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CMA Inter Group 2 - Paper 09

Strategic Management

CMA CS Yamuna Sridhar

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Content

8. Strategic Management Introduction

8.1. Vision, Mission and Objective

Strategy:

Integrating organizational activities

Utilizing | Allocating - Scarce resources within the organizational environment

To meet the present objectives

Essential for planning: To consider that the decisions are not taken in a vacuum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Definition:

1. A knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behaviour of others.

2. The outline of decisions in an organization that
- shows its objectives and goals
- reduces the key policies
- plans for achieving these goals
- defines the business the company is to carry on
- the type of economic and human organization it wants to be
- the contribution it plans to make to its shareholders, customers and society at large

3. The direction and scope of an organisation over the long term, which achieves advantage for the organisation through the configuration of resources within a changing environment and to fulfill stakeholder expectations.

Overall:

A comprehensive master approach that states how the corporation will achieve its mission and objectives.

It maximizes competitive advantage and minimizes competitive disadvantage.

Features of Strategy

(i) To foresight, the uncertain events of firms / industries

(ii) Deals with long term developments rather than routine operations

For example,

Innovations |new products | new methods of productions | new markets to be developed in future

(iii) To deal behavior of customers and competitors

(iv) A well - defined roadmap of an organization

It defines the overall mission, vision and direction of an organization.

Objective - To maximize an organization's strengths | To minimize the strengths of the competitors

The characteristics of a strategic decision/strategy

(i) Long-term direction of an organisation

(ii) Competitive Advantage

(iii) Concerned with the scope of the organisation's activities

(iv) Match the resources and activities to the environment in which it operates

(v) to create / capitalise new opportunities with resources and competences

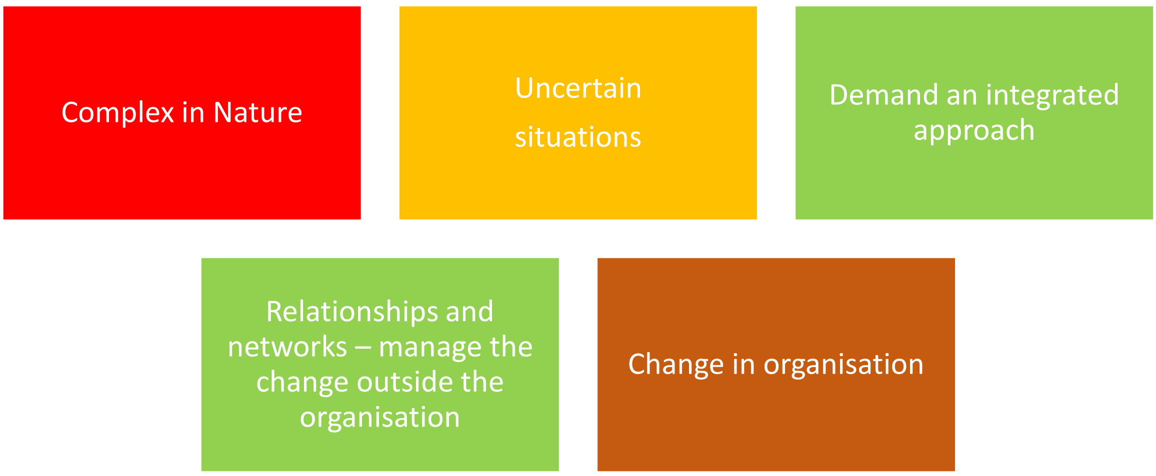
(vi) Requires major resource changes for an organisation

(vii) Likely to affect operational decisions

(viii) Factors that affect:

Environment | Resource availability | Values and expectations of those who have power in and around the organisation.

Consequences



Relationship between strategy and competitive advantage

Competitive advantage:

- Provide buyers with superior value compared to rival sellers

- Offer the same value at a lower cost to the firm.

A sustainable advantage - if it persists despite the best efforts of competitors to match or surpass this advantage.

Strategy:

- The action plan for outperforming its competitors and achieving superior profitability.

- A managerial commitment to an integrated array of considered choices about how to compete.

These include choices about:

(i) How to attract and please customers?

(ii) How to compete against rivals?

(iii) How to position the company in the market place?

(iv) How best to respond to changing economic and market conditions?

(v) How to capitalize on attractive opportunities to grow the business?

(vi) How to achieve the company's performance targets?

Strategic Management:

Definition:

William F. Glueck: A stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve objectives

Alfred D. Chandler: A determination of the basic long-term goals and objectives of an enterprise and adoption of course of action and allocation of resources necessary to carry out these goals.

Harrison & St. John: The process through which organisations analyse and learn from their internal and external environments, establish strategic direction, create strategies that are intended to help achieve established goals, and execute these strategies, all in an effort to satisfy key organisational stakeholders.

What is Strategic Management?

Either decision making and planning or a set of activities related to the formulation and implementation of strategies to achieve organisational objectives.

SM….

1. Includes understanding the
   - strategic position of an organisation
   - strategic choices for the future
   - turning strategy into action
2. Is concerned with the impact on strategy of the external environment, internal resources and competences, and the expectations and influence of stakeholders.
3. Involves understanding the underlying bases for future strategy at both the corporate and business unit levels and options for developing strategy in terms of both the directions and methods of development.
4. Is concerned with ensuring that strategies are working in practice

Strategic Management and Operational Management

Strategic Management	Operational Management
Ambiguous/uncertain	Routine
Complex	Not much complex
Organisation wide	Operational
Fundamental	Specific
Long term implications	Short term implications

Advantages of SM

- Discharges Board Responsibility - The first reason
  - Forces an Objective Assessment
  - A discipline that enables to take a step back from the day-to-day business
  - To think about the future of the organization
  - Else consumed with working through the next issue or problem without consideration of the larger picture
- Provides a Framework for Decision-Making

  Strategy provides a vision of the future, confirms the purpose and values of an organization, sets objectives, clarifies threats and opportunities, determines methods to leverage strengths, and mitigate weaknesses (at a minimum).

  As such, it sets a framework and clear boundaries within which decisions can be made

  Strategy:

  Staffs can make day-to-day operational decisions

And understand that those decisions are all moving the organization in a single direction

Impossibility:

- For the BoD to know about the decisions the executive director will have to make

- For the executive Director to know all the decisions the staff will make

Decisions made by staffs and executive Director are not known by themselves

Cumulative effect as a framework: A significant impact on the success of the organization.

- Supports Understanding & Buy-In

  - Board and staff participation – To understand the direction (why chosen) and the associated benefits.

  [To make them understand to gain their full support unlike others just simply know]

- Enables Measurement of Progress

  - First, Determine criticality to its ongoing success

  - Then, keep in front of the board and senior management

- Provides an Organizational Perspective

  - Looks at all the components and their interrelationship, to develop a strategy that is optimal for the whole organization and not a single component

Disadvantages of SM

- The Future Doesn't Unfold as Anticipated – invalidates the strategy

  Anticipate the future environment in order to develop plans

  Predicting the future is not an easy undertaking

  By research - Planning process gives better advantage

  A variety of approaches to strategic planning that are not as dependent upon the prediction of the future

- Expensive

  Hiring of external consultant in not for profit sector with the support of funding agencies

  Discussion w.r.t. cost / benefit prior to implementation of SM Process

- Long Term Benefit vs. Immediate Results

  Does not address the immediate crisis

  Prior allocation of resources is necessary (time, money, people, opportunity, cost)

- Impedes Flexibility : Inability to choose all the opportunities

  Excessively formal | Lack of innovation and creativity

Routes of Strategic Development

(i) Intended Strategy – An expression of interest | Formulated / Planned by Managers

(ii) Realised Strategy – A followed strategy in practice

(iii) Unrealised Strategy – Not in practice (wholly / partially)

Why?

The plans are unworkable

The environment changes after the plan has been drawn up and managers decides that the strategy, as planned should not be put into effect, or people in the organisation or influential stakeholders do not go along with the plan

(iv) Imposed Strategy – Imposed by managers / external forces

[Public Sector – Imposed by Government by Regulations]

(v)Emergent Strategy - unplanned responses to unforeseen circumstances

An autonomous action by individual managers

Not a product of formal top-down planning mechanism

Strategic Fit and Strategic Stretch

Strategy Fit

Strategy is strategy fit - Matching the resources and the activities to the environment

Notion – Develop strategy | Opportunities in environment | Competitive Environment

Strategic Stretch

Strategy is strategy Stretch -Stretching to new opportunities / Capitalise

Definition - The leverage of the resources and competences of an organization to provide competitive advantage and /or yield new opportunities

Strategic Management Framework: 5 Stages

Stage 1: Analyse the present situation w.r.t. SWOT

Stage 2: Setting up of Missions, Goals and Objectives | Where they want to go in future?

Stage 3: Analyse alternatives on Goals / Objectives / Business Portfolio Product mix | To adopt expansion, merger, acquisition and divestment options

Stage 4: Select the best alternatives from SWOT

Stage 5: Implement / Execute & Monitor

Importance of SM:

(i) Discover organisation strengths and weaknesses

(ii) Identify the available opportunities and possible threats

(iii) Discover the objectives and goals in line with organisations strengths and available opportunities

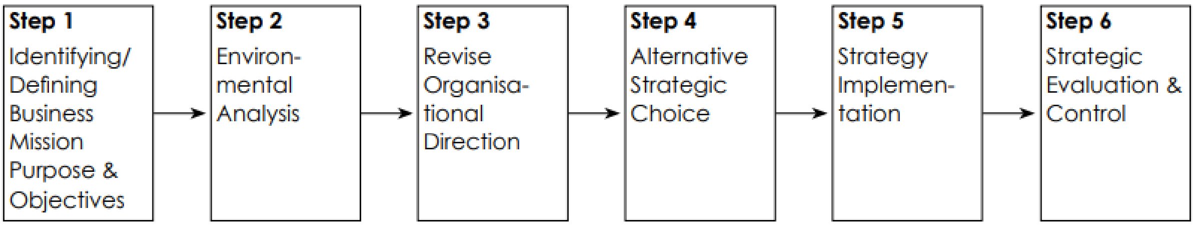
(iv) Implement changes to overcome weaknesses and manage the threats

(v) Provide vision/mission or direction to future of organisations

(vi) Build a dynamic and strong organisation

(vi) Help to achieve growing and stable organisation

Strategic Management Process:



Major Steps in Strategic Management Process

Notable Points

Step 1: Identifying / Defining Business Mission, Purpose & Objectives

- Every organisation has a mission, purpose and objectives
- Not conscious, but relates with the society and states that it has to achieve for itself and to the society

Step 2: Environmental Analysis:

Environmental factors – Internal & External environment | Positive & Negative | Competitve Advantage

(i) identify changes in the environment

(ii) identify present and future threats and opportunities

(iii) assess critically it’s own strengths and weaknesses

Step 3: Revise Organisational Direction:

SWOT Analysis | Helps the management to reaffirm or revise it’s organisational direction

Step 4: Strategic Alternatives and Choice:

- Formulated based on possible options and in the light of organisational analysis and environmental appraisal
- Ranking by SWOT

Step 5: Strategy Implementation:

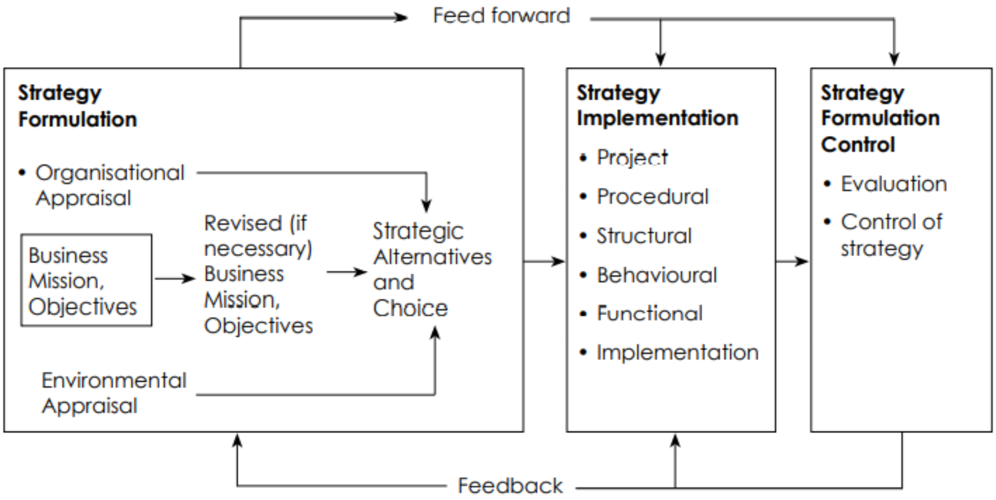
- To reap the benefits | Overcome of obstacles
- The managers should have clear vision and idea about the competitor's strategy, organisation's culture, handling change, skills of the managers-in-charge of implementation and the like

Step 6: Strategic Evaluation and Control:

- Focuses on monitoring and evaluating the strategic management process in order to improve it and ensure that it functions properly
- The managers must understand the process of strategic control and the role of strategic audit to perform the task of control successfully

Thus, Strategic management process

- A series of discrete steps for the purpose of simplicity in the learning process
- Managers perform several steps (different order) simultaneously, as below:



Strategic Management Process Model

Strategic Intent:

Elements of Strategic Intent

Vision, Mission, Business Definition & Business Model:
Explains the philosophy of the organisation

Goals and Objectives:
Represents the results to be achieved in multiple areas of business
Normally, no distinction is made between the 2 terms

ICMAI's Vision & Mission

Vision	Mission
"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."	"The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Vision

- A statement of the future
- Articulates the basic characteristic & shapes the organisation's strategy
- Indicates where the organisation is headed and what it intends to be

Quote @ Reference: 'Great visionary can foresee the future in advance and take steps accordingly to be at forefront'

Vision, Mission and Objectives in Business:

- A 'Strategy Formulation'
- Most important step of strategic management model
- A path forming step, and provides the direction to organisation for movement in future

Conclusion:

1. A road map to Company's future
2. Indicates the kind of company management is trying to create for future
3. Specifies about company intention and capabilities to adapt to new technologies
4. Specifies management policies towards customers and societies

A Strategic vision:

Describes management's aspirations for the future and delineates the company's strategic course and long term direction

Well conceived visions

- Distinctive and specific to a particular organisation
- Avoids generic, feel-good statements

Example:

Nike	'To bring innovation and inspiration to ever athlete in the world.'
Scotland Yard	'To make London the safest major city in the world.'
Dabur	'Dedicated to the health and well being of every household.'
Infosys	'To be a globally respected corporation that provides best-of- breed business solutions, leverage technology, delivered by best- in class people.'

3 Elements:

1. Form – A mission statement that defines:

   "What business the company presently is in ?"

   "Who we are and where we are now?"

2. Use – As a base to define long term path by indicating choices about "Where we are going?"
3. Communicate - In clear and committed term

Important Purposes:

1. Clear direction that what the company wants to follow
2. Identify the need of changing from existing direction or products, if stated in vision statement
3. Create passionate environment in the organisation to steer the company with great excitement in selected direction.
4. Create creativity in every member of company to prepare company for future
5. Promote entrepreneurship

Benefits of a well construed Vision – From Parikh and Neubauer (1993)

- Inspiring and exhilarating
- Represents a discontinuity, a step function and a jump ahead so that the company knows what it is to be
- Creates a common identity and a shared sense of purpose
- Competitive, original and unique. The make sense in the market place as they are practical
- Foster risk taking and experimentation
- Foster long term thinking
- Represent integrity: they are truly genuine and can be used to the benefit of the people

Mission

Meaning and Use of Mission:

- What it Implies? – The fundamental & enduring objectives of an organisation that set it apart from other organisations of similar nature

- A general enduring statement of instruction of an organisation

- The scope of operations in terms of product, market or the service as well as customers and clients

- Organisation defines highlighting the philosophy (the values, beliefs and guidelines for the business plan and business operation) and purpose

Corporate mission:

- The purpose or reason for it's existence

- Refers the philosophy of business to the static decision maker to build the image of the company

- Highlights the organisation self-concept and indicates the nature of product or service to be offered or rendered for fulfillment of the requirements of the customers as also for the community and society as a whole

Notable Points:

- Purpose and its present business ((who we are, what we do and why we are here)

- Announces what the company is providing to society; either a service or a product

- Defines the fundamental, unique purpose that sets a company apart from other firms of its type

- Identifies the scope or domain of the company's operations in terms of products offered

- Includes the firm's values and philosophy about how it does business and treats its employees;

- Promotes a sense of shared expectations in employees

- Communicates a public image to important stakeholder groups in the company's task environment

Types:

Product Oriented	Customer Oriented
- Focuses on the characteristics of the products sold and the markets served (not on customers) - Applies a particular skill to satisfy a particular need for a particular customer group - The approach obscures the company's true mission	- Focuses on customer needs rather than a particular product (or solution) - To take customer-oriented view of a company's business has often been ignored - Identifies the ways to safeguard companies from being caught unaware by major shifts in demand - Assists companies in capitalizing on changes in their environment

Examples: Customer Oriented

Bharat Gas	To make Bharat Gas a dominant brand in the segments we market, by becoming trendsetters in customer service, safety and quality.
Nirma	A customer focused company committed to consistently offer better quality products and services that maximise value to the customer.
Microsoft corporation	To empower every person and every organisation on the planet to achieve more.

Mission Includes

Organisational Mission and Objectives:

- The starting and the end point

('mission,' 'purpose,' 'objective', 'goal', or 'target' – All synonymous)

- Definition of the end results in Quantitative terms (end results may be different): In specific time / general terms

Purpose and Mission:

- Consists a long-term vision of what it seeks to do and the reasons why it exists.

Purpose

- Management's concept of the organisation and it's service mission to society
- Indicates the activity to be engaged in now and future
- Suggests something specific about what kind of organisation it is and is to become
- Depicts the organisation's business character and does so in ways that tend to distinguish the organisation from other organisations

Definition of Purpose and Mission:

A general enduring statement of the organisation the intent of which embodies the decision maker's business philosophy; it implies the image which the organisation seeks to project

Purpose	Mission
Sets forth principles and conceptual foundation upon which the organisation rests and the nature of the business in which it plans to participate	Offers guidance to managers in developing sharply focused, result-oriented objectives, strategies, and policies
External focus rather than internal Drucker's Quote: 'To know what a business we have to start with is it's purpose. It's purpose must lie outside the business itself. In fact, it must lie in society since business enterprise is an organ of society. There is only one valid definition of business purpose to create a customer	Detailed understanding - The starting point for rational managerial action and for the design of organisation structure, processes, and procedures. Managerial effectiveness tends to begin with clarity of mission with an accurate, carefully delineated concept of just what the organisation is trying to do and why

Defining the Company Mission

What is a Company's Mission?

- A broadly framed but enduring statement of company intent
- A statement of attitude, outlook, and orientation rather than of details and measurable targets.
- The fundamental, unique purpose that sets it apart from other firms of it's type and identifies the scope of it's operations in product and market terms
- Describes the product, market, and technological areas of emphasis for the business
- Encompasses the broad aims of the organisation
- Defines for what the organisation strives

It embodies

- The business philosophy of strategic decision makers (reflects the value and priorities)
- Implies the image the company seeks to project
- Reflects the firm's self-concept
- Indicates the principal product or service areas and primary customer needs the company will attempt to satisfy

Why is it accomplished?

1. To ensure unanimity of purpose within the organisation
2. To provide a basis for motivating the use of the organisation's resources
3. To develop a basis, or standard, for allocating organisational resources
4. To establish a general tone or organisational climate, for example, to suggest a business - like operation
5. To serve as a focal point for those who can identify with the organisation's purpose and direction, and to deter those who cannot from participating further in the organisation's activities
6. To facilitate the translation of objectives and goals into a work structure involving the assignment of tasks to responsible elements within the organisation
7. To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled

Formulation of Organisational Mission:

Not a whim and fancy – Follow the guidelines: It should be

- Based on existing business capabilities "Who we are and what we do?"
- Follow the long term strategy principles
- Profit making should not be the only mission of organisation
- Logical extension of business existing capabilities
- Clearly and precisely present the future orientation of business
- Include achievable missions
- Stated in a form that it becomes the motivating force to every member of organisation
- Communicated to every member of organisations
- Include interest of customers and society

Mission from it's inception: [At the initial stage]

An organisation begins with the beliefs, desires, and assumptions of single entrepreneur and may be of the following nature:

1. The product and service offered by the organisation can provide benefits at least equal to it's price

2. The product or service can satisfy the needs of the customers not adequately served by others presently

3. Technology used in producing product or service will be cost and quality competitive

4. The organisation can grow and be profitable than just survive in the long run with the support of various constituents.

5. The organisation will create favourable public image which will result in contributions from the environment

6. Entrepreneur's self-concept of the business can be communicated and adopted by employees and stakeholders.

7. The organisation will be able to satisfy the entrepreneur's needs and aspirations which he seeks to satisfy through the organisation.

Mission requires redefinition:

- Due to Growth | Competitive forces to alter it's product, market, and technology
- Reflects as the original, in modified form:

Type of - Product to be offered - Customer to be served - Technology to be employed	Growth Favourable public image	Entrepreneur 's - Self – Concept - Needs & Aspirations

Strategic Vision & Company's Mission statement – A fair cut

Strategic vision	Company's mission
Portrays a company's aspirations for its future	Describes its purpose and its present business
Where we are going?	Who we are? ǀ What we do? ǀ Why we are here?

Objectives, Goals and Targets:

Objectives:

Definition

- Objectives are performance targets which organisations wants as result or outcomes in the specified periods
- Objective's achievements are used as benchmark of organisation performance and success
- Objectives are formed from visions and mission statement of organisations
- Objectives are interchangeably used with goals

Characteristics: (Long – Term Perspective)

- Facilitates to achieve mission and goals
- Sets the basis for strategic decision making
- Clear the relationship of organisation with environment
- Should be understandable by each member of organisation
- Should be measurable and controllable
- Should be related to time frame
- Should be challenging
- Should be concrete and specific
- Should be formed within the constraints
- Should motivate people

3 Elements in Formal Strategies:

Formal strategies contain three elements:

1. Goals to be achieved.
2. Policies that guide or limit action.
3. Action sequences or programs that accomplish goal.

Effective strategic revolve around the key concepts or thrust area such as customer satisfaction or customer focus.

Strategic Intent:

- Intent is Intension
- A company exhibits strategic intent when it relentlessly (aggressively) pursues an ambitious strategic objective and concentrates it's full resources and competitive actions on achieving that objective.

Uses to the company:

• in becoming the dominant company in the industry;

• unseating the existing industry leader;

• delivering the best customer service in the industry (or the world);

• turning new technology into products which capable of changing the way people work and live. Innovations that make their production systems unexpectedly obsolete (technological)

Objectives & Goals:

- Interchangeable terms
- Goals - For long term result | Objectives – For Short term results
- Again interchangeable, but a prevalent one:

Objectives - For long term result | Goals - For Short term results

Ackoff's Definition

"Desired states or outcomes are objectives. Goals are objectives that are scheduled for attainment during planned period"

4D - Distinction:

<table>
<tr><th>Dimensions</th><th>Objectives – Long Term</th><th>Goals – Short Term</th></tr>
<tr><td rowspan="2">Time Frame</td><td>Timeless | Enduring | Unending
Relates to ongoing activities | Not time bound</td><td>Temporal | Time-phased | Superseded by subsequent goals</td></tr>
<tr><td>Ex: Survival Objective – Never obtained as failure is a future possibility</td><td>Ex: To achieve 10% growth in the net sales in the next year</td></tr>
<tr><td>Specificity</td><td>Broad | General Terms
Deals with matter of Image / Style / Self Perception
Future aspirations</td><td>Precise & Specific | Particular Terms (with a specific date)

Ex: To achieve 10% growth in the net sales in the next year – More Specific and Time bound</td></tr>
<tr><td rowspan="2">Focus</td><td>External Environment
Open - Ended</td><td>Internal Environment
(carrying resources for now and in future)
Close - Ended</td></tr>
<tr><td>Generalised Statements:
- Maintaining market leadership
- Striving continuously for technological superiority</td><td>Resource commitment to achieve the desired Objectives</td></tr>
<tr><td>Measurement</td><td>Relative Terms
Ex: Reliance Textiles's Objectives:
To acquire top position among the Indian companies.
- A timeless and externally focused | Provides a continuing challenge</td><td>Absolute Terms – Measured irrespective of the environmental conditions and Competitor's actions
Ex: To achieve 10% growth in the net sales in the next year</td></tr>
</table>

Notable Point:

Objectives – More specific compared to Purpose / Mission of the organisation

Example: From a private sector company:

"The main objective of the company is to manufacture and distribute both consumer and industrial products of high quality to our customers in India and abroad at a minimum price which will return a reasonable profit to the company. This company will expand and diversify it's activity as necessary to meet the needs of the customers to render better service/to obtain better quality, or to effect economies in operation."

3 Economic Goals of a Company: Survival, Growth, Profitability

- Guides the strategic direction of almost every viable business organisation
- Company's mission statement reflects the firm's intention to secure it's survival through sustained growths and profitability

Survival:

- To satisfy it's stakeholders' aims
- An assumed goal - Neglected (like growth and profitability) as a principal criterion in strategic decision making, thus focuses on short-term aims at the expense of the long run

Profitability:

- A main stay gaol of an organisation
- Long term profitability: a firm's ability to satisfy the principal claims and desires of employees and stockholders (No matter how it is measured)
- Short term Profitability leads to Strategy Myopia, financial consequences are detrimental

Importance of Long – Term Profitability

From Hewlett – Packard Company:

To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.

In our economic system, the profit we generate from our operations is the ultimate source of the funds we need to prosper and grow. It is the one absolutely essential measure of our corporate performance over the long term. Only if we continue to meet our profit objective can we achieve our other corporate objectives.

Notable Points:

Growth with it's survival and profitability

Product Impact Market Studies (PIMS) – Growth has to be correlated with firm's profitability

Different Forms of Growth:

Number of markets served | Variety of products offered | Technology used to provide goods or services

Growth means change – A Pro – active change (a necessity in a dynamic business environment)

Hewlett-Packard's Mission statement - An excellent example of corporate regard for growth:

To let our growth be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs

2 Reasons, Why continuous growth is essential? – To achieve other objectives

(Size of the firm is Immaterial)

1. w.r.t Technological society, a rapidly growing and expanding segment
   - To remain static would be to lose ground
   - Cannot maintain a position of strength and leadership in our field without growth
2. w.r.t high-caliber people, to attract and hold for their personal progress
   - As opportunities are greater and more challenging in a growing company

Growth and definition of Company's Mission – An issue

- How can a business specify product, market, and technology sufficiently to provide direction without delimiting unanticipated strategic options?

- How can a company define it's mission. So opportunistic diversification can be considered while at the same time maintaining parameters that guide growth, decisions?

Addressed when there is a depart from its ongoing operations

From Dayton-Hudson

The growth philosophy's approach:

The stability and quality of the corporation's financial performance will be developed through the profitable execution of our existing businesses, as well as through the acquisition or development of new businesses.

Growth priorities (in order):

(i) Development of the profitable market pre - eminence of existing companies in existing markets through new store development or new strategies within existing stores;

(ii) Expansion of our companies to feasible new markets;

(iii) Acquisition of other retailing companies that are strategically and financially compatible with Dayton-Hudson;

(iv) Internal development of new retailing strategies

Capital allocations:

Existing Operations: Funding the expansion is based on

- Company's return on investment
- Relationship to it's return-on-investment (ROD objective and it's consistency in earnings growth)
- Management capability to perform up to forecasts contained in capital requests.

Expansion: Acquisition / New venture – Opportunity occurs on

- Acceptable rate of long-term growth and profitability
- Acceptable degree of risk
- Compatibility with the corporation's long-term strategy

Mission & Strategy:

Mission - Sets the direction for the strategic development of the organisation

Remarks of Drucker: In "Managing for the Future"

- The mission focuses the organisation on action
- Defines the specific strategies needed to attain the crucial goals
- Creates a disciplined organisation.
- Prevents the most common degenerative disease of organisations, especially large ones, splintering their always limited resources on things that are 'interesting' or look 'profitable' rather than concentrating them on a very small number of productive efforts".

Refocuses the business: By a substantial development of business or improvement in the performance

"Corporate mission statements are the operational, ethical and financial guiding lights of companies. They are not simply mottoes or slogans; they articulate the goals, dreams, behaviour, culture, and strategies of companies".

Advantage of formulation of the mission - Results in a clear definition of the business of a company.
Mission statement and definition of the business are indeed two sides of the same coin.

Derect Abell's 3D definition of business:
- Customer groups (i.e., who is being satisfied)
- Customer functions (i.e., what need of the customer is being satisfied)
- Alternative technologies (i.e., how the need is being satisfied)
Delineate the boundaries and nature of the business
Many mission statements are so clear and comprehensive

Drucker's 3 Fundamental Questions:
To define / redefine the business | To formulate / reformulate the mission
• What is our business? • What will our business be? • What should our business be?

'What is our business'?
- "Alone" Question
- Is obsolete even with most successful answers in the dynamic (sooner / later) environment
- But, leads to wonderful revelations and spectacular results
Drucker pointing:
To Question, not only when the company is in trouble but also when it is successful

Thus,
'What is our business'?
- "Along with" What will our business be? • What should our business be?

Other Questions to be raised:

"What changes in the environment are already discernible those are likely to have high impact on the characteristics, mission, and purpose of our business?

"How do we now build these anticipations into our theory of business, into it's objectives, strategies and work assignments?"

'what should our business be?' - The central point of corporate strategy

- 'what will it's business be?' – Inadequate | Does not explore the right firm - environment fit for the future
- Adapts to anticipated changes - modifying, extending, and developing the existing ongoing business
- The future may have new or better opportunities outside the current business of the company, or it may not be wise to continue in all or some of the current businesses.

Drucker's Remarks: The ultimate objective of strategic planning is

"to identify the new and different businesses, technologies, and markets which the company should try to create long range.

Indeed, it starts with the question

- which of our present businesses should we abandon?
- Which should we play down?
- Which should we push and supply new resources to

Mission - with adequate support by other essential inputs

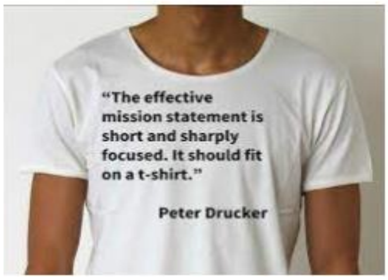
Ambani's Statement:

"It has been a combination of vision, entrepreneurship and professionalism".

Drucker's Remarks:

"without an effective mission statement there will be no performance. The mission statement has to express the contribution the enterprise plans to make to society, to economy, to the customer. It has to express the fact that the business enterprise is an institution of society, and serves to produce social benefits"

Drucker & his mission statement



Policy and Strategy:

Policy – A broad guideline for decision making that links the formulation of a strategy with its implementation.

Companies use policies to make sure that employees throughout the organisation make decisions and take actions that support the corporation's mission, objectives and strategies.

Examples:

General Electric	3M
GE must be number one or two wherever it competes. (Supports GE's objectives to be number one in market capitalisation)	3M says researchers should spend 15% of their time working on something other than their primary project. (Supports 3M's strong product development strategy)

Tactic / Program - Interchangeable

- A statement of the activities or steps needed to support a strategy
- Makes a strategy an action –oriented

Difference:

Program - A collection of tactics | Tactics - The individual action taken by the organisation as an element of the effort to accomplish a plan

Example: BMW

Objective: To increase production efficiency by 5% each year

Tactics:

(i) Shortens - New model development | From 60 to 30 months

(ii) Reduces - Preproduction time | From a year to not more than 5 months

(iii) Build atheist two vehicles in each plant so that production can shift among models depending upon demand

Strategic Levels in Organisation – 3 Primary Levels

Level	Who?	Function	Remarks
Corporate	Corporate – Level Managers [Occupy top committee for decision making]: - CEO (Principal General Manager) - Senior Executives - BoD - Corporate Staff	To oversee the development of strategies for the whole organisation Defines the mission and goals of the organisation Determines what businesses it should be in Allocates resources among the different businesses Formulates & implements strategies that spans individual businesses Provides leadership for the organisation	For the whole Organisation
Business / Division	Business – Level Manager Head of the division	Translates the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses	Self contained division - Specific to a particular business - A product / Service
Functional / Operational - Information Providers - Strategy implementors	Functional Level Managers	Not responsible for the overall performance of the organisation, but - Develops functional strategies in their area that help fulfill the strategic objectives set by business & corporate-level general managers - Provides information that makes it possible for business & corporate-level general managers to, formulate realistic and attainable strategies - Generate important ideas as they work closer to the customers (General Managers are expected to listen to the Operational Managers)	One organizational activity - HR - Purchase -Product Development (R & D) - Customer service Finance

Example:

Corporate: Unilever Limited | Business: Kwality Walls | Functional: HR and all

9. Strategic Analysis and Strategic Planning

Follows from

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]

Internal 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

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

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

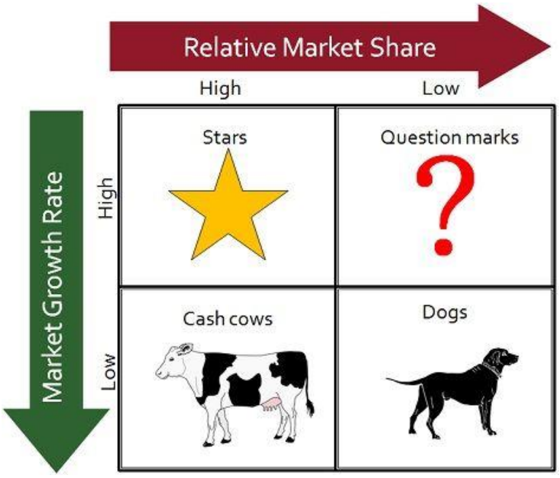
1. Strength | weakness | growth | decline of organisation's product in the market
2. Strategy needed: maintain strong position | overcome weakness

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]

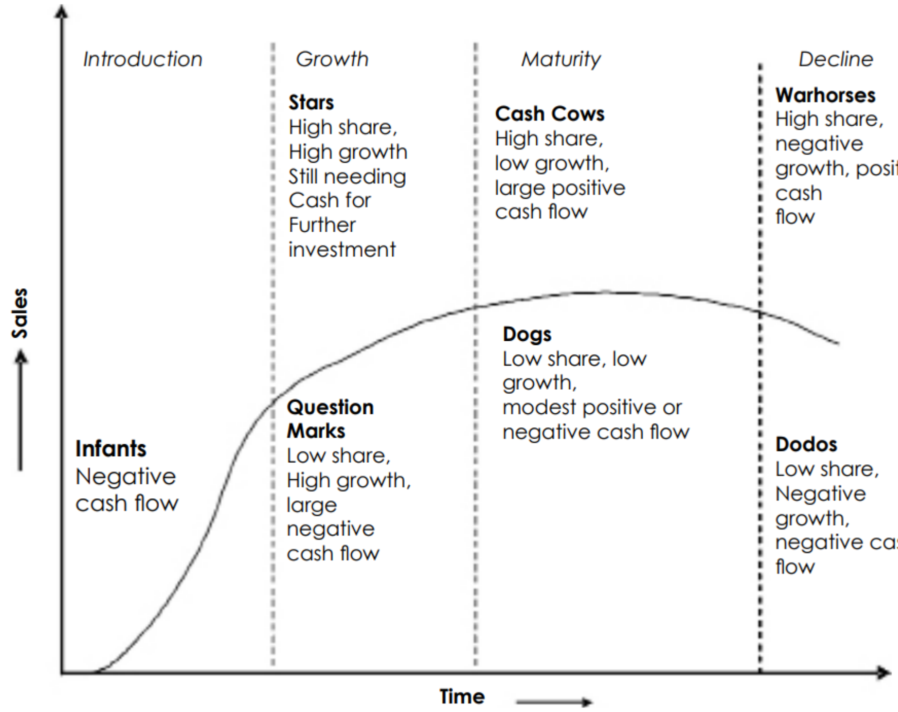
Analysis of products and business by market share and market growth



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:

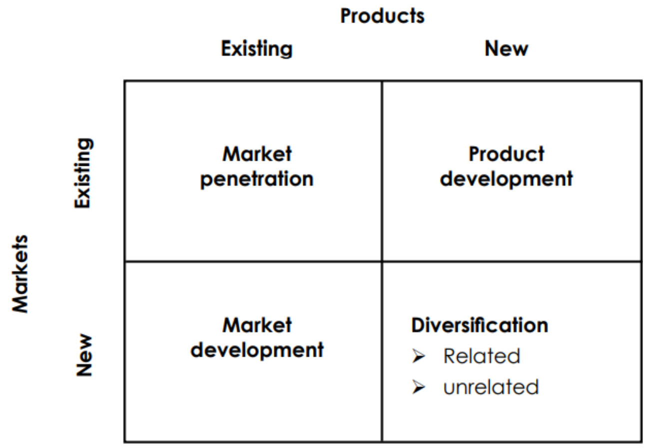
Dog ➔ ? ➔ Stars ➔ Cash cow

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



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 | 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

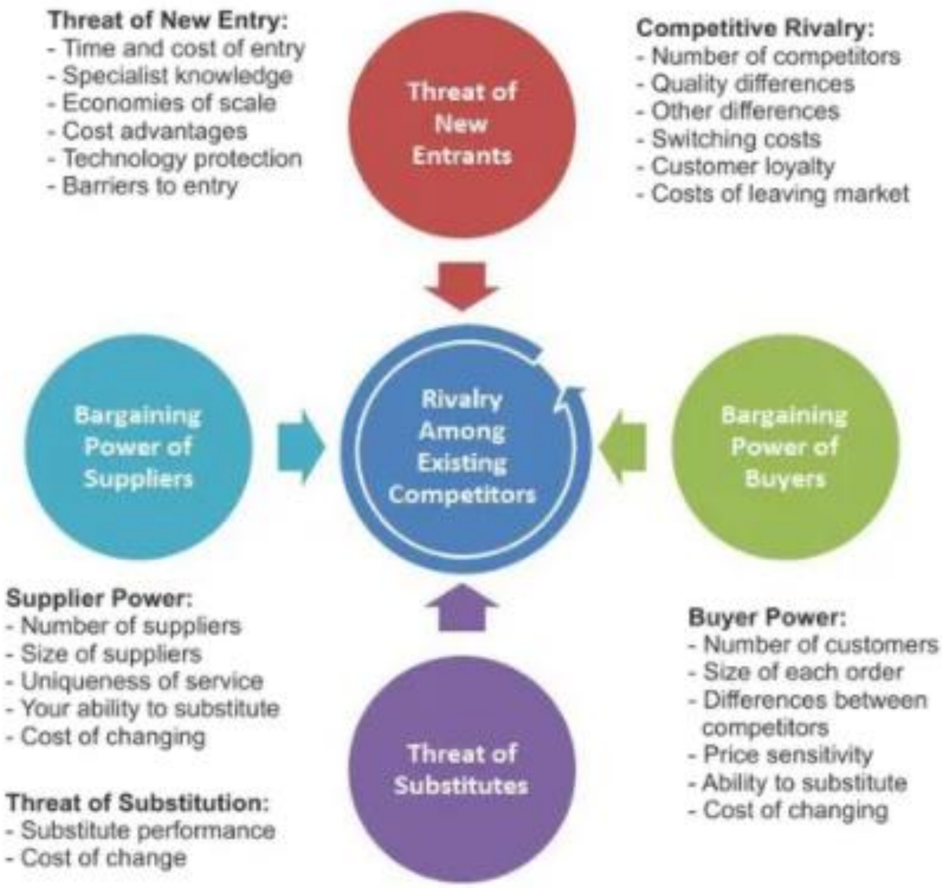
Competitive Position

	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 I 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: 6^{th} Force – The Power, vigour and Competence of Complementors

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:

Arise: when unit costs fall as a firm expands its output

Sources:

- Cost Reductions (thro mass production) | Standarised Commodity
- Discounts on bulk purchases of RMs & Component parts
- Cost Savings: Spread of Fixed Cost & marketing and advertising costs

Note: The industry producing on a small scale suffers a significant cost disadvantage

(ii) Brand Royalty:

Existence: When customer prefers for the established companies

Creation: Advertisement | Patent Rights | Product Innovation | R&D – Quality | A/f sales service

(iii) Absolute cost advantage:

Sources:

(a) superior production operations and processes - Due to accumulated experience, patents, or secret processes

(b) control of particular inputs required for production – Labour / Materials / Equipment / Management skills - Limited in their supply

(c) Access to cheaper funds because existing companies represent lower risks than new entrants.

Note: The force is weaker for established companies with absolute cost advantages

(iv) Customer Switching Cost:

Arises: Cost a customer time, energy, and money

Drawback if switch over cost is high

(v) Government Regulation:

- w.r.t Patent protection | Regulation of markets

Government regulation has constituted a major barrier into many industries.

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

- Equal in size – high intensity | attempts to gain dominance over other

- Less in size – dominates within them | Similar players have accommodated in this situation

(ii) Level of industry:

Growing demand: Moderates competition | Reduces rivalry

Idea of PLC suggests the condition

(iii) High fixed Cost

- Profitability to high leveraged to sales volume

- price wars and very low margin operations are observed

Stages in Strategic Planning

Stage I: Strategic Option Generations: Alternative strategies (relating to firm's product and market, its competitors)

Examples:

1. Increase market share
2. Penetration into international market
3. Concentration on core competencies
4. Acquisition or expansion etc.

Stage II: Strategic Options Evaluation: (Merit based examination)

1. Does it increase exiting strengths?
2. Does it remove exiting weaknesses?
3. Is it suitable for the firm's existing position?
4. Is it acceptable to stakeholders?

Stage III: Strategic Selection:

- Choosing among the alternative strategies

- Strongly influenced by the values of the managers for selection

Steps in Strategic Planning: A systematic approach to formalise plans

(i) Internal Analysis:

Strength	Financial Performance	People
Weakness	Operational Limitations	Corporate Culture
Current Market Position	Overall Characterisation of the Company's condition	Critical issues (Facing)

(ii) External Analysis:

Analyse Competitors	Technology Change	Market change and Trends
Opportunities and Threats	Regulatory / Legislative Concern	Other influences

(iii) Summarize: Current Situation from above

Importance:

- Brings relevant and critical data and information
- Easy feel for the planning team (opportunities and obstacles lie ahead)

the above for planner to get a future view

(iv) Develop: Mission / Vision / Purpose Statement

Importance:

- The process of focussing the organisation and people
- What is the organisation all about and what is important

(v) Goal Setting

- Focus: A critical element for success
- Most Important step: Establishes the framework and basis for the development of the other key elements of the plan

(vi) Define Objectives: Nature - More specific | Supports & Brings greater focus to the goals

(vii) Development of Strategies: Defines how the goals & Objectives are going to be achieved

(viii) Key Tactics: Good strategic plan includes atleast the key tactics

(Tactics – Specific tasks associated with carrying out strategies | Fully developed and added to the plan as time goes on)

Approaches in strategic planning

Why?

- To operate a planning process to produce realistic and potentially rewarding plans
- To secure the support of all involved in implementing

3 Approaches:

1. **Top-down process:** target to manager and pass on down the line
2. **Bottom-up process:** plans, targets and budgets by Functional and line mangers and approved by higher authority
3. **Iterative process:** combined movement until agreement is reached.

(Consistent – with mission, Objectives and prioirities | to be made with the context of financial resources)
Involves maximum people – To deliver worthwhile and acceptable strategic plans

Strategic Management and Strategic Planning – A Comparison

		Strategic management	Strategic planning
1	Focus	Strategic Results: New – Markets / Products / Technology	Optimal strategic decisions
2	Management	By results	By plans
3	Process	Organisational Action	Analytical
4	Focus	Psychological, Sociological and Political variables	Business, economic and Technological variables
5	Choosing	Things to do & who will do	Things to do

Corporate planning and long-range planning:

Corporate planning

- Determination of Objectives: For the whole Company
- Company's overall Objectives – Short & Long Run
- Integrated Systems Approach – Considers different functions, divisions and units
- Framed by Top level

Long Range Planning

- A systematic and formalized process
- Directs & Controls future operations
- Opportunity to anticipate future problems
- Spreads long range [5 years +] | Includes flexibility

Corporate planning and long-range planning – A Comparison

Not synonymous

w.r.t CP alone

Both Long and short term – Depends on forecasting / nature of business / commitment of resources

Engineering Firms – Long term | Textile Firms – Short Firms

Labour – Intensive Industries - CP with LP

Corporate planning - Existing products in existing market & New product in new market

Long-range planning - Existing products in existing market [only]

Strategic planning and long-range planning – Difference

Basic Divergence: w.r.t. Assumptions regarding future environment

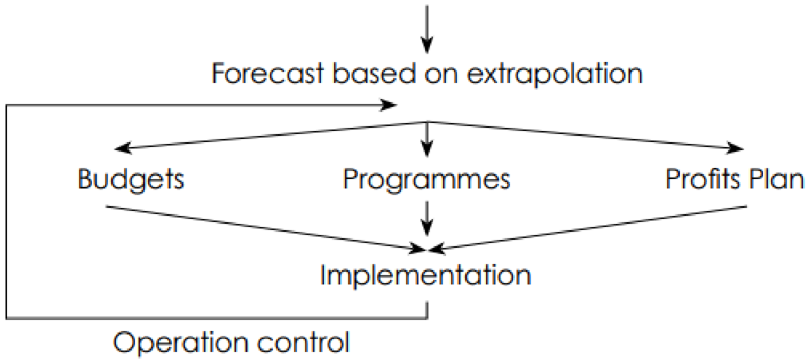
LP

- Current knowledge about future conditions are certain and relied by executives
- Objectives forecasted through extrapolation

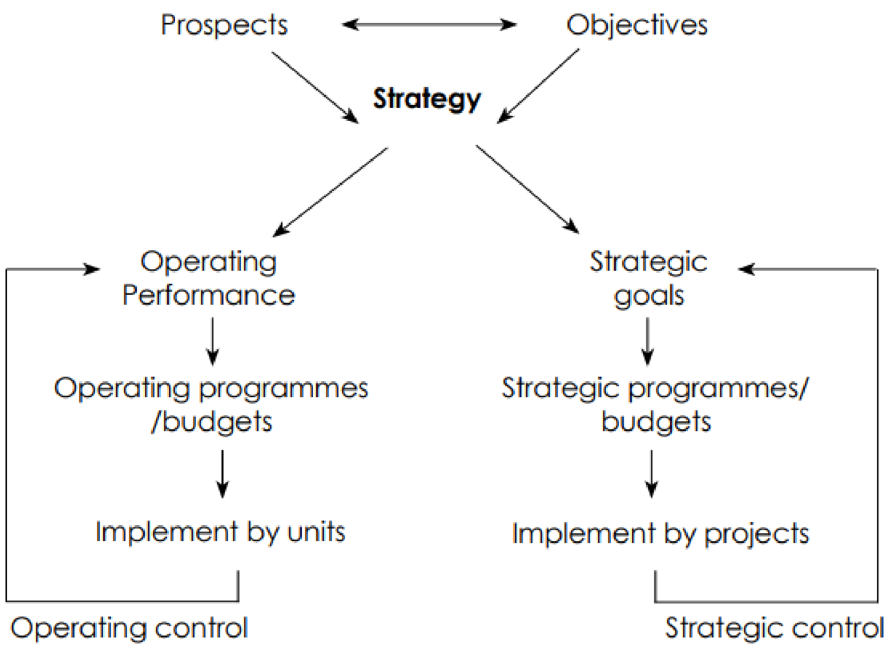
SP

- Future environment conditions are **unknown** [dynamic & uncertain]
- Ready to respond to a dynamic environment
- Action taken as per the changes in future
- Future prospects analyzed based on identified opportunities and threats

Long range planning



Strategic Planning



Alternatives in Strategic Planning

What: Contingency plans for unfavourable events [as well as favourable events]

Why: protect from unforeseeable events – strikes, boycotts, natural disasters, government actions, obsolescence, entry of foreign competitors.

Action: insure for high priority areas

Situations and contingency plans for counter action

	Events	**Contingency plans**
1	Competitor withdraws / enters in to market	Counter action
2	Sales target not reached	Avoid loss
3	Demand exceeds	Meet the higher demand
4	Disasters / natural calamity	Preventive / post action
5	Obsolete due to technology	Counter action

Other notable points:

1. Alternative strategies not implemented will serve as contingency plans

2. Not to discard [Example – Nuclear power plans rather than coal and gas derived electricity]

3. Contingency plans help to respond quickly in case of unexpected opportunity and capitalise on them.

4. Capitalise by contingency plans under unexpected opportunities

Major Benefits:

Reported by Linnemam and Rajan Chandran

Users: Dupoint, Dow Chemical, Consolidated Foods, Emerson Electric

Benefits: Quick Response | Panic prevention in crisis situation | Adaptable by managers (w.r.t. future variability)

Steps in Contingency Planning: A 7 step Process [By Linnemam & Rajan Chandran]

Step 1 - Identify: Beneficial and Unfavourable events (derails the strategies)

Step 2 - Specify Trigger Points. Calculate about when contingent events are likely to occur.

Step 3 - Assess the impact of each contingent event. Estimate the potential benefit or harm of each contingent event

Step 4 - Develop contingency plans. Be sure that contingency plans are compatible with current strategy and are economically feasible.

Step 5 - Assess the counter impact of each contingency plan. That is, estimate how much each contingency plan will capitalize on or cancel out its associated contingent event. Doing this will quantify the potential value of each contingency plan.

Step 6 - Determine early warning signals for key contingency event. Monitor the early warning signals.

Step 7 - For contingent event with reliable early warning signals, develop advance action plans to take advantage of the available lead time

Benefits of contingency planning

1. Proactive planning and preparation in advance for future events
2. Helps in removing present difficulties
3. Anticipate future problems
4. Dynamic to suit internal and external changes

5. Experiments with creative ideas and take initiative
6. Shape the future and create a more desirable environment
7. Quick response to change
8. Prevents panic in crisis situations
9. Makes the managers more adaptable to unforeseen changes

Structural Drivers of Change

Forces likely to affect the structure of an industry, sector or market.

Factors:

1. Increasing convergence of markets: Global Customers & develop marketing policies

2. Cost advantage of global operations: In large volumes, standardised production and enjoy economies of scale. Enjoying competitive edge

3. Activities and policies of the governments – Influences the globalisation of industry. Increase in competition (towards free trade and technical standardisation of products between countries)

4. Global competition - A driver to globalisation. Increase in competition (w.r.t. imports and exports The interdependence of companies across the world promotes global trade

Diversification Strategy

- A process of entering new industries
- Distinct from a company's core or original industry
- To make new kinds of products that can be sold profitably to customers in these new industries
- It takes the organisation away from its current markets / products / competences

Types

	Related (concentric)	Unrelated (conglomerate)
Nature	Development beyond current products & Markets, but within the value system / industry	Beyond the current value system / industry
Advantage	Takes advantage of strong technological, manufacturing, marketing and sales commonalities between new and existing business units that can be suitably adjusted or modified to increase the competitive	To increase - profitability through the use of generic organisational competences - performance of all the company's business units

	advantage of one or more business units.	
Example	Johnson & Johnson in Health Care	ITC - Agri, Hotels, FMCG, Hotel,..