

Essentials of Management Strategic Planning Tools

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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?

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....

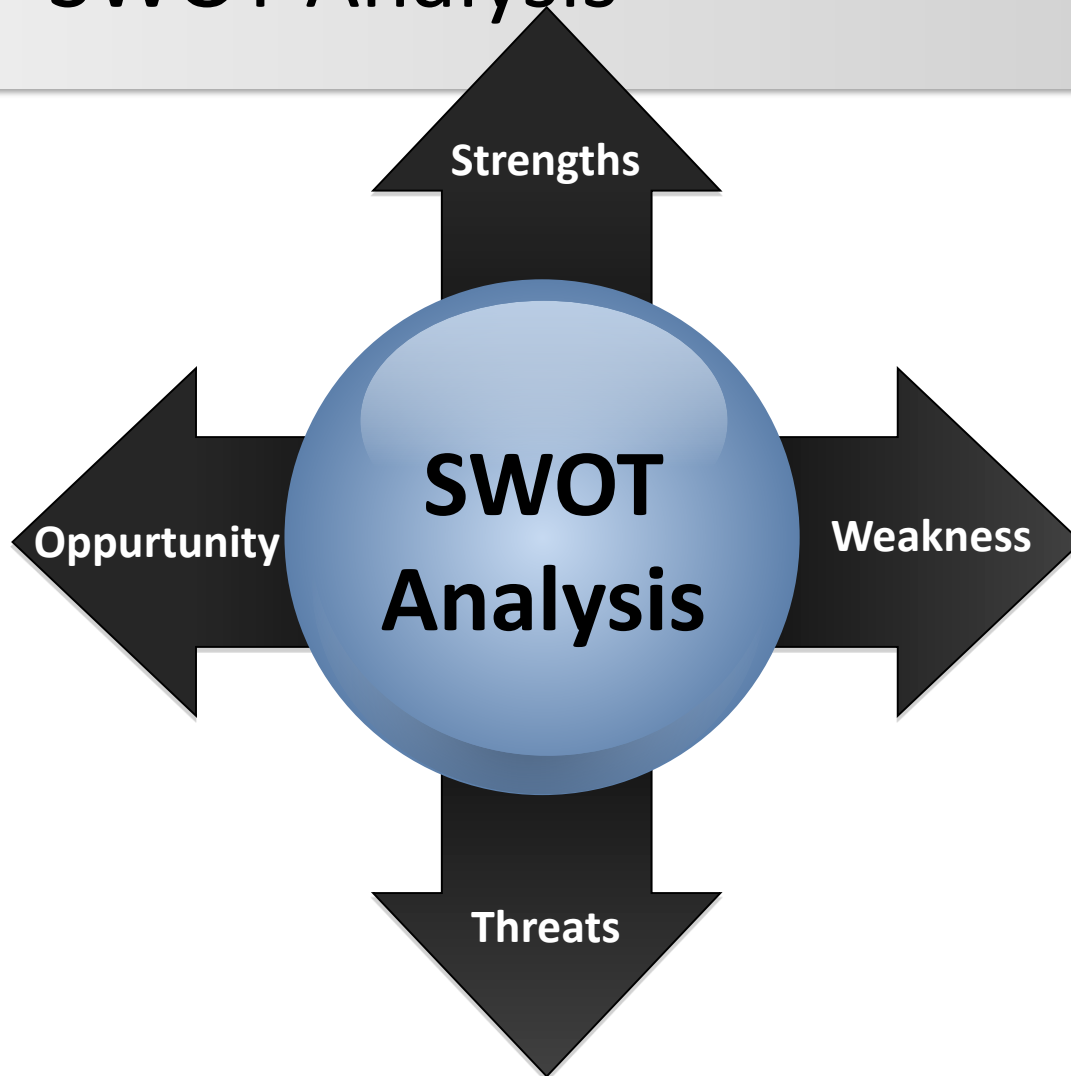


An example of critical question analysis:

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



- ▶ 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

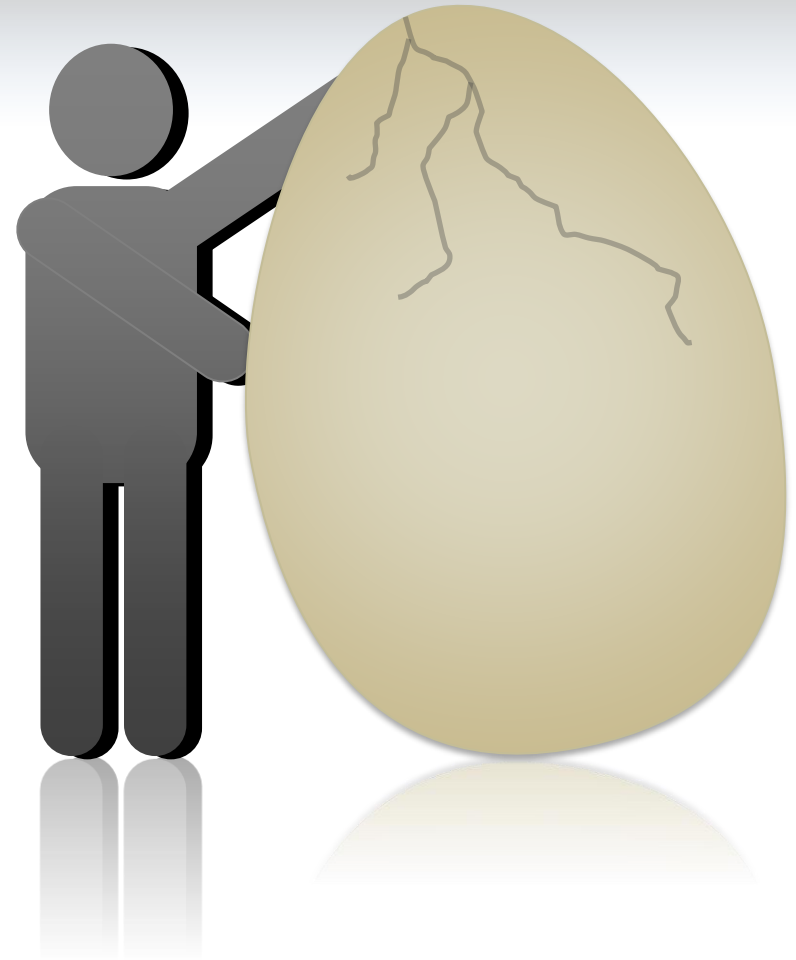
- ▶ Characteristics of the business or a team that give it an advantage over others in the industry.
- ▶ Positive tangible and intangible attributes, internal to an organization.
- ▶ Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process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



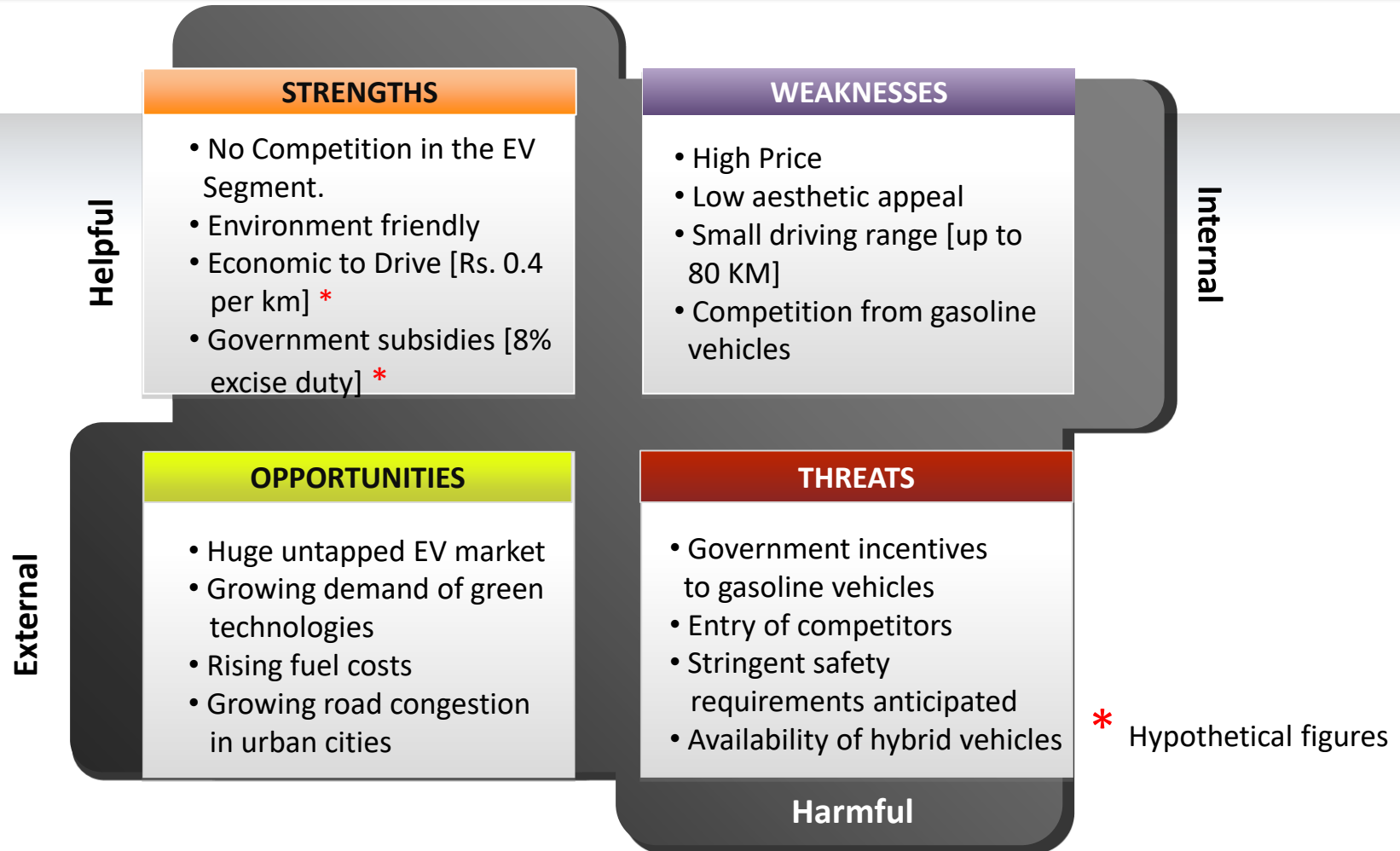
Exercise



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



Exercise



TOWS Matrix -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

- 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

TOWS Matrix -Definition



TOWS Matrix		External	
		Opportunities	Threats
Internal	Strengths	SO (Using strengths to take advantage of opportunities)	ST (Using strengths to avoid threats)
	Weaknesses	WO (Overcome weaknesses to take advantage of opportunities)	WT (Minimize weaknesses and avoid threats)

TOWS Matrix -Definition



Strategies Combining Strengths + Opportunities (SO)

Example:

- 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 -Definition



Strategies Combining Strengths + Threats (ST)

- **Example:** As mentioned earlier, 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 lightning 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 -Definition



- **Strategies Combining Weaknesses + Opportunities (WO)**
- **Example:** 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 -Definition



Strategies Combining Weaknesses + Threats (WT)

- **Example:** 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..

Specific differences between SWOT and TOWS



Basis of Difference	SWOT Analysis	TOWS Analysis
What does it help with?	Capture a snapshot of the company by evaluating internal resources and assessing the external environment	Gain a better understanding of the current and future strategies of the company
What does it focus on?	This is an assessment of how well a company is matching its resources to the business environment which it is competing in	This is an assessment of what strategies are available to a company based on its resources and factors of the environment it operates in

Specific differences between SWOT and TOWS



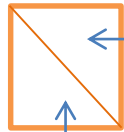
Basis of Difference	SWOT Analysis	TOWS Analysis
Is there a sequence to follow?	SWOT analysis can be done directly by looking at internal factors of a company and external environmental factors	TOWS analysis is only possible if we have already identified a list of strengths, weaknesses, opportunities and threats to work with
What do you need to do?	Brainstorm and identify internal factors (strengths and weaknesses) and external factors (opportunities and threats)	Try to align internal and external factors of SWOT which have been identified to categorize the strategies of companies

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.**

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

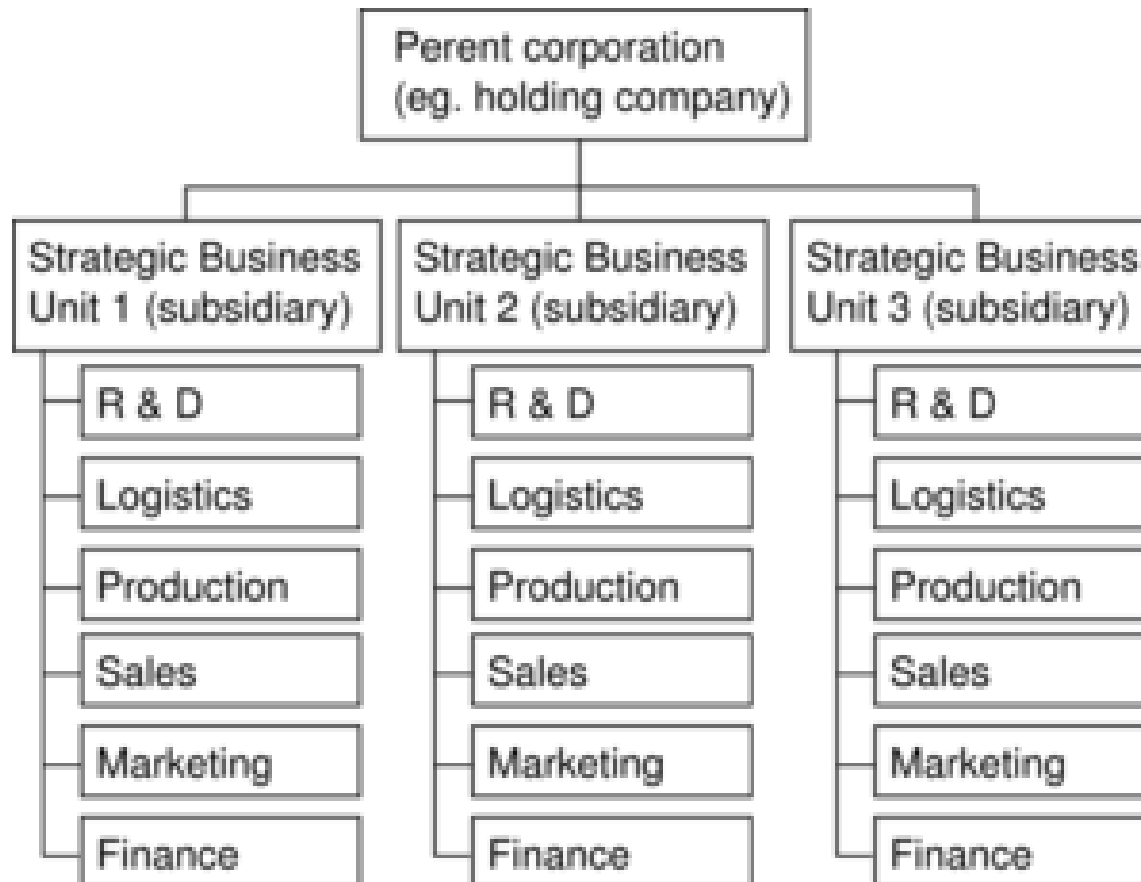
Strategic Business Units (SBU)

- Large companies normally manage quite different businesses, each requiring its own strategy.
- At one time General Electric classified its businesses into 49 Strategic Business Units (SBUs).
- The best example of SBU are companies like Proctor and Gamble, LG etc. These companies have different product categories under one roof. For example, LG as a company makes consumer durables. It makes refrigerators, washing machines, air-conditioners as well as televisions.

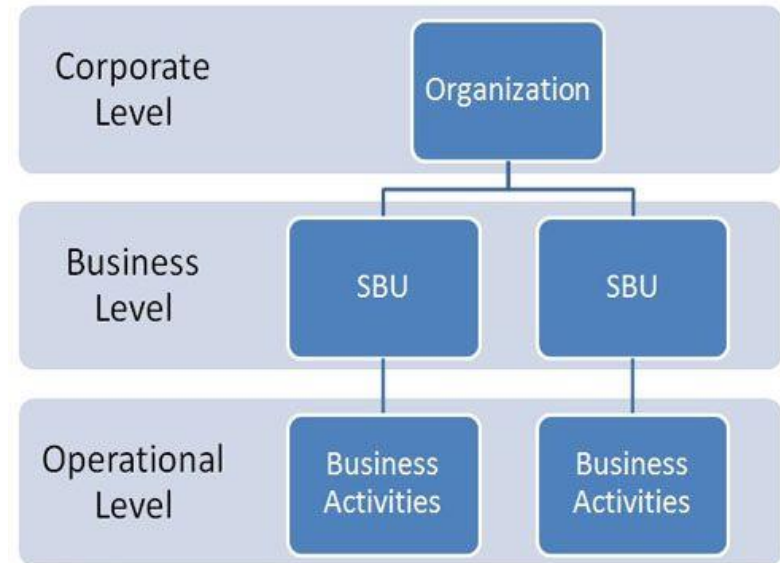
Strategic Business Units (SBU)



Apple's business strategy cuts across all the three Strategic Business Units i.e. **Computer unit, Telecommunications unit and Music & Video unit.**



Strategic Business Units (SBU)



Strategic Business Units (SBU)

Three Characteristics of an SBU:



A single business or collection of related businesses



Unique competitors

Leader responsible for planning and profitability

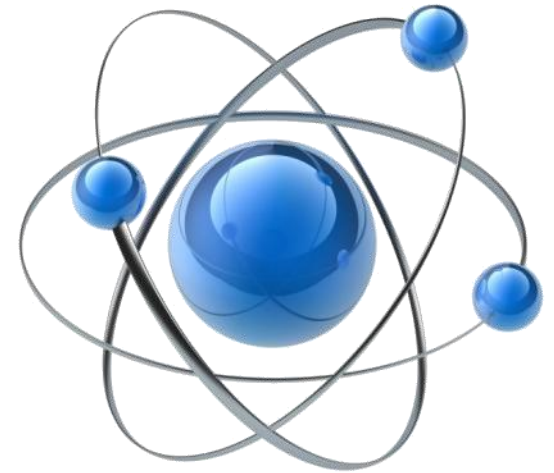


Defining Strategic Business Units

Customer groups



Customer needs



Technology

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.

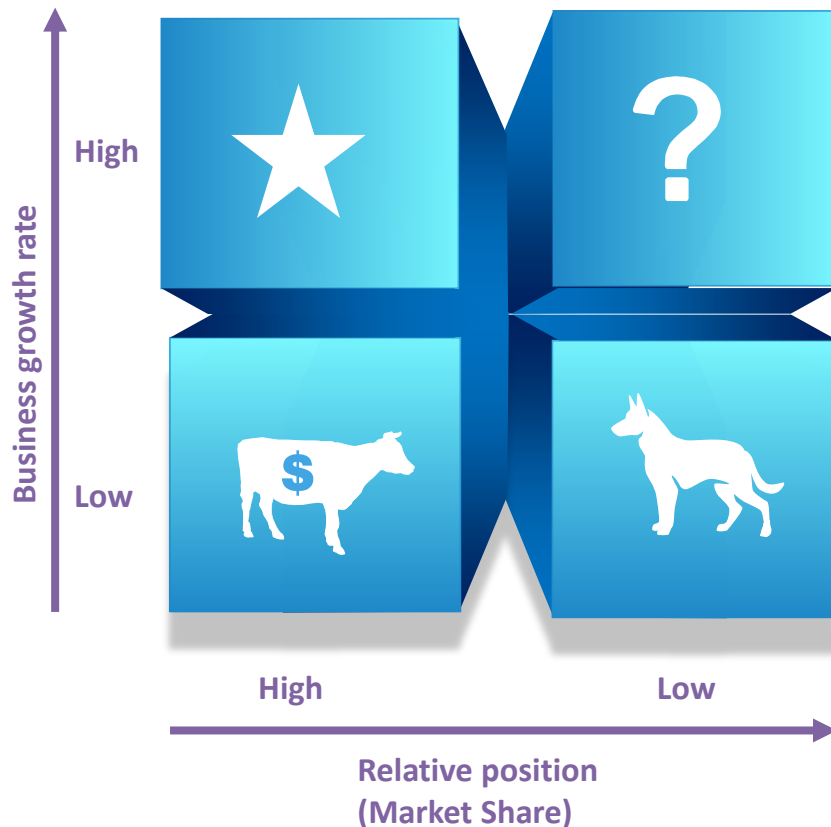
Business Portfolio Analysis...



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



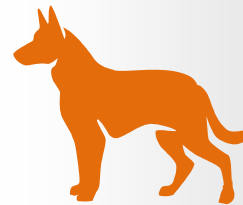
Question marks are SBUs competing in high-growth industries but having relatively weak market shares. Resources should be invested in them to enhance their competitive positions

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



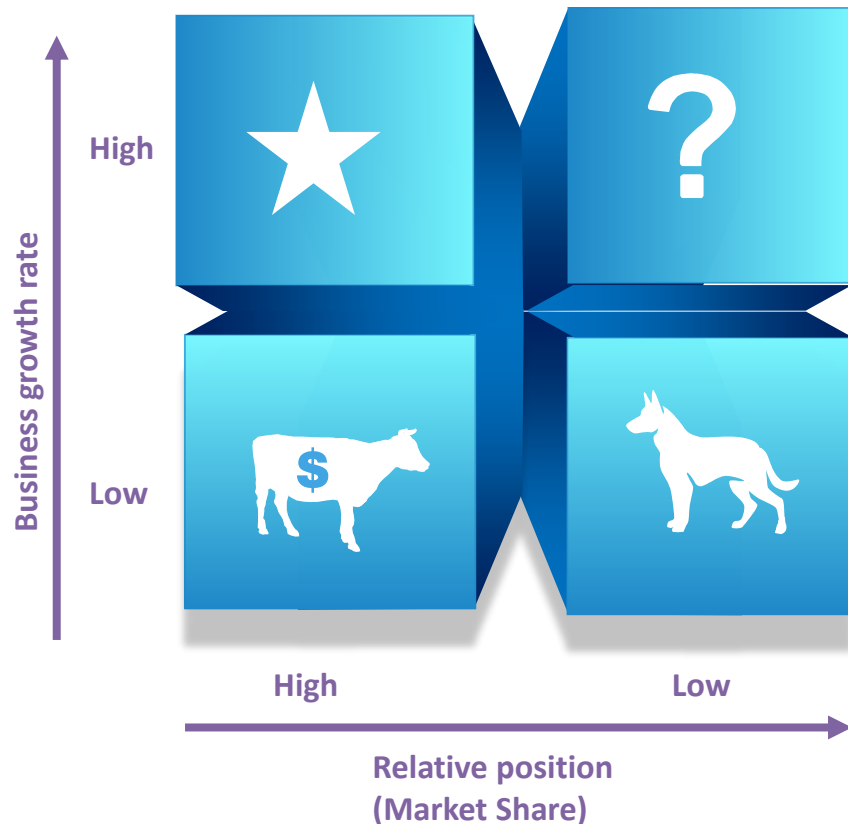
Dogs



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...



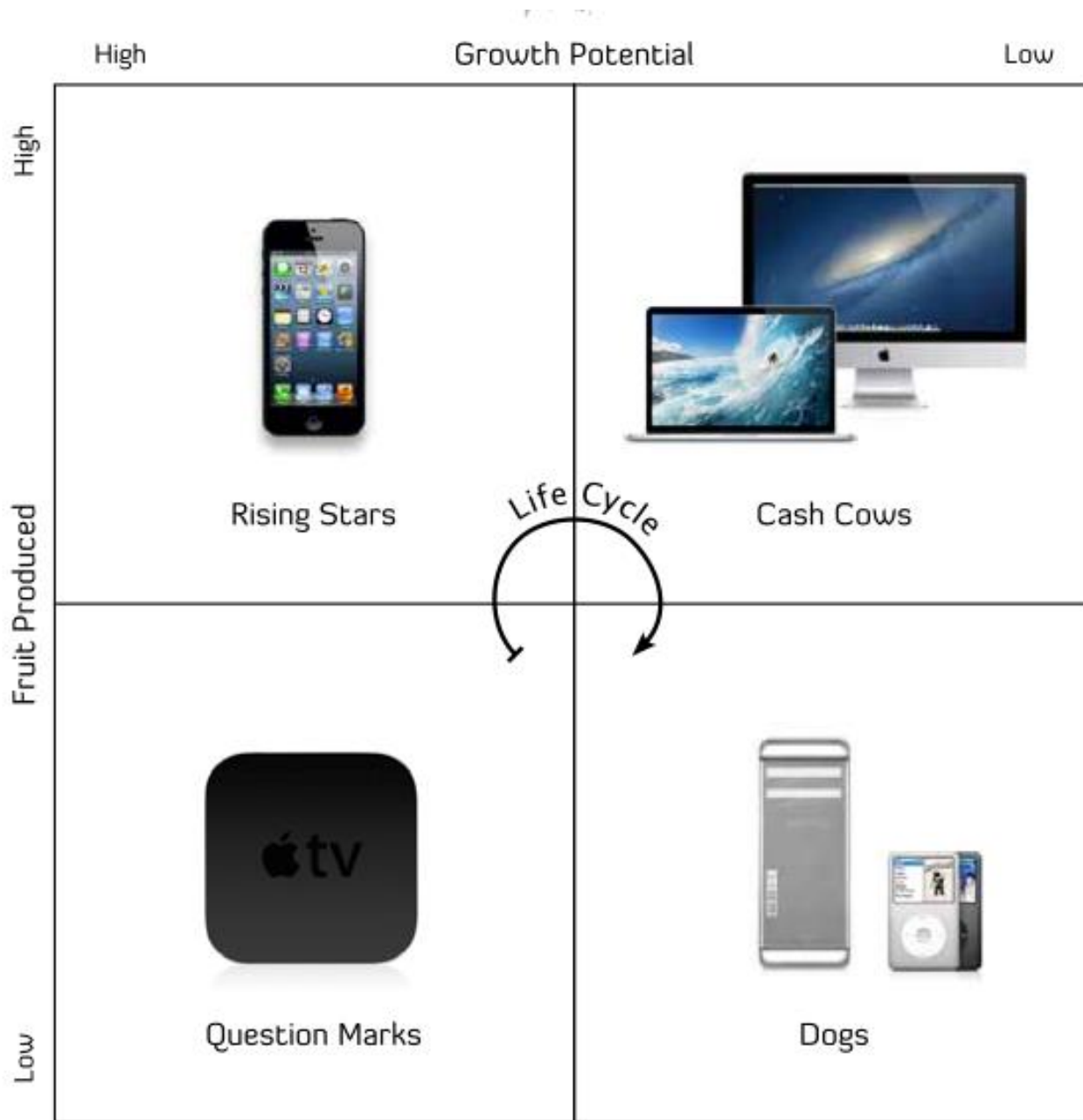
Main Steps in BCG

- 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.

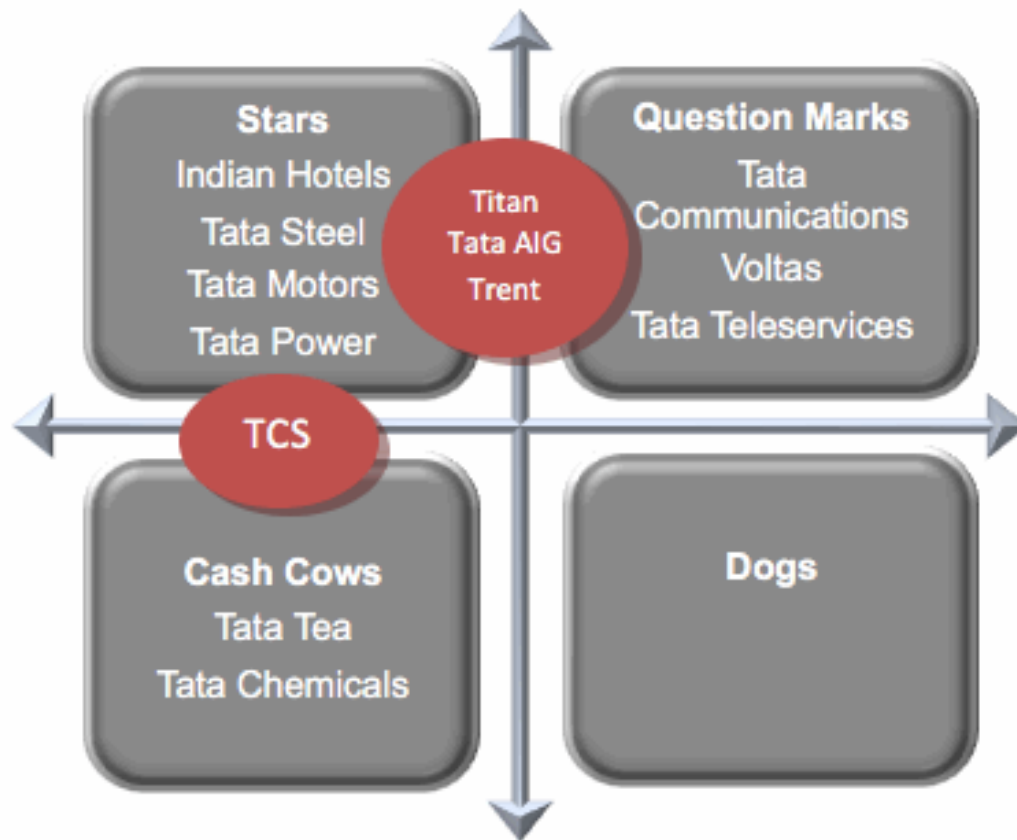


BCG for Apple

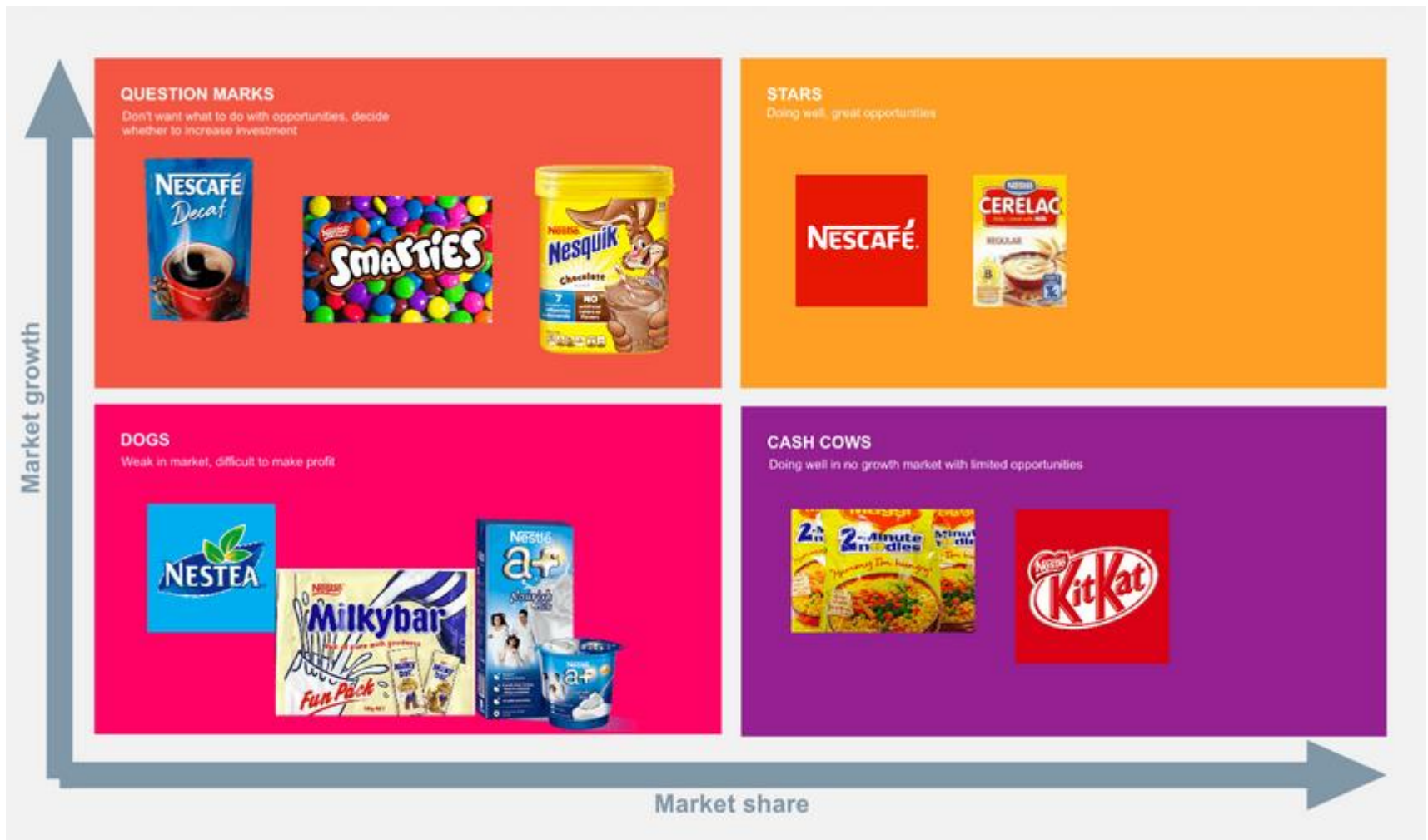




BCG for Tata Group



STATUS		COMPANIES				
						
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	

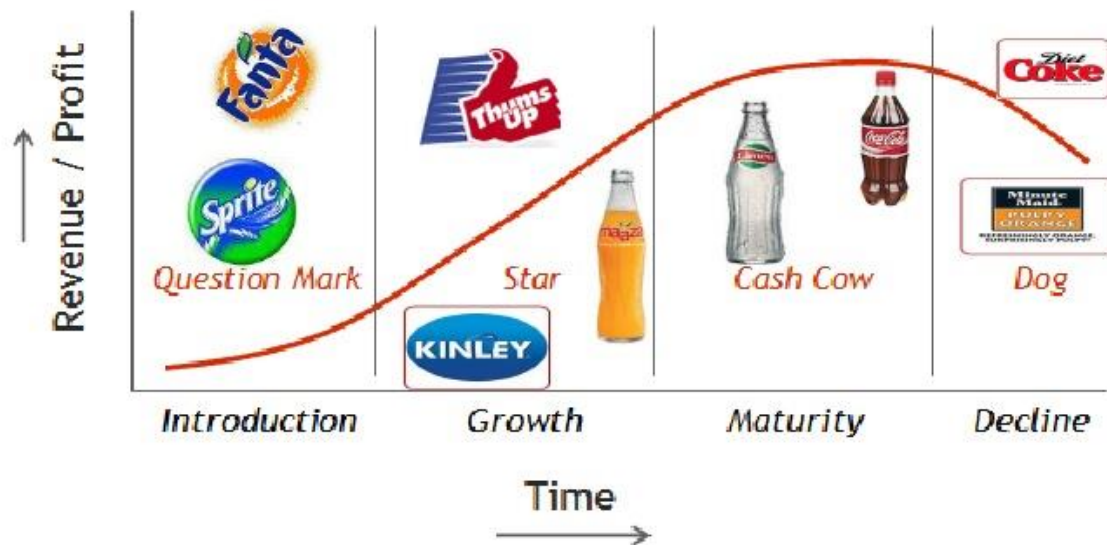


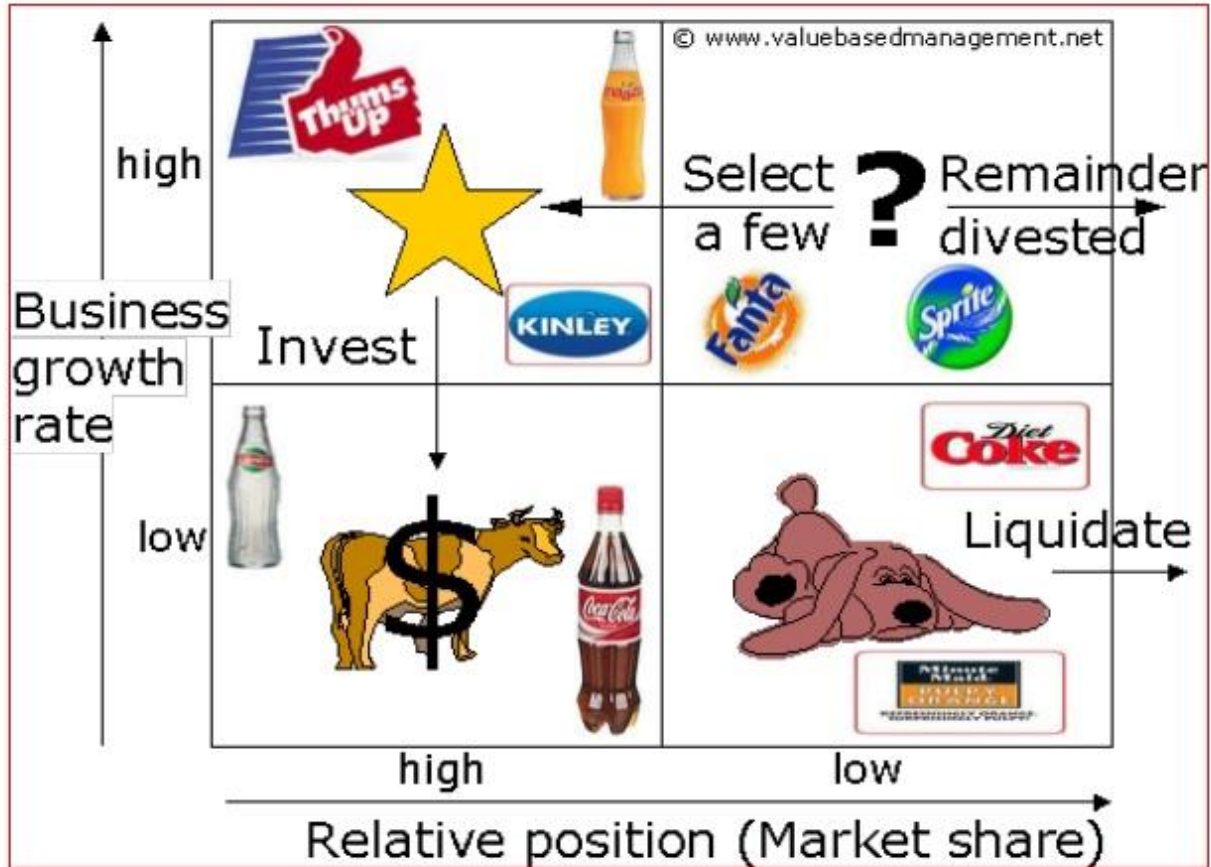
BCG Matrix



BCG PRODUCT LIFE CYCLE

BCG positions throughout the product life cycle:





BCG Matrix





Relative Market Share

(Internal Strengths)

		H 1.0	M 0.50	L 0.0
Industry Sales Growth Rate (Industry Attractiveness)	H	STARS Intensive strategies Integration strategies Diversification strategies <i>Grow</i>	QUESTION MARKS Intensive Strategies Divest <i>Double or Quit</i>	
	M			
	L	CASH COWS Product Development Concentric Diversification <i>Hold/Harvest</i>	DOGS Retrenchment Liquidation Divestment <i>Divest</i>	

BCG MATRIX

HILDA L. TEODORO

ATENEO GRADUATE SCHOOL
OF BUSINESS

Fred David

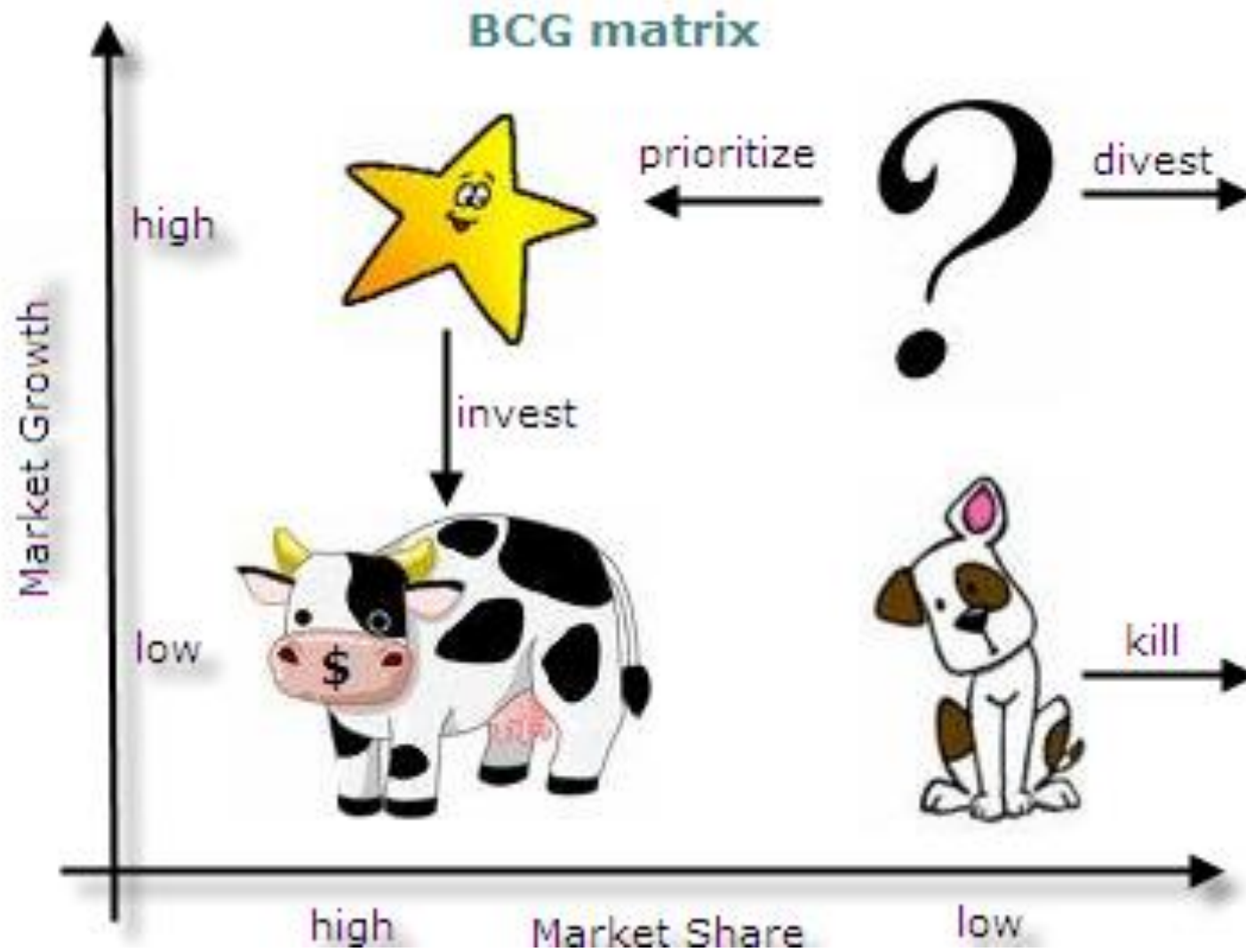
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Product Mix- BCG Matrix - Coke



Product Mix- BCG Matrix – Pepsi





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 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.

- 4B** The Southwest Airlines' mission is "dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit." Taking this mission statement, develop a 'Hierarchy of Plans' for The Southwest Airlines. **4**
- 5A** With an example explain the relationship among the five functions of management. **4**
- 5B** Choose an organization that you know and identify its strengths and weaknesses. What are its special opportunities and threats in the external environment? What strategies can be developed using the identified SWOT? **4**
- 5C** Planning and Leading are the two major functions performed by managers. The time spent on these two managerial functions vary with respect to management level. Why? **2**
-
- 1A.** How are the five basic functions of the management process related to one another? Explain with an example. **3**
- 1B.** Describe the role of competitive advantage. How can Porter's competitive strategies help an organization develop a competitive advantage? Explain with suitable examples. **3**

In the context of the above case:

- a) Identify and explain the three principles of management that are being applied by Radhika in this case.
- b) Identify and explain the principle of management which is being violated by Radhika.

5C. Different managerial activities are listed in the table below. With reference to Mintzberg's managerial roles, mention the role category and specific role for the following activities.

3

Sl. no	Activity	Role Category	Specific Role
a)	The manager reads the Wall Street Journal while having coffee first thing in the morning		
b)	The manager shows an employee how to fill out a form		
c)	The manger discusses how much it will cost for a new machine		
d)	The sales manager resolves a complaint with a customer		
e)	The manager develops a new meal for the restaurant		
f)	The manager takes an important customer for lunch		

1A. Discuss the contribution of Henry Fayol to the development of management thought with reference to any four principles of management. 4

2B. Four business units A, B, C and D of a firm X have been characterized as follows, after carrying out Business Portfolio Analysis:

Business unit	A	B	C	D
Category	Dog	Cash Cow	Star	Question Mark

Answer the following questions with respect to the above analysis:

1. What is the basis of the above classification and how is it done? 2
2. A competitor firm Y is keen to acquire firm X's business unit 'C' and is willing to pay an attractive amount for this purpose. Should firm X accept this offer? What are the pros and cons to firm X of selling business unit C to competitor firm Y? 2
3. What are the recommended strategies for business units 'A' and 'B' as per the Business Portfolio Analysis? 2

- | | | |
|-----|---|---|
| 1A. | Briefly describe Mintzberg's managerial roles with relevant examples. | 4 |
| 1B. | Differentiate between US and Japanese styles of management. | 3 |
| 1C. | How does management skills vary across different managerial levels? | 3 |
| | | |
| | Compare Maslow's and Herzberg's theories of motivation. | 4 |
| 2B. | With an example for each, explain the difference between policy, procedures and rules. | 3 |
| 2C. | With a neat figure explain the strategic planning process. | 3 |
| | | |
| 2B. | Explain briefly the "Planning Process" with the help of a common example running through the steps. | 4 |
| | | |
| 2. | Explain with examples, the interpersonal and informational managerial roles given by Mintzberg. | 3 |

4. An automotive manufacturing company after performing internal and external situation analysis have identified the following factors relevant for their SWOT analysis: 2

- Strong brand image of competitor
- Technological skills
- Low customer retention
- Production quality
- Changing customer preferences
- Favorable government policies

Answer the following questions:

- a) Identify and classify the Strengths, Weaknesses, Opportunities, and Threats.
- b) Draw the TOWS matrix for the above (no explanation required).

5. Draw and explain systems approach to management. 3