Strategic Management for Competitive Advantage
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Lecture 58
Summary of Modules 1-6

Welcome to the strategic course management for Competitive Advantage. We will be in the next few classes talking about this summary of the course and whatever we have covered to date. So, in the first lecture, we will cover modules 1 to 6.

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So, modules 1 to 6, as you know covered the introduction to strategic management, external environmental analysis, competitive analysis, internal corporate analysis, strategy formulation and choices and multi-business strategy. In this summary, we will be quickly going through this.

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In module 1, we have discussed the introductions to strategic management. In this, what have we learned? We have discussed the strategic planning process. So, you must know these.

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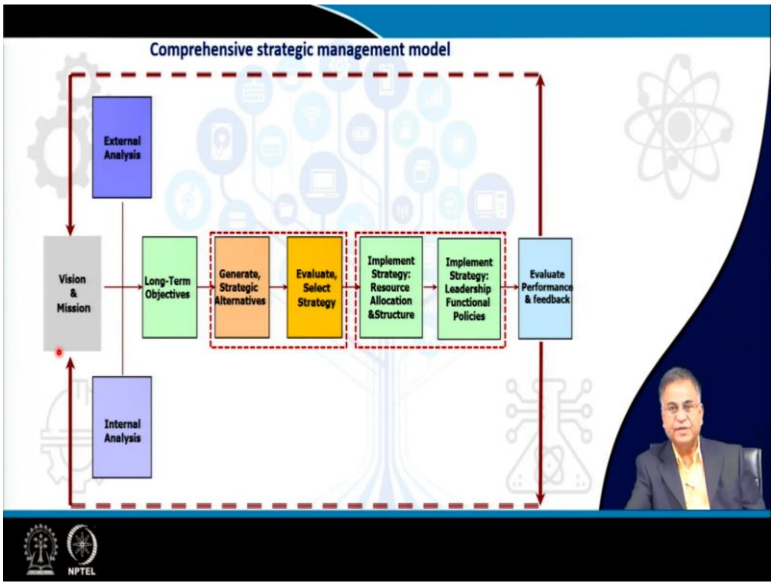

These are the comprehensive strategic management model. We started with a vision and mission statement; then we went for external environmental analysis and internal environmental analysis. From there, we draw a situational or SWOT analysis and based on that, we developed our long-term strategic objectives.

Then you go for the strategic formulations and choices. These are the formulation and choices. After we have covered, we have gone to implementations of strategy that requires resource allocations and the structure for appropriate structure. The implementation of strategy further requires leadership skills and then functional policies.

Then we have gone to the evolution of performance and feedback systems. That way, we take the course corrections, and it contributes to your mission statements and all. This is the comprehensive strategic planning process. Then we also discussed the stimulus for strategy.

Like, what are the triggering events for strategy, like when the new CEO comes or the performance of the organization is sliding or there is a takeover bid or led by the financial institutes who has a great stay? Those are some of the triggering events for changing the strategy in an organization.

Then we talked about various kinds of strategies that we will be further talking about it and the characteristics of different levels of strategies. Strategies have a hierarchy like it is a corporate level strategy, business level strategy, functional level strategy and operational level strategy.

The corporate-level strategy gives you long-term directions, and long-term visions to achieve the overall vision of the organization. Business level strategy is for the business unit level or the product levels. That gives you a competitive advantage for the organisations. And functional strategies are operational strategies. Those are specifically function-oriented. These are not the long-term horizon.

Corporate strategy is a long-term horizon and conceptual in this nature, and it is difficult to measure. At the same time, the functional strategies are more action-oriented. The time horizon is much less. Generally, it is one year or so. These are the different types of, and this is measurable, and these are action-oriented. So, these are the different types of strategic levels.

Then we have also discussed the importance of the vision, mission and strategic objectives of an organization. What does vision mean? It is a distant aspiration. So, the dream of the organisations in the distant future. When the mission is you justify, why the companies are existing, what is business, what purpose it serves society, what purpose it serves the country, all those things they have to justify for it. And the strategic objectives are to operationalise the mission statement. This was for the introductory and strategic chapter, module 1.

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Then we went to module 2. It is more about external environmental analysis. Here, we have discussed the various components and framework for external environmental analysis, including classifications of the firm's environments such as mega environment, microenvironment and relevant environment. And we have done the PESTLE matrix for the determinations or the finding of the mega environment.

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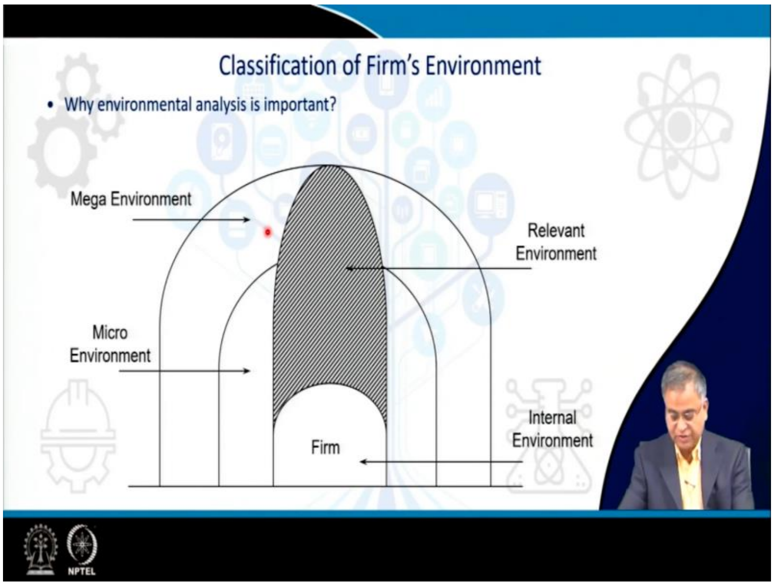

So, that is, these are the components of the external environment. We have seen it. It is a mega environment, is what?

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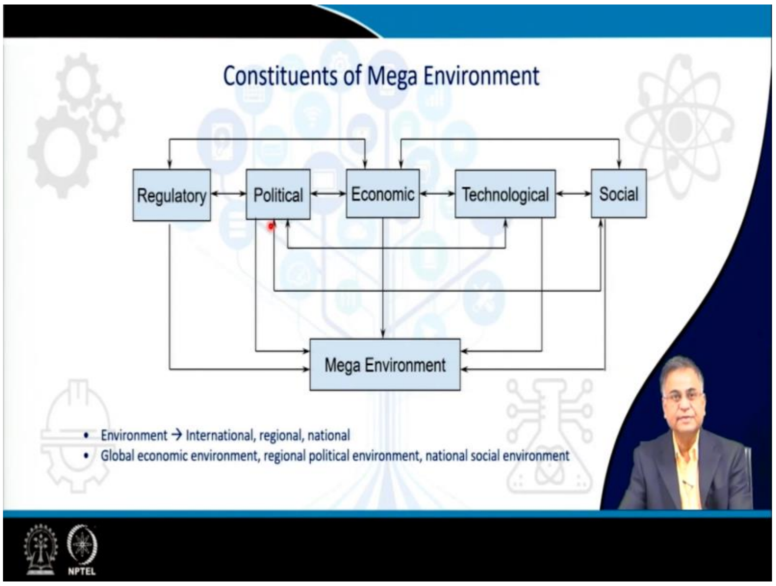

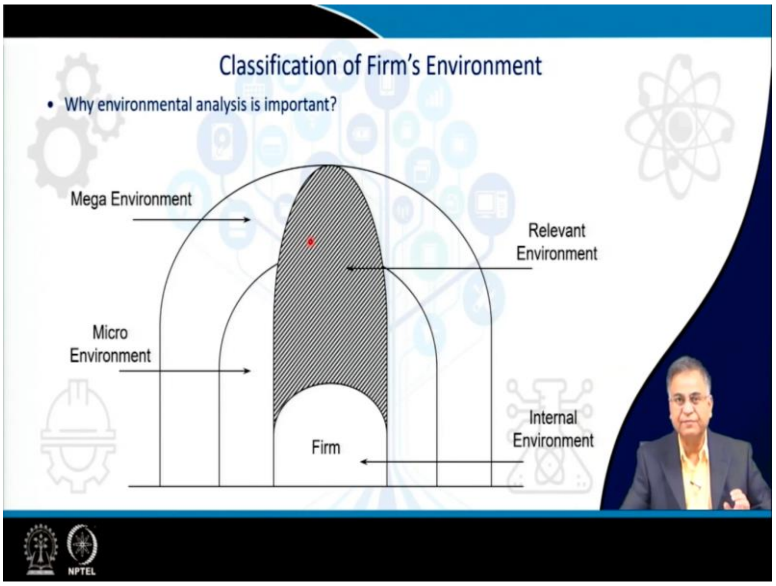

The mega environment consists of political, economic, technological, social, and regulatory, all these. It is not that organizations will be affected by everything because the mega environment is very, very large. So, organisations may require a part of the mega environment. This is part of the mega environment because the mega environment gives you the long-term, of how you and your business will be going there.

So, the political stability of that country or the economic stability of that country, the regulations of that country, whether it is very stringent or it is friendly or then technological development, social demographic and social aspects. So, all these are the mega environment. Then there is a microenvironment.

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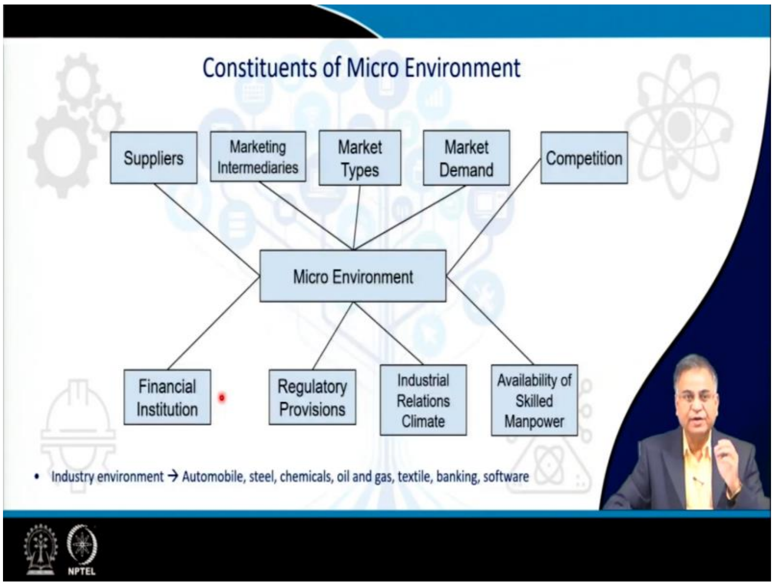

Micro environment is generally called the industry environment like the automobile sector, steel industry, chemical industry, oil and gas industry, banking industry, and software industry, each industry has a specific environment. So, microenvironments are that. And the constituents of microenvironments are your suppliers, marketing intermediaries, market types, market demand, competitors, then your financial institutions, regulated regulators, industrial relations climate, and availability of skilled manpower, all these constitute the microenvironment.

So, then there is a relevant environment. This is the relevant environment. Because of all of the microenvironment, you will not be requiring. The relevant environment is part of the mega environment, part of the microenvironment which applies to that industry. If you take the case of Reliance or ITC, they are in many industry types.

Reliance is in oil and gas that is upstream, downstream, and then midstream. Then it is in infrastructure. It is also in telecommunication; it is also in retail. So, all these are different environments and different types of industries. So, you take what is relevant to you. And top management of Reliance or ITCs and will draw up their strategic plan based on this relevant part.

And there is an internal environment of the organisations. That is your suppliers, customers, complement or the society and competitors. That is all we have done for the environmental analysis. External environmental analysis is done to know your opportunities and threats from the environment.

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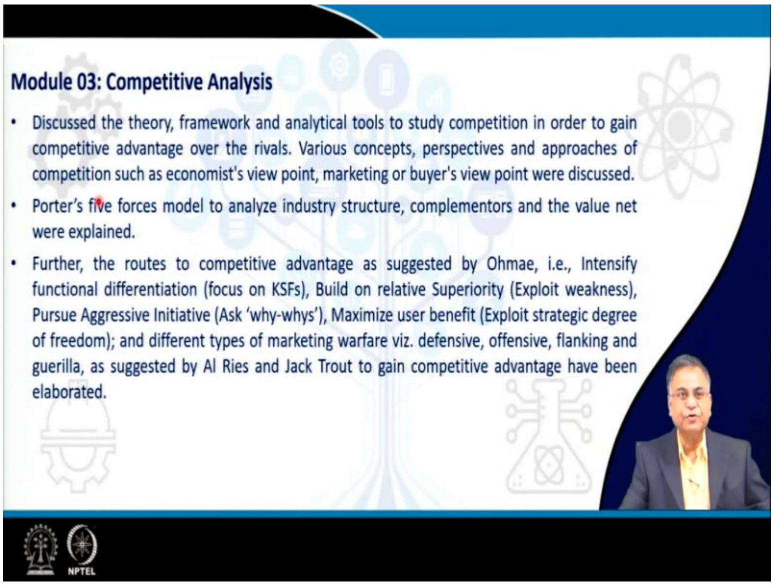

Then we have module 3. We have covered the competitive analysis. We discussed the various theories and then framework analytical tools to study competitions in order to gain a competitive advantage over the rivals. Various concepts, perspectives and approaches to competition, such as the economist's viewpoint, marketing or buyers' viewpoint, have been discussed. So, I will just show you, you must, then we have discussed Porter's five forces model to analyse industry structure, complements, and the value net those we have discussed.

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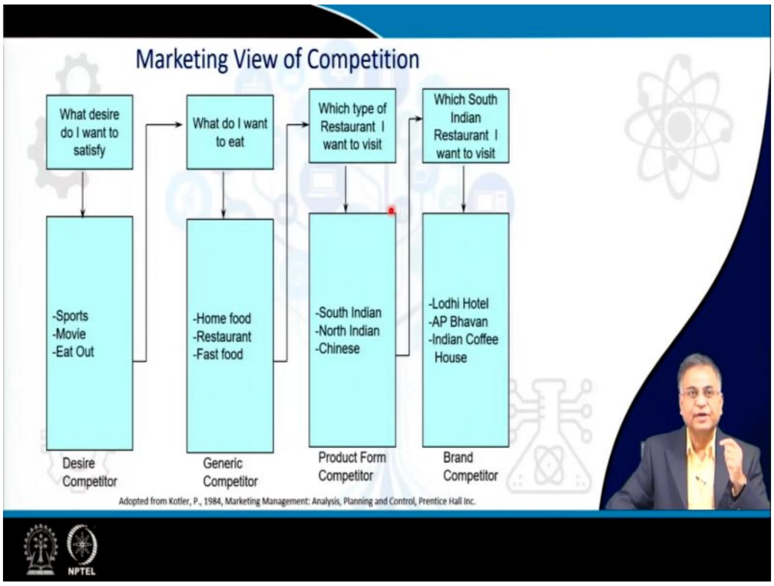

So, this is the marketing view of competition; you may remember it. So, this is adapted from Philip Kotler. Philip Kotler describes this; the buyers have that four competitors the desired competitors, generic competitors, product form competitors and brand competitors.

It goes like that. And if you go backwards means you are expanding your horizon of opportunities, but it also requires your investment, the capital and all. So, you will be judiciously investing to go backwards. Then we said we had done Porter's five forces model. We will be discussing this.

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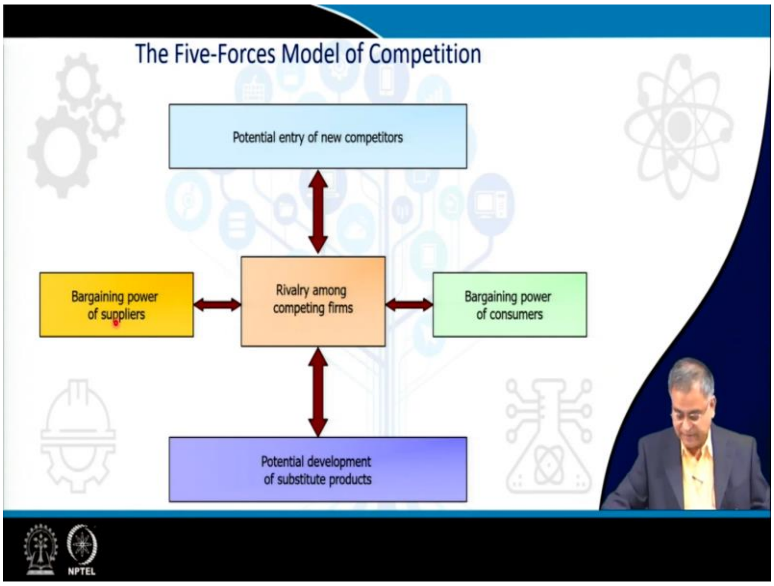

Then this is the five forces model of competition suggested by Michael Porter. What are these five forces? These five forces are rivalry among competing firms, then potential entrance or new competitors coming-in into the market, potential development of substitute products, the bargaining powers of buyers and bargaining powers of suppliers.

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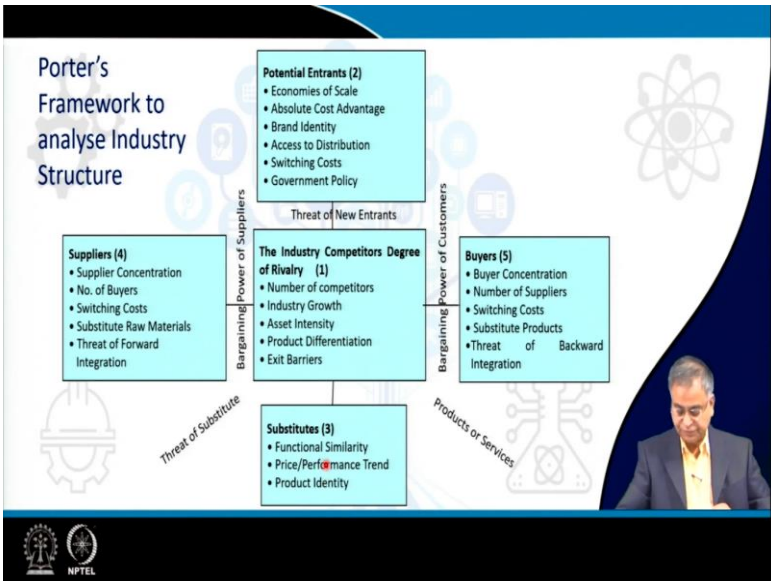

This is the framework to analyse a particular industry. And what does it mean? Does it show? It shows the state of competition or the intensity of competition in that industry. These five forces indicate that. And the ultimate profitability can get from that industry is dependent on these five forces.

So, these are the sub-factors influencing each of these five forces, which are competitors' degrees of rivalry; these are what we have all discussed. Potential entrance, bargaining power of buyers, bargaining power of suppliers and threat of substitute. All these we have discussed.

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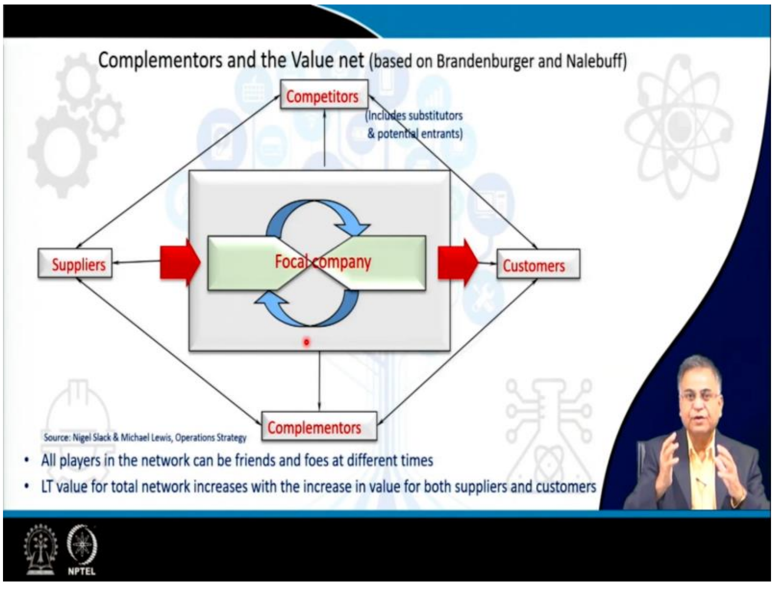

So, next what we have covered is the value net. That is the complementary and the value net. Focal companies are the competitors and there are complementors. We have talked about the complements and competitors are, can be friends and foes at different times. Because who is the complement and who are the competitors we have already discussed it. Then how does it occur?

The complements are those whose products a customers view. Your customer views your products more than the value it more than the complementary product. And competitors are just the opposite. Customers value your product less than your competitor's product. So, suppose, in a city, in the street, there are four or five restaurants. So, as a visit, as a client, as a customer, you are going there.

Now, after reaching there, you have the, all those four restaurants are becoming competitors. You will choose one. But in another way, had there not been the four or five hotels, the customers would not have come to that part of the city. That is why you will find art galleries, cinema halls, shopping malls, and garages, all of which are in one place in a zone.

So, as a total, those industries are attracting the total volume of business. Customers are coming there. So, they are all complementing each other. But when the customer comes, then they become the competitors. Similarly, value net also you have to increase these complementors and competitors' value—similarly, customers and suppliers.

Usually, customers are put on a higher pedestal, and whatever they demand, their demands are made at the supplier's cost. Suppliers are pressurised, but it does not add value. For long-term adding value, you also have to develop the suppliers. It is not at the cost of the supplier. Both customer's and suppliers' value has to be increased. This is the value net.

So, we have discussed this one. So, now, if you go, then Porter's five forces and complementors, further, the roots of competitive advantage we have discussed, as suggested by Ohmae. What are those roots Ohmae suggested; there are four roads to take competitive advantage.

That intensifies functional differentiation, which is his focus on key success factors like these apply to companies which have limited resources. The second one is built on relative superiority. This means you find out and exploit the weaknesses of your competitors and try to capture that market. You go for a narrow for, first you focus, you should be very narrow, then you expand.

Then they pursue the aggressive initiative. You should always ask, why? Why? Refrain from getting satisfied with the status quo; do not get satisfied with the presumptions or assumption of basic presumption. You ask a question; challenge that. That will give you the breakthrough: breakthrough innovations or the competitive advantage.

Then also we talked about maximising user benefits. That is the exploit strategic degree of freedom. We have discussed that coffee is a test of coffee and how you can improve, that is, through exploiting the strategic degree of freedom. Then we have also discussed different types of marketing warfare, such as defensive welfare, offensive warfare, flanking warfare and gorilla welfare which was suggested by Al Ries and Jack Trout for getting a competitive advantage.

And defensive warfare is for the leaders. And offensive warfare, that is, you attack yourself, and you develop new products, drop the older or the vulnerable products which are not doing well. That is defensive warfare. Offensive warfare. You attack, you are the, for the number two, attack the leaders like Reliance Jio that was the offensive warfare. Then the Nirma detergent that was offensive warfare—then flanking. Flanking is a niche marketing. You find out an uncontested area like Sensodyne toothpaste. We have talked about it.

Then there is Gorilla warfare. This is you small; these are for the small players and all who are regional, who cannot find the number one, number two, number three; there you use the gorilla warfare. Gorilla warfare can be high-end price, low-end price, the large size of the product, low small size, large high size, anything. It can be anything. So, all these we have discussed for the getting competitive advantage. So, these we have covered.

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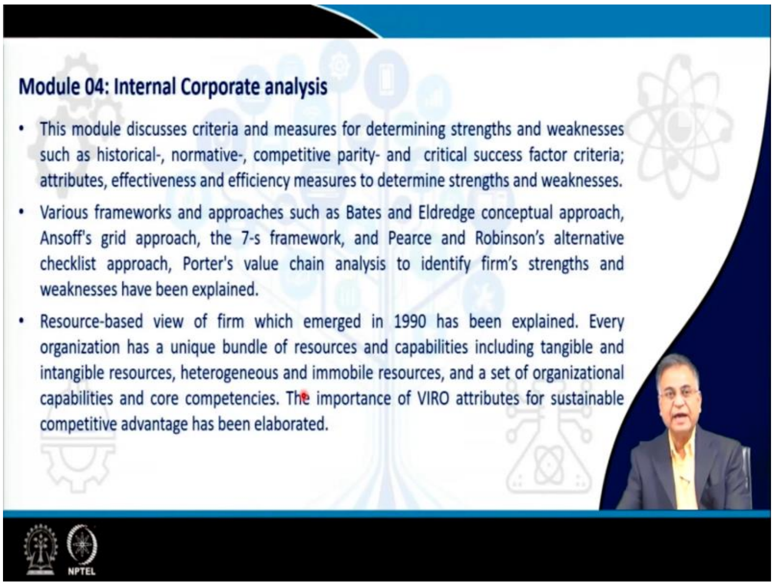

Then in module 4, we covered the internal corporate analysis. This module discusses criteria and measures for determining strengths and weaknesses of internal strengths and weaknesses such as historical criteria, normative criteria, competitive parity criteria, and critical success factor criteria; we have discussed all of it and when it will be used, and where it will be used.

Then also we talked about attribute measures. How do, are their attributes measured? You find out the organisation’s characteristics without attaching any unit. Like we have a motivated workforce or have plant locations that are far away. So, it is demotivating.

So, the attributes measure, effectiveness measure and efficiency measure. That way, we find out the strength and weaknesses of the organisation. Then we discussed various frameworks and applications such as Bates and Eldredge’s conceptual approach, Ansoff’s grid approach, 7-s framework, Pearce and Robinson's alternative checklist approach, and Porter’s value chain to identify the strength and weaknesses of an organisation.

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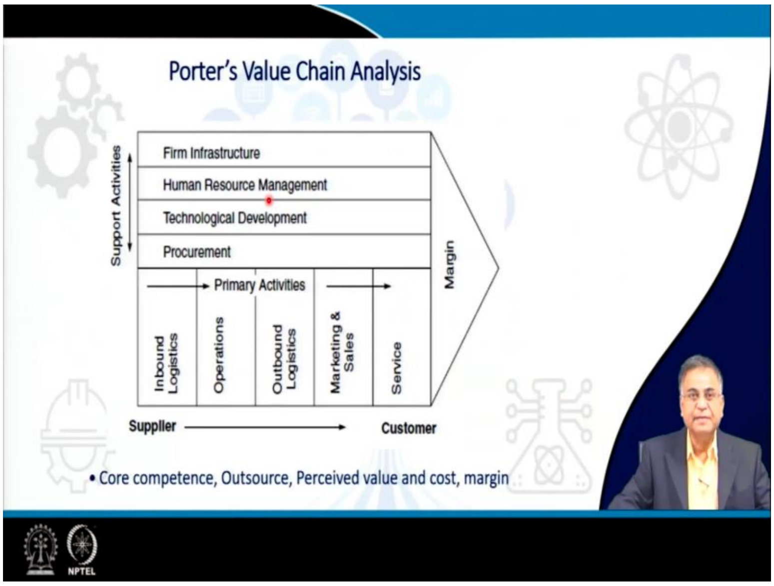

You must remember that this is Porter's value chain analysis. Here, what are these? These are primary activities. There are five primary activities inbound logistics, operations, outbound logistics, marketing and sales, and after-sale services. And we have further dissected it.

And where can you get a competitive advantage? You find out what are your strengths and weaknesses in each. Similarly, supporting activities are firm infrastructure, human resource management, technological development and procurement. So, each will give you, if you find out the strength. And what do you do with the weaknesses?

Weaknesses you wanted to overcome. One of the ways is to overcome this; you outsource those activities. That way, you are safeguarding your weaknesses. All these will give you the values; in all these areas, you try to add the values. So this is called that value-added, and these values are the perceived value. What is perceived value?

It is what the customers are willing to pay that is perceived value. This value-added minus your cost of manufacturing gives you the margin. This profitability comes from this margin is that one. And organisations may not have all the extent in all areas. No, it is not possible. And organisations will have their strength in their core competencies.

You identify those core competencies and take leverage them. This is Porter's value chain analysis we have done. So, next, what we wanted to we did is, do this Porter value chain analysis also used for strength and weakness and thereby know a competitive advantage.

Then we have discussed the resource-based view of fIrm, which emerged in the 1990s that has been explained. Every organisation has a unique bundle of resources and capabilities, including tangible resources, assets, intangible assets, heterogeneous and immobile resources and a set of organisational capabilities and core competencies. The importance of VRIO attributes has also been discussed.

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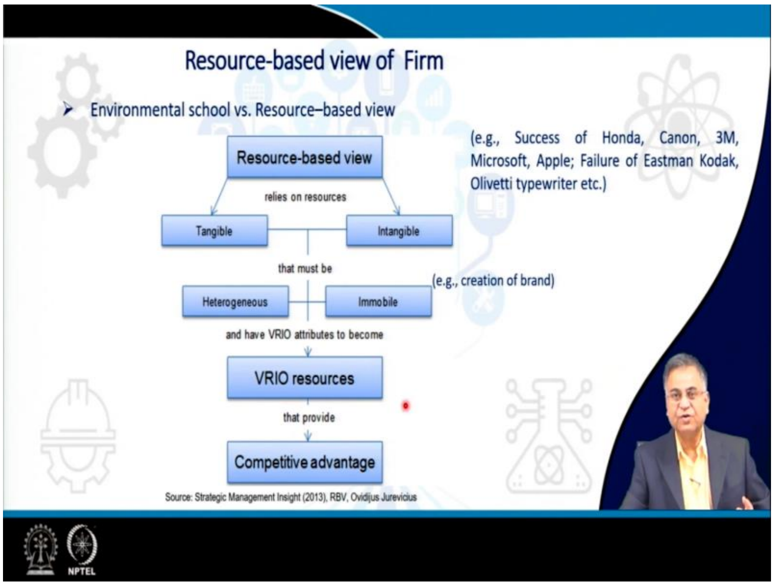

This we have discussed. There are two schools of thought, environmental school versus resource-based view. The environmental school was dominant till the 1960s, 70s, 80 and then the resource-based view came in from the late 1980s and early 1990s. So, we have seen the success of Honda, Canon, 3M, Microsoft, and Apple or because of that, they have the capability, and they have the capable resources because the resource-based view says that it is not that.

What is an environmental school of thought? That you scan the environment, and any opportunities or threats come, opportunities you grab and safeguard from the threat. But the resource-based view says it is when your environment is very in a state of the flask, and your customer's loyalty is nowadays not permanent. Also, technology is changing; the environment is changing very fast, in that if you go from acquiring new opportunities to acquiring skills for new opportunities every time, it will not succeed.

It is better for your resources and the capabilities you develop. In that such cases, you can leverage whatever opportunity comes; you can do it. For this matter, Microsoft, Apple, 3M have all been successful because they can use their capabilities for tangible and intangible and resource capabilities of the organisation to get that.

Eastman and, Kodak failed because they also invested in digital imaging and all billions of dollars since 1990; even then, they could not succeed because they did not have the capability of those resources to succeed. So, these are the, so your resources should be tangible. There are two types of resources, tangible and intangible. And the assumption is that resources must be heterogeneous and immobile.

That means that it is, resources are no two resources of the organisation; different organisations are the same. Because they have that bundle of resources that are different, that is why we have given an example of Apple and Samsung. However, both are in the same industry, subject to the same environmental external environmental environment, and their strategies are different.

That is because of different bundles of resources. Then also, to get a competitive advantage, you must have the VRIO characteristics like your resources have to be valuable, rare, inimitable and organised; organised for the capital, then only will give you the competitive advantage.

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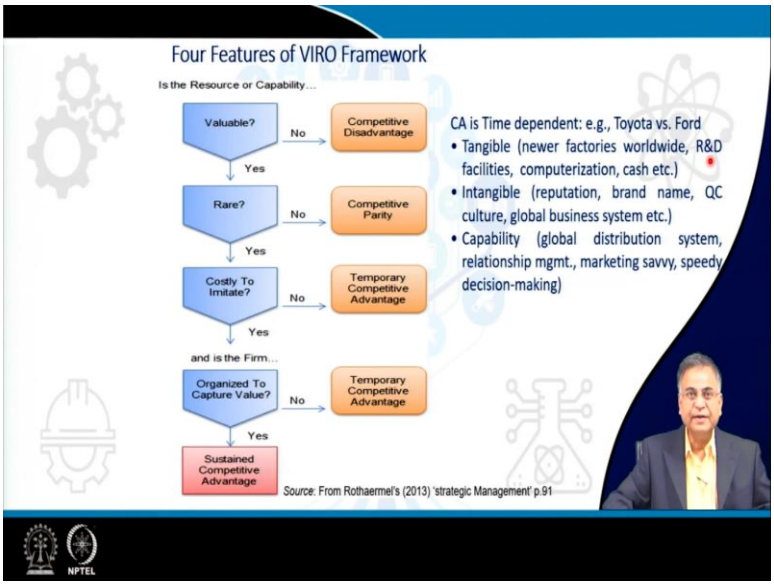

This is the VRIO thing. For sustainable competitive advantage, your resources must be valuable, rare, and costly to imitate, and the organisation must be organised to capture your value. We have also given the example of those Toyota and Ford. And how this competitive advantage is always time-dependent is not that because today you may have a competitive advantage. Still, if you do not keep all these VRIO attributes, it is dynamic. Your competitors are closing in. They will catch you, which was demonstrated with the example of Toyota versus Ford. We have done that.

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So, the next module is the strategy formulations and choices. Here, we discussed different factors that influence the selection of strategies, such as the firm's objectives, that is, the growth or stability or retrenchment strategy. Then risk taking the ability of the firm and the risk-taking ability of the top management or the manager and technology, dependence on technology, how technology is easily available, or you are dependent on the import of technology or your joint venture partner that also determines yours for choice of the on the formulations of strategy.

Then resource availability. That is a big thing, no? Whether it should go, if you have readily available resources, you can have a grandiose strategy; if you are constrained, then you have to have an alternative strategy and managerial factors and so on. We have discussed that. Then we have discussed various strategic alternatives and choices, such as Porter's generic competitive strategies, grand strategy and its component, and SPACE matrix, we have discussed.

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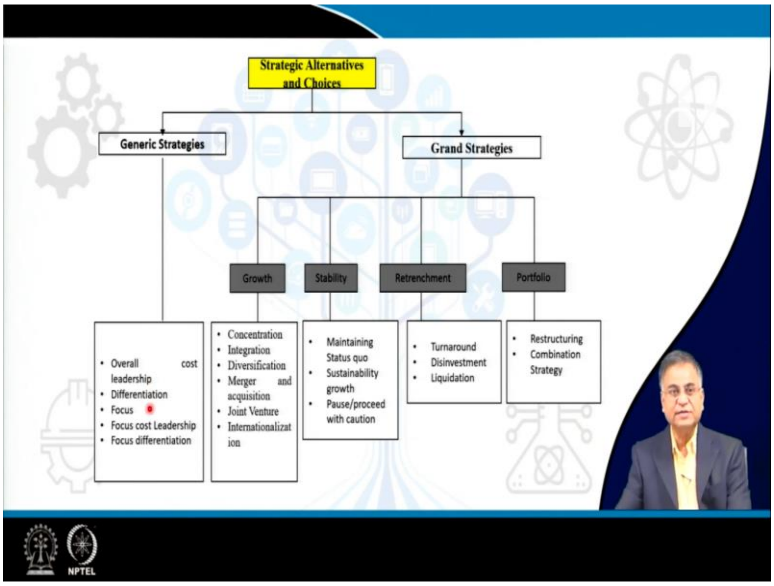

We will show you. These are the strategic choices. Here is what you will find. Generic strategies. These are Porter's generic strategies overall cost leadership, differentiation, focus, and focus.

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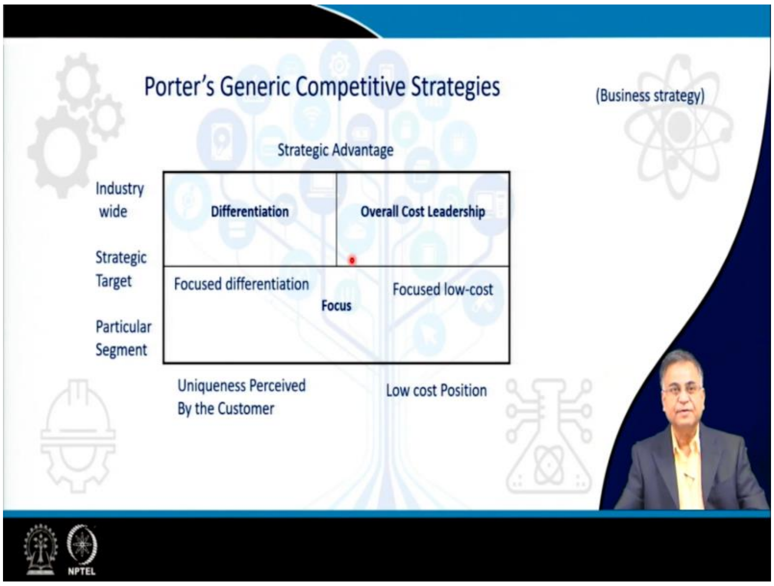

This is the focus has focused differentiation and low focused cost. We have discussed that. Overall cost leadership, you take advantage of economies of scale; take advantage of efficiency, efficiency, then take advantage of the experience curve effect. So, all these will keep your cost low.

So, like that, most of the Xiaomi telephone, then your Worldmart, McDonald, then Maruti cars Southwest Airlines, then your Nucor steel or your Indigo, SpiceJet, these are all overall cost leadership. Differentiations are your product or any other attributes are the class apart the customers perceived as unique.

This uniqueness may be of the product uniqueness, design, then the, its brand name or maybe the R&D, maybe the technology, maybe the after-sale services, maybe the dealer network. It can be anything. For Harley Davidson is differentiation; the Rolex watch is differentiation, then your Bata shoes, Otis, is an elevator. These are all differences.

Then there is focus strategy focus may be within a market, within a customer segment, it may be a product segment, it can be anything. Like focused differentiation says, it is a Rolex watch or the Lamborghini or the Genteel detergent that is for woollen clothes. These are all focused differentiation.

Focused low costs are said shampoo pouches, then the toiletry shops, those are for the particular, say, labour class or the travellers or the hotels, and all these are Porter’s generic strategies. Then we talked about grand strategies. Grand strategies may be the growth strategy, stability, retrenchment strategy or portfolio, or a combination of strategies. These are the growth strategies in some of the modes we use. We will discuss all this.

We have discussed all this in the regular lecture. The status quo is maintaining stability strategies, maintaining status quo, sustainability and all. And the retracement strategy, you are reducing your activities. That is turn around strategy, diversifications and liquidation strategy, these we have covered.

Then we also discussed the merger: Porter’s generic competitive strategies, grand strategies and its components. Like grand strategy components, we have discussed grand strategy clusters, and then the grand strategy selection matrix and the space matrix have all been discussed.

So, then we have also discussed merger and acquisition, which is a strategic alternative for growth. That involves screening and identifying good candidates, then the cost of acquisition. The availability of funds, appropriate timing of merger and acquisitions, then due diligence and so on, all we have discussed detailed. The merger and acquisition, the merger is what?

When two or more companies, roughly of equal size, dissolve their corporate identity in favour of a new entity in a friendly manner, that is the merger. Usually, a holding company is formed, and the share of those merging companies is exchanged with the new companies in a predetermined ratio. And acquisition is when the merger fails or a big company wants to acquire a small company; those are the acquisition. That they pay cash or cash and all to get the controlling hold. So, we have discussed all those.

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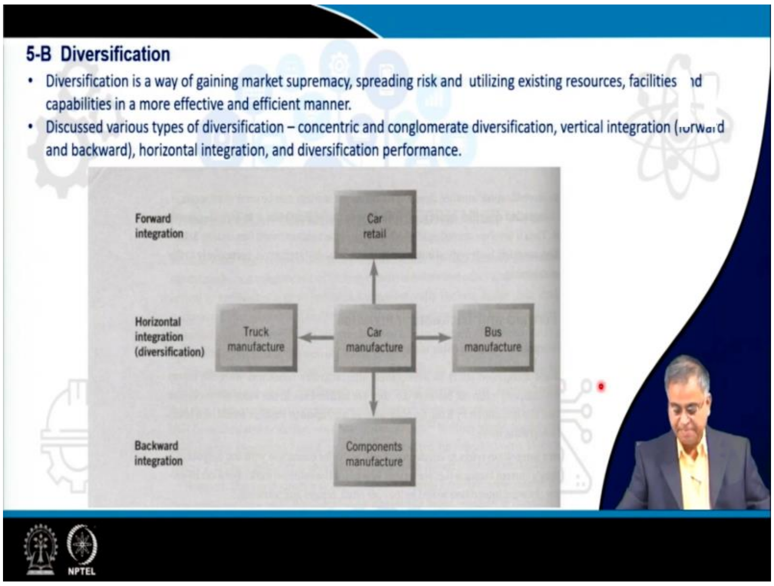

So, next is diversification. Diversification is what? It is a way of gaining market supremacy, spreading the risk and utilising existing resources, facilities and capabilities more effectively and efficiently. We have discussed various types of diversification like concentric diversification, conglomerate diversification, vertical integration, that is, forward integration, backward integration, horizontal integration and performance of diversification, whether too little or too many diversifications are not good.

You have to have a limited and optimum number of diversification. This shows your that forward integration, backward integration and horizontal integration. We have all discussed this.

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Then we have module 6 is the multi-business strategy. We have discussed various display matrices used for portfolio analysis suc,h as BCG growth-sharerix, GE's stoplight matrix, profit impact market strategy, sales directional matrix, and Arthur D. Little's company matrix; we have all discussed these. We will show it once.

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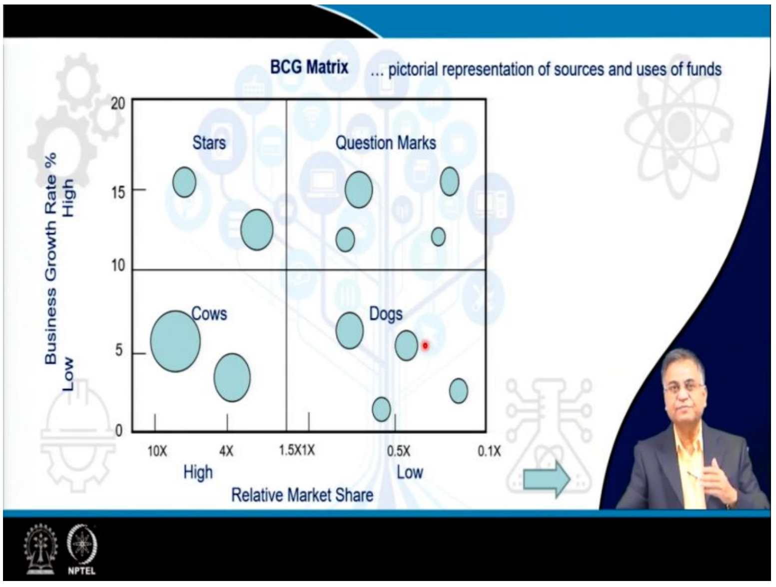

This is the Boston Consultancy Groups metric, BCG matrix, which is a pictorial representation of sources and uses of funds. Here, it is relative market shares versus business growth rate that you plot it. This is in the logarithm scale, and this is in the natural scale. So, in different quadrants, when your relative market share is high, your business growth rate is low; we call it cash cows.

This cash cow is in a matured business and gives you the caches. Then the relative market share is high, business growth is high. These are the star businesses. Here, the business is in the growth stage, like Reliance Jio. It requires a huge, huge investment, and these cash cows supplement that. Reliance, say, oil and gas is the mature stage that generates cash that is supplemented to the Jio. That is stars.

These are question marks. You judiciously, the businesses which have to be invested, and the rest has to be divested. You take a call. Dogs businesses are a low relative market share and low business growth rate. These are in the decline stage and all. So, you try to harvest it or divest it; you so get rid of that. This is the BCG matrix base.

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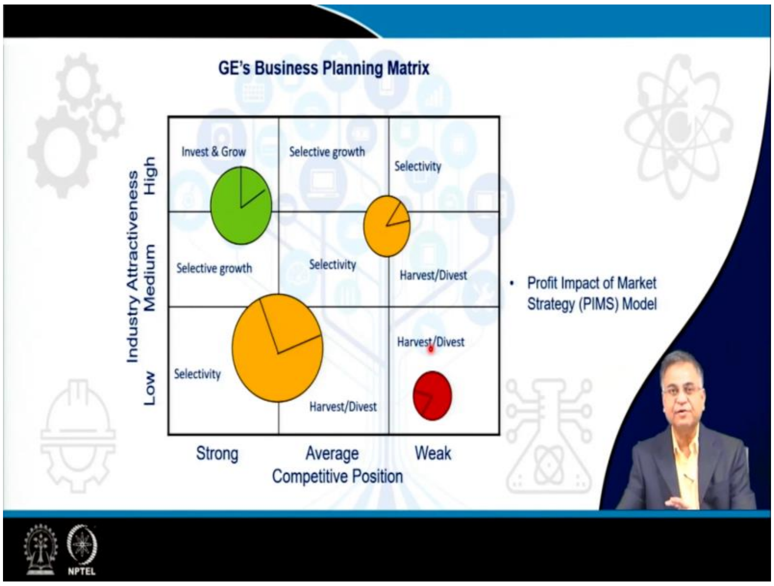

This was the pioneering work. GE did the similarity matrix. McKinsey developed this. So, it is a 3 by 3 matrix. Here, it is competitive positions, and the y-axis is the industry attractiveness which are both combinations of a factor and many sub-factors. So, your competitive position is high, and your industry attractiveness is high.

These are what? These are similar to star businesses. So, GE stock management gives a green signal like the stoplight green. So, you invest and grow, and this amber, this is you selectively go, these are the, you judiciously select and go. And competitive positions are weak, and that industry attractiveness could be higher. These are you divest; these are the like dog businesses.

So, different companies have, similarly, Shell has also done their matrix like this. Arthur D. Little also have done for the product matrix and all. This is the display matrices. Once you have these display materials, we have discussed all to develop a balanced portfolio of display matrices supplemented with financial analysis.

Because of this, the display matrix is just a pictorial representation of the top management. This has to be supplemented with financial analysis like ratios. For that matter, we have discussed various techniques of strategic analysis and financial ratios like profitability ratio, activity ratio, market valuation ratio, and liquidity ratio, all these things we have discussed in these modules. So, that makes the module 1 to 6 summary. So, thank you very much.