MDI GURGAON | Management Development Institute

STRATEGY AND CONSULTING DOMAIN

GD-PI PREPARATION COMPENDIUM

By

STRATEGIST

STRATEGY & CONSULTING CLUB OF MDI

Contents

Introduction to Strategy

What is Strategy?

Strategy is a well-defined roadmap of an organization. It defines the overall mission, vision, and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors. It is about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment to meet the present objectives. Strategy, in short, bridges the gap between "where we are" and "where we want to be".

- A firm's strategy is defined as its theory about how to gain competitive advantages
- A good strategy is a strategy that generates such advantages
- Each of the theories—like all theories—is based on a set of assumptions and hypotheses about the way competition in an industry is likely to evolve and how that evolution can be exploited to earn a profit.
- The greater the extent to which these assumptions and hypotheses accurately reflect how competition in this industry evolves, the more likely it is that a firm will gain a competitive advantage from implementing its strategies. If these assumptions and hypotheses turn out not to be accurate, then a firm's strategies are not likely to be a source of competitive advantage.
- But here is the challenge; it is usually very difficult to predict how competition in an industry will evolve, and so it is rarely possible to know for sure that a firm is choosing the right strategy.

  Therefore, a firm's strategy is almost always a theory: It's a firm's best bet about how competition is going to evolve and how that evolution can be exploited for competitive advantage.

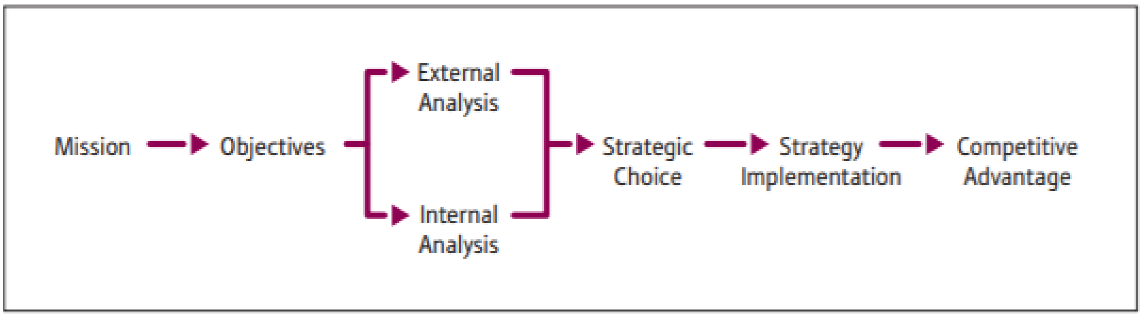


Fig. The Strategic Management Process: This process is a set of analyses and decisions that increase the likelihood that a firm will be able to choose a "good" strategy, that is, a strategy that will lead to a competitive advantage

Why Strategy?

There are at least three very compelling reasons why it is important to study strategy and the strategic management process now:

1. A firm's strategy can have a huge impact on its competitive advantage. Your career opportunities in a firm are largely determined by that firm's competitive advantage. Thus, in choosing a place to begin or continue your career, understanding a firm's theory of how it is going to gain competitive advantage can be essential in evaluating the career opportunities in a firm.

2. Once you are working for a firm, understanding that firm's strategies, and your role in implementing those strategies, can be very important for your success.
3. If you choose to work for one of the smaller or entrepreneurial firms you could very easily find yourself to be part of the strategic management team, implementing the strategic management process and choosing which strategies this firm should implement.

   More broadly, the study of strategy and the strategic management process will help you develop a set of skills that will be helpful, no matter what your employment situation may be. Thus, in addition to learning about strategy and the strategic management process, the topics covered in this compendium will also increase your overall business knowledge, and help enhance your success in whatever career you choose.

Classification of Strategy

Organic Strategies

Corporate Strategy

Corporate-level strategies are actions firms take to gain competitive advantages by operating in multiple markets or industries simultaneously

1. Diversification

A firm implements a corporate diversification strategy when it operates in multiple markets or industries simultaneously. When a firm operates in multiple industries simultaneously it is said to be implementing a product diversification strategy. And when a firm operates in multiple geographic markets simultaneously it is said to be implementing a geographic diversification strategy. When it is implementing both the diversification strategies simultaneously it is said to be implementing product-market diversification strategy.

There are three types of corporate diversification:

- Limited corporate diversification
- Related corporate diversification
- Unrelated corporate diversification

Limited Corporate Diversification

A firm has implemented limited corporate diversification if most of its businesses activities fall within a single industry and geographic market. There are two types of companies are included in this corporate diversification strategy:

- Single Business Firms: Firms with more than 95% of their total sales in a single product market
- Dominant Business Firms: Firms with 70%-95% of their total sales in a single product market

The primary difference between the two is that dominant business firms may have another business that accounts for the balance of the total sales and this smaller business is tightly linked to its core business. For example, if a pizza chain operating only in the United States starts building a machine that automatically slices and puts pepperoni on pizzas for its operations. This firm also sells this machine but the bulk of the firm's sales still comes from its core business of selling pizzas.

Related Corporate Diversification

As a firm begins to engage in businesses in more than one product market it moves away from being a single-business or dominant business and begins to adopt higher levels of corporate diversification. The multiple businesses that a diversified firm pursues can be related in two ways:

- Related-constrained: If all the businesses in which the firm operates share a significant number of inputs, outputs, production technologies, distribution channels, similar customers, and so on, this kind of corporate diversification strategy is called related-constrained.
- Related linked: If the different businesses that a single firm pursues are linked on only a couple of dimensions or if different sets of businesses are linked along very different dimensions, the corporate diversification strategy is called related-linked.

Unrelated corporate Diversification

When less than 70% of the firm's revenues are generated by a single product market and when the firm's businesses share very few, if any, common attributes, then that firm is pursuing a strategy of unrelated corporate diversification.

2. Vertical Integration

As discussed previously, the value chain is a set of activities that the firm must accomplish to bring a product or service from raw materials to a point it can be sold to the final customer. Vertical Integration is simply the number of steps that a firm accomplishes within its boundaries. The firms that are more vertically integrated accomplish more stages of the value chain within its boundaries than the firms that are less vertically integrated.
There are 2 types of vertical integration:

- Backward Vertical Integration
- Forward Vertical Integration

Backward Vertical Integration

A firm engages in backward vertical integration when it incorporates stages of the value chain within its boundaries and those stages bring it closer to the start of the value chain. It brings the company closer to gaining access to raw materials. For example, if a computer company starts developing its software it is engaging in backward integration.

Forward Vertical Integration

A firm engages in backward vertical integration when it incorporates stages of the value chain within its boundaries and those stages bring it closer to the end of the value chain.

Business-Level Strategy

Business-level strategies are actions firms take to gain competitive advantages in a single market or industry.

1. Cost Leadership

A firm that chooses a cost leadership business strategy focuses on gaining advantages by reducing its costs to below those of all its competitors. This does not mean that this firm abandons other business or corporate strategies. Indeed, a single-minded focus on just reducing costs can lead a firm to make low-cost products that no one wants to buy.

An individual firm may have a cost advantage over its competitors for several reasons. Cost advantages are possible even when competing firms produce similar products. Some of the most important of these sources of cost advantage are listed below:

a. Size differences and economies of scale
b. Size differences and diseconomies of scale
c. Experience differences and learning-curve economies
d. Differential low-cost access to productive inputs
e. Technological advantages independent of scale
f. Policy choices

Each of the sources of cost advantage listed above can be a source of sustained competitive advantage if it is rare and costly to imitate.

Even the best-formulated strategy is competitively irrelevant if it is not implemented. And the only way that strategies can be effectively implemented is if all the functions within a firm are aligned in a way consistent with this strategy.

Some of the Common Misalignments between a business function and Cost Leadership Strategies are depicted in the table below:

	When Function *is aligned* with Cost Leadership Strategies	When Function *is misaligned* with Cost Leadership Strategies
Manufacturing	Lean, low cost, good quality	Inefficient, high cost, poor quality
Marketing	Emphasize value, reliability, and price	Emphasize style and performance
R&D	Focus on product extensions and process improvements	Focus on radically new technologies and products
Finance	Focus on low cost and stable financial structure	Focus on non-traditional financial instruments
Accounting	Collect cost data and adopt conservative accounting principles	Collect no-cost data and adopt very aggressive accounting principles
Sales	Focus on value, reliability, and low price	Focus on style and performance and high price

2. Product Differentiation

Product differentiation is a business strategy where firms attempt to gain a competitive advantage by increasing the perceived value of their products or services relative to the perceived value of other firms' products or services. By increasing the perceived value of its products or services, a firm will be able to charge a higher price than it would otherwise. This higher price can increase a firm's revenues and generate competitive advantages.

- A firm's attempts to create differences in the relative perceived value of its products or services often are made by altering the objective properties of those products or services.

  - Example: Rolex attempts to differentiate its watches from Timex and Casio watches by manufacturing them with solid gold cases.
  - Example: Mercedes attempts to differentiate its cars from Fiat's cars through sophisticated engineering and high performance.

- Although firms often alter the objective properties of their products or services to implement a product differentiation strategy, the existence of product differentiation, in the end, is always a matter of customer perception. Products sold by two different firms may be very similar, but if customers believe the first is more valuable than the second, then the first product has a differentiation advantage. If products or services are perceived as being different in a way that is valued by consumers, then product differentiation exists.

- Just as perceptions can create product differentiation between products that are essentially identical, the lack of perceived differences between products with very different characteristics can prevent product differentiation.

  - For example, consumers with an untrained palate may not be able to distinguish between two different wines, even though expert wine tasters would be very much aware of their differences. Those who are not aware of these differences, even if they exist, will not be willing to pay more for one wine over the other. In this sense, for these consumers at least, these two wines, though different, are not differentiated.

To differentiate its products, a firm can focus directly on the attributes of its products or services:

1. Product features
2. Product complexity
3. Timing of product introduction
4. Location

Or on relationships between itself and its customers:

5. Product customization
6. Consumer marketing
7. Product reputation

Or on linkages within or between firms:

8. Linkages among functions within a firm
9. Linkages with other firms
10. Product mix
11. Distribution channels
12. Service and support

Functional Strategy

Functional Strategy is the strategic plan adopted by each functional area in the value chain of the organization like marketing, production, finance, human resources, IT, etc. to implement and align with the overall business or corporate strategy/vision for achieving organizational level objectives.

The value chain of a company comprises various departments and functions like core functions like finance, marketing, sales, and auxiliary functions like HR, IT, etc. All these functions may align with the overall organization vision or strategy but each department has its own needs and targets for which they need a more refined finer strategy. This finer strategy which is specific to that particular function to achieve their targets becomes a functional strategy.

The functional strategy of a company is customized to a specific industry or strategic business unit (SBU) and is used to back up other corporate and business strategies. Each department develops certain objectives, which are to be enforced by employees and aids in the achievement of final organizational goals.

Importance of Functional Strategy

The overall strategy or vision of a company might be at a high level e.g., to become a top manufacturing company in Asia but at a functional level, the strategy needs to be defined to achieve the overall vision.

Operational Strategy

A company's operations are the core activities that produce and deliver a product or service. Business operations constitute many processes, such as material acquisition, manufacturing, inventory management, delivery, etc. Hence, the operational strategy focuses on reducing process costs and improving profits for the entire business. Operational strategies revolving around the core business processes, such as production, supply chain, logistics, etc. Operational strategies also include additional parameters, such as the capacity of production facilities, their location, product lines, procurement, etc. Hence, you may find several operational strategies within the same company. Operational strategies usually include additional strategies, such as product development, market penetration, customer engagement, supply chain, etc.

The work involves, among others:

- Challenging management regarding how they think about their business,
- Performing, where needed, detailed strategic and operational analysis to identify any omissions/problems or areas for improvement.
- Developing clear, achievable action plans, to deliver the strategy
- Supporting clients in implementing the action plans and measuring the results against predefined goals and key performance indicators.

Various techniques may be used to achieve the required level of operational analysis such as:

- Value proposition and value chain analysis,
- Activity-Based Costing,
- Benchmarking,
- Business performance diagnostic, etc.

Inorganic Strategies

Mergers and Acquisitions

The terms *mergers* and *acquisitions* ("M&A") are often used interchangeably, even though they are not synonyms. A firm engages in an acquisition when it purchases a second firm. Acquisitions also vary in several other dimensions. For example, friendly acquisitions occur when the management of the target firm wants the firm to be acquired. Unfriendly acquisitions occur when the management of the target firm does not want the firm to be acquired. Some unfriendly acquisitions are also known as hostile takeovers.

In contrast, when the assets of two similar-sized firms are combined, this transaction is called a merger. Mergers can be accomplished in many of the same ways as acquisitions, that is, using cash or stock to purchase a percentage of another firm's assets. Typically, however, mergers will not be unfriendly. In a merger, one firm purchases some percentage of a second firm's assets while the second firm simultaneously purchases some percentage of the first firm's assets.

<u>Why pursue the M&A path?</u>

M&A strategies are an important strategic option open to firms pursuing diversification and vertical integration strategies can hardly be disputed. The number of firms that have used merger and acquisition strategies to become diversified over the past few years is staggering. M&A transactions are common is clear. What is less clear is that they generate value for firms implementing these strategies. Let's examine the two cases:

i) M&A between firms where no economies of scope exist
ii) M&A between firms where economies of scope do exist

<u>M&A: No Economies of Scope</u>

One firm (the target) is the object of an acquisition effort, and 10 firms (the bidders) are interested in making this acquisition. Suppose the current market value of the target firm is $10,000. the current market value of each of the bidding firms is $15,000. Since, there are no economies of scope, between the acquirer and the target, the value of the combined firm will be equal to $25,000 ($10,000 – the value of the target + $15,000 – the value of the acquirer). In this scenario, no economic profit emerges from the M&A transaction as the market value of the combined firm is the same as the addition of the market value of the individual firms.

<u>M&A: Economies of Scope</u>

Continuing the same example with a slight differentiation, the target, and the acquiring firms are linked by economies of scope. Now due to certain economies of scale *(benefits accruing from suppliers, customers, complementary products/markets, increased market power, more efficient production, tax advantages, elimination of inefficient management, increased leverage opportunities, etc)*, the value of the combined firm turns out to be $32,000 which is higher than the market value of the combined firm i.e., $25,000. In this case, the M&A transaction generates economic profit.

Motivations behind pursuing the M&A path

Most of the economic value created in mergers and acquisitions is appropriated by the owners of the target firm most of the time, it begs the question as to why bidders still engage in M&A transactions. There are several reasons behind this which we'll discuss in short.

To ensure survival

Even if mergers and acquisitions, on average, generate only zero economic profits for bidding firms, it may be necessary for bidding firms to engage in these activities to ensure their survival. In particular, if all of a bidding firm's competitors have been able to improve their efficiency and effectiveness through a particular type of acquisition, then failing to make such acquisition may put a firm at a competitive disadvantage. Here the purpose is to gain competitive parity.

Free cash flow

M&A strategies, on average, can be expected to generate at least competitive parity for bidding firms. These zero economic profits may be a more attractive investment for some firms than alternative strategic investments. This is particularly the case for firms that generate free cash flow as rather than put their money in strategies that generate competitive disadvantage, they would utilize their free cash flow for competitive parity.

Agency Problems

Another reason why firms might continue to engage in mergers and acquisitions, despite earning only competitive parity from doing so, is that mergers and acquisitions benefit managers directly, independent of any value they may or may not create for a bidding firm's stockholders by diversifying their human capital investment in the firm and to quickly increase firm size, measured in either sales or assets. Of all the ways to increase the size of a firm quickly, growth through M&A is perhaps the easiest.

Managerial Hubris

This is the unrealistic belief held by managers in bidding firms that they can manage the assets of a target firm more efficiently than the target firm's current management. This notion can lead bidding firms to engage in acquisition strategies even though there may not be positive economic profits from doing so.

Types of M&A transactions

Mergers can be structured in several different ways, based on the relationship between the two companies involved in the deal. They are as follows:

❖ Horizontal merger

A horizontal merger is a merger or business consolidation that occurs between firms that operate in the same industry. Competition tends to be higher among companies operating in the same space, meaning synergies and potential gains in market share are much greater for merging firms. This type of merger occurs frequently because of larger companies attempting to create more efficient economies of scale.

❖ Vertical merger

A vertical merger is the merger of two or more companies that provide different supply chain functions for a common good or service. Most often, the merger is affected to increase synergies, gain more control of the supply chain process, and ramp up business. A vertical merger often results in reduced costs and increased productivity and efficiency.

❖ Congeneric merger

A congeneric merger is a type of merger where two companies are in the same or related industries or markets but do not offer the same products. The companies may share similar distribution channels, providing synergies for the merger. The acquiring company and the target company may have overlapping technology or production systems, making for easy integration of the two entities. The acquirer may see the target as an opportunity to expand their product line or gain new market share.

❖ Conglomeration

It is when two companies that are engaged in independent businesses merge/diversify. It is usually pursued diversification purposes.

M&A Lifecycle

Every M&A transaction follows either all or most of the steps in the M&A lifecycle. They are as follows:

1. The Acquisition Strategy
2. Defining M&A search criteria
3. Screening of a target
4. Acquisition planning
5. Valuation analysis
6. Negotiations
7. Due Diligence
8. Sale & Purchase agreement
9. Financing strategy and acquisition
10. Closing and integration

M&A Defence strategies

In M&A transactions, a defense strategy is any set of procedures that are employed by a target company to prevent a hostile takeover. A hostile takeover is a type of acquisition in which a bidder takes over a target company without the consent, and against the wishes, of the management or board of directors of the target. Hostile takeovers are executed through the acquisition of a controlling interest in the target company by a bidder. These defense strategies can be grouped into two types: pre-offer strategies and post-offer strategies.

A. Pre-offer

1. Poison pill

The poison pill defense includes the dilution of shares of the target company to make it more difficult and expensive for a potential acquirer to obtain a controlling interest in the target. The flip-in poison pill is the issuance of additional shares of the target company, which existing shareholders can purchase at a substantial discount.

2. Poison put

The poison put defense can be considered as a variation of a poison pill, as this defense mechanism also aims to increase the total cost of acquisition. The poison put strategy involves the target company issuing bonds that can be redeemed before their maturity date in the event of a hostile takeover of the company. The potential acquirer must then take into account the extra cost of repurchasing bonds when that obligation changes from being a future obligation to a current obligation, following the takeover. Unlike the poison pill, the poison out strategy does not affect the number of outstanding shares or their price. However, it may create significant cash flow problems for the acquirer.

3. Golden parachutes

Golden parachutes refer to benefits, bonuses, or severance pay due to the company's top management staff in case of termination of their employment (such as might occur as part of a hostile takeover. Thus, they can be employed as yet another takeover defense mechanism that aims to increase the total acquisition cost for a bidder.

B. Post-offer

1. Greenmail defense

Greenmail defense refers to the target company buying back shares of its stock from a takeover bidder who has already acquired a substantial number of shares in pursuit of a hostile takeover. The term "greenmail" is derived from "greenbacks" (dollars) and "blackmail". It's a costly defense, as the target company is forced to pay a substantial premium over the current market price to repurchase the shares. The potential acquirer accepts the greenmail profit it makes from selling the target company's shares back to the target at a premium, instead of pursuing the takeover any further. Although this strategy is legal, the acquirer is, effectively, sort of blackmailing the target company, in that the target must pay the acquirer a premium – through the share buybacks –to persuade it to cease its takeover attempt.

2. Crown jewel defense

The crown jewel defense strategy involves selling the most valuable assets of a target company to a third party or spinning off the assets into a separate entity. The main goal of the crown jewel defense strategy is to make the target company less attractive to the corporate raider.

3. Pac-Man defense

The Pac-Man defense occurs when a target company attempts to acquire its potential acquirer when a takeover bid has already been received. Just as the acquirer is attempting to buy up a controlling number of shares in the target company, the target likewise begins buying up shares of the acquirer in an attempt to obtain a controlling interest in the acquirer. Such a strategy is only workable if the target company has enough financial resources to purchase the required number of shares in the acquirer. The acquirer, seeing control of its firm threatened, will often cease attempting to take over the target.

4. White knight defense

The white knight defense is a strategy that involves the acquisition of a target company by its strategic partner, called a white knight, as it is friendly to the target company. This is generally a strategy of last resort. The target company accepts the fact of being taken over, but can at least opt to be taken over or merged with a friendly company, as opposed to being the victim of a hostile takeover.

Strategic Alliance

A strategic alliance exists when two or more independent organizations cooperate in the development, manufacture, or sale of products or services. Strategic alliances can be grouped into three broad categories:

- Nonequity Alliance
- Equity alliance
- Joint Venture

Nonequity Alliance

When two or more firms agree to work together to develop, manufacture or sell products or services but do not take up equity positions in each other or do not form an independent organization to manage their efforts. Licensing agreements, supply agreements, and distribution agreements are examples of a nonequity alliance.

Equity Alliance

In an equity alliance, cooperating firms supplement contracts in equity holdings in alliance partners. For example, when GM began importing small cars manufactured by Isuzu, not only did GM have supply contracts in place but also purchased 34.2% of Isuzu's stock.

Joint Venture

In a joint venture cooperating firms create a legally independent firm in which they invest and share any profits that are created.

Strategic Frameworks and Analysis

Internal Capabilities

SW Analysis

SW (strengths, weaknesses) analysis is a framework that uses the internal capabilities of a company to evaluate its competitive position and to facilitate strategic planning.

Internal factors are viewed as strengths or weaknesses depending upon their effect on the organization's objectives. What may represent strengths concerning one objective may be weaknesses (distractions, competition) for another objective.

The factors may include –

- Personnel or employees
- Corporate Finance
- Manufacturing capabilities
- Marketing mix's 4Ps

The 2 components of SW Analysis are:

Strengths

The merits that an organization possesses give it an advantage over others.

What do you do better than anyone else? What mission & vision drives your business? What unique or lowest-cost resources can you draw upon that others can't? What's your organization's Unique Selling Proposition (USP)? What your competitors might see as your strengths?

Weaknesses

The shortcomings that an organization possess that the other players in the industry might exploit.

Does your brand have a weak value proposition? Do the company's finances (Debt or Equity) affect its performance negatively? Does an adequate supply chain exist that can deliver the end product on time? Does the HR policy help in employee retention?

Variety of perspectives - A more Bird's eye view on SW Analysis can be developed if a company decides to take different perspectives into account and stakeholders across all verticals & horizontals (Not in the case of a flat hierarchy) contribute to help in the analysis.

Holistic View - Internal capabilities can be more holistically judged if simple questions, like the list mentioned below, are asked.

Strengths	Weaknesses
What do you do well? What unique resources can you draw on? What do others see as your strengths?	What could you improve? Where do you have fewer resources than others? What are others likely to see as weaknesses?

VRIO Framework

VRIO Analysis is an analytical technique for the evaluation of a company's resources and thus the competitive advantage. VRIO is an acronym from the initials of the names of the evaluation dimensions: Value, Rareness, Imitability, Organization.

The VRIO Analysis helps in evaluating the resources of an organization (company's micro-environment) which can encompass the financial resources, human resources, material resources & non-material resources (Information & Knowledge)

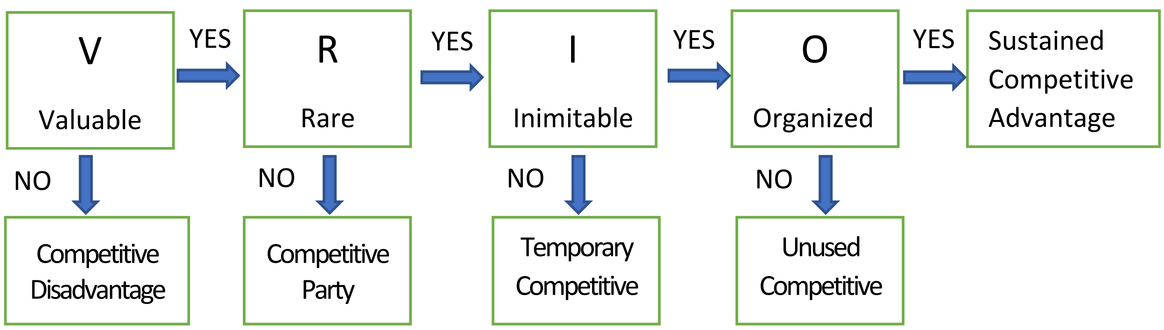
The 4 evaluation dimensions can be simply accessed as follows –

- Value - How expensive is the resource and how easy is it to obtain on the market (purchase, lease, rent)?
- Rareness - How rare or limited is the resource?
- Imitability - How difficult is it to imitate the resource?
- Organization - respectively arrangement - Is the resource supported by any existing arrangements and can the organization use it properly?

RBV - Resource-Based View is a perspective that examines the link between a company's internal characteristics and its performance. VRIO framework is part of RBV based strategy. It emphasizes the need that an organization should look inside the company to find the sources of competitive advantage instead of looking at the competitive environment.

Links Firm Resources and Sustainable Competitive Advantage - Firm resources can be defined as 'all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enables it to improve its efficiency and effectiveness. For companies to transform these resources into a sustainable competitive advantage, resources must have four attributes that can be summarized into the VRIO framework.

A simple roadmap for applying the VRIO framework is illustrated below:



Value Chain Analysis

<u>Value chain</u>

The term value chain refers to the various business activities and processes involved in creating a product or performing a service. A value chain can consist of multiple stages of a product or service's lifecycle, including research and development, sales, and everything in between.

Value Chain Analysis

Value chain analysis is a means of evaluating each of the activities in a company's value chain to understand where opportunities for improvement lie.

Conducting a value chain analysis prompts you to consider how each step adds or subtracts value from your final product or service. This, in turn, can help you realize some form of competitive advantages, such as:

- Cost reduction, by making each activity in the value chain more efficient and, therefore, less expensive
- Product differentiation, by investing more time and resources into activities like research and development, design, or marketing that can help your product stand out

To conduct a value chain analysis, businesses need to split the chain into two levels:

- Primary activities
- Supporting activities

A primary activity is anything that directly impacts the input, output, or distribution of products or services. These business activities include:

Inbound/outbound logistics

Receiving, storing, and distributing products, goods, and services. This activity takes into account practical processes like storage and warehousing, deliveries, stock and transport needs, and costs.

Operations

Anything that falls under the banner of machinery costs, product assembly, and packaging.

Sales & Marketing: Promoting, advertising, sales, and marketing

The specific activities your company undertakes are to boost product awareness, increase trust, improve business relationships, and close deals. Service: From customer support to your finance team, anything that is required to maintain quality control and quality assurance during and after a sale.

The second level, supporting activities, takes into account:

Research & Development/Technology development

Any budget that's been allocated to innovative activities such as developing and enhancing new and existing products and services.

Procurement

Any materials or input that allow a company to undertake its primary activities, such as machinery, consumables, and infrastructure.

Human resource management

All processes and systems relating to managing the people in your organization, such as recruiting, training and retention.

Infrastructure: Departments like finance, planning, IT, and legal

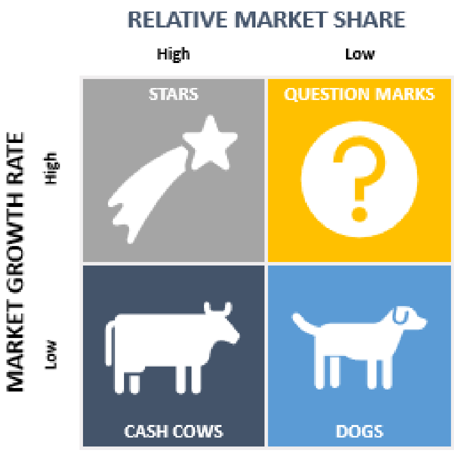
It's important to note that a value chain is more than a collection of independent activities. Rather, these activities, both primary and secondary, make up an interlinked system.

BCG Matrix

BCG Matrix is also known as; the growth-share matrix is a portfolio management framework that helps companies decide how to prioritize their different businesses. It takes account of the inter-relation between market growth and market share. The underlying assumption is that a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate excess cash to ensure long-term success.

When to Use BCG Matrix

The BCG matrix can be used as a strategic tool to identify the profit and growth potential of each business unit of a company. By defining a strategy for each business unit (determining whether to 'hold', 'harvest', 'divest' or 'build') the overall portfolio of an organization can be maintained as a profitable mix.



Matrix Element	Characteristics	Action
Stars	Products that enjoy a relatively high market share in a strongly growing market. They are (potentially) profitable & may grow further.	Invest in these products.
Cash Cows	Extremely profitable products. A product becomes a cash cow when the growth of a product's market decreases but the company's market share remains high and stable.	No extra effort or investment is needed to maintain the status quo
Question marks	Products that have high market growth but small market share, and so their growth rate is uncertain.	Investments to generate further growth may or may not yield big results in the future. Further investigation is needed.
Dog/Pet	Products with low market share and slow growth are They may show an accounting profit, but the profit must be reinvested to maintain share, leaving no cash thrown off.	Drop or divest when they are not profitable

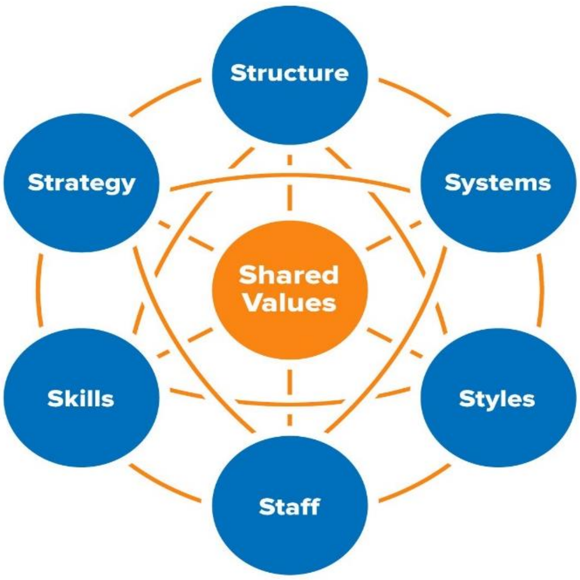
Product value depends entirely on whether or not a company can obtain a leading share of its market before growth slows. All products will eventually become either cash cows or pets. Pets are unnecessary; they are evidence of failure to either obtain a leadership position or to get out and cut the losses

Example - Apple Inc. for example, would classify the iPhone as a Star, iWatch and Apple TV as Question Marks, the iPad as a Cash Cow, and the iPod as a Dog/Pet

McKinsey 7S Model

The McKinsey 7S Model is a framework for organizational effectiveness that postulates that there are seven internal factors of an organization that need to be aligned and reinforced for it to be successful.

The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of seven key elements – Structure, Strategy, Skill, System, Shared Values, Style, and Staff.



The focus of the McKinsey 7s Model lies in the interconnectedness of the elements that are categorized by "Soft Ss" and "Hard Ss" – implying that a domino effect exists when changing one element to maintain an effective balance. Placing "Shared Values" as the "center" reflects the crucial nature of the impact of changes in founder values on all other elements.

Structure, Strategy, and Systems collectively account for the "Hard Ss" elements, whereas the remaining are considered "Soft Ss."

1. Structure

The structure is how a company is organized – chain of command and accountability relationships that form its organizational chart.

2. Strategy

Strategy refers to a well-curated business plan that allows the company to formulate a plan of action to achieve sustainable competitive advantage, reinforced by the company's mission and values.

3. Systems

Systems entail the business and technical infrastructure of the company that establishes workflows and the chain of decision-making.

4. Skills

Skills form the capabilities and competencies of a company that enables its employees to achieve its objectives.

5. Style

The attitude of senior employees in a company establishes a code of conduct through their ways of interactions and symbolic decision-making, which forms the management style of its leaders.

6. Staff

The staff involves talent management and all human resources related to company decisions, such as training, recruiting, and rewards systems

7. Shared Values

The mission, objectives, and values form the foundation of every organization and play an important role in aligning all key elements to maintain an effective organizational design.

<u>Advantages</u>

- It enables different parts of a company to act in a coherent and "synced" manner.
- It allows for the effective tracking of the impact of the changes in key elements.
- It is considered a longstanding theory, with numerous organizations adopting the model over time.

<u>Disadvantages</u>

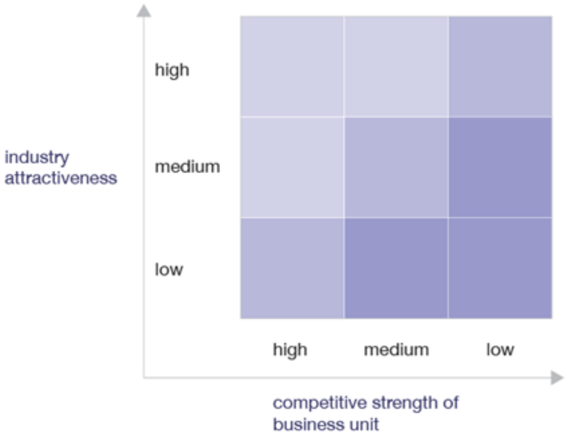
- It is considered a long-term model
- With the changing nature of businesses, it remains to be seen how the model will adapt.
- It seems to rely on internal factors and processes and may be disadvantageous in situations where external circumstances influence an organization

GE McKinsey Matrix

GE–McKinsey nine-box matrix, a framework that offers a systematic approach for the multi-business corporation to prioritize its investments among its business units.

It evaluates the business portfolio, provides further strategic implications, and helps to prioritize the investment needed for each business unit (BU).

The GE-McKinsey nine-box matrix



The nine-box matrix plots the BUs on its 9 cells that indicate whether the company should invest in a product, harvest/divest it or do further research on the product and invest in it if there're still some resources left. The BUs are evaluated on two axes: industry attractiveness and competitive strength of a unit.

Industry Attractiveness

Industry attractiveness consists of many factors that collectively determine the competition level in it.

The competitive strength of a business unit or a product

Along the X-axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least a temporary competitive advantage) or not.

Advantages

- Helps to prioritize the limited resources to achieve the best returns
- Managers become more aware of how their products or business units perform
- It's a more sophisticated business portfolio framework than the BCG matrix

Disadvantages

- Requires a consultant or a highly experienced person to determine the industry's attractiveness and business unit strength as accurately as possible
- It is costly to conduct
- It doesn't take into account the synergies that exist between two or more business units

Doing the GE McKinsey matrix and answering all the questions takes time, effort, and money, but it's still one of the most important product portfolio management tools that significantly facilitate investment decisions.

IFE & EFE Matrices

Internal Factor Evaluation (IFE) matrix is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business.

IFE matrix also provides a basis for identifying and evaluating relationships among those areas. The Internal Factor Evaluation matrix or short IFE matrix is used in strategy formulation.

The External Factor Evaluation (EFE) matrix method is a strategic-management tool often used for the assessment of current business conditions. The EFE matrix is a good tool to visualize and prioritize the opportunities and threats that a business is facing.

The EFE matrix is very similar to the IFE matrix. The major difference between the EFE matrix and the IFE matrix is the type of factors that are included in the model. While the IFE matrix deals with internal factors, the EFE matrix is concerned solely with external factors.

External factors assessed in the EFE matrix are the ones that are subjected to the will of social, economic, political, legal, and other external forces.

The IFE Matrix together with the EFE matrix is a strategy-formulation tool that can be utilized to evaluate how a company is performing in regards to identified internal strengths and weaknesses of a company. The IFE matrix method conceptually relates to the Balanced Scorecard method in some aspects.

Ansoff Matrix

The Ansoff product/market grid offers a logical way of determining the scope and direction of a firm's strategic development in the marketplace. The matrix provides an overview of current and future products, helping to identify potential vacancies in the portfolio that are still unoccupied. It distinguishes between new and old markets and new and old products. There are the following four combinations:

Products / Markets	Present	New
Present	Market penetration	Product development
New	Market development	Diversification

Ansoff's growth vector components products and markets

1. Market Penetration—Old Market and Old Products: The right strategy for portfolio elements to which this description applies is to promote market penetration through targeted marketing and distribution activities, thereby gaining a higher market share.

2. Market Expansion—New Market and Old Products: In many cases, well-known products can be placed in new markets with little or sometimes even no hassle. These can be new segments in an already developed market, or even completely different markets, for example in other countries. Here, it often makes sense to integrate experienced partners who are already successfully active in sales in the new target market. A new market entry is usually accompanied by a targeted marketing and sales activities.

3. Product Differentiation—Old Market and New Products: For continued operation in a well-known market, the product range can be differentiated by a clever portfolio expansion. This allows the use of prior knowledge of the known market and customers already acquired to place the new products. A new product launch should again be planned accordingly with the marketing and sales.

4. Diversification—New Market and New Products: The most time-consuming, dangerous, and potentially promising strategy is to enter a new market with a new product. This is also referred to as the Red Ocean strategy. To complete this step, thorough market observation and in-depth analysis of the new target market are required.

When to Use Ansoff Matrix:

Ansoff matrix can provide information on how to adjust the current business or expand the existing portfolio with new elements. Hence, to plan for the future systematically and understand the gap between the firm's current and desired position, the Ansoff product / market grid can be used as a framework to identify the direction and opportunities for corporate growth.

Example:

- Internet shopping has developed through market extension by companies using the service to open new markets
- Motor car companies often follow a policy of product development to maintain or extend their share of the market

External Analysis

OT Analysis

OT (opportunities, threats) analysis is a framework that uses the external capabilities of a company to evaluate its competitive position and to facilitate strategic planning.

External factors are aspects that exist outside the company. The nature of these external factors can be local or affect an entire cohort.

These factors may include –

- ❖ Macroeconomic landscape
- ❖ Technological changes
- ❖ Legislation & Policies
- ❖ Sociocultural changes
- ❖ Other changes in the marketplace.

The 2 components of SW Analysis are:

1. Opportunities

Opportunities refer to favorable external factors that could give an organization a competitive advantage. For example, if a country cuts tariffs, a car manufacturer can export its cars into a new market, increasing sales and market share.

2. Threats

Threats refer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for materials, increasing competition, tight labor supply. and so on.

<u>Compared to PESTLE</u>

Both are frameworks to get an idea of the external environment of a company. However, OT analysis tends to be more product/service specific as an individual or an entity conducts this analysis based on that product/service. On the Other hand, PESTLE can be more marketing-centric & gives a bird's eye view where a company or an individual tries to ascertain specific trends of the market from a macroeconomic perspective.

Porter's Five Forces

Porter's five forces analysis is a tool that attempts to analyze the level of competition within an industry and business strategy development. The competitive analysis provides an insight into the relationships and dynamics of an industry and allows a company to make strategic decisions regarding the best defendable and most economically attractive position.

When to use:
The model can be used to gain a better understanding of the industry context in which the business is operating. For example, a company may use it to analyze the attractiveness of a new industry by identifying whether new products, services, or businesses are potentially profitable. The model can also be used to evaluate a firm's strategic position in the marketplace.

Horizontal competition: the threat of substitute products or services, the threat of established rivals, and the threat of new entrants.

Vertical competition: the bargaining power of suppliers and the bargaining power of customers

Porter's Five Forces of Competitive Position

BARRIERS TO ENTRY

Absolute cost advantages
Proprietary learning curve
Access to inputs
Government policy
Economies of scale
Capital requirements
Brand identity
Switching costs
Access to distribution
Expected retaliation
Proprietary products

SUPPLIER POWER

Supplier concentration
Importance of volume to supplier
Differentiation of inputs
Impact of inputs on cost or differentiation
Switching costs of firms in the industry
Presence of substitute inputs
Threat of forward integration

DEGREE OF RIVALRY

Exit barriers
Industry concentration
Fixed costs/Value added
Industry growth
Product differences
Switching costs
Brand identity
Diversity of rivals
Corporate stakes

THREAT OF SUBSTITUTES

Switching costs
Buyer inclination to substitute
Price-performance trade-off of substitutes

BUYER POWER

Bargaining leverage
Buyer volume
Buyer information
Brand identity
Price sensitivity
Threat of backward integration
Product differentiation
Buyer concentration vs. industry
Substitutes available
Buyers' incentives

Competitor/ Benchmarking Analysis

Competitive benchmarking is a method of researching competitors and industry leaders for strategies, practices, and services that help in establishing comparison and benchmarks for performance.

Benchmarking, internal or external, is used in 3 key ways -

- Process benchmarking: This is about better understanding your processes and finding ways to optimize them. By benchmarking how your competitors complete a process, you can find ways to make your processes more efficient.
- Strategic benchmarking: Companies use this type of benchmarking to compare business models and business approaches to strengthen their strategies. The point is to figure out how to emulate what makes specific companies successful to be more competitive.
- Performance benchmarking: This type of benchmarking is all about outcomes. This could mean comparing anything from revenue growth to social media performance. This can also refer to functional performance benchmarking, like benchmarking the performance of a specific team.

A Simple template to do a basic competitive benchmarking can be found below. Along with the columns, we place out the different companies we want to benchmark. Along the rows, the parameter for comparison is filled. The table is populated based on data or qualitative arguments.

	Enter my company	Enter competitor	Enter competitor	Enter competitor	Enter competitor
Products / Services	• Enter data from my company to describe this dimension	• Enter data from competitor to describe this dimension	• Enter data from competitor to describe this dimension	• Enter data from competitor to describe this dimension	• Enter data from competitor to describe this dimension
Financial Resources	•	•	•	•	•
Market Share / Growth	•	•	•	•	•
Strategies	•	•	•	•	•
Business Model	•	•	•	•	•
Strengths	•	•	•	•	•
Weaknesses	•	•	•	•	•

Snapshot of the industry – Oftentimes Benchmarking the top companies of a sector can be used for getting a quick idea of what it takes to exist in a particular sector. This can help a company plan its strategy and assist in Goal setting.

Methodology – A lot of prerequisites need to be taken care of while benchmarking.

- Deciding the company pool to consider - Industry leaders, close competitors, and upcoming entities
- Choosing KPI's which will provide relevant insights to narrow the research spectrum for improvement

PESTEL

A PESTEL analysis is a framework or tool used to analyze and monitor the external environment factors which have an impact on an organization. The analysis is done to assess the potential of a new market. The general rule is that the more negative forces are affecting that market the harder it is to do business in it. The difficulties that will have to be dealt with significantly reduce profit potential and the firm can simply decide not to engage in any activity in that market.

<u>When to use</u>

It is used when the aim is

- find out the current external factors affecting an organization
- identify the external factors that may change in the future
- to exploit the changes (opportunities) or defend against them (threats) better than competitors would do

P	E	S	T	E	L
Political	Economic	Social	Technological	Environmental	Legal

Political factors relate to how the government intervenes in the economy.

- ✓ Specifically, political factors have areas including tax policy, labor law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government aims to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods). Furthermore, governments have a high impact on the health, education, and infrastructure of a nation.

- ✓ Economic factors include economic growth, exchange rates, inflation rate, and interest rates.

- ✓ These factors greatly affect how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates can affect the costs of exporting goods and the supply and price of imported goods in an economy.

- ✓ Social factors include the cultural aspects and health consciousness, population growth rate, age distribution, career attitudes, and emphasis on safety.

- ✓ High trends in social factors affect the demand for a company's products and how that company operates. For example, the aging population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to social trends caused by this (such as recruiting older workers).

- ✓ Technological factors include technological aspects like R&D activity, automation, technology incentives, and the rate of technological change.

- ✓ These can determine barriers to entry, minimum efficient production level, and influence the outsourcing decisions. Furthermore, technological shifts would affect costs, quality, and lead to innovation.

- ✓ Environmental factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance.

- ✓ Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

- ✓ Legal factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

All the very best!

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