- Chapter 3: Strategic Analysis : Internal Environment
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  - Michael Porter's Generic Strategies
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    - Differentiation Strategy
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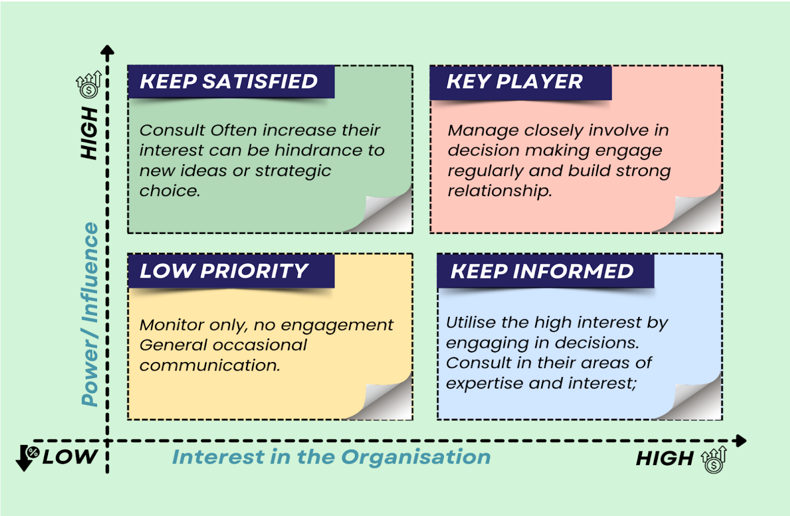
- Internal environment Includes
  - people, stakeholders, processes, infrastructure, administrative structure, and organizational culture,
  - defining an organization's identity.
  - **specific** to each organisation.

- Understanding Key Stakeholders
  - Who are Stakeholders and how do we identify them?
    - Stake and Success
      - individuals and entities that have a stake in success of an org
        - and can impact it as well.
    - employees, shareholders, investors, suppliers, customers, regulators and so on.
    - Power to influence
      - power to influence the strategy or performance of that organisation.
    - Influence level
      - Exerts a different level of influence
    - Interest Level
      - have differing levels of interest in the organisation.
    - Clash of objectives
      - a clash of objectives may have unfavourable consequences for the organisation.

- Mendelow's Matrix
  - Known as
    - also known as the Stakeholder Analysis matrix and the Power-Interest matrix
      - is a simple framework to help manage key stakeholders.
  - Analyse stakeholder groups
    - Mendelow suggests that one should analyse stakeholder groups based on
      - Power
        - (the ability to influence organisation strategy or resources) and
      - Interest
        - (how interested they are in the organisation succeeding).
  - Different power and Interest
    - some stakeholders will hold more Power than others
    - some stakeholders will have more Interest than others
  - For example,
    - a big shareholder
      - is likely to have high power and high interest in the organisation,
    - a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.



Categorisation of stakeholders into four groups by Mendelow

- **KEEP SATISFIED Stakeholders:**
  - High power, less interested people
  - Put in enough work with these people to keep them satisfied with their intended information on a regular basis.
  - For example, banks, government, customers, etc.
- **KEY PLAYERS Stakeholders**
  - High power, highly interested people
  - fully engage this group of stakeholders, making the greatest efforts to satisfy them,
  - take their advice, build actions and keep them informed with all information on a regular basis.
  - For example, Shareholders, CEO, Board of Directors, etc.
- **LOW PRIORITY Stakeholders**
  - Low power, less interested people
  - only monitor them with no actions to satisfy their expectations.
  - minimal efforts, keep an eye to check if their levels of interest or power change.
  - For example, business magazines, media houses, etc.
- **KEEP INFORMED Stakeholders**
  - Low power, highly interested people
  - adequately inform this group of people and communicate with them to ensure that no major issues arise.
  - This audiences can also help with real time feedbacks and areas of improvement for an organisation.
  - For example, employees, vendors, suppliers, legal experts, etc.

- Stakeholders can move between quadrants
- environment is highly dynamic and can cause stakeholders to suddenly move between quadrants.
- For example, Regulatory breaches, like GST non-compliance, shift stakeholder positions
- Changes in the environment necessitate re-analyzing Mendelow's grid to adapt stakeholder management and communication strategies

Assessing the current performance of the business- Strategic Drivers

- important aspect of internal analysis
  - For this we need to consider the strategic drivers that differentiates an organisation from its competitors.
- The key strategic drivers of an organisation include:
  - industry and markets
  - customers
  - products/services
  - channels

Industry and Markets

- **Industry**
  - Similar companies are grouped together into industries.
  - grouping is based on the ***primary product*** that a company makes or sells.
  - For example, Maruti, Mahindra, Tata Motors are all selling automotives as their primary product and thus categorised into the Automotive Industry.
- Market
  - A market is defined as the ***sum total of all the buyers and sellers*** in the area.
    - may be a
      - physical or
      - may be virtual
        - like e-commerce websites and applications.
    - may further be local or global
    - it would be ***incorrect*** to say
      - that the market is the same for all businesses.
    - Each business has its ***own set of customers*** i.e. market
      - each product within a business has its ***own market***.

Analysing Industry and Markets

- **What is Strategic Group Mapping**
  - A tool used for **Analysing Industry and Markets** is called - **Strategic Group Mapping**.
    - ***Industry & Competitive analysis*** Technique
      - Strategic group mapping is a technique used for ***industry & Competitive analysis***
    - Identifying ***strongest/weakest*** positions
      - Helps in Identifying companies that are in ***strongest/weakest*** positions
    - Revealing ***competitive positions***
      - One technique for revealing the ***competitive positions*** of industry participants is strategic group mapping.
    - Comparing market Position
      - It is a useful analytical tool for comparing the ***market positions*** of each firm separately
        - or group wise when an industry has so many competitors that it is not practical to examine each one in depth.
- **What is a Strategic Group**
  - A strategic group consists of those rival firms with
    - similar ***competitive approaches*** and
    - ***Positions*** in the market.
    - They ***resemble each other*** in several ways. (product , price etc)
- **Procedure**
  - The procedure (I-PAD) for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:
    - ***Identify***
      - the competitive ***characteristics*** that differentiate firms in the industry typical variables are price/quality range (high, medium, low);
    - ***Plot***
      - the firms on a two-variable map using pairs of these differentiating characteristics.
    - ***Assign***
      - firms that fall in the same strategy space to the same strategic group.
    - ***Draw***
      - circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

How To Build Core Competencies

4 criteria of sustainable competitive advantage use to determine those capabilities that are core competencies.

- **Valuable**
  - should create ***value for customers***.
  - Allow to ***exploit opportunities*** in its external environment.
  - For example human capital is important in creating value for customers.
- **Rare**
  - ***very rare capabilities*** and.
  - Capabilities possessed by many rivals are unlikely to be ***sources of competitive advantage***.
- **Costly to imitate**
  - competing firms are ***unable to develop easily.***
  - For example: Intel - rare fast R&D cycle time capability - brought microprocessors to market well ahead of the competitor.
  - product could be imitated, ***difficult to imitate*** the R&D cycle time capability.
- **Non-Substitutable**
  - Capabilities that ***do not have strategic equivalents***

Combining External and Internal Analysis (SWOT Analysis)

- **Analysis**
  - the analysis of a business's ***strengths***, ***weaknesses***, ***opportunities*** and ***threats***.
- **primary objective**
  - primary objective help organizations develop a ***full awareness*** of all the factors (external as well as internal)involved in making a business decision.
- **should *precede***
  - should ***precede*** all company actions, including exploring new initiatives,.
- ***recommendations and strategies***
  - use to ***discover recommendations and strategies***,
- ***assess current operations***
  - Helps to ***assess current operations*** and ***identify*** both ***strengths*** and ***areas needing improvement***.
- ***identifies* the *complex issues***
  - it ***identifies*** the ***complex issues*** for an organisation and puts them into a simple framework.
- ***critique***
  - ***critique*** of SWOT analysis general ***lack of evaluation*** in a competitive context for strengths, weaknesses, opportunities, and threats.

Sustainability of competitive advantage

- The sustainability of competitive advantage - four major characteristics of resources and capabilities
  - Durability
  - Transferability
  - Imitability
  - Appropriability

Durability
(More durable the resources and capabilities, more the sustainable competitive advantage)

- depends on the ***rate*** at which a firm's ***resources*** and ***capabilities*** ***deteriorate***.
- If rate of product innovation is fast,
  - product patents are quite likely to become obsolete.
- capabilities which are result of the management expertise of the CEO are also vulnerable
  - to his or her retirement or departure.
- consumer brand names have a highly durable appeal.

Transferability

- Durability can be eroded by competition from rivals.
- ***How?***
  - ***gaining access to the necessary resources and capabilities.***
- ***Easier*** it is to transfer resources and capabilities between companies,
  - the ***less sustainable*** will be the competitive advantage.

Imitability

- True test of imitability.
  - How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based?
  - In financial services, innovations lack legal protection and are easily copied.
    - The complexity of many organisational capabilities can provide a degree of competitive defence.
  - Where capabilities require networks of organisational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

Appropriability

- ability of the firm's owners to appropriate the returns on its resource base.
- It's not just about having valuable resources,
  - but also about the firm's ability to benefit financially from them.
- **Examples**
  - A company's patented groundbreaking technology ensures high appropriability, barring competitors' access.
  - A firm relying on skilled workforce for competitive edge has lower appropriability; expertise loss risks if employees leave.

Question: What best exemplifies a differentiation strategy in strategic management?

A. A company reducing prices to become the cheapest option in the market.

B. A mobile phone brand launching a phone with a unique, user-friendly interface and advanced AI features not seen in other brands.

C. A retail chain expanding its number of stores across the country to increase market penetration.

D. A manufacturing firm streamlining its production process to minimize production costs.

Correct Answer: B. A mobile phone brand launching a phone with a unique, user-friendly interface and advanced AI features not seen in other brands.

Explanation of Answers:

- **A**: Reducing prices to be the cheapest option is indicative of a cost leadership strategy.
- **B (Correct Answer)**: Launching a phone with unique features like an advanced AI and user-friendly interface that competitors don't offer aligns with a differentiation strategy. It focuses on making the product stand out through unique attributes.
- **C**: While expanding store presence can help in market reach, it doesn’t inherently signify a differentiation strategy unless accompanied by unique store experiences or product offerings.
- **D**: Streamlining production to reduce costs is more characteristic of a cost leadership strategy, not differentiation.

MCQ on Risks of Differentiation Strategy

Question: What is a major risk associated with pursuing a differentiation strategy?

A. The unique features of the product may not be sufficiently valued by customers to justify a higher price.

B. The company might overinvest in technology, leading to complex products that are difficult to use.

C. The differentiation strategy might lead to an excessive focus on a niche market, ignoring the broader market.

D. The strategy might result in decreased operational efficiency due to the diversity of products.

Correct Answer: A. The unique features of the product may not be sufficiently valued by customers to justify a higher price.

Explanation of Answers:

- **A (Correct Answer)**: One of the primary risks of a differentiation strategy is that the unique aspects of the product may not be perceived as valuable enough by the customers, which can result in the failure to justify the premium pricing of the product.
- **B**: While overinvestment in technology can be a concern, it is not a direct risk of the differentiation strategy. Differentiation focuses on uniqueness, not necessarily on the complexity or technological advancement.
- **C**: Focusing on a niche market can be a part of a differentiation strategy, but it is not inherently a risk; in fact, it can often be a strength.
- **D**: Decreased operational efficiency is more typically a concern with broad product lines and not directly associated with a differentiation strategy, which focuses on unique features rather than product diversity.

MCQ on Bases of Differentiation

Question: Which of the following best represents a form of product differentiation?

A. A company offering the cheapest prices for its smartphones in the market.

B. A smartphone company introducing a model with a revolutionary new AI technology.

C. A company expanding its retail outlets in prime locations across the country.

D. A smartphone brand establishing a strong emotional connection with its customers through aggressive marketing.

Question: Which scenario best illustrates organizational-based differentiation?

A. A smartphone company introducing cutting-edge camera technology in its new model.

B. A coffee chain expanding its operations in international markets.

C. A clothing brand known for its eco-friendly practices and sustainable fashion.

D. An online retailer providing the lowest prices for all its products.

Correct Answer: B. A smartphone company introducing a model with a revolutionary new AI technology.

Explanation of Answers:

- **A**: Offering the cheapest prices is more indicative of a cost leadership strategy rather than product differentiation.
- **B (Correct Answer)**: Introducing a smartphone with unique and innovative AI technology is a classic example of product differentiation, focusing on unique product features that set it apart in the market.
- **C**: Expanding retail outlets is related to organizational differentiation, focusing on location advantage.
- **D**: Establishing a strong emotional connection with customers is part of organizational differentiation, particularly related to brand strength and loyalty.

Correct Answer: C. A clothing brand known for its eco-friendly practices and sustainable fashion.

Explanation of Answers:

- **A**: Introducing cutting-edge technology is a form of product differentiation.
- **B**: Expanding internationally is a growth strategy but does not specifically indicate organizational-based differentiation.
- **C (Correct Answer)**: A clothing brand differentiating itself through eco-friendly practices and sustainable fashion capitalizes on organizational values and reputation, which is a form of organizational-based differentiation.
- **D**: Providing the lowest prices aligns with a cost leadership strategy, not organizational-based differentiation.

Question: Which of the following scenarios is an example of price-based differentiation where the strategy is to offer the lowest price?

A. A tech company introducing a new model of smartphone with superior AI capabilities at a premium price.

B. A budget airline offering the most affordable air travel options compared to its competitors.

C. A luxury car brand maintaining its image through exclusive and high-priced models.

D. A retail clothing store launching an exclusive designer collection at higher prices than its usual range.

Correct Answer: B. A budget airline offering the most affordable air travel options compared to its competitors.

Explanation of Answers:

- **A**: Introducing a new model with advanced features at a premium price aligns with product differentiation, not price-based differentiation focusing on the lowest price.
- **B (Correct Answer)**: A budget airline offering the most affordable options directly represents price-based differentiation with a focus on being the lowest-priced choice in the market, appealing to cost-conscious consumers.
- **C**: Maintaining an exclusive, high-priced image is a form of differentiation based on premium pricing, not on offering the lowest price.
- **D**: Launching a designer collection at higher prices is a strategy of premium pricing, which is different from competing on the basis of the lowest price.

To achieve differentiation, following are the measures that could be adopted by an organization to incorporate:

- Offer utility for the customers and match the products with their _______ and _________.
- Elevate the performance of the _______.
- Offer the promise of high quality —————— for buyer satisfaction.
- Rapid product __________.
- Taking steps for enhancing ________ and its brand ________.
- Fixing product prices based on the unique _________ of the product and buying ________ of the customer.

Achieving Differentiation Strategy

- **Preference (Utility , Taste and Preference)**
  - Offer utility for the customers and match the products with their tastes and preferences.
- **Performance**
  - Elevate the performance of the product.
- **Quality and Satisfaction**
  - Offer the promise of high quality product/service for buyer satisfaction.
- **Innovation**
  - Rapid product innovation.
- **Image and Brand value**
  - Taking steps for enhancing image and its brand value.
- **Pricing**
  - Fixing product prices based on the unique features of the product and buying capacity of the customer.

Advantages of Differentiation Strategy

- **Rivalry**
  - Brand loyalty
    - Brand loyalty acts as a safeguard against competitors.
    - It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
- **Buyers**
  - No negotiation – Special Features
    - They do not negotiate for price as they get special features and
  - Fewer Options
    - also they have fewer options in the market.
- **Suppliers**
  - Premium price – Absorb cost
    - Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
- **Entrants**
  - Innovation is costly
    - Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
- **Substitutes**
  - Brand value
    - Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

- **Uniqueness Difficult**
  - In the long term, uniqueness is difficult to sustain.
- **Switch- off to alternative**
  - Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.
- **Not Valued**
  - Differentiation fails to work if its basis is something that is not valued by the customers.

Focus

Meaning

- **Depends on**
  - A successful focus strategy depends on an industry segment that is
    - of sufficient size,
    - has good growth potential,
    - and is not crucial to the success of other major competitors.
- **Market penetration and market development**
  - Strategies such as market penetration and market development offer substantial focusing advantages.
- **In conjunction with differentiation**
  - Midsize and large firms can effectively pursue focus based strategies only in conjunction with differentiation or cost leadership-based strategies.
- **Distinctive preferences**
  - Focus strategies are most effective when consumers have distinctive preferences or requirements.
- **Risk – Copy, Consumer Preference Drift**
  - Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer preferences will drift toward the product attributes desired by the market as a whole.

Focused cost leadership

- competing based on price to target a narrow market.
- does not necessarily charge the lowest prices in the industry.
  - Instead, it charges low prices relative to other firms that compete within the target market.

Focused differentiation

- offering unique features that fulfill the demands of a narrow market.
- Some firms concentrate their efforts on a particular sales channel,
  - such as selling over the internet only.
- Others target particular demographic groups.
- For example, Rolls-Royce sells a limited number of high-end, custom-built cars.

Other Points in Focus

Achieving Focused Strategy

- **Selecting Niches**
  - Selecting specific niches which are not covered by cost leaders and differentiators.
- **Superior Skills**
  - Creating superior skills for catering to such niche markets.
- **High Efficiencies**
  - Generating high efficiencies for serving such niche markets.
- **Innovative**
  - Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

- **Premium prices**
  - Premium prices can be charged by the organisations for their focused product/ services.
- **Difficult to compete**
  - rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

- **lacking in distinctive competencies**
  - The firms lacking in distinctive competencies may not be able to pursue focus strategy.
- **Costs may be high**
  - Due to the limited demand of product/services, costs are high which can cause problems.
- **Long run**
  - niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

Best-Cost Provider Strategy

Meaning

- Further development of three generic strategies.
- Giving customers more value for the money by emphasizing both low cost and upscale differences.
- The objective is to keep costs and prices lower than those of other sellers of comparable products.

It can be done through

- **Low price comparable quality**
  - through offering products at lower price than what is being offered by rivals for products with comparable quality and features or
- **Same price, Higher Quality**
  - charging similar prices as by the rivals for products with much higher quality and better features.
- Example, android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc, are all rooting for giving better quality at lowest prices to the customers. They are following the best-cost provider strategy to penetrate market.