Question Bank for Strategic Management as per MIM

1. What is strategy and the strategic management process?

Strategy is aimed at creating sustainable competitive advantage.

Definition of Strategy –

Strategy is a fundamental pattern of present and planned objectives, resource deployment and interactions of an organisation with markets, competitors and environmental factors.

In Simple terms – Strategy is the action plan aimed at achieving sustainable competitive advantage.

Components of Strategy –

Scope – A business may have several segments and each segment has several dimensions; Finance, Production, Marketing, HR, Distribution, Advertising, ……….. Like ITC starts from its primary business of cigarettes and goes into paper, greeting cards, rural retail, hotels and so on. Similarly, Hindustan Lever has its presence in 100s of the personal care products. Which segment of the above is your focus? Scope refers to the business or activities of a business where you wish to take advantage. Further, scope of each business needs to be decided; like, in hotel business, whether the company wants to be in the budget hotel segment or executive segment or in the luxury segment.

Mission, Goals and Objective – Mission Goals and Objectives need to be clearly identified. What is the objective of strategy? What do you want to achieve? Do you want to increase the profitability? Or, do you want to increase the market share? Or do you want to reduce the competition? Even Profit is not always the motive. Sometimes public welfare may be the objective.

Deployment of Resources – Based on the Mission, Goals and Objectives, resource deployment is decided.

Developing Sustainable Competitive Advantage – The plan is formulated which will give the company a sustainable competitive advantage which is the core purpose of strategy formulation.

Synergise – Take advantage of various synergies available. Synergy is all about creating a sum which is more than arithmetic total of its parts.

Strategy Formulation is done at three levels –

Corporate Level – Corporate Strategy

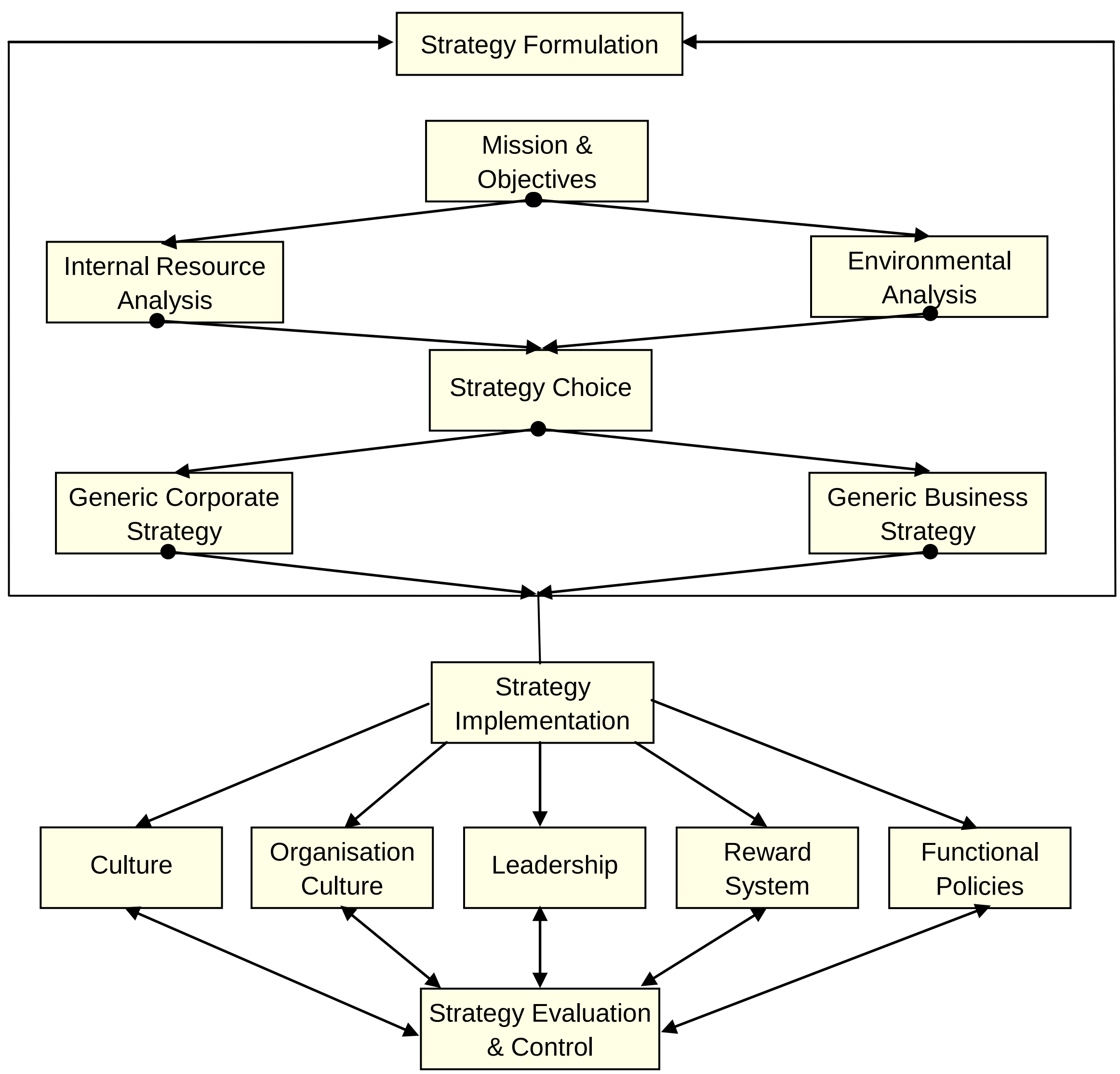
Strategic Business Unit (SBU) Level – Business Strategy

Functional Level

At each level of business, a strategy needs to be formulated, from macro level to micro level.

Strategic Management Process

Process of Strategic Management (Strategic Mgmt Model)



Strategic Management process begins after the Vision and Mission statement have been set. Vision and Mission statement actually indicate the direction of strategic management process.

Vision – Corporate vision is a short, succinct, and inspiring statement of what the organization intends to become and to achieve at some point in the future. Vision is intentions that are broad, all-intrusive and forward-thinking. It describes aspirations for the future, without specifying the means that will be used to achieve those desired ends.

In simple terms - Vision is the description of desired future form/state of the company. It is the dream of top management as to where it would like the company to be in future. It is a common folly to extrapolate the present into future. Drawing the Vision requires the top management to empty their mind of the past and present before they sit down for the purpose.

Once the Vision Statement has been drawn, it needs to be communicated to the employees. It is not enough to communicate just the Vision. Vision statement does not include the action plan, because it is meant for not only the company but the general masses as well. But it is a must to communicate the action plan for achieving those lofty aims to the employees. Else, it will lack the authenticity and belief of the people whose heart and soul is must for making it a reality.

Mission – Mission is the dream for the near future. It is a statement of what company wishes to achieve in the short term.

Strategy Management Process (Consists of Following Steps) –

Analysis of External (Macro) Environment – Macro environment is source of threats, opportunities & constraints and uncontrollable. Therefore, the strategy has to be drawn around those uncontrollables within the contraints imposed and opportunities offered by them. Macro Environment can be further sub-dived into following

Remote Environment (Global as well as Domestic)

Social

Technological

Legal

Political

Economic

Industry Environment – Porter's Five Forces model –

Entry Barriers

Suppliers Powers

Buyers' Power

Substitute Availability

Competitive Rivalry

Operating Environment

Competitors

Creditors

Customers

Labour

Suppliers

Socio - Cultural Environment

Demographic factors such as:

Population size and distribution

Age distribution

Education levels

Income levels

Ethnic origins

Religious affiliations

Housing conditions

Attitudes/Belief towards: Materialism/capitalism/socialism, free enterprise individualism, role of family, role of government, collectivism, language, etc

Cultural structures including: Religious beliefs and practices, consumerism, environmentalism, Work Ethics, Pride of accomplishment, diet and nutrition, etc.

Technical Environment

Efficiency of infrastructure, including: roads, ports, airports, rolling stock, hospitals, education, healthcare, communication, etc.

New manufacturing processes

New products and services of competitors

New products and services of supply chain partners

Any new technology that could impact the company

Legal Environment

Minimum Wage laws

Environmental Protection laws

Industrial laws

Union laws

Copyright and Patent laws

Effectiveness of Law & Order enforcement machinery.

Political Environment

Political Climate – Type of govt (Capitalist/Communist/Democratic/ Autocratic/Monarchy/etc)

Political Stability and Risk – What political stability relates to business is the stability of govt policies. In many countries like Japan, Italy, France, Germany and even in our own country, govts have changed but business policies of the govt have remained constant over the time. Political instability is serious when business policies change drastically with govts.

Economic Environment

GNP or GDP per capita

Economic growth rate

Inflation rate

Consumer and investor confidence

Currency exchange rates

Unemployment rate

Balance of payments

Future trends

Budget deficit or surplus

Corporate and personal tax rates

Import tariffs and quotas

Export restrictions

Restrictions on international financial flows

Scanning these macro environmental variables for threats and opportunities requires that each issue be rated on two dimensions. It must be rated on its potential impact on the company, and rated on its likeliness of occurrence. Multiplying the potential impact parameter by the likeliness of occurrence parameter gives us a good indication of its importance to the firm. Let us see how Times of India has been affected by the changes in its external environment:

Demographic Changes – There is a change in readership of newspapers. The average age of newspapers readers have come down. TOI has responded to this demographic change with change in the content and presentation of its articles.

Social Changes – TOI has started with various supplements like Matrimonial, Property, Suburban Specials, etc

Technological – Paper is in colour, more prompt (even late hour news gets coverage due to faster printing technology, and more and more editions.

Economic – Lower prices

Internal Resource Analysis –Let us see how to evaluate our internal resources. We need to ask a few questions to ourselves -

Is it a distinctive Asset?

What is the life of resource? (Kodak company which had become a household name world over due to its photographic films and equipment business failed to see the end of this business due to advent of digital (filmless) photography. Companies in the business of non-renewable natural resources have to be specially aware of this fact).

Is your resource copyable? If it is, does it have copyright protection? If no then, it has no value because along with your launch it will proliferate.

What is your Brand Power?

What is the result of SWOT analysis?

Strategy Formulation – Once we know the external and internal environment (SWOT analysis) vis a vis our vision and mission, it is time to formulate the strategy. Strategy formulation is done on the basis of following principles

Cost Leadership

Product Differentiation

Market Segmentation (or Focus)

First Movers Advantage

Synergy

Company has to take a call as to which of routes to adopt.

Implementing the Strategy –

A bad strategy may still succeed if implementation is good but best of the strategies will not succeed if implementation is bad.

Above matter of fact statement sums up the importance of implementation phase. Strategy implementation is dependent on organisational strength. Following organisational factors affect the implementation:

Leadership

Organisational Structure – Flat/Project Team/Matrix/Hierarchical, etc.

Reward Systems – Appraisals and monetary and non-monetary rewards.

Functional Policies – Implementation/execution on the ground is done at the middle and lower manager levels. Thus, HR policies assume high significance. Implementation is dependent on incentives, employees' motivation and commitment towards company which are shaped by the HR policies. Marketing policies also affect the implementation some times.

Is the organisation a learning organisation? Implementation in a learning organisation is always much better since lessons from previous implementations must have been used to strengthen the system.

Based on above requirements, you need to create an organisation capable of carrying out the strategy successfully in following steps:

Allocate necessary and adequate resources.

Create strategy supportive systems and procedures.

Create work culture conducive to strategy implementation

Install information storage and retrieval system.

5. Evaluation and Control System – In order to evaluate the performance, targets need to be set. An effective, accurate and prompt feedback system is essential so that any deviations from plan can be spotted in time and course correction applied. High performers need to be kept motivated through awards and rewards and low performers should be motivated or changed. If the need be fine tune/reformulate your strategy.

2. What is the difference between strategic and corporate planning?

In the surface level, strategic planning and corporate planning are interrelated though, there is difference between corporate planning and strategic planning in the sense that strategic planning refers to the larger extent when compared to the corporate planning. In simple, the strategic planning relates to the entire company, and the corporate planning relates to the specific functions of the company. Therefore, the corporate planning is less in extent. Furthermore, the strategic planning determines the overall direction of the company while the corporate planning determines and function on the foundations of the business. Also, the strategic planning says how to exist in the volatile business environments and it emphasizes ways and means of obtaining the competitive advantages over the competitors. In the mean time, the corporate planning helps to determine the internal functions and issues in the company. Interconnecting these two, the strategy is a definite part of corporate planning and the corporate plan incorporates the strategic related issues.

What is Corporate Planning?

Corporations are entities that are designed around a certain set of elements that determines the shape of a business. Among them, the core of the business is important. This refers to the major business activity. For an instance, it can be either producing a product, delivering a service, or a conjunction between the two. Depending on the product or the service the company produces, there is a set of buyers known as the target audience. So, all these elements are managed by the corporate plan of the company. Also, the corporate planning involves functioning the company as well. In this regard, determining the number of units of the company and assigning people to those units (i.e. departments) depending on their capabilities are also addressed under corporate planning. Therefore, almost all the internal functionality is handled by the corporate plan.

What is Strategic Planning?

By having a strategy plan, it is expected to determine a long-term direction of a company. Also, the competitive edge of the company is achieved by executing the strategy. Therefore, gaining competitive advantage is also addressed in this regard. These facts depict that strategic plan always address the entire company. Therefore, this involves observing the environment that is really volatile in nature and determining changes accordingly. This scanning aspect requires research and development in the company level. As strategic planning determines the long-term direction of the company, setting mission and vision is also addressed. Allocating resources among different projects in order to achieve the end state of affairs happens in the perspective of strategic planning. There are personnel called strategic managers in a company. They are responsible for scanning the environment and imposing alterations accordingly. This shows that they should possess business intuition.

Some acknowledge the strategic planning as a cycle. Determining the company-wide objectives, and ways and means of achieving the objective is highlighted in this cycle. Once the outcomes are observed, the measurement procedures are also set by the strategic plan. Finally, alterations in the observed results are applied, only if they are needed. Thus, this is acknowledged as a cycle since this a continuous process.

The difference between Corporate Planning and Strategic Planning?

• Time Factor:

• Corporate Planning usually comprises of short time periods.

• Strategic planning comparatively comprises of long time periods.

• Scope:

• Corporate planning deals with the internal aspects of the company.

• Strategic planning deals with the overall business (i.e. internal and external) and external environments.

• Objectives:

• Corporate planning sets parameters and objectives within the company.

• Strategic planning sets the overall direction of the company.

• Response Nature:

• Corporate planning responds to the market segments which the company deals with.

• Strategic planning selects which market segments to deal with.

• Interconnection:

• Corporate plans facilitate or help to achieve strategic plans, and corporate plans are set according to the motives of the strategic plan.

3. Vision / mission differences wrt strategy

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Mission

How we at Leadership Strategies define "mission":

	Definition	Example (Meeting Planners Association)
Mission	A statement of the overall purpose of an organization which describes what you do, for whom you do it and the benefit.	To provide a forum for furthering the growth and professionalism of the meetings industry.

A mission statement answers three simple questions:

What do you do?

For whom do you do it?

What is the benefit?

The mission statement above illustrates an excellent example of how a mission statement can answer the three questions in a succinct form.

What do they do? Provide a forum.

What's the benefit? Furthering growth and professionalism.

Who benefits? The meetings industry.

Vision

Now, let's contrast the difference between a mission statement and a vision statement.

	Definition	Example (Meeting Planners Association)
Vision	A picture of the "preferred future"; a statement that describes how the future will look if the organization fulfills its mission.	To be the place where meeting planners meet.

While a mission explains the overall purpose of the organization – what you do, for whom you do it and the benefit – a vision statement gives the picture of the preferred future. A vision statement answers the question, "If the organization fulfills its mission, what will the future look like?" In other words, the vision is a a statement that describes how the future will look if the organization meets its mission.

So, now that you understand the difference between the mission and the vision, you can appreciate why these two terms are not interchangeable.

4.Driving forces for strategy : competition, change

Factors driving Industry Change …

All industries are characterised by trends and new development that gradually or speedily produce changes important enough to require a strategic response from participating firms.

Also Industries go thru a life cycle changes- its difference stages and hence the Industry change….but it is far from complete

There are more causes…..that need to be identified and their impact to be understood.

The Concept of Driving Force:

Industry conditions change because important forces are driving industry participants (competitor, customer, or suppliers) to alter their actions; the driving forces in an industry are the major underlying causes of changing industry and competitive conditions- they have the biggest influence on how the industry landscape will be altered. Some originate in the outer ring of macro-environment and some originate from the inner ring.

Driving forces Analysis:

Identifying what the driving forces are

Assessing whether the drivers of change are, on the whole, acting to make the industry more or less attractive

Determining what strategy changes are needed to prepare for the impact of the driving forces

Identifying an Industry’s Driving Forces:

1) Emerging new internet Capabilities and Applications

Got into every days biz operation and social fabric of life all across the world.

Increasing internet usage & Speed->Growing internet shopping

Companies using online technology

Collaborate closely with suppliers and streamline their supply chain

Revamp internal operations and squeeze our cost saving

Manufacturer-> website-> Direct customers.

All Biz->Extend Geographical Reach

Low cost increases the no. of online rival and hence the compitition of online v/s brick and mortar sellers.

Internet gives customer-> Power to research the product offering and shop the market for the best Value.

untig Ability of Consumer to download Music from internet has reshaped traditional music retailers

Emails has eroded fax services and first class mail delivery revenues of govt postal services world wide

Videoconferencing has eroded the demand of biz travels

Online cources offering have the potential of revolutionise higher education

Internet will feature faster speed, dazzling applications and over a billion connected gadgets performing an array of functions thus driving firther industry and competitive changes

Internet related impacts vary from industry to industry

2) Increasing Globalisation:

Competition begin to shift from regional & national focus to an inernational or global focus

Industry members begin seeking out customers in foreign market

Production activities begin to migrate to countries where costs are lowest

Global competition really starts when one or more ambitious Companies precipitate a race for world wide market leadership.

Globalization happens:-

Blossoming of customer and demand in more and more countries

Action of govt to reduce the trade barrier .Europe,Latin America and Asia

Significant difference in labour cost ->locate plant e.g China, india , Singapore, Maxico and Brazil ¼ of those in US, Germany and Japan

Eg.Industires :- Credit Card, CellPhone, Digital Camera, Golf and Ski Equipment, Motor Vehicles, Steel, Petrolium, Personal Computers, Vedio Games, Public Accounting and Text Publishing….

3) Changes in an Industry Long Term Growth Rate.

Shift in industry growth or are driving force for industry change, affecting the balance between industry supply and buyer demand, entry and exit of the firms

Increase in buyers demand triggers a race among established firms and new comers to capture the new sales opportunities, in turn will launch offensive strategies to broaden customer base and grow significantly

Decrease or slow down in rate at which demand is growing firms fight for their market share

If industry sales suddenly turns flat competition itencify, consolidation takes shapes by mergers and acquisations,

Stagnating sales forces both weak and strong firms to sell their biz to those who elect to stick-> forces to close inefficient plants and retrench to small prod base…

4) Changes in who buys the Product and how they use it:

Shift in buyer demographics-New ways of using product- firms broaden or narrow their product line-diff sales & promotion…

Downloading Music From Internet-Storing Music Files on HD & PC, Burning CD-forced to reexamin the traditional music stores-also have stimulated the sales of Disc burners and blank discs.

PC & Internet- Banks to expand their electronics bill payment services and retailers to move more of their customer services online

5) Product Innovation:

Rivals racing to be first to introduce the new product or product enhancement after another.

Competition changes->attracting more 1st time buyers ->Rejuvenating ind growth, creating wider or narrow prod differentiation.

Strong market position of Successful innovators at the cost of slow innovators

Eg. Degital Cameras, Golf Glub, Video games, Toys and Prescription Drugs.

6) Technology Change & Manufacturing Process Innovation

Advances in the technology can dramatically alter an industry's landscape.

Gives birth to new and better products at lower costs opening up new industry frontier.

Identifying an Industry's Driving Forces: Technology change contd..

Eg.

Internet based phones are stealing large number of customers from using traditional telepone co world wide(high cost technology, hard weird connections via overheads and underground telephone lines

Flat screen technology are killing CRT monitors

LCD and Plasma screen tech are driving CRT tech further

Digital tech driving huge change in camera and film industry

MP3 technology is transforming how people listen to music.

7) Marketing Innovation :

Successful in introducing new ways to MARKET their products:

Spark a burst in buyer interest

Widen industry demand

Increase product differentiation

Lower unit cost

Any or all of which can alter the competitive position of rival firm

Eg.

On line marketing of Electronics goods

Music artist mkting their own website V/s contract with recording Studios….

8) Entry or Exit of Major Firms

Entry of one or more foreign co. into a geographic market once dominated by domestic firms shakes up the competitive scenario.

Pushes the competition to new direction

Bring in new rules of competiting

Exit:- Reduces the no of mkt leaders, dominance of existing players and rush to capture existing firm's customers.

9) Diffusion of Technical Know how across more companies and more countries.

As the knowledge spreads, the competitive advantage of existing firm originally possessing it erodes.

It happens thru Scientific Journals, Trade Publications, On site Plant tours, Word of mouth, Employees Migration, and internet sources

Tehnology knowledge license / Royaltee fees

Cross border technology transfer has made the once domestic industries of automobile, tires, consumer electronics, telecommunication and computers truly global

10) Change in cost and efficiency

Widening or shrinking differences in the costs among key compititors tend to dramatically alter the state of compitition

Low cost fax and e mail put mounting pressure on the ineffecient and high cost operation of Postal Dept.

Shrinking cost of differences in producing multifeatured mobiles is turning the mobile phone market into comodity business and making more buyers to base Price as their Purchase decision

11) Growing buyer preferences for differentiated products instead of a commodity product

When buyers taste and preferences start to diverge, sellers can win a loyal following by providing different vairants and taste then the compotitors.

Eg.

Beer

Automobile

12) Reduction in uncertainty and Business Risk.

An emerging industry is typically characterised by much uncertainty and risk in terms of time and efforts required to coverup with the investments.

Emerging industries tend to attract only risk-taking entrepreneurial companies. over time how ever, if the business model of industry pioneers proves profitable and market demand for the product appears durable, more conservative firms are usually enticed to enter the market. Often the later entrants are large & financially strong looking to invest into attractive growth industry.

Low biz risk and less industry uncertainty also affect competition in international market. In the early stage the co. enters foreign mkt with a conservative approach with less risky strategies like exporting, licensing, joint marketing agreement and JV with local companies.

As time goes and the co accumulates experience, it starts moving boldly and independently making acquisitions, constructing their own plants, putting their own sales and mkting capabilities to build strong competitive position...

13) Regulatory Influence and government Policy Changes.

Govt regulatory actions can often forces significant changes in industry practices and strategic approaches.

Deregulation has proved to be a potent pro competitive force in the airline, banking, natural gas, telecommunications, and electric utility industries.

Govt efforts to reform MEDICARE and HEALT Insurance have become potent driving forces in the health care industry.

5. Competitive analysis & PESTEL

Competitor analysis begins with identifying present as well as potential competitors. It portrays an essential appendage to conduct an industry analysis. An industry analysis gives information regarding probable sources of competition (including all the possible strategic actions and reactions and effects on profitability for all the organizations competing in the industry). However, a well-thought competitor analysis permits an organization to concentrate on those organizations with which it will be in direct competition, and it is especially important when an organization faces a few potential competitors.

Michael Porter in Porter's Five Forces Model has assumed that the competitive environment within an industry depends on five forces- Threat of new potential entrants, Threat of substitute product/services, bargaining power of suppliers, bargaining power of buyers, Rivalry among current competitors. These five forces should be used as a conceptual background for identifying an organization's competitive strengths and weaknesses and threats to and opportunities for the organization from it's competitive environment.

The main objectives of doing competitor analysis can be summarized as follows:

- ✓ To study the market;
- ✓ To predict and forecast organization's demand and supply;
- ✓ To formulate strategy;
- ✓ To increase the market share;
- ✓ To study the market trend and pattern;
- ✓ To develop strategy for organizational growth;
- ✓ When the organization is planning for the diversification and expansion plan;
- ✓ To study forthcoming trends in the industry;
- ✓ Understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response;
- ✓ Insight into future competitor strategies may help in predicting upcoming threats and opportunities.

Competitors should be analyzed along various dimensions such as their size, growth and profitability, reputation, objectives, culture, cost structure, strengths and weaknesses, business strategies, exit barriers, etc.

PESTEL/PESTLE Analysis

PESTLE analysis, which is sometimes referred as PEST analysis, is a concept in marketing principles. Moreover, this concept is used as a tool by companies to track the environment they're operating in or are planning to launch a new project/product/service etc.

PESTLE is a mnemonic which in its expanded form denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental. It gives a bird's eye view of the whole environment from many different angles that one wants to check and keep a track of while contemplating on a certain idea/plan.

The framework has undergone certain alterations, as gurus of Marketing have added certain things like an E for Ethics to instill the element of demographics while utilizing the framework while researching the market.

There are certain questions that one needs to ask while conducting this analysis, which give them an idea of what things to keep in mind. They are:

What is the political situation of the country and how can it affect the industry?

What are the prevalent economic factors?

How much importance does culture has in the market and what are its determinants?

What technological innovations are likely to pop up and affect the market structure?

Are there any current legislations that regulate the industry or can there be any change in the legislations for the industry?

What are the environmental concerns for the industry?

All the aspects of this technique are crucial for any industry a business might be in. More than just understanding the market, this framework represents one of the vertebras of the backbone of strategic management that not only defines what a company should do, but also accounts for an organization's goals and the strategies stringed to them.

It may be so, that the importance of each of the factors may be different to different kinds of industries, but it is imperative to any strategy a company wants to develop that they conduct the PESTLE analysis as it forms a much more comprehensive version of the SWOT analysis.

It is very critical for one to understand the complete depth of each of the letters of the PESTLE. It is as below:

Political: These factors determine the extent to which a government may influence the economy or a certain industry. [For example] a government may impose a new tax or duty due to which entire revenue generating structures of organizations might change. Political factors include tax policies, Fiscal policy, trade tariffs etc. that a government may levy around the fiscal year and it may affect the business environment (economic environment) to a great extent.

Economic: These factors are determinants of an economy's performance that directly impacts a company and have resonating long term effects. [For example] a rise in the inflation rate of any economy would affect the way companies' price their products and services. Adding to that, it would affect the purchasing power of a consumer and change demand/supply models for that economy. Economic factors include inflation rate, interest rates, foreign exchange rates, economic growth patterns etc. It also accounts for the FDI (foreign direct investment) depending on certain specific industries who're undergoing this analysis.

Social: These factors scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics, population analytics etc. An example for this can be buying trends for Western countries like the US where there is high demand during the Holiday season.

Technological: These factors pertain to innovations in technology that may affect the operations of the industry and the market favorably or unfavorably. This refers to automation, research and development and the amount of technological awareness that a market possesses.

Legal: These factors have both external and internal sides. There are certain laws that affect the business environment in a certain country while there are certain policies that companies maintain for themselves. Legal analysis takes into account both of these angles and then charts out the strategies in light of these legislations. For example, consumer laws, safety standards, labor laws etc.

Environmental: These factors include all those that influence or are determined by the surrounding environment. This aspect of the PESTLE is crucial for certain industries particularly for example tourism, farming, agriculture etc. Factors of a business environmental analysis include but are not limited to climate, weather, geographical location, global changes in climate, environmental offsets etc.

6. Porter's 5 force analysis and relevance to strategy

PORTER'S BUSINESS MANAGEMENT STRATEGY

(Porter was originally an engineer, then an economist before he specialised in strategy)

Michael Porter's business management strategy is a three step process: -

Assessment of problem,

Planning to fight the problem and then

Application

These three broad steps of Porter's business management strategy are christened as: -

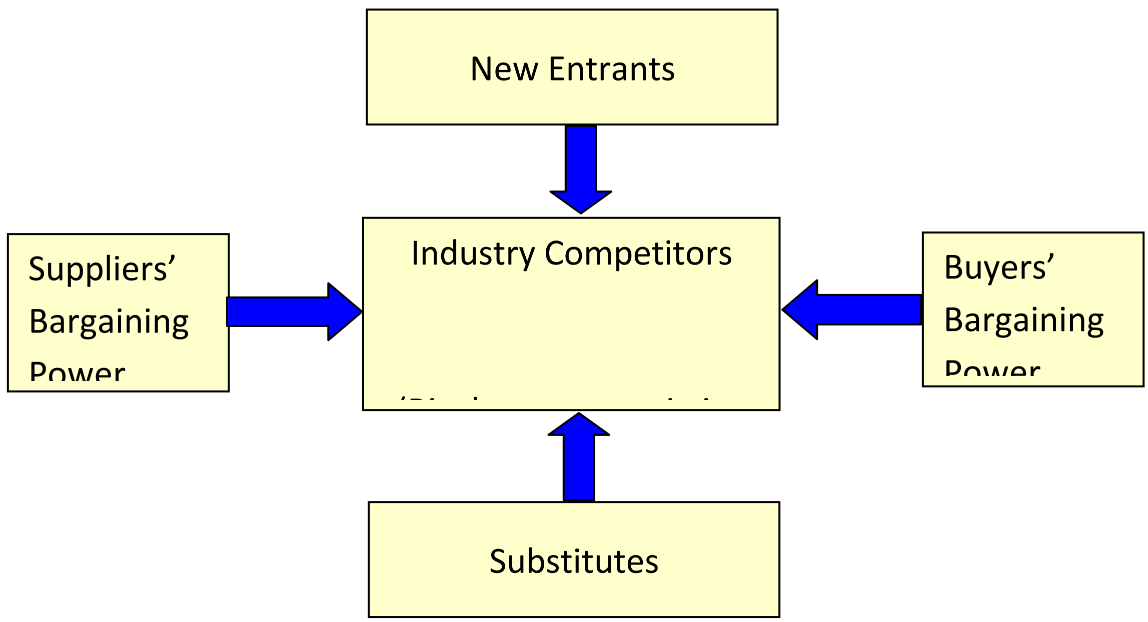
(I) Michael Porter's Five Forces Model (to identify the profit limiting forces)

(II) Michael Porter's Generic Strategy (Plan to fight these forces and meet the challenges)

(III) Michael Porter's Value Chain Analysis (to build competitive advantage which is the core of any strategy).

(I) Porter's Five Forces Model

This model was developed by Michael Porter in 1979. It uses concepts developed in economics to derive 5 forces that determine the attractiveness of an industry/market. It is also known as FFF (Fullerton's Five Forces). These are the forces that have maximum impact on company's ability to make a profit. A change in any of the forces will require a company to re-assess its business.



A graphical representation of Porters Five Forces

These five forces are: -

Bargaining power of customers,

Bargaining power of suppliers,

Threat of new entrants,

Threat of substitute products, and

Level of competition in an industry. (Rivalry among existing players)

Now let us see when, why and how the 5 forces affect the profitabitability of a company: -

Bargaining Power of Customers

Buyer Concentration to Firm Concentration Ratio – In simple terms, this is demand supply gap. When there is oversupply of product, and many competitors for a small group of buyers, buyer has option to switch to other supplier and there is tendency among suppliers to woo the customer through price discounts, gifts etc to garner larger share of the market.

Bargaining Leverage – Many customers have leverage over suppliers due to various reasons. There could be host of reasons, like political clout, muscle power, status, locational advantage, etc. Sugarmills have this advantage while buying sugarcane from farmers. Farmers are unable to transport sugarcane to other factories because only one mill is permitted in specified area. Mills often pay the farmers after months and even less than govt rate. Those who insist immediate payments are denied sale. Similarly malls insist on higher discount on MRP (approx 40% of MRP).

Volume Buyer – Customers who are large buyers are often able to bargain better prices. Like almost 50% of P&G's world wide sales comes from Walmart stores. Therefore Walmart has huge bargaining power with P&G. (For that matter, with any supplier)

Buyers' Switching Costs relative to Firm Switching Costs – Some times there is substantial cost involved in switching from one supplier to another supplier. Take the cost of telephones. The cost and efforts involved in informing all your contacts of change in your number is huge and is the biggest deterrent in switching your cell number. Thus, once a mobile phone company is able to retain a customer for about 6 months, he is a captive customer thereafter. But once number portability is allowed across telecom service providers, the churnrate among mobile phone companies will increase substantially.

Buyer Information Availability – Information is Power. Once the buyer is aware about inside information of the company, like production cost, customer base, capacity utilisation, material usage, etc, he will bargain from a position of strength. If he knows that you have additional unutilised capacity, he will ask for additonal supplies at marginal cost + small profit. Similarly, if he comes to know that your production cost is very low, or you have inventory build up, or your sales are down, he will bargain hard for higher discounts.

Ability to Integrate Backwards – If the customer has capacity and capability to integrate backward into your business, he will bargain harder with the threat that you will not only lose your business from him but precipitate another competitor as well.

Availability of Competitive/Substitute Products – Any one who has easy and at par cost or cheaper access to competitive/substitute product is a tough customer. Take instance of soft drinks. For coke and Pepsi, besides each other, a host of substitutes are available starting with water (yes! mineral water and even plain cold matka water) to beer, lassi, Nimbu Pani, Jaljeera, etc. That is why their advertising spend is among the highest in all sectors.

Undifferentiated Product – If a product is undifferentiated, a customer will have no difficulty in switching over to another supplier.

When His Profit Margins Are Low - Bargains hard to keep his margin intact.

When product is unimportant to him.

Bargaining Power of Suppliers

Supplier Switching Costs Relative to Firm Switching Costs – Reverse of above.

Degree of Differentiation of Inputs – If a supplier has a well differentiated product, he can command a premium on price. Customer has little choice but to be a victim of such a suppliers fancy.

Absence of substitute inputs – If a product does not have substitutes and there are not multiple suppliers with over capacity of that product in sourcing area, such suppliers will command premium on their product

Supplier concentration to firm concentration ratio

Threat of forward integration by suppliers relative to the threat of backward integration by firms

Cost of inputs relative to selling price of the product

Insignificance of volume to supplier

Cartelisation by Suppliers – OPEC is an example which keeps adjusting production to keep crude prices artificially high.

Threat of New Entrants

Existence of Barriers to Entry – Any kind of barriers like cartelisation by existing manufacturers, govt regulations (licences), natuaral barriers, etc.

Capital Requirement – Capital intensive industries have relatively lesser threat of new entrants since very few people can afford to invest that kind of capital.

Economies of Scale – There are some products which afford huge economy of scale. While the existing players would have slowly grown to build adequate market share/demand, new entrant would have to start with similar capacity without any demand/market to be able to produce at competitive cost. Maruti could slowly build a network of its service stations and spare parts vendors across India. Any new entrant can not afford to build that kind of network unless they have that kind of density of vehicles on roads and therefore are finding it difficult to compete.

Brand Equity – If there is a well entrenched product in the market, it hard for any new product to find a market for itself and therefore discourages new entrants.

Switching Costs

Access to Distribution – Distribution network is the trump card in the hands of a company. HLL, with its reach to the remotest corner or the country, enjoys that advantage and poses a barrier to the new comers. Many companies, including HLL are known to buy out all the prime shelf and advertising hoarding space ahead of launch of a competing product to black out them in the market.

Absolute Cost Advantages – If a firm is enjoying a cost advantage due to any reason, may be captive mines, or pit head location (so low transportation cost) or cheap captive power generation in a power intensive product like metals, it poses hurdle for new entrants.

Learning Curve Advantages

Expected Retaliation

Government Policies

The Threat of Substitute Products

Buyer Propensity to Substitute

Relative price Vs performance of substitutes

Buyer switching costs

Perceived level of product differentiation

The Intensity of Competitive Rivalry

Number of Competitors – Higher the number of competitors, higher the struggle for the market share. Bigger group also brings in ego clashes leading to indiscrimanate poaching even at otherwise prohibitive costs.

Industry Growth Rate – This happens in later stages of product life cycle when product demand begins to stabilise or even decline after peaking while new entrants continue to set up additional capacities without observing the life cycle stage of the product, leading to overcapacity

Intermittent Industry Overcapacity – It is again a common phenomenon. Many people who catch the cyclic demand late end up adding capacity when demand begins to ebb. Thus, there is huge overcapacity during lean demand period. This phenomenon is most prominent in agriculture. One season, there will be scarcity of, say, pulses and therefore very high prices. Attracted by the good prices, there will be increased acreage under pulses cultivation. And then due to oversupply of pulses, the prices will not be adequate even to recover the costs. Having suffered huge losses, farmers will switch the crop next year and there will be scarcity of pulses once again and the cycle continues.

Exit Barriers – If exist routes are not available, existing players will continue to attempt to garner larger market share through price cuts or discounts etc.

Diversity of Competitors – Rivalry becomes intense with diversity of competitors. Say, a product is being supplied by manufactures from across the world (take for instance BPO services). Each supplier has a different cost advantage, different problems, different govt policies, and so on. On the other hand suppliers have no common forum to meet and plan their strategy against arbitrary damaging actions by individual player.

Informational Complexity and Asymmetry increases distrust and rivalry.

Thin Profit Margin Products – Rivalry is intense when profit margins are already thin since only way out to increase profits is by increasing sales. (Imagine the intensity of competition in salt business. Consumption can not be increased in any way. Probably this is the only product in the world whose consumption can not be increased. Profit margins are thin. (Govt would not want a second Dandi March by a new born Mahatma). What growth strategies can the salt manufacturers follow but to snatch each others' market share? (But Catch salt did it by differentiation and packaging)

Lack of Product Differentiation – If there is no real avenue for product differentiation, like in case of soft drinks, rivalry increases.

Though not supported by all, some argue that a 6th force should be added to Porter's list to include a variety of stakeholder groups from the task environment. This force is referred to as "Relative Power of Other Stakeholders". Some examples of these stakeholders are governments, local communities, creditors, shareholders, employees, & so on.

Not every industry faces all the forces. Some industries face as low a two while some other might face all the five. Again the intensity of individual forces will vay with industry. Your job is to identify the forces and find a position where the sum total effect of all the forces is minimum.

Criticism

Porter's framework has been challenged by other academics who have raised objections to underlying assumptions in the model, viz -

That buyers, competitors, and suppliers are unrelated and do not interact and collude

That the source of value is structural advantage (creating barriers to entry)

That uncertainty is low, allowing participants in a market to plan for and respond to competitive behavior.

7. KSFs/ CSFs for strategy

A key success factor (KSF) for a trade, profession or industry is something that a business must do to be successful. It is a necessary condition for success.

The Difference Between Key Success Factors, Key Factors Of Difference & Critical Success Factors

There are a number of similar sounding phrases that mean different things. To help understand key success factors, you also need to understand:

Key Factors Of Difference (KFD) – performance dimensions that make individual successful businesses in an industry unique and distinct from each other

Critical Success Factors (CSF) – performance factors which are individually necessary and together sufficient for your business to succeed in its defined mission.

To summarise in less formal terms:

Key Success Factors are common across firms within a product-market or industry.

Key Factors Of Difference are the factors a particular business chooses to differentiate itself on.

Critical Success Factors are the essential elements of a strategy for success in a particular business in a particular industry at a particular time. Your CSFs should vary every time you make significant changes to your strategic plan and the emphasis may change with minor tweaks in strategy.

The 5 Key Success Factors Of Business

(1) Managing and developing people – People today want some direction and structure, but they also want freedom and encouragement to develop their skills and knowledge. Effectively managing people requires balancing constraining forces (providing direction, structure, organization, some rules) with liberating forces (encourage personal growth, development and creativity). If you as manager/leader err too much in one direction or the other, your organization will be either too rigid or too chaotic. To make it more complicated, each person has a different set of needs for structure vs. freedom, order vs. opportunity, logic vs. personal values, factual information vs. meaning and connections, and so on. Effective managers do not manage all people the same, except for some basic rules. They manage each person according to what he or she needs, what motivates them to do their best. This can be complicated but is essential for success.

(2) Strategic focus – In today's rapidly changing world, it's not just enough to have a purpose for existing. Leaders have to focus the organization's resources on the greatest opportunities, which shift with each new day. Just run through your mind what has happened in the world or your organization in the past year or two, and you'll understand what we mean by the reality of constant change. Doors open and doors close. Major customers or income sources can change or even go out of business at any time. So it's necessary for leaders to keep focused on the desired end results such as increased sales and profits, or more satisfied customers, while constantly steering the organization across the stormy waters of the marketplace. As the illustration shows, the job of focused leaders is to connect and align all the Success Factors for optimum performance.

(3) Operations, or what people do all day – What the people in your organization do day in and day out to create value for customers, to earn or justify income, strongly determines whether you succeed or fail. Like the other Top 5 Success Factors, you can't separate operations from strategic focus which gives direction, people which do the work, customers who pay the money and physical resources to do the work. Effective operations ensure that customers get exactly what they want at the right time, the right price and the right quality. Thus effective operations management focuses on what is called cycle time (producing a product or service from start to finish), cost control, and quality control (which requires some form of measurement). Strategic focus is largely externally oriented, operations largely internally oriented. Both need to be totally in sync with each other – not something that happens automatically but rather requiring constant effort. This is why communication is the true lifeblood of a successful organization – a high flow of information so everyone and everything is connected. Easy to say, hard to do.

(4) Physical resources – Finances, facilities and equipment are the big 3 physical resources. If you don't have enough money, you can't start or sustain an organization. And one of the biggest expenses is providing adequate facilities and equipment for people to work in and with. Experienced managers learn that cash flow is king. It doesn't matter how much customers owe you, it's when their money enters your bank account so you can use it to sustain the organization. Failing to manage cash flow is the No. 1 reason for business failure. Too many business owners leave the money up to someone else and can easily get blind-sided when suddenly the money isn't there to keep the doors open. And in a few rare, unfortunate cases, the person tracking the money embezzles or cooks the books, then you really are in trouble. Likewise nice facilities can be energizing, something to feel proud about, but also very expensive. The economy is always cyclical, and if you buy or lease really nice facilities when times are good, paying for them can be difficult or impossible in a downturn.

(5) Customer relations – Customers are where the money comes from, so in many ways this is the most important success factor. As the famous business guru Peter Drucker said years ago, The purpose of a business is to get and keep customers. Getting customers involves marketing – indeed this success factor includes all kinds of marketing and sales. The key to successful customer relations is to give them what they need, not just what you want to sell. Effective sales and marketing begins with asking existing and potential customers what they need, what problem they want solved or deficiency filled. By keeping in touch with customers and asking these questions often, you'll do a better job of developing customer loyalty and keeping competitors away. In the broadest sense customer relations can be considered the organization's relationships with the external world. It involves tracking competitor actions, analyzing changes in the market environment, and adapting according. This is closely linked to Strategic Focus.

CRITICAL SUCCESS FACTORS ARE

1. Engagement

“Only 23% of companies use a formal strategic planning process to make important strategic decisions. In 52% of companies, these decisions are made by a small senior group.”
McKinsey & Co.

Strategic Planning is a process not an event. A key element in the process is the engagement of all levels of staff throughout the organization. Staff engagement generates additional input and helps build their commitment to the end plan. It is essential to involve employees in the planning of strategy and direction for the organization. Employee’s input will:

Provide insight into issues, challenges, concerns, and opportunities which may not have been known or fully understood.

Ensure their “buy-in” to help execute the strategies.

The senior management team will not execute the strategies – staff will. Engage them and your strategy execution success rate will increase dramatically.

2. Communication

“2 out of 3 HR and IT departments develop plans that are not linked to the company’s overall strategy”.
Harvard Business School

Strategic Planning processes are successful when a bottom up and top down communication approach is taken. It starts off with a communication to all levels of employees informing them that a Strategic Planning process will be undertaken. It includes how they will be involved in this process. This is the bottom up communication. Employees will provide input to the strategic planning process through feedback surveys, focus groups, meetings, etc. regarding their ideas for organizational direction, etc.

It is followed by the top down communication. Senior management will share the strategic plan with employees. They will communicate to all employees how their engagement will help ensure success in the execution of these strategies.

3. Innovation

“Organizations need the courage to try something risky that they don’t know will work. Why? Because if they know it will work, they’ll only get an improvement to what they already have. Yet if they try something that is a little dangerous and new, they will realize true innovation.”
Michael Stanleigh

Some strategic plans include strategies to develop a new product or deliver a new service or re-structure a department, etc. They put teams of individuals together to work on these major initiatives and give them investment money to ensure success. Yet over time it becomes apparent that this team won't realize the strategic goal given to them and the strategy itself will be deemed a failure. This is wrong!!

This is not a failure of execution. It is the lack of an Innovation Process to manage the strategy that led to the failure. The senior management created strategies that required innovation to achieve them. This is unfortunately, very common.

Many organizations tell their employees to be more innovative. They create strategies for new products and services. But they fail to develop a strategy for Innovation which includes reshaping the organizational culture to be innovative, implementing a process for managing innovations, etc. Research in Motion is a classic case. They'll tell you that they're very innovative. They market it and promote it. But look at their Strategic Plan. They lack a clear strategy for innovation – but they do have strategies for new product development. Yet since the development of the Blackberry, they haven't released a single innovative product. They will of course disagree. The Playbook is an Ipad with less functionality. It's not an innovation.

However, there are many examples of organizations that have a strategy for innovation and this helps drive their new product and service delivery strategies. These include Apple, Google, Zodiac and BMW.

4. Project Management

"Most devastatingly, 95% of employees do not understand their company's strategy. (How are they supposed to execute a plan if they don't understand it?)"
Harvard Business School

Once the strategic plan is together, there are two critical elements related to project management. One is to identify the projects that are required to ensure success in the execution of each strategy. Another is to develop a prioritization of all these projects to ensure the high priority ones have the proper resourcing to ensure success. This requires a high involvement and commitment on the part of employees to spend the time required on the projects.

The high level of involvement of employees ensures that they understand the strategic plan. It increases their level of commitment to ensure the strategy is successfully executed because they understand how their work and the work they're completing on the project helps the organization to realize some or all of one of their key strategies.

5. Culture

"There is a failure to understand the culture of the organization as well as a failure to develop values and culture to support the plans."
Strategic Planning Failure – Mark Mendenhall, Encyclopedia of Business

Organizational Culture is the commonly held attitudes, values, beliefs and behaviours of its employees. The culture of an organization is as unique and diverse as an individual's personality. If the employees of an organization believe that change is something to be feared and avoided, then change implementation is often reactive and haphazard. If the employees believe that all change should be aggressively implemented “from above”, then change is seldom supported. However, if the employees of an organization believe that change is worthwhile and everyone’s responsibility; then change and growth occur with relative ease. These are the few “excellent” organizations that continue to excel in their industry.

It is followed by the top down communication. Senior management will share the strategic plan with employees. They will communicate to all employees how their engagement will help ensure success in the execution of these strategies.

Conclusion

Establish a clear and meaningful strategic planning process. Engage all levels of employees to ensure success. Communicate to employees throughout. Use an innovation process for all new product development, service delivery, etc. strategies. Create projects to manage the strategies and prioritize all of these projects to ensure they are properly resourced. Re-shape the organizational culture to be more adaptive to the changes the strategic plan requires.

8. The three basic type of strategies: cost based, differentiation, focus based

Cost Leadership,

Product Differentiation, and

Market Segmentation (or Focus).

While first two are standalone strategies, and exclusive to each other, Market Segmentation, as a strategies, can not stand on its own feet without supposrt of one of the two other strategies. It complements both the other strategies and is necessarily an accompaniment. It has to be adopted irrespective of cost or differentiation leadership. Only scope will differ in two cases.

Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching your firm's product strategy (supply side) to the characteristics of your target market segments (demand side).

Empirical research on the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable niche market. Firms in the middle were less profitable because they did not have a viable generic strategy.

1. Cost Leadership Strategy

This strategy emphasizes efficiency. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base (It is assumed that benefits of low cost production are passed on to the customer in the form of low prices. But it does not happen everytime. In many cases company continues to charge market rate of product despite substantially low cost of production and uses this advantage strategically). Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business.

2. Differentiation Strategy

Differentiation involves creating a product that is perceived as superior to its competitors. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyal. (Pears Soap (Glycerine based transparent) and Dove (with moisturising cream) are two products which have maintained their differentiation for a very very long time). This can provide considerable insulation from competition. However, there are usually additional costs associated with the differentiating product features (both glycerine and moisturising cream are expensive ingredients and this could require a premium pricing strategy.

To maintain this strategy the firm should have:

Strong research and development skills

Strong Product engineering skills

Strong creativity skills

Strong marketing skills

Focus (Segmentation) Strategy

In this strategy, the firm targets a few selected markets, be it demographics or geography or any other parameter.. It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms but can be used by any company. As a focus strategy it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investments.

C. Market Segmentation or Focus

Knowing your target market is the first step in selling your products and services. A marketing segmentation strategy further divides your target market into subgroups that are easier to manage.

Customized customer experiences lead to higher customer loyalty and better-focused marketing campaigns. A market segmentation strategy organizes your customer or business base along demographic, geographic, behavioral, or psychographic lines—or a combination of them.

Create Your Marketing Segmentation Strategy

Identifying your marketing segmentation strategies ultimately involves answering these five important questions:

Who is your consumer or business market?

Where is your consumer or business market located?

What is your consumer or business market interested in?

How can you market your products and services to this market?

Why are certain segments interested or not interested in your products or services?

Each of these strategies can be used to target a different customer base.

Demographic

Demographics are the most common form of segmentation. They divide customers by the structure of certain population traits:

Age

Gender

Income

Occupation

Marital Status

Social Class

Religion

Education

An example of marketing segmentation using demographics is to combine age and income information to target older, wealthy retirees looking to relocate to Florida to sell beachfront property.

Another demographic strategy would be marketing fantasy or war-based video games primarily to younger individuals ages 18-30.

Geographic

Regional demographics can help you sell products and services, depending on where your customers live.

State

County

Country

College

Community

International Marketing

Colleges looking to sell sports merchandise will sell items well within the state, but not so well outside home territory. Larger, non-collegiate conglomerates such as the NFL can expect a wider customer base in North America, but don't need to bother merchandising as much overseas.

Psychographics

Psychographic or lifestyle segmentation targets customer hobbies and interests. This segmentation strategy caters to the most niche markets, where attractiveness, quality, and brand recognition are more important than price.

Interests

Social Status

Personality Type

Attitudes

Opinions

Values

One example of a psychographic segmentation strategy would be to target high-end musical equipment to music enthusiasts that want to collect the best gear or equipment as a status symbol for showcase collections.

Behavioral

Behavioral segmentation is relatively new in the digital age and takes into consideration information a company has collected through customer data reports, surveys, or marketing trends.

Patterns of Use

Price Sensitivity

Brand Loyalty

Benefits Sought

Consumers want the best brands at the best prices, and their buying patterns predict items and services they are more likely to buy. Amazon.com algorithms track your purchases and know that if you buy a book on grilling, you may also like to buy seasoning or barbecue tongs.

Restaurant menus are also broken up into price levels based on behavior, featuring specials, and seasonal items.

9. Portfolio Analysis: BCG matrix, GE matrix, GE McKinsey matrix, Ansoff matrix

Portfolio Analysis

“ the strategic units that make up the company and the attempts to evaluate current effectiveness and vulnerabilities” (McDonald et al, 1992)

How much of our time and money should we spend on our best products to ensure that they continue to be successful?

How much of our time and money should we spend developing new costly products, most of which will never be successful

Examples of Portfolios

Unilever: ice cream, tea, spreads,

Proctor & Gamble: Detergents, nappies,

Gillette: batteries, Shaving products

Virgin; trains, planes, cola, music stores

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it’s portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU’s (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

Relative Market Share = SBU Sales this year leading competitors sales this year.

Market Growth Rate = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU's are in same industry, the average growth rate of the industry is used. While, if all the SBU's are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

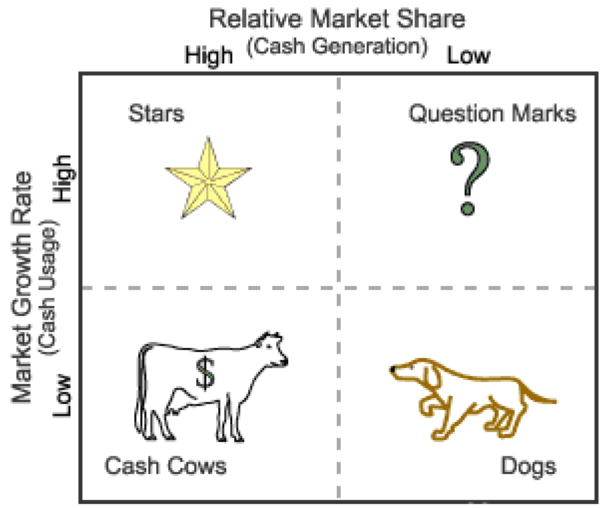


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Figure: BCG Matrix

Stars- Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

Cash Cows- Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

Question Marks- Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

Dogs- Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.

Market is not clearly defined in this model.

High market share does not always leads to high profits. There are high costs also involved with high market share.

Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.

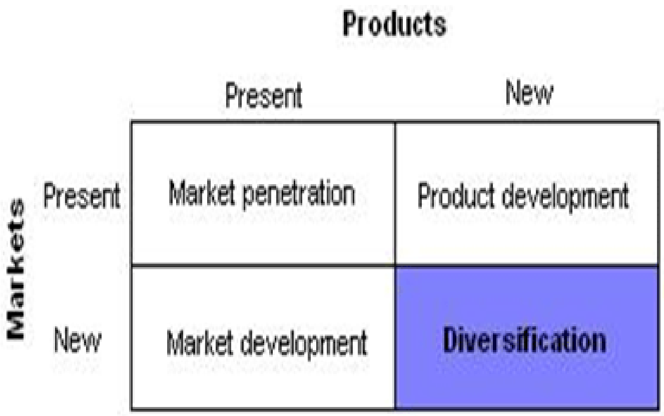
At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.

This four-celled approach is considered as to be too simplistic.

2. Ansoff Matrix

he famous management expert, Igor Ansoff provided a roadmap for firms to grow depending on whether they are launching new products or entering new markets or a combination of these options. This roadmap has been presented in the form of a Matrix that has four quadrants with the axes of products and markets being the determinants of the strategies.

As can be seen from the figure accompanying this section, the combinations of the two axes provide the firms with options that they can pursue in search of market share.



The four quadrants (which are described in detail subsequently) pertain to increasing market share through market penetration, venturing into new markets with the existing products or market development, and launching new products in existing markets with product development, and finally, diversification when firms seek to enter new markets with new products.

Market Penetration

As can be seen from the figure above, market penetration happens when the existing products are marketed in a way to increase the market share of the firm. This is a minimal risk strategy as all that a firm has to do is to increase its marketing efforts and improve on its market share. In other words, the firm has to ensure that it leverages the current capabilities, resources, and gears towards a growth-oriented strategy. However, market penetration has its limitations and these manifest when the market is saturated and hence, growth diminishes for the products. Examples of market penetration would include the Television Channels and Media Houses trying to maintain their existing features in the existing markets and ensuring that they grow because of the growth in the size of the market or because they have provided a value proposition that is better than their competitors are.

Market Development

When firms seek to expand into new markets with their existing products, market development happens. This is suitable for firms that have the capabilities and the resources to enter new markets in pursuit of growth. Further, the firm's core competencies must be aligned with the products rather than the markets and wherein the firm senses an opportunity in the new markets for its existing products. Market development is more risky than market penetration as the firm is entering uncharted waters and therefore, it is in the interests of the firms to do their due diligence before entering new markets. Examples of market development would be the mobile telephony companies like Vodafone and Nokia entering African markets where these markets are yet to be tapped and where these firms can leverage their existing expertise to enter these markets.

Product Development

When firms seek to launch new products in existing markets, product development happens. This strategy can be successful when the firms have already established themselves in the existing markets and all that they need to do is to launch new products, which leverage the brand image and the brand value and meet the expectations of the customers in the existing markets. For instance, whenever consumer giants like Unilever and Proctor and Gamble (P&G) launch new products in existing markets, they have the advantage of a strong brand value and top of the mind recall among the customers about them, which would help them to garner market share. When compared to the previous two strategies, this strategy is more risky as it is not sure whether the transfer of customers from the existing products to the new products would happen as seamlessly as the firms strategists believe.

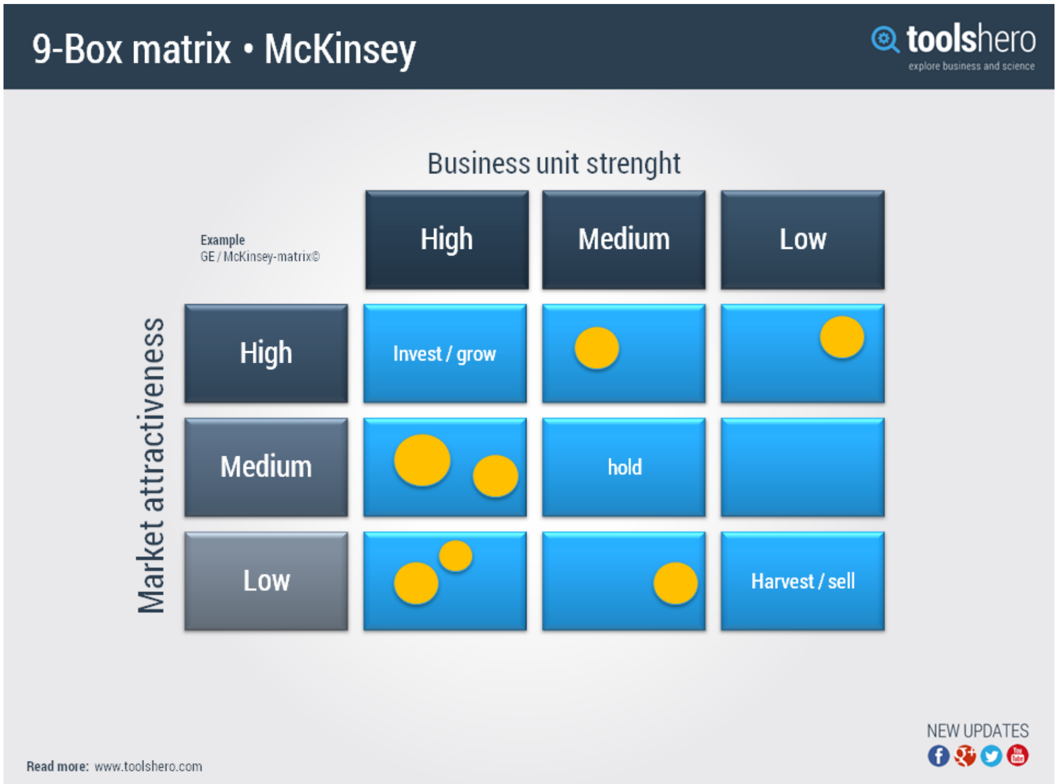
Diversification

When firms launch new products in new markets, diversification happens which entails both new products to be developed and new markets to be tapped. This is the most risky of the four quadrant strategies in the Ansoff Matrix as essentially the firms are not only testing the waters in uncharted territory but they are also launching new products that may or may not be well received by the customers. Indeed, diversification is a high-risk strategy and is only justified when there are chances of high returns for the firms. Examples of diversification would include companies like Reliance venturing into mobile telephony and retail segments where they not only have to move away from their core competencies but also have to launch new products targeted at the new customer segment. Management experts recommend diversification only when the firms are sitting on enough cash and other resources, as the firms need to have deep pockets to stay the course until the time profits are realized. Further, they also recommend firms with existing customer loyalty and customer base as the cross migration from one segment to the other happens only when the customers are assured of receiving value for their money. For instance, the TATA group in India is perceived as delivering good value and this helped them to garner market share when they diversified into new markets and new products.

Conclusion

As can be seen from the preceding discussion, it is imperative for firms to grow as otherwise their resources would not generate the returns needed for the firms to make profits as well as deliver value to their shareholders. Moreover, firms need to continually look for ways and means to increase their market share, which would help them create value for their stakeholders. This is the reason why the Ansoff Matrix has become so popular because it charts the strategies that the firms must follow in each option, which again is a combination of the firms' current capabilities, and the possibility of new market led growth. In conclusion, the Ansoff Matrix is very relevant in these recessionary times as it can be applied by any firm wishing to either expand into newer markets or leverage its existing capabilities.

3.The GE McKinsey Matrix



The GE McKinsey Matrix comprises two axes.

The attractiveness of the market is represented on the y-axis and the competitiveness and competence of the business unit are plotted on the x-axis.

Both axes are divided into three categories (high, medium, low) thus creating nine cells.

The business unit is placed within the matrix using circles. The size of the circle represents the volume of the turnover.

The percentage of the market share is entered in the circle. An arrow represents the future course for the business unit.

the ge mckinsey matrix / ge matrix example | ToolsHero

GE McKinsey Matrix factors

It is possible to determine in advance whether a market is attractive enough to enter.

This can be done by using the following factors:

Market size

Historical and expected market growth rate

Price development

Threats and opportunities (component of SWOT Analysis)

Technological developments

Degree of competitive advantage

Other factors are used to determine competitiveness:

Value of core competences

Available assets

Brand recognition and brand strength

Quality and distribution

Access to internal and external finance resources

GE McKinsey Matrix vs BCG Matrix

The GE McKinsey Matrix bears a strong resemblance to the BCG Matrix.

However, there are some differences:

The GE McKinsey Matrix does not only consider growth, it mainly considers market attractiveness.

In addition to market share the GE McKinsey Matrix also considers the strength of a business unit.

Instead of the four cells that are created in the BCG Matrix, the GE McKinsey Matrix creates nine cells.

Application

Three different strategies can be distinguished and adopted using the GE McKinsey Matrix:

Invest/ grow

Growth is facilitated by expanding the market or making investments.

Hold

By making careful investments, the current market is consolidated.

Harvest / sell

No extra investments but mainly focusing on maximizing returns.

By assigning a weight to each factor, the GE McKinsey Matrix can be used more effectively.

Based on these weights, the scores for competitiveness and market attractiveness can be calculated more accurately for each business unit.

How to set up a GE McKinsey Matrix

This analysis is characterized by seven steps that must be followed:

Define the Product Market Combinations (PMC's). Who are the customers of an organization and what are its products and/or services?

Define the aspects that determine the attractiveness of the market. Certain weight factors can be assigned to certain aspects. Market attractiveness is a critical factor that has to be considered carefully.

Define the aspects that determine the competitive power of the organizations.

Assign scores to the different PMC's. Have this done by several people within and outside of the organization. This will ensure a fair representation.

Calculate the final scores. By comparing the final scores for market attractiveness and competitive power with the maximum score, it is possible to determine their position on the matrix.

Draw the matrix and plot market attractiveness on the x-axis and competitive power on the y-axis. The higher the volume in turnover of a PMC, the larger the circle.

Evaluate and discuss. The matrix can serve as the basis for a discussion about strategic decisions.

Future

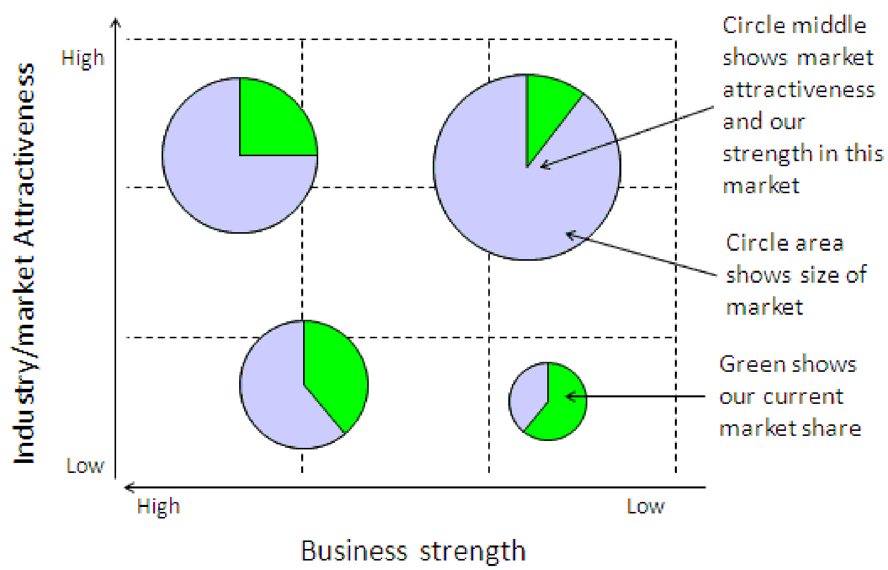
Both the GE McKinsey Matrix and the MABA matrix provide good projections about an organization's future developments.

4. The GE Matrix

The GE Matrix is a way of mapping a number of different factors to help in the understanding of markets. It is particularly useful for concurrently examining multiple markets or a portfolio of products.

It is also known by other names such as the GE Multi-factor Portfolio Matrix or the Directional Policy Matrix. It was developed for GE in the 1970s by McKinsey as an improvement on the Boston Matrix and is now one of the classic market analysis matrices taught at business schools around the world.

A typical matrix is shown below:



Clearly, the best position is to have high business strength, a very attractive market and a significant market share. Yet business is not always like this and the chart can help with various decisions, such as shoring up strengths in attractive markets or getting out of unattractive small markets where only a limited share is held.

Business strength

Business strength is an indicator of the ability of the company to compete in each of the markets being analyzed. Business strength can depend on a number of factors including:

Soundness of financial structure, able to invest in markets and weather downturns.

Quality products that are both desirable and affordable within the market in question.

Flexibility in being able to adapt to market conditions.

Innovative ability in creating products and adapting marketing to compete well the target market.

The ability to grow quickly, for example with spare capacity at hand.

Fit with government concerns, such as lower energy usage.

A major benefit of the chart is in the sheer amount of information that can be displayed at once. All charts can be overloaded and there may still be a decision as to whether to create a larger chart with many smaller circles, or to spread the circles across multiple separate charts.

Although many graphs have 'high' on the right, the GE matrix is often drawn with higher strength on the left and lower strength on the right. In practice is does not matter which is used, just so long as people reading the chart realize this.

Industry/market attractiveness

The attractiveness of the market indicates the desirability for the company to enter and compete within each market being analyzed. Factors that indicate an attractive market include:

Growth rate of market.

Potential for profit, both short-term and long-term.

Limited serious competition within market.

Good infrastructure and other factors.

As with other variables, determining the important factors to include is a critical aspect and itself may involve a significant piece of research.

Different markets

The GE Matrix shows a number of circles, each indicating a separate market. The 'market' can be defined in several ways, including geographically and by product. Hence, for example, you could have one circle for each of your products (or product families). Another alternative is to have one circle per country or region where products are sold.

Circles may also be plotted on different charts for brands, business units, portfolios, services and so on. The chart may also be used to map major competitors within markets. These may be shown by adding further segments to each circle. As with any chart, you can adapt it to any purpose, just as long as it continues to make sense.

Market size

The circles on the chart represent markets and the radius or area of each circle indicates the size of each market.

While the radius may be easier to use, the area of a circle is proportional to the square of the radius, so a circle that is twice as wide is four times as big, so to double the area, increase the radius by only 1.4 times. In practice, perception is more important than calculation, so do be careful that whatever representation is used is understood in an appropriate way.

Market share

The share of the market that the company has is shown as a segment, where the angle of the segment represents the current percentage share of the company. The market share of competitor products may be shown as additional segments.

10. McKinsey 7S Change Model

McKinsey 7S model was developed by Robert Waterman and Tom Peters during early 1980s by the two consultants McKinsey Consulting organization. The model is a powerful tool for assessing and analyzing the changes in the internal situation of an organization. It is based on 7 key elements, which determine the organization's success, which should be interdependent and aligned for producing synergistic outcomes. The model can be used widely in various situations where an alignment is required:

For improving organizational performance.

Analyzing and evaluating the effects of futuristic changes on the organization.

Can be a useful framework during the situation of Merger and Acquisition involving striking an alignment between the key processes of an organization.

Providing a recommendative framework for implementing a strategic plan of action.

The model can be effectively applied to various teams or groups or projects as well.

The McKinsey 7 S model refers to the seven key interrelated or integrated elements of an organization which are subdivided into hard and soft elements:

The Hard elements are within the direct control of the management as it can be easily defined and identified. The following elements are the hard elements in an organization.

Strategy: It is the plan of action, or the roadmap or the blueprint by way of which an organization gains a competitive advantage or a leadership edge.

Structure: This refers to organizational structure or the reporting pattern.

Systems: This includes the day to day activities in which the staff members involve themselves for ensuring the completion of their assigned tasks.

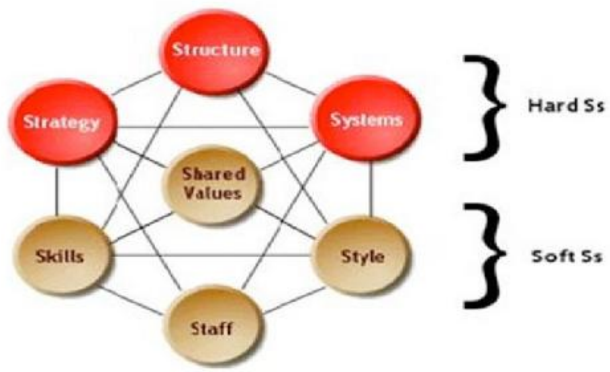
The Soft elements are less tangible and are difficult to be defined and identified as such elements are more governed by the culture. But according to the proponents of this model, these soft elements are equally important as the hard elements in determining an organization's success as well as growth in the industry. The following elements are the soft elements in an organization:

Shared Values: The superordinate goals or the core values which get reflected within the organizational culture or influence the code of ethics.

Style: This lays emphasis on the leadership style and how it influences the strategic decisions, people motivation and organizational performance.

Staff: The general staff or the capabilities of the employees

Skills: The core competencies or the key skills of the employees play a vital role in defining the organizational success.



McKinsey 7S Model

As per the above diagram, the shared values in the center of the model influence all the other elements of the model which are interconnected and interrelated. The rest other elements originate from the very reason for the existence of the organization which is the vision which is formed by the creators of the values in an organization. If the values change, the rest other parameters equally undergo a change.

The 7S model identifies the inconsistencies or gaps between various elements and provides a strategic plan of action for reaching from the current state to the desired organizational state. The alignment between each element can be checked by paying attention to the following steps:

Assessing the Shared Values: Assessing whether the shared values are in consistency with the elements such as structure, systems and strategy and if not then determining what may be changed.

Assessing the Soft Elements as well as the Hard Elements in terms of interdependence and alignment between them and the possible course of action if these elements do not support each other.

Making changes or adjustments and then analyzing whether these elements function in alignment or not.

According to Waterman and Peters, this model can be used by following five steps: The first step involves identification of those elements of the framework which do not align properly. It equally involves assessing the inconsistencies in the relationships between all the elements. The second step is concerned with the organizational design optimally and this optimal fit will be different for different organizations. The third step involves deciding the course of actions or the changes which are required to be implemented. The fourth step is the actual implementation of the change and the final stage or the fifth stage is the final review of the 7S framework.

Limitations of 7S Model

Ignores the importance of the external environment and depicts only the most crucial elements in this model for explaining the interdependence of the key processes and factors within the organization.

The model does not explain the concept of organizational effectivness or performance explicitly.

The model has been criticized for lacking enough empirical evidences to support to support their explanation.

The model is considered to be more of a static kind of model.

It is rather difficult to assess the degree of fit with accuracy successfully.

Criticized for missing out the intricate or finer areas in which the actual gaps in conceptualization and execution of strategy may arise.

11. Change Management

Change management is a great challenge. Successful changes will lead to growth while failures can be catastrophic. One botched change felled the mighty British Empire. The change which failed and had most dramatic effect was introduction of bullet/cartridges with cow fat in British Indian Army in 1857, which became the genesis of India's Freedom Struggle and eventual fall of the British Empire. Therefore, management of change is a vital element in a manager's job.

In today's fast changing world, CHANGE is the only constant. Change has always been there. But the rate of change that has been seen in the last two or three decades, has been unprecedented.

Many organisations (Static variety) were overwhelmed by the changing business climate and because of their failure to manage the change sweeping their sector, they lost out completely. Some have been wiped out of the corporate scene and many others are barely a shadow of what they were once upon a time. But there were some dynamic organisations also who took this all pervasive change as an opportunity and either changed themselves or managed the changing environment to keep them competitive.

Changes cannot be wished away. They are inevitable as the environment in which we function continues to change ceaselessly and we can ignore them only at our own peril. Change is affecting not only the new technology industries like software, healthcare, biotech, etc but is also engulfing the old economy companies like banking, insurance, retailing, etc.

Changes can become necessary due to variety of reasons.

Necessity of Change

Technological upgrades

Competition

Change in Customers' tastes and preferences (fashion)

Social Changes

Political Environment

However, changes are not easy and there is always opposition to change. If due care and diligence is not taken while effecting the changes, its opposition can lead to catastrophic results as cited in the beginning. In a typical factory environment, it can lead to lower morale, loss of productivity and even strikes. When the change comes calling, old sources of competitive advantage suddenly disappear and the company is required to create new set of competitive advantage. Building and sustaining competitive advantage amidst rapid change requires the organizations to learn/adopt new technologies, explore new markets and devise new ways of managing. However biggest challenge in managing change is managing personnel.

12. CSR

The practice of CSR or Corporate Social Responsibility as a paradigm for firms and businesses to follow has evolved from its early days as a slogan that was considered trendy by some firms following it to the present day realities of the 21st century where it is no longer just fashionable but a business requirement to be socially responsible.

This evolution has been necessitated both due to the myriad problems that we as a race face which has changed the environment under which firms operate as well as a realization among business leaders that profits as the sole reason or raison d'être for existence can no longer hold good.

The reason why companies must look beyond profits is also due to the peculiar situation that humanity finds itself in the second decade of the 21st century. Given the political, economic, social and environmental crises that humans as a race are confronting, corporations have a role to play since they contribute the most to the economic well being of humanity and in turn influence the political and social trends.

Corporate Social Responsibility or CSR makes for eminent business sense as well when one considers the knock-on effect that social and environmental responsibility brings to the businesses. For instance, corporations exist in a symbiotic relationship with their environments (the term environment refers to all the components of the external environment and not to ecological environment alone) where their exchange with the larger environment determines to a large extent how well they do in their profit seeking endeavors.

The evolution of CSR as a concept dates back to the 1950's when the first stirrings of social conscience among management practitioners and theorists were felt. The writings of Keith Davis starting in the 1950's and continuing into the 1970's speak of the need for businesses to engage in socially responsible behavior and to ensure that society as a whole does not lose out in the process of profit making behavior by businesses. CSR as a concept was starting to be taken seriously by the time the 1970's dawned and through the tumultuous decade when big business and their minions were accused of several misdemeanors pertaining to rampant disregard for the environment and society as a whole.

One can trace the anxieties of activists and management theorists during this time as they feared that the rapacious behavior of businesses and corporations ought to be checked if a semblance of social responsibility was to be maintained. Of course, both sides started to stick to their positions and this resulted in the debate over CSR getting shriller during the 1980's. I conclude the article with two quotes that illustrate the need to think beyond the ordinary and at the same time remind ourselves of the responsibility we have towards succeeding generations: The first one by Albert Einstein where he said that "problems cannot be solved from the same level of consciousness that created them" and the second one which says that "We have not inherited the Earth. We have merely borrowed it from our children."

13. Innovations, Disruptions

Innovations

We have seen how various factors contribute to the propagation of change within an organization. For instance, change can be catalyzed through change agents and can be driven from the top as well as from the bottom.

In this article, we will look at the crucial role of innovation in driving change. For quite some time now, it has been known that companies need to innovate constantly if they are to stay ahead of the pack in terms of competitiveness.

Innovation can take many forms and some of them are discontinuous innovation, continuous innovation and dynamically continuous innovation. We shall discuss what each mean in the next paragraph. Suffice to say that unless companies innovate they cannot move up the value chain and unless they move up the value chain, they cannot remain competitive. So, to make changes to the organizational processes and its strategy, companies need to innovate constantly.

Innovation can produce sudden and dramatic changes to the way business is done and the way consumers experience changes to the products and services made by the companies.

This is the discontinuous innovation which is sudden and has a huge impact on the way the company goes about its business. On the other hand, innovation can be gradual and incremental which is the continuous innovation way which means that the company introduces refinements to its products so that consumers adjust and adapt in steps. Finally, there is the dynamically continuous innovation which affects the way in which the company adapts to changing market conditions and changes in consumer behavior trends to make a positive impact on the consumer psyche.

The point here is that no matter what kind of innovation the company adopts, the prerequisite for change management is innovation and without innovation, a company cannot expect its internal and external environment to be to its advantage. For instance, if Apple comes out with its new iPhone and disrupts the way in which consumers perceive a phone, it is discontinuous innovation. If Apple modifies its iPhone in a dynamic manner according to the changing customer preferences, it is dynamically continuous innovation. If it releases its iPhone after minor tweaks, then it is continuous innovation. For Apple to make a mark in the customer experience, it has to keep changing continuously and hence has to innovate constantly to keep abreast of the consumer trends and the competition.

An example of a company that constantly strives to be the best when it concerns change and innovation is 3M Corporation. This company is known for its world class innovation teams which drive change throughout the company and keep its consumers happy and its competitors on their toes.

The way in which 3M drives innovation to produce change is indeed exemplary and worthy of emulation. Hence, innovation should be the mantra for companies wishing to change their internal environments and in the process change the way they project themselves in the external marketplace.

In conclusion, we are living in times where the rapid turnover of ideas and products in the marketplace has reached a stage where it is no longer enough to be best in the class. Instead, the pursuit of excellence and the search for excellence are the hallmarks of a truly successful and world class company and hence all companies must undertake efforts to drive innovation and change within and without.

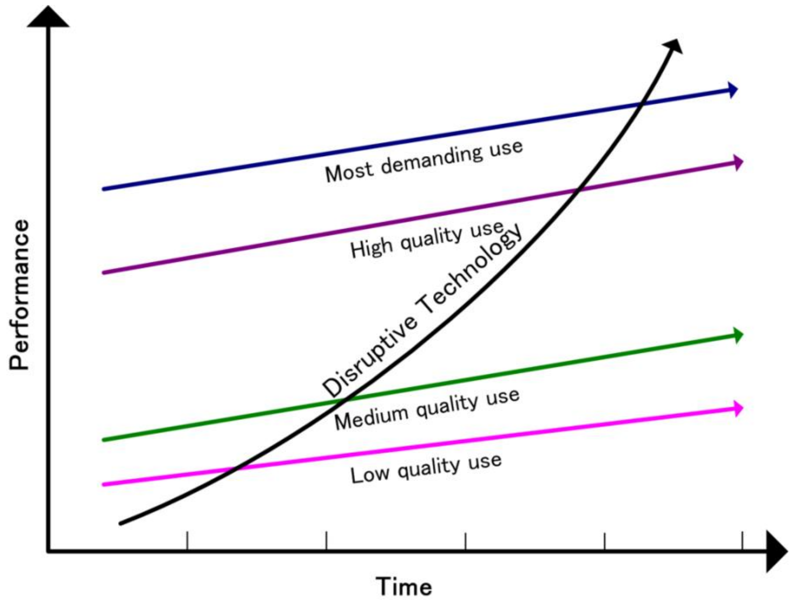
Disruptive Innovations

A disruptive innovation is an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leading firms, products and alliances. The term was defined and phenomenon analyzed by Clayton M. Christensen beginning in 1995.

Not all innovations are disruptive, even if they are revolutionary. For example, the first automobiles in the late 19th century were not a disruptive innovation, because early automobiles were expensive luxury items that did not disrupt the market for horse-drawn vehicles. The market for transportation essentially remained intact until the debut of the lower-priced Ford Model T in 1908.[4] The mass-produced automobile was a disruptive innovation, because it changed the transportation market, whereas the first thirty years of automobiles did not.

Disruptive innovations tend to be produced by outsiders and entrepreneurs, rather than existing market-leading companies. The business environment of market leaders does not allow them to pursue disruptive innovations when they first arise, because they are not profitable enough at first and because their development can take scarce resources away from sustaining innovations (which are needed to compete against current competition).[5] A disruptive process can take longer to develop than by the conventional approach and the risk associated to it is higher than the other more incremental or evolutionary forms of innovations, but once it is deployed in the market, it achieves a much faster penetration and higher degree of impact on the established markets

Beyond business and economics disruptive innovations can also be considered to disrupt complex systems, only including economic and business-related aspects.



Performance
Most demanding use
High quality use
Disruptive Technology
Medium quality use
Low quality use
Time

14. Manager's mindset vs innovator's mindset

5 Key Mindsets for Effective Managers

1. The Mission Mindset

Your “mission” is your corporate center of gravity. It bonds, focuses and energizes your team around a big idea. Effective managers understand the company’s mission to succeed and their role in the mission.

How do you know your managers understand the company mission? A good way to find out is to get all of your managers in one room and give them each a piece of paper. Ask them to write down the company’s mission and compare the responses. No two managers will have the same response. Changing this is the first step towards building a mission mindset.

2. The Leadership Mindset

Leaders are accountable, responsible and proactive. They are able to execute regardless of poor weather, resources, time, and customer conditions. Leadership is always a skill that can be improved, and a clear chain of command is a required for this mindset to flourish at your organization.

3. The Growth Mindset

If you’re not growing, you’re dying. Attrition is growth’s enemy and your managers must understand how impactful attrition is to the business and to growing the business. If you lose a customer, you have to replace that customer and THEN add a new customer in order to grow. This is overlooked all the time. Your managers must know how many customers are gained and lost each year, what the goals for growth are and what they must achieve to meet the goal.

4. The Competition Mindset

Effective managers must consistently analyze and understand their competition so they can improve their ability to compete. Your managers should question vendors, customers and the marketplace about competitors. They should also keep score. Are you winning more than you lose? If not, how you can you become better prepared to compete? A SWOT analysis will help visually assess the competition and help you define offensive and defensive strategies.

5. The Service Mindset

Effective managers know how to prioritize service when the crunch is on. They know when to skip and what they should never skip. Good managers use the 80/20 rule to prioritize service. They focus on the 20% of service that creates 80% of the customer happiness. What makes each customer happy is going to vary however, and this is where a service priority checklist can come into play. Have your customer fill one out so you know what the customer cares about and what the key aspects of your service are to them.

INNOVATORS Mindset

To develop students as "innovators" in their pursuits, we must embody this as educators. As I continue to research and look at different processes where innovation excel, such as design thinking, there are several characteristics that seem common amongst these themes. Here they are below and why they are important for educators:

Empathetic – To create new and better ways of doing things, we need to first understand who we are creating them for. As educators, innovation starts with the question, "what is best for this child." For us to create something better for our students, we have to understand their experiences and this is why it is imperative that we not only talk about new ways of learning, but immerse ourselves in these opportunities. This way we can understand what works and what does not work from the perspective of a learner, not a teacher. If anything, teachers have to a deep understanding of learning before they can become effective in teaching. We need to put ourselves in our student's shoes before we can create better opportunities for them in our classrooms.

Problem Finders – As Ewan McIntosh talks about, it is important that we teach our kids how to ask good questions instead of simply asking for answers. All innovation starts from a question not an answer. The invention of the home computer started with the focus of, "How do we bring the experience of a powerful computer into the homes of families?" Many capstone projects developed by students in their classrooms start with first finding, and then solving problems both locally and globally. How often do we as educators immerse ourselves in a similar process? If want to be innovative, we need to look at questions first.

Risk-Takers – Many would argue that "best-practice" is the enemy of innovation. To be truly innovative, you sometimes have to go off the beaten path. The reality of this is, that for some kids, the "tried-and-true" methods will still work, but others, you will need to try something different. In a time where many kids are totally checking out of school, is "best practice" truly "best", or just "most well known"?

Networked – Steven Johnson has a powerful quote on the importance of networks where he states, "chance favours the connected mind." Innovation does not happen in isolation, as it is often ideas that are being shared amongst many that lead to new and better ideas being developed. The best educators have always created networks to learn from others and create new and powerful ideas. Now though, many have taken the opportunity to take networks to a whole different level through the use of social media to share and develop new ideas. Isolation is the enemy of innovation. Networks are crucial if we are going to develop the "Innovator's Mindset".

Observant – A practice normal amongst those that would be considered "innovative" is that they constantly look around their world and create connections. It is normal to have a notebook or use their mobile device to record ideas or thoughts around them and link them to their own ideas. In education, we often look to solutions to come from "education", but when organizations around the world share their practices and ideas, we have to tap into their diverse expertise and learn from them as well. Wisdom is all around us, we just have to look for it.

Creators – So many people have great ideas, yet they never come to fruition. Innovation is a combination of ideas and hard work. Conversation is crucial to the process of innovation, but without action, ideas simply fade away and/or die. What you create with what you have learned is imperative in this process.

Resilient – Things do not always work on the first try, so what are the tweaks or revamping that is needed? To simply try something and give up as soon as it fails never leads to innovation only a definitive end. This is something great teachers model daily in their teaching, as they turn good ideas into great ones.

Reflective – What worked? What didn't? What could we do next time? If we started again, what would we do differently? What can we build upon? It is important that in education and innovation, we sit down and reflect on our process. This last point is definitely lacking in many aspects of education as we are always "trying to get through the curriculum", yet reflection is probably the most important part of education as the connections we make on our own is where deep learning happens.

For educators to embody this, it is imperative that leaders create a culture where this types of characteristics are not only accepted, but encouraged. It is also imperative that at both the leadership and whole organization level, these characteristics are embodied. To many, being "innovative" is no more than a buzzword, but if we truly have innovative students, we need to embody the "Innovator's Mindset" at all levels.

16. CSR strategies and it's advantages

A strategy, in the usual meaning of the term, implies something that is planned, preconceived and deliberate. So a CSR strategy, just like another other strategy (like a marketing strategy, perhaps) is a series of deliberate stages intended to achieve a particular outcome or strategic end. In contrast, a company that does not have a CSR strategy might appoint someone to achieve CSR outcomes as part of their job but then provide no overall framework or guidance for the CSR investment. CSR, in such a situation, would not be planned at all, but just 'done' by someone, perhaps on the basis of solicitations of the jobholder's own views of which causes are the most deserving.

So to have a CSR strategy involves making choices. It might be decided, for example, to pursue some CSR activities but not others and to support some causes but not others. Once these decisions have been made, the person or people responsible for implementing CSR strategy will have a basis for CSR decisions. This is a CSR strategy.

One reason why companies might have a CSR strategy in place is to ensure that CSR is not undertaken based on the personal views of the CSR person or department, or on the basis of any persuasive causes who convince the company to support their particular viewpoint. Given that CSR usually costs the company money, many companies feel that they need to in some way reflect the values and beliefs of the company's owners, the shareholders, in CSR matters. This brings us onto the subject of strategic CSR.

WHAT IS STRATEGIC CSR?

'Strategic' is a term used to signify a certain motive. For a business, something that is strategic is concerned with the long-term success of the business and its strategic positioning with regard to a range of environmental variables. So in strategy, people might talk about strategically important customers, suppliers, employees, networks, culture, etc. In each case, such things are referred to as 'strategic' because they can affect the long-term success of the business and the quality of the business's strategic 'fit' into its environment.

When we refer to strategic CSR, we use the term 'strategic' in precisely the same way as those referred to above. CSR measures can be configured so as to produce benefits for the company as well as for those causes supported in the community. This means that the types of causes supported or community groups helped will be chosen carefully so that the CSR initiatives support the strategic objectives of the business. The belief underpinning strategic CSR is that all of the money in a business belongs to the shareholders and so any expenditure should serve their (the shareholders') strategic interests. To spend any money carelessly (including CSR investment) would be affectively a type of theft from shareholders. So CSR that did not support the company's strategy would be an irresponsible use of shareholders' funds.

So what does strategic CSR look like? One well-known medical supplies company, for example, is known to use a lot of its CSR budget on supporting nurses and doctors in their training and research. Why might this be? Because it will be nurses and doctors who, once qualified and in senior positions, will be able to select suppliers for their hospitals and other health facilities they work in. If they have benefitted from the company's funding as trainees, they may be well-disposed to the company for all of their working lives.

Another company, a bank, uses some of its CSR budget to help to educate young adults in 'financial literacy'. Why might this be strategic? Because adults who are financially literate will usually go into unplanned debt less frequently and will realise their need for a range of financial products, many of which will be provided by the bank. So by supporting initiatives to increase financial literacy, the bank might be indirectly reducing bad debts and also increasing demand for its own products.

A very common way of using CSR strategically is to involve the employees in their choices of how to support charities and communities. The thinking behind this is to increase the support and loyalty of employees by asking them to suggest and support initiatives that the company might support. If the company supports causes that are important to employees, the effect may be to encourage the loyalty and participation of employees and this, in turn, can increase the productivity of the workforce.

Likewise, a local business might increase its reputation locally by taking part in community initiatives such as helping with a local school or college, providing flower beds in a local park, giving a set of shirts to a local sports team (perhaps with the company name on them), etc. In many countries, if the recipient of the CSR is a charity, the donation can be made with tax relief. This means that the recipient can receive the value of the donation plus the marginal rate of tax that the company would pay on that amount if it was posted as profit. In such a case, a company carefully planning its CSR can gain tax efficiencies on its CSR strategy

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Advantages of Corporate Social Responsibility

5 reasons why should you get involved in CSR

In today's digital, fast speed world, each business, small or big, needs to have a CSR program in place. If CSR is not yet part of your daily business practice, you must act fast. Or else you'll loose the trust of the people who are important to your business.

Believe it or not but the expectations of your staff, customers and the wider community have changed. You are no longer in control. They are.

1. Satisfied employees.

Employees want to feel proud of the organization they work for. An employee with a positive attitude towards the company, is less likely to look for a job elsewhere. It is also likely that you will receive more job applications because people want to work for you.

More choice means a better workforce. Because of the high positive impact of CSR on employee wellbeing and motivation, the role of HR in managing CSR projects is significant.

2. Satisfied customers

Research shows that a strong record of CSR improves customers' attitude towards the company. If a customer likes the company, he or she will buy more products or services and will be less willing to change to another brand.

3.Positive PR

CSR provides the opportunity to share positive stories online and through traditional media. Companies no longer have to waste money on expensive advertising campaigns. Instead they generate free publicity and benefit from worth of mouth marketing.

4. Costs reductions

Yes, you read this correctly. A CSR program doesn't have to cost money. On the contrary. If conducted properly a company can reduce costs through CSR.

Companies reduce costs by:

More efficient staff hire and retention

Implementing energy savings programs

Managing potential risks and liabilities more effectively

Less investment in traditional advertising

5. More business opportunities

A CSR program requires an open, outside oriented approach. The business must be in a constant dialogue with customers, suppliers and other parties that affect the organization. Because of continuous interaction with other parties, your business will be the first to know about new business opportunities.

6. Long term future for your business

CSR is not something for the short term. It's all about achieving long term results and business continuity. Large businesses refer to: "shaping a more sustainable society" (Vodafone 2010 report):

" Deliver a sustainable society in which business and its stakeholders can prosper in the long term"

MMM - EXTRA

1. ***Joint Ventures***

Joint Ventures are partnership projects. Two or more companies join hands to launch a third company. While the capital is often shared between the JV companies, there is a complementary relationship between the strengths and weaknesses of the two companies. While one firm may have cutting edge technology but no knowledge of marketing dynamics of other country, second firm may have obsolete technology but a strong presence in that product segment of targeted market. Thus, coordination of superior technology and equally strong marketing and managerial strength creates a formidable company which has all strengths and few weaknesses.

Airbus Industries of Europe is a joint venture among many companies in Britain, France, Spain and Germany.

When is JV preferred?

JV is preferred when –

(a) A company wants quick expansion into foreign markets but has no market knowledge of the other country.

(b) Govt restrictions upon ownership. *(Only 74% FDI is permitted in Telecom sector in India. Therefore, despite having all the necessary resources, Vodafone and AT&T and Hutch can not start operations in India without a joint venture with local firms. Same is the condition with Aviation Sector)*.

Problems in JVs - Despite all the attendant benefits of quick expansion into unknown territories, JVs pose quite a few problems which need to be addressed before inking the deal.

(a) Managerial approach of the two firms might be diverse and integrating them without superseding authority becomes a challenge.

(b) Other company in the Native country is difficult to control.

(c) Fear of other company selling technological secrets to another company.

BLue Ocean Strategy

, **Blue Oceans represent markets where demand is large and unmet and where growth and profits can be actualized through value innovation, which is the simultaneous pursuit of low differentiation and low cost**. Indeed, the cornerstone of the Blue Ocean Strategy is the creation of new playing fields and which entails opening up entirely new markets as opposed to the Red Ocean where the existing market conditions are such that companies must pursue either differentiation or low cost strategies. In other words, Blue Ocean strategy represents a game changing idea of creating new markets and unlocking the inherent demand in these markets. Whereas Red Oceans are all about battling the competition, Blue Oceans are all about making the competition irrelevant.

Examples of Blue Ocean Strategy in Practice

The authors of the Blue Ocean concept insist that their strategy is different from Porter's Five Forces, which they reckon is all about battling the sharks in the red oceans. Further, they point to the fact that Red Ocean competition is characterized by merciless competition whereas Blue Ocean represents the redefinition of the terms of competition where one can have the ocean all to oneself and therefore, the waters are blue.

For instance, the authors provide the example of the Canadian Circus Company, Cirque du Soleil which came up with a game changing business model in the 1980s and which resulted in the altering of the dynamics of the circus industry. The Five Forces model when applied to the circus industry predicted that it was doomed to failure because of high power of suppliers, and the increase in the alternative forms of entertainment that were eating into the market share of the circus industry. Further, concerns and pressure from animal rights groups and increased awareness of the customers about the consequences of conventional circuses were beginning to spell trouble for the circus industry. Therefore, the Five Forces model of Porter when applied to this industry predicted a slow death for it.

However, Cirque du Soleil followed what can be called a Blue Ocean strategy wherein it replaced the animals and reduced the importance of individual stars and created an entirely new business model based on a combination of music, dance, and athletic shows to innovate and create value for itself. In other words, what this means is that instead of tweaking the existing strategies, Cirque du Soleil went in for an entirely new strategy of creating a new market altogether by redefining its core competencies and taking "Four Actions" which would be described in the next section.

Blue Ocean Strategy Formulation and Execution

The Four Actions that Cirque du Soleil followed were the following:

- Eliminating the factors that the industry takes for granted which in the case of Cirque du Soleil was to eliminate the animals, the three separate rings, and the star performers.
- Reducing the factors below the industry standard, which meant that the company ensured that much of the danger and thrill that characterizes conventional circuses was reduced and this resulted in the company creating a new market for itself that was different from the conventional market for circuses.
- Increasing the factors which should be raised well above the industry standard meant that Cirque du Soleil pioneered original and unique approaches such as developing its own tents and by moving out of the confines of existing venues which meant that it was able to create demand for its product from scratch.

- Finally, by introducing aspects of novelty such as dramatic themes, music and dance combined with artistic renditions, and an environment that was geared to be more upscale and niche meant that Cirque du Soleil ensured that it combined differentiation with value creation.

Conclusion

The example of the Blue Ocean strategy described above is clearly indicates that Cirque du Soleil did not try to battle the competition but instead, created an entirely new market for itself. In short, this is the essence of the Blue Ocean Strategy that hinges on creating value and taking it to the next level by a game changing approach to competition. In conclusion, once a company actualizes the Blue Ocean Strategy, it usually results in opening up new markets instead of stagnating in the existing markets.

MERGERS AND ACQUISITIONS

The problems in many alliance strategies like Joint Ventures is finding a suitable partner. There are any number of cases where the alliance broke and the two companies parted on a bitter note. Suzuki and Govt of India in their alliance for Maruti Car Project have had a running battle for years. In the more recent case, Hero and Honda have had difficulties in their joint venture to manufacture Hero Honda Motor Cycles. Honda has already started its start-up venture of manufacturing scooters and motorcycles which are in direct competition with their Joint Venture with Hero.

Even though Mergers and Acquisitions (M&A) are spoken of in the same breadth, they are not one and same. Merger means that the bought company is merged into the buying company and the bought company's legal existence is extinguished. All products of that company (brand name associated with that company is killed). Assets of that company are used for purchasing company.

Pros and Cons of Merger & Alliances

1. M&A give a readymade capacity for expansion of company.
2. There is no gestation period involved.
3. A large acquisition can put a medium size company into the big league.

However, the old companies come with old machines, old technology, entrenched culture and managerial practices.

Various Kinds of M&A

1. ***Vertical Mergers*** – Mergers of companies which are one or two steps up or down the value chain. When a manufacturing company takes over a retailing business of the same product, or a raw material supplying company, it is called Vertical Merger. If Tata Steel acquires coal or iron ore mining company in Australia, it will be called Vertical Merger.

2. ***Horizontal Mergers*** – Mergers of companies in the same product business. Vodafone's acquisition of Hutch, Tata and Corus, Ispat Group (LN Mittal) and Arcelor acquisitions are examples of horizontal mergers.

3. ***Circular Combinations*** - In a circular combination, companies producing distinct products in the same industry, seek amalgamation to share common distribution and research facilities in order to obtain economies by eliminating costs of duplication and promoting market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification.

4. ***Conglomerate Combination*** – A conglomerate combination is the amalgamation of two companies engaged in unrelated industries. It enhances the overall stability of the acquirer company and improves the balance in the company's total portfolio of diverse products and production processes. Through this process, the acquired firm gets access to the existing productive resources of the conglomerate which result in technical efficiency and furthermore it can have access to the greater financial strength of the present acquirer which provides a financial basis for further expansion by acquiring potential competitors. These processes also lead to changes in the structure and behaviour of acquired industries since it opens up new possibilities. ITC is one of the most diversified companies. Similarly, Reliance and Tata are equally diversified. Even Wipro with its Electrical Division, Oils division and computer hardware division is a fairly diversified company.

5. ***Geographical combination***

Reasons for Failure of M&A

1. ***Unrealistic Valuation of Synergic Advantages*** – Two out of three M&A failures are attributed to overzealous valuations of synergic advantages of merger and therefore high cost of acquisition. Even Tata's buy of Corus at 608 pence per share is supposed to be a over valued deal. That was the reason that stock took a severe beating in the stock market after Tata won the deal in battle with CSN of Brazil. Only time will tell whether Tata were right in their valuation.

2. ***Poor Business Fit*** – Some times the two businesses do not fit each other well. It happens due to poor due diligence on part of acquiring company. Jet Airways failed acquisition of Sahara Airlines would have fallen in the same category had it materialised. Jet were quick to realise their folly and stop short in their tracks well in time.

3. ***High Debt*** – Some times the acquisition fails because the company fails to service high debts taken to buy the company. Thereafter, the cash flow fall short of expectations due to various reasons.

4. ***Cultural Clash*** – Cultural clash between two companies can lead to failure. Tomco culture was a laid back culture. When HLL acquired it, there were severe consternations on both sides. Eventually, HLL gave a golden handshake to some employees, some were transferred to remote locations who then quit the job and some fell into the HLL's dynamic work culture. But many mergers have failed because of cultural clash between the two companies.

Regulatory Delays – Every M&A is required to be ratified by the regulatory authorities. There have been instances where the approval for merger was delayed by the regulators and by the time approval was accorded, business environment had altered significantly wiping out all the perceived advantages. Take a hypothetical case of some company taking over Bajaj Scooters in 1980 which had a monopoly then with waiting line running over 5 years. Obviously, it would have been valued very high. But if the approval was delayed by a few years *(years' and even decade's delay was not a impossible situation then),* and the markets were freed in the interim, failure was inevitable