The First Step towards Strategic Thinking

Concepts & Frameworks

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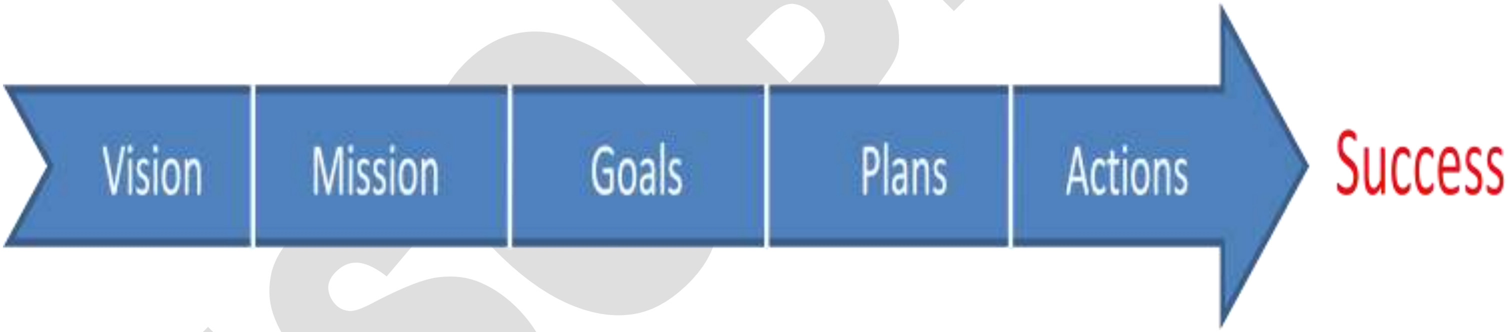

After completing this course, you should be able to –

- Understand what the strategy means to an organization.
- Learn key concepts and the language used by those involved in strategic planning.
- The approach of companies to conceptualize strategies.
- Find out how strategy moves from implementation to realization.
- Recognize techniques companies use to assess their current and future environments.

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1. What the strategy means to an organization

First, let's try to understand what is the meaning of strategy in general. John is planning his vacation of one week with his family and decided to drive around 400 miles. He has two very naughty kids below 5 years old. He is thinking to set off in the morning. His family normally wakes up early in the morning. On the other hand, he is thinking to start in the night because both of his kids sleep early and he can drive without any disturbance.

He is considering another aspect as well, whether to drive from main roads or less traveled roads to avoid traffic. His wife is searching for budget hotels so that they can spend more money on excursions instead of paying for a hotel room. Also, she is preparing some food for children if they face heavy traffic and children need something to eat on the way.

Both are working out of options and trying to make a better choice. What are they doing exactly? They are developing a strategy for their journey by considering internal and external factors.

Try to formalize the definition of the strategy for such a very simple example.

" A set of actions, which direct us to achieve our objective inefficient manner and prepare us to respond to the opportunities and threats in the external and internal environment."

But when we talk about organizations, it becomes very complex because the number of external and internal factors is very high, and the balance between them is very essential to run the organization successfully.

For a complex scenario, a strategy is a process of decision making in which management takes account of constantly changing the external environment and internal situation. An effective strategy allows them to use their organization's resources and capabilities to exploit opportunities and limit threats from the external environment.

The organizations faced with constantly changing external environments and needs to ensure sufficient internal resources and capabilities to meet the needs of the external environment. Companies do not work to simply survive in the market place but want to grow and become more prosperous in a competitive environment. To make sense of what is going around, the company must perform an analysis of its external and internal factors.

There are different definitions of strategy are given by different strategists.

Definition by Thompson & Strickland:

“Strategy is a set of competitive changes and business approaches that managers perform to achieve the best performance of the company. It is the managerial plan to enhance the organization’s position in the market, boost customer satisfaction and achieve performance targets.”

Definition by Porter (1985):
“Strategy is a set of offensive or defensive actions to create a defensible position in an industry, to cope successfully with competitive forces and thus get a higher return on investment. “

Definition by Porter (1980):
"Strategy is the company choice as to key decision variables such as price, promotion, quantity, and quality. The company, to have good performance, must be correctly positioned in its industry".

Definition by Henderson:
A strategy is the focused use of imagination and logic to respond to the environment so that as a result it generates a competitive advantage for the company.

Definition by Hambrick:
A strategy is the pattern of decisions that guide the organization in its relationship with the environment, affect the processes and internal structures, as well as influencing the performance of organizations.

2. Concepts and the terminologies

It is very important to know about the concepts and terminology used by those involved in strategic management.

2.1 Vision & Mission:

Vision statements
Infosys: To be a globally respected organization that provides the best of breed business solution, leveraging technology delivered by best in class people.

Patanjali: Keeping Nationalism, Ayurved and Yog as our pillars, we are committed to creating a healthier society and country. To raise the pride and glory of the world, we are geared up to serve people by bringing the blessings of nature into their lives. With sheer dedication, scientific approach, astute planning, and realism, we are poised to write a new success story for the world.

McDonald's: To be the world's best quick-service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value so that we make every customer in every restaurant smile.

Amazon: Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.

Maruti: To be a leader in the Indian automobile industry creating customer delight and shareholder wealth, A pride of India.

If we read these statements carefully, the vision statement says where the company wants to be and talk about the future.

A vision statement consists of the below elements but it is not possible to include all in one statement.

1. Motivating
2. Inspiring
3. Future casting

Often it describes not just the future of the organization but the future of the industry or society in which the organization hopes to effect change.

2.2 Mission Statements

Infosys To achieve our objective in the environment of fairness, honesty, and courtesy towards our client, employee, vendors, and society.

Starbucks: To inspire and nurture the human spirit — one person, one cup and one neighborhood at a time.

Patanjali: Making India an ideal place for the growth and development of Ayurveda and a prototype for the rest of the world.

Mission statements say HOW you will reach where you want to be. This talk about presents leading to the future.

If you want to develop a mission statement, consider

1. what do you do?
2. what is the benefit?.
3. who you want to be benefited?
4. It informs about the desired level of performance.

2.3 Goals and objective:

To achieve, vision and mission, every company set out the goals and objective. Goals are to be achieved in the long term and objectives are steps towards goals. So the objectives are short term goals or sub-goals. Goals are the result but objectives are milestones to achieve goals. Goals are ideas while objectives are based on facts.

The business should have a set of objectives against which the success of the strategy can be measured. Objectives should be SMART:

- Specific
- Measurable
- Achievable within the stated time frame
- Relevant in the context of the vision
- Time-bound

2.4 Sustained competitive advantage:

It is something unique that your rivals or competitors don’t have is a competitive advantage.

Competitive advantage relates to strategic management and the sources of competitive advantage differing from firm to firm. However, a firm can have a source of competitive advantage for only a certain period because the rival firms imitate and copy the successful firms' strategies leading to the original firm losing its source of competitive advantage over the longer term. Hence, firms must develop and nurture a sustained competitive advantage.

2.5 Value proposition:

This is a very important parameter in your strategy and marketing campaign This tells why a customer buys services or product from you rather than your competitor? How your products or services are solving or improve performance?. What are the unique benefits customers can expect?

Value proposition from Amazon – Offers a huge amount of choice. Very fast and committed delivery services. Services on exchange and faulty pieces are very good and reliable. Small online shops might be offering a better product but Amazon is leading due to quality services.

2.6 Economy of Scale:

A reduction in costs through larger operating units, spreading fixed costs over large numbers of items/units. It can be divided into two types.

2.6.1. Internal economies of scale: This is internal to the companies and controllable by their management. It results from the absolute size of the company and has no relation with the type of industry, market or product. Large companies are capable to buy any type of material in bulk and can pass on the cost advantage to customers or can increase profit.

There are 5 major types of internal economies of scale:

A. Technical Economies: Larger companies can take advantage of more efficient equipment and can use the same infrastructure for improving production efficiency. As a result per unit, the cost can be reduced.
B. Network Economies: In online business, it cost a negligible amount to support an additional customer with existing infrastructure. An example is online shopping portals, Cloud services.
C. Financial Economies: A larger company can get funded from the stock market with an initial public offering. Big firms usually have higher credit ratings, meaning they get lower interest rates on their bonds.
D. Managerial Economics: A big company can hire specialists to manage specific areas of the project or company. E.g.a specialist software architect for transformation projects.

E. Monopsony Economies: Monopsony power is when a company buys so much of a product that it can negotiate a lower price than its smaller competitors. For example, D-Mart, Big Bazar, or Wal-Mart can have lower prices because its huge buying power gives it monopsony economies of scale.

2.6.2 External economies of scale. Big companies have external economies of scale because it receives preferential treatment from the government or other external sources simply because of their size.

2.7 Value Chain:

Separate activities, function and business processes that are performed in designing, producing, marketing, deliveries, and supporting a product or service.

A value chain typically consists of (1) inbound distribution or logistics, (2) manufacturing operations, (3) outbound distribution or logistics, (4) marketing and selling, and (5) after-sales service. These activities are supported by (6) purchasing or procurement, (7) research and development, (8) human resource development, (9) and corporate infrastructure.

2.8. External Environment:

The external environment consists of legal, political, socio-cultural, demographic factors, etc. These are uncontrollable factors and firms adapt to this environment. They adjust the internal environment with the external environment to take advantage of the environmental opportunities and strive against environmental threats. Business decisions are affected by both internal and external environments.

2.9. Internal Environment:

The survival of a business depends upon its strengths and adaptability to the environment. The internal strengths represent its internal environment. It consists of financial, physical, human and technological resources. Financial resources represent the financial strength of the company. Funds are allocated over activities that maximize output at minimum cost, that is, optimum allocation of financial resources

3. The approach of companies to conceptualize strategy:

Coming to our point, what is the strategic planning mean for the company.
The strategic planning process should kick off with a stakeholder analysis. Following this, the vision, mission, and objectives for the business can be established. Central to the strategic planning process is how to make the most of a business's resources (internal factors) given in the environment (external factors). The analysis of internal and external factors allows management to set (or review) objectives and strategy and generate alternative strategic options.

Qualitative screening of options and numerical analysis using business models are required to select the most appropriate strategy from the options. Once a strategy has been selected it must be implemented. This will involve resource planning and allocation, and in the case of an existing business, it may require organizational changes.

Given the medium- to long-term nature of strategic planning, a business is unlikely to review its strategy more than once a year. Thus a strategic review should normally be an annual process. At the very least, managers should ascertain whether the strategic objectives have been reached. If the objectives have not been reached, a strategic review should be triggered. This should lead to a new round of business planning, for example realigning budgetary and long-term forecasts. a strategic review can lead to a fundamental reappraisal of the vision, mission, and objectives.

3.1 Review or develop Vision & Mission:

Obtain first-hand information from various stakeholders You may use templates to evaluate how the stakeholders think about your organization. To find out whether their actions are aligned with the organization's objectives. Shareholder analysis contains three parameters. Type of stakeholder, Expectations and power and influence on business,

At the same time, vision and mission can be developed or reviewed with the involvement of all stakeholders to ensure it is still aligned with new business challenges. Consider the criteria for reviewing vision and mission as given in the previous section (terminology) section.

3.2 Analysis of firm and business environment:

One of the key considerations of strategic planning is to understand internal (own organization) Strengths and Weaknesses as well as external Threats and Opportunities. These are commonly known as the four factors of a SWOT analysis, Also, to analyze the firm, industry and competitor analysis is important. For this Porter's 5 forces, PESTEL can be used.

SWOT Analysis

SWOT analysis is very powerful and with the simple and little thought process, it helps to uncover opportunities that can be exploited and show the weakness of the organization. It also gives the chance to manage and avoid threats that would probably catch surprises.

By looking at competitors using the SWOT framework, you can start crafting a strategy that helps you differentiate yourself from your competitors so that you can compete successfully in your market.

Internal Analysis VRIO, Value Chain, Key differentiators, Resource audit (Human, Financial, Operation	Strength Distinctive Competencies & Resources	Weakness Competencies and resources that are less valuable, commonly available and easily reproducible.
External Analysis Porter's 5 force, PEST,	Opportunities Competencies and resources that are valuable, commonly not available and difficult to reproduce.	Threats Points which are harmful and vulnerable may cause damage to business

An alternative way is asking questions to yourself as given in below table

Strength *What advantages does your organization have?* *What do you do better than anyone else?* *What unique or lowest-cost resources can you draw upon that others can't?* *What do people in your market see as your strengths?* *What factors mean that you "get the sale"?* *What is your organization's Unique Selling Proposition (USP)?*	*Weakness* *What could you improve?* *What should you avoid?* *What are people in your market likely to see as weaknesses?* *What factors lose you sales?*
Opportunities *What good opportunities can you spot?*	*Threats* *What obstacles do you face?*

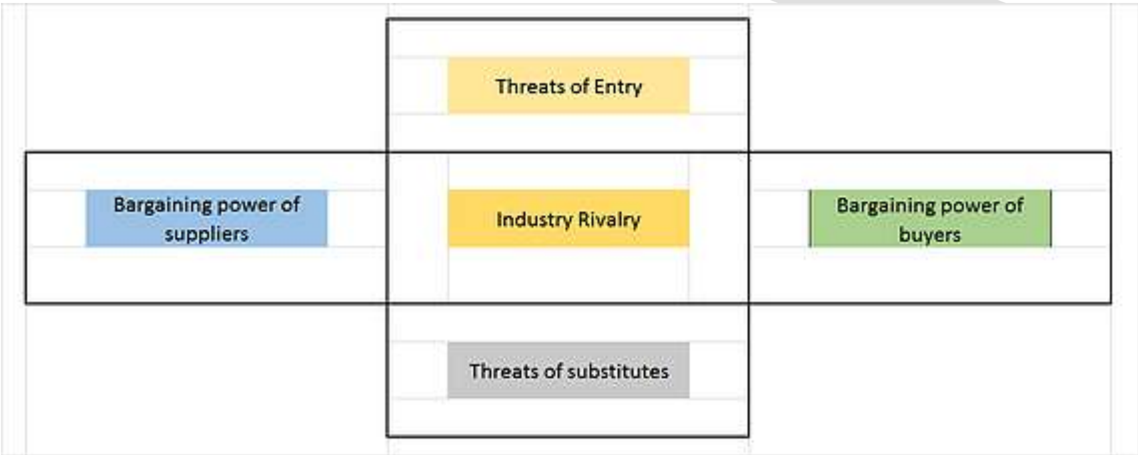
What interesting trends are you aware of? *Useful opportunities can come from such things as:* *Changes in technology and markets on both a broad and narrow scale.* *Changes in government policy related to your field.* *Changes in social patterns, population profiles,*	*What are your competitors doing?* *Are quality standards or specifications for your job, products or services changing?* *Is changing technology threatening your position?* *Do you have bad debt or cash-flow problems?* *Could any of your weaknesses seriously threaten your business?*

Some samples to answer questions given in the above table.

Strengths	**Weaknesses**
Market dominance	Low market share
Core competencies	Few core competencies
Economies of scale	Old plant
Low-cost position	High-cost base
Leadership and management skills	Weak balance sheet and cash flow
Financial resources	Low R&R capability
Manufacturing skills and technology	Undifferentiated product
Research and development	Weak positioning
Brand and reputation	Quality problems
Differentiated products	Lack of distribution
Patents and copyrights	Skills gap
Distribution network	
Opportunities	**Threats**
Technology innovation	Newmarket entrants
New demand	Competitive price pressure
Diversification opportunity	Higher input prices
Market growth	Changing customer needs
Demographic and social change	Consolidation among buyers
Favorable political support	Threat from substitutes
Economic upswing	Capacity growth outstrips demand growth
Acquisition and partnerships	Cyclical downturn
Cheap funds	Demographic change
Trade liberalization	Regulation and legislation
	Threat from imports

Porter's five force analysis

The formulation of strategy mainly depends on the depth of understanding about the industry. M. Porter created a model in 1979, to determine the intensity of competition in an industry and the potential profitability. He identified 5 forces that affect the business environment and profitability. As per this framework, organizations should constantly monitor rivals and also look beyond the action of competitors. Organizations should identify what are other factors that could business environment.



Industry Rivalry – This is a major force that determines how competitive and profitable an industry is. In a competitive environment, companies have to work aggressively to improve market share. It means they need to operate on low profits. This factor looks at the number and strength of rivals. What is the quality of their product compare to yours? For example, for consumer product companies, the rivalry is very intense, they have to attract the customers by aggressive price cut and high impact marketing.

The rivalry is very intense when

- Exit barriers are high
- The product can be easily substitutable
- Low customer loyalty
- Brand identity is low
- Too many companies

The threat of new entrants – This identifies the degree of difficulty to enter an industry. If an industry looks very profitable with low investment with very few barriers to enter, the rivalry will increase The same market is shared by many companies and as a result profit for everyone falls. If your company is positioned correctly and has a strong footing in the market, then you can preserve the position and take advantage. For example, the market size of the unbranded edible item is very high in India. In this industry threats of new entrants is very high, however, in the automobile industry, this is very low.

Threats of new entrants are high when

- Economies of scale are easily achievable.
- Low capital required
- There are no reputed brands available in the market
- The switching cost is low.
- Time to market is low

Threats of substitution – This force is threatening in almost all industries. This force is realized when buyers can find a product with the same features and same or better quality at an attractive price. Substitute can weaken the position and hit the profitability.

Bargaining power of supplier – This factor is very when the supplier can sell his products or raw material to the manufacturer at a high cost. In this case manufacturer profit os going down

Supplier get high bargaining power when

- Buyers are many and suppliers are few.
- High switching cost for buyers
- Supplier hold scarce or rare resources

Bargaining Power of Buyers – This factor is very when the buyer can get raw material at a low price and increase profits. For example – Wal mart has high bargaining power because of the volume they purchase. In this case, the supplier gets low profit and concentrates more on its market share.

The buyer gets more power when

- The volume of purchase is high.
- There are many substitute supplier
- Switching cost to other supplier is low
- Buyers are less and supplier are many

The below table gives detailed determinants of all 5 factors.

Rivalry determinants	**Entry barriers**
Industry growth Fixed (or storage) costs/value-added Intermittent overcapacity Brand identity Switching costs Concentration and balance Informational complexity	Economies of scale Proprietary product differences Brand identity Switching costs Capital requirements Access to distribution Absolute cost advantage

Diversity of competitors Corporate stakes Exit barriers	Access to necessary inputs Proprietary low-cost product design Government policy
Determinants of supplier power	**Determinants of substitution threat**
Differentiation of inputs Switching costs of suppliers and firms in industry Presence of substitute inputs Supplier concentration Importance of volume to supplier Cost relative to purchases in the industry	The relative price performance of substitutes Switching costs Buyer propensity to substitute
Determinants of bargaining power	
Bargaining leverage	**Price sensitivity**
Buyer concentration vs. firm concentration Buyer volume Buyer switching costs relative to firm switching costs Buyer information Substitute products	Price/total purchases Product differences Brand identity Impact on quality performance Buyer profits Decision-makers’ incentives

VRIO Analysis

This is the tool used to analyze the firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage.

VRIO analysis

To conduct a resource-based analysis of a business, Jay Barney proposed a structured approach based on analyzing whether a resource is Valuable, Rare and Imitable and whether the Organisation is taking advantage of the resource.

1. **Valuable.** A resource is valuable if it can be used, for example, to increase market share, achieve a cost advantage or charge a premium price. This question has to be answered first because a resource that is not valuable or is irrelevant cannot be a source of competitive advantage.

2. **Rare.** Rarity is important because if competitors possess the same resources, there is no inherent advantage in the resource. Of course, different businesses can configure the same resources differently to achieve a competitive advantage, but this is not the focus of the resource-based view of the firm. If a valuable resource is not available to all competitors it is "rare" and therefore a potential source of competitive advantage.

3. **Imitable.** It must be difficult or expensive for competitors to imitate or acquire the resource. This can apply to patents and copyright, but also other forms of resources, such as brand perception. Although it is possible to change a brand and the perception of it, rebranding is expensive. If a resource is easy to imitate it confers only a temporary competitive advantage, not a sustainable one.

   A firm that has valuable, rare and costly to imitate resources can (but not necessarily will) achieve sustained competitive advantage. Barney has identified three reasons why resources can be hard to imitate:

   A. Historical conditions. Resources that were developed due to historical events or over a long period usually are costly to imitate.
   B. Causal ambiguity. Companies can’t identify the particular resources that are the cause of competitive advantage.
   C. Social Complexity. The resources and capabilities that are based on the company's culture or interpersonal relationships.

4. **Organization.** A business must be capable of taking advantage of the resource. If a resource is valuable, rare and difficult to imitate, a business must be able to exploit it, otherwise, it is of little use. This may require reorganizing the business.

The VRIO analysis framework shown in Chart 6.3 on the next page links the V resource analysis with the competitive advantage, the likely economic impact on the business and what this means in terms of the swot (strengths, weaknesses, opportunities, and threats) analysis

Valuable	Rare	Imitable	Organized to capture value	Competitive Implication	SWOT Category
No				Competitive Disadvantage	Weakness
Yes	No			Competitive Parity	Strength
Yes	Yes	No		Temporary Competitive Advantage	Strength and competence
Yes	Yes	Yes	Yes	Sustainable competitive Advantage	Strength and long term core competence

McKinsey 7S Framework

This framework is developed in 1980 by Tom Peters and Robert Waterman, consultants working in McKinsey. This is only the tool that persistence from day one. According to this model, if an organization to be successful, 7 internal aspects need to be aligned perfectly,

This model can be applied to study the organization, a team, or a specific group of companies. 7S framework is very powerful for assessing and analyzing the internals of the organization because all of these elements are interdependent and aligned to produce synergy

The alignment of internal elements gives valuable inputs in a variety of situations. For example

1. During or after merger & acquisition, align the departments and operational processes.
2. Determine how to implement the strategy.
3. Inspect the effect of future changes within the organization.
4. Assess and improve the performance of the company.
5. Recommendations for implementing a strategy and action plan.

All of these 7 interrelated elements are divided into two categories that are the hard and soft element.

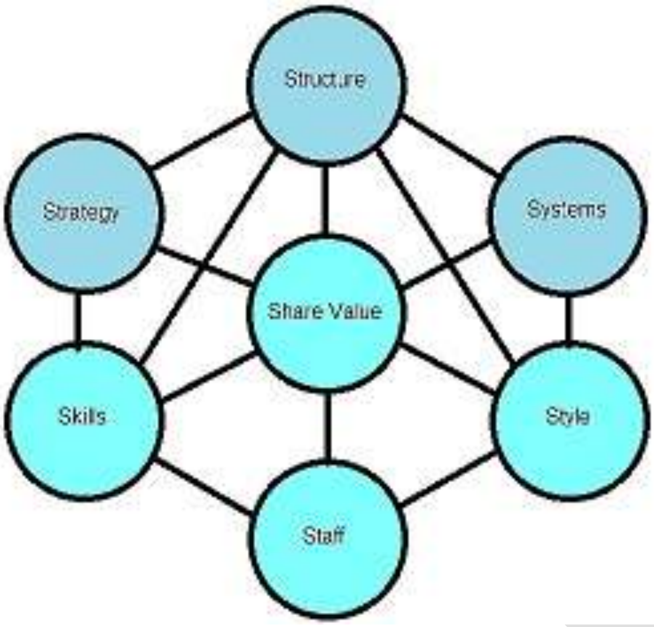
Hard elements are easy to define and identify as they are within the direct control of management or leadership team. These elements are

1. Strategy – It is the action plan or strategy statement or roadmap by which the company achieves a competitive advantage.
2. Structure – It refers to the organization chart or reporting pattern of the company.
3. Systems – The daily activities and processes that the staff carry out for doing their day to day work. This may be IT systems, formal processes, etc.

Soft elements are related to the culture of a team or organization, working atmosphere. These elements are difficult to define and intangible or less tangible. These elements are

4. Shared values – Core values of the company which get reflects within the culture and general code of conduct.
5. Skills – a Core competency of employees of the company which plays an important role in defining the success of an organization.
6. Staff – General capabilities of staff.

7. Style – Style of leadership adopted and how it influences the strategic decision, performance and people motivation.



Keeping shared values at the central, influence all other elements which are interconnected. The remaining six elements are derived from the vision and mission of the organization. If the core values changes, rest other parameter changes. The original vision of the company is formed by the values of the founder.

Below set of question will help you to get detailed information about hard and soft elements of your organization

Strategy:

1. What is the strategy to achieve the defined goal and objective?
2. How a company uses its resources and capabilities to achieve goals?
3. What are the competitive advantages of the company?
4. How does the company deal with market pressure and competition?
5. How the company maintaining or achieving a high customer satisfaction index.

Structure:

1. What are the organization's hierarchy and reporting structure?
2. How the various department co-ordinate with each other?
3. What is the responsibility of each role defined in the company?
4. How is decision making? Centralize or de-centralize?
5. How do the staff align with strategy?
6. How is the communication channel across the company?

System:

1. What are the system and processes that run the organization?
2. How systems are monitored and controlled?
3. What internal rules and processes does the team use to keep on track?

Shared Value:

1. What are the vision and mission of the company?
2. How is the core value appearing in real day to day work?
3. What are the fundamental values that the company built on?

Style:

1. How effective leadership style is?
2. Is management participative?
3. Are employees motivated to perform all tasks?
4. Do the employees work with collaboration, co-ordination and competitively?
5. Does management reward for task, behavior, and deliverable?

Staff:

1. What is the size of the staff?
2. Are there any gaps between the required capabilities and available staff?
3. If gap, what is the plan to fill?
4. Is there any specialization available in the team?

Skills:

1. What is the strongest skill available in the team?
2. What is a company known for doing well?
3. Do the current set of employees capable of doing the job?
4. How the company assesses and monitor the skills of the employee?
5. How a company train and improve their skills?

Once the questions are answered, the data should be examined. The analysis should look for Consistency, Alignment, Conflicts, Gaps, Support, Strengths, Weaknesses. By comparing the current and future states, gaps can be assessed, which leads to improvement and action plans.

PEST Analysis

There are so many factors need to be analyzed by an organization to achieve optimum performance in this tough business environment. Many companies conduct a PEST analysis to understand the market situation before launching new products and services. This is a fundamental tool for planning and strategizing the systematic risk response.

PEST Analysis is useful for four main reasons:

1. It helps identify a business or personal opportunities and gives advanced warning of significant threats.
2. It reveals the change within the business environment. This helps to shape the strategy to work according to the change instead of working against the change.
3. It helps to avoid starting projects that are likely to fail, for reasons beyond your control.
4. It can help to show a real picture when you enter a new country, region, or market; because it helps to develop an objective view of this new environment.

Organizations must identify, understand and analyze all factors. PEST analysis categorizes these factors into four categories.

1. Political
2. Economic
3. Socio-Culture
4. Technological.

Political factor to be considered

When restriction or changes in tax policy, labor law, environmental protection, legal and regulatory factors. Foreign tariff and trade restrictions are important factors in running a business. The political environment of another country where we do the business. Also When is the next local, state, or national election? How could this change government or regional policy?

When a government changes corporate policy, corporate social responsibility, environmental issues, and customer protection legislation? What impact does this have on the business?

Economic factors to be considered

When any change or expect any change in economic factors like exchange rates, interest rate, economic growth factors, inflation rate, GDP growth rate, etc. When globalization affect the local economic environment?

What is the availability of a skilled workforce and how difficult to train the workforce to become skilled? What is the unemployment rate?

Socio Culture factors

Social factors include different cultures and demographics view of society. This also includes age distribution, population, and its growth rate, safety awareness, health awareness, career opportunities. The study of these factors is to help organizations understand the dynamics of existing and emerging potential markets and future customer needs. How the religious belief and choice of lifestyle? How society is flexible to adopt new technologies.

Technology factors:

Technological innovations are at a very high pace and consumers have a high attraction of using updated technology. The technological factors include research and development activity, automation, innovation rate of obsolescence. All organizations are forced to look for technical changes as per the trend to compete.

Organizations must focus on:

- Do any of your competitors have access to new technologies that could redefine their products?
- Are there any new technologies that you could be using?
- In which areas do governments and educational institutions focus their research? Is there anything you can do to take advantage of this?
- Are there existing technological hubs that you could work with or learn from?

Therefore, the PEST analysis is useful for organizations for analyzing and understanding the ground realities of the environment they have to operate in. Realizing It helps organizations to be in a better position to analyze the challenges, environment, factors, opportunities, restrictions, and incentives it faces. In case an organization fails to take into account any one of these factors, it may fail to plan and operate properly.

3.3 Develop strategy

Develop several key possible strategies to address the organization's objectives. More important, these possible strategies are developed based on the inputs from stakeholders and the business environment.

One more input is very important, that is a competitive advantage. Organizations need to identify, what is your company best at? Competitive advantage is what your company does or potentially can do better than your competitor or peer companies,

A commonly used framework to find out the competitive advantage or sustained competitive advantage is the VRIO framework.

Another technique to diagnose underlying capability is the comparison between the threshold and distinctive capability.

TOWS with SWOT is also used in developing strategies. Details of this tool are given in later in this section.

Generation of alternative strategic options is approached in 3 steps

A. Basis of competitive advantage: The generic strategies are

- Cost leadership

  Cost leadership strategy aims to reduce the firm's costs at all stages of the value chain. This will allow it to earn a higher return on investment. In the early stages of the product life cycle, experience-curve-driven reductions in costs are important for attaining cost leadership. For a cost leadership strategy to work in the longer term, the volume is usually important. This means that products must address a wide market.

  For example, Walmart uses its position as the largest retailer in the world to bargain for low prices with suppliers and manufacturers. At the same time, Walmart keeps its profit margins very low, selling in volume instead. This enables the company to price its products far below competitors which ultimately helps it sell more.

For fixed cost or high fixed cost companies like the manufacturing industry, capacity utilization has to be maximized. In the software industry, the cost is more or less fixed, leadership tries to increase billable human resources. Many IT companies have a target to maintain 90% billability. In the airline industry, low-cost carriers are operated with the objective of full capacity utilization. They are more profitable than full-service airlines.

- Differentiation

  A differentiation strategy is based on equipping a product or service with some perceived or tangible unique attribute that cannot be easily replicated by competitors. Perceived differentiation can be achieved, for example, through branding.

  For example, Apple iPad Air, The new Apple iPad Air costs approximate $250 to make and retails for approximately $450 – a margin of 45%. Competing tablets often cost nearly $200 less. Apple can command such premiums because it has successfully differentiated its product from competitors.

- Focus

  The objective of a focus strategy is to gain competitive advantage by building on advantages of segment-specific specialization, such as a better understanding of the requirements of buyers in that segment and the ability to respond to particularities of buyers. It is also referred to as a niche strategy.

  The pursuit of a niche strategy amounts to choosing a competitive playing field where competitive advantage can be achieved. In pursuing this niche strategy, for this special group of buyers, the firm aims to be the "best" supplier. Within the chosen segment, the firm can achieve a competitive advantage either because it is the cost leader or because it offers a differentiated product.

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Differentiation Focus

For example, Italian automaker Ferrari pulled in revenues of $3.44B in 2016 with a net profit of $441,27M in 2016. It sold a total of 8014 in 2016 cars over the year which translates into a profit of ~ $55,811 per car in 2016. In contrast, the Hyundai motor corporation sold 4.914M cars in 2016 and made a profit of $9B. This works out to a profit of ~ $3,058 per car. This illustrates Ferrari's focus strategy. By focusing its products beyond the reach of ordinary consumers, Ferrari can retain the premium segment. This (and the exceptional quality of the cars, of course) enables the company to retain such a huge profit margin per car.

B. Strategy direction: Development strategies are:

- Market penetration - sell more of the same to the same market
- Product development - sell new products to existing customers
- Market Development - seek out new markets for existing products
- Diversification - sell new products to new groups of customers

		Product			
		Existing	New		
Competitive Scope	Broad Target	Market Penetration	Product Development	High	Scope for Leverage
	Narrow Target	Market Development	Diversification	Low	
		High	Low		
		Scope for leverage			

TOWS Analysis

The TOWS Matrix is derived from the SWOT Analysis model, American Management professor, Heinz Weirich developed TOWS analysis to develop strategic options from the external-internal analysis.

SWOT starts with internal analysis however TOWS starts with an external analysis that is threats and opportunities. This tool gives a clear picture of the environment in which the organization works and the opportunities to formulate a strategy to decide the direction of the company.

TOWS can help an organization to make decisions better, finalize opportunities and protect better against threats.

TOWS can also assist in generating valuable ideas for developing strategies and tactics. This tool goes beyond the SWOT which finds out internal strengths and weaknesses and external opportunities and threats in the environment. This tool pushes the organizations to think about how they can improve and safeguard against threats and get a better understanding of shortcomings and expertise.

The initial points of this tool, are analyzing external opportunities and threats. Up next are the internal strengths and weaknesses, which will subsequently be linked to the external analysis. See the picture below.

Internal → External ↓	Strength (S)	Weakness (W)
Opportunities (O)	S-O Strategies	W-O Strategies
Threats (T)	S-T Strategies	W-T Strategies

And this is where it goes a step beyond the traditional SWOT analysis; strategies and tactics appear by plotting **S-O** (Strengths-Opportunities), **W-O** (Weaknesses-Opportunities), **S-T** (Strengths-Threats) and **W-T** (Weaknesses-Threats).

- Internal Strengths and External Opportunities (**S-O**) – Strategies to use the strengths to benefit from existing external opportunities.
- Internal Strengths and External Threats (**S-T**) – Strategies to benefit from their strengths to avoid or lessen (potential) external threats.
- Internal Weaknesses and External Opportunities (**W-O**) – Strategies to use opportunities to overcome the organization's internal weaknesses.
- Internal Weaknesses and External Threats (**W-T**) – Strategies to minimize weaknesses and thus avoid potential threats.

3.4 Establish strategic objectives;

During this step, you will be able to view the overall picture of the organization and able to select a few strategic options. Some templates or tools may be used to understand various strategic options, set key measures and broad timeline to ensure the selected strategic options are achieved.

While it is quite common that measures and timeline are given by top management, it is the intention of this step 4 that these measures and timeline is SMART What it meant was Specific (S), Measurable (M), Achievable (A), Realistic (R) and Time-bound (T). When the strategic options are SMART, it will help to ease the communication toward the lower level of the organizational hierarchy for implementation.

The strategic objective may be like below

To exceed $10 million in the next 5 years.
To increase revenue by 10% annually.
To decrease expenses by 5%.
To increase net profit by 10% annually

4. How strategy moves from evaluation via implementation to realization.

4.1 Evaluate and select strategic option

It is very often, several strategies are developed and all of them are looking important. Since organizations would have several key issues to tackle, you must use proper tools to select a few from all possible strategies.

You can classify evaluation in three parts,

A. Analysis of all possible all the negative consequences of each option. Use FMEA (Failure Modes and Effects Analysis), Risk Analysis, Impact Analysis.
B. Evaluate financial basis using NPV, Cost-Benefit Analysis, IRR, Break-Even Analysis.
C. Combine financial and non-financial together with the help of Decision Tree and Decision Matrix Analysis.

It helps you weight individual decision criteria, and consider subjective features - like team fit and the likelihood of team buy-in - as well as objective, tangible factors like cost and return on investment.

4.2 Strategy Implementation:

Many organizations failed to realize its full potential of their strategies is due to weak implementation. In this, a proper deployment plan is developed to implement these strategies.

Companies normally adapt one of the below execution strategies.

A. Internal development
B. Acquisition
C. Joint development

Three alternative methods by which to implement a strategy once it has been selected: internal development, acquisition, and joint development. They describe the choice between the methods as a trade-off between cost, speed, and risk.

Internal development of products or markets takes more time but means the firm is fully in control and develops a detailed understanding. In terms of product development, companies such as Sony have built a reputation for internal r&d, thus turning the business into a technology leader. In some cases, companies grew overseas operations from a small sales office into a virtually autonomous business
unit.

Acquisitions can be a quick route for product and market development. Established companies often acquire smaller businesses to gain control of new technology and hence new products. Also, once the decelerating growth or shake-out stage of the product life cycle is reached industries often consolidate. This is an opportunity to increase market share through the acquisition of competitors. Overseas acquisitions are a well-established way of building a foreign presence.

Joint development is a co-operative form of development by which risks and rewards are shared between partners. Forms include joint ventures, licensing, franchising and the use of agents. In many cases, joint development is the only suitable form of export market development because local laws prohibit or discourage foreign investment. In cases where a small firm has a patent but cannot exploit it fully, licensing is the best method for product and market development. Licensing is also an excellent way of staving off competition from substitutes because potential competitors will find it cheaper to license than to develop substitute technology.

4.3 Implementation Review

Constant review is the key success factor for effective strategy deployment. It is important to make decisions for any deviation to the plan.

It is vital to decide what to review and with whom to review. The Balance score is a tool to review the effectiveness of strategy implementation.

Companies normally adapt one of the below execution strategies.

Balance Score Card

A balanced scorecard (BSC) is a visual tool used to measure the effectiveness of an activity against the strategic plans of a company. Balanced scorecards are often used during strategic planning to make sure the company's efforts are aligned with overall strategy and vision. This is used for managing strategy.

It was created to help businesses evaluate their activities with more than just a straight financial eye using revenues, costs, and profits.

A traditional balanced scorecard examines the initiatives of a company from four different perspectives: Financial, Learning & Growth, Business Processes, and Customer.

These activities are noted in the appropriate buckets with stated measures, targets, and objectives for data collection and analyzing. The activities that can be evaluated and assessed properly.

This tool connects the dots between Strategy elements (Mission, Vision, core values, goals) with operational objective (continuous improvements, KPI, targets, and initiatives) BSC view the organization in four perspectives and develop objectives, measures KPI and initiatives relative to each of these four views.

These four perspectives are:

Financial perspective -considering the financial performance of the organization by analyzing financial resources like financial statements, balance sheets, etc.

Customer perspective - It sees the organizational performance concerning the customer and the key stakeholders. It considers the value-added to the customer, satisfaction of the customer and retention of the customer.

Internal Processes perspective- views the organizational performance of the quality and processes of product, service and business processes.

Learning and growth perspective views organizational performance through the lenses of human capital, infrastructure, technology, culture and other capacities that are key to breakthrough performance.

Financial	Financial performance Effective resource utilization
Customer & stakeholder	Value addition to the customer Customer and stakeholder satisfaction, Customer retention
Internal Process	Efficiency of processes

	Quality of deliverables
Learning & growth	Technology and culture Infrastructure Human resource capital

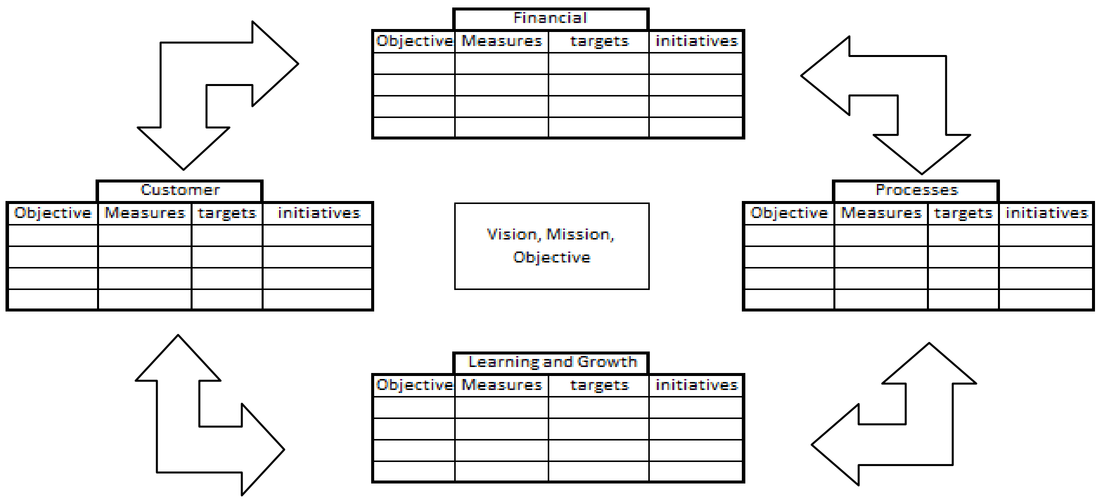
How to Draw a Balanced Scorecard

Balanced scorecards are easiest to create using a template. Start with space for all four perspectives and just add what specifically applies to your organization.

Determine the vision: The company's main vision belongs in the center of a balanced scorecard. Whichever part of your company looks at, you should always keep this goal or vision in mind.

Add perspectives: To create a traditional balanced scorecard, place the four perspectives in a ring around the central vision.

Add objectives and measures: Within each perspective define specific objectives, measures, targets, and initiatives.



Connect each piece: Link each perspective to the others using arrows to indicate that they're all interconnected when it comes to achieving the company's vision.

Share and communicate: Use the balanced scorecard to demonstrate how different initiatives and short-term actions are contributing to the long-term strategic objectives of the company.

An alternate way of drawing it as below and link each perspective.:

	Objective	Measures	Target	initiative
Financial				
Customer				
Processes				
Learning and growth				

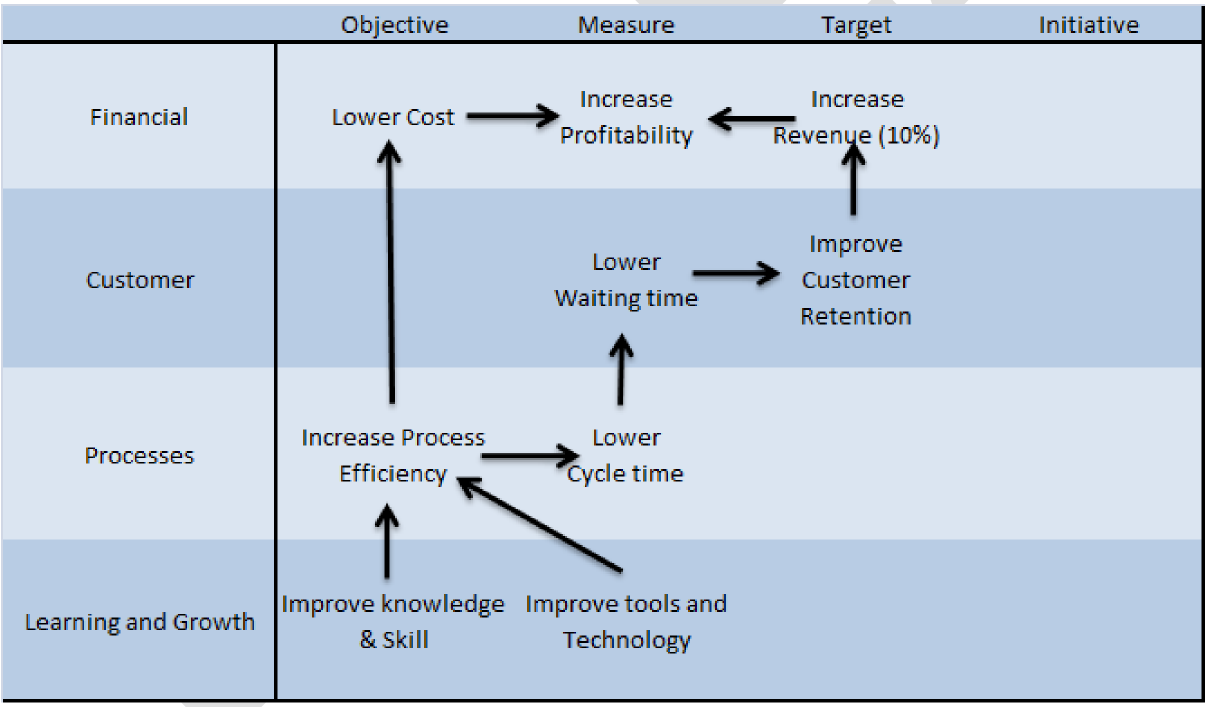
Basic terminology used in BSC

Strategic Objective:

Vision and mission statements are more in abstract form. Converting these into actionable items. These actionable items should help the organization to achieve strategic objectives. Strategic objectives are the improvement activities that an organization must do during strategy implementation.

Strategy Mapping:

Strategic mapping is a very powerful element to visualize and communicate how value is created or going to be created by the organization. A strategy map is a graphical representation and shows a logical, cause & effect connection between objectives.



Refer above diagram, normally, performance improvement in the objectives found in the Organizational Capacity or learning & growth perspective (the fourth row) facilitating the organization to improve its Internal Process perspective (the third row), which, in turn, allow the organization to generate desirable results in the Customer and Financial perspectives (the second and first rows).

Measures: A

For each objective in the map, a minimum one measure must be identified and tracked over the period. These KPIs show progress towards the desired objective and also monitors the effectiveness of strategy implementation. It shows the gap between actual and target performance and tells about effectiveness and efficiency.

Case Study of Company X

The objective of this case study

Objective of the case study to understand the insight of IT company. This case will tell you the challenges and problems of the company. After reading this case, the author's recommendation to use strategic frameworks to uncover risks, improvement area, management issues and suggest solutions which can help the company to grow and achieve its vision.

Company History

The company X founded in 2002 and started its operation from Pune, India. Founder members left their job from MNCs with 4-7 years of working experience in the industry. Both of them possess a master's degree in computer science. They got their first order from their previous employer of less than USD 5K for providing support to deployment of applications and server maintenance. Initially, margins were very less but after a few months, they hired 2 employees and started their journey of business expansion. They were looking for business opportunities in financial services.

Current Status and locations –

The company's philosophy is to be debt-free. The company didn't launch any IPO yet. Promoters need all shareholders to participate in the growth of the company they don't want anyone to see the company from outside just by investing some money.

The current strength of the company is 6000 employees around the world. The company is operating its business form more than 16 countries. They have capabilities of working in various domains like Banking, financial services, insurance, cell phone and commodity insurance, education and many more. However, BFSI is the highest contributor and cell phone insurance is the second-highest contributor in the top line and bottom line.

Recently the company decided to stop working on small or not grown accounts, however many of them are long-time engagements, generating revenue and better margins.

Company growth:

The financial growth of this company is much better than peer companies. In 2012, the total revenue of the company was USD 200 million and in 2015 it touched USD 500M, The company aims to be USD 1 billion company by 2022.

The financial information of the company from 2010 is given in exhibit 1.

Aggressive marketing strategy is the formula for the growth. Senior management of the marketing group keeps an eye on every deal by their competitors. The company is always quickly adapting new technological trends in the market. CEO and COO are in news by their innovative ideas and thought-provoking statements. It reduces their time to market significantly. Customer relationship is excellent and selling more services to the existing customers. Their R&D and innovation for excellence group are dedicatedly working for fulfilling customer need on advancement and their business growth. CEO of the company sits in the USA and heading sales and marketing and developing a good relationship with top management of customers,

The company has acquired 4 small size firms of UK and Europe in the years 2014 and 2015 by investing USD 120 million. These companies are working in financial services and financial consulting having the strength of approximately 500 employees. This is improving the company's footprints in the financial domain.

Company Structure

The company has recently restructured into 5 Strategic Business Units (SBU) based on domain and functions. The company has a typical line organizational structure with where the employee has a direct vertical relationship, however, in some case structure looks functional as well. Our of 6000 employees, 20-25% are in senior management, which means more than 1200 employees are the associate director and above. The company has comparatively more designation. Sometimes bureaucracy is also clearly visible in senior management. The company normally give promotions every 2 or 3 years. There is no written policy on promotions but old employees are normally getting more faster growth than new hires. It is commonly observed that the boss is 3-5 years less experienced than the new hire at the project manager or above position.

Approach for Quality

Between 2005 to 2008, the company put a lot of effort to get CMMi certification and awarded by level 3 in August 2008. Getting the CMMi level is of course and achievement but maintaining that also takes a lot of effort, cost, and motivation. While attempt towards level 5, much senior management started questioning, "Does it required?" Opinions were taken internally as well as from customers. Internally people had a lot of resistance and many customers also told that they need quality but how it is achieved is not their matter. So the top management stopped the initiative and didn't renew even the level 3 certification.

The company developed its quality management tool with very limited features based on its need for maintaining quality. Finally, they lost the focus on the quality of deliverables. Only one person is running the show of quality assurance In many accounts, the process is driven by customers and not uniform across organizations. Data points collected for generating quality metrics are also not sufficient. Every delivery unit is measuring quality in their way decided by the customer. Customers many times complaints about high rework and sever defects.

HR and recruitment

HR has created quality policy documents for all standard situations. The company is extra caring for female employees. Like female employee cant stay in the office beyond 9 PM. IN cab services, female security accompanies them to pick and drop facility.

The HR team is very active in managing events and functions. Each SBUs get a good budget for party and outings.

Leave policy is better for employees who completed 5 years in the company. They get more leaves. Insurance policy is also different than other companies. Normally insurance premium is paid by the organization, however here only 50% is contributed by the company.

HR has no policy on layoffs. It is on case to case basis every time. The co-ordination of the recruitment team is very poor with directors managing bench strength. The company recruits people and they have no work for a long time. Hiring is on a higher salary for critical technology or project but such employees come in risk when their critical assignment gets over. It is observed that layoffs are at all levels and mostly new hires.

Branding

The company used many ways to improve awareness about their services in the market. The company took the initiative of financial accelerators, developed few products in the financial domain. They launch their new services in a big way to percolate in the market. Founder members are very frequent in national and international media.

On the other hand, internal to the company, they distribute, t-shirts, helmet for bikers, coffee mugs, bags, and many things multiple times in a year.

Admin and other support functions

Admin and other support functions are working well. Admin is very active and very responsive to the queries raised by employees. They are always helping hands. They know their role and responsibility and act accordingly.

Word of mouth

It is very important for a company what their employee and ex-employee say about the company. The company is a paymaster and known for sending on-site to the employee. This is the main attraction of joining this company. Also famous for hiring and firing without any solid reason. Many people say, Don't join this company if you don't know any senior people there. Overall, the name of this company is not very good as far as employee caring is a concern.

SWOT Analysis of COMPANY X

Strength:

The company has a strong footing in business consulting, financial services, banking, and insurance domain. Team of technologist and business analyst giving strength to complete bigger and challenging projects. This is a big competitive advantage Company X has among its peer companies.

The company has no debt and it keeps top management away from managing external liabilities and they are always concentrating on expansion strategy and business growth. $800m revenue with 6000 employees is a sign of growth. Revenue per employee is much better than any other company in the IT industry.

Company X is operating from 16 countries which enables it to have a strategic presence to spread the wings across the globe. The company has an open and similar work culture at all locations which gives comfort for sharing thoughts and ideas to everyone.

Weakness:

A lot of improvement required in the quality process followed by the company. Processes are not well established and also quality metrics are not correctly captured. It is a deteriorating influence on the company's success. Quality standards should be achieved and it is always a valuable addition to the customers.

People remember more about the bad situation of the IT industry during the recession period and more about Company X's lay-off. It has given sever dent on hiring. Many talented professionals are not keen to join even if the company is doing very well and pays a handsome salary. Hiring and lay-off policy can be better balanced.

The company has very few big and long contractual accounts. Margins are always high in big accounts.

Opportunities:

Company X has established the FinLab recently at two locations where the client can get the benefits of the company's digital R&D investment. This innovation hub can attract the existing customer as well as prospective customers to get the feel of new digital technology. It creates opportunities to get new engagements and new clients.

Initiated innovation on blockchain technology (Digital Services) with a deep understanding of the client's business challenges. Financial services are redefining the existing infrastructure as this sector is experiencing significant activities from back end clearing and settlement. Several financial institutions are looking for creating their blockchain.

The company has acquired 4 companies in a year to expand financial services in the UK and Europe region. Export revenue from the UK contributes 17% in the Indian IT industry. As per economists, UK and Europe will observe a marginal hike in the economy in 2018-19, this is an opportunity to get good business from this region. All four companies have a good customer base and also growing this sector. Company X is having the opportunity to get a competitive advantage for faster ROI.

Threats:

Many companies like Infosys, TCS, Wipro, HCL are venturing in new high-value digital Services like blockchain to get the maximum benefit from this trend. These are a big player and may create big threats for investment done by Company X on Digital Services. Company X must have some unique offerings in terms of services and billing rates.

Company X doesn't have data for proving a continuous improvement in the quality of deliverable and to show in maturity in development processes. Even though the company has good expertise in domains and technical knowledge, the possibility of getting continuous business from most of the clients is less. there are very few accounts with long term relationships.

The company has acquired 2 IT services firm in a row and maybe running short of relatively low reserve funds. Indian IT industry gets 39% revenue from USA accounts and of course Company X is also getting the majority of business from the USA. If the policy of new President Mr. Trump negatively impacts on off-shoring business, Company X may struggle to increase the reserve funds.

Acquiring multiple companies in a year may become an opportunity for a competitor to plot a strategy to steal the existing customer and the market share. After the M&A announcement, everyone knows that most experts and seniors of the company would be busy in making it successful. Also, another possibility is that the existing customer may not be happy with M&A and may get fear of losing your concentration and focus on their work. They may think to switch the vendor.

As per the HBR report, 70%-90% M&A falls in the challenge at the time of merging. Integrating two companies is a lot of work and sometimes professionals involved in this activity, are overloaded. A small mistake may cause blame games in the management team and deteriorate a healthy work environment. Making the culture homogeneous between two companies, retaining talents, maintaining the growth path of employees is another threat to dent the margins.

Company X's most of the business is from BFSI vertical. If the world faces a slowdown in the financial sector, the company may get a big hit on revenue and growth.

Conclusion:
Company X should take steps very carefully and strategically. It looks at more risk because the number of threats is higher than opportunities. The acquisition of multiple companies is hitting reserve funds. In such a scenario, if they lose bidding of any high prospects or big accounts, they may need to layoff many employees to maintain operations and margins. At this moment the company is running in the red zone and this is a chance of strategy makers and implementers to bring the business in the green zone.

Example of Porter's 5 force analysis with a case study

Below is an example of Company X, which has entered into blockchain implementation. This analysis will give my opinion about the competition in the blockchain marketplace and tips for you to develop strategies for company X to get success. Company X is based in India. Majorly works in the BFSI domain and recently started hunting for blockchain implementation projects. This company is 15-year-old and total revenue is now around USD 500 million.

Competitive rivalry: High

The blockchain market is estimated to grow from USD 210.2 million in 2016 to USD 2,312.5 million by 2021, at a Compound Annual Growth Rate (CAGR) of 61.5%.

Company X possess high technical as well as marketing capability and is growing very fast compare to Indian peer companies with revenue of around USD 500 million. The company took the right decision at the right time to enter into the blockchain. However, company X is/would be facing strong competition in the market. In the blockchain, it has competition with big Indian companies like Infosys, TCS, Wipro. These companies have started blockchain PoCs 2 years before company X and have better footing now. Despite having good technical skills, company x needs very aggressive marketing and complete PoCs as fast as possible to reduce time to market. Competition is tough on rates as well.

Rivalry can be reduced by

1. Differentiate your product.
2. Create a strong brand.
3. Build loyalty.
4. Increase switching costs for customers.

Bargaining power of suppliers: Medium

Blockchain experts are not easily available in the market. Expert human resources are having more bargaining power due to their demand in the industry. Hardware and software are available at standard cost. However, bargaining power is not very high because many options are available to implement the blockchain and it can be cloud-based as well.

Hardware supply and service providers are no longer costly. Company X is also shifting toward cloud-based services.

Bargaining power of customers: Very High

Company X sells software and consulting services predominantly in the BFSI domain. The bargaining power of the customer is relatively high because of a large number of competitors in the industry. The blockchain is evolving technology and use cases identified are limited & mostly known in the BFSI domain only. Other industrial sectors are still working to freeze the use cases. Blockchain implementations are in B2B space and projects are a large amount per one time, therefore, buyers get more power of negotiation. Another reason is that the big companies are financially very strong and they sometimes pay switching costs also to the customers as an additional benefit to win the orders.

This can be minimized by

1. Partnering
2. Increase loyalty
3. Increase incentives and value-added

The threat of new entrants: Medium

Company X is established in 2001 and now settled with the client base in the US and Europe. All start-up companies see the US and Europe for setting up their business. It is difficult for Indian start-ups to go to Europe and dent Company X. Europe indeed represents a lucrative market for tech companies looking to expand their operations further, but punitive employee laws (in some countries), legal issues and the challenges that often arise from these and vast business cultural differences is a big test. This has led many technology businesses to exit Europe prematurely, despite heavy investment into the market, as they have experienced a poor return on investment (ROI) and a lack of understanding of the legal and cultural differences they are likely to face.

The number of European and American new entrants in the Europe market is increasing as the European IT market is estimated at over USD 300bn in 2017. They may work more efficiently and effectively in Europe due to cultural and legal awareness. They may be the better choice for the customer to provide support after the sale for a long time.

Creating a strong brand and increasing the efficiency of operations may reduce the impact of threats.

The threat of substitute products: High

The customer always the best buy. They want world-class services at the lowest price. A new generation of customers keep switching cost very low and keep multiple vendors for their big projects. Also, entering new vendors for handling their projects. In IT products and services, finding a substitute is easy. Till now company X is getting competitive advantage of skills and technology. It must be maintained at the same pace and keep up-to-date resources.

Other emerging offshore locations like the Philippines, China, Eastern Europe are offering more cost advantages and creating threats for projects from the Asian region. Price quoted for projects is the differentiators for the same quality of projects and services.

The regular customer survey is very important to understand their preferences and change the offerings accordingly certainly help in getting continuous business.

Conclusion:

Nowadays in most the business, bargaining power is usually very high in all the industry segments. The company X has good technical capabilities and acquired companies in the UK and Europe area. They should now leverage opportunities. For big projects, the switching cost is very high. New customers can be added if the cost can be as lower as possible. In this situation, the operational cost can be kept minimum to improve the business. Senior management of the company should visit existing customers of newly acquired companies to understand their requirements and maintaining the relationship at the same pace.

Questions

1. Explain the organization's alignments within different business units.
2. Apply SWOT and TOWS analysis and explain which strategy is the best for the company in the current situation.
3. Analyze the company's new ventures in the UK and Europe. Use 5 force analysis.