BBA-BI VIII Semester

Unit: V

Strategic Options and choice techniques

Prepare a SWOT of an organization of your choice

Strengths

1. Single supply
2. Govt. corp. Enough Capital
3. Nationwide connectivity
4. HR expertise-Inhouse
5. Management: Leadership (Sound)
6. Overall mgmt improving, developing
7. Existing exp… profit margin

Weaknesses

1. Technically adequate sound (entire system)
2. Obsolete (… negative motivation) technology used
3. Previous experiences… losses
4. Delay replacement of risky infrastructure (outdated resources)
5. Delay decision… weak management monitoring, delay—program launching

Opportunities

1. National additional demand…
2. Export

Threats

1. Political: Decision might be influenced by the government (due to change in govt.)
2. Economic Threat: Budget constraint, budget transfer… switching
3. Economic crisis (national, global)
4. Environmental: Landslides, earthquake, floods
5. Legal… Stay order…unexpected legal complications
6. Global warming

Strategic Options and choice techniques

- **Generic strategies:** Low cost provider strategy, Differentiation strategy, Best-cost provider strategy, focused strategy.
- **Grand Strategies:** Concentration, Market development, Product development, Innovation, Horizontal integration, Vertical integration, Joint Venture, Concentric diversification, Conglomerate diversification, Retrenchment/turnaround, Divestiture, Liquidation.

Cost Leadership Strategy

- **Attempt:** producing goods or services with the lowest possible cost… Industry (Cost leadership)

Ways:

a. Economies of scale: Mass production that leads to decrease the production cost
b. Capacity utilization: Maximum
c. Product of experience… multiplication of experience: How to reduce the cost, formulation (unique)…
d. Resource manage (Sharing, technical collaboration)….
e. Source: lowest sourcing place….
f. Lowest cost marketing: i.e. direct marketing….

Cost Leadership Strategy

Why cost leadership strategy ? / In which conditions ?

a. High level of competition
b. Price sensitive customer
c. Same level products… similar products
d. Switching… easy
e. Strong buyer group:…. Industry price reduce…pressure…

Cost Leadership Strategy

Benefits from cost leadership strategy :

a. We can increase sales…merchandise sales
b. Market share increase…
c. Profit margin enhance
d. Huge market share:…. Leading role… new entrants.. Rethink prior to entry…
e. Goodwill…..increase…. More unique products… chance of success high…
f. Customer loyalty

Differentiation Strategy

- Distinctive competence…(Quality)
- Unique
- Different … Product quality, size, taste, value, performance, mileage, looks, sporty looks, region-focused
- Features

Reasons:

a. Secured customers
b. Stand-out from competitors i.e. difficult to imitate
c. Knows: Buyers… quality sensitive…
d. … Few no. of competitors…

Benefits of applying differentiation strategy

- **Stable… market**
- **Less chances of stiff competition**
- **Brand loyalty**
- **Unique, … really different from others.. It is seen and observed and also felt by the customers**
- **Customer satisfaction level…. Confidence**
- **Technology update… superior performance**
- **Growth, profit margin… (individual product)**

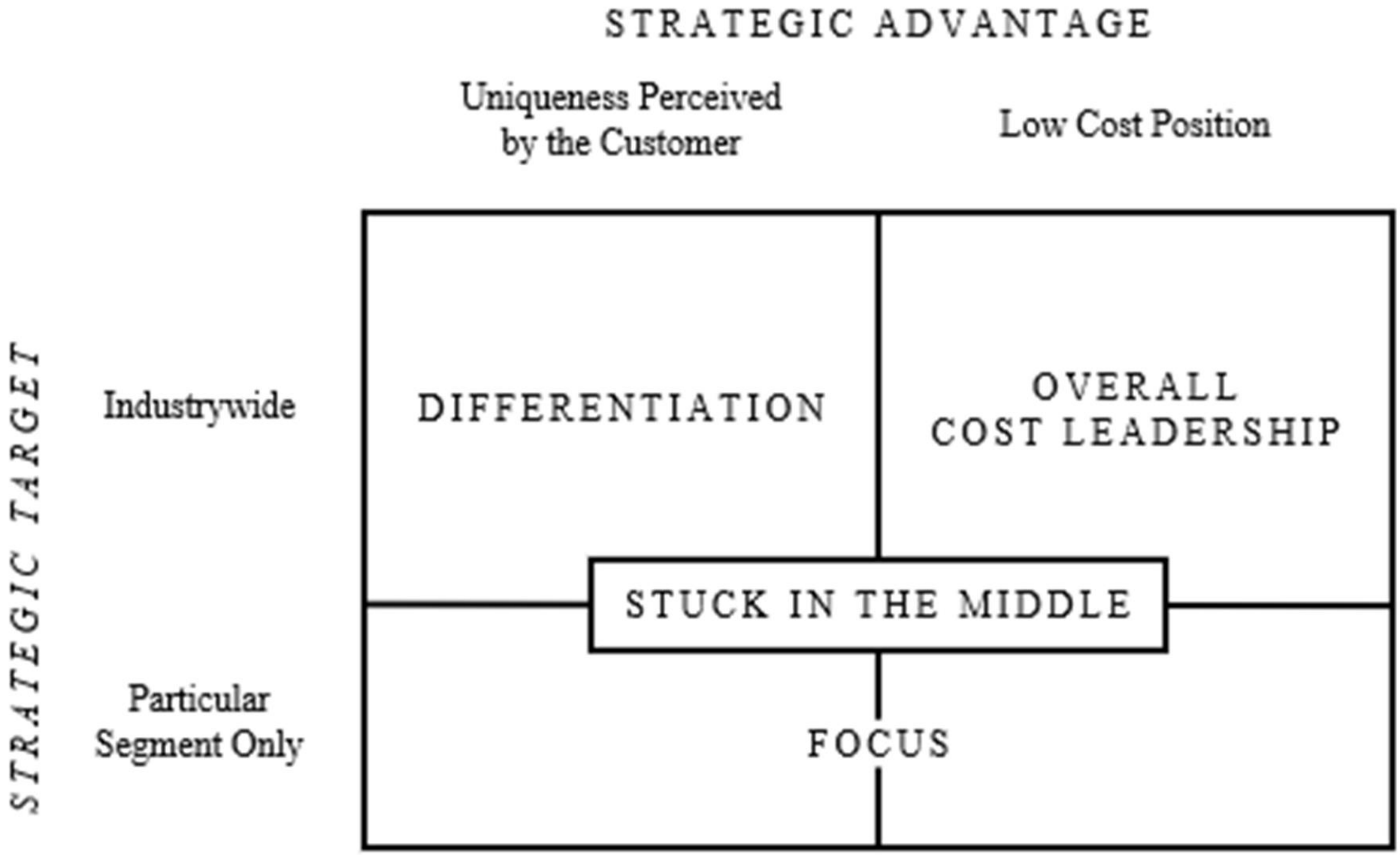
Focused Strategy

- **Focus: low-cost**
- **Focus: Differentiation**

- **Niche market: …. Supermarket**
- **Market: City market**
- **Market: Rural…**
- **Market: Low income generating country**
- **Might be the combination: Dual strategy (both low cost…. Differentiation)**

Generic Strategy

describe how a company pursues competitive advantage across its chosen market scope.



Question

- **Few portion of cost leadership and differentiation… stuck in the middle… <u>confusion create</u>…**
- **Strategy implementation is suffered…**
- **What about your suggestion to the entrepreneurs..**

Five Generic Competitive Strategies

a. low-cost provider strategy i.e cost leadership

b. A broad differentiation strategy

c. A focused or market niche strategy based on lower cost

A focused or market niche strategy based on differentiation

1. Low-Cost Provider Strategies

To achieve a cost advantage, a firm must make sure that its cumulative costs across its overall value chain are lower than competitors' cumulative costs. There are two ways to accomplish this:

a. Out manage rivals in efficiency with which value chain activities are performed and in controlling the factors driving the costs of value chain activities
   a. Economies of scale
   b. Bargaining power vis-à-vis suppliers
   c. Locational variables
   d. Supply chain management expertise
   e. Sharing opportunities with other organizational or business units within the enterprise

b. Revamp (overhaul) the firm's overall value chain to eliminate or bypass some cost-producing activities. Making greater use of Internet technology applications – In recent years the Internet has become a powerful and pervasive tool for reengineering company and industry value chains.

2. **Differentiation Strategies**

Differentiation strategies are attractive whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product or by sellers with identical capabilities.

CORE CONCEPT: The essence of a broad differentiation strategy is to be unique in ways that are valuable to a wide range of customers.

Successful differentiation allows a firm to:

a. Command a premium price for its product

b. Increase unit sales

c. Gain buyer loyalty to its brand

3. Focused (or Market Niche) Strategies

The target segment or niche can be defined by:

a. Geographic uniqueness
b. Specialized requirements in using the product
c. Special product attributes that appeal only to niche members

A Focused Low-Cost Strategy

A focused strategy based on low cost aims at securing a competitive advantage by serving buyers in the target market niche at a lower cost and lower price than rival competitors.

A Focused Differentiation Strategy

A focused strategy based on differentiation aims at securing a competitive advantage by offering niche members a product they perceive is better suited to their own unique tastes and preferences.

Grand Strategies

Called *master* or *business* strategies, provide basic direction for strategic actions. They indicate the time period over which long-range objectives are to be achieved.

Grand Strategies

Concentrated Growth

- **Concentrated growth is the strategy of the firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology.**
- **Focused on single that incurs risk if that particular one gets failure.**

Grand Strategies

Concentrated Growth

- **Concentrated growth is the strategy of the firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology.**

Market Development

- **Market development consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. It also allows firms to practice a form of concentrated growth by identifying new uses for existing products and new demographically, or geographically defined markets.**

Grand Strategies

Product Development

- **Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. The product development strategy is based on the penetration of existing markets by incorporating product modifications into existing items or by developing new products with a clear connection to the existing product line.**

Innovation

- **The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete. Few innovative ideas prove profitable because the research, development, and premarketing costs of converting a promising idea into a profitable product are extremely high.**

Red Oceans vs. Blue Oceans

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 tradeoff	Break the value-cost tradeoff
Align firm activity with choice between differentiation or low cost	Align firm activity system in pursuit of differentiation and low cost

Grand Strategies

Horizontal Integration

- **When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called *horizontal integration*.**

Vertical Integration

- **When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are a customer for its outputs (such as warehousers for finished products),*vertical integration is* involved. Backward integration is the desire to increase the dependability of the supply or quality of the raw materials used as production inputs. Forward integration is a preferred grand strategy if great advantages accrue to stable production**

CONCENTRIC OR RELATED DIVERSIFICATION

- **When an organization takes up related activities within a wider industry situation, it is termed as "Concentric Diversification"**

Example:

A sewing machine manufacturer starts manufacturing Kitchen appliances (Wider Industry situation – Women as concentrated target group, Kitchen appliances as concentrated product range etc)

Grand Strategies

<u>Conglomerate Diversification (Un-related Diversification)</u>

diversification by entering entirely new and unrelated lines of business.

- Example of Indian company which have adopted apart of growth and expansion through conglomerate diversification the classic examples is of ITC, a cigarette company diversifying into the hotel industry.

The principal deference between the two types of diversification is that concentric diversification emphasizes some <u>commonality</u> in markets, products, or technology, whereas conglomerate diversification is based <u>principally on profit considerations</u>.

Retrenchment Strategy

Retrenchment strategies involve a reduction in the scope of a corporation's activities, which also generally necessitates a reduction in number of employees, sale of assets associated with discontinued product or service lines, possible restructuring of debt through bankruptcy proceedings, and in the most extreme cases, liquidation of the firm.

Examples of Retrenchment strategy

- General Motors of the United States stopped producing a number of "makes" of automobile. GM decided that it needed to retrench by concentrating on just a few "makes." It hoped this would help it return to profitability.

Loss making company →Profit making company

Turnaround

- Turnaround strategy means to convert, change or transform a loss-making company into a profit-making company.
- It means to make the company profitable again.
- The main purpose of implementing a turnaround strategy is to turn the company from a negative point to a positive one.
- If a turnaround strategy is not applied to a sick company, it will close down.
- It is a remedy for curing industrial sickness.
- Turnaround is a restructuring strategy. Here, a loss-bearing company is transformed into a profit-earning company, by making systematic efforts.
- It tries to remove all weaknesses to help a sick company once again become strong, stable and a profit-making institution.

Grand Strategies

Divestiture

- ***A divestiture strategy*** **involves the sale of a firm or a major component of a firm. When retrenchment fails to accomplish the desired turnaround or when a non-integrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm.**

Grand Strategies

<u>Liquidation</u>

- **When liquidation is the grand strategy, the firm is typically sold in parts, only occasionally as a whole, but for its tangible asset value and not as a going concern.**

<u>Bankruptcy</u>

- **Business failures are playing an increasingly important role in the American economy. In an average week, more than 300 companies fail. More than 75 percent of these financially desperate firms file for a "liquidation bankruptcy"—they agree to a complete distribution of their assets to creditors, most of whom receive a small fraction of the amount that they are owed.**

Grand Strategies

Joint Ventures

- ***Joint ventures*** **are third commercial companies (children), created and operated for the benefit of the co-owners (parents). The joint venture extends the supplier-consumer relationship and has strategic advantages for both partners.**

Strategic Alliances

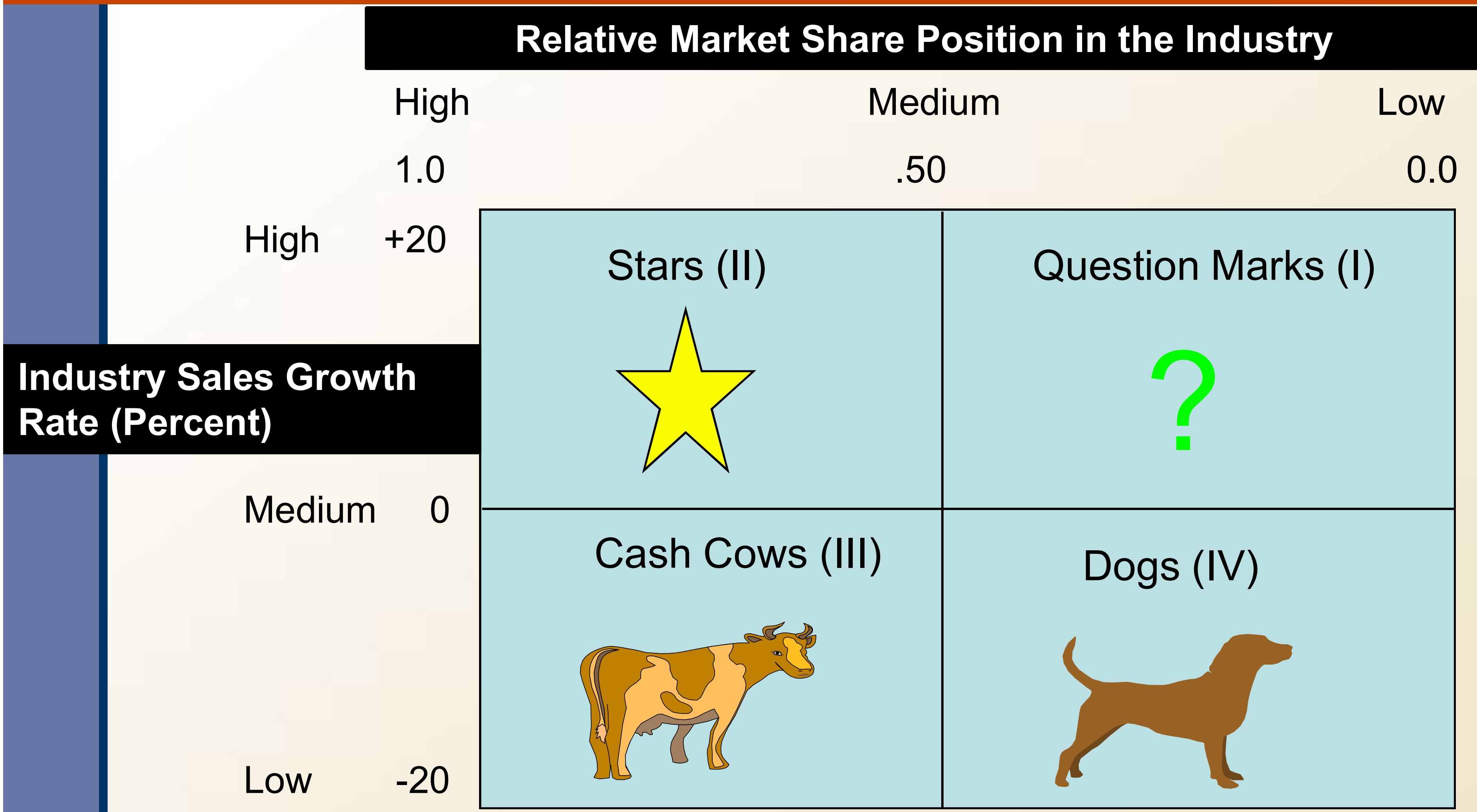
- ***Strategic alliances*** **are distinguished from joint ventures because the companies involved do not take an equity position in one another. In many instances strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. In other instances, strategic alliances are synonymous with licensing agreements.**

Grand Strategies

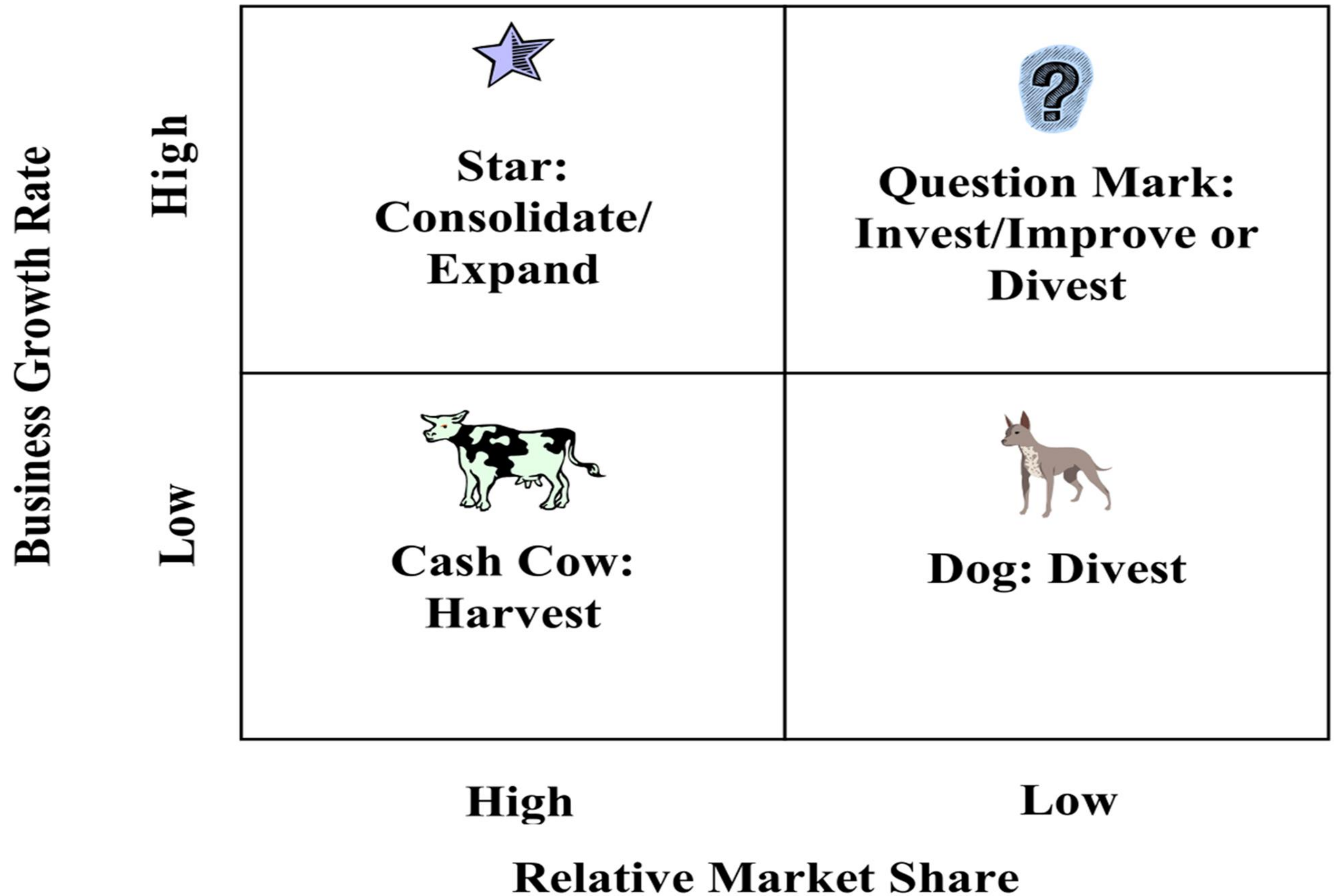
Consortia, Keiretsus, and Chaebols

- ***Consortia*** **are defined as large interlocking relationships between businesses of an industry. A Japanese *keiretsu* is an undertaking involving up to 50 different firms which are joined around a large trading company or bank and coordinated through interlocking directorates and stock exchanges. A South Korean *chaebols* resembles a consortia of keiretsu except that they are typically financed through government banking groups and are largely run by professional managers trained by participating firms expressly for the job.**

The BCG Matrix



Strategic Business Unit (SBU)

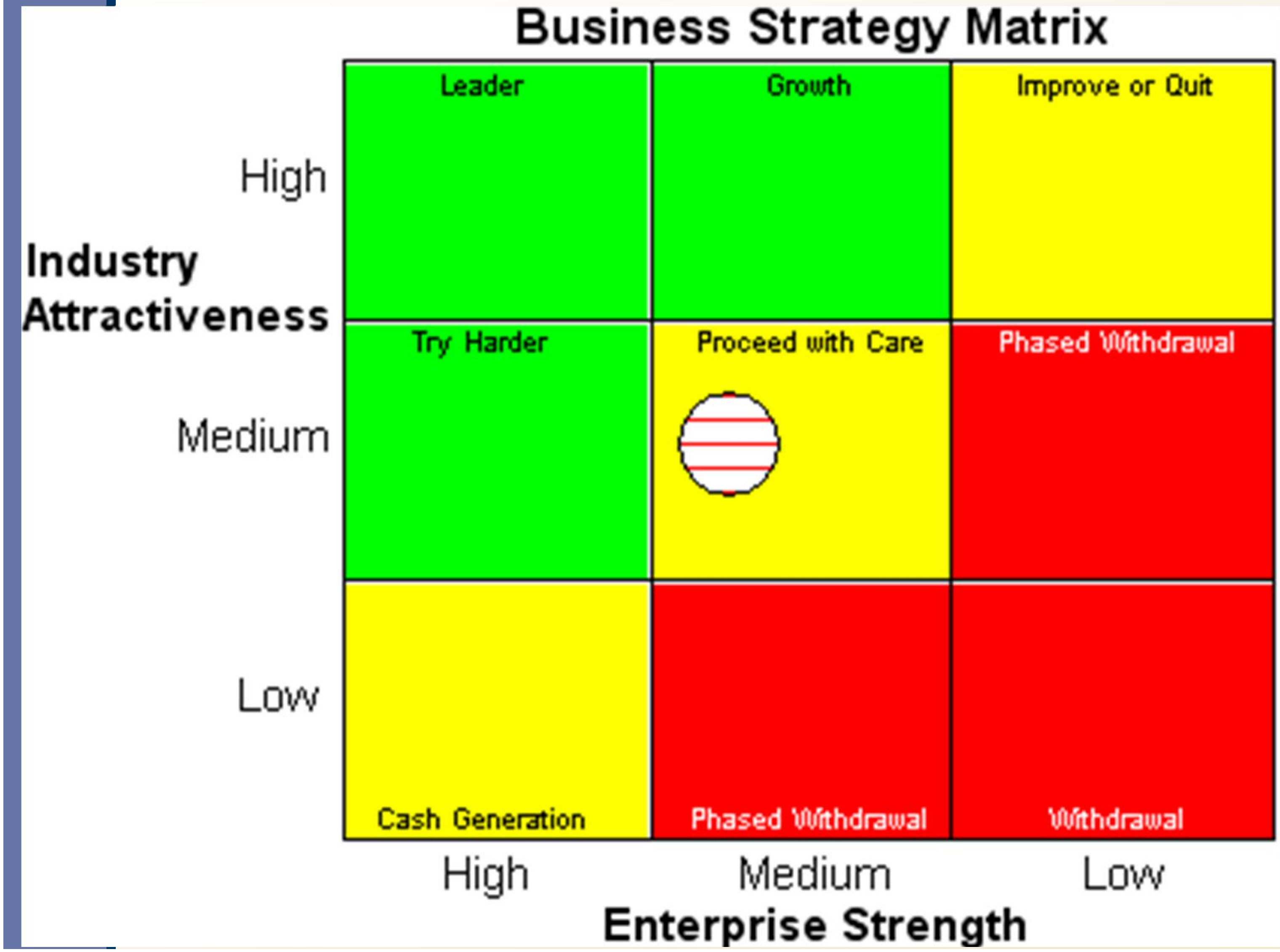


The BCG Matrix and Strategic Direction

- **Question marks - strengthen them via market penetration, market development or product development, or sell them.**
- **Stars - forward, backward and horizontal integration; market penetration; market development; product development; or joint venture.**
- **Cash cows - for strong ones product development or concentric diversification; for weak ones, retrenchment or divestiture.**
- **Dogs - liquidate, divest or retrench.**

GE / McKinsey Matrix / Nine-Cell Matrix

In consulting engagements with General Electric in the 1970's, McKinsey & Company developed a nine-cell portfolio matrix as a tool for screening GE's large portfolio of strategic business units (SBU). This business screen became known as the **GE/McKinsey Matrix** and is shown below:



Nine Cell Matrix

Industry Attractiveness:

The vertical axis of the GE / McKinsey matrix is industry attractiveness, which is determined by factors such as the following:

- Market growth rate
- Market size
- Demand variability
- Industry profitability
- Industry rivalry
- Global opportunities
- Macro environmental factors (PEST)

Business Unit Strength: The horizontal axis of the GE / McKinsey matrix is the strength of the business unit. Some factors that can be used to determine business unit strength include:

- Market share
- Growth in market share
- Brand equity
- Distribution channel access
- Production capacity
- Profit margins relative to competitors

The Grand Strategy Matrix