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CA INTERMEDIATE

Strategic Management

Vol 3 | Chart Book

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Applicable for May/Nov. 2019 Attempt

Introduction to Strategic Management (Chart 1.1)

Business Policy

- a) Study of **functions & responsibilities of senior management**, crucial problems that affect success in total enterprise, & decisions that **determine direction of org. & shape its future**
- b) Tends to emphasise on **rational-analytical aspect of SM**

Concept of Management

- a) A **set of interrelated functions & processes** carried out by management of an org. to **attain its objectives**
- b) Management is an **influence process** to make things happen, to gain **command over phenomena**, to induce & direct events & people in a particular manner
- c) Managers formulate **organisational goals, values & strategies**, to cope with, to adapt & to adjust themselves with behaviour & changes in environment

Concept of Strategy

- a) Igor H. ansoff :
Common thread among organization's activities & product-markets that defines **essential nature of business that organization has or planned to be in future**
- b) William F. Glueck :
A unified, **comprehensive and integrated plan** designed to assure that basic objectives of enterprise are achieved
- c) Strategy is **game plan management** is using to take market position, conduct its operations, **attract & satisfy customers, compete successfully, & achieve organizational objectives**
- d) Strategy is **partly proactive & partly reactive**
- i) Proactive actions on part of managers to **improve co's market position & financial performance &**
- ii) **Reactions to unanticipated developments & fresh market conditions**
- iii) Proactive strategy is **planned strategy** whereas reactive strategy is **adaptive reaction** to changing circumstances

Strategic Management

It refers to managerial process of **developing a strategic vision, setting objectives, crafting a strategy, implementing & evaluating strategy**, & initiating corrective adjustments where deemed appropriate

Objectives of Strategic Management

- a) To create **competitive advantage**
- b) To **guide co.** successfully through all changes in environment

Benefits of Strategic Management

- a) Helps management to define **realistic objectives & goals** which are in line with vision of co.
- b) Helps organisations to be **proactive instead of reactive**
- c) able to control their **own destiny in a better manner**
- d) Provides **framework** for all major decisions
- e) It provides **better guidance** to entire org. on crucial point
- f) act as **pathfinder** to various business opportunities
- g) **identify ways & means** as how to reach them
- h) Serves as a **corporate defence mechanism** against mistakes & pitfalls
- i) **Avoid costly mistakes** in product market choices or investments
- j) Helps org. to develop **certain core competencies & competitive**

Limitations of Strategic

- a) Environment is **highly complex & turbulent**. It is difficult to understand complex environment & **exactly pinpoint** how it will shape-up in future
- b) SM is a **time-consuming** process
- c) It is a **costly**
- d) In a competitive scenario, where all organisations are trying to move strategically, it is **difficult to clearly estimate competitive responses** to a firm's strategies

Introduction to Strategic Management (Chart 1.2)

Strategic Levels in Organisations

Strategic management in non-profit & government organization

a) Corporate Level

- i) It consists of **CEO, other senior executives, BOD, & corporate staff**
- ii) These individuals participate in **strategic decision making within org.**
- iii) This role includes **defining mission & goals, determining what businesses it should be in, allocating resources among different businesses, formulating & implementing strategies that span individual businesses, & providing leadership for org.**

b) Business Level

- i) **Development of strategies** is responsibility of those in charge of different businesses called business level managers
- ii) It consists **divisional managers & staff**
- iii) Business-level manager, is **head of**
- iv) Strategic role of these managers is to **translate general statements of direction**
- v) Business-level managers are concerned with strategies that are **specific to a particular business**

c) Functional Level

- i) It consists **Functional Managers**
- ii) Responsible for **specific business functions or operations**
- iii) Whereas general managers oversee operation of a whole co. or division
- iv) It provide most of info that makes it possible for business & corporate level general managers to, **formulate realistic & attainable strategies**
- v) It may **generate important ideas** that subsequently may become major strategies for Co.

Educational institutions

- 1) **Significant change in competitive climate has taken place**, hence different strategies are adopted for attracting best students
- 2) Educational delivery system has also **undergone considerable changes** with introduction of computers & internet technologies
- 3) **Online college degrees** becoming common & represent threat to Traditional Colleges

Medical organizations

- 1) **Hospitals are creating new strategies** today as advances in diagnosis & treatment of chronic diseases are undercutting that earlier mission
- 2) **Backward integration strategies** that some hospitals are pursuing include acquiring ambulance services, waste disposal services, & diagnostic services
- 3) Strategic landscape of healthcare is **changing because of Internet**

Governmental agencies & Dept

- 1) **Central, state, municipal agencies, Public Sector Units, departments** are responsible for **formulating, implementing, & evaluating strategies**
- 2) Governmental strategists usually enjoy little freedom in **altering organizations' missions or redirecting objectives**
- 3) Strategic issues get discussed & **debated in media & legislatures**



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Dynamics of Competitive Strategy (Chart 2.1)

Competitive Strategy

- a) Objective of a competitive strategy is to generate competitive advantage, increase market share & beat competition
- b) A competitive strategy consists of moves to:
 - i) Attract customers
 - ii) Withstand competitive pressures
 - iii) Strengthen market position

Competitive Landscape

- a) It is a business analysis which identifies competitors, either direct or indirect
- b) It is about identifying & understanding competitors & at same time, it permits comprehension of their vision, mission, core values, niche market, strengths & weaknesses
- c) Steps to understand Competitive Landscape
 - i) Identify competitor
 - ii) Understand competitors
 - iii) Determine strengths of competitors
 - iv) Determine weaknesses of competitors
 - v) Put all of information together

Strategic Analysis

- a) Two most important situational considerations are-
 - i) Industry & competitive conditions and
 - ii) An organisation's own competitive capabilities, resources, internal strengths & weaknesses, & market position
- b) Issues to consider for Strategic Analysis-
 - i) Strategy evolves over a period of time
 - ii) Balance of external & internal factors
 - iii) Risk

Core Competence

- a) Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals
- b) It is combination of skills & techniques rather than individual skill or separate
- c) It is a unique set of skills & expertise, which will be used through out org. to open up potential markets to be exploited
- d) A Core competency fulfills three criteria:-
 - i) It should provide potential access to a wide variety of markets
 - ii) It should make a significant contribution to perceived customer benefits of end product
 - iii) It should be difficult to imitate for competitors/ rivals
- e) Four specific criteria of sustainable competitive advantage that Co. use to determine those capabilities that are core competencies
 - i) Valuable
 - ii) Rare
 - iii) Costly to imitate
 - iv) Non-substitutable

Dynamics of Competitive Strategy (Chart 2.2)

Methods of Industry & Competitive Analysis

a) Dominant Economic Features of Industry

- i) Size & nature of market
- ii) Scope of competitive rivalry
- iii) Growth rate & position in business life
- iv) No. of rivals & their relative market
- v) Number of buyers & their relative sizes
- vi) Types of distribution channels used to access consumers
- vii) Pace of technological change in both production process innovation & new product introduction.
- viii) Whether products & services of rival firms are highly differentiated, weakly differentiated, or essentially identical
- ix) Whether org can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising
- x) Whether key industry participants are clustered in a particular location
- xi) Whether high rates of capacity utilization are crucial to achieving low-cost production efficiency
- xii) Capital requirements & ease of entry &
- xiii) Whether industry profitability is above/below par

b) Nature & Strength of Competition

- i) One imp component of industry & competitive analysis involves delving into industry's competitive process to discover what main sources of competitive pressure are & how strong each competitive force is.
- ii) It works similarly enough to use a common analytical framework in gauging nature & intensity of competitive forces
- iii) Porter's five forces model is useful in understanding competition

c) Triggers of Change

- i) All industries are characterized by trends & new developments that gradually produce changes important enough to require a strategic response from participating firms
- ii) There are more causes of industry change than an industry's position in life cycle.
 - Driving forces
 - Most common driving forces

d) Identifying the Strongest/Weakest Companies (Strategic Group Mapping)

- i) Technique for revealing competitive positions of industry participants is strategic group mapping, which is useful analytical tool for comparing market positions of each firm separately
- ii) Grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth
- iii) Industry contains only one strategic group when all sellers pursue essentially identical strategies & have comparable market positions
- iv) Procedure for constructing a strategic group map & deciding which firms belong in which strategic group:-
 - Identify competitive characteristics that differentiate firms
 - Plot firms on a two-variable map using pairs of these differentiating characteristics
 - Assign firms that fall in about same strategy space to same strategic group
 - Draw circles around each strategic group proportional to respective share of total industry sales revenues

e) Likely Strategic Moves of Rivals

Unless a business organisation pays attention to what competitors are doing, it ends up flying blind into competitive battle

f) Key Factors for Competitive Success

- i) Questions which help identify an industry's key success factors :-
 - On what basis do customers choose between competing brands of sellers?
 - What product attributes are crucial?
 - What resources & competitive capabilities does a seller need to have to be competitively successful?

g) Prospects & Financial Attractiveness of Industry

- Important factors on which to base such conclusions include-
- i) Industry's growth potential
 - ii) Whether competition currently permits adequate profitability
 - iii) Whether competitive forces will become stronger or weaker?
 - iv) Whether industry profitability will be favourably or unfavourably affected by prevailing driving forces?
 - v) Competitive position of an organisation in industry & whether its position is likely to grow stronger or weaker.
 - vi) Potential to capitalize on vulnerabilities of weaker rivals
 - vii) Whether co. is able to defend against or counteract factors that make industry unattractive?
 - viii) Degrees of risk & uncertainty in industry's future
 - ix) severity of problems confronting industry as a whole

Dynamics of Competitive Strategy (Chart 2.3)

Value Chain Analysis

Competitive Advantage

I) Meaning

It means of describing activities within & around an organization, & relating them to an assessment of competitive strength of an organization

II) Primary activities

- a) Inbound logistic
- b) Operation
- c) Outbound logistics
- d) Marketing & sales
- e) Service

III) Supportive Activities

- a) Procurement
- b) Technology
- c) HR management
- d) Infrastructure

IV) Managing linkages-

a) Meaning

- i) Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors
- ii) It is management of these linkages which provides 'leverage' & levels of performance which are difficult to match

b) Competitive advantage of internal linkages in value chain

- i) They are geared to high-volume, low-variety, low-unit-cost production
- ii) linkages between a primary activity & a support activity may be basis of a core competence
- iii) key investments in systems or infrastructure which provides basis on which Co. outperforms competitors
- iv) Linkages between different support activities may also be basis of core competences
- v) Provide both a better service & a service at reduced cost
- vi) Computer-based systems fundamentally transformed customer experience (ola & Uber)

a) Meaning

- i) If a co's strategies result in superior performance, it is said to have a competitive advantage.
- ii) Competitive advantage is achieved advantage over rivals when a co's profitability is greater than average profitability of firms in its industry

b) Characteristics

- | | |
|---------------------|---------------------|
| i) Durability | iii) Imitability |
| ii) Transferability | iv) Appropriability |

c) Value Creation

- i) Concept of value creation was introduced primarily for providing products & services to customers with more worth
- ii) How profitable a co. becomes depends on 3
 - Value customers place on co's products
 - Price that a company charges for its products
 - Costs of creating those products



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Dynamics of Competitive Strategy (Chart 2.4)

Portfolio Analysis

- 1) Business Portfolio is *collection* of businesses & products that *make up company*
- 2) It is set of *techniques* that help strategists in *taking strategic decisions* with regard to individual products or businesses
- 3) Three important concepts, knowledge of which is *prerequisite to understand different models of portfolio analysis*

Strategic Business Unit

- 1) Analysing Portfolio may begin with *identifying key businesses* termed as *SBU*
- 2) It is a unit of company that *has a separate mission & objectives* & which can be *planned independently* from other co. businesses

Characteristics of SBU

- 1) *Single business* or collection of related businesses that can be *planned separately*
- 2) Has its own set of *competitors*
- 3) Has manager who is *responsible for strategic planning & profit*

Experience Curve

- 1) Experience curve is based on commonly observed phenomenon that *unit costs decline* as firm *accumulates experience* in terms of cumulative volume of production
- 2) It results from variety of factors such as *learning effects, economies of scale, product redesign & technological improvements* in production

Product Life Cycle

- 1) PLC is *S-shaped curve* which exhibits *relationship of sales* with respect of time for product that passes through four successive stages :
 - a) *Introduction* : Competition is almost *negligible*, *prices* are relatively *high* & *markets* are *limited*
 - b) *Growth* : *Demand expands* rapidly, *prices fall*, *competition increases* & *market expands*
 - c) *Maturity* : *Competition gets tough* & *market gets stabilised*, *Profit comes down*
 - d) *Decline* : *Sales & profits fall down* sharply due to some *new product* replaces existing product

Globalization

It refers to process of integration of world into one huge market

a) At company level, globalization means two

- i) Company commits itself *heavily with several manufacturing locations* around world & offers products in several diversified industries
- ii) Co's ability to *compete in domestic markets with foreign competitors*

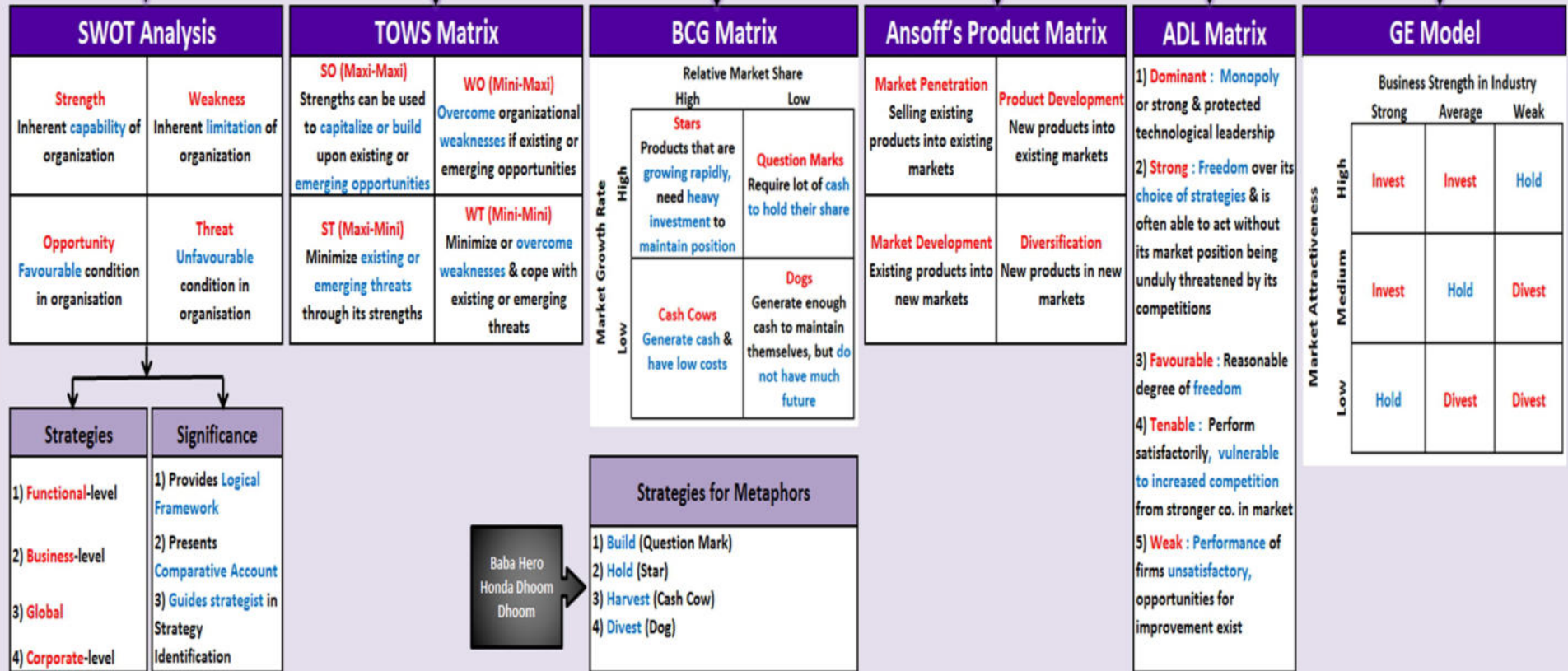
b) Characteristics of Global Company

- i) It is a *conglomerate of multiple units* but all linked by *common ownership*
- ii) Multiple units *draw on a common pool of resources*
- iii) Units *respond to some common strategy*

c) Why do companies go global?

- i) Often *finding opportunities in other parts of globe* organisation extend their businesses & globalise
- ii) There is *rapid shrinking of time & distance* across globe thanks to faster communication
- iii) It is *being realised that domestic markets are no longer adequate & rich*
- iv) Need for *reliable or cheaper source of raw-materials, cheap labour, etc.*
- v) Companies *often set up overseas plants* to reduce high transportation costs
- vi) When exporting organisations *find foreign markets to open up or grow big*
- vii) Rise of services to *constitute largest single sector in world economy*; & regional economic integration
- viii) Trend is towards *increased privatization of manufacturing & services sectors*
- ix) *Apparent & real collapse of international trade barriers* redefines roles of state & industry.

Dynamics of Competitive Strategy (Chart 2.5)



Baba Hero
Honda Dhoom
Dhoom

Strategic Management Process (Chart 3.1)

Strategic Planning

a) It is *process of determining objectives of firm*, resources required to attain these *objectives & formulation of policies to govern acquisition, use & disposition of resources*

b) Dealing with uncertainty:-

Strategic uncertainty, which has far reaching implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties

c) Impact of uncertainty:-

Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, & even potential businesses

Strategic Decision Making

a) It is a managerial process of *selecting best course of action out of several alternative courses* for purpose of accomplishment of organizational goals

b) Major dimensions of strategic decisions are as follows:

- i) It require *top-management involvement*
- ii) It involve *commitment of organisational resources*
- iii) It necessitate *consideration of factors in firm's external environment*
- iv) It likely to have a *significant impact on long-term prosperity of firm*
- v) Strategic decisions are *future oriented*
- vi) It usually have *major multifunctional or multi-business consequences*

Strategic Intent

a) Meaning

i) Strategic Management is defined as a *dynamic process of formulation, implementation, evaluation, & control of strategies to realise organization's strategic intent*

ii) It refers to *purposes of what organization strives for*

iii) Senior managers must define "*what they want to do*" & "*why they want to do*". "*Why they want to do*" represents *strategic intent of firm*

b) Elements of Strategic Intent

- i) *Vision*
- ii) *Mission*
- iii) *Business Definition*
- iv) *Business Model*
- v) *Goals & Objectives*

Strategic Management Process (Chart 3.2)

Vision

Mission

a) Meaning

i) Top management's views about **co's direction & product-customer- market-technology** focus constitute strategic vision for company

ii) It **communicates management's aspirations** to stakeholders & helps steer energies of company personnel in a **common direction**

iii) It is a **road map of a co's future** - providing specifics about technology & customer focus, geographic & product markets to be pursued, capabilities it plans to develop, & kind of company that management is trying to create

b) Elements of a strategic vision

- i) **Who** we are & **where** we are now?
- ii) **Where** we are going?
- iii) Communicating **strategic vision**

c) Essentials of a strategic vision

- i) **Entrepreneurial challenge in developing a strategic vision** is to think creatively about how to prepare a company for future
- ii) Forming a strategic vision is an **exercise in intelligent entrepreneurship**
- iii) Many successful organizations need to **change direction not in order to survive but in order to maintain their success**
- iv) It creates **enthusiasm for course management** has charted & engages members of organization
- v) It **clearly & crisply illuminates direction** in which organization is headed

a) Meaning

A mission is an answer to basic question '**what business are we in & what we do**'

b) Why an organization should have a mission?

- i) To ensure **unanimity of purpose**
- ii) To develop a **basis, or standard, for allocating resources**
- iii) To provide a basis for **motivating use of resources**
- iv) To establish a **general tone**
- v) Serve as a **focal point**
- vi) Facilitate translation of **objective & goals into a work**
- vii) Specify organizational purposes & translation of these purposes into **goals**

c) Following points are useful while writing a mission of a co.

- i) It gives **organization its own special identity**
- ii) what needs it **trying to satisfy, by which customer groups it is targeting**
- iii) **Technology, competencies & activities are important in defining a co's business because they indicate boundaries on its operation**
- iv) **Highly personalized – unique**

d) Questions concerning its business

- i) What is our **mission**?
- ii) What is our **ultimate purpose**?
- iii) What do we **want to become**?
- iv) What kind of **growth do we seek**?
- v) What **business are we in**?

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Strategic Management Process (Chart 3.3)

Goals and Objectives

a) Meaning

- i) Business organization translates their vision & mission into goals & objectives
- ii) Goals are open-ended attributes that denote future states or outcomes
- iii) Objectives are close-ended attributes which are precise & expressed in specific terms
- iv) Objectives are more specific & translate goals to both long term & short term perspective

b) Characteristics of Objectives

- i) Should define organization's relationship with its environment
- ii) Facilitative towards achievement of mission & purpose
- iii) basis for strategic decision-making
- iv) Standards for performance appraisal
- v) Understandable
- vi) Concrete & specific
- vii) Related to a time frame
- viii) Measurable & controllable
- ix) Challenging
- x) Set within constraints

c) Long-term objectives

- To achieve long-term prosperity, strategic planners commonly establish long-term objectives in 7 areas
- i) Profitability
 - ii) Productivity
 - iii) Competitive Position
 - iv) Employee Development
 - v) Employee Relations
 - vi) Technological Leadership
 - vii) Public Responsibility

Strategic Management Model

SM Process

- 1) SM process is not as cleanly divided & neatly performed in practice as Strategic Management Model suggests
- 2) Strategists do not go through process in lockstep fashion
- 3) Application of SM process is typically more formal in larger & well-established organizations

Components

- 1) Develop vision & mission statements
- 2) Establish long term objectives
- 3) Generate, analyse & select strategies
- 4) Implement strategies management issues
- 5) Implement strategies marketing, finance, accounting, R&D, MIS issues
- 6) Measure & evaluate performance

Stages in Strategic Management

- 1) Developing a strategic vision & formulation of statement of mission, goals & objectives
- 2) Environmental & organizational analysis
- 3) Formulation of strategy
- 4) Implementation of strategy
- 5) Strategic evaluation & control

Corporate Level strategies (Chart 4.1)

Typologies of Strategies

Level	Stages of Business Life Cycle	Competition
a) Corporate Level	a) Entry/Introduction Stage - Market Penetration Strategy	a) Competitive Strategies - Cost Leadership, Differentiation, Focus
b) Business Level	b) Growth Stage - Growth/ Expansion Strategy	b) Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance
c) Functional Level	c) Maturity Stage - Stability Strategy	
	d) Decline Stage - Retrenchment/ Turnaround Strategy	

Grand Strategy



A Stability Strategy

a) A stability strategy is pursued by a firm when:-

- i) It continues to *serve in same or similar markets & deals in same or similar products & services*
- ii) *Strategic decisions focus on incremental improvement of functional performance*

b) Characteristics

- i) *Firm stays with same business, same product- market posture & functions*
- ii) *Endeavour is to enhance functional efficiencies in an incremental way, through better deployment & utilization of resources*
- iii) *It does not involve a redefinition of business of corporation*
- iv) *It is basically a safety-oriented, status quo oriented strategy*
- vi) *It does not warrant much of fresh investments*
- vii) *It involves minor improvements in product & its packaging*
- viii) *Risk is less*
- ix) *concentrating its resources & attention on existing businesses/ products & markets*

c) Major Reasons for Stability Strategy

- i) *A product has reached maturity stage of product life cycle*
- ii) *It is less risky as it involves less changes & staff feels comfortable with things as they are*
- iii) *Environment faced is relatively stable*
- iv) *Expansion may be perceived as being threatening*
- v) *Consolidation is sought through stabilizing after a period of rapid expansion*

Corporate Level strategies (Chart 4.2)

B

Growth/ Expansion Strategy

D

Combination Strategy

a) Meaning

Redefining business by enlarging scope of business & substantially increasing investment in

b) Characteristics

- i) *Redefinition of business*
- ii) *It is opposite of stability strategy*
- iii) *It leads to business growth*
- iv) *process of renewal of firm through fresh investments & new businesses/*
- v) *It is a highly versatile strategy; it offers several permutations & combinations*

c) Major Reasons for Growth/ Expansion Strategy

- i) *Imperative when environment demands increase in pace of activity*
- ii) *Strategists may feel more satisfied with prospects of growth from expansion*
- iii) *It may lead to greater control over market vis-a-vis*
- iv) *Advantages from experience curve & scale of operations may accrue*

a) *Enterprise possible to adopt a mix strategies to suit particular situations*

b) *An enterprise may seek stability in some areas of activity, expansion in some & retrenchment in other*

c) *Major Reasons for Combination Strategy*

i) *organization is large & faces complex environment*

ii) *organization is composed of different businesses, each of which lies in a different industry requiring a different response*

d) Types of Growth/ Expansion Strategy

i) Expansion through Diversification

Intensification

Diversification

- *Vertically integrated diversification*
- *Horizontally integrated diversification*
- *Concentric diversification*
- *Conglomerate diversification*

ii) Expansion through Mergers & Acquisitions

- *Vertical Merger*
- *Horizontal Merger*
- *Co-generic Merger*
- *Conglomerate Merger*

iii) Expansion through Strategic Alliance

Advantages-

- *Organizational*
- *Economic*
- *Strategic*
- *Political*

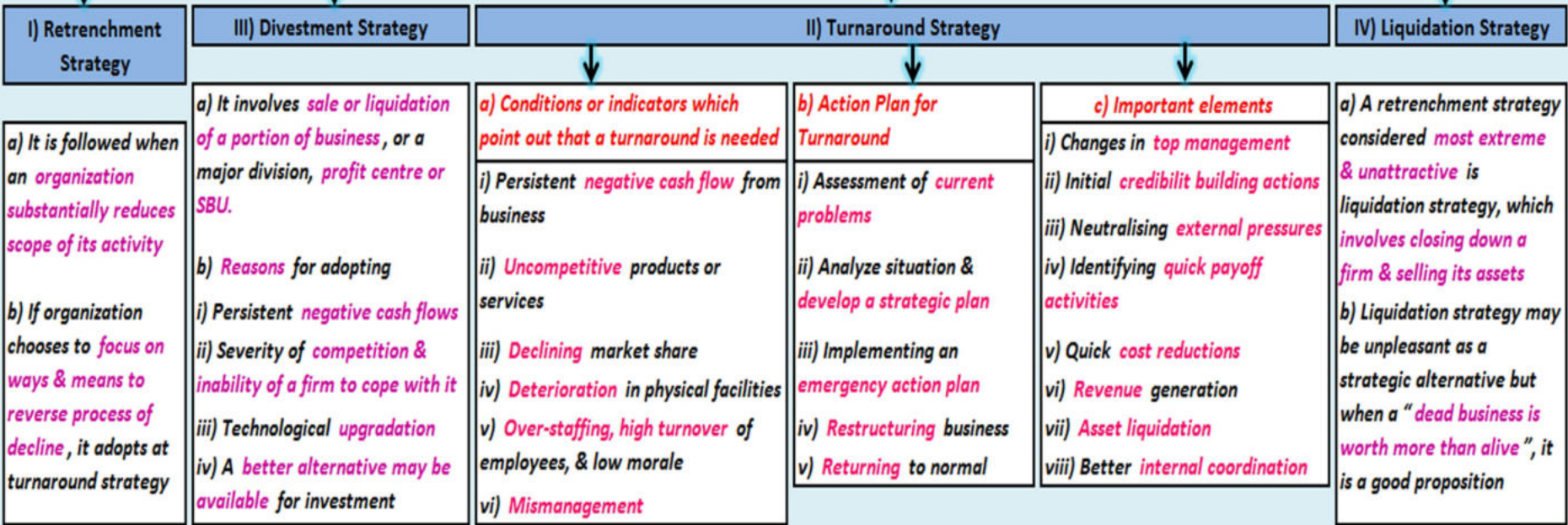
Disadvantages-

- *Sharing*
- *Trade Secrets*
- *Strategic*
- *Political*

Strategic Management Process (Chart 4.3)

C

Retrenchment / Turnaround Strategy



Characteristics of Retrenchment/ Turnaround Strategy

- i) **Obsolescence** of product/process
- ii) Business becoming **unprofitable & unviable**
- iii) Inability to **cope up with cut throat competition**
- iv) Industry **overcapacity**
- v) **Failure of existing strategy**

Reasons for Retrenchment/Turnaround Strategy

- i) Management no longer wishes to **remain in business** continuous losses & unviability
- ii) Business could be made **viable by divesting some of activities**
- iii) Persistent **negative cash flows** from a particular business create financial problems for whole co.
- iv) A **better alternative** may be available for investment

Business Level strategies (Chart 5.1)

Porter's Five Forces Model-Competitive Analysis

I) Threat of New Entrants	II) Bargaining Power of Buyers	III) Bargaining Power of Suppliers	IV) The Nature of Rivalry in Industry	v) Threat of Substitutes
<p>a) A firm's profitability tends to be higher when other firms are blocked from entering industry</p> <p>b) Common barriers to entry include:-</p> <ul style="list-style-type: none"> i) Capital requirements ii) Economies of scale iii) Product differentiation iv) Switching costs v) Brand identity vi) Access to distribution vii) Possibility of aggressive retaliation by existing players 	<p>a) Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services</p> <p>b) This leverage is particularly evident when</p> <ul style="list-style-type: none"> i) Buyers have full knowledge of sources of products & their ii) They spend a lot of money on industry's products iii) Industry's product is not perceived as critical to buyer's needs 	<p>a) Suppliers can command bargaining power over a firm when:-</p> <ul style="list-style-type: none"> i) Their products are crucial to buyer & substitutes are not available ii) They can erect high switching costs iii) They are more concentrated than their buyers 	<p>a) Rivalry among competitors tends to be cutthroat & industry profitability low when:-</p> <ul style="list-style-type: none"> i) An industry has no clear leader ii) Competitors in industry are numerous iii) Competitors operate with high fixed costs iv) Competitors face high exit v) Competitors have little opportunity to differentiate their vi) Industry faces slow or diminished growth 	<p>a) To predict profit pressure from this source, firms must search for products that perform same, or nearly same, function as their existing products</p>



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Business Level strategies (Chart 5.2)

Michael Porter's Generic Strategies

Competitive Scope	Broad target	Cost Leadership	Differentiation
	Narrow Target	Focused cost leadership	Focused differentiation
		Low Cost products/ Services	Differentiated products/ Services
Competitive Advantage			

I) Cost Leadership Strategy

- i) It is a low cost competitive strategy that aims at broad mass market
- ii) It is effective when market is composed of many price-sensitive buyers, when there are few ways to achieve product differentiation

a) Advantages

- i) Rivalry
- ii) Buyers
- iii) Suppliers
- iv) Entrants
- v) Substitutes

b) Disadvantages

- i) may not be remaining for long
- ii) can succeed only if firm can achieve higher sales volume
- iii) Technology changes are a great threat to cost leader
- iv) tend to keep their costs low by minimizing advertising & R&D

II) Differentiation Strategy

- i) Aimed at broad mass market & involves creation of a product or service that is perceived by customers as unique
- ii) Basis of Differentiation-
 - Product
 - Pricing
 - Organization

a) Advantages

- i) Rivalry
- ii) Buyers
- iii) Suppliers
- iv) Entrants
- v) Substitutes

b) Disadvantages

- i) In long term, uniqueness is difficult to sustain
- ii) High a price may cause customer to switch-off to another alternative.
- iii) Fails to work if its basis is something that is not valued by customers

III) Focus Strategies

a) Focused cost leadership

- i) It requires competing based on price to target a narrow market
- ii) It charges low prices relative to other firms that compete within target market

b) Focused differentiation

- i) It requires offering unique features that fulfill demands of a narrow market
- ii) It concentrate their efforts on a particular sales channel

c) Advantages of Focused Strategy

- i) Premium prices can be charged by organisations for their focused product/ services
- ii) Due to tremendous expertise about goods & services, rivals & new entrants may find it difficult to compete

c) Disadvantages of Focused Strategy

- i) Firms lacking in distinctive competencies may not be able to pursue focus strategy
- ii) Due to limited demand, costs are high which can cause problems

Business Level strategies (Chart 5.3)

Business Level Strategies

Business-level strategy is concerned with a firm's position in an industry, relative to competitors & to five forces of competition

- a) *Who are the customers ?*
- b) *How to satisfy customer needs?*
- c) *Business level strategy is concerned with issues such as:-*
 - i) *Meeting needs of key customers*
 - ii) *Achieving advantage over competitors*
 - iii) *Avoiding competitive disadvantage*

Best-Cost Provider Strategy

a) *It is directed towards giving customers more value for money by emphasizing both low cost & upscale differences*

b) *It involves providing customers more value for money by emphasizing low cost & better quality difference. It can be done:-*

- i) *Through offering products at lower price than what is being offered by rivals for products with comparable quality & features or*
- ii) *Charging similar price as by rivals for products with much higher quality and better features*

Functional Level strategies (Chart 6.1)



Reasons why functional strategies are needed

- a) It lay down *clearly what is to be done at functional level*
- b) It provide a *sense of direction to functional staff*

- c) Aimed at *facilitating implementation of corporate strategies*

- d) Act as basis for *controlling activities in functional areas*
- e) Help in bringing *harmony & coordination*



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Functional Level strategies (Chart 6.2)

II) Marketing Strategy

II) Financial Strategy

a) Definition

It is a social & managerial process by which individuals & groups obtain what they need & want through creating, offering & exchanging products of value with others

b) Objectives

- i) Delivering Value to Customers
- ii) Connecting with customers

c) Marketing Mix

It consists of everything that firm can do to influence demand for its products. These variables are often referred to as the "4 Ps". Stand For-

- i) Product
- ii) Price
- iii) Place
- iv) Promotion

d) Expanded Marketing Mix

- i) People
- ii) Process
- iii) Physical evidence

e) Formulation of Marketing Strategy

- i) Marketing has 3 components as planning, implementation & control
- ii) Company performs analysis by identifying environmental opportunities & threats

f) Strategic Marketing Techniques

- i) Social Marketing
- ii) Augmented Marketing
- iii) Direct Marketing
- iv) Relationship Marketing
- v) Services Marketing
- vi) Person Marketing
- vii) Organization Marketing
- viii) Place Marketing
- ix) Enlightened Marketing
- x) Differential Marketing
- xi) Synchro Marketing
- xii) Concentrated Marketing
- xiii) Demarketing

a) Eg of decisions that may require financial & accounting policies:-

- i) To raise capital
- ii) To lease or buy fixed assets
- iii) Determine an appropriate dividend payout ratio
- iv) Extend time of accounts receivable
- v) Establish a certain percentage discount on accounts
- vi) Determine amt of cash that should be kept on hand

b) Acquiring capital to implement strategies (sources of funds)

- i) Basic sources of capital are debt & eq
- ii) Determining an appropriate mix of debt & equity in a firm's capital structure can be vital to successful strategy implementation

c) Projected financial statements / budgets

- i) This analysis can be used to forecast impact of various implementation decisions
- ii) Common types of budgets include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expense budgets, divisional etc

d) Utilization of funds

i) It relates to efficiency & effectiveness of resource utilization in process of strategy implementation

e) Evaluating worth of a business

Approaches for determining a business's worth:-

i) First approach -

- Determining its net worth or stockholders' equity
- After calculating net worth, add or subtract an appropriate amt for goodwill & overvalued or undervalued assets

ii) Second approach -

- Establish a business's worth as 5 times firm's current annual profit
- 5 yr avg profit level could also be used

iii) Third approach -

- Selling price of a similar company
- Price-earnings ratio method
- Outstanding shares method

Functional Level strategies (Chart 6.3)

III) Production/ Operations Strategy

a) It is concerned with capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, & such factors

b) Production/Operations Planning & Control

i) It concerned with aggregate production planning; materials supply; inventory, cost, & quality management; & maintenance of plant & equipment

IV) Logistics Strategy

a) Logistics Management

i) It is a process which integrates flow of supplies into, through & out of an organization
ii) It ensures that right materials are available at right place, at right time, of right quality, & at right cost

How logistics can help a business

i) Cost savings
ii) Reduced inventory
iii) Improved delivery time
iv) Customer satisfaction
v) Competitive advantage

b) Supply Chain Management

i) It refers to linkages between suppliers, manufacturers & customers
ii) It is a process of planning, implementing, & controlling supply chain

Supply chain management system will involve :-

i) Product development
ii) Procurement
iii) Manufacturing
iv) Physical distribution
v) Outsourcing
vi) Customer Services
vii) Performance Measurement

Is logistic management same as supply chain management?

i) Supply chain management is an extension of logistic management
ii) Logistical activities typically include management of inbound & outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning
iii) Logistic management is one of its part that is related to planning, implementing, & controlling movement & storage of goods, services & related information between point of origin & point of consumption
iv) Supply chain management includes more aspects apart from logistics function

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Functional Level strategies (Chart 6.4)

V) Research & Development Strategy

This strategy is used for *developing new products & improving old products* in way that will *allow effective strategy implementation*

Policies can enhance strategy implementation efforts to :

- 1) *Emphasize product or process improvements*
- 2) *Stress basic or applied research*
- 3) *Be leaders or followers in R&D*
- 4) *Develop robotics or manual-type processes*
- 5) *Spend high, average, or low amount of money on R&D*
- 6) *Perform R&D within firm or to contract R&D to outside firms*
- 7) *Use university researchers or private sector researchers*
- 8) *There must be effective interactions between R&D dept's & other functional dept's*

Major R&D approaches for implementing strategy

- 1) *Market new technological products*
- 2) *Be innovative imitator of successful products*
- 3) *Be a low-cost producer*

When a firm should develop R & D expertise internally or outside to external agencies

- 1) *If rate of technical progress is slow, rate of market growth is moderate*
- 2) *If technology is changing rapidly & market is growing slowly*
- 3) *If technology is changing slowly but market is growing quickly*
- 4) *If both technical progress & market growth are fast*

VI) Human Resource Strategy

Strategic responsibilities of HR manager include *assessing staffing needs & costs for alternative strategies proposed during Strategy formulation & developing staffing plan for effectively implementing strategies*

Points to be considered while recruiting HR

- 1) *Training*
- 2) *Recruitment & selection*
- 3) *Appraisal of performance*
- 4) *Compensation*

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Areas where HR manager can play strategic role

- 1) *Providing purposeful direction*
- 2) *Creating competitive atmosphere*
- 3) *Facilitation of change*
- 4) *Diversion of workforce*
- 5) *Empowerment of human resources*
- 6) *Building core competency*
- 7) *Development of works ethics & culture*

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Organisation & Strategic Leadership (Chart 7.1)

Organization & Strategy Implementation

<u>Simple Structure</u>	<u>Functional Structure</u>	<u>Divisional Structure</u>	<u>Multi Divisional Structure</u>	<u>Network Structure</u>	<u>Hourglass Structure</u>
<p>1) It is most appropriate for companies that follow a single-business strategy & offer a line of products in a single geographic market</p> <p>2) Communication is frequent & direct, & new products tend to be introduced to market quickly, which can result in a competitive advantage</p>	<p>1) It groups tasks & activities by business function</p> <p>2) It is simple & inexpensive</p> <p>3) It promotes specialization of labour, encourages efficiency, minimizes need for an elaborate control system, & allows rapid decision making</p> <p>4) It consists of CEO or MD & limited corporate staff with functional line managers in dominant functions</p>	<p>1) It can be organized in four ways:</p> <p>a) Geographic</p> <p>b) Product or service</p> <p>c) Customer</p> <p>d) Functional</p> <p>2) Clear Accountability</p> <p>3) It is based on extensive delegation of authority, managers & employees can easily see results of their good or bad performances</p> <p>4) It is similar to functional structure, because activities are organized according to the way work is actually performed</p>	<p>1) It is composed of operating divisions where each division represents a separate business to which top corporate officer delegates responsibility for day-to-day operations & business unit strategy to division managers</p> <p>2) It was developed, in response to coordination & control-related problems in large firms</p>	<p>1) A newer & somewhat more radical organizational design</p> <p>2) It is termed "non-structure" by its virtual elimination</p> <p>3) It becomes useful when environment of firm is unstable & is expected to remain so</p> <p>4) It provides org with increased flexibility & adaptability to cope with rapid technological change & shifting patterns of international trade & competition</p>	<p>1) This structure consists of 3 layers with constricted middle layer</p> <p>2) Structure has short & narrow middle-management level</p> <p>3) IT links top & bottom levels in org taking away many tasks that are performed by middle level managers</p> <p>4) Managers are generalists & they handle cross-functional issues emanating such as those from marketing, finance or production</p>



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Organisation & Strategic Leadership (Chart 7.2)

Organization & Strategy Implementation

SBU Structure

a) Meaning

- 1) It *improves coordination* between similar divisions & channelling accountability to *distinct business units*
- 2) It is *composed of operating units* where each unit represents *separate business* to which top corporate officer delegates responsibility for day-to-day operations & business unit strategy to its managers
- 3) It requires an *additional layer of management*, which *increases salary exp*

b) Characteristics of a SBU

- 1) It is a *single business* or a *collection of related businesses*
- 2) Has its *own set of competitors*
- 3) It has a manager who has *responsibility for strategic planning & profit performance*

c) Benefits derive by using SBU Structure

- 1) Scientific method of *grouping businesses* of a *multi-business corporation*
- 2) Improvement over *territorial grouping*
- 3) It is a *grouping of related businesses* that can be *taken up for strategic planning*
- 4) Task consists of *analysing & segregating assortment of businesses/ portfolios* & regrouping them into a few, well defined, distinct, *scientifically demarcated business units*
- 5) *Unrelated products/ businesses in any group are separated*
- 6) It helps the firm in strategic planning by *removing vagueness & confusion*
- 7) Each SBU is a *separate business* from strategic planning standpoint
- 8) Each SBU will have its *own distinct set of competitors & its own distinct strategy*

Matrix Structure

a) Meaning

- 1) In matrix structures, *functional & product forms* are *combined simultaneously at same level*
- 2) It is *complex* of all designs since it depends upon both *vertical & horizontal flows*
- 3) It result in *higher overhead*
- 4) Project *objectives are clear*

b) Phases for development of matrix structure Davis & Lawrence

- 1) *Cross-functional task forces*
- 2) *Product/brand management*
- 3) *Mature matrix*

Functional Level strategies (Chart 7.3)

Strategic Leadership

It sets firms direction by *developing & communicating vision of future*, formulate strategies in *light of internal & external environment*

Leadership roles to played by Managers

- 1) *Staying on top of what is happening, closely monitoring progress*
- 2) *Promoting a culture*
- 3) *Keeping organization responsive to changing conditions*
- 4) *Exercising ethics leadership*
- 5) *Pushing corrective actions to improve strategy execution*

Responsibilities of Strategic Leader

- 1) *Making strategic decisions*
- 2) *Formulating policies & action plans*
- 3) *Ensuring effective communication*
- 4) *Managing human capital*
- 5) *Managing change in org.*
- 6) *Creating & sustaining strong corporate culture*
- 7) *Sustaining high performance over time*

Approaches to leadership style

- 1) **Transformational leadership**
 - a) *It uses enthusiasm to inspire people to exert them for good of organization*
 - b) *Transformational leaders offer excitement, vision, intellectual stimulation & personal satisfaction*
- 2) **Transactional leadership**
 - a) *It uses authority of its office to exchange rewards, such as pay & status*
 - b) *More formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement*

Entrepreneurship & Intrapreneurship

a) Entrepreneurship

Person who perceives *business idea & take steps to implement idea is known as an entrepreneur*

An entrepreneur is one who:-

- i) *Initiates & innovates a new concept*
- ii) *Recognises & utilises opportunity*
- iii) *Arranges & coordinates resources such as man, material, machine & capital*
- iv) *Faces risks & uncertainties*
- v) *Establishes a startup company*
- vi) *Adds value to product or service*
- vii) *Takes decisions to make product or service a profitable one*
- viii) *Responsible for profits or losses of co.*

b) Intrapreneurship

i) *It is an entrepreneur who operates within boundaries of an organisation*

ii) *He is vested with authority of initiating creativity & innovation in co's products, services & projects, redesigning processes, workflows & systems*

Strategy supportive Culture

It refers to a co's *values, beliefs, business principles, traditions, ways of operating, & internal work environment*

- i) *Culture: ally or obstacle to strategy execution*
- ii) *Culture can promote better strategy execution*
- iii) *Perils of Strategy-Culture Conflict*
- iv) *Creating a strong fit between strategy & culture*
- v) *Changing a problem culture*

Strategy Implementation & Control (Chart 8.1)

Interrelationships between Strategy Formulation & Implementation

Issues in Strategy Implementation

Matrix

Difference

Forward & Backward Linkages

1) Project implementation

2) Procedural implementation

3) Resource allocation

4) Structural implementation

5) Functional implementation

6) Behavioural implementation

Formulation

Implementation

Forward

Backward

Strategy Implementation
Low High

Effectiveness
High Low

Strategy Formulation
High Low

Efficiency
High Low

Square A Very competitive strategy, but showing difficulties in implementing	Square B Ideal situation, high in formulation & implementation
Square C Low in implementation & low in formulation	Square D Formulation is flawed, but co. is showing excellent implementation skills

High	Go ahead	Die slowly
Low	Survive	Die quickly

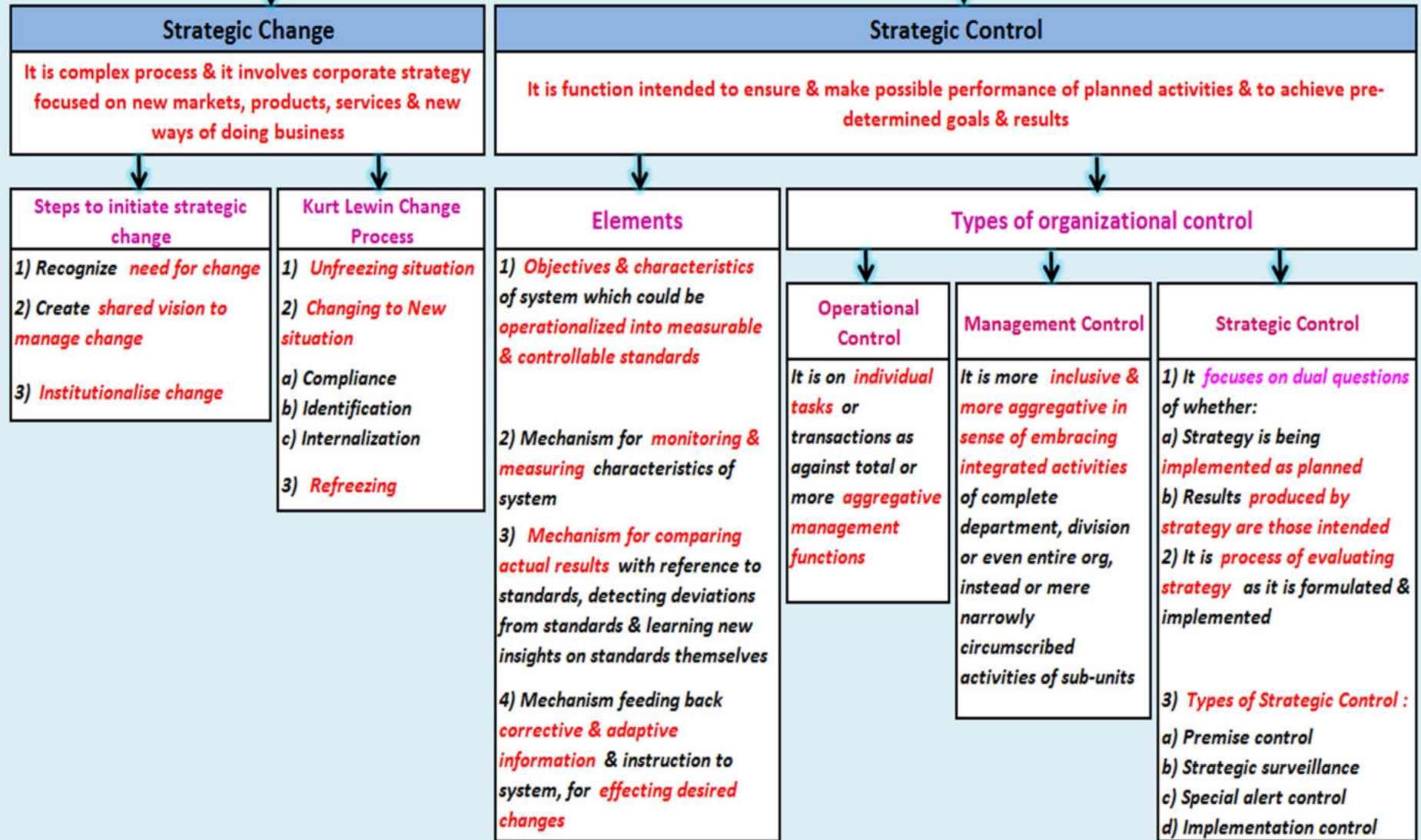
- 1) Positioning forces before action
- 2) Effectiveness
- 3) Intellectual process
- 4) Good intuitive & analytical skills
- 5) Coordination among few individuals

- 1) Managing forces during action
- 2) Efficiency
- 3) Operational process
- 4) Special motivation & leadership skills
- 5) Combination among many individuals

Different elements in strategy formulation starting with objective setting through environmental & organizational appraisal, strategic alternatives & choice to strategic plan determine course that an organization adopts for itself

Organizations tend to adopt those strategies which can be implemented with help of present structure of resources

Strategy Implementation & Control (Chart 8.2)



Strategy Implementation & Control (Chart 8.3)

Strategy Audit

It is an examination & evaluation of **areas affected by operation of a SM process within an organization**

Need of Strategy Audit

- i) When performance indicators reflect that a **strategy is not working properly or is not producing desired outcomes**
- ii) When **goals & objectives of strategy are not being accomplished**
- iii) When a major change takes place in **external environment of org.**
- iv) When **top management plans:-**
 - To **fine-tune existing strategies & introduce new strategies**
 - To ensure that a strategy that has worked in past continues to be in-tune with subtle internal & external changes

Strategy Audit includes 3 Basic activities

- i) Examining **underlying bases of a firm's strategy**
- ii) **Comparing expected results with actual results**
- iii) Taking **corrective actions to ensure that performance conforms to plans**

Richard Rumelt's Criteria for Strategy Audit

- i) **Consistency**
- ii) **Consonance**
- iii) **Feasibility**
- iv) **Advantage**

Reasons why strategy evaluation is more difficult today include following trends

- i) **Increasing difficulty of predicting future with accuracy**
- ii) **Increasing number of variables in environment**
- iii) **Rapid rate of obsolescence of even best plans**
- iv) **Increase in number of both domestic & world events affecting organizations**
- v) **Decreasing time span for which planning can be done with any degree of certainty**

Benchmarking

Meaning

- 1) Benchmarking is **approach of setting goals & measuring productivity based on best industry practices**
- 2) **Process of continuous improvement in search for competitive advantage**

Process

- 1) Identifying **need for benchmarking & planning**
- 2) **Clearly understanding existing processes**
- 3) **Identify best processes**
- 4) **Compare own processes & performance with that of others**
- 5) **Prepare report & Implement steps necessary to close performance gap**
- 6) **Evaluation**

Improvement in managements Functions

- i) **Maintenance operations**
- ii) **Assessment of total manufacturing costs**
- iii) **Product development**
- iv) **Product distribution**
- v) **Customer services**
- vi) **Plant utilization levels**
- vii) **Human resource management**

Strategy Implementation & Control (Chart 8.4)

Business Process Reengineering

Definition	Elements of BPR	Steps in BPR	Problems in BPR
<p>1) BPR is <i>analysis & redesign</i> of workflows & processes both <i>within & between organizations</i></p> <p>2) It is an <i>approach to unusual improvement in operating effectiveness</i> through redesigning of critical business processes & supporting business systems</p>	<p>1) Reengineering begins with a <i>fundamental rethinking</i></p> <p>2) Reengineering involves <i>radical redesigning of process</i></p> <p>3) Reengineering <i>aims at achieving dramatic improvement in performance</i></p>	<p>1) Determining <i>objectives &</i></p> <p>2) <i>Identify customers & determine their needs</i></p> <p>3) Study <i>existing Processes</i></p> <p>4) <i>Formulate a redesign process plan</i></p> <p>5) <i>Implement the redesign</i></p>	<p>1) Only a limited number of companies are <i>able to have enough courage for having BPR because of challenges posed</i></p> <p>2) It <i>disturbs established hierarchies & functional structures.</i></p> <p>3) Involves <i>time & expenditure</i></p> <p>4) There can be <i>loss in revenue during transition period</i></p> <p>5) <i>Setting of targets is tricky & difficult</i></p> <p>6) Reengineering efforts <i>may turn-out to be a failure</i></p>
	<p>Categories of generic business processes of a firm needing redesign</p> <p>1) Processes pertaining to <i>development & delivery of product(s) and/or services</i></p> <p>2) Processes <i>involving interface(s) with customers</i></p> <p>3) Processes <i>comprising management activities</i></p>	<p>Role of IT in BPR</p> <p>a) <i>Impact of IT-systems :-</i></p> <p>i) <i>Compression of time</i></p> <p>ii) <i>Overcoming restrictions of geography and/or distance</i></p> <p>iii) <i>Restructuring of relationships</i></p> <p>b) <i>Areas in which IT - Initiatives provide business values</i></p> <p>i) <i>Efficiency</i> - by way of increased productivity</p> <p>ii) <i>Effectiveness</i> - by way of better management</p> <p>iii) <i>Innovation</i> - by way of improved products & services</p>	

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