Strategic Management - The Competitive Edge
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Lecture 23
Business Strategy

So, welcome to this session. Now, we look at business strategy; what is this business strategy? My book on strategic management, looks business strategies in good detail in many chapters. So, if you see there is a turnaround strategy adopted by IBM given in exhibit 8.2.

There are so many strategies which are adopted by different companies in the marketplace. So, if you really see, many times companies go into alliances,to achieve strategically significant objectives that are mutually beneficial. So, go to page number 125 it gives you a figure of continuum of strategic alliances.

So, starting from mutual service consortia, the value chain partnership, some of these which are listed there like the doom loop etc we will consider in the sessions to come. So, this turnaround strategy by IBM given on page number 130. I am reading out from this exhibit 8.2 IBM's BoD hired a new CEO, Louis Gessner. To lead a corporate turnaround strategy at Big Blue the nickname IBM earned from its rigid dress code policies, to stop the flow of reading.

The company held its long held no layoffs policy by reducing its workforce by 40 percent. Under Gessner, IBM reorganized its sales force around specific industries such as retailing and banking, decision making was made easier. Previously, a top executive with a PC division had to go through 7 layers to get things done, firing incompetent employees could take a year.

So, you pawn them off to another group, strategy presentations were hashed over, so many times, they got watered down to nothing; under Gessner, however, formal presentations no longer required, the emphasis shifted to quicker decision making and stronger customer orientation. So, this is what is required for our companies also in the present-day competitive market. 87 customers had to wait for 5 to 7 years for a new mainframe series. Now, the situation has changed drastically right now.

Now, in the light of all this, what is this business strategy company can make use to improve the competitive position of its business units and products and services within this specific market segment or industry. The objective of any business unit in a company that is the people who are in the business unit should be, not to hold it as a business unit only, this is you are making a product you are arming some sales.

No, that was in the beginning. That is when this business unit was formed. So, from BU in a company you should go to becoming SBU that is a Strategic Business Unit, a Strategic Business Unit will have its own products,own product lines, its own markets and a dedicated person to handle this strategic marketing or strategic planning.

So, the result is, it will function like an autonomous division in a company and it is held accountable, to its performance. So, the company relies a lot on SBUs.Take many of the private companies like Tatas or Reliance, all SBU's are performing well. So, this is the type of scenario which you are seeing in the present day.

Similarly, in the energy sector, you have Adani group of industries again performing well whether it is the wind power or the solar, things again being done well. So, whether it is development of new airports again in the private sector, you find GMR Group doing well.

So, this is where you have to move that is a company's business unit has to move from BU to an SBU, you should not be holding on to BU only for a long number of years. As is a leader of that SBU your voice will be heard at the top level of the company before deciding on the policies.

So, if you look at the present-day automotive market it is not just the what do you call usual petrol and diesel vehicles. In fact, the petrol vehicle, petrol the price of petrol being so high, you find that the sale of the petrol vehicles has come down. So, most of these automotive companies are looking very seriously at producing electric vehicles. A good example is the Tata Nexon EV, a very good vehicle- with a full charge it claims that it can give upto 200 kilometers.

But the market if you really see has welcomed EV. So, the EV will become, has become the new SBU in the automotive market. Now, what is the real trend, the trend is to have this electric option along with the fuel option that is the hybrid. So, possibly in the next few years you may see that the hybrid option will become the new SBUs for an automotive unit. Honda is moving in that direction.

So, a company can make use of its business strategy to improve the competitive position of its business units and products and services within this specific market segment or industry. The aim should be to move from BU to SBU -the generic strategies suggested by Porter that is cost leadership, differentiation and focus could help the company in drawing up the business strategy.

Whereas, the corporate strategy asks what industry, industries should the company be in, the business strategy asks how the company should compete or cooperate in each industry; sometimes it may be better that a company instead of SBU, taking competition, in cooperation with another company.

So, in the this is what you are finding in the present-day setup, you have mergers and acquisitions; many consulting companies, many big IT companies also are in the business of mergers and acquisitions.

So, if you see most of these IT companies, they have very senior people to assess the risk and report to the board about the M & A, that is the mergers and acquisitions, the company is planning. So, if you look at a company like Infosys for risk assessment, they have a person at the level of the vice president; he assesses the risks and reports to the board, what is the type of risk that you the company might really go through when you are looking at this M & A.

Now, all this brings you to one important aspect in India that is the type of cost dynamics that are in play in the country- the cost levels. So, how is the government policies helping the companies to hold on to price levels; if they are really helpful or if they are contributing to increase in price.

Now, I take a few examples one is an example from textiles for comparable pre-tax return on investment a typical Indian plant capacity with capacity of 6000 tonnes per year polyester production has 84 percent higher selling price than a typical polyester plant with 30,000 tons per year capacity in USA;make a comparison even with the same capacity, India 24 percent higher selling prices.

Now, similar trends are obtained in tyre and tube, aluminium and steel. Whatever reason, this year finding in so many debates, in the present day with respect to fuel to cut down the taxes. So, you will find that many of the meetings, centre saying that the state government tax component is higher than the central government tax component in many states.

So, now you look at there was a great demand from the consuming public that this fuel should be brought in the ambit of GST. In fact, the central government also tried very hard to push this fuel into the GST ambit. But many states apposed in the GST Council they did not want it to come into this GST Ambit, for the reason, the revenue of the state from the taxes on fuel will be hit.

Excise, customs, sales tax levies, un economic production levels, absolute technology, high breakeven points, excess dependence on import of semi finished goods, high costs narrow domestic consumer markets and competition in international markets push your cost up with respect to the product; both domestic consumer markets and international markets are also affected.

Now, Indian companies are looking at different options, they are trying to see whether larger size plants can help; they find that saving on initial investment, investment costs and also on operational costs. Now, all this brings you to comparison of the cost versus the market. Suppose it is a seller's market what will be the products price- the products price will be internal cost plus desired profit margin; let us say you want to have 20 percent profit margin.

So, your product price will be internal cost-plus 20 percent. Suppose, you are in the seller's market you can do that. Suppose you are in the buyers market; there are so many competitors; then product's price it will be the permissible price minus the internal cost. Suppose your internal cost is very high then you are not going to make profit this is what is happening with respect to many Indian firms; it is also called tolerable cost that is permissible price minus the acceptable profit.

This is where you are looking at this concept of experience curves. So, what is this curve experience curves; as a company makes use of its workforce to produce different products in different number, in different divisions, many people have gained the experience in the production line coming out with these products for example telephone instruments: a large number of workforce is producing these telephone instruments; he would have over the years developed an expertise to reduce the time per unit of this telephone instrument; earlier if he used to take X hours let us say you find after so, many years, he would this X will be coming down- this is the concept of the experience curve.

So, this is given in this particular slide. Suppose, are operating at the 80 percent experience curve. That is 80 percent experience you have accumulated production; let us say now, the cost per unit is Rs 100. Now, suppose you are operating at this 80 percent from 2 you go to 4, the cost per unit will come down; the unit manufacturing cost will come down when the production quantity increases.

This happens only up to a particular point look at this 80 percent at 16. You are getting cost per unit Rs 51, perhaps that might be the optimal which you are getting. So, this experience curve normally is a hyperbola and it gives you what is the reason for this experience curve operating;improved labor productivity, increased specialization, innovation in production methods, innovation in value engineering and fine tuning, line balancing, rationalization of methods and systems.

Experience curve is a simple approximation of extremely complex real time relationships; extreme care to be exercised to get reliable results; distinguish time from experience and consider influence of time.

So, this is what competitive market makes to an employee of a firm. So, he has to be on his toes, if you are not on your toes in the competitive market, likely to be swamped. So, in order to do all this, we resort to what is called a sensitivity analysis. What is the sensitivity analysis can be with respect to fixed costs, variable costs; price decrease in fixed costs results in decrease in breakeven point profitability at a particular volume of production improves with the lower fixed costs; increase in variable costs has marked effect on breakeven point and eats up profits kindly note.

Then, decrease in variable costs improves profitability, increase in permissible price breakeven point comes down and vice versa; at a particular volume of production, profit profitability improves; the important tagline is, price is the most sensitive instrument followed by variable costs and fixed costs. Normally we assume this linear relationship; suppose in a firm it is not linear. What should you do? , When prices may be consciously reduced to gain sales volume and market share or in response to non-competitor or in response to competitor's action.

So, if you look how the competetor has acted, then you just have to do this exercise. So, the assumption sometimes fixed costs fixed for all production volumes, variable costs do not fall with increasing production level of production then the total costs and the total revenue vary in linear relationship with output. Then maximize profit before interest and taxes is the desirable business objective;may not be always true.

So, if you really see a little further we will go into breakeven analysis in the next session. So, the experience curve relationship is a good framework for marginal considerations for predicting industrial scenario- that is future cost predictions. Done well in PC market; there are some limitations also.

A late market entrant has to operate at lower initial prices to survive. So, some equations are given with respect to break even analysis, that is, total cost is equal to fixed costs plus variable cost multiplied by quantity, total revenue is price multiplied by quantity, then at breakeven you have this relationship total revenue is equal to total costs.

So, the quantity of breakeven you are getting QB equal to FC divided P minus VC, this P minus VC is referred to as the unit contribution. So, this is where we will stop for the present day. We will continue in the next class. Thank you.