Principles of Management
Prof. Usha Lenka
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture – 12
Planning- IV

Today we will be discussing in details about what is strategic management; the various components of strategic management strategy and the features of strategy, process of strategy formulation, and types of strategy.

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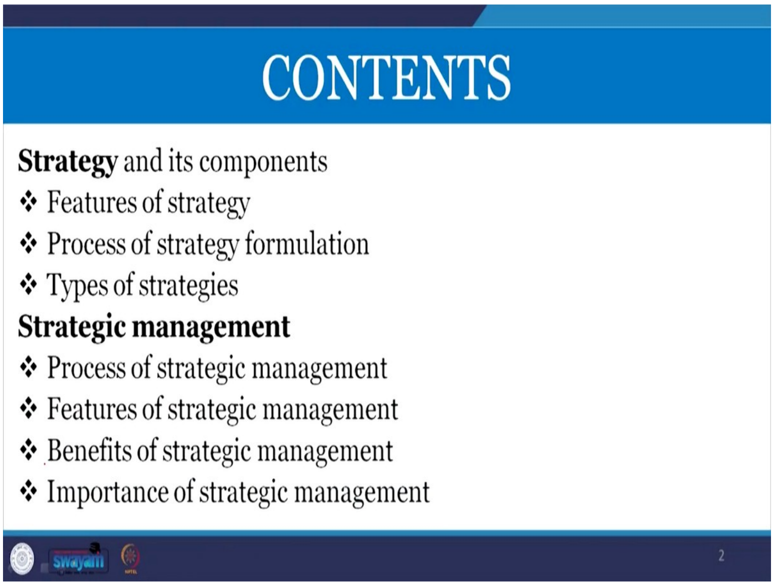

We will discuss in details about the process of strategic management, the features of strategic management, benefits of strategic management, and importance of strategic management.

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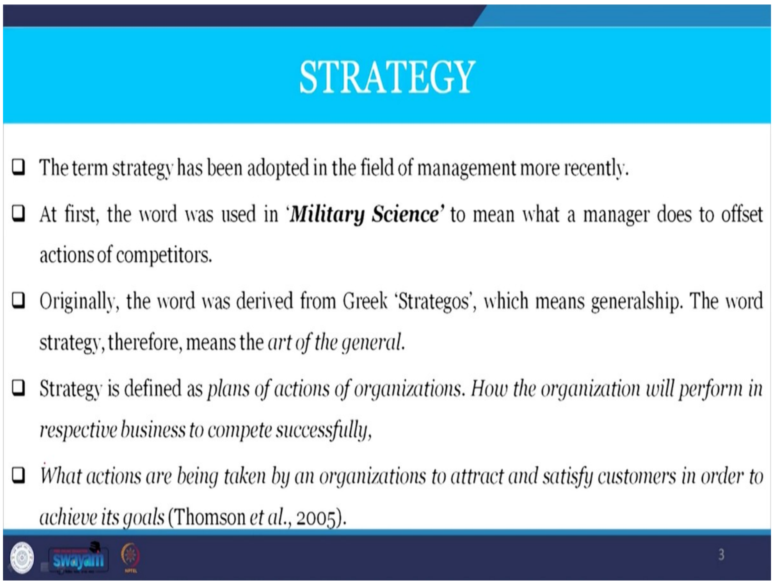

Before we discuss in details let us just talk about the origin of the concept of strategy and its relevance in day-to-day business world. The term strategy has been adopted in the field of management more recently. And this concept originated in military science to mean what a manager does to offset actions of competitors.

Basically, the plans and action plans mean how the manager plans, organizes, directs, and controls the various activities in order to combat the competitors' actions. Originally the word was derived from the Greek word called *Strategos* which means generalship. And the word strategy therefore, means the *art of the general*.

And strategy is defined as the plan of action for various organizations. Now, the organizations perform a respective business to complete successfully with the help of strategies and plans of actions. What actions are being taken by an organization to attract and satisfy customers in order to achieve its goals most efficiently and effectively?

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Strategy and its components: the four components of strategy are setting goals, clear set of long-term goals. Then define the scope of the firm that is the type of products the firm will serve. In which market the firm will serve, what is the current technology and the various products and services it will target the customers.

A clear statement of competitive advantage; it also discusses about the core competence of organizations which can be drawn from both the tangible and intangible assets. How the competitive advantage can be attained and how the firm can sustain over a long period of time.

So, firms' internal competition to achieve a competitive advantage in the business environment in which it has chosen to compete; in the market segment how, the firm will emerge as stronger competitor in comparison to its competitors.

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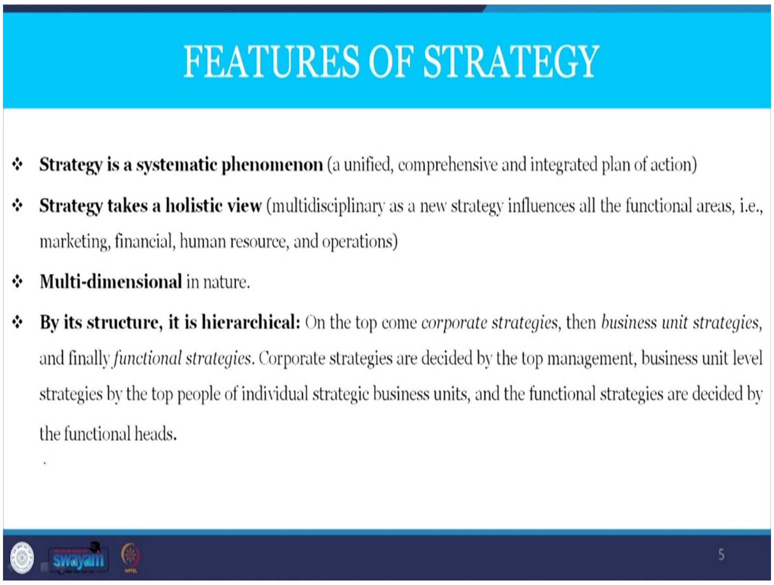

So, the various features of strategy. We will discuss in details about strategy. Strategy is a systematic phenomenon, a unified comprehensive and integrated plan of action. The plans of actions are integrated or interwoven to each other so that they come up as a holistic action plan.

Strategy takes a holistic view; that means, multi disciplinary as a new strategy influences all the functional areas that are: marketing, finance, human resources, and operations. It is also multidimensional in nature and by its structure it is hierarchical in nature. On the top of the strategy comes the corporate level strategy. Then the business unit or the business level strategies and finally, the functional strategies are formed.

So, corporate strategies are basically decided by the top management and business level strategies are decided by the top people of individual strategic business units. Each business unit will have its own strategy and the functional strategies are decided by the functional or divisional heads. We will discuss all these in details in the further discussion.

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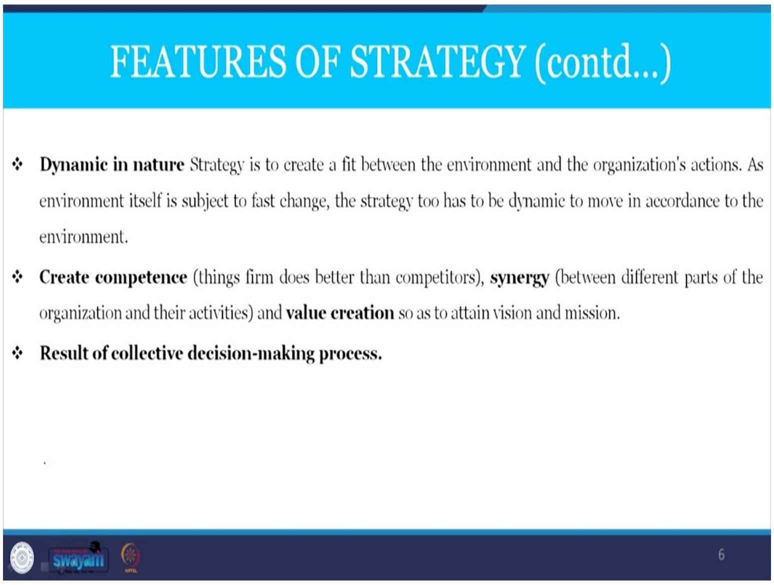

It is dynamic in nature; strategy is to create a fit between the business environment and the organizations action plan. The business environment as we have discussed in the previous lecture, the business environment is highly dynamic. It is regulated by the factors in the general and the specific environment.

General environment components are the political, economic, legal factors, socio demographic factors, changing technology; which has an impact on the plans and strategies of the organization. So, an organization does not have the same strategy forever, but it changes or it responds to the changes in the business environment.

So, dynamic or business strategy means to create a fit between the environment and organizations' various actions. As environment itself is subject to fast change, rapid change, the strategy has to be dynamic to move in accordance to the environment to be more adjustive and adaptive to the business environment.

Let us take an example of Nestle when it started way back in 1860 or so. At that time, Nestles' strategy was more to take care of the needs of; or to have a product like was more or less in the healthcare, in the baby care market. The first product of Nestle was Farine Lactee.

So, it took care of the needs of the young mothers or the new mothers who could not breast feed their young babies. So, later on when the market expanded after the First World War and Second World War, the need of the market changed.

And Nestle had to expand its market from the Switzerland to other countries in order to cater to the needs of the soldiers who were serving in the First and Second World War. So, Nestle had evolved over a period of time taking care of the needs of the external market or as to be more responsive to the business environment.

And now Nestle is not just limited in the baby food segment, but it has expanded market into pharmaceutical sector. They have acquired Alcon Laboratories. And they have also acquired the businesses of where they have diversified into several different markets. So, these example gives the company cannot just limit itself in one market.

But they evolve and evolve and expand to different markets; they offer new products and services, so as to be responsive to the needs of the emerging needs of the business environment. Create competence and things that firms does better than their competitors. The competence or the core competence as we have discussed is drawn from the tangible and intangible assets which the organization is good at. So, the tangible assets are the land, capital, machinery, infrastructure, technology, and so on.

So, each firm will have it is own competitive advantage over the others and how in the best possible manner the firm can develop its core competence in order to be more or in order to be better than the competitors. So, that also decides whether the firm will earn more profit or not.

Synergy between different parts of the organization and its activities: The synergy means that there is a coordination between different parts of organizations activities, organization and their activities and how it will create value; so as to attain its vision and mission. So, strategies are result of collective decision making process.

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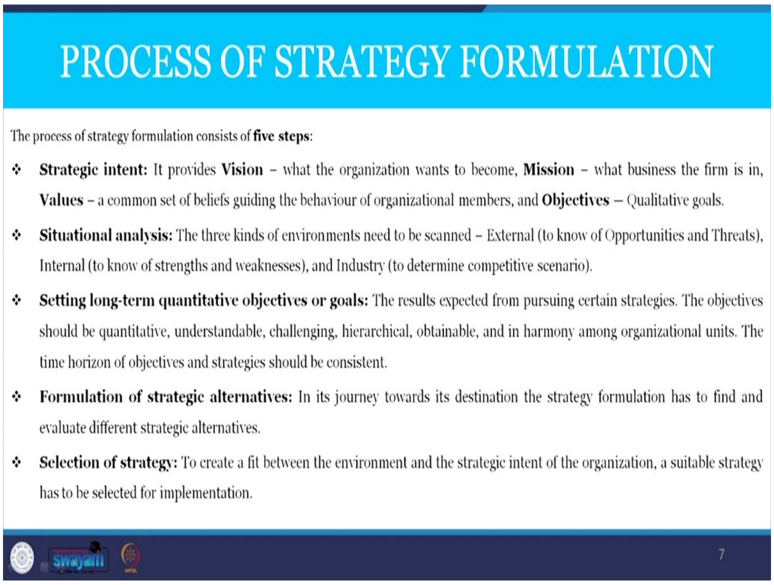

Process of strategy formulation; the process consists of strategic intent, situational analysis, setting long term qualitative objectives or goals, formulation of strategic alternatives, and selection of strategy. What is strategic intent? Strategic intent consists of vision, mission, values and objectives.

Vision is the long-term direction. Here the organization intends where it has to be after a period of time. Mission is what business the firm is in; it decides the business the market, it also decides who are the firms' customers, competitors, what is the geographical area of operation, the core values, the self concept about the organization, what the business is or the organization is good at, what are the core competence.

And it also discusses about how the firm would expand to different markets. So, mission decides overall purpose of the organization values. Values is common set of beliefs that guides the behaviour of organizational members and objectives are end results of the organization. They are the goals of the organization which could be both qualitative and quantitative goals.

Situational analysis: the three kinds of the environment need to be scanned. One is external and another is internal and industry. So, we have discussed about external analysis; that means, to know opportunities and threats in the market. Internal analysis is to know the strengths and weaknesses of organization and industry analysis is used to determine competitive scenario. External analysis will help an organization know where the opportunity lies, what are the threats. So, that it can be more proactive in developing its strategies.

For example, when a firm expanding into a different market or the firm offers a new product in the market, it has to assess where does the opportunity lie. In the case of Bisleri; Bisleri launched its first product in the year somewhere around 1960's. At that time there was no demand for bottled water.

So, Bisleri ventured into Indian market when there was no customers. So, they have identified that there would be an opportunity in the market assessing that the climatic conditions of India. The Indian weather was hot and humid and there is depleting water tables.

So, these are certain opportunities being identified by Bisleri at that point of time. And then it also assessed what would be the threats. The threats could be the soft drink market, there would be no buyers because people do not want to spend money on bottled water.

Water is something which they do not considered to be bought. Then, Bisleri thought of venturing in the Indian market, but today they have created a success story by venturing in all segments. And tapping the attention or have they have created value for the customers of all segments.

So, that talks about the situational analysis. There are several examples likewise. Internal analysis is something like analyzing when a firm is has identified the opportunities and threats. It also has to do an internal analysis assessing the strengths and weaknesses.

What are its core competence and what are the weaknesses which has to be understood, self-concept about the organizations' image, identity, their performance in the market need to be verified before launching a product or before entering in a market? Industry analysis is something we have discussed in Michael Porters' business strategy in the previous lecture to determine competitive scenario.

After doing the SWOT analysis; the business organizations also need to know; what is the level of competition within that segment. Whether they are the first entrant or they are there is an intensity of rivalry within that segment.

Or there are too many competitors in that segment, what is the bargaining power of the buyers? How the how large or big the customers, the buyers are? What is their competitive strength? Whether they will be there will be large buyers or there is limited number of buyers. Or, what is the bargaining power of suppliers?

Who are the suppliers? Who would be producing? Who would be supplying raw materials? And the substitute products. We discussed about sugar industry, the sweeteners. Artificial sweeteners are substitute products. For watch industry, the substitute products are the smart watches, the substitute products are the mobile phones.

So, all these examples we have seen that assessment of industry or industry analysis is very important in order to be successful or to develop the strategy. So, setting long term qualitative objectives or goals before the firm ventures into a market, they have to assess the situation and then set the long-term qualitative goals or objectives.

The result expected from pursuing certain strategies is the objectives. The objective should be quantitative, understandable, challenging, hierarchical, obtainable or attainable and in harmony with organizational units. The goals should be quantifiable, should be realizable or attainable. The time horizon of objectives and strategies should be consistent.

Formulation of alternative strategies: In its journey towards destination, the strategy formulation has to find and evaluate different strategic alternatives. Knowing about the strategic alternatives is equally important in order to have a backup plan and selection of the strategy. To create a fit between the environment and the strategic intent of the organization; a suitable strategy has to be selected for its implementation.

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Now, we will discuss about various strategies in more details. There are three types of strategies. One is corporate strategy, second is competitive or business strategy and third is functional strategies. What is a corporate strategy? And who sets a corporate strategy? What is its relevance to the business organization? We will discuss one by one in details.

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Corporate strategy basically defines the market and the businesses in which a company will operate. Which market to venture? What are the businesses? Corporate strategy is formulated by top management. The top management decides what type of products and services to be offered in which market and in what numbers.

And senior executives, board members, CEOs are actively engaged in deciding the corporate level strategy. Corporate level strategy is the overall strategy for all the strategic businesses the firm is in. And such a strategy describes the company's overall direction. Overall, it gives a kind of direction to the company in terms of various businesses and product lines.

Corporate strategy defines the long-term objectives. It defines the overall vision, overall objectives and generally affects the business units as well. The corporate level strategy is the set of strategic alternatives, certain alternatives from which the organization chooses as it manages its operations simultaneously across several industries and several markets. There are the three types of corporate strategy: growth, stability, and renewal.

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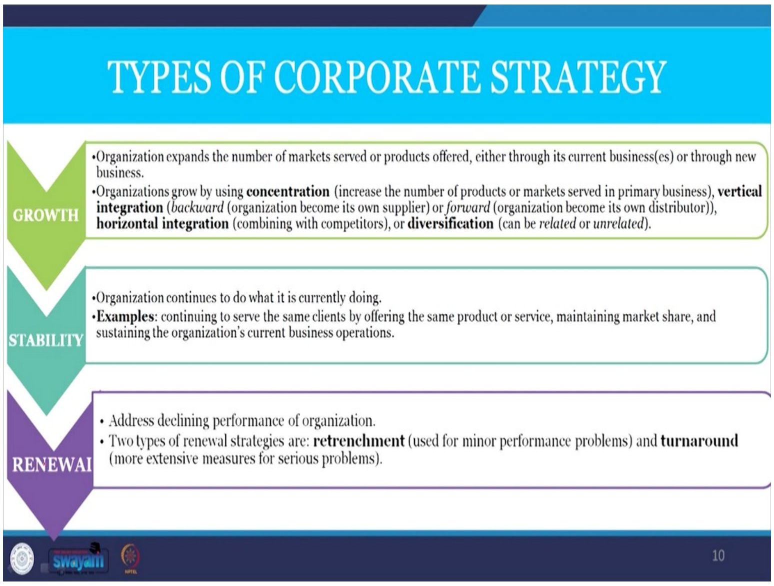

Now, what is the growth strategy? How does it help an organization to have a competitive advantage? So, organization expands to the number of markets or products offered either through its current business or through new businesses. Organization grows by using concentration; that means, increases the number of products or markets served in primary business.

Vertical integration that is backward integration or forward integration. Organization becomes its own suppliers as well as it becomes its own distributor. So, we are discussing about a growth strategy. What are the different types of growth strategy? How does a firm grow? So, through concentration, through integration, vertical integration; that means, through forward and backward integration.

Next is the firm also grows through horizontal integration by combining with its competitors or acquiring the businesses of competitors. Like the State Bank of India has become the largest bank by acquiring its associate banks of State Bank of India. Similarly, earlier there was a Bank of Madura which was acquired by ICICI Bank; so it became largest bank by acquiring the competitors.

Let us talk about the examples of concentration. Concentration strategy is adopted by Britannia, Britannia industries. Like Britannia is in just manufacturing, say biscuits and confectionery and they are offering a greater number of or different types of biscuits to the to the market. So, it is a kind of concentration strategy, increasing the number of products or markets served in the primary business. So, they have still remained in the primary business by increasing the number of or adding more variety in the primary product line.

Vertical integration is backward integration and forward integration like Reliance Fresh. Reliance Fresh procures products (the fresh vegetables and fruits) from the suppliers directly from the farms. And it also sells in it is own stores; that means, it has become its own distributor.

Then we discuss about what is diversification; as we gave an example of Nestle. Nestle started in baby food segment and its first product was Farine Lactee. Further it has acquired Alcon laboratories and it has also acquired cosmetics and so on. So, it has been expanding it is businesses and diversifying.

Tata started as a steel maker and then it has ventured into different industries. It is now into almost all or it is into various strategic business units. It has Tata chemicals, Tata Motors, Tata Consultancy Services in the software and so on. They are offering various products.

So, they have ventured into diversified businesses. Some industries there are these various ways through which an organization grows and expands into different markets. So, overall, what we can say is; growth strategy is where the organization increases profits through diversification, increases its businesses by venturing into different markets.

Next, we will discuss about stability; what is stability? Organization continues to do what it has been doing so far; what it is currently doing? Examples of corporate stability strategy is continuing to serve the same sets of clients by offering the same product or service and maintaining market share and sustaining organizations; organizations current business operations.

They do not do or they do not expand too much. They continue to serve the same clients, the same customer base by offering the same products or services. Maintaining the market share, they do not add too much of products or they still retain the same market share and sustain in the organizations current business operations.

Like for example, Cadburys, had so far maintained the stability strategy. They had been offering the same product to the same sets of customers.

So, they have also expanded their market by offering different products. So, there are several other companies which have still retained or maintained its stability in the market.

Renewal strategy: When does a firm take renewal strategy or when does it decide to have a renewal strategy. Renewal strategy happens when the firm is incurring loss which can be to the tune of say, huge loss or which can be a small loss, or a kind of significant or non significant amount of loss. So, at that time the firm in order to revive its business, in order to get back to its previous track, the firm adapts renewal strategy.

Addresses declining performance of organization. So, two types of renewal strategies are retrenchment and turnaround strategy. Retrenchment strategy is used for minor performance problems or say when the firm is incurring a non significant or say a small amount of loss due to some non critical problems.

Turnaround strategy is a strategy when the firm is incurring huge loss. And the cause of the loss cannot be asserted; the cause-and-effect relationship between why the losses has occurred cannot be probably identified for certain. For extreme, more extensive measures of some serious problems. The problem occurs or the loss is due to some serious or say critical problems or critical errors in the business process. So, how does a firm manage corporate strategy.

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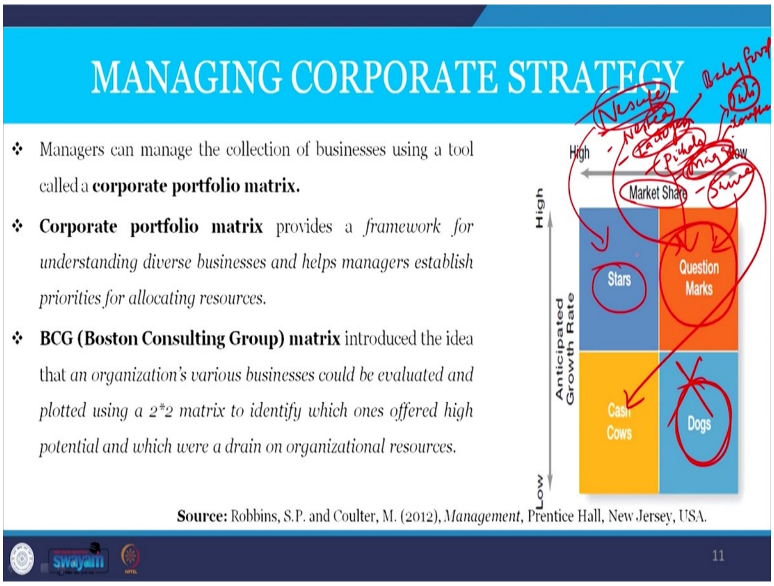

Managers can manage the collection of businesses using a tool called Corporate Portfolio Matrix. So, not necessarily all the firms have the similar business model. The firms can have different business models. The some have multiple businesses and various strategic business units some have single operations.

So, if a firm is having a multiple business or they have multiple strategic business units. So, they need to take a decision that how to invest and how to divest. Some of the businesses may be doing very well, whereas, some businesses may not be doing well.

So, firm has to take a decision; or the organization can only sustain and survive if it can take a judicious decision where to invest and where to divest. So, they take the help of the corporate strategy; the Corporate Portfolio Matrix which has been proposed by the Boston Consulting Group or otherwise it is also called Boston Consulting Group Matrix.

So, this framework helps understand diverse businesses and help managers establish priorities for allocating resources; how to allocate resource, where to allocate resource. So, BCG matrix introduces the idea that an organizations various business could be evaluated and plotted using a 2*2 matrix to identify which ones offered high potential and which were a drain on organizational resources.

So, where to invest and where to divest; so, there is a 2*2 matrix. On one axis, there is market share and on the other axis, there is anticipated growth rate and both are plotted on a low and high dimension. So, we get a matrix 2*2 matrix with 4 quadrants.

One is called the cash cows, dogs, question marks, and stars. Stars is a position where there is a high market share and high anticipated growth rate. And cash cows is a segment or is a quadrant where the anticipated growth rate is very low and high market share.

Dogs is a position or a quadrant where the market share is low as well as anticipated growth rate is low and question marks is a segment where the market share is low and there is a high anticipated growth rate. So, let us discuss what are these in details.

Let us take one by one. Dogs is where the there is a low growth rate as well as low anticipated, low growth rate and low market share. So, this is the situation when the firm is not able to earn profit as well as there is no future.

Let us take an example of Nestle and its various products. We can plot it in the different axis. So, as we have seen, Nestle has different products. Some of the products are very premium products; they have been earning huge amount of profit and some products are not great and they are not earning huge amount of profit.

So, Nestle has products like Nescafe then Nestea, Lactogen and Nestles pickles, Maggi sauce and so on. So, we will try to put all these in different segments.

Nestles Lactogen is a premium product; it is in the baby food segment. So, where can we; there is always a scope for earning huge profit there is always an anticipated growth rate in future, there is demand for the product.

As well as the present market share is too high so we can put it in the stars segment. Then Nescafe; this product is a premium product as there is always a demand for hot beverages. So, Nescafe is a premium product and is earning huge amount of profit in future also, there is a high growth rate. It is a premium product it can be placed in the star segment.

Maggi is something which is earning at present. So, its market share is very high, but the future growth rate there is still a doubt because customers are now health conscious. So, health-conscious customers are looking for a healthier and viable option; healthier alternative.

So, in the market, there are certain products like Oats, Corn Flakes, which are considered to be healthier than the product Maggi, which has some health issues. So, for this product, the anticipated growth rate or the future prospects is less. So, it can be categorized in the cash cow's segment.

Next is question mark; as we know the Indian market, there is always a demand for pickles, there is always a demand for tea, but Nestle's product Nestea does not sell in the market because of whatever reasons. Pickles is also not selling whereas, there are other alternatives like Priya and so on which have larger number of sales.

So, it comes under, it can be put in this category of question marks, where there is presently a low market share, but in future there can be higher or there is always a future prospect for this product; Nestea and Nestles' pickles. Similarly, sauce; Nestles sauce is not as competitive as Kissan's sauce.

So, at present, it does not earn huge amount of profit, but it can have a future growth. So, this can be put under the questions mark category. So, now, the manager has to take a decision where to invest and where to divest money, where to allocate more resources, more finance and less of finance.

So, the wisest manager would always invest money where there is a future prospect, where it is earning huge amount of money at huge amount of profit. And those businesses which is neither earning profit nor is able to earn money in future will be divested. So, the decision is to invest or divest in future.

What about the category of question marks? How does a firm take decision about those products which have a future, which has an anticipated growth rate, but at present they are not doing well? So, in this segment, the managers need to take a decision analyze or diagnose the real problems; why they are not able to earn huge amount of profit? Why the business is not profitable?

And probably they can find out the cause-and-effect linkage. Or they can unearth the problem and propose a viable alternative strategy to earn to convert it into stars or cash cows. So, such decisions are being taken by using the corporate portfolio matrix in order to manage corporate strategy.

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Next, we will be discussing about the competitive strategy. Competitive strategy consists of plans of actions to use a company's resource and distinctive competitive competencies to gain a competitive advantage. So, that we will discuss in the next class; and to summarize what we have discussed so far.

Today we discussed about Boston Consulting Group Matrix, types of corporate strategy. We discussed about corporate strategy in details. We discussed about the process of strategy formulation and the features of a strategy; and strategy and its components and what is the ultimate objective of developing strategy. So, with this, we conclude this lecture here.

Thank you.