Strategic Management – The Competitive Edge
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Lecture 29
Functional Strategy

Welcome to this session. We will look at some more aspects of strategy, starting from Functional Strategy, some of the curves given by General Electric founder, all in this session.

Functional strategy is the approach followed by a functional area to achieve the objective set by the corporate and business strategy, by maximizing resource productivity. So, you are looking at productivity, increase the productivity with respect to the functional area by whatever methods, whether you look at experience curve or you look at reducing the cost of raw materials, etc.

So, this can give you an edge in the market place. Concerned with the nurturing and development of distinctive competencies. This is what I gave you with respect to this example of Gillette company that is the Mach 3 shaving blades. So, this distinctive competitive advantage of the Gillette company is holding good even to this day. Its competitors are not able to dent this particular competence of this firm.

For a functional strategy to be successful, it should be built on a distinctive competence within a functional area. Kindly note this. If the company does not have a distinctive competence in the area, it could consider outsourcing. Many of the IT companies do this outsourcing on a regular basis of many of their functions, may be transport, canteen activities or some of their guest house activities, all these not really managed by the companies, given to different outsourcing units.

You name the companies, whether it is TCS or Infosys, they are doing it on a regular basis. So, even some of their functional areas, payrolls, again outsourced. So, done through different firms, for those firms also it is, what do you call, a business which is doled out or handed out by this parent company.

So, it can also be a revenue earner for them. So, this functional strategy is the one which resulted for these IT companies in outsourcing. Go to page number 144 in my book. It gives you some ideas of this functional strategy and with respect to distinctive competence it gives three points.

One is customer value. It must make a disproportionate contribution to customer's perceived value. Some of the tag lines which are used by many of these IT companies, they convey this.

For example, IBM says customer satisfaction. What is this customer satisfaction? It may mean nothing for the outsider but for the insider, it means a lot. Suppose you raise some issue with IBM, then the company has the internal rules that issue should be sorted out within 24 hours, whichever part of the globe.

So, if you take Infosys, the tagline which goes is powered by intellect, driven by values. So, if you really see, this powered by intellect is its wonderful skill strength, which it has. It also has values. It is not prepared to compromise on most of the ethics with respect to business; most of the IT majors whether it is Wipro or TCS or Infosys or Mindtree, not willing to compromise on customer ethics.

Then, competitors. Competitor unique is the second thing. That is it must be unique and superior to competitor capabilities. You should survive in the marketplace. Then, extendability. It must be something that can be used to develop new products/ services or enter new markets.

This is what this company, Mindtree, has done very well with respect to this functional strategy. Started as a medium size unit, now, acquired by a well-known brand L&T. Now, having its distinctive edge in the marketplace, doing well.

Outsourcing refers to purchasing a product or service which the company was previously producing. Example, Templeton has contracted its mutual fund services to Infosys. AT&T has contracted its credit card to Total System Services. It should be remembered that the key to outsourcing lies in purchasing from outside only those activities that are not key to the company's distinctive competencies.

Sometimes, outsourcing has its own disadvantages, sometimes delivery schedules might get affected, all those types of things are possible. But as a result of this functional strategy came out this outsourcing. Whether the company can outsource some of the activities which are not key to the company's distinctive competencies. So, this is what came out of this functional strategy.

If you really look at the corporate culture it can be viewed as a collection of beliefs, expectations and values, learned and shared by the organizations members and transmitted from one generation to the other. So, this is what you call in different terminologies, that is, value systems.

Two distinct attributes - intensity and integration. Intensity refers to the degree to which members of the unit accept the norms, values or other cultural content associated with the unit. So, this corporate culture fulfills the following important functions like conveys a sense of identity for the employees, helps generate employee commitment to something greater than themselves.

That is, identify with the organization. Adds to the stability of the organization as a social system, serves as a frame of reference for the employees to make sense out of the organizational activities and to use as a guide for appropriate behavior. So, these are some of the things which corporate culture can help.

So, some of these new terms which are used in performance evaluation. One of that is referring to J curve. This is called floating J curve. It was given by the GE's founder, Jack Welch, first noticed by him, given by him. It is in fact known as the Welch's J curve, sometimes referred to as Welch J curve also. That helps in future predictions, things would get worse before it got better.

So, he was the first person to say that suppose something goes very bad, do not become panicky in an organization. Possibly, it will get better. So, J curve would shift to right as time came closer. That is, it goes to this side. Then myopic pessimism becomes clear here. So, my way, that is what I just said, many times when things are not going, you tend to become pessimistic. But this, according to Jack Welch, he noticed it with respect to his own company and came out with this.

And sometimes this gave you some few new matrices also. One, this thing which gave us what is called the Grand Strategy Matrix with respect to competitive position and market growth. So, you have market growth growing from slow to rapid and competitive position going from weak to strong, and you have the four quadrants.

Just look at one quadrant. Q1 gives with respect to market development, market penetration, forward integration, backward integration, horizontal integration, divestiture, liquidation. See, how it changes when it moves to different quadrants. So, this matrix drawn taking into account the competitive position and market growth. So, this is sometimes referred to as the Grand strategy matrix.

When you look at competitive convergence, in the present context, is: the firms compete on the basis of similar strategies as in strategic groups. So, suppose, it is advantageous to compete on the basis of similar strategies, then this competitive convergence is operating. Cannot be the basis for sustained competitive advantage. Kindly note this. Firms to compete for unique positioning, that is, different strategies. It is competitive divergence. Also, loosely related to Prahlad's concept of dominant managerial logic.

Now, all this leads you to strategic choice. So, we looked at so many different portfolio matrices, we looked at functional strategies. And if you look at, this functional strategies gave room to outsourcing. And we said suppose, it is not in the distinctive competence area of the firms, it may be better for the firm to think of outsourcing.

So, the functional strategies can be with reference to different functional areas. You can have a strategy with respect to marketing, you can have a strategy with respect to finance, you can have a strategy with respect to R&D, all this is brought out in my book on page numbers 144 and 145, and one exhibit on operation strategy is also given, page 146.

This is with respect to Whirlpool India limited, a part of the U.S. home appliance major Whirlpool Corporation, leading player in the white goods market, commanding a 27 percent market share in refrigerators and 20 percent in washing machines. Already a leading player in washing machines, the company plans to enter lower segment of the market to cater to the middle-income group.

Whirlpool’s success formula is simple. Continuously innovates its products, keeping in mind customer preferences and market demands, as a result Whirlpool products have some of the most user friendly features. What are these? For instance the microwave's unique tawa can cook Indian dishes like parathas, crisp dosas and kebabs.

The sixth sense feature knows whether the food is cooked or needs to be cooked further. The three-dimensional wave distribution system ensures there are no hot and cold areas in the dishes and food is cooked thoroughly even when the turntable is switched off. The white magic range of semi-automatic washing machines have hand wash agitators and its unique rotating brush with soft flexible bristles removes tough strains, especially, from collars and cuffs without damaging them.

Whirlpool, when it was introduced, was claiming its superiority in the market as it is very close to hand wash. That was its tag. The ice magic refrigerator makes ice about 20 minutes faster than any other refrigerator in the same category. Having enriched its product range with such uniquely featured high tech appliances, Whirlpool is confident that it can enhance customer loyalty for the brand and consolidate its leadership in the country.

And before we stop, we look at this exhibit 8.4 on page number 148 in the book. This is with respect to the strategic decision making process in Intel. What is that? The BoD of Intel met in ’91 to decide the future of the company. They were being asked to vote on a proposal to commit five billion dollars for making the next generation of microprocessor chips. This is 5 times the amount previously needed for the 486 chip and 50 times for that of the earlier 386 chip.

Intel was already the world's largest manufacturer of microprocessors by ’91, the brains of the PC. The latest chip 486 was just beginning to take off; its successor Pentium was still on the drawing board. So, Intel CEO Andrew Grove received the startling estimate of the capital spending required to make the Pentium just before the start of the Board meeting. Grove hastily drew the spending curve on the graph paper as the directors looked on.

In looking back on the Board meeting, Andrew Grove remarked, I remember people's eyes looking at the chart and getting big. I was not even sure I believed those numbers at that time. The proposal committed the company build new factories, something Intel had been slow to do in the 80s.

According to Intel Director Arthur Rock, a wrong decision would mean that the company would end up with a killing over capacity. ‘You had to have faith’, said Rock. Based on Grove’s presentation, the Board decided to take the gamble. As a result, Intel’s manufacturing expansion consumed 10 billion dollars from ’91 to ’95.

However, timed perfectly for the boom in PC sales. Although, rivals Motorola and IBM were also adding to the capacity, none have been able to generate the cash generated by Intel, 75 percent market share of the microprocessor sales. In this one crucial decision, Intel was able to turn the spiraling cost of competition into a competitive weapon.

If you really see the Intel, the number of outlets or the units it has in the U.S. is quite a big number in the present day. So, many times, when you looked at Intel, the Portland unit, one thought was very big. That is, Intel’s Portland unit. Now, if you look at the present day units, there are so many units of Intel spread across U.S.

All of them are equally big or even bigger. So, this is what some of these strategic decisions can do. So, we will stop here. We will look at strategic choice in the next class and also look at the current Indian situation to take this further forward. Thank you.