

## 2. STRATEGIC ANALYSIS AND STRATEGIC PLANNING

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**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 [What is]**

**Political:** Government decisions and policies, tax laws, monetary and fiscal policies, labour reforms

**Economical:** inflation, interest rates, economic growth and demand / supply trends

**Social:** trends of population, domestic markets, cultural trends and demographics

**Technological:** trends, innovations and advancements, automation and incentive

### **PEST Analysis [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

<i>Internal</i>		<b>Strengths</b>	<b>Weaknesses</b>
<i>Finance</i>		Good	Poor
<i>Raw material availability</i>			
<i>Labour availability</i>			
<i>Product &amp; product-mix</i>			
<i>Size of Capacity</i>			
<i>Capacity utilisation</i>			
<i>Technology</i>			
<i>Infrastructure</i>			
<i>Managerial strengths</i>			
<i>Industrial Relations</i>			
<i>External</i>		<b>Opportunities</b>	<b>Threats</b>
<i>Demand</i>	Seasonal		No demand
<i>Globalisation</i>	Export		Import
<i>Economy</i>	Development		Slow down
<i>Industrial Relations</i>	Good		Unrest
<i>New market</i>	Rural, global		Competition
<i>Government incentive</i>	Available		Nil [Penalty]
<i>Finance</i>	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

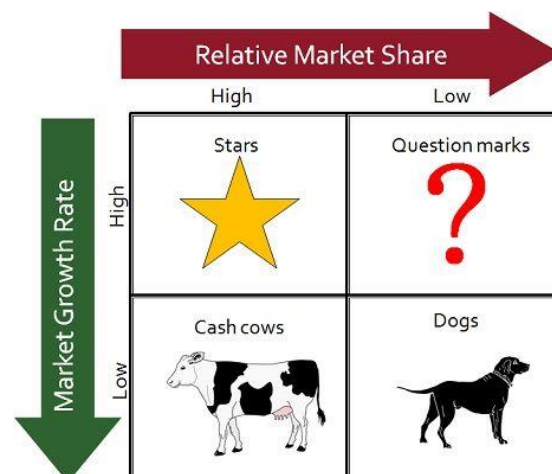
1. Strength | weakness | growth | decline of organisation's product in the market
2. Strategy needed: maintain strong position | overcome weakness

### 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 patten 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



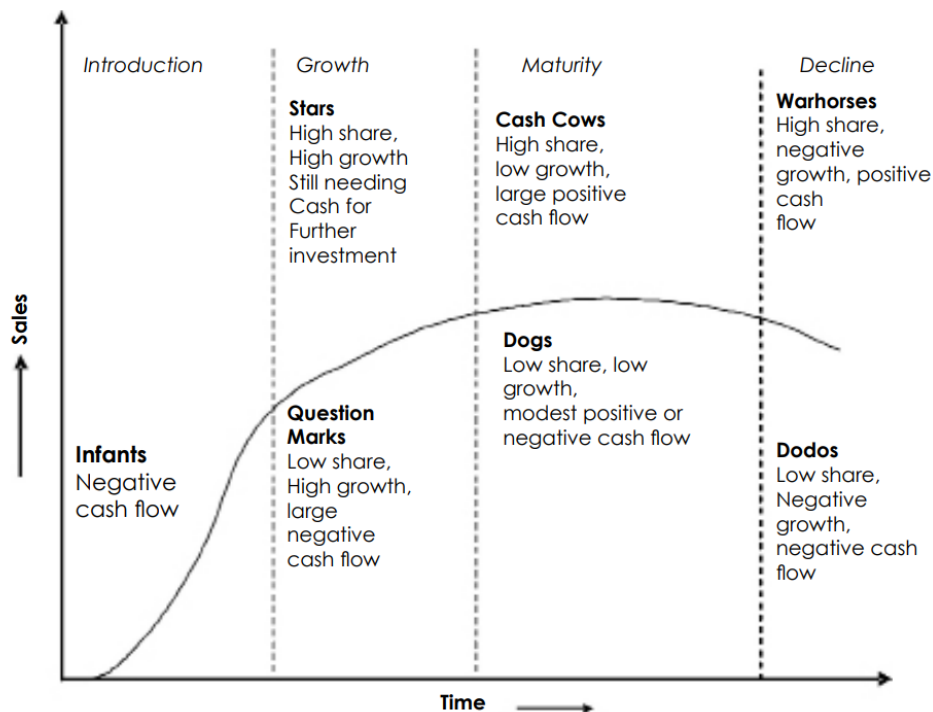
## Classification of products

	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

### 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

### 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

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

		Products	
		Existing	New
Markets	Existing	Market penetration	Product development
	New	Market development	Diversification ➤ Related ➤ unrelated

**1. Market Penetration Strategy:** Increase in Sales is achieved by

- Price reduction
- Increase in promotional and distribution support
- Acquisition of a rival in the same market
- 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

- Investment in R&D of additional product
- Acquisition of right to produce
- Buying and badging
- Joint development [product + distribution channel or brands]

**Factor to success of this strategy [profitability]**

- Customer information that allows accurate targeting
- Established distribution channels
- A brand which can be credibly applied to the new product

**3. Market development strategies:** new market for exiting product

**Examples**

- Different customer segments [young customer vs adult customer]
- Industrial buyer vs household buyers
- New areas or region
- 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:**

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

## Arthur D. Little Portfolio Matrix [20 cells]

### Stages of Industry Maturity

		Embryonic	Growth	Mature	Ageing
Competitive Position	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

### Stages in Strategic Planning

**Stage I: Strategic Option Generations:** alternative strategies are considered for

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

**Stage II: Strategic Options Evaluation**

1. Does it increase existing strengths?
2. Does it remove existing 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

**Stage IV: Strategic Planning**

**Steps**

1. Internal Analysis:
 

Strength	weakness	financial performance	People
corporate culture	current position	operational limitations	
2. External Analysis:
 

Opportunities	threats	changing technology
regulatory concern	legislative concern	changes and trends
3. Summarizing the above for planner to get a future view
4. Development of a mission, vision or purpose statement
5. **[what]** Goal setting
6. **[why]** Defining objectives that support the goals [more focus to goal]
7. **[how]** Development of strategies to achieve the goals and objectives
8. Tactics [task associated with carrying out strategies]

**Three approaches in strategic planning**

1. Top-down process: target to manager and pass on down the line
2. Bottom-up process: plans, targets and budgets by staff and approved by higher authority
3. Iterative process: combined

**Strategic management and strategic planning – distinction**

		<b>Strategic management</b>	<b>Strategic planning</b>
1	Focus	New markets, new products, new technology	Making optimal strategic decisions
2	Management	By results	By plans
3	Process	Action	Analytical
4	Focus	Psychological, sociological and political variables	Business, economic and technological variables
5	Choosing	Things to do and people who will do	Things to do