STRATEGIC MANAGEMENT

Unit 3

By

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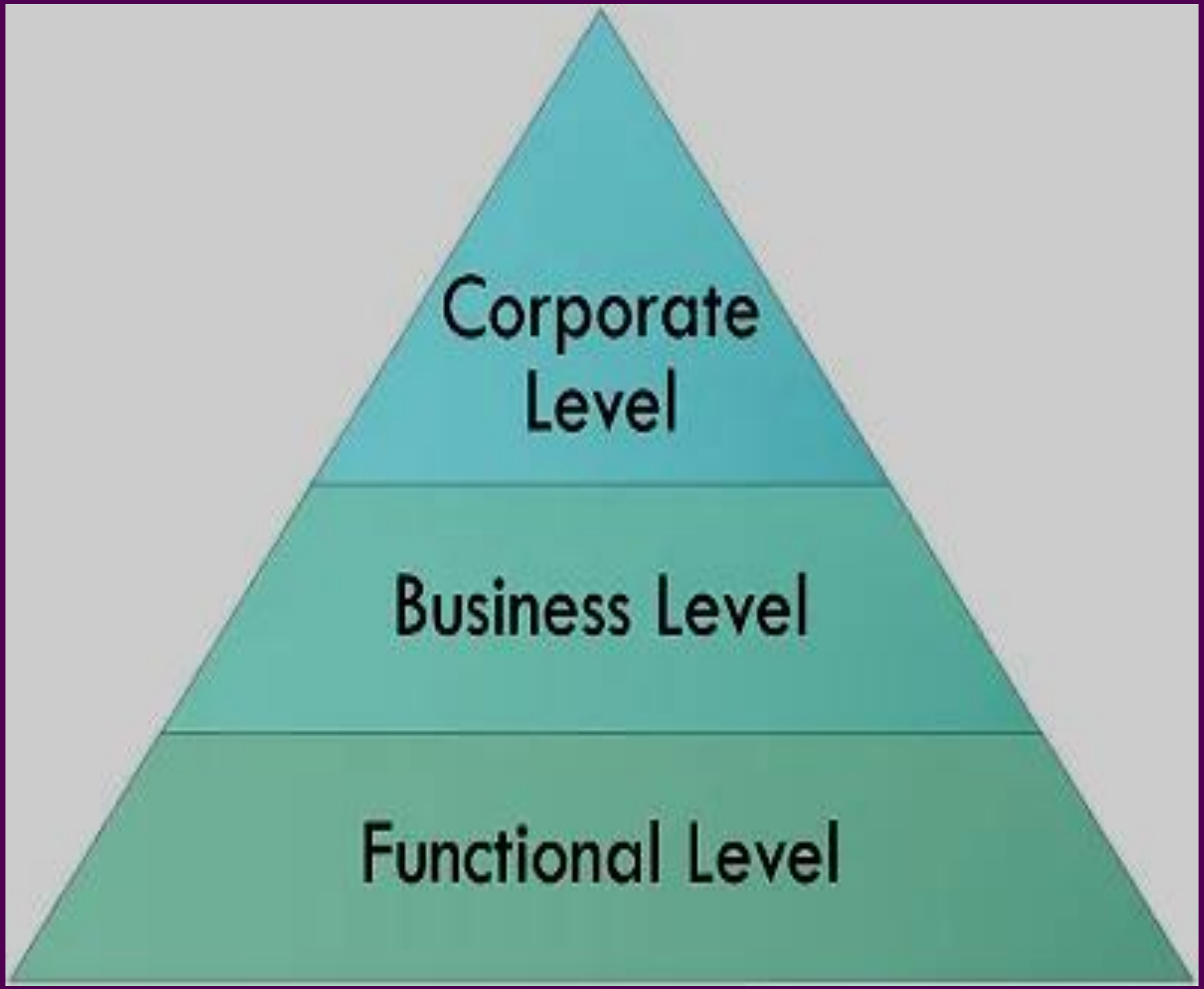
Strategy Formulation

Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level. At the corporate level, strategy is formulated for your organization as a whole. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes.

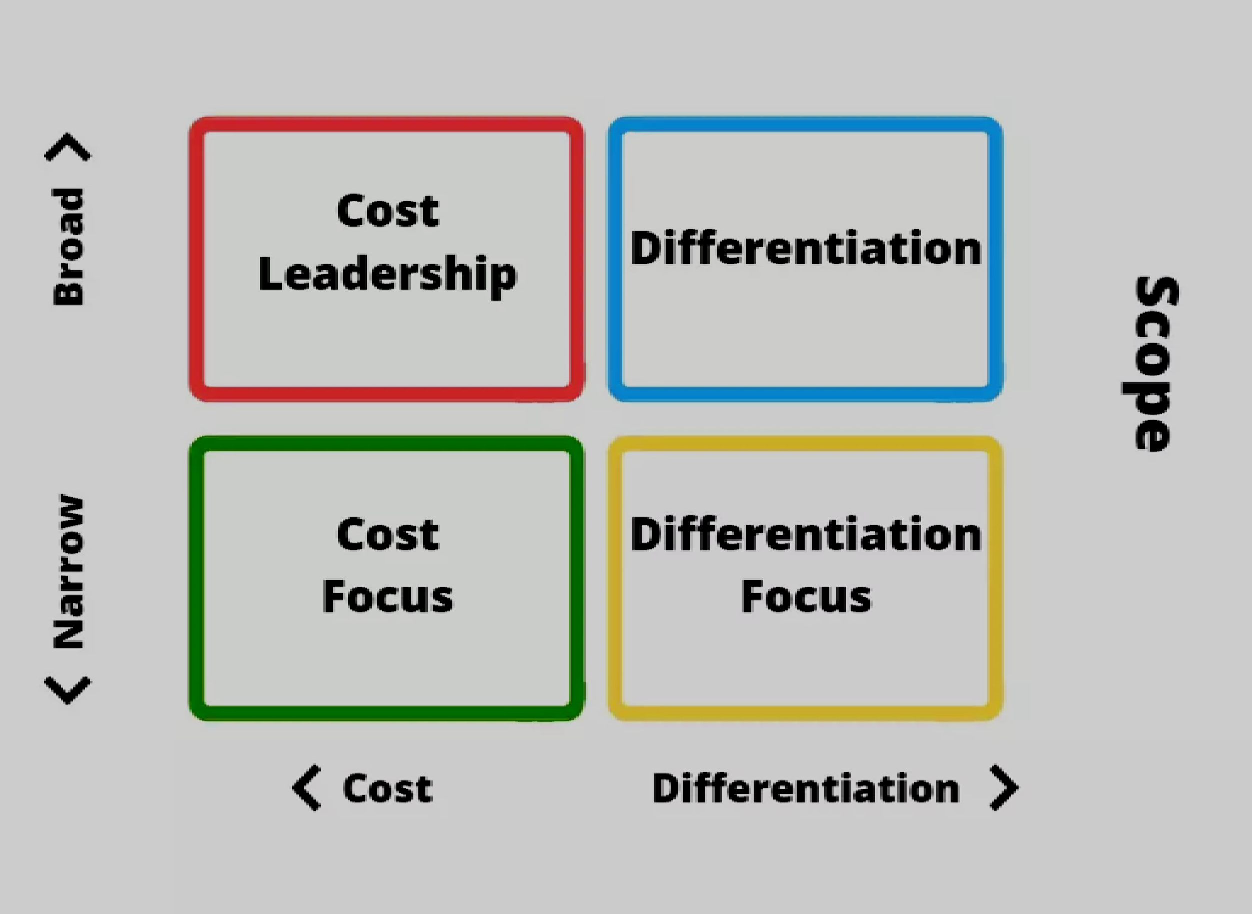


SWOT Analysis

Business Strategies

- A comprehensive business strategy creates a structure for companies to carry out their organisational goals. It helps them remain relevant in the market and identify growth opportunities.
- **Major components of a business strategy**
- Core values
- Business objective
- SWOT analysis
- Measurement
- Operational tactics

Types of Competitive Strategies by Porter



Competitive Strategy: Cost Leadership, Differentiation & Focus

- **Cost Leadership**
- Here, the objective of the firm is to become the lowest cost producer in the industry and is achieved by producing in large scale which enables the firm to attain economies of scale. High capacity utilization, good bargaining power, high technology implementation are some of factors necessary to achieve cost leadership. e.g Mi phones
- **Differentiation Leadership**
- Under this strategy, firm maintains unique features of its products in the market thus creating a differentiating factor. With this differentiation leadership, firms target to achieve market leadership. And firms charge a premium price for the products (due to high value added features). Superior brand and quality, major distribution channels, consistent promotional support etc. are the attributes of such products.E.g. BMW, Apple

- **Cost focus**
- Under this strategy, firm concentrates on specific market segments and keeps its products low priced in those segments. Such strategy helps firm to satisfy sufficient consumers and gain popularity. E.g. Sonata watches
- **Differentiation focus**
- Under this strategy, firm aims to differentiate itself from one or two competitors, again in specific segments only. This type of differentiation is made to meet demands of border customers who refrain from purchasing competitors' products only due to missing of small features. It is a clear niche marketing strategy. E.g. Titan watches

Cooperative: Mergers & acquisition Strategies

1. Determining business plan drivers.
2. Identifying acquisition financing constraints.
3. Developing a list of acquisition candidates.
4. Building preliminary valuation models.
5. Rating/ranking acquisition candidates.
6. Reviewing and gaining approval for the strategy.

Joint Venture

- **Joint Venture (JV)** is a cooperative enterprise entered into by two or more business entities for the purpose of a specific project or other business activity. The reason for a joint venture is usually some specific project.
  - **To combine resources.** A bigger entity may have more clout in an industry or more resources to ensure the success of a venture.
  - **To combine expertise.** In technical businesses, one company might have expertise in one part of a venture while the second company might have expertise in another part. For example, Company A might be good at creating software, while Company B has experience creating the hardware that's needed for a venture.
  - **To save money.** Two companies might consider a joint venture to save money on advertising, maybe at a trade show or in a trade publication.

Corporate Strategy: Concept, Components, Importance

- Corporate Strategy takes a portfolio approach to strategic decision making by looking across all of a firm's businesses to determine how to create the most value.
    1. Allocation of resources
    2. Organizational design
    3. Portfolio management
    4. Strategic tradeoffs

Strategies: Stability, Expansion, Retrenchment and Combination strategies

- Growth is essential for an organization. Organizations go through an inevitable progression from growth through maturity, revival, and eventually decline. The broad corporate strategy alternatives, sometimes referred to as grand strategies, are: **stability/consolidation, expansion/growth, divestment/ retrenchment and combination strategies**. During the organizational life cycle, managements choose between growth, stability, or retrenchment strategies to overcome deteriorating trends in performance.
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Corporate Parenting

- There are basically three styles of corporate parenting as follows;
- Financial control. Under this style the role of the corporate parent is to monitor and evaluate the financial performance of investment portfolio of the respective business units. The corporate managers act as agents on behalf of shareholders and financial markets to identify and acquire viable assets and businesses. The business unit managers are given the autonomy to carry out business activities and make decisions at their level. However, the corporate parent sets performance standards for control purposes.
- Strategic planning. Under this style the role of the corporate parent is to enhance synergies across the business units. This may be achieved through: envisioning to build a common purpose, facilitating cooperation across businesses and providing central services and resources.
- Strategic control. Under this style the corporate parent leverages its resources and competences to build value for its businesses. For example, a corporate could have a valuable brand or a specialist skill. The corporate parent uses its parenting capabilities to seize opportunities for growth.

Functional Strategies

- **Functional Strategy'** is the strategy or organisational plan adopted by each functional area, viz. marketing, production, finance, human resources and so on, in line with the overall business or corporate strategy, to achieve organisational level objectives. The functional strategy of a company is customized to a specific industry or strategic business unit (SBU) and is used to back up other corporate and business strategies. Each department develops certain objectives, which is to be enforced by employees, and aids in the achievement of final organisational goals.

Outsourcing

- **Outsourcing** is the process of contracting a business function or any specific business activity to specialized agencies. Mostly, the non-core areas such as sanitation, security, household, pantry, etc are outsourced by the company. The company makes a formal agreement with the agency.
- Advantage and Disadvantage

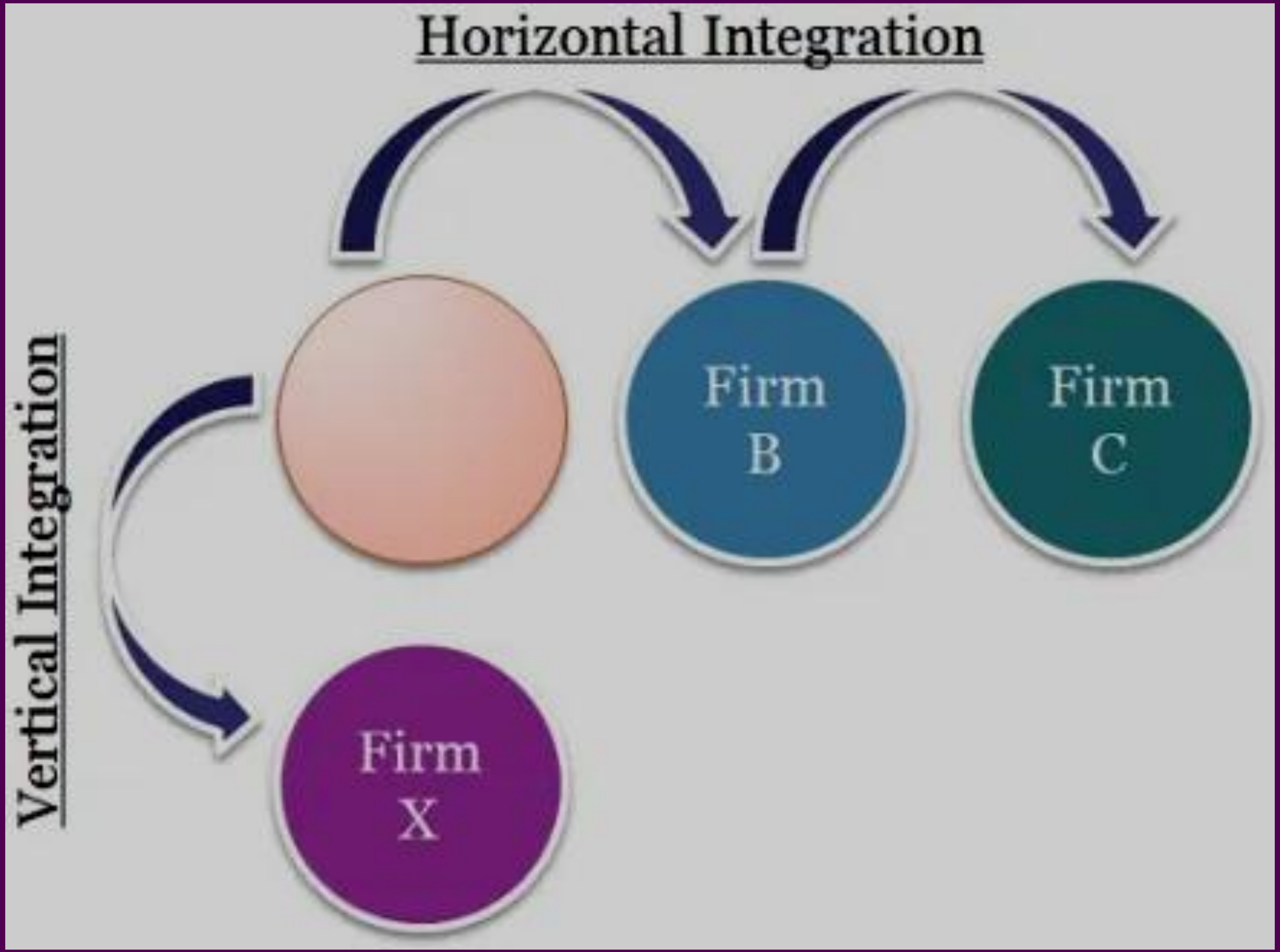
Offshoring

- Offshoring refers to obtaining services or products from another country, and is often what news articles are really referring to when they discuss outsourcing. While much offshoring involves outsourcing production to another company it can also refer to simply re-location certain aspects of a business to another country.

Concentration Strategies

- There are three concentration strategies:
- (a) Market penetration,
- (b) Market development, and
- (c) Product development.

Integration Strategies: Horizontal & Vertical



Diversification: Related & Unrelated

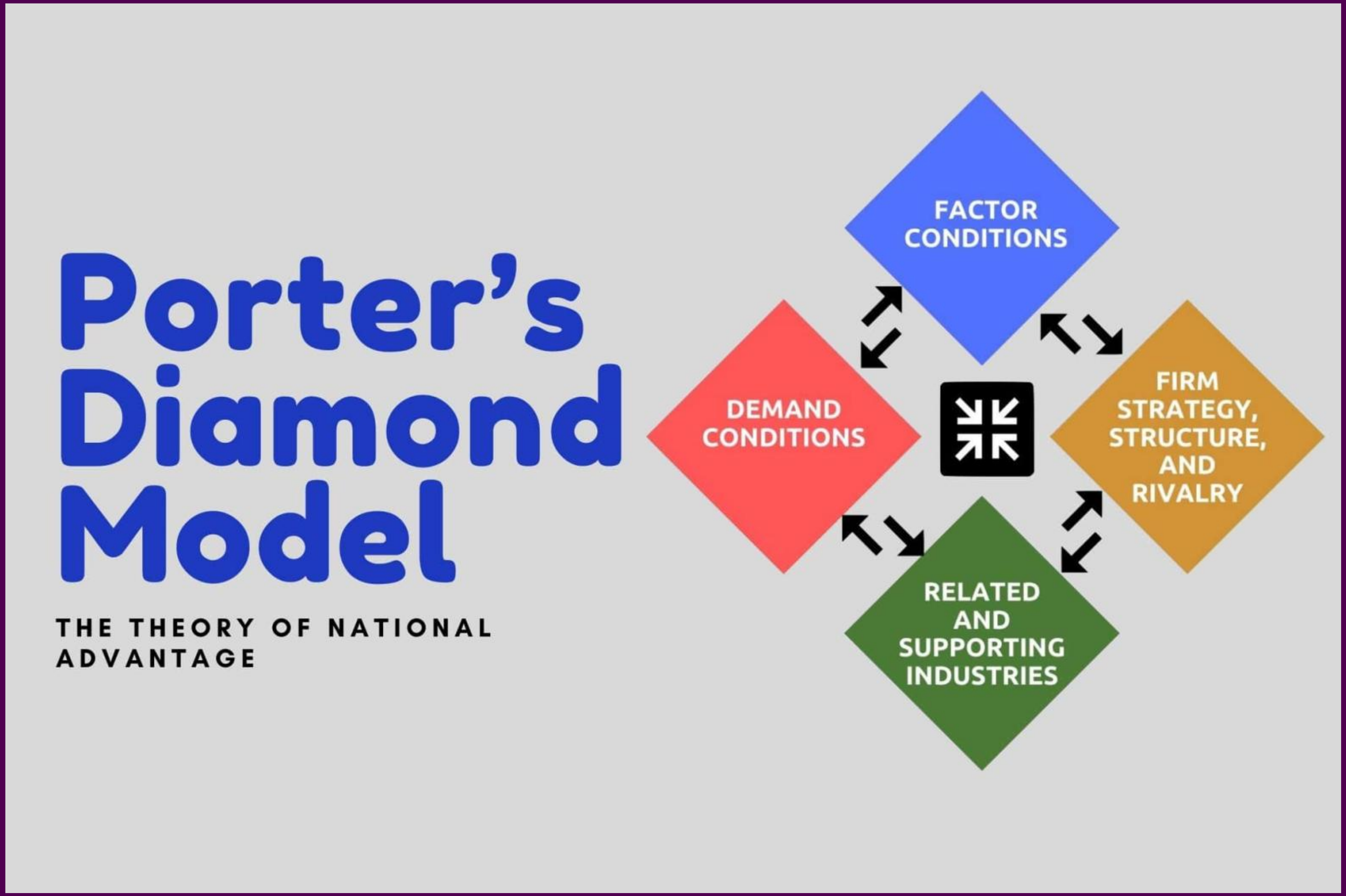
- Diversification means spreading your investments or business into different things. There are two types: related and unrelated.
- **Related Diversification**: This is when you invest in or expand into things that are connected or similar to what you're already doing. For example, a company that makes cars might start making motorcycles or trucks. It's like adding new branches to the same tree.
- **Unrelated Diversification**: This is when you invest in or expand into things that have no connection to what you're already doing. For instance, a company that makes cars might start a completely different business, like selling food. It's like planting a new tree in a different field.

Internationalization

- Internationalization has been one of the strategies being used by most executives to reduce the cost of operations. Businesses with overhead costs can have the excess cost cut down in countries that have relatively deflated currencies as well as low cost of living.

Porters Model of Competitive Advantage of Nations

- **Porter Diamond Model**
- Porter Diamond is a model that emphasizes the competitive advantage of an industry or business that makes it work better than other competitors in a region or country. Also known as the Porter Diamond Theory of National Advantage, the model explains why certain industries thrive in particular nations. Companies use this model to analyze the competitive environment in foreign markets before entering them.


Porter's Diamond Model
THE THEORY OF NATIONAL ADVANTAGE
FACTOR CONDITIONS
DEMAND CONDITIONS
FIRM STRATEGY, STRUCTURE, AND RIVALRY
RELATED AND SUPPORTING INDUSTRIES