



Seventh Semester Essentials of Management HSS-401 Strategic Planning Tools



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Learning Objectives



Strategic Planning Tools

- ☐ Critical question analysis
- ☐ SWOT analysis
- ☐ Business portfolio analysis
- ☐ Porter's Model for Industry Analysis

Tools to develop Strategy



- Critical question analysis.
- SWOT analysis.
- Business portfolio analysis.
- Porter's model for Industry analysis.

These 4 strategy development tools are related but distinct. Managers should use the tool or combination of tools that seem most appropriate for them and their organizations.

Critical Question Analysis



- What is our business?
Glass bottle manufacturers missed their opportunities by seeing themselves for too long as glass bottle makers rather than as liquid container manufacturers while plastic and metal containers come to replace glass in many 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:

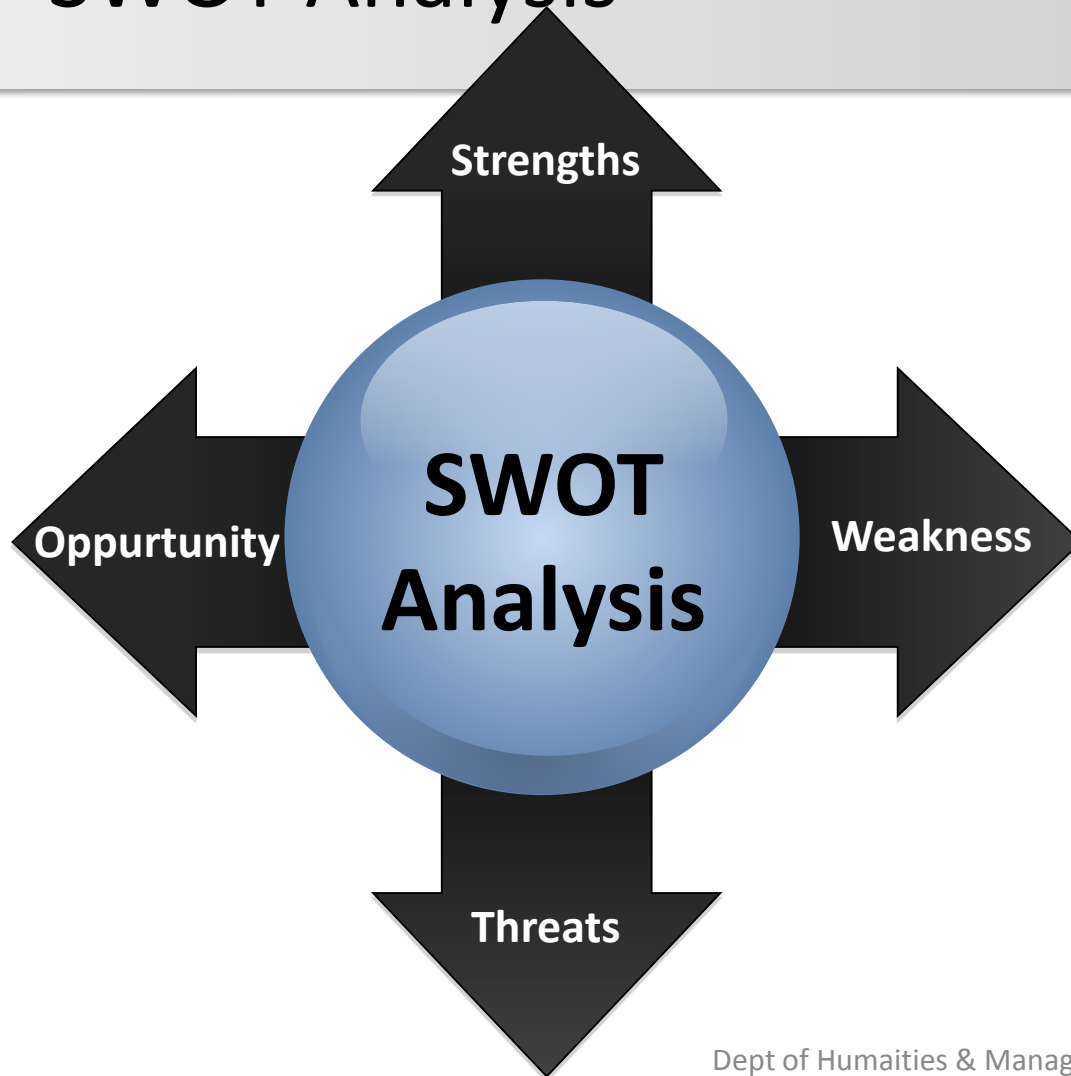
The key questions that serve as guides for establishing a marketing strategy are:

- 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?

SWOT Analysis



SWOT Analysis



- ▶ 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

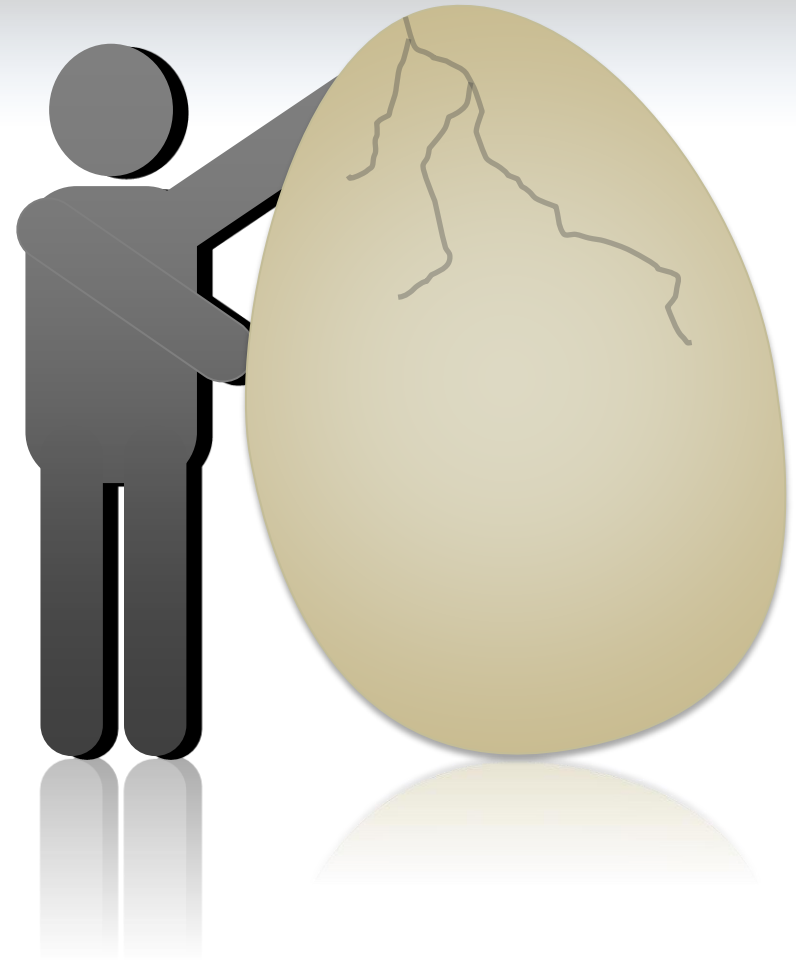
- ▶ Characteristics of the business or a team that give it an advantage over others in the industry.
- ▶ Positive tangible and intangible attributes, internal to an organization.
- ▶ Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process 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.



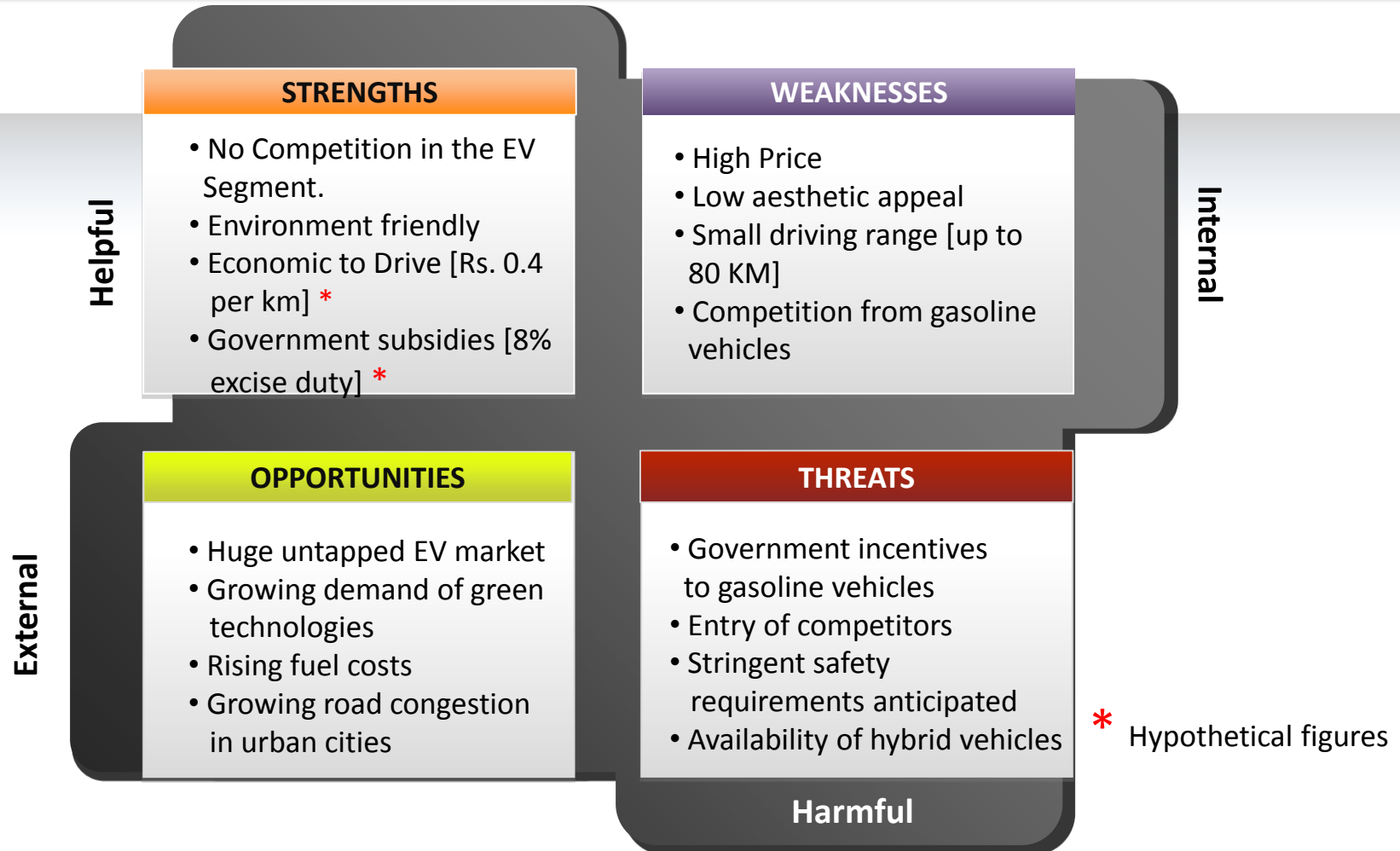
Exercise



Assume that a car manufacturing company has recently launched its electrical vehicle (EV) products. Perform a SWOT analysis for the same.



Exercise



TOWS Matrix



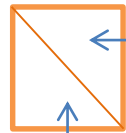
It has four alternative strategies

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

TOWS Matrix for Strategy Formulation

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

Dynamics of the TOWS Matrix



Internal factors

External factors

	S	W
O	SO	WO
T	ST	WT

	S	W
O	SO	WO
T	ST	WT

	S	W
O	SO	WO
T	ST	WT

Time

Business Portfolio Analysis



The Business Portfolio Matrix or the Growth-Share Matrix was developed by Boston Consulting Group (BCG) in 1970s.

According to this technique, businesses or products are classified as low or high performers depending upon their market growth rate and relative market share.

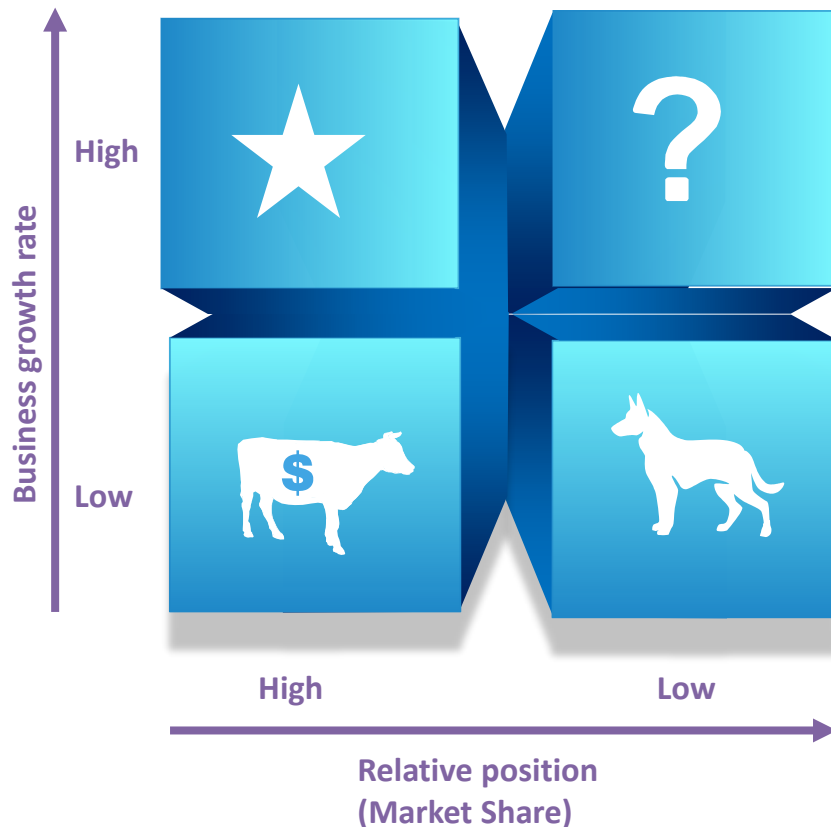
Business Portfolio Analysis...



It is a **portfolio planning model** which is based on the observation that a company's business units can be classified in to four categories:

- ✓ ***Stars***
 - ✓ ***Question marks***
 - ✓ ***Cash cows***
 - ✓ ***Dogs***
-
- It is based on the combination of market growth and market share relative to the **next best competitor.**

Business Portfolio Analysis



- Boston Consulting Group (BCG) Matrix is a four celled matrix developed by BCG, USA.
- The Boston Consulting Group (BCG) growth/share matrix is among the best known of these approaches.
- 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.
- The grid is broken into two quadrants. It is a most renowned corporate portfolio analysis tool.

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...



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 share 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...



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, (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 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

Stars



Question marks



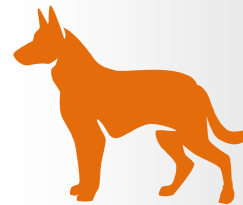
Question marks are SBUs competing in high-growth industries but having relatively weak market shares. Resources should be invested in them to enhance their competitive positions

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”

Cash cows



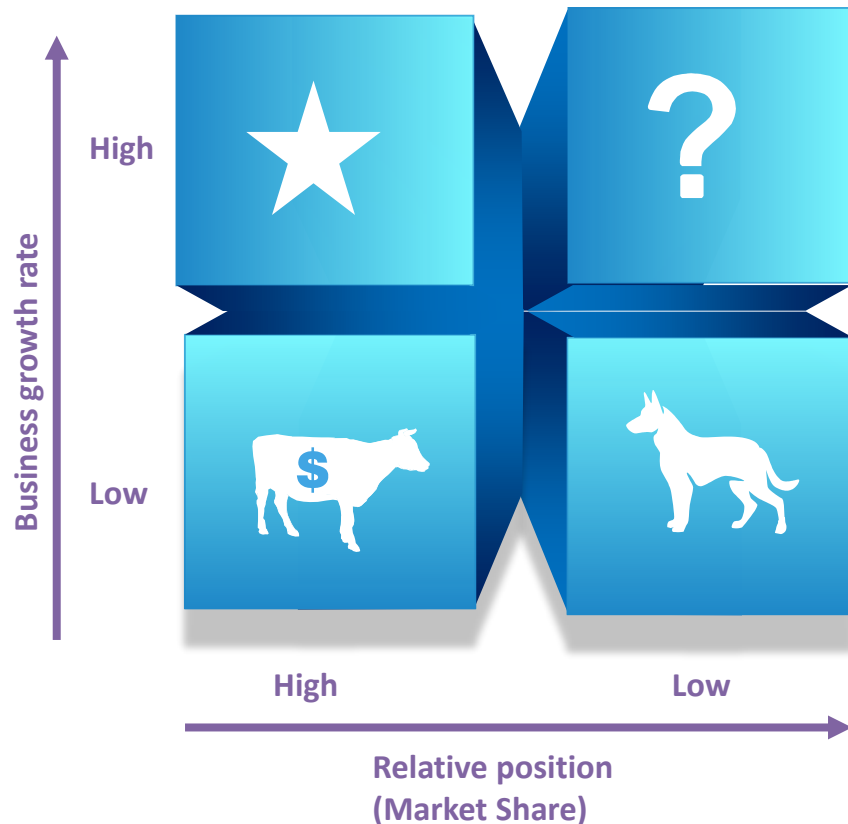
Dogs



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

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

Business Portfolio Analysis



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

Business Portfolio Analysis...



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



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

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 Portfolio Analysis...



Main Steps in BCG

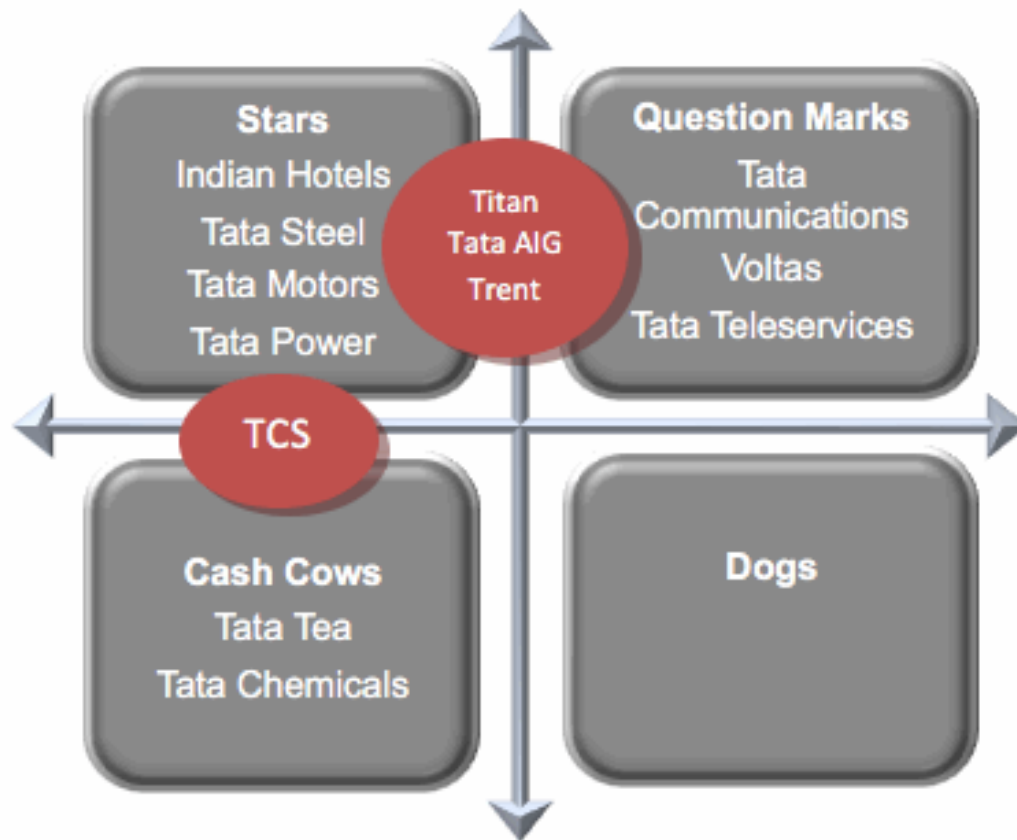
- Identifying and dividing a company into SBU.
- Assessing and comparing the prospects of each SBU according to two criteria :
 1. SBU'S relative market share.
 2. Growth rate OF SBU'S industry.
- Classifying the SBU'S on the basis of BCG matrix.
- Developing strategic objectives for each SBU.



BCG for Apple



BCG for Tata Group



Business Portfolio Analysis...



Four strategies emerged from BCG Matrix:

- ❖ Build
- ❖ 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.

3 Generic Competitive Strategies/Porters Generic Model

Overall Cost leadership strategy

- An organization implementing an overall cost leadership strategy attempts to gain a competitive advantage by reducing its cost below the costs of competing firms.
- Such organizations keep a close watch on costs in areas such as research and development, sales and services.
- By keeping costs low, the organization is able to sell its products at low prices and still make a profit.
- Eg: 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.
- Porsche sports car are indeed special; so is the caterpillar company, which is known for its prompt service and availability of spare parts. 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.
- EG: Rolex watches are handmade of gold and stainless steel and are subjected to strenuous tests of quality and reliability. The firms reputation enables it to charge thousands of dollars for its watches.

Focused strategy

- A company adopting a focused strategy concentrates on a specific regional market, product line, or group of buyers. This strategy may have either a differentiation focus, whereby the firm differentiates its products in the focus market, or on overall leadership focus, whereby the firm manufactures and sells its products at low cost in the focus market.
- In the watch industry, Longines follows a focus differentiation strategy by selling highly jewelled 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.