Sixth/Seventh Semester
Essentials of Management
HUM-4001/4002
Strategic Planning Tools

3 levels of Strategy

- Corporate level strategy: What business we are in?
- Business level strategy or competitive strategy: How do we compete?
- Functional-level strategy: How do we support business level strategy?

Learning Objectives

Strategic Planning Tools

- ❑ Critical question analysis
- ❑ SWOT analysis
- ❑ Business portfolio analysis
- ❑ Porter’s Model for Industry Analysis

Tools to develop Strategy

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

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

Critical Question Analysis

- What is our business?

  Glass bottle manufacturers missed their opportunities by seeing themselves for too long as glass bottle makers rather than as liquid container manufacturers while plastic and metal containers come to replace glass in many cases.

- Who are our customers?
- What do our customers want?
- How much will our customers buy and at what price?
- Do we wish to be a product leader?
- Do we wish to develop our own new products?

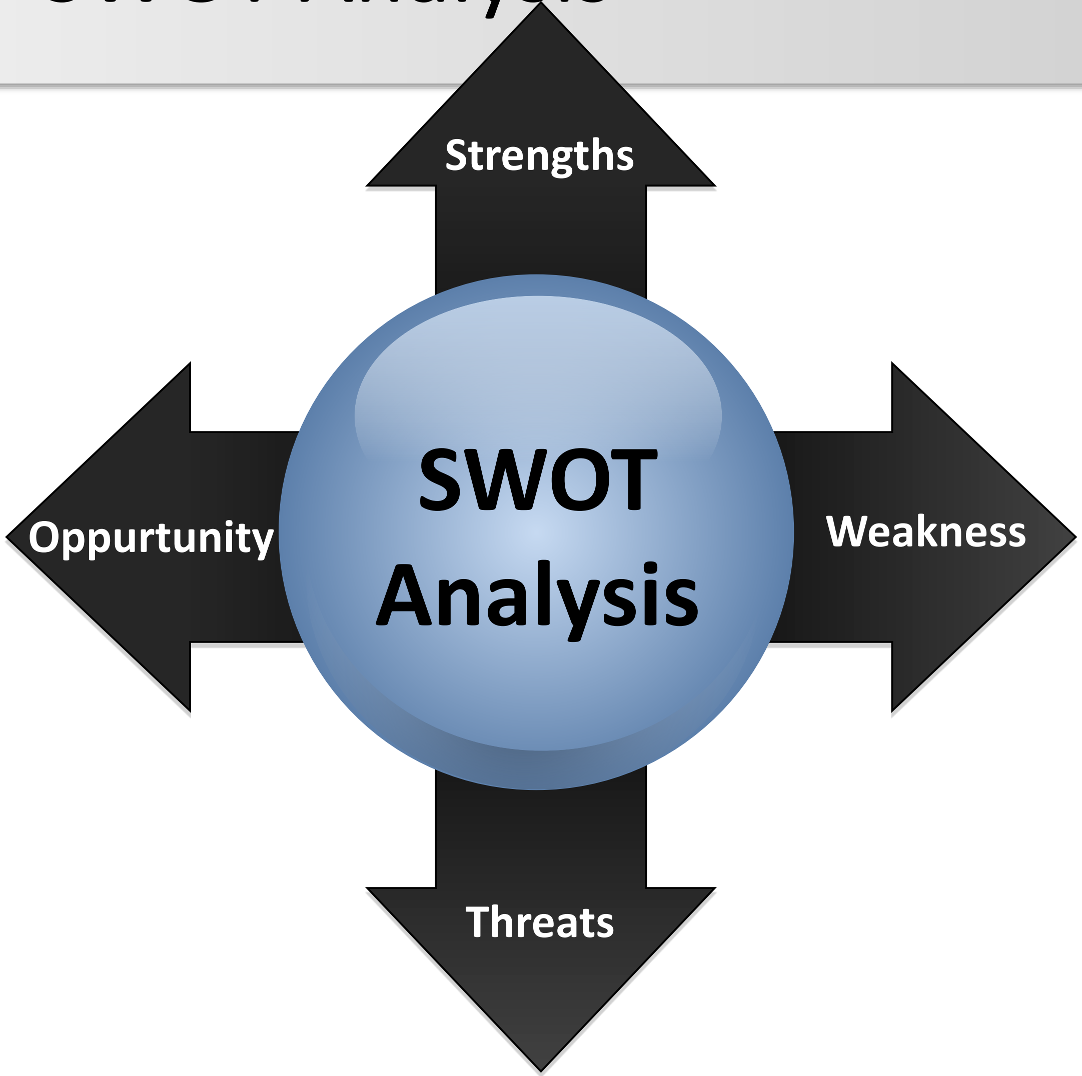
Critical Question Analysis….

An example of critical question analysis:

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

- Where are our customers and why do they buy?
- How do our customers buy?
- How is it best for us to sell?
- Do we have something to offer that competitors do not?

SWOT Analysis



- Acronym for **Strengths**, **Weaknesses**, **Opportunities**, and **Threats**.
- Technique is credited to **Albert Humphrey** who led a research project at Stanford University in the 1960s and 1970s.
- **Planning tool** used to understand Strengths, Weaknesses, Opportunities, & Threats involved in a project / business.
- Used as **framework for organizing** and using data and information gained from **situation analysis** of internal and external environment.
- Technique that enables a group / individual to move from everyday problems / traditional strategies to a **fresh perspective**.

What is SWOT Analysis?

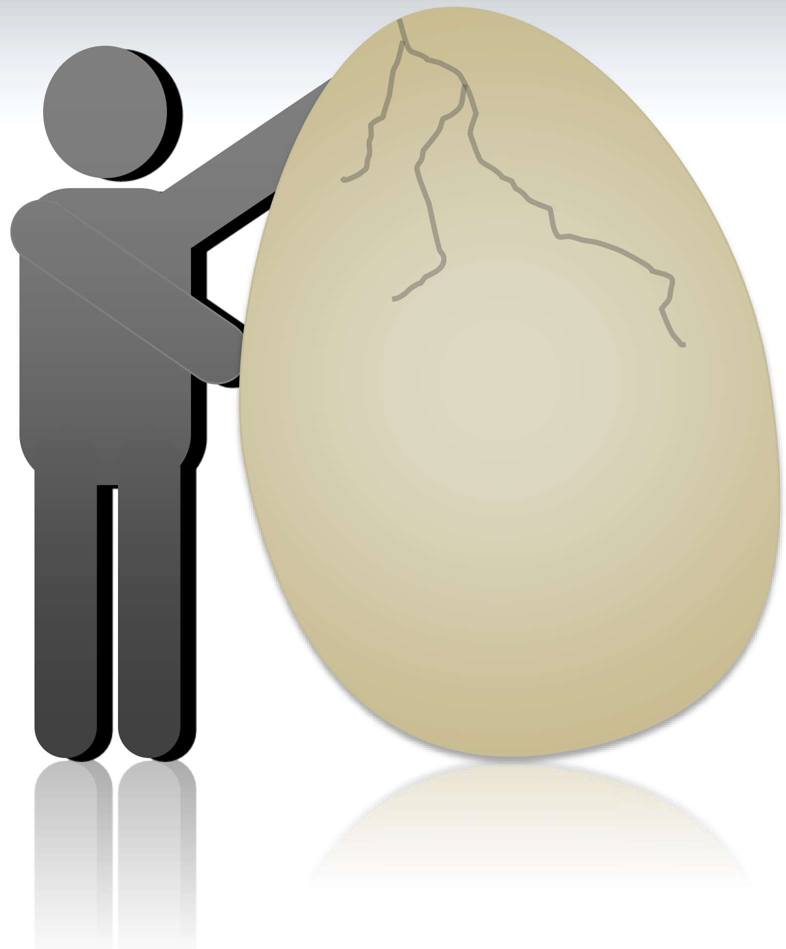
STRENGTHS

- Characteristics of the business or a team that give it an advantage over others in the industry.
- Positive tangible and intangible attributes, internal to an organization.
- Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.
- **Examples** - Abundant financial resources, Well-known brand name, Economies of scale, Lower costs [raw materials or processes], Superior management talent, Better marketing skills, Good distribution skills, Committed employees.

What is SWOT Analysis?

WEAKNESSES

- Characteristics that place the firm at a disadvantage relative to others.
- Detract the organization from its ability to attain the core goal and influence its growth.
- Weaknesses are the factors which do not meet the standards we feel they should meet. However, weaknesses are controllable. They must be minimized and eliminated.
- **Examples** - Limited financial resources, Weak spending on R & D, Very narrow product line, Limited distribution, Higher costs, Out-of-date products / technology, Weak market image, Poor marketing skills, Limited management skills, Under-trained employees.



What is SWOT Analysis?

OPPORTUNITIES

- Chances to make greater profits in the environment - External attractive factors that represent the reason for an organization to exist & develop.
- Arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable.
- Organization should be careful and recognize the opportunities and grasp them whenever they arise. Opportunities may arise from market, competition, industry/government and technology.
- **Examples** - Rapid market growth, Rival firms are complacent, Changing customer needs/tastes, New uses for product discovered, Economic boom, Government deregulation, Sales decline for a substitute product .

What is SWOT Analysis?

THREATS

- External elements in the environment that could cause trouble for the business - External factors, beyond an organization's control, which could place the organization's mission or operation at risk.
- Arise when conditions in external environment jeopardize the reliability and profitability of the organization's business.
- Compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake.
- **Examples** - Entry of foreign competitors, Introduction of new substitute products, Product life cycle in decline, Changing customer needs/tastes, Rival firms adopt new strategies, Increased government regulation, Economic downturn.

Exercise

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

Exercise

Helpful

Internal

STRENGTHS

- No Competition in the EV Segment.
- Environment friendly
- Economic to Drive [Rs. 0.4 per km] *
- Government subsidies [8% excise duty] *

WEAKNESSES

- High Price
- Low aesthetic appeal
- Small driving range [up to 80 KM]
- Competition from gasoline vehicles

External

OPPORTUNITIES

- Huge untapped EV market
- Growing demand of green technologies
- Rising fuel costs
- Growing road congestion in urban cities

THREATS

- Government incentives to gasoline vehicles
- Entry of competitors
- Stringent safety requirements anticipated
- Availability of hybrid vehicles

Harmful

* Hypothetical figures

TOWS Matrix

It has four alternative strategies

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

TOWS Matrix for Strategy Formulation

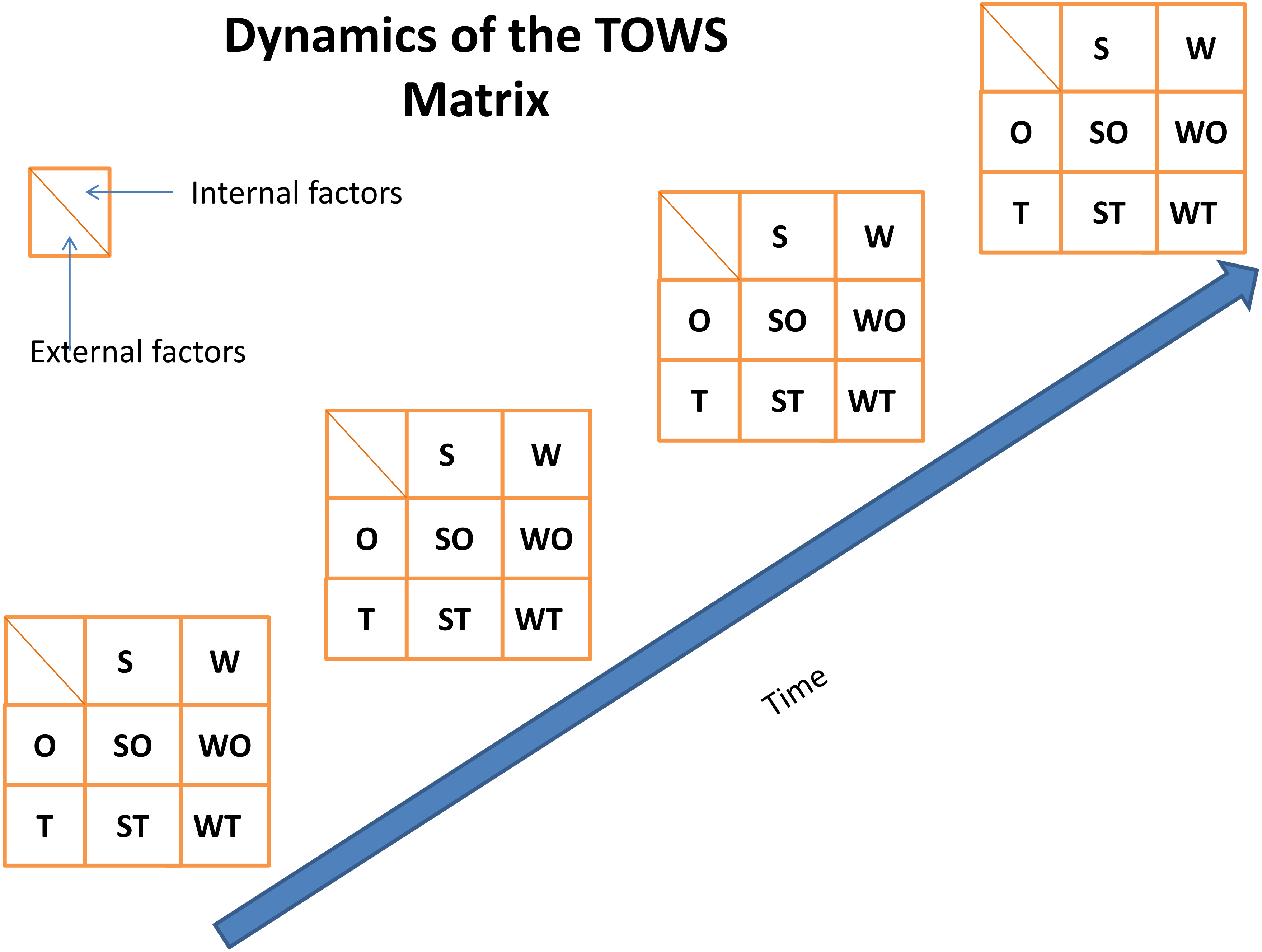
Internal factors / External factors	**Internal strengths (S)** e.g., strengths in management operations, finance, marketing, R&D, engineering	**Internal weaknesses(W)** e.g., weaknesses in areas shown in the box of "strengths"
External Opportunities (O) (Consider risks also) e.g., current and future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

Retrenchment strategy

A strategy used by corporations to reduce the diversity or the overall size of the operations of the company.

- **This strategy is often used in order to cut expenses with the goal of becoming a more financial stable business.**
- **Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or service in order to make a beneficial turnaround.**

Dynamics of the TOWS Matrix



Strategic Business Units (SBU)

Large companies normally manage quite different businesses, each requiring its own strategy.

At one time General Electric classified its businesses into 49 Strategic Business Units (SBUs).

Strategic Business Units (SBU)

Three Characteristics of an SBU:

A single business or collection of related businesses

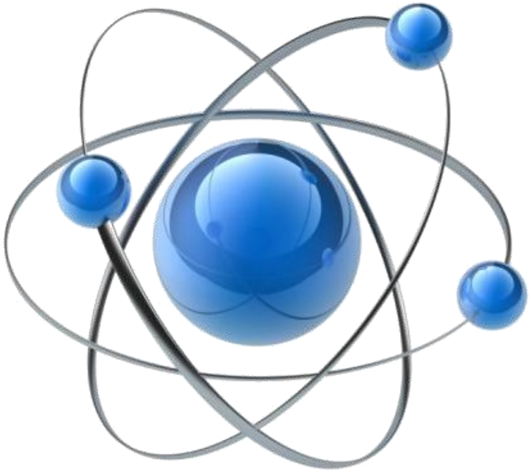
Unique competitors

Leader responsible for planning and profitability

Defining Strategic Business Units

Customer groups

Customer needs



Technology

Business Portfolio Analysis

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

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

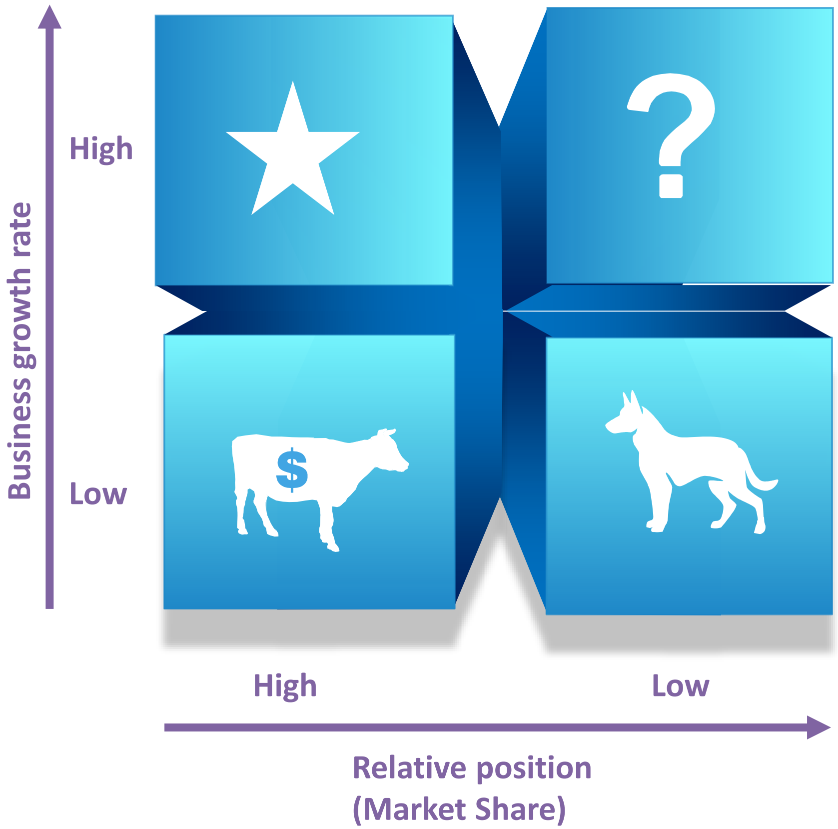
Business Portfolio Analysis…

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

- ✓ ***Stars***
- ✓ ***Question marks***
- ✓ ***Cash cows***
- ✓ ***Dogs***

- It is based on the combination of market growth and market share relative to the ***next best competitor.***

Business Portfolio Analysis



- Boston Consulting Group (BCG) Matrix is a four celled matrix developed by BCG, USA.
- The Boston Consulting Group (BCG) growth/share matrix in among the best known of these approaches.
- In the BCG approach, each of the firm's Strategic Business Units (SBUs) is plotted on a two-dimensional grid in which the axes are relative market share and industry growth rate.
- The grid is broken into two quadrants. It is a most renowned corporate portfolio analysis tool.

Business Portfolio Analysis

According to the BCG Matrix, business could be divided into high or low depending upon their industry growth and relative market share.

Relative Market Share = SBU Sales this year / leading competitors sales this year.

Market Growth Rate = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

Business Portfolio Analysis…

STARS – High Growth, High Market Share

- Stars are leaders in business.
- They also require heavy investment, to maintain its large market share.
- It leads to large amount of cash consumption and cash generation.
- Attempts should be made to hold the market share otherwise the star will become a CASH COW.

Business Portfolio Analysis…

CASH COWS - Low growth , High market share

- They are foundation of the company and often the stars of yesterday.
- They generate more cash than required.
- They extract the profits by investing as little cash as possible
- They are located in an industry that is mature, not growing or declining.

Business Portfolio Analysis…

DOGS - Low growth, Low market share

- Dogs are the cash traps.
- Dogs do not have potential to bring in much cash.
- Number of dogs in the company should be minimized.
- Business is situated at a declining stage.

Business Portfolio Analysis…

QUESTION MARKS* - *High growth, Low market share

- Most businesses start of as question marks.
- They will absorb great amounts of cash if the market share remains unchanged, (low).

Why question marks?

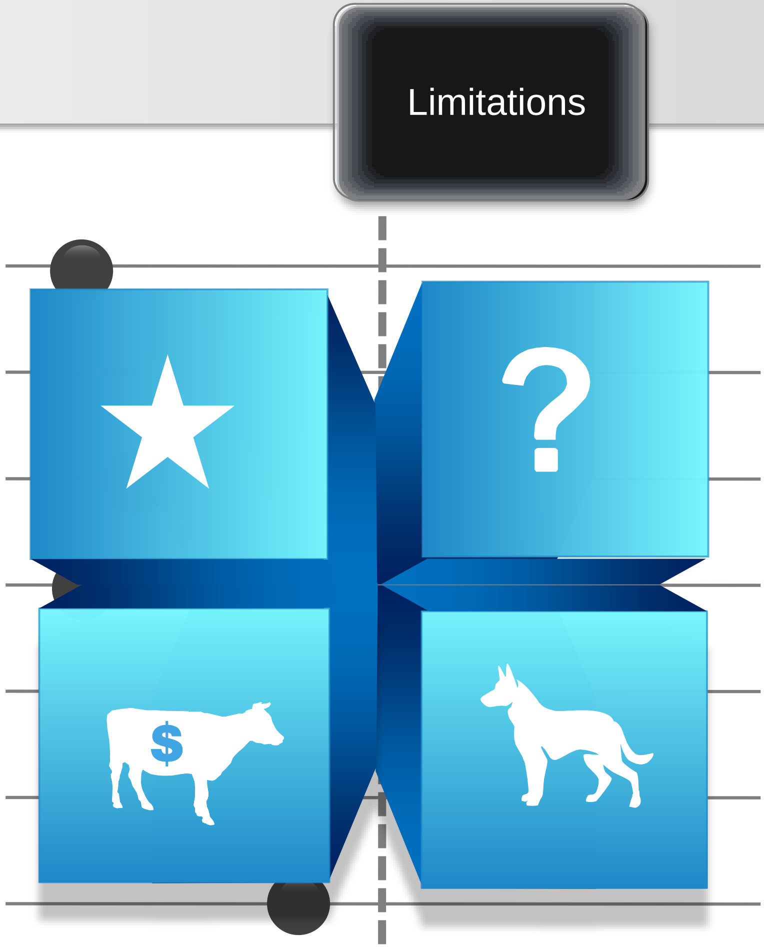
- Question marks have potential to become star and eventually cash cow but can also become a dog.
- Investments should be high for question marks.

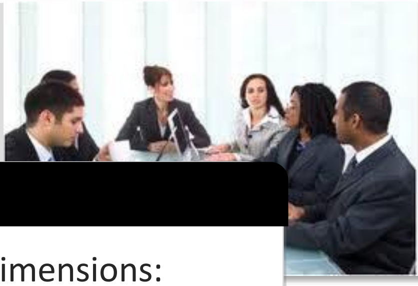
Business Portfolio Analysis…

Benefits

- BCG MATRIX is simple and easy to understand.
- It helps you to quickly and simply screen the opportunities open to you, and helps you think about how you can make the most of them.
- It is used to identify how corporate cash resources can best be used to maximize a company's future growth and profitability.

Limitations of BCG Matrix





Limitations

- BCG matrix uses only two dimensions: **Relative Market Share** and **Market Growth Rate**
- Problems arise while getting data for market share and market growth
- High market share does not mean profits all the time
- Business with low market share can be profitable too
- It neglects the effects of **synergy** between business units
- Market growth is not the only indicator for attractiveness of a market
- There is no clear definition of what constitutes a "market"
- The model neglects small competitors that have fast growing market shares

Business Portfolio Analysis…

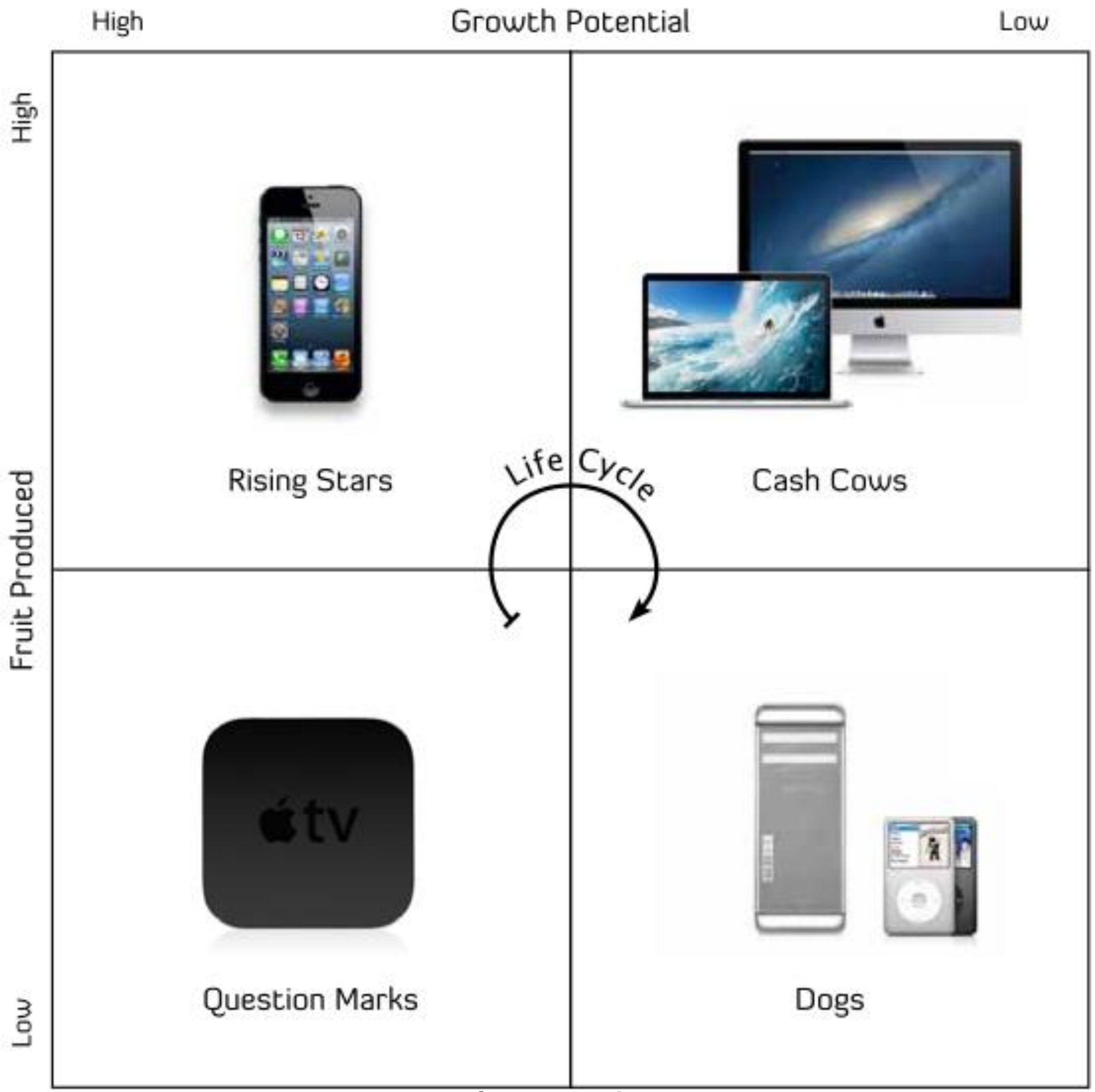
Why BCG Matrix?

To assess :

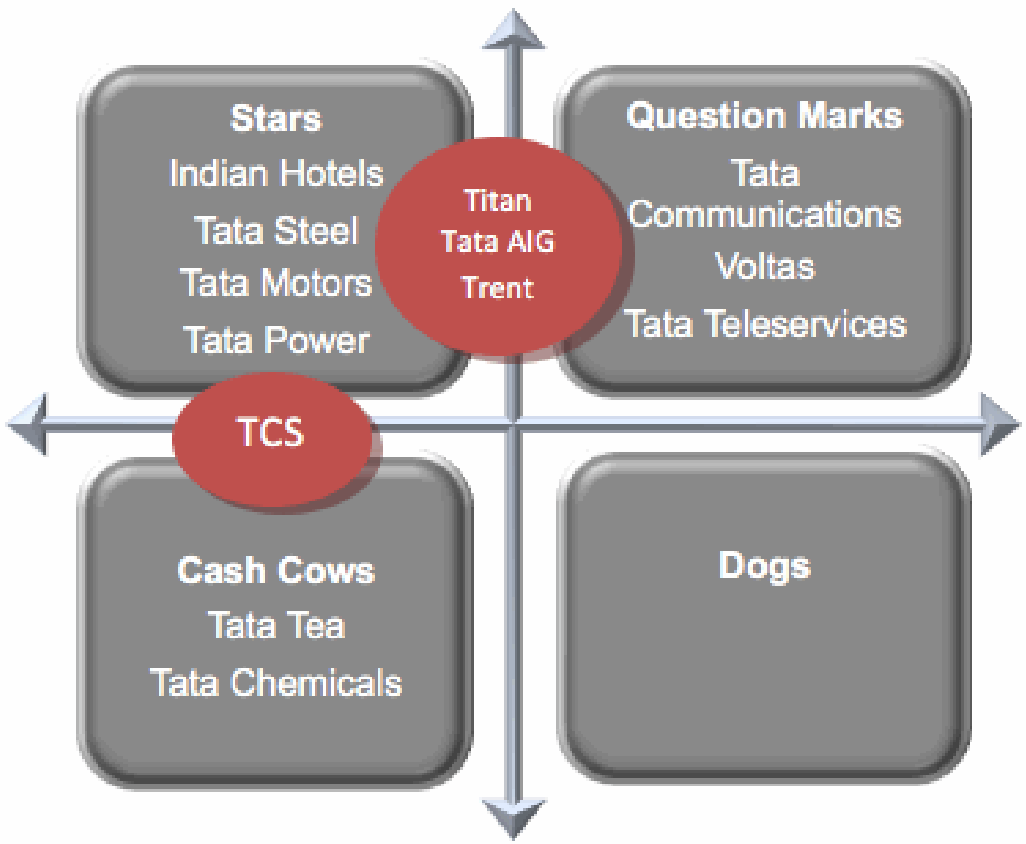
- Profiles of products/businesses
- The cash demands of products
- The development cycles of products
- Resource allocation and divestment decisions


High
Market Growth
Low
QUESTION MARKS
Low Market Share
and
High Market Growth
Don't know what to do
with opportunities;
decide whether to
increase investment.
STARS
High Market Share
and
High Market Growth
Doing well, great
opportunities.
DOGS
Low Market Share
and
Low Market Growth
Weak in market,
difficult to make profit.
CASH COWS
High Market Share
and
Low Market Growth
Doing well in no growth
market with limited
opportunities.
Low
Market Share
High

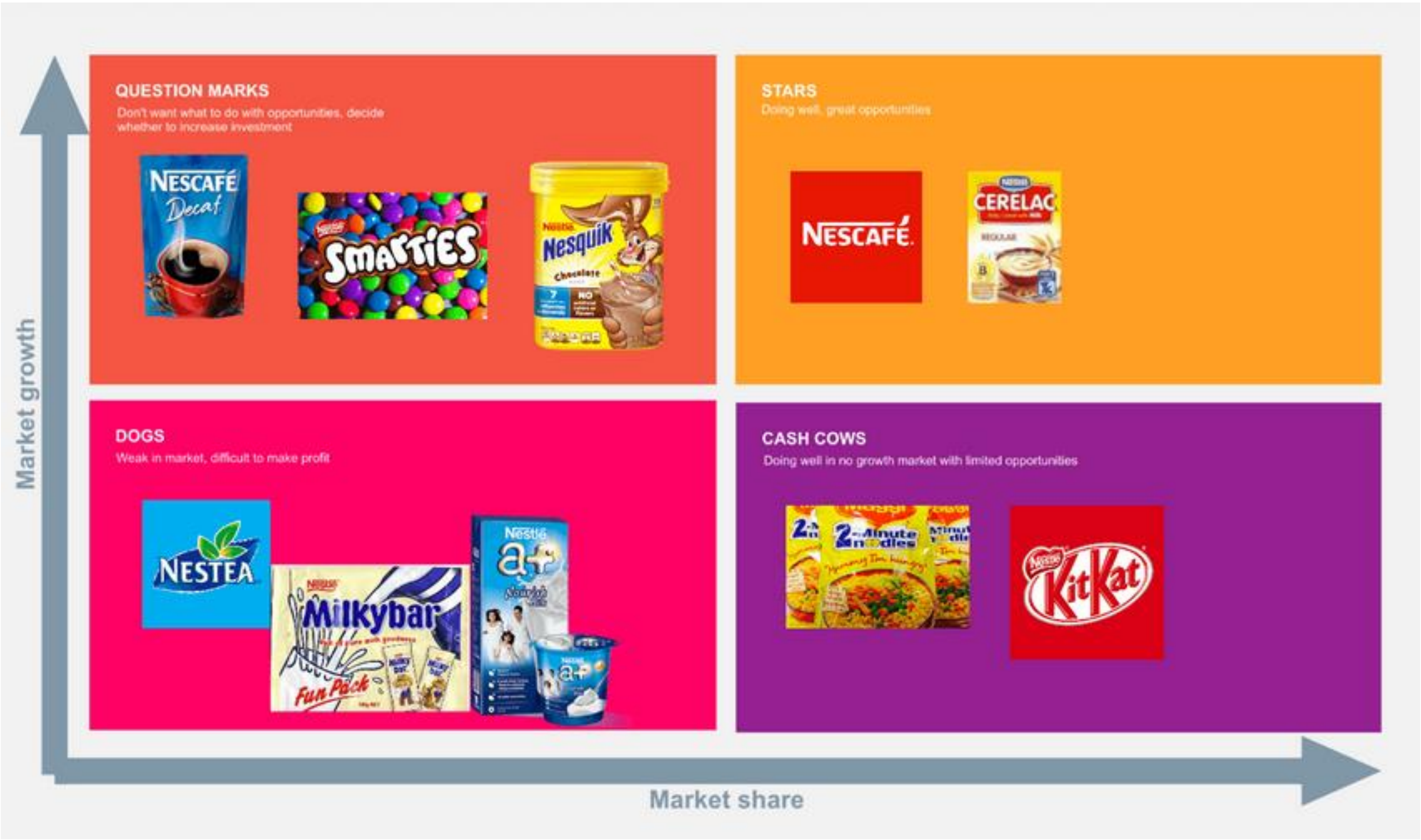
BCG for Apple


High
Growth Potential
Low
High
Fruit Produced
Low
Rising Stars
Life Cycle
Cash Cows
Question Marks
Dogs

BCG for Tata Group



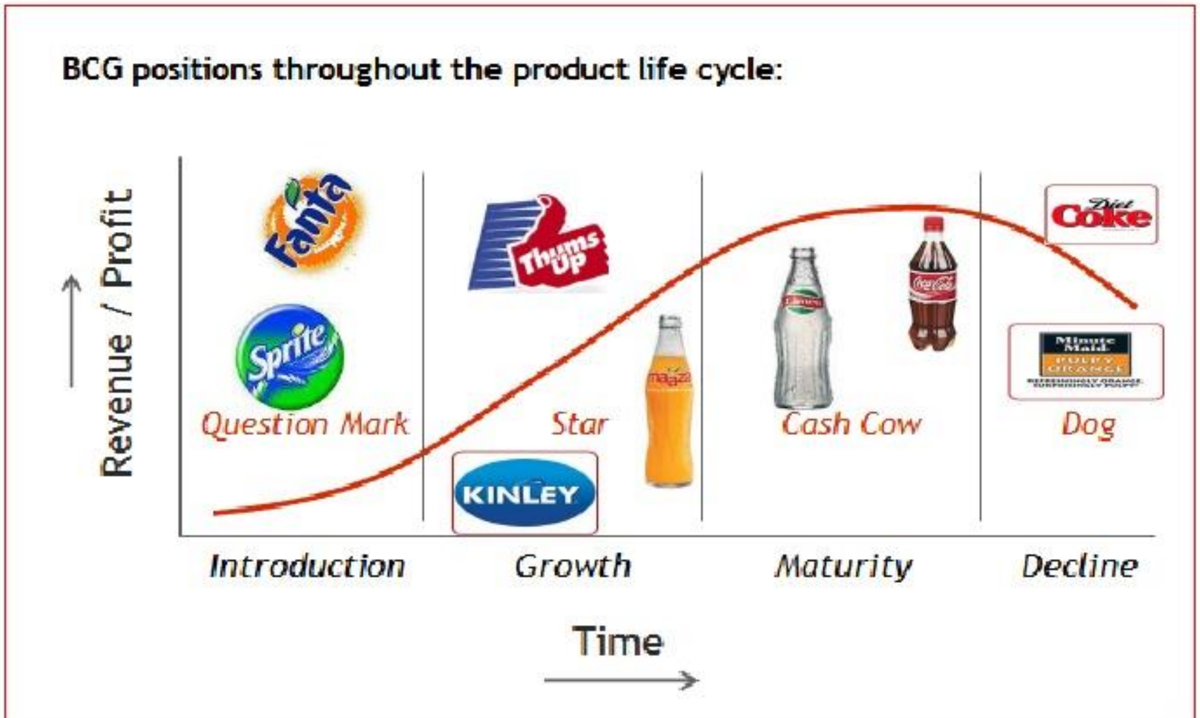
STATUS	COMPANIES				
	Hindustan Unilever Limited	ITC Enduring Value	Nestlé	Dabur	P&G
Cash-Cow	AXE, Vaseline, Petroleum Jelly	Cigarettes	Cerelac	Chayawanprash, Vatika Amla, Hajmola	Ariel, Vicks, Tide
Star	Lux, Sun-Silk, Fair& Lovely, Ponds, Kissan Ketchup, Surf-Excel, Annapurna Atta	Paperbroards/ Packaging, Agri-Business	Nescafe, Maggi Noodles	Real Fruit Juice, Active Fruit Juice, Dabur Red Toothpaste	Gillette, Pantene, Head & Shoulders, Pamper, Whisper
Question	Rin, Pepsodent, Domex	Automotive, Furniture, Financial, Tobacco, Food	Milo, Kit-Kat, Munch, Maggi Soup, Nestle Butter, Nesvita, Nestle Maggi Ketchup.	Odomos, Sanifresh, Oxylife Facial	Olay
Dog	Wheel	ITC InfoTech	Nestea, Milkybar	Dabur Gulabari, Burst Fruit Juice	

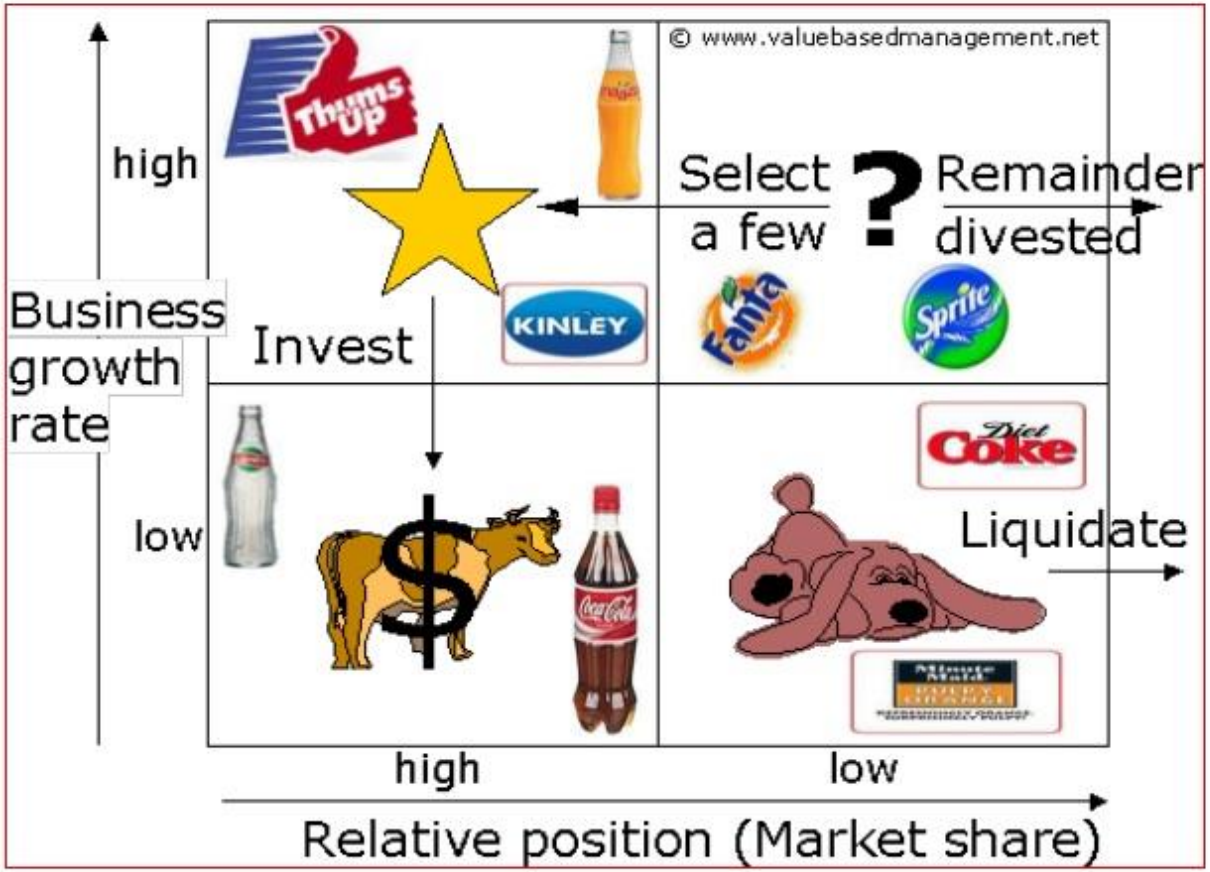

QUESTION MARKS
Don't want what to do with opportunities, decide whether to increase investment
STARS
Doing well, great opportunities
DOGS
Weak in market, difficult to make profit
CASH COWS
Doing well in no growth market with limited opportunities
Market growth
Market share

BCG Matrix

Relative Market Share
(CASH GENERATION)
HIGH
LOW
Market Growth Rate
(CASH USAGE)
HIGH
LOW
Mithaee
Amul
BITTER
CHOCOLATE
Stars
Question Marks
Amul
GOLD
$
Nutramul
Cash Cows
Dogs

BCG PRODUCT LIFE CYCLE

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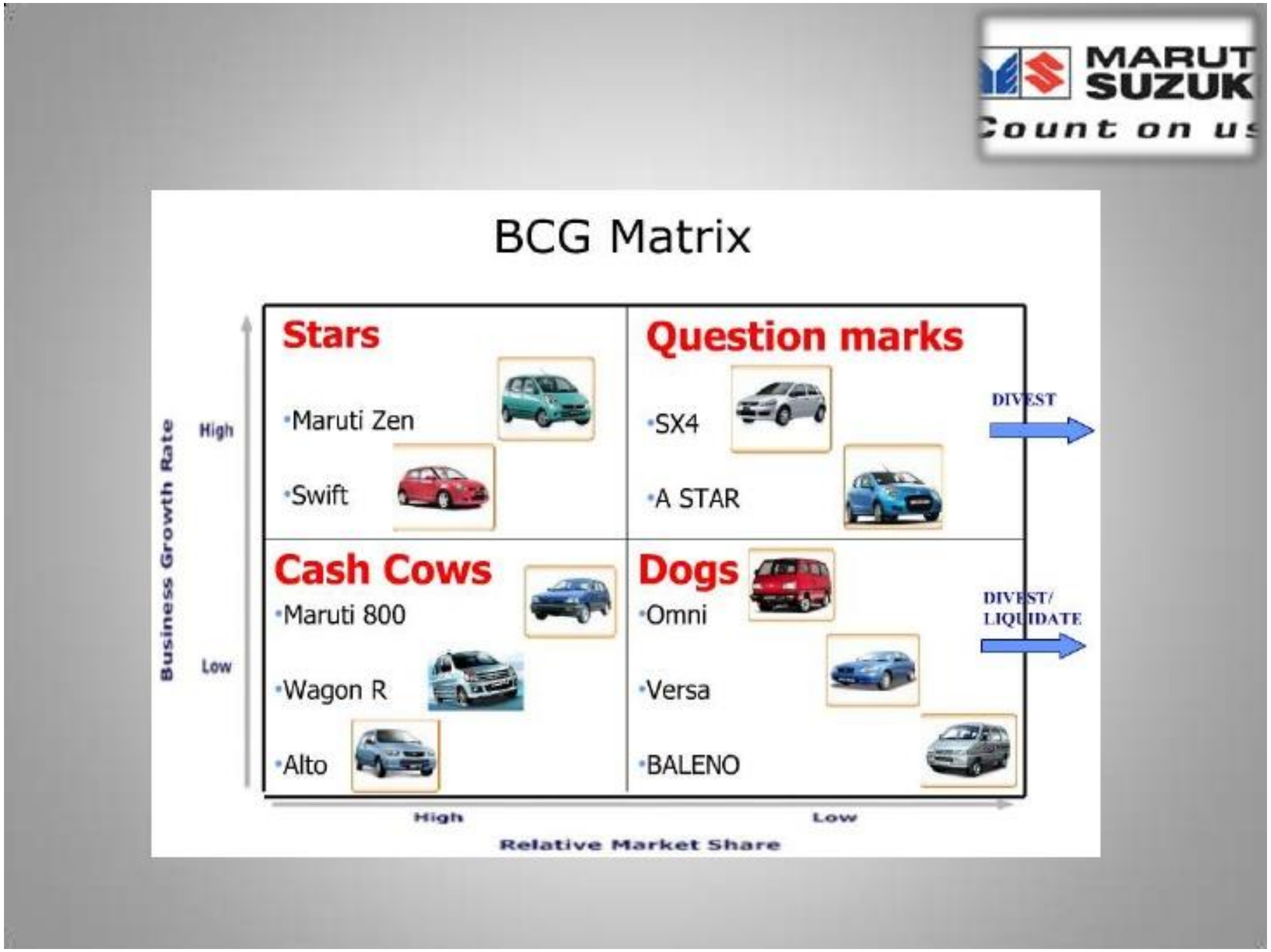
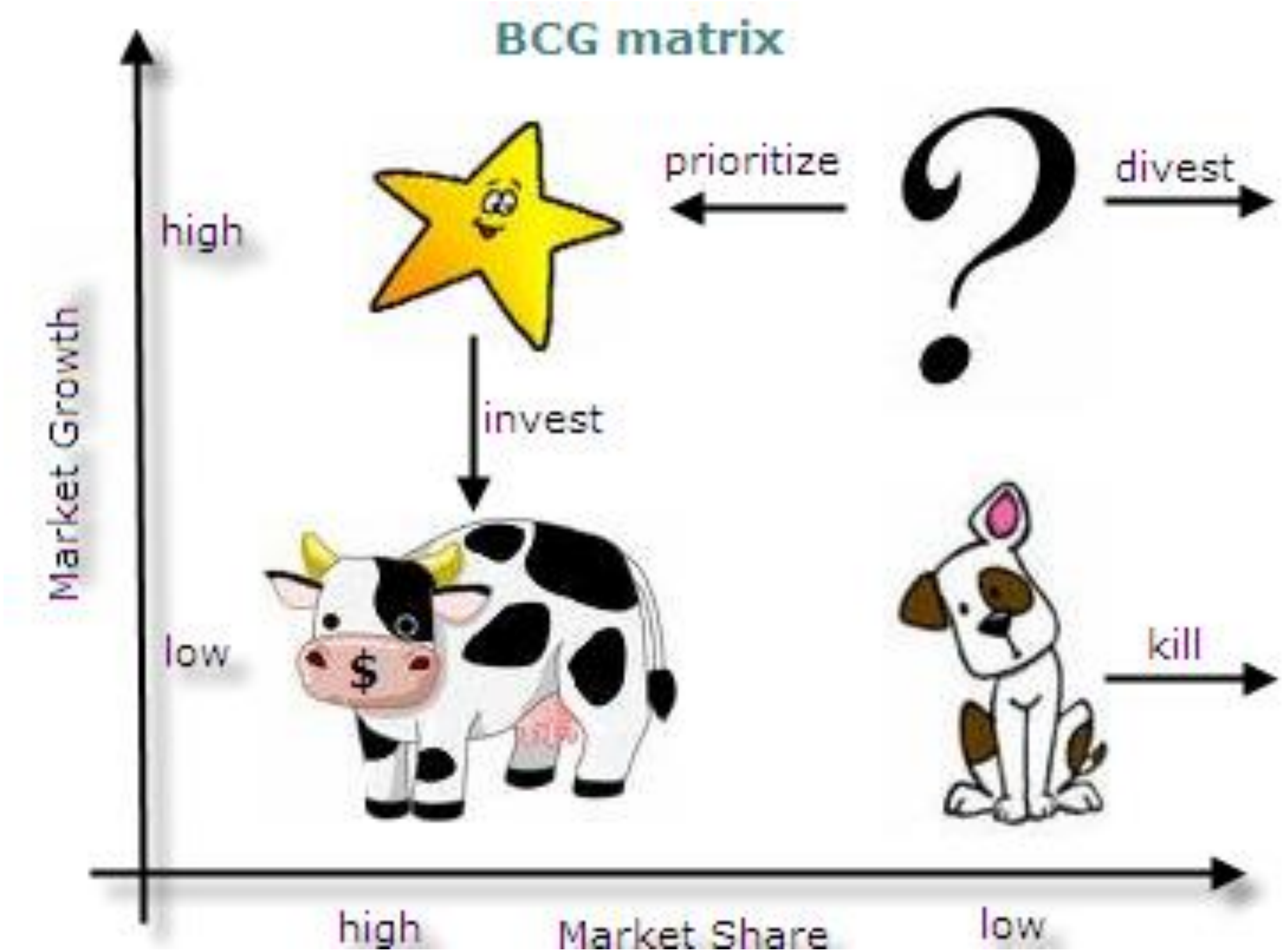
high
Select
a few
Remainder
divested
Business
growth
rate
Invest
KINLEY
low
Liquidate
high
low
Relative position (Market share)


MARUTI SUZUKI
Count on us
BCG Matrix
Stars
Maruti Zen
Swift
Question marks
SX4
A STAR
DIVEST
Cash Cows
Maruti 800
Wagon R
Alto
Dogs
Omni
Versa
BALENO
DIVEST/
LIQUIDATE
Business Growth Rate
High
Low
High
Low
Relative Market Share


BCG matrix
prioritize
divest
high
Market Growth
invest
low
kill
high
Market Share
low

Business Portfolio Analysis…

Four strategies emerged from BCG Matrix:

- Build
- Hold/Maintain
- Harvest
- Divest

Growth Strategies…

- Direct Expansion
  - Involves increasing a company’s size, revenues, operation, or workforce.
- Merger
  - Occurs when two companies, usually of similar size, combine their resources to form a new company.
- Acquisition
  - Occurs when a larger company buys a smaller one and incorporates the acquired company’s operations into its own.

3 Generic Competitive Strategies/Porters Generic Model

Overall Cost leadership strategy

- An organization implementing an overall cost leadership strategy attempts to gain a competitive advantage by reducing its cost below the costs of competing firms.
- Such organizations keep a close watch on costs in areas such as research and development, sales and services.
- <u>*By keeping costs low, the organization is able to sell its products at low prices and still make a profit.*</u>
- Eg: Timex. For decades, this firm has specialized in manufacturing relatively simple, low cost watches for the mass market.

Differentiation strategy

- An organization that pursues a differentiation strategy seeks to *distinguish from competitors by offering something unique through the quality of products or services.*
- Porsche sports car are indeed special; so is the Caterpillar company, which is known for its prompt service and availability of spare parts. Firms that are successfully able to implement a differentiation strategy are able to charge more than competitors because customers are willing to pay more to obtain the extra value they perceive.
- EG: Rolex watches are handmade of gold and stainless steel and are subjected to strenuous tests of quality and reliability. The firms reputation enables it to charge thousands of dollars for its watches.

Focused strategy

- A company adopting a focused strategy *concentrates on a specific regional market, product line, or group of buyers*. This strategy may have either a differentiation focus, whereby the firm differentiates its products in the focus market, or on overall leadership focus, whereby the firm manufactures and sells its products at low cost in the focus market.
- In the watch industry, Longines follows a focus differentiation strategy by selling highly jeweled watches to wealthy female customers.
- Fisher-Price uses focus differentiation strategy to sell electronic calculators with large, bright colored buttons to the parents of preschoolers.