic actions on these grand strategies now, if you overcome weaknesses with the help of internal resources with that. So, it is quadrant 2.

So, what strategy will you follow here? You try to follow retrenchment strategy i.e., you are divesting or reducing the work activities (operations level). As I told you last time, there are two, one internal retrenchment (turnaround strategy), and external retrenchment you divest your loss-making unit's assets or liquidation (you sell off the entire business). So, these are the retrenchment strategies you will follow because you want to overcome your weaknesses with the help of your internal resources.

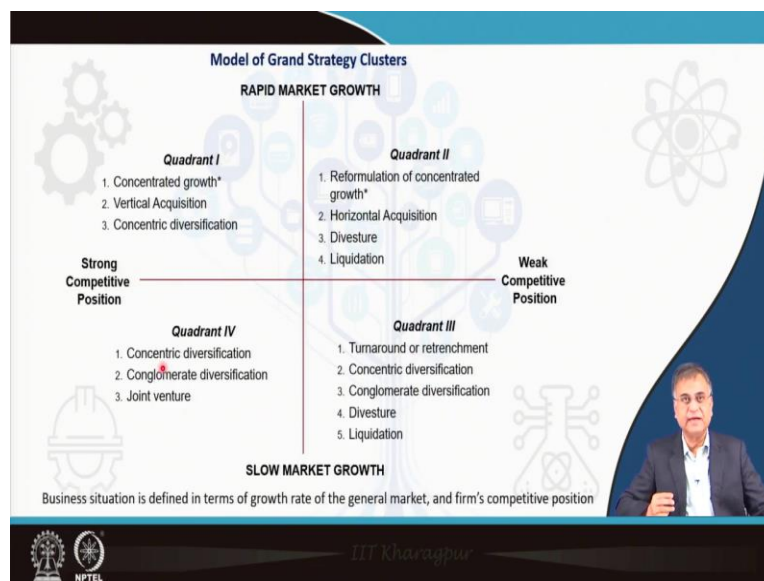
Now, if you want your strategy, you have maximizing strength. Your strength is to emphasize internal resources for your growth with the help of internal capabilities (core competence). What are the strategies suitable for that? You will employ an aggressive strategy like concentrated

growth, market development, product development, and new innovations. So, these are the preferred choices you should embark upon for choosing your grand strategy.

Similarly, if you are maximizing your strength, you are leveraging your strength with growth. If you want it through external growth, that is, mergers or acquisitions, then what strategy will you follow? We follow horizontal integration, then concentric diversification. what is concentric diversification i.e., related diversification, I will talk about it in the next lecture.

The joint venture, these are you want if you need the growth very fast. These will give you the diversifications at a faster growth rate. So, in such circumstances maximizing strength with the external emphasis on growth, you will follow the strategies as shown in quadrant 4. So, this is called the Grand Strategy selection matrix, and this will give you a broad guideline on how to select your strategic directions or strategic actions (major actions), and what we will take that will help you in guiding.

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So, next, there is another very useful approach for the selection of grand strategy called model of grand strategy clusters. The underlying idea behind this approach is that any business situation is defined (here in strategic clusters) in terms of the growth rate of the general market. what are the environment growth rate, general market growth rate and your organization's competitive position.

So, here you can see that the market growth can be rapid, another may be slow market growth for a particular business or product. So, with respect to the market, what are your competitive position? What is the firm's or the organization's competitive position? It may be a strong competitive position, or it may be a weak competitive position.

Now, you will see similar to the grand strategy selection matrix here also these four quadrants, here, this quadrant (quadrant one) is rapid market growth and strong competitive position suppose, the market is growing very fast because there are opportunities, the competitive positions in the market are very strong like you have good market shares and being in both positive-positive situation. So, what strategy will you follow growth or aggressive strategy?

The growth strategy here is concentrated growth, what is this concentrated growth? Concentrated growth includes product development, market development, innovation, and market penetration. Then vertical acquisition; concentric diversification means related diversification.

So, these are the strategies generally available for when the market is growing very fast, and with respect to the market, you have a strong competitive position and strong market share if you follow these strategies.

Now, another thing as the market is growing fast, but your organization's competitive position is weak, then what strategy you will follow? The strategies you follow like reformulations of concentrated growth, (this concentrated growth, you have to reformulate it) because it has changed again. Then you may go for horizontal acquisitions and divestiture, and liquidation (these are the retrenchment strategies). So, you follow these four strategies to overcome your weakness.

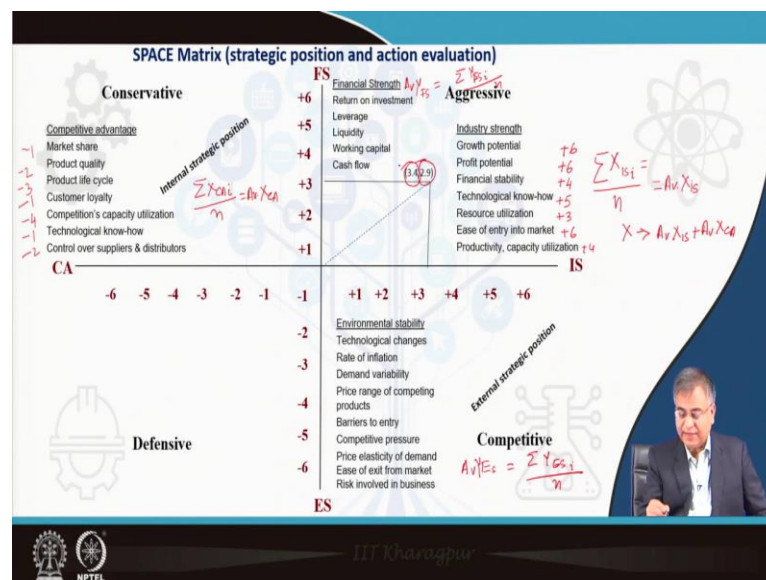
Now, if your market growth rate is very slow, and your competitive position is weak, then what strategy will you follow? These both (slow growth and weak competitive position) are negative-negative, so, you follow a retrenchment strategy that is internal retrenchment as well as external retrenchment.

So, you follow a turnaround strategy, then concentric diversification strategy, conglomerate diversification, then divestiture and liquidation, and you try to get rid of those loss-making assets

or the businesses. So, these are suitable strategies for slow market growth, and the firm is having weak competitive position.

Then, if the market growth rate is slow and your competitive position is very high, that is quadrant four. What sort of strategy do you follow? You follow concentric diversification, conglomerate diversification and joint venture. So, these are the valuable guidance that will help you to select long-term strategic actions, which will help you to achieve your corporate objectives. So, these are the two valuable guidelines for the selection of grand strategies.

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Further to it, many consultants and companies have used this concept in their own work, and they have formulated their own matrix, one such is called the SPACE matrix, which stands for “Strategic Position and Action Evolution”. What does this matrix say? This is also formulated in a similar way and is company specific.

So, here is what they have done, they have taken financial strength and environmental stability, and the other side is the industrial strength and competitive advantage. Now, if you see this financial strength and competitive advantage are company specific.

So, these are internal strategic positions and another one, if you see industry strength and environmental stability, what does it give? It is the external strategic position so, now how do they do it? How to construct this SPACE matrix. I will just explain it to you in brief. So, these are the four variables you are getting.

So, financial strength, each variable has been subdivided into a number of sub-factors such as return on investment, leverage, liquidity, working capital, and cash flow. So, as per the need of the organization, you can have your own sub-factors those summations of these will give you what is financial strength.

Similarly, for industrial strength, these are the sub-factors they have used in their case like growth potential, profit potential, financial stability, technical resource utilization, ease of entry into the market, and productivity.

So, now, similarly, you will find a number of factors they have chosen for environmental stability and competitive advantage. Now, what have they done? Say here this for financial suppose first you take the X axis, then we will take the Y axis. In the x-axis, say this is industry strength then you have to rate these factors within the rating of +1 to +6. +1 here signifies the worst, and + 6 is the best.

So, now, what do you about industry strength? You rate each of the factors. When you rate its growth potential, suppose it is +6, profit potential +6, financial stability +4, technical know-how +5, resource utilization +3, ease of entry into the market+ 6, capacity utilization+ 4.

After rating what you do? You find out that X_{ISi} is equal $\sum X_{ISi}$ divided by n, n is the number of factors, here, n is 1, 2, 3, 4, 5, 6, 7. So, you get the average X_{IS} . Suppose you get average X_{IS} of 5.23.

Similarly, you do it for the competitive advantage. Here -1 is the best and -6 is the worst. So, here also you rate it, say market share may be the -1, product quality may be -2, product lifecycle -3, likewise -1, -4, -1, -2 to other factors. So, you find out $\sum X_{CAi}$ divided by n, which is average X_{CA} .

So, now, how do you get the x-axis value? You will get the x-axis value by adding average X_{IS} and average X_{CA} . After adding, you get the X coordinate.


Similarly, for the Y axis, the average Y_{FS} is equal to $\sum Y_{FSi}$ divided by n. Similarly, you find out for environmental stability (ES) that you get average Y_{ES} equal to $\sum Y_{ESi}$ divided by n.

So, now, you add average Y_{ES} plus average F_{IS} (financial strength), and you get Y coordinate. This is x coordinate, y coordinate now, wherever it falls, this coordinate may fall in any quadrant. In this case, it is s (3.4, 2.9) and has fallen here.

So, if it is falling here, like the “financial strength” of the company and the “industry strength” both, are positive, so you go for an aggressive strategy. If it falls here, then, that is, your competitive advantage and environmental stability, then if it falls here minus, you go for a defensive strategy. Retrenchment strategy is a defensive strategy which closes down your activities i.e., defensive strategy. If it falls here, that is, you take a competitive strategy, and if it falls in this quadrant, you take a conservative strategy. So, this way SPACE matrix guides you through selecting a grand strategy. So, this is, in a nutshell, what is called is SPACE matrix.

So, you can now draw a SPACE matrix for your organization, the sub-factors, set of variables that are appropriate, you decide, then you develop your own strategic position and action evaluation matrix. So, the one you want to pursue, this is just for guidance, and you can pursue any appropriate strategy, this is called SPACE matrix.

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CONCLUSION

- In continuation with the previous lectures on strategic choices, this part dwells on various strategic alternatives and choices such as grand strategy - its components and selection matrix, SPACE matrix etc.
- Grand strategy selection matrix and Grand strategy cluster have also been elaborated for selection of strategic action.

So, to summarize what we have discussed in this lecture, I will tell you, in continuation with the previous lectures, we have talked about various strategic alternatives and choices, such as grand strategy and grand strategy's different components, followed by grand strategy selection matrix and grand strategy clusters. Then we talked about SPACE matrix, and how to develop a SPACE matrix. These will help a strategist like you to select appropriate strategic actions, which, in turn, will help you to achieve your long-term objectives.

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2. Strategic Management – Planning for Domestic and Global Competition, John Pearce, R.Robinson and Amita Mital, McGraw-Hill Education, 14th edition.
3. Strategic Management – Text and Cases, Dess, McNamara and Eisener McGraw-Hill Education, 8th edition.

Furthermore, these are the references one can go through, these are good references. You can enrich yourself by consulting these books. Thank you very much for attending.