ESSENTIALS OF MANAGEMENT

CHAPTER 2

ESSENTIALS OF PLANNING

CHAPTER 2
ESSENTIALS OF PLANNING

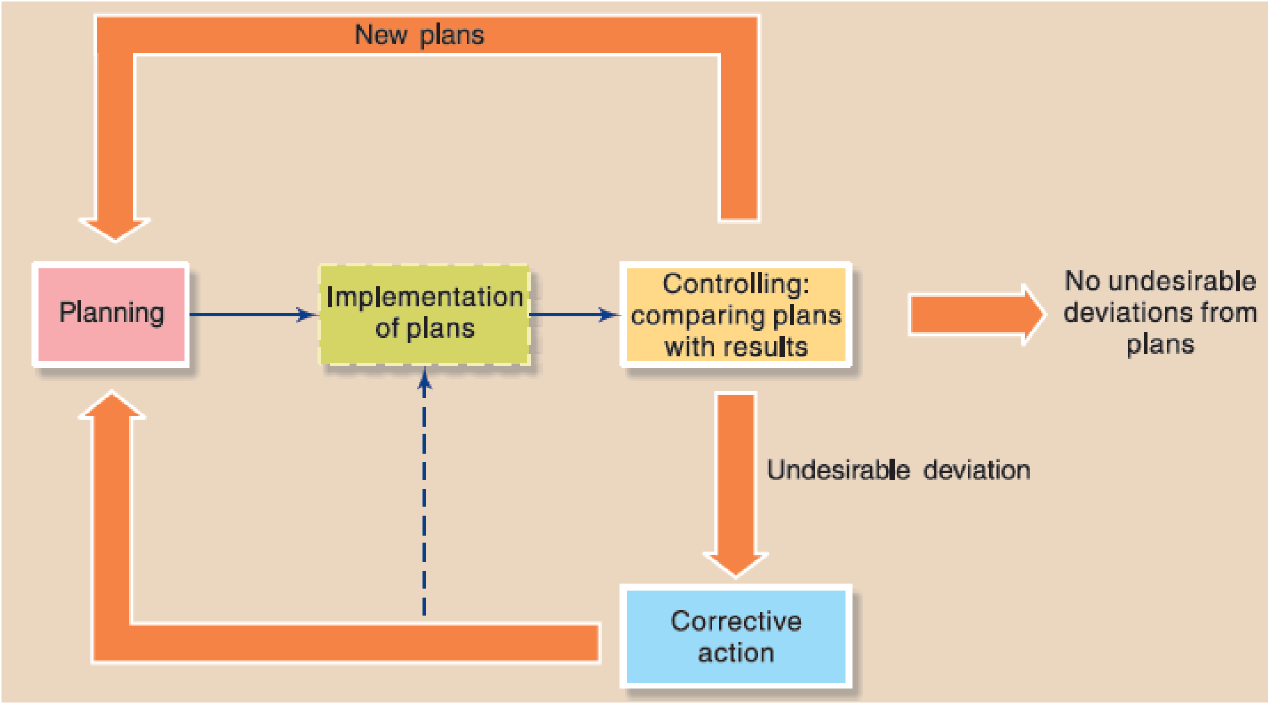
Types of Plans
Steps in Planning
Objectives
Nature and Purpose of Strategies and Policies
Evolving Concepts in Management by Objectives

Strategic Planning Process

- Critical Question Analysis
- SWOT & TOWS Matrix: A Modern Tool for Analysis of the Situation
- Blue Ocean Strategy: In Pursuit of Opportunities in Uncontested
- The Portfolio Matrix: A Tool for Allocating Resources
- Porter’s Industry Analysis and Generic Competitive Strategies

What is Planning?

A plan is a blueprint for goal achievement, a blueprint that specifies the necessary resource allocations, schedules, tasks, and other actions to achieve the purpose.



Importance of Planning

Planning bridges the gap between where we are & where we want to be.

Reduces Uncertainties

Provides Direction

Resource Allocation

Minimizes impulsive & arbitrary decisions

PLANNING ANSWERS SIX BASIC QUESTIONS

in regard to any activity:

WHAT NEEDS TO BE ACCOMPLISHED? WHAT ARE THE ALTERNATIVE ROUTES TO IT?

WHEN IS THE DEADLINE?

WHERE WILL THIS BE DONE?

WHO WILL BE RESPONSIBLE FOR IT?

HOW WILL IT GET DONE?

HOW MUCH TIME, ENERGY, AND RESOURCES ARE REQUIRED TO ACCOMPLISH THIS GOAL?

Planning is important for the following reasons

It helps the management to **clarify, focus, and research** their businesses or project's development and prospects.

It provides a **considered and logical framework** within which a business can develop and pursue business.

It **offers a benchmark** against which the actual performance can be measured and reviewed.

It plays a vital role in **helping to avoid mistakes** or **recognize hidden opportunities**.

In the business context, it guides the **development** of products, management, finances, and most importantly, markets and competition.

It helps in **forecasting** the future and makes the future visible to some extent.

It **bridges** between where we are and where we want to go.

TYPES OF PLANS

All managers across all levels participate in planning.

However, the plans made by the top level manager will differ from the ones that lower managers make.

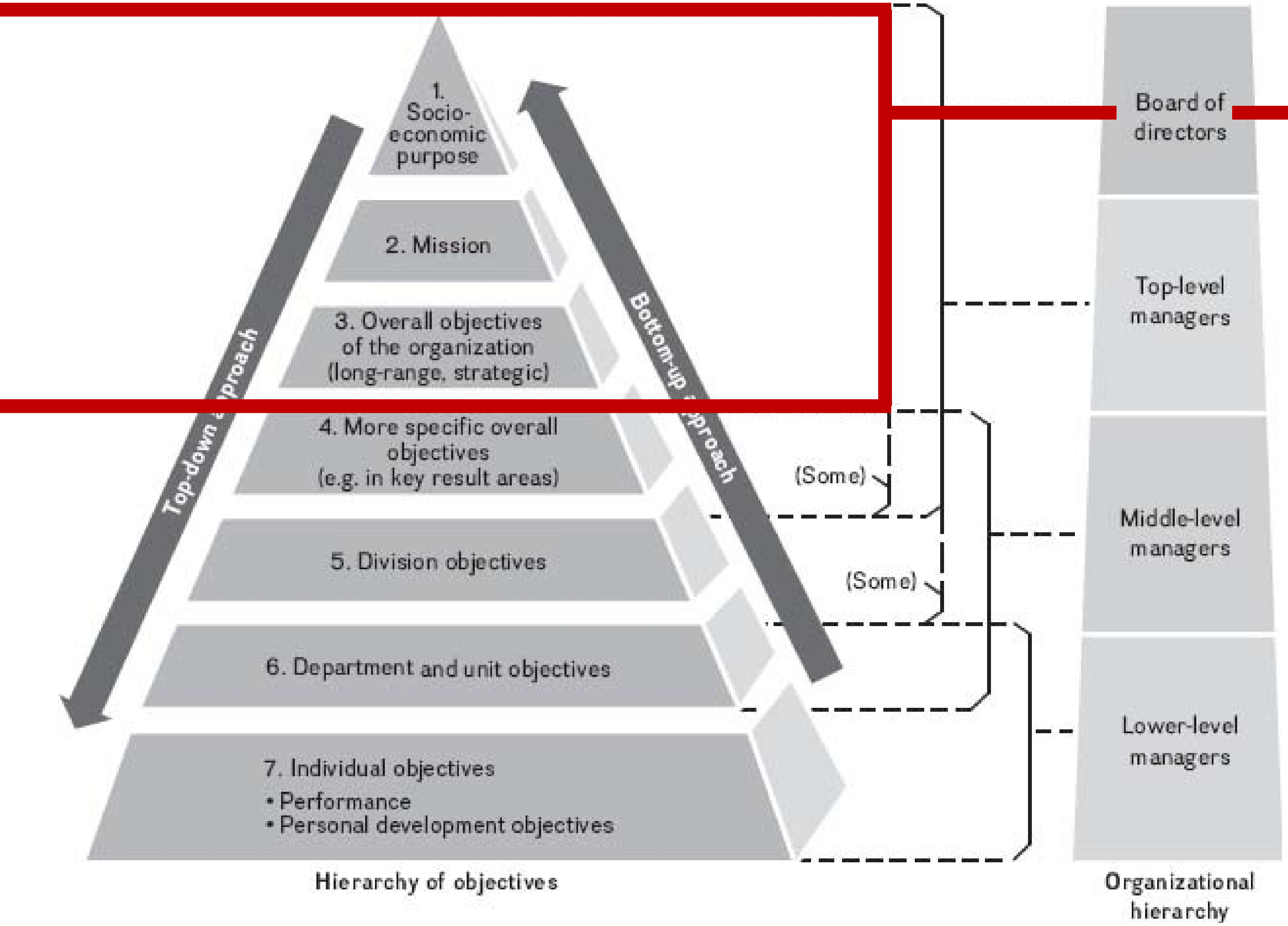
Plans also differ from what they seek to achieve and what methods will be used to achieve them.

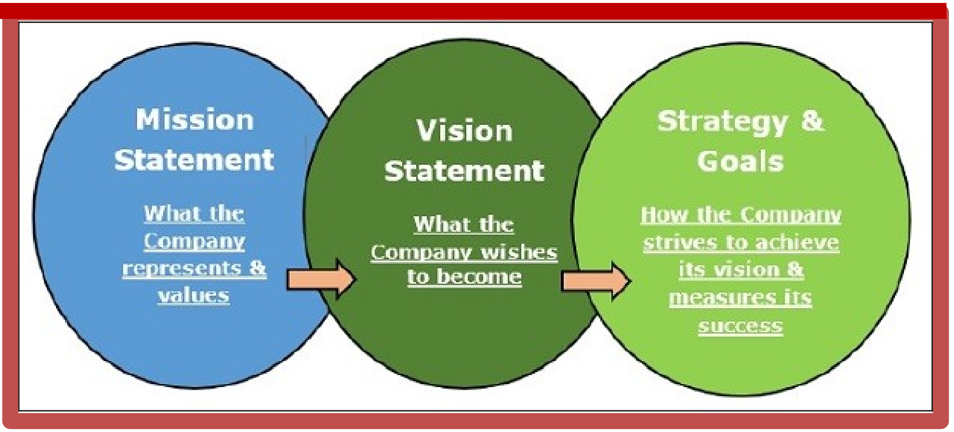
So let us look at the types of plans that managers deal with.

1. **PURPOSE / MISSION / VISION**
2. **GOAL / OBJECTIVE**
3. **STRATEGY**
4. **POLICY**
5. **PROCEDURE**
6. **RULES**
7. **PROGRAMS**
8. **BUDGETS**

PURPOSE / MISSION / VISION 1

PURPOSE / MISSION / VISION 1





GOAL / OBJECTIVE

Objectives are defined as the important ends towards which organizational and individual activities are directed.

VERIFIABLE OBJECTIVES - facilitate measurement of the surplus as well as the effectiveness and efficiency of managerial actions.

STRATEGY

A strategy is a complete and all-inclusive plan for achieving said objectives.

A strategy is a plan that has three specific dimensions

1. Establishing long-term objectives
2. Selecting a specific course of action
3. allocating the necessary resources needed for the plan

Forming strategy is generally reserved for the top level of management.

POLICY

4

Policies are also the plans in that they are general statements or understanding which guide or channel thinking in decision making.

Not all policies are statement, they are often merely implied from the actions of managers.

For example – the practice of promoting from within.

Polices define an area within which a decision is to be made and ensure that the decision will be consistent with and contribute to the objective.

They help decide issues before they become problems.

POLICY

EXAMPLES ARE

- POLICIES OF HIRING UNIVERSITY TRAINED ENGINEERS
- ENCOURAGE EMPLOYEE SUGGESTION
- PROMOTING FROM WITH IN
- SETTING COMPETITIVE PRICES

POLICIES HELP IN DECISION MAKING –

POLICES OF BUYING FROM THE LOWEST OF THREE QUALIFIED BIDDERS

PROCEDURES 5

They are a stepwise guide for the routine to carry out the activities. These stepwise sequences are to be followed by all the employees so the activities can be fulfilled in an organized manner. THE PROCEDURES ARE DESCRIBED IN A CHRONOLOGICAL ORDER.

Take for example the procedure of admission of a student in a college. The procedure starts with filling out an application form. It will be followed by a collection of documents and sorting the applications accordingly.

As another example consider company policies that may grant vacation to employees; procedures to implement this policy will provide for scheduling vacation to avoid any disruption of work.

RULES

6

Rules are very specific statements that define an action or non-action. Also, rules allow for no flexibility at all, they are final. All employees of the organization must compulsorily follow and implement the rules.

Not following rules can have severe consequences.

THEY ARE SIMPLEST TYPE OF PLAN.

They guide actions without specifying time sequence.

MAY OR MAY NOT BE PART OF PROCEDURE.

For Example — No smoking zone, quite unrelated to any procedure…
No phone zone…

PROGRAMS

Programs are a complex of: goals, polices, procedures, rules, task assignments, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action; they are ordinarily supported by budgets.

BUDGETS

Budgets are the statement of ***expected results expressed in numerical terms***, referred as numberized programs.

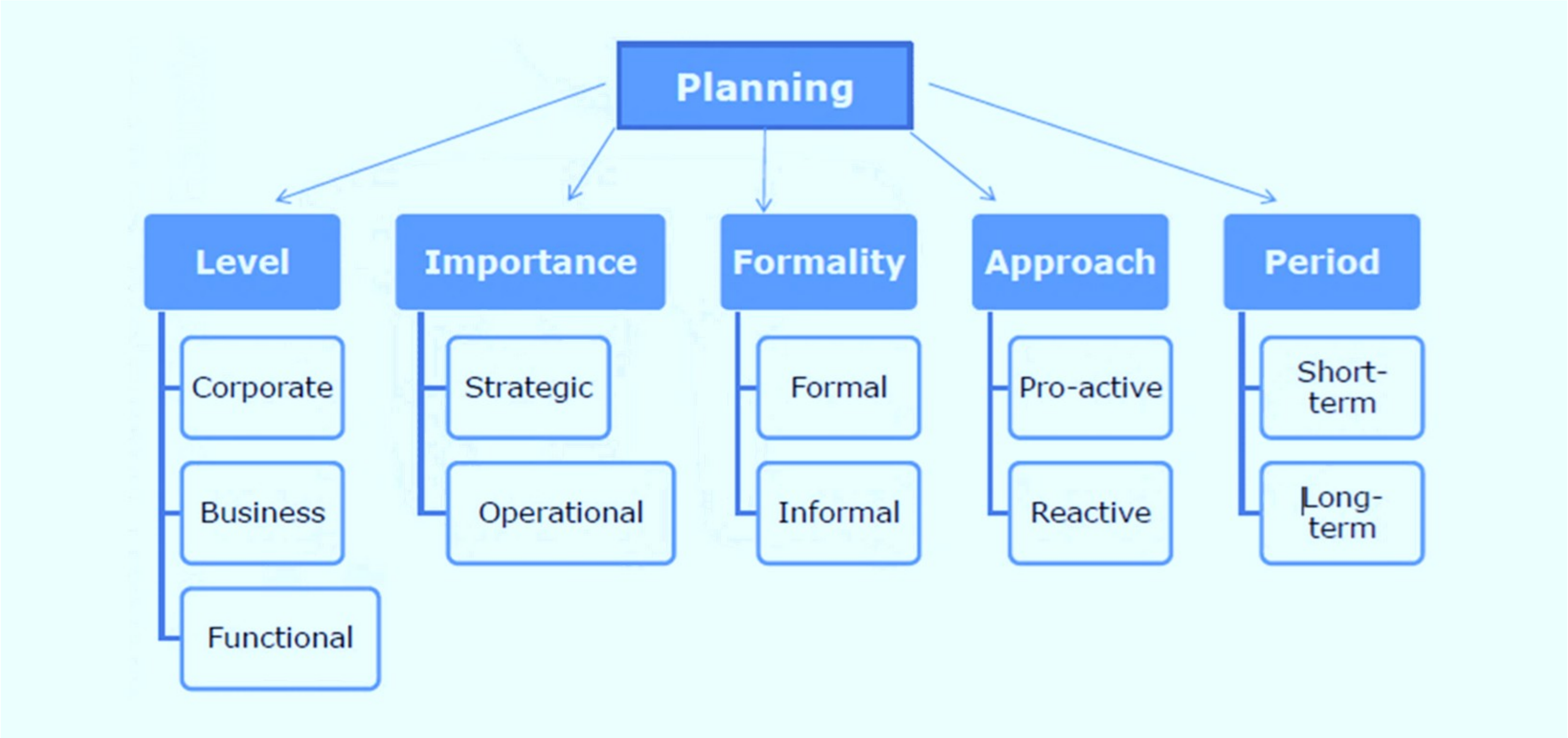
Can be in terms of number of labour hours, units of production, financial terms, machine-hours etc.

Budgets usually implements a program; it may in itself be a program.

- **VARIABLE OR FLEXIBLE BUDGETS :** depends on level of output
- **PROGRAM BUDGETS :** the agencies and each dept. within the agencies identifies the goals
- **ZERO BASED BUDGETS :** combination of variable and program budgets

Planning can be classified from different perspectives

The figure below depicts the perspectives of planning.



The most popular ways to describe plans are in terms of their

CONTENT (Strategic, Tactical, and Operational)
BREADTH (strategic versus tactical),
TIME FRAME (long term versus short term),
SPECIFICITY (directional versus specific),
and
FREQUENCY OF USE (single use versus standing).

NOT MUTUALLY EXCLUSIVE means that two instances or outcomes can occur simultaneously, and one outcome does not limit the other from being possible.

CONTENT (Strategic, Tactical, and Operational)

Upper-level managers develop ***STRATEGIC PLANS*** that apply to the entire organization, establish overall objectives, and position the organization within its environment.

Lower-level managers focus on ***TACTICAL PLANS*** that specify how the overall objectives will be achieved. These plans differ in time frame and scope.

OPERATIONAL PLANS are limited in scope and are measured daily, weekly, or monthly; strategic plans are broader, less specific and encompass five or more years.

BREADTH (strategic versus tactical)

❑ Strategic plans

- ❖ Apply broadly to the entire organization.
- ❖ Establish the organization's overall objectives.
- ❖ Seek to position the organization in terms of its environment.
- ❖ Provide direction to drive an organization's efforts to achieve its goals.
- ❖ Serve as the basis for the tactical plans.
- ❖ Cover extended periods of time.
- ❖ Are less specific in their details.

❑ Tactical plans (operational plans)

- ❖ Apply to specific parts of the organization.
- ❖ Are derived from strategic objectives.
- ❖ Specify the details of how the overall objectives are to be achieved.
- ❖ Cover shorter periods of time.
- ❖ Must be updated continuously to meet current challenges.






TIME FRAME (long term versus short term)

Long term

- Time frame beyond five years.
- It specifies what the organization wants to become in long run.
- It involves great deal of uncertainty.
- Higher management levels focus on longer time horizons.
- May include a variety of different types of training

Some examples Long term Plans:

• Sales • Brand awareness of your product
• Public reputation • Government Plans

Short term

- Time frame Upto one year
- It provide basis for day to day operations.
- Meet a particular objective in the near future
- Cover a limited area of training
- Answer the question: Are we doing things right?
- Should fit well within and contribute to long-range plans.

Some examples:

• Communication • Ability to network
• Attention to detail • Daily routines
• Plans for training staff members

SPECIFICITY (directional versus specific)

❑ Directional plans

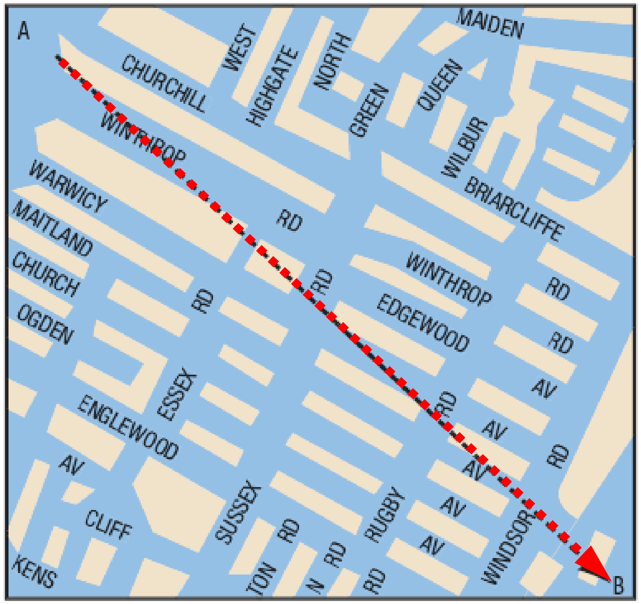
- ❖ Flexible plans that set out general guidelines.

Example “Go from here to there” (outcome-focus)

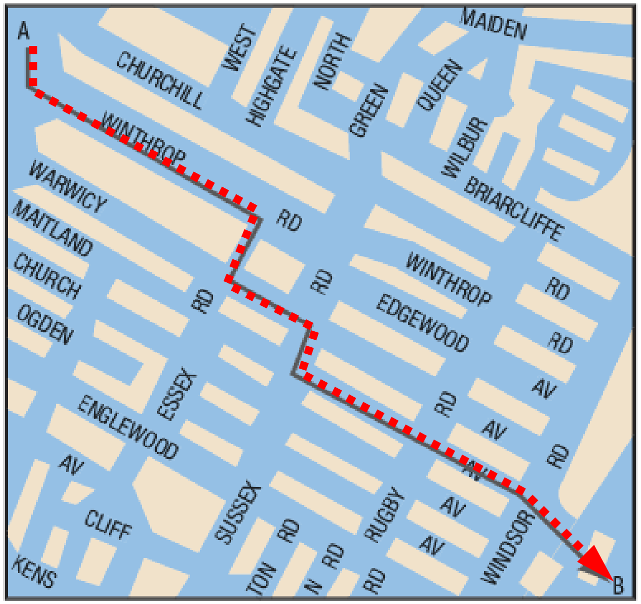
❑ Specific plans

- ❖ Plans that have clearly defined objectives and leave no room for misinterpretation.
- “What, when, where, how much, and by whom” (process-focus)

Example Lesson Plan



Directional plan



Specific plan

FREQUENCY OF USE (single use versus standing)

- **Single-use plans**

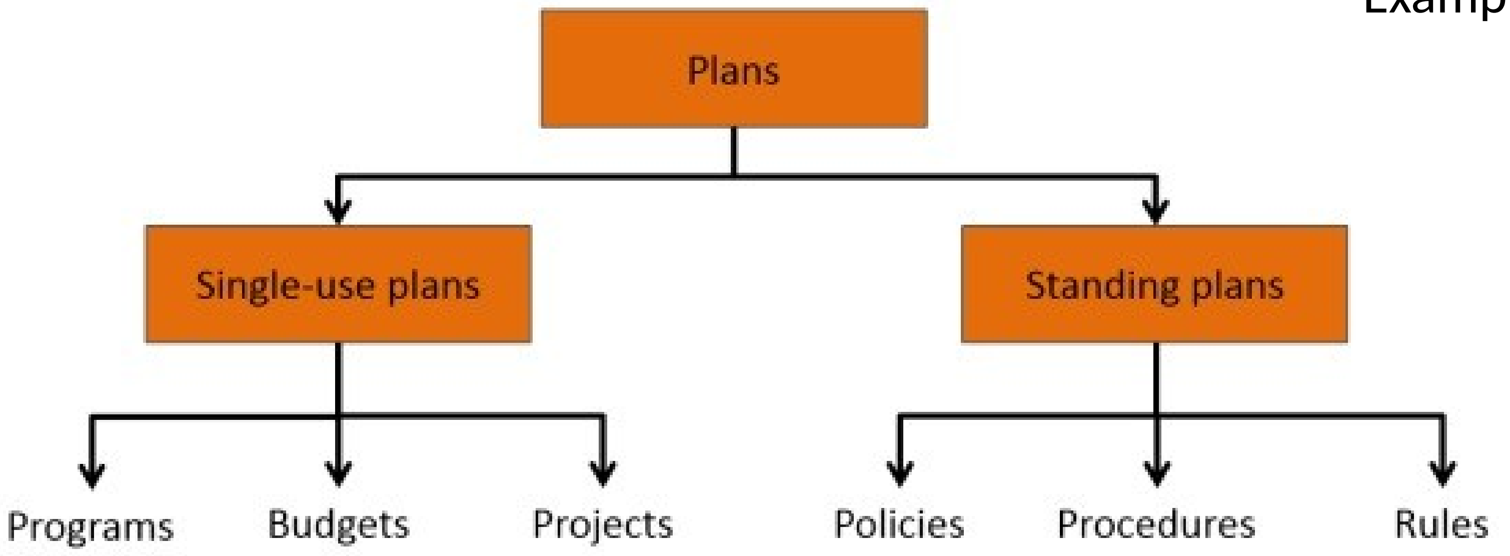
  A plan that is used to meet the needs of a particular or unique situation

  Example: Single-day sales advertisement

- **Standing plan**

  A plan that is ongoing and provides guidance for repeatedly performed actions in an organization

  Example: Customer satisfaction policy



STEPS IN PLANNING

BEING AWARE OF OPPORTUNITIES

In light of:
The market
Competition
What customers need/want
Our Strengths
Our Weakness

SETTING OBJECTIVES/GOALS

Where we want to be
and
what we want to accomplish
and
when

CONSIDERING PLANNING PREMISES

In what environment
(internal or external)
will the plans operate?

IDENTIFYING ALTERNATIVES

What are the most promising alternatives to accomplishing our objectives?

COMPARING THE ALTERNATIVES
IN THE LIGHT OF THE GOALS SOUGHT

Which alternative will give us the best chance of meeting our goals at the lowest cost and highest profit?

CHOOSING AN ALTERNATIVE

Selecting the course of action we will pursue

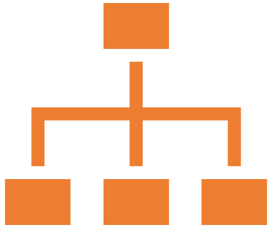
FORMULATING THE SUPPORTING PLANS

Such as plans to:
Buy equipment
Buy materials
Hire and Train workforce
Develop a new product

NUMBERIZING THE PLANS BY MAKING BUDGETS

Develop such budgets as:
Volume & Price of Sales
Operating Expenses necessary for plans
Expenditures for capital equipment

OBJECTIVES



The Nature of Objectives

Hierarchy of Objectives

Setting Objectives and the Organizational Hierarchy

Multiplicity of Objectives

How to Set Objectives

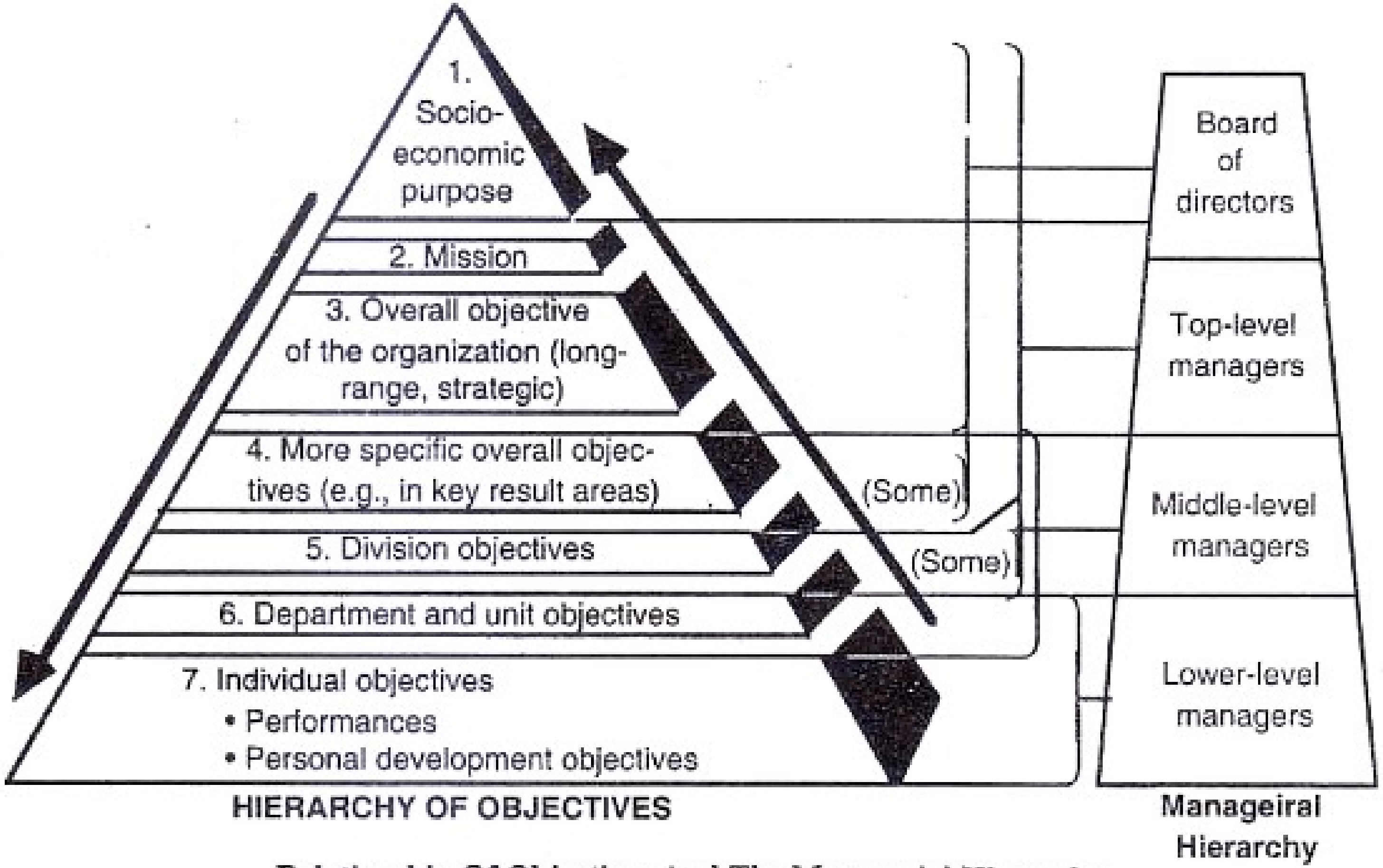
Quantitative and Qualitative Objectives

Guidelines for Setting Objectives

Relationship of Objectives and the Organizational Hierarchy

TOP DOWN APPROACH – upper level managers determine the objectives for subordinates

BOTTOM UP APPROACH –



Relationship Of Objectives And The Managerial Hierarchy

Source: Essentials of Management by Harold Koontz, Heinz Weihrich, Mark V. Cannice, McGraw Hill Education(India) Private Limited

The Nature and Purpose of STRATEGIES and POLICIES

Strategy

Determination of the mission or purpose and the basic long-term objectives of an enterprise, followed by the adoption of courses of action and allocation of resources necessary to achieve these aims.

Policies

General statements or understandings that guide managers' thinking in decision making.

MULTIPLICITY OF OBJECTIVES

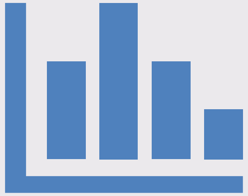
At every level in the hierarchy of objectives, goals are like to be multiple.

That is, the business does not have just one objective. It has several objectives.

This is because a business must satisfy a variety of stakeholders, including owners, employees, consumers, creditors, vendors, society, and so on.

The company must establish separate objectives for each group.

QUANTITATIVE OBJECTIVES



Quantitative objectives are straightforward to measure and are represented numerically. These objectives are concrete, observable, and quantifiable.

Examples include:
Increasing annual revenue by 10%
Reducing production costs by 15%

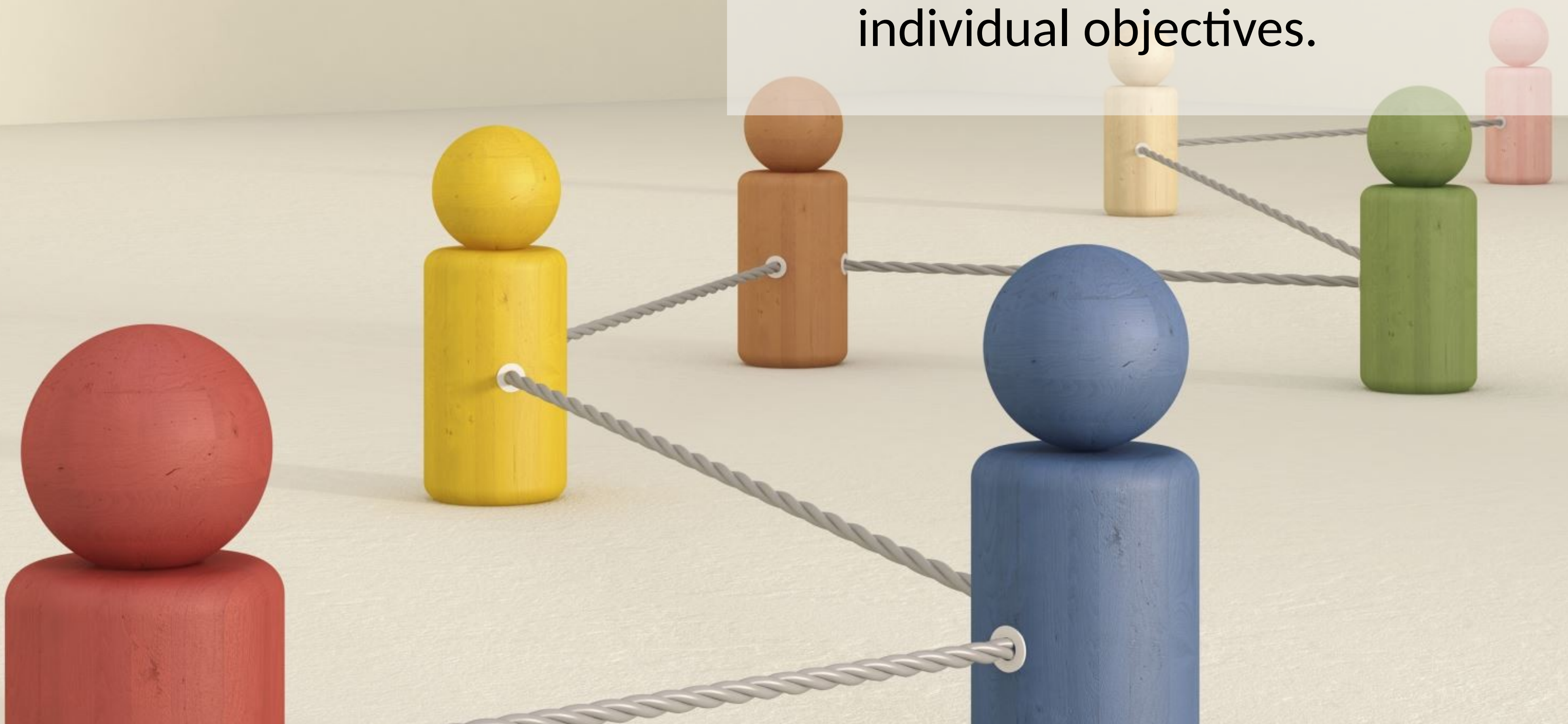
QUALITATIVE OBJECTIVES

Qualitative objectives are challenging to measure as they are not represented numerically.

Examples include:
Enhancing customer experience & satisfaction
Improving brand reputation and recognition

Evolving Concepts in MANAGEMENT BY OBJECTIVES

MANAGEMENT BY OBJECTIVES is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and is consciously directed toward the effective and efficient achievement of organizational and individual objectives.



MANAGEMENT BY OBJECTIVES (MBO)

Management by objectives (MBO) is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees.

Management by Objectives,
also known as management by planning,
was first popularized by Peter Drucker
in his 1954 book The Practice of Management.

MANAGEMENT BY OBJECTIVES (MBO)

Following are the common features of the **organizational objectives** :

- Verifiable and quantified objectives
- Hierarchy of objectives
- Network of objectives
- Multiplicity of objectives
- Process of objective setting & organizational hierarchy

MANAGEMENT BY OBJECTIVES (MBO)

comprehensive managerial system that integrates many key activities

managerial activities arranged in a systematic manner

directed towards effective and efficient achievement of objectives

organizational and individual objectives addressed

managers and employees define objectives for every department, project, and person, and use them to monitor subsequently

performance monitored and achieved

MANAGEMENT BY OBJECTIVES (MBO)

MBO emphasizes on the following:

- Performance appraisal
- Short term objectives and motivation
- Long term planning

Process of MBO

- Setting preliminary objectives at the top
- Clarifying organizational roles
- Setting subordinates objectives
- Recycling of objectives

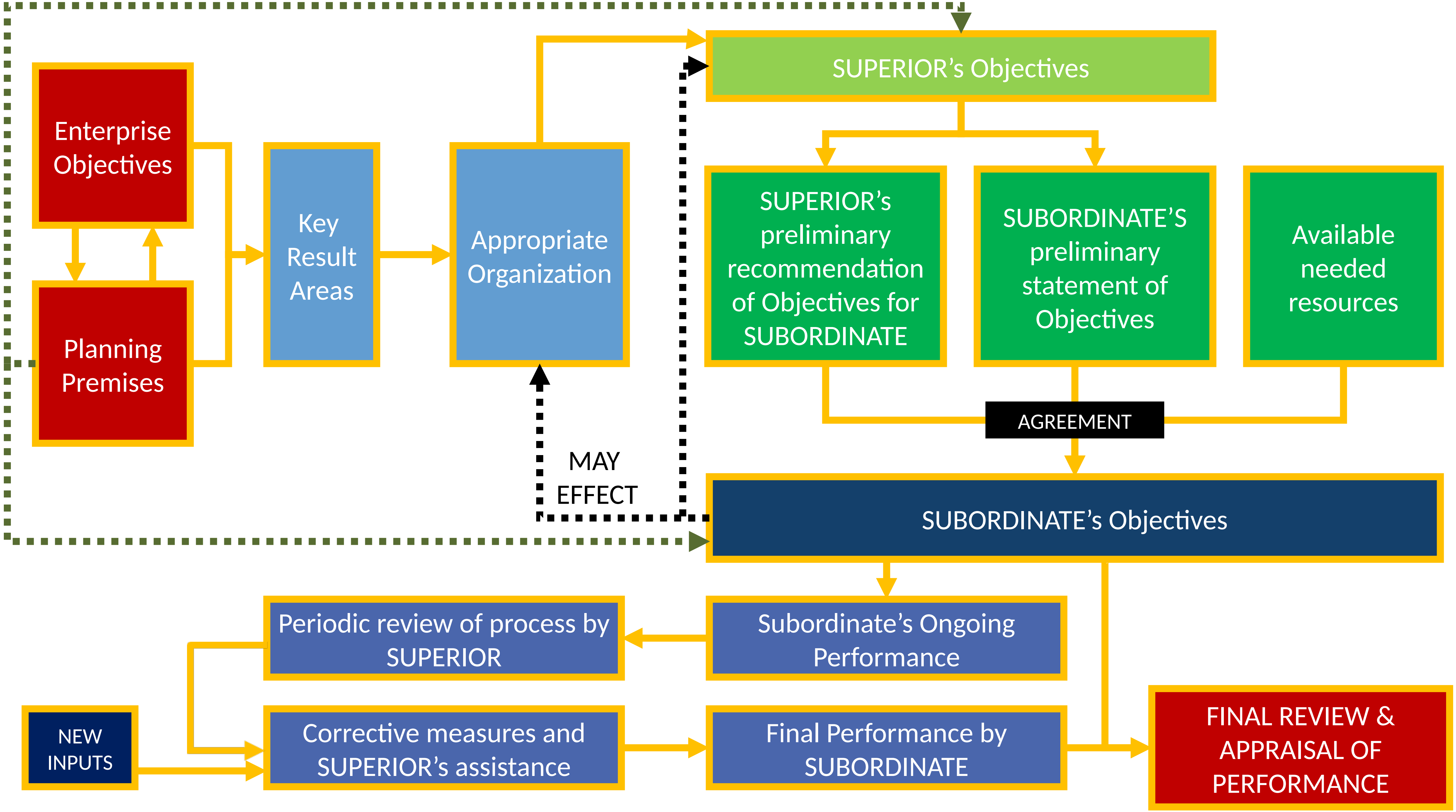
MANAGEMENT BY OBJECTIVES (MBO)

Key Result Areas for Business (Peter Drucker)

What do you mean by

“Key result areas”?

An area in which performance is essential for the success of the enterprise.



SUPERIOR's Objectives
Enterprise Objectives
Planning Premises
Key Result Areas
Appropriate Organization
SUPERIOR's preliminary recommendation of Objectives for SUBORDINATE
SUBORDINATE'S preliminary statement of Objectives
Available needed resources
AGREEMENT
MAY EFFECT
SUBORDINATE's Objectives
Periodic review of process by SUPERIOR
Subordinate's Ongoing Performance
NEW INPUTS
Corrective measures and SUPERIOR's assistance
Final Performance by SUBORDINATE
FINAL REVIEW & APPRAISAL OF PERFORMANCE

Examples of non-verifiable and verifiable Objectives

Non-Verifiable Objectives	Verifiable Objectives
1. To make a reasonable profit	1. To achieve a return on investment of 12% at the end of the current fiscal year
2. To improve communication	2. To issue a two-page monthly newsletter beginning July 1, involving not more than 40 work hours of preparation time (after first issue)
3. To improve productivity	3. To increase production output by 5% by December 31, without additional costs and while maintaining current quality level.
4. To develop better managers	4. To design and conduct a 40-hour in house program on the “Fundamentals of Management” to be conducted this year involving not more than 200 working hours of the management development staff with 90% of the managers passing this exam.
5. To install a computer system	5. To install a computerized control system in the production department by December 31, requiring not more than 500 working hours of system analysis and operating with not more than 10% downtime during the first 3 months of installation.

MANAGEMENT BY OBJECTIVES (MBO)

SETTING EMPLOYEE OBJECTIVES

- Identify an employee’s key job tasks.
- Establish specific and challenging goals for each key task.
- Allow the employee to actively participate.
- Prioritize goals.
- Build in feedback mechanisms to assess goal progress.
- Link rewards to goal attainment.

MANAGEMENT BY OBJECTIVES (MBO)

OBJECTIVES of MBO

- To identify problems and opportunities in business.
- To convert identified opportunities into clear goals.
- To set up a system to convert these goals into achievements.
- To review the organization in the light of the objectives.
- To establish the objectives of each job and unit.
- To clarify the policies and systems to accomplish the objectives.
- To set up a review system.

MANAGEMENT BY OBJECTIVES (MBO)

BENEFITS of MBO

- The need for planning will be recognized.
- It provides for objectives and accountability for performance.
- It encourages participative management.
- It helps in job enrichment.
- It provides for a good feedback system.
- Leader/subordinate efforts are focused on activities that will lead to goal attainment
- Performance improved up and down the chain
- Motivated people

MANAGEMENT BY OBJECTIVES (MBO)

WEAKNESSES OF MBO

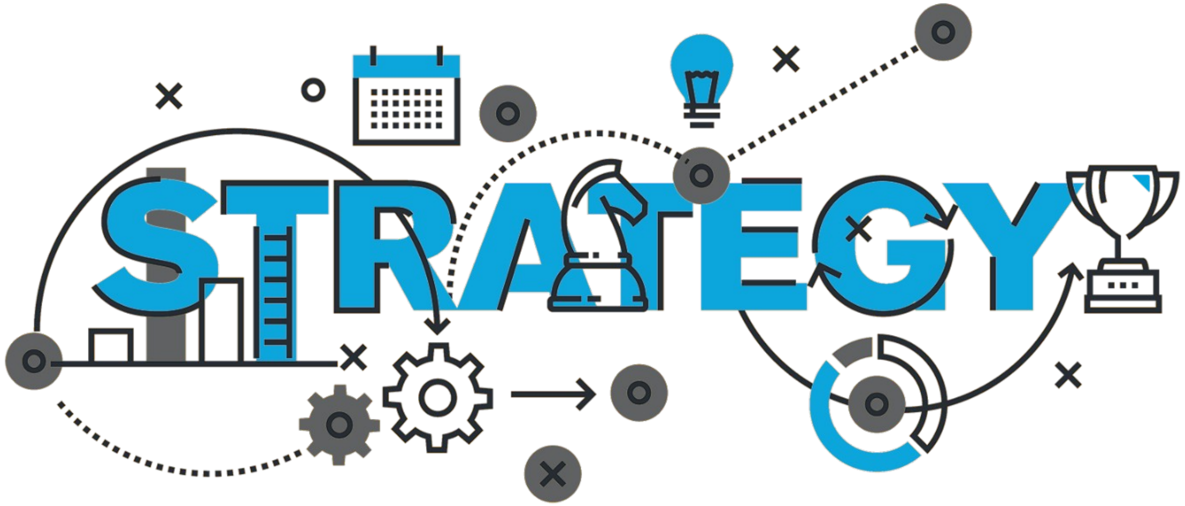
- Failure to teach the philosophy of MBO
- Failure to give guidelines to goal setters
- Difficulty of setting goals
- Emphasis on short run goals
- Danger of inflexibility
- Desire to make goals verifiable people may use quantitative goals and attempt to use numbers in areas where they are not applicable.

MANAGEMENT BY OBJECTIVES (MBO)

PROBLEMS of MBO

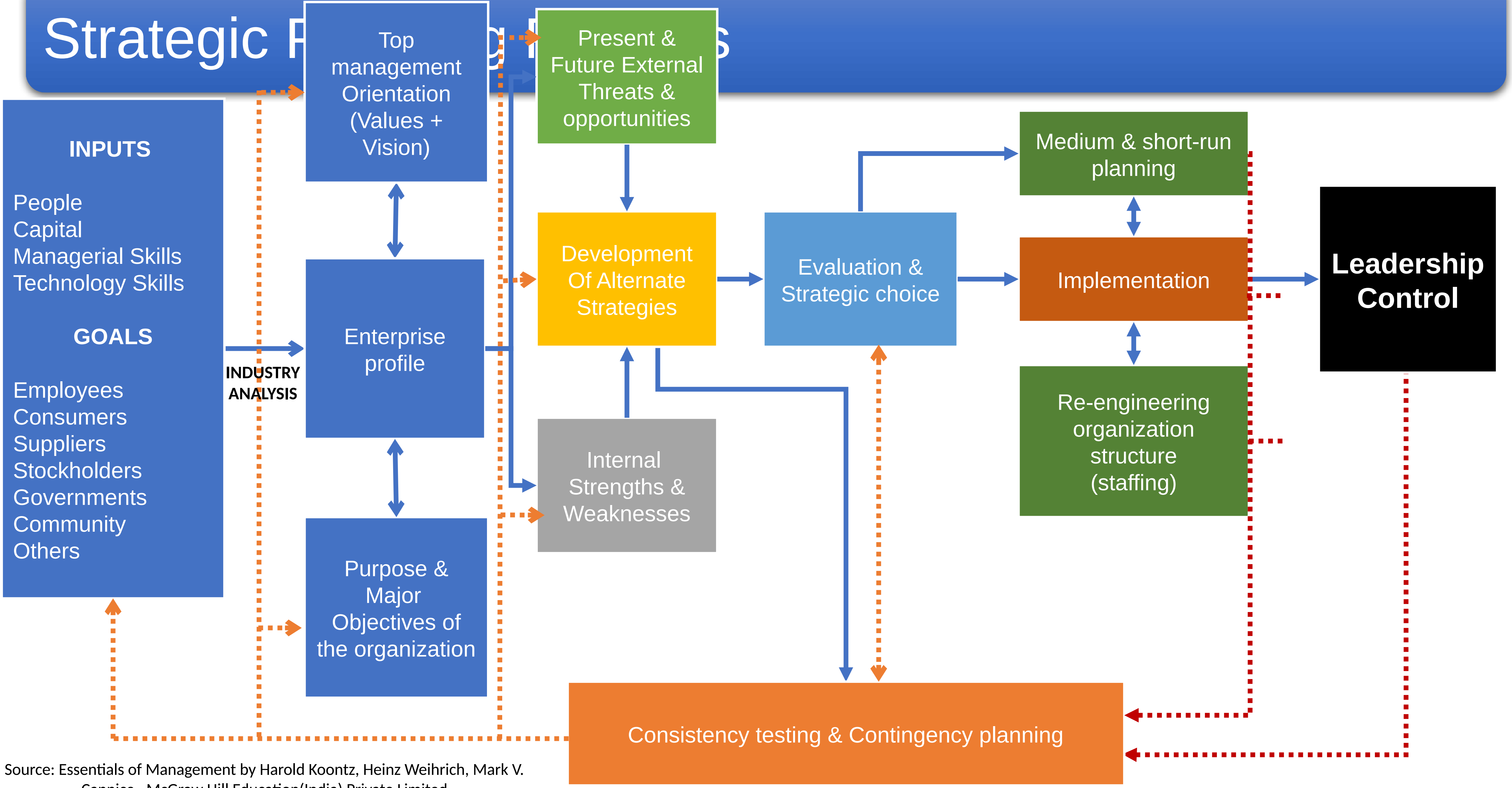
- Change adversely affects planning
- Low morale reduces effectiveness
- Lower level goals take precedence
- Over-centralized authority limits participation
- Paperwork

STRATEGIC PLANNING TOOLS



STRATEGIC PLANNING is the process of developing the strategy or direction and action plan to achieve the goals of an organization.

Strategic P… g P… s



Source: Essentials of Management by Harold Koontz, Heinz Weihrich, Mark V. Cannice, McGraw Hill Education(India) Private Limited

STRATEGY

3 LEVELS OF STRATEGY

Corporate Level Strategy

What business we are in?

Business Level Strategy or Competitive Strategy

How do we compete?

Functional Level Strategy

How do we support business level strategy?

STRATEGIC PLANNING TOOLS

TOOLS TO DEVELOP STRATEGY

These 5 strategy development tools are related but distinct. Managers can use any of the tool or a combination of tools that seem most appropriate for them and their organizations.

01 CRITICAL QUESTION ANALYSIS

02 BLUE OCEAN STRATEGY

03 SWOT ANALYSIS & TOWS MATRIX

04 BUSINESS PORTFOLIO ANALYSIS

05 PORTER'S GENERIC MODEL

Critical Question Analysis

- What is our business?

  Glass bottle manufacturers misse their opportu ities b g themselves for too long as glass bottle make the s liquid container m facture while pla l containers come to re glass in any cases

- Who are our customers?
- What do our customers want?
- How much will our customers buy and at what price?
- Do we wish to be a product leader?
- Do we wish to develop our own new products?

Critical Question Analysis

An example of critical question analysis:

The key questions that serve as guides for establishing a marketing strategy are:

- Where are our customers and why do they buy?
- How do our customers buy?
- How is it best for us to sell?
- Do we have something to offer that competitors do not?

TOOLS TO DEVELOP STRATEGY

These 5 strategy development tools are related but distinct. Managers can use any of the tool or a combination of tools that seem most appropriate for them and their organizations.

01 CRITICAL QUESTION ANALYSIS

02 BLUE OCEAN STRATEGY

03 SWOT ANALYSIS & TOWS MATRIX

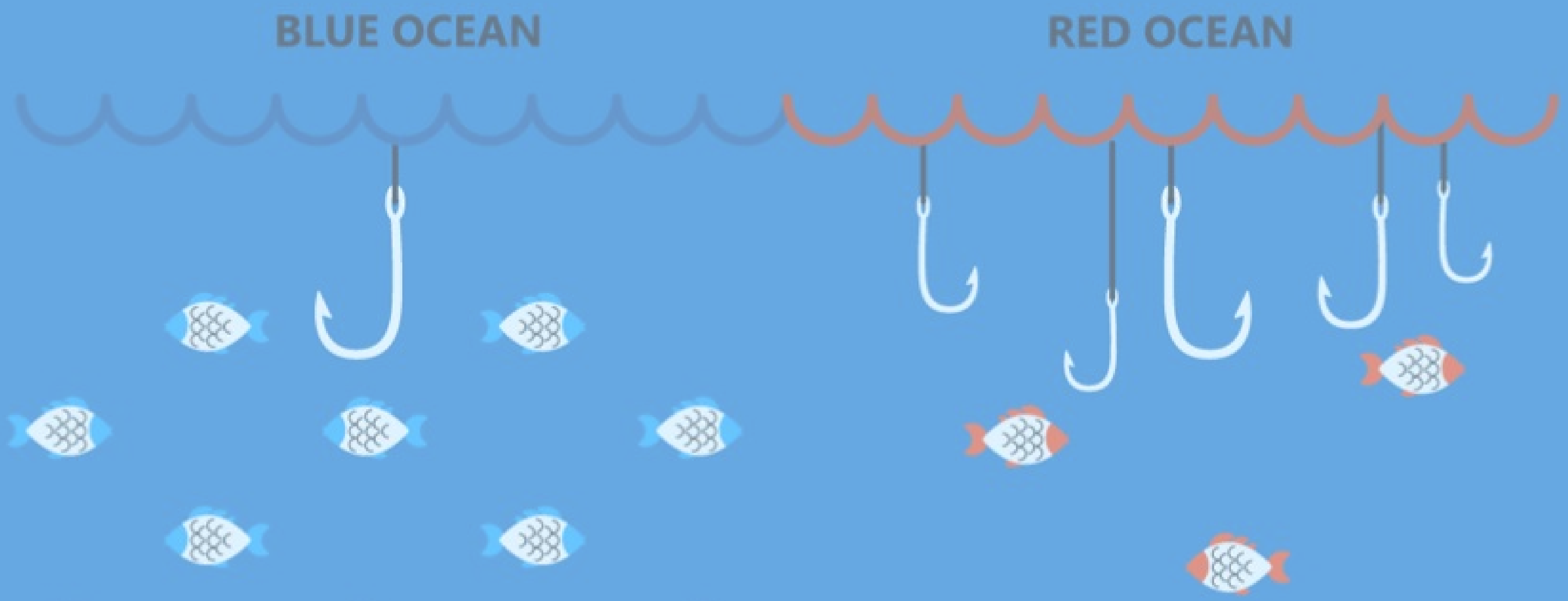
04 BUSINESS PORTFOLIO ANALYSIS

05 PORTER'S GENERIC MODEL

By :W. Chan Kim and Renée Mauborgne.

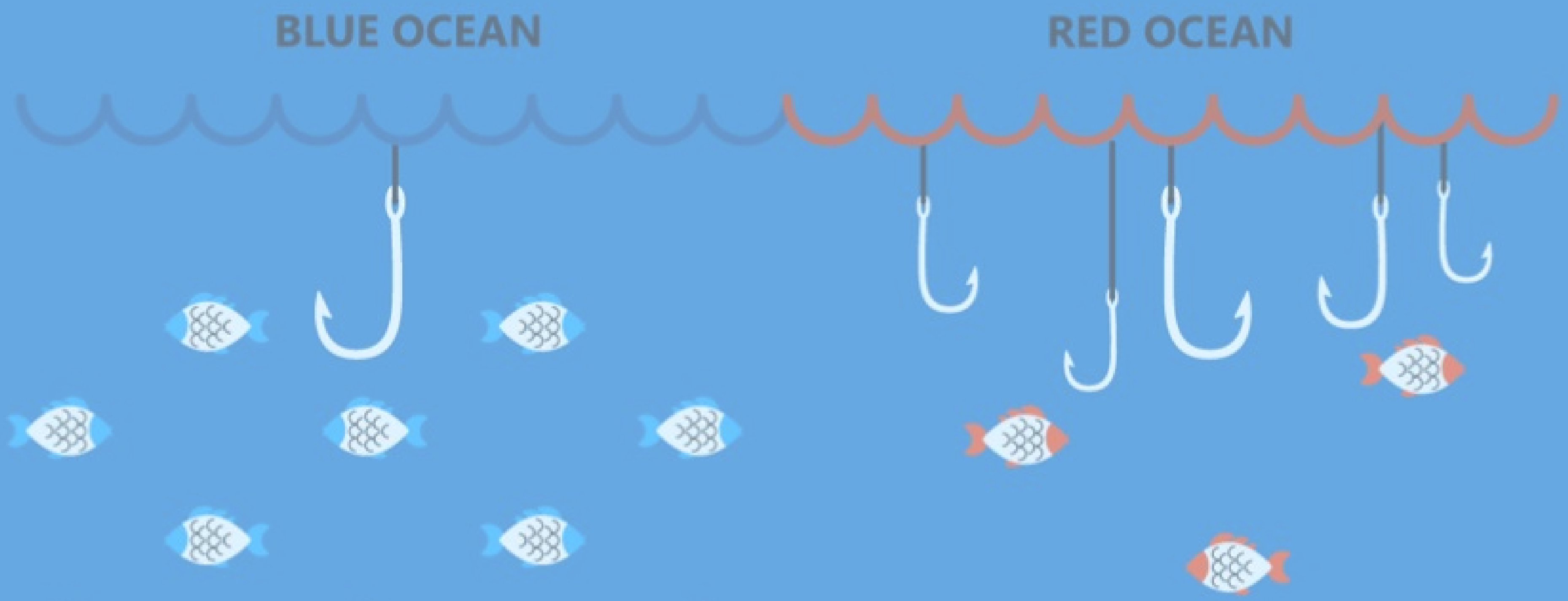
The Blue Ocean Strategy is a unique approach to business

- growth that encourages companies to create new market spaces instead of competing in saturated markets
- success can be found in ‘blue oceans’ – untapped, uncontested market spaces ripe for growth
- emphasizes the simultaneous pursuit of differentiation and low cost to open up a new market space and create new demand. It is about creating and capturing uncontested market space, making the competition irrelevant.



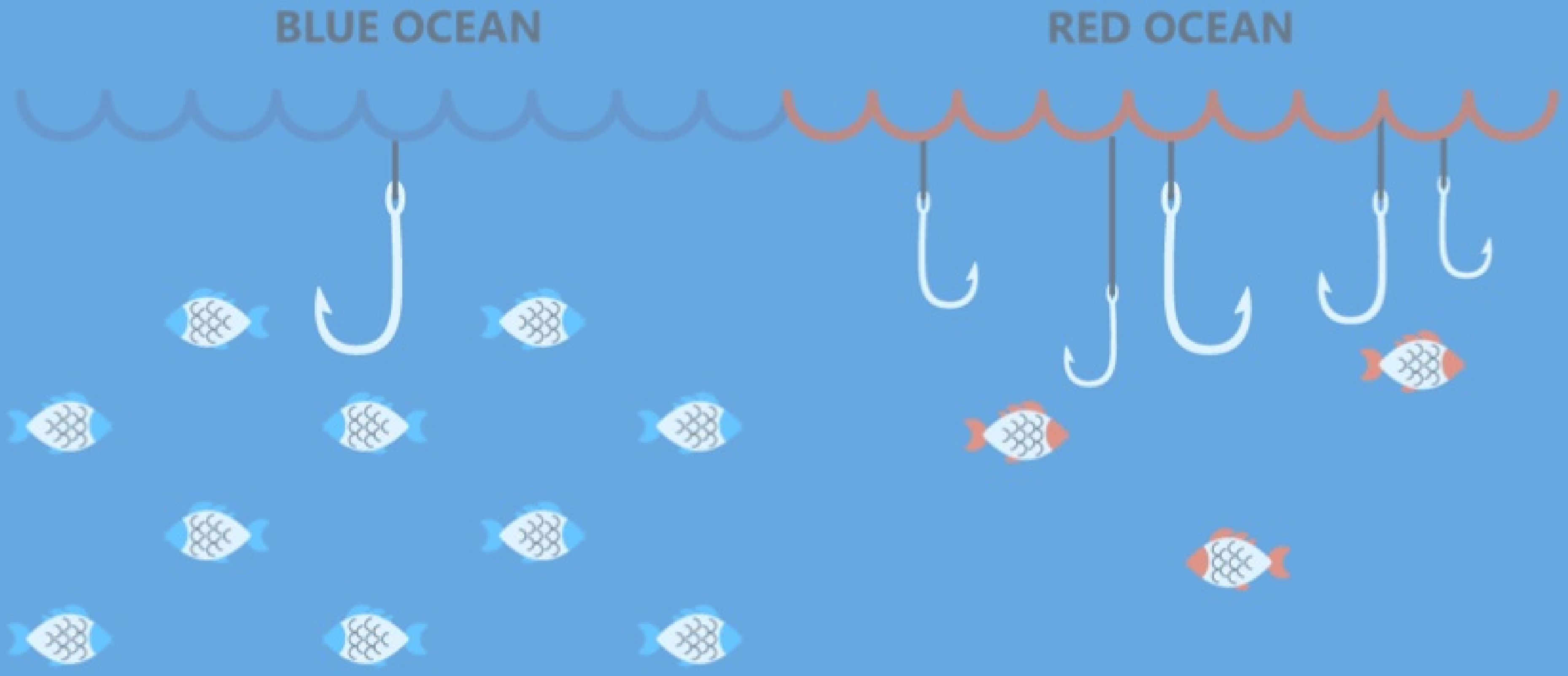
Blue Ocean Strategy pivots on two main principles:

1. **value innovation**
    - **value innovation involves delivering superior value to customers through differentiation and low cost**
    - **beating the competition but making it irrelevant by redefining the industry boundaries**
2. **creation of uncontested market space**



ADVANTAGES

1. Businesses are able to create new demand and tap into new markets
2. Businesses can focus on creating unique value propositions that are appealing to customers
3. Businesses can avoid the cutthroat competition of traditional markets
4. Businesses can achieve sustained profitability



CHALLENGES

1. high risk of failure
2. significant resource investment, and
3. the uncertainty of unexplored markets

RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
Compete in **existing** market space	Create **uncontested** market space
Beat the competition	Make the competition **irrelevant**
Exploit **existing** demand	Create and capture **new** demand
Make the value-cost trade-off	**Break** the value-cost trade-off
Align the whole system of a firm's activities with its **strategic choice of differentiation or low cost**	Align the whole system of a firm's activities in **pursuit of differentiation and low cost**

APPLICATIONS

Hindustan Unilever

In 2001, India’s Hindustan Unilever launched Project Shakti, an initiative to provide rural India with basic hygiene and sanitation products. The company used a direct-selling model, which not only increased sales but also helped bring safe drinking water and sanitation products to communities that needed them the most.

Airtel

The launch of Airtel’s mobile banking services in 2010 and the expansion of the Flipkart e-commerce platform into grocery delivery in 2015. These examples show that the Blue Ocean strategy can be used to tap into new markets and create value for both businesses and consumers.

APPLICATIONS

Flipkart

When they first started out, they were a small startup competing against much bigger and well-established companies. They used the Blue Ocean strategy to focus on the needs of the Indian consumer and offer a unique shopping experience. This helped them to quickly become one of the leading e-commerce companies in India.

PayTm

It created a new market in India by providing a convenient and accessible way to pay for goods and services via mobile phone. Before PayTm the concept of digital and mobile payments was fairly non-existent or ill-adopted.

Four Actions Framework

BLUE OCEAN STRATEGY

Identify and categorize factors / attributes / features / services etc into the 4 groups mentioned below....

Eliminate the factors on which the company has been competing

Reduce several factors below the company standards

Raise key factors that will assist in making the competition irrelevant above the standards

Create some new ideas, factors, and steps that the company needs to achieve its blue ocean goal

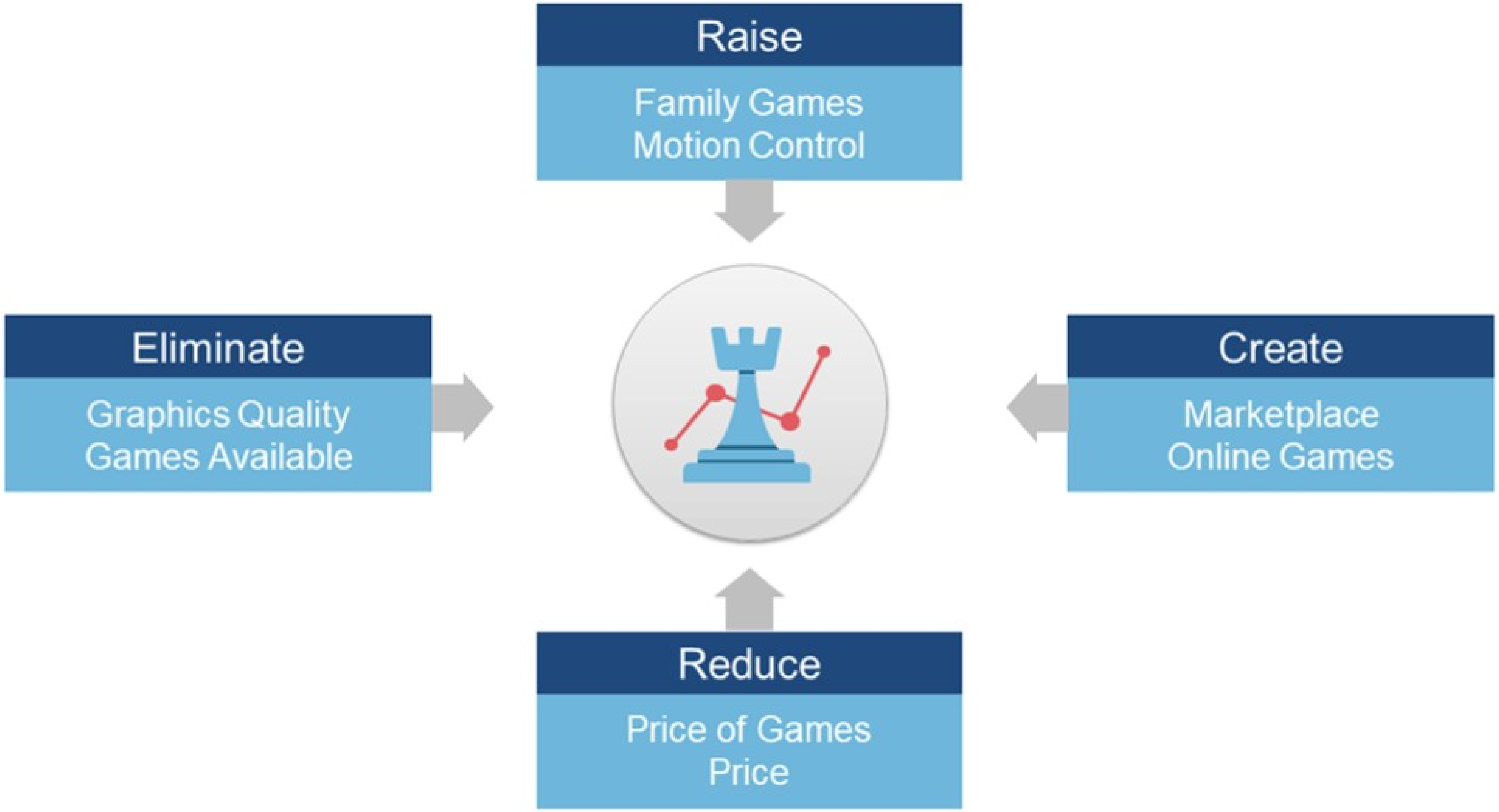
Competitive Factor analysis : an example

Competitor Analysis

Gaming Console Platforms 2023

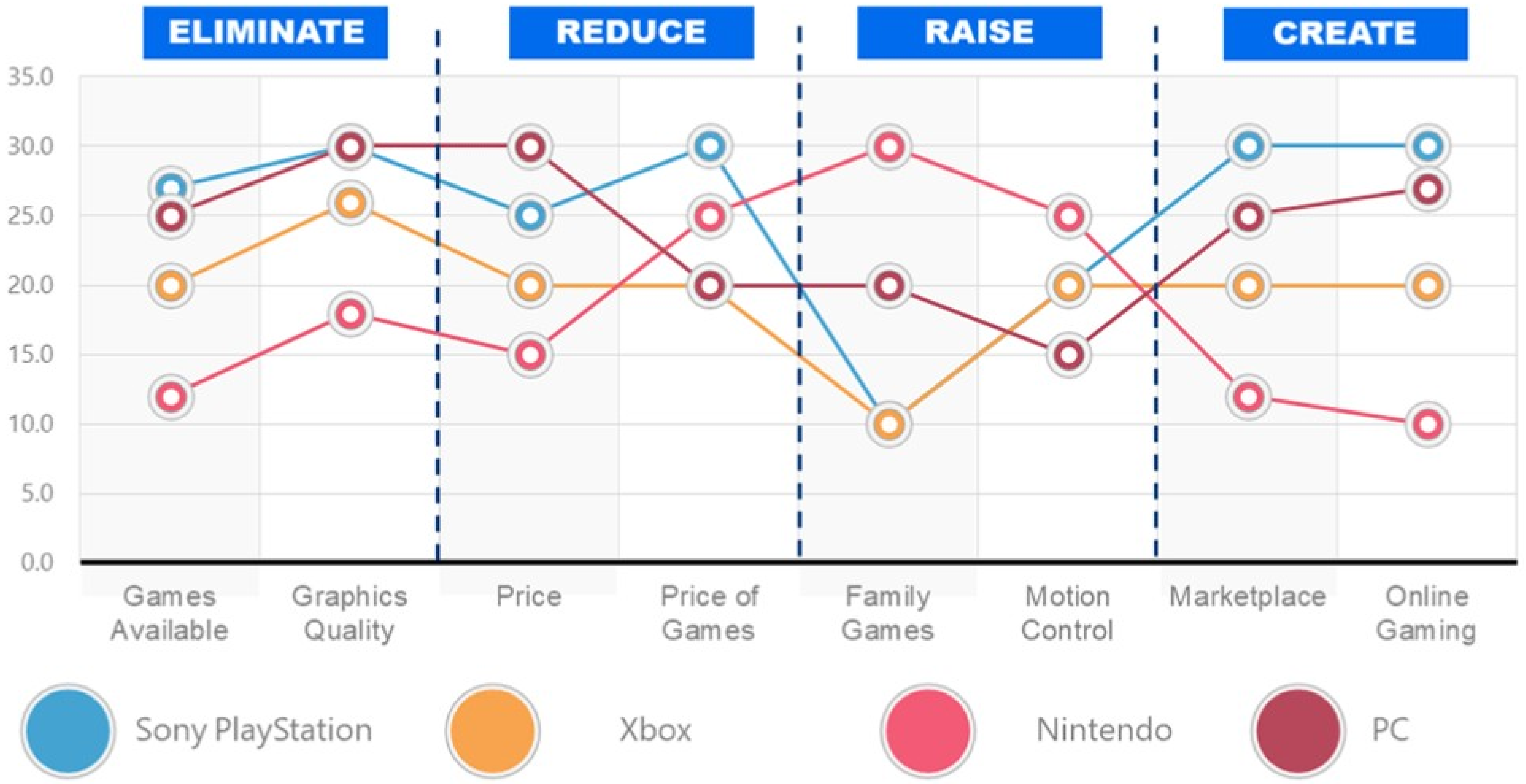
Competitor	Evaluation Factors: Current Market Position	Economic Solution	Competence & Product Line	Customer Satisfaction	Market Position	
Sony PlayStation	01	03	01	01	1	Leading market solution
Microsoft Xbox	03	01	03	03	2	Best price-quality ratio
PC	02	02	02	02	3	Multi-purpose platform
Nintendo	04	04	04	04	4	Leading family game option
Steam Deck	05	05	05	05	5	Not well recepted

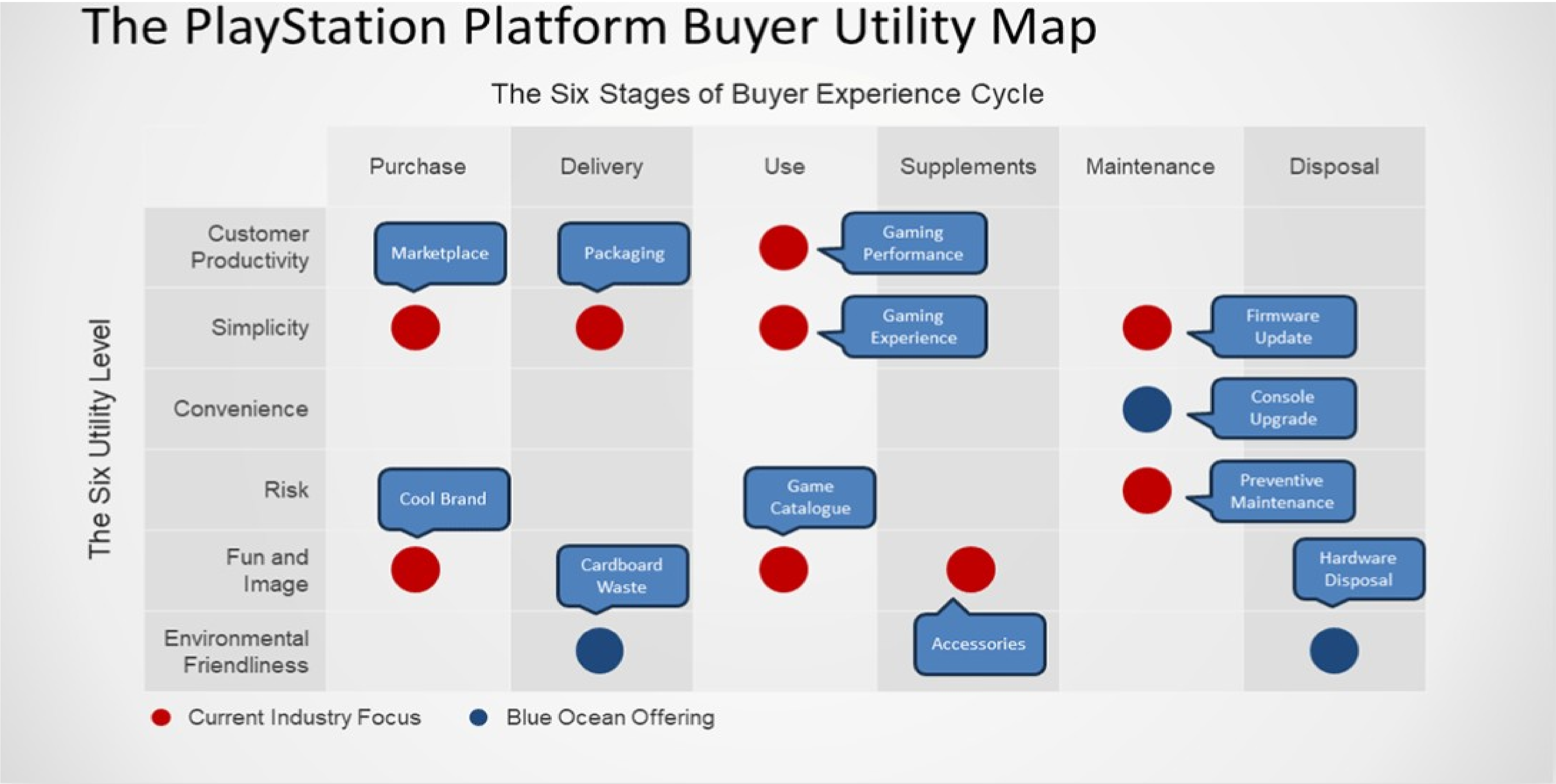
The *Four Actions Framework analysis*



Blue Ocean Strategy Canvas

Comparison of major gaming consoles platforms 2023.





In this example, we can study a potential Buyer Utility Map for the Sony PlayStation.

TOOLS TO DEVELOP STRATEGY

These 5 strategy development tools are related but distinct. Managers can use any of the tool or a combination of tools that seem most appropriate for them and their organizations.

01 CRITICAL QUESTION ANALYSIS

02 BLUE OCEAN STRATEGY

03 SWOT ANALYSIS & TOWS MATRIX

04 BUSINESS PORTFOLIO ANALYSIS

05 PORTER'S GENERIC MODEL

- Acronym for **Strengths**, **Weaknesses**, **Opportunities**, and **Threats**.
- Technique is credited to **Albert Humphrey** who led a research project at Stanford University in the 1960s and 1970s.
- **Planning tool** used to understand Strengths, Weaknesses, Opportunities, & Threats involved in a project / business.
- Used as **framework for organizing** and using data and information gained from **situation analysis** of internal and external environment.
- Technique that enables a group / individual to move from everyday problems / traditional strategies to a **fresh perspective**.

What is SWOT Analysis?

STRENGTHS

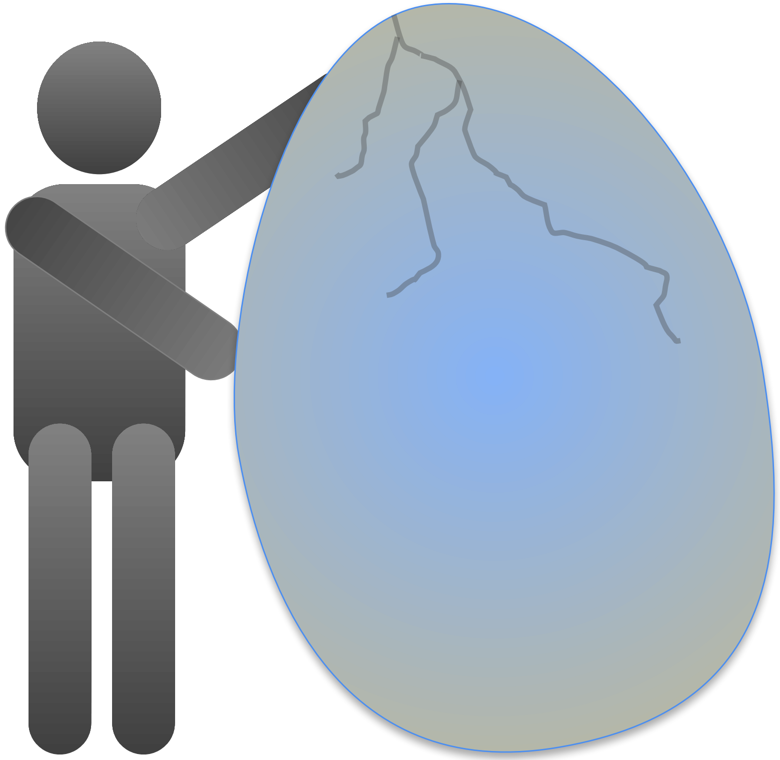
- Characteristics of the business or a team that give it an advantage over others in the industry.
- Positive tangible and intangible attributes, internal to an organization.
- Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.

Examples - Abundant financial resources, Well-known brand name, Economies of scale, Lower costs [raw materials or processes], Superior management talent, Better marketing skills, Good distribution skills, Committed employees.

What is SWOT Analysis?

WEAKNESSES

- Characteristics that place the firm at a disadvantage relative to others.
- Detract the organization from its ability to attain the core goal and influence its growth.
- Weaknesses are the factors which do not meet the standards we feel they should meet. However, weaknesses are controllable. They must be minimized and eliminated.



Examples - Limited financial resources, Weak spending on R & D, Very narrow product line, Limited distribution, Higher costs, Out-of-date products / technology, Weak market image, Poor marketing skills, Limited management skills, Under-trained employees.

What is SWOT Analysis?

OPPORTUNITIES

- Chances to make greater profits in the environment - External attractive factors that represent the reason for an organization to exist & develop.
- Arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable.
- Organization should be careful and recognize the opportunities and grasp them whenever they arise. Opportunities may arise from market, competition, industry/government and technology.

Examples - Rapid market growth, Rival firms are complacent, Changing customer needs/tastes, New uses for product discovered, Economic boom, Government deregulation, Sales decline for a substitute product .

What is SWOT Analysis?

THREATS

- External elements in the environment that could cause trouble for the business - External factors, beyond an organization's control, which could place the organization's mission or operation at risk.
- Arise when conditions in external environment jeopardize the reliability and profitability of the organization's business.
- Compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake.

Examples - Entry of foreign competitors, Introduction of new substitute products, Product life cycle in decline, Changing customer needs/tastes, Rival firms adopt new strategies, Increased government regulation, Economic downturn.

EXERCISE

Assume that a car manufacturing company has recently launched its electrical vehicle (EV) products.

Perform a SWOT analysis for the same.

EXERCISE

HELPFUL

INTERNAL

STRENGTHS

- Eco-friendly
- Silent engine
- Simpler mechanism
- Low Cost of maintenance and Cheaper to run
- Energy Savings – achieved from regenerative braking system

WEAKNESSES

- High Price
- needs time to recharge
- Batteries change is expensive
- Lack of recharging infrastructure

EXTERNAL

OPPORTUNITIES

- Huge untapped EV market
- Growing demand of green technologies
- Rising fuel costs
- Lower taxes
- Government subsidy to promote eco-friendly vehicles

THREATS

- Entry of competitors
- Rise in cost of electricity
- Availability of hybrid vehicles adding to competition

HARMFUL

TOWS Matrix

DEFINITION

TOWS Analysis refers to the interlinking of the internal strengths and weaknesses of a company with the threats and opportunities that it faces in its external environment.

It is a categorization of the strategies which are available to a company.

It does this by focusing on aligning internal elements with external factors in an appropriate manner.

TOWS Matrix

It has four alternative strategies

- SO Strategy
- ST Strategy
- WO Strategy
- WT Strategy

TOWS Matrix for Strategy Formulation

- SO Strategy
- ST Strategy
- WO Strategy
- WT Strategy

Internal factors / External factors	**External Opportunities (O)** (Consider risks also) e.g., current and future economic condition, political and social changes, new products, services and technology	**External threats (T)** e.g., lack of energy, competition, and areas similar to those shown in the “opportunities” box above
Internal strengths (S) e.g., strengths in management operations, finance, marketing, R&D, engineering	**SO strategy: Maxi-Maxi** Potentially the most successful strategy, utilizing the organization’s strengths to take advantage of opportunities	**ST strategy: Maxi-Mini** e.g., use of strengths to cope with threats or to avoid threats
Internal weaknesses(W) e.g., weaknesses in areas shown in the box of “strengths”	**WO strategy: Mini-Maxi** e.g., Developmental strategy to overcome weaknesses in order to take advantage of opportunities	**WT strategy: Mini-Mini** e.g., **retrenchment**, liquidation, or joint venture to minimize both weaknesses and threats

TOWS Matrix

WT strategy: Mini-Mini

RETRENCHMENT STRATEGY

A strategy used by corporations to reduce the diversity or the overall size of the operations of the company.

This strategy is often used in order **to cut expenses** with the goal of becoming a **more financial stable business**.

Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or service in order to make a beneficial turnaround.

Story of an apple

TOWS Matrix

Strategies Combining STRENGTHS + OPPORTUNITIES (SO)

Apple has strong brand awareness and loyalty from its customers.
It also has strong capabilities in product design and aesthetics.

- Combining these factors (which are internal **strengths**) with the growing popularity of touchscreen smartphones (a good market **opportunity**) is what led to the launch of the first iPhone.
- This was, of course, an immediate and massive hit, breaking various records for phone sales at the time.

TOWS Matrix

Strategies Combining STRENGTHS + THREATS (ST)

- Some of the core **strengths** of Apple are its product design and strong brand loyalty which it commands from its consumers. It has taken advantage of these strengths to push the use of its proprietary lighting cable connection on iPhones and iPads. This boosts its revenue while most other phone manufacturers have already adopted Type C as a standard connection for their devices.

- However, Apple faces a **threat** in some markets like the European Union where the **local regulators are pushing** for the company **to also adopt Type C** in its devices to reduce unnecessary electronic waste. Adopting the Type-C standard might potentially lead to a partial loss of revenue for the company. However, by properly using its strength in product design and capitalizing on brand loyalty, a sizable portion of its consumers will continue to buy Apple's Type C charger rather than cheaper alternatives.

TOWS Matrix

Strategies Combining WEAKNESSES + OPPORTUNITIES (WO)

Apple typically has a comparatively smaller product portfolio compared to its competitors, and this is one of its few **weaknesses** (although this may be arguable).

- When new opportunities arise in the market in the form of the latest trends, Apple is not always the quickest to capitalize on it. However, the company has still made good use of WO strategies in its ascent to commercial success.
- The wearables sector first started gaining traction in 2010 and this represented a strong market **opportunity**. Competitors like Google, Samsung, Motorola had all launched gadgets in this space in the next few years and were seeing returns. Apple then overcame its weakness and entered this market with its Apple Watch in 2015, which proved to be a success.

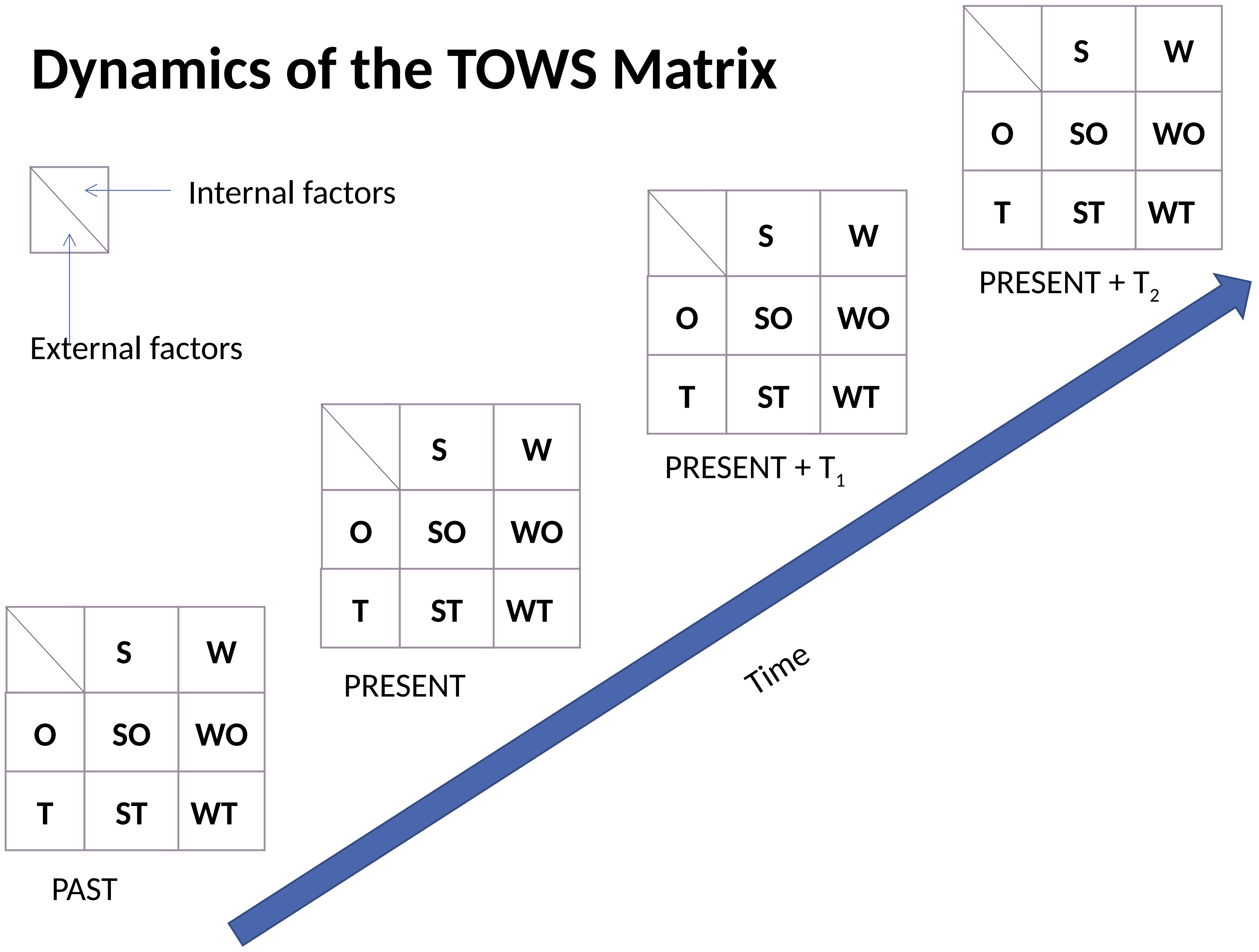
TOWS Matrix

Strategies Combining WEAKNESSES + THREATS (WT)

Apple has been in the digital media sector since the launch of its Apple TV device in 2007.

- However, despite updating this device over the years with several upgraded versions, it was not a commercial success.
- The **weakness** it had in this area was mainly due to limited functionality and interconnectivity compared to competing products like Roku or Fire Stick.
- This was because you needed to already be in the Apple ‘ecosystem’ to make full use of the device.
- At the same time, the **threat** in the digital media space was growing day by day with more and more streaming service launches.
- The introduction and launch of its own streaming service (Apple TV+) is a WT strategy. This is because it helps the company reduce its weakness and overcome the growing threat to a certain extent..

Dynamics of the TOWS Matrix



TOOLS TO DEVELOP STRATEGY

These 5 strategy development tools are related but distinct. Managers can use any of the tool or a combination of tools that seem most appropriate for them and their organizations.

01 CRITICAL QUESTION ANALYSIS

02 BLUE OCEAN STRATEGY

03 SWOT ANALYSIS & TOWS MATRIX

04 BUSINESS PORTFOLIO ANALYSIS

05 PORTER’S GENERIC MODEL

Business Portfolio Analysis

The Business Portfolio Matrix or the Growth-Share Matrix was developed by

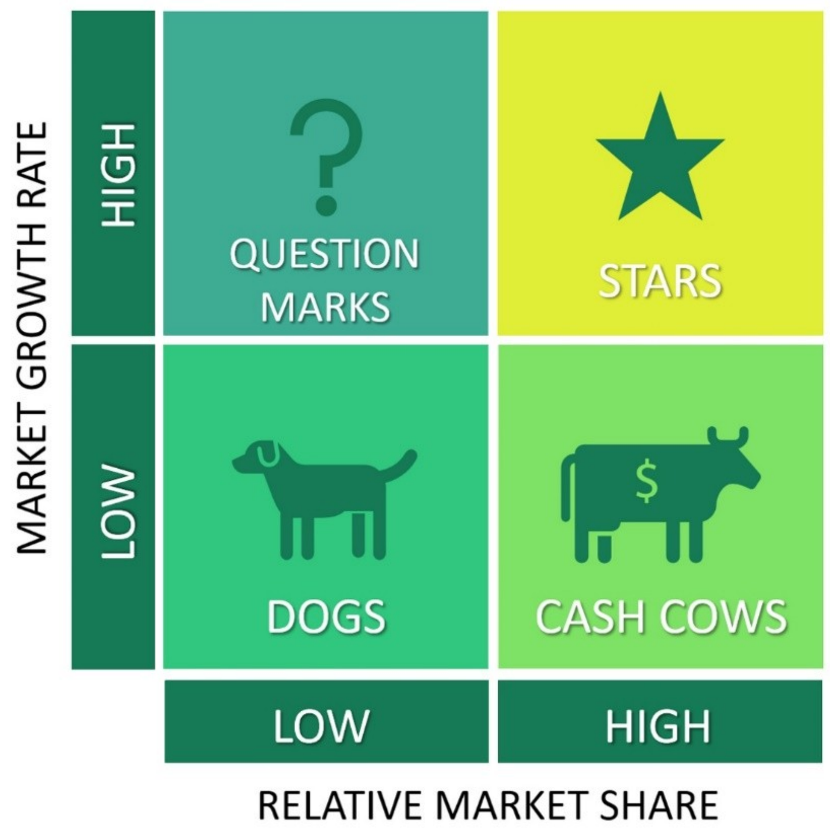
BOSTON CONSULTING GROUP (BCG) in 1970s.

OTHER NAMES

- **BCG MATRIX**
- **GROWTH-SHARE MATRIX**
- **BOSTON BOX**
- **PRODUCT PORTFOLIO MATRIX**

According to this technique,
businesses or products are classified as
low or high performers depending upon
their **MARKET GROWTH RATE** and **RELATIVE MARKET SHARE**.

Business Portfolio Analysis



Boston Consulting Group (BCG) Matrix grid is broken into two quadrants.

It has a four-cell matrix – **question mark, star, cash cow & dogs**

The Boston Consulting Group (BCG) growth/share matrix is among the best known approaches. It is one of the most renowned corporate portfolio analysis tool.

In the BCG approach, each of the firm's Strategic Business Units (SBUs) is plotted on a two-dimensional grid in which the axes are relative market share and industry growth rate.

Business Portfolio Analysis

According to the BCG Matrix, business could be divided into high or low depending upon their industry growth 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.

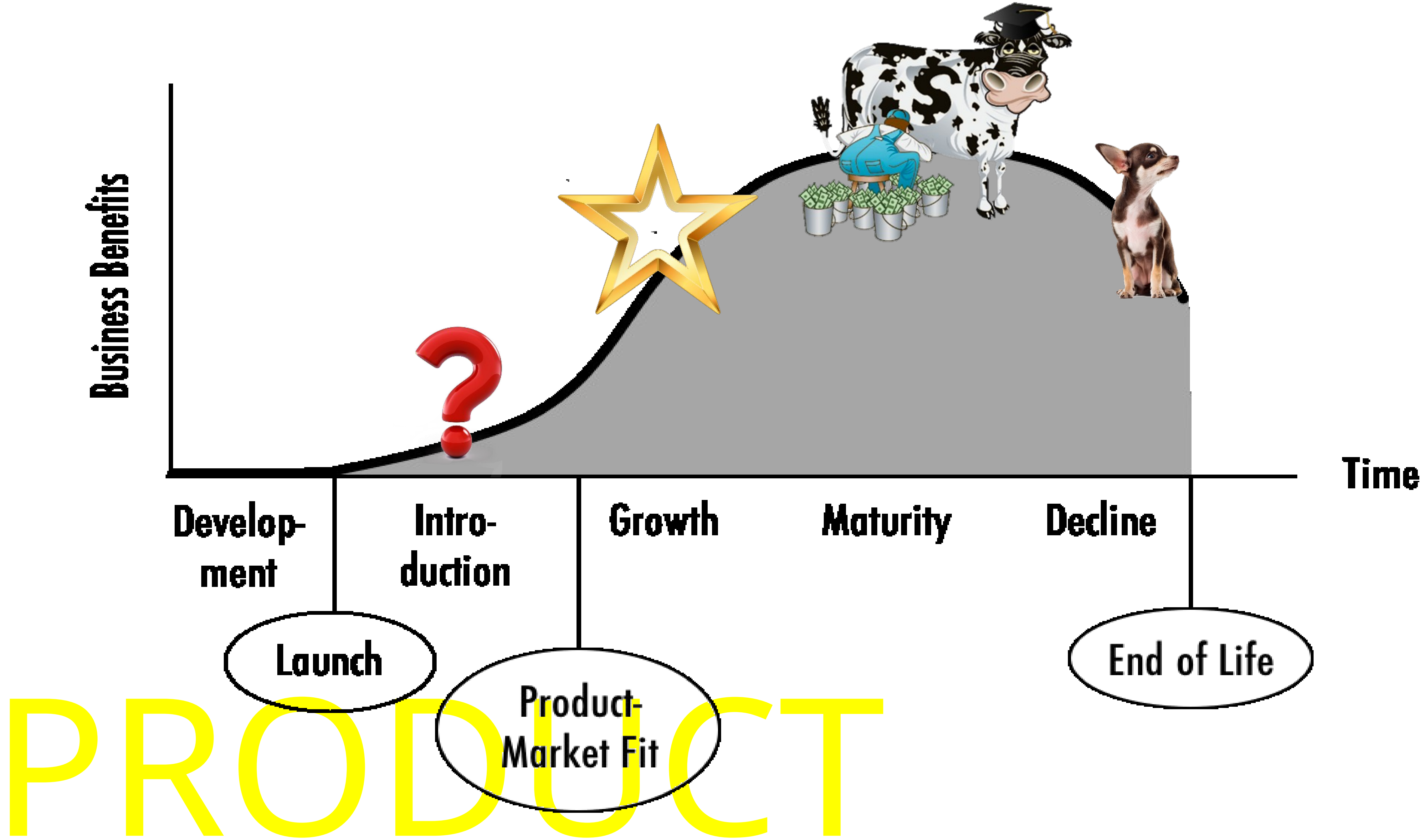
The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to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

Business Portfolio Analysis

Why BCG Matrix?

To assess :

- Profiles of products/businesses
- The cash demands of products
- The development cycles of products
- Resource allocation and divestment decisions

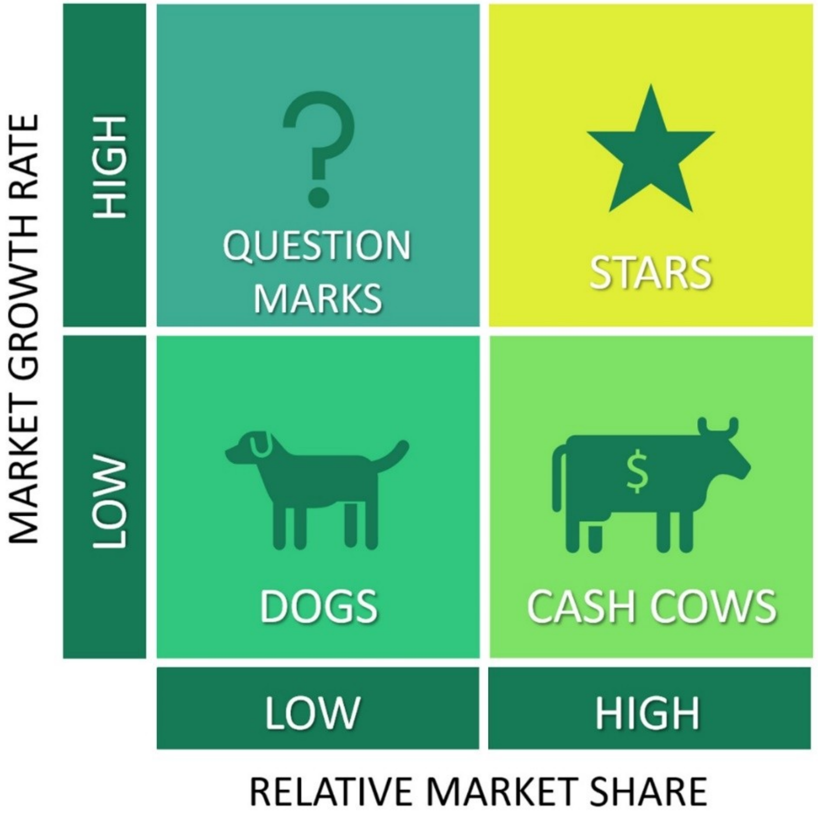

Business Benefits
Time
Develop-
ment
Intro-
duction
Growth
Maturity
Decline
Launch
Product-
Market Fit
End of Life
PRODUCT

Business Portfolio Analysis

Main Steps in BCG

1. Identifying and dividing a company into SBUs.
2. Assessing and comparing the prospects of each SBU according to two criteria :
   - SBUs relative market share.
   - Growth rate of SBUs industry.
3. Classifying the SBUs on the basis of BCG matrix.
4. Developing strategic objectives for each SBUs.

Business Portfolio Analysis…



QUESTION MARKS

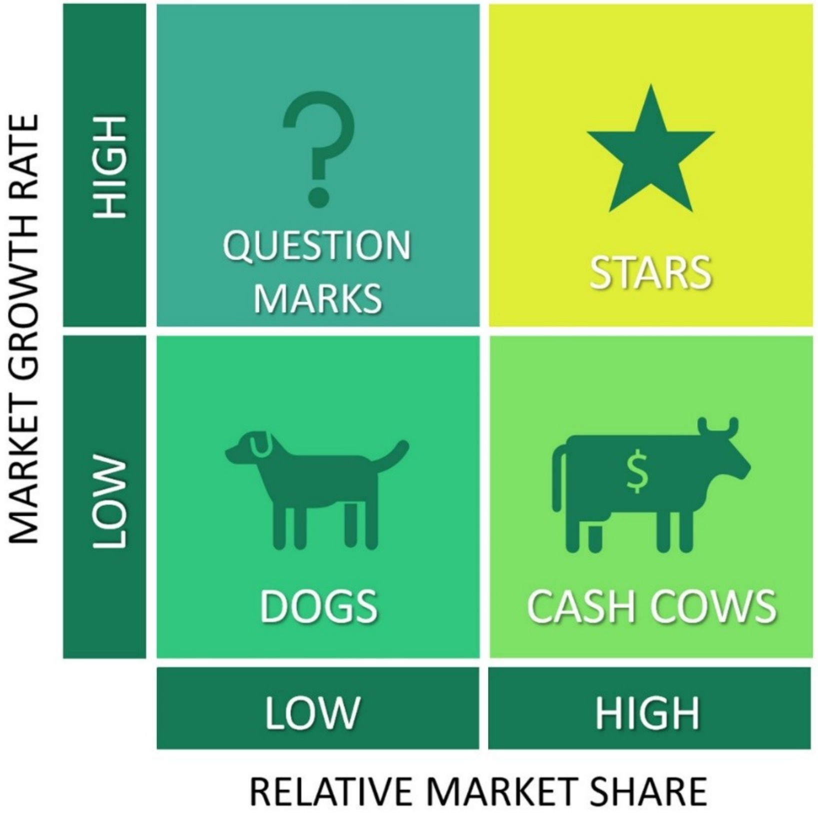
High growth, Low market share

- Most businesses start of as question marks.
- They will absorb great amounts of cash if the market share remains unchanged (i.e. low).

Why question marks?

- Question marks have potential to become star and eventually cash cow but can also become a dog.
- Investments should be high for question marks.

Business Portfolio Analysis…

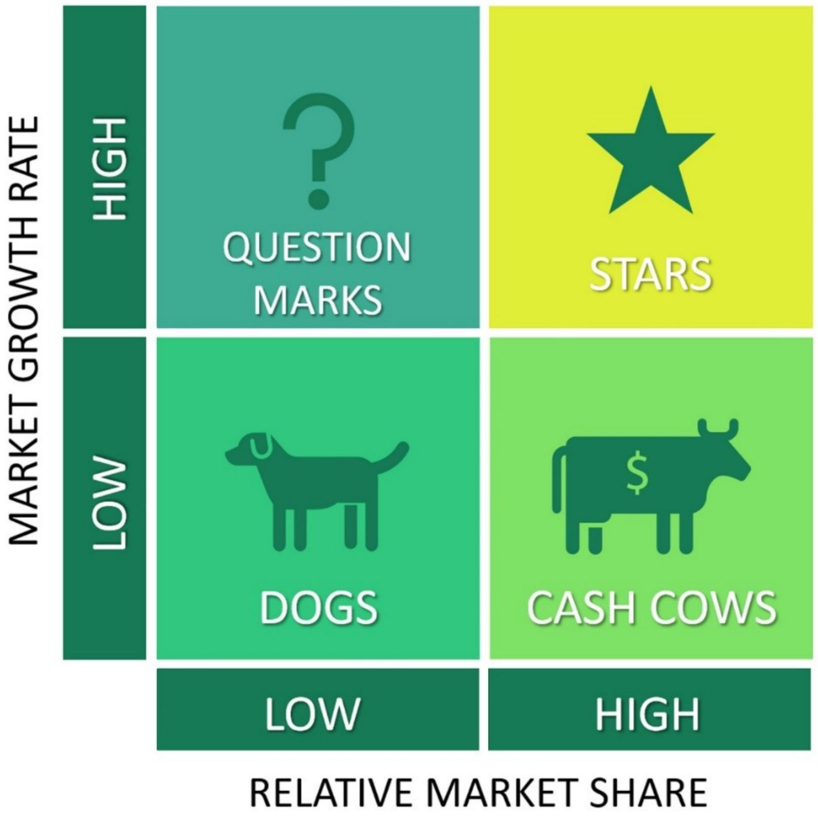


STARS

High Growth, High Market Share

- Stars are leaders in business.
- They also require heavy investment, to maintain its large market share.
- It leads to large amount of cash consumption and cash generation.
- Attempts should be made to hold the market growth otherwise the star will become a CASH COW.

Business Portfolio Analysis…

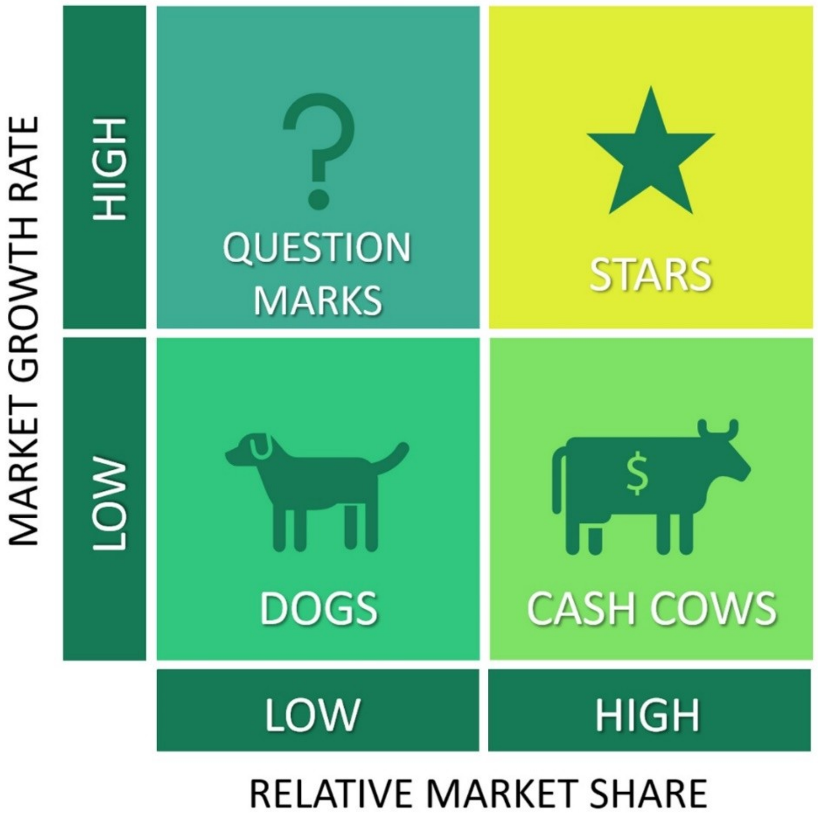


CASH COWS

Low growth , High market share

- They are foundation of the company and often the stars of yesterday.
- They generate more cash than required.
- They extract the profits by investing as little cash as possible
- They are located in an industry that is mature, not growing or declining.

Business Portfolio Analysis…

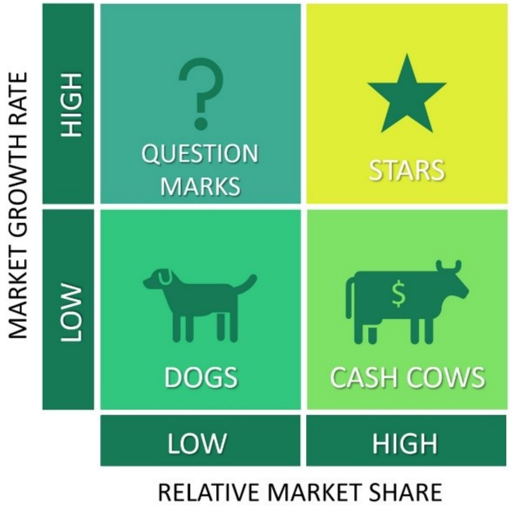


DOGS

Low growth, Low market share

- Dogs are the cash traps.
- Dogs do not have potential to bring in much cash.
- Number of dogs in the company should be minimized.
- Business is situated at a declining stage.

Business Portfolio Analysis…



Each of the four quadrants of the grid has different implication for the SBUs that fall into the category

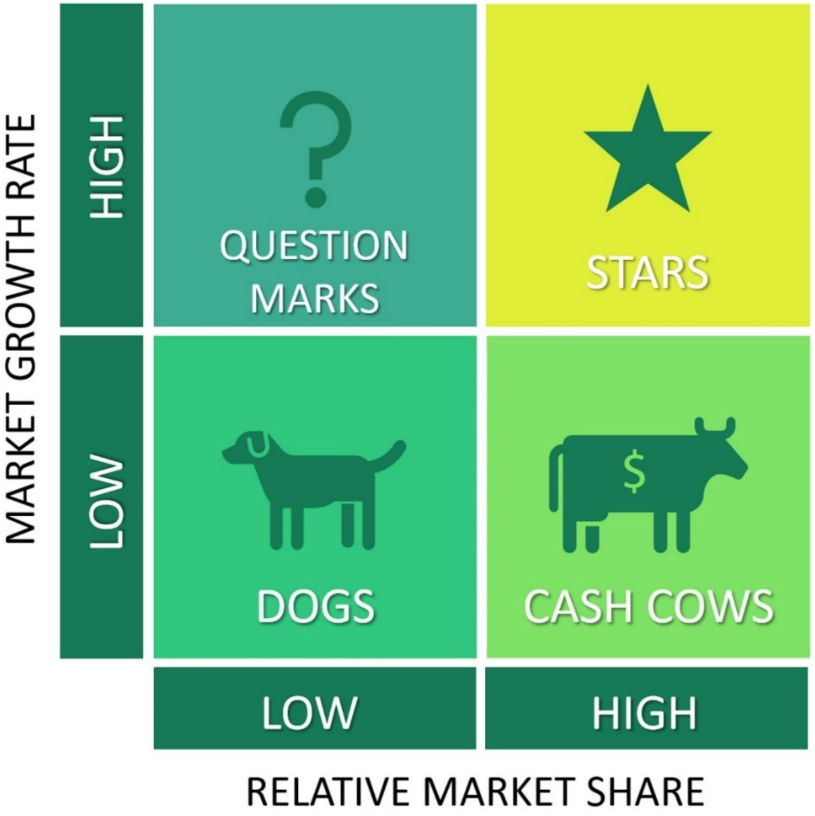
Question marks are SBUs competing in high-growth industries but having relatively weak market shares. Resources should be invested in them to enhance their competitive positions.

Dogs are SBUs with weak market shares in low-growth industries. Because they have weak position and limited potential, most analysts recommend that they be divested.

Stars are SBUs competing in the high-growth industries with relatively high market shares. These firms have long-term growth potential and should continue to receive substantial investment funding.

These are SBUs with high market shares in low-growth industries. These units have limited long-run potential but represent a source of current cash flows to fund investments in “stars” and “question marks”.

APPLICATIONS OF BCG MATRIX



BCG Matrix application

The **BCG Matrix** method can help to understand a frequently made strategy mistake: having a one size fits all strategy approach, such as a generic growth target or a generic return on capital for an entire corporation.

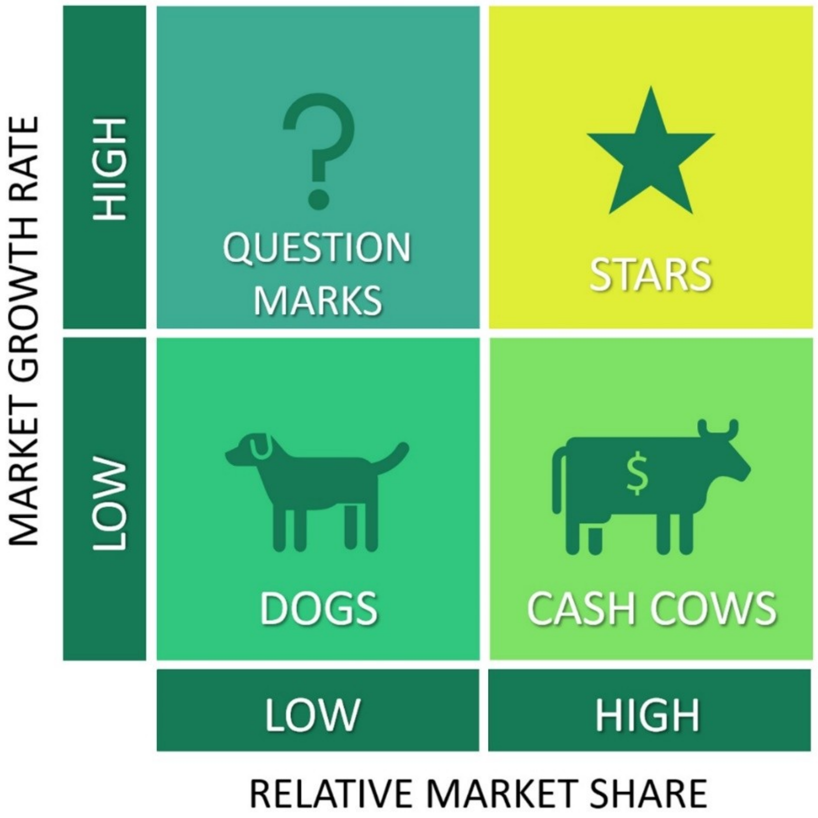
Cash Cows Business Units will reach their profit target easily. Their management have an easy job. Even worse, they are often allowed to reinvest substantial cash amounts in their mature businesses

Dogs Business Units are fighting an impossible battle and, even worse, now and then investments are made. These are hopeless attempts to "turn the business around"

As a result all **Question Marks** and **Stars** receive only mediocre investment funds. In this way they can never become **Cash Cows**. Inadequate invested sums of money are a waste of money

Either these SBUs should receive enough investment funds to enable them to achieve a real market dominance and become **Cash Cows (or Stars)**, or otherwise companies are advised to disinvest. They can then try to get any possible cash from the **Question Marks** that were not selected

BENEFITS OF BCG MATRIX



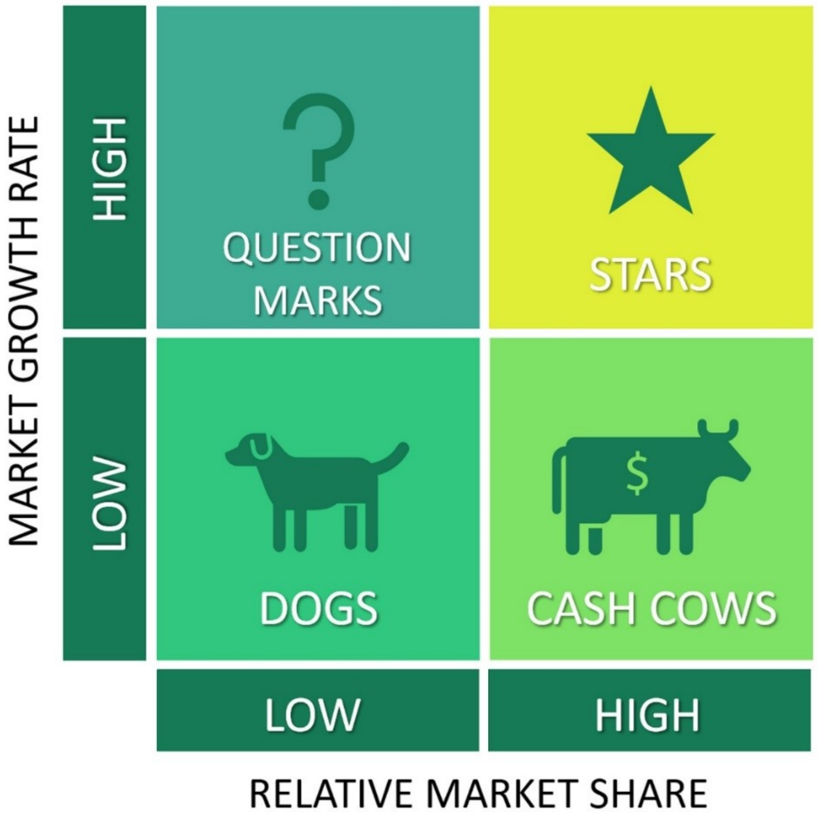
BCG Matrix Benefits

BCG MATRIX is simple and easy to understand.

It helps you to quickly and simply screen the opportunities open to you, and helps you think about how you can make the most of them.

It is used to identify how corporate cash resources can best be used to maximize a company's future growth and profitability.

LIMITATIONS OF BCG MATRIX

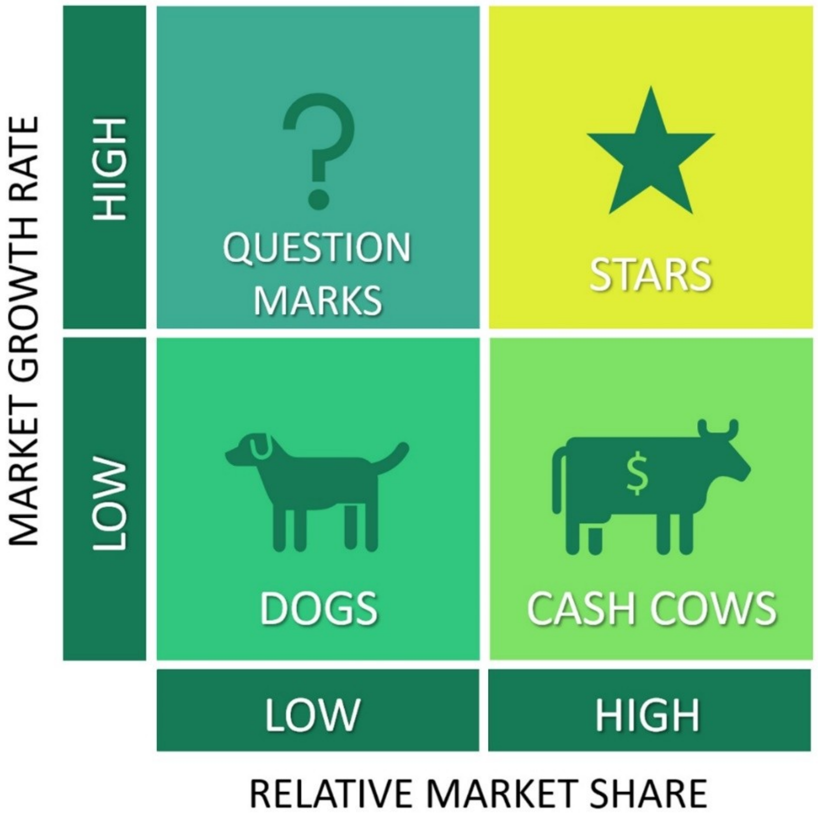


Limitations

- BCG matrix uses only two dimensions: **Relative Market Share** and **Market Growth Rate**
- Problems arise while getting data for market share and market growth
- High market share does not mean profits all the time
- Business with low market share can be profitable too
- It neglects the effects of **synergy** between business units
- Market growth is not the only indicator for attractiveness of a market
- There is no clear definition of what constitutes a “market”
- The model neglects small competitors that have fast growing market shares

STATUS	COMPANIES				
	Hindustan Unilever Limited	ITC Enduring Value	Nestle	Dabur	P&G
Cash-Cow	AXE, Vaseline, Petroleum Jelly	Cigarettes	Cerelac	Chayawanprash, Vatika Amla, Hajmola	Ariel, Vicks, Tide
Star	Lux, Sun-Silk, Fair& Lovely, Ponds, Kissan Ketchup, Surf-Excel, Annapurna Atta	Paperbroards/ Packaging, Agri-Business	Nescafe, Maggi Noodles	Real Fruit Juice, Active Fruit Juice, Dabur Red Toothpaste	Gillette, Pantene, Head & Shoulders, Pamper, Whisper
Question	Rin, Pepsodent, Domex	Automotive, Furniture, Financial, Tobacco, Food	Milo, Kit-Kat, Munch, Maggi Soup, Nestle Butter, Nesvita, Nestle Maggi Ketchup.	Odomos, Sanifresh, Oxylife Facial	Olay
Dog	Wheel	ITC InfoTech	Nestea, Milkybar	Dabur Gulabari, Burst Fruit Juice	

Business Portfolio Analysis…



Four strategies emerged from BCG Matrix:

- Build/Grow
- Hold/Maintain
- Harvest
- Divest

Growth Strategies…

- Direct Expansion
  - Involves increasing a company’s size, revenues, operation, or workforce.
- Merger
  - Occurs when two companies, usually of similar size, combine their resources to form a new company.
- Acquisition
  - Occurs when a larger company buys a smaller one and incorporates the acquired company’s operations into its own.

TOOLS TO DEVELOP STRATEGY

These 5 strategy development tools are related but distinct. Managers can use any of the tool or a combination of tools that seem most appropriate for them and their organizations.

01 CRITICAL QUESTION ANALYSIS

02 BLUE OCEAN STRATEGY

03 SWOT ANALYSIS & TOWS MATRIX

04 BUSINESS PORTFOLIO ANALYSIS

05 PORTER’S GENERIC MODEL

COMPETITIVE ADVANTAGE

What makes the Company "Strong"?

MARKET SCOPE

What part of the Market is being targeted?

	COSTS	DIFFERENTIATION
ENTIRE	COST LEADERSHIP	DIFFERENTIATION LEADERSHIP
A SEGMENT	FOCUS: COST FOCUS	FOCUS: DIFFERENTIATION FOCUS

The two basic types of **COMPETITIVE ADVANTAGE** combined with the **MARKET SCOPE** of a firm, lead to three generic strategies for achieving average performance in an industry:

1 COST LEADERSHIP

2 DIFFERENTIATION &

3 FOCUS

- cost focus
- differentiation focus

… LONG RUN

is SUSTAINABLE COMPETITIVE ADVANTAGE…

…antage a firm can possess:

…TION

पैसा कैसे कमाते रहें?

Overall Cost leadership strategy

- An organization implementing an overall cost leadershi attempts **to gain a competitive advantage by reducing its co costs of competing firms**.
- Such organizations keep a close watch on costs in areas suc and development, sales and services.
- *<u>By keeping costs low, the organization is able to sell its produ prices and still make a profit.</u>*

Example: Timex. For decades, this firm has specialized in manufacturing relatively simple, low cost watches for the mass market.

Differentiation strategy

- An organization that pursues a differentiation strategy seeks to *distinguish from competitors by offering something unique through the quality of products or services.*
- Firms that are successfully able to implement a differentiation strategy are able to charge more than competitors because customers are willing to pay more to obtain the extra value they perceive.

Example: **ROLEX WATCHES** are handmade of gold and stainless steel and are subjected to strenuous tests of quality and reliability. **PORSCHE SPORTS CAR** are indeed special; so is the **CATERPILLAR COMPANY**, which is known for its prompt service and availability of spare parts. The firms reputation enables it to charge thousands of dollars for its products.

Focused Strategy

- A company adopting a focused strategy ***concentrat***
  regional market, product line, or group of b
- This strategy may have either a differentiation focus, differentiates its products in the focus market, o leadership focus, whereby the firm manufactures and s low cost in the focus market.

Example: In the watch industry, **LONGINES** follows a focus differentiation strategy by selling highly jeweled watches to wealthy female customers.

FISHER-PRICE uses focus differentiation strategy to sell electronic calculators with large, bright colored buttons to the parents of preschoolers.

Onl

FOR YOUR READING
&
BETTER UNDERSTANDING

A company that tries to engage in each generic strategy but fails to achieve any of them, is considered 'stuck in the middle'.

STUCK IN THE MIDDLE

Such a company has no competitive advantage regardless of the industry it is in. As a matter of fact, such a company will compete at a disadvantage because the 'cost leader', the 'differentiators' and the 'focusers' in the industry will be better positioned to compete.

It may be the case, however, that a company that is stuck in the middle still earns interesting profits simply because it is operating in a highly attractive industry or because its competitors are stuck in the middle as well.