

Strategic Analysis and Planning

Lesson 4

KEY CONCEPTS

■ Situation Analysis ■ SWOT / TOWS Analysis ■ PERT and CPM ■ BCG Matrix ■ ADL Matrix ■ Ansoff Growth Matrix

Learning Objectives

To understand:

- The meaning and relevance of situation analysis
- The variety of tools and methods that includes SWOT and TOWS analysis with the aid of real life case studies
- The conducting of portfolio analysis to determine Internal capabilities of a company to compete in a market and fulfil customer expectations
- The Strategic Planning Process
- The development of strategic alternatives
- The Combination Strategies

Lesson Outline

- Strategic Analysis and Planning
- Situational Analysis
- Strategic Choices-SWOT and TOWS Analysis
- Programme Evaluation Review Technique and CPM (Critical Path Method)
- Portfolio Analysis-Boston Consulting Group (BCG) Growth Share Matrix
- Ansoff Growth Matrix
- ADL Matrix
- General Electric (GE) Mckinsey Matrix
- Strategic Alternatives-Glueck and Jauch
- Michael Porter's Generic Strategies
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References

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. All this requires a careful analysis of the vision, mission, objectives, goals and resources of the organisation and in-depth analysis of the external environment.

Situation Analysis

Before developing any strategy, the foremost requirement is carrying out a Situation Analysis. A Situation analysis or environmental analysis is an essential component of any strategy formulation and it has to be assured that such analysis is conducted periodically to keep the strategies up to date. 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.

Suitability of Situation Analysis

A small, well knitted and focused team from different functional areas of the organisation should conduct the situation analysis. Throughout the data collection process, team members should also consider about engagement of concerned stakeholders including opinion leaders, service providers, policy makers, partners, and potential beneficiaries to reap maximum output. It may be done by conducting in-depth interviews, focus group discussions, community dialogues, small group meetings, taskforce engagements or participatory stakeholder workshops.

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 sub-divided into the core product and any secondary/ancillary or supporting products/services. While doing so, the needs of the customers should be taken into. This is so because, now a days, consumer is the king, therefore, everything needs to be tailor-made to the requirements of the customers.

- **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 your 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.

Effectiveness of Situation Analysis

The following questions may bring out the effectiveness of situation analysis:

- Is currently adopted situational analysis simple and practical to use?
- Is it easy and clear for even an outsider to understand?
- Is it focused on key factors that are impacting my business both internally and externally?
- Does it clearly identify future goals for the business?

SWOT/TOWS ANALYSIS

Every manager is entrusted with the responsibility of setting up his/her organisation's mission and goals and creating a strategic plan that will guide the company to achieve its goals. For doing this, managers make use a variety of tools and methods to make a basis for decision making that includes SWOT and TOWS analysis, which are two closely related brainstorming exercises.

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 is quite helpful in formulating a company's strategy (Jezerys, 2000).

SWOT may be expanded as:

S – Strengths

W – Weaknesses

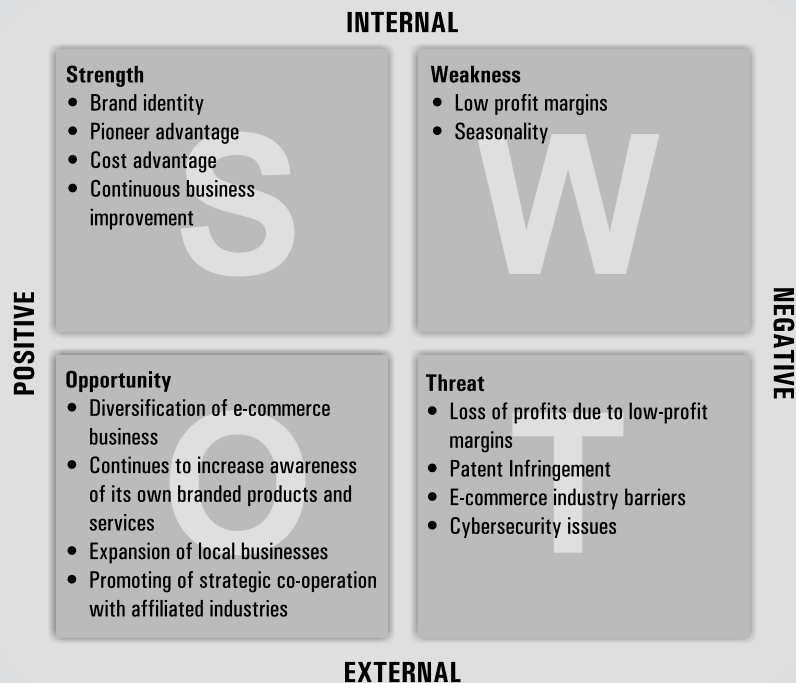
O – Opportunities

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

Introduction

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.

For example, the annual JD Power customer satisfaction survey asks owners what they feel about cars they have owned for at least six months. JD Power surveys almost 20,000 car owners using detailed questionnaires. Skoda has been in the top five manufacturers in this survey for the past 13 years.

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?

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.

For more Case Studies, please refer Lesson 6 of this study.

TOWS

Wehrich 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.

1. The TOWS analysis starts with the external environment. Specifically, the listing of external threats (T) may be of immediate importance to the firm as some of these threats may seriously threaten the operation of the firm. These threats should be listed in quadrant T. Similarly, opportunities should be shown in quadrant O. Threats and opportunities may be found in different areas, but it is advisable to carefully look for the more common ones which may be categorized as economic, social, political and demographic factors, products and services, technology, markets and, of course, competition.
2. The firm's internal environment is assessed for its strengths (S) and weaknesses (W), and then listed in the respective quadrants. These factors may be found in management and organization, operations, finance, marketing and in other areas.

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.

Therefore, it is not just reversal of letters of SWOT, but, a tool for strategy generation and selection. SWOT analysis is a tool for audit and analysis. One would use a SWOT at the beginning of the planning process, and a TOWS later as one decides upon ways forward.

- **Who can use SWOT/TOWS ?**

The SWOT/TOWS Matrix is not just meant for the top levels of management in an organisation. Rather, these two can be very useful tool for divisions, products, functions as well as departments. These can also be used for individual employees on an operational level. (Campbell, 2017).

- **Why SWOT/TOWS ?**

The SWOT/TOWS analysis is a very simple yet valuable technique which aids in identifying opportunities and threats from an external environment, and analyzing its own strengths and weakness. Such a review helps in establishing the relationship between threats, opportunities, weaknesses, and strengths for developing strategies and making decisions.

Further, use of TOWS by examining threats and opportunities before analyzing strengths and weaknesses can further allow for more productive analysis and interpretation of external environment leading to more informed decisions (Watkins, 2007). The TOWS Matrix also helps in brainstorming to bring out great ideas to generating effective strategies and tactics.

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:

		Internal Factors	
		Strengths(S)	Weaknesses (W)
External Factors	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.

Strategies in TOWS

There are 4 types of strategies differentiated:

Aggressive strategy	(maxi-maxi)
Conservative strategy	(maxi-mini)
Competitive strategy	(mini-maxi)
Defensive strategy	(mini-mini)

	External Opportunities (O)	External Threats (T)
Internal Strengths (S)	SO 'Maxi-Maxi' Strategy Strategies that use strengths to maximise opportunities .	ST 'Maxi-Mini' Strategy Strategies that use strengths to minimise threats .
Internal Weaknesses (W)	WO 'Mini-Maxi' Strategy Strategies that minimise weaknesses by taking advantage of opportunities .	WT 'Mini-Mini' Strategy Strategies that minimise weaknesses and avoid threats .

Aggressive Strategy (maxi-maxi)

According to Krzysztof Obłój (2007) “the aggressive strategy (maxi-maxi) consists in maximum exploitation of the synergy effect present between the strong sides of the organization and opportunities generated by the environment. It is a strategy of strong expansion and diversified development (...)”.

Therefore, 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.

The aggressive strategy embraces actions such as: capturing opportunities, strengthening position on the market, taking over organizations of the same profile, concentration of resources on competitive products. It is a strategy that exploits a synergy effect of company’s strong sides and opportunities that appear in the environment (Klasik, 1993).

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, e.g. the competitors should be bought and its shares taken over (Gierszewska I Romanowska, 2009).

The conservative strategy embraces such actions as: selection of products, market segmentation, reduction of costs, improvement of competitive products, development of new products, searching for new markets. It is a strategy, where success of an organization is mainly sought in its strong sides and reduction of threats (Klasik 1993).

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” (Obłój 2007).

The competitive strategy embrace such actions as: expansion of financial resources, improvement of commercial resources, improvement of a line of products, improvement of productivity, reduction of costs, maintenance of competitive advantage. It is a strategy that embraces construction of a competitive strength of an organization (Klasik, 1993).

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.

The defensive strategy encompasses such actions as: gradual withdrawal, reduction of costs, reduction of productive ability, ceasing the investment process. It is a strategy that provides survival, through counteracting weak sides and threats (Klasik, 1993).

CASE STUDY - TOWS MATRIX

CASE STUDY TOWS MATRIX FOR 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

	Strengths (S)	Weaknesses (W)
Opportunities (O)	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.
Threats (T)	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. While it makes products mainly for athletic use, its products have also been liked in casual wear segment. 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. Currently, Nike has outsourced its supply chain operations entirely. It is focused on product innovation and extending its international presence. However, US is still its largest market. More points in the brief SWOT analysis below.

Strengths		Weaknesses	
<ul style="list-style-type: none"> ● Brand Image ● Excellent Marketing capabilities ● Financial strength ● International presence ● Huge well managed supply chain and distribution network 		<ul style="list-style-type: none"> ● Over dependence on the US market ● Increasing marketing and overhead operating expenses 	
Opportunities		Threats	
<ul style="list-style-type: none"> ● Digitization and product innovation ● Acquisitions ● International expansion ● Backward integration 		<ul style="list-style-type: none"> ● Stronger US dollar hurting earnings ● Increased competitive pressure ● Growing HR and marketing expenses ● Higher legal pressures 	
	Strengths (S)	Weaknesses (W)	
Opportunities (O)	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.	
Threats (T)	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. remain focused on compliance using internal compliance teams to control legal and regulatory pressures.	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 Pepsi-Cola 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.

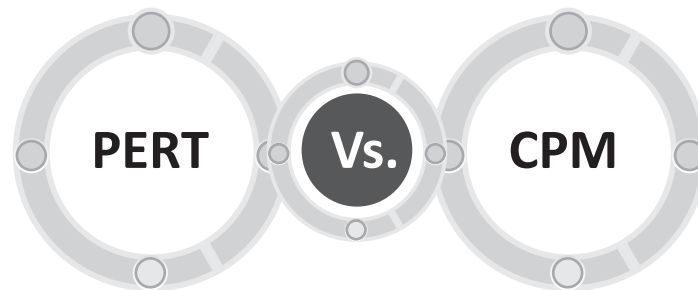
‘SO’ ANALYSIS

- 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.

Source: <http://stepheny.hubpages.com/hub/pepsi-swot-analysis-with-other-soft-drinks>

PERT (Programme Evaluation Review Technique) and CPM (Critical Path Method): Techniques of Project Management



One of the most challenging jobs that any manager can take on is the management of a large-scale project that requires coordinating numerous activities throughout the organization. A myriad of details must be considered in planning how to coordinate all these activities, in developing a realistic schedule, and then in monitoring the progress of the project. Therefore, the managers have to rely on Project management techniques to handle such large scale projects. Project Management is a systematic way of planning, scheduling, executing, monitoring, controlling the different aspects of the project, in order to attain the goal made at the time of project formulation.

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. These techniques make heavy use of networks to help plan and display the coordination of all the activities.

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). After discovery by Navy, it found applications all over industry. DuPont's Critical Path Method was invented at roughly the same time as PERT. 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: Key Points

The critical path method (CPM) is a project modeling technique developed in the late 1950s by Morgan R. Walker of DuPont and James E. Kelley Jr. of Remington Rand. 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.

An effective Critical Path Analysis can make the difference between success and failure on complex projects. It can be very useful for assessing the importance of problems faced during the implementation of the plan.

Steps in PERT and CPM

- (i) Each project consists of numerous independent jobs/activities. It is vital to identify and distinguish the various activities required for the completion of the project and list them separately.
- (ii) After listing, the order of precedence for these jobs needs to be determined. Certain jobs will have to be done first. Therefore, jobs have to be completed before others should be determined. Also, a number of jobs may be carried out simultaneously. All such these relationships between the different jobs need to be clearly laid down.
- (iii) Then, a picture/graph portraying each of these jobs should be drawn showing the predecessor and successor relations among them. This graph shows the time required for completion of each job. This is known as the project graph or the arrow diagram.

The three steps given above can be understood with the help of an example. Suppose, a manager wishes to

draw a project graph for preparing an operating budget for a manufacturing firm. To accomplish this project, the company salesmen must provide sales estimates in units for the period to the sales manager who would consolidate it and provide it to the production manager. He would also estimate market prices of the sale and give the total value of sales of the units to be produced and assign machines for their manufacture. He would also plan the requirements of labour and other inputs and give all these schedules together with the number of units to be produced to the accounts manager who would provide cost of production data to the budget officer.

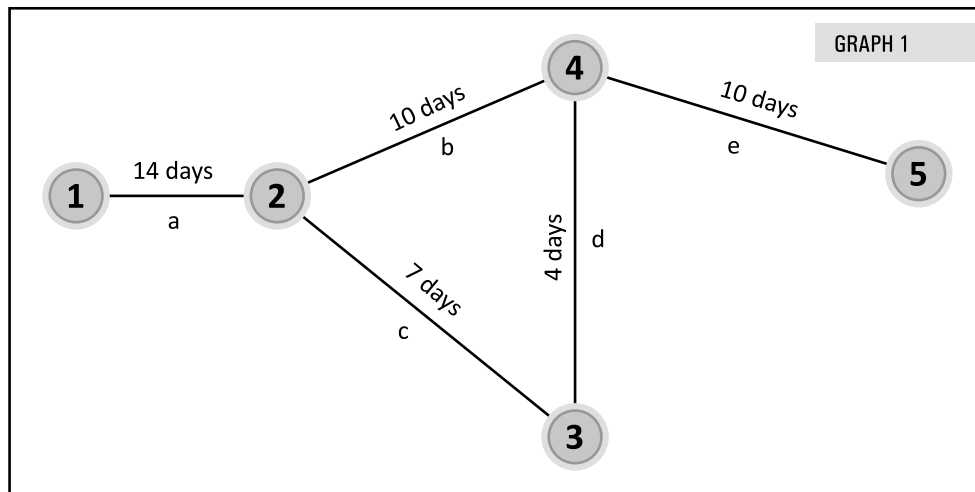
Using the information provided by the sales, production and accounting departments, and the budget officer would make the necessary arrangements for internal financing and prepare the budget. We have seen that the project of preparing the budget involves a number of activities.

These activities listed in the order of precedence are given below:

Table 1: The project of budgeting for a company

<i>Job identification</i>	<i>Alternate</i>	<i>Description</i>	<i>Deptt.</i>	<i>Time of performing the job</i>										
a	(1.2)	Forecasting units of sale	Sales	14 Days										
b	(2.4)	Pricing sales	Sales	10 Days										
c	(2.3)	Preparing production schedules	Production	7 Days										
d	(3.4)	Costing the production	Accounting	10 Days	e	(4.5)	Preparing the budget	Budget	10 Days					45 days
e	(4.5)	Preparing the budget	Budget	10 Days										
				45 days										

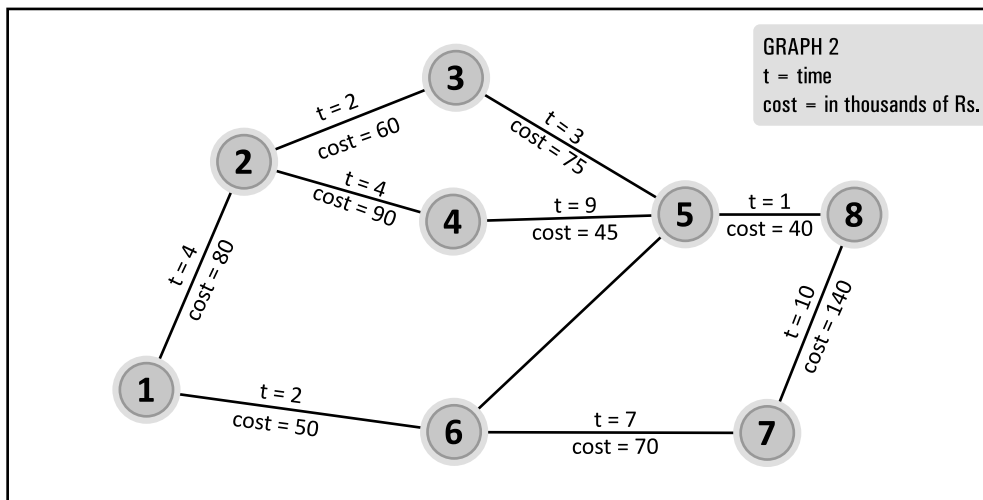
In this graph jobs are shown as arrows leading from one circle on the graph to another. Thus, the arrow connecting the two circles represents a job. Circle one and two represent job a i.e. forecasting of units sale which would take 14 days.



Path	No of Days Required				
1 - 2 - 4 - 5	14 + 10 + 10 = 34 Days				
1 - 2 - 3 - 4 - 5	14 + 7 + 4 + 10 = 35 Days	Critical duration.	Path	being	the longest

Circles 2 and 4 represent job (b) which will take ten days and so on. It would be seen that job (c) is not dependent upon job b and therefore, the two jobs can be done simultaneously. Once we reduce the project to network of activities and events and we estimate activity durations, we are in a position to determine the minimum time required for completion of the whole project. To do so, one must find the longest path or sequence connecting the activities through the network. This is called the 'critical path' of the project. In ongoing example, there are two paths. One is connecting circle numbers 1, 2, 4 and 5. This path will take $14 + 10 + 10 = 34$ days. The other path, is connecting circles 1,2,3,4 and 5, this path will take $14 + 7 + 4 + 10 = 35$ days. Clearly, the 2nd path is the critical path. It may, however, be noticed that this time is shorter than the total time listed under Table 1 which will be 45 days. This is because jobs b and c can be done simultaneously.

This technique is very useful in case of projects which involve a large number of activities. It makes the project manager list out all the possible activities, their relationships, find out which activities can be performed first, which next and which can be performed simultaneously so as to find out the best possible manner of completing the project.



In the above diagram the project has the following paths

Path	No of Days Required	
1 - 2 - 3 - 5 - 8	$4 + 2 + 3 + 1 = 10$ Days	
1 - 2 - 4 - 5 - 8	$4 + 4 + 9 + 1 = 18$ Days	
1 - 6 - 5 - 8	$2 + 5 + 1 = 8$ Days	
1 - 6 - 7 - 8	$2 + 7 + 10 = 19$ Days	Critical Path being the longest duration

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. The PERT time is based upon 3-way estimate and hence is the most objective time in the light of uncertainties and results in greater degree of accuracy in time forecasting.
5. Results in improved communication with all concerned parties such as designers, contractors, project managers etc. 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. Uncertainty 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.

Comparison Chart

BASIS FOR COMPARISON	PERT	CPM
Meaning	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
What is it?	A technique of planning and control of time	A method to control cost and time
Orientation	Event-oriented	Activity-oriented
Evolution	Evolved as Research & Development project	Evolved as Construction project
Model	Probabilistic Model	Deterministic Model
Main Focus	Time	Time-cost trade-off
Appropriateness	High precision time estimate	Reasonable time estimate
Activities Management	Unpredictable Activities	Predictable activities
Nature of jobs	Non-repetitive nature	Repetitive nature
Critical and Non-critical activities	No differentiation	Differentiated
Suitability	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. Then such portfolio analysis was made by other renowned entities also. The most quoted ones are:

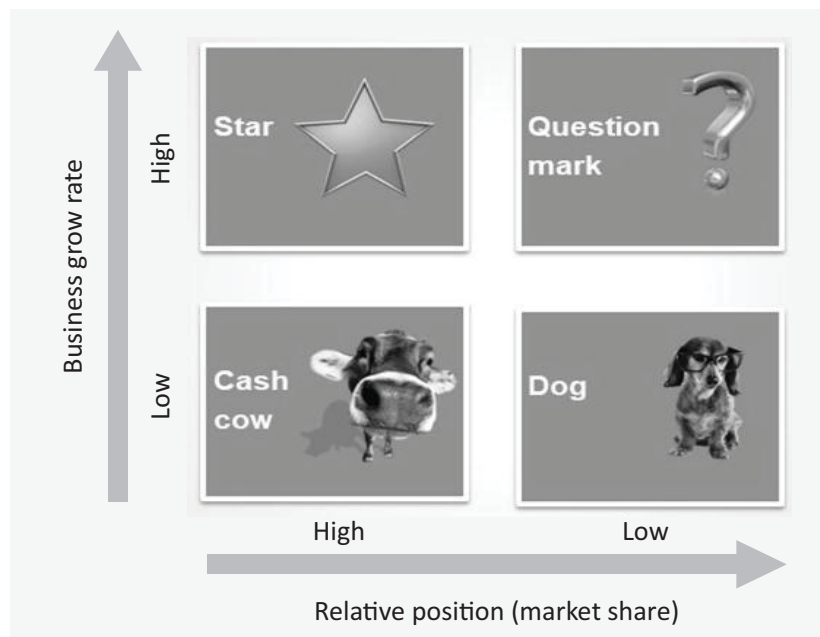
BCG MATRIX

"A company should have a portfolio of products with different growth rates and different market shares. The portfolio composition is a function of the balance between cash flows.... Margins and cash generated are a function of market share."—Bruce Henderson, "The Product Portfolio," 1970.

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:



1) Cash Cows

Cash cows are products which have a high market share in a low growing market (see diagram above). 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. As the market growth rate is low and acquisition is less and customer retention is higher. Thus, customer satisfaction programs, loyalty programs and other such promotional methods form the core of the marketing plan for a cash cow product.

2) Stars

The products/services falling in this category are best products/services in the product portfolio of any company. This is so because, 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.

3) 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. The product might lose customer interest and might not be bought anymore in which case it will not gain market share, the growth rate will go down and it will ultimately become a Dog.

On the other hand, the product might increase customer interest and more and more people might buy the product thus making the product a high market share product. From here the product can move on to be a Cash Cow as it has lower competition and high market share. Thus, 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 – As they are new entry products with high growth rate, the growth rate needs to be capitalized in such a manner that question marks turn into high market share products. 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.

4) Dogs

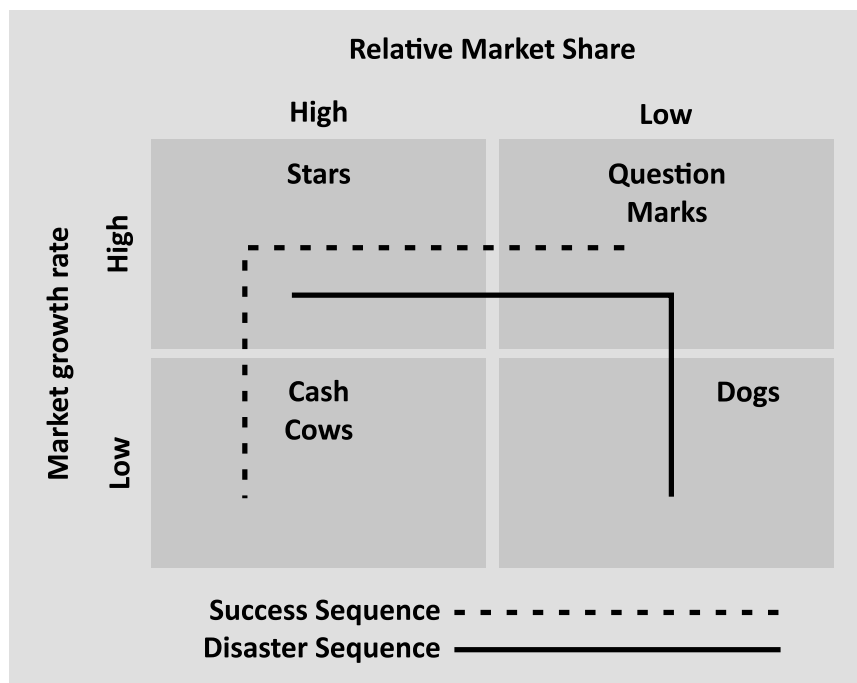
$$\text{Relative Market Share} = \frac{\text{Your firm's market share (or revenues)}}{\text{Largest competitor's market share (or revenues)}}$$

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. Thus, over here businesses have to take a decision whether they should divest these products or they can

revamp them and thereby make them saleable again which will subsequently increase the market share of the product.

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 in BCG Matrix – 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. The success sequence unlike the disaster sequence is entirely dependent on the *right decision making*.

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. Thus, the disaster sequence might happen because of wrong decision making. This sequence affects the company as a lot of investments are lost to the divested product. Along with this the money coming in from the cash cow which is used for other products too is lost.

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

Step 1. Choose the unit. BCG matrix can be used to analyze SBUs, separate brands, products or a firm as a unit itself. Which unit will be chosen will have an impact on the whole analysis. Therefore, it is essential to define the unit for which you'll do the analysis.

Step 2. Define the market. Defining the market is one of the most important things to do in this analysis. This is because incorrectly defined market may lead to poor classification. For example, if we would do the analysis for the Daimler's Mercedes-Benz car brand in the passenger vehicle market it would end up as a dog (it holds less than 20% relative market share), but it would be a cash cow in the luxury car market. It is important to clearly define the market to better understand firm's portfolio position.

Step 3. Calculate relative market share. Relative market share can be calculated in terms of revenues or market share. It is calculated by dividing your own brand's market share (revenues) by the market share (or revenues) of your largest competitor in that industry. For example, if your competitor's market share in refrigerator's industry was 25% and your firm's brand market share was 10% in the same year, your relative market share would be only 0.4. Relative market share is given on x-axis. It's top left corner is set at 1, midpoint at 0.5 and top right corner at 0 (see the example below for this).

$$\text{Relative Market Share} = \frac{\text{Your firm's market share (or revenues)}}{\text{Largest competitor's market share (or revenues)}}$$

Step 4. Find out market growth rate. The industry growth rate can be found in industry reports, which are usually available online for free. It can also be calculated by looking at average revenue growth of the leading industry firms. Market growth rate is measured in percentage terms. The midpoint of the y-axis is usually set at 10% growth rate, but this can vary. Some industries grow for years but at average rate of 1 or 2% per year. Therefore, when doing the analysis you should find out what growth rate is seen as significant (midpoint) to separate cash cows from stars and question marks from dogs.

Step 5. Draw the circles on a matrix. After calculating all the measures, you should be able to plot your brands on the matrix. You should do this by drawing a circle for each brand. The size of the circle should correspond to the proportion of business revenue generated by that brand.

Strategies based on the BCG Matrix.

There are four strategies possible for any product / SBU and these are the strategies which are used after the BCG analysis. These strategies are:

- 1) **Build** – By increasing investment, the product is given an impetus such that the product increases its market share. Example – Pushing a Question mark into a Star and finally a cash cow (Success sequence).
- 2) **Hold** – The company cannot invest or it has other investment commitments due to which it holds the product in the same quadrant. Example – Holding a star there itself as higher investment to move a star into cash cow is currently not possible.
- 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.

Thus, the BCG matrix is the best way for a business portfolio analysis. The strategies recommended after BCG analysis help the firm decide on the right line of action and help them implement the same.

THE ORIGINAL BCG MATRIX

At the height of its success, in the late 1970s and early 1980s, the growth share matrix (or approaches based on it) was used by about half of all Fortune 500 companies, according to estimates.

The matrix helped companies decide which markets and business units to invest in on the basis of two factors—company competitiveness and market attractiveness—with the underlying drivers for these factors being relative market share and growth rate, respectively. The logic was that market leadership, expressed through high relative share, resulted in sustainably superior returns. In the long run, the market leader obtained a self-reinforcing cost advantage through scale and experience that competitors found difficult to replicate. High growth rates signaled the markets in which leadership could be most easily built.

Putting these drivers in a matrix revealed four quadrants, each with a specific strategic imperative. Low-growth, high-share “cash cows” should be milked for cash to reinvest in high-growth, high-share “stars” with high future potential. High-growth, low-share “question marks” should be invested in or discarded, depending on their chances of becoming stars. Low-share, low-growth “pets” are essentially worthless and should be liquidated, divested, or repositioned given that their current positioning is unlikely to ever generate cash.

The utility of the matrix in practice was two fold:

- The matrix provided conglomerates and diversified industrial companies with a logic to redeploy cash from cash cows to business units with higher growth potential. This came at a time when units often kept and reinvested their own cash—which in some cases had the effect of continuously decreasing returns on investment. Conglomerates that allocated cash smartly gained an advantage.
- It also provided companies with a simple but powerful tool for maximizing the competitiveness, value, and sustainability of their business by allowing them to strike the right balance between the exploitation of mature businesses and the exploration of new businesses to secure future growth.

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 corporation that owns this unit may be using it as a cash cow for the benefit of a “star” or a “question mark” in its portfolio.
- 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. Similarly, relative market share is only one factor that gives a unit a competitive advantage. According to critics, the matrix ignores other factors that determine profitability. At least some critics suggest the use of the GE/McKinsey Matrix.
- 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.
- Both axes have been assigned the same value. In practice, this value can depend on the strategy.
- The coherence as regards content between products and product groups is not incorporated.
- The BCG matrix does not show what the competition is doing.
- The BCG matrix may oversimplify the assessments of the facts.

BCG's Response to Criticism : Matrix 2.0

In a paper published in 2014, the BCG, while defending the basic principles of the matrix, acknowledges that the business world and the distribution of companies across the matrix have changed.

It recommends “strategic experimentation [with the original matrix] to allow adaptation to an increasingly unpredictable business environment.”

The paper admits that in the modern business environment, the matrix needs “a new measure of competitiveness to replace its horizontal axis,” as market share cannot be relied upon as a strong pointer to performance anymore.

It says companies need to look at new markets and products to renew their advantage and desist from wasting resources. They need to invest in more question marks to help the promising ones grow into stars.

Responding to the marketplace, they should also cash out stars, retire cows, and maximize the information value of pets.

The BCG gives the example of Google, with its portfolio of AdWords, AdSense, Android, and other products, and says that at that company, portfolio management is “embedded in organizational abilities that facilitate strategic experimentation.”

At Google, questions marks are generated, and a few are selected and tried out before they are scaled up.

Making suggestions for using “BCG Matrix 2.0,” the paper puts forward “four practical imperatives” that businesses can use in strategic experimentation.

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

This matrix is also known as the **Ansoff Product-Market Growth matrix** or the four ways to grow a business model.

What is the Ansoff Growth Matrix?

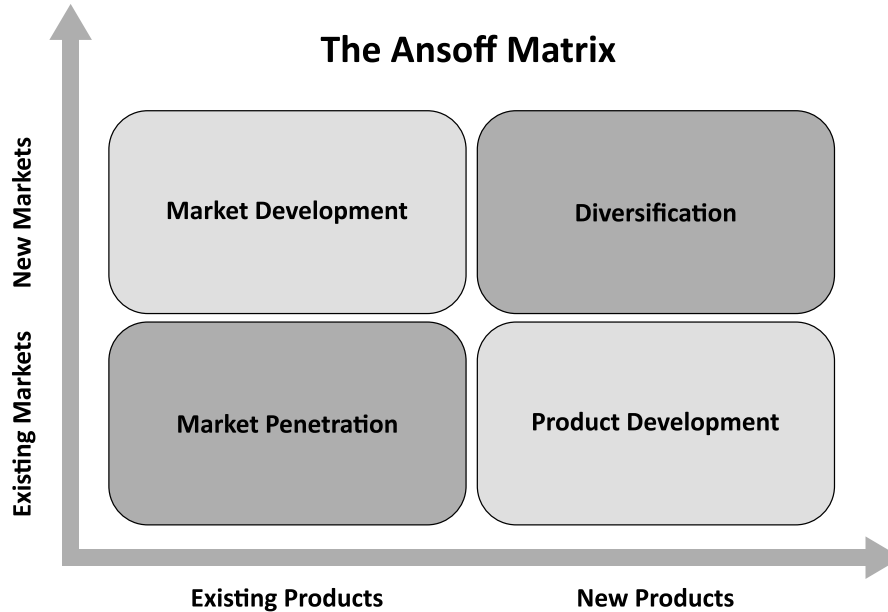
It first appeared in the Harvard Business Review in 1957 and was created by strategist Igor Ansoff to help management teams to focus on the options for business growth. In common with other popular strategy models, it is build around a two by two matrix.

- 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.

These are best seen in a diagram



Option 1: 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 market penetration option within Ansoff's growth matrix uses existing resources and capabilities and can be thought of as "business as usual but on steroids".

The downsides of the market penetration strategy are:

- If a firm has already high market share, the opportunities for growth may be limited. Some markets logically limit the share of the leading player because they feature the concentration of market power.
- Aggressive market penetration strategies will add to competitive rivalries in the industry and may provoke a price war which shrinks industry profitability. To make significant increases in market share, the business must be willing to throw the competitors out of the market.
- 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".

Option 2: Product Development

In product development, businesses continue to focus on the needs of existing customer base and also the widen 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 to value chain to strengthen or leverage the relationship and to provide added convenience.

You may attract new competitors into your market as a respond to you offering the products they traditionally sell. Competition has shifted up a level from coexistence selling your specific products to active competition selling the same broader range.

Option 3: 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 e.g. discounts for students and old age pensioners at theatres.
- New marketing and distribution channels. Making a product available on the Internet with the necessary search engine optimisation means that anyone looking can find it, rather than rely on your marketing message to reach them by convention means. The supermarkets sell financial services to people who wouldn't contact a broker or agent.
- Entering new geographic markets by moving from local to regional to national and finally international. This may require the business to acquire new capabilities including exporting, understanding different cultures and language skills.

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.

Some product development may be inevitable as there are few global products that don't make any concessions to local market needs. Success depends on being able to identify the best markets to develop which offer a genuine opportunity and where you have an effective competitive advantage. It also requires knowing which markets to avoid either because they are too difficult, too different or risk competitive reaction.

Again, your action to expand your market may attract the attention of competitors who currently only trade in zones where you don't.

Option 4: 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. Metal fabricators and plastic extrusion manufacturers are able to move across markets and produce custom designed products relatively easily because customers are buying access to the core competences.
- Diversification into unrelated markets which require new resources and capabilities.
- Diversification is the most risky growth strategy in Ansoff's growth matrix and especially if it requires the development of new resources and capabilities. It has even been referred to as the “suicide cell”.

The big advantage of diversification is that while each move is risky, if it is successful, it reduces the overall risk of the business to factors outside of the control of the business like the wider economic environment, climate change etc. It may also make the business much less seasonal – think bikinis and other swimwear for the summer, umbrellas for the spring and autumn and heavy overcoats for the winter.

It may also help the business to move away from industries that are unattractive because they are super-competitive or in long term decline to fast growing, new markets.

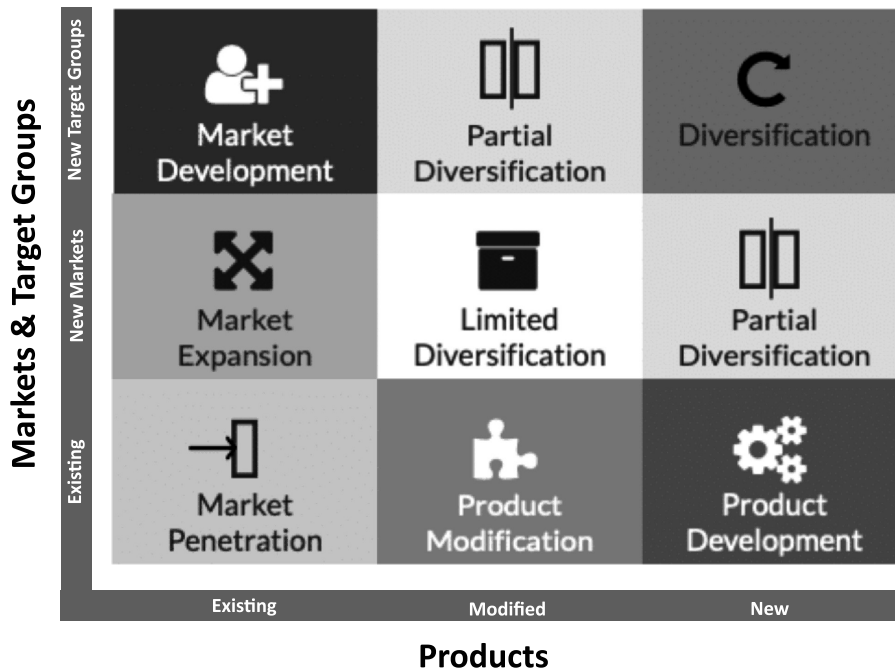
How to use Ansoff Growth Matrix

There are two ways to use the Ansoff Growth Matrix:

1. As a tool for brainstorming to help identify possible strategic options.
2. As a tool for assessing preferred strategic options to check for some kind of balance. There aren't right or wrong answers but you might be shocked to discover that all six growth strategies you intend to follow fall into the diversification box.

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.



Others have turned the matrix from 2x2 into 3x3 by introducing middle categories for expanded markets and modified products to give more flexibility to the tool. This allows shading from “a little different” to “very different”.

ADL MATRIX

The Arthur D. Little provides with the ADL matrix that 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. In determining both assessments, the matrix helps out the firms in analyzing their business role in the market place (Porter, 2008).

ADL Matrix (Portfolio Management)

		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

In ADL portfolio management, industry maturity is very close to the product life cycle or it could be renamed as industry life cycle, though with the industry segments are also considered. 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.

The assessments of the industry life cycle are based on the facts like business market share, investment, profitability and cash flow.

Competitive Position

Competitive position is derived from different segments in which Strategic Business Unit operates. It is more focused on the organization's competitive position which involves the strong strength of the product and the dispersed geographical factors means that it works in the area of product and place (Peter, 2008). 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.

How 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).

Though it is conceptually similar to BCG analysis, but somewhat more complicated than BCG Matrix. This is so because, in BCG analysis, a two-dimensional portfolio matrix is created, while, with the GE model the dimensions are multi-factorial. One dimension comprises industry attractiveness measures; the other comprises of internal business strength measures. The GE matrix helps a strategic business unit (SBU) to evaluate its overall strength.

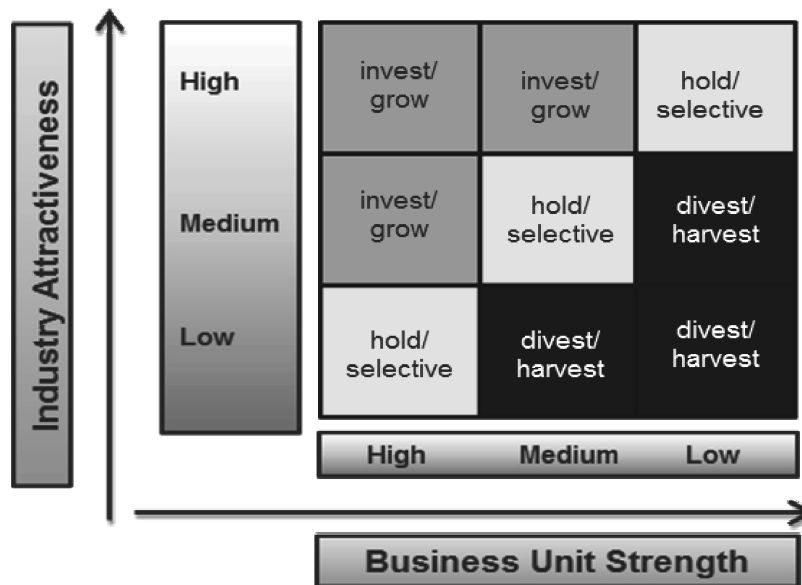
Understanding the tool

In the practical business world, the problem of resource scarcity has a bearing on the decisions made by any business organisation. Among such limited resources, as there are plenty of avenues to use such resources for many opportunities available, the crucial question remains how to use their cash best. Such a tussle takes place at every level in the company i.e. between teams, functional departments, divisions or business units.

This decision of resource allocation becomes even more crucial for a diversified businesses which are supposed to manage complex business portfolios involving as much as 50 to 100 products and services simultaneously. The products or business units are diverse in characteristics and future prospects. This makes it a tough decision to choose products/services for allocating resources.

Keeping this in mind, the BCG matrix and its improved version GE-McKinsey matrix was developed. In 1970s, General Electric was managing a huge and complex portfolio of unrelated products and was unsatisfied about the returns from its investments in the products. At the time, companies usually relied on projections of future cash flows, future market growth or some other future projections to make investment decisions, which was an unreliable method to allocate the resources. Therefore, GE consulted the McKinsey & Company and designed the nine-box framework.

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. Both these tools have served the purpose by comparing the business units and dividing them in suitable groups as per their worth.



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. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

Industry attractiveness consists of many factors that collectively determine the competition level in it. There's no definite list of which factors should be included to determine industry attractiveness, but the following are the most common :

- 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

Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not. If the company has a sustainable competitive advantage, the next question is: "For how long it will be sustained?"

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.

Using the tool

There are no established processes or models that managers could use when performing the analysis. Therefore, we designed the following steps to facilitate the process:

Step 1. Determine industry attractiveness of each business unit

- **Make a list of factors:** The first thing you'll need to do is to identify, which factors to include when measuring industry attractiveness. We've provided the list of the most common factors, but you should include the factors that are the most appropriate to your industries.
- **Assign weights:** Weights indicate how important a factor is to industry's attractiveness. A number from 0.01 (not important) to 1.0 (very important) should be assigned to each factor. The sum of all weights should equal to 1.0.
- **Rate the factors:** The next thing you need to do is to rate each factor for each of your product or business unit. Choose the values between '1-5' or '1-10', where '1' indicates the low industry attractiveness and '5' or '10' high industry attractiveness.
- **Calculate the total scores:** Total score is the sum of all weighted scores for each business unit. Weighted scores are calculated by multiplying weights and ratings. Total scores allow comparing industry attractiveness for each business unit.

This is a tough task and one that usually requires involving a consultant who is an expert of the industries in question. The consultant will help you to determine the weights and to rate them properly so the analysis is as accurate as possible.

Step 2. Determine the competitive strength of each business unit

'Step 2' is the same as 'Step 1' only this time, instead of industry attractiveness, the competitive strength of a business unit is evaluated.

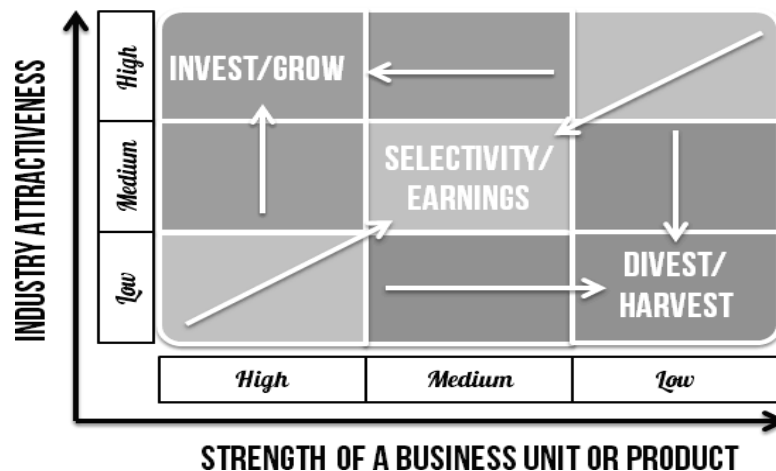
- **Make a list of factors:** Choose the competitive strength factors from our list or add your own factors.
- **Assign weights:** Weights indicate how important a factor is in achieving sustainable competitive advantage. A number from 0.01 (not important) to 1.0 (very important) should be assigned to each factor. The sum of all weights should equal to 1.0.
- **Rate the factors:** Rate each factor for each of your product or business unit. Choose the values between '1-5' or '1-10', where '1' indicates the weak strength and '5' or '10' powerful strength.
- **Calculate the total scores:** See 'Step 1'.

Step 3. Plot the business units on a matrix

With all the evaluations and scores in place, we can plot the business units on the matrix. Each business unit is represented as a circle. The size of the circle should correspond to the proportion of the business revenue generated by that business unit. For example, 'Business unit 1' generates 20% revenue and 'Business unit 2' generates 40% revenue for the company. The size of a circle for 'Business unit 1' will be half the size of a circle for 'Business unit 2'.

Step 4. Analyze the information

GE-MCKINSEY MATRIX INVESTMENT IMPLICATIONS



There are different investment implications you should follow, depending on which boxes your business units have been plotted. There are 3 groups of boxes: investment/grow, selectivity/earnings and harvest/divest boxes. Each group of boxes indicates what you should do with your investments.

Invest/Grow box. Companies should invest into the business units that fall into these boxes as they promise the highest returns in the future. These business units will require a lot of cash because they'll be operating in growing industries and will have to maintain or grow their market share. It is essential to provide as much resources as possible for BUs so there would be no constraints for them to grow. The investments should be

provided for R&D, advertising, acquisitions and to increase the production capacity to meet the demand in the future.

Selectivity/Earnings box. You should invest into these BUs only if you have the money left over the investments in invest/grow business units group and if you believe that BUs will generate cash in the future. These business units are often considered last as there's a lot of uncertainty with them. The general rule should be to invest in business units which operate in huge markets and there are not many dominant players in the market, so the investments would help to easily win larger market share.

Harvest/Divest box. The business units that are operating in unattractive industries, don't have sustainable competitive advantages or are incapable of achieving it and are performing relatively poorly fall into harvest/divest boxes. What should companies do with these business units?

First, if the business unit generates surplus cash, companies should treat them the same as the business units that fall into 'cash cows' box in the BCG matrix. This means that the companies should invest into these business units just enough to keep them operating and collect all the cash generated by it. In other words, it's worth to invest into such business as long as investments into it doesn't exceed the cash generated from it.

Second, the business units that only make losses should be divested. If that's impossible and there's no way to turn the losses into profits, the company should liquidate the business unit.

Step 5. Identify the future direction of each business unit

The GE McKinsey matrix only provides the current picture of industry attractiveness and the competitive strength of a business unit and doesn't consider how they may change in the future. Further analysis may reveal that investments into some of the business units can considerably improve their competitive positions or that the industry may experience major growth in the future. This affects the decisions we make about our investments into one or another business unit.

For example, our previous evaluations show that the 'Business Unit 1' belongs to invest/grow box, but further analysis of an industry reveals that it's going to shrink substantially in the near future. Therefore, in the near future, the business unit will be in harvest/divest group rather than invest/grow box. Would you still invest as much in 'Business Unit 1' as you would have invested initially? The answer is no and the matrix should take that into consideration.

How to do that? Well, the company should consult with the industry analysts to determine whether the industry attractiveness will grow, stay the same or decrease in the future. You should also discuss with your managers whether your business unit competitive strength will likely increase or decrease in the near future. When all the information is collected you should include it to your existing matrix, by adding the arrows to the circles. The arrows should point to the future position of a business unit.

Step 6. Prioritize your investments

The last step is to decide where and how to invest the company's money. While the matrix makes it easier by evaluating the business units and identifying the best ones to invest in, it still doesn't answer some very important questions:

- Is it really worth investing into some business units?
- How much exactly to invest in?
- Where to invest into business units (to R&D, marketing, value chain) to improve their performance?

Doing the GE McKinsey matrix and answering all the questions takes time, effort and money, but it's still one of the most important product portfolio management tools that significantly facilitate investment decisions.

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 as discussed hereunder:

GLUECK & JAUCH GENERIC STRATEGIC ALTERNATIVE

While developing generic strategic taxonomies, the work of Glueck and Jauch (1984) is widely referred to. These authors 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. It may also change the pace of effort within its stable business definition in order to become more efficient or effective (Glueck and Jauch, 1984). Pearce et al. (1987) operationalise the stability strategy 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
- The business adjusts the level of improvement to equivalent proportion every year;
- 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, for instance by improving efficiency.

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. Market penetration, market development and product development are emphasised to develop new products, enter new markets and embracing new technology.

- 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

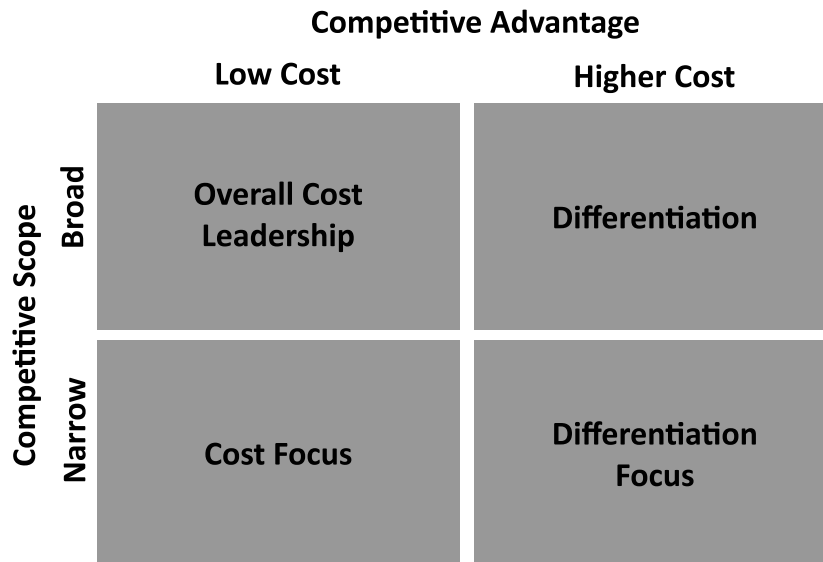
Pearce *et al.* (1987) operationalise a retrenchment strategy along three dimensions: improvement in performance by scaling down the level and/or scope of product/market objectives; cut back in costs; and reduction of the scale of operations through the divestment of some units or divisions. Glueck and Jauch (1984) also suggest that retrenchment also involves a reduction in functions. 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.

Combination Strategies

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



Porter's Generic Strategies

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:

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 and experience curve effects.

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.

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. This can be done by adopting the Japanese Kaizen philosophy of "continuous improvement" among other techniques of reducing cost.

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. Differentiation drives profitability when the added price of the product outweighs the added expense to acquire the product or service. It can be achieved by excellent brand management which creates uniqueness in the image of the product/service even when the actual product is the identical to competitors. Adopting this strategy, Apple could brand its i-phones, computers and i-pads; Mercedes-Benz C-Class could sell its cars as most expensive ones, Café Coffee Day could differentiate its coffee, and Nike could brand sports clothing and shoes. Fashion brands and multinational companies have to depend greatly on this strategy. However, this is not an apt strategy as it is not suitable for smaller companies but for big brands.

However, 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.

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, by 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. Due to this, a strong brand loyalty is developed with its customers making it difficult for competitors to enter. Such a strategy is often used by small firms/companies.

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.

LESSON ROUND-UP

- Strategic analysis and planning involve careful formulation of the strategies and goals taken by a company's top management on behalf of the organization.
- 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.
- SWOT is a tool for strategic analysis of any organization, which takes into account both examination of the company's internal as well as of its external environment.

- 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.
- 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.
- The tool to identify the strengths and weaknesses of a company is a Product Portfolio Analysis.
- 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.
- GE McKinsey Matrix is conceptually similar to BCG analysis, but somewhat more complicated than BCG Matrix as in BCG analysis, a two-dimensional portfolio matrix is created, while, with the GE model the dimensions are multi-factorial.
- Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy.
- 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.

GLOSSARY

Business Plan: These comprise the Corporate, Directorate, Service and Team plans, which specify the key priorities and activities to be undertaken.

Business Performance Management: A type of performance management that includes finance, covering compliance issues, competition, risk and profitability and human resources performance management encompassing employee performance appraisals and incentive compensation and other types of performance management include operational performance management and IT performance management.

Cascading: The process of developing aligned goals throughout an organization, connecting strategy to operations to tactics, allowing each employee to demonstrate a contribution to overall organizational objectives. Methods of cascading include identical (objectives and measures are identical), contributory (translated, but congruent, objectives and measures), unique (unique objectives and measures; do not link directly to parent) and shared (jointly- shared unique objective or measure).

Cause and Effect: The way perspectives, objectives, and/or measures interact in a series of cause-and-effect relationships demonstrate the impact of achieving an outcome. For example, organizations may hypothesize that the right employee training (Employee, Learning and Growth Perspective) will lead to increased innovation (Internal Process Perspective), which will in turn lead to greater customer satisfaction (Customer Perspective) and drive increased revenue (Financial Perspective).

Critical Success factor (CSF): A CSF is a business event, dependency, product, or other factor that, if not attained, would seriously impair the likelihood of achieving a business objective. This term is always included in a glossary of strategic terms.

Internal Process Perspective: The perspective used to monitor the effectiveness of key processes at which the organization must excel in order to achieve its objectives and mission.

Matrix: "A 'matrix' is "a structure that assigns specialists from functional departments to work on one or more interdisciplinary team that are led by project leaders" (Burton & Obel, 2004)."

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. What is situation analysis? What is the need and timeline?
2. What are the elements of situation analysis?
3. Define SWOT.
4. Define TOWS.
5. Discuss TOWS strategies in detail.
6. What is PERT and CPM? What is the difference between the two?
7. Discuss steps in PERT/CPM.
8. What is Portfolio analysis?
9. What is BCG matrix? Discuss steps.
10. What is Ansoff Growth matrix? Discuss its four growth options.
11. What is ADL matrix?
12. Discuss GE McKinsey Matrix in detail.
13. Define strategic planning.
14. Discuss Glueck & Jauch Generic Strategic Alternative.
15. Discuss Porter's Generic Strategies in detail.

LIST OF FURTHER READINGS

- Strategic Planning For Public And Nonprofit Organizations: A Guide To Strengthening And Sustaining Organizational Achievement 5Th Edition by John M Bryson, JOHN WILEY
- Strategic Management: Planning For Domestic & Global Competition 13Th Edition by John Pearce & Richard Robinson, Mc Graw Hill India.
- Learning to Think Strategically, by Julia Sloan of Columbia University.
- Good Strategy/Bad Strategy: The Difference and Why It Matters by Richard P. Rumelt

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