CHAPTER 3

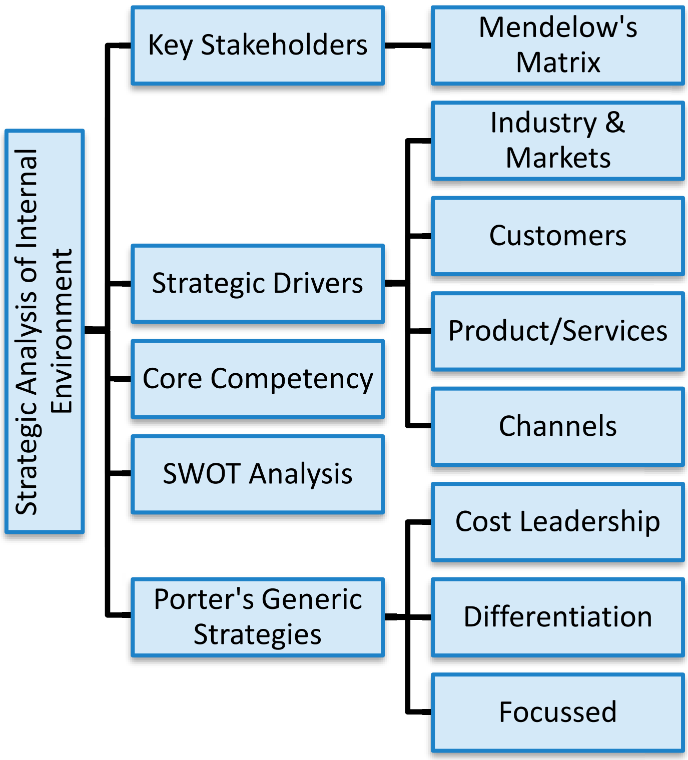
STRATEGIC ANALYSIS: INTERNAL ENVIRONMENT

LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Understand the importance of the internal environment in strategic analysis.
- Explain the stakeholder view of the firm.
- Identify and explain the strategic drivers.
- Examine the role of firm-level resources and competencies in shaping the strategic advantage of the firm.
- Integrate analyses of internal and external environments into SWOT and formulation of business level strategies.

CHAPTER OVERVIEW



3.1 INTRODUCTION

Strategic Analysis is equally important when it comes to internal environment assessment.

Internal environment refers to the sum total of people – individuals and groups, stakeholders, processes- input-throughput-output, physical infrastructure- space, equipment and physical conditions of work, administrative apparatus- lines of authority & power, responsibility, accountability and organizational culture- intangible aspects of working- relationships, philosophy, values, ethics- that shape an organization's identity.

In other words, the internal environment is specific to each organisation. It is based on its structure and business model and includes all stakeholders like top management, investors, employees, board of directors, investors, etc.

Internal environment also involves understanding of the ethics, principles, work environment, employee friendliness, confidence of investors and other philosophical and cultural aspects of business, which aim for the success of the organisation.

Thus, it is even more important to understand the internal environment from a strategic analysis perspective.

3.2 UNDERSTANDING KEY STAKEHOLDERS

Who are Stakeholders and how do we identify them?

A firm may be viewed as a coalition of stakeholders- all those individuals and entities that have a stake in its success and can impact it as well. They may be the employees, shareholders, investors, suppliers, customers, regulators and so on. This view of the firm is in contrast to the earlier view of the firm that was considered to be an extension of the owners and shareholders alone.

Thus, it may be reiterated that the stakeholders can be defined as any person/group of individuals, internal or external, that has an interest in, or impact on the business or corporate strategy of the organisation. They have the power to influence the strategy or performance of that organisation.

Generally, stakeholders include management, employees, shareholders, customers and vendors. Additionally, other individuals and groups, such as governments, labour unions and local groups, which are often considered as stakeholders depending on their impact on the particular organisation. Each stakeholder or stakeholder group will be affected by the business strategy that the organisation chooses and implements.

It is important to first identify the key stakeholders. Each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation. **For example,** an organisation involved in healthcare innovation needs to have a long-term perspective about its return on investment (ROI) as there may be a long time between investment into research timelines and a commercial outcome. While, shareholders, whose main concern is quick profits, may be more hesitant to support the organisation spending funds on something that they may not see the return in the near future.

Since the expectations of key stakeholders can influence the organisation's strategy, a clash of objectives may have unfavourable consequences for the organisation.

Example of Key Stakeholders and their requirements for an OTT Platform

Stakeholders	Requirements
Shareholders	♦ Innovation and continuous creative content ♦ Total shareholder return (RoI) ♦ Corporate social responsibility ♦ Top rankings of the organisation ♦ Highest market share
CEO and Board of Directors	♦ Prestige ♦ Market share ♦ Revenue and profit growth ♦ Market rankings
Major Vendors (Production Houses)	♦ Growth ♦ Stability of ordering ♦ Stable margins
Consumers (Viewers)	♦ New content - Innovation ♦ Better deals - Pricing Benefits ♦ Value for money ♦ Continuous supply
Employees	♦ Wages and benefits ♦ Stability of employment ♦ Pride of working for a reputed organisation

3.2.1 Mendelow's Matrix

The Mendelow Stakeholder matrix (also known as the Stakeholder Analysis matrix and the Power-Interest matrix) is a simple framework to help manage key stakeholders.

Managing a project is extremely complicated as it involves managing the competing interests of various stakeholders. Who needs to know what and when, who needs to give their feedback and who has the final approval can be confusing. However, managing stakeholders is critical to the success of a project. This is where a stakeholder analysis matrix i.e. Mendelow's Matrix can help.

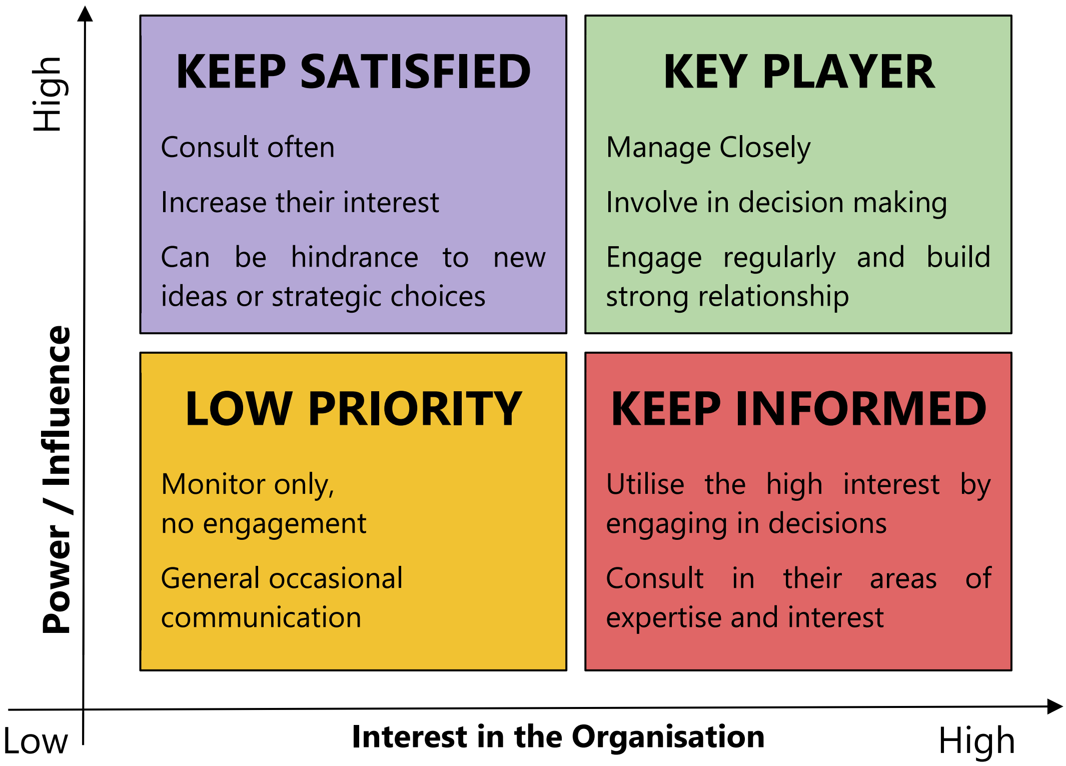
Mendelow suggests that one should analyse stakeholder groups based on Power (the ability to influence organisation strategy or resources) and Interest (how interested they are in the organisation succeeding). A thing to remember is that all stakeholders may seem to have lots of power and organisation may hope they would have lots of interest too. But in reality, some stakeholders will hold more Power than others, and some stakeholders will have more Interest than others. **For example,** a big shareholder is likely to have high power and high interest in the organisation, whereas a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.

Developing a Grid of Stakeholders

Mendelow's Matrix is based on Power and Interest. It suggests to identify which stakeholders are incredibly important. Metrics to define the importance being High Power and High Interest which management would need to manage closely, while investing a lot of time and resources.

For example, the CEO is likely to have more Power to influence the work and also high interest in it being successful. Keeping them informed almost daily should be a priority.

However, those stakeholders with low power and low interest like research institutes seeking an organisation data should be monitored rarely and minimum effort expended on them in terms of time and money.



In the above figure, we see categorisation of stakeholders into four groups by Mendelow's;

- **KEEP SATISFIED Stakeholders: High power, less interested people** - Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis. **For example,** banks, government, customers, etc.

- **KEY PLAYERS Stakeholders: High power, highly interested people** - Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. **For example**, Shareholders, CEO, Board of Directors, etc.

- **LOW PRIORITY Stakeholders: Low power, less interested people** - Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change. **For example**, business magazines, media houses, etc.
- **KEEP INFORMED Stakeholders: Low power, highly interested people -** Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation. **For example**, employees, vendors, suppliers, legal experts, etc.

An important thing that strategists should be aware of, is the importance to remember that environment is highly dynamic and certain things might happen that can cause stakeholders to suddenly move between quadrants.

For example, an organisation might inadvertently contravene a regulation, say GST compliance which would cause the regulatory body i.e. the Indirect Taxes Department to move from High Power, Low Interest to High Power, High Interest. This would then require a different way of managing and communicating with this stakeholder. Equally, the media houses would also move from Low Power, Low interest, to Low Power, High Interest. So, it's always worth re-analysing the Mendelow's grid for one's organisation in the event of a change in the environment.

Activity

Identify and group the below stakeholders in the 4 groups as suggested by Mendelow for an Ecommerce startup.

Ms. Suhasini (CEO), Mango Partners and TRIK Group (Investors), MSME Ministry, Customers from NorthEast India, Sellers from Rajasthan, Jandhan Bank (Lender), and Kumar S and Sharma T (Sr. Managers in the Co.)

Keep Satisfied	**Key Players**
Low Priority	**Keep Informed**

3.3 STRATEGIC DRIVERS

An important aspect of internal analysis is assessing the current performance of the business. And in assessing current performance, the strategic drivers consider what differentiates an organisation from its competitors.

It involves analysis of the key markets in which the organisation operates, as well as its key customers, the products and services it provides, the channels in which the products or services are delivered, and the organisation's competitive advantage. Some of these components are interlinked, such as markets and products/services, and channels and key customers in each channel.

There can be varied ways to assess the current performance of a business and it is highly subjective based on the managements metrics and ways of doing business. It can either be profit driven, purpose driven or any other metrics that the management seems to fit in. But in general, the key strategic drivers of an organisation include:

- industry and markets
- customers
- products/services
- channels

3.3.1 Industry and Markets

In terms of the internal environment, it is very important for an organisation to understand it's relative position in the industry and in the market in which it operates. There are many ways to do this but require analysis and understanding of the environment.

Similar companies are grouped together into industries. Basically, industry grouping is based on the primary product that a company makes or sells. **For example,** Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product and thus categorised into Automotive Industry. Similarly, Zara, H&M, Marks & Spencer, Pantaloons, Westside, Uniqlo, are all selling apparels and accessories for the youth, and thus categorised under apparels industry.

A market is defined as the sum total of all the buyers and sellers in the area or region under consideration. The value, cost and price of items traded are as per forces of supply and demand in a market. The market may be a physical entity or may be virtual like e-commerce websites and applications. It may further be local or global, depending on which all countries the business sells its products in.

Is market the same for all businesses?
Market refers to all the buyers and sellers of a particular product/service and so it would be incorrect to say that market is the same for all businesses. Each business has its own set of customers i.e. market and more so, each product within a business has its own market. **For example,** for a FMCG brand selling Shampoos, Dairy Products, Flours, Washing Powder, etc. - each product line will have a separate market to cater to and therefore build strategies specific to the market of concern.

3.3.1.1 Analysing Industry and Markets

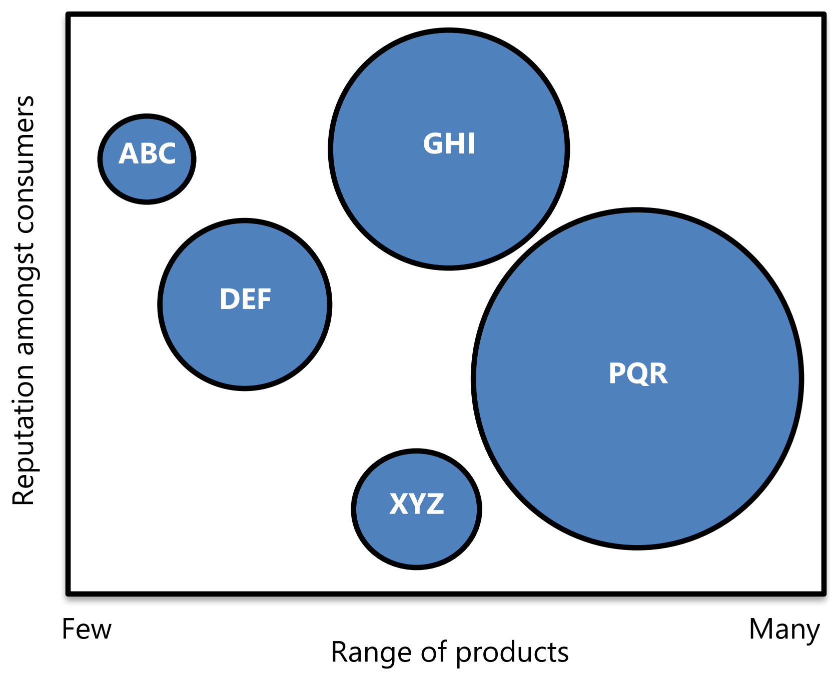
Industry and market analysis is extremely important to identify one's position as compared to the competitors, who can be of equal size and value, or bigger in size and value or even smaller and newer. A tool used for this is called - **Strategic Group Mapping.**

A strategic group consists of those rival firms which have similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of the several ways: they may have comparable product-line breadth, sell in the same price/quality range, emphasize the same distribution channels, use essentially the same product attributes to appeal to similar types of buyers, depend on identical technological approaches, or offer buyers similar services and technical assistance. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

- Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full)
- Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.
- Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

Strategic Group Mapping



Explanation of Diagram (Strategic Group Mapping)

ABC, DEF, GHI, XYZ AND PQR are companies operating in the same industry. Let us assume these all are companies selling Laptops.

Now on the Y-Axis (vertical) is the reputation of the company and on the X-Axis (horizontal) is the range of their products.

The Reputation is depicted through the size of the bubble of the company along with how high it is on the Y-Axis. While on the X-Axis, we can see how huge their product range is, whether they have few models or they have many models on offer for the customers.

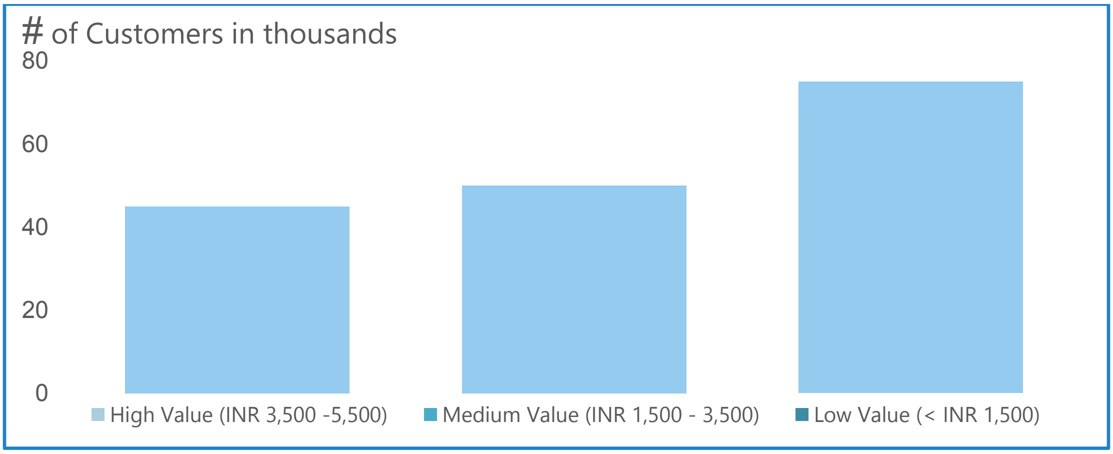
A simple glance of the mapping chart shows us that even though ABC has few models, but it has great reputation in the market. Similarly, GHI has a good range of products and is the most reputed company in laptops. Another view is that XYZ and GHI have the same number of models as both are on the same place on X-Axis, but GHI has much greater reputation than XYZ, as it has a bigger bubble and is higher on the Y-Axis.

Strategists can analyze the market by making any number of scenarios like above to understand the competition. Thus, this analysis helps a business understand its competition in terms of two or more factors (like reputation and range of products in this case) in a single graphical representation.

3.3.2 Customers

Understanding the different types of customers to whom the organisation's products/services are sold or provided, is not only important but also the first step in deciding the product/service. Different customers may have different needs and require different sales models or distribution channels.

Consider the example of a headphones brand - the customers can be grouped under high value buyers, medium value buyers and low value buyers based on the amount they are willing to spend on a product, thus helping the business understand their key customers and focus areas of improvement.



As customers are often responsible for the generation of profits obtained by an organisation, it is important to be able to collect and display data in order to show customer trends and profitability. Issues with customers can be identified, and target areas for growth can be pursued based on the findings.

Another interesting concept is the difference between Customer and Consumer - while a customer is the one buys a product/service, the consumer is the one who finally uses/consumes the bought product or service. **For example** - A parent buying stationery products for their kids might be the customers, but consumers of stationery are the kids who would actually use it. Thus, understanding both is important for the marketers.

From a pricing perspective - the customer is of more importance and from value creation and design/usability, consumer needs to be the kept at the center of decision making.

Customer versus Consumer
A simple bifurcation yet extremely important for strategy build up. Consumers are the ones who finally use a product/service, while customers are the buyers of that product. A customer can be a consumer and vice versa. But for strategy teams especially marketing teams it is important to understand the customer and consumer separately. **For example**, baby diapers are bought by parents (customers) who are willing to pay higher price for higher quality, while the real consumers are the babies, who are more concerned about the comfort and easiness of the diaper. If babies do not accept the product i.e. if consumers aren't satisfied, it is difficult to retain the buyer i.e. customers as well.

3.3.3 Product/Services

Products and services are closely linked and interrelated with the markets that the organisation wants to serve. In this component of the strategic drivers' analysis, business identifies the key products/ services that the organisation offers and how those products/services are performing. It attempts to answer the general question: What business are we in and what should be done to win over competition in each product/service we serve.

Product stands for the combination of "goods-and-services" that the company offers to the target market. Strategies are needed for managing existing product over time, adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warranties. The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.

There are products that have wide range of quality and workmanship and these also change over time since products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short life spans.

Products can also be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer's product is different from others. **For example**, Shampoos with different branding namely Head & Shoulders, Olay, Old Spice, Pantene are all produced by the same company P&G.

Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products and even firms' image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:

- Have customer-centric approach while making a product.
- Produce sufficient returns through a reasonable margin over cost.
- Increasing market share.

Products and services need heavy investment in reaching out to customers. Over the years, a number of marketing strategies have been evolved, which are given to handle marketing strategically and fight the competition in the market.

- **Social Marketing:** It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group to bring in a social change. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that smoking is injurious to health.
- **Augmented Marketing:** This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered. It can be in the form of introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
- **Direct Marketing:** Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.
- **Relationship Marketing:** The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. **For example**, *Airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It can go a long way in building relationships.*
- **Services Marketing:** It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible. This marketing requires

different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.

- **Person Marketing:** People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person. **For example**, *politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers*.
- **Organization Marketing:** It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization. Both profit and non-profit organizations practice organization marketing.
- **Place Marketing:** Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.
- **Enlightened Marketing:** It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.
- **Differential Marketing:** It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. **For example**, *Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment*.
- **Synchro-marketing:** When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives. **For example**, *products such as movie tickets can be sold at lower price over weekdays to generate demand.*
- **Concentrated Marketing:** It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form of Niche marketing.

- **Demarketing:** It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. **For example**, *buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.*

3.3.4 Channels

Channels are the distribution system by which an organisation distributes its product or provides its service. To understand the concept of channels let us see some **examples** of how the following companies distribute their products and services;

- Lakme - sells its products via retail stores, intermediary stores (like Nykaa, Westside, Reliance Trends), as well as online mode like amazon, flipkart, nykaa online and its own website.
- Boat Headphones - only online via e-commerce platforms like flipkart and amazon
- Coca Cola - retail shops across the nation, in each district, each town as well as online mode via dunzo, blinkit, etc.

All the above are the channels via which companies sell their products and services to the customers. The wider and stronger the channel the better position a business has to fight and win over competition. Also, having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.

There are typically three channels that should be considered: sales channel, product channel and service channel.

- **The sales channel** - These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: Who needs to sell to whom for your product to be sold to your end user? **For example**, many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.

- **The product channel** - The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.

- **The service channel** - The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. **For example**, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.

For example - if a healthcare brand wants to reach out to elderly customers - they need to be more focused on offline mode of business where agents reach out physically to the elderly as most of their potential customers (i.e. the old aged) are not active on smartphones.

Another example being - if a new drink brand wants to acquire customers - they need to place their products via every channel possible to get more attraction from customers like placing their drinks in stores, and shops alike, offering competitive campaigns to create awareness via online modes (social media) and so and so forth.

Thus, channels, the partners in growth, play a crucial role in internal strategic alignment.

Ever been to a hill station or a desert or a far-off location on vacation, and still had access to bottled water and cold drinks?
This is possible because of strong channels of distribution. Some of the most renowned brands who have created competitive advantage in channels are Coca Cola, HUL, Patanjali, Asian Paints, Ola, to name a few.

3.4 ROLE OF RESOURCES AND CAPABILITIES: BUILDING CORE COMPETENCY

An organization may be viewed as an entity endowed with resources and capabilities. These resources and capabilities may be so synergized as to impart distinct competencies that the organization may leverage to its advantage. C.K. Prahalad and Gary Hamel have advocated a concept of core competency, which is a widely used concept in management theories. They defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

Competency is defined as a combination of skills and techniques rather than individual skill or separate technique. For core competencies, it is characteristic to have a combination of skills and techniques, which makes the whole organization utilize these several separate individual capabilities. Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources. The optimal way to define core competence is to consider it as sum of 5- 15 areas of developed expertise.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas -

- competitor differentiation,
- customer value, and
- application to other markets

Competitor differentiation is one of the main three conditions. The company can consider having a core competence if the competence is unique and it is **difficult for competitors to imitate.** This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it. The company has to keep on improving these skills in order to sustain its competitive position. Competence does not necessarily have to exist within one company in order to define as core competence. Although all companies operating in the same market would have the equal skills and resources, if one company can perform this significantly better; the company has obtained a core competence. **For example,** it is quite difficult to imitate patented innovation, like Tesla has been winning over competition in electric vehicles.

The second condition to be met is **customer value.** When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them. If customer has chosen the company without this impact, then competence is not a core competence, and it will not affect the company's market position. The essence is that the consumer should value the differentiation offered. Without it, the core competency does not make sense.

The last condition refers to **application of competencies** to other markets. Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence if it is not fundamental from the whole organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

If the three above-mentioned conditions are met, then the company can regard it competence as core competency.

Core competencies are often visible in the form of organizational functions. **For example,** Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.

A core competency for a firm is whatever it does best: **For example**: Wal-Mart focuses on lowering its operating costs. The cost advantage that Wal-Mart has created for itself has allowed the retailer to price goods lower than most competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

Core competencies are the knowledge, skills, and facilities necessary to design and produce core products. Core competencies are created by superior integration of technological, physical and human resources. They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities. Cultural capabilities refer to the ability to manage change, the ability to learn and team working. Organizations should be viewed as a bundle of a few core competencies, each supported by several individual skills. Core Competence-based diversification reduces risk and investment and increases the opportunities for transferring learning and best practice across business units.

Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses. For competitive advantage, a core technological competence should be difficult for the competitors to imitate.

3.4.1 Criteria for building a Core Competencies (CC)?

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

i. **Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.

ii. **Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

iii. **Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily. **For example**, *Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology and brought microprocessors to market well ahead of the competitor.* The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

iv. **Non-substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

For example, For years, firms tried to imitate Tata's low-cost strategy, but most have been unable to duplicate Tata's success. They did not realize that Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.

The strategic value of capabilities increases as they become more difficult to substitute.

For example, Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.

To sum up, we can say that only when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage. Over a time, core competencies must be supported. Core competencies are a source of competitive advantage only when they allow the firm to create value by exploiting opportunities in its external environment.

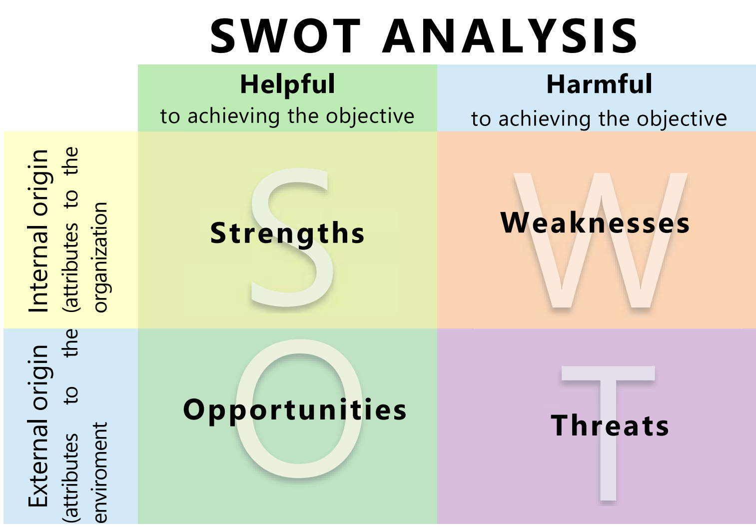
Zero Customer Complaints!
Airtel has its marketing campaign that talks about - Zero Customer Complaints. This is about creating a core competency of great customer service.

3.5 COMBINING EXTERNAL AND INTERNAL ANALYSIS (SWOT ANALYSIS)

SWOT analysis is the analysis of a business's strengths, weaknesses, opportunities and threats. The primary objective of a SWOT analysis is to help organizations develop a full awareness of all the factors (external as well as internal), involved in making a business decision.

SWOT analysis shall be implemented before all company actions, whether it is exploring new initiatives, revamping internal policies, considering opportunities to grow or alter a plan midway. One shall also us SWOT analysis to discover recommendations and strategies, with a focus on leveraging strengths and opportunities to overcome weaknesses and threats.

Since its creation, SWOT has been the most widely used tools for business owners to grow their companies. Sometimes it's wise to perform SWOT analysis just to check on the current landscape of your business to improve business operations as needed. The analysis can show areas where an organization is performing well, as well as areas that need improvement.



SWOT Analysis Example

Let us understand with an example of a law firm - what could its SWOT analysis help understand about its business.

STRENGTH	WEAKNESS
Multiple Partners with varied expertise Long Term contractual service agreements 70 years of brand value Services spread across 20 states of India 400+ employee strength to deliver work	Run by old methods No automation of work and documentation Not very employee friendly culture
OPPORTUNITY	**THREAT**
Automation driven advancement. Startups can be supported with experienced partners. Investment in technology can multiply returns.	Online players entering market. AI based solutions and applications. Price point of online being very competitive Speed of work becoming faster by the day.

The benefit of this analysis is that it identifies the complex issues for an organisation and puts them into a simple framework. While on the other hand, one of the major criticisms of this tool is that it does not generally provide for evaluation of strengths, weaknesses, opportunities and threats in the competitive context.

Therefore, an organsition while using this tool, SWOT analysis, should consider relative competitors, and external factors affecting the organisation. Although a simple tool, it is a useful starting point for analysis.

SWOT Analysis for Internal or External Environment?
SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Internal analysis is more focused on understanding the existing structure and competencies of the business, thus highlighting the Strengths and Weaknesses, while External Analysis is about identifying and preparing for uncontrollable which can either be Opportunities or threats. Therefore, SWOT Analysis is a tool which is used for both Internal and External Analysis.

3.6 COMPETITIVE ADVANTAGE: USING MICHAEL PORTER'S GENERIC STRATEGIES

Why do some companies succeed while others fail?
Why did Hindustan Motors do so well for several decades?
How did Apple return from near obsolescence in the late 1990s and become the world leader and a dominant technology company of today?
In the Indian airline industry, how has Indigo Airlines managed to keep increasing its revenues and profits through both good times and bad, while rivals struggled?

For most, if not all, companies, achieving superior performance relative to rivals is the ultimate challenge. If a company's strategies result in superior performance, it is said to have a competitive advantage.

Strategic management involves development of competencies that managers can use to achieve better performance and a competitive advantage for their organization. Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'

In other words, an organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

"If you don't have a competitive advantage, don't compete" - Jack Welch

The competitive advantage is the achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry. It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate. Further, it can be said that a firm is successful in achieving competitive advantage only after other firm's efforts to duplicate or imitate it fails.

3.6.1 Sustainability of Competitive Advantage

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:

i. **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.

ii. **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

iii. **Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. **For example,** In financial services, innovations lack legal protection and are easily copied. Here again the complexity of many organizational capabilities can provide a degree of competitive defense. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

iv. **Appropriability:** Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources. This means, that rewards are directed to from where the funds were invested, rather than creating an advantage with no actual reward to people to invested capital.

3.6.2 Michael Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. These strategies have been termed generic, because they can be pursued by any type or size of business firm and even by not-for-profit organisations.

- Cost leadership emphasizes on producing standardized products at a very low per-unit cost for consumers who are price-sensitive.

- Differentiation is a strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive.
- Focus means producing products and services that fulfil the needs of small groups of consumers with very specific taste.

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

		Low-Cost products/services	Differentiated products/services
COMPETITIVE SCOPE	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Focussed Cost Leadership	Focussed Differentiation

COMPETITIVE ADVANTAGE

Figure: Michael Porter's Generic Strategies

Porter stresses the need for strategists to perform cost-benefit analysis to evaluate "sharing opportunities" among the firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation. In addition to prompting sharing, Porter stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

3.6.2.1 Cost Leadership Strategy

It is a low-cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than most of its competitors and still earn satisfactory profits. **For example,** McDonald's fast-food restaurants have successfully followed low-cost leadership strategy. Decathlon Group's mega sports stores have been following low-cost leadership strategy to gain international recognition and also beat competition.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. Generally, cost leadership must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. Other cost elements to consider while choosing among alternative generic strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labour costs, tax rates, energy costs, and shipping costs. This internal strategy of sharing resources to build a competitive advantage is called synergy benefit.

Striving to be a low-cost producer in an industry can especially be effective,

- when the market is composed of many price-sensitive buyers and
- when there are few ways to achieve product differentiation.

Further, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to underprice competitors and thereby gain market share driving some of the competitors out of the market.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overheads, limited perks, intolerance of waste, intensive screening of budget requests, wide span of controls, rewards linked to cost containment, and broad employee participation in cost control efforts.

Some risks of pursuing cost leadership are;

- that competitors may imitate the strategy, therefore driving overall industry profits down;

- that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

Achieving Cost Leadership Strategy

To achieve cost leadership, following actions could be taken:

1. Prompt forecasting of demand of a product or service.
2. Optimum utilization of the resources to achieve cost advantages.
3. Achieving economies of scale; thus, lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit. (Example of McDonald's)
5. Invest in cost saving technologies and using advance technology for smart efficient working.
6. Resistance to differentiation till it becomes essential.

Advantages of Cost Leadership Strategy

A cost leadership strategy may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry – Competitors are likely to avoid a price war, since the low-cost firm will continue to earn profits even after competitors compete away their profits.
2. Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
3. Suppliers – Cost leaders are able to absorb greater price increases from suppliers before they need to raise prices for customers.
4. Entrants – Low-cost leaders create barriers to market entry through their continuous focus on efficiency and cost reduction.
5. Substitutes – Low-cost leaders are more likely to lower the costs to induce existing customers to stay with their products, invest in developing substitutes, and even purchase patents.

Disadvantages of Cost Leadership Strategy

1. Cost advantage may not last long as competitors may imitate cost reduction techniques.
2. Cost leadership can succeed only if the firm can achieve higher sales volume.
3. Cost leaders tend to keep their costs low by minimizing cost of advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
4. Technological advancement areas a great threat to cost leaders.

3.6.2.2 Differentiation Strategy

This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product. **For example**, Domino's Pizza has been offering home delivery within 30 minutes or the order is free, is a unique selling point that differentiates if from its rivals.

Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick imitation by competitors' areas better. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the customers' desired attributes.

A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty, because consumers may become strongly attached to the differentiated features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk associated with pursuing a differentiation strategy is that the unique product may not be valued high enough by customers to justify the higher price. When this happens, a cost leadership strategy will easily defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.

For example, Amazon Prime offers deliver within two hours. This is quite difficult to imitate by its rivals, and thus this differentiating factor helps it to lead the market.

Basis of Differentiation

There are several bases of differentiation, major being: Product, Pricing and Organization.

- **Product:** Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product. **For example,** Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that. They want to be among the first ones to try the new offerings from the company.
- **Pricing:** It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices. **For example,** Apple iPhone dominates the smart phone segment by charging higher prices for its products.
- **Organisation:** Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition. **For example,** Apple has been building customer loyalty since years and has a fanbase of consumers that are called "Apple Fanboys/Fangirls".

Achieving Differentiation Strategy

To achieve differentiation, following strategies could be adopted by an organisation:

1. Offer utility to the customers and match products with their tastes and preferences.
2. Elevate/Improve performance of the product.
3. Offer the high-quality product/service for buyer satisfaction.
4. Rapid product innovation to keep up with dynamic environment.
5. Taking steps for enhancing brand image and brand value.
6. Fixing product prices based on the unique features of product and buying capacity of the customer.

Advantages of Differentiation Strategy

A differentiation strategy may help an organisation to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. Buyers – They do not negotiate for price as they get special features and they have fewer options in the market.
3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

1. In the long term, uniqueness is difficult to sustain.

2. Charging too high a price for differentiated features may cause the customer to switch-off to another alternative. As we see a shift of iPhone users to other android flagship smart phones.

3. Differentiation fails to work if its basis is something that is not valued by the customers. Home delivery of packed snacks in 30 minutes would not even be a differentiator as the consumer wouldn't value such an offer.

3.6.2.3 Focus Strategies

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration (new product for existing customers) and market development (new product for new customers) offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

Focus strategies are most effective when consumers have distinctive preferences or requirements, and when the rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility of numerous competitors recognizing the successful focus strategy and imitating it, or that consumer preferences may drift towards the product attributes desired by the market as a whole. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market. **For example,** Ferrari sports cars.

Focused cost leadership: A focused cost leadership strategy requires competing based on price to target a narrow market. A firm that follows this strategy does not necessarily charge the lowest prices in the industry. Instead, it charges low prices relative to other firms that compete within the target market. Firms that compete based on price and target a narrow market follow a focused cost leadership strategy.

Focused differentiation: A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low-cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy. **For example,** Rolls-Royce sells limited number of high-end, custom-built cars.

Achieving Focused Strategy

To achieve focused cost leadership/differentiation, following strategies could be adopted by an organization:

1. Selecting specific niches which are not covered by cost leaders and differentiators.
2. Creating superior skills for catering such niche markets.
3. Generating high efficiencies for serving such niche markets.
4. Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

3.6.2.4 Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies. It is directed towards giving customers more value for the money by emphasizing on both, low cost and upscale differences. The objective is to keep costs and prices lower than those of other sellers of "comparable products".

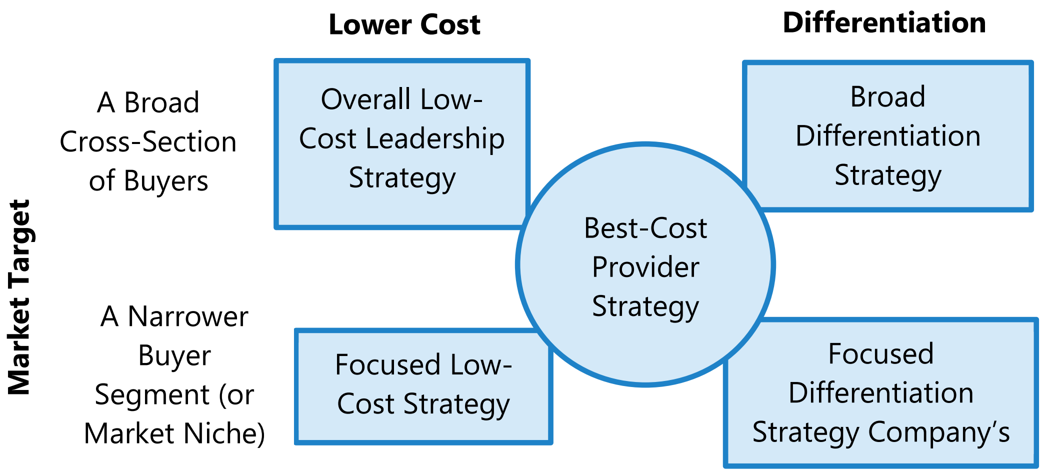


Figure: The Five Generic Competitive Strategies

Best-cost provider strategy involves providing customers more value for the money by emphasizing on lower cost and better-quality differences. It can be done through:

(a) offering products at lower price than what is being offered by rivals for products with comparable quality and features

Or

(b) charging similar price as by the rivals for products with much higher quality and better features.

For example, android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc, are all rooting for giving better quality at lowest prices to the customers. They are following the best-cost provider strategy to penetrate market.

Activity for Michael Porter's Generic Strategies

Use the blank space against each business idea to identify which generic strategy is being used;

Business Idea	Michael Porter's Generic Strategy
Building the best in class headphones with noise cancellation and premium quality ear cushions	
Providing maximum value features in a phone which is within the spendable limits of the middle class of India	
Being in a position to dominate the glass manufacturing units across the country and thus using economies of scale to beat competition	
Targeting the below poverty line individuals and providing them nutritious meals	

SUMMARY

The understanding of internal environment becomes more important in current times, as dynamics change, and consumers take lead. For a business, strategising continuously becomes more so important for which it needs tools and access to decision-oriented analysis. Once analysed, the plans need to take form of actions and thereby drive results.

(i) Understanding key stakeholders via Mendelow's Model - helps to identify the real areas of resource allocation

(ii) An in-depth understanding of business strategic drivers like Industry & markets, Customers, Channels, Product & Services, enable the business to think out of the box, take inspiration from peers and drive innovation

(iii) Core Competency with available resources and capabilities is what businesses should strive to build to beat competition and lead markets

(iv) Once identified, strategists use the classic tool of SWOT Analysis to figure out what suits best to the business's nature and what is there to explore in the environment

(v) Finally, a business strives to gain competitive advantage: which can broadly be achieved using Michael Porter's Generic Strategies of Cost Leadership, Differentiation and Focussed Differentiation, or the recent concept of Best Cost Provider in the market.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *The goal of SWOT analysis is to _______ the organization's opportunities and strengths while _______ its threats and _______ its weaknesses.*

   (a) *avoid; neutralizing; correcting*

   (b) *exploit; neutralizing; correcting*

   (c) *avoid; capitalizing; neutralizing*

   (d) *exploit; avoiding; ignoring*

2. *SWOT analysis is an evaluation of the organization's _______ strengths and weaknesses and its _______ opportunities and threats.*

   (a) *external; internal*

   (b) *internal; internal*

   (c) *external; external*

   (d) *internal; external*

3. *External opportunities and threats are usually:*

   (a) *the minor cause of organizational demise or success*

   (b) *least important for CEOs and the board of directors*

   (c) *not as important as internal strengths and weaknesses*

   (d) *largely uncontrollable activities outside the organization*

4. *The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon:*

   (a) *Durability, reliability, transferability, approximately*

   (b) *Appropriability, durability, transferability, imitability*

   (c) *Transferability, imitability, reliability, approximately*

   (d) *Imitability, durability, reliability, appropriability*

5. *Internal _________ are activities in an organization that are performed especially well.*

   (a) *Opportunities*

   (b) *Competencies*

   (c) *Strengths*

   (d) *Management*

6. *'Strategic group mapping' helps in-*

   (a) *Identifying the strongest rival companies*

   (b) *Identifying weakest rival companies*

   (c) *Identifying weakest and strongest rival companies*

   (d) *None of the above*

7. *In Michael Porter's generic strategy ____________ emphasizes producing standardized products at a very low per unit-cost for consumers who are price sensitive.*

   (a) *Cheap leadership*

   (b) *Inferior product leadership*

   (c) *Cost leadership*

   (d) *Cost benefit*

8. *Differentiation Strategy can be achieved by following measures:*

    1. *Match products with tastes and preferences of customers.*
    2. *Elevate the performance of the product.*
    3. *Rapid product innovation*

    Which of the above is true:

    (a) *(1) and (2)*

    (b) *(1) and (3)*

    (c) *(2) and (3)*

    (d) *(1), (2) and (3)*

9. *What are the three different bases given by Michael Porter's Generic Strategies to gain competitive advantage?*

    (a) *differentiation, integration and compensation*

    (b) *integration, focus and differentiation*

    (c) *compensation, integration and focus*

    (d) *cost leadership, differentiation and focus*

10. *A firm successfully implementing a differentiation strategy would expect:*

    (a) *Customers to be sensitive to price increases.*

    (b) *To charge premium prices.*

    (c) *Customers to perceive the product as standard.*

    (d) *To automatically have high levels of power over suppliers.*

Scenario Based Questions

1. *Rohit Sodhi runs a charitable organisation for promotion of sports in the country. His organisation conducts regular free training camps for youths interested in playing cricket, football, hockey, badminton and so on. Many of his trainees have reached national level contests. Rohit noticed that with success of IPL (Cricket) tournament there is an increasing trend to extend similar format in other sports as well. He wishes to know how the development*

is going help sports and to which industries it will offer opportunities and threats.

2. *Mr. Banerjee is head of marketing department of a manufacturing company. His company is in direct competition with thirteen companies at national level. He wishes to study the market positions of rival companies by grouping them into like positions.*

   Name the tool that may be used by Mr. Banerjee? Explain the procedure that may be used to implement the technique.

3. *Mohan has joined as the new CEO of XYZ Corporation and aims to make it a dominant technology company in the next five years. He aims to develop competencies for managers for achieving better performance and a competitive advantage for XYZ Corporation. Mohan is well aware of the importance of resources and capabilities in generating competitive advantage.*

   Discuss the four major characteristics of resources and capabilities required by XYZ Corporation to sustain the competitive advantage and its ability to earn profits from it.

4. *Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. There aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet.*

5. *Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors.*

   Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage.

6. *Sohan and Ramesh are two friends who are partners in their business of making biscuits. Sohan believe in making profits through selling more volume of products. Hence, he believes in charging lesser price to the customers. Ramesh, however, of the opinion that higher price should be charged to create an image of exclusivity and for this, he proposes that the product to undergo some change.*

   Analyse the nature of generic strategy used by Sohan and Ramesh.

7. *Infant care is a successful store chain that caters products for expectant mothers and new moms. They offer everything from nursing classes to strollers, toys, infant clothes, diapers and baby furniture. Due to a one-stop shop for infants, they are charging a premium for its products.*

   Identify and explain how the strategy adopted by infant care.

8. *A century-old footwear company "Mota Shoes" had an image of being the footwear choice for formal occasions. In an attempt to reinvent its brand, it tied up with a foreign footwear giant "Buffrine" to manufacture and sell its Hideseek brand in the country. Putting its best foot forward, it launched extra soft, casual and relaxed footwear for young. Aiming at a brand and image makeover the "Mota Shoes" decided to price the Hide Seek products at premium.*

   What kind of Michael Porter business level strategy is being used by "Mota Shoe company"? State its advantages.

9. *Rohit Patel is having a small chemist shop in the central part of Ahmedabad. What kind of competencies Rohit can build to gain competitive advantage over online medicine sellers?*

10. *'Value for Money' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. Marshal, the CEO of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products.*

    Highlight and explain the core competence of the 'Value for Money' retail chain.

Descriptive Questions

11. *What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?*

ANSWERS/SOLUTION

Answers to Multiple Choice Questions

1	(b)	**2**	(d)	**3**	(d)	**4**	(b)	**5**	(c)	**6**	(c)
7	(c)	**8**	(d)	**9**	(d)	**10**	(b)				

Answers to Scenario Based Questions

1. With the success of IPL, league matches are taking place in other sports as well. These are held in a grandeur manner between several teams. **For example**, *league matches in magnificent manner now take place in Football, Kabaddi and Hockey in India.* These events are profit and entertainment driven. These are going to help sports in India by generating interest in sports, making them more popular, increasing quality of competition and bringing money into sports.

A number of entities and processes are involved in these events from various industries offering opportunities and threats to them. An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand, a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. An opportunity is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rival can. It will offer opportunity and threats to the following:

Opportunities

- Stadia.
- Manufacturers of sports goods.
- Media Industry – Sports channels / television, advertisers.
- Hotel Industry linking events with their offerings.

Threats

- Entertainment industry engaged in TV serials, cinema theatres, Entertainment theme parks as competitors will be fighting for the same viewers/target customers.
- Event Management organisation engaged in non-sports events.

2. A tool to study the market positions of rival companies by grouping them into like positions is strategic group mapping. Grouping competitors is useful when there are many competitors such that it is not practical to examine each one in-depth. In the given scenario there are thirteen competitors. A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is as follows:

- Identify the competitive characteristics that differentiate firms in the industry typical variables that are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.
- Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

3. XYZ Corporation is aiming to transform into a dominant technology company under the leadership of Mohan, the new CEO. He aims to develop competencies for managers for achieving better performance and a competitive advantage for the corporation. Mohan is also well aware of the importance of resources and capabilities in generating and sustaining the competitive advantage. Therefore, he must focus on characteristics of resources and capabilities of the corporation.

The sustainability of competitive advantage and a firm's ability to earn profits from it depends, to a great extent, upon four major characteristics of resources and capabilities which are as follows:

- **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.
- **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.
- **Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.
- **Appropriability:** Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

4. The Airlines industry faces stiff competition. However, Luxury Jet has attempted to create a niche market by adopting focused differentiation strategy. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market.

Luxury Jet compete in the market based on uniqueness and target a narrow market which provides business houses, high net worth individuals to maintain strict schedules. The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving. Apart from conveniences, the facility will provide time flexibility. Travelling by private jet is the most comfortable, safe and secure way of flying your company's senior business personnel.

Chartered services in airlines can have both business and private use. Personalized tourism packages can be provided to those who can afford it.

5. According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

Gennex has opted differentiation strategy. Its products are designed and produced to give the customer value and quality. They are unique and serve specific customer needs that are not met by other companies in the industry. Highly differentiated and unique hardware and software enables Gennex to charge premium prices for its products hence making higher profits and maintain its competitive position in the market.

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

6. Considering the generic strategies of Porter there are three different bases: cost leadership, differentiation and focus. Sohan and Ramesh are contemplating pricing for their product.

Sohan is trying to have a low price and high volume is thereby trying for cost leadership. Cost leadership emphasizes producing standardised products at a very low per unit cost for consumers who are price sensitive.

Ramesh desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.

7. Infant care is opting for differentiation strategy. A one-stop shop is a benefit for this type of customers, seeking convenience in a time. Infant care is catering the products only related to an infant that is perceived by the customers as unique. Because of differentiation, the Infant care is charging a premium for its product.

8. Mota shoes is trying to use differentiation. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

A differentiation strategy has definite advantages as it may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

i. **Rivalry:** Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

ii. **Buyers:** They do not negotiate for price as they get special features and also, they have fewer options in the market.

iii. **Suppliers:** Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.

iv. **New entrants:** Innovative features are expensive to copy. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.

v. **Substitutes:** Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

9. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. A small chemist shop has a local presence and functions within a limited geographical area. Still, it can build its own competencies to gain competitive advantage. Rohit Patel can build competencies in the areas of:

(i) Developing personal and cordial relations with the customers.

(ii) Providing home delivery with no additional cost.

(iii) Developing a system of speedy delivery that can be difficult to match by online sellers. Being in central part of city, he can create a network to supply at wider locations in the city.

(iv) Having extended working hours for convenience of buyers.

(v) Providing easy credit or a system of monthly payments to the patients consuming regular medicines.

10. A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. A core competency for a firm is whatever it does is highly beneficial to the organisation.

'Value for Money' is the leader on account of its ability to keep costs low. The cost advantage that 'Value for Money' has created for itself has allowed the retailer to price goods lower than competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

Answers to Descriptive Questions

11. An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

- **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analysis are:

- It provides a logical framework.
- It presents a comparative account.
- It guides the strategist in strategy identification.

NOTES