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Strategic Management

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STRATEGIC ANALYSIS

Situational Analysis: used to identify internal & external factors affecting your business or practice

Purpose of situation analysis

1. Identify current position among competition
2. Build action plan to fulfill strategic goals

Methods for analysis: PEST analysis & SWOT analysis

[PEST] analysis

1. Examine potentially important external forces
2. Assess their impact and influence
3. Adopt the company's direction and strategy

PEST Analysis / Pestel Framework

[What is]

Political: Government decisions and policies, tax laws, monetary and fiscal policies, labour reforms, political policies, Government stability, industry specific bailouts, energy policy.

Economical: inflation, interest rates, economic growth and demand / supply trends, unemployment, disposable income.

Social: trends of population, domestic markets, cultural trends and demographics, lifestyle changes, attitudes to work and leisure, levels of education.

Technological: trends, innovations and advancements, automation and incentive, now developments, obsolescence rate, genetic engineering and nanotechnology.

Environmental: protection laws, waste disposal, energy consumption, weather, climate, water shortage. These factors influence industries such as insurance, farming, energy production and tourism.

Legal: monopolies legislation, licensing, foreign investment, financing of industries, employment law, health and safety, product safety, consumer laws, EXIM policy

[What for]

1. informs about internal and external factors of business's success
2. finds current position of business
3. forecasts future and acts as a route map
4. identifies threats and opportunities
5. helps to take counter action against threats

6. evaluates and guides to make strategic decisions
7. checks the performance shortcomings
8. prevents failure
9. helps to expand
10. guides to enter the global market

SWOT Analysis: [Find Opportunities & Utilise Strengths]

I**nternal** Factors [in controls]: Strengths + Weaknesses

External Factors [out of control]: Opportunities + Threats

Appraisal Focus

1. Ratio analysis for identifying strengths and weaknesses
2. Product position and product market mix
3. Cost structure: high fixed cost for high break-even-point.
4. Managerial ability

Purpose: express qualitatively and quantitatively with respect to

1. Strengths: to be utilized
2. Weakness: to be improved
3. Opportunities: to be exploited
4. Threats: to be shielded

The important managerial task is the corporate planning and it is necessary to make SWOT analysis in connection with its mission and objectives.

SWOT Analysis

<table>
<tr><th>Internal</th><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>Finance</td><td rowspan="10">Good</td><td rowspan="10">Poor</td></tr>
<tr><td>Raw material availability</td></tr>
<tr><td>Labour availability</td></tr>
<tr><td>Product & product-mix</td></tr>
<tr><td>Size of Capacity</td></tr>
<tr><td>Capacity utilisation</td></tr>
<tr><td>Technology</td></tr>
<tr><td>Infrastructure</td></tr>
<tr><td>Managerial strengths</td></tr>
<tr><td>Industrial Relations</td></tr>
<tr><th>External</th><th>Opportunities</th><th>Threats</th></tr>
<tr><td>Demand</td><td>Seasonal</td><td>No demand</td></tr>
<tr><td>Globalisation</td><td>Export</td><td>Import</td></tr>
<tr><td>Economy</td><td>Development</td><td>Slow down</td></tr>
<tr><td>Industrial Relations</td><td>Good</td><td>Unrest</td></tr>
<tr><td>New market</td><td>Rural, global</td><td>Competition</td></tr>
<tr><td>Government incentive</td><td>Available</td><td>Nil [Penalty]</td></tr>
<tr><td>Finance</td><td>Available</td><td>Costly</td></tr>
<tr><td></td><td>Diversification</td><td>Price war</td></tr>
<tr><td></td><td>Merger & Acquisition</td><td>Political unrest</td></tr>
<tr><td></td><td>Liberalisation</td><td>Quality thrust</td></tr>
</table>

Advantages and disadvantages of PEST & SWOT analysis

1. Simple to list but difficulty to implement
2. Consumes time and capital but no guarantee for positive outcome
3. Requires expertise to turn WT in to SO
4. PEST studies the external factors and works on a macro scale
5. SWOT is better than PEST as it considers internal and external factors

Example: Inclusive growth | social protection schemes | high malnutrition rate

Portfolio Analysis: analysing product-market analysis

Purpose: to identify the

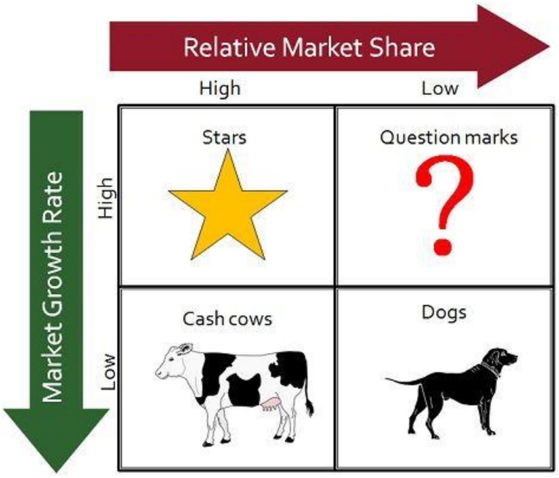
1. Strength | weakness | growth | decline of organisation's product in the market
2. Strategy needed: maintain strong position | overcome weakness

Factors influencing Portfolio Strategy:

1. Mission / Vision: e.g., TATA nano car
2. Value system: EID Parry by Murugappa group [sold liquor business]
3. Future of current business: ITC diversified in to hotels, agribusiness, stationery…
4. Position on the portfolio matrix / PLC: LG exits mobile product
5. Government policy: liberalization
6. Competitive environment: telecom industry [better service / product to consumer]
7. Company resources: Jio's expansion
8. Supply / demand conditions: forward and backward integration
9. Competitive moves: imitation the patter of market leader
10. Portfolio strategy of parent: Hindustan Lever
11. Business environment: has implication for portfolio strategy.

BCG Matrices [Boston Consulting Group]

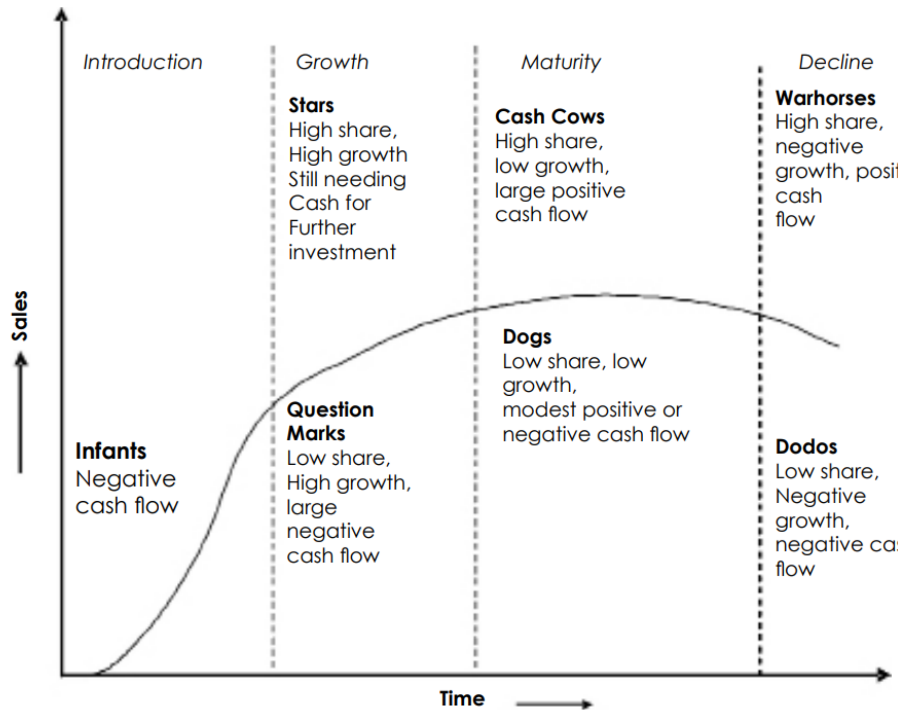
Analysis of products and business by market share and market growth



Classification of products

	Product Classification	Market Share	Market Growth	Capital Expenditure	Future Returns	Next
1	Stars	High	High	COF > CIF	High	Cash cow
2	Cash cow	High	Low	COF < CIF	Feed stars	Dogs
3	Question marks	Low	High	COF > CIF	?	Stars or Dogs
4	Dogs	Low	Low	Modest	Cash traps	End

Product Life Cycle with BCG Matrix



Star: increase or maintain market share by investment

Cash cow: investment has no impact in long run hence no investment but harvest

Dog: 4 strategies – invest & move to '?' | invest & move to cash cow | harvest | divest

Question mark: two strategies – invest & move to star | disinvest

Logical progression of an investment:

Dog ➔ ? ➔ Stars ➔ Cash cow

Product portfolio: need to have products in all the category

Limitation of the BCG Model:

1. It analyses products using only two variables [market share and market growth]
2. Market niches make good profit but has low market share
3. Market growth and market share not necessarily have high profit
4. Market leader by market share is vulnerable
5. Dogs are left to die without any corrective action
6. No suggestion for declining markets except withdrawal
7. It ignores production synergies
8. It ignores the threat of substitute products

Ansoff's Model: [Ansoff product & market growth matrix] – marketing planning tool

Markets \ Products	Existing	New
Existing	**Market penetration**	**Product development**
New	**Market development**	**Diversification** ➢ Related ➢ unrelated

1. **Market Penetration Strategy:** Increase in Sales is achieved by
   a. Price reduction
   b. Increase in promotional and distribution support
   c. Acquisition of a rival in the same market
   d. Product refinements

   These strategies are involved in cash outflow hence used in growing market
2. **Product development strategies:** increase in product range in the same market by
   a. Investment in R&D of additional product
   b. Acquisition of right to produce
   c. Buying and badging
   d. Joint development [product + distribution channel or brands]

   Factor to success of this strategy [profitability]

   a. Customer information that allows accurate targeting
   b. Established distribution channels
   c. A brand which can be credibly applied to the new product
3. **Market development strategies:** new market for exiting product
   Examples
   a. Different customer segments [young customer vs adult customer]
   b. Industrial buyer vs household buyers
   c. New areas or region
   d. Foreign markets

   This strategy is more likely to be successful where:

   a. The firm has unique product
   b. Economies of scale for increased output
   c. The new market is not too different
   d. The buyers in the market are intrinsically profitable
4. **Diversification strategies [entirely new]**
   a. Related diversification
      i. Concentric diversification [similar]

ii. Vertical integration [forward and backward]
    Taking over the profit margin from suppliers or distributors
    Securing a demand for the product or s supply of key inputs
    Better synchronization of the value system
    Reduction in buyer or supplier power

b. Unrelated diversification [conglomerate growth – no relationship]
   i. Buy – operate – transfer
   ii. Spread risk
   iii. Move from mature industry to developing industry

Arthur D. Little Portfolio Matrix

Two dimensions: 4 stages of industry maturity and 5 classes of competitive position

Objective: Appropriate strategy in relation to two dimensions

Eight external factors for the evolutionary stage of the industry

1. Market growth rate
2. Growth potential
3. Breadth of product line
4. Number of competitors
5. Spread of market share among the competitors
6. Customer loyalty
7. Entry barriers
8. Technology

The position within the life cycle and of the company is determined based on the above factors.

Classification of competitive position of a company's SBU or product:

	Strategy	**For competitors**
Dominant	monopoly [but rare]	entry barrier ꞁ technology leadership
Strong	Own [differentiate]	No concern
Favourable	As per competitors' move	Intense competition
Tenable	Cost / Differentiation focus	Stiff competition
Weak	Niche	

Arthur D. Little Portfolio Matrix [20 cells]

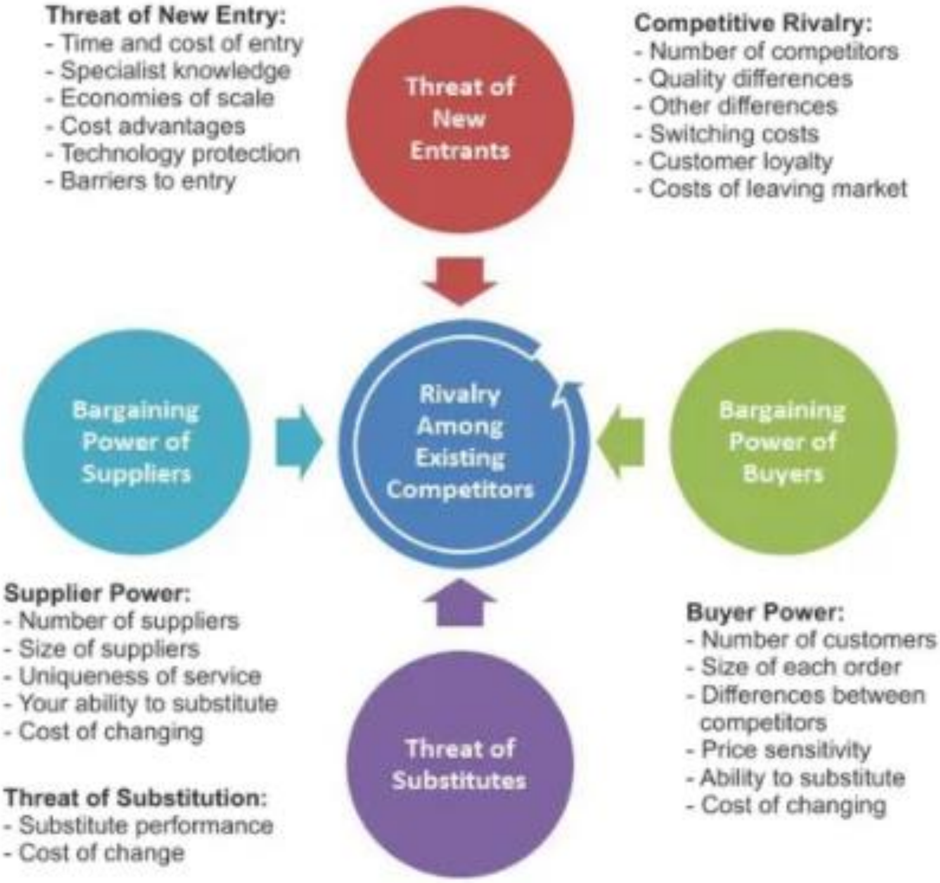
Stages of Industry Maturity

Competitive Position

	Embryonic	Growth	Mature	Ageing
Dominant	Start up Fast growth Build barriers	Fast growth Attain cost leadership Renew Defend position Act offensive	Defend position Attain cost leadership Renew Fast growth Act offensive	Defend position Cost focus Renew Harvest or divest
Strong	Start up Differentiate Fast growth	Fast growth Renew Differentiate Cost focus Act offensive	Attain cost leadership Renew Differentiate Grow with industry	Find niche Hold niche Hang on Grow with industry Harvest
Favourable	Start up Differentiate Fast growth	Differentiate Cost focus Catch up Grow with industry	Harvest Find niche Hold niche Renew Turnaround Cost focus Differentiation focus Grow with industry	Harvest Divest
Tenable	Start up Grow with industry Cost focus Differentiation focus	Hold niche Find niche Hand on Harvest Catch up Turnaround Cost focus Differentiation focus Grow with industry	Harvest Turnaround Find niche Retrench Hold niche	Divest Retrench
Weak	Find niche Catch up Grow with industry	Turnaround Retrench Withdraw	Withdraw Divest	Withdraw

Porter's Five Forces Framework

Structural Drivers of Change | Diversification Strategy



Helpful: To identify the sources of competition in an industry / sector

Essentials to use the framework:

1. Level: At SBUs | Not at whole organisation (because of diversity)
2. Not just a snapshot: To encounter and overcome the 5 forces and not just to describe
3. Not only to steady changes in the future but also to the discontinuities caused by macro-environment changes
4. The 5 forces are independent to each other
5. Competing behaviour – Disrupting the forces and not accommodating them.

The 5 Forces

1. The threat to entry:

- Extent: Barriers (factors) to entry
- To be overcome by new entrants
- Not permanent barriers, but provides delays

Barriers:

(i) Economies of Scale:

(ii) Brand Royalty:

(iii) Absolute cost advantage:

(iv) Customer Switching Cost:

(v) Government Regulation:

2. Competitive Rivalry:

- w.r.t similar products and services aimed at the same customer group
- Struggle is fought using price, product, design, advertising and promotion spending, direct selling efforts, and after-sales service and support.
- More intense rivalry implies lower prices or more spending on non-price competitive weapons or both

Factors to intensity of rivalry:

(i) Extent of balance of the competitors

(ii) Level of industry:

(iii) High fixed Cost

(iv) Large capacity

(v) Level of differentiation

(vi) Exit barriers

3. The Bargaining Power of the Buyers:

- The ability of buyers to bargain down the prices

Prevailing conditions:

(i) Large number of small operators

(ii) concentration of buyers (volume is high)

(iii) Depends on suppliers

(iv) alternative sources of supply

(v) Low switching costs

(vi) Threat of backward integration

4. The Bargaining of the Suppliers:

- The ability of the suppliers to raise input prices / costs

Prevailing conditions:

(i) Few substitutes

(ii) concentration of suppliers

(iii) Powerful brand

(iv) Highly fragmented customers

(v) Entry to customer's industry

(vi) Cannot threaten to enter their supplier's industry

5. The threat of Substitutes:

- satisfies similar customers

Forms of substitution:

(i) Product for product

(ii) New for redundant

(iii) Generic substitution – compete for disposable income

Note: 6th Force – The Power, vigour and Competence of Complementors