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Business Management
BMA 204

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CHAPTER 07
STRATEGIC MANAGEMENT

The Introduction of Strategic Management

The term strategy is derived from a Greek word '*strategos*' which means **generalship**.

A **plan or course of action** or a **set of decision rules** making a pattern or creating a common thread.

Definitions

- A strategy is a comprehensive plan for accomplishing an organization's goals.
- A Strategy is a broad program for defining and achieving an organization's objectives, and it is the organization's response to its environment over time.

Definitions

"Strategy is a rule for making decisions under conditions of partial ignorance, whereas policy is a contingent decision. Business strategy is the broad collection of decision rules and guidelines that define a business's scope and growth direction"

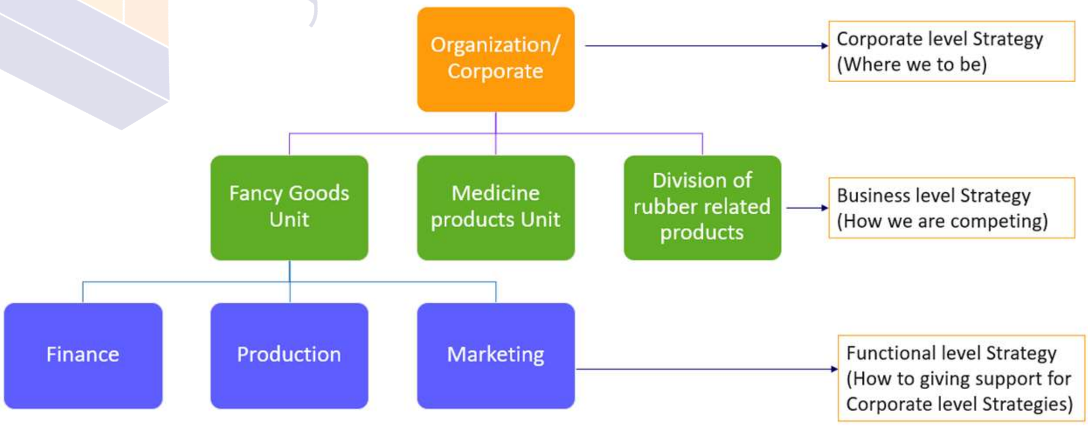
(Ansoff, 1965).

Definitions

"Strategy formulation involves the interpretation of the environment and the development of consistent patterns in streams of organisational decisions"

(Mintzberg, 1979).

Types of strategies



Types of Strategies

Corporate Level Strategy

- Designed to manage the overall direction of an organization that encompasses multiple business units or divisions
- Top management is responsible for making key decisions
- The goal is to ensure the organization as a whole is aligned with its overall mission and vision.
- **Key Questions to Address:**
  - **What kinds of businesses should the company engage in?**
  - **What are the goals and expectations for each business?**
  - **How should resources be allocated to reach these goals?**
- **Examples:**
  - **Acquisitions:** The company might acquire businesses to diversify its portfolio or strengthen its market position.
  - **Defense Business Unit:** A company could create a defense-focused unit for long-term contracts with government agencies.

Types of Strategies

Business Level Strategy

- Focus on how an organization competes within a specific industry or market.
- Aim to improve the competitive position of the company's products or services within its respective market segments.
- Business units, or strategic business units (SBUs), are responsible for implementing these strategies.
- **Key Questions to Address:**
  - **Who are the competitors in the market?**
  - **What products/services should be offered?**
  - **Who are the customers?**
  - **How should resources be deployed?**
- **Examples of Business-Level Strategies:**
  - **Cost Leadership:** Achieving the lowest operational costs in the industry to offer products or services at a lower price than competitors.
  - **Differentiation:** Offering unique products or services that are valued by customers, allowing for higher pricing.
  - **Focus Strategy:** Focusing on a niche market segment to cater specifically to its needs, either through cost leadership or differentiation.

Types of Strategies

Functional Level Strategy

- Developed by each department (marketing, human resources, operations, finance, etc.) to support the overall business strategy.
- More tactical in nature and are designed to ensure the smooth and efficient operation of each functional area.
- **Examples of Functional Level Strategies:**
  - **Marketing Strategy:** Plans for advertising, promotion, market research, and customer engagement.
  - **HR Strategy:** Recruiting, training, employee development, and retention efforts that support business goals.
  - **Operations Strategy:** Improving efficiency and productivity within the organization's operations, supply chain, and logistics.

Additional Organizational Strategies

- Integration Strategies
- Intensive Strategies
- Diversification Strategies
- Defensive Strategies
- Porter's Generic Strategies

Integration Strategies

These strategies are used by organizations to strengthen relationships with distributors, suppliers, and competitors, or to gain more control over their operations. There are **three main types:**

Forward Integration

Involves moving closer to the customer by integrating with distributors or retailers (e.g., a shoe manufacturer partnering with shoe stores).

The benefits of forward integration include:

- **Increased Market Control**: By controlling distribution, companies can influence pricing and availability.
- **Enhanced Customer Relationships**: Direct interaction with customers can lead to improved service and loyalty.
- **Better Data Collection**: Companies can gather valuable data on consumer behavior, which can inform product development and marketing strategies.

Integration Strategies

Backward Integration

Involves moving upstream to integrate with suppliers, often to reduce dependency or control costs (e.g., a manufacturer taking over the supply of raw materials).

Key advantages of backward integration include:

- **Cost Control**: By owning suppliers, companies can reduce costs associated with purchasing materials.
- **Supply Chain Stability**: Companies can secure their supply chains against disruptions caused by supplier issues.
- **Quality Assurance**: Direct oversight of raw material production can lead to higher quality inputs for manufacturing processes.

Integration Strategies

Horizontal Integration

Involves merging or acquiring competitors to expand market share or diversify offerings (e.g., a company acquiring a rival).

The benefits of horizontal integration include:

- **Increased Market Share**: Merging with competitors can significantly increase a company's market presence.
- **Economies of Scale**: Larger operations often lead to reduced per-unit costs due to increased production volumes.
- **Diversification of Products/Services**: Companies can offer a wider range of products, appealing to different customer segments.

Example:

- **Apple Inc.** uses **forward integration** by opening its own retail stores (e.g., Apple Stores) instead of relying solely on third-party retailers. Moreover, Apple has developed a robust online sales platform through its website and mobile applications.
- **Apple Inc.** also engages in **backward integration** by acquiring companies that supply key components for its products. For example, Apple purchased **PA Semi**, a semiconductor company, to gain more control over the design and production of its own chips (e.g., the A-series processors used in iPhones and iPads).
- **Horizontal integration of Apple Inc. -** In 2020, Apple acquired NextVR, a company specializing in virtual reality content production and distribution. This strategic move supports Apple's ambitions in augmented reality (AR) and virtual reality (VR)

Intensive Strategies

These strategies focus on **growing a company's existing products or market share** through significant efforts:

Market Penetration: Aimed at increasing market share in existing markets with existing products (e.g., increasing sales of an existing product).

Market Development: Involves introducing existing products to new markets or market segments (e.g., expanding into international markets).

Product Development: Focuses on developing new products or improving existing products to meet customer needs better.

Examples

Market Penetration

Coca-Cola's marketing campaigns aimed at boosting sales of its flagship soft drink. The company often employs promotional strategies such as discounts, advertising during major events (ICC global partnership with Coca Cola), and partnerships with fast-food chains to increase consumption among existing customers. Moreover, engaging with local cultures through sponsorships and events like **Coke Kottu Beat party**, which helps to strengthen its brand presence and foster community connections. By enhancing brand visibility and encouraging repeat purchases, Coca-Cola effectively increases its market share without altering its product line.

Market Development

Starbucks - Initially focused on the U.S., Starbucks has successfully entered various countries by adapting its offerings to local tastes while maintaining its core coffeehouse experience. For instance, in China, Starbucks introduced beverages that cater to local preferences, such as green tea lattes and mooncake-flavored drinks during the Mid-Autumn Festival. This strategy not only helps Starbucks tap into new customer bases but also diversifies its revenue streams.

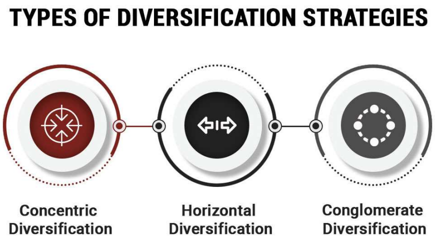
Product Development

Apple Inc. serves as a prime example with its continuous innovation in technology products. The launch of the iPhone was a significant product development milestone that revolutionized mobile communication. Following this, Apple consistently updates its product line with enhancements like improved camera technology, longer battery life, and new features (such as Face ID). These developments keep existing customers engaged and attract new users who seek cutting-edge technology.

Diversification Strategies

Diversification involves moving into new markets or developing new products, often to reduce risk or expand the business:

- **Concentric Diversification:** Adding related products or services to complement existing offerings (e.g., a company that makes cameras expanding into making camera accessories).
- **Horizontal Diversification:** Offering new, unrelated products to existing customers (e.g., a camera company introducing a new product like drones).
- **Conglomerate Diversification:** Expanding into completely different industries or markets to reduce risk (e.g., a technology company entering the food industry).



Examples

Concentric Diversification

Canon, a well-known manufacturer of cameras. In addition to producing cameras, Canon has expanded its product line to include camera accessories such as lenses, tripods, and printer systems specifically designed for photo printing. This strategy allows Canon to leverage its brand reputation and expertise in imaging technology while providing customers with a more comprehensive solution for their photography needs

Horizontal Diversification

Coca-Cola Company - Originally focused on soft drinks, Coca-Cola has diversified horizontally by introducing various beverage categories such as bottled water (Aquafina in Sri Lanka) , sports drinks (Powerade), and ready-to-drink teas (Honest Tea). This strategy not only attracts new customers but also provides existing customers with more options under the Coca-Cola brand umbrella.

Conglomerate Diversification

General Electric (GE) involved in electrical appliances and lighting, GE expanded into diverse sectors including aviation (jet engines), healthcare (medical imaging equipment), and renewable energy (wind turbines). This broad range of operations helps GE mitigate risks associated with downturns in any single industry.

Defensive Strategies

These strategies are **used when an organization needs to protect itself from declining performance or external threats**. They typically focus on cost control and business reorganization:

- **Retrenchment:** The company restructures its operations or reduces costs in response to falling sales or profits.
- **Divestment:** The company sells off parts of its business to focus on core activities or improve cash flow.
- **Liquidation:** The company ceases operations and sells off its assets, usually in a situation of financial distress.

Examples

Retrenchment

Boeing, which announced significant layoffs in 2020 due to the impact of the COVID-19 pandemic on air travel. The company reduced its workforce by approximately 30,000 employees as part of a broader effort to cut costs and streamline operations in response to falling demand for commercial aircraft.

Divestment

John Keells Holdings, one of the largest conglomerates in the country. In recent years, John Keells has divested from non-core businesses such as certain manufacturing units and retail operations to concentrate on its primary sectors like hospitality (recent project- Cinnamon Life at City of Dreams) and property development.

Liquidation

Sampath Bank's subsidiary Siyapatha Finance, which faced severe operational challenges leading up to 2023. The bank decided to liquidate certain non-performing assets that were no longer viable for operation due to ongoing economic instability exacerbated by inflationary pressures and currency depreciation.

Porter's Generic Business Strategy

Michael Porter’s Generic Business Strategy (Competitive analysis, 1980) Model outlines three primary strategies that businesses can use to gain a competitive advantage.

Each strategy focuses on **different ways to achieve and sustain a market edge.**

They are: **Cost leadership strategy, differentiation strategy and focus strategy**

Generic Business Strategies

Cost Leadership Strategy

- Aims to be the lowest-cost producer in the market.
- Operates at the lowest costs for both production and distribution.
- Becomes the price setter in the market.
- Achieves cost leadership through economies of scale.
- To be a cost leader:
  - Produces standard products on a large scale.
  - Requires mass distribution and mass marketing.
  - Benefits from economies of scale to offer lower prices than competitors.
- **Example**: **Ceylon Biscuits Limited (CBL)** keeps its costs low while offering a wide range of products at competitive prices.

Generic Business Strategies

Differentiation Strategy

- Focuses on creating unique products or services for broader market segments.
- Involves attributes such as:
  - High performance and quality.
  - Fast delivery.
  - Customization and added services.
- **Example**: **Apple** differentiates its products with strong branding and unique features.
- In Sri Lanka, **Dilmah Tea** differentiates by offering premium quality tea with an emphasis on authenticity and ethical sourcing.

Focus Strategy

- Targets a specific market segment (e.g., niche market).
- Tailor products or services to meet the unique needs of that segment.
- Can involve either a very low or very high premium price.
- Focuses on meeting the unique customer requirements of its niche market.
- **Example**: **Tesla** started with a focus strategy by targeting the high-end electric vehicle market.

Characteristics of a good strategy

- Novelty
- Secretly devised
- Intelligent
- Deceptive
- Cost effective

Characteristics of a good strategy

Novelty

- Refers to **the creativity and uniqueness of a strategy**.
- A good strategy introduces new ideas or approaches that haven't been used by competitors before.
- This uniqueness helps an organization stand out in the market.
- If a strategy is not novel, competitors may quickly imitate it, reducing its effectiveness and value.
- A novel strategy helps maintain a competitive edge by differentiating the organization from others in the industry
- *Example: Tesla's innovation in electric cars.*

Secretly Devised

- A strategy **should be carefully formulated and kept confidential**.
- The element of secrecy ensures that competitors cannot easily replicate the organization's plans.
- By maintaining confidentiality, the organization prevents competitors from learning about its plans and taking countermeasures.
- The secrecy also adds an element of surprise, which can be crucial in gaining a competitive advantage.
- *Example: Apple's secretive product development process. Coca-Cola's secret formula for its flagship beverage.*

Characteristics of a good strategy

Intelligent

- Strategy **should be based on a deep understanding of the market, competitors, and internal capabilities**.
- It should be well thought-out and informed by data and analysis.
- An intelligent strategy enables organizations to gain sustainable competitive advantages.
- Without careful planning and smart decision-making, the strategy may fail to address the challenges and opportunities in the market.
- *Example: John Keells Holdings utilize extensive market research to understand consumer behavior and preferences across various sectors, including hospitality and retail, allowing them to tailor their offerings effectively.*

Deceptive

- **A strategy can mislead competitors about the organization's true intentions or capabilities**.
- This can create a sense of uncertainty or confusion, allowing the organization to act with more freedom and flexibility.
- Deceptive strategies can keep competitors guessing and prevent them from accurately predicting the company's next move.
- However, **it is crucial that deception is used ethically and within legal boundaries**.
- *Example: Coca-Cola and Pepsi's marketing tactics to confuse competitors.*

Characteristics of a good strategy

- **Cost-Effective**
- Good strategy **should provide value while minimizing costs.**
- It should offer a good return on investment (ROI) by effectively utilizing available resources.
- A strategy that is not cost-effective can drain resources without yielding significant returns, reducing the overall profitability of the organization.
- Cost-effectiveness ensures that the strategy contributes to the organization's financial health and sustainability.
- Cost effective methods: lean manufacturing, digital transformation, sustainable practices, outsourcing non-core functions, and achieving economies of scale
- *Example: **Ceylon Biscuits Limited (CBL)** has implemented lean manufacturing principles to streamline its production processes*

  ***Dialog Axiata PLC**, a leading telecommunications provider in Sri Lanka, has invested heavily in digital technologies such as cloud computing and data analytics to reduce operational costs by automating processes and improving customer service*

External and internal Factors that may influence the strategy of an Organization

- Economics forces
- Social, Cultural, Demographics and Environmental forces
- Political, Governmental and Legal Forces
- Technological Forces
- Competitive Forces

Economic Forces

- Organizational strategy is influenced by economic factors

Economic Factors Impacting Organizations

- Local and foreign recessions and expansions
- Consumer confidence
- Disposable income levels
- Unemployment rates
- Consumer debts
- Foreign Direct Investments (FDIs)

Influence on Organizational Aspects

- Stock prices
- Interest rates
- Corporate profits
- Exports and imports

Examples

- **Impact of Interest Rates**:
  - Organizations must consider effective capital investment methods when interest rates increase.
- **Foreign Exchange Rate Fluctuations**:
  - Fluctuations in foreign exchange rates directly influence exports and imports.
  - A decrease in the value of a country's currency can:
    - Motivate imports.
    - Demotivate exports.

Organizations should conduct an external audit to analyze important economic forces, such as:

- Nature of the economy
- Convenience of obtaining loans
- Disposable income level
- Interest rates
- Inflation rate
- Money market rate
- Government budget
- Gross national product
- Consumption styles
- Job employment trends
- Employee productivity levels
- Value of money
- Trends of share market
- Export-import factors
- Price fluctuations
- Geographical flows of goods and services
- Financial policies
- Budget policies
- Tax policies
- Organizations for trade
- Other government and non-governmental organizations

Social, Cultural, Demographic, and Environmental Forces

Social and Cultural Forces:

- Influence the consumption styles and preferences of customers.
- Organizations must adjust their products and services to meet changing social and cultural demands.
- **Examples of Social and Cultural Forces**:

  - Attitudes towards business
  - Lifestyle changes
  - Attitudes towards government
  - Attitudes towards tasks
  - Habits of purchasing
  - Attitudes towards savings
  - Attitudes towards customer service
  - Feeling regarding environmental pollution
  - Feeling regarding social responsibility
  - Changes in religions
  - Attitudes towards population growth
  - Attitudes regarding power
  - Educational levels

Social, Cultural, Demographic, and Environmental Forces

Demographic Forces:

Refer to changes in population characteristics that influence consumer behavior and market trends.

Examples of Demographic Forces

- Birth rate
- Special group size
- Number of divorces
- Immigration and migration rate
- Per capita income

Environmental Forces:

Related to environmental concerns and the impact of natural resources on business operations.

Examples of Environmental Forces:

- Environmental pollution
- Sustainability
- Regulations and laws

Political, Governmental, and Legal Forces

Political and Governmental Forces

Political and governmental factors heavily influence organizations, especially those dependent on government agreements, subsidies, and foreign resources.

Examples of Political and Governmental Forces:

- Government rules and regulations
- Legal changes in tax rates
- Special customs duties
- Political actions
- Intellectual capital rules
- Environmental pollution rules
- Employment rules
- Government subsidies:
- Import-export regulations

Political, Governmental, and Legal Forces

Legal Forces:

Legal factors refer to the laws and regulations that organizations must comply with.

Examples of Legal Forces:

- **Legal changes**: Changes in legislation related to business operations (e.g., changes in employment law, health and safety standards).
- **Local government rules and regulations**: Regulations at the local level that businesses must comply with, affecting day-to-day operations.

International Political Factors

- **Political situations of foreign countries**: Political instability or changes in foreign countries can affect multinational organizations' operations and supply chains.
- **World power crisis**: Global political crises (e.g., wars, economic sanctions) can affect international business operations and trade.
- **Relationships among countries**: Diplomatic relations between countries can influence trade agreements, tariffs, and access to resources

Technological Forces

- Technological changes have made organizational **operations and services more flexible.**
- Electronic and information technology have **revolutionized business processes.**
- **Internet** serves as a significant economic engine at both the national and international levels.
- **E-commerce** has enabled businesses to reach global markets and offer products/services more efficiently.
- Organizations must adapt to technological advancements **to remain competitive, or risk being left behind.**
- Technological development helps **minimize product and operational costs: automation and more efficient production processes**
- Improved **Product and Service Quality**
- **Value Addition** to employees, managers, and customers by streamlining processes and enhancing decision-making capabilities

Competitive Forces

- Organizations must **collect and analyze data** about their competitors to develop successful strategies.
- It helps organizations identify market trends, strengths, weaknesses, and areas for improvement.
- Identifying **unique competitors** can be challenging, as organizations often operate in diverse industries and markets.
- Many organizations now use the **internet** to gather data on competitors, leveraging online resources to track competitor activities, product offerings, and market positioning.

Competitive Intelligence - The formal and **ethical process** of gathering and analyzing data about competitors is known as **Competitive Intelligence**.

- This involves using legitimate and legal methods to gather relevant competitive information that can guide strategic decision-making.
- Competitive Intelligence helps organizations:
  - Stay informed about market trends.
  - Understand competitor strategies and tactics.
  - Identify potential threats and opportunities in the marketplace.

Internal factors to identify internal factors

- Organizational culture
- Management
- Marketing
- Financial and accounting factors
- Production and operations research and development
- Information system management

Internal factors to identify internal factors

Organizational culture

- Refers to the set of behavioral patterns and shared values within an organization that guide how members think, act, and address both internal and external challenges.
- It helps new members understand the organization's approach to solving problems and adapting to external environmental issues.
- The culture shapes the organization's identity and influences its operations, decision-making, and interactions with both employees and the external environment.
- Important factors to be considered are:
  - Work ethics
  - Dress code
  - Obedient to seniors
  - Consideration of health
  - Possibility for creativity
  - Participation in decision making

Internal factors to identify internal factors

Management

The following are the main concerns under this.

- Whether the organization uses strategic management concepts?
- Whether the organizational objective/s can be measured?
- Is it communicated?
- Is the organizational structure suitable?
- Are the employees' attendances desirable?

Marketing

It is tested customer analysis, product planning, pricing, distributions, market researches, and cost benefit analysis under this.

- Is the market binding success?
- Is the market quality improving?
- Are the distributional channels useful and efficient?
- Is the quality of product sufficient?
- Have the marketing staff sufficient experience?

Internal factors to identify internal factors

Financial and Accounting Factors

The financial position is tested under this. Specially, working capital, profitability, usage of as sets, financial flow, and the capital are considered.

Following information can be obtained under this;

- Is the organizational financial position strong?
- Can the short-term capital need fulfilled?
- Is there sufficient working capital?
- Are there relationships with investors?

Production and Operations

It is considered inputs, process and the outputs under this. Following information is gathered.

- Are the suppliers trustable?
- Are inputs, machines and facilities in good quality?
- Are the quality control policies productive?
- Are there technical abilities?

Internal factors to identify internal factors

Research and Development

Research and Development is another internal factor which is considered in developing organizational strategies.

Following details are gathered.

- Does the organization possess the R&D unit?
- Are the employees of this unit talented?
- Are there sufficient resources in that unit?
- Is it communicated with that unit?

Information System Management

Following are the main concerns under this.

- Do all the managers use the information system in making decisions?
- Is there any manager for managing information?
- is the use the information system updated?
- Is the continuous training provided?
- Can the information be easily obtained?

Strategic Planning Process

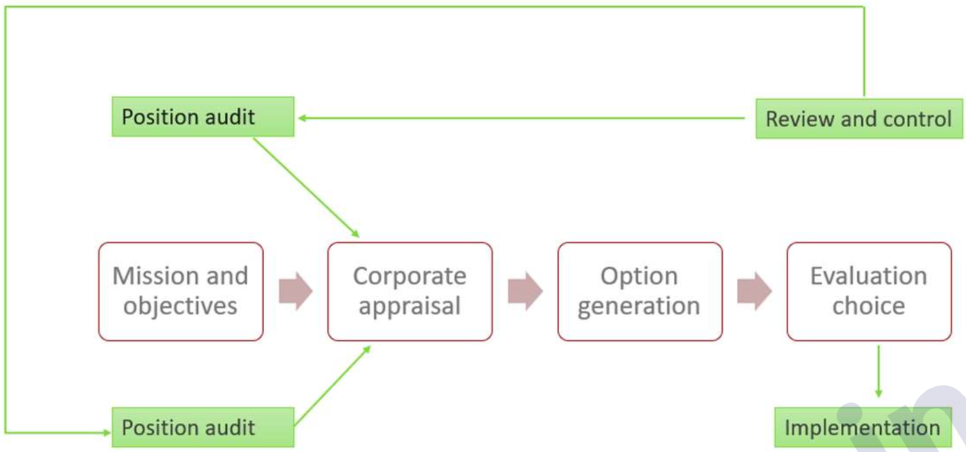
Strategies are long-term guidelines and the scope of the organization, designed to gain advantages by efficiently utilizing resources in a dynamic environment.

The strategic planning process defines the overall objectives of the organization and outlines the expected results, providing a clear path on how to achieve these goals.

Rational Planning Framework

- This is a structured approach used for making and evaluating organizational strategic decisions.
- It involves analyzing the organization's environment before selecting appropriate strategies, comparing results with expected objectives, and using inspections and controls for position audits.
- This framework creates a **cyclical process** of continuous environmental analysis.
- Rational Planning Framework consists with below things.
  - Mission and Objectives
  - Position audit
  - Environmental analysis
  - Corporate appraisal
  - Strategic option generation
  - Strategic option evaluation and choice
  - Strategic implementation
  - Review and control

Rational Planning Framework



Mission and Objectives

- **Existing Vision and Mission**
  Top management should review the organization's current vision, mission, goals, and objectives.
- **Design New Direction if Needed**
  If the strategic motives are insufficient, a new direction should be designed to align with the organization's long-term goals.
- **Long-Term Organizational Interest**
  The strategic motives should clearly reflect the long-term interests and goals of the organization.

Position audit

- Evaluates the organization's current position before making strategic decisions, typically conducted before the corporate appraisal in the rational planning framework.
- Key Areas Assessed:
  - Intangible and Tangible Assets & Financial Resources
  - Operational System (Production, Distribution)
  - Internal Organization
  - Current Results
  - Returns to Stockholders
  - Brands and Markets

Position audit

Position Audit Framework (M Model)

Men	Management	Money
Make-up	Machinery	Methods
Markets	Materials	Management Information

Environmental Analysis

Environmental analysis examines the organizational environment to identify factors that can influence operations and strategies. It helps managers plan, implement, and analyze strategies based on current environmental trends.

Importance:

- Identifies new trends in the existing organizational environment.
- Helps managers adjust strategies according to environmental changes.

Types of Environmental Analysis:

- **Internal Environmental Analysis**: Focuses on internal factors within the organization.
- **External Environmental Analysis**: Focuses on factors outside the organization (e.g., market, competitors) – PEST approach and Michael Porter's 5 forces model

Environmental Analysis

Porter's 5 Forces Mode

Helps assess the competition position and strength in the industry.

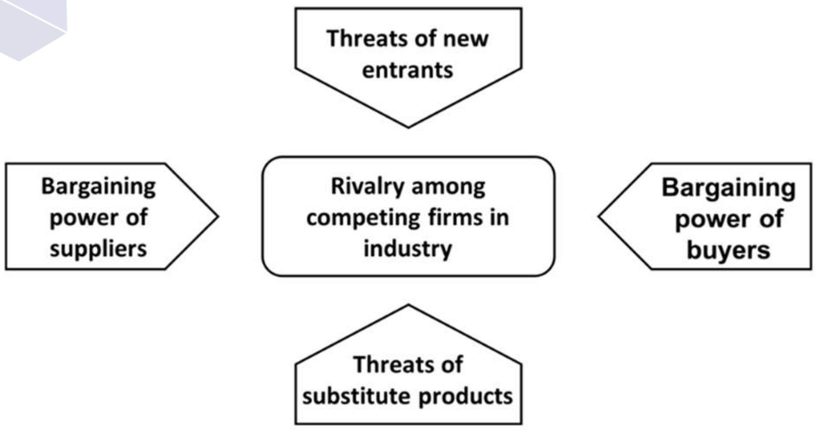


Figure 1.04: Porter's Five Forces Model of Competition

Environmental Analysis

5 Forces of Porter's Model:

Threat of New Entrants:
- New organizations entering the market can increase competition.
- Factors influencing the threat:
  - Barriers to entry (e.g., patents, economies of scale, capital requirements, government policies).
  - Responses of existing companies to new entrants.

Bargaining Power of Suppliers:
- Refers to the power suppliers have to raise prices.
- Higher supplier power is a threat to organizations.
- Factors driving supplier power:
  - Number of suppliers for each essential input.
  - Uniqueness of their products/services.
  - Relative size and strength of the supplier.
  - Cost of switching suppliers.

Environmental Analysis

5 Forces of Porter's Model:

Bargaining Power of Buyers:
- Refers to the power buyers have to push prices down.
- Strong buyers can be a threat to an organization.
- Factors driving buyer power:
  - Number of buyers in the market.
  - Importance of individual buyers to the organization.
  - Cost of switching from one supplier to another.

Rivalry Among Existing Competitors:
- Direct competition within the industry.
- The number and capability of competitors in the market drive rivalry.
- High rivalry reduces market attractiveness and profitability.

Environmental Analysis

5 Forces of Porter's Model:

Threat of Substitute Products or Services:

- The presence of substitute products offered by other organizations targeting similar customer needs.
- Close substitutes increase the likelihood of customers switching in response to price increases.
- Reduces the power of suppliers and market attractiveness.
- Strategies to minimize threat:
  - Differentiating products.
  - Increasing product quality.
  - Developing strategies to retain customers.

Environmental Analysis

PEST Analysis

PEST analysis is a tool used to analyze the external macro environment of an organization, considering four key factors:

Political and Legal Factors: Refers to the political and legal environment in a country.

- Examples include:
  - Tax policies
  - Employment regulations
  - Environmental laws
  - Customs duties
  - Political stability

Economic Factors: Examines the economic conditions that impact an organization.

- Influences:
  - Customer purchasing power
  - Capital cost for the organization
- Examples include:
  - Economic development, Interest rates, Inflation, Exchange rates

Environmental Analysis

PEST Analysis

Social and Cultural Factors: Focuses on cultural and sociological influences on the market.

- Influences on market size and customer needs.
- Examples include:
  - Health awareness
  - Population growth rate
  - Age structure
  - Professional attitudes
  - Focus on security
  - New cultural trends

Technical Factors: Refers to technological developments that influence organizations.

- Impacts market entry barriers, production efficiency, and outsourcing decisions.
- Examples include:
  - Research and development (R&D) activities
  - Automation advancements
  - Frequency of technological changes

Environmental Analysis

PEST Analysis

P — POLITICAL
- Government Policies
- Tax Regulations
- Employment Regulations
- Political Stability
- Copyright Law
- Labor Law
- Property law
- Enforcement
- Social policy
- Environmental policy
- Trade regulations,
- Safety regulations.

E — ECONOMIC
- Business Cycle
- Business Investments
- Political Issues
- Exchange Rates
- Inflation

S — SOCIAL
- Productive Workforce
- Healthy workforce
- DEI (Diversity, Inclusion, & Equality)
- Employment Patterns
- Job Market Trends
- Population Growth Rate
- Social Mobility

T — TECHNOLOGY
- Automation Tools
- AI (Artificial Intelligence)
- Innovation

Corporate analysis

- The corporate appraisal engages with the interaction between mission and objectives, position audit and environmental analysis.
- Following tools can be used for that;
  - SWOT Analysis
  - Value Chain Analysis
  - Benchmarking
  - GAP Analysis

Corporate analysis

SWOT Analysis

Strengths (Internal)

- Represents the internal factors that give the organization an advantage over competitors.
- Examples: Strong brand reputation, Skilled workforce, Unique products or services

Weaknesses (Internal)

- Represents internal factors that hinder the organization's performance.
- Examples: Limited resources, Poor brand recognition, Inefficient processes
- **Opportunities (External)**
- External factors that the organization can leverage to its advantage.
- Examples: Market growth, Technological advancements, Regulatory changes favorable to the business

Threats (External)

- External challenges that may negatively impact the organization.
- Examples: Increased competition, Economic downturns, Changes in consumer behavior or preference

Corporate analysis

SWOT Analysis

Corporate analysis

Value chain analysis

Refers to the use of technology across various activities and functional entities of a firm.

This element focuses on how technology supports different stages of the company's value chain, from production to customer service.

It's about using technology to improve efficiency and effectiveness at every step of creating and delivering products or services.

Example: BMW might use advanced robotics and automation in its manufacturing processes to increase production efficiency and ensure high-quality standards.

Porter's Value Chain Model decomposes activities into 2 categories

- Activities that directly add value for the firm's customers
- Activities that support above value adding activities

Corporate analysis

Value chain analysis

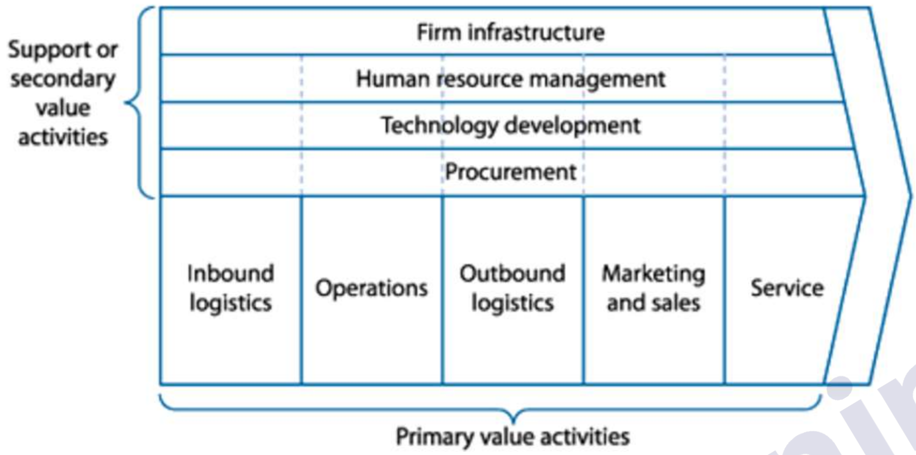


Figure 1.06: Porter's Value Chain (source: Porter, 1985)

Corporate analysis

Porter's Value Chain Model

Primary Activities - These are the core activities directly involved in creating and delivering a product or service.

- **Inbound Logistics**: Receiving, warehousing, and managing the inventory of raw materials.
- **Operations**: Transforming raw materials into finished products through manufacturing or assembly.
- **Outbound Logistics**: Distributing the finished products to customers or retailers.
- **Marketing and Sales**: Promoting and selling the products to customers.
- **Service**: Providing post-sale support and services to maintain customer satisfaction.

Support Activities - These activities help enhance the effectiveness and efficiency of primary activities.

- **Firm Infrastructure**: Organizational structure, management, and general administration.
- **Human Resource Management**: Recruiting, training, and managing employees.
- **Technology Development**: Research and development, innovation, and technological support.
- **Procurement**: Acquiring the resources and materials needed for the primary activities.

Corporate analysis

Benchmarking

- Benchmarking is a systematic process used by organizations to evaluate their performance against that of other companies, often referred to as "best practices."
- This process helps organizations identify areas for improvement, set performance goals, and enhance their competitive position in the market.

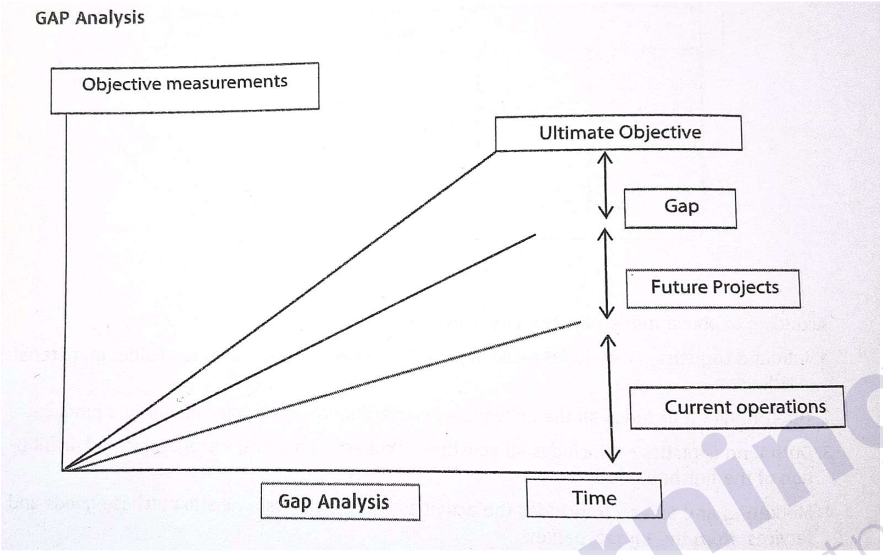
Corporate analysis

GAP Analysis

- **GAP Analysis** compares actual performance (achieved through current operations) with potential performance (expected to be achieved by the end of a specific period).
- The identified **gap** represents the difference between the current and potential performance levels.
- Strategies need to be developed within the given period to **fill the identified gap**.
- **GAP Analysis** is not just about identifying the gap but also about understanding its occurrence.
- It involves **evaluating strategies** to bridge the gap.
- **GAP Analysis** creates a link between:
  - Strategy analysis
  - Identifying strategic options
  - Selecting the appropriate strategy to address the gap.

Corporate analysis

GAP Analysis



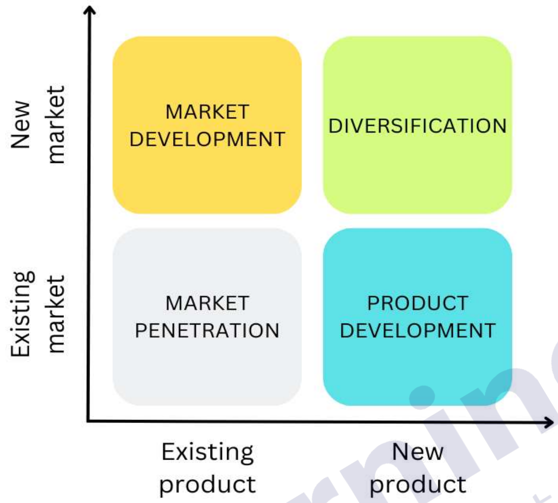
Strategy options generation

- **Strategy Option Generation** focuses on building strategies that utilize current opportunities while minimizing risks, based on the results of corporate evaluations.
- These strategies are identified and discussed by **top management**.
- **Strategy decisions**, strategy options, and resource distribution channels should be determined using a suitable portfolio management model, such as the **BCG (Boston Consulting Group) or GE models**, especially when there are multiple business units within the organization.
- After this, **strategy options** are developed at the **corporate level**.
- The process creates various **organizational growth strategies** to fill the gap in strategy planning.
- Growth strategies consist of two main types:
  - **Concentration Strategy**: A growth strategy aimed at expanding the current business.
  - **Diversification Strategy**: A strategy to achieve growth by introducing opportunities that may or may not be related to the current business.

Strategy options generation

Ansoff's Matrix

- It helps organizations decide on growth strategies for their products and markets.
- It outlines four strategies based on whether the organization is introducing new or existing products and targeting new or existing markets.



Strategy options generation

Ansoff's Matrix

Market Penetration

Risk Level: Low

Focus: Increase market share in existing markets with existing products.

How it works: Growth happens by securing more market share within a growing market.

Limitation: Once the market reaches optimal levels, a new strategy must be developed to sustain growth.

Market Development

Risk Level: High

Focus: Expand into new markets with existing products.

How it works: Target new market segments or geographical locations, using the same products if the company's capabilities align with the new market.

Challenges: Involves identifying new competitors, attracting new customers, and entering unknown markets.

Strategy options generation

Ansoff's Matrix

Product Development

Risk Level: Higher than market penetration

Focus: Introduce new products into existing markets.

How it works: New products meet specific customer needs, offering a solution in the current market.

Challenges: Developing entirely new products involves a higher level of risk, requiring innovation and understanding of customer needs.

Diversification

Risk Level: Highest among all strategies

Focus: Introduce new products in new markets.

How it works: Requires both market and product development, which can sometimes go beyond the organization's core capabilities.

Challenges: Considered a "suicide cell" strategy due to its high-risk nature but can yield high returns if successful.

Strategy options generation

Ansoff's Matrix

Diversification

Types of Diversification

- **Horizontal (Related Diversification):** Adding new products or services relevant to the company's current market. This may include acquiring competitors or expanding internal capabilities.
- **Conglomerate (Unrelated Diversification):** Expanding into completely new markets that are unrelated to the company's existing business. This is riskier than related diversification.

Strategy options generation

- Business-level managers should create strategies for **Strategic Business Units (SBUs)** using appropriate models to guide their actions.

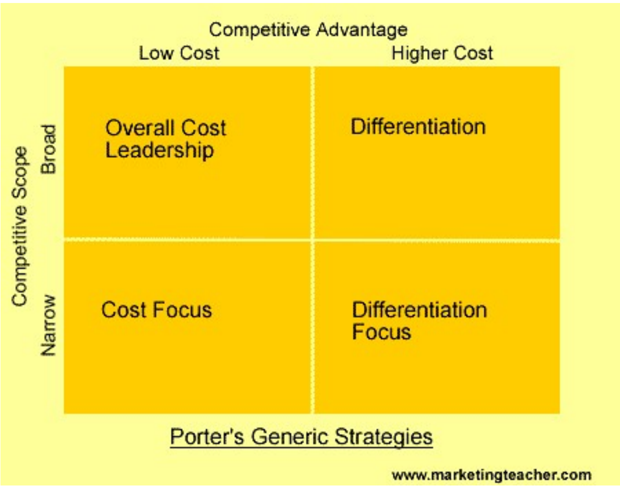
Porter's Generic Strategy

- Modern organizations often use **Porter's Generic Strategy** to further refine their competitive approach.
- **Porter's Strategies:** Focus on either cost leadership, differentiation, or focus (narrowing scope to specific market segments) to build competitive advantage.

Strategy options generation

Porter's Generic Strategy

- Porter's Generic Strategies help firms determine their competitive position in the industry.
- By adopting one or more of these strategies, organizations can achieve a sustainable competitive advantage, leading to long-term profitability.



Strategy options generation

Porter's Generic Strategy

Cost Leadership (Broad Target)

Focus: Becoming the lowest-cost producer in the industry.

Methods:

Achieved through economies of scale, technological efficiency, and cost-saving innovations.

Can involve cost control strategies like cheaper raw materials or efficient production processes.

Benefit: Cost leadership enables firms to offer lower prices or higher profit margins compared to competitors.

Differentiation (Broad Target)

Focus: Offering unique products or services that stand out from the competition.

Methods:

Select one or more characteristics (e.g., quality, features, design) that are valued by customers.

Offers uniqueness in the product or service that justifies a higher price.

Benefit: Firms can charge a premium price for their distinctive offerings and attract loyal customers.

Strategy options generation

Porter's Generic Strategy

Focus Strategy (Narrow Target)

Focus: Competing in a specific market segment or niche.

Methods:

Organizations target a specific segment or market and tailor their strategies to meet the unique needs of that segment.

Benefit: Enables firms to concentrate resources on specific customer needs, differentiating themselves from broader market competitors.

Two Types of Focus Strategies

1. Cost Focus (Narrow Target)

Focus: Competing on cost within a specific market segment.

Method: Achieves cost advantages by tailoring operations to meet the needs of a specific customer group.

Benefit: Firms gain a competitive edge by offering lower costs to targeted market segments.

2. Differentiation Focus (Narrow Target)

Focus: Offering unique products or services to a specific market segment.

Method: Focus on differentiating products to meet the specialized needs of a particular segment.

Benefit: Allows firms to command premium prices within a narrow market while addressing specific customer demands.

Strategy Evaluation

Senior management evaluates strategic options before selecting the best course of action.

Steps:

- Select corporate-level strategies.
- Consider strategic options for each Strategic Business Unit (SBU).
- Evaluate the potential effectiveness of each option before making decisions.

Strategy Implementation

Strategy implementation is the process of putting strategies and plans into action to achieve organizational goals.

Aims to make the company's strategic plans become reality by executing them effectively.

Translates strategic goals into operational steps, aligning resources, activities, and timelines.

Review and Control

The final step of the strategic planning process.

Process:

- Review the implemented strategy to assess its performance.
- Compare actual performance with expected outcomes.
- Take corrective actions if necessary to align performance with the strategic objectives.