Principles of Management
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Lecture – 13
Planning – V

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In this section we will be discussing about strategic management. So, in the strategic management the important highlights are: types of competitive strategy, functional strategies, process of strategic management, factors influencing strategic management, the definition of business models and benefits of strategies and importance of strategies.

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What we discussed earlier was that we have discussed corporate strategy in detail and there are broadly three types of strategies. One is corporate strategy, competitive strategy and functional strategy. Corporate strategy is how to take decisions, on which business to invest and divest, which business to continue and which business to further invest on. We have discussed in the earlier segment Boston Consulting Group Matrix and which helps top managers in decision making.

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And the focus of today's discussion is competitive strategy. We will be discussing in details about what is competitive strategy, what are the various types of competitive strategy and how does it help an organization to create a sustainable competitive advantage. Competitive strategy consists of plans of actions to use a company's resources and distinctive competencies.

Broadly, the resources and assets are the capabilities of an organization. It helps an organization to gain competitive advantage over its competitors or rivals in a market. It defines the basis on which the firm will compete, how the firm will compete in a particular market and it is a business unit level strategy formulated by senior managers of that particular unit.

And it is formulated in line with the corporate strategy. The main function of the business strategy is on product development, innovation, market development and diversification. Concerned with actions that managers take to improve the market position of the company through satisfying the customers.

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So, for a small business organization, one primary line of business or one line of business that has not diversified into different products and markets derives its competitive strategy, discusses how the company will compete in its primary or the main market. Whereas, for organizations which is in multiple businesses or diversified into different products and different products and different markets.

So, each business will have its own competitive strategy. There are also other ways; the businesses are also called the strategic business units. When an organization is in different businesses, those single businesses are independent of each other and have their own competitive strategies and these are also referred to as SBUs or strategic business units.

Effective competitive strategy requires an understanding of competitive advantage; that means, what sets an organization apart from others. In a clutter of competition, how a firm can be distinctly different from other companies. It can come from an organizations core competencies or resources.

Now, let us take an example of the small firms which have only a primary line of business. Like say, Britannia industries. They have only confectionaries or biscuits; manufacturing biscuits and confectionaries. So, they have a primary line of business and the competitive strength or the competitive advantage is by offering different types of products in the primary line of business.

So, they had only restricted or they had very few products, but today they are diversifying as per the needs of the market. They are diversifying into different segments. They are more responsive to the business environment. There are so, let us continuing with the same example. Say for example, the socio demographic factors or the lifestyle or the demographics demands the people are more health conscious.

There are different customer groups. The younger kids have a preference for a different type of biscuit and the adults or have a different type of preference. Needs and preferences of each demographic segment is different.

So, the Britannia group has served or the biscuit manufacturer has served different segments differently by having variety of biscuits; like the Nutri Choice is for people suffering from a lifestyle disease, those who are conscious about consuming low fat and sugar free biscuits. Then there are Cream Cracker for say low fat, low cholesterol biscuits.

Then there is also the Tiger biscuit meant for a different segment, a different market. Say for example, it sells more in the rural sectors, rural India. So, these are different examples of how the firm is developing its strategy to serve different markets to serve different needs of customers.

The cream content is liked by the younger kids; the chocolate content, the chocolate creams cream biscuits are preferred by younger kids. So, the market changes or the manufacturer changes its products and also offers different products to different markets in order to serve the needs of customers and also draw and also to compete in the primary or the main market.

Second example, the firm which is in multiple businesses. There are different firms which are into multiple businesses, which have diversified into different businesses and they also have different competitive strategies, they have each business; strategic business units they have.

Let us take an example of Tata group. Tata is into steel manufacturing; Tata has a steel plant and then they have Tata Consulting Services. TCS is serving in a different segment. Tata Motors is serving a different segment. So, each of the business unit of Tata group has a different competitive strategy in order to sustain and survive in that business.

GE also is into different markets; they are also a diversified company. GE healthcare emphasizes on ultrasound equipments. Then, GE consumer appliances, washers and specifies on washers and dryers. GE Aviation is into aviation engines and so on. So, there are several such examples through which we can learn how the strategic business units develop their core competence; they develop their competitive advantage by encashing or leveraging on the competitive strengths.

So, now effective competitive strategy requires an understanding of what is the competitive advantage, what sets an organization apart or distinctively different from others. So, it can only come through core competencies or resources. Now, what is a core competency or resource? The resource or core competencies are the capabilities.

Resources are the assets of an organization; the tangible and intangible assets of an organization which can also earn a competitive advantage and core competencies are the capabilities of an organization. So, broadly what we have understood is the core competencies can be drawn from the resources with tangible or intangible resources.

Tangible resources are land, capital, machinery, infrastructure, technology and also the know-how of an organization. And intangible resources are basically the brand name, the customer, the customer base, the corporate identity, and the knowledge of people, knowledge or skills of people which can give a leverage to a company from its competitors.

So, if a firm understands its own competence, its strength and develops on its strength in order to be known in a particular business or in an industry, the firm can develop core competency.

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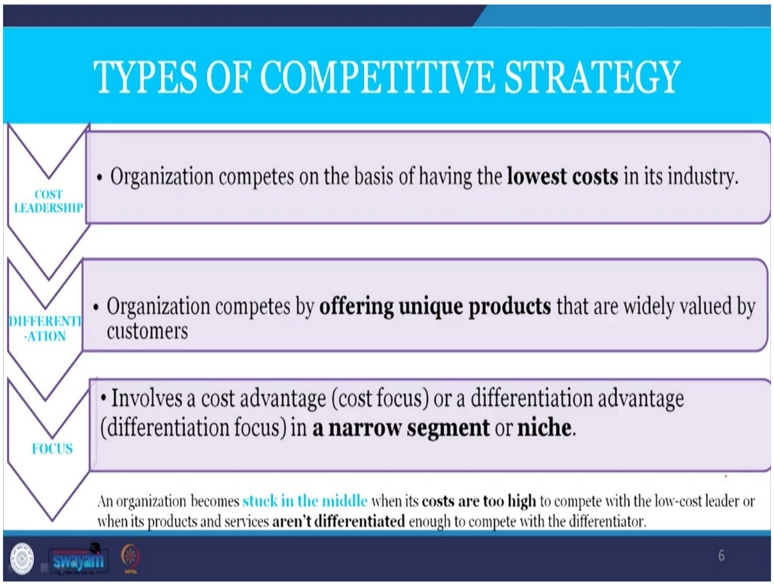

So, there are different types of competitive strategy. First is the cost leadership, differentiation and focus. The firm encashes on the low cost. Organization competes in the business by having a low cost strategy, offering low cost products. Say for example, in the retail segment there are certain firms which are offering low cost products.

Aviation: as there is intensity of competition in the aviation industry, there are some low cost carriers which have developed or which have been earning huge profit by offering the products at offering services at a low cost. So, like IndiGo airlines, GoAir, these are low cost carriers in the aircraft segment or in the aviation industry.

In a competitive market industry, the organizations compete on the basis of having the low cost in the industry. Similarly, differentiation; organizations compete by offering unique products. Differentiation of the product based on the quality, based on the design, design innovation and the unique features that are widely valued by the customers.

So, customers draw value, based on what is distinctly different or how different the products and services are. Like, Apple offers products which are completely different; their unique designs, their features draw attention of the customers. The third category of competitive strategy is a focus strategy which involves a cost advantage; cost focus or a differentiation advantage in a narrow segment or niche market.

So, in the third competitive strategy, a niche strategy or focus strategy; the marketer or the organization focuses on a small group of customer segment, segments of market and offers either the products with a low cost strategy or a differentiation strategy.

So, these strategies help in help a firm to compete in their primary line of business to compete in that strategic business unit. So, based on this, the firm can draw a competitive advantage. This will give a kind of sustainable competitive advantage to the firm.

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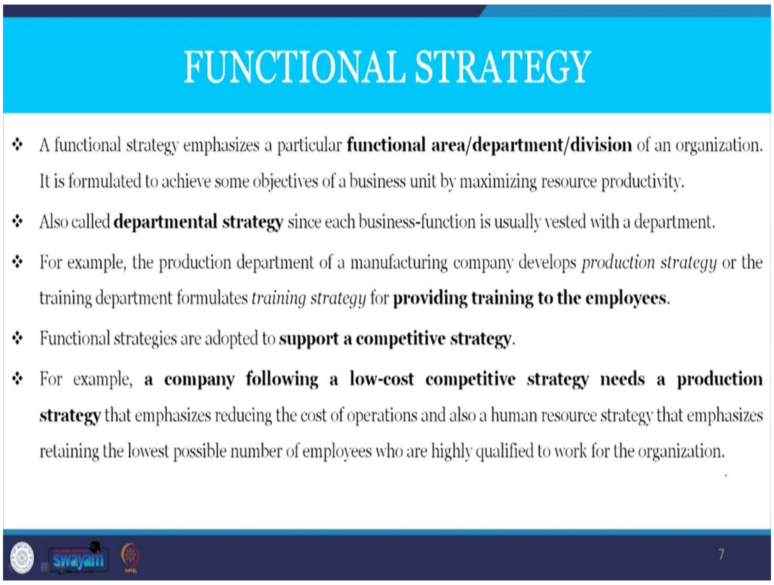

Next, we discuss about functional strategy. What is a functional strategy? Functional strategy emphasizes on a particular functional area or a department or a division of an organization. It is formulated to achieve some objectives of a business unit by maximizing resource productivity. It is also called departmental strategy.

They are also called divisional strategy, departmental strategy. Since, each business function is usually vested with a particular department. For example, a production department of a manufacturing company develops production strategy or the training department formulates training strategy for providing training to the employees.

So, functional strategies; there are different functional or horizontal differentiation in an organization. Like say, marketing, human resources management, finance, production and production and operations and the information technology and so on.

So, each of these departments will have their own strategy and this functional strategy will support the competitive strategy of a business. So, for example, a low cost; when the firm emphasizes on low cost as a competitive strategy, so, each functional area would emphasize on minimizing cost. There would be low investment on training and recruitment and would be less investment on marketing strategies and so on.

So, there would be minimizing cost on supply chain, minimizing cost on inventory and so on. So, each of the functional strategy will be supporting the business or the competitive strategy or the business strategy. Then functional strategies are adopted to support a competitive strategy.

For example, a company following a low cost competitive strategy needs a production strategy that emphasizes reducing cost of operations and also a human resource strategy that emphasizes retaining the lowest possible number of employees who are highly qualified to work for the organization.

So, the firm emphasizes on hiring a smaller number of people and also training them as multitaskers. So, that ways the company can develop on the efficiency of workforce; develop talent, develop and manage talent who can be a resource or who can be competitive advantage for the organization. Strategic management is what managers do to develop an organizations strategy.

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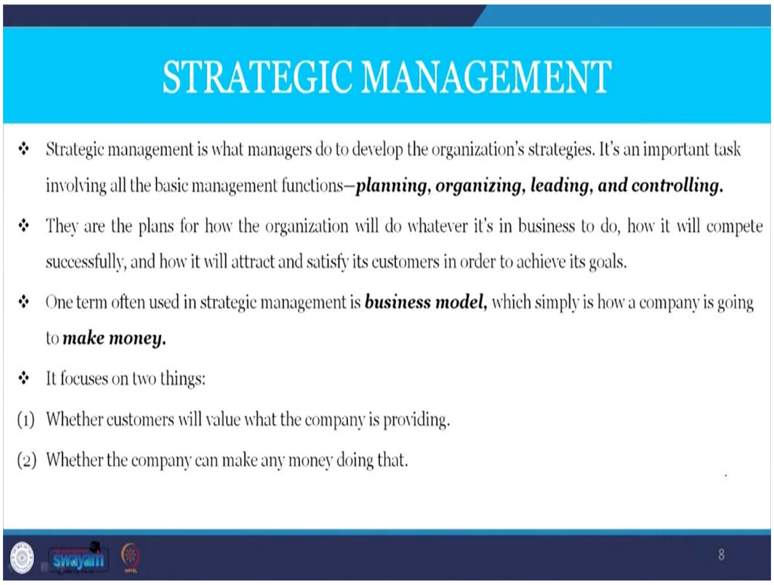

It is an important task involving all of the basic management functions planning, organizing, leading and controlling. They are the plans for how the organization will do, whatever business it is in; how it will compete successfully and how it will attract and satisfy its customers in order to achieve its goals.

One term often used in strategic management is business model. What is a business model, it implies how a company is going to make profit or earn profit.

So, each organization has its own business model on the basis of two things: what value the customers will get, whether customers will value what the company is providing, whether the company can make money doing that. So, business model of each organization is different.

This let us take an example in hospitality industry; there is lot of competition. As in the healthcare, hospitality, aviation we have been discussing several examples. Let us just focus on the hospitality industry. In the hospitality industry, the customers are looking for more value, but at the same time the marketer also has to earn profit. So, how is the industry is thriving when there is a large number of competitors?

The are also international players like McDonald's, then Cafe Coffee Day, the McDonald's and the several other players which are in the market. So, how these companies are thriving? Each one has a different business model.

Like say for example, the McDonald's has its own business model, it emphasizes on low cost and quality product. Then there is Haldiram, Bikano, Bikanerwala and so on; they have a standardized product and they offer Indian food to the customers.

So, the customer has choice whether to buy the product which is meeting the Indian tastes, Indian flavours or the Indian food and there is another company which is offering say, international brand which has which offers hygienic food, which is also low cost and the taste has an international flavour.

So, each of them has a different business model. What value do they offer to the customers, how it intends to earn profit and what method or what plans of actions do they adopt? So, business model basically talks about how what a company is doing in order to earn profit. There are several such examples. In the healthcare segment each there are several players.

There are Fortis hospitals, Apollo, and also there are government or public supported organizations public organizations or the government hospitals. Each of them is earning, trying to have a competitive edge over others. All India Institute of Medical Science has a different business model. They are catering or they are serving to the masses to the public in general as well as they are offering a quality service to the public in general.

The Apollo hospital has a different business model and they have segmented the customers based on they have a kind of tie up with the hospitals. They have a kind of tie up with the insurance segment, insurance sector.

They have also segmented the customers; the industries of whose the employees of those industries are given a specific or given preference or some preferential treatment. So, their services are completely different. So, business model is how a firm intends to earn profit by providing more value to the customers.

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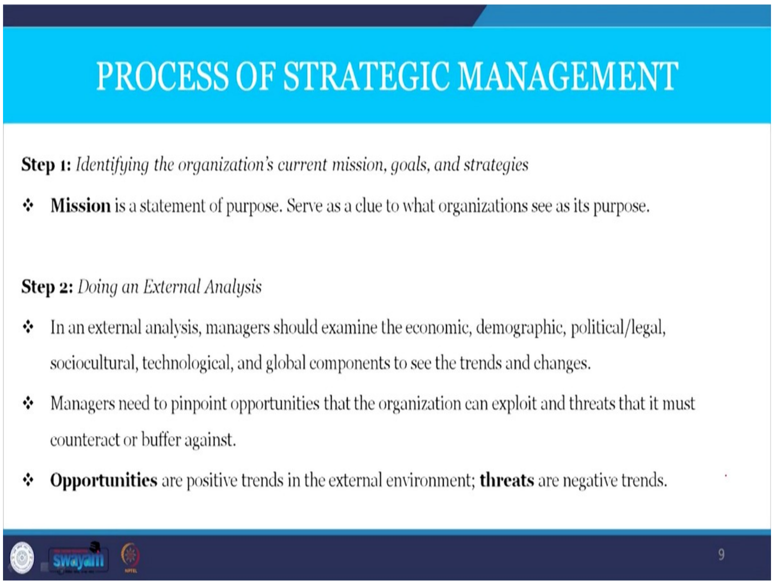

So, process of strategic management: next, we will discuss the various steps. Step 1 consists of identifying the organization's current mission, goals and strategies. Mission is a statement of purpose that serves as a clue to what an organization sees as its purpose.

Step 2 consists of doing an external analysis. In an external analysis, manager should examine the economic, demographic, political, legal, socio cultural, technological and global components to see the trends and changes.

Managers need to pinpoint opportunities that the organization can exploit and threats that it must encounter, it must counteract or buffer against. Opportunities are positive trends in the external environment; threats are negative trends in the external environment.

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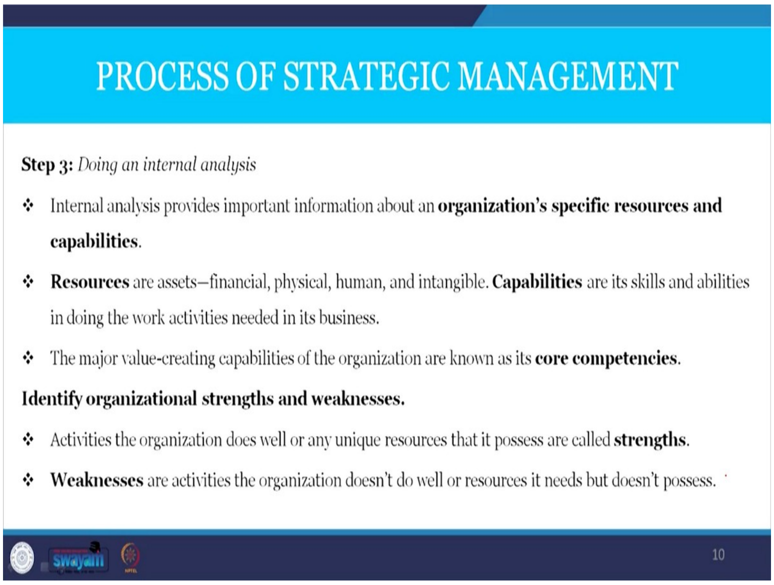

Then step 3 consists of doing an internal analysis. Internal analysis provides important information about an organization's specific resources and capabilities. Resources are assets; financial, physical, human and intangible. Capabilities are the skills and abilities in doing the work activities needed in its business. The major value creating capabilities of the organizations are known as core competencies.

For example, Toyota is known for quality products. Toyotas' strength comes from the quality it ensures in procurement of raw materials, manufacturing or manufacturing the products, assembly of various parts and then supplying it to market. So, it ensures that quality is maintained in each of its processes, right from procurement to delivery of the products in the market.

So, the resource; the capability or the core competency is the quality. Similarly, Tata group is known for its trust. Tata groups core strength or core competency is trust. So, how does it ensure that the trust is maintained with all the stakeholders? Trust in managing stakeholder relationship.

Tata group is based on the core philosophies of its founders. They emphasize that ethical treatment or trust or relationship with employees will help in earning the competitive advantage.

So, better the relationship with internal customers, better will be the customer service. So, their philosophy lies on maintaining trust with stakeholders. So, in each of their actions, they have maintained trust or having trust with all the stakeholders.

If a product is launched and the product is defective, so, they are also immediately recall those products. Like in the recent past, some of the Nano vehicles encountered some problems in the engine. So, immediately when the customers encountered problem, customers face problem the vehicles were recalled and so, through their actions they have also managed to provide value to the customers to maintain trust with the customers.

The trust remains the core competency of Tata groups. Then there are several such examples which we can take on, like how the firm is earning competitive advantage. Resources like the technology; technology is the resource strength of some companies; like Apple is known because of its design innovation. They have been innovating continuously and bringing forth new products to the market much before the customers would have thought of.

So, these are some examples through which we can say that the major value creating capabilities of the organizations are known as its core competencies. Identify organizational strengths and weaknesses: Activities the organizations do well or have unique resources that it poses our code are called strengths. Weaknesses are activities the organization does not do well or resources it needs, but does not possess.

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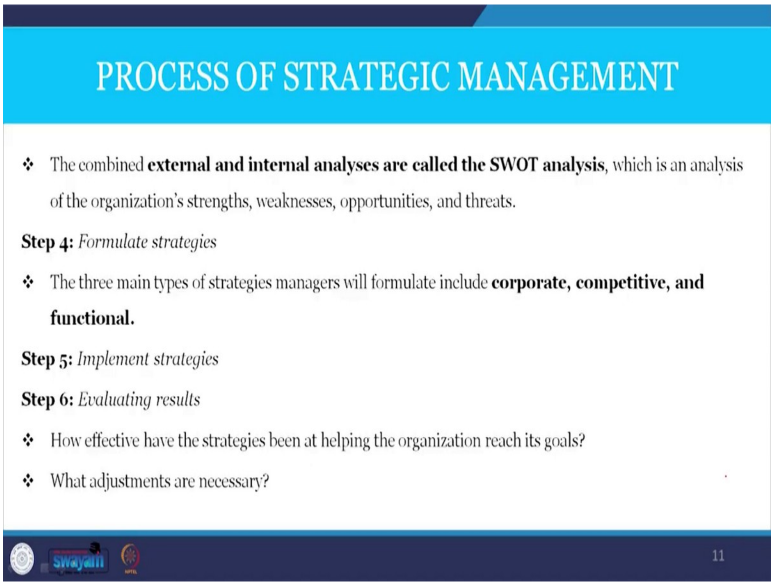

The combined external and internal analysis are called SWOT analysis, which is an analysis of the organization's strengths, weaknesses, opportunities and threats. Step 4 consists of formulating strategy. The three main types of strategies managers will formulate include corporate, competitive and functional strategy. Implement the strategy, evaluate results, how effective have the strategies been in helping the organization reach its goals. What adjustments are required or necessary?

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So, factors which are responsible for evolution of strategic management are changes in technology. With the changing technology or technological advancements, the strategy needs to be corrected or strategy needs to be changed.

The banking sector has seen a sea change in the technology. From the past, there have been several banking transactions were done manually, but today we can see technology upgradation has brought in a revolution in the banking sector.

So, changes in technology are one of the major factors for evolution of strategic management. Now, the banking sector is ruled by the core banking solutions and the latest innovations in the banking, which has made the banking sector very fast and convenient and efficient transactions which has made it very highly competitive.

Faster commercialization of market business, boundaries getting indistinct, socio political changes, intense competition in the conduct and operation of business, emergence of global brands, global firms, global markets, changes in tastes and preferences of customers.

As earlier also discussed, customers have been demanding more value, customers have been seeking for newer have been looking for more convenience, better experiences. So, the marketers have to evolve and change their strategy from time to time.

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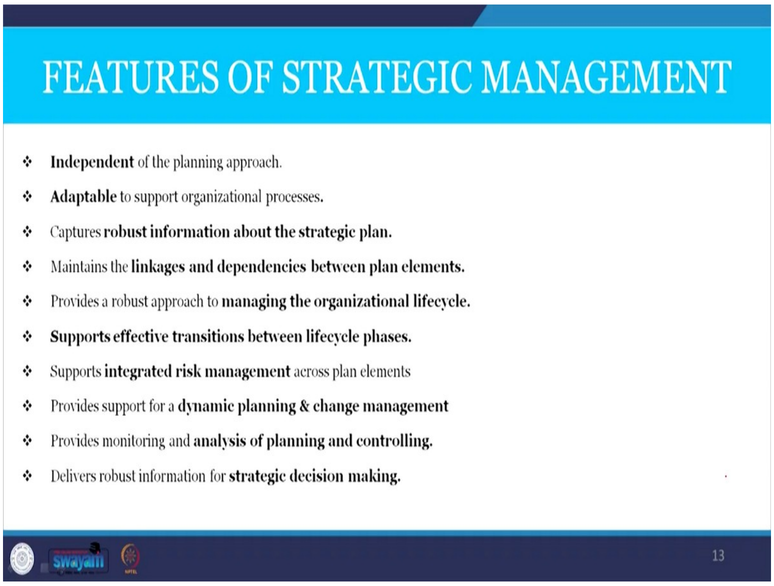

Features of strategic management: Strategic management, it is independent of the planning approach. Adaptable to the support of organized adaptable to support organizational processes. Captures robust information about the strategic plan, maintains the linkages and dependencies between planned elements and provides a robust approach to managing the organizational lifecycle.

Supports effective transactions between lifecycle phases, supports integrated risk management across the plan across plan elements. Provide support for a dynamic planning and change management, provides monitoring and analysis of planning and controlling, delivers robust information for strategic decision making.

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Benefits of strategic management: helps organizations to be strategically alert, emphasizes on present and future oriented approaches of organizations, facilitates in finding optimal ways to be able to take risk in tapping opportunities, helps to be aware against environmental threats, helps in developing the competence for assimilating changes faster, generates large resources and utilization of it in optimal manner, gain expertise in technology marketing and decision support systems in order to solve complexity of problems faced by organizations.

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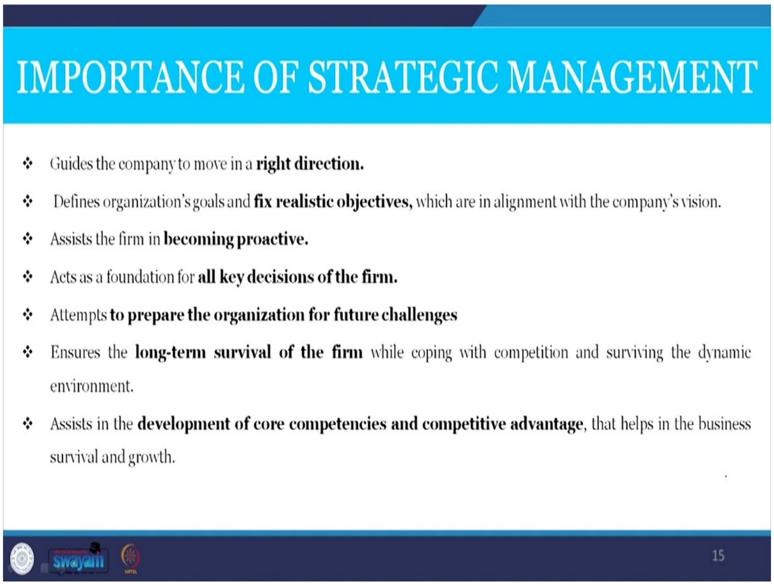

Importance of strategic management: it guides the company to be to move in a right direction and defines organizations goals and fix realistic objectives which are an in alignment with companies visions companies. It assists is the firm in becoming proactive, acts as a foundation for all the key decisions of the firm.

Attempts to prepare the organization for future challenges, it also ensures the long term survival of the firm while coping with competition and serving the dynamic environment. Assist in the development of core competencies and competitive advantage that helps in the business survival and growth.

So, with this I would wind up. What we learnt today? We learnt about the competitive advantage. We learnt about the strategic management process. We also discussed about various types of functional strategies and how they support competitive strategies of an organization.

And then we have discussed about the benefits of strategic management, features of strategic management, the strategic management process, we discussed about the SWOT analysis and also the resources and capabilities of a firm how they can help in earning competitive advantage. Finally, we discussed about the importance of strategic management.

Thank you.