Strategic Management – The Competitive Edge
Professor R. Srinivasan
Department of Management Studies
Indian Institute of Science, Bengaluru
Lecture 25
Corporate Strategy, Display Matrices

Welcome to this session. Before we go to corporate strategy kindly read this turnaround strategy adopted by IBM, available to you on page number 130 in the book on strategic management. Turnaround strategies lay emphasis on the improvement of efficiency when a company is facing problems, but the problems have not become critical; such a situation calls first 2 steps, one is construction- initial effort to stop the bleeding,second, consolidation- implementing a stabilizing program.

So, what all we discussed about employee morale experience, relationships, innovation all that. So, the company should take some proactive measures; this is what was faced by even by big companies. So, the company listed is IBM; reading from page number 130 from my book on Strategic Management. During the 70's and 80's, IBM dominated the computer industry worldwide. It was a market leader in both large mainframe and small personal computers. Along with Apple, IBM set the standards for all personal computers.

Even now, when IBM no longer dominates the field, personal computers are still identified as being either Apple or IBM style PCs. IBM's problems came to head in the 90's with company's computer sales falling. More companies were choosing to replace their large expensive mainframes with personal computers but they were not buying the PC's from IBM. An increasing number of firms like Hewlett Packard, Dell, Gateway and Compaq had entered the industry. This is what happens when your competitor comes, matches your product and able to offer at a lower price.

They offered the IBM type PC clones that were considerably cheaper and more advanced than the IBM PC's. IBM's falling revenues meant corporate losses in 92 or 93. Industry experts perceived the company as a bureaucratic dinosaur that could no longer adapt to changes. Its stock prices fell to 40 dollar with no end in sight. So, this is what happens when you get into this doom loop business. IBM's BoD hired a new CEO, Louis Gesner to lead a corporate turnaround strategy at Big Blue, the nickname IBM had from its rigid dress code policies. So, they were all coming with blue dresses.

To stop the fall, 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 of the PC division Joseph formally said he had to go through several layers to get things done. Firing incompetent employees could take a year, pawned them off to another group.

Strategy presentations were hashed over so many times, they got watered down to nothing. Under Gessner however, formal presentations were no longer required, the emphasis shifted to quicker decision making and a stronger customer orientation. So, what is the result of all this? In 87, customers had been forced to wait for 5 to 7 years for a new mainframe series, what is the present-day scenario? IBM produces a new line almost every year. Gessner personally talks with at least one customer every day, the company's PC business which had market share and had generated huge losses in 90's has become profitable. So, it is rate went up in 96; now also fairly doing well.

The corporation has still a long way to go to complete its turnaround. But anyhow, this is the method IBM adopted to come around in the marketplace, so, to get out of that doom loop. So even for a large company like IBM getting out of the doom loop was not a small task. So, you can imagine the fate of smaller companies, it is a very hard task for them, if they get stuck in this vortex of the doom loop. Now, when you look at the corporate strategies of a firm, if you see the important issues that are involved in corporate strategy or the company's orientation towards growth, stability or retrenchment- these are referred to as directional strategy.

So, many times when you are listening to a presentation by Hindustan Lever these questions keep on coming in the minds of the prospective employees that is the students they say, how good is the personnel policy of the company, will we be fired without notice, is there certain yardsticks? So the personnel manager comes into play - gives all the yardsticks before the company comes to decision.

So, the 70's and 80's if you are working in Tatas, people were worried when they are going to get a pink slip from the management because this pink slip was almost considered as a notice to the employee that he should be looking out for alternative jobs; before they come, suppose you are not looking out then the company will be left with no other alternative except to retrench you.

So, most of the engineers working in organizations like Tata Consulting Engineers, or even in a public sector organization at that point of time, that is Engineers India, very much concerned about this pink slip, when will it land up on the table. The one way of looking at it is you should not get too much shackled by these types of developments.

So, it happened to one of my own students who landed up in a good job as soon as he landed in the United States. He was hired by the vice president of that company- that was a weekend

,Friday. So, Monday he goes to the company finds that the Vice President himself is not there. So, very hesitantly goes to the private secretary of the Vice President, tells her that I am so and so from India, the Vice President had given me a job, wanted me to come from today.

And to his surprise, his private secretary replies, yes we know, he is not with us anymore, but you can start working. So, this boy, a young boy at that point of time got in fact, almost paralyzed; what if I am going to lose the job within a week? So, he had called me from US at that point of time, ISD calls at that time; I said, why do you want to waste your dollars on all this, so I had to counsel this boy had to infuse confidence in him.

So, I told him, suppose this company is trying to take this method, they fire you in one week, a fear that you are having, there must be some other company to hire these fired workers also, is it not? So, don't bother, whether you are going to be fired or whether you are going to be kept, before firing at least they will give you some indications that you are going to be fired, they will not fire you all of a sudden, even though they can do it, they will give you some options.

So, that option of time period, you can make use of as a leeway to land up in some other job. He was not fired, he became a big man in that same company;same case with majority of Indian youngsters working in the US market.

The market scene which the company competes through its products or business units, this is referred to as portfolio strategy.

So, a company might be having so many portfolios. When it is having so many portfolios an entrant into the company or even an established person in a company will be working in certain portfolios only, not in all portfolios, kindly note that.

And in order to analyze these portfolios in the market place, we make use of certain matrices. The most important or the most fundamental matrix that you make use of is the BCG matrix. So, calls for activity coordination and transfer of resources for achieving product capabilities among product lines and business units. This is referred to as parenting strategy.

We will look at some matrices for evaluating the portfolio. So, this portfolio analysis becomes very important. And in order to do this, we make use of some matrices. One of the matrices that we make use of is the BCG matrix, this BCG matrix. BCG stands for the Boston Consulting Group, a consulting group.

Let us look at some of the portfolio matrices you can make use of to analyze the portfolios in an organization. So, one of the fundamental portfolio matrix which most of the organizations make use of in the present today context it is called the BCG growth share matrix. This came out of the consulting company this Boston Consulting Group, they operate now in India as well.

Now, if you look at this matrix, the x axis refers to the relative market share, relative market share is with respect to the leader- where does the company stand. So, suppose a company is at 10X, he becomes the leader suppose with respect to a particular SBU; you may at 1x- long way to become leader. The y axis or the vertical axis of this matrix is what is called the market growth rate; when does a market become attractive for investment?

So, if you see this matrix there is the line separating the bottom and the top portion of this matrix - that is 10 percent. So, any company which wants to enter into the market suppose the growth rate is more than 10 percent then it is likely to view that its entry into that market segment with a positive mind. This graph is a semi log graph, kindly note that.

What you see as market growth rate is in percentage, what you see as relative market share is in the logarithmic scale, so that is why it is a semi log graph; what are the types of inputs it can give to a company. This matrix is divided into four quadrants, the first quadrant is the question marks, the second quadrant is the stars, the third is the cash cows and the fourth is the dogs. As a strategic planner, what you have to plan with respect to an organization and its different SBU's.

This strategic planning and the role of the strategic planner is to provide a viable fit between organization's objectives and its changing market opportunities. So, if you look at it, when you are coming out with a new product or when you are introducing a product for the first time in the market, you do not know what is going to be the future of that product in the marketplace. So that is where this product actually comes into this question mark category.

If you see these question marks, different circles are drawn, it is a real matrix drawn at that point of time, a pharmaceutical company. So, they drew this matrix and the different SBU's where they are.

There are 3 of them in the question marks, 2 of them in the stars, one in cash cows, 2 in dogs. So, if you really see when you are introducing the product for the first time, you do not know with certainty whether the product will click in a marketplace or not, so that means to say you are operating in this first quadrant that is the question marks.

When a portfolio is in the question marks, what should be the role of the strategic planner? The role of the strategic planner is to build this question marks- will definitely call for investment; why does he want to build? He wants to build to move this portfolio from the question marks towards the stars.

So, the idea is to move the portfolio from the question marks to stars. When the portfolio moves toward stars, the objective of the strategic planner should be to hold on to that star position. So, you are moving to a leadership position, if you really see one of these SBU’s with reference to this company is moving towards the leadership position and about to enter this cash cows.

So, when this portfolio, an SBU, is in stars, it still needs investment, you have to invest financial resources to see that its place in the star category can be held as long as possible; When a portfolio is not able to hold on to stars, it moves from the stars to cash cows. So, when it moves towards cash cows, what is the indication? The indication is to reduce the investment in that particular portfolio and harvest this cash cow; that is you have to see whether this cash cow can give you without investment, good returns.

So, in fact, when you are looking at harvesting, you look at it as a weak cash cow. Suppose it is a very strong cash cow, you are seeing with respect to this particular company that is this SBU at number 5 it is still strong you do not have to think about harvesting it straight away because you can hold on to this cash cow to milk it; it can give good returns to the company. Suppose you find that the cash cow has become weak then the strategic planner can go towards harvesting.

So, harvesting can be for weak cash cows, can also be used for question marks and dogs. The last point you are seeing 2 X 2 portfolios with respect to this company under dogs what should the strategic planner do with respect to this SBU, what should be his portfolio strategy? The portfolio strategy should be to divest; that is for question marks and dogs which are a drag on company's profits they are eating up the company's profits.

All these points I have discussed in my book on Strategic Management, it is available to you in page number 130. You will get a good idea of how this BCG matrix can be drawn; on page number 131, we discuss portfolio analysis in fair detail that is with respect to net cash flow, state of development and the risk. Then in page number 132, we discuss the Boston Consulting group's growth share matrix.

So, if you really see, I am reading from this the model shown proposes a separate strategy to be developed for each of the units depending on its location in the 2 by 2 matrix. Relative market share is defined as the market share of the relative business to the market share of its largest competitor that is the leader in the marketplace. Hence, the relative market share of above 1 belongs to that of the leader. So, it is normally assumed that a business with a growth rate about 10 percent is attractive.

The BCG matrix is plotted on a semi log graph with the business growth rate expressed in percentage and relative competitive position in log form. Business units are categorized as one of the following four types for the purpose of strategic decision making. So, if you look at question marks, it is also referred to as problem child or wildcat, they have the potential for success, but need heavy investment. So, where does the money come, you have to draw money from other mature products.

Stars are the market leaders they are at the peak of the PLC, PLC refers to product lifecycle and can generate enough cash to maintain their high share, when market rate slows down stars become cash cows. Business units in this category bring in more money than what is required to maintain their market share. They are in the outdoor end of maturity in the PLC under milk category; cash to be invested in new question marks. Question marks unable to have a dominant share in the market slowly become dogs.

Dog have low market share and do not have the potential for cash generation they have to be either sold off or harvested carefully for whatever cash they may bring in. So, how to consult the how to construct this BCG matrix is also given in page numbers 133 and 134, that is what should be the dia of these circles which we are seeing here;

Now, the BCG group has come out with what is called the new BCG matrix, the new BCG matrix again a 2 * 2 matrix where you are looking at competitive advantage and number of approaches to achieve competitive advantage.

So, if you really see the types of blocks which you are getting in these 2 by 2 oare under the category of fragmented, specialization, stalemate, volume.

The fragmented block is small and regionalized. Profitability not related to size; advantage gained by focus, premium on growth, example is a specialty restaurant or designer labels. So, the best example for this would be some of the restaurants which are operating in Bangalore well known by their name, one could be the MTR started as a small unit in a small area which is very close to Lalbagh in Bangalore; now has become very popular throughout the country for its tasty dishes.

So, the business has improved so much for this MTR brand, it came out with different food mixes with reference to its dishes. One of the sought after mix when it was introduced was Rava Idli. Instant Rava Idli mix to produce the same type of Rava Idli which MTR gives in its hotel. So, these types of designer label which MTR has come out with reference to its products has been highly successful in the marketplace and has given it a distinct competitive edge.

Now, some of the companies which are operating in a highly specialized field. For example, fire extinguishing companies or some of the companies in the supercomputing field. What is the objective of these companies? These companies are operating in focused segments, they have steep learning curves. So, the result is when you have the steep learning curve, concentration that is expected from the workforce in these types of segments is very high.

So, the example that is taken is that of Cray research in the field of supercomputers. Cray research in the United States comes out as a top company.

Suppose it is a stalemate where it is difficult to gain competitive advantage then the company gains this competitive advantage by its sheer sustaining power. So, an example that is taken is that of Kellogg's in India.Kellogg has come out with its well-known product that is the corn flakes. But there are also so many local players who come out with corn flakes in different cities in India. If you take a city like Bangalore there are a dime a dozen type of players coming out with their own corn flakes. Now, with all these local players, if Kellogg has to really make a mark or make an impact and sustain in the market place, what is that driver? It is the brand name of Kellogg, and because it has survived in the US market, the western market, it is high on its pool of reserves to sustain itself in the Indian market; that is what it is doing in the present day Indian market also.

So, there are so many players whose products are equally good or perhaps sometimes even better than that of Kellogg . So, Kellogg is able to hold on because of the sheer sustaining power. Parikshit and Takshaka's story in Mahabharat is also one of sutaining power.

So, it wants to find out whether it can knock off these local players and which it is doing almost regularly; you find that one after the other the local players is getting knocked off. So, they are not able to really hold on to their limited market share in their respective cities due to this persistent onslaught by this brand Kellogg; this is what competitive market can do.

Similarly there is a charge that malls like big basket are taking away the business of vegetable push cart sellers.

So, this is where when you should make policies safeguarding at the macro level, so that the smaller players including MSMEs will not get drastically affected due to these changed market scenario.

In other words, when you are looking at economies of scale or economies of scope the company gets constrained by market segmentation. So, the market segments where the company operates, they become smaller and smaller and differentiating your product in this type of market segments becomes a real challenge for the company.

The example that is mentioned is that of the car industry, no better place than India.Economies of scale working to the advantage of Maruti Suzuki helping it to retain its leadership position in the Indian market. So, though Suzuki is not big player in the Japanese market at the same level as that of Honda or the Toyota. So, if you really see the Indian auto industry is in cutthroat market so many types of different incentives are offered to prospective customers to see that their car is sold. Honda prides on its engine saying that this is the best engine in the world. But still Toyota, a very good car, has come out with different product lines, you have different SUV's. Its Innova has again proved to be a success in the Indian marketplace as well.

So, this is what the present today market looks like with respect to the new BCG matrix where you are looking at the competitive advantage, number of routes which you use to get it. We will stop here. We will continue with the GE matrix in the next class. Thank you.