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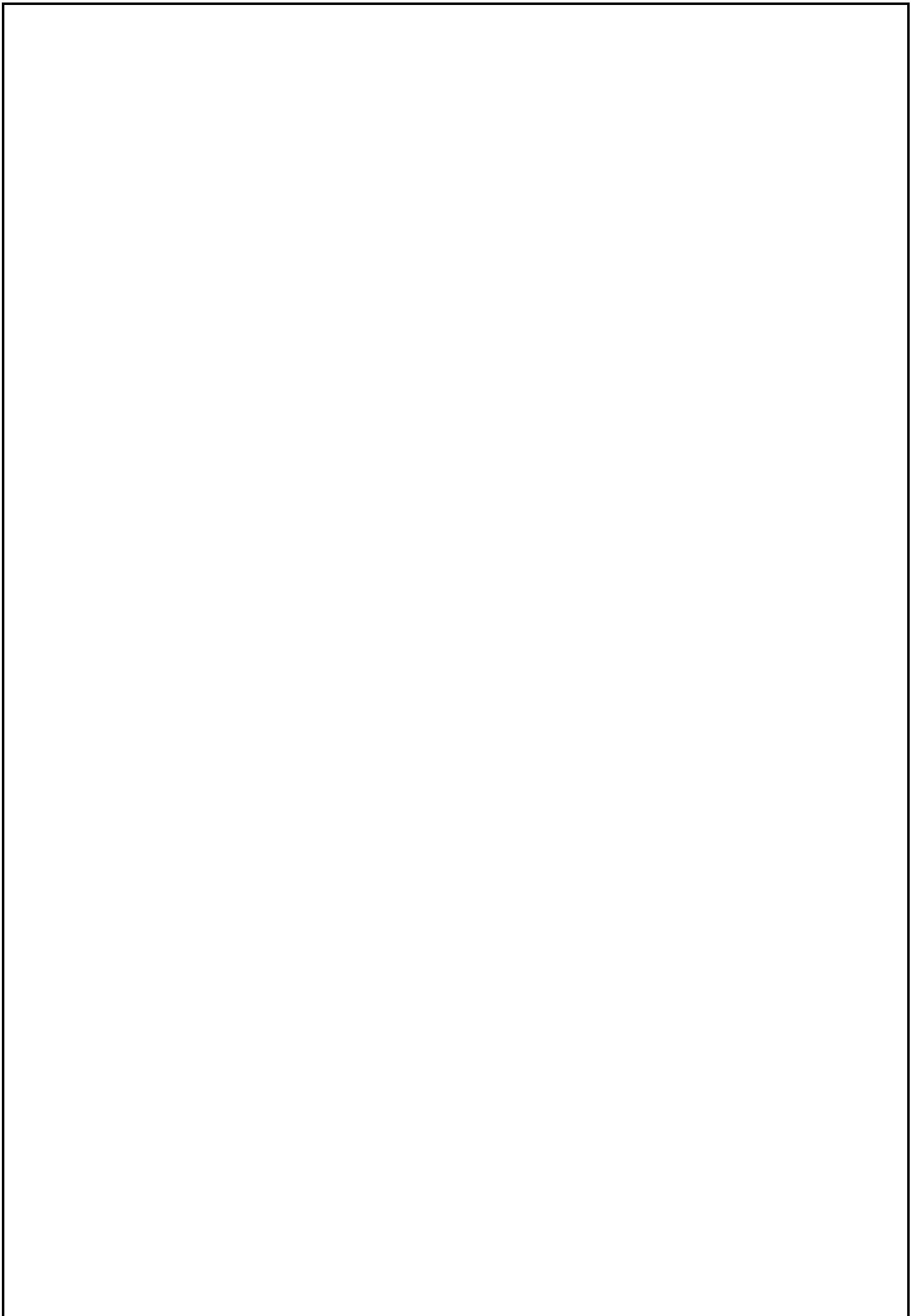
**PART I**

*Group II*

*Paper 05*

**YES**<sup>TM</sup>  
ACADEMY  
CS | LAW

- *Vaibhav Chitlangia*  
(CS, BA, LLM, DCL, PGDMLE)



## 2 Baat Dil Se..

Mere Nalayako...

As you embark on this journey of your CS Professional, I want you to remember the old proverb:

*"A journey of a thousand miles begins with a single step."*

This book is designed to be that first step in this adventure called CS Professional. I want you to know that this book is more than just a resource — it's a reflection of my own journey as a student, and my passion for teaching. Each chapter is crafted not just to impart knowledge but to spark your curiosity and inspire a love for this subject.

I've poured my heart into creating this book because I believe in your potential and the incredible things you can achieve. I have always said that only the best of minds reach the CS Professional, and *ab yaha aa gaye ho to CS banker hi jaoge*. This book is a tool to guide you, challenge you, and to hold your hand when you pass the finish line of your CS journey.

Remember, CS Professional, albeit the last step, is not an easy one. There will be moments when you will feel overwhelmed, when everything will overpower you and you will feel helpless; it is at these moments that your real strength will be tested. In such moments, remember the warrior that you are, the struggles that you faced to reach here, and the dream that you are just one step away from achieving...

"अवचायसु कथा सा अजाना अधिका॥

धैर्यं ततं कथयथा सा अज गच त्सा॥"

*"Without doubt, those who persistently engage in their actions with determination achieve success.*

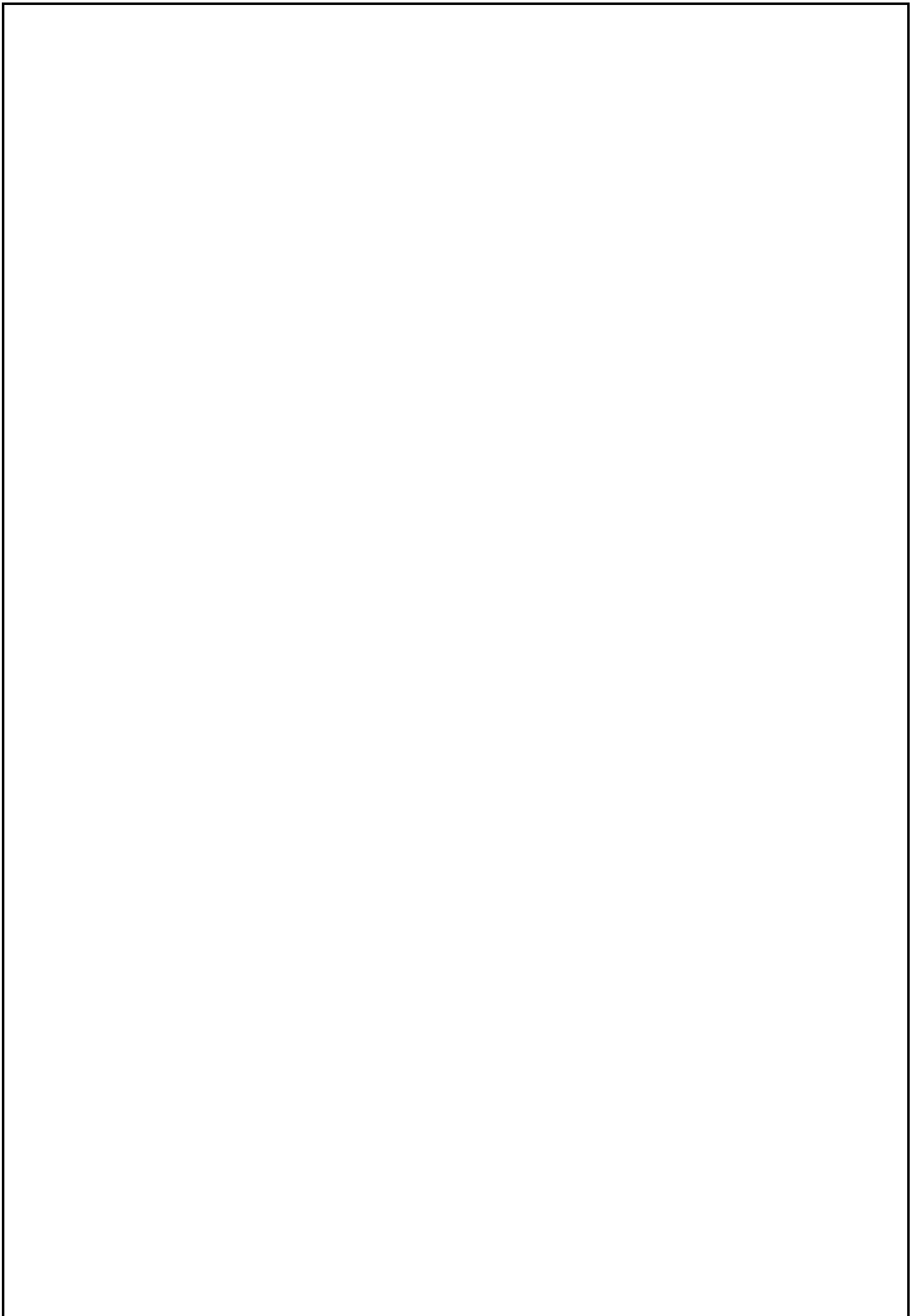
*It is through consistent effort and courage that success is attained, not otherwise."*

I am deeply honoured to be a part of your inspirational journey. Thankyou for showing your trust and faith in me. Lets ensure that we achieve great heights together!

Love,

Adv Vaibhav Chitlangia

(8888016060)



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# CH 01 - INTRODUCTION TO STRATEGIC MANAGEMENT

## Meaning of Strategic Management

Strategic Management is a discipline that deals with long-term development of an organisation with a clear-cut vision about organisational purpose, scope of activities and objectives.

Michael Porter identifies three principles underlying strategy:

- creating a “unique and valuable market position”,
- making trade-offs by choosing “what not to do”, and
- creating “fit” by aligning company activities with one another to support the chosen strategy.

## Other Definitions of Strategic Management

“Determination of the basic long-term goals and objectives of an enterprise and adoption of course of action and allocation of resources necessary to carry out these goals.”

- Chandler

“That set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.”

- Glueck

“Strategic management involves the decision-making and the activities in an organisation which (1) have wider ramifications, (2) have a long time perspective, and (3) use critical resources towards perceived opportunities or threats in a changing environment.”

- Paine and Naumes

“Strategic management is the formulation and implementation of the major goals and initiatives taken by a company’s top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes.”

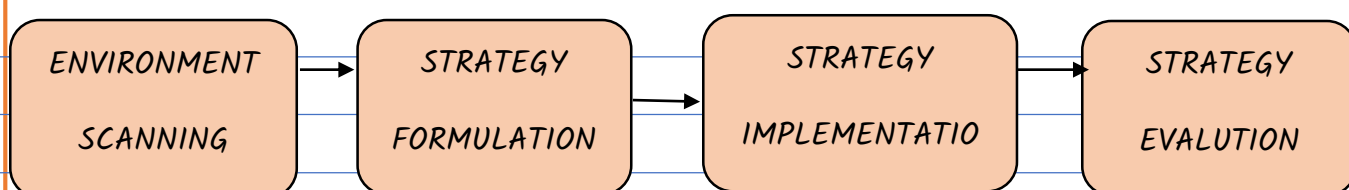
- Hambrick and Chen

## Process of Strategic Management

The strategic management process is defined as the process by which the managers/decision makers are able to make a choice of a set of strategies for the organization that will enable it to accomplish improved performance. Strategic management **is not a static but continuous process** as it involves continuous appraisal of the micro and macro environment surrounding the organization and choosing between alternatives that meet the objectives and thereafter re-assessment of such strategy.

### Four Phases of Strategic Management Process

1. **Environmental Scanning** - The Board of Directors and the top management will have to review the current performance. To review, the organization will have to **scan the internal environment for the strengths and weaknesses and the external environment for opportunities and threats.** These have to be reviewed and redefined in relation to the mission and objectives.
2. **Strategy Formulation**- Strategy formulation is the process of **deciding about the best course of action for accomplishing organizational objectives** and therefore, attaining organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
3. **Strategy Implementation**- Strategy implementation implies **putting the chosen strategy into action.** Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing the human resources.
4. **Strategy Evaluation**- Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: **appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial/corrective actions.**



## Strategic Leadership

As per May, "Strategic Leadership is the ability to influence others to voluntarily make decisions that enhance the prospects for the organisation's long-term success while maintaining long-term financial stability. Different leadership approaches impact the vision and direction of growth and the potential success of an organization. To successfully deal with change, all executives need the skills and tools for both strategy formulation and implementation."

Strategic leadership refers to a manager's potential to articulate the strategic vision for the organization, and to motivate, guide and influence his subordinates to attain the objectives of that vision. The main purpose of strategic leadership is strategic productivity. Another aim of strategic leadership is to generate an environment in which employees match the organization's needs in context of their individual job.

### Functions and Importance of a Strategic Leader

- **Navigator** – Clearly and quickly works through the complexity of key issues, problems and opportunities to affect actions (e.g., leverage opportunities and resolve issues).
- **Strategist** – Develops a long-range course of action or set of goals to align with the organization's vision.
- **Entrepreneur** – Identifies and exploits opportunities for new products, services and markets.
- **Mobilizer** – Proactively builds and aligns stakeholders, capabilities, and resources for getting things done quickly and achieving complex objectives.
- **Talent Advocate** – Attracts, develops, and retains talent to ensure that people with the right skills and motivations to meet business needs are in the right place at the right time.
- **Captivator** – Builds passion and commitment toward a common goal.
- **Global Thinker** – Integrates information from all sources to develop a well-informed, diverse perspective that can be used to optimize organizational performance.
- **Change Driver** – Creates an environment that embraces change; makes change happen – even if the change is radical – and helps others to accept new ideas.
- **Enterprise Guardian** – Ensures shareholder value creation through courageous decision-making that supports enterprise – or unit-wide interests.

## Functions and Importance for Professionals like Company Secretaries in Strategic Management

A Company Secretary has stepped into various crucial roles such as Key Managerial Personnel, Compliance officer, Internal Auditor, GST Professional, Registered Valuer, Insolvency Professional, Adviser to the Board of Directors, Corporate Planner and Strategic Manager etc., thereby playing a pivotal role in ensuring best governance practices of the corporate world. A company secretary in today's era while discharging his or her professional obligations has to perform several key roles which are also integral components of strategic management. A brief discussion on some of the roles is as follows:

- (1) **Advisory:** As an **advisor to the Board Members**, the Company Secretary must build a good relationship with them and **provide impartial or unbiased advice** which is in the best interest of the company. He is required to **offer necessary assistance to the Chairman with all development processes** including board evaluation, induction and training. This involves **implementation of a rigorous plan for the assessment of the performance of Directors** and taking requisite measures based on the review report.
- (2) **Communication with Stakeholders:** Through effective communication, Company Secretaries can **coach management to understanding the expectations of, and value brought by the Board**. The company secretary also has an important role in communicating with external stakeholders, such as investors, and is often the first point of contact for queries.
- (3) **Flawless Disclosure and Reporting:** The company secretary usually has responsibility for **drafting the governance section of the company's annual report and ensuring that all reports are made available to shareholders** according to the relevant regulatory or listing requirements.
- (4) **Management of Board Meetings and Committees:** The company secretary plays a leading role in good governance by helping the Board and its committees function effectively and in accordance with their terms of reference and best practice. They are required to **proactively managing the agenda and ensuring the presentation of high quality up-to-date information** in advance of meetings. This should enable directors to contribute fully in board discussions and debate and to enhance the capability of the Board for good decision making.
- (5) **Compliances:** A company secretary is required to **ensure compliance with various laws and regulations** and for doing so he / she should be conversant with the laws as well as the amendments that take place.

(6) **Representation:** A Company Secretary has to *represent before various tribunals and courts* in order to present the legal issue of the company. In India, a company secretary appears before the legal bodies inter-alia includes National Company Law Tribunal (NCLT); National Company Law Appellate Tribunal (NCLAT); Competition Commission of India (CCI); Registrar of Companies; Tax Tribunals etc.

### Strategic Planning

As per Allison and Kaye (2005), "Strategic planning is an organization's *process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy.* It may also extend to control mechanisms for guiding the implementation of the strategy."

Although, strategic planning process may be unique as per the specific requirements of any organisation, yet following are the the steps most commonly followed by most of the organisations:

- Deliberating mission of the organisation;
- Developing goals based on chosen mission;
- Examining internal environment (strengths and weaknesses);
- Examine external environment (opportunities and threats);
- Summarize findings of SWOT analysis;
- Formulate final strategy based on SWOT.

### Benefits of Strategic Planning

- **Improved results and confidence:** A proper plan may positively influence organizational performance and can contribute to *a greater sense of purpose, progress and accountability* among its team.
- **Focus:** Good strategic planning forces *future thinking and can refocus and re-energise* a disorientated organization.
- **Problem solving:** Strategic planning *focuses on an organization's most critical problems*, choices and opportunities.
- **Teamwork:** Strategic planning provides an *excellent opportunity to build a sense of teamwork*, to promote learning, and to build commitment across the organization.

- **Communication:** All stakeholders have an interest in knowing the direction in which organisation is heading and also how their contribution will fit in overall plan.
- **Greater control:** Strategic planning can provide an organisation **greater control the environment** in which it operates.

### Limitations of Strategic Planning

- **Costs can outweigh benefits:** Strategic planning can **consume a lot of time and money**. This can be wasteful if the strategic planning is not successful.
- **Development of Poor plans:** **Faulty assumptions** about the future, **poor assessment** of an organization's capabilities, **poor group dynamics and information** overload can lead to the development of poor plans.
- **Implementation:** if **not implemented properly**, whole planning exercise will go futile.

### BOARD OF DIRECTORS

The Board of Directors plays a pivotal role in ensuring good governance. In the present times **transparency, disclosure, accountability, issues of sustainability, corporate citizenship, globalization** are some of the concerns that the Boards have to deal with. In addition, the Boards have to **respond to the explosive demands of the marketplace**. This two dimensional role of the Board of Directors is the cornerstone in evolving a sound, efficient, vibrant and dynamic corporate sector for attaining of high standards in integrity, transparency, conduct, accountability as well as social responsibility. The professionals like company secretaries are best fit to advise the Board of Directors to play their role efficiently.

### Role of Board of Directors in making Strategic Decision

- The institution of board of directors was based on the premise that **a group of trustworthy and respectable people should look after the interests of the large number of shareholders** who are not directly involved in the management of the company.
- The contribution of board of directors of companies is critical for ensuring **appropriate directions with regard to leadership, vision, strategy, policies, monitoring, supervision, accountability to shareholders and other stakeholders**.

- An effective board *defines the company's purpose and then sets a strategy to deliver it, shapes its culture and the way it conducts the business.*
- It *sets the main trends and factors affecting the long-term success and future viability of the company* – for example technological change or environmental impacts – and how these and the company's principal risks and uncertainties have been addressed.
- Boards have a *responsibility for the health of the company and need to take a long-term view.* This is in contrast to the priorities of some investors, not all of whom will be aligned with the pursuit of success over the long-term.
- An effective board will *manage the conflict between short-term interests and the long-term impacts of its decisions*; it will assess shareholder and stakeholder interests from the perspective of the long-term sustainable success of the company.
- The board's role is to *provide entrepreneurial leadership of the company* within a framework of prudent and effective controls which enables risk to be assessed and managed.
- An effective board *develops and promotes its collective vision of the company's purpose, its culture, its values and the behaviour it wishes to promote in conducting its business.*

*Providing direct on for management;*

*Demonstrate ethical leadership, display and promote the behaviour through which a company wishes to conduct its business*

*Consistent with the culture and values it has defined for the organization;*

*Create a performance culture that drives value creation without exposing the company to excessive risk of value destruction;*

*Make well-informed and high-quality decisions based on a clear line of sight into the business;*

*Create the right framework for helping directors meet their statutory dues under the Companies Act, 2013 and/or other relevant statutory and regulatory regimes;*

Being accountable, particularly to those that provide the company's capital; and

Think carefully about its governance arrangements and embraces evaluation of their effectiveness.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR is understood to be the way by which firms *integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations* in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society.

According to the **World Business Council for Sustainable Development, 1999** "Corporate Social Responsibility is the *continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of the workforce and their families as well as of the local community and the society at large.*"

CSR is a concept whereby companies not only to consider their profitability and growth, but also interests of society and the environment by taking responsibility for the impact of their activities on the society, environment and communities in which they operate. Essentially, Corporate Social Responsibility is an inter-disciplinary subject in nature and encompasses in its fold:

1. *Social, economic, ethical and moral responsibility* of companies and managers,
2. *Compliance with legal and voluntary requirements* for business and professional practice,
3. *Challenges posed by needs of the economy and socially disadvantaged groups,*
4. *Management of corporate responsibility activities,* and
5. *Proper implementation of the projects* taken up by the company so that the benefit goes to people in need.

### Definition of CSR under Companies Act, 2013

As per rule 2(d) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, "Corporate Social Responsibility (CSR)" means the *activities undertaken by a Company in pursuance of its statutory obligation laid down in section 135 of the Act in accordance with the provisions contained in these rules, but shall not include the following, namely: -*

- i. *activities undertaken in pursuance of normal course of business of the company.*
- ii. *Any activity undertaken by the company outside India except for training of Indian sports personnel representing any State or Union territory at national level or India at international level;*
- iii. *Contribution of any amount directly or indirectly to any political party under section 182 of the Act;*
- iv. *Activities benefitting employees of the company as defined in clause (k) of section 2 of the Code on Wages, 2019;*
- v. *Activities supported by the companies on sponsorship basis for deriving marketing benefits for its products or services;*
- vi. *Activities carried out for fulfilment of any other statutory obligations under any law in force in India.*

### Benefits of CSR

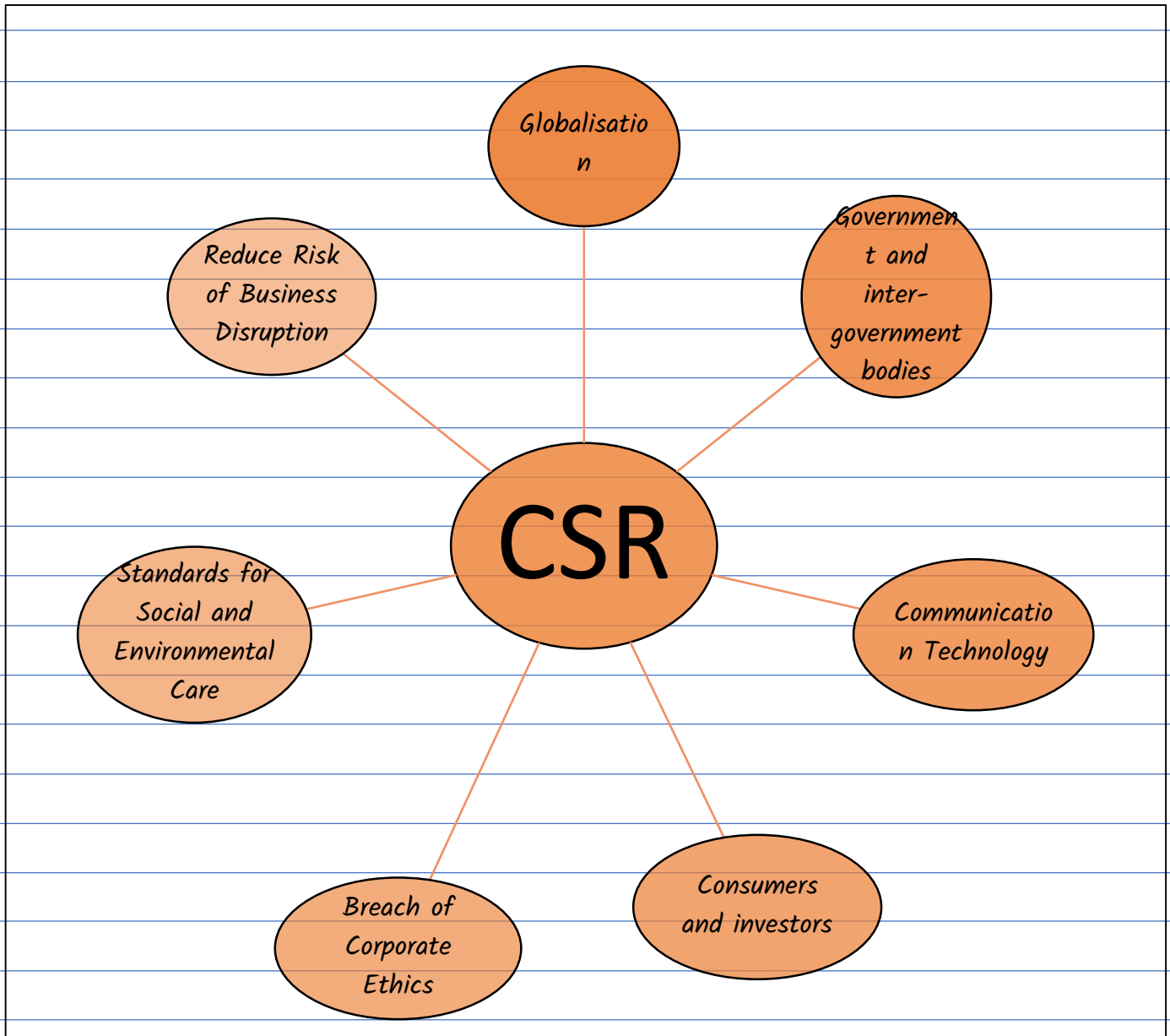
- *CSR creates a favourable public image, which attracts customers. Organizations that perform well with regard to CSR can build reputation, while those that perform poorly can damage brand and company value when exposed. Brand equity, is founded on values such as trust, credibility, reliability, quality and consistency.*
- *CSR builds up a positive image encouraging social involvement of employees, which in turn develops a sense of loyalty towards the organization, helping in creating a dedicated workforce proud of its company.*
- *The company's social involvement discourages excessive regulation or intervention from the Government or statutory bodies, and hence gives greater freedom and flexibility in decision-making.*
- *The internal activities of the organisation have an impact on the external environment, since the society is an inter-dependent system.*

- A business organisation has a great deal of power and money, entrusted upon it by the society and should be accompanied by an equal amount of responsibility. In other words, there should be a balance between the authority and responsibility.
- The atmosphere of social responsiveness encourages co-operative attitude between groups of companies. One company can advise or solve social problems that other organizations could not solve.
- Companies can better address the grievances of its employees and create employment opportunities for the unemployed.
- In a number of jurisdictions, governments have expedited approval processes for firms that have undertaken social and environmental activities beyond those required by regulation.

### Factors Influencing CSR

- **Globalization** - coupled with focus on cross-border trade, multinational enterprises and global supply chains - is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things.
- **Governments and intergovernmental bodies**, such as the United Nations, the Organisation for Economic Cooperation and Development (OECD) and the International Labour Organization (ILO) have developed compacts, declarations, guidelines, principles and other instruments that outline social norms for acceptable conduct.
- **Advances in communications technology**, such as the Internet, cellular phones and personal digital assistants, are making it easier to track corporate activities and disseminate information about them.
- **Consumers and investors are showing increasing interest** in supporting responsible business practices and environmental issues.
- **Citizens** in many countries are making it clear that corporations should meet standards of social and environmental care, no matter where they operate.
- There is **increasing awareness of the limits of government legislative and regulatory initiatives** to effectively capture all the issues that corporate social responsibility addresses.
- Businesses are recognizing that **adopting an effective approach to CSR can reduce risk of business disruptions**, open up new opportunities, and enhance brand and company reputation.

- Ethical persons shall be attracted to join the company.
- CSR also depends on the implementing agencies with regard to their seriousness, integrity, honesty and attitude.



## Case Study

### RELIANCE INDUSTRIES LIMITED

RIL has been involved in various Social Responsibility initiatives over the last many years. These efforts have substantially improved the quality of lives of people through health care, education, livelihoods and community development initiatives, making their living experience dramatically better. These activities are spread across India and reach well beyond our business locations impacting the lives of marginalized communities.

The key philosophy of all CSR initiatives of RIL is guided by three core commitments of SIS:

- a) S – SCALE
- b) I – IMPACT
- c) S – SUSTAINABILITY

RIL seeks to strategically consolidate the company's CSR initiatives to focus on discrete social problems, all aimed at enabling lives, living and livelihoods. Owing to its long tradition of social responsibility, the value of sustainable social impact at scale is instilled across the conglomerate.

RIL has identified the following focus areas:

- Community Infrastructure & Environment
- Community Health care
- Education and Skills enhancement

RIL's Board of Directors have formed a CSR&G Committee. This committee, along with the CSR team, to be responsible for the decision making with respect to RIL CSR policy. CSR&G Committee recommended the policy to RIL's Board of Directors and the Board of Directors have approved this policy. The Board Level Committee to meet at least twice a year to review the implementation of CSR projects/ programs and give suitable direction.

## Case Study

### TATA STEEL

*Tata Steel's Vision strikes a balance between economic value as well as ecological and societal value by aspiring to be "a Global Benchmark in Value Creation and Corporate Citizenship".*

*In the initial years, Tata Steel's CSR interventions were more as a 'provider' to society where the community was given support for its overall needs, both for sustenance and development through training programmes; focusing on providing technical support rather than giving aid. At present, CSR interventions of Tata Steel focus on 'sustainable development' to enhance the quality of life of people.*

*J R D Tata the Chairman of the Tata Group believed that, "to create good working conditions, to pay the best wages to its employees and provide decent housing to its employees are not enough for the industry, the aim of an industry should be to discharge its overall social responsibilities to the community and the society at large, where industry is located".*

*Guided by this mandate, Tata Steel has for decades uses its skills and resources, to the extent it can reasonably afford, to give back to the community a fair share of the product of its efforts.*

*It was the first to establish labour welfare practices, even before these were made statutory laws across the world. The Company also instituted an eight-hour workday in 1912, free medical aid in 1915, a Welfare Department in 1917, leave with pay, Workers Provident Fund and Workmen's Compensation in 1920 and Maternity Benefit for ladies in 1928.*

*The Company supports and propagates the principles of the United Nations Global Compact as a Founder Member, is a signatory to the World steel Sustainability Charter and supports the Affirmative Action programme of the Confederation of Indian Industry.*

*Tata Steel's approach to business has evolved from the concept that the wealth created must be continuously returned to society. The responsibility of combining the three elements of society - social, environmental, and economic - is of utmost importance to the way of life at Tata Steel. Today, Tata Steel's CSR activities in India encompass the Company's Steel Works, Iron ore mines and collieries, reaching out to the city of Jamshedpur, its peri-urban areas and over 800 villages in the states of Jharkhand, Odisha and Chhattisgarh. Community involvement is a characteristic of all Tata Steel Group companies around the world. It can take the form of financial support, provision of materials and the involvement of time, skills and enthusiasm of employees. The Group contributes to a very wide range of social, cultural, educational, sporting, charitable and emergency assistance programmes.*

*The Company works in partnership with the Government, national and international development organisations, local NGOs and the community to ensure sustainable development. The Corporate Services Division delivers these responsibilities through several institutionalised bodies:*

- *Tata Steel Corporate Social Responsibility and Accountability Policy*
- *Corporate Social Responsibility*
- *Tata Steel Rural Development Society (TSRDS)*
- *Tribal Cultural Society (TCS)*
- *Tata Steel Family Initiatives Foundation (TSFIF)*
- *Tata Steel Skill Development Society (TSSDS)*
- *Education*
- *Medical Services*
- *Urban Services*
- *Sports Department*
- *Tata Steel Adventure Foundation*
- *JUSCO*
- *Other societies like Ardeshir Dalal Memorial Hospital, Blood Banks, Hospital etc.*

## Role of Board of Directors in CSR related activities of a Company

CSR is a **Board-driven process**. The responsibilities of the Board of a CSR-eligible company, *inter-alia*, include the following

- **approve the CSR policy;**
- **disclose** contents of such policy **in its report** and also place it on the **company's website**, if any;
- ensure that the **activities** included in the CSR policy **are undertaken** by the company;
- ensure that the **company spends**, in every financial year, **at least two per cent of the average net profits** of the company made during the three immediately preceding financial years;
- **satisfy itself** regarding the utilisation of the **disbursed CSR funds**; and
- if the company fails to spend at least two per cent of the average net profits of the company, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, **specify the reasons for not spending the amount** and transfer the unspent CSR amount as per provisions of sections 135(5) and 135(6) of the Companies Act, 2013.
- **alter such annual action plan** based on reasonable justification as per recommendation of CSR committee.

Apart from the above, the Board of Directors of the Company also takes decision on the following important matters related to CSR -

- Matters relating to **monitoring** for all projects - ongoing or otherwise
- Administrative **Overheads**
- **Setting off** excess amount
- **Transfer of Capital Asset**
- **CSR Reporting**
- **Impact Assessment** Report
- **Disclosure on Website etc.**

### Case Law

#### **Corporate Social Responsibility - Board's Compliance Responsibility of Implementing and Reporting**

**In re Chettinad Earth Movers (P.) Ltd. CA NO. 1096/CB/2018 NCLT Chennai**

#### **Facts of the Case**

The company was in its initial stage of implementing its CSR policies. The company and its directors failed to disclose the details about the policy developed and implementation by the company on corporate social responsibility initiatives taken during the years 2014-15, in the reports of the Board of its Directors. The Directors of the applicant company were of the view that the disclosure required to be made under the law was not mandatory. The company contended that offence in question was not intentional and inadvertently missed out to give the required disclosures under the said section in the Board's Report pertaining to the financial year ended 31.03.2015. Further, it was not prejudicial to interest of shareholders or creditors. They also filed E-form GNL-1 before Deputy Registrar of Companies. Deputy Registrar forwarded report stating that it was first offence by applicants and no prosecution was pending against applicants.

#### **Decision:**

The Hon'ble court held that the Company and its Officers are in default have violated the provisions of Section 134(3)(o) read with Section 135 of the Companies Act, 2013, which is punishable under Section 134(8) of the Companies Act, 2013. The said offence is not intentional and it is not prejudicial to the interest of the shareholders or the creditors.

The provisions of Section 134(8) of the Companies Act, 2013, provide that the Company shall be punishable with fine which shall not be less than fifty thousand rupees but which extend to twenty five lakhs rupees, and every officer of the Company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees or with both. [This provision was amended vide Notification dated 28th September, 2020 by the Companies (Amendment) Act, 2020.]

The applicant has pleaded for taking lenient view on the ground that it was the first offence, which has been confirmed by the concerned RoC. Therefore, the Application of the Company and its Officers in default is to be allowed and the offence is to be compounded in exercise of the powers conferred under section 441, by imposing a fine under section 134(8), to the tune of Rs. 1,50,000 i.e. Rs. 50,000 on each the Company, and its two Officers.

## CSR and Corporate Governance

- The conceptualization of CSR was, initially, purely in terms of philanthropy or charity. However, a fundamental *shift has been seen from this philanthropy to integrated approach* towards CSR which is gradually getting infused into companies' corporate governance practices.
- Corporate Governance as a concept has CSR embedded in it, whereby *companies not only consider their profitability and growth, but also the interests of society and the environment* by taking responsibility for the impact of their activities on stake holders, environment, consumers, employees, communities, and all stake holders.
- The basic premise is that *when the corporations get bigger in size*, apart from the economic responsibility of earning profits, there are *many other responsibilities attached* to them which are more non-financial/social in nature.
- Companies that practice good corporate governance are also those that are *socially and environmentally responsible*.
- Both Corporate Governance and CSR focus on the *ethical practices in the business and the responsiveness of an organization* towards its stakeholders and the environment in which it operates.

## CORPORATE GOVERNANCE

Corporate governance is the broad term used to *describe the processes, customs, policies, laws and institutions that direct the organizations and corporations in the way they act or administer and control their operations*. It works to achieve the goal of the organization and manages the relationship with the stakeholders including the board of directors and the shareholders.

“Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.”

**The Institute of Company Secretaries of India**

“Corporate Governance is concerned with the way corporate entities are governed, as distinct from the way business within those companies are managed. Corporate governance addresses the issues facing Board of Directors, such as the interaction with top management and relationships with the owners and others interested in the affairs of the company”

**Robertlan (Bob) Tricker**

(who introduced the words corporate governance for the first time in his book in 1984)

### Objectives of Corporate Governance

Corporate Governance is aimed at creating an organization which maximizes the wealth of shareholders. The objectives of Corporate Governance are to ensure the following:

- **Properly constituted Board** capable of taking independent and objective decisions.
- Board is **independent** in terms of Non-Executive and Independent Directors.
- Board adopts **transparent procedures and practices**.
- Board has an **effective machinery to serve the concerns of the Stakeholders**.
- Board to monitor the **functioning of the Management Team**.
- Board remains in **effective control of the affairs** of the Company.

### CORPORATE GOVERNANCE AND ROLE OF COMPANY SECRETARY

The corporate world especially looks upon Company Secretaries to provide the impetus, guidance and direction for achieving world-class corporate governance. The company secretary being an important human capital of the management of the business organization should put all the efforts to ensure that through his roles the corporate governance prevails and the business is able to attain astral heights.

To be an effective player of strategic management, a company secretary needs to embrace the following core competencies:

- i. Possessing a **thorough knowledge** of the company's **business**.
- ii. Sound **knowledge of laws** relating to company, capital markets, industry related etc.

- iii. Must have *strong Communication and Professional Skills; Legal Skills; Management Skills and IT Skills.*
- iv. *Being intuitive and sensitive to the thoughts and feelings of board directors and the CEO.*
- v. *Staying current with changes in corporate governance and giving the board and managers a “heads up” about new developments.*
- vi. *Being able to work and achieve a consensus within multidisciplinary settings.*
- vii. *Being flexible, creative and detailed.*
- viii. *Remaining calm under pressure and not losing sight of perspective.*

#### *Company Secretary:*

- *acts as a vital link between the company and its Board of Directors, shareholders and other stakeholders and regulatory authorities;*
- *plays a key role in ensuring that the Board procedures are followed and regularly reviewed;*
- *provides the Board with guidance as to its duties, responsibilities and powers under various laws, rules and regulations;*
- *acts as a compliance officer as well as an in-house legal counsel to advise the Board and the functional departments of the company on various corporate, business, economic and tax laws;*
- *is an important member of the corporate management team and acts as conscience keeper of the company.*



# CH 02 - ANALYZING THE EXTERNAL AND INTERNAL ENVIRONMENT

## ENVIRONMENTAL INFLUENCES OF BUSINESS

The term environment in context of business refers to *all external forces or factors having a direct or indirect bearing on events related to functioning of business*. A business organisation does not exist in a vacuum but has to take into account external and internal environment. Business environment may offer opportunities for any firm or pose threats to the firm. A business firm is also affected by a number of internal factors, which are forces inside the business organisation.

While the *policy makers and the managers on the top* are concerned with the external environment, the *middle level and lower level management* are more concerned with the internal environment.

### Definition

According to **Keith Davis**, "Business environment is aggregate of all conditions, events and influences that surround and affect the business".

**Bayard O. Wheeler** defines business environment as "the total of all the things, external to a business firm, which affect the organisation and its operations".

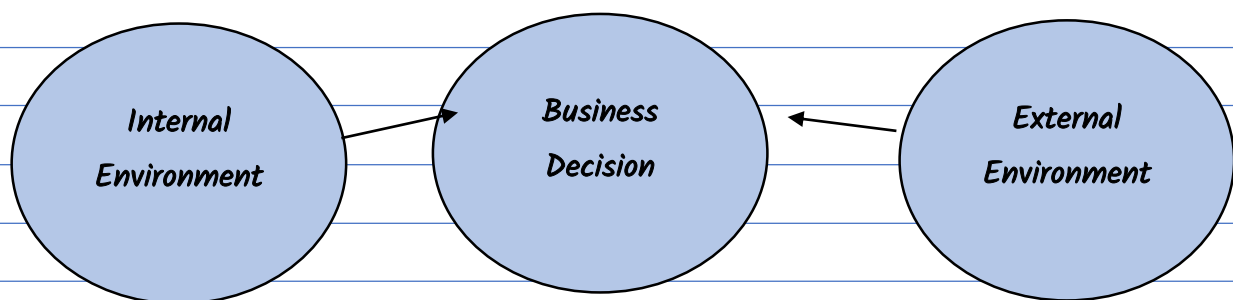
As per **Arthur M. Weimer**, "Business environment encompasses the climate or set of conditions- economic, social, political, or institutional- in which business is conducted".

Therefore, business environment may be defined as "The *sum total* of all *individuals, institutions and other forces* that are *outside the control* of a business enterprise but the *business still depends upon them* as they *affect the overall performance and sustainability of the business*."

The forces which compose the business environment are its suppliers, competitors, consumers, government, bankers, customers, economic conditions, market conditions, investors, technologies, political parties, international institutions and multiple other institutions working externally of a business constitute its business environment.

For example, changes in income tax rate by the government while announcing the budget may make the customers reduce their consumption expenditure and reduce quantity of products purchased earlier from the company. Due to this macro level change, the business will need to re-work with its pricing policy to adapt to the tax rate change. Here, even though the business had no participation in initiating the tax rate change, still had to adapt to this change by re-working its pricing policy to maintain its previous profits.

In short, **business decisions are influenced** by, broadly, two sets of factors, viz., **firm related factors (internal environment) and external influence (external environment)**.



**Factors Influencing Business Decision**

### **Importance of Environmental Study**

The benefits of studying business environment are as follows:

- **Development of strategies**, long-term policies and objectives of the firm.
- **Development of action plans** to deal with changes in environment.
- To **forecast the consequences of socio-economic changes** at the national and global levels on the company's stability.
- Analysis of **competitor's strategies and formulation of effectual counter measures**.
- To keep the business **dynamic and up-to-date**.

### **CHARACTERISTICS OF BUSINESS ENVIRONMENT**

1. Environment is **dynamic in nature**: The environment keeps on changing as the changes occur. Frequently the environment changes, more frequently it will impact the business.
2. It has **direct and indirect impact**: Environment gives direct and sometimes indirect effect on the working of the business.

3. **Two types of factors:** Environment mainly consists of two type of factors namely internal and external environmental factors.
4. Environment is **integral part of business:** Without the support of either internal or external forces, the business can't run or operate.
5. **Impact on business decisions:** Due to environment, business can take proactive or reactive decisions in its operation to make operation more beneficial.
6. **Multi-dimensional:** This it always considers both aspects of a force i.e., its positive as well as negative impacts.

## COMPONENTS OF BUSINESS ENVIRONMENT

The various components of business environment are-

- (i) External Environment
- (ii) Internal Environment.

### External Environment

External environment consists of all **those factors that affect a business enterprise from outside its boundaries**. It consists of shareholders, legal, competitors, customers, society, government rules and regulations, policies and technology etc. These are **uncontrollable factors and firms have to adapt** to the components of this environment.

### External Micro Environment

The micro environment consists of **factors in the company's immediate environment**. Micro environment includes those **players whose decisions and actions have a direct bearing** on the company. The various constituents of micro environment are as under:

- (a) **Suppliers:** These supply of resources (finances, raw materials, fuel, power and other factors of production) and pave the way for smooth conduct of the business. Firms should keep themselves updated about the policies of suppliers as rise in the cost of inputs will influence their sales volume and profitability. The scarcity of inputs also has a bearing on the production schedules.

- (b) **Customers:** The people who buy and use products and services of business and are an important part of external micro environment. A business may have diverse customers such as households, producers, retailers, Government and foreign buyers on its portfolio. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied.
- (c) **Marketing intermediaries:** In the firm's external micro environment, marketing intermediaries play an essential role of selling and distributing its products to the final customers. They are the physical distribution firms (transport firm), service agencies (media firms), financial intermediaries (banks, insurance companies) etc. that assist in production, marketing and insurance of the goods against loss of theft, fire etc. Business has to maintain healthy relations with them to carry their activities smoothly.
- (d) **Competitors:** Different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products and also non-price competition through competitive advertising such as sponsoring some events to promote the sale of different varieties and models of their products. They constantly watch competitors' policies and adjust their policies to gain customer confidence.
- (e) **Public:** Finally, public is an important force in external micro environment. A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interest. Companies observe the behaviour of these groups to make functional policies.

### External Macro Environment

Apart from micro environment, business firms also come across some other **external environmental forces which are beyond their control** and operate at macro level. Because of the uncontrollable nature of such macro forces, a firm has to adjust or adapt itself to harness the opportunities thrown by such forces and mitigate the threats. These factors are:

- (a) **Economic Environment:** Economic environment includes all those **forces which have an economic impact on business**. Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, and planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, money supply, price level, fiscal and monetary policies and population.

### Economic Factors

- Government Fiscal and tax policies
- General Economic Conditions
- Economic Systems
- Economic Policies
- Economic Growth
- Unemployment Rate
- Interest rates
- Currency exchange rates
- Taxes

(b) **Political-legal Environment:** The political- legal environment includes the *activities of three political institutions, namely, legislature, executive and judiciary* which usually play a useful role in shaping, directing, developing and controlling business activities. Legal environment is also significant for functioning of the business *as various laws are in force to regulate the operations of the business enterprises*. They relate to standard of products, packaging, protection of environment and ecological balance, ban on advertisement of (alcohol and medicines), advertisement of certain products with statutory warning (cigarette) etc.

### Political Factors

- Political climate - amount of government activity
- Political stability and risk
- Government debt
- Budget deficit or surplus
- Corporate and personal tax rates
- Payroll taxes
- Import tariffs and quotas
- Export restrictions
- Restrictions on international financial flows.

### Legal Factors

- Minimum wage laws
- Environmental protection laws
- Worker safety laws
- Labour laws
- Copyright and patent laws
- Anti-monopoly laws
- Municipal licences
- Laws that favour business investment.

- (c) **Technological Environment:** Technology implies *systematic application of scientific or other organised knowledge to practical tasks or activities*. Not adopting technological changes and imitating innovation is not possible as technical threats from external environment have to be converted into opportunities and gainfully employed in business operations.

#### Technological Environment Factors

- Efficiency of infrastructure, including: roads, ports, airports, rolling stock, hospitals, education, healthcare, communication, etc.
- Industrial productivity
- New manufacturing processes
- New products and services of competitors
- New products and services of supply chain partners
- Any new technology that could impact the company
- Cost and accessibility of electrical power.

- (d) **Global or International Environment:** The Global environment or 'border less world' plays an important role in shaping business activity. With the liberalisation and globalisation of the Indian economy in 1991, there have been significant economic and political changes and increasing role for the private sector to play since then. The global business environment is radically affected by the principles and agreements of World Trade Organisation (WTO) as it keeps a watch and regulates the business transacted in the international environment.

- (e) **Socio-cultural Environment:** The social environment consists of the *social values; concern for social problems* like protection of environment against pollution, providing employment opportunities, health care for the aged and old etc.; consumerism (indulging in fair trade practices) to satisfy human wants. The cultural environment represents values and beliefs, norms and ethics of the society. The buying habits, buying capacities, tastes, preferences and many other factors are dependent on the cultural environment.

- (f) **Demographic Environment:** The demographic environment includes *the gender ratio, size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological*

*skills and educational levels, language skills of labour force. All these demographic features have an important bearing on the functioning of business firms.*

### **Social Cultural and Demographic Factors**

- Birth and death rates
- Life expectancy rates
- Attitude towards work and organization
- Attitude towards government
- Attitude towards authority
- Ethical norms
- Value system
- Composition of work force
- Attitude towards income, savings and capital formation
- Social ethos towards work and organization.

**(g) Natural Environment:** *The natural environment is the ultimate source of many inputs such as raw materials and energy, which firms use in their productive activity. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities. For example, steel producing industries are set up near the coal mines to save cost of transportation to distant locations. The natural environment also affects the demand for goods.*

**(h) Ecological Environment:** *The environment damage to water, earth and air caused by industrial activity of mankind is harmful for future generations. Business enterprises should understand their social responsibility and use these resources meticulously. Legislative measures are also brought in by the Government (Pollution Control Board) to protect the natural environment. Even, as a part of self- accountability, the renewable resources should be used wisely so that rate of consumption does not exceed the rate of replenishment.*

## Internal Environment

Survival and growth of a business depends upon its strengths and adaptability to the external environment. The **internal strengths represent its internal environment**. These consist of financial, physical, human and technological resources. The factors in **internal environment of business are to a certain extent controllable** because the firm can change or modify these factors to improve its efficiency. The various internal factors are:

- (a) **Value System:** The value system of an organisation **means the ethical beliefs that guide the organisation** in achieving its mission and objectives. The value system of a business organisation also **determines its behaviour towards its employees, customers and society at large**. The value system of a business organisation makes an important contribution to its success and its prestige in the world of business.
- (b) **Mission and Objectives:** The business domain of the company, direction of development, business philosophy, business policy etc. are guided by the mission and objectives of the company. The objective of all firms is assumed to be maximisation of profit. **Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.**

The Mission, vision and values of **Reliance** are as under:

### Mission

- To provide the best and most value-adding advice within our advisory expertise areas.
- To be an independent sparring-partner and to provide excellent advice for our clients in connection within our advisory expertise areas.

### Vision

- To be our clients' 'first call' and preferred collaboration partner within our business areas.
- To consistently exceed our clients' expectations for professional and value-adding advice.

### Values

Reliance is governed by the following fundamental values

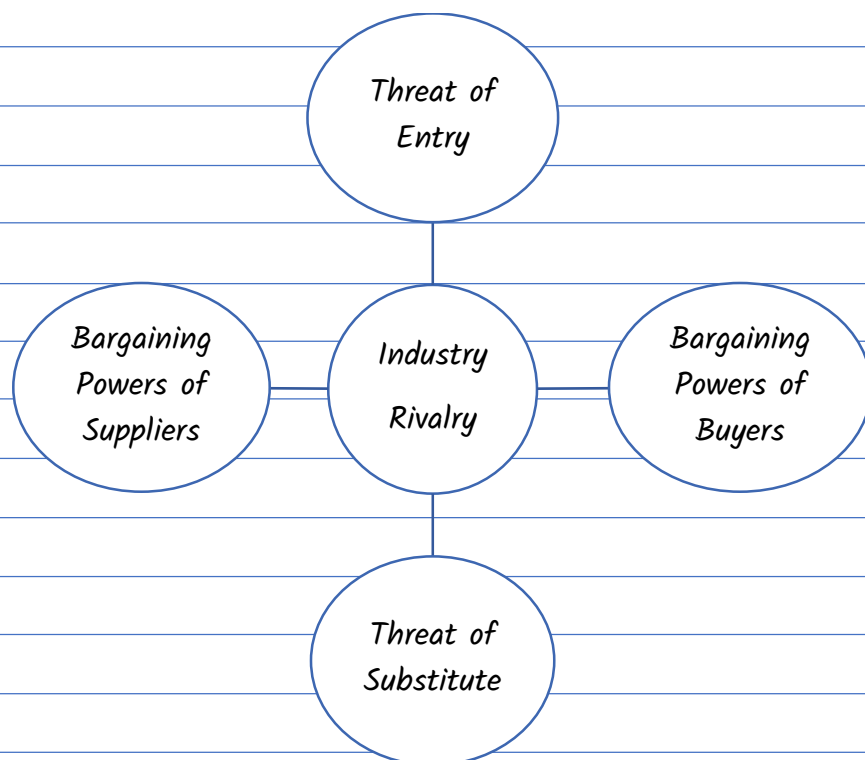
- **Quality:** We do not compromise – we have a passion for the best quality
- **Innovation:** We are innovative and wish to enthuse our clients

- (c) **Organisation Structure:** The organisational structure, the composition of the board of directors, the professionalism of management etc. are important factors influencing business decisions. An efficient working of a business organisation requires that the organisation structure should be conducive for quick decision-making.
- (d) **Corporate Culture:** Corporate culture and style of functioning of top managers is important factor for determining the internal environment of a company. In a closed and threatening type of corporate culture the business decisions are taken by top level managers while the middle level and lower level managers have no say in business decision making. This leads to lack of trust and confidence among subordinate officials of the company. In an open and participating culture, business decisions are taken by the lower-level managers and top management has a high degree of confidence in the subordinates. Free communication between the top-level management and lower-level managers is the rule in this open and participatory type of corporate culture.
- (e) **Quality of Human Resources:** Quality of employees that is of human resources of a firm is an important factor of internal environment of a firm. The characteristics of the human resources like skill, quality, capabilities, attitude and commitment of its employees etc. could contribute to the strength and weaknesses of an organisation.
- (f) **Labour Unions:** Labour unions collectively bargains with the managers for better wages and better working conditions of the different categories of workers etc. For the smooth working of a business firm good relations between management and labour unions is required.
- (g) **Physical Resources and Technological Capabilities:** Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production. Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers.

### PORTER'S FIVE FORCES Model

The tool was created by Harvard Business School professor Michael Porter. Porter's five forces model is **an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level**. Since its publication in 1979, it has turned into one of the most popular and highly regarded business strategy tools.

The five forces identified are:



These five forces establish an industry structure and the level of competition in that industry. The **stronger the competitive forces are in the industry, the less profitable it becomes ultimately.** The model is very valuable in formulating firm's strategy as it reveals the strength of each of these five key forces.

- **Threat of New Entrants:** This force determines the ease of new entrants to enter a particular industry. If an industry is profitable and there are hardly any barriers to enter, competition intensifies rapidly. Therefore, with the entry of more rivals, firms begin to compete for the fixed market share, profits start to decline. Hence, it is critical for existing organizations in the industry to build high barriers to enter to discourage new entrants. Threat of new entrants is high when:
  - ✓ Smaller capital is required to make an entry;
  - ✓ Existing companies are not influential/dominant to prevent new entrants;
  - ✓ Existing firms do not have patents, trademarks or do not strong brand value;
  - ✓ There is no/little government regulation;
  - ✓ Customer switching costs are low;
  - ✓ There is low customer loyalty;

- ✓ Products are not being able to be differentiated; and
- ✓ Economies of scale can be effortlessly acquired.
- **Bargaining Power of Suppliers:** This is determined by the power of the suppliers to raise their prices. It is also determined by the volume of potential suppliers in case existing supplier increase the price. Bargaining power will also be lower in case suppliers are not supplying identical product/service but a unique one. And the cost of switching from one supplier to another. Suppliers have dominant bargaining power when:
  - ✓ There are a small number of suppliers but plenty of buyers;
  - ✓ Suppliers are large in number and pose a threat to forward integrate;
  - ✓ There are not many substitutes of raw materials;
  - ✓ Suppliers hold scarce/unique resources;
  - ✓ Cost of switching supplier is relatively high.
- **Bargaining Power of Buyers:** Bargaining power of the buyers would depend on the number of the buyers and the volume of their order. It would also be a product of the cost of switching from company's products and services to products/services of the competitors. Buyers exert strong bargaining power when:
  - ✓ They buy in high volumes or control many access points to the final customer;
  - ✓ There are only few buyers in the market;
  - ✓ Switching costs to competitors are low;
  - ✓ They threaten to backward integrate;
  - ✓ There are many close substitutes;
  - ✓ Buyers are price sensitive.
- **Threat of Substitutes:** This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. For example, if a company supplies a unique software product that automates data related to human resource records, the buyer/client may substitute the software either by making the process manual or outsourcing it.
- **Rivalry Among Existing Competitors:** It refers to the number and strength of competitors in the industry. Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. On the other hand, where competitive rivalry is minimal, and the product is differentiated, there will be high monopoly and steady profits for the company.

In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when:

- ✓ There are several competitors;
- ✓ Exit barriers are high;
- ✓ Industry of growth is slow or negative;
- ✓ Products are not differentiated
- ✓ Products can be easily substituted;
- ✓ Low customer loyalty.

Although, Porter originally introduced five forces affecting an industry, scholars have suggested including the **sixth force: complements**. **Complements increase the demand of the primary product with which they are used, thus, increasing firm's and industry's profit potential.** For example, Amazon Prime complements Amazon and Jio TV complements Jio telecom business. As a result, the sale of both products shot up as compared to competitors.

### Implementing the model

The following steps are to be followed to implement the Porter's Model:

- Step 1. Gather the information on each of the five forces.
- Step 2. Analyse the results and display them on a diagram.
- Step 3. Formulate strategies based on the conclusions.

### Porter's Five Forces Factors

Buyer power	Supplier power
<ul style="list-style-type: none"> <li>• Number of buyers</li> <li>• Size of buyers</li> <li>• Size of each order</li> <li>• Buyers' cost of switching suppliers</li> <li>• There are many substitutes</li> <li>• Price sensitivity</li> <li>• Threat of integrating backward</li> </ul>	<ul style="list-style-type: none"> <li>• Number of suppliers</li> <li>• Suppliers' size</li> <li>• Ability to find substitute materials</li> <li>• Materials scarcity</li> <li>• Cost of switching to alternative materials</li> <li>• Threat of integrating forward</li> </ul>

### **Threat of new entry**

- Amount of capital required
- Retaliation by existing companies
- Legal barriers (patents, copyrights, etc.)
- Brand reputation
- Product differentiation
- Access to suppliers and distributors
- Economies of scale
- Sunk costs
- Government regulation

### **Rivalry among existing competitors**

- Number of competitors
- Cost of leaving an industry
- Industry growth rate and size
- Product differentiation
- Competitors' size
- Customer loyalty
- Threat of horizontal integration
- Level of advertising expense

### **Threat of substitutes**

- Number of substitutes
- Performance of substitutes
- Cost of changing

Although, Porter's five forces is a valuable tool to analyse industry's structure and to formulate firm's strategy, it has its limitations and requires supplementary analysis to be done, such as SWOT, PEST or Value Chain analysis.

### **Case Study – Pizza Hut**

#### **Porter's Five Forces Model – Pizza Hut Case Study**

Pizza Hut is world famous multinational fast food chain. It is a subsidiary of Yum! Brands (a Fortune 300 company), the world's largest restaurant company. It is an American restaurant chain with more than 6,000 Pizza Hut restaurants in the United States, and more than 5,600 store locations in 94 other countries and territories around the world. It offers a range of different styles of pizza along with other dishes such as salads, pastas, buffalo wings/potato rings, breadsticks, and garlic breads. It entered India in 1996, with its first branch in Bangalore and expanding all over thereafter, creating a large customer base for itself.

The five forces model for Pizza Hut may be drawn as under:

### **Competitive Rivalry (Very High)**

- *Pizza Hut competes with some other large global pizza chains, Domino's Pizza, and Papa John. They all are similar in many respects such as deal in many countries across Globe, fast food offerings, dine- in and delivery service, creating intense competition.*
- *Ferocious price discounting and coupons by these all rivals which creates intense competition.*
- *Except for those pizza companies, Pizza Inn competes with some small local pizza restaurants as well. They offer low price products and faster service, taking the competitive advantages of Pizza Inn.*
- *The pizza segment is made more challenging for traditional restaurants by other close substitutions, including supermarkets, which not only sell frozen pizzas, but ready to bake pizza, and warehouse clubs sell large size pizzas.*

### **Threat of New Entrants (Low)**

- *Pizza chains are juggling with the side-effects of a deep recession, because of higher ingredient prices, the thin margins and elevated competition from non-traditional channels.*
- *Existing competitors keep lowering prices and discounting discounts, and expanding distribution channels creating barriers to new entrants.*
- *Existing competitors have first-mover advantages such as mature technology in specialty production, and a healthy relationship with distribution channels, therefore, second mover can hardly survive without innovation in the industry.*

### **Threat of Substitutes (High)**

- *Pizza is a fast food product having plenty of substitutes.*
- *Competition from other fast food chains such as sandwich chains, chicken fast food chains, family owned local restaurants etc.*
- *Traditional food chains Bikano, Haldiram etc. offer customers' fast, convenient and cheap products and services that cater to Indian taste as well.*

### ***Power of Customers (Medium/Low)***

- *Being a large population fan of fast food, this makes bargaining power of customers.*
- *Every single customer is unlikely to purchase a large quantity of product, and it's not likely that each of them contributes a large proportion of sales.*
- *Fast food chains are in high demand in shopping centers, malls, residential areas, college campuses and offices. In addition, customers are fragmented, with no particular effect on product or price.*
- *Therefore, they will not be hurt by losing a petite number of customers.*
- *In the industry, customers are less sensitive to price fluctuations, which is relatively inelastic, so that providers have large price controlling power.*

### ***Power of Suppliers (Low)***

- *The major suppliers of the fast food industry are raw material suppliers. As raw material is common and available in plenty such as flour, cheese, vegetables, therefore, bargaining power of suppliers is low.*
- *Raw material is perishable and can't be stored for long.*
- *The industry is labor intensive. Labor is in abundant in India.*
- *Suppliers tend to keep a long term relationship with the concentrated purchasers.*
- *Many big fast food chain companies are vertically integrated with the suppliers in order to maintain low costs and high quality products.*

### ***Apple in the Marketplace from a five forces perspective***

*Through its Macintosh computers and operating system, the iPad, iPhone, and other products, Apple, Inc. (NASDAQ: AAPL) has achieved massive success as a company despite going through a number of up and down cycles since its founding in 1976. In 2018, Apple achieved the notable distinction of being the first U.S. company to ever attain a market capitalization greater than \$1 trillion.*

*Apple's success is attributed largely to its ability to innovate and bring unique products to market that have engendered substantial brand loyalty. Its product development and marketing strategies reveal an awareness of the need to deal with the major marketplace forces that can impact Apple's market share and profitability.*

A Five Forces analysis of Apple's position in the technology sector shows industry competition and the bargaining power of buyers as the two strongest marketplace forces that can impact Apple's profitability. The bargaining power of suppliers, the threat of buyers opting for substitute products, and the threat of new entrants to the marketplace are all weaker elements among the key industry forces.

### **Industry Competition**

The level of competition among the major companies that compete directly with Apple in the technology sector is high. Apple is in direct competition with companies such as Google, Inc., the Hewlett-Packard Company, Samsung Electronics Co., Ltd., and Amazon, Inc. All of these companies expend significant capital on research and development (R&D) and marketing, just like Apple. Thus, the competitive force within the industry is strong.

One thing that makes the industry so highly competitive is the relatively low switching cost. It does not require a substantial investment for a consumer to ditch Apple's iPad for an Amazon Kindle or other tablet computers. The threat of marketplace competition is a key consideration for Apple, which it has dealt with primarily through continually developing new and unique products to increase and strengthen its market share position.

### **Bargaining Power of Buyers**

The element of low switching cost referred to above strengthens the bargaining power of buyers as a key force for Apple to consider. There are essentially two points of further analysis within this force: the individual bargaining power of buyers and their collective bargaining power. For Apple, individual bargaining power is a weak force, since the loss of any one customer represents a negligible amount of revenue for Apple.

However, the collective marketplace bargaining power of customers, the possibility of mass customer defections to a competitor is a strong force.

Apple counters this strong force by continuing to make substantial capital expenditures in R&D, enabling it to keep developing new and unique products such as the AirPods and the Apple Watch, and by building significant brand loyalty. Apple has been very successful in this area of competition, establishing a large customer base that, basically, would not consider abandoning its iPhones in favour of another smartphone competitor.

### ***The Threat of New Entrants to the Marketplace***

*The threat of a new entrant to the marketplace that could seriously threaten Apple's market share is relatively low. This is primarily due to two factors: the extremely high cost of establishing a company within the industry and the additional high cost of establishing brand name recognition.*

*Any new entrant to the marketplace of personal computing or smartphones needs to have a massive amount of capital just to spend on R&D and manufacturing to develop and produce its own product portfolio prior to ever bringing its products to market and beginning to generate revenue. Such an entrant faces the already identified strong competition within the industry that exists between Apple and its major competitors, all of which are large, well-established firms.*

*The secondary challenge is establishing brand name recognition within an industry that already has several companies, such as Apple, Google, and Amazon, with very strong brand recognition.*

*Although it is possible some new company (perhaps a Chinese firm with financial backing from the government), might eventually challenge Apple's position within the industry, for the immediate future, the likelihood of such a challenger arising is remote.*

*Nonetheless, it is important for Apple to continue strengthening its competitive position through new product development and building brand loyalty to place any potential new entrants to the industry at a larger competitive disadvantage.*

### ***Bargaining Power of Suppliers***

*The bargaining power of suppliers is a relatively weak force in the marketplace for Apple's products. The bargaining position of suppliers is weakened by the high number of potential suppliers for Apple and the ample amount of supply. Apple is free to choose from among a large number of potential suppliers for component parts for its products. The industries of its parts suppliers, such as the manufacturers of computer processors, are themselves highly competitive.*

The switching cost for Apple to exchange one supplier for another is relatively low and not a significant obstacle. Plus, Apple is a major customer for most of its parts suppliers, and, therefore, its suppliers are very reluctant to risk losing the company's business. This strengthens Apple's position in negotiating with suppliers, while conversely weakening their positions. The bargaining power of component parts suppliers is not a major consideration for either Apple or its major competitors.

### ***The Threat of Buyers Opting for Substitute Products***

Substitute products, within the framework of Porter's Five Forces Model, are not products that directly compete with a company's products but possible substitutes for them. In the case of Apple, an example of a substitute product is a landline telephone that might be a substitute for owning an iPhone.

This market force is relatively low for Apple due to the fact that most potential substitute products have limited capabilities compared to Apple's products, as in the example of a landline telephone compared to an iPhone that has the capability to do much more than just make telephone calls.



## CH 03 - BUSINESS POLICY AND FORMULATION OF FUNCTIONAL STRATEGY

Business policies are the **guidelines developed by an organization to govern the actions** of those who are a part of it. They define the **potential limits within which decisions must be made**. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business Policy defines **the scope within which decisions may be taken by the subordinates in an organization**.

### Features of Business Policy

Business Policy is the study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise and the decisions that determine the direction of the organisation and shape its future. An effective business policy must have following features-

1. **Specific** - every policy must have a basic feature of being specific/definite. If it is uncertain, then its implementation will become difficult.
2. **Clear** - Policy must be unambiguous and as clear as possible in order to guide the subordinates effectively. It should avoid frequent use of jargons and connotations to create any chaos.
3. **Reliable and Uniform** - Policy must be uniform and reliable enough to be efficiently followed by the subordinates.
4. **Appropriate** - Policy should be appropriate to the represent the organizational goals.
5. **Simple** - A policy should be simple and easily understood by each and every person in the organization.
6. **Inclusive/Comprehensive** - In order to have a wide scope, a policy must be comprehensive.
7. **Flexible** - Policy should be flexible in application. It should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.
8. **Stable** - Policy should be stable so as to avoid the scope of any indecisiveness and uncertainty in minds of those who look into it for guidance.

## Evolution of Business Policy

The origin of business policy can be traced back to the year 1911, when *Harvard Business School* introduced an integrative course in management aimed at the creation of general management capability. This course was based on some case studies which had been in use at the school for instructional purposes since 1908.

However, the real impetus for introducing business policy in the curriculum of business schools came with the publication of two reports in 1959, *the Gordon and Howell report, sponsored by the Ford foundation*, recommended a capstone course of business policy "... which will give students an opportunity to pull together what they have learned in the separate business fields and utilize this knowledge in the analysis of complex business problems, the Pierson report, sponsored by the Carnegie foundation and published simultaneously, made a similar recommendation.

In 1969, *the American Assembly of Collegiate Schools of Business*, a regulatory body for business schools, made the course of business policy a mandatory requirement for the purpose of recognition. During the last four decades, business policy has become an integral part of management curriculum. From the US, the practice of including business policy in the management curriculum spread to other parts of the world.

## Importance of Study of Business Policy

Business policy is important as a course in management curriculum and as a component of executive development programmes for middle-level managers preparing to move up to the senior management level.

- **From the viewpoint of the Course itself**

Business policy seeks to integrate knowledge and experience gained in various functional areas of management. It enables the learner to understand and make sense of the complex interaction that takes place between different functional area. Business policy deals with the constraints and complexities of the real-life business.

Business policy makes the study and practice of management more meaningful as one can view business decision-making in its proper perspective. For instance, in the context of business policy, a short-term gain for a department or a sub-unit is willingly sacrificed in the interest of the long-term benefit that may accrue to the organisation as a whole.

- **For the understanding of Business Environment**

Regardless of the level of management where a person is, business policy creates **an understanding of how policies are formulated**. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation. By gaining an understanding of the business environment, managers become more receptive to the ideas and suggestions of the senior management. By being able to relate the environmental changes to policy changes within the organisation, managers feel themselves to be a part of a greater design. This helps in reducing their feelings of isolation.

- **For understanding the Organisation**

Business policy presents a **basic framework for understanding strategic decision-making while a person is at the middle level of management**. Such a framework, combined with the experience gained in working in a specialized functional area, enable a person to make preparations for handling general management responsibilities. this benefits the organisation in a variety of ways. Business policy, like most other areas of management, brings to the organisation and also to its managers, the benefit of years of distilled experience in strategic decision-making. Case study, which is the most common pedagogical tool in business policy, provides illustrations of real-life business strategy formulation and implementation.

## FRAMEWORK OF STRATEGIC MANAGEMENT



### FORMULATION



### ACHIEVEMENT

#### VISION

Vision serves the purpose of stating what an **organization wishes to achieve in the long run**. It articulates the position that the organisation would like to occupy in future. It is a future aspiration that leads to an inspiration of being the best in one's business sphere. It **creates a common identity and a shared sense of purpose**.

A **vision statement is a company's road map**, indicating both what the company wants to become and guiding transformational initiatives by setting a defined direction for the company's growth. Vision statements **undergo minimal revisions** during the life of a business, unlike operational goals which may be updated from year-to-year.

According to **Oren Harari**, 'Vision should describe a set of ideals and priorities, a picture of the future, a sense of what makes the company special and unique, a core set of principles that the company stands for, and a road set of compelling criteria that will help define organizational success.'

### Features

- **Concise**: able to be easily remembered and repeated
- **Clear**: defines a prime goal
- **Time horizon**: defines a time horizon
- **Future-oriented**: describes where the company is going rather than the current state
- **Stable**: offers a long-term perspective and is unlikely to be impacted by market or technology changes
- **Challenging**: not something that can be easily met and discarded
- **Abstract**: general enough to encompass all of the organization's interests and strategic direction
- **Inspiring**: motivates employees and is something that employees view as desirable.

### Purpose

- Serve as **foundation** for a broader strategic plan.
- **Motivate existing employees** and attract potential employees by clearly categorizing the company's goals and attracting like-minded individuals.
- **Focus company efforts** and facilitate the creation of core competencies by directing the company to only **focus on strategic opportunities** that advance the company's vision.
- Help companies **differentiate from competitors**.

### MISSION

"A mission statement is an **enduring statement of purpose** that distinguishes one business from other similar firms. A mission statement **identifies the scope of a firm's operations** in product and market terms." According to **McGinnis**, a mission statement:

- should **define what the organisation is** and what the organisation **aspires to be**;
- should be **limited enough to exclude some ventures** and broad enough to **allow for creative growth**;

- should *distinguish a given organisation* from all others;
- should serve as a *framework for evaluating both current and prospective activities*; and
- should be stated in terms sufficiently clear to be widely understood throughout the organisation.

An ideal mission statement of business should *define its customers, products or services, markets, technology, philosophy and self-concept*. However, an examination of the mission statement of different organisations shows that the mission statements of several of them are not so comprehensive.

### Elements of Mission Statement

- *Clearly Articulated*
- *Relevant*
- *Written in a positive tone*
- *Unique*
- *Enduring*
- *Adapted to the Target Audience.*

	<i>Mission Statement</i>	<i>Vision Statement</i>
<i>About</i>	A Mission statement talks about HOW you will get to where you want to be. Defines the purpose and primary objectives related to your customer needs and team values.	A Vision statement outlines WHERE you want to be. Communicates both the purpose and values of your business.
<i>Answer</i>	It answers the question, "What do we do? What makes us different?"	It answers the question, "Where do we aim to be?"
<i>Time</i>	A mission statement talks about the present leading to its future.	A vision statement talks about your future.
<i>Function</i>	It lists the broad goals for which the organization is formed. Its prime function is internal; to define	It lists where you see yourself some years from now. It inspires you to give your best. It shapes

	<i>the key measure or measures of the organization's success and its prime audience is the leadership, team and stockholders.</i>	<i>your understanding of why you are working here.</i>
<b>Developing a statement</b>	<i>What do we do today? for whom do we do it? What is the benefit? In other words, Why we? do what we do? Questions on What, for Whom and Why?</i>	<i>Where do we want to be going forward? When do we want to reach that stage? How do we want to do it?</i>
<b>Features of an effective statement</b>	<i>Purpose and values of the organization: Who are the organization's primary "clients" (stakeholders)? What are the responsibilities of the organization towards the clients?</i>	<i>Clarity and lack of ambiguity; Describing a bright future (hope); Memorable and engaging expression; realistic aspirations, achievable; alignment with organizational values and culture.</i>

**Vision and Mission Statements of Various Companies/Organisations**

**Company:** State Bank of India

**Vision:** Be the bank of choice for a transforming India.

**Mission:** Committed to providing simple, responsive and innovative financial solutions.



**Company:** Tesla

**Mission:** To accelerate the world's transition to sustainable energy.

**Vision:** To create the most compelling car company of the 21st century by driving the world's transition to electric vehicles.



**Company:** Amazon

**Mission:** We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience.



**Company:** LinkedIn

**Mission:** To Connect the world's professionals to make them more productive and successful.

**Vision:** To Create economic opportunity for every member of the global workforce.



**Company:** Google

**Mission:** To organize the world's information and make it universally accessible and useful.

**Vision:** To provide access to the world's information in one click.



**Company:** Intel

**Mission:** To utilize the power of Moore's Law to bring smart, connected devices to every person on earth.

**Vision:** If it's smart and connected, it's best with Intel.



**Company:** Toyota USA

**Mission:** To attract and attain customers with high-valued products and services and the most satisfying ownership experience in America.

**Vision:** To be the most successful and respected car company in America.



**Company:** Sony

**Mission:** A company that inspires and fulfills your curiosity.

**Vision:** Using our unlimited passion for technology, content and services to deliver ground-breaking new excitement and entertainment, as only Sony can.



## OBJECTIVES AND GOALS

Used broadly, the word *objective* covers “*long-range company aims, more specific department goals, and even individual assignments*. Thus, objectives may pertain to a *wide or narrow part of an enterprise*, and they may be either long or short range.” Objectives *should not be static*; they should be dynamic. That is, changes in the environment and/or changes in the organisational strengths and weaknesses may call for modifications to objectives.

A *goal* is defined as “an *intermediate result to be achieved* by a certain time as *part of the grand plan*. A *plan can, therefore, have many goals*.” Specific goals are sometimes referred to as targets.

### Importance of Objectives

- Justify the organization
- Provide direction
- Basis for Management by Objectives
- Help Strategic Planning/Management
- Provide standards for assessment and control
- Help Decentralization.

### Objectives vs. Goals

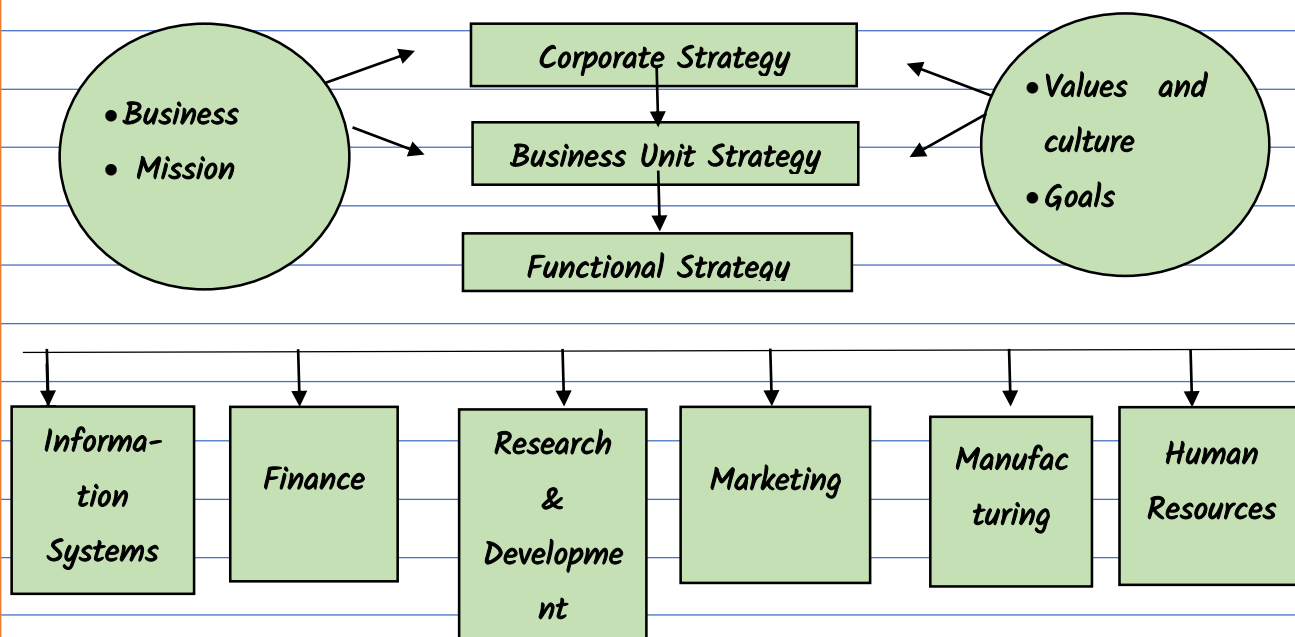
The terms objectives and goals are differentiated by some managers based on generality and specificity of what an organisation seeks to achieve. For example, objective of an organisation is to improve its profitability whereas one of the goals of the organisation is to increase the net sales by 20% during FY 2023- 24 over FY2022-2023. Thus, *objectives are based on mission statement and open-ended statements whereas goals are closed ended statements*.

### Process of Formulating Mission and Objectives

- **Environmental Analysis:** A cross-functional analysis of data and information and its results provide a basis for the establishment of organisational direction in terms of mission and objectives. Environmental analysis should provide managers with adequate information and data for reflection.

- **Vision and Mission:** Environmental analysis serves as a foundation for the development and formulation of vision and mission. Managers should understand the information and data derived from the environment, its analysis and better equip themselves to have a visionary reflection.
- **Organisational Objectives:** Organisational vision and mission serve as the basis for development of appropriate organisational objectives. Managers view that objectives should be consistent with the organisational vision and mission.
- **Specific Targets:** After the objectives are formulated by the top management of the organisation, they should be translated into specific targets by the middle and lower level management. These specific targets help for the effective achievement of objectives at different levels.

### STRATEGIC LEVELS OF THE ORGANIZATION



#### Corporate Level Strategy

Corporate Strategy is the essence of strategic planning process. It **determines the growth objective of the company**, i.e. direction, timing, extent and pace of the firm's growth. It highlights the **pattern of business moves and goals** concerning strategic interest, in different business units, product lines, customer groups, etc.

Corporate Strategy can be explained as the **management plan formulated** by the highest level of organization echelon, **to direct and operate** the entire business organization. It alludes to the **master plan that leads the firm towards the success**. So, the more the aptness in the degree of the corporate level strategy, the higher will be the chances of firm's success in the market.

### Definitions

According to **Andrews**: "the corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals and defines the range of business the company pursues, the kind of economic and noneconomic contribution it intends to make for its shareholders, employees, customers and communities. "(Andrews, 1997, p.245)

**Johnson et al** (2009), been describing corporate strategy, highlighted the choices of markets and products as a first step, and how a company is planning to operate on those markets or with particular products. They have also discussed the corporate strategy from overall scope of an organization and how value should be added to the different parts (business units) of an organization.

### Business-Level Strategy

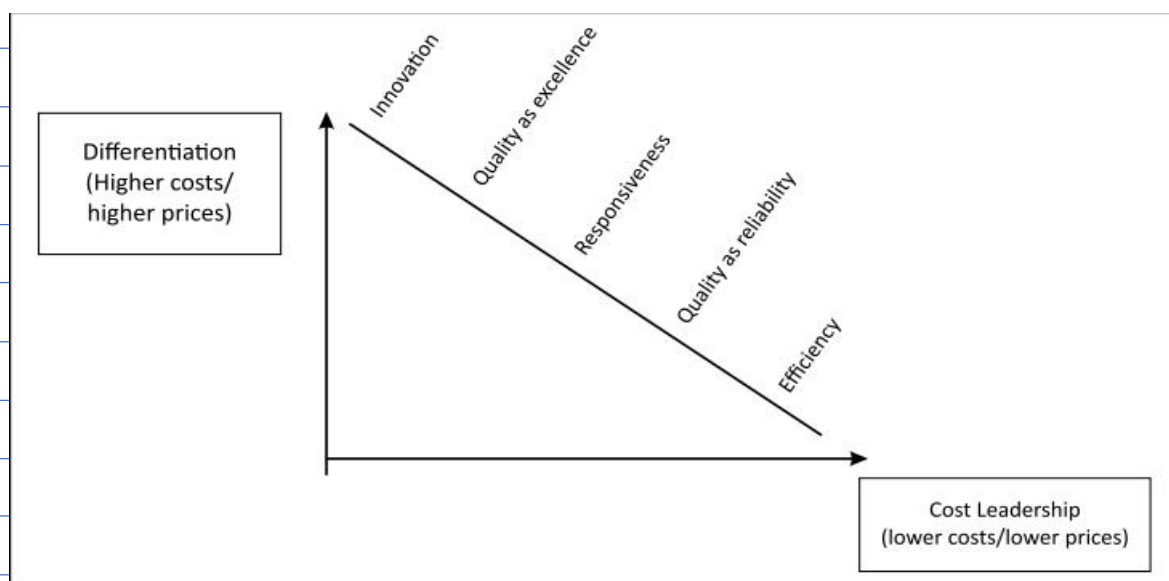
Business level strategy is applicable in **those organizations, which have different businesses** - and **each business** is treated as **Strategic Business Unit (SBU)**. The fundamental concept in SBU is to identify the discrete independent product / market segments served by an organization. Since each product/market segment has a distinct environment, a SBU (Strategic Business Unit) is created for each such segment.

Therefore, it requires **different strategies for its different product groups**. Thus, where SBU concept is applied, **each SBU sets its own strategies** to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, **strategy is a comprehensive plan providing objective for SBUs, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives**.

The corporate strategy **sets the long-term objectives of the firm and the broad constraints and policies** within which a SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBU's operations by the resources the corporate level assigns to it.

**Michael Porter** (1998) has identified business-level strategies which are cost leadership, differentiation, and focus to achieve a sustainable competitive advantage. The strategy of cost leadership was common in 1970s. This strategy requires construction of efficient-scale facilities, cost reductions, control over expenses, and cost minimization etc. The low-cost strategy gives several advantages before rivals. It may be explained by the possibility to be more efficient than competitors. (Porter, 1998)

**Hill and Jones** (2007) have developed the curve which connects together the three issues in developing a successful business model.



*Competitive Positioning and the Value Creation Frontier (Hill and Jones, 2007, p.160)*

**Brown and Blackmon** (2005) have defined business-unit strategy as a process of decision making at the strategic business unit (SBU) level. According to them, primarily it identifies how SBU supports organizational goals. Furthermore, business-unit strategy refers to aggregated strategies of single firms or SBU within one diversified corporation (Brown, Blackmon, 2005).

## Functional-Level Strategy

Functional strategy, as is suggested by the title, *relates to a single functional operation and the activities involved therein*. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with *relatively restricted plan providing objectives for specific function, allocation of resources among different operations* within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

<b>Basis for Comparison</b>	<b>Business Strategy</b>	<b>Corporate Strategy</b>
<b>Meaning</b>	Business Strategy is the strategy framed by the business managers to strengthen the overall performance of the enterprise.	Corporate Strategy is stated in the mission statement, which explains the business type and ultimate goal of the firm.
<b>Created by</b>	Middle level management	Top level management
<b>Nature</b>	Executive and Governing	Decisive and Legislative
<b>Relates to</b>	Selection of plan to fulfill the objectives company of organization	Business selection in which the Company should compete
<b>Deals with</b>	Particular business unit or division	Entire business organization
<b>Term</b>	Short term strategy	Long term strategy
<b>Focus growth</b>	Competing successfully in the marketplace	Maximizing profitability and business growth
<b>Approach</b>	Introverted	Extroverted
<b>Major strategies Differentiation.</b>	Cost Leadership, Focus and Differentiation.	Expansion, Stability and Retrenchment.

## FORMULATION OF FUNCTIONAL STRATEGY

Financial metrics have long been the standard for assessing a firm's performance. financial goals and metrics are established based on benchmarking the "best-in-industry" and include:

### 1. Free Cash Flow

This is a measure of the firm's financial soundness and shows how efficiently its financial resources are being utilized to generate additional cash for future investments. It represents the net cash available after deducting the investments and working capital increases from the firm's operating cash flow. Companies should utilize this metric when they anticipate substantial capital expenditures in the near future or follow-through for implemented projects.

### 2. Economic Value-Added

It is determined by deducting the operating capital cost from the net income. Companies set economic value-added goals to effectively assess their businesses' value contributions and improve the resource allocation process.

### 3. Asset Management

This calls for the efficient management of current assets (cash, receivables, inventory) and current liabilities (payables, accruals) turnovers and the enhanced management of its working capital and cash conversion cycle. Companies must utilize this practice when their operating performance falls behind industry benchmarks or benchmarked companies.

### 4. Financing Decisions and Capital Structure

Here, financing is limited to the optimal capital structure (debt ratio or leverage), which is the level that minimizes the firm's cost of capital. This optimal capital structure determines the firm's reserve borrowing capacity (short- and long-term) and the risk of potential financial distress.

### 5. Profitability Ratios

Profitability ratios indicate inefficient areas that require corrective actions by management; they measure profit relationships with sales, total assets, and net worth.

### 6. Growth Indices

Growth indices evaluate sales and market share growth and determine the acceptable trade-off of growth with respect to reductions in cash flows, profit margins, and returns on investment. Companies must set growth index goals when growth rates have lagged behind the industry norms or when they have high operating leverage.

## 7. Risk Assessment and Management

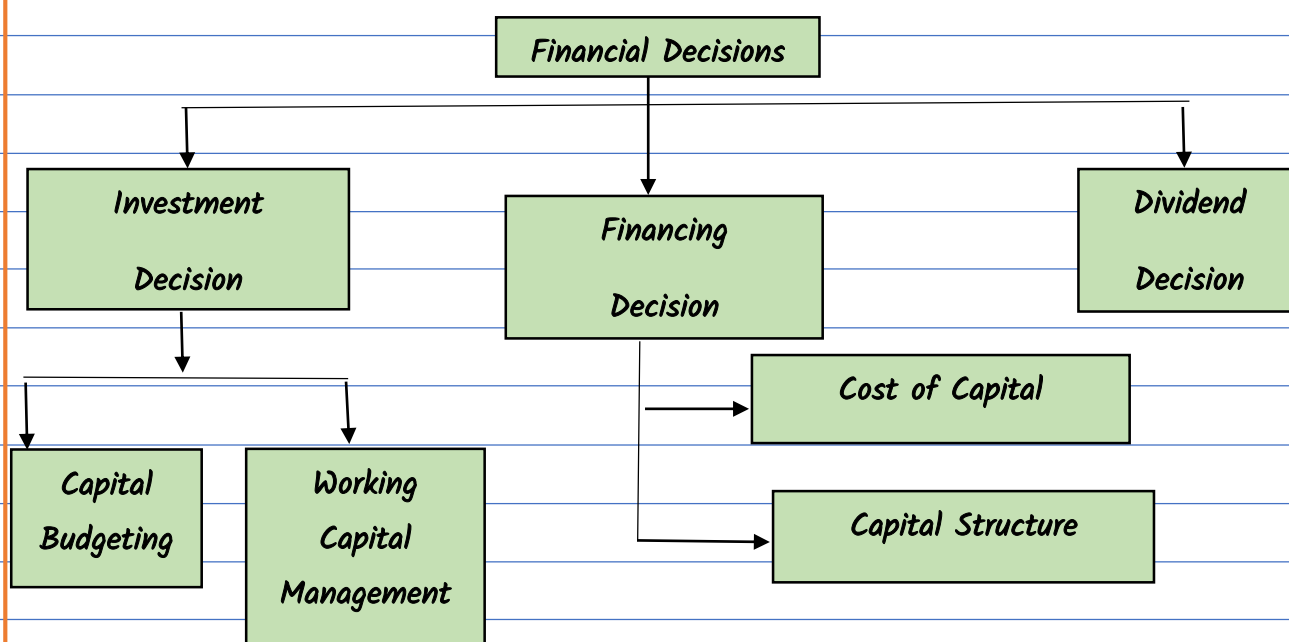
A firm must address its key uncertainties by *identifying, measuring, and controlling its existing risks* in corporate governance and regulatory compliance, the likelihood of their occurrence, and their economic impact. A process must be *implemented to mitigate the causes and effects of those risks*. Companies must make these assessments when they anticipate greater uncertainty in their business or when there is a need to enhance their risk culture.

## 8. Tax Optimization

Many *functional areas and business units need to manage the level of tax liability undertaken* in conducting business and to understand that mitigating risk also reduces expected taxes. Moreover, new initiatives, acquisitions, and product development projects must be weighed against their tax implications and net after-tax contribution to the firm's value.

### Strategy Financial Management

Strategic Financial Management (SFM) is concerned with *development of a finance strategy by identification of some key strategic alternatives which are capable of maximizing entity's Net Present Value (NPV) and by allocation of scarce capital resources among the competing opportunities*. It is concerned with taking these three key financial decisions:



### Investment Decision

In the course of business, the available finance with business is usually limited but the opportunities to invest are plenty. Hence, the finance manager is required to **assess the profitability or return of various individual investment decisions and choose a policy which ensures high liquidity, profitably of an organization.** It includes short term investment decisions known as working capital management decisions and long-term investment decisions known as capital budgeting decisions.

- **Capital Budgeting:** It is the process of **making investment decisions in capital expenditure**, benefits of which are expected over **a long period of time exceeding one year**. Investment decision should be evaluated in the terms of expected profitability, costs involved and the risks associated. This decision is important for setting up of new units, expansion of present units, reallocation of funds etc.
- **Short Term Investment Decision:** It relates to **allocation of funds among cash and equivalents, receivables and inventories**. Such decision is influenced by trade-off between liquidity and profitability. Proper working capital management policy ensures higher profitability, proper liquidity and sound structural health of the organization.

### Financing Decision

Once the requirement of funds has been estimated, the next important step is to determine the sources of finance. The manager should try to maintain a balance between debt and equity so as to ensure minimized risk and maximum profitability to business.

### Dividend Decision

The third and last function of finance includes dividend decisions. Dividend is that part of profit, which is distributed to shareholders as a reward to high-risk investment in business. It is basically concerned with deciding as to how much part of profit will be retained for the future investments and how much part of profit will be distributed among shareholders. High rate of dividend ensures higher wealth of shareholders and also increase market price of shares.

## Marketing Strategy

Formulation of Marketing Strategy is the means by which a firm is effectively able to differentiate itself from its competitors by capitalising on its strengths (both existing as well as potential) to provide consistently better value to its customers than its competitors.

Marketing strategy is a long-term, forward-looking approach for attaining sustainable competitive advantage. It involves an analysis of the company's existing strategic situation before the formulation, evaluation and selection of market-oriented competitive position that contributes to the company's goals and marketing objectives.

### Definitions of Marketing Strategy

Marketing Strategy is:

- "The marketing strategy lays out target markets and the value proposition that will be offered based on an analysis of the best market opportunities." (Philip Kotler & Kevin Keller)
- "An over-riding directional concept that sets out the planned path." (Aaker and Mills)
- "Essentially a formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out these goals." (Michael Porter, Competitive Strategy: Techniques for Analysing Industries and Competitors)

## STRATEGIC MARKETING PLANNING: AN OVERVIEW

Marketing strategy involves mapping out the company's direction for the future, be it three, five or ten years. It involves carrying out a 360° review of the firm and its operating environment with a view to identify new business opportunities that the firm could potentially leverage for competitive advantage. Strategic planning may also reveal market threats that the firm may need to consider for long-term sustainability.

## Market Position and Strategy

- Market leader

The market leader is the *one who controls significant market share*. Market leaders may *adopt unconventional or unexpected approaches to building growth* and their tactical responses are likely to include: product proliferation; diversification; multi-branding; erecting barriers to entry; vertical and horizontal integration and corporate acquisitions.

- Market Challenger

The market challenger *holds the next highest market share in the industry, following closely the most dominant player*. Their market posture is generally offensive because they have less to lose and more to gain by taking risks. They will *compete 'neck to neck' with the market leader in an effort to grab their market share*. Their overall strategy is to gain market share through product, packaging and service innovations and new market.

- Market Follower

Followers are generally content by taking a backseat and follow the policy of wait and watch. They *rarely invest in their own funds in R&D* and sit and relax to watch market leaders to bring out novel and innovative products and afterwards adopt a "me-too" approach. Their strategy is *to maintain their market position by preserving existing customer base*. Their strategy is to maintain steady profits by controlling costs.

- Market Nicher

The market niche *occupies a small niche in the market in order to avoid 'neck to neck' competition*. Their objective is to *build strong ties with the existing customer base* and develop strong loyalty with them. Their strategy is to *develop and build the smaller segment and protect it*.

## Entry Strategies

Marketing strategies may differ depending on the unique situation of the individual business. According to **Lieberman and Montgomery**, every entrant into a market – whether it is new or existing – is classified under a Market Pioneer, Close follower or a Late follower.

- Pioneers

Market pioneers are known for *innovative product development*, resulting into some early entry market share advantages than the followers as they have the first-mover advantage.

Pioneers must ensure that they have *at least one or more of three primary sources: technological Leadership, Pre-emption of assets or buyer switching costs.*

Technological Leadership means *gaining an advantage through either Research and Development or the "learning curve" for using the research and development as a key point of selling.*

Pre-emption of Assets can help gain an *advantage through acquiring scarce assets within a certain market*, allowing the first-mover to be able to have control of existing assets rather than those that are created through new technology.

By being a first entrant, it is easy to *avoid higher switching costs compared to later entrants.*

For example, those who enter later would have to invest more expenditure in order to encourage customers away from early entrants. *It has been found that while Pioneers in both consumer goods and industrial markets have gained "significant sales advantages", they are at a disadvantage in terms of cost.*

- Close followers

If there is a profit potential in the innovation introduced by market pioneer, many businesses would step in offering the same product. Such people are more commonly known as Close followers.

*These entrants into the market can also be seen as challengers to the Market Pioneers and the Late followers.* This is because early followers are more than likely to invest a significant amount in Product Research and Development than later entrants.

Due to the nature of early followers and the research time being later than Market Pioneers, *different development strategies are used as opposed to those who entered the market in the beginning, and the same is applied to those who are Late followers in the market.* By having a different strategy, it allows the followers to create their own unique selling point and perhaps target a different audience in comparison to that of the Market Pioneers.

- Late Entrants

Those who follow after the close followers are known as the Late entrants. Late entrant has certain advantages such as ability to learn from their early competitors and improving the benefits or reducing the total costs. This allows them to create a strategy that could essentially mean gaining market share and most importantly, staying in the market.

### FORMULATION OF HUMAN RESOURCE STRATEGIES

Human resource planning is a process that identifies current and future human resources needs for an organization to achieve its goals. Human resource planning should serve as a link between human resource management and the overall strategic plan of an organization. Human resource planning includes creating an employer brand, retention strategy, absence management strategy, flexibility strategy, (talent management) strategy, (recruitment) and selection strategy.

As defined by Bulla and Scott, human resource planning is 'the process for ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements.

Reilly defined (workforce planning) as: 'A process in which an organization attempts to estimate the demand for labour and evaluate the size, nature and sources of supply which will be required to meet the demand.

### Implementing HR Strategy

#### 1. Assessing the current HR capacity

This includes taking stock of the skills of the existing human resources of the organisation to have a clear understanding of the current skill set of the company. This will help in forecasting future HR requirements.

#### 2. Forecasting HR requirements

This step includes projecting what the HR needs for the future will be based on the strategic goals of the organization and assessment of total skill set of existing human resources.

### 3. Gap analysis

In this stage, one will make a *comparison between existing and desired position of the organisation from strategic point of view*. During this phase you should also review your current HR practices and if these require any amendments.

### 4. Developing HR strategies to support the strategies of the organization

The five HR strategies which may be adopted to attain the organizational goals are given hereunder:

#### ✓ Restructuring strategies

This includes *reducing staff, regrouping tasks to create well-designed jobs*, and reorganizing work groups to perform more efficiently.

#### ✓ Training and development strategies

This includes *providing the current staff with training and development opportunities* to encompass new roles in the organization.

#### ✓ Recruitment strategies

This includes *recruiting new hires* that already have the skills the organization will need in the future.

#### ✓ Outsourcing strategies

This includes *outreaching to external individuals or organizations* to complete certain tasks.

#### ✓ Collaboration strategies

This includes *collaborating with other organizations* to learn from how others do things, allow employees to gain skills and knowledge not previously available in their own organization.

Other strategies which come handy in HR Management are -

- ✓ **Onboarding and orientation** – The job orientation is just one component of onboarding, aim to develop an onboarding process where *new staff members not only learn about the job but also the company culture and how they can contribute and thrive*, with ongoing discussions, goals and opportunities to address questions and issues as they arrive.
- ✓ **Mentorship programs** – *Pairing a new employee with a mentor* is a great for retention. New team members can learn from the experience of a senior.
- ✓ **Employee compensation** – The organisation should offer *competitive compensation packages*.

- ✓ **Recognition and rewards systems** – Every person wants to feel appreciated for what they do. When they go the extra mile, they should be recognized. Some companies set up rewards systems that incentivize great ideas and innovation.
- ✓ **Work-life balance** – A **healthy work-life balance** is essential. Companies should give a serious thought for offering telecommuting or flexible schedules to improve work-life balance for their employees.
- ✓ **Training and development** – Smart managers invest in their **workers' professional development** and seek **opportunities for them to grow**. Some companies pay for employees to attend conferences or industry events each year, or provide tuition reimbursement or continuing education training.
- ✓ **Communication and Feedback** – **Lines of communication should be kept open** for ensuring employee retention. Their ideas, questions and concerns must be welcomed.
- ✓ **Dealing with change** – If the organization is going through a merger, layoffs or other big changes, the **employees must be taken into confidence beforehand to maintain their trust**.
- ✓ **Fostering teamwork** – When people work together, they can achieve more than they would have individually. **Foster a culture of collaboration by clarifying team objectives, business goals and roles**, and encouraging everyone to contribute ideas and solutions.
- ✓ **Team celebration** – **Celebrate major milestones for individuals and for the team**. Whether the team just finished that huge quarterly project under budget or an employee brought home a new baby, seize the chance to celebrate together with a shared meal or group excursion.

## FORMULATION OF PRODUCTION STRATEGY

The types of production strategies under **Business Strategies** are as follows:

1. Differentiation strategy
2. Cost leadership strategy
3. Market segmentation strategy.

The production strategies under **Competitive Priorities** are as follows:

1. Price or cost strategy
2. Quality strategy

3. Delivery strategy
4. Product mix or flexibility strategy
5. Service strategy
6. Eco-friendly products

The production strategies under **Competitive Advantages** are as follows:

1. Flexible response strategy
2. Low cost strategy.

### Differentiation strategy

Under a differentiation strategy, the company *tries to make a product different and unique from that offered by its competitors* in the market. Such a differentiation may be done in terms of enhanced quality, quantity, pricing, appearance, and after sales-service than its rivals. Such a uniqueness and divergence in its product quality and customer service may lead to fetching higher prices by the company in the same market.

### Cost leadership strategy

Under a cost leadership strategy, the company *tries to diminish its cost of production by reaping economies of the scale on a larger volume of production in a single batch*. Higher the scale of production, lower will be the cost of production due to reduction in fixed costs per unit of production be it raw materials, labour, advertising, sales promotion, R & D etc.

### Market Segmentation Strategy

In market segmentation strategy, the company *divides the market according to the type of customers it has to focus and target*. It *sells different products and services to different types of customers*. To achieve this goal, it produces and sells goods and services as per the needs of the customers. Therefore, market segmentation strategy is also called **Focus Strategy**. For example, many detergent companies offer different variants of detergents with different price brackets.

### Price or Cost Strategy

Under price or cost strategy, *the company sells its product at a very low price*. This strategy is used when the products are homogeneous in nature and company is not able to differentiate. That is, when the customers cannot distinguish the company's product from the competitors' products. For example, match sticks; the customer will not care much about brand while buying this and will easily switch to other brand, if his current company tries to raise the price.

### Quality Strategy

Under quality strategy, the company *produces and sells 'premium' goods and services*. The prices of such goods and services are naturally very high such as luxury cars and bikes. However, this *strategy attracts those customers who have huge incomes and therefore prefer top quality products as a status symbol* and are ready to pay high prices intentionally.

### Delivery Strategy

Under delivery strategy, the company *delivers its product and services to their customers as early as possible within a fixed time period*. The company gives *top priority to fast delivery* of products and providing *quickest accessibility of services*. Delivery strategy is used as a selling tactic to fight cut-throat competition.

### Product Mix or Flexibility Strategy

Under this strategy, *the company produces and sells a product mix*. A product mix is a group of products, which are sold by the same company. For example, Hindustan Lever, P& G etc. Here, *the company does not depend only on a single product for its survival and growth*. It uses a product mix as it offers many advantages to the company. However, only large companies with huge production capacity can adopt this strategy.

### Service Strategy

Under this strategy, the *company uses a service to attract the customers*. It gives *quicker and better after-sales service*. It gives around the clock, i.e. 24-hour customer service. It may render this service directly via the company or through the network of call centres.

### Eco-Friendly Products

Under eco-friendly strategy, the company produces and sells environment-friendly products also called as Green Products. For example, producing and selling lead-free petrol to reduce pollution, manufacturing mercury-free television panels, etc., are some good steps to preserve nature. This is a new type of production strategy. It is used to reduce pollution and protect the biosphere.

### Flexible Response Strategy

Flexible response strategy is said to be used when a company makes required changes in its production plans in accordance with the emerging changes in the market. Here, focus is given to speed and reliability. That is, the company must make swift changes as per the emerging changes in the market demand. It must also give a regular supply of goods to its customers. There must not be any shortage of goods in the market. To achieve this, the company must follow a strict production schedule.

### Low Cost Strategy

Under low cost strategy, the company fights massive market competition by selling its products at very lower prices. Simultaneously, it must also maintain the quality of its products. A company can only sell its goods at minimum prices if it maintains a low cost of production and distribution. This can be done by producing and distributing goods on a large scale. That is, company must take advantage of economies of large-scale production.

## FORMULATION OF LOGISTICS STRATEGY

Logistics strategy is defined as “the set of guiding principles, driving forces and ingrained attitudes that help to coordinate goals, plans and policies between partners across a given supply chain.”

Logistics is not confined to tactical decisions about transportation and warehousing. Longer-term decisions are needed to put in place. When a company creates a logistics strategy, it defines the service levels at which its logistics organization will be most cost effective. Because supply chains are constantly changing and evolving, a company may develop a number of logistics strategies for specific product lines, specific countries, or specific customers.

## Elements of the Logistics Strategy Plan

1. **Customer Service Policy** – The *appropriate level of service for customers*, by product group or market segment; considering: order fulfilment requirements, enquiry and investigation capability and the available information. The customer service policy informs the nodes and links of the supply network.
2. **Inventory Location Policy (Supply Network Nodes)** – *Centralised or decentralised inventory*; whether to differentiate facilities by fast and slow moving stock; location of sites; use of specific technologies and layouts; company-owned or contracted facilities.
3. **Inventory Policy** – Form and function of inventory by location; *the appropriate amount of stock to hold for various groups of inventory*; planning structure that links outbound and inbound materials.
4. **Cost Plan** – Trade-off *analysis between cost and service level requirements*; *cost of Logistics operations*.
5. **Transport and Distribution (Supply Network Links) Policy** – Affected by *whether enterprise imports or exports and the size and structure of conurbations being served*. This incorporates transport modes, delivery pattern and storage location considerations, based on the time taken for deliveries.
6. **IT and Communications Capability** – *Technologies (including software) that will be internally developed*; buy planning and scheduling applications from single supplier or obtain 'best of breed' applications.
7. **Logistics Organisation Structure** – Function or flow based; allocation of responsibilities; managed or self managed teams.
8. **Logistics Targets and Metrics** – Measures of performance and achievement targets; operations improvements process and management.

## Case Studies

### **I. How Mint Used Online Marketing to Successfully Launch a Digital Empire**

When Mint first launched in 2006, it was nothing more than an account aggregation service. Yet Mint has now become a household name with over 20 million users. Acquired by Intuit for \$170 million in 2009, Mint is a personal finance tracker that makes it easy for customers to achieve their financial goals, track their budget, and find deals on credit cards, loans, mortgages, and auto loans.

Mint faced an uphill battle, as it needed to convince users that it was safe to consolidate their banking data under a single service. When the aggregation service first came out in 2006, this was something many users were told never to do.

Despite this, through a comprehensive online marketing campaign, Mint was able to successfully start acquiring revenue through lead generation by 2008 — leveraging its referral fees.

Mint's challenges were two-fold: they needed to convince customers that this was a service they needed and that they were a reputable, safe service to use. They were able to do this through their multi-channel marketing, which built authority and brand awareness throughout their targeted millennial audience.

Key aspects of their marketing strategy included the following:

#### **The MintLife Blog**

Mint understood that their major customer demographics were likely to be millennials who wanted to get a foothold on their finances. The MintLife blog was directed at bringing in younger individuals who had questions about their finances.

What goes into a credit score? How do you get started buying a house? Is it possible to purchase a car with bad credit? Blog-based content marketing brought in an audience demographic that was likely to be interested in their services.

#### **Social Media Interaction**

Through social media, Mint became extraordinarily responsive. The team at Mint hosted promotions, gave away free items and discounts, and engaged with the audience that they expected to be most interested in its service.

By establishing relationships with known brands through social media — such as credit card companies — Mint was also able to easily build its perceived authority with its potential audience. Mint's social media was not self-promoting; instead, it focused on giving its millennial audience information about money saving tips, financial news, and more.

### **Explainer Videos**

Finally, Mint still needed to tackle the concept of a financial tracker — showing its audience that it needed the tool that it was providing. It was able to do this through a sequence of explainer videos and articles designed to show the value of the website.

As a free website, Mint only needed to convince its users to convert to a free account — from there, the value presentation was within the tool itself. Ultimately, Mint was able to grow its business by establishing authority, creating a wide array of content marketing, and offering clear, understandable explanations about the usability of its tool.

## **2. Dropbox Grows from 1 Million to 500 Million Users in Just 7 Years**

Ranked as one of the most valuable startups in the world, Dropbox is currently one of the most used digital utilities across the globe. Dropbox has a total of 500 million users, and its usage has been growing steadily ever since. From 2009 to 2016, Dropbox was able to achieve growth from 1 million to 500 million users. Much of this dramatic growth was fuelled by online marketing.

As an online service, Dropbox's online marketing was particularly important. Its users were already there — it just needed to find a way to tap into them. It was able to do this in a scalable, cost-effective way by essentially recruiting its own customers. Dropbox encouraged customers to invite others through a variety of social media platforms, which turned the ordinary user into a brand ambassador.

Further, Dropbox had to segregate its marketing campaigns. It wasn't just a B2C utility; its ultimate goals were to serve to businesses who would be more likely to pay for a premium model.

This meant that Dropbox had to reach a certain saturation point. The more ubiquitous its product became, the more likely it would be that commercial enterprises would invest in premium services. This underscored the importance of fast, even chaotic, growth.

*Key aspects of their marketing strategy included the following:*

*i) A Clean, Clear Landing Page*

*Dropbox's landing page immediately describes its product in a single sentence and then prompts users to commit. As a free product, Dropbox yields the best results by encouraging users to test out their service. Once users test out their free service, ideally their company will be encouraged to pay for a premium version.*

*ii) Built-In Marketing Incentives*

*Dropbox encouraged users to connect with others and promote Dropbox as a service by giving them more space for their files. By sharing content on Twitter, Facebook, and other social media platforms, users could get an upgrade to the amount of space that they had. Not only did this bring users closer to the brand, but it also made for fast-paced grass roots growth.*

*iii) An Inspiring Market Platform*

*As an overall utility, Dropbox had to reach a very large audience. It geared up for this audience engagement through a unique online marketing campaign that was designed to show its values. Customers began to see the brand as standing for something, rather than being yet another software utility.*

*Of course, none of this marketing would have gotten as far as it did if it wasn't for the utility of the service. The advantages of a freemium model really only work when the service is clearly worth paying for. Nevertheless, the marketing strategies listed above were instrumental in securing Dropbox incredible, sustainable, and exponential growth.*

### **3. Golden Heart Senior Care Leverages Reputation Management to Build Trust**

*Plumbers, restaurants, and long-term care services — they all have something in common. People seeking these services are likely to look up reviews, testimonials, and third-party ratings before making a decision. Companies that offer personal services have a long road ahead of them. Without an online reputation, few customers will be willing to give them a chance.*

*Golden Heart Senior Care needed to make sure that customers saw them as trustworthy and reliable.*

Through a digital marketing team, they were able to boost their online reviews as well as develop themselves as a trustworthy authority regarding long-term senior care. Active social media accounts, a polished blog, and reviews on multiple platforms were all able to bolster the care service's reputation.

Reputation management is the art of pushing positive content to the top. Not only do reputation management companies need to promote positive content, but they also need to be able to bury content that may be incorrect or outdated. Nothing can ever be removed from the Internet; instead, through SEO and content marketing, digital marketers have to promote the best content first.

**Key aspects of their marketing strategy included the following:**

**i) Managing Online Reviews**

Through a curated online review platform, Golden Heart Senior Care was able to share positive reviews as well as curating reviews that were incorrect. Golden Heart Senior Care was offered the opportunity to address any negative reviews while also encouraging satisfied clients to post their own reviews. The more reviews posted on an online review platform, the more relevant it became to search engines — and therefore, the more it was pushed to the top of results. Presently, Golden Heart Senior Care can be seen on multiple senior care review websites, ranking at a 5 out of 5 stars.

**ii) Posting Original and Curated Information**

To establish themselves as an authority and reach out to their leading demographics, Golden Heart Senior Care began to produce and share valuable content about seniors and their abilities. In addition to this, Golden Heart Senior Care also shared curated information, establishing themselves as an all-around resource and giving them additional content to share beyond the custom content that they themselves had created. Together, this made for an active, versatile social media presence.

**iii) Engaging with Followers Online**

A long-term care service is an intensely personal relationship. Golden Heart Senior Care was able to connect with potential clients or their loved ones directly through their social media.

*One-on-one interaction with potential clients improved perception of the care centre, while also addressing any questions or concerns that followers might have. Even potential clients who did not have questions could see how responsive the care centre was online, which mattered in terms of reputation.*

*As a relatively small company, Golden Heart Senior Care has a fairly specific demographic: seniors (and their families) within their geographic area. This type of marketing requires an extremely personal touch.*

*Through reputation management, Golden Heart Senior Care was able to capture an audience who already knew that they needed their services, but who also had questions and concerns about the process — and who wanted to find the most trustworthy service available.*

*In a rating-filled world, companies need to be especially conscientious about positive and negative reviews and how they may adversely impact them.*

#### **4. First Fruit Wellness Center Expands to Three Locations through Social Media Engagement**

*Converting followers to leads is one of the major challenges of any marketing campaign. Yet this wellness centre had a unique and personal take on social media marketing. By engaging with followers one-on-one, First Fruit Wellness Center developed close relationships with potential customers online. Social media campaigns don't have to feel impersonal — though they often do.*

*Wellness centres have a unique marketing challenge: they need to show their clientele that there is a need for them. Wellness centres need to be able to reach out to those who are interested in improving their health and show the value of their services before customers walk in the door.*

*Most social media campaigns are primarily based around the idea of brand awareness: making it known that your business is open and available. But First Fruit Wellness Center went a step further by actively engaging their followers — asking them questions about their health and their goals and encouraging them one-on-one to come into the centre and see what it could do for them.*

*For larger enterprises, this type of constant one-on-one interaction might seem taxing. But for a brick-and-mortar wellness centre, these personalised interactions ultimately led to leads.*

*Key aspects of their marketing strategy included the following:*

***i) Building Out their Content Marketing***

*It was through content marketing that the First Fruit Wellness Center was able to initially build an audience. Engagement campaigns cannot work without followers already available. Posting interesting content, sharing curated content, and interacting with similar brands were the first step towards building First Fruit Wellness Center's social media campaigns.*

***ii) Connecting Directly with Followers***

*When followers connected with First Fruit Wellness Center, the marketing team began to interact with them immediately — asking them questions about their interests and their goals. This type of personal interaction is extraordinarily rare on social media today and served the purpose of not only establishing relationships with customers, but also showing them that this company was different.*

***iii) Getting the Followers to Come In***

*Ultimately, to get leads the marketing team needed to get people in the door. Once relationships were sufficiently established, the marketing team of First Fruit Wellness Center encouraged potential customers to come in to find out more about the centre and what it could offer to them. By bringing in leads in this fashion, nearly all of the nurturing was done through the online platform.*

*Despite the time commitment, these strategies are scalable. Many large brands — most famously Wendy's — have extremely active social media accounts, through which they interact with customers and respond to customers regularly. Unique to First Fruit Wellness Center, however, is the type of ongoing interactions, relationship building, and lead generation that the marketing team engaged in. By establishing an individual rapport with each follower, the centre was able to send a message that it valued them.*

*First Fruit Wellness Center is interesting in another way: shortly after expanding to multiple locations, they appear to have discontinued their marketing campaigns. As a direct consequence, their account can now be seen to be mostly inactive — and all of the social media momentum they built died off. This is a sobering reminder that social media is a living entity and that it needs to be continually refuelled and revised.*

## 5. Roofstock Uses Press Releases, News Sites, and Paid Advertising to Disrupt Real Estate Market

Not many individuals are interested in purchasing investment property sight unseen. Yet this is exactly the premise that Roofstock needed to sell. Roofstock is a disruptive real estate service, designed to make it easier for investors to purchase properties from anywhere in the world.

Once properties are purchased online, they are managed by local property management companies. Investors are able to reap the benefits of an investment property with none of the negatives — at least, that's the theory.

Of course, that's a hard sell to a lot of investors. Experienced investors already have their own networks in place, while inexperienced investors may fear such a high-risk strategy. That's where Roofstock's digital marketing came in.

Rather than just focusing on traditional content marketing and social media, Roofstock acquired coverage in magazines such as Forbes. Online press releases and news articles were used to build both credibility and awareness.

This was further augmented by paid marketing campaigns on communities such as Reddit, directed towards investors. Roofstock additionally embarked upon reputation management, and presently there are a number of solid reviews and ratings for the service — showing it as a reputable and trustworthy resource. Together, these strategies were used to establish the company in a disruptive space, providing a service that many had otherwise never heard of before.

**Key aspects of their marketing strategy included the following:**

### **i) Placement in Reputable Magazines and News Outlets**

For Roofstock, traditional blog posts and content marketing wasn't enough. A company asking investors for tens (or hundreds) of thousands of dollars needed more. Positioning themselves in Forbes, Business Insider, and other high-quality online venues allowed for a better perceived reputation.

### **ii) Reviews and Reputation Management**

Reputation was important for Roofstock as many would be looking up the company to make sure it was legitimate. Roofstock invested in reputation management enough to ensure that it had positive, reputable reviews showing up whenever potential clients searched for the company on a search engine. It wasn't enough for Roofstock itself to rank highly in terms of SEO; its reviews and

testimonials needed to as well.

### *iii) Paid Advertising*

*For high-value companies such as Roofstock, the ROI of paid advertising is even more extraordinary. A company can spend a great deal on procuring leads if each lead brings in thousands of dollars. However, just general advertising often isn't enough to bring in interested leads. Roofstock was able to leverage the communities of Reddit for targeted advertising services.*

*Disruptive businesses often face significant challenges when advertising, as they need to show users that there is a new way to accomplish their goals. Roofstock was able to build its reputation and credibility through the use of pre-existing finance and business venues. Simultaneously they ran an education campaign that explained to prospective clients what its service did and how its service was better than its predecessors.*



## CH 04 - STRATEGIC ANALYSIS AND PLANNING

Strategic analysis and planning involve *careful formulation of the strategies and goals taken by a company's top management on behalf of the organization*. It is based on deliberation of resources and an assessment of the internal and external environments in which the organization competes based on a variety of models. It *aims at providing overall direction to the organisation and specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans*.

### SITUATION ANALYSIS

Before developing any strategy, the foremost requirement is carrying out a Situation Analysis. A complete situation analysis focuses on four areas i.e.:

- *The problem (its severity and its causes)*
- *The people (potential stakeholders)*
- *The broad context (in which the problem prevails)*
- *Factors (facilitating behavior change)*

A situational analysis *takes into account the internal and external environment of an entity or organization and clearly identifies its own capabilities, customers, potential customers, competitors and the business environment and the impact they are going to have on the entity or organization*. It can also *help in identifying strengths, weakness, opportunities and threats* to the organization or business which can help in forecasting the choices required to be made keeping in view the environmental developments.

### Need of Situation Analysis

A Situation Analysis paves the way for strategy development by *identification of priorities* by *bringing out a clear, detailed and realistic picture* of the *opportunities, resources, challenges and barriers* regarding formulation of a business plan. The quality of the Situation Analysis will affect the success of the whole plan.

## Conducting of Situation Analysis

A situation analysis should be conducted at the beginning of any program or project but before developing a strategy.

## Elements of Situation Analysis

- **Product Situation**

It *relates with the products being offered* by the business at present. It may further be subdivided into the core product and any secondary/ancillary or supporting products/services.

- **Competitive situation**

This involves *analysis of the competitive forces to identify the closest competitors*. It involves *finding out core competencies* of the competitors as compared to our own organization and the areas in which they have strong hold and the characteristics of the customers segment that are attracted by the competitors.

- **Distribution Situation**

Review of *distribution and logistics network*.

- **Environmental Factors**

The *external and internal environmental factors* need to be taken into account. This *includes economic or sociological factors* that impact performance.

- **Opportunity and Issue Analysis**

*Carrying out a SWOT analysis* (Strengths, Weaknesses, Opportunity and Threats). Current opportunities available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.

## SWOT ANALYSIS

SWOT is a tool for strategic analysis of any organization, which takes into account **examination of the company's internal as well as its external environment**. It consists in recognition of key assets and weaknesses of the company and marching them to exploit future opportunities and combating threats. SWOT may be expanded as:

**S - Strengths**

**W - Weaknesses**

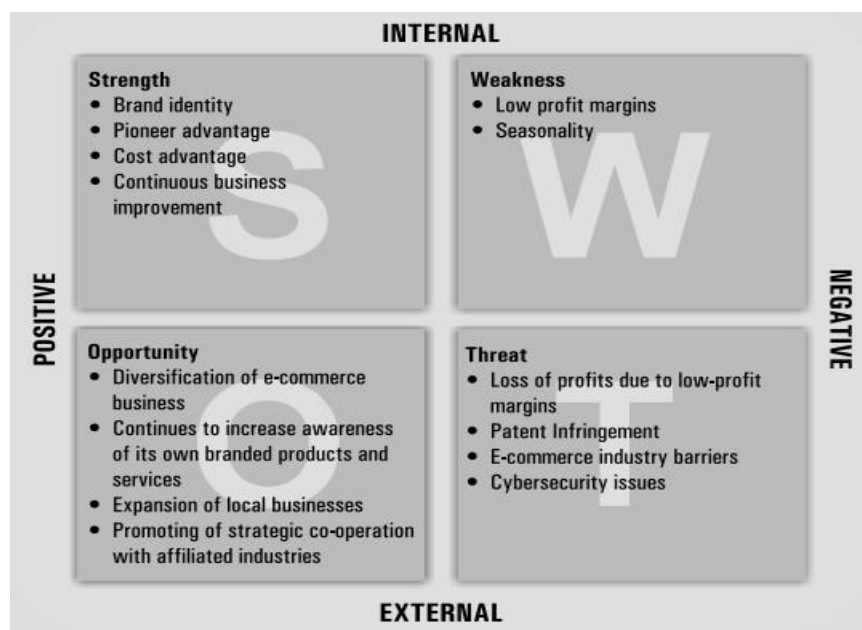
**O - Opportunities**

**T - Threats.**

The origin of the SWOT analysis is supposed to be rooted in the concept of 'Force Field Analysis' pronounced by K. Levin in 1950s. However, 'Force Field Analysis' concept was too complex to be practically applied. Yet, it became a reference for scholars to develop some simpler methods, that included the SWOT analysis as well. It is noteworthy that SWOT may be successfully applied in any kind of organization, be it business or corporate sector, political party, public institutions, sport club, schools or universities etc.

### Case Study - SWOT Analysis

#### 1. Amazon SWOT Analysis



### **Strength**

- **Brand Identity:** Amazon is synonymous with online sales services, and Amazon focuses on improving customer satisfaction during the business process.
- **Pioneer Advantage:** Amazon is undoubtedly the leader in the online Retail Industry.
- **Cost Structure:** Amazon effectively uses its cost advantage, operates on thin profits, and is still profitable in trading
- **Business Development:** Amazon continuously improves its service level and provides diversified services.

### **Weakness**

- **Low-Profit Margins:** Amazon has a very thin profit margin to maintain its cost-leading strategy. But low-profit margins make companies vulnerable to external shocks and crises, as well as other market changes.
- **Seasonality:** There is a seasonal difference between Amazon's revenue and business scope, with sales and revenue peaking in the fourth quarter of each year.

### **Opportunity**

- Today's Diversification of E-Commerce Business.
- Continues to increase awareness of its own branded products and services.
- Amazon develops more local websites to participate in the international market. With the international expansion of Amazon, some local businesses have the opportunity to enter the international market.
- Promoting the strategic cooperation between Amazon E-Commerce and its related affiliated industries will drive positive development of the industry.

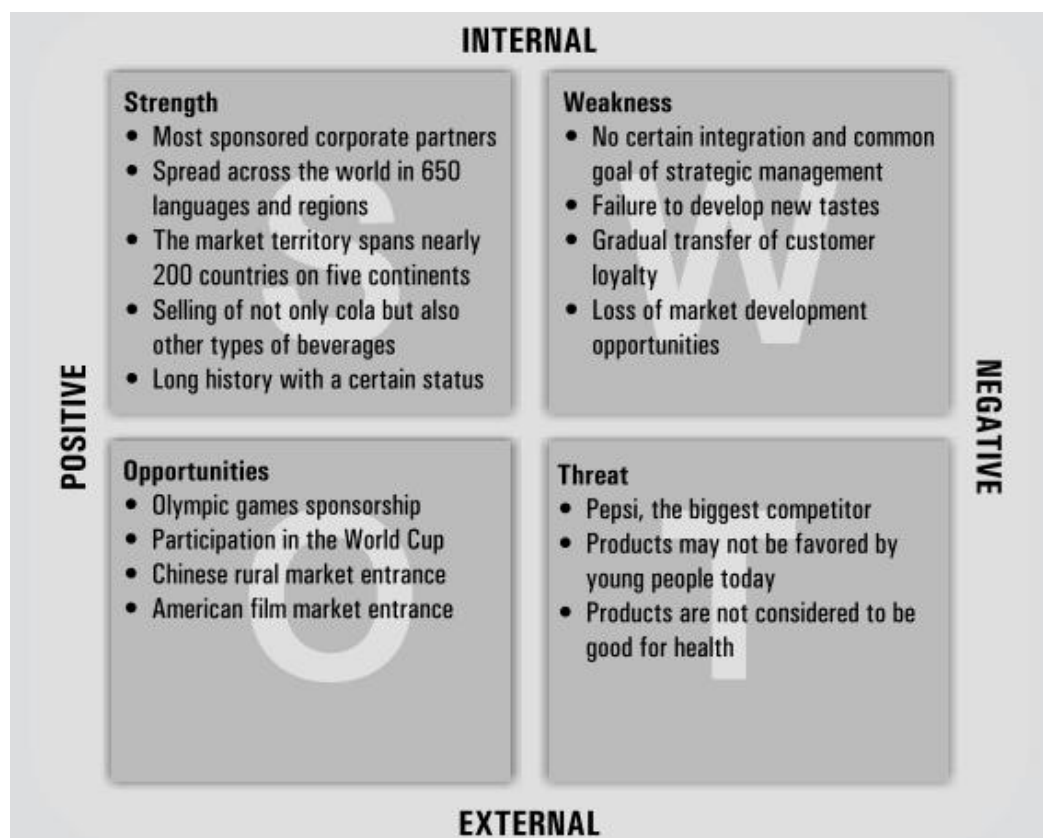
### **Threat**

- Loss of profits due to low-profit margins.
- Patent Infringement and other aspects of Amazon's Litigation E-Commerce Industry barriers to entry barriers.
- Cybersecurity Issues.

### Amazon – Recent Development

Amazon has seized the opportunity to successfully transform itself from an e-commerce company into a global leading technology company! When Amazon realized the limitations of the retail industry, it expanded its business boundaries promptly. In addition to cloud computing and smart voice, Amazon has also contacted third-party platforms such as logistics and suppliers, and even invested in the film and television industry, making its business model more diversify. In 2008, Amazon realized that content can attract and extend users' time on the platform, and began to provide original content on Prime Instant Video, Amazon's mainstream media video platform, and as part of the Prime membership service. Amazon's ecology can be described as a rotating flywheel. This flywheel is centered on Prime's membership system, and new interests have been added to it, gradually creating an all-encompassing ecology. While continuing to attract new users, it has promoted the development of Amazon's e-commerce and other new businesses, and it will continue to do so.

## 2. Coca-Cola SWOT Analysis



### **Strength**

- *Most sponsored corporate partners.*
- *Spread across the world in 650 languages and regions.*
- *The market territory spans nearly 200 countries on five continents.*
- *To develop new products, the Coca-Cola Company not only sells cola but also other types of beverages.*
- *Coca-Cola has a long history, so it has a certain status in the market.*

### **Weakness**

- *There is no certain integration and the common goal of strategic management.*
- *The failure to develop new tastes.*
- *The gradual transfer of customer loyalty.*
- *Loss of market development opportunities.*

### **Opportunity**

- *Sponsor the Olympic Games, use this opportunity to replace their brands, products, and make advertisements, especially The Olympic Games is a worldwide movement that allows the world's population to recognize this product, expand its market reach, and raise awareness of its products.*
- *Participate in the World Cup, take this world-wide activity to pave the way for your products and gain popularity.*
- *Enter the Chinese rural market.*
- *Enter the American film market.*

### **Threat**

1. *Pepsi is Coca-Cola's biggest competitor.*
2. *The products produced by the company may not be favored by young people today.*
3. *Coca-Cola is not considered to be good for health by many people.*

### 3. Skoda SWOT Analysis

In 1895 in Czechoslovakia, two keen cyclists, Vaclav Laurin and Vaclav Klement, designed and produced their own bicycle. Their business became Skoda in 1925. Skoda went on to manufacture cycles, cars, farm ploughs and airplanes in Eastern Europe. Skoda overcame hard times over the next 65 years. These included war, economic depression and political change.

By 1990 the Czech management of Skoda was looking for a strong foreign partner. Volkswagen AG (VAG) was chosen because of its reputation for strength, quality and reliability. It is the largest car manufacturer in Europe providing an average of more than five million cars a year giving it a 12% share of the world car market.

Volkswagen AG comprises the Volkswagen, Audi, Skoda, SEAT, Volkswagen Commercial Vehicles, Lamborghini, Bentley and Bugatti brands. Each brand has its own specific character and is independent in the market. Skoda UK sells Skoda cars through its network of independent franchised dealers.

To improve its performance in the competitive car market, Skoda UK's management needed to assess its brand positioning. Brand positioning means establishing a distinctive image for the brand compared to competing brands. Only then could it grow from being a small player. To aid its decision-making, Skoda UK obtained market research data from internal and external strategic audits. This enabled it to take advantage of new opportunities and respond to threats.

The audit provided a summary of the business's overall strategic position by using a SWOT analysis. SWOT is an acronym which stands for:

- **Strengths** - the internal elements of the business that contribute to improvement and growth.
- **Weaknesses** - the attributes that will hinder a business or make it vulnerable to failure.
- **Opportunities** - the external conditions that could enable future growth.
- **Threats** - the external factors which could negatively affect the business.

This case study focuses on how Skoda UK's management built on all the areas of the strategic audit. The outcome of the SWOT analysis was a strategy for effective competition in the car industry.

## Strengths

To identify its strengths, Skoda UK carried out research. It asked customers directly for their opinions about its cars. It also used reliable independent surveys that tested customers' feelings.

In Top Gear's 2007 customer satisfaction survey, 56,000 viewers gave their opinions on 152 models and voted Skoda the 'number 1 car maker'. Skoda's Octavia model has also won the 2008 Auto Express Driver Power 'Best Car'.

Skoda attributes these results to the business concentrating on owner experience rather than on sales. It has considered 'the human touch' from design through to sale. Skoda knows that 98% of its drivers would recommend Skoda to a friend. This is a clearly identifiable and quantifiable strength. Skoda uses this to guide its future strategic development and marketing of its brand image.

Strategic management guides a business so that it can compete and grow in its market. Skoda adopted a strategy focused on building cars that their owners would enjoy. This is different from simply maximising sales of a product. As a result, Skoda's biggest strength was the satisfaction of its customers. This means the brand is associated with a quality product and happy customers.

## Weaknesses

A SWOT analysis identifies areas of weakness inside the business. Skoda UK's analysis showed that in order to grow it needed to address key questions about the brand position. Skoda has only 1.7% market share. This made it a very small player in the market for cars. The main issue it needed to address was: how did Skoda fit into this highly competitive, fragmented market?

- a) Perceptions of the brand: This weakness was partly due to outdated perceptions of the brand. These related to Skoda's eastern European origins. In the past the cars had an image of poor vehicle quality, design, assembly and materials. Crucially, this poor perception also affected Skoda owners. For many people, car ownership is all about image. If you are a Skoda driver, what do other people think?
- b) From 1999 onwards, under Volkswagen AG ownership, Skoda changed this negative image. Skoda cars were no longer seen as low-budget or low quality. However, a brand 'health check' in 2006 showed that Skoda still had a weak and neutral image in the mid-market range it occupies, compared to other players in this area, for example, Ford, Peugeot and Renault. This meant that, whilst the brand no longer had a poor image, it did not have a strong appeal either.

b) *Change of direction: This understanding showed Skoda in which direction it needed to go. It needed to stop being defensive in promotional campaigns. The company had sought to correct old perceptions and demonstrate what Skoda cars were not. It realised it was now time to say what the brand does stand for. The marketing message for the change was simple: Skoda owners were known to be happy and contented with their cars. The car-buying public and the car industry as a whole needed convincing that Skoda cars were great to own and drive.*

### **Opportunities**

*Opportunities occur in the external environment of a business. These include for example, gaps in the market for new products or services. In analysing the external market, Skoda noted that its competitors' marketing approaches focused on the product itself. Many brands place emphasis on the machine and the driving experience:*

- *Audi emphasises the technology through its strapline, 'Vorsprung Durch Technik' ('advantage through technology').*
- *BMW promotes 'the ultimate driving machine'.*
- *Skoda UK discovered that its customers loved their cars more than owners of competitor brands, such as Renault or Ford.*

### **Differentiation**

*Information from the SWOT analysis helped Skoda to differentiate its product range. Having a complete understanding of the brand's weaknesses allowed it to develop a strategy to strengthen the brand and take advantage of the opportunities in the market.*

*It focused on its existing strengths and provided cars focused on the customer experience. The focus on 'happy Skoda customers' is an opportunity. It enables Skoda to differentiate the Skoda brand to make it stand out from the competition.*

*This is Skoda's unique selling proposition (USP) in the motor industry.*

### **Threats**

*Threats come from outside of a business. These involve for example, a competitor launching cheaper products. A careful analysis of the nature, source and likelihood of these threats is a key part of the SWOT process.*

The UK car market includes 50 different car makers selling 200 models. Within these there are over 2,000 model derivatives. Skoda UK needed to ensure that its messages were powerful enough for customers to hear within such a crowded and competitive environment. If not, potential buyers would overlook Skoda. This posed the threat of a further loss of market share. Skoda needed a strong product range to compete in the UK and globally.

In the UK the Skoda brand is represented by seven different cars. Each one is designed to appeal to different market segments. For example:

- the Skoda Fabia is sold as a basic but quality 'city car'.
- the Skoda Superb offers a more luxurious, 'up-market' appeal.
- the Skoda Octavia Estate provides a family with a fun drive but also a great big boot.

Pricing reflects the competitive nature of Skoda's market. Each model range is priced to appeal to different groups within the mainstream car market. The combination of a clear range with competitive pricing has overcome the threat of the crowded market.

#### **Environmental constraints**

The following example illustrates how Skoda responded to another of its threats, namely, the need to respond to EU legal and environmental regulations. Skoda responded by designing products that are environmentally friendly at every stage of their life cycle. For example:-

- recycling as much as possible. Skoda parts are marked for quick and easy identification when the car is taken apart.
- using the latest, most environmentally-friendly manufacturing technologies and facilities available. For instance, painting areas to protect against corrosion use lead-free, water based colours.
- designing processes to cut fuel consumption and emissions in petrol and diesel engines. These use lighter parts making vehicles as aerodynamic as possible to use less energy.
- using technology to design cars with lower noise levels and improved sound quality.

## *Outcomes and benefits of SWOT analysis*

*Skoda UK's SWOT analysis answered some key questions. It discovered that*

- *Skoda car owners were happy about owning a Skoda.*
- *The brand was no longer seen as a poorer version of competitors' cars. However, the following observations were found:*
  - ❖ *The brand was still very much within a niche market*
  - ❖ *A change in public perception was vital for Skoda to compete and increase its market share of the mainstream car market.*
  - ❖ *The challenge was how to build on this and develop the brand so that it was viewed positively. It required a whole new marketing strategy.*

## *Unique selling proposition*

*Skoda UK has responded with a new marketing strategy based on the confident slogan, 'the manufacturer of happy drivers'.*

*The campaign's promotional activities support the new brand position. The key messages for the campaign focus on the 'happy' customer experience and appeal at an emotional rather than a practical level. The campaign includes:*

- *The 'Fabia Cake' TV advert. This showed that the car was 'full of lovely stuff' with the happy music ('Favourite things') in the background.*
- *An improved and redesigned website which is easy and fun to use. This is to appeal to a young audience. It embodies the message 'experience the happiness of Skoda online'.*

*Customers are able to book test drives and order brochures online. The result is that potential customers will feel a Skoda is not only a reliable and sensible car to own, it is also 'lovely' to own.*

*Analysing the external opportunities and threats allows Skoda UK to pinpoint precisely how it should target its marketing messages. No other market player has 'driver happiness' as its USP.*

*By building on the understanding derived from the SWOT, Skoda UK has given new impetus to its campaign. At the same time, the campaign has addressed the threat of external competition by setting Skoda apart from its rivals.*

## TOWS Analysis

Weirich developed TOWS Matrix in 1982, as the next step of SWOT Analysis in developing alternative strategies. TOWS Matrix is a conceptual framework for identifying and analyzing the threats (T) and opportunities (O) in the external environment and assessing the organization's weaknesses (W) and strengths (S). TOWS Matrix is an effective way of combining a) internal strengths with external opportunities and threats, and b) internal weaknesses with external opportunities and threats to develop a strategy.

Though TOWS was created through rearrangement of the letters of SWOT analysis, yet, it may not be considered as just reversal of sequence of the SWOT analysis. This is so because, while in the SWOT analysis, one starts with evaluation of internal strengths and weaknesses and seeks the manner of their best application taking into account the external business environments, TOWS analysis scans opportunities and threats existing in external environment of any organization, and then generates, compares and selects strategies based on internal strengths and weakness to utilize such opportunities and reduce threats.

Michael Watkins of the "Harvard Business Review" says that focusing on threats and opportunities first helps lead to productive discussions about what is going on in the external environment rather than getting bogged down in abstract discussions about what a company is good at or bad at.

### Four TOWS strategies: Product of Trade-off between Internal and External factors

As said earlier, whereas SWOT Analysis starts with an internal analysis, the TOWS Matrix takes the other route, with an external environment analysis; the threats and opportunities are examined first. Then, in TOWS makes a trade-off between internal and external factors. As we know, Strengths and weaknesses are internal factors and opportunities and threats are external factors. This trade-off is the point where four potential strategies derive their importance, these are Strength/Opportunity (SO), Weakness/Opportunity (WO), Strength/Threat (ST) and Weakness/Threat (WT) as shown in matrix given below:

### TOWS Analysis

		Internal Factors	
External Factors		Strengths(S)	Weaknesses (W)
	Opportunities (O)	Strengths/ Opportunities (SO)	Weaknesses/ Opportunities (WO)
	Threats (T)	Strength/ Threats (ST)	Weaknesses/ Threats (WT)

**Strength/Opportunity (SO):** Strengths of the companies are utilized to exploit the opportunities.

**Weakness/Opportunity (WO):** The organisation finds options that overcome weaknesses, and then take advantage of opportunities. Therefore, it mitigates weaknesses, to exploit opportunities.

**Strength/Threat (ST):** Exploiting strengths to overcome any potential threats.

**Weakness/Threat (WT):** With Weakness/Threat (WT) strategies, one is attempting to minimise any weakness to avoid possible threat.

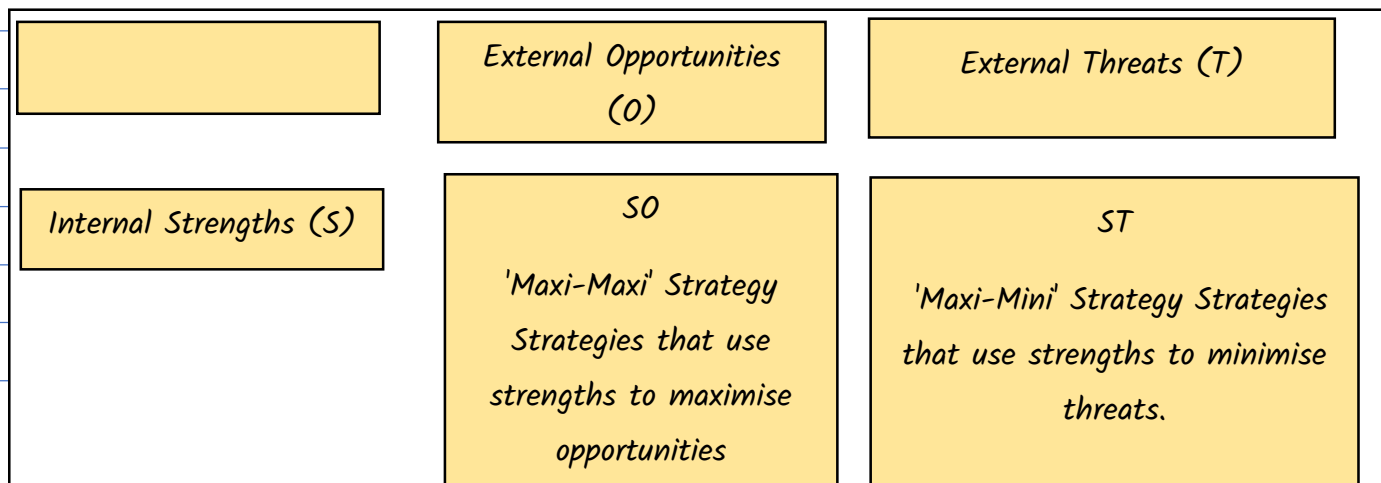
There are 4 types of strategies differentiated:

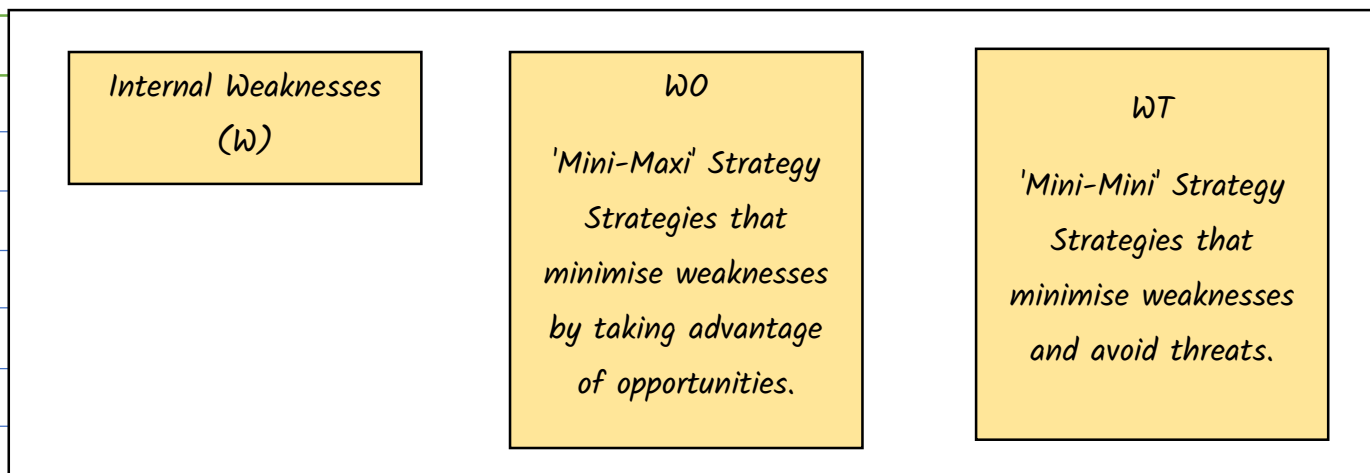
Aggressive strategy (maxi-maxi)

Conservative strategy (maxi-mini)

Competitive strategy (mini-maxi)

Defensive Strategy (mini-mini)





### Aggressive Strategy (maxi-maxi)

Maxi-maxi refers to an organization, within which the *synergy effect is present and opportunities are dominating in the environment*. It consists in strong expansion and development, with *maximum application of strengths and available opportunities*.

### Conservative Strategy (maxi-mini)

It is present in an organization in a situation, *when with high internal potential, it undergoes unfavorable system of external conditions or threats*. The threats need to overcome with use of the strengths. It is a strategy, where success of an organization is mainly sought in its strong sides and reduction of threats.

### Competitive Strategy (mini-maxi)

It is present in an organization, where *weaknesses dominate over the strengths still there are opportunities prevailing in the environment*. The competitive strategy consists in *elimination of weak sides of company's operation and construction of its competitive strength* through maximal exploitation of the existing opportunities that support development.

### Defensive Strategy (mini-mini)

This strategy enables survival in a *situation, when an organization works in an unfavorable environment, it is deprived of strengths*. It may lead to take maximal benefits from the company before its liquidation, or to combine it with another enterprise.

## APPLE INC.

### Strengths

- Market leader in an array of products and services
- Highly strong brand image
- Financial strength
- Innovative and highly sophisticated supply chain
- High profit margins
- Large and loyal customer base.

### Weaknesses

Products not priced competitively

Thin product range in comparison to the competitors Products incompatible with the other brands

### Opportunities

- Rising demand for the electronic gadgets
- Product diversification

### Threats

- Elevated competition
- Rise in cost of inputs

### Apple TOWS MATRIX

	<b>Strengths (S)</b>	<b>Weaknesses (W)</b>
<b>Opportunities (O)</b>	SO - Using strengths to capitalize on existing opportunities. Use brand image to diversify and develop partnership with other brands by introducing compatibility feature.	WO - Overcome weaknesses to capitalize on opportunities. Attract middle class customers by reducing price. Find new customer segments and introduce new products tailored for them.
<b>Threats (T)</b>	ST - Use strengths to combat threats. Control cost to beat competition. Focus on cultural change.	WT- Reduce weaknesses to combat threats. Exploit existing supply chain capabilities to reduce costs. Introduce competitively priced products.

### Nike TOWS Matrix

Incorporated in 1967, Nike is known as a globally renowned brand in best sports shoe and apparels in the world and its main strategic suppliers for footwear are 127 footwear factories located in 15 countries. Apart from a strong image and a market leading position, the brand is also known for its excellent marketing capabilities. However, that does not mean it does not have changes in its way.

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Brand Image</li> <li>• Excellent Marketing capabilities</li> <li>• Financial strength</li> <li>• International presence</li> <li>• Huge well managed supply chain and distribution network</li> </ul>	<ul style="list-style-type: none"> <li>• Over dependence on the US market</li> <li>• Increasing marketing and overhead operating expenses</li> </ul>

<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Digitization and product innovation</li> <li>• Acquisitions</li> <li>• International expansion</li> <li>• Backward integration</li> </ul>	<ul style="list-style-type: none"> <li>• Stronger US dollar hurting earnings</li> <li>• Increased competitive pressure</li> <li>• Growing HR and marketing expenses</li> <li>• Higher legal pressures</li> </ul>

	<b>Strengths (S)</b>	<b>Weaknesses (W)</b>
<b>Opportunities (O)</b>	SO – Using strengths to capitalize on available opportunities. invest more in digitization and product innovation. Explore Asian markets. Take hold of supply chain.	WO – Overcome weaknesses to capitalize on opportunities. Expand faster in international markets by reducing dependence on US market alone. Controlling operational costs.
<b>Threats (T)</b>	ST – Use strengths to avoid threats. use its marketing and innovation capabilities to keep the competitive pressure under control. keep investing in marketing, R&D as well as HR management.	WT- Reduce weaknesses to avoid threats. to invest more in marketing and grow its brand faster.

## TOWS MATRIX OF PEPSI

We have discussed SWOT analysis of Pepsi-Co in our previous topic now here we are going to discuss the TOWS Matrix of Pepsi-Co, keeping in mind its SWOT analysis. Following is the detailed analysis of PepsiCola TOWS matrix:

### 'WT' ANALYSIS

- One weakness that Pepsi possess is that it has very strong taste it really feels that something highly toxic going inside the body, where as the same product of the coke is not much strong.
- They also have a problem of imitators as receives complaints from customers that they find take product in disguised of Pepsi's product. During the last years, it was published in financial post that there have been big complaints from the customers with regard to the bad taste that they experienced. during the span of six months. If they soon pay no attention towards that this will create a big problem for them.
- Large size may lead to conflicting interests.
- New one calorie products have no existing customer base; generic brands can make similar drinks – cheaper. It is also big threat for any company people may like or dislike new launching product.

### 'WO' ANALYSIS

- They have a lack of emphasis on this in their advertising such as currently when they losses the bid for official drink in the 96 cricket world cup. They started a campaign in which they highlight the factor such as “nothing official about it”. If they don't focus on sudden changing's in their advertising then they can convert this weakness into opportunity.
- They lack behind in catering the rural areas and just concentrating in the urban areas. They should try to increase their distributions and also focus on capturing rural areas; this will become a big opportunity for them.
- The other big weakness on Pepsi is that they don't pay any attention towards garments. They may enter in garments business in order to promote their brand name, by making sports cloths for players which represent their name by wearing their clothes. That must increase the customer and income of the Pepsi.

- High expenses may have trouble balancing cash-flows of such a large operation. The staff may show dishonesty. They should try to pay much attention towards their cash flow, and audit their statements on regular basis.

### 'ST' ANALYSIS

- In many countries Pepsi had more expensive products than Coke; such a high price may limit a lower income family from buying a Pepsi product, therefore which is a big threat for Pepsi that may Pepsi have to face in the future.
- In western countries, Pepsi have many branches with different flavors as compare to Asian countries, which has only 2 or 3 Pepsi products. Non-carbonated substitutes, such as juices and tea brands are maintaining a strong foothold in the market. Pepsi has a big threat from COKE, which are its main competitor from about 100 years.
- Pepsi is a multinational company therefore they have a big threat every time on them of Political instability and civil unrest.
- The whole culture and business operating environment at Pepsi-Cola-West Asia has quick access to a centralized database and they use computers as business tools for analysis and quick decision making. Computer breakdowns, viruses and hackers can reduce efficiency, and must constantly update products or other competitors will be more advanced.

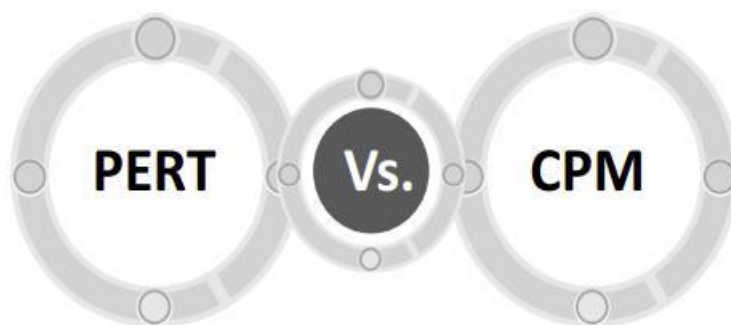
Continuous efforts to research trends an reinforce creativity, if they fail in their efforts then there is a big threat for the company. The competitors may get benefit by their plans.

### 'SO' ANALYSIS

- The whole culture and business operating environment at Pepsi-Cola-West Asia has quick access to a centralized database and they use computers as business tools for analysis and quick decision making. Internet promotion such as banner ads and keywords can increase their sales, and more computerized manufacturing and ordering processes can increase their efficiency and that will become such a big opportunity for Pepsi.
- Large number of diversity businesses is also its main strength as it has diversity in many businesses such as Pepsi beverages, Pepsi foods, Pepsi Restaurants, and due to large number of diversity they can capture more customer, therefore it will become such a big opportunity for Pepsi.

- *Pepsi is also a reputable organization, and is well known all over the world. Perception of producing a high quality product and strength can become a big opportunity for Pepsi if they use it in well arranged manner, such as advertising more and also by conducting concerts to attract more customers.*
- *They maintain a high quality as Pepsi Cola International collect sample from its different production facilities and send them for lab test in Tokyo, if they show test reports on label of their products this will also attract customers.*
- *They mainly use celebrities in their advertising campaigning like Imran Khan, Wasim Akram, and Waqar Younas etc. Also sponsor social activates programmed like music etc. this will become such a big opportunity to build such a large number of customers. So we can say that it is one of the big strength that may become a big opportunity for Pepsi.*

# Techniques of Project Management



PERT and CPM two complementary *statistical techniques* utilized in Project management. These two are *network based scheduling methods* that exhibit the *flow and sequence of the activities and events*.

First developed by the United States Navy in the 1950s to support the U.S. Navy's Polaris nuclear submarine project, *PERT is commonly used in conjunction with the Critical Path Method (CPM)*. Today, PERT and CPM have been used for a variety of projects, including the following types.

- Construction of a new plant
- Research and development of a new product
- NASA space exploration projects
- Movie productions
- Building a ship
- Government-sponsored projects for developing a new weapons system
- Relocation of a major facility
- Maintenance of a nuclear reactor
- Installation of a management information system
- Conducting an advertising campaign.

PERT/CPM *identify the time required to complete the activities* in a project, and the *order of the steps*. Each activity is assigned an *earliest and latest start time and end time*. Activities with *no slack time* are said to lie along the *critical path*—the path that must stay on time for the project to remain on schedule.

## CPM

CPM computes the *longest path of planned jobs/ activities to logical end points/the end of the project*, and the *earliest and latest time by which each activity can start and finish* without making the project longer. This process determines the *activities that are "critical" or on the longest path and having "total float"* (i.e., can be delayed without making the project longer).

Critical Path Analysis is an effective and powerful method of assessing:

- What jobs/activities must be carried out.
- Where parallel activities can be performed.
- The shortest time to complete a project.
- Resources needed for a project.
- The sequence of activities, scheduling and timings.
- Task priorities.
- The most efficient way of shortening time on urgent projects.

### Steps in PERT and CPM

- a) *Identification and distinguishment* of various activities required for the completion of the project and listing them separately.
- b) Determination of the *order of precedence* for these jobs.
- c) Laying down of *relationships between the different jobs* like the ones that can go on simultaneously and the ones that need to go consecutively.
- d) Drawing of a *picture/graph* portraying each of these jobs showing the predecessor and successor relations among them. This graph should also show the time required for completion of each job. This is known as the *project graph or the arrow diagram*.

### Advantages of PERT

1. Compels managers to *plan their projects critically* in considerable detail from beginning to the end and analyse all factors affecting the progress of the plan.
2. Provides management a *tool for forecasting the impact of schedule changes*. The likely trouble spots are located early enough to take preventive measures or corrective actions.
3. A *considerable amount of data* may be presented in a precise manner. The task relationships are presented graphically for easier evaluation.

4. Results in *improved communication with all concerned parties* such as designers, contractors, project managers etc.
5. The network will *highlight areas that require attention* of higher priority to the key jobs without ignoring the lower priority tasks.

### Limitations of PERT

1. *Uncertainly* about the estimate of time and resources as it is based on assumptions.
2. The *costs* may be higher than the conventional methods of planning and as it *needs a high degree of planning skill and minute details* resulting in rise in time and manpower resources.
3. *Not suitable for relatively simple and repetitive processes* such as assembly line work which are fixed sequence jobs.

<b>BASIS FOR COMPARISON</b>	<b>PERT</b>	<b>CPM</b>
<b>Meaning</b>	PERT is a project management technique, used to manage uncertain activities of a project	CPM is a statistical technique of project management that manages well defined activities of a project
<b>What is it?</b>	A technique of planning and control of time	A method to control cost and time
<b>Orientation</b>	Event-oriented	Activity-oriented
<b>Evolution</b>	Evolved as Research & Development project	Evolved as Construction project
<b>Model</b>	Probabilistic Model	Deterministic Model
<b>Main Focus</b>	Time	Time-cost trade-off
<b>Appropriateness</b>	High precision time estimate	Reasonable time estimate
<b>Activities Management</b>	Unpredictable Activities	Predictable activities
<b>Nature of jobs</b>	Non-repetitive nature	Repetitive nature
<b>Critical and Noncritical activities</b>	No differentiation	Differentiated
<b>Suitability</b>	Research and Development Project	Non-research projects like civil construction, ship building etc.

# PORTFOLIO ANALYSIS

Majority of business organisations have a portfolio of products on offer to their customers, rather than individual products or brands, and will in many cases have branded products which complement each other in some way. Analysis of such portfolio becomes a necessity as the strengths and weaknesses of a company in such portfolio determine its internal capabilities to compete in a market and fulfil customer expectations. The tool to identify the strengths and weaknesses of a company is a Product Portfolio Analysis.

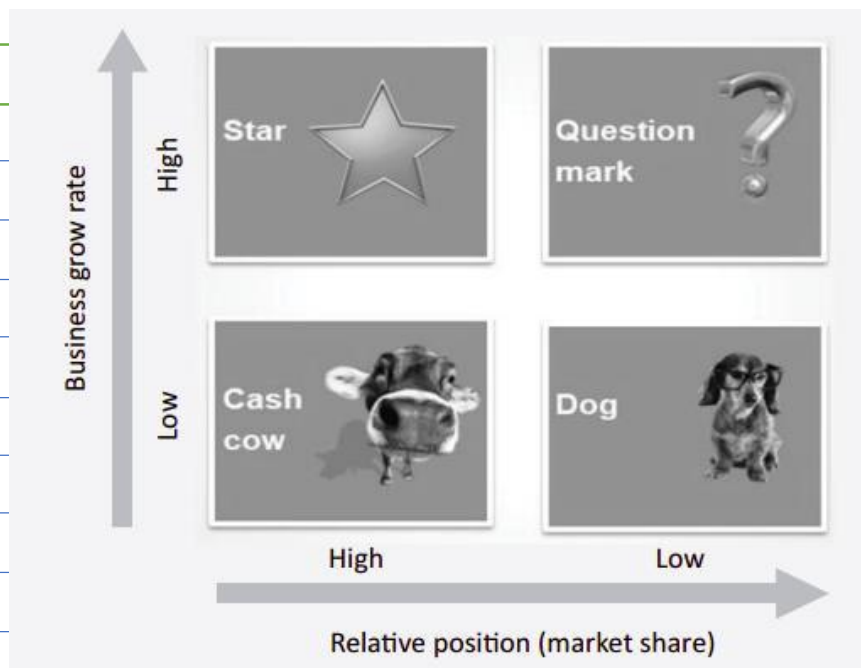
The Product Portfolio Analysis was proposed in 1973 by Peter Drucker as a way to classify current and expected profitability. Drucker classified the offerings of a particular company into seven categories i.e. *Today's Breadwinners, Tomorrow's Breadwinners, Yesterday's Breadwinners, Developments, Sleepers, Investments in Managerial Ego, and Failures*. He classified products in the first three categories, "Today's Breadwinners," "Tomorrow's Breadwinners," and "Yesterday's Breadwinners," as strengths of the company while those in the last two categories, "Investments in Managerial Ego" and "Failures," as weaknesses.

## BCG MATRIX

The BCG Matrix was developed by the Boston Consulting Group (BCG) and is used for the evaluation of the organization's product portfolio in marketing and sales planning. BCG analysis is mainly used for Multi-Category/ Multi Product companies. All categories and products together are said to be the part of a Business portfolio. It aims to evaluate each product, i.e. the goods and services of the business in two dimensions:

- Market growth
- Market share

The combination of both dimensions creates a matrix into which the products from the portfolio are placed:



### Cash Cows

Cash cows are products which have a **high market share in a low growing market**. As the business growth rate of market is low, cash cow gains the **maximum advantage by generating maximum revenue** due to its higher market share. Therefore, for any company, the cash cows is the category of **products which require minimal investment but ensure higher returns**. These higher returns raise the level of overall profitability of the firm because such excess revenue generation can be used in other businesses which carry products falling in the category of Stars, Dogs or Question marks.

**Strategies for cash cow** – Cash cows are the most stable product/service line for any business and hence the **strategy includes retention of the market share for such category**. **Customer satisfaction programs, loyalty programs and other such promotional methods** form the core of the marketing plan for a cash cow product.

### Stars

For such category of products, **both market share as well as growth rate is high**. Unlike cash cows, Stars cannot be complacent when they are top on because they can immediately be overtaken by another company which capitalizes on the market growth rate. However, if the strategies are successful, a Star can become a cash cow in the long run.

**Strategies for Stars** – All types of marketing, sales promotion and advertising strategies are used for Stars. Similarly in Stars, because of the high competition and rising market share, the concentration and investment need to be high in marketing activities so as to increase and retain market share.

### Question Marks

Several times, a company might come up with an innovative product which immediately gains good growth rate. However, the market share of such a product is unknown. Question marks are products which may give high returns but at the same time may also flop and may have to be taken out of the market. This uncertainty gives the quadrant the name “Question Mark”. The major problem associated with having Question marks is the amount of investment which it might need and whether the investment will give returns in the end or whether it will be completely wasted.

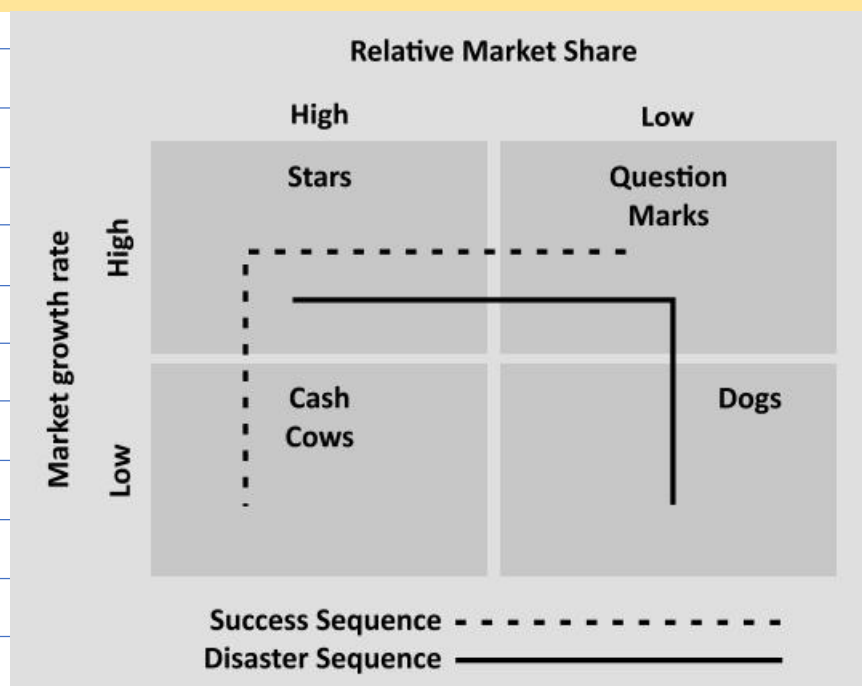
**Strategies for Question marks** – New Customer acquisition strategies are the best strategies for converting Question marks to Stars or Cash cows. Furthermore, time to time market research also helps in determining consumer psychology for the product as well as the possible future of the product and a hard decision might have to be taken if the product goes into negative profitability.

### Dogs

Products are classified as dogs when they have low market share and low growth rate. Thus, these products neither generate high amount of cash nor require higher investments. However, they are considered as negative profitability products mainly because the money already invested in the product can be used somewhere else.

**Strategies for Dogs** – Depending on the amount of cash which is already invested in this quadrant, the company can either divest the product altogether or it can revamp the product through rebranding / innovation / adding features etc. However, moving a dog towards a star or a cash cow is very difficult. It can be moved only to the question mark region where again the future of the product is unknown. Thus, in cases of Dog products, divestment strategy is used.

## Sequences in BCG Matrix



**Success Sequence**— The Success sequence of BCG matrix happens when a **question mark becomes a Star and finally it becomes a cash cow**. This is the best sequence which really give a boost to the companies' profits and growth.

**Disaster sequence in BCG Matrix** – Disaster sequence of BCG matrix happens when a **product which is a star, due to competitive pressure might be moved to a question mark**. It fails out from the competition and it **is moved to a dog** and finally it may have to be divested because of its low market share and low growth rate.

## Steps in BCG Matrix

BCG matrix is a framework to help understand, which brands the firm should invest in and which ones should be divested. Following are the steps involved:

- Step 1. Choose the unit
- Step 2. Define the market
- Step 3. Calculate relative market share
- Step 4. Find out market growth rate
- Step 5. Draw the circles on a matrix

### Strategies based on the BCG Matrix

- 1) **Build** – By *increasing investment*, the product is given an impetus such that the product increases its market share.
- 2) **Hold** – The company *cannot invest or it has other investment commitments due to which it holds* the product in the same quadrant.
- 3) **Harvest** – Best observed in the Cash cow scenario, wherein the *company reduces the amount of investment and tries to take out maximum cash flow* from the said product which increases the overall profitability.
- 4) **Divest** – Best observed in case of Dog quadrant products which are generally *divested to release the amount of money already stuck* in the business.

### Criticism of the BCG Matrix

The BCG Matrix has lost some of its popularity following the development of other models, and drawn criticism for making some false suppositions such as:

- It *assumes that a business unit with a higher market share will generate more cash*. While it has been observed that a unit that has a high market share needs to keep investing in itself to sustain this share and, therefore, may absorb cash instead of generating it.
- Also, the matrix seems to *ignore interdependencies among a corporation's business units*. A dog, for example, may be helping a question mark or a star with cash.
- The matrix also seems to *use broad definitions of market share and market growth overlooking niche market* – a unit that makes scooter tyres, for instance, may have a big market share in this niche segment, but only a minuscule share of the overall tyre market.
- The matrix has also been criticised for *suggesting that all corporations will identify units or products in the four quadrants*, and that units or products will travel through all the four quadrants in their life cycles.
- The *market growth rate is only one factor* that makes an industry attractive. According to critics, the *matrix ignores other factors that determine profitability*.
- The *market share of the matrix does not guarantee profitability*.
- The BCG matrix *does not consider decreasing markets* enough – Cash Cows could disappear without reason.

- The BCG matrix *does not show what the competition is doing.*
- The BCG matrix *may oversimplify the assessments of the facts.*

### BCG Matrix- Samsung's Product Portfolio

Samsung is a conglomerate consisting of multiple strategic business units (SBUs) with a diverse set of products. Samsung sells phones, cameras, TVs, microwaves, refrigerators, laundry machines, and even chemicals and insurances. This is a smart corporate strategy to have because it spreads risk among a large variety of business units. In case something might happen to the camera industry for instance, Samsung is still likely to have positive cash flows from other business units in other product categories.

This helps Samsung to cope with the financial setback elsewhere. However even in a well-balanced product portfolio, corporate strategists will have to make decisions on allocating money to and distributing money across all of those business units. Where to put most of the money and where should one perhaps divest? The BCG Matrix uses Relative Market Share and the Market Growth Rate to determine that.

#### **Relative Market Share**

The creator of the BCG Matrix used this variable to actually measure a company's competitiveness. The exact measure for Relative Market Share is the focal company's share relative to its largest competitor. So, if Samsung has a 20 percent market share in the mobile phone industry and Apple (its largest competitor) has 60 percent so to speak, the ratio would be 1:3 (0.33) implying that Samsung has a relatively weak position. If Apple only had a share of 10 percent, the ratio would be 2:1 (2.0), implying that Samsung is in a relatively strong position, which might be reflected in above average profits and cash flows.

The cut-off point here is 1.0, meaning that the focal company should at least have a similar market share as its largest competitor in order to have a high relative market share. The assumption in this framework is that an increase in relative market share will result in an increase in the generation of cash, since the focal company benefits from economies of scales and thus gains a cost advantage relative to its competitors.

### Market Growth Rate

The second variable is the Market Growth Rate, which is used to measure the market attractiveness. Rapidly growing markets are what organizations usually strive for, since they are promising for interesting returns on investments in the long term. The drawback however is that companies in growing markets are likely to be in need for investments in order to make growth possible. The investments are for example needed to fund marketing campaigns or to increase capacity. High or low growth rates can vary from industry to industry, but the cut-off point in general is usually chosen around 10 percent per annum. This means that if Samsung would be operating in an industry where the market is growing 12 percent a year on average, the market growth rate would be considered high.

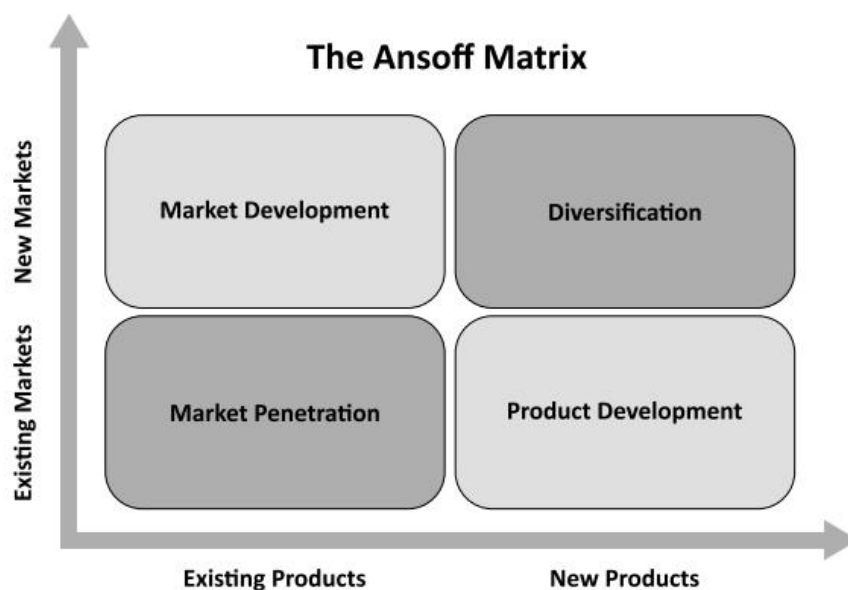
## ANSOFF GROWTH MATRIX – FOUR WAYS TO GROW A BUSINESS

It first appeared in the **Harvard Business Review in 1957** and was created by strategist **Igor Ansoff** to help management teams to focus on the options for business growth. This matrix is built taking the following factors into consideration -

- **current products** or **new products**
- **current markets** or **new markets**

The Four Growth Options of The Ansoff Growth Matrix

- **Market penetration** strategy - current products and current markets
- **Product development** strategy - new products and current markets
- **Market development** strategy - current products and new markets
- **Diversification** - new products and new markets.



### Market Penetration

Market penetration strategy is the preferred route to growth for many businesses because its focus is on **selling more of the existing products** to:

- **Current customers;**
- **Customers similar to current customer base but who are buying competitors products;**
- **Customers similar to current customer base who have need of product but aren't buying it yet.**

The emphasis is on escalating market share by making some rigorous marketing promotions, or by creating more customer value.

The downsides of the market penetration strategy are:

- If a firm has already high market share, the opportunities for growth may be limited.
- Aggressive market penetration strategies will add to competitive rivalries in the industry and may provoke a price war which shrinks industry profitability.
- Increasing exposure to one product-market segment can make the business more susceptible to future changes in competition by keeping "all the eggs in one basket".

### Product Development

In product development, businesses continue to focus on the needs of existing customer base and also the wider customer market they represent but they seek to understand their underlying needs so they can see opportunities for new products:

- To replace present product profile with new and better products.
- To provide products which complement the main product sold by the business.
- To provide "one stop shop" by adding new products.

### Market Development

The third option suggested by Ansoff is to take the current products and find new markets for them. There are different ways to do this:

- Opening up previously excluded market segments through pricing policies (discounts for students and old age pensioners at theatres).
- New marketing and distribution channels (making a product available on the Internet).
- Entering new geographic markets by moving from local to regional to national and finally international.

The strength of this option from the Ansoff Growth matrix is that it puts the pressure on the marketing and sales functions of the business and leaves the operations/supply side to concentrate on what it does best.

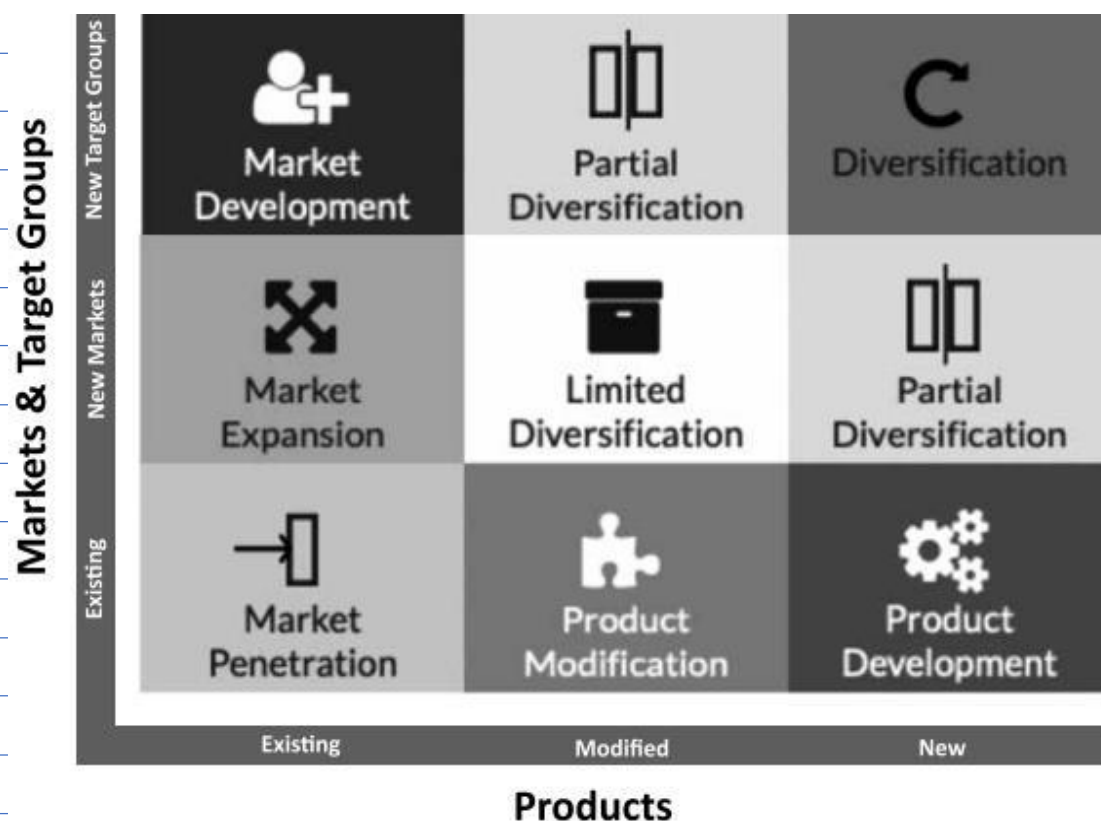
## Diversification

This option is the most controversial since diversification involves taking new products to new customers. There are *three levels of diversification*:

- *Diversification into related markets* – while the customers and products are both new, there is a logic about the move that makes sense to the outside world.
- *Diversification into unrelated markets using existing resources and capabilities* – while the customers and products are different, they all rely on the existing strengths of the business.
- *Diversification into unrelated markets which require new resources and capabilities.*

## Developments to the Ansoff Growth Matrix

The original matrix developed by Ansoff was the simple 2 x 2 matrix presented above. Ansoff later refined the matrix into a 3 dimensional version which is placed below.



## ADL MATRIX

ADL matrix is a portfolio management method based on *thought of product life cycle*. The ADL portfolio management involves the dimensions of *environmental assessment and business strength assessment*. The environmental assessment approaches to *industry maturity* whereas business strength assessment leads to *competitive position*.

		Industry Life Cycle Stage			
		Embryonic	Growth	Mature	Aging
Competitive Position	Dominant	All out push for share. Hold Position.	Hold Position. Hold Share.	Hold Position. Grow with Industry.	Hold Position.
	Strong	Attempt to improve position. All out push for share.	Attempt to improve position. Push for share.	Hold Position. Grow with Industry.	Hold position or Harvest
	Favorable	Selective or all out push for share. Selectively attempt to improve position.	Attempt to improve position. Push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phase out withdrawal.
	Tenable	Selectively push for position.	Find niche and protect it.	Find niche and hang on, or phased out withdrawal.	Phased out withdrawal, or abandon.
	Weak	Up or out	Turnaround or abandon.	Turnaround, orphaned out withdrawal.	Abandon

### Industry Maturity or Life Cycle stage

Industry maturity is classified in four following divisions:

- **Embryonic:** It involves the *introduction stage* by following rapid market growth, *no or little competition, high prices* and investments and new technology.
- **Growth:** In this stage, *market is strengthening as the sales increases, few competitors make an appearance* and company achieves excellence in bringing up a new product.

- **Mature:** At maturity stage the **market is completely stable** with **well established base of customers** and market shares are also stable. Customers are making repeated orders, but, with a lot of competitors, the company has to make efforts in differentiating their product from competitors.
- **Aging:** The last stage of the market in which **market volume shrinks** as the demand declines, snatching market shares from the competitors becomes difficult, then company requires innovating or modifying the product or to make an exit.

### Competitive Position

Competitive position comprises of five categories that are:

**Dominant:** this is a rare phenomenon, as **it is a near monopoly situation**, appears in results of innovative out of the box product/technology is introduced in the market by a very strong brand.

**Strong:** **market share is higher** as the position of company is comparably powerful although the competitors are working aggressively.

**Favorable:** Company has a **strong edge in certain limited segments** of its competitive strengths. Strength of the product and geographical advantages are taken into consideration at this stage and need to be constantly protected.

**Tenable:** - The company **keeps strong position in small niche, specific geographic location or very focused product** differences. The force of competitors strengthens and causes difficulties for the company.

**Weak:** The **profitability is not satisfactory** making position of the company unattractive, the **market share is declining** though they have opportunities in order to enhance their position in the market and becoming favorable.

### Steps to use ADL Matrix

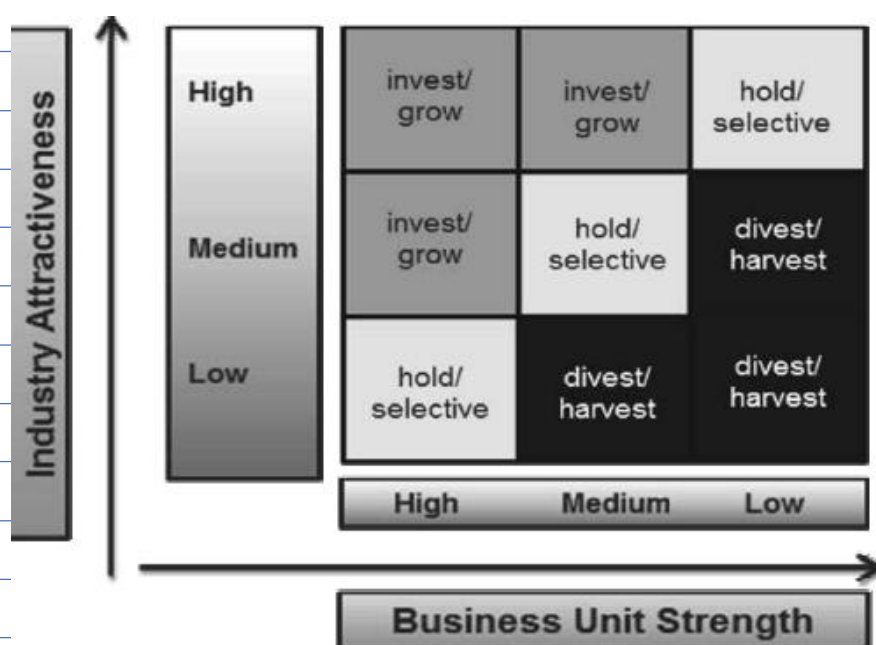
Following are the steps that are involved in using the ADL Matrix (Herman, 2006):

- Identify the industry maturity category;
- Determining competitive position;
- Plot the position of the matrix.

### GE McKinsey Matrix

GE McKinsey Matrix is a *strategy tool for a multi business corporation* used in brand marketing and product management that assists a company to *decide about the products to be added* to its portfolio and opportunities to be prioritized in the market for investment. It is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritize the investment needed for each business unit (BU).

The nine-box matrix plots the Business Units on 9 cells that indicate whether the company should invest in a product, harvest/divest it or do a further research on the product and invest in it if there're still some resources left.



#### Industry Attractiveness

Industry attractiveness indicates *how hard or easy it will be for a company to compete in the market and earn profits*. The *more profitable the industry is the more attractive it becomes*. Industry attractiveness consists of many factors that collectively determine the competition level in it like -

- Long run growth rate
- Industry size
- Industry profitability (by using Porter's Five Forces)

- Industry structure (by using Structure-Conduct-Performance framework)
- Product life cycle changes
- Changes in demand
- Trend of prices
- Macro environment factors (through use of PEST or PESTEL )
- Seasonality
- Availability of labor
- Market segmentation.

### Competitive strength of a Strategic Business Unit or a Product

The following factors determine the competitive strength of a business unit:

- Total market share
- Market share growth compared to rivals
- Brand strength
- Profitability of the company
- Customer loyalty
- VRIO (Value, Rareness, Imitability, Organization) resources or capabilities
- business unit strength in meeting industry's critical success factors
- Strength of a value chain
- Level of product differentiation
- Production flexibility.

### Advantages

- Helps to **prioritize the limited resources** in order to achieve the best returns.
- Managers become more **aware of how their products or business units perform**.
- It's **more sophisticated business portfolio framework** than the BCG matrix.
- Identifies the **strategic steps the company needs to make** to improve the performance of its business portfolio.

### Disadvantages

- Requires a **consultant or a highly experienced person** to determine industry's attractiveness and business unit strength as accurately as possible.
- It is **costly** to conduct.
- It **doesn't take into account the synergies** that could exist between two or more business units.

# STRATEGIC ALTERNATIVES

There are many strategic alternatives that can be adopted by an organisation to attain its objectives. The most famous ones are Glueck & Jauch Generic Strategic Alternative and Porter's Generic Strategies.

## GLUECK & JAUCH GENERIC STRATEGIC ALTERNATIVE

Glueck and Jauch (1984) developed a complex matrix involving **expansion/retrenchment and stability aspects** across products/ markets and functions. Using this matrix, Hitt et al. (1982) and Pearce et al. (1987) postulate that there **exist four grand strategic alternatives**:

- Stability;
- Internal growth;
- External acquisitive growth;
- Retrenchment.

### Stability

The stability strategy involves the **maintenance of the current business** definition by **safeguarding the existing interests and strengths**. It **continues to peruse its well established and tested objectives and goals** and optimizes the resources committed to attain such goals. The stability strategy is operationalised along four dimensions:

- Implemented wherein **few functional changes** are made in the products/markets;
- A business **continues to serve existing customers** in the same or similar market segment with same portfolio of products;
- Instead of a "do nothing" strategy, it is a **"do nothing new"** strategy;
- It has its sharp **focus on incremental improvement** of functional performance;
- It continues to **pursue same set of objectives and goals**; and
- Involves **keeping track of new developments** to ensure that strategy continues to make sense.

The strategy is a **substitute to growth or retrenchment strategy** as goals (such as profit or growth) are not dumped, rather, **returns can actually be increased**.

### An internal growth (expansion) strategy

An internal growth strategy involves *re-defining of business* definition by *substantially scaling the level of operations* through *internal development* and not taking help of other corporations or businesses.

- Implemented by *redefining the business by adding business scope substantially*, which increases the efforts of current business;
- Promising and famous strategy, which *may take company along relatively less risky untraveled paths*;
- Includes *diversification, acquisition and mergers*.

### External expansion

Glueck and Jauch (1984) note that there are a number of terms used for external expansion. These include *acquisitions, mergers* (one business loses its identity), *consolidations* (both businesses lose their identity, and a new business arises) and *joint ventures*. The distinguishing feature of all external growth strategies, though, is that they involve another company or business.

### Retrenchment

Pearce et al. (1987) operationalise a retrenchment strategy along three dimensions:

- improvement in performance by *scaling down the level and/or scope* of product/market objectives;
- *cut back* in costs; and
- reduction of the scale of operations through the *divestment of some units* or divisions.

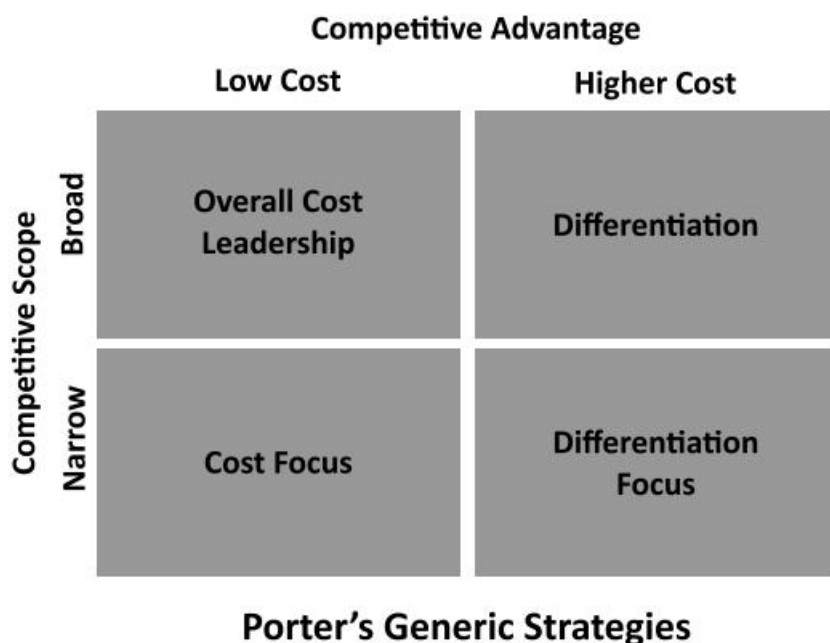
Internal retrenchment is, labelled as an *operating turnaround strategy* where the emphasis is on *reducing costs, increasing revenues, reducing assets, and reorganising products* and/or markets to achieve greater efficiency. External retrenchment constitutes a more serious form of strategic turnaround, including such measures as *divestiture and liquidation*. Glueck and Jauch's (1984) typology introduces the concepts of stability and external versus internal aspects of growth and retrenchment.

The above discussed strategies are not mutually exclusive but can be used in a combination to suit the needs of the organization.

## PORTER'S GENERIC STRATEGIES

In 1985, in his book "Competitive Advantage: Creating and Sustaining Superior Performance" Michael Porter pronounced the three generic strategies namely "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market).

Thereafter, he sub-divided the 'Focus' strategy into two parts: "Cost Focus" and "Differentiation Focus."



### The Cost Leadership Strategy

This strategy also involves the firm winning market share by appealing to *cost-conscious or price-sensitive customers*. This is achieved by *having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive)*. To succeed at offering the lowest price while still achieving profitability and a high return on investment, the *firm must be able to operate at a lower cost than its rivals*. There are three main ways to achieve this:

- 1) The first approach is *achieving higher asset utilization*. In manufacturing, it will involve *production of high volumes* of output. These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost, i.e. the firm hopes to take *advantage of economies of scale*.

- 2) The second dimension is achieving *low direct and indirect operating costs*. This is achieved by offering *high volumes of standardized products*, offering basic no-frills products and limiting customization and personalization of service.
- 3) The third dimension is *control over the value chain including all functional groups* (finance, supply/procurement, marketing, inventory, information technology etc.) *to ensure low costs*. Wal-Mart is known for squeezing its suppliers to price its products reasonably low.

The greatest risk in pursuing a Cost Leadership strategy is that the *competitors may follow the same cost reduction strategies*, therefore, the company has always to be on its toes to continuously reduce its cost.

#### Ways to achieve Cost leadership

- *Quick demand forecasting* for the product or service.
- *Effective utilization of the firm's resources* to avoid wastage.
- Attaining *economies of scale* which results in lower per-unit cost.
- Investing in *high-end technology* for smart working.
- *Product standardization* for mass production, which leads to economies of scale.

#### Pros of using Cost Leadership Strategy

1. *Low costs enable low prices*
2. Cost leaders are more able to *withstand price wars*
3. *Increased market share*

#### Cons of using Cost Leadership Strategy

1. *Risky Approach*
2. Difficult to maintain *perceptions of quality*
3. *Dependent on a high volume of sales*
4. Cost leaders may be *slow to adapt to market changes*

## The Differentiation Strategy

A differentiation strategy is appropriate where the **target customer segment is not price-sensitive**, the **market is competitive or saturated**, **customers have very specific needs** which are possibly under-served, and the **firm has unique resources and capabilities** which enable it to **satisfy these needs in ways that are difficult to copy**. Differentiation is deemed to be successful when a **company is able to fetch a premium price for its products or services**, has increased revenue per unit, or is able to retain loyalty of its customers.

For ensuring **success of its Differentiation strategy**, a company must:

- Undertake **high-quality research, development and innovation**.
- Be able to deliver **premium products/services**.
- Rigorous **branding and marketing** about differentiated offerings.
- Need to stay agile with their **new product development** processes.

## Pros of using Differentiation Strategy

1. **Lower Price Competition**: Companies frequently engage in **pricing wars** with rivals. But even if competitors' costs are cheaper, they will **struggle to compete if the quality of our product is unsurpassed**.
2. **Unmatched Products and Services**
3. **Greater Profit Margins**: Company can **increase the price of goods by differentiating the offerings**.
4. **Brand Loyalty**: The product carves out **a special position in the consumer's mind** if we differentiate the product with other ones.

## Cons of Differentiation Strategy

1. **Increased Cost**
2. **Inconsistency**
3. **Affordability**
4. **Cannibalization**: While a few goods would have sufficed, businesses **frequently produce too many differentiated offerings**. This can result in brand cannibalization. It's critical to produce a small number of differentiated items in order to counteract this drawback of the differentiation strategy.

## The Focus Strategy

The focus strategy is also known as 'niche' strategy. This is so because, companies adopting focus strategies focus on niche markets and get hold of the dynamics of such niche market and unique requirements of its customers. Based on such understanding, they develop exclusively low-cost products particularly for such niche market.

Further, such companies may either use a 'cost focus' or a 'differentiation focus'. While cost focus makes the firm the lowest cost producer in such niche or segment, differentiation focus creates competitive advantage through differentiation within the niche or segment.

### Ways to achieve Focus

- Choosing a particular niche, often avoided by cost leaders and differentiators.
- Excel in catering to the specific niche.
- High-efficiency generation to serve those niche.
- Creating new ways for the value chain management.

### Types of a Focus Strategy

There are two types of focus strategy, a brief about each is as follows:

#### ➤ Focused Low-Cost Strategy

Companies choose for this approach when they first join the market. It indicates that the business provides a unique product with additional advantages to the clients at a low cost. Yet, this does not imply that established businesses cannot or should not adopt this tactic; businesses of all stripes could do so.

#### ➤ Focused Differentiation Strategy

It is a form of strategy approach that, as its name suggests, focuses on developing a product that is unique for a certain client market group. When a business adopts the differentiation strategy approach, it concentrates on reducing the size of the targeted client segment by providing unique and personalised features in the product.

Pros of using Focus Strategy

1. *Availability of Resources*
2. *Competitive Edge*
3. *High Growth*
4. *Increased Profitability*

Cons of using Focus Strategy

1. *Changing Preferences*
2. *High Competition*

**Distinctive Features of the Generic Competitive Strategies**

<i>Type of Feature</i>	<i>Low-Cost Leadership</i>	<i>Differential</i>	<i>Focus</i>
<i>Strategic target</i>	<i>A broad cross-section of the market.</i>	<i>A broad cross-section of the market.</i>	<i>A narrow market niche where the buyer, needs and preferences are distinctively different from the rest of the market.</i>
<i>Basis of competitive advantage</i>	<i>Lower costs than competitors.</i>	<i>An ability to offer buyers something different from competitors.</i>	<i>Lower cost in serving the niche or an ability to offer niche buyers something customized to their requirements and tastes.</i>
<i>Product line</i>	<i>A good basic product with few frills (acceptable quality and limited selection).</i>	<i>Many product variations, wide selection, strong emphasis on the chosen differentiating features.</i>	<i>Customised to fit the specialized needs of the target segment.</i>

<i>Production emphasis</i>	A continuous search for cost reduction without sacrificing acceptable quality and essential features.	Invent ways to create value for buyers.	Tailor-made for the niche.
<i>Marketing emphasis</i>	Try to make a virtue out of product features that lead to low cost.	<ul style="list-style-type: none"> <li>• Build in whatever features buyers are willing to pay for</li> </ul> Charge a premium price to cover the extra costs of differentiating features.	Communicate the focuser's unique ability to satisfy the buyer's specialized requirements.
<i>Sustaining the strategy</i>	<ul style="list-style-type: none"> <li>• Economical prices/ good value.</li> <li>• All elements of strategy aim at contributing to a sustainable cost advantage — the key is to manage costs down, year after year, in every area of the business.</li> </ul>	<ul style="list-style-type: none"> <li>• Communicate the points of difference in credible ways.</li> <li>• Stress constant improvement and use innovation to stay ahead of imitative competitors.</li> <li>• Concentrate on a few key differentiating features; use them to create a reputation and brand image.</li> </ul>	Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's image and efforts by entering other segments and adding other product categories to widen market appeal.



## CH 05 – COMPETITIVE POSITIONING

Business level strategy is a *co-ordinated, integrated and a comprehensive action or plan*. The purpose of business level strategy is to *provide a value to customers by gaining a competitive advantage* through exploiting the core competencies in specific individual product/service markets. Business level strategy is applicable in those *organizations which have different businesses* - and each business is treated as Strategic Business unit (SBU). Since each product/market segment has a distinct environment, a SBU is created for each such segment. Therefore, it requires different strategies for its different product groups.

Such strategies *operate within the overall strategies of the organization*. The *corporate strategy sets the long term objectives of the firm* and the broad constraints and policies within which a SBU operates. *Corporate strategy* is not the sum total of business strategies of the corporation but is *concerned with the shape and balancing of growth* and renewal rather than in market execution.

Michael Porter (1998) has identified *business-level strategies which are cost leadership, differentiation, and focus* to achieve a sustainable competitive advantage.

Hill and Jones (2007) have developed the *curve which connects together the three issues in developing a successful business model*.

Brown and Blackmon (2005) have defined *business-unit strategy as a process of decision making at the strategic business unit (SBU) level*. Business-unit strategy refers to *aggregated strategies of single firms or SBU within one diversified corporation*

Beard, Dess (1981) state that while corporate strategy deals with the question in what businesses the company should compete in, business unit level strategy decides on how to compete in these particular businesses.

## STRATEGIC IMPLEMENTATION

Strategy implementation is a process through which a **strategy is put into action**. Strategies are only 'means' to an 'end' i.e. accomplishment of organization's objectives which have to be activated through implementation. While **strategic formulation is largely an intellectual process**, **strategic implementation is more of operational nature**. A good strategy without effective implementation is futile for success of an organization.

The major task of implementation strategy is to **create a fit between the company goals and its other activities**. Generally, two types of fits need to be created—

- (i) fits between the **strategy and functional policies**; and
- (ii) fits between the **strategy and the organizational structure, process and systems**.

### **Definition of Strategic Implementation**

According to **Glueck**, "Strategy implementation is the assignment or reassignment of corporate and Strategic Business Unit leaders to match the strategy. The leaders will communicate the strategy to the employees. Implementation also involves the development of functional policies about the organization structure and climate to support the strategy and help achieve organizational objectives".

**Charles W.L. Hill and Gareth R. J Ones** define strategy implementation as "the way in which a company creates the organisational arrangements that allow it to put its strategic plan into operation most efficiently and to achieve its objectives."

In the words of **Alex Miller and Gregory G. Dess**, "Strategy implementation involves a broad range of efforts aimed at transforming strategic intentions into action. The resulting stream of actions constitutes the firm's realised strategy."

### Strategy Formulation and Implementation

Strategy **formulation requires good conceptual, integrative and analytical skills** but **strategy implementation requires special skills in motivating and managing others**. Strategy formulation occurs primarily at the corporate level of an organization while strategy implementation permeates all hierarchy levels.

The relation between strategy formulation and implementation can be best understood by their inter-dependence. There are two types of linkages between strategy formulation and implementation i.e. forward linkage and backward linkage.

**Forward linkage** is concerned with the influence of the formulation on implementation. Strategy formulation has forward linkage with implementation in the sense that total implementation activities are geared according to strategy chosen for implementation. The nature and type of organizational processes and systems are conditioned by the strategy for its successful implementation. Thus, implementation is dependent upon formulation.

**Backward linkage**, on the other hand, deals with the influence in the opposite direction. Strategy formulation has backward linkage with implementation as organization tends to adopt those strategies which can be implemented with the help of existing structure of resources joined with some additional efforts. The strategy is formulated in a particular environment which is dynamic.

### Strategy Implementation - Supporting Factors

1. **Action Planning:** Organizations to be successful in strategy implementation need to develop a detailed action plan i.e., chronological lists of action steps (tactics) which add the necessary detail to strategies and assign responsibility to specific individual or group for accomplishing those actions.
2. **Organizational Structure:** Successful strategists should also give proper thought to their organizational structure and see whether the current structure is appropriate for their intended strategy because different structures suit the implementation of different strategies.
3. **Human Resource Factors:** The consideration of human resources requires the management to think about the organization's communication needs. Further, managers successful at implementation are aware of the effects each new strategy will have on their human resource needs.
4. **Annual Business Plan:** Organizations successful at implementation are well aware of their need to fund their intended strategies. They think about necessary financial commitment in the planning process.

5. **Monitoring and Control:** Monitoring and controlling the plan covers a list of options to get back on course if company should veer off. Those options include changing the schedule, changing the action steps, changing the strategy or changing the objective.

Monitoring the implementation of strategic plan is justified on the following grounds:

1. It helps to assure the organization efforts conform to the plan.
2. It enables the organization to ensure that the results achieved correspond to our quantified objectives.
3. Further monitoring allows for corrective action.
4. Since monitoring is part of control process, it encourages improved performance.
5. Monitoring provides the essential link between the written plan and the day-to-day operations of the business.

### Issues in Strategy Implementation

#### 1. Project implementation

Project is a highly specific program for which time schedule and specific cause are determined in advance. A project basically passes through various phases which are given below before a set of task can be accomplished:

- a) Detailed planning related to different aspects of projects such as infrastructure design, schedules, budgets etc., has to be completed.
- b) Ideas generated during the process of strategic alternatives and choice consideration form the core of the future projects that may be undertaken by the organization.
- c) After a set of projects have been identified and arranged according to the priority, they have to be subjected to preliminary project analysis pertaining to technical, financial, marketing and economic aspects.
- d) After the screening, the viable projects are taken up and feasibility studies are conducted.
- e) Detailed engineering, awarding contracts, civil and other types of construction etc., are to be undertaken during the implementation phase leading to the testing trail and commissioning of the plant.
- f) The final phase deals with disbanding the project.

## 2. Procedural implementation

Strategy implementation also requires *executing the strategy based on the rules, regulations and procedures formulated by the Government.*

## 3. Organisational Structure and Strategies

Organizational structure refers to the *method of allocating duties and responsibilities to individuals, and the ways these individuals are grouped together* into units, departments and divisions. Companies form structures for their organizations based on their strategies. There are number of methods in which the organizations can be structured.

## 4. Resource Allocation

Resource allocation involves the *process of allocating organizational resources* to various divisions, departments and strategic business units. It deals with the *procurement, commitment and financing the physical and the human resources* required to accomplish strategic tasks for the achievement of organizational objectives.

## 5. Functional Policies

Functional policies describe *functional guidelines to operating managers* so that coordination across functional units can take place. Once the strategy of the companies is decided, *modification in functional policies* may become necessary to meet the demands of the new business.

## 6. Communication Strategy

Communication strategy *covering the mission, objectives, market scope, technology and all the issues related to implementation*, to different levels in the organization is very important for its success.

## 7. Leadership

Appropriate leadership is necessary *for developing effective structure and systems* for the success of strategy. Leadership is the key factor for developing and maintaining right culture and climate in the organization.

## 8. Challenges to Change

The strategy implementation process generally involves a change. The change can be minor or major. The process of change may cover in freezing, moving and refreezing.

## 9. Pre-implementation Evaluation Strategy

Before the implementation of the strategy, it is advisable to go for a final scrutiny so as to avoid failure due to weaknesses in the analysis, if any and to ensure that the strategy decided for the organization is optimum.

### MANAGING STRATEGIC CHANGES

Problems of overcoming resistance to change can be managed in the following ways:

- a) Education and Communication
- b) Participation
- c) Obtaining commitment
- d) Leadership
- e) Training and Psychological Counselling
- f) Coercion or Edict

### STRATEGIC LEADERSHIP

Strategic leadership is a type of leadership in which the leader persuades followers to support a broad vision for the success of the business. It takes strategic leadership to identify the organization's strengths so it can set itself out from the competition.

"Strategic leadership is defined as the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organization while maintaining its short-term financial stability". (W. Glenn Rowe, 2001).

### Leadership and its forms

There are following three well-defined types of strategic leadership:

### a) Transactional Leadership

The transactional leaders *make certain that everyone is aware of the expectations for the procedures and results*. They strike a *balance between strategic management and leadership* by gauging employee performance and inspiring them to do better. For good performance, they employ incentives like increased pay, promotions, and bonuses. But they may also discipline poor performance by cutting pay or eliminating jobs. A leadership technique like this might provide results, but not always the best ones.

### b) Transformational Leadership

Transformational leaders *integrate leadership and strategy, and they use their vision to direct the employees' activities and behaviours*. They affect both the organisation and the people within it to change. Such a leadership tactic entails persuading people to change. The transformative leader *builds the team's confidence while helping them recognise roles and set goals*. Strategic leadership of this kind encourages action and is adaptable.

According to Northouse (2001) "transformational leadership is *a process that changes and transforms people*. Transformational leaders can motivate people to change to improve their circumstances".

### c) Charismatic Leadership

Charismatic leaders *work their charm to persuade others*. Charismatic leaders have the drive and passion to get their work done. While charismatic leaders share quite a few similarities with transformational leaders, the *focus of their work is a change in the status quo and not necessarily a change in the organization*.

#### Strategic leadership skills

- **Anticipate:** *Collect information* from a wide range of sources both inside and outside your company's industry or function to predict competitors' moves and reactions to new initiatives or products.
- **Challenge:** View and *reframe a problem from multiple angles* to understand its underlying causes.

- **Interpret:** Exhibit *curiosity and openness* when testing several working hypotheses and involve others before coming to any conclusions.
- **Decide:** Weigh long-term investments for growth with short-term pressure for results, as well as the risks and trade-offs for customers and other stakeholders, when making decisions.
- **Align:** Examine stakeholders' incentives and tolerance for change and identify conflicting interests.
- **Learn:** Convey stories of success and failure to advocate learning. Course-correct decisions after they have been made if there is refuting evidence.

### Strategic thinking skills

- **Analytical skills:** You must be able to analyse a wide range of inputs, from financial statements to market circumstances, developing business trends, and internal resource allocation, in order to come up with a plan that helps your organisation achieve its goals.
- **Communication skills:** Regardless of the size of your business, developing a strategy will involve effective communication.
- **Problem-solving skills:** Strategic planning is frequently utilised to address issues or problems, such as unmet financial goals, ineffective processes, or a new rival.
- **Planning and management skills:** In addition to thinking of a solution, strategy also entails its implementation.

### E-BUSINESS AND STRATEGY

An e-business strategy is a *long-term plan for implementing the appropriate digital technology to enable a firm to manage* all of its partners, both internally through the intranet and outside through customers, suppliers, and other partners. This tactic is not just applicable to online businesses. Any business that transacts online needs to have an e-business strategy. It outlines all the short-term and long-term goals that demand careful planning and expertise.

Creating a Twitter account and a business blog are two examples of good social media e-business strategy models. The blog is meant to provide readers with helpful information about the goods and services the business provides. Twitter is used to share this fresh information with followers and engage with pertinent organisations and people.

## E-business Strategic Framework

The e-business strategic framework addresses three broad sets of questions. These are:

1. **Where** do we (as a company) want to compete?
2. **What** type of value do we want to create?
3. **How** should we set up and organize our company to deliver the desired value?

The first broad section in the e-business strategy framework deals with a firm's external environment. The key question here is: 'Where do we want to compete?' Answering this question depends in part on the following factors:

- **The macro-environment**
- **Industry structure**
- **Markets**

Value generation is the subject of the second section of the e-business strategy framework. What type of value do we want to produce for our consumers is the crucial query here. We address two relevant topics in order to respond to this query:

- (1) the concept of value creation in e-business; and
- (2) strategy options for value creation.

**The concept of value creation in e-business:** We first need to examine the economic value that a corporation generates in order to determine its potential to gain a competitive edge. Understanding what drives consumer benefits and what drives expenses is necessary for this.

**Strategy options for value creation:** A company has a variety of strategy options when choosing how to add value for its clients. These two possibilities, cost leadership and distinction, are the two most common choices. Additionally, businesses can aim to stray from conventional forms of rivalry by creating new market niches and reinventing their value propositions.

The third section of the e-business strategy framework deals with the internal organization of a firm. The key question here is: 'How should we set up and organize our firm to deliver the desired value?' In the context of the internal organization, we need to look at three dimensions:

- **Horizontal boundaries:** Knowing the scale and the scope can help you determine how big your company should be and how big of a market you need to succeed.
- **Vertical boundaries:** A lengthy discussion on how integrated a company should be in the Internet era was sparked by the concepts of deconstructing the value chain and unbundling the enterprise.
- **Internal organization:** This relates to how the company is structured within. Thus, the key query is: "How should we internalise our firm?" This speaks to the selection of organisational structures, distribution methods, and online consumer interactions.

### Artificial Intelligence

Artificial Intelligence (AI), or machine intelligence, is the field **developing computers and robots capable of parsing data contextually to provide requested information, supply analysis, or trigger events based on findings.** Through techniques like machine learning and neural networks, companies globally are investing in teaching machines to 'think' more like humans.

Artificial Intelligence, or simply AI, is the term used to describe a **machine's ability to simulate human intelligence.** Actions like learning, logic, reasoning, perception, creativity, that were once considered unique to humans, is now being replicated by technology and used in every industry.

### Nine Areas for developing AI Business Strategy

1. **Business strategy**
2. **Strategic AI priorities**
3. **Short-term AI adoption priorities**
4. **Data strategy**
5. **Ethical and legal issues**
6. **Technology issues**
7. **Skills and capacity**
8. **Implementation**
9. **Change management issues**

## Fintech

Financial technology (Fintech) is used to describe *new tech that seeks to improve and automate the delivery and use of financial services*. At its core, fintech is utilized to help companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones. Fintech, the word, is a combination of “financial technology”. Fintech describes a variety of financial activities, such as money transfers, depositing a check with your smartphone, bypassing a bank branch to apply for credit, raising money for a business startup, or managing your investments, generally without the assistance of a person.

Some of the most active areas of fintech innovation include or revolve around the following areas:

- *Cryptocurrency and digital cash.*
- *Blockchain technology*, including Ethereum, a distributed ledger technology (DLT) that maintain records on a network of computers, but has no central ledger.
- *Smart contracts*, which utilize computer programs (often utilizing the blockchain) to automatically execute contracts between buyers and sellers.
- *Insurtech*, which seeks to use technology to simplify and streamline the insurance industry.
- *Regtech*, which seeks to help financial service firms meet industry compliance rules, especially those covering Anti-Money Laundering and Know Your Customer protocols which fight fraud.
- *Robo-advisors*, such as Betterment, utilize algorithms to automate investment advice to lower its cost and increase accessibility.
- *Unbanked/underbanked* services that seek to serve disadvantaged or low-income individuals who are ignored or underserved by traditional banks or mainstream financial services companies.
- *Cybersecurity*, given the proliferation of cybercrime and the decentralized storage of data, cybersecurity and fintech are intertwined.

## Fintech Users

There are four broad categories of users for fintech:

- B2B for banks,
- B2C for small businesses, and
- Business clients,
- Consumers.

## Regulation and Fintech

Financial services are among the most **heavily regulated sectors** in the world. Not surprisingly, regulation has emerged as the number one concern among governments as fintech companies take off. As technology is integrated into financial services processes, regulatory problems for such companies have multiplied. In some instances, the problems are a function of technology. In others, they are a reflection of the tech industry's impatience to disrupt finance.

Recent instances of hacks at credit card companies and banks are illustrations of the ease with which bad actors can gain access to systems and cause irreparable damage. There have also been instances where the collision of a technology culture that believes in a "Move fast and break things" philosophy with the conservative and risk-averse world of finance has produced undesirable results.

## Blockchain Technology

Blockchain is a **series of data linked together**. Every single transaction is linked to the chain using cryptographic principles in batches, making blocks. The blocks are connected to each other and have unique identifier codes (called hashes) that connect them to the previous and the subsequent blocks. This forms a blockchain, usually in the form of a continuous ledger of transactions. It isn't owned by any one individual. The series is **managed and stored across several computer systems**. Each ledger is shared, copied and stored on every computer connected in the system.

## Importance of Blockchain

Blockchain technology has been the backbone of bitcoin and other cryptocurrencies. The transparency and the security offered by the technology are some of the main reasons why cryptocurrency has become so popular. This technology is increasingly being adopted in the retail, manufacturing and banking sectors due to its benefits, like eliminating middlemen, providing data security, reducing corruption and improving the speed of service delivery. However, blockchain technology must be adopted in a gradual manner. Bitcoin and other cryptocurrencies have seen wild fluctuations in value, due to the lack of regulatory supervision.

## The Three Pillars of Blockchain Technology

The three main properties of Blockchain Technology which have helped it gain widespread acclaim are as follows:

- **Decentralization**
- **Transparency**
- **Immutability**

### Pillar 1: Decentralization

In a decentralized system, the information is not stored by one single entity. In fact, everyone in the network owns the information. In a decentralized network, if you wanted to interact with your friend then you can do so directly without going through a third party. That was the main ideology behind Bitcoins. You and only you alone are in charge of your money. You can send your money to anyone you want without having to go through a bank.

### Pillar 2: Transparency

One of the most interesting and misunderstood concepts in blockchain technology is "transparency." Some people say that blockchain gives you privacy while some say that it is transparent. A person's identity is hidden via complex cryptography and represented only by their public address. So, if you were to look up a person's transaction history, you will not see "Bob sent 1 BTC" instead you will see "1MF1bhsFLkBzzz9vpFYEmvwT2TbyCt7N2J sent 1 BTC". So, while the person's real identity is secure, you will still see all the transactions that were done by their public address. This level of transparency has never existed before within a financial system. It adds that extra, and much needed, level of accountability which is required by some of these biggest institutions.

### Pillar 3: Immutability

Immutability, in the context of the blockchain, means that once something has been entered into the blockchain, it cannot be tampered with.

*As revolutionary as it sounds, Blockchain truly is a mechanism to bring everyone to the highest degree of accountability. No more missed transactions, human or machine errors, or even an exchange that was not done with the consent of the parties involved. Above anything else, the most critical area where Blockchain helps is to guarantee the validity of a transaction by recording it not only on the main register but a connected distributed system of registers, all of which are connected through a secure validation mechanism.*

# CH 06 - MANAGING THE MULTI-BUSINESS FIRM AND ANALYZING STRATEGIC EDGE

## BUSINESS PROCESS RE-ENGINEERING (BPR)

Also known as Business Process Redesign, Business Transformation, or Business Process Change Management, Business Process Reengineering (BPR) is an endeavour to *fabricate the operations of the business on an extensive scale and the act of recreating a core business process with the goal of improving product output, quality, or reducing costs.*

The *primary objective* of BPR is to:

- *Eliminate redundancies* or futile layers in the whole process.
- *Eliminate enterprise costs.*

### **Business Process Reengineering- Definition**

As per **Hammer and Champy (1993)**: "Business Process Re-Engineering (BPR) is the fundamental rethinking and radical redesign of business processes aimed at achieving radical improvements in essential contemporary measures of performance, such as cost, quality, service and speed."

Hammer and Champy (1993) further stress "Reengineering is about business reinvention- not business improvement, business enhancement, or business modification." Business process is another core concept in BPR which discards Adam Smith's notion of division of labour and specialization as applied in the form of breaking work into its simplest tasks and assigning each task to a specialist. Instead Hammer and Champy (1993) define business process as "a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer".

The underlying principle of BPR is that the managers *must demolish such components of work that do not make any value addition and further automating* it if possible. At the core of BPR was viewed as a revolutionary, fasttrack and drastic change process (rather than incremental one) that could trigger fundamental changes in the business process itself such as job design, organizational structures, or management systems (Hammer and Champy, 1993).

## Objectives of Business Process Reengineering

- Boost *effectiveness and produce higher quality* products for end customer.
- *Improve efficiency* in the production processes.
- *Cost saving* in the long run.
- Providing *more meaningful work* to employees.
- To be more *adaptable and flexible* towards future changes.
- Enable *new business growth and expansion*.

## Typology of BPR Projects

Earl (1994) provides a four-strand typology of BPR projects which can be applied across any organization irrespective of what business it is involved in. These are:

- **Core Processes:** Core processes are *central to business functioning and represent the primary value chain activities* which relate directly to external customers. Examples being order fulfillment processes.
- **Support Processes:** Support processes are *back office processes which reinforce the core processes*. These are typically secondary value-chain activities and relate more to internal customers. Typical examples being information technology, financial systems, and human resources systems.
- **Business Network Processes:** Business network processes are the processes which *extend beyond the boundaries of the organization* into other organizations such as suppliers and customers.
- **Management Processes:** Those *processes through which firms plan, organize and control resources*. Examples include strategy development, direction setting, and managing the organization.

## Factors for Successful Implementation of BPR

Al-Mashari and Zairi (1999) have identified five factors for a successful implementation of BPR-

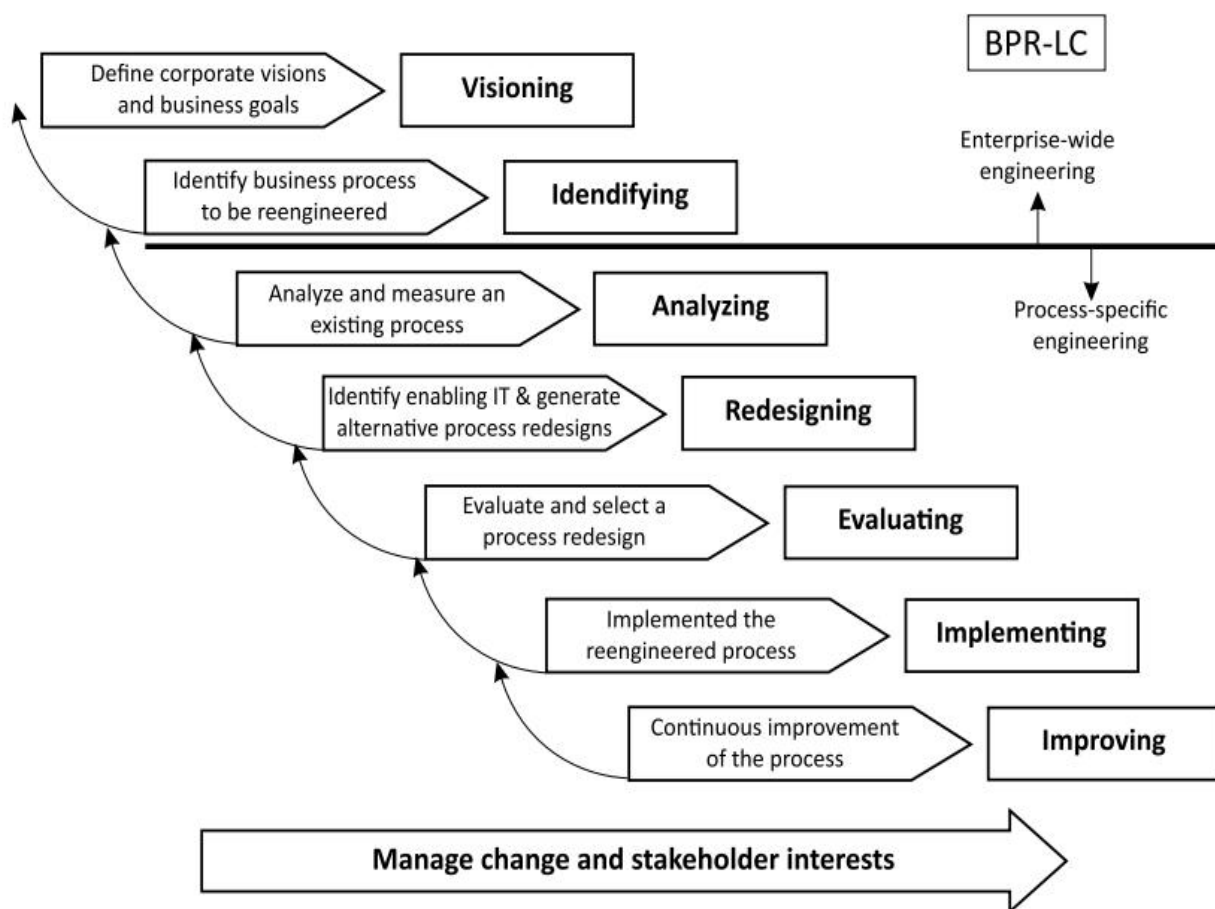
- Change in *management*
- *Management competencies*
- *Organizational structure*
- *BPR project management*
- *IT sub-structures*.

The reasons for failure of BPR (Crowe et al., 2002 and Kotter, 1996) may be:

- Employees' *resistance* against change
- *Communication breakdown*
- *Personnel turnover* during transition.

TOOLS	STEPS
<ul style="list-style-type: none"> <li>• Customer and process Focus</li> <li>• Visualization for End Process and Benchmarking</li> <li>• Change Management</li> <li>• Business Process Mapping.</li> </ul>	<ol style="list-style-type: none"> <li>1. Define Objectives and Framework</li> <li>2. Identify Customer Needs</li> <li>3. Study the Existing Process</li> <li>4. Formulate a Redesign Business Plan</li> <li>5. Implement the Redesign</li> </ol>

### Steps involved in Business Process Reengineering



BPR comprises the following steps:

- **Define : Objectives and Framework**

There must be a clear definition of the objectives of choosing BPR. Such objectives must be clearly laid out in qualitative and quantitative terms. After defining such objectives, the requirement for change must be communicated to the employees to apprise them about the upcoming processes. This becomes important as the willingness of the employees to adopt the change is a key for the success of BPR.

- **Identify : Customer Needs**

The requirements and feedback of the customers must be given due importance while designing the BPR. It must be ensured that the new processes are able to deliver the added value to the customer.

- **Study: The Existing Process**

In order to re-engineer, the company must have to analyze its existing business process. A SWOT should be carried out to have a clear view of the strengths and weaknesses of the existing processes.

- **Formulate: A Redesigned Business Plan**

After an analysis of the prevailing business process, the modifications to be made are chalked down. These modifications form a base for the re-designing of process. Then, a plan is laid down by selecting the best alternative.

- **Implement: The Redesign**

The last step is to implement the redesigned plan. Management should make sure that the new process is operational and adopted by the team. Such a support from the team is indeed critical to the success of BPR.

## Case Study

### Infosys : Business process re-engineering for the commissions process

#### The client

An Australian corporation, which is among the top ten banking institutions and top five general insurers, has one of the highest cross-sell rates in the financial sector. The insurance activities of the company cover personal insurance, corporate coverage, and workers' compensation.

#### Business Need

Alliances and intermediaries were key growth drivers in the long-term strategy of the client. In order to better manage the channel behavior and meet the organization's objectives, the ability to pay accurate and timely commissions was an important element. This was considered a critical competitive edge and a weak link in the client's back office capabilities.

#### Challenges and Requirements

The following challenges were faced during implementation:

- The existing operations comprised of manual processes using band aid systems which were high cost and presented serious risks.
- This organization paid about AUS\$90 million per year in commissions, which was approximately 20 percent of its profits before goodwill and taxes. At the same time, it lost significant amount on overpayments and commission leakage.

#### Infosys Role

Infosys studied the processes and identified improvement initiatives that would benefit the client. Infosys recommended a centralized commission management organization and articulated the desired business capabilities for a group commissions solution with the following objectives:

- Coverage of
  - Multiple businesses – insurance, wealth management, banking
  - Multiple brands
  - Different distribution models – multiple intermediary types
  - Consolidation of several existing legacy systems

- Integration with product (Hogan, Cogen), payment (PeopleSoft), and CRM (Enterprise) systems
- Scalability – large number of intermediaries (>5000) across BUs and 400,000 transactions per month.

Infosys assessed vendors in the enterprise incentive management space based on multiple criteria. The vendors included Callidus, Synogy, Centive, Trilogy, and Siebel. Infosys evaluated and selected a vendor as a recommended integrated commissions platform. At the same time, Infosys also built the business case for the investment as well the implementation plan for all initiatives.

### Benefits

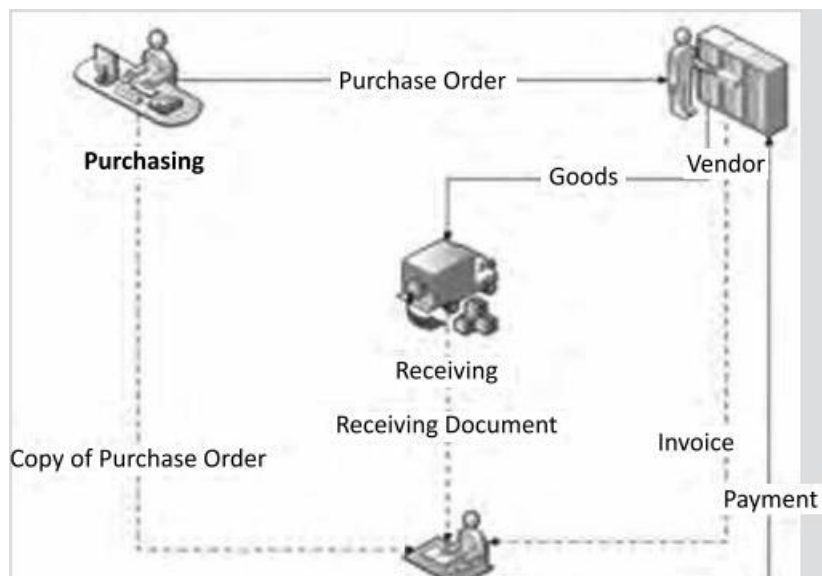
The benefits of the solution include:

- Identification of the most suitable solution based on a list of quantifiable criteria (cost, project risk / ease of implementation timelines, functionality fit), and a complex evaluation process.
- Creation and articulation to the executive team of the business benefits arising from various initiatives including implementation of an integrated commissions platform.

### Business Process Reengineering – The case of Ford's Accounts Payable

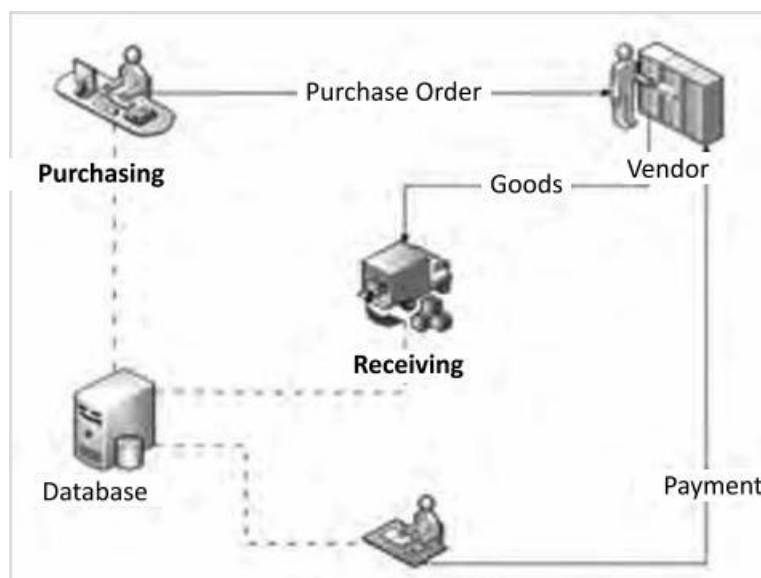
One of the companies that successfully utilised BPR in the initial years is Ford, for its accounts payables system. Before implementation, Ford used the accounts payable as shown in the figure below. Ford's purchasing department initially sends a purchase order for raw materials. It also sends a copy of the purchase order to the accounts payable department. After sending the raw materials, the vendor raises an invoice to the accounts payable department. The accounts payable department tallies the purchase order, received materials and invoices and makes payments to the supplier. Ford employed about 500 people to handle the entire process, whereas its competitor, Mazda, a Japanese car manufacturer has managed the same process with 100 people, a remarkably low number of employees even if the size is taken into consideration.

**Ford Accounts Payable Process – Before Business Process Reengineering**



Instead of making minor changes to the business processes, Ford has decided to use BPR and information technology to radically change its accounts payable process. It has implemented an invoice-less process. The purchasing order will be raised by the purchasing departments and updated in the database. As soon the materials have been received a warehouse man would update the materials received and the payment will be automatically be made without waiting for the invoice to be received from the vendor.

**Ford Accounts Payable Process – After Business Process Reengineering**



Through these changes in the business process, Ford had achieved a 75% reduction in employees in the administration department.

### **Reengineering of the Product Development Process of Airbnb**

Airbnb is known for their coolness. Want to sleep in a treehouse in the Balinese jungle? It's just a few clicks away. Looking to make some secondary income on your vacation home? List it on Airbnb.

Behind the scenes, the company was struggling to find their internal identity in a design-centric Silicon Valley, and to create a sustainable, quick to deliver, product development process.

#### **Problem Definition**

The three main functions which contributed to the Airbnb product development process — designers, engineers, and researchers — worked in silos, only jumping into the process at defined times.

Those defined times weren't serving the end goal of delivering a great product on time. Designers had to wait on engineers to write code before a mock-up could be visualized on screen. In turn, engineers had to wait on researchers to validate product ideas, only to find at the very end that project assumptions were off-base.

This was less so a failure of bulldozing researchers, needy designers or overly-coveted engineers. It was a process failure. This triggered the need for more deep and consistent engagement between teams. In this regard, the company devised three solutions which are as under:

#### **1. Treat Geographically Dispersed Resources as they were Centralized**

The product development process needed to be reengineered. Not optimized or automated, but fundamentally redesigned. According to Alex Schleifer, Head of Design at Airbnb, he and about 300 other people on Airbnb's product team spent nine months doing just that.

The solution was to create one digital environment where designers and engineers would work seamlessly together. Rather than each team working on separate systems, which meant rounds and rounds of "quasi- prototypes" and "layers of abstraction", this single digital environment enables files to show updates in real time and reflect real data.

### ***BPR Learning***

*Treat geographically dispersed resources as though they were centralized. In Airbnb's case, the way to centralize the product development process was to centralize the internal development tool. Even if coworkers weren't able to sit in the same room, they were looking at the same product in real time. This virtual centralization supports the team in quick back and forth product development.*

### ***2. Organize Around Outcomes, Not Tasks***

*Another part of the reengineering solution of Airbnb's product development process was to design product teams around outcomes, not features. This approach baked in an unfamiliar step into the product development process — emotions. Teams were now pushed to talk about outcomes from both a lofty, aspirational perspective, as well as a knitty gritty code perspective.*

### ***BPR Learning***

*Organize around outcomes, not tasks. This principle holds true when applied to common business processes such as Procure-to-Pay and Order-to-Cash, but also to Product Development. When individual tasks (or in Airbnb's case, features) become the organizational priority, the larger outcome is mistakenly shelved for the immediate need of the task.*

### ***3. Link Parallel Activities instead of Integrating their Results***

*A thought emerged that what about the researchers who would come in at the end of a project and bulldoze everything designers and developers had built. Researchers became deeply embedded into teams, as equal partners of on the product team, forming strong and enduring relationships.*

### ***BPR Learning***

*Link parallel activities instead of integrating their results. By embedding researchers into the process, they were able to validate development stages along the way. Rather than trying to massage in research outcomes to an already existing product, Airbnb links research activities along with designer and engineering activities. (This case study was sourced from the following articles: Wired, Wired, Airbnb, Firstround.)*

## BENCHMARKING

According to **Camp**, benchmarking is simply “*Finding and implementing the best business practices*”.

Benchmarking is a strategy tool of comparison. It is *used to compare the performance of the business processes and products of a company with that of the best performances of other companies inside and outside the industry* which the company is a part of. Managers use the tool to *identify the best practices in other companies and apply those practices to their own processes in order to improve the company's performance.*

### Benchmarking history

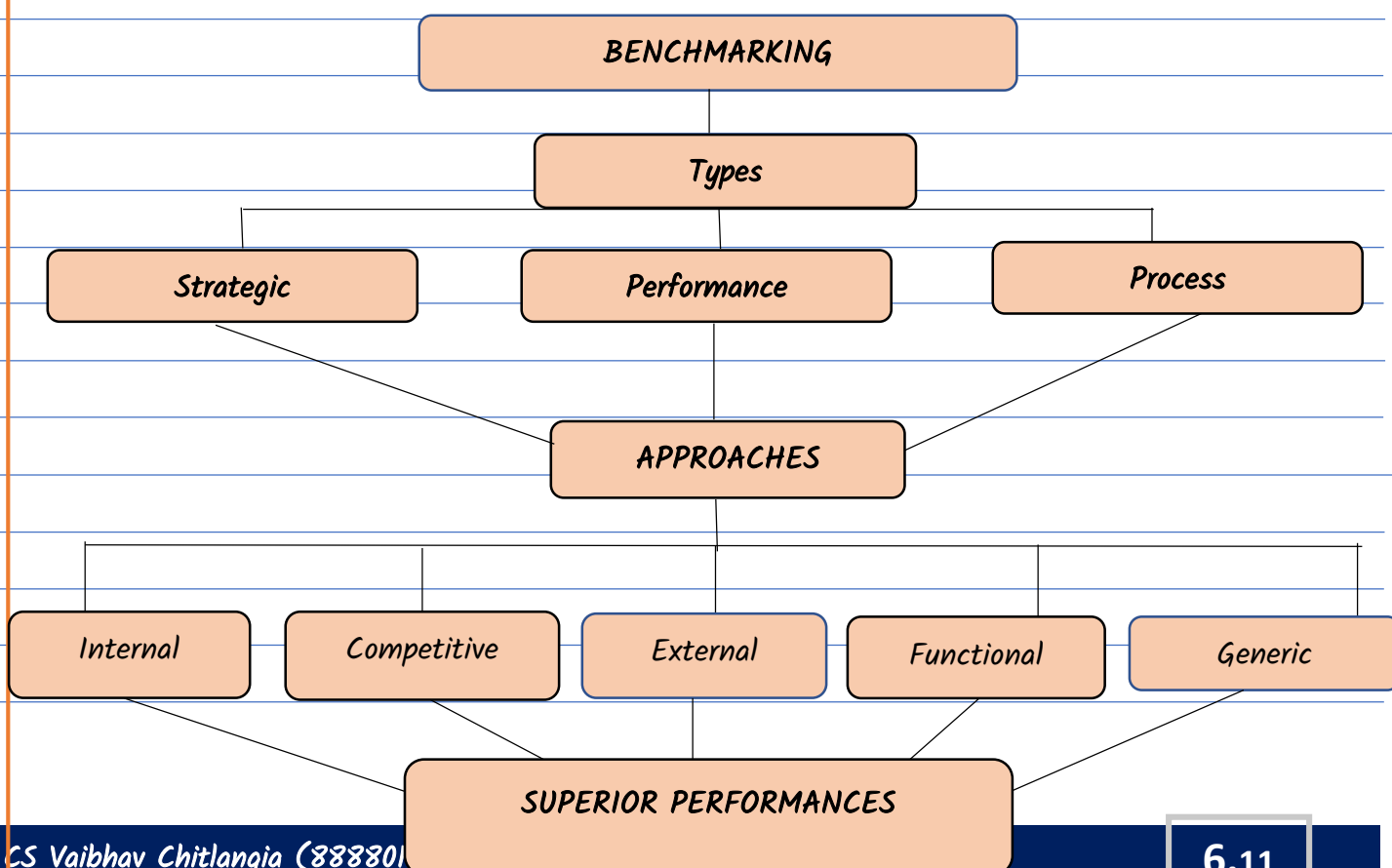
1950-1975	Reverse engineering
1976-1986	Competitive benchmarking
1982-1986	Process benchmarking
1988+	Strategic benchmarking
1993+	Global benchmarking

### Types of Benchmarking

- **Strategic Benchmarking:** This type of benchmarking is used to *identify the best way to compete in the market. In this type of benchmarking, the companies identify the winning strategies (typically outside the boundaries of their own industry) used by successful companies and thereafter adopt them in their own strategic processes.*
- **Performance Benchmarking:** Performance benchmarking determines *how strong a company's products and services are when compared to competition. According to **Bogan and English**, the tool mainly focuses on product and service quality, features, price, speed, reliability, design and customer satisfaction, but it can measure anything that has the measurable metrics, including processes.*
- **Process Benchmarking:** It requires to *look at other companies that engage in similar activities and to identify the best practices that can be applied to your own processes in order to improve them. It usually derives from performance benchmarking.*

## Approaches

- **Internal Benchmarking:** In large organizations that have operations in multiple geographic locations within or outside national and regional boundaries, or organisations managing plentiful products and services, duplicating functions and processes are usually performed among different teams, business units or divisions of the same organisation. **Internal benchmarking is used to compare the work of such teams, units or divisions to identify the ones that are best performing and share the knowledge throughout the company to other teams to achieve higher performance.**
- **External or Competitive Benchmarking:** Competitive benchmarking refers to a **process when a company compares itself with the competitors inside its industry itself.** External benchmarking looks both inside and outside the industry to find the best practices, thus, including competitive benchmarking.
- **Functional Benchmarking:** Managers of functional departments find it useful to **analyze how well their functional area performs compared to functional areas of other companies.** It is quite easy to identify the best marketing, finance, human resources or operations departments, in other companies, that excel in what they do and to apply their practices to one's own functional area.
- **Generic Benchmarking:** General benchmarking refers to **comparisons which "focus on excellent work processes rather than on the business practices of a particular organization"**.



### Advantages

- *Easy* to understand and use.
- If done properly, it's a *low cost activity* that offers huge gains.
- Brings *innovative ideas* to the company.
- Provides with *insight of how other companies organize* their operations and processes.
- Increases the *awareness of costs and level of performance* compared to rivals.
- Facilitates *cooperation* between teams, units and divisions.

### Disadvantages

- *Requires identification* of a benchmarking partner.
- Sometimes *impossible to assign a metric to measure a process*.
- Might need to *hire a consultant*.
- The initial *costs* could be huge.
- Managers often *resist* the changes.

### Benchmarking Wheel

The benchmarking wheel model was first brought out in an article "Benchmarking for Quality". This is a five stage process that was created by analyzing more than 20 other models.

#### BENCHMARKING WHEEL

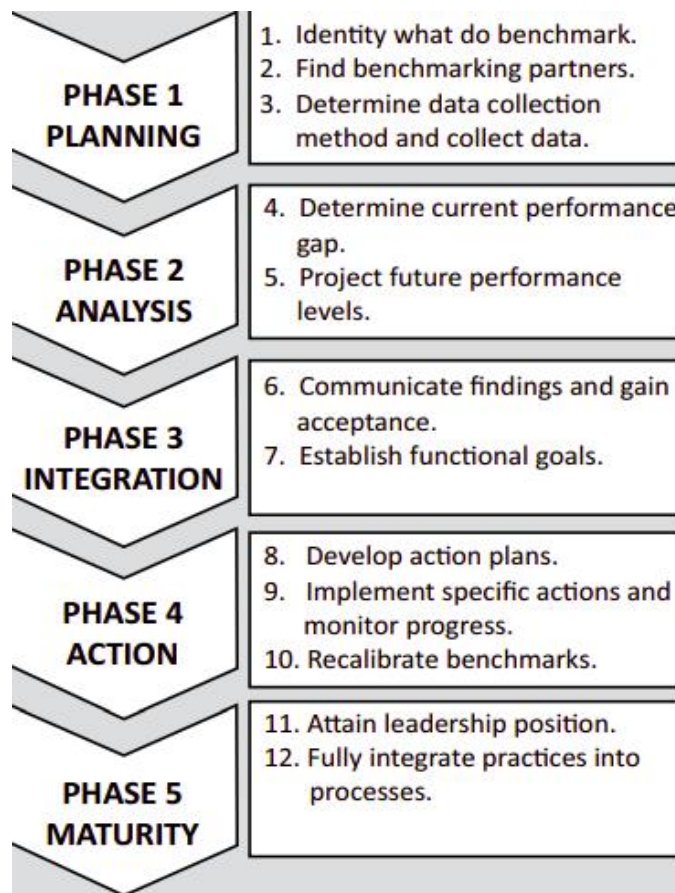


1. **Plan:** Clearly define what you want to compare and assign metrics to it.
2. **Find:** Identify benchmarking partners or sources of information.
3. **Collect:** Choose the methods and gather the data for the metrics defined.
4. **Analyze:** Compare the metrics to identify the gap in performance between your company and the benchmarking partner. Provide the results and recommendations.
5. **Improve:** Implement the changes to your own products, services, processes or strategy.

### Case Study

#### Benchmarking: Xerox Process

Xerox has popularized benchmarking and was one of the first companies to introduce the process of doing it. This 5-phase and 12-step process was created by **Camp, R.** the manager of Xerox responsible for benchmarking.



## Total Quality Management

Total Quality Management (TQM) is a concept given by W. Edwards Deming.

The main focus of TQM was and is continuous quality improvement in the areas of product or service, employer-employee relations and consumer-business relations. Total Quality is a description of the culture, attitude and organization of a company that strives to provide customers with products and services that satisfy their needs. The culture requires quality in all aspects of the company's operations, with processes being done right for the first time to eradicate defects waste from operations.

### TQM Defined

"Quality" is "a degree of excellence", it is a degree to which a product lives up to its performance, endurance, maintainability, and other attributes expected by a customer while buying that specific product. The word "total" means the sum total of every process, every job, every resource, every output, every person, every time and every place.

### Definitions

American Society for Quality Control (ASQC) defines Total Quality Management (TQM) as "a management approach to long-term success through customer satisfaction. TQM is based on the participation of all members of an organization to improving processes, products, services, and the culture they work in. TQM benefits all organization members and society. The methods for implementing this approach are found in the teachings of such quality leaders as Philip B. Crosby, W. Edwards Deming, Armand V. Feigenbaum, Kaoru Ishikawa, and J.M. Juran."

ISO defined TQM as "A management approach of an organization centered on quality, based on participation of all its members and aiming at long term benefits to all members of the organization and society."

Brockman, J. R. (1992) has defined that "TQM is a management philosophy, embracing all activities through which the need of customer, the community and the objectives of the organization are satisfied in the most effective and potential of all employees in continuing drive for improvement."

TQM is a management philosophy that *views an organization as a collection of processes* such as marketing, finance, design, engineering, and production, customer service, etc. thereby, *focussing on meeting customer needs and organizational objectives*. The simple objective of TQM is “*Do the right things, right the first time, every time.*” Some examples of the companies who have implemented TQM include Ford Motor Company, Phillips Semiconductor, SGL Carbon, Motorola and Toyota Motor Company.

TQM is the *foundation for activities*, which include:

- *Commitment* by senior management and all employees.
- Meeting *customer requirements*.
- *Reducing development cycle times*.
- *Just in time/demand flow manufacturing*.
- *Improvement teams*.
- *Reducing product and service costs*.
- Systems to *facilitate improvement*.
- *Line management ownership*.
- *Employee involvement and empowerment*.
- *Recognition and celebration*.
- *Challenging quantified goals and benchmarking*.
- *Focus on processes / improvement plans*.
- *Specific incorporation in strategic planning*.

### Principles of TQM

#### Management Commitment

- Plan (drive, direct)
- Do (deploy, support, participate)
- Check (review)
- Act (recognize, communicate, revise)

#### Employee Empowerment

- Training
- Suggestion scheme
- Measurement and recognition
- Excellence teams

#### Fact Based Decision Making

- SPC (statistical process control)
- DOE, FMEA
- The 7 statistical tools
- TOPS (Ford 8D - team oriented problem solving)

### Continuous Improvement

- Systematic measurement and focus on CONQ
- Excellence teams
- Cross-functional process management
- Attain, maintain, improve standards

### Customer Focus

- Supplier partnership
- Service relationship with internal customers
- Never compromise quality
- Customer driven standards

### Characteristics of Total Quality Management

- **Total involvement of employees:** Only empowered and valiant employees who can take a stand for their work and understand the mechanism of operations of their organization operates as a whole can achieve desired level of performance by improving their efficiency.
- **Customer focus:** TQM views end customers as the sole measure of quality and success. Any effort, including employee training, infrastructure upgrades, software investments, or product releases, is worthwhile only if it aims at benefitting customers.
- **Continual improvement:** Top management has the responsibility for promotion of culture of innovation and creativity to customers' expectations and maintain competitiveness.
- **Process approach:** The rationale of this is that each such step can be analyzed, measured and improved upon to attain desired results.
- **System Approach to Management:** All inter-related processes should be managed to ensure that improvement efforts are focused on 'key' processes and integrated to achieve the desired results.
- **Fact-based decisions:** TQM requires organizations to collect data to improve decision-making, reach agreements on key business directions and make predictions based on historical data.
- **Leadership/strategy definition:** A strategic plan should be developed to achieve organization's vision, objectives and goals with 'quality' as a key component. Leadership is a key attribute as it establishes the direction of the organization.
- **Mutually beneficial relationship with suppliers:** An organization depends on its suppliers and this relationship should be strengthened to ensure that a mutually beneficial relationship is sustained.

## Principles of Total Quality Management

- **Customer-focused**

The customer ultimately determines the level of quality. No matter what an organization does to foster quality improvement – training employees, integrating quality into the design process, upgrading computers or software, or buying new measuring tools – the customer determines whether the efforts were worthwhile.

- **Total Employee Involvement**

All employees participate in working toward common goals. Total employee commitment can only be obtained after fear has been driven from the workplace, when empowerment has occurred, and management has provided the proper environment.

- **Process-centered**

A fundamental part of TQM is a focus on process thinking. A process is a series of steps that take inputs from suppliers (internal or external) and transforms them into outputs that are delivered to customers (again, either internal or external).

- **Integrated System**

Although an organization may consist of many different functional specialties often organized into vertically structured departments, it is the horizontal processes interconnecting these functions that are the focus of TQM.

- **Strategic and Systematic Approach**

A critical part of the management of quality is the strategic and systematic approach to achieving an organization's vision, mission, and goals.

- **Continual Improvement**

Continual improvement drives an organization to be both analytical and creative in finding ways to become more competitive and more effective at meeting stakeholder expectations.

- **Fact-based Decision Making**

TQM requires that an organization continually collect and analyze data in order to improve decision making accuracy, achieve consensus, and allow prediction based on past history.

- **Communications**

During times of organizational change, effective communications play a large part in maintaining morale and in motivating employees at all levels.

## Continuous Improvement by TQM

The five major areas of focus for capability improvement are:

- Demand generation,
- Supply generation,
- Technology,
- Operations, and
- People capability.

## Implementation Principles and Processes

A preliminary step in TQM implementation is to **assess an organization's current reality**. Relevant **preconditions** have to do with the organization's history, its current needs, precipitating events leading to TQM, and the existing employee quality of working life.

An **organization should be basically healthy** before beginning TQM. If it has significant problems such as a very unstable funding base, weak administrative systems, lack of managerial skill, or poor employee morale, TQM would not be appropriate. However, a certain level of stress is probably desirable to initiate TQM.

### Case Study

#### FORD MOTOR COMPANY - TOTAL QUALITY MANAGEMENT

Ford Motor Company total quality management or TQM practices started in the 1980s when "Quality Is Job 1" was their slogan. How did TQM work at Ford and are they still standing behind this process? Jean Scheid, a Ford Dealer talks with Ford management along with some insights of her own.

When an invasion of Japanese imports threatened the American automobile industry, the Ford Motor Company led a quality revival based on the management philosophy of W. Edwards Deming, who was controversial then and is out of fashion now.

The results of the movement, known as Total Quality Management, were stunning at Ford. After racking up \$3 billion in losses between 1979 and 1982, Ford hit a series of home runs, including the aerodynamic Taurus- Sable cars, and by 1986 had become the most profitable American auto company.

Now, though, Ford's hard-won reputation for quality is being tarnished by a series of setbacks, from the controversy over deadly rollovers of Ford Explorers equipped with Firestone tires to costly recalls of several models and delays on the introductions of others. Indeed, according to recent surveys by Consumer Reports and J. D. Power & Associates, overall quality and customer satisfaction for Ford cars now lag the competition.

And so, once again, the company is embracing quality as the answer to its problems. This time, it has seized on Six Sigma, a management tool that is sweeping corporate America. "It was a good way to get a common language around innovation and marketing," said Jacques Nasser, Ford's chief executive, who started the Six Sigma program in 1999.

Six Sigma was popularized by John F. Welch Jr. of General Electric in the 1990's. Adopting it does, however, point to a management problem. Too often, when it comes to management tools for improving efficiency and worker productivity, companies have to reinvent the wheel.

### **The customer knows best: AtlantiCare**

TQM isn't an easy management strategy to introduce into a business; in fact, many attempts tend to fall flat. More often than not, it's because firms maintain natural barriers to full involvement. Middle managers, for example, tend to complain their authority is being challenged when boots on the ground are encouraged to speak up in the early stages of TQM. Yet in a culture of constant quality enhancement, the views of any given workforce are invaluable.

### **Profits after quality improvement strategy**

One firm that's proven the merit of TQM is New Jersey-based healthcare provider AtlantiCare. Managing 5,000 employees at 25 locations, AtlantiCare is a serious business that's boasted a respectable turnaround for nearly two decades. Yet in order to increase that margin further still, managers wanted to implement improvements across the board. Because patient satisfaction is the single-most important aspect of the healthcare industry, engaging in a renewed campaign of TQM proved a natural fit. The firm chose to adopt a 'plan-do-check-act' cycle, revealing gaps

in staff communication – which subsequently meant longer patient waiting times and more complaints. To tackle this, managers explored a sideways method of internal communications. Instead of information trickling down from top-to-bottom, all of the company's employees were given freedom to provide vital feedback at each and every level .

AtlantiCare decided to ensure all new employees understood this quality culture from the onset. At orientation, staff now receive a crash course in the company's performance excellence framework – a management system that organises the firm's processes into five key areas: quality, customer service, people and workplace, growth and financial performance. As employees rise through the ranks, this emphasis on improvement follows, so managers can operate within the company's tight-loose-tight process management style.

After creating benchmark goals for employees to achieve at all levels – including better engagement at the point of delivery, increasing clinical communication and identifying and prioritising service opportunities – AtlantiCare was able to thrive. The number of repeat customers at the firm tripled, and its market share hit a six-year high. Profits unsurprisingly followed. The firm's revenues shot up from \$280m to \$650m after implementing the quality improvement strategies, and the number of patients being serviced dwarfed state numbers.

## SIX SIGMA

Six Sigma is a **disciplined, statistical-based, data-driven quality control program**. It is a methodology for **continuous cycle time improvement** (the reduction of manufacturing defects to a level of no more than 3.4 per million) by **eliminating defects** in any product, process or service. Developed by **Motorola** in middle 1980's, Six Sigma is based on quality management fundamentals.

Six Sigma is:

- **A Business Strategy:** Using Six Sigma Methodology, a business can strategize its plan of action and drive revenue increase, cost reduction and process improvements in all parts of the organization.
- **A Vision:** Six Sigma Methodology helps the Senior Management create a vision to provide defect free, positive environment to the organization.
- **A Benchmark:** Six Sigma Methodology helps in improving process metrics. Once the improved process metrics achieve stability; we can use Six Sigma methodology again to improve the newly stabilized process metrics.

- **A Goal:** Using Six Sigma methodology, organizations can keep a stringent goal for themselves and work towards achieving them during the course of the year. Right use of the methodology often leads these organizations to achieve these goals.
- **A Statistical Measure:** Six Sigma is a data driven methodology. Statistical Analysis is used to identify root- causes of the problem. Additionally, Six Sigma methodology calculates the process performance using its own unit known as Sigma unit.
- **A Robust Methodology:** Six Sigma is the only methodology available in the market today which is a documented methodology for problem solving. If used in the right manner, Six Sigma improvements are bullet-proof and they give high yielding returns.



### Why Six Sigma

Adoption of Six Sigma methodology **helps in improving efficiency** in any organization as it meticulously **identifies defects and minimizes the variations** within a process. Some examples could include:

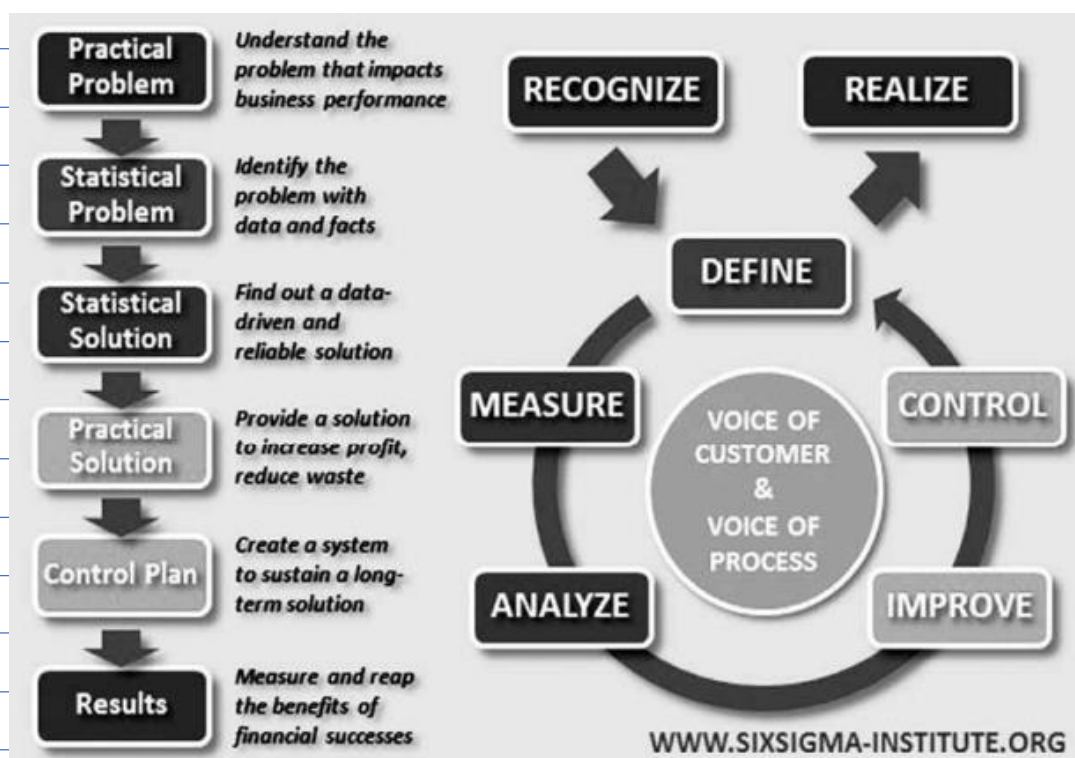
- Decrease in process cycle time.
- Decrease of scrap generated by a process.

- Growing customer satisfaction.
- Decline in the number of factory defects.
- Decrease or elimination of costly reworks.

### How does 6 Sigma work?

A typical Six Sigma project *determines the existing state and enhances the performance of the business process* to a new and statistically significant improved state with the use of statistical tools. There can be two situations:

**Situation 1:** The process already existing but it is not working “reasonably” well. This scenario focuses on use of **DMAIC** (which stands for Define, Measure, Analyze, Improve and Control):



1. **Define problem statement** process goals in terms of key critical parameters on the basis of customer requirements or Voice Of Customer (VOC) and setting project boundaries.
2. **Measure a complete picture of the current state of the process** and establishes a baseline through measurement of the existing system in context of goals and collecting the data.

3. *Analyze the current scenario* in terms of causes of variations and defects and determining the root cause.
4. *Improve the process* by systematically reducing variation and eliminating defects and root causes.
5. *Control future performance* of the process and support and maintain the gains realized.

*Situation 2*: This is the situation when *there is no process in existence at all and it has to be designed using Design For Six Sigma (DFSS) approach*. DFSS approach typically requires IDOV:

1. *Identify process goals* in terms of critical parameters, industry & competitor benchmarks, Voice Of Customer (VOC).
2. Design involves *enumeration of potential solutions* and selection of the best.
3. *Optimize performance* by using advanced statistical modeling and simulation techniques and design refinements.
4. *Validate* that design works in accordance to the process goals.

### The Six Sigma Training and Certification Levels

The Six Sigma training and certification levels are emulated from the martial arts. "Six Sigma" management has several levels of certification i.e. Champion, Yellow Belt, Green Belt, Black Belt, and Master Black Belt. Each level of certification is described below.

#### Champion

A Six Sigma Champion is the most basic form of Six Sigma certification. A Champion *understands the theory of Six Sigma management, but does not yet have the quantitative skills* to function as an active Six Sigma project team member.

#### A Yellow Belt

A Six Sigma Yellow Belt is an *individual who has passed the Green Belt certification examination but has not yet completed a Six Sigma project*. A Yellow Belt should have a basic understanding of Six Sigma, statistical tools and DMAIC methodology.

#### Green Belt

A Six Sigma Green Belt is an *individual who works on projects part-time either as a team member for complex projects, or as a project leader for simpler projects*. Green Belts receive training on DMAIC methodology, statistical tools, proper data collection and analysis of the data collected. Most managers in a mature Six Sigma organization are green belts.

### Black Belt

A Black Belt receives the *highest level of training in the statistical tools of Six Sigma*. Black Belts, as a rule, *develop the plans for Six Sigma project implementation*. Black Belts usually train other team members on the proper use of Six Sigma tools and techniques, such as control charts, histograms and Root Cause Analysis (RCA).

### Master Black Belt

A Master Black Belt is *classically trained in statistical tools, Six Sigma methodology and management processes*. Master Black Belts mentor and direct groups of Black Belts and Six Sigma teams through various problems that need to be reviewed.

#### Case Study

##### Six Sigma Implementation in Ford Motor Company

Ford Motor Company, an American Multinational automaker considered as the world's, largest and most successful automakers is famous for introducing revolutionary products. The company is known for its innovative and dynamic approach to manufacturing by using Total Quality Management approach to achieve its vision "Quality Is Job 1".

It has employed such manufacturing concepts as standardization, assembly lines, which came to be known as Fordism. Ford was ranked 'seventh' in terms of quality in automobile world in 2001, the position which was soon elevated to third in the year 2003, which was viewed as a remarkable improvement over this two-year period. The credit of such improvement was awarded to quality initiatives taken by Ford in 1999, significant among which was the Six Sigma techniques such as a data-driven problemsolving process, to devise solutions to waste issues. Six Sigma saved Ford from its deep-rooted problems. These issues include inadequate productivity, poor use of resources, low customer satisfaction, and environmental unfriendliness.

### Carrying Out the Six Sigma Approach

To actualize the vision of becoming a consumer products company, Ford Motor Company implemented Six Sigma in late 1990s with the twin goals of enhancing vehicle quality and improving the level of customer satisfaction. The initiative was called 'Consumer-driven Six Sigma'. Ford was the first major automobile company in the world to go for Six Sigma initiative in a big way. In Ford's view, there existed about 20,000 opportunities for defects in manufacturing a car. Through Six Sigma, Ford aimed at attaining its defect rate to just one for every 14.8 vehicles.

### Reasons to adopt Six Sigma in Ford Motor Company

- Cost Reduction
- Quality Improvement
- Improve Customer Satisfaction
- Reduce solvent consumption to lower the environment impact

### Roadblocks in Implementing Six Sigma

- Employee Commitment
- Resource challenge (time, money and productivity)
- Infrastructure to fully run the Six Sigma Initiative as it required enormous data and internal measures.

### FORD's improvement after implementation of Six Sigma

- Elimination of more than \$2.19 billion of wastage of resources since 2001.
- An increasingly dramatic impact on operations of the enterprise. After adopting six sigma, Ford has completed more than 9,500 projects savings \$1.7 billion worldwide, including \$731 million in 2003.
- Increase in customer satisfaction to five percentage points as disclosed by company's internal customer satisfaction survey.

## A Comparison of Business Process Reengineering vs. Six Sigma

Features	BPR	Six Sigma
General Tendency	Radical redesign	Align and maintain
Business drivers	Recession and changing market needs	Service bundling and internet
Goals	Streamlining	Process alignment
Tools	Process maps	Statistical analysis
Method	Challenge process fundamentals	Prioritize by COPQ (Cost of Poor Quality) and Capability
Deployment	Top-down	Top-Bottom-middle
Key feature	Outside consultants	Internal experts
Impact	Short and medium term	Short, medium and long-term
Role of technology	Enabler	Enabler
Risk/return	High-low	Medium-high

**CASE STUDIES FROM THE INDIAN CONTEXT TO ESTABLISH A STRATEGIC MINDSET****Case Study-1****A BETTER BUSINESS MODEL FOR FASHION FROM ZARA**

One of the most well-known brands in the world and a major player in the global fashion industry is Zara. They are a division of Inditex and the third-largest brand in the clothing sector. Its headquarters are in Spain, and their flagship line of chain stores. In 1975, the first Zara store was established in Spain. Galicia is where the company is headquartered. In the world, there are more than 2600 stores spread across 73 nations. The majority of the parent come from the Zara apparel line.

Zara is recognised for developing items quickly rather than taking an eternity. They have a reputation for developing items in about two weeks and producing 10,000 new designs annually (which is an industry record). Instead of moving their whole manufacturing to Third World or Developing countries, they have defied the trend by producing in Europe. Yet, because some of their clothing has a longer shelf life, some of it is produced in Asia. Since they operate numerous facilities in both Spain and Portugal, they produce the majority of their goods domestically or in other European nations. They also don't have to depend on anyone else as they can get everything done by themselves.

Zara is distinctive in that it focuses on opening new stores rather than spending money on marketing. They have earned a reputation as one of the most creative shops in the world because to their daring efforts. When Zara first started off, its products were cheap knockoffs of expensive apparel. Due to the success of this decision, Zara was able to grow by adding more stores in Spain. The corporate management also managed to shorten the time it required to generate new designs and came up with the term "instant fashions" which allowed them to capitalise on new trends fairly rapidly. Instead than employing lone designers, Zara is renowned for using design teams.

H&M, Gap, and Benetton are fierce competitors for Zara on the global market. Luckily Zara is believed to be more fashionable than the rest of the brands despite the fact that its pricing is cheaper than Benetton and Gap. Although being similarly stylish as Zara, H&M is nonetheless more affordable. Less stylish and more expensive brands include Gap and Benetton.

The fundamental tenet of Zara's business strategy is that it can offer "moderately priced, fashionable goods." Fundamentally, Zara's successful business strategy relies heavily on vertical integration and the capacity to respond quickly; otherwise, they would not be where they are now. The Zara process has been created in a way that includes all of the different business system tasks, including designing, sourcing, production, distribution, and retailing. They do all of things themselves and that is one reason why their growth is at a good rate. Yet, everything that goes up must eventually fall down, and Zara is not immune to the world's issues. Due to the model they are now using, their methods of operation may potentially prove to be their downfall. They have their own manufacturing facility and distribution centre, which is a major weakness.

The management at Zara has identified four key success factors: a quick turnaround time for product development, a small quantity per product (and not too much of the same stock), a wide variety of products every season (so that customers can choose easily), and a significant investment in ICT to help them stay on track.

Zara doesn't lose money since they only order a small number of each item they think is fashionable and will be harder to find seasonally. For instance, due of Europe's brief summer season, miniskirts in this design will only be available for a limited time. Other clothing that can be worn all year long and whose trends don't fluctuate is outsourced to Asia because the price isn't as high. The fact that these clothing have a longer shelf life makes the outsourcing process more practical. The preparation of the clothing does not require much time; the entire procedure, from design to finished product in the stores, only takes around 4 weeks.

Zara has a significant advantage over their competitors since they are aware of the market trends and are quick to adapt their business plan to keep up with changes in the fashion sector. They can quickly alter their schedule to take into account changes in market patterns. For any typical retailer, it typically takes 8 to 12 months to predict trends, develop a style, and send it for production. They lose badly because they are unable to compete with Zara's abilities. Even if a certain style doesn't do well, Zara can still offer the items at a discount. The fact that they lost a lot since there were so few clothing produced. They have a very small number of discount sales each year, compared to a high rate for the rest of the market, because to their low volume approach.

They do not have to worry about having greater stockpiles, but this results in higher expenses, which is a drawback. With this approach, low inventories and large profit margins are possible. They incur no cost savings here, yet they nevertheless make the most of their clothes line. As Zara controls everything, it is difficult for them to expand or migrate because they must remain in one spot or the entire operation will suffer, increasing the cost of distributing the items.

A great aspect of Zara's business strategy is that they have a very fashion-forward range since they know which trends to capitalise on. They appear to possess the Midas touch, turning anything they touch into gold. It is their policy to hire a crew that is primarily youthful and stylish so that they can serve as trend setters. For instance, if a certain item at a store does well, the management may decide to sell it in additional stores. The key is that people believe there is a shortage of most products because they are in short supply, which leads them to want to buy more.

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The fact that Zara has acquired its goods from the correct regions is a major contributor to its success. They have established offices for procurement in a few chic global locations. As a result, they may see the trends for themselves and swiftly devise a remedy of their own. They hire one of the procurement departments of their parent group to handle all of their purchasing instead of buying all the raw materials themselves. One wise decision made by them is that they purchase the majority of their cloth in grey to allow for more flexibility. The process of preparing the fabric is quick.

The fact that they have vertical integration, however, gives them the greatest advantage because it enables them to make and market their own products independently of suppliers. It is not challenging to move any of their items as they have their own railway network which allows them to move goods quickly to its distribution hub. Even though shipment only happens twice a week, the goods are sent out right away once they are ready. While other locations receive the goods in two days, European stores receive them sooner (between 24 and 36 hours). They have been able to reach a very high level of accuracy in their shipments because to this technique. Another plus is that once the new clothing arrives at the stores, it doesn't take them long to display it, allowing them to exhibit new merchandise to their patrons. In order for the employees to know where to put the clothing, they are also color-coded.

## Case Study-2

### MCDONALD'S MARKETING TACTICS

The largest chain of fast-food restaurants in the world is McDonald's. There are more than 30,000 of them spread throughout more than 100 nations. In comparison to 2006, more than one billion additional clients were serviced in 2007. Although McDonald's sales increased 6.8% and revenue reached a record high of \$23 billion in 2007, net profitability fell by \$1.1 billion. The System, which refers to the firm, its franchisees, and suppliers collectively, is what has made McDonald's successful over the years. The company's business approach enables it to continually provide consumers with relevant dining experiences and to play a significant role in the communities it serves.

Plan to Win refers to McDonald's entire strategic framework. Becoming the biggest fast-food restaurant business is not their primary goal; instead, they are more concerned with being the greatest. By the implementation of numerous initiatives centered around the five factors of great customer experiences — people, products, place, price, and promotion — McDonald's "strategic alignment behind this approach has delivered superior McDonald's experiences." Also, McDonald's uses geographically-based strategy planning. The strategic priorities of McDonald's in the United States are still breakfast, chicken, be provide consumers with relevant dining experiences and to play a significant role in the communities it serves.

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convenience, breakfast, core menu additions, and the Middle East, Asia, and Africa. McDonald's should start to experience better financial results thanks to its overall strategy plan and its geographic strategic plan.

McDonald's uses a variety of organisational techniques. Better restaurant operations, putting the client first, offering a variety of food and drinks, convenience and daypart development, and continual restaurant reinvestment are a few organisational initiatives. In 2008 and beyond, McDonald's plans to "continue to drive success by leveraging key consumer insights and our global experience, while relying on our strengths in developing, testing and implementing initiatives surrounding our global business drivers of convenience, branded affordability, daypart expansion and menu variety." McDonald's must increase restaurant operations' efficiency while prioritising the needs of the customer as one strategy to achieve a positive net income. McDonald's is aiming for higher revenue and visitor counts by strategically focusing on beverage options and menu variety. McDonald's hopes to boost productivity at its drive-thru pick-up window with their convenience and daypart expansion plan. The corporation is also remaining open later to accommodate individuals who need a quick meal after midnight. Also, McDonald's has outlets that are locally owned and run, which "are at the heart of their competitive edge and makes them not just a worldwide brand but a locally relevant one," according to the company.

They are currently updating and modernising their franchises. Also, the business is opening a McCafé's in hopes that it will help it get closer to its long-term objective of tripling sales at its current U.S. restaurants. Affordability and staff development, which begins with hiring and training and progresses all the way up to leadership and management, are two other organisational concepts.

McDonald's marketing initiatives are being influenced by their strategic plan through enhancing brand transparency. They aim for worldwide recognition of their brand. They are improving the clientele's encounter. "They are making it simpler for customers to have a wonderful McDonald's experience in all of their markets. In China and Russia, they are bringing drive-thrus to the more mobile people, while in the United States and Canada, more efficient drive-thrus and double drive-thru lanes allow them to quickly serve even more customers. McDonald's has a rebranding campaign in Germany that includes expanding by roughly 100 McCafes. Also, they are setting up new kitchen operational systems to maintain their ability to produce high-quality meals. Almost 10,000 McDonald's locations have already undergone renovations worldwide. They desire for their eateries to represent their brand. With new options, the business is also giving the customer more value.

*“They generate value for customers and satisfy their demand for choice and diversity by presenting a locally relevant balance of innovative goods, premium salads and sandwiches, traditional menu favourites, and everyday cheap choices around the world.”*

*Longer operation hours, everyday value meals, and drive-thru efficiency optimization are all examples of the marketing mix types used by McDonald’s to fulfil their marketing objectives. McDonald’s employs marketing initiatives as well. In 2007, McDonald’s offered kids the option of milk, fruit, or veggies as part of their Happy Meal by referencing the Shrek movie. In addition to their dedication to working with kids, McDonald’s is enhancing the perception of their brand “through innovative marketing that transports ideas across borders and uses i’m lovin’ it to strengthen their connection with customers who love their cuisine and the distinctive McDonald’s experience.” McDonald’s served the Beijing Burger, Carmel and Banana Sundae, and Rice Sticks at the Beijing Olympics in 2008. On their package, they have nine Olympians and Paralympians. The name of McDonald’s new hamburger was up for public vote as part of a marketing drive in Australia. Backyard Burger was selected as the winner. McDonald’s is attempting to improve the perception of its brand with marketing initiatives like these.*

*Creating stronger relationships of trust by being approachable and keeping an open communication with customers and important stakeholders is another organisational and marketing strategy. The corporation is investing about \$1.9 billion in its restaurants, mainly to remodel current locations and construct new ones. McDonald’s is also transitioning to a less capital-intensive, heavily franchised business model. However, this is not permitted in some nations, including China, due to official regulations.*

*Due to McDonald’s emphasis on the five components of excellent customer service and expanding global brand recognition, their revenues and net income should rise. The consumer will have a more welcoming and pleasant dining experience thanks to the initiative to renovate and upgrade current franchisees. McDonald’s marketing strategy for the 2008 Olympics made them feel like a vital part of the event, which only improved the company’s reputation. This will enable McDonald’s to reduce its already high turnover percentage through recruitment and training activities for current workers or potential future hires.*

### Case Study-3

#### SWOT ANALYSIS : THE FULCRUM OF STRATEGIC DECISION MAKING

Gujarat Cooperative Milk Marketing Federation Ltd. (GCMMF) is India's largest food product marketing organisation. It is the apex organisation of the Dairy Cooperatives of Gujarat popularly known as AMUL which aims to provide remunerative returns to the farmers and also serve the interest of consumers by providing quality products. AMUL is considered as one of the most well recognized and iconic brands in the country. It operates through 61 sales offices and has a network of 10000 dealers and 10 lakh retailers. Its product range comprises milk, milk powder, health beverages, ghee, butter, cheese, Pizza Cheese, Ice cream, Paneer, chocolates and traditional Indian sweets etc.

Based on the above information, do the SWOT analysis of AMUL is placed below:

#### SWOT Analysis of a Renowned Dairy Business – AMUL

Investment in Technology; Market Share, Production Capacity, Quality, Brand value, Large Consumer Base <b>Strength</b>	High Operational Costs, Lack of success in portfolio expansion, legal issues <b>Weakness</b>
High Milk Consumption, Global Expansion, Product Portfolio Expansion <b>Opportunities</b>	Increasing Competition, growing trends of veganism <b>Threats</b>

#### Strengths of AMUL

##### **Investment in Technology**

Amul has experienced exponential growth in the last few decades. The company is continually investing in adaptive and revolutionary technologies within the dairy industry.

##### **Market Share**

Amul has transformed itself into the market leader of milk and dairy products in the country. Amul has expanded its ice cream product and business portfolio by opening standalone Amul ice cream stores all over the country.

### **Production Capacity**

*Amul is one of the largest manufacturers of milk and dairy products in the world. The company is managed by the Gujarat Co-operative Milk Marketing Federation Limited, which is a dairy producers cooperative which supplies the company with almost 18 million liters of milk daily.*

### **Quality**

*One of the primary reasons for Amul being one of the most trusted brands in Indian and having a strong and loyal consumer base is its quality. Amul has never faced any significant issues pertaining to its quality within the Indian market. The company has also maintained transparency concerning its quality control practices.*

### **Strong Brand Value**

*Amul is one of the most recognizable and valuable brands in India. The Amul girl, the company's mascot which features on its advertisements is one of the oldest and most iconic brand mascots which Amul uses even today.*

### **Large Consumer Base**

*The company has a large consumer base which spreads across the urban and rural regions of the country.*

*This wide-reaching consumer base has allowed the company to maintain distinct leverage over its competitors.*

### **Weaknesses of AMUL**

#### **High Operational Cost**

*Amul has a high operational cost due to its massive size and complex structure. This can become problematic for the company if the company experiences fall in demand.*

*The company also heavily depends on the dairy unions and communities for its supply of milk. As the needs of the dairy community are changing with them demanding higher prices for their produce. These issues can add up to the operational cost of the company and lower its profit margins.*

### ***Lack of Success in Certain Areas of Portfolio Expansion***

*Amul has expanded its product portfolio to add products such as butter, ghee, buttermilk, flavored milk, ice cream, chocolates, cheese, creams, sweets and more.*

*However, not every product of Amul within its portfolio has same amount of success.*

### ***Frequent Legal Issues***

*The company has faced legal issues in the recent past wherein Amul chose to advertise its products while disparaging the brand and products of its rivals. This caused the company a lot of embarrassment and has also contributed to tarnishing the public image of the company.*

### **Opportunities for AMUL**

#### ***High per capita Milk consumption***

*India is a high milk consuming nation with milk and dairy products being an essential component of the Indian diet. India has 130 crore population which is only increasing. This growth in population and high milk consumption opens up opportunities for AMUL to expand its production capacities and acquire new consumers.*

#### ***International Expansion***

*AMUL can serve global markets. The brand can expand into overseas markets such as the Middle-East and the Asian markets by aggressively targeting Indian expats living in these countries.*

#### ***Expansion of Product Portfolio***

*AMUL can invest in research and development or adopt a mergers and acquisition strategy to expand its product line. AMUL has an extensive distribution network which can be used to sell its new products into the market, and the substantial brand value and trust of the consumers will also enable easier acceptance from the consumers.*

### **Threats for AMUL**

#### ***Increasing Competition***

*AMUL is facing increasing competition in milk and dairy products sector from brands such as*

Mother Dairy, Kwality Ltd, HUL and other local players. AMUL is also facing increasing competition within the ice cream market from Kwality Walls, Baskin Robins, Havmor, London Dairy and other domestic brands.

### ***Growing trend of Veganism in India***

Many people in India are turning towards veganism, which implies that these people do not consume dairy or dairy products. This can impact the demand for Amul's milk and dairy products if the popularity of veganism increases and spreads across different parts of the country.

### **Findings of SWOT Analysis of AMUL**

As per the SWOT analysis of AMUL, the company can easily identify and analyse the internal and external factor which help it to take the strategic decisions. The company can achieve a dominant global position by maintaining its quality standards, investing in advertising and promotions and localizing products as per the taste of the international markets. Thus, it has the opportunity to go 'Glocal', i.e. think globally but act locally .

### **Tips for a successful SWOT analysis**

- Keep SWOT short and simple, but remember to include important details. For example, if the staff in an organisation is a strength, include specific details, such as specific skills and experience possessed by the concerned staff members, as well as why they are strengths and how they can help to meet the goals of the organisation.
- When SWOT analysis is completed, prioritise the results by listing them in order of the most significant factors that affect the business to the least.
- Obtain multiple perspectives for those SWOT analysis that have been given a final shape and implemented; Ask for input from various stakeholders like employees, suppliers, customers and partners.
- Apply SWOT analysis to a specific issue, rather than to the entire business. Then after conduct separate SWOT analysis on individual issues and combine them.
- Look at where business is now and think about where it might be in the future.
- Consider the competitors and have a realistic assessment of the organisation's competitive strength in the industry.

- Think about the factors that are essential to the success of an organisation and the products or any other services, like superior after sale services, free delivery, warranty / guarantee etc. an organisation can offer customers that may exert an impact on the competitors, in order to have a competitive advantage. It is essential to take into consideration the factors relating to competitive advantage while conducting the SWOT analysis.
- Use goals and objectives from overall business plan in SWOT analysis.

### **Conclusion**

The business world is highly competitive, traditional industries are getting shocked by the rise of the technology businesses, thousands of start-ups blooming every day while thousands of businesses withering every day. The key to the survival of the business is the strategy an organisation adopts and implements.

SWOT analysis helps the organisation to specify the objectives of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objectives. Identification of SWOT is important because they may be of immense assistance in chalking out the business plan to meet the objectives of the business.

The significance of SWOT analysis is that it provides a good way for companies to examine both positive and negative attributes within a single analysis, determining how best to compete in the market at large. SWOT assists the management to map out the best possible opportunity well in advance which helps business to begin planning to deliver a quality solution and to make a marketing plan.

### Case Study-4

#### FUNCTIONAL LEVEL STRATEGIES – An Effective Tool To Achieve Organizational Goals

In 2017, a chain of coffee retailer, closed a decade of astounding financial performance. Sales had increased from \$700 million to \$8 billion and net profits from \$40 million to \$600 million. In 2017, The Company' was earning a return on invested capital of 25 %, which was impressive by any measure, and the company was forecasted to continue growing earnings and maintain high profits through to the end of the decade. How did this come about?

Thirty years ago Company was a single store in its local Market selling premium roasted coffee. Today it is a global roaster and retailer of coffee with more than 12,000 retail stores, some 3,000 of which are to be found in 40 countries outside its Home Country. The Company set out on its current course in the 1980s when the company's director of marketing, Srinivas Santharaman, came back from a trip to Italy enchanted with the Italian coffeehouse experience. Srinivas Santharaman, who later became CEO, persuaded the company's owners to experiment with the coffeehouse format – and the Coffee House experience was born.

Santharaman basic insight was that people lacked a “third place” between home and work where they could have their own personal time out, meet with friends, relax, and have a sense of gathering. The business model that evolved out of this was to sell the company's own premium roasted coffee, along with freshly brewed espresso- style coffee beverages, a variety of pastries, coffee accessories, teas, and other products, in a coffeehouse setting. The company devoted, and continues to devote, considerable attention to the design of its stores, so as to create a relaxed, informal and comfortable atmosphere.

Underlying this approach was a belief that Santharaman was selling far more than coffee— it was selling an experience. The premium price that the Company charged for its coffee reflected this fact. From the outset, Santharaman also focused on providing superior customer service in stores. Reasoning that motivated employees provide the best customer service, Company executives developed employee hiring and training programs that were the best in the restaurant industry. Today, all Company's employees are required to attend training classes that teach them not only how to make a good cup of coffee, but also the service oriented values of the company. Beyond this, Company provided progressive compensation policies that gave even part- time employees stock option grants and medical benefits – a very innovative approach in an industry where most employees are part time, earn minimum wage, and have no benefits.

Unlike many restaurant chains, which expanded very rapidly through franchising arrangement once they have established a basic formula that appears to work, Santharaman believed that Company needed to own its stores. Although, it has experimented with franchising arrangements in some countries, and some situations its home country such as at airports, the company still prefers to own its own stores wherever possible.

This formula met with spectacular success in the Country, where Company went from obscurity to one of the best known brands in the country in a decade. As it grew, Company found that it was generating an enormous volume of repeat business.

Today the average customer comes into a Company' store around 20 times a month. The customers themselves are a fairly well- healed group – their average income is about \$85,000.

As the company grew, it started to develop a very sophisticated location strategy. Detailed demographic analysis was used to identify the best locations for Company's stores. The company expanded rapidly to capture as many premium locations as possible before imitators. Astounding many observers, Company would even sometimes locate stores on opposite corners of the same busy street— so that it could capture traffic going different directions down the street.

By 2005 with almost 700 stores across the Country, Starbucks began exploring foreign opportunities. First stop was Japan, where Starbucks proved that the basic value proposition could be applied to a different cultural setting (there are now 600 stores in Japan). Next, Company has embarked upon a rapid development strategy in Asia and Europe. By 2011, the magazine Bigdemandchannel named Company one of the ten most impactful global brands, a position it has held ever since. But this is only the beginning. In late 2016, with 12,000 stores in operation, the company announced that its long term goal was to have 40,000 stores worldwide. Looking forward, it expects 50% of all new store openings to be outside of its Home Country.

## Case Study-5

### USING AIMS AND OBJECTIVES TO CREATE A BUSINESS STRATEGY

#### Introduction

When preparing a strategy for success, a business needs to be clear about what it wants to achieve. It needs to know how it is going to turn its desires into reality in the face of intense competition. Setting clear and specific aims and objectives is vital for a business to compete. However, a business must also be aware of why it is different to others in the same market. This case study looks at the combination of these elements and shows how Kellogg's prepared a successful strategy by setting aims and objectives linked to its unique brand.

#### Branding

One of the most powerful tools that organisations use is branding. A brand is a name, design, symbol or major feature that helps to identify one or more products from a business or organisation. The reason that branding is powerful is that the moment a consumer recognises a brand, the brand itself instantly provides a lot of information to that consumer. This helps them to make quicker and better decisions about what products or services to buy.

#### Product positioning

Managing a brand is part of a process called product positioning. The positioning of a product is a process where the various attributes and qualities of a brand are emphasised to consumers. When consumers see the brand, they distinguish the brand from other products and brands because of these attributes and qualities.

Focused on Kellogg's, this case study looks at how aims and objectives have been used to create a strategy which gives Kellogg's a unique position in the minds of its consumers.

#### The Market

The value of the UK cereals market is around £1.1 billion per year. Kellogg's has a 42% market share of the value of the UK's breakfast cereal market. The company has developed a range of products for the segments within this market, targeted at all age groups over three years old. This includes 39 brands of cereals as well as different types of cereal bars. Consumers of cereal products perceive Kellogg's to be a high quality manufacturer.

### Developing an aim for a business

Research undertaken for Kellogg's, as well as comprehensive news coverage and growing public awareness, helped its decision-takers to understand the concerns of its consumers. In order to meet these concerns, managers realised it was essential that Kellogg's was part of the debate about health and lifestyle. It needed to promote the message 'Get the Balance Right'.

Decision-takers also wanted to demonstrate Corporate Responsibility (CR). This means that they wanted to develop the business responsibly and in a way that was sensitive to all of Kellogg's consumers' needs, particularly with regard to health issues. This is more than the law relating to food issues requires. It shows how Kellogg's informs and supports its consumers fully about lifestyle issues.

Any action within a large organisation needs to support a business direction. This direction is shown in the form of a broad statement of intent or aim, which everybody in the organisation can follow. An aim also helps those outside the organisation to understand the beliefs and principles of that business. Kellogg's aim was to reinforce the importance of a balanced lifestyle so its consumers understand how a balanced diet and exercise can improve their lives.

### Creating Business Objectives

Having set an aim, managers make plans which include the right actions. These ensure that the aim is met. For an aim to be successful, it must be supported by specific business objectives that can be measured .

Each of the objectives set for Kellogg's was designed to contribute to a specified aim. Kellogg's objectives were to:

- encourage and support physical activity among all sectors of the population.
- use resources to sponsor activities and run physical activity focused community programmes for its consumers and the public in general.
- increase the association between Kellogg's and physical activity.
- use the cereal packs to communicate the 'balance' message to consumers.
- introduce food labelling that would enable consumers to make decisions about the right balance of food.

### **SMART objectives**

Well-constructed objectives are SMART objectives. They must be:

- Specific
- Measurable
- Achievable or Agreed
- Realistic
- Time-related.

Each of the objectives set by Kellogg's was clear, specific and measurable. This meant Kellogg's would know whether each objective had been achieved. The objectives were considered to be achievable and were communicated to all staff. This made sure that all staff agreed to follow certain actions to achieve the stated aims. The objectives were set over a realistic time-period of three years. By setting these objectives Kellogg's set a direction that would take the business to where it wanted to be three years into the future.

### **Strategy**

Having created an aim and set objectives, Kellogg's put in place a process of planning to develop a strategy and a series of actions. These activities were designed to meet the stated aim and range of business objectives.

### **Supporting improved food labelling**

In the area of food labelling, Kellogg's introduced the Kellogg's GDAs to its packaging, showing the recommended Guideline Daily Amounts. These GDAs allow consumers to understand what amount of the recommended daily levels of nutrients is in a serving of Kellogg's food.

Working with a group of other major manufacturers, Kellogg's introduced a new format in May 2006, with GDAs clearly identified on brand products and packages. These GDAs have been adopted by other manufacturers and retailers such as Tesco.

### **Sponsoring swimming programmes**

For many years Kellogg's has been working to encourage people to take part in more physical activity. The company started working with the Amateur Swimming Association (ASA) as far back as 1997, with whom it set some longer term objectives. More than twelve million people in the UK swim regularly.

Swimming is inclusive as it is something that whole families can do together and it is also a life-long skill. The ASA tries to ensure that 'everyone has the opportunity to enjoy swimming as part of a healthy lifestyle'. As a lead body for swimming, the ASA has been a good organisation for Kellogg's to work with, as its objectives match closely those of the company.

Kellogg's became the main sponsor of swimming in Britain. This ensured that Kellogg's sponsorship reached all swimming associations so that swimmers receive the best possible support. Kellogg's sponsors the ASA Awards Scheme with more than 1.8 million awards presented to swimmers each year. This relationship with the ASA has helped Kellogg's contribute in a recognisable way to how individuals achieve an active healthy balanced lifestyle. This reinforces its brand position.

### **Promoting exercise**

Working with the ASA helped Kellogg's set up links with a number of other bodies and partners. For example, Sustrans is the UK's leading sustainable transport organisation. Sustrans looks at the different ways that individuals can meet their transport needs in a way that reduces environmental impact. It is the co-ordinator of the National Cycle Network.

This provides more than 10,000 miles of walking and cycle routes on traffic-free paths throughout the UK. To meet its business objective of encouraging and supporting physical activity Kellogg's is developing a promotion for a free cyclometer which will be advertised on television in 2007.

Walking is one of the easiest ways for people to look after themselves and improve their health. To encourage people to walk more often, Kellogg's has supplied a free pedometer through an offer on All-Bran so that individuals can measure their daily steps.

During 2006 more than 675,000 pedometers were claimed by consumers. From a research sample of 970 consumers, around 70% said they used the pedometer to help them walk further. Kellogg's Corn Flakes Great Walk 2005 raised more than £1 million pounds for charity on its way from John O'Groats, through Ireland and on to Land's End. In 2004, 630,000 people took part in the Special K 10,000 Step Challenge.

### **Kellogg's in the community**

Kellogg's has also delivered a wide range of community programmes over the last 20 years. For example, the Kellogg's Active Living Fund encourages voluntary groups to run physical activity

projects for their members. The fund helps organisations like the St John's Centre in Old Trafford which runs keep-fit classes, badminton and table tennis.

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Since 1998 Kellogg's has invested more than £500,000 to help national learning charity ContinYou to develop nationwide breakfast club initiatives. These include start-up grants for new clubs, the Breakfast Club Plus website, the Kellogg's National Breakfast Club Awards and the Breakfast Movers essential guide.

Breakfast clubs are important in schools because they improve attendance and punctuality. They help to ensure that children are fed and ready to learn when the bell goes. Kellogg's promotes breakfast via these clubs, not Kellogg's breakfast cereals. Together Kellogg's and ContinYou have set up hundreds of breakfast clubs across the UK, serving well over 500,000 breakfasts each year.

### **Communicating the Strategy**

Effective communication is vital for any strategy to be successful. Kellogg's success is due to how well it communicated its objectives to consumers to help them consider how to 'Get the Balance Right'. It developed different forms of communication to convey the message 'eat to be fit' to all its customers.

### **External communication**

External communication takes place between an organisation and the outside world. As a large organisation, Kellogg's uses many different forms of communication with its customers.

For example, it uses the cartoon characters of Jack & Aimee to communicate a message that emphasises the need to 'Get the Balance Right'. By using Jack & Aimee, Kellogg's is able to advise parents and children about the importance of exercise. These characters can be found on the back of cereal packets. The company has also produced a series of leaflets for its customers

on topics such as eating for health and calcium for strong bones. These are available on its website.

### **Internal communication**

Internal communication takes place within an organisation. Kellogg's uses many different ways to communicate with its employees. For example, Kellogg's produces a house magazine which is distributed to everybody working for Kellogg. The magazine includes articles on issues such as getting the balance of food and exercise right. It also highlights the work that Kellogg's has undertaken within sport and the community. To encourage its employees to do more walking, Kellogg's supplied each of its staff with a pedometer. Such activities have helped Kellogg's employees to understand the business objectives and why the business has created them. It also shows clearly what it has done to achieve them.

### **Conclusion**

Research undertaken by Kellogg's as part of the 2005 Family Health Study emphasised that a balanced diet as well as regular exercise were essential for good all round health and wellbeing. Kellogg's is demonstrating good corporate responsibility by promoting and communicating this message whenever it can and by investing money in the appropriate activities. This was the broad aim. To achieve this aim, Kellogg's set out measurable objectives. It developed a business strategy that engaged Kellogg's in a series of activities and relationships with other organisations. The key was not just to create a message about a balanced lifestyle for its

## Case Study-6

### MCDONALD'S CORPORATION MICHAEL PORTER FIVE FORCES MODEL

#### Objective:

The objective of this case is to understand the application of competitive forces prevailing in the burger market.

#### Introduction:

McDonald's Corporation expands internationally through strategies that account for the external factors in the industry environment, as identifiable through a Five Forces analysis of the business. Michael E. Porter's Five Forces Analysis model provides valuable information to support strategic management, especially in addressing relevant issues in the external environment of the business. These issues are based on external factors that represent the degree of competitive rivalry in the industry, the bargaining power of customers or buyers, the bargaining power of suppliers, the threat of substitution, and the threat of new entrants.

#### Application of Porter's Five Forces Model

In this Five Forces analysis of McDonald's, the forces are mainly within the fast food restaurant industry. As the leading restaurant chain business in the world, the company is an example of effective strategic management, especially in dealing with competition in different markets worldwide. This status shows that McDonald's strategic direction is appropriate to the external factors, such as the ones identified in this Five Forces analysis.

In addressing the external factors determined in this Five Forces analysis, McDonald's Corporation ensures that its strategies are appropriate to combat external forces. The company faces pressure from various competitors, including large multinational firms and small local businesses. McDonald's Corporation's generic strategy and intensive growth strategies satisfy business needs in competing against such firms as Burger King, Wendy's, Subway, and Dunkin' Donuts, as well as food and beverage businesses like Starbucks Coffee Company.

In this Five Forces analysis, McDonald's experiences the effects of external factors at varying intensities, based on the variations among markets around the world. For example, the U.S. market presents a competitive landscape different from that of the European market.

The company must implement strategies to meet these external factors and minimize their negative impacts. Considering the combination of market conditions, this Porter's Five Forces analysis of McDonald's establishes the following intensities of the five forces:

1. Competitive rivalry or competition – High
2. Bargaining power of buyers or customers – High
3. Bargaining power of suppliers – Low
4. Threat of substitutes or substitution – High
5. Threat of new entrants or new entry – Moderate.

### Competitive Rivalry or Competition with McDonald's (High)

McDonald's faces tough competition because the fast food restaurant market is saturated. This element of the Porter's Five Forces analysis model tackles the effects of competing firms in the industry environment. In McDonald's case, the strong force of competitive rivalry is based on the following external factors:

- High number of firms – Strong Force
- High aggressiveness of firms – Strong Force
- Low switching costs – Strong Force

The fast food restaurant industry has many firms of various sizes, such as global chains like McDonald's and local mom-and-pop fast food restaurants. This external factor strengthens the force of rivalry in the industry. Also, the Five Forces analysis model considers firm aggressiveness a factor that influences competition. In this business case, most medium and large firms aggressively market their products. This factor increases the intensity of competitive rivalry that McDonald's Corporation experiences. In addition, low switching costs make it easy for consumers to transfer to other restaurants, such as Wendy's and Burger King. This external factor adds to the force of competition. Thus, this element of the Five Forces analysis of McDonald's shows that competition is among the most significant external forces for consideration in the strategic management of the business.

### Bargaining Power of McDonald's Customers/Buyers (High)

McDonald's must address the power of customers on business performance. This element of the Five Forces analysis deals with the influence and demands of consumers, and how their decisions impact businesses. In McDonald's case, the following are the external factors that contribute to the strong bargaining power of buyers:

- Low switching costs – Strong Force
- Large number of providers – Strong Force
- High availability of substitutes – Strong Force

The ease of changing from one restaurant to another (low switching costs) enables consumers to easily impose their demands on McDonald's. In the Five Forces analysis model, this external factor strengthens the bargaining power of customers. In relation, because of market saturation, consumers can choose from many fast food restaurants other than McDonald's. This condition makes the bargaining power of buyers a strong force in affecting the company's external environment. Moreover, the availability of substitutes is relevant in this external analysis. In this case, the availability of many substitutes adds to the bargaining power of customers. For example, substitutes include food kiosks and outlets, and artisanal bakeries, as well as microwave meals and foods that one could cook at home. Based on this element of Porter's Five Forces analysis, it is crucial to develop strategies to increase customer loyalty, especially in the face of the sociocultural trends outlined in the PESTEL/PESTLE analysis of McDonald's Corporation.

### Bargaining Power of McDonald's Suppliers (Low)

Suppliers influence McDonald's in terms of the company's production capacity based on the availability of raw materials. This element of the Five Forces analysis model shows the impact of suppliers on firms and the fast food restaurant industry environment. In McDonald's case, the weak bargaining power of suppliers is based on the following external factors:

- Large number of suppliers – Weak Force
- Low forward vertical integration of suppliers – Weak Force
- High overall supply – Weak Force.

The large population of suppliers weakens the effect of individual suppliers on McDonald's Corporation. This weakness is partly based on the lack of strong regional and global alliances

among suppliers. In relation, most of McDonald's suppliers are not vertically integrated. This means that they do not control the distribution network that transports their products to firms like McDonald's. In Porter's Five Forces analysis model, such low vertical integration weakens the bargaining power of suppliers. Also, the relative abundance of materials like flour and meat reduces individual suppliers' influence on the company. Thus, this element of the Five Forces analysis shows that external factors combine to create the weak supplier power, which is a minimal issue in strategic management. McDonald's corporate social responsibility strategy and stakeholder management approaches help in addressing this force from suppliers.

### Threat of Substitutes or Substitution (High)

Substitutes are a significant concern for McDonald's Corporation. This element of Porter's Five Forces analysis model deals with the potential effects of substitutes on firm growth. In McDonald's case, the following external factors make the threat of substitution a strong force:

- High substitute availability – Strong Force
- Low switching costs – Strong Force
- High performance-to-cost ratio of substitutes – Strong Force.

There are many substitutes to McDonald's products, such as products from artisanal food producers and local bakeries. Also, consumers can cook their food at home. In the Five Forces analysis model, this external factor contributes to the strength of the threat of substitution in the fast food service industry. In addition, it is easy to shift from McDonald's to substitutes because of the low switching costs. For example, shifting from the company to substitutes typically involves insignificant or minimal disadvantages, such as slightly higher costs per meal in some cases, or additional time consumption for food preparation. Moreover, substitutes are competitive in terms of quality and customer satisfaction (high performance-to-cost ratio). In this element of the Five Forces analysis of McDonald's Corporation, external factors make substitutes a major strategic issue that requires approaches like product quality improvement. In relation, the company's efforts include encouraging people to eat in fast food restaurants instead of resorting to substitutes. Such efforts are evident in McDonald's corporate mission and vision statements.

### Threat of New Entrants or New Entry (Moderate)

New entrants can impact McDonald's market share and financial performance. This element of the Five Forces analysis refers to the effects of new players on existing firms. In McDonald's case, the moderate threat of new entry is based on the following external factors:

- Low switching costs – Strong Force
- Highly variable capital cost – Moderate Force
- High cost of brand development – Weak Force.

The low switching costs allow consumers to easily move from McDonald's toward new fast food restaurant companies. In Porter's Five Forces analysis model, this external factor strengthens the threat of new entrants. Also, variable capital costs of establishing a new restaurant empowers new businesses to enter the global fast food restaurant industry. For example, small restaurant businesses involve low capital costs compared to major corporations in the market. This external factor leads to the moderate threat of new entry against McDonald's. On the other hand, it is expensive to build a strong brand in the industry. Many small and medium businesses lack the resources to create a strong brand to match the McDonald's brand. Thus, the external factors in this element of the Five Forces analysis shows that the threat of new entrants is a considerable but not the most important strategic issue.

### Recommendations:

The results of this Five Forces analysis show that McDonald's Corporation needs to prioritize the strategic issues related to competition, consumers, and substitutes, all of which exert a strong force on the company and its external environment. The other forces (the bargaining power of suppliers and the threat of new entrants) are also significant to the business, although to a lower extent. In this regard, a recommendation is to strengthen the business by building on the strengths of the business. The company's managers must focus on reducing the effects of competitors and substitutes on revenues and market share. Studying the McDonald's marketing mix or 4Ps partly supports such effort. Also, it is recommended that McDonald's make its product innovation process more aggressive. While the food service industry is saturated with aggressive firms, new products can attract new customers and retain more customers. In relation, based on this Porter's Five Forces analysis, McDonald's can implement higher quality standards to address the forces of competition and substitution.

### Case Study-7

#### ASHWAMEDHA RUDRAPEETH LIMITED

As the world is speedily inclining towards pure and organic products, the most ancient science of medicine, healthcare, personal care, food and beverages, Ayurveda is reliving its glory. Many recent studies and report clearly explain that the revival of Ayurveda is not restricted to India and China but spreading across all continents, Ayurveda is successful in creating domino impact all across the globe.

As per a market research, the Indian Ayurveda market is all set to register 16% growth (CAGR) till 2025. At present, the size of the domestic market is Rs. 30,000 Crores, and Ayurveda's market penetration is increasing in both rural and urban areas. A 2019 report also conveys that 77% of Indian households are using Ayurvedic products as against 69% in 2015. The major chunk of the domestic revenue (75%) comes from the sale of Ayurveda products whereas services/consulting contribute only 25% to the total business. The industry whose market size was USD 3.4 billion in 2015 is expected to reach USD 9.7 billion by 2024. Growing awareness among masses about potential side effects of present day modern medicine, healthcare, personal care, food and beverages on various media platforms has compelled them to switch to natural safer, and holistic alternative, Ayurveda. The future of Ayurveda is looking fabulous as more and more players are entering the market with innovative products, quality packaging, and strategic marketing activities. Earlier, Ayurvedic companies failed to impress customers with presentation and promotional activities, but the new generation of entrepreneurs is smartly working on these aspects to partake in growing market competition.

One of the major companies in Indian Ayurvedic Industry, Ashwamedha Rudrapeeth Limited (ARL) was founded by Rudra and his friend. ARL is consumer product giant that is beating the world's most recognised FMCG companies in India. ARL has managed to expand an empire so big that it is shaking the fast-moving consumer goods industry in India to its core. It is no mean achievement for someone like Rudra, who does not have any formal education on brand and marketing could beat world class brand in a very short span of 10 years. The answer lies at the core of building a brand – being “Purpose” driven. The objective of ARL was to develop a holistic approach to improve the quality of life of all beings, world over. It was conceived with the objective of amalgamating the ancient wisdom of the Science of Ayurveda with the modern

scientific techniques of industrial management. Its intention was to distribute quality, tested and hygienic products with wide ranging effects to the largest section of populace at reasonable prices enabling the common citizen to avail their benefits. It also aimed to establish Ashwamedha Ayurveda as a science based, inventional, problem-solving, natural and trusted for healthy lives.

Rudra and his friend knew that they have created a captive market with their efforts since last one and a half decade, which values health, yoga, pranayama and above all, Rudra has become brand ambassador for ARL. This captive market is health conscious, looks out for affordable products, believes in the philosophy of swadeshi (home grown) and above all considers Rudra as their idol. When Ashwamedha Ayurveda launched its products in the Indian retail sector, this captive market was among the first to buy and use its products. This captive market developed instant loyalty to Brand Ashwamedha. The role of this captive market was not only limited to buying, using and spreading good word of mouth about ARL products but they also became partners with ARL by becoming their franchisees. In the initial days' majority of the franchisees established by ARL came from this captive market. These franchisees along with the distribution of products also advertised and promoted ARL products in their respective regions, hence establishing brand Ashwamedha firmly into the mind of local populace. When compared to an FMCG multinational which uses a traditional distribution channel, ARL followed a different distribution strategy, effective in catapulting it to its present position. Presently, Ashwamedha's turnover stands close to Rs.7000 Crore with a mammoth goal of reaching close to Rs.10,500 Crore in Financial Year ending 2024 and close to Rs. 21,000 Crore by Financial Year ending 2025. Ashwamedha Ayurveda's value creation and delivery strategy encompassing both the Strategic and Tactical Marketing is instrumental in making it a force to reckon with in the Indian FMCG industry.

ARL's target segment comprise of health-conscious people who prefer "value for money" natural products. ARL has products targeted at children (health drinks) and elderly people (some ayurvedic preparations). Almost all products of ARL are affordable (at a price 15%-30% lower than the competition), hence the income segmentation strategy has worked.

Initially, the products were targeted at lower and middle-income groups but with the present turnover of close to a billion dollars this fiscal, it is evident that ARL's products have buyers not

only from the lower income and middle-income segments but also from health conscious upper-middle and upper-income segments. These two segments have found value in ARL's natural and ayurvedic products. ARL's market targeting strategy is that of "Selective Specialization" as they cater to a large segment in their market but not the entire market. The company is planning to venture into packaged cow milk, 'Khadi' and animal feed this year. Ashwamedha uses natural ingredients and herbs to manufacture its products. They have state of the art Research and Development (R&D) facility, involved in the latest research on products which can benefit their target market. It has few star products in its product portfolio. Ashwamedha's cow ghee, Shampoo, Hair care and oral care products have a combined turnover more than Rs.1500 Crore. One of the reasons Ashwamedha Ayurveda has been able to garner market share so rapidly is because of low lead times between the product concept and product launch. Ashwamedha Ayurveda's R & D team has been able to produce high quality products at low price in short duration. Ashwamedha Ayurveda's products are generally economically priced except for Ashwamedha Cow Ghee. This is sold at a premium in the market, every other product has a market penetration pricing strategy. The pricing strategy has helped Ashwamedha establish itself in the marketplace. Established brands which did not consider it as a competition initially, are now forced to sit and take note of it. Its core values are driven by Rudra's beliefs and hence there is no difference between the two. What drives Rudra, drives brand Ashwamedha Ayurveda.

Ashwamedha uses multiple distribution channels to cater to the market. Company has 2 Lakh outlets in India. ARL has a strong presence in the market through its 1200 Chikitsalayas, 2500 Arogya Kendras. For Rural market they have got 7000 stores in villages and 5600 marketing vehicles which roams across all villages. ARL also plans to establish 250 mega stores in tier 1 and tier 2 cities in next 3 years. ARL also has a tie-up with behemoths of modern retail Groups, which carry its entire product range in their exclusive retail chain across all stores in the country. ARL has embraced the e-commerce mode of retailing products through [Ashwamedhaayurved.net](http://Ashwamedhaayurved.net) and has a strong presence in the modern retail format. Rudra through his Yoga Camps not only talks about the different Yoga postures and their benefits in curing the diseases but also about the Ashwamedha Ayurved products aiding in a healthy lifestyle and a disease-free life. This is one of the most potent promotion tools used by ARL. Word of mouth communication certainly has a higher believability factor compared to other mediums of advertising. Rudra has created a

strong community of loyalists through the efforts of Ashwamedha Yogapeeth Trust and Yoga Camps, which speak very high of Rudra and Ashwamedha products. Recently, Ashwamedha Ayurveda has seen a spurt in its promotional outlay. Ashwamedha Ayurveda has its channel on YouTube which features more than 1000 videos on Yoga and on product information.

Ashwamedha has made disruptive progress in the FMCG sector. Within a span of less than 10 years, it has displaced ayurvedic market leaders and has become synonymous with ayurvedic products. Rudra's charisma has pushed Ashwamedha to grow over 10 times in a span of less than 10 years. The FMCG giants are also taking steps to check its advancements. However, now it has gained public attention in the market and there is overwhelming demand for its products, it will be difficult for them to win back their lost market shares.



## CH 18 – PROJECT EVALUATION

Project evaluation is a systematic and objective assessment of an ongoing or completed project. The aim is to determine the relevance and level of achievement of project objectives, development effectiveness, efficiency, impact and sustainability.

### FACTORS AFFECTING THE COST OF PROJECT

Cost estimation in project management is the process of forecasting the financial and other resources needed to complete a project within a defined scope.

- a) Material Cost
- b) Impact of Labor Wage on Project Cost
- c) Impact of Method of Construction on Project Cost
- d) Impact of Variation Orders on Project Cost
- e) Impact of Delay on Cost Overrun in Project cost
- f) Nature of Construction site
- g) Nature of Structure
- h) Project quality
- i) Regulator and insurance requirements
- j) Size of the project

### Determination of the Project Cost

It is of utmost importance to know the investment to be made on the different heads of the assets, to arrive at the total capital outlay on the project. The different heads under which investments are to be made for a manufacturing plant may be presented as under:

- |   |   |
|---|---|
| ➤ Land  | ➤ (Giving break up for indigenous and imported separately)    |
| ➤ Site Development  |   |
| ➤ Civil Construction Work (Factory, Office and other civil structure) including building electrification) | ➤ Plant Erection and installation expenses                    |
| ➤ Plant and Machineries   | ➤ Plant Electrification including cost of captive power plant |

- Other manufacturing assets like dies, moulds, materials handling equipment, Effluent Treatment Plant, etc.
- Technical Know-how fees, if any
- Deposits
- Other assets like furniture, office equipment, computers, vehicles, etc.
- Preliminary Expenses
- Preoperative Expenses
- Contingencies
- Total Capital Cost
- Margin money for Working Capital
- Total Project Cost

### PROJECT APPRAISAL

In narrow sense, project appraisal means comparing or assessing the project's credibility and viability to know the authenticity of a project. It is an important activity to evaluate the key factors of the project to check the viability of a project proposal.

In broader sense, Project Appraisal is a consistent process of reviewing a given project and evaluating its content to approve or reject this project, through analyzing the problem or need to be addressed by the project, generating solution options (alternatives) for solving the problem, selecting the most feasible option, conducting a feasibility analysis of that option, creating the solution statement, and identifying all people and organizations concerned with or affected by the project and its expected outcomes.

### Importance of Project Appraisal

Project appraisal is an important intellectual and systematic exercise carried out by the Financial Institutions/Banks to consider the:

- Credit worthiness of the proposal;
- Critically analyse various assumptions made in the project report with respect to the cost and profitability; and
- Other factors affecting the viability of the project such as plant capacity, location of the business unit, proximity to raw materials, manpower, power and other utilities covered under both external and internal economies of scale.

### Key Parameters before Giving Sanction for Project Funding

- **Management Appraisal:** Whether promoters can manage the Project successfully and infuse the required equity capital into the project.
- **Technical Appraisal:** Whether the necessary resources are available for the manufacturing of products.
- **Marketing Appraisal:** Whether products can be sold in the market and can surmount the competition.
- **Financial Appraisal:** Whether a project can make profit to meet the financial obligations without any default.
- **Social Benefit Appraisal:** Whether it is in line with societal expectations.

### Crucial Aspects for Sanctioning of Project Funding

- Promoter's background, experience and their managerial skills.
- Technology adopted and its suitability to the local environment.
- Availability of raw materials and other resources.
- Scope of market for the product.
- Cost structure and expected profits in light of the cost structure.
- Impact of the project on the society in terms of employment generation, use of local resources and environmental impact, etc.
- Impact on foreign exchange reserves of the country due to export of the finished products and/or import of raw materials.
- Compliance of the Government policies and regulations.
- Acceptability of the risk level with reference to political, social, economic, technological and legal environment.
- Greenfield / Brown field / ESG impact and consequent Tax holidays / implications.
- The detailed appraisal of all the above factors will help lenders to ascertain the risk involved in the project and shall help in forming opinion whether to extend the financial support or to decline.

## Feasibility Study

<i>S. No</i>	<i>Type of feasibility</i>	<i>Reason for conducting study</i>
1.	<i>Legal Feasibility</i>	<i>Performed to understand if the proposed plan conforms to the legal and ethical requirements.</i>
2.	<i>Economic Feasibility</i>	<i>Involves a cost benefits analysis to identify how well, or how poorly, a project will be concluded.</i>
3.	<i>Technical Feasibility</i>	<i>Process of validating the technical resources and capabilities to convert the ideas into working systems.</i>
4.	<i>Operational Feasibility</i>	<i>Performed to understand well a proposed system solves the problems.</i>
5.	<i>Scheduling Feasibility</i>	<i>Measure of how reasonable the project duration is.</i>

## DUE DILIGENCE IN PROJECT FINANCE

- *Assessment of promoter history and background;*
- *Evaluation of the company and project business model;*
- *Legal due diligence;*
- *Detailed Analysis of financial statements of the project and its and capital structure;*
- *Determine major risks associated with the project;*
- *Analysis of tax effects;*
- *Credit analysis and evaluation of loan terms;*
- *Project valuation.*

## Legal Feasibility and Due Diligence

*The due diligence process should ensure that the project is procured in accordance with current legal requirements, both in domestic and international terms, and that key aspects of the project have been analyzed from a legal perspective.*

1. **Analysis of the applicable legal framework** - This includes the identification and analysis of pertinent laws and regulations that may affect the project. Some of the legal and regulatory aspects that need to be reviewed are as under:

- The enabling Project legislations, especially looking for particular requirements imposed on projects, such as minimum capital value and maximum contractual duration;
- The public procurement law which may be partially applicable, especially in search of general contractual and procurement guidelines;
- Legislation referring to foreign investment, property, and labor issues;
- Legislation related to land use planning and environmental laws;
- Legal aspects of dispute resolution and intellectual property;
- Legislation relating to the granting of ownership/control of public assets or of responsibility for the delivery of public services to third parties;
- Legal treatment of revenue sources associated with the concession.

2. **Assessment of the legal readiness of the procuring authority** - Although this particular issue may have already been checked, it is important to review at this stage whether the promoting authority and other institutions involved have the legal authority to launch the project or proceed with the approval as needed. The legal empowerment issues also apply, in some countries, to the formal responsibility for the appraisal exercises.

3. **In-depth legal analysis of the main project issues** - Large infrastructure projects often have particularities with significant legal implications. It is thus very important during appraisal to assess the adherence of several aspects of the project to the general legal framework. Particular attention should be given to the legal feasibility of:

- The financial aspects of the project;
- Issues considered relevant to commercial viability, including the bankability of the project;
- The use of land and existing assets;
- Potential alternative ownership claims on the land
- Rights of other users
- Employment issues;
- Tax and accounting issues considered in the financial model.

### Technical Feasibility and Due Diligence

Generally the following types of technical due diligence is undertaken:

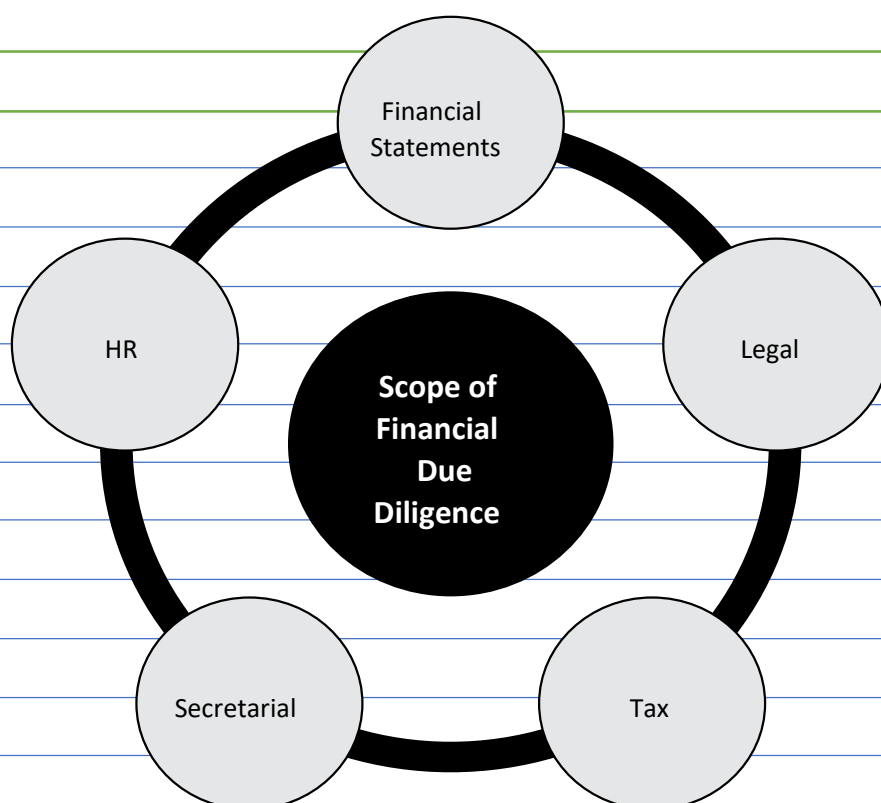
- Infrastructure functionality and performance
- Architectural peer review process for functionality
- Compliance with industry standards and regulations
- Equipment capabilities and performance
- Proof of concept testing
- Facilities that support project needs
- Data that supports the implementation of the technology
- Operational risk assessments
- Systems and applications Integration.

Many a time especially for large project, Banks insist for the techno viability study to be carried by their approved consultant. The aspects which are normally find place in technical details are as follows:

- a) Manufacturing Process and Technology
- b) Installed Capacity
- c) Location
- d) Raw Material availability and sources
- e) Power and Utilities
- f) Manpower Requirements
- g) Environmental Clearance
- h) Other Aspects

### Financial Feasibility and Due Diligence

A very important investigative analysis of the financial performance of a company, somewhat similar to an audit, financial due diligence is conducted by outsiders looking to gain a better understanding of the financial situation that the company finds itself in, and its prospects for the future.



### Checklist for Financial Due Diligence Report

- Detailed Information on the Company Finances
- Particulars of the Company Assets
- Data on Clients, Partners, and Suppliers
- Statistics on the employees of the Business
- Determination of the Project Cost
- Means or sources of Finance
- Profitability Estimates
- Projected Balance Sheet
- Projected Cash Flow/Fund Flow
- Financial Risk assessment.
  - Ratio Analysis
  - Debt Service Coverage Ratio (DSCR)
  - Break Even Analysis
  - Sensitivity Analysis
  - Payback Period

- Internal Rate of Return (IRR)
- SWOT Analysis

### ROLE OF A COMPANY SECRETARY

A Practicing Company Secretary plays an important role in the entire process of project report preparation, appraisal, and funding and project implementation. Due to expertise in corporate funding, compliances, governance and legal understanding and due diligence, Company Secretaries can provide professional services in the following areas:

Area of Practice*	Professional services
In Formation	<ol style="list-style-type: none"> <li>1. To obtain DIN of proposed directors of the project</li> <li>2. To ascertain the availability of name for the new company</li> <li>3. To prepare the Memorandum and Articles of Association</li> <li>4. To incorporate the Company/LLP</li> </ol>
In Registration & Licence	<ol style="list-style-type: none"> <li>1. To obtaining Udyam Registration for MSME status</li> <li>2. To obtain Industrial Entrepreneurs Memorandum from Ministry of Commerce and Industry, Government of India for large scale registration</li> <li>3. To obtain industrial licence from Government of India</li> </ol>
In Raising Fund	<ol style="list-style-type: none"> <li>1. To Prepare feasibility report for financial assistance from FIs/Banks</li> <li>2. Representing case before the FIs/Bank and doing Liaison and follow up win FIs/ Banks</li> <li>3. To obtain Credit ratings from external rating agencies</li> <li>4. To raise the capital from capital market or Venture Capital</li> </ol>
Other Corporate Services	<ol style="list-style-type: none"> <li>1. To draft collaboration agreement and/or Shareholders Agreement, if required</li> <li>2. To provide FEMA related advice on FDI and ECB guidelines</li> <li>3. To carry on due diligence</li> <li>4. To obtain Environment Clearance from the Concerned department</li> </ol>

Corporate Compliances	<ol style="list-style-type: none"> <li>1. To increase the authorised capital and comply with the statutory requirement for further issue of shares</li> <li>2. To comply with the statutory requirement of accepting the unsecured loans and deposits and issue of debentures</li> <li>3. To suggest proper capital structure</li> <li>4. To allot shares and to issue share certificates</li> <li>5. To help in executing the loan and other legal documents</li> <li>6. To create/satisfy charge with MCA</li> <li>7. To take search of the company's record and issue necessary certificate</li> </ol>
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### Activity Flow Chart for Company Secretary

a) Initial discussion with the promoters on the project
b) Understanding the scope of the work and discuss about the professional charges
c) To apprise the broad about financing norms
d) Obtain the assignment in writing specifying the scope of work and payment terms of professional fees
e) Send the questionnaire format to furnish the information about the project and promoters
f) Prepare the draft report based on the information received and discuss the report point to point with promoters and incorporate their suggestion before the final report
g) Advise the promoters to read the entire project report very carefully so that during the discussion with the FI/Banks, they do not make any such statement which is not in conformity with what is stated in the project report, unless revised or modified
h) Submit the proposal to more than one FI/Bank and try to obtain the in-principle clearance to avoid the rejection at later stage
i) Arrange the meeting of the promoters with bankers
j) Remain in touch with bankers during the preparation of their appraisal note for sanctioning authority and also on the likely terms and conditions being stipulated. At

this stage we can discuss on the change in terms and conditions which are not favourable to the borrowers

- k) Try to arrange the discussion with the higher authority sanctioning the proposal. This will always help in easy sanction.
- l) If the loan proposal is sanctioned by the FI/Bank, read the terms and conditions for disbursement of the loan
- m) Pay processing fee
- n) Express thanks to all involved in the sanction process, formally or informally
- o) Comply with the terms and conditions of the sanction and execute the loan agreement and other legal document

### **PROJECT VIABILITY AND RESEARCH ON INNOVATION**

The viability of the project can be understood in terms whether it can be completed successfully given the time, money, and other resources that are available with the Organization. Factors that can impact the viability of a project, including its scope, complexity, and the skill level of the team working on it along with the availability of resources can also play a role in determining whether or not a project is viable to undertake further.

Economic viability of the project is considered positive if the economic benefits of the project exceed its economic costs, when analyzed for society as a whole. The economic costs of the project are not the same as its financial costs—externalities and environmental impacts should be considered. This concept is also known as SCBA i.e. Social Cost Benefit Analysis.

#### **Steps for Viability Check**

1. Define the scope of the project
2. Conduct a market analysis
3. Preparing a financial plan
4. Risk assessment and understanding uncertainties
5. Report Preparation
6. Review and feedback

### Project Viability in Financial Terms

Financial viability should be analyzed in present value terms, which means the costs and revenues over the life of the project are expressed in terms of today's money. This is essential for making meaningful comparisons of benefits and costs that occur at different times and for comparing different projects.

### Regulatory Authorities/Agencies

These are the independent governmental bodies established by legislative act in order to set standards in a specific field of activity, or operations, in the private sector of the economy and then to enforce those standards. Regulatory agencies function outside direct executive supervision. The following are Regulators in Indian Financial system:

- SEBI: The apex regulator in the Indian capital market is the Securities and Exchange Board of India (SEBI).
- IRDAI: The Insurance Regulatory and Development Authority of India (IRDA) is the regulatory authority for the insurance sector.
- RBI: Reserve Bank of India (RBI) is the apex regulator for banking sector.
- PFRDA: Pension Funds Regulatory and Development Authority (PFRDA) regulate pensions. MCA: Ministry of Corporate Affairs (MCA) regulates the functioning of corporate sector in accordance with law.
- AMFI: Association of Mutual Funds in India is a non-statutory body. It is a body to control mutual fund industry in the country.

### RISK ASSESSMENT AND MITIGATION

A risk is generally defined as an elaboration of unfortunate consequences of certain events. Risk can be managed properly if it is assessed and identified timely. So the Risk management refers to the problems that may occur which are only in term of probability, at the same time in the actual time of occurrence there can be a number of other events happening which are unknown but predicable generally. In the Projects, risk usually refers to the factors that may hamper the objective of the project regarding time, cost and quality. Risk Identification that can be faced is important for the contractor to get alert and prepare in advance for the uncertainties that arises.

$Risk\ level = Risk\ probability \times Risk\ impact$

### **Risk Types/Attributes in Project Management**

- General, dynamic or static Risk;
- Internal or external risks;
- Financial risk;
- Time risk;
- Physical risk;
- Personnel risk;
- Design and technical risk;
- Contractual risk;
- Political and regulation risk;
- Safety risk;
- Economic Risk;
- Legal Risk and Managerial Risk.

### **CREDIT RISK MANAGEMENT IN PROJECT FINANCE**

Credit risk which is the risk of loss that may occur from the failure of any party to make required payments on loans. According to RBI, credit risk is "The possibility of losses associated with diminution in the credit quality of borrowers or counterparties. Lenders face different types of credit risks—default risk, concentration risk, country risk, downgrade risk, and institutional risk.

Credit risk management refers to measuring and mitigating the risks associated with the amount given as loan to the projects and preparing the organization to cope up with this risk. Managing Credit Risk helps lending authorities to understand the credit worthiness of the borrowers, thereby helping them decide whether or not to approve their loan applications. Financial Institutions focus on the credit rating while financing a project. All FIs/Banks invariably carry out credit rating of the proposals. It may be:

1. Internal Credit Rating
2. External Credit Rating.

1. **Internal Credit Rating:** Each FI/Bank has its own credit rating model and credit risk committee which weigh the proposal considering various parameters and assign the marks for each parameter. If the proposal scores the marks above the investment grade, the proposal is considered for sanction and project scoring high marks are often offered lower rate of interest.
2. **External Credit Rating:** Apart from the internal rating done by the FIs/Banks while appraising the project, they may insist for the credit rating from external agency in case the loan amount is exceeding the prescribed limit. Few important agencies are CRISIL, CARE, ICRA, FITCH, SMERA, BRICKWORK, etc. They evaluate the project and assign the rating according to risk perception. Higher rating increases the negotiating power for the better terms from the FIs/Banks.

### **PREPARATION OF DETAILED PROJECT REPORT (DPR)**

A Project Report is a written document relating to any investment containing the data on the basis of which the project has been appraised and found feasible. The information on economic, technical, financial, managerial and production aspects of the Project are shown as the part of Project Report. The concept of Detailed Project Reports (DPRs) is quite demanding which are the outputs of planning and design phase of a project. DPR is a very detailed and elaborate plan for a project indicating overall programme, different roles and responsibilities, activities and resources required for the project. It can be called a blueprint of the project plan.

#### **Contents of the Project Report**

- General Information
- Management and Promoters Background
- Technical Feasibility
- Marketing Strategy
- Financial Feasibility
- Social Cost -Benefits Analysis
- Project Implementation Schedule
- Risk Assessment.

### Things to consider while writing a DPR

An ideal DPR should be clear, concise, accurate and well organized with clear section headings. It must be easy for the audience to understand. Presentation of the facts and figures report writing is quite crucial. Formatting, revising and proof reading is very important process for good report writing that must be well focused. A detailed project report must include the following information:

- Brief information about the project
- Experience and skills of the people involved in the promotion of the project
- Details and practical results of the industrial concerns of the promoters of the project
- Project finance and sources of financing
- Government approvals
- Raw material requirement
- Details of the requisite securities to be given to various financial organizations
- Other important details of the proffered project idea include information about management teams for the project, details about the building, plant, machinery, etc.

### The DPR needs to provide information covering the following areas:

1. Sectoral Background and the broad objective of the Project
2. Definition of the Project and its Scope
3. Project Cost
4. Institutional Framework of the Project
5. Financial Structure of the Project
6. Phasing of the Project
7. Operation & Maintenance Planning of the Project
8. Assessment of Financial Viability of the Project

### Limitations of the Project Report

As mentioned earlier, project report is a written document pertaining to any investment proposal. It contains relevant data, on the basis of which the project is prepared and appraised. A project Report is prepared by the expert after detailed study and analysis of the various aspects of a project. However, there are certain constraints and limitations of the project report. They are:

1. *There is no uniform loan application form prescribed for the loan application by FIs/Banks*
2. *There is no uniform format for project report prescribed by FIs/Banks*
3. *There is no uniform appraisal process. Each bank has its own appraisal System*
4. *The report is prepared on assumptions, which are likely to change when implemented. As the project evolves, assumptions may come prove correct or wrong. Changing circumstances may compel to modify previously identified assumptions.*

