Corporate Strategy And Entrepreneurship

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Unit01: Overview of Strategic Management

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Self Assessment

Answers for Self Assessment

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Objectives

After studying this unit, you should be able to

- develop an orientation towards strategic management.
- define strategy and its dimensions.
- illustrate the role of strategy in corporate sustainability.
- interpret the strategic management process.
- define mission statement in strategic management.
- critically appraise and design strong and compelling mission statement.
- define Vision statement in strategic management.
- critically appraise and design strong and compelling vision statement.

Introduction

Strategic Management is all about the identification and description of the strategies that managers can carry to achieve better performance and a competitive advantage for their organization. A company is going to have a competitive advantage if its net profitability is higher than the average profitability for all organizations in its industry.Strategic management can also be defined as a bunch of decisions and acts which anexecutive undertakes, and which decides the result of the organization's performance.

It applies to both small as well as large organizations as even the smallest organizations face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage. This is how the manager who looks after the strategic decisions set the objectives and proceed about attaining them. It tackles with making and implementing decisions about the future direction of the firm. It helps the top management to identify the direction in which the firm is moving.

Strategic management is a continuous process that evaluates and controls the business and the industries in which a firm is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies regularly to determine how it has been implemented and whether it was successful or does it need replacement.

Strategic Management gives a wide perspective to the employees of a firm and they can better understand how their job fits into the entire organizational plan and how it is co-related to other firm's members.One of the major roles of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

The foundation for the strategic management is laid by the hierarchy of strategic intent. The concept of strategic intent makes clear what an organisation stands for. few aspects about strategic intent are as follows:

- It is an obsession with an organization.
- This obsession may even be out of proportion to their resources and capabilities.
- It envisions a derived leadership position and establishes the criterion; the organization will use to chart its progress.

It involves the following:

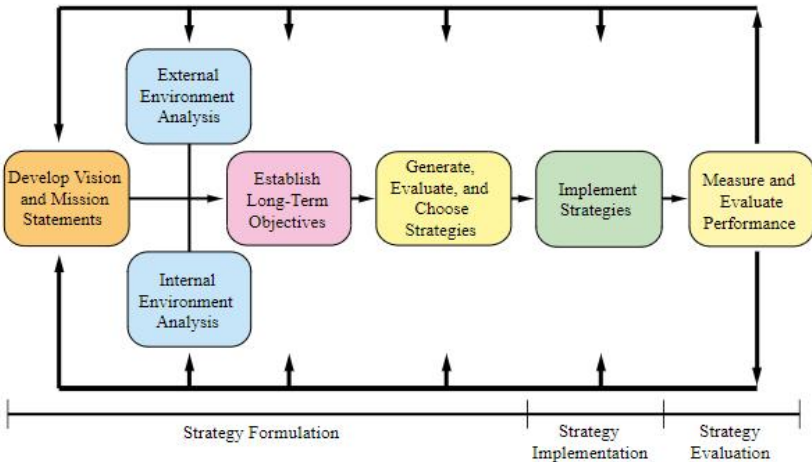
- Creating and Communicating a vision
- Designing a mission statement
- Defining the business
- Setting objectives

Vision serves the purpose of stating what an organization wishes to achieve in the long run.

Mission relates an organization to society.

Business explains the business of an organization in terms of customer needs, customer groups and alternative technologies.

Objective's state what is to be achieved in a given time period.



Strategic intent is the term used to describe the aspirational plans, overarching purpose or intended direction of travel needed to reach an organizational vision. Beneficial change results from the strategic intent, ambitions and needs of an organization. The strategic intent concept also encompasses an active management process that includes focusing the organization's attention on the essence of winning.

Organizations need support from their key stakeholders, such as employees, owners, suppliers, and customers, if they are to prosper. A mission statement which engages stakeholders will help develop an understanding of why they should support the organization and make clear what important role or purpose the organization plays in society – also called a "social license to

operate." Google's mission, for example, is "to organize the world's information and make it universally accessible and useful." Google pursued this mission in its early days by developing a very popular Internet search engine. The firm continues to serve its mission through various strategic actions, including offering its Internet browser Google Chrome to the online community, providing free email via its Gmail service, and making books available online for browsing.

An organization's vision describes what the organization hopes to become in the future. Well-constructed visions clearly articulate an organization's aspirations. Effective strategic leaders are able to convince employees to embrace lofty ambitions and move the organization forward. In contrast, poor strategic leaders struggle to rally their people and channel their collective energy in a positive, focused direction.

1.1 Strategic Management

Strategic management is the management of afirm's resources to achieve its goals and objectives. Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies across the organization.

Strategic management is bifurcated into several schools of thought. A prescriptive approach to strategic management outlines how strategies should be developed, while a descriptive approach focuses on how strategies should be put into practice. These schools differ on whether strategies are developed through an analytic process, in which all threats and opportunities are accounted for, or are more like general guiding principles to be applied.

Business culture, the skills and competencies of employees, and organizational structure are all important factors that influence how an organization can achieve its stated objectives. Inflexible organizations may find it hard to succeed in a changing business environment. Creating a hurdle between the development of strategies and their implementation can make it difficult for managers to determine whether objectives have been efficiently met.

While an organization's upper management is ultimately responsible for its strategy, the strategies themselves are often sparked by actions and ideas from lower-level managers and employees. An organization may have several employees devoted to strategy rather than relying solely on the chief executive officer (CEO) for guidance.

Because of this reality, organizational leaders focus on learning from past strategies and examining the environment at large. The collective knowledge is then used to develop future strategies and to guide the behavior of employees to ensure that the entire organization is moving forward. For these reasons, effective strategic management requires both an inward and outward perspective. Let us consider an example to understand it better.

For example,a for-profit technical college wishes to increase new student enrolment and enrolled student graduation rates over the next three years. The purpose is to make the college known as the best buy for a student's money among five for-profit technical colleges in the region, intending to increase revenue.

In that case, strategic management means ensuring the school has funds to create high-tech classrooms and hire the most qualified instructors. The college also invests in marketing and recruitment and implements student retention strategies. The college's leadership evaluates whether its goals have been achieved periodically.

Helping their company find ways to be more competitive is the purpose of strategic management. To that end, putting strategic management plans into practice is the most important aspect of the planning itself. Plans in practice involve identifying benchmarks, realigning resources—financial and human—and putting leadership resources in place to oversee the creation, sale, and deployment of products and services.

1.2 Dimensions of Strategic Decisions

Strategic issues:

- require top management team decisions.
- require large amounts of the firm's resources.

- are future oriented.
- usually have multifunctional or multi-business consequences.
- require considering the firm's external environment.

Strategic issues require top management team decisions:

This is because strategic decisions over-arch several areas of a firm's operations, they require top management team involvement.Usually, only top management has the perspective needed to understand the broad implications of such decisions and the power to authorize the necessary resource allocations.We can consider an example of Marico industries from India which had a turnover of 5700 crore rupees in 2015, was dependent on two main brands: Parachute and Safolla.

Example: Marico Industries

The CEO and his team were trying to decrease the overdependence on these brands by growing the skincare initiative, Kaya. Kaya ventured into the end-to-end solutions for skincare to cater to the demographic needs of India, where people were focused on becoming more presentable to enhance their self-esteem.

Strategic Issues require substantial amounts of the firm's resources:

Strategic decisions involve substantial allocations of people, physical assets, or money that either must be redirected from internal sources or secured from outside the firm.They also commit the firm to actions over an extended period. For these reasons, they require substantial resources.

Strategic Issues are future-oriented:

Strategic decisions are based on what managers forecast, rather than on what they know. In such decisions, emphasis is placed on the development of projections that will enable the firm to select the most promising strategic options.In the turbulent and competitive free enterprise environment, a firm will succeed only if it takes a proactive stance towards change.

Strategic issues usually have multifunctional or multi-business consequences:

Strategic decisions have complex implications for most areas of the firm.Decisions about such matters as customer mix, competitive emphasis, or organizational structure necessarily involve severalof the firm's strategic business units, divisions, or program units.

Strategic issues require considering the firm's external environment:

All businesses exist in an open system, they affect and are affected by external conditions that are largely beyond their control.Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its operations. They must consider what relevant others are likely to do, including competitors, customers, suppliers, creditors, government, and labor.

1.3 Benefits of Strategic Management

- Strategy formulation activities enhance the firm's ability to prevent problems. Managers who encourage subordinate's attention to planning are aided in their monitoring and forecasting responsibilities by subordinates who are aware of the needs of strategic planning.
- Group-based strategic decisions are likely to be drawn from the best available alternatives. The strategic management process results in better decisions because group interaction generates a greater variety of strategies and because forecasts based on specialized perspectives of group members improve the screening.
- The engagement of employees in strategy formulation increases their understanding of the productivity-reward relationship in every strategic plan.
- Gaps and overlaps in activities among individuals and groups are reduced as participation in strategy formulation clarifies the difference in roles.

- Resistance to change is lowered. Though the participants in strategy formulation may be no more pleased with their own decisions than they would be with authoritarian decisions,their greater awareness of the parameters that limit the available options makes them more likely to accept those decisions.

1.4 Strategy

Definition:

Johnson and Scholes (Exploring Corporate Strategy) define strategy as follows:

"Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the firm through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations".

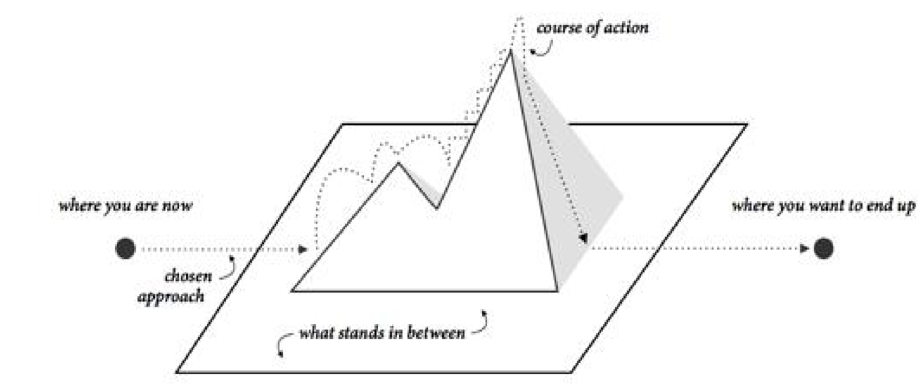
The important elements of the definition are highlighted below for a better understanding of it.

"Strategy is the **direction** and **scope** of an organization over the **long-term**: which achieves **advantage** for the organization through its configuration of **resources** within a challenging **environment**, to meet the needs of **markets** and to fulfil **stakeholder** expectations".

Let us understand the important element's role while framing a strategy:

- Where is the business trying to get to in the long-term? (**direction**)
- Which markets should a business compete in and what kind of activities are involved in such markets? (**Markets; Scope**)
- How can the business perform better than the competition in those markets? (**advantage**)
- What resources (skills, assets, finance, relationships, technical competence, facilities) are required to be able to compete? (**resources**)
- What external, environmental factors affect the business's ability to compete? (**environment**)
- What are the values and expectations of those who have power in and around the business? (**stakeholders**)

Strategy definition can also be understood with the help of representation mentioned below:



Several key aspects are fundamental to all forms of strategy:

- o An understanding of where you are now
- o A clear sense of where you want to end up
- o An assessment of what stands in between
- o A decision about how to approach the challenge
- o A specific course of action to undertake.

So, in a nutshell, if we see what is strategy?
Simply put together it is:

- Large-scale, future-oriented plan for interacting with the competitive atmosphere to achieve objectives
- Company's "game plan"
- Framework for managerial decisions

Now let us understand strategy with the help of an example.

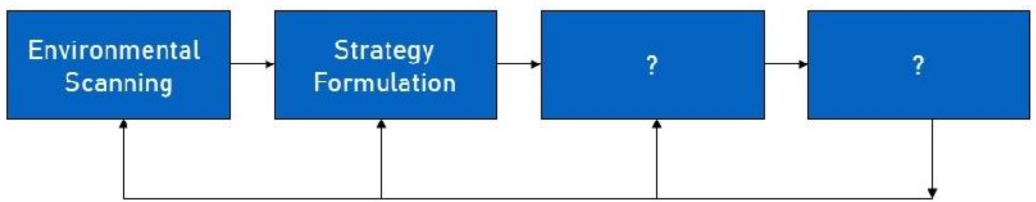
Example: How the Tik Tok ban impacted Byte Dance Valuation in 2020.

ByteDance was founded in March 2012 by Zhang Yiming, and it is best known for its mobile apps with entertainment value. It competes head-to-head with other Chinese tech giants like Alibaba, Baidu, and Tencent. Its current apps include TikTok, Helo (an Indian social media app).
In 2020, the Indian government banned 59 Chinese apps including TikTok, UC Browser, Shein, and ShareIt. India accounted for the highest downloads of 30.3% of TikTok apps worldwide. This external event has impacted the strategy of Byte Dance as it was in the process of coming up with its IPO with a hefty valuation of $78 billion(the World's expensive valued private startup) in Dec 2019 after a Soft bank-led $3 billion investment round. This reflects an example of strategy.

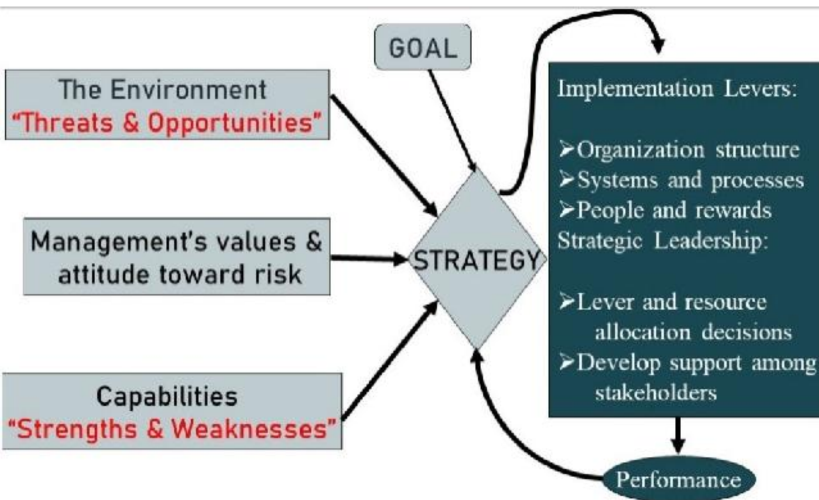
1.5 Strategic Management Process

To understand the strategic management process, firstly we need to go through the conceptual overview. It consists of the external environment, management of the organization, and internal environment along with the goal of the organization. After scanning the external environment and taking note of the opportunities that are lying in the market untapped, management focuses upon the internal capabilities and resources. Once the organization is having a clear-cut sense of the situation then it opts for a strategy that will help the organization in achieving the desired results.

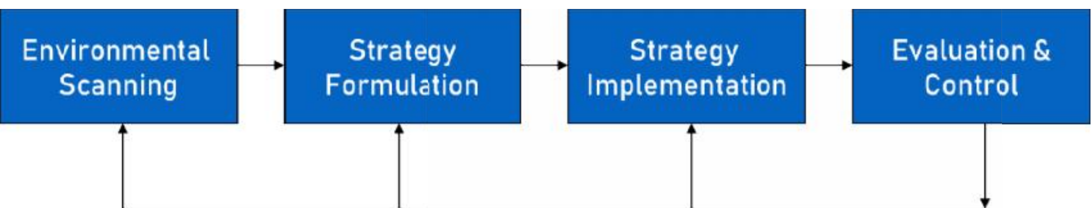
These aspects of the strategic management process are categorized as environmental scanning and strategy formulation. As depicted in the representation below:



Now, this leads to the other half of the strategic management process that consists of the implementation levers and performance evaluation parts as shown in the representation that follows.



Implementation levers help in the smooth execution of the strategy and performance evaluation can be done to bring any amendment if required. So, the process consists of four stages as shown below.



The strategic management process has the following four steps that are being discussed in brief for better understanding:

Environmental Scanning-

It refers to a process of collecting, scrutinizing, and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it continuously and strive to improve it.

Strategy Formulation-

It is the process of deciding the best course of action for accomplishing organizational objectives and, hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business, and functional strategies.

Strategy Implementation-

Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing the decision-making process, and managing human resources.

Strategy Evaluation-

Strategy evaluation is the final step of the strategy management process. The key strategy evaluation activities are appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial/corrective actions. Evaluation makes sure that the organizational strategy, as well as its implementation, meets the firm's objectives.

With the help of the strategic management process, managers in an organization do make changes if any required in the strategy opted to achieve a particular result as can be seen in the following representation.

We can see that the intended strategy with the help of implementation levers and strategic leadership will lead to realized and emergent strategy. This emergent strategy helps the organization in achieving the desired results.

1.6 Mission

Broad and enduring statement of the unique reason of a firm's existence (Strategic Intent) that differentiates a firm from its competitors and defines the scope of its operations in terms of Product, Market & Technology.

Questions it addresses:

Why does it exist?

What activities are going to be performed?

What are the values, principles, and beliefs?

The important characteristics of the mission are:

- Short
- Memorable
- Inspiring

Mission Statement

For a mission statement to be effective it must include the following 9 components:

- ***Customers:***Who are your customers? How do you benefit them?
- ***Products or services:***What are the main products or services that you offer? Their uniqueness?
- ***Market:***In which geographical markets do you operate?
- ***Technology:***What is the firm's basic technology?

- ***Concern for survival:***Is the firm committed to growth and financial soundness?
- ***Philosophy:***What are the basic beliefs, values and philosophies that guide an organization?
- ***Self-concept:***What are the firm's strengths, competencies, or competitive advantages?
- ***Concern for public image:***Is the firm socially responsible and environmentally friendly?
- ***Concern for Stakeholders:***How does a company treat its stakeholders?

Let us take few examples to understand the mission in a better way.

Example: Google's Mission Statement

"To organize the world's information and make it universally accessible and useful".

Example: IBM's Mission Statement

"At IBM, we strive to lead in the invention, development and manufacture of the industry's most advanced information technologies, including computer systems, software, storage systems and microelectronics"

Example: Microsoft's Mission Statement

At Microsoft, "our mission and values are to help people and businesses throughout the world realize their full potential".

Example: Tata Steel's Mission Statement

"We aspire to be the global steel industry benchmark for value and corporate citizenship"

Now let us understand the importance of these mission statements in an organization with the help of a case study.

Case Study: Google in China

Though Google's U.S.-based site, Google.com, had been available in China since the site's inception in 1999, service was slow and unreliable due to extensive Chinese government censoring of international content. Google's major U.S. competitors, Yahoo!, and Microsoft MSN, had each entered the Chinese market as ISPs years earlier, agreeing to self-censor.

Google, the leading Internet search engine company in the world, entered the Chinese market in early 2000 by creating a Chinese-language version of its home page, google.com, that was in the United States but that could handle search requests from China. In this way, the technology was not subjected to Chinese censorship laws as the facilities were not within China's physical boundaries, and Google did not need a license from the Chinese government to operate its business. In 2002, the Chinese version of Google was shut down for the Chinese users and completely inaccessible for Chinese colleges and universities.

By 2005, the Chinese search engine company Baidu emerged as the leading Internet search company in China. It was clear that Google had to compromise its mission by failing to serve its users in China or compromise its mission by entering China and complying with Chinese laws that required Google to censor search results. Google's mission states "To organize the world's information and make it universally accessible and useful". Google came with a statement in newspaper and electronic media stating that "Self- censorship, like which we are now required to perform in China, is something that conflicts, deeply with our core principles. This was not something we did enthusiastically or something we're proud of at all" said Google.

Google and more than 20 other US companies had been the victims of a sophisticated cyber-attack originating from China. During investigation into these attacks, it was uncovered that the Gmail accounts of dozens of human rights activists connected with China were being routinely accessed by third parties. From a financial perspective, China represented for Google a dynamic and fast-

growing, though increasingly competitive, market. With over 105 million users online in early 2006, China's Internet market was the second in size only to that of the United States, but it still represented only about 8% of the Chinese population. According to Google's 2006 projections, the Chinese internet market was expected to grow from 105 million users to 250 million users by 2010. Moreover, in early 2006 there were already 350 million mobile phones in use in China and that number was projected to grow by about 57 million annually.

Google exited China in 2010 because the tech giant at that point, in addition to being under cyberattack, felt that the censorship requirements that were being applied to Google were not compatible with its mission at that time. Obviously, things have evolved since then and Google modified its mission statement after that.

Google's modified mission statement is:

- ***First:*** Commitment to satisfy the (a) interests of users, and by doing so to build a leading company in a highly competitive industry; and
- ***Second:*** Conviction that expanding (b) access to information to anyone who wants it will make our world a better, more informed, and freer place.
- ***Third:*** (Later Added) "Some governments impose restrictions that make our mission difficult to achieve, and this is what we have encountered in China. In such a situation, we have to add to the balance a third fundamental commitment: Be responsive to (c) local conditions".

Obviously, things have evolved since then and, as investigative news site The Intercept discovered in the year 2018, Google started a secret project to launch a Chinese search engine dubbed Dragonfly in the spring of 2017 that filters out websites and search results about human rights, democracy, religion, and peaceful protest—all based on web censorship requirements imposed by the Chinese government.

Google designed the Chinese search engine, code-named Dragonfly, to blacklist information about human rights, democracy, religion, and peaceful protest, in accordance with strict rules on censorship in China that are enforced by the country's authoritarian Communist Party government.

International human rights organizations and investigative reporters have also sounded the alarm, emphasizing serious human rights concerns and repeatedly calling on Google to cancel the project. Employees of Google also retaliated on the Google's position on Dragonfly project. Its employees state "Many of us accepted employment at Google with the company's values in mind, including its previous position on Chinese censorship and surveillance, and an understanding that Google was a company willing to place its values above its profits." After a year of disappointments including Project Maven, Dragonfly, and Google's support for abusers, its employees no longer believe that was the case.

Insisting that Google does not currently provide a search engine in mainland China, It does so from its subsidiary in Hong-Kong—Management fell short though to commit that Google would not, in the future, participate in any form of censorship with the Chinese regime in China against Chinese citizens, taking into consideration the potential that is available in China like it has a little more than 1.6 billion mobile subscribers as of yearend 2019. That's remarkable, considering China 2019 population is estimated at 1,433,783,686 people at midyear 2019 according to UN data.

China Mobile remains by far the largest Chinese cellular operator, with 950.2 million customers, of which 758 million are 4G users. China Telecom, which has been growing steadily in the past year, has moved into second place with 335.57 million mobile customers, compared to 318.4 million at Unicom.

This case study has reflected how important Mission statement is for an organization as it answers the reason for existence of that organization.

1.7 Vision

It is at the top in the hierarchy of strategic intent. It is what the firm would ultimately like to become.

A Vision statement outlines what a company wants to be:

- It concentrates on the future.
- It is a source of inspiration.
- Itprovidesclear decision-making criteria.

Effective Vision Statement

Features of an effective vision statement include:

- Clarity and lack of ambiguity: Paint a vivid and clear picture, not ambiguous
- Describing a bright future (hope)
- Memorable and engaging
- Realistic aspirations, achievable
- Alignment with organizational values and culture
- Time bound if it talks of achieving any goal or objective

There are certain questions that need to be answered by the top management while taking vision into consideration such as:

- Does everyone know, understand, and embrace the vision?
- Does everyone know what they must do in a way that is fully aligned with the vision?
- Is everyone openly acknowledged for performing in a way that is consistent with the vision?
- Is everyone corrected for performing in a manner inconsistent with the vision?
- Is everyone totally supported and empowered to perform in a manner consistent with the vision?

These questions should be answered structurally by the top management so that each member of organization is aware about the vision of the company.

Let us consider an example of an organization to understand vision better.

Example: ITC's vision statement

"Sustain ITC's position as one of India's most valuable corporations through world class performance, creating growing value for the Indian economy and the Company's stakeholders."

ITC's vision Make a significant and growing contribution towards:

- Mitigating societal challenges
- Enhancing shareholder rewards

By

- Creating multiple drivers of growth while sustaining leadership in tobacco, and
- Focusing on 'Triple Bottom Line' Performance

Enlarge contribution to the Nation's

- Financial capital
- Environmental capital
- Social capital

FMCG giant ITC, which derives 60 percent of its total revenue from cigarette business, has set an ambitious internal target of achieving Rs 65,000 crore from packaged food by 2030 in order to reach the goal of generating Rs 1 trillion revenue from non-cigarette business by that time.

In 2017, the company was the third largest packaged food company in India after Parle Products and Britannia Industries with revenue from packaged food for FY17 crossed Rs 8,000 crore.ITC need to grow at a compounded growth rate of 17.49 percent annually in foods business to achieve the set target. The packaged foods business consists of brands like Aashirvaad, Sunfeast, Bingo!, Yippee!, Kitchens of India, B Natural, mint-o, Candyman and GumOn.

To be sure, the share of cigarettes in its top line has been consistently falling, while other categories such as staples, biscuits, frozen foods, organic purees, soaps and hotels contributed more than half of ITC's gross revenue in the year ended March 2018. Overall, nearly 25 per cent of ITC's revenue comes from newer FMCG businesses under the non-cigarette portfolio.

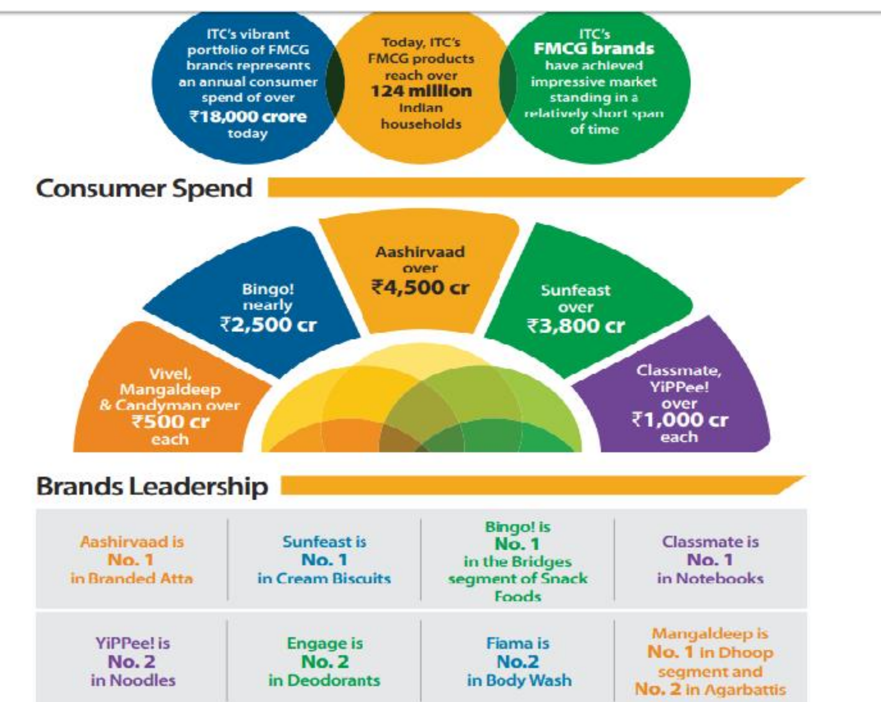
In 2019, the chairman of ITC Mr. Sanjeev Puri said that they were open to acquisitions as organization was planning to expand its fast-moving consumer goods (FMCG) business by adding newer segments under its portfolio. To accelerate growth, the company's endeavour was not only to fortify the existing categories towards delivering industry-leading performance but also to foray into newer categories and sub-segments. This would be supported by multi-dimensional investments as well as strategic opportunities for acquisitions.

Over 50 products were launched in 2018 to strengthen existing categories and enter new segments. A strong pipeline of products was constantly being readied for progressive launch to continue delighting their consumers and create new levers of growth for the FMCG businesses.

In the last two to three years, ITC has expanded its FMCG portfolio by foraying into new segments such as the luxury 'Fabelle' Chocolate's collection, dairy & dairy beverages under the 'AashirvaadSvasti' and 'SunfeastWonderz' brands, frozen foods from the 'ITC Master Chef' collection, skincare with the premium 'Dermafique' among others. The focus remains on scaling up their businesses with growing market share and profitability.

The new FMCG segments in which company has entered have shown continued improvement in profitability during 2018-19 and 19-20 with EBITDA growing 2.6x despite the increase in marketing investments, gestation, and start-up costs of new categories as well as new facilities and increase in input costs. This growth trajectory was even sustained in 2019-20 with EBITDA growing 43% in the first nine months of the fiscal year. The investments made in nine large integrated consumer goods manufacturing facilities would over time provide structural cost advantages and enable better market servicing with progressive increase in capacity utilisation. Organization innovation engine remained at work 24*7 to create products for meeting the needs of the customers.

The organization has entered 12 new categories and built 13 new brands in the last 5 years. The focus remained on scaling up some of the categories that the company had forayed into in recent years rather than adding newer categories. The below mentioned brands are contributing maximum to the top and bottom line of the company.



ITC's Triple Bottom Line Performance

ITC has done phenomenally well towards its triple bottom line performance. As can be seen from the chart above.

ITC core values are aimed at developing a customer-focused, high-performance organization which creates values for all its stakeholders.

Trusteeship: As professional managers, they are conscious that ITC has been given to them in trust by their stake holders. The company will actualize stakeholder value and interest on a long-term sustainable basis.

Customer focus:They are always customer focused and will deliver what the customer needs in terms of value, quality and satisfaction.

Respect for people: They are result oriented, setting high performance standards for themselves as individuals and teams, they will simultaneously respect and value people and uphold humanness and human dignity. They acknowledge that every individual brings different perspectives and capabilities to the team and that a strong team is founded on a variety of perspectives. They want individuals to dream, value differences, create and experiment in pursuit of opportunities and achieve leadership through teamwork.

Excellence: They do what is right, do it well and win. They will strive for excellence in whatever they do.

Innovation:They will constantly pursue newer processes, products, services and management practices.

Nation Orientation:They are aware of their responsibility to generate value for the nation. In pursuit of their goals, they will make no compromise in complying with applicable laws and regulations at all levels.

In 2020, Diversified conglomerate, ITC had launched as many as 70 products in the non-cigarettes fast moving consumer goods (FMCG) space cashing in on the changing dynamics of the pandemic-stricken consumer space, beating its previous high of 60 launches.

The 70 launches were made in the first half of the financial year alone and were mostly focused on hygiene, health & wellness, naturals and convenience, which were in high demand as Covid -19 raged across the world. The number of launches exceeds what ITC had done in the whole of the last financial year; in 2019-20, ITC had 60 launches, while in the year before, the number stood at 50.

ITC's Segment Revenue

Source: company presentation

ITC is also focussed in expanding its dairy business which it has identified as one of the growth drivers in its quest to achieve Rs one lakh crore sales from FMCG business by 2030. It already has products like ghee and milk and curd.The organized part of India's dairy market is dominated by Gujarat Cooperative Milk Marketing Federation Ltd, that owns the Amul brand, which reported revenues of Rs. 29,220 crores in fiscal 2018.Other key players include Nestle India Ltd and Britannia Industries Ltd that have a nationwide presence. Moreover, each region is dominated by well-

entrenched local players such as Mother Dairy and Kwality in the north, Prabhat and Parag in the west, Hatsun and Heritage in the south, and Metro and Mother Dairy in the east.

Besides, there are strong co-operatives brands such as Nandini in Karnataka, Vijaya in Andhra Pradesh, Verka in Punjab, Saras in Rajasthan, Milma in Kerala, Gokul in Kolhapur and Sudha in Bihar. So Itc is looking grab atleast 15% of the market share in this segment.

This example of ITC has shown how the organization aligns it's all resources to achieve what the organization has aspire for in its vision statement. Therefore, vision of the organisation plays a vital role in providing direction to the overall organization.

Summary

Strategic management is the management of an organization's resources to achieve its goals and objectives.

Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies across the organization.

Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets, and to fulfill stakeholder expectations

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers choose a set of strategies for the organization that will enable it to achieve better performance.

Environmental scanning refers to a process of collecting, scrutinizing, and providing information for strategic purposes.

Strategy formulation is the process of deciding the best course of action for accomplishing organizational objectives and, hence achieving organizational purpose.

Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action.

Strategy evaluation is the final step of the strategy management process. The key strategy evaluation activities are appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial/corrective actions.

Strategic intent is the term used to describe the aspirational plans, overarching purpose or intended direction of travel needed to reach an organisational vision.

Mission is broad and enduring statement of the unique reason of a firm's existence (Strategic Intent) that differentiates a firm from its competitors and defines the scope of its operations in terms of Product, Market & Technology.

The important characteristics of the mission are short, memorable and inspiring.

Vision is at the top in the hierarchy of strategic intent. It is what the firm would ultimately like to become.

The concept behind the triple bottom line is that companies should focus as much on social and environmental issues as they do on profits.The TBL consists of three elements: profit, people, and the planet.The triple bottom line aims to measure the financial, social, and environmental performance of a company over time.

Keywords

Strategy: It is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets, and to fulfill stakeholder expectations

The strategic management process:It means defining the organization's strategy. It is also defined as the process by which managers choose a set of strategies for the organization that will enable it to achieve better performance.

Strategic intent: It is the term used to describe the aspirational plans, overarching purpose or intended direction of travel needed to reach an organisational vision.

Mission:It is abroad and enduring statement of the unique reason of a firm's existence (Strategic Intent) that differentiates a firm from its competitors and defines the scope of its operations in terms of Product, Market & Technology.

Vision: It is at the top in the hierarchy of strategic intent. It is what the firm would ultimately like to become.

Triple Bottom Line:The triple bottom line aims to measure the financial, social, and environmental performance of a company over time.

Self Assessment

1. Which of the following lists is the hierarchy of organizational goals in order from least specific to most specific?

A. mission statements, strategic objectives, vision statements.

B. mission statements, vision statements, strategic objectives.

C. vision statements, strategic objectives, mission statements.

D. vision statements, mission statements, strategic objectives.

2. Vision statements are used to create a higher understanding of the organization's overall direction and purpose. Vision statement

A. provide specific objectives.

B. are very specific.

C. evoke powerful and compelling mental images.

D. set organizational structure.

3. The "triple bottom line" approach to corporate accounting, according to the text, includes which three components

A. financial, organizational, and psychological.

B. financial, environmental, and customer.

C. financial, organizational, and customer.

D. financial, environmental, and social.

4. A possible and desirable future state of an organization is called:

A. Mission

B. Vision

C. Strategy implementation

D. Strategy formulation

5. What are the guides to decision making?

A. Rules

B. Procedures

C. Policies

D. Goals

6.Members of an organization's board of directors should, while working to prioritize and fulfill their responsibilities,

A. Direct all actions of the CEO.
B. Emphasize the importance of short-term goals.
C. Represent their own interests.
D. Represent the interests of the shareholders.

7. As our world increases in complexity, the global environment is increasingly challenging and competitive. The key to effective globalization is

A. More people speaking more languages.
B. The flow of capital, people, and information.
C. Governmental regulations.
D. The flow of goods.

8. An organization's mission, in contrast to it's vision, should

A. be less detailed.
B. encompass all the major rules and regulations of the corporate work force.
C. encompass both the purpose of the company as well as the basis of competition.
D. be shorter in length.

9. The ___ of a company is variously called a statement of philosophy, a statement of beliefs and a statement of

purpose.

A. Mission statement
B. Vision statement
C. Quality principles
D. Policy

10. _______________is the term used to describe the aspirational plans, overarching purpose or intended direction of travel needed to reach an organisational vision.

A. Strategic audit
B. Strategic intent
C. Strategic review
D. None of these

11. The fundamental purpose of an organization's mission statement is to

A. create a good human relations climate in the organization
B. define the organization's purpose in society
C. define the operational structure of the organization
D. generate good public relations for the organization

12. Which of the following defines how each individual business unit will attempt to achieve its mission?

A. Business strategy

B. Corporate strategy
C. Functional strategy
D. National strategy

13. Of the following, which one would NOT be considered one of the components of a mission statement?

A. The target market for XYZ is oil and gas producers as well as producers of chemicals.
B. XYZ shall hire only those individuals who have with sufficient educational levels so as to be of benefit to our customers
C. The customers of XYZ shall include global and local consumers of gas and oil products and domestic users of nontoxic chemicals
D. The technologies utilized by XYZ shall focus upon development of alternative sources of gas and oil to remain competitive within the industry

14. A firm's mission

A. is a statement of a firm's business in which it intends to compete and the customers which it intends to serve.
B. is an internally focused affirmation of the organization's financial, social, and ethical goals.
C. is mainly intended to emotionally inspire employees and other stakeholders.
D. is developed by a firm before the firm develops its vision.

15. What can be defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives?

A. Strategy formulation
B. Strategy evaluation
C. Strategy implementation
D. Strategic management

16. Strategy implementation and formulation is a challenging, ongoing process. To be effective, it should involve

A. buyers.
B. suppliers
C. the CEO, the board of directors, CFO, and line & staff managers.
D. none of these.

17. The "advance work" in the strategic management process is comprised of

A. strategy formulation.
B. strategy implementation.
C. strategic posturing.
D. strategy analysis.

18. The term strategy is derived from a _____________ Word 'strategos'

A. Latin

B. Greek

C. Chinese

D. German

19. Strategic management is the management of an organization's resources to achieve its____________.

A. Profit

B. Goals and Objectives

C. Market Share

D. Competitive advantage

20. The process of strategic management is a/an _____________ one that changes as the organizational goals and objectives evolve.

A. Systematic

B. Stable

C. Continuous

D. Interesting

21. The fundamental purpose for the existence of any organization is described by its

A. Policies

B. Mission

C. Procedure

D. Strategies

22. Which of the following is not a characteristic of strategic management that makes it different from other types of management?

A. It is interdisciplinary.

B. It has an external focus.

C. It has an internal focus.

D. It concerns the present direction of the firm.

23. The task of strategy choice involves_________________.

A. Developing plans and activities which will improve the organization's performance and competitive position

B. Determining how the organization can be more market and efficiency-oriented

C. Monitoring whether the organization is achieving good profits

D. Keeping the organization debt free

24. ______________involves setting goals or targets which demand stretching of the present resource base and capabilities for
their fulfillment.

A. Strategic plan

B. Strategic objectives

C. Social audit

D. Strategic intent

25. Strategy is the __________ and scope of an organization over the long-term.

A. Resources

B. Markets

C. Direction

D. Environment

26. Which of the following is not a part of the strategic management process?
A. Strategy implantation
B. Strategy formulation
C. Strategy evaluation
D. Environmental scanning

27. Which of the following is not an implementation lever in the strategic management process?
A. Organization structures
B. Legal policies
C. People and rewards
D. System and processes

28. When defining strategic management, the most important thing to remember is that it is:
A. Not as easy as you think
B. Mainly the province of senior managers
C. A living evolving process
D. More conceptual than practical

29. The primary focus of strategic management is:
A. strategic analysis
B. the total organization
C. strategy formulation
D. strategy implementation.

30. Which of the following is not an advantage of strategic management?
A. It provides organizations with a clearer sense of direction and purpose
B. It helps improve the political, economic, social, and technological environment of the organization
C. It helps orientate management decisions to relevant environmental conditions
D. It helps organizations be proactive rather than reactive

Answers for Self Assessment

1.	D	2.	C	3.	D	4.	B	5.	C
6.	D	7.	B	8.	C	9.	A	10.	B
11.	B	12.	A	13.	B	14.	A	15.	D
16.	D	17.	A	18.	B	19.	B	20.	C
21.	B	22.	D	23.	A	24.	D	25.	C
26.	A	27.	B	28.	C	29.	B	30.	B

Review Questions

1. In what ways do you think the subject matter in this corporate strategy course will differ from that of previous courses you have taken?

2. Do you expect outstanding performance in this course to require a great deal of memorization? Why or why not?

3. Think about the courses you have taken in functional areas, such as marketing, finance, production, personnel, and accounting. What is the importance of each of these areas to the strategic planning process?

4. Discuss in brief the strategic planning process.

5. How do you explain the success of firms that do not use a formal strategic planning process?

6. What do you understand by Mission statement of an organization? Explain with an example.

7. Do you agree that a mission statement provides substantive guidance while a vision statement provides inspirational guidance? Explain.

8. What do you understand by vision statement of an organization? Explain with an example.

9. How can a mission statement be an enduring statement of values and simultaneously provide a basis of competitive advantage?

10. Do you think a business organization in today's society benefits by defining a socially responsible role for itself? Why or why not?

Further Readings

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Unit02: External & Internal Analysis

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Objectives

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Summary

Keywords

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Objectives

After studying this unit, you should be able to

- appraise and adapt to turbulent remote business environment.
- evaluate remote business environment to exploit business opportunities and thwart threats.
- appraise and adapt to dynamic industry and operating business environment.
- evaluate industry business environment to be competitive in the market.
- make use of the concept of swot analysis.
- analyze the importance of value chain analysis in an organization.
- understand the resource-based view of the firm.
- distinguish different types of tangible and intangible resources, as well as organizational capabilities.

- outline practical approach to developing strategies based upon the analysis of resources & capabilities.
- apply the concepts of benchmarking.
- apply EFE & IFE matrix for External &Internal environmental analysis.

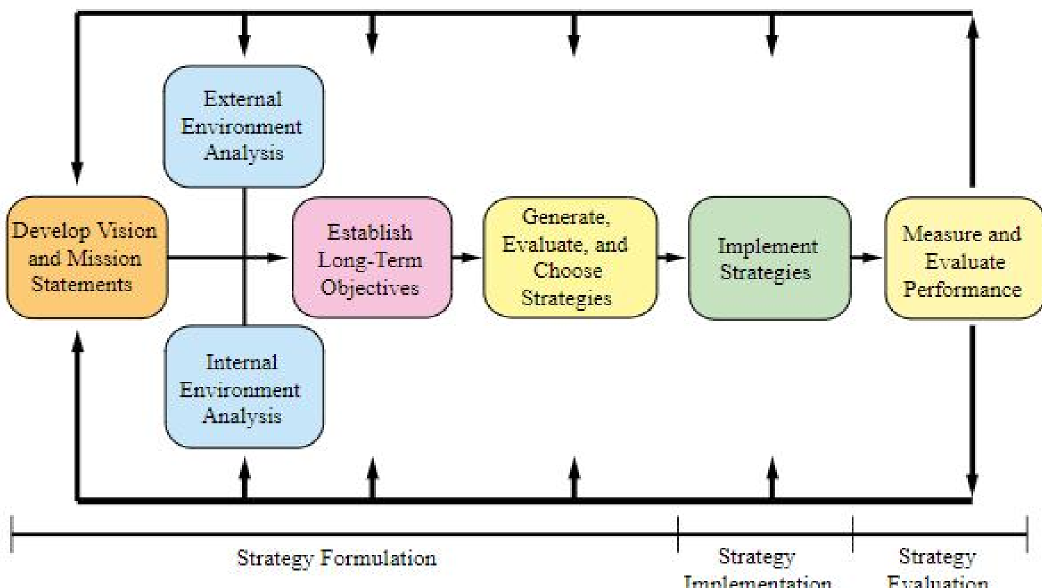
Introduction

An external environment is composed of all the outside factors or influences that impact the operation of business. The business must act or react to keep up its flow of operations.To succeed and thrive, organizations must adapt, exploit, and fit with the forces in their external environments. Organizations are groups of people deliberately formed together to serve a purpose through structured and coordinated goals and plans. As such, organizations operate in different external environments and are organized and structured internally to meet both external and internal demands and opportunities.

An internal analysis examines an organization's internal environment to assess its resources, assets, characteristics, competencies, capabilities, and competitive advantages.Every internal analysis should be accompanied by an external analysis, which evaluates the external environment and external factors that influence the organization. The combination of both an internal & external scan is key in gaining a holistic picture of the organization's environment and developing a strategy that will allow an organization to succeed.

An internal analysis will highlight an organization's internal strengths and weaknesses about its competencies, resources, and competitive advantages. Once complete, the organization should have a clear idea of where it's excelling, where it's doing okay, and where its currents deficits and gaps are. The analysis will arm management with the knowledge to make full use of its strengths, expertise, and opportunities. It also allows management to develop strategies to mitigate any threats and compensate for identified weaknesses and disadvantages.

Before undertaking an internal analysis, the manager needs to decide which tools he would like to use to conduct the analysis. Many tools and frameworks exist, and each is valuable for a certain purpose. We would be discussing the same in this unit itself.

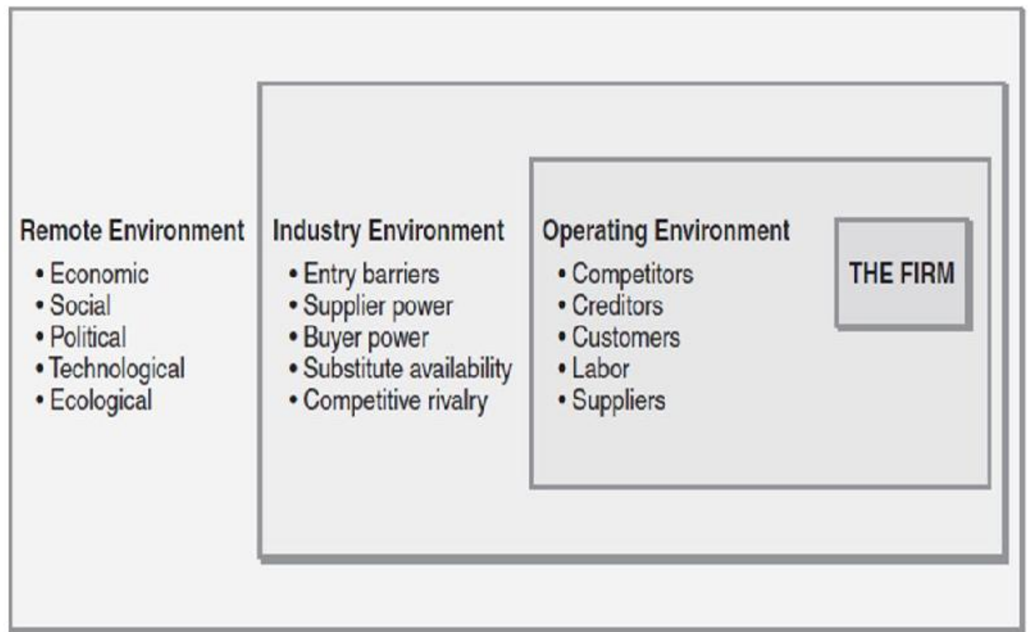


So far in strategic management process we have seen how an organization develops its mission and vision statements. After developing the organization mission and vision, the top management focuses upon the environment scanning. The top management do the external environment analysis and try to identify the untapped opportunities that organization can exploit. It also focuses upon the threats that can act as a hurdle in smooth conduct of the organization. Along with the

external environment analysis focus would also be on internal analysis in this unit, where SWOT, resource based view and organizational capabilities are going to be discussed.

2.1 The Firm's External Environment

External environment or far environment includes a combination of all factors coming from the outside of the organization that affect its performance. The company itself, however, does not effect on them. An example might be a change of the ruling elites, regulations, or demographic trends. Analysing the far environment further not have a clear canon of research and well-defined scope. Analysis depends primarily on the level of gravity of the phenomenon for the manager and his own interpretation of the opportunities and threats.



The firm's external environment consists of three layers of environments, the farthest from the firm is remote environment followed by industry environment and closest is the operating environment. The remote environment focuses upon the external factors that are beyond the control of the organization. The organization needs to adapt to the changing external environment taking into consideration the strategies that can align well with the changing trend.

2.2 Remote Environment

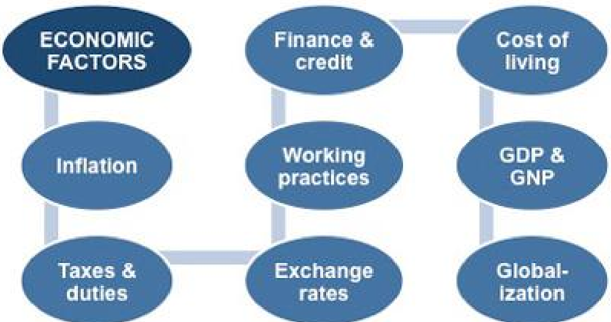
It comprises factors that originate beyond, and usually irrespective of, any single firm's operating situation:

- Economic factor
- Social factor
- Political factor
- Technological factor
- Ecological factor

For example, when the economy slows and construction starts to decrease, an individual contractor is likely to suffer a decline in business, but that contractor's efforts in stimulating local construction activities would be unable to reverse overall decrease in construction starts.

Economic Factors

It concerns the nature and direction of the economy in which a firm operates.



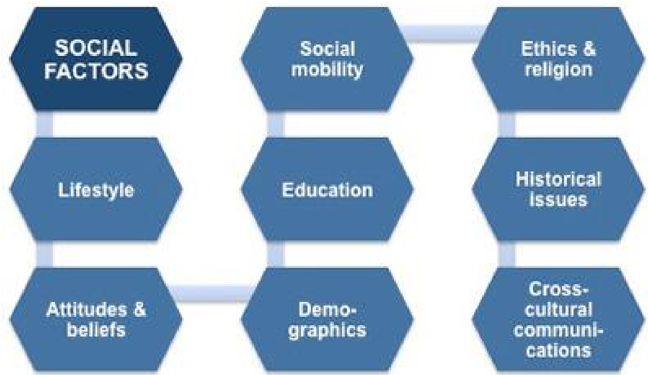
Example: In context of Indian IT firms

Changes in economic factors can be difficult to interpret. The continuous free fall of the Indian rupees against US dollar in 2013 brought new challenges for the Indian's small IT software exporters. International clients tried to persuade small software exporters to renegotiate contracts expecting further slide of the rupee.

Earlier cheap Indian software was a demand driver post the rupee slide, technology firms had to provide expertise in specific technologies or a set of multiple technologies to gain clients. Thus they were required to change their business models and core competencies.

Social Factors

It involves the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographics, religious, educational and ethnic conditioning.



As social attitudes change, so does the demand for various types of clothing, books, leisure activities, and so on. Like other forces in the remote environment, social forces are dynamic, with constant change resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. Let us understand the same with the help of an example.

Example: Men with beards are taking a heavy toll on razor industry

Let it grow. That's what some bearded men are doing to save time and, in some cases, money, to boost their own personal brand and professional image. Many millennial men ditching razors,in 2019 P&G blamed its $8 billion write down on its men's grooming brand Gillette on millennial men who aren't shaving as much as previous generations.

Lower shaving-frequency has reduced the size of the developed blades and razors market, The U.S. men's market for shaving products has shrunk by over 11% in the past five years, according to data from Euromonitor.

The U.S. men's razors and blades market were worth $2.4 billion 2015 and declined to $2.2 billion in 2018, according to the same report. We have an ambiguous relationship to men with beards: Beards

are increasingly trendy,despite research suggesting that men with facial hair are regarded as more mature, but also dominant and aggressive, according to a 2012 study from the Behavioural Ecology journal.

Another study from the University of Queensland in Australia showed children a photo of a man with a beard and the same man clean-shaven side-by-side and asked them to point out which man looked best. Most kids avoided the bearded men, but kids around the age of puberty associated bearded men with being older and stronger.With no signs of slowing down, it seems like the beard trend really is here to stay. And as men continue to ditch their razors in favour of sprouting some hair on their face, unfortunately it just so happens that those companies who make their money off razors and shaving products like Gillette are going to suffer.

Political Factors

It defines the legal and regulatory parameters within which firms must operate. Political constraints are placed on firms through fair-trade decisions, antitrust laws, tax programs, minimum wage legislation and many other actions aimed at protecting employees, consumers, the general public, and the environment.

The degree of political risk threatens the short-term profit and long-term sustainability of business activity. Therefore, managers evaluate politics and law and estimating the resulting risks to the profitability and sustainability of their operations.

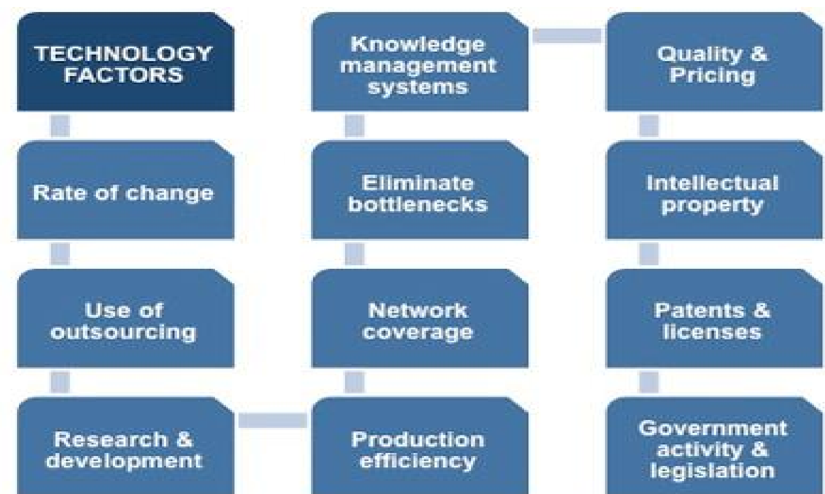
Example: Trade war between The USA and China

One of Trump's main 2016 campaign themes were that the US, the world's biggest economy had been taken advantage of by its trade partners and he pledged to shake up global trade arrangements and eliminate the nation's trade deficit. This is basically indicating towards the change in political and legal environment.

While the US trade deficit with China, which was Trump's main target has indeed shrunk, imports from Canada and Mexico have jumped, deepening the overall deficit. The import tariff increases that Washington has imposed on many products have "protected American manufacturers". But those tariffs also "raised production costs" for US industry and demonstrated the extent of the reliance on Chinese suppliers.

TechnologicalFactors

A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility.



Let us take an example to understand it better

Example: The moment it all went wrong for Kodak

Eastman Kodak, the 131-year-old film pioneer that has been struggling for years to adapt to an increasingly digital world, filed for bankruptcy protection.How did Eastman Kodak plummet from being the fourth most valuable brand in the U.S. with $15 billion of revenue in 1996 to bankruptcy by 2012?

Timelines for Kodak

In 1884, American inventor George Eastman, who later becomes founder of the Eastman Kodak Company, patents photographic film stored in a roll.

In 1888, the Kodak name is trademarked. The first Eastman Kodak camera is released and costs around $25 (about £400 in today's money).

In 1891, the company opens its first international manufacturing site in the London suburb of Harrow, taking advantage of Europe's booming photography market.

In 1900, Kodak launches the Brownie camera, priced at $1, which is credited with bringing photography to the masses.

In 1922, Kodak produces 147,000 miles of motion picture film a year, using one-twelfth of the silver mined annually in the US.

In 1975, Kodak becomes the first company to make a digital camera. It took 23 seconds to expose each image.

In 1976, more than 90 per cent of photographic film and more than 85 per cent of cameras sold in the US are made by Kodak.

In 1994, one of the first consumer digital cameras, the QuickTake, is launched by Apple. It is made by Kodak.

In 2004, as the popularity of digital cameras grows, Kodak finally abandons the film camera.

In 2005, Kodak is the largest digital camera retailer in the US, raking in up to $5.7bn in sales.

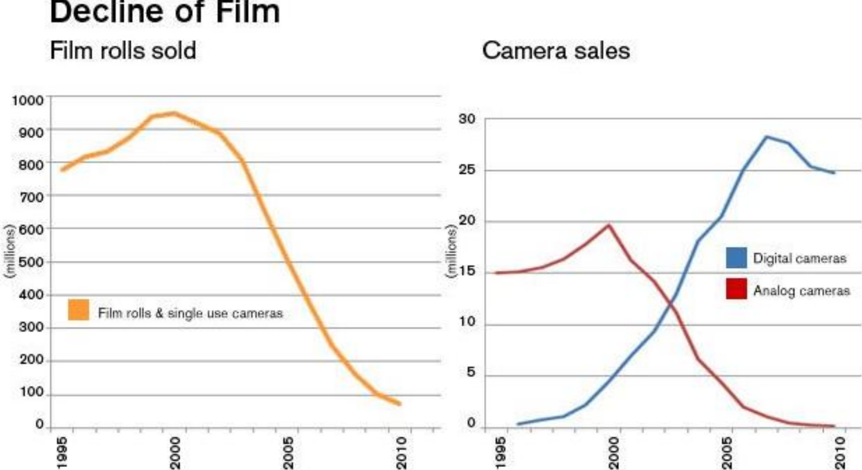
In 2007, Kodak falls to fourth biggest digital camera retailer. By 2010, it is the seventh biggest.

In 2009, after 74 years of production, Kodak stops selling 35mm colour film.

In 2011, Kodak shares fall by more than 80 per cent, partly because the company struggles to meet pension costs for its employees.

In 2012, Kodak files for chapter 11 bankruptcy.

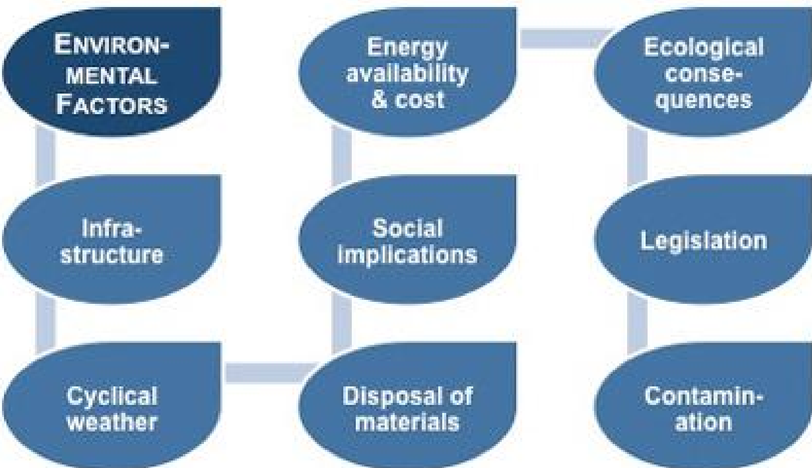
Technological Change for Kodak



As, it can be seen from the chart, that the sales for film rolls decline steadily for the company along with analog cameras. Kodak got late in adopting to the change in technology and therefore paid a price in the form of bankruptcy. After decades of being an undisputed world leader in film photography, Kodak built the first digital camera back in 1975. But then, the story goes, the company couldn't see the fundamental shift (in its particular case, from analog to digital technology) that was happening right under its nose.

Ecological Factors

The term ecology refers to the relationships among human beings and other living things and the air, soil, and water that support them.



Threats to our life-supporting ecology caused principally by human activities in an industrial society are commonly referred to as pollution. Specific concerns include global warming, loss of habitat and biodiversity, as well as air, water and land pollution. We can take an example of Unilever purpose driven brands. The brands like lifebuoy has done extremely well, when company associated it with a purpose of creating awareness among children below the age group of five to wash their hands.

2.3 Industry Environment

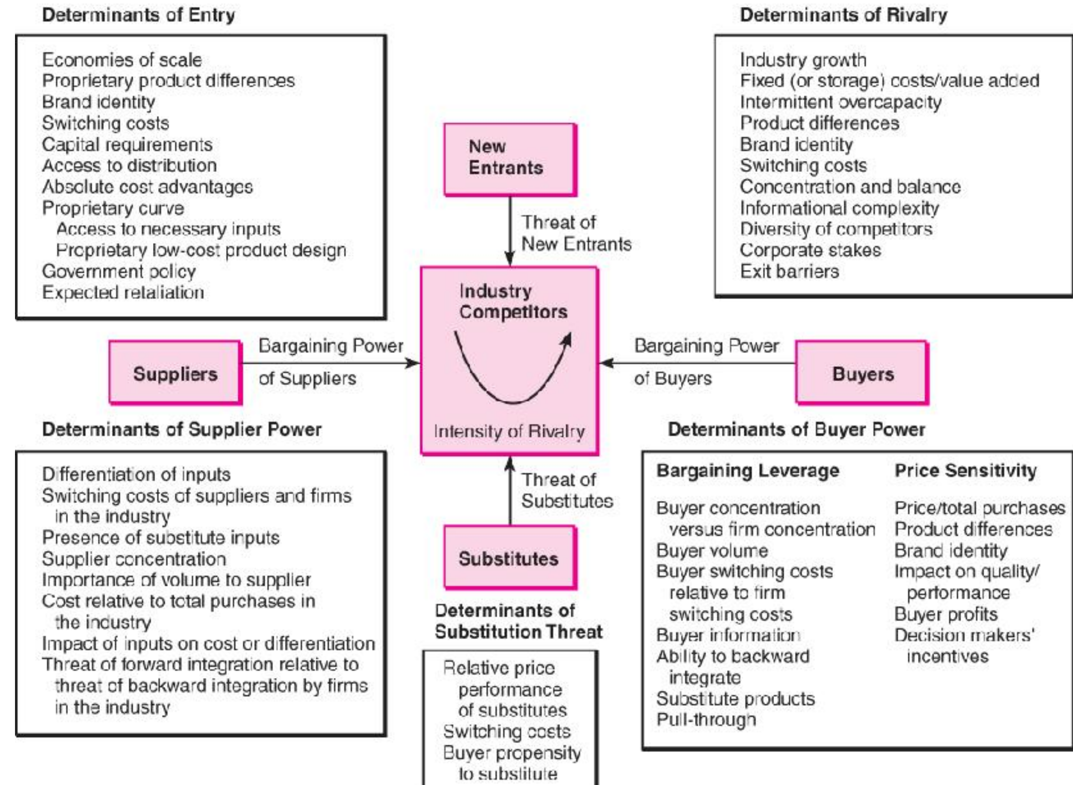
The general conditions for competition that influence all businesses that provide similar products and services.The state of competition in an industry depends on five basic forces. This is also known as Porter's five forces model.

The collective strength of these forces determines the ultimate profit potential of an industry. It ranges from intense in industries like tyres, metal cans, and steel, where no company earns spectacular returns on investment,to mild in industries like oil-field services and equipment, soft drinks, and toiletries, where there is room for quite high returns.

Whatever their collective strength, the corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them its favor.Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company.

It clarifies the areas where strategic changes may yield the greatest payoff and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats.

Porter's Five Forces Model



Determinants of Entry

- Economies of scale
- Product differentiation
- Capital requirements
- Cost disadvantages independent of size
- Access to distribution channels
- Government policy

Economies of scale

These economies deter entry by forcing the aspirant either to come in on a large scale or to accept a cost disadvantage. Economies of scale also can act as hurdle in distribution, utilization of the sales force, financing, and nearly any other part of a business.

Production differentiation

It creates a barrier by forcing entrants to spend heavily to overcome customer loyalty. Activities like advertising, and customer service are among factors fostering brand identification.

Capital Requirements

The need to invest large financial resources to compete creates a barrier to entry, particularly if the capital is required for unrecoverable expenditures in upfront advertising or R&D.

Cost disadvantage independent of size

The causes of the decline in unit costs are a combination of elements, including economies of scale, the learning curve for labor, and capital-labor substitution. The cost decline creates a barrier to entry because new competitors with no experience face higher costs than established ones.

Access to distribution channels

A new food product for example, must displace others from the supermarket shelf via price breaks, promotions, intense selling efforts, or some other means. Sometimes the distribution channels are so toed up with incumbents that new comes should create its own distribution network like Timex did in watch industry.

Government Policy

The government can limit or even foreclose entry to industries, with such controls as license requirements, limits on access of raw materials, and tax incentives. Regulated industries like patrol liquor retailing are noticeable examples.

Determinants of Supplier

Bargaining power of suppliers- a supplier group is powerful when:

- If the supplier group is more concentrated to the industry it sells to.
- The supplier group does not depend heavily on the industry for its revenues.
- If the industry participants face high switching cost.
- If their product is unique or at least differentiated.
- There is no substitute to supplier group.
- It possesses a credible threat of forward integration.

Example: Microsoft and Intel

Bargaining power of buyers

It can be high, moderate, and low depending upon the below mentioned conditions:

- If the buyer group is concentrated and buys in large amounts.
- If the product they purchase is standardized or undifferentiated.
- Buyers face less switching cost.
- Buyers pose threat of backward integration.

Threat of substitutes

It can be high, moderate, and low depending upon the below mentioned conditions:

- If it offers better price-performance trade off
- If buyers' cost to switch to substitute is low

Rivalry among existing players

Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction, and advertising price-cutting. This type of intense rivalry is related to the presence of a number of factors:

- Competitors are numerous or roughly equal in size and power.
- Industry growth is slow
- The product or service lacks differentiation
- Exit barriers are high

2.4 Operating Environment

It comprises of factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marking its goods and services. The operating environment is typically much more subject to the firm's influence or control than the remote environment.

These factors are:

- Competitive position
- Customer profiles
- Suppliers & Creditors
- Human resource

Competitive Position

Assessing its competitive position improves a firm's chances of designing strategies that optimize its environmental opportunities. Development of competitor profiles enables a firm to more accurately forecast both its short- and long-term growth and its profit potential.

It generally includes criteria like market share, breadth of product line, price competitiveness, raw materials costs, financial positions and many more.

Customer Profiles

Perhaps the most vulnerable result of analysing the operating environment is the understanding of a firm's customers that this provides. The traditional approach to segmenting customers is based on customer profiles constructed from geographic, demographic, psychographic and buyer behaviour information.

Suppliers

Dependable relationships between a firm and its suppliers are essential to the firm's long-term survival and growth. A firm regularly relies on its suppliers for financial support, services, materials, and equipment.

Regarding its competitive position with its suppliers, the firm should address certain questions like:

- Is the supplier's price competitive?
- Do the suppliers offer attractive quantity discounts?
- Are the suppliers reciprocally dependent on the firm?

Creditors

To evaluate the firm's competitive position to its creditors some questions need to be addressed like:

- do the creditors fairly value and willingly accept the firm's stock as collateral?
- are the creditors able to extend the necessary lines of credit?

Human Resource

A firm's ability to attract and hold capable employees is essential to its success. However, a firm's personnel recruitment and selection alternatives are often influenced by the nature of its operating environment.

It is affected by four factors:

- Firm's Reputation
- Employment Rates
- Availability
- Labor Unions

2.5 SWOT Analysis

It is an acronym for the internal Strengths and Weaknesses of a firm and the environmental Opportunities and Threats facing that firm. SWOT analysis is a historically popular technique through which managers create a quick overview of a company's strategic situation. It assumes that an effective strategy is driven by a sound fit between a firm's internal resources (SW) and its external situation (OT).

A good fit maximizes a firm's strengths and opportunities and minimizes its weaknesses and threats. If it is applied accurately, this simple assumption has sound, insightful implications for the design of a successful strategy.

This tool can be used to create a sustainable niche in an organization's market and grow its market share. The SWOT analysis allows organizations to uncover the external opportunities they have the strength to exploit while simultaneously minimizing the internal factors that cause weaknesses. It also helps to reduce the risk of impending threats. Using this tool, organizations can distinguish themselves from competitors by understanding their unique capabilities and sources of competitive advantage, which can help them compete in their given marketplace.

For example, a SWOT analysis may uncover that some of a company's strengths are its talented employees and strong organizational capabilities, that its greatest weakness is its reliance on problematic supply chains and scarce raw materials, that it has an opportunity to take advantage of low-interest rates, but that the growth of Amazon threatens it. The company can then use this analysis to develop strategic alternatives that will help it meet its goals.

Strength:

A resource advantage relative to competitors and the needs of the markets a firm serves or expects to serve.

Weakness

A limitation or deficiency in one or more resources or competencies relative to competitors thatimpedes a firm's effective performance.

Opportunities

A major favorable situation in a firm's environment, like key trends,is one source of opportunities.

Threats

A major unfavorable situation in a firm's environment, like key impediments to the firm's current or desired position.

2.6 Internal Factors

Strengths: Advantages in

- Area of knowledge and human resources,
- Area of logistics, production, technology, research, and development,
- Area of sales and customer service,
- Area of finance and capacity development,
- Area of management systems and business processes.

Weaknesses: Lacking in

- Area of knowledge and human resources,
- Area of logistics, production, technology, research, and development,
- Area of sales and customer service,
- Area of finance and capacity development,
- Area of management systems and business processes.

2.7 External Factors

Opportunities: Need/Gap identification

- Changes in technology and markets on both a broad and narrow scale.
- Changes in government policy related to your field.
- Changes in social patterns, population profiles, lifestyle changes, and so on.
- Local events
- Social changes (for example demographics)
- Merger, joint venture, or strategic alliances

Threats: Potential hurdles

- New competition in the market, possibly with new products or services
- Price wars
- Economic conditions
- Political changes
- Competitor oligopoly or monopoly
- Taxation
- Availability of resources

Let us consider a small case on the Indian IT industry for a better understanding of the concept of the SWOT analysis.

Case Study: Transformation in the Indian IT industry

In October 2016, Indian IT executives received a flurry of WhatsApp and email forwards. Bloomberg, the global news agency, had a column proclaiming the imminent death of their sector. The obituary said India's pre-eminent industry was 'terminally affected by the rise of robotics and artificial intelligence.

Growth had slowed, clients were taking their IT budgets in-house or tapping smaller innovative players to run tests on new technologies, stricter visa rules were hurting the sector's ability to service clients, and the companies had hundreds of thousands of employees with limited knowledge of the skills now in demand.

Indian IT companies have had to change every part of their process, even becoming less Indian. They have shed jobs, changed how they work, upended part of their business models by focusing on hiring at client locations abroad, invested in training their employees, and chased acquisitions.

Internal Environment (S & W) of IT industry

- Hiring abroad
- Moving work offshore but not back home
- Improving employee utilization

External Environment (O & T) of IT industry

- Digital transformation
- H-1 B visa issue
- Changing regulatory environment globally
- New data protection law

Hiring abroad

The most visible change in Indian information technology is that it is becoming progressively less Indian. Every company wants to hire in local markets. Infosys said in 2016, it would hire 10,000Americans in two years.Cognizant wanted to hire 25,000 in the next few years. TCS and Wipro haven't issued targets, but 'localisation' was at the top of the agenda there too.

Moving work offshore but not back home

Even as the US has made it harder to get H-1B work visas, and local talent is scarce, IT companies have focused on moving as much work as they can offshore. Infosys in 2017, handles over 71% of its work offshore, up from a little over 70% two years ago.Wipro and TCS have also talked about bringing as much work as they can offshore. But companies said there would not be much of a shift and that offshore no longer just means India.

Take Tata Consultancy Then CEO N Chandrasekaran and current head Rajesh Gopinathan batted away questions on when growth would return and how the company, steadfast in its refusal to spend on acquisitions, might be losing out in the digital race. Services,For two years, the company’s results press conferences were dry, recitations of numbers.

Improving employee utilization

Workforce utilisation across Indian IT services has increased as companies gradually adopt automation into different layers of work at the backend.While large IT companies have historically reported utilization of nearly three-fourths of their overall workforce, in recent quarters, this has increased to more than 80% (including trainees) with a higher focus on people plus the machine-delivery model.

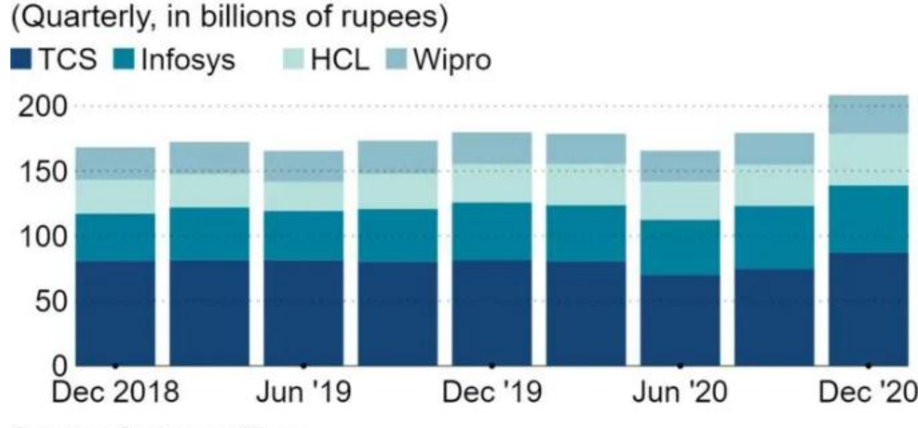
Indian IT companies are riding the digital wave pretty well, even if they have some distance to go. Indian IT companies have shown resilience in the face of the digital storm by making wise investments in cultivating new-age technologies.

The goal that time: growing digital revenue, in the hopes that it would offset the contraction in the traditional business, which is still over 60% of their revenues.

India's top information technology companies, including Tata Consultancy Services, Infosys, HCL Technologies, and Wipro surprised market watchers by reporting record results during the quarter ended December, as their global clients accelerated their digital transformation efforts amid the COVID-19 pandemic.

The IT companies all reported record quarterly net profits in an otherwise seasonally weak period. The combined net profit of the four companies surpassed 200 billion rupees ($2.7 billion) for the firsttime.
Traditionally, the main customers of Indian IT companies have been multinational corporations such as big U.S. and European financial institutions. The fact that the Indian IT industry is performing well indicates that those customers are increasing their IT spending.

The technology sector is in the midst of a massive digitization wave, with more global enterprises embracing digital transformation to address the disruption of these unprecedented times.Technology has been a key enabler during the pandemic, and as we stand at the cusp of the next phase of technological innovation, we must draw inspiration from each other's strengths and offer back our own to create a positive impact.



For all four IT companies, operating margins were in double digits in the range of 21.7% to 26.6% led by revenue growth. The four companies' combined net profit for the quarter rose 15.9% from a year earlier to 208.3 billion rupees.

With this favorable business environment, Indian IT companies are retaining their price bargaining power. Indian IT has become a global competitor.

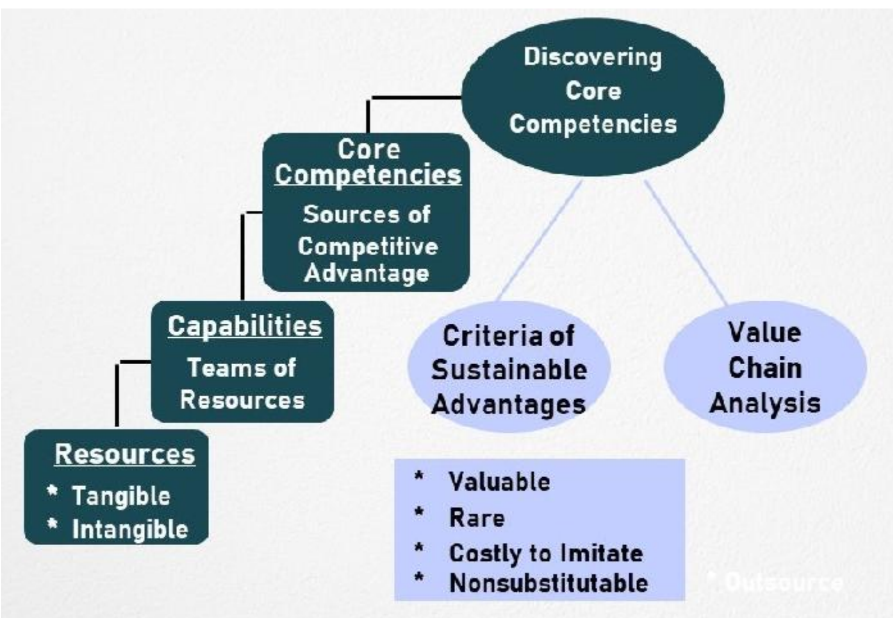
TCS is well poised to achieve double-digit growth as some of the mega deals are making a comeback in Europe. Many of the European companies have not used the cloud in a big way in the past, so this is a huge opportunity. Also, TCS has invested in several digital assets that can be utilized now.

Limitations of SWOT Analysis

- A SWOT analysis can overemphasize internal strengths and downplay external threats.
- A SWOT analysis can be static and can risk ignoring changing circumstances.
- Strength is not necessarily a source of competitive advantage.
- A SWOT analysis can overemphasize a single strength or element of strategy.

2.8 Discovering Core Competencies

The core competency analysis is an internal analysis tool that helps organizations create strategies that move them ahead of their competitors. The basic premise of the analysis is to identify the organization's core competencies — the combined resources, knowledge, and skills of an organization that creates unique value for its customer. Once organizations have identified their core competencies, strategies can be created to focus on only what the organization does well and what provides unique value to the customer. Compared to other types of analyses, this one puts a greater emphasis on intangibles instead of focusing solely on tangible resources.



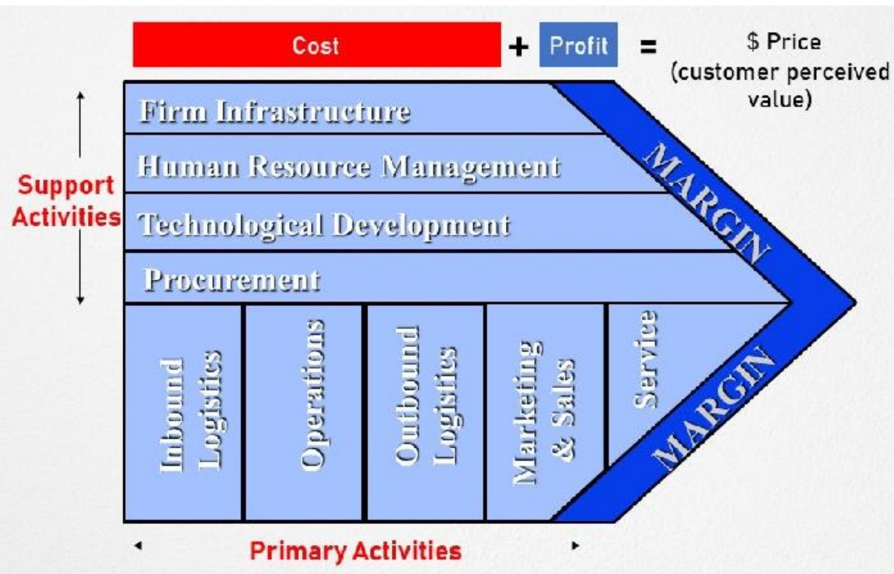
Once the organization management is aware of the resources available with them in both tangible and intangible form, they tend to analyze the capabilities of the organization in harnessing those resources for optimum utilization. While doing so management would be able to figure out the sources of competitive advantages. It will further assist the management in discovering the core competencies of the organization. If an organization's product/service is ably met the criteria of being valuable, rare, costly to imitate, and non-substitutable. It will provide the organization with sustainable competitive advantages. Another aspect of discovering core competencies can be done with a value chain analysis. We would focus upon value chain analysis to further enhance our understanding of discovering core competencies.

2.9 Value Chain

Value chain analysis is the process of looking at the activities that go into changing the inputs for a product or service into an output that is valued by the customer. Companies conduct value-chain analysis by looking at every production step required to create a product and identifying ways to increase the efficiency of the chain.

Back in 1985, Michael Porter, a Harvard Business School professor, introduced a basic value chain model in his book The Competitive Advantage: Creating and Sustaining Superior Performance. He identified several key steps common among all value chain analyses and determined that there are primary and supporting activities that when performed at the most optimal levels will create value for their customers, such that the value offered to the customer exceeds the cost of creating thatvalue, resulting in higher profit. Porter's framework groups activities into primary and support categories.

The primary activities focus on taking the inputs, converting them into outputs, and delivering the output to the customer. The support activities play an auxiliary role in primary activities. When a company is efficient in combining these activities to provide a superior product or service, then the customer is willing to pay more for the product than the cost to make and deliver the product which results in a higher profit margin.



Let us consider an example to understand the concept of the value chain in a better way.

Example: Nike's Value Chain

Primary Activities:

Inbound Logistics:

Nike's global procurement team is responsible for obtaining raw materials from around the world. Its responsibilities include selecting and contacting the right suppliers for quality goods and services.Nike's focus on sustainability has grown and it is seriously focusing on making its supply chain more sustainable. In this regard, it also reduced the number of suppliers to have only those onboard who are committed to quality and sustainability.

The suppliers who are willing to go beyond the minimum standards and can follow the sustainability rules strictly can be a part of Nike's supply chain. Currently, Nike is supplied by 127 footwear factories in 15 nations and 363 apparel factories in 45 nations. The focus throughout Nike's manufacturing facilities is on transparency, quality, and sustainability. Therefore, only the most responsible suppliers get to be a part of its supply chain.

Operations:

Nike's headquarters are in Oregon in North America. It is also Nike's biggest office that has the highest number of Nike employees.Nike also has offices in Europe, Middle East, Africa, Greater China, Asia Pacific, and Latin America. The brand is present globally and each of its offices caters to large geographical areas of several countries.In North America alone, more than 2000 retail stores of Nike are served by a single headquarter. More than 75,400 workers were employed in Nike's offices in 2020.

Outbound logistics:

It is a very critical part of Nike's value chain. More than 550 factories in 42 countries make Nike products. These products are shipped to the Nike Distribution centers and then to retail stores for sales.Nike has used a chain of regional distribution centres to service its retail stores. This reduces the waiting period for the customers after a new product's release. An efficient distribution system also leads to timely deliveries and shipments.

Marketing and sales:

Apart from great quality products and innovative designs, Nike is known globally for its excellent marketing strategy. Its Swoosh logo and can be found on nearly all of its products. However, Nike still invests heavily in marketing and uses sportspeople like Football celebs for brand promotion and product endorsement.

Its video marketing strategy has ardent fans around the world. Nike mainly utilizes two sales channels – physical and online. Its stores including in-line and factory retail stores and its websites and mobile sales channels sell to the customers directly.Nike has also used a mix of independent distributors, licensees, and sales representatives globally for sales.

Support Activities

Technology:

Nike's production strategy has innovative technology at its core. While Nike has retained its focus on great quality, sustainability also becomes an important focus down its production and supply chain.Nike uses best-in-class technologies to reuse the waste its factories generate. It has adopted technologies that specifically create material that is user-friendly and sustainable.

Its use of technological solutions has helped it minimize its impact on the environment and improve the quality of its products continuously.

HRM:

A global organization like Nike depends on a large and skilled staff. Globally, Nike employs more than 75,400 people. It has established a culture and environment which fosters diversity and inclusion.

For its excellent HR management, it featured as one of the best employers and as one of America's Best Employers for Diversity on Fortune's list. HR management is also an important focus down its supply chain. Nike suppliers are required to follow strict rules and regulations related to labor and HR management.

Procurement:

Good quality products can be made only from good quality raw materials. For Nike, quality is a very important focus. So, its entire procurement team is dedicated to the analysis and evaluation of eligible suppliers.

Only suppliers who can guarantee more than the minimum quality requirements get to remain in its supply chain. It procures raw materials from several countries around the world.

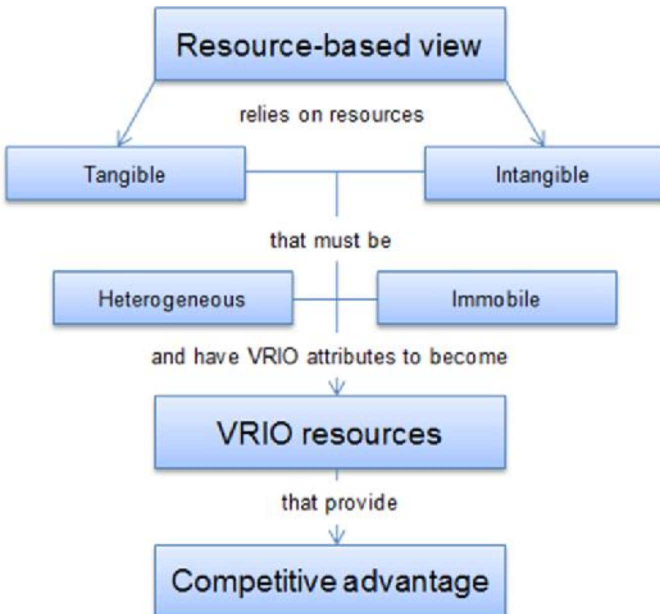
Firm Infrastructure:

Nike is a global company with a large and global infrastructure made up of its offices, retail stores, and distribution and logistics centres. Very large infrastructure is essential to manage its global presence well. Nike is headquartered in a state of the art building that has a lake and more excellent and extraordinary facilities for its staff.

2.10 Resource-Based View

RBV is a method of analyzing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities, and intangibles. The RBV's underlying premise is that firms differ in fundamental ways because each firm possesses a unique "bundle" of resources.

The following model explains RBV and emphasizes its key points.



The resource-based view (RBV) of the organization is a strategy for achieving competitive advantage that emerged during the 1980s and 1990s, following the works of academics and businessmen such as Birger Wernerfelt, Prahalad and Hamel, Spender, and Grant.The core idea of the theory is that instead of looking at the competitive business environment to get a niche in the market or an edge over competition and threats, the organization should instead look within at the resources and potential it already has available.

According to RBV, it is significantly easier to exploit new opportunities using resources and competencies that are already available, rather than having to acquire new skills, traits, or functions for each different opportunity. These resources are the main focus of the RBV model, with its supporters arguing that these should be prioritized within organizational strategy development.

Three Basic Resources

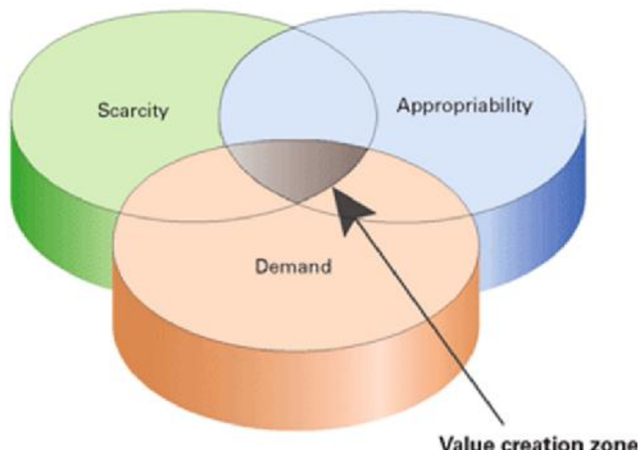
Tangible assets are the easiest "resources" to identify and are often found on a firm's balance sheet

Intangible assets are "resources" such as brand names, company reputation, organizational morale, technical knowledge, patents and trademarks, and accumulated experience.

Organizational capabilities are not specific "inputs." They are the skills that a company uses to transform inputs into outputs.

The question that needs to be addressed at this stage is what makes a resource valuable?

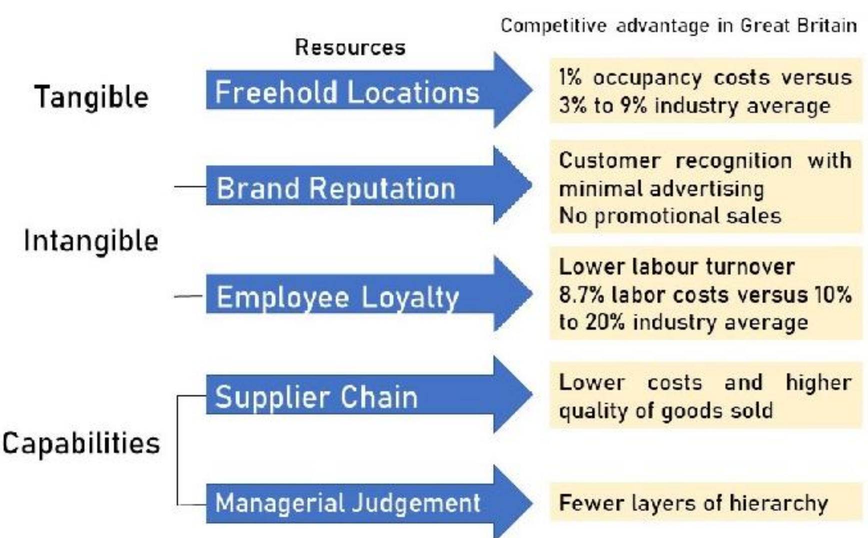
- Is the resource or skill CRITICAL to fulfilling a customer's need better than that of the firm's competitors?
- Is the resource SCARCE? Is it in short supply or not easily substituted for or imitated?
- APPROPRIABILITY: Who gets the profit created by a resource?
- DURABILITY: How rapidly will the resource depreciate?



The value creation zone is important from the perspective of the organization as it gives the organization the platform with which it can create distinctiveness with its rivals.

Let us consider an example to understand how organizations create a competitive advantage with the help of a resource-based view.

Example: Marks & Spencer



We can see in the above example, how Marks and Spencer can utilize its resources both tangible and intangible. It can also be seen how efficiently they can use capabilities to have a competitive advantage in the Great Britain market.

Four Categories of Resources:

- Financial (cash, retained earnings)
- Physical (plant & equipment, geographic location)
- Human (skills & abilities of individuals)
- Organizational (reporting structures, relationships)

Now let us focus upon two critical assumptions of the RBV:

Heterogenous:

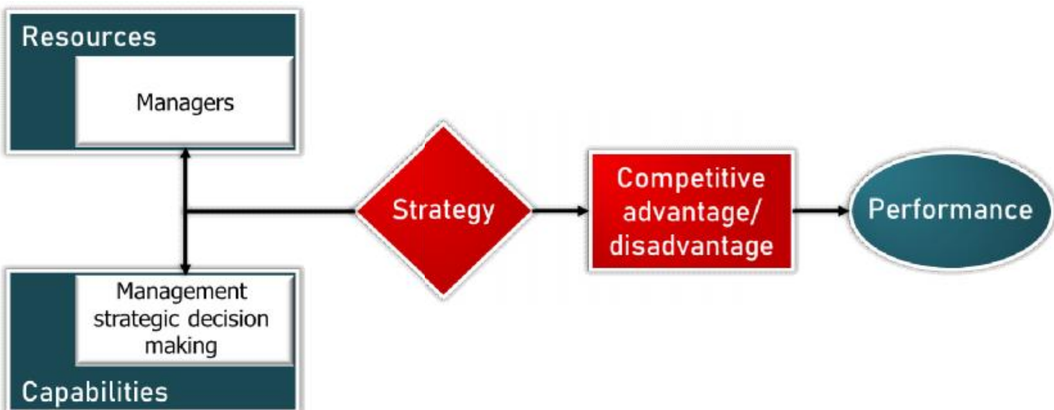
This first major assumption is that resources, skills, and capabilities must vary significantly from one organization to another. If these organizations had the same set of resources and individuals, they would not be able to employ varying strategies to compete with one another, as other organizations would be able to follow them step-by-step (known as "perfect competition").

Perfect competition does not exist in the real world - companies may be exposed to the same competitive and external forces, but they are still able to formulate different strategies to compete with one another. Thus, RBV assumes that this is due to the varying values of their resources and skills.

Immobile:

The second assumption of RBV is that resources are immobile, and thus unable to move freely from organization to organization (e.g., employee movement), at least over the shortterm. Due to this, organizations are unable to quickly replicate the resources of rival organizations and therefore implement the same strategies. Intangible assets - knowledge, processes, intellectual property, etc. - are more likely to be 100% immobile than are tangible assets.

So, in the chart that follows, we can see how the resources and capabilities are being combined to formulate a strategy that leads to a competitive advantage. This competitive advantage reflects the overall performance of the organization.



Let us now consider the examples of capabilities to have a better understanding of the same.

Company	Capability	Result
WAL*MART ALWAYS LOW PRICES Always	Logistics -- distributing vast amounts of goods quickly and efficiently to remote locations	200,000-percent return to share-holders during first 30 years since IPO[1]
3M	Generating new ideas then turning those ideas into new, profitable products	30 percent of revenue from products introduced within the past four years

2.11 The Internal Analysis Tool- Vrio Framework

Although possession of heterogeneous and immobile resources is crucial to organizational success, it is not alone if they wish to sustain this competitive advantage. Barney (1991) identified a framework for examining the key properties of resources and organizations (VRIN). These criteria were altered later by other leadership thinkers, and the new acronym VRIO was developed. This stands for:

Valuable:

Resources are valuable if they can help to increase the value of the service or product supplied to customers or others reliant on the organization. This can be improved by increasing differentiation,

decreasing the cost of production, or other general modifications to improve the quality and worth of the service. Any resources that do not meet this condition may lead to a competitive disadvantage.

Rare:

Any resources - both tangible or intangible - which can only be acquired by one or very few organizations, may be considered rare. If organizations have the same resources or capabilities, this can result in competitive parity.

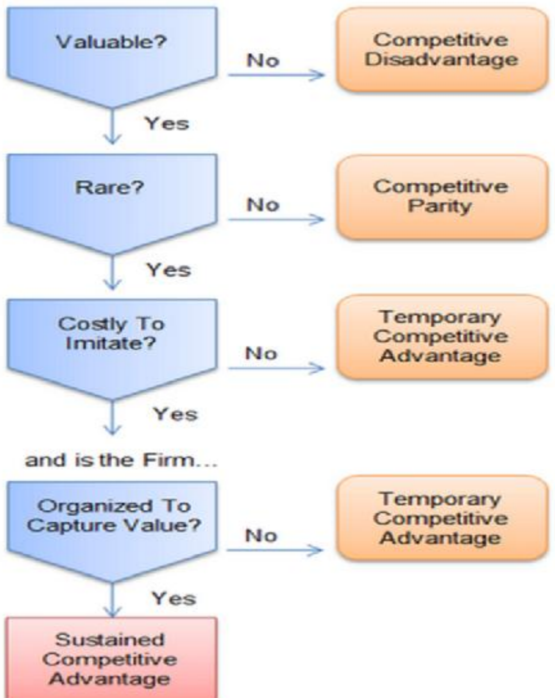
Low Imitability:

If an organization holds resources that are valuable or rare, it can at least achieve a competitive advantage in the shortterm. However, to sustain this advantage the resources need to be costly to imitate or substitute, or else rivals may begin to close the gap by obtaining the same or similar resources.

Organized to capture value:

Resources do not necessarily convey a competitive advantage - if the organization, its systems, and its processes are not designed to exploit the resource to its fullest, then it cannot hope to gain a competitive advantage. This could refer to not utilizing talented or knowledgeable individuals in the correct department or role, or not fully building campaigns that utilize the organization's positive reputation, amongst many other examples.

VRIO framework adopted from Rothaermel's (2013) 'Strategic Management, p.91



Question of Value: Resources are valuable if they help organizations increase the value offered to the customers. This is done by increasing differentiation or/and decreasing the costs of the production. The resources that cannot meet this condition, lead to competitive disadvantage.

Question of Rarity: Resources that can only be acquired by one or a few companies are considered rare. When more than few companies have the same resource or capability, it results in competitive parity.

Question of Imitability: A company that has valuable and rare resources can achieve at least a temporary competitive advantage. However, the resource must also be costly to imitate or to substitute for a rival, if a company wants to achieve sustained competitive advantage.

Question of Organization: The resources themselves do not confer any advantage for a company if it's not organized to capture the value from them. Only the firm that is capable to exploit valuable, rare, and imitable resources can achieve sustained competitive advantage.

The VRIO Framework

With the help of the VRIO framework, an organization would be able to identify the kind of advantage going to be there with it. The different types of advantages that an organization can have while working on internal resources can be seen in the following chart. However, every organization always strives for sustainable competitive advantage while meeting all four criteria.

Valuable?	Rare?	Costly to Imitate?	Exploited by Organization?	Competitive Implications
No			No	Disadvantage
Yes	No			Parity
Yes	Yes	No		Temporary Advantage
Yes	Yes	Yes	Yes	Sustained Advantage

2.12 Benchmarking

Benchmarking is a tool of strategic management, that allows the organization to set goals and measure productivity, based on the best industry practices. It is a practice in which quality level is used as a point of reference to evaluate things by making a comparison.

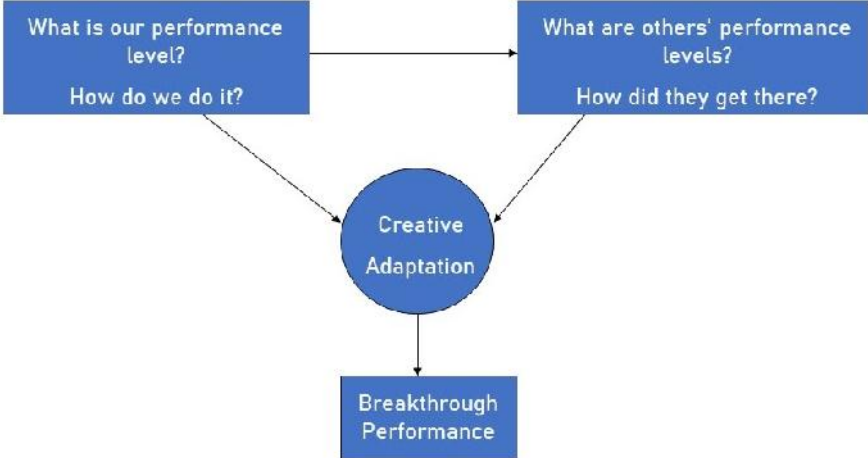
The process helps in comparing and gauging the processes, programs, strategies, and performance metrics with the standard measurements or to other similar companies. It is concerned with the analysis of three major dimensions:

- Quality
- Time
- Cost

The process involves repeatedly evaluating the aspects of performance with the similar measurements of its peers, identifying the gaps, discovering new methods for filling gaps, and for excelling the condition so that the gaps might prove positive for the organization. It is a useful technique for enhancing the organization's performance by identifying and implementing the finest process and practices, for achieving them.

Benchmarking is also defined "as the continuous, systematic process of measuring one's output and/or work processes against the toughest competitors or those recognized best in the industry." Benchmarking is an approach to setting goals and measuring productivity based on best industry practices. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved.

It involves regularly comparing different aspects of performance with the best practices, identifying gaps, and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking is a periodical exercise for continuous improvement within the organization so that the organization does not lag in the dynamic business environment.



In the benchmarking concept, managers need to keep a check on the current level of performance. Once the organization management is aware of its performance level then it can focus upon the performance of other rivals in the market. Management needs to observe how the other competitors have reached that level. Here the management of the organization needs to look for creative adaptation and this will lead to breakthrough performance.

Now let us understand the benchmarking concept from the perspective of the organization that first adopted this practice. Let us consider the example of Xerox for a better understanding of the concept.

Example: Xerox Corporation

The term 'benchmarking' was first adapted to business practices by Xerox in 1979. Xerox aimed to evaluate itself, identify its strengths and weaknesses and adapt to constantly changing market conditions.

Xerox Corporation is credited with originating the practice of benchmarking among American companies. Xerox's chief executive, David Kerns, defined benchmarking as "the continuous process of measuring products, services, and practices against the toughest competitors or those recognized as industry leaders."

Robert Camp, the logistics engineer who initiated Xerox's benchmarking program and who is generally regarded as the guru of the benchmarking movement, offered an even simpler definition. "Benchmarking is the search for industry best practices that lead to superior performance"

Benchmarking against Japanese competitors, Xerox found out that it took twice as long as its Japanese competitors to bring a product to market, five times the number of engineers, four times the number of design changes, and three times the design costs.The company also found that the Japanese could produce, ship, and sell units for about the same amount that it cost Xerox just to manufacture them.

In addition, Xerox's products had over 30,000 defective parts per million - about 30 times more than its competitors. Benchmarking also revealed that Xerox would need an 18% annual productivity growth rate for five consecutive years to catch up with the Japanese.

Xerox initiated functional benchmarking with the study of the warehousing and inventory management system of L.L. Bean (Bean), a mail-order supplier of sporting goods and outdoor clothing.

Bean had developed a computer program that made order filling very efficient. The program arranged orders in a specific sequence that allowed stock pickers to travel the shortest possible distance in collecting goods at the warehouse.

Xerox zeroed in on various other best practice companies to benchmark its other processes. These included:

- American Express (for billing and collection),

- Cummins Engines and Ford (for factory floor layout),
- Florida Power and Light (for quality improvement),
- Honda (for supplier development),
- Toyota (for quality management),
- Hewlett-Packard (for research and product development),
- Saturn (a division of General Motors)
- Fuji Xerox (for manufacturing operations) and DuPont (for manufacturing safety).

If we now focus upon the results that Xerox has got while implementing benchmarking. Overall customer satisfaction was rated at more than 90% in 1991. Some of the other benefits Xerox derived were:

- The number of defects was reduced by 78 per 100 machines.
- Service response time was reduced by 27%.
- Inspection of incoming components reduced to below 5%.
- Inventory costs were reduced by two-thirds.
- Marketing productivity increased by one-third.
- Distribution productivity increased by 8-10 %.
- Increased product reliability (40% reduction in unscheduled maintenance).
- Notable decrease in labor costs.
- Errors in billing reduced from 8.3 % to 3.5% percent.
- Became the leader in the high-volume copier-duplicator market segment.
- Country units improved sales from 152% to 328%.

Now let us focus upon the outcomes that Xerox has achieved due to the implementation of benchmarking in different processes.

The benchmarking process resulted in:

- Quality problems cut by two-thirds,
- Manufacturing costs cut in half,
- Development task cut by two-thirds,
- Direct labor cut by 50% and
- Corporate staffs cut by 35% while the increase in volume.

Now let us consider a case study for understanding the concept of benchmarking in more detail.

Case Study: The Great Ormond Street Hospital (United Kingdom)

GOSH has long been recognized for its care of children from throughout the world. Founded in 1852during a time of high infant mortality and malnutrition, GOSH was the first children's hospital in theEnglish-speaking world. The 335-bed hospital has 315 doctors, 900 registered nurses and healthcare assistants, and 135 alliedhealthcare professionals, representing the widest range of children specialists under one roof in theUnited Kingdom.

GOSH is the largest pediatric epilepsy surgery center in the United Kingdom, thesecond-largest in Europe, the largest unit treating children's brain tumors (over 100 per year), and thelargest pediatric intensive care unit in the United Kingdom (48 beds, plus eight high dependency bedsand five transitional beds).

The rating of excellent is the highest possible rating given by the independent Healthcare Commission.Only six trusts out of 157 in the United Kingdom received this rating with GOSH being one. The rating is based on the level of care delivered to hospitalized children in five areas: access to child-specificservice, access to care near their homes, appropriate levels of trained staff, staff having child-specifictraining, and opportunities for staff to maintain their skills.

External and internal drivers made GOSH aware of dangers in handover procedures. In the mid-1990sin Bristol, England, there was very high mortality for surgery in congenital heart disease

followed by a contentious public inquiry. One of the important findings of a subsequent study was that the journeyfrom the operating room to the intensive care unit (ICU) was high risk. This external environmentimpetus to change was followed by an internal driver for change. Interest in human factors led staffphysician, Professor Marc de Leval to question whether staff-related factors, such as exhaustion, weremore important than patient-related factors, such as the position of the coronary arteries. De Levalreviewed all the arterial switch procedures done in the United Kingdom over two years witha psychologist watching the operation. Once again, the journeyfrom the operating room to the ICU was demonstrated to be ahigh-risk factor. This knowledge created a heightened awarenessof the danger. Staff came to accept that there was an element ofdanger associated with what they were doing so they were receptive to change.

So many things can go wrong, and sometimes do, as the tinyvulnerable person is transferred from the surgery to intensivecare. Moving the little body from one bed to another is onlyone part of the complex set of movements that must take place.Wires, equipment, people, and information move about in anintricate dance where a misstep can place the child in mortal danger. Within 15 minutes all the technology and supportsystems, including ventilation, two to four monitoring lines, multiple vasodilators, and inotropes, are transferred two times: goingfrom operating theatre system to portable equipment to intensivecare systems. Intimate knowledge of the patient gained during aprocedure lasting up to eight hours must be transmitted from thesurgical team to the intensive care unit team.

In the GOSH case, there was no survey or directed searchfor a benchmark to guide changes in the changeoverprocedure. The proverbial light bulb went on as two tireddoctors, Alan Goldman and Martin Elliott, sat down to relaxafter lengthy surgeries. Martin Elliott, MD, FRCS, Professorof Cardiothoracic Surgery, University College London, andChairman of Cardiothoracic Services, recalls: "I'd done atransplant, then an arterial switch in the morning and we wereboth pretty knackered [exhausted]. The Formula One came onTV just as we were sitting down . . . at the end of the surgery, andwe just realized that the pit stop where they changed tyres andtopped up the fuel was pretty well identical in concept to whatwe do in handover—so we phoned them up." The two doctorsrecognized the importance of teamwork in transforming thehighly risky pit stop operation into one that was both safe andquick. They wondered: "If they can do it, why can't we?"

In Formula One motor racing, the pit stop team completes thecomplex task of changing tires and fueling the car in about sevenseconds. The doctors saw this as analogous to the team effort ofsurgeons, anesthetists, and ICU staff to transfer the patient, equipment, and information safely and quickly from the operatingroom to ICU.

The GOSH benchmarking effort was not driven from the top-down nor can it be tied to a person or team. Several individuals contributed to birthing this change initiative. Awareness of the need to look at human factors in cardiacsurgery was initiated by de Leval. The idea that a pit stop was agood parallel to what happened in a handover can be attributedto Goldman and Elliott, while the development of a more formal protocol was led by human factors expert Ken Catchpole, MD, Senior Post Doctoral Scientist, Nuffield Department of Surgery, John Radcliffe Hospital, Oxford, UK. What served to unite them was a common interest in reducing error and improving quality. Benchmarking to improve handoffs also fits well with the mission of the hospital. Moreover, it was supported by both the culture of the department and the organizational structure of the hospital.

GOSH, doctors visited and observed the pit crew handoff inItaly. While visiting the Formula One pit crew the GOSH doctors became interested in the way they addressed possible failure.The crew sat around a big table analyzing and re-analyzing, asking, "What could go wrong?" and "What are we going to do ifit does go wrong?" and "How important is it if it goes wrong?"Everyone's ideas were given equal weight until the group rankedthem using the failure modes and effect analysis (FMEA).

This anticipatory planning made the pit crew more preparedthan the medical team whose strategy tended to be waiting untilsomething went wrong to work out what they should have done.Observing the pit crew, the GOSH doctors noted the value ofprocess mapping, process description, and trying to work outwhat people's tasks should be. They learned the keys to a successful pit stop:

- The routine in the pit stop is taken seriously
- What happens in pitstop is predictable so problems can be anticipated, and procedures can be standardized
- Crews practice those procedures until perfection

- Everyone knows their job
- Way of addressing possible failure
- Everyone's idea was given equal weight
- Failure Modes and Effect Analysis
- Process mapping & Description
- Describe people's task

Following the trip to Italy, the GOSH team videotaped thehandover in the surgery unit and sent it to be reviewed by theFormula One team. The GOSH research team and observersfrom the Formula One team analyzed the film and noted a greatdifference in the process map (flowchart). The handover processof the pit crew was a very short process map compared to thehospital's process map.

The process in the hospital was much, much longer because thelevel of complexity of the medical process was much greater.From the analysis came a new 12-page handover protocol (ashort version, showing the four main stages of the new protocol,is shown in Figure 1). A copy of the protocol was laminated andput by the bedside. If a staff member had not received trainingin the new process if someone needed a quick refresher, theposted protocol could be read through in five minutes, leading to an understanding of what needed to be done.

Phase 0

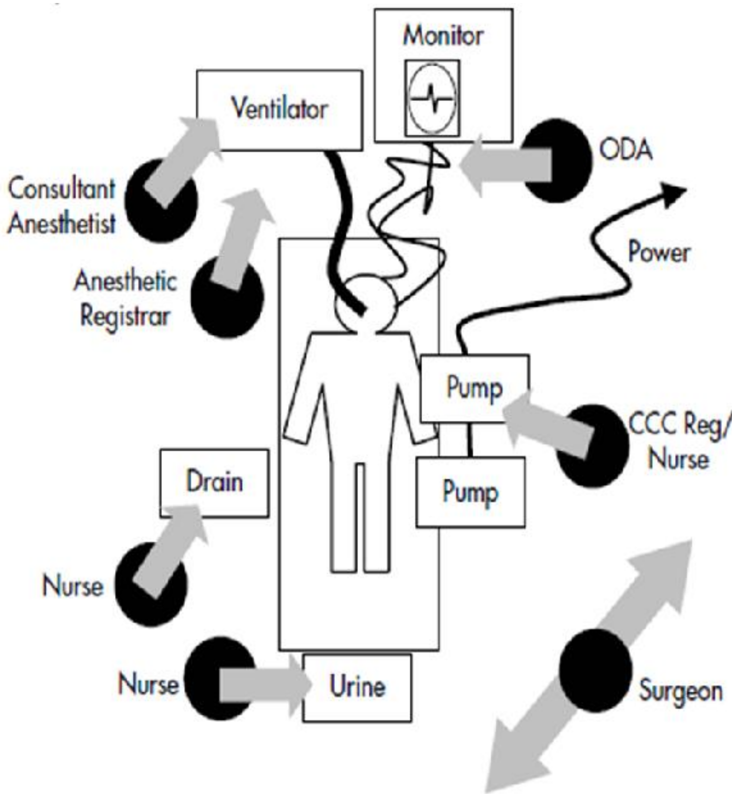
Pre-Handover

The patient Transfer Form is completed by the anesthetist and collected from theatres at least 30 minutes before the patient is transferred to the ICU.The receiving nurse ensures the bed space is set up according to the monitoring, ventilation, and other requirements specified on the Patient Transfer Form.The receiving doctor ensures that all appropriate paperwork is ready.

Phase 1

Equipment & Technology Handover

On arrival, the team transfers the patient ventilation, monitoring, and support from portable systems used during the transfer to the ICU systems.



Safety Check: The anesthetist checks the equipment and that the patient is appropriately ventilated and monitored and is stable. The receiving nurse and doctor are identified and confirm their readiness.

Phase 2

Information Handover

The anesthetist, then the surgeon, speaks alone and uninterrupted, providing the relevant information about the case, using the Information Transfer Aid Memoir.

Safety Check: The receiving nurse and doctor should use the Information Transfer Aid Memoir to check that all necessary information has been obtained and ask appropriate questions.

Phase 3

Discussion and Plan

The surgeon anesthetist, and receiving team discuss the case as a group. The receiving doctor manages the discussions, identifies anticipated problems, and anticipated the recovery discussed.The ICU Team now has responsibility for patient care and confirms the plans for the patient.

What Wasn't Transferable?

- Engineer out parts & get new equipment.
- Multiple Rehearsals are not possible.
- Too many permutations of what could go wrong.
- Machine Vs. Human Life.

Result

Team performance, leadership and teamwork, task management workspace and equipment, and situational awareness were all observed and analyzed by psychologists. Gains have been achieved; for example, error rates have continued to go down.The mean number of technical errors was reduced from 5.42 (95% CI ±1.24) to 3.15 (95% CI ±0.71).

The mean number of information handover omissions was reduced from 2.09 (95% CI ±1.14) to 1.07 (95% CI ±0.55). Duration of handover was reduced from 10.8 min (95% CI ±1.6) to 9.4 min (95% CI ±1.29).

Nine out of twenty-three (39%) precondition patients had more than one error in both technical and information handover before the new protocol, compared with three out of twenty-seven (11.5%) with the new handover.

Regression analysis showed that the number of technical errors was significantly reduced with the new handover ($t = -3.63, P < 0.001$).

So, the above case study reflects the importance of benchmarking in organizations and how it can be incorporated.

2.13 Types of Benchmarking

Strategic Benchmarking:

Aimed at improving a company's overall performance by studying the long-term strategies and approaches that helped the 'best practice companies to succeed. It involves examining the core competencies, product/service development, and innovation strategies of such companies.

Competitive benchmarking or Performance Benchmarking:

Used by companies to compare their positions concerning the performance characteristics of their key products and services. Competitive benchmarking involves companies from the same sector.

Process Benchmarking:

Used by companies to improve specific keys and operations with the help of best practice organizations involved in performing similar work or offering similar services.

Functional Benchmarking or Generic Benchmarking:

Used by companies to improve their processes or activities by benchmarking with other companies from different business sectors or areas of activity but involved in similar functions or work processes.

2.14 External Factor Evaluation Matrix

External Factor Evaluation (EFE) matrix method is a strategic-management tool often used for assessment of current business conditions.The EFE matrix is a good tool to visualize and prioritize the opportunities and threats that a business is facing.External factors assessed in the EFE matrix are the ones that are subjected to the will of social, economic, political, legal, and other external forces.

How to Create External Factor Evaluation (EFE) Matrix

List factors: The first step is to gather a list of external factors. Divide factors into two groups: opportunities and threats.

Assign weights: Assign a weight to each factor. The value of each weight should be between 0 and 1 (or alternatively between 10 and 100 if you use the 10 to 100 scale).Zero means the factor is not important. One or hundred mean that the factor is the most influential and critical one. The total value of all weights together should equal 1 or 100. Weights are industry specific.

Rate factors: Assign a rating to each factor. Rating should be between 1 and 4. Rating indicates how effective the firm's current strategies respond to the factor.

1 = the response is poor.

2 = the response is below average.

3 = above average.

4 = superior.

Weights are industry-specific. Ratings are company specific.

Multiply weights by ratings: Multiply each factor weight with its rating. This will calculate the weighted score for each factor.

Total all weighted scores: Add all weighted scores for each factor. This will calculate the total weighted score for the company.

Interpretation:

Highest possible weighted score

Lowest possible weighted score

The average total weighted score

A total weighted score of 4.0 indicate that an organization is responding in an outstanding way to existing opportunities and threats in its industry.In other word, the firm's strategies effectively take advantage of existing opportunities and minimize the potential adverse effect of external threats.

2.15 Internal Factor Evaluation Matrix

Internal Factor Evaluation (IFE) matrix is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business.This strategy formulation tool summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas.

Steps in developing IFE Matrix

- List key internal factors (10 to 20 key factors)
- Assign a weight (Industry based) that ranges from 0 (not important) to 1(all important)

- Assign 1 to 4 Rating (company based). Major weakness= 1 to major strength = 4
- Multiply each factor's weight by its rating
- Sum the weighted score for each variable

2.16 Competitive Profile Matrix

Competitive profile matrix identifies firm's major competitors and their strengths & weaknesses in relation to a sample firm's strategic positions.Competitive profile matrix is an essential strategic management tool to compare the firm with the major players of the industry. Competitive profile matrix shows the clear picture to the firm about their strong points and weak points relative to their competitors.The CPM score is measured on basis of critical success factors, each factor is measured in same scale, mean the weight remain same for every firm only rating varies.

Summary

An external environment is composed of all the outside factors or influences that impact the operation of business.

The remote environment comprises factors originating beyond, and usually irrespective of, any single firm's operating situation economic, social, political, technological, and ecological factors.

Economic factorsconcern the nature and direction of the economy in which a firm operates.

Social factor involves the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographics, religious, educational and ethnic conditioning.

Political factor defines the legal and regulatory parameters within which firms must operate.

Technological factor: A technological breakthrough can have a sudden and dramatic effect on a firm's environment.

The term ecology refers to the relationships among human beings and other living things and the air, soil, and water that support them.

Porter's Five Forces is a model that identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths.

Operating environment comprises of factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marking its goods and services.

The SWOT analysis allows organizations to uncover the external opportunities they have the strength to exploit while simultaneously minimizing the internal factors that cause weaknesses.

The core competency analysis is an internal analysis tool that helps organizations create strategies that move them ahead of their competitors.

Value chain analysis is the process of looking at the activities that go into changing the inputs for a product or service into an output that is valued by the customer.

The resource-based view (RBV) is a model that sees resources as key to superior firm performance. If a resource exhibits VRIO attributes, the resource enables the firm to gain and sustain a competitive advantage.

The VRIO framework is a strategic analysis tool designed to help organizations uncover and protect the resources and capabilities that give them a long-term competitive advantage.

Benchmarking is the process of measuring key business metrics and practices and comparing themwithin business areas or against a competitor, industry peers, or other companies around the worldto understand how and where the organization needs to change to improve performance.

Keywords

***Economic factor*:** It concerns the nature and direction of the economy in which a firm operates.

Social factor:It involves the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographics, religious, educational and ethnic conditioning.

Political factor:It defines the legal and regulatory parameters within which firms must operate.

Technological factor: A technological breakthrough can have a sudden and dramatic effect on a firm's environment.

Operating environment: It comprises of factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marking its goods and services.

Value chain analysis: It is the process of looking at the activities that go into changing the inputs for a product or service into an output that is valued by the customer.

The resource-based view (RBV): It is a model that sees resources as key to superior firm performance. If a resource exhibits VRIO attributes, the resource enables the firm to gain and sustain a competitive advantage.

The VRIO framework: It is a strategic analysis tool designed to help organizations uncover and protect the resources and capabilities that give them a long-term competitive advantage.

Benchmarking:It is the process of measuring key business metrics and practices and comparing them within business areas or against a competitor, industry peers, or other companies around the world to understand how and where the organization needs to change to improve performance.

Self Assessment

1. Which of the following is not a part of remote environment?

A. Social
B. Ecological
C. Competitors
D. Technological

2. _____________involve the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment.

A. Economic factor
B. Social factor
C. Political factor
D. Technological factor

3. Which of the following indicator is not a part of technological factor?

A. Rate of change
B. Intellectual property
C. Knowledge management
D. Tax regulations

4. Which of the following indicator is not a part of political factor?

A. Inflation
B. Trade restriction
C. Stability of neighbours
D. Government leadership

5. Which of the following indicator is not a part of ecological factor?

A. Social implications
B. Lifestyle
C. Contamination
D. Cyclical weather

6. The environmental segments that comprise the general environment typically will NOT include

A. Demographic factors.
B. Sociocultural factors.
C. Substitute products or services.
D. Technological factors.

7. An analysis of the economic segment of the external environment would include all of the following EXCEPT

A. Interest rates.
B. International trade.
C. The strength of the U.S. dollar.
D. The move toward a contingent workforce.

8. The bargaining power of the supplier is less than that of the buyer when

a) Volume of purchase is low.
b) The buyer's profit margin is low.
c) Cost savings from the supplier's product are minimal.
d) Threat of backward integration by buyers is low.

9. An independent group of suppliers, such as farmers, gather to form a cooperative in order to sell their products to buyers directly, replacing their previous distributor. This is an example of

A. Forward integration.
B. Backward integration.
C. Threat of substitute products.
D. Threat of entry.

10. As seen in Porter's Five Forces model, conditions under which a supplier group can be powerful include all the following except

A. Lack of importance of the buyer to the supplier group.
B. High differentiation by the supplier.
C. Readily available substitute products.
D. Dominance by a few suppliers.

11. The most extreme rivalry results from

A. A high level of differentiation.
B. Few competitors, slow industry growth, lack of differentiation, high fixed or storage costs.

C. Numerous equally balanced competitors, manufacturing capacity increases only in large increments, low exit barriers.
D. Numerous equally balanced competitors, slow industry growth, high fixed or storage costs.

12. Which of the following is an example of the interrelationship between the competitive and general environments?

A. A decline in a nation's educational standards results in a decline in the nation's productivity.
B. Increased awareness of personal health leads to lower demand, and greater rivalry in the alcoholic beverages industry.
C. A country's technological inferiority results in its enactment of strong trade barriers against importation.
D. Greater awareness of the environment results in environmental legislation.

13. Which of the following is NOT an entry barrier to an industry?

A. Expected competitor retaliation
B. Economies of scale
C. Customer product loyalty
D. Bargaining power of suppliers

14. New entrants to an industry are more likely when (i.e., entry barriers are low when…)

A. It is difficult to gain access to distribution channels.
B. Economies of scale in the industry are high.
C. Product differentiation in the industry is low.
D. Capital requirements in the industry are high.

15. Suppliers are powerful when:

A. Satisfactory substitutes are available.
B. They sell a commodity product.
C. They offer a credible threat of forward integration.
D. They are in a highly fragmented industry.

16 _______________is a strategic-management tool often used for assessment of current business conditions.

A. External factor evaluation matrix
B. Internal factor evaluation matrix
C. Competitive profile matrix
D. None of these

17 _______________ is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business.

A. External factor evaluation matrix
B. Internal factor evaluation matrix
C. Competitive profile matrix
D. None of these

18 ______________ identifies firm’s major competitors and their strengths & weaknesses in relation to a sample firm’s strategic positions.

A. External factor evaluation matrix
B. Internal factor evaluation matrix
C. Competitive profile matrix
D. None of these

19 _______________ is the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization.

A. Weightages
B. Critical Success Factors
C. Key Performance Indicators
D. None of these

20.New technology results in new goods and services, and it can also:

A. lower the quality of existing products.
B. lower the available level of customer service.
C. reduce prices through new production and distribution methods.
D. bring back products that were considered obsolete.

21. _____ is the collection and interpretation of information about forces, events, and relationships that may affect the organization.

A. Environmental scanning
B. Stakeholder analysis
C. Market sampling
D. Opportunity analysis

22. Which of the following is not a limitation of SWOT (Strengths, Weaknesses, Opportunity, Threats) analysis?

A. Organizational strengths may not lead to competitive advantage
B. SWOT gives a one-shot view of a moving target
C. SWOT's focus on the external environment is too broad and integrative
D. SWOT overemphasizes a single dimension of strategy

23. Economic downturn can best be considered as a:

A. strength
B. weakness
C. opportunity
D. threat

24. Good corporate reputation can best be considered as a:

A. strength
B. weakness

C. opportunity

D. threat

25. Which of the following lists is comprised of support activities:

A. Human resource management, information systems, procurement, and firm infrastructure

B. Customer service, information systems, technology development, and procurement

C. Human resource management, technology development, customer service, and procurement

D. Human resource management, customer service, marketing and sales, and operations

26. Although firm infrastructure is quite frequently viewed only as an overhead expense, it can become a source of competitive advantage. Examples include all of the following except:

A. negotiating and maintaining ongoing relations with regulatory bodies.

B. marketing expertise increasing a firm's revenues and enabling it to enter new markets.

C. effective information systems contributing significantly to a firm's overall cost leadership strategy.

D. top management providing a key role in collaborating with important customers.

27. All the following are resources of an organization EXCEPT

A. an hourly production employee's ability to catch subtle quality defects in products.

B. oil drilling rights in a promising region.

C. weak competitors in the industry.

D. a charity's endowment of $400 million.

28. The competencies or skills that a firm employs to transform inputs into outputs are:

A. tangible resources.

B. intangible resources.

C. organizational capabilities.

D. reputational resources

.

29. In the sequence of value chain primary activities, outbound logistics comes after:

A. inbound logistics

B. operations

C. marketing and sales

D. service

30. An array of firm resources include interpersonal relations among managers in the firm, its culture, and its reputation with its customers and suppliers. Such competitive advantages are based upon

A. physical uniqueness.

B. path dependency.

C. social complexity.

D. tangible resources.

31. Resources can lead to strategic advantage if they possess all these characteristics

EXCEPT:

A. Valuable

B. Rare

C. Costly

D. Non-substitutable

32. What can the VRIO framework help an organization to analyze?

A. Whether capabilities are invaluable

B. Whether capabilities are rare

C. Whether capabilities are costly

D. None of these

33. In the resource-based model, which of the following factors would be considered a key to organizational success?

A. unique market niche

B. weak competition

C. economies of scale

D. skilled employees

34. _________is/are the source of a firm's __________, which is/are the source of the firm's ___________.

A. Resources, capabilities, core competencies

B. Capabilities, resources, core competencies

C. Capabilities, resources, above-average returns

D. Core competencies, resources, competitive advantage

35. Which of the following is not a part of benchmarking approach?

A. Collect data

B. Map the process

C. Identify the customers

D. Identify problem area

36. The term 'benchmarking' was first adapted to business practices by _________ in 1979.

A. Microsoft

B. Xerox

C. American Express

D. Toyota

37. _______________aimed at improving a company's overall performance by studying the long-term strategies and approaches that helped the 'best practice' companies to succeed.

A. Competitive benchmarking

B. Strategic benchmarking

C. Performance benchmarking

D. Functional benchmarking

38. ______________used by companies to improve their processes or activities by benchmarking with other companies from different business sectors or areas of activity but involved in similar functions or work processes.

A. Functional benchmarking
B. Performance benchmarking
C. Process benchmarking
D. Strategic benchmarking

39. Which of the following is not a type of benchmarking?

A. Functional benchmarking
B. Performance benchmarking
C. Process benchmarking
D. Tactical benchmarking

40. _______________is a strategic-management tool often used for assessment of current business conditions.

A. External factor evaluation matrix
B. Internal factor evaluation matrix
C. Competitive profile matrix
D. None of these

41. _______________ is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business.

A. External factor evaluation matrix
B. Internal factor evaluation matrix
C. Competitive profile matrix
D. None of these

42. ______________ identifies firm's major competitors and their strengths & weaknesses in relation to a sample firm's strategic positions.

A. External factor evaluation matrix
B. Internal factor evaluation matrix
C. Competitive profile matrix
D. None of these

43. _______________ is the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization.

A. Weightages
B. Critical Success Factors
C. Key Performance Indicators
D. None of these

Answers for Assessment

1.	C	2.	B	3.	D	4.	A	5.	B
6.	C	7.	D	8.	B	9.	A	10.	C
11.	D	12.	B	13.	D	14.	C	15.	C
16.	A	17.	B	18.	C	19.	B	20.	C
21.	A	22.	C	23.	D	24.	A	25.	A
26.	B	27.	C	28.	C	29.	B	30.	C
31.	C	32.	B	33.	D	34.	A	35.	C
36.	B	37.	B	38.	A	39.	D	40.	A
41.	B	42.	C	43.	B				

Review Questions

1.Describe two major environmental changes that you expect to have a major impact on the ready to eat food industry in next ten years.

2. Assume the invention of a competitively priced synthetic fuel that could supply 30% of Indian energy needs within next 10 years. In what major ways might this change the external environment of Indian business?

3. Choose a specific industry and, relying solely on your impressions, evaluate the impact of the five forces that drive competition in that industry.

4. Many firms neglect industry analysis. When does it hurt them? When does it not?

5. Who in a firm should be responsible for industry analysis? Assume that the firm does not have a strategic planning department.

6. Explain the importance of SWOT analysis in the strategic management process.

7. What do you understand by the Resource-based view? Briefly explain along with an example.

8. Discuss value chain analysis along with an example.

9. Explain the VRIO framework and its components.

10. What do you understand by benchmarking? Briefly explain along with a real-life example.

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Unit03: Corporate-Level Strategies

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Further Readings

Objectives

After studying this unit, you should be able to

- define corporate strategy,
- apply grand strategies in an organization,
- understand and define integration and diversification strategies,
- demonstrate an ability to identify appropriate business predicaments to apply integration and diversification strategies,
- understand and define various defensive strategies,
- analyze the turnaround strategy for a firm,
- identify appropriate defensive strategy under relevant business circumstances.

Introduction

Corporate strategy is primarily about the choice of direction for the corporation as a whole. The basic purpose of a corporate strategy is to add value to the business. A corporate strategy involves decisions relating to the choice of businesses, allocation of resources among different businesses, transferring skills and capabilities from one set of businesses to others, and managing and nurturing a portfolio of businesses in such a way as to obtain synergies among product lines and business units, so that the corporate whole is greater than the sum of its business units.

Managers at the corporate level act on behalf of shareholders and provide strategic guidance to business units. In these circumstances, a key question that arises is to what extent and how might the corporate level add value to what the businesses do; or at least how it might avoid destroying value. Corporate strategy is thus concerned with two basic issues:

1. What businesses should a firm compete in?

2. How can these businesses be coordinated and managed so that they create "Synergy."

3.1 Corporate Strategy

Corporate Strategy deals with three issues:

Directional Strategy: The firm overall orientation towards growth, stability, or retrenchment

Portfolio Strategy: The industries or markets in which the firm competes through its products and business units.

Parenting Strategy: It is the way management coordinates activities; transfers resources and cultivates capabilities among product lines and business units.

Let us understand the directional, portfolio, and parenting strategy with the help of an example.

Example: Syska Group

Syska group was trying to transform itself from a trading firm to a fast-moving electrical goods maker. The first-generation entrepreneurs, the Uttamchandani brothers Govind and Rajesh started their journey by selling VCRs and Tv. The duo's big moment came when music company T-Series put out a print advertisement, seeking interest for distributing TVs and VCRs (video cassette recorders). The business flourished initially but hit a bump after a few years. Reason: T-Series started focusing on devotional music while movies took a backseat.The crisis was a blessing in disguise. "It taught the duo the power of distribution," the network that they built while selling cassettes paved the way for the brothers to add more brands to their retail kitty.

Kelvinator, with its range of consumer electronics, was the first. But soon after its acquisition by Whirlpool in 1995, the Uttamchandanis got the first taste of competition. The fight came from Godrej. Godrej was massively popular and it was a tough task to push Whirlpool. However, the tenacity to stick with the brand for the next seven years prepared the Uttamchandanis for their next big leap:And it came in the form of Nokia. GettingUttamchandanis associated with Nokia when India was at the cusp of a handset revolution turned out to be a masterstroke.

Parting ways, though, wasn't going to be easy. Nokia was the biggest handset player in India; the brothers used to sell 3 lakh pieces of handsets every month,and the Finnish company was a 100-crore business for the duo. "To leave a company when it happens to be your biggest revenue getter is hard". But at the same time, Samsung stepped in to fill the vacuum. The brothers, who were already dealing in consumer durables of the South Korean giant since 2002, decided to distribute Samsung handsets, which then had a minuscule share.

By 2018, Nokia was making a third comeback, Samsung was the biggest handset maker in India, and the Uttamchandanis was Samsung's biggest mobile trading partner in India.For the year ended March 2017, Samsung India's mobile phone business reportedly had a top line of about 34,000 crores.During the same period, SSK Appliances posted revenues of 8,876 crores. That means that a little over a fourth of Samsung's mobile sales turnover comes from the Uttamchandanis. And the brothers get over 90 percent of their group revenue from Samsung.

Though the Uttamchandanis never intended to reduce their dependence on Samsung, the group took its first bold step towards diversification in 2013. The idea was simple: To 'own' a brand.The challenge though was to ensure that the new product didn't clash with any of the categories Samsung was present in.After shortlisting two sunrise areas, LED and solar, the brothers opted for the former. Reason: In 2013-14, the existing players in the lighting segment were bullish on CFLs.

LED, consequently, was not on the radar of any player. The brothers sensed—not for the first time—that a boom was on its way.The LED lighting market in India was projected to grow at a compound annual growth rate of over 30 percent between 2016 and 2021. And LED was estimated to account for about 60 percent of India's lighting industry in 2020.In line with these bright prospects, the Uttamchandanis want to grow the LED business over six times in five years—from 800.36 crores to 5,000 crores.

The money-spinner is SSK Appliances, which brings in a revenue of over 10,000 crores. BaghBahar Appliances enjoys revenue of over 500 crores, SSK Retails adds 100 crores to group turnover, and Syska E-retails, the youngest in the Uttamchandani stable, chips in with 50 crores.

The above example reflects how the top management of an organization gives direction to the overall product lines and eventually manages the product portfolio. It also reflects the way a portfolio is being created within the organization by sensing the opportunity that is emerging in the external environment. We can also see that being a group the parent organization kept on hand holding the strategic business units and helping them flourish by supporting in all aspects.

3.2 Directional Strategy

The Corporation decides its orientations towards growth by asking the following questions:

- Should we expand, cut back or continue our operations unchanged?

- Should we concentrate our activities on our current industry or should we diversify into other industries?
- If we want to grow and expand nationally and/or globally, should we do so through internal development or external acquisition, merger, or strategic alliances?

Example: Syska Group

Home-grown Syska Group, which has diversified itself into segments ranging from LED-based lighting solutions to personal care products, was aiming to become a Rs 4,000 crore-Rs 5,000 crore company by 2023-24.

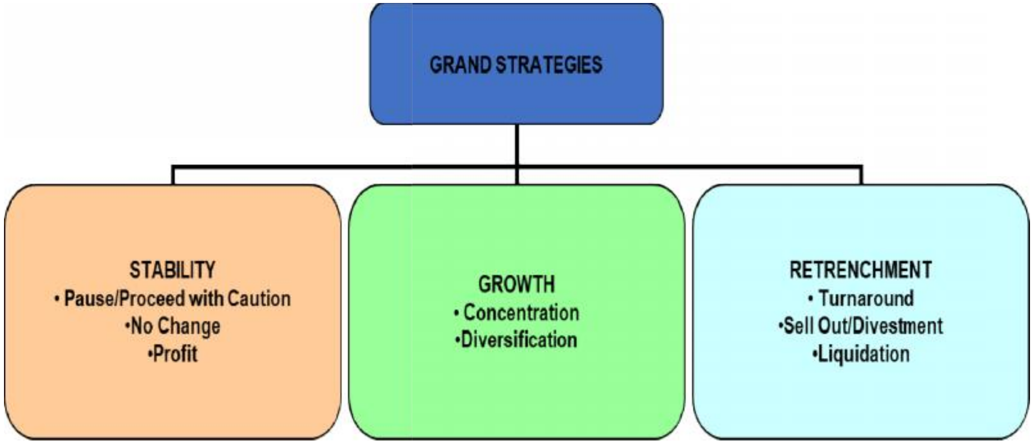
Grand Strategies

Corporation directional strategy is composed of three general orientations known as GRAND STRATEGIES. These are as follows:

Stability Strategies: Make no change to the company's current activities

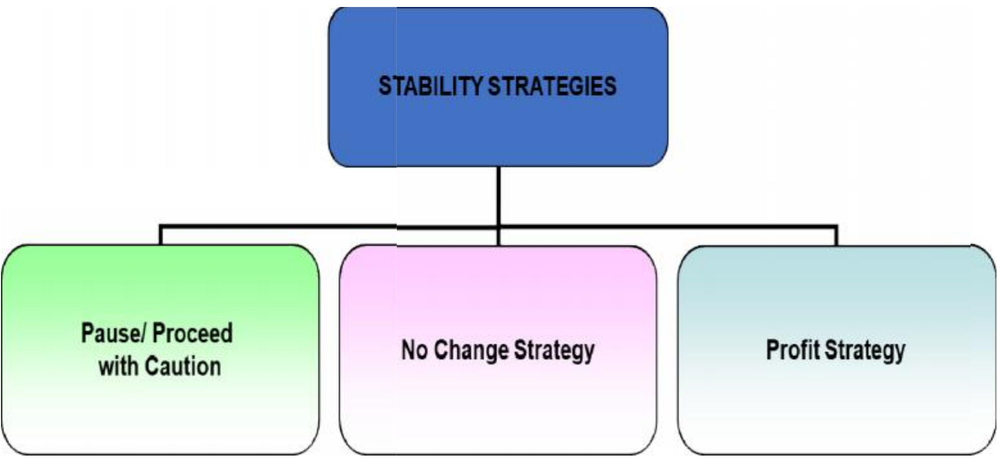
Growth Strategies: Expand the company's activities

Retrenchment Strategies: Reduce the company's level of activities.



Stability Strategies:

A corporation may choose stability by continuing its current activities without any significant change in direction. Sometimes viewed as a lack of strategy, the stability strategy can be appropriate for firms operating in a reasonably predictable environment.



Pause/Proceed with Caution Strategy:

- It is an opportunity to rest before continuing a growth or retrenchment strategy (breathing spell).
- A deliberate attempt to make only incremental improvements until a particular environmental situation changes.
- Typically conceived as a temporary strategy to be used until the environment becomes more hospitable or to enable a company to consolidate its resources after prolonged rapid growth.

Example: Dell Computers

When it grew by 285% in the first 2 years, Dell computers went for proceeding with caution strategy.

No Change Strategy:

It includes:

- A decision to do nothing new
- A choice to continue current operations and policies for the foreseeable future.
- There are no obvious opportunities or threats nor much in the way of significant strengths and weaknesses.

Example: Most small-town businesses probably follow this strategy before the entry of some organized retailer.

Profit Strategy:

The profit strategy is an attempt to artificially support profits when a company's sales are declining by reducing investments and short-term discretionary expenditures.Blaming the company's problems on hostile environment management defers investments and/or cuts expenses to stabilize profits during this period. Such a type of strategy is only useful in temporary difficulties.

Now let us move on to the next set of strategies that comes under grand strategies i.e.

Growth Strategy

The most widely pursued corporate directional strategiesare those designed to achieve growth in sales, assets, profits, or some combination.

Example: Syska LED

In a little over four years, the LED business clocked 800 crores in revenue for the fiscal year ended March 2018 for the LED business for Syska.

Expansion Strategy:

This strategy aims at high growth by substantially broadening the scope of one or more of its businesses. It aims at the improvement of its overall performance in business.

There may be five types of Expansion Strategies.

- Concentration
- Integration
- Diversification
- Cooperation
- Internationalization

Expansion through concentration

It is also called an intensification, focus, or specialization strategy. It involves the concentration of resources on one or more of a firm business so that it leads to expansion.

Concentrated Growth Strategy

It is the strategy of the firm that directs its resources to the profitable growth of a dominant product, in a dominant market, with a dominant technology.The main rationale for this approach sometimes called a market penetration strategy, is that by thoroughly developing and exploiting its expertise in a narrowly defined competitive arena,the company achieves superiority over competitors that try to master a greater number of product and market combinations.

Characteristics of Concentrated Growth Strategy

The ability to assess:

- Market needs,
- Knowledge of buying behavior,
- Customer price sensitivity, and
- Effectiveness of promotion

Such core capabilities are a more important determinant of competitive market success than are the environmental forces faced by the firm.

Conditions that Favor Concentrated Growth

- When a firm's industry is resistant to major technological advancement. This is usually the case in the late growth and maturity stages of the product life cycle and in product markets where product demand is stable and industry barriers, such as capitalization, are high.
- When the firm's targeted markets are not product saturated. Markets with competitive gaps leave the firm with alternatives for growth, other than taking market share away from competitors.
- When the firm's product markets are sufficiently distinctive to dissuade competitors in adjacent product markets from trying to invade the firm's segment.

We can take an example of John Deere, it scrapped its plans for growth in the construction machinery business when mighty Caterpillar threatened to enter Deere's mainstay, the farm machinery business, in retaliation.Rather than risk a costly price war on its turf, Deere scrapped these plans.

- When the firm's inputs are stable in price and quantity and are available in the amounts and at the times needed.

We can take an example of Maryland-based Giant Foods, whichcan concentrate in the grocery business largely due to its stable long-term arrangements with suppliers of its private-label products.

- When the firm's market is stable, i.e. a market without the seasonal or cyclical swings that would encourage a firm to diversify.

Night owl security, the District of Columbia market leader in home security services, commits its customers to initial four years contracts.In a city where affluent consumers tend to be quite transient, the length of this relationship is remarkable. Night Owl's concentrated growth strategy has been reinforced by its success in getting subsequent owners of its customer's homes to extend and renew the security service contracts

- When the firm's competitive advantage is based on efficient production or distribution channels. These advantages enable the firm to formulate advantageous pricing policies.

Example: Subway

Subway's business model primarily revolves around its franchise-only system and non-traditional units. Franchising allows them to open many stores across the globe, raise awareness for their brand and reach the masses.They also operate with a focus on keeping costs down and profitability up, which allows them to remain affordable to franchisees.

Most of Subway's growth and success is attributed to its franchise-only model. They realized that their best avenue for growth was through franchising and owner-operators since entrepreneurs are motivated for the store to do well.This meant that franchisees were more likely to put more effort into growing the business, especially since their livelihoods depend on its success. As a result, Subway continues to operate using a 100% franchise model till today, and it doesn't end there.

Let us take another example of Nestle for getting a better understanding of the same.

Example: Nestle

In a $7.15 billion cash deal for exclusive rights to sell the US chain's coffees and teas, Nestle started selling Starbucks labeled coffee beans, roast and ground coffee, and single-serve capsules for its Nespresso and Nescafe Dolce Gusto coffee makers.These would be available at grocery stores and online in Belgium, Brazil, Chile, China, Mexico, the Netherlands, South Korea, Spain, and Britain, with more markets following later in the year, the world's biggest food groupNestle is building on this existing product range and taking it to new markets under the deal struck last May which allows Starbucks to focus on its cafes and Nestle, with its retail expertise, to bring Starbucks coffee to supermarket shelves around the world.

Expansion through Integration:

Integration means combining activities related to the present activity of a firm. It is an expansion strategy that involves integrating any business activity in the value chain ahead or backward existing business of an organization.

Backward Integration　　Existing business　　Forward Integration

Vertical Integration:

Vertical integration is where two companies at different stages of the supply change join together to form one company. There are three types of vertical integration – backward, forward, and balanced. It allows the company to control the distribution or supply of its goods – allowing it greater control and efficiencies along the supply chain.

Horizontal Integration:

Horizontal integration is the acquisition of a business operating at the same level of the value chain in the same industry—that is, they make or offer similar goods or services. This is in contrast to vertical integration, where firms expand into upstream or downstream activities, which are at different stages of production.

Example: India’s Reliance retail acquire Future’s group unit for 3.4 billion dollars

The acquisition will help Reliance Retail command one-third of the bricks-and-mortar stores of India’s modern retail sector.

Example: NEXE announced plans for vertical integration to accelerate growth

The production of NEXE's compostable single-serve pod can be broken down into three key processes:

1. Producing plant-based resin from readily renewable materials.

2. Converting this resin into parts that are used for capsule assembly,

3. Mechanical assembly of those parts into a finished capsule that can be filled with coffee and/or other ingredients.

As numbered above, process 3 is currently handled in-house by NEXE, while 1 and 2 were previously handled by external partners. As of now, NEXE has commissioned equipment and personnel for all steps in this process for its facility. A leader in plant-based materials manufacturing is pleased to announce its strategy to enhance vertical integration in its supply chain, to increase product margins, protect intellectual property (IP) and mitigate supply chain risk.

Using proven technologies developed by the Company in collaboration with leading experts in plant-based materials, the Company will now bring key manufacturing processes to commercial scale in-house.The COVID-19 pandemic has highlighted supply chain vulnerabilities around the globe, and by increasing vertical integration in their production, they can reduce or eliminate many uncertainties in production as NEXE scales up.NEXE also anticipates accelerated revenue growth, improved IP protection, and higher operating margins as a result of these initiatives.

Let us take another example of IKEA and NETFLIX for understanding the concept of integration.

Example: IKEA

Ikea is known as a flat-pack retailer that sells mostly wooden furniture, but also other fixtures and fittings. It is the last in the supply chain as it directly sells to the final consumer.In 2015, Ikea made a huge step in ensuring complete vertical integration by purchasing a Romanian forest. The company added to this by purchasing forestland in Alabama in 2018 – aligning the company's aim to create a sustainable supply chain.Not only does it now control much of the raw material production, but it also controls the manufacturing process through its subsidiary – Swedwood, which was renamed in 2013 to Ikea Industry. So it controls the production of the wood, the manufacturing process, and the final distribution through its retail units.

Example: NETFLIX

Netflix is known as a provider for streaming services – the end of the supply chain where there is direct interaction with the consumer. It provides a platform for produces of films, TV, and other content.However, the company was reliant on thirdparties to provide new content that its subscribers would like. At the same time, it had to pay a premium – particularly for big shows.

In 2013, Netflix decided to vertically integrate and enter the production business. So in turn, it not only produced shows and films but also provides the distribution network through its streaming services.This strategy has become vital as it has helped differentiate it from competitors and control the type of shows that are made available.

Benefits of Vertical Integration

Reliability:

Many businesses face problems with their suppliers. This might be late deliveries, poor service, or failing to update and adapt to new trends. At the same time, suppliers may be situated in a location that is unfavorable – meaning deliveries take longer and are more likely to be late.

Through vertical integration, firms can benefit from close cooperation between both parties. It controls that part of the supply chain, so difficulties can be ironed out. For instance, proximity issues may be addressed by moving facilities closer to each other.

Power over suppliers/buyers:

Suppliers and buyers of goods may find themselves in a position whereby they are negotiating disadvantage. In other words, the company they are dealing with has many other options, whilst the company itself only has a few.At the same time, certain players in the market might be difficult to work with, but are necessary to do business.By vertically integrating, businesses can avoid

dealing with such companies, or at least better dictate terms and prices with them – after all, it owns one of its competitors.

Flexibility:

When two firms at different stages of the supply chain join together, the feedback connection is enhanced. When trends or tastes are changing, this can be pro-actively fed back to the integrated suppliers who can then work on alternative solutions.The problem with having a supplier is that the buyer is not necessarily the only customer – so to drop everything and start something new is not plausible. Yet for an integrated company, it is.

Economies of Scale:

There are economies of scale that can be achieved. Often businesses will have several suppliers, but if one is now integrated, it may make sense for it to become the sole provider. Therefore, it could benefit from lower unit costs through increased production from the supplier's end.

There can also be some efficiencies achieved through an organizational perspective. Fewer employees are needed in jobs that overlap – HR and finance are examples. So fewer departments will be needed – saving costs in that regard.

Lower consumer prices:

Each stage of the supply chain obtains some level of profit. So through vertical integration, the new firm can capture both sets of profits. At the same time, it can benefit from several economies of scale – thereby allowing it to charge lower prices.In a competitive market, these cost savings are likely to be passed onto the consumer – providing it with a competitive advantage.

Expansion through Diversification:

Diversification strategies are used to extend the company's product lines and operate in several different markets. The general strategies include concentric, horizontal, and conglomerate diversification.

Each strategy focuses on a specific method of diversification. The concentric strategy is used when a firm wants to increase its products portfolio to include products produced within the same company, the horizontal strategy is used when the company wants to produce new products in a similar market, and the conglomerate diversification strategy is used when a company starts operating in two or more unrelated industries. Diversification strategies help to increase flexibility and maintain a profit during sluggish economic periods.

One of the important questions that need to be answered is why firms need to diversify?. Let us understand the rationale behind the same:

- To grow
- To fully utilize existing resources and capabilities.
- To escape from undesirable or unattractive industry environments.
- To make use of surplus cash flows.
- Market power
- Reciprocal buying and selling
- Internal markets

Concentric Diversification:

A concentric diversification strategy lets a firm add similar products to an already established business. For example, when a computer company producing personal computers using towers starts to produce laptops, it uses concentric strategies.

The technical knowledge for a new venture comes from its current field of skilled employees. Concentric diversification strategies are rampant in the food production industry. For example, a ketchup manufacturer starts producing salsa, using its current production facilities.

Example: Levis

Levi Straus jeans for men - expanded to jeans for women and children (exploits product manufacturing capacity).

Related Diversification:

A company that has established a steady clientele for its paper plates may choose to add other product lines that can be used along with the plates. This may include a line of color-coordinated disposable drinking cups, napkins, and even plastic cutlery and disposable tablecloths.

The idea is to entice customers who already buy the plates to purchase the other goods to use at the same time. This approach may also appeal to new customers who want to create a coordinated look when enjoying a casual dining experience, such as an outdoor picnic.

Horizontal Diversification:

Horizontal diversification allows a firm to start exploring other zones in terms of product manufacturing. Companies depend on the current market share of loyal customers in this strategy. When a television manufacturer starts producing refrigerators, freezers, and washers or dryers, it uses horizontal diversification.

A downside is the company's dependence on one group of consumers. The company has to leverage the brand loyalty associated with current products. This is dangerous since new products may not garner the same favor as the company's other products.

Conglomerate diversification:

A strategy that plans to enter an unrelated business activity is known as conglomerate diversification. Let us consider an example like Godrej, it is into locks,almirahs, refrigerators, and soaps.

Unrelated diversification has appeal from several financial angles:

Business risk is scattered over a variety of industries, making the company less dependent on anyone's business.

Capital resources can be invested in whatever industries offer the best profit prospects; cash from businesses with lower profit prospects can be diverted to acquiring and expanding businesses with higher growth and profit potentials.

Company profitability is somewhat more stable because hard times in one industry may be partially offset by good times in another.

EXPANSION THROUGH COOPERATION

It is a strategy that works on the possibility of cooperation with competitors; with the competition also going at the same time.

It includes strategies like:

Mergers:-

It is a strategy of two or more organizations in which one acquires the assets and liabilities of the other in exchange for share or cash. There are various types of mergers available. The list of the same is mentioned below:

- Conglomerate mergers (2 unrelated firms)
- Horizontal mergers (2 firms in the same business)
- Concentric mergers (2 related firms)
- Vertical mergers (2 firms creating complementary products)

Takeover:

It is a strategy where an attempt is made by one firm to acquire ownership or control over another firm against the wishes of the latter's management.

Joint venture:

It is a strategy where two or more companies combine to form a new company to make use of the strengths of the partners to gain access to a new business, for example, Maruti-Suzuki.

Strategic alliance:

Two or more firms unite to pursue a set of agreed-upon goals but remain independent after the formation of the alliance.

Retrenchment Strategy:

A retrenchment strategy is a corporate-level strategy that aims to reduce the size or diversity of organizational operations. At times, it also becomes a means to ensure an organization's financial stability. It is a design to fortify an organization's basic distinctive competence.

It is followed when an organization aims at a contraction of the scope of business. It may involve a total or partial withdrawal from an existing business. It involves strategies like:

a) ***Turnaround Strategies*:** It means devising a strategy to reverse the trend, negatively affecting the organization.

b) ***Divestment:*** It is a strategy that cutsoff the loss-making units or divisions, a product list, or any of its declines causing function, etc.

c) ***Liquidation:*** It is a strategy adopted to abandon all its activities completely. It involves closing down a firm and setting its assets.

In simple terms, a retrenchment strategy involves the abandonment of those products or services, which are no longer profitable for the organization.It also includes the withdrawal of the business from those markets where even sustenance is difficult. For example, a corporate hospital may decide to focus only on specialized treatments, and thus, realize higher revenues.

Besides, a retrenchment strategy also results in a reduction of the number of employees, and the sale of assets associated with a discontinued product or service line.

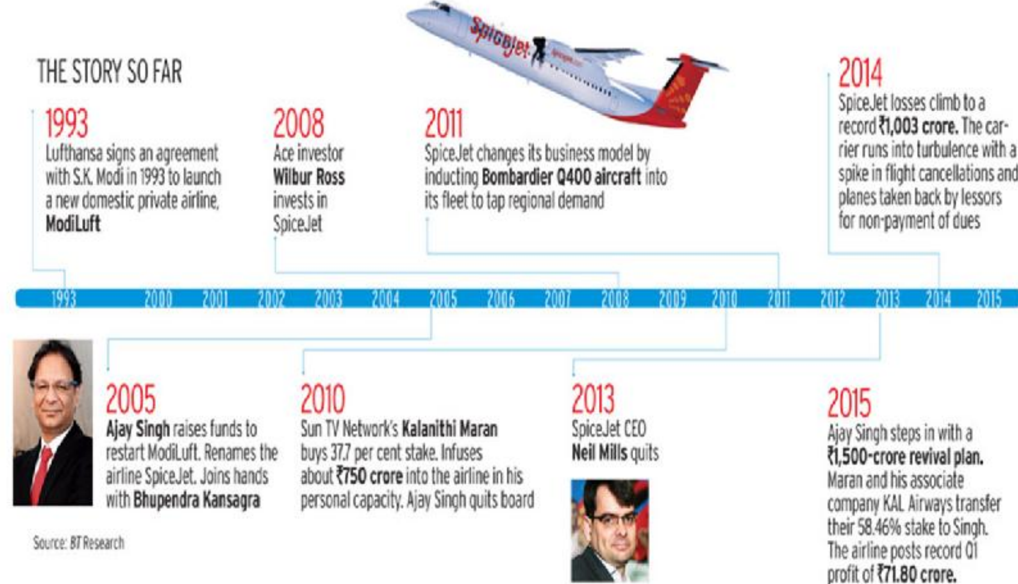
Turnaround Strategy:

The term 'turnaround' refers to the measures which reverse the negative trends in the performance indicators of the company.It refers to the management measures which turn a sick company back into a healthy one or those measures which reverse the deteriorating trends of performance indicators such as falling market share, falling sales, decreasing profitability, increase in costs, etc.

Let us understand the same with the help of a small case study of Spice Jet.

Case Study: Turnaround story of Spice Jet

Timelines of Spice Jet



Mr. Ajay Singh is an Indian Entrepreneur and founder member of Spice Jet. He coined the slogan "AbkiBaar Modi Sarkar" in the 2014 elections for one of the political parties. He parted ways with

Spice Jet in 2010 and from 2013 onwards company started seeing a downturn in its operations overall. Let us see the series of events that Spice Jet went through with the help of the chart below.

TURBULENCE IN THE AIR

- **2005:** SpiceJet begins operations
- **2007:** Dubai-based Istithmar, Tata Investment Corpn, BNP Paribas Arbitrage Fund and others brought in as investors
- **July 2008:** US-based private equity firm WL Ross enters SpiceJet offering to make available $80 million (then ₹345 crore)
- **Feb 2010:** Istithmar sells its 13% stake for ₹163.76 crore to DWS Invest Bric Plus Fund, Reliance Mutual Fund, and Birla Mutual Fund at an average of ₹52/share
- **June 2010:** Kalanithi Maran, chief of Chennai-based Sun TV network, acquires 37.75%; believed to have paid ₹47.25/share with deal valued at ₹750-800 crore
- After making a profit of ₹61.45 crore in fiscal year 2010 and ₹101.16 crore in 2011, the airline flies into losses — **2012:** ₹605.17 crore; **2013:** ₹191.08 crore and **2014:** ₹1,003.24 crore

Spice Jet losses widened to Rs. 1003.23 Cr. in 2014. The company was in serious trouble and even the market capitalization of the company was eroded on stock exchanges. In December 2014, The Airports Authority of India (AAI), which had burnt its fingers with Kingfisher's unpaid dues, was also unwilling to allow any flights till SpiceJet cleared its dues.Aviation minister Ashok Gajapathi Raju and former aviation secretary V. Somasundaran were informed of the airline's Mayday call. Both took the immediate view that since SpiceJet was a private airline, they couldn't do much.

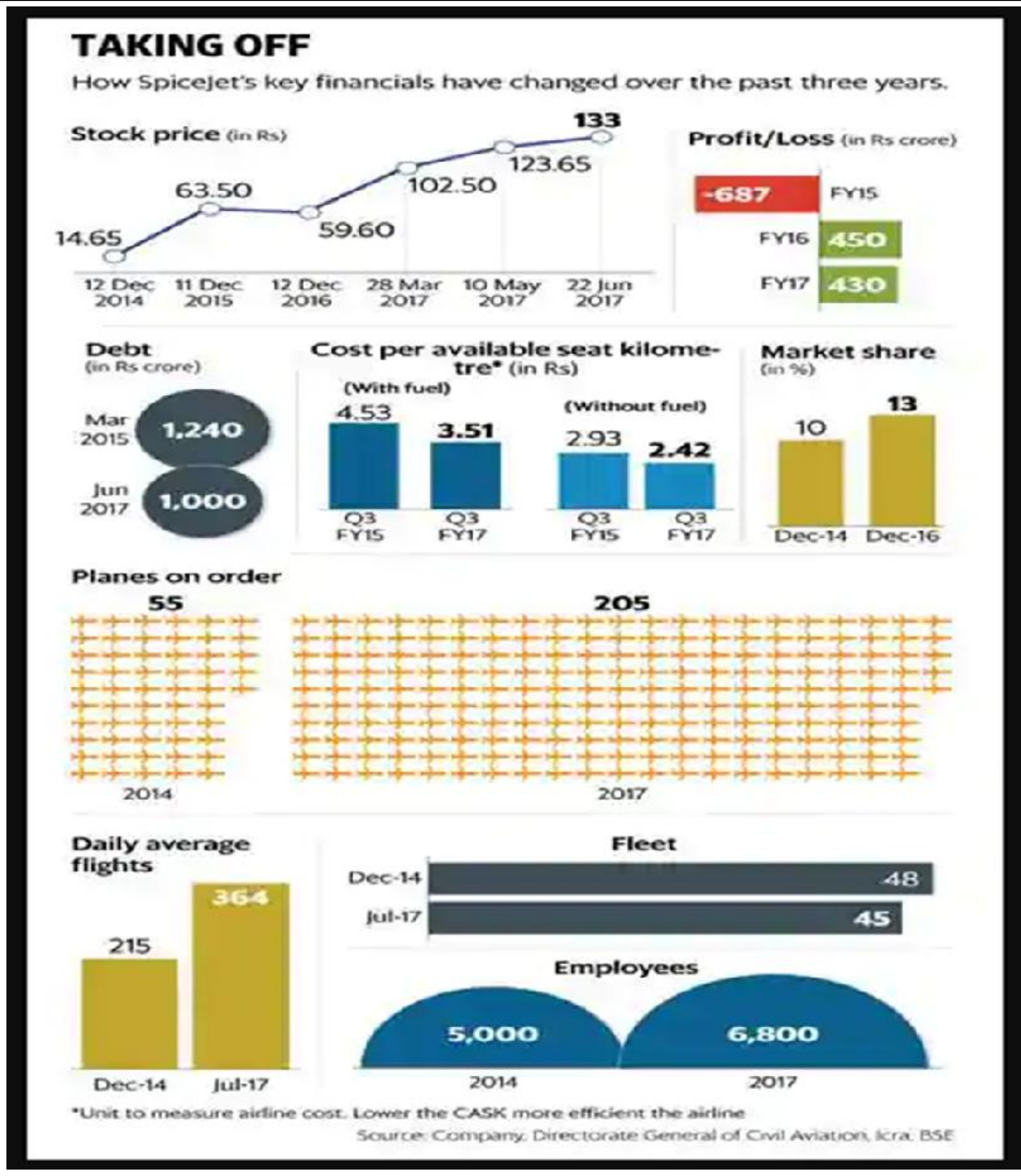
SpiceJet staffers were getting manhandled by passengers at airports as it was peak holiday season in December and flights were not taking off. For television news channels, this was a big story.

In Dec 2014, Mr. Ajay Singh had arrived at the finance ministry with his offer to take over SpiceJet. Singh, who runs the airline like a CEO himself, allowed some senior staff in the Maran era to leave but retained old-time loyalists who helped him launch the airline in early 2005.He also kept the culture simple. Instead of moving decisions all day on emails, Singh keeps his doors open all the time, allowing senior officials to discuss and take decisions on the go.

After six straight quarters of losses, SpiceJet swung to a profit in the last quarter of 2014-15, beating analysts' estimates. According to the Directorate General of Civil Aviation (DGCA),it had the highest seat occupancy of 93.2% in June among Indian airlines, followed by Indigo, the largest carrier by passengers, with 86.6%. SpiceJet was operating 252 daily flights compared with just 35 flights when it hit its nadir. This turnaround was also visible in its share price which went down below Rs. 20 in December 2014.

SpiceJet shares were the best performers on a Bloomberg Intelligence index of airline stocks in the year 2017. The stock was up 124 percent in 2017 and has gained more than 800 percent since the company's near-demise in December 2014, giving SpiceJet a market value of $1.2 billion.

SpiceJet was valued at Rs. 7,400 crore, up from the Rs. 650 crore it was valued at during its darkest hour in 2014. The rival company Jet Airways Ltd, with a fleet double that of SpiceJet, was valued at Rs. 6,200 crore at that time. The turnaround statistics of SpiceJet can be seen in the following picture:



The case of Spice Jet reflects how a turnaround strategy can make a sick company healthy again.

Divestiture Strategy:

Selling a division or part of an organization is called 'divestiture'. It is often used to raise capital for further strategic acquisitions or investments.

In divestitures, the company that has acquired assets and divisions will examine to determine whether the assets or divisions fit into overall corporate strategy in value maximization. If it does not serve the purpose, such assets or divisions are hived-off.

Divestiture strategy can be effective:

- When an organization has pursued a retrenchment strategy and failed to accomplish needed improvements.
- When a division needs more resources to be competitive than the company can provide.
- When a large amount of cash is needed quickly and cannot be obtained reasonably from other sources.
- When government anti-trust action threatens an organization.

Divestment' means pulling out of market. This strategy is followed when activity still continues although at a reduced scale. A company can maximize its net investment recovery from a business by selling it early before the industry enters into a steep decline.

Divestment could be selling off a part of a firm's operations or pulling out of certain product–market areas.A company may like to resort to this strategic option when it desires to release its liquid resources. Divestment may be considered attractive when the present worth of expected earnings is less than its present worth.

The success of this strategy depends on the ability of the company to spot an industry decline before it becomes serious and sells out while the company's assets are still valued by others.

When the firm does not have strengths relative to competitors, the best strategy for the firm might be to exit the industry. This strategy is used in declining industries where a firm exits the industry before other firms realize that the industry is in a long-term decline.

Let us now focus upon types of divestiture strategy:

- Hive-off
- Spin-off
- Split-off

Sell-off or Hive-off:

In a strategic planning process, a company can decide to concentrate on core business activities by selling off the non-core business divisions.

Example: Tata Motors

Tata Motors hived off passenger vehicle units by 2021. The move was the first step in securing strategic alliances that provides access to products, architectures, power trains, new-age technologies, and capital; The company would not be giving up control of the business entirely. Tata Motors was hoping to complete the subsidization program of its passenger vehicle (PV) business by the end of the September quarterof 2021, paving the way for onboarding a partner.

The PV division which looks into the development, manufacture, distribution, and sale of cars, SUVs, and vans is being hived off into a separate entity allowing the company to sell its stake in it to a strategic partner. The PV division also controls the electric vehicle business unit of Tata Motors. The main reason behind hiving off the division was that the passenger vehicle division of Tata Motors has piled up losses of Rs 11,173 crore, as of June end 2020, while the division's valuation has been fixed at Rs 9,417 crore, a company notice to the shareholders had stated.

The transfer of the PV unit does not mean that the company would be giving up control of the business entirely. In August 2020, Tata Motors had announced its intention to retain control over the hived-off unit even after accommodating the strategic and equity partner.In simple terms, this will unlock value for the company for the PV business unit, which has struggled in the recent past in the face of strong competition.

Reasons for Hive-off:

It happens when an organization has:

- To come out of shortage of cash and serve liquidity problems, To concentrate on core business activities, To protect the firm from takeover activities by selling-off the desirable division to the bidder.
- To improve the profitability of the firm by selling-off loss-making divisions.
- To increase the efficiency of men, machines, and money.
- To facilitate the promising activities with enough funds by sell-off non-performing assets.
- To reduce the business risk by selling-off the high-risk activities.

Spin-off:

A spin-off is a form of reorganization where business activities owned by one company are separated into several companies.A spin-off is adopted as a business strategy to separate business which doesn’t comfortably merge.

Two businesses may have different strategies, operational or regulatory needs which are difficult to fulfill while they are still linked. They may even be competing with each other for business.

Example: Nestle spins off Pasta business in June 2020

Nestlé had agreed to spin off Buitoni, it's North American pasta business, as a separate company, as part of an ongoing effort to concentrate on core businesses.Buitoni, a brand of refrigerated pasta, cheeses, sauces, and other Italian foods, would be bought by private-equity firm Brynwood Partners. The deal was expected to close by July 2020. This was the second major spinoff for Nestlé in less than a year. It transferred its North American ice cream business, including Häagen-Dazs and Drumstick, to a joint venture it owns with another company in December 2019.

Split-off:

Split-off is a divorce of two approximately equal-sized business units or divisions. Once share ownership is shuffled the two units do separate businesses.

Example: Unilever tea business is highly likely to be split-off via the listing

In 2020, the maker of PG Tips and Lipton tea embarked on a review of its 3 billion euros a year global tea division, saying it was looking at options including a spinoff and partial or full sale, without setting a timeframe. The company would make a final decision at the end of that process but expects to tap capital markets to split off the division. The Unilever Tea Co becoming a standalone business on a listed stock exchange with its IPOis a highly likely outcome, which would have been very difficult under our old structure.

Liquidation Strategy

Liquidation involves the selling of the entire operation. Selling all of a company’s assets, in parts, for their tangible worth is called ‘liquidation’. In liquidation, the owner’s interests are better served than in an inevitable bankruptcy.A business may go into decline when losses are made over several years. The losses are setoff against past profits retained in the business (reserves), but clearly, the situation cannot continue for very long. In such a case liquidation may be imminent.

In case of technological obsolescence, lack of market for the company’s products, financial losses, cash shortages, lack of managerial skills, the owners may decide to liquidate the business to stop further aggravation of losses. With a strategic motive also, a business unit may be liquidated.

Example: Reliance communication headed for liquidation after NCLAT decision

Anil Ambani-promoted Reliance Communications (RCom), which was bankrupt, would undergo liquidation unless the Supreme Court overturns the National Company Law Appellate Tribunal (NCLAT) order. The order stated that spectrum owned by the firm can be sold under the insolvency process after government dues were cleared.

Liquidation of RCom and RTL would result in a loss of Rs 40,000 crore to 38 lenders. Chinese banks led by China Development Bank would lose Rs 9,000 crore, while SBI stands to lose Rs 3,000 crore and Life Insurance Corporation of India stands to lose Rs 3,700 crore.

Liquidation-Bankruptcy Strategy:

Liquidation bankruptcy means agreeing to complete distribution of firm assets to creditors, most of whom receive a small fraction of the amount they are owed.

Example: Thomas Cook filed for bankruptcy in Sept. 2019

Thomas Cook Group Plc, the 178-year travel company that became one of the U.K.'s best-known brands, has collapsed under a pile of debt, leaving tens of thousands of British tourists stranded across Europe.Formerly a member of Britain's blue-chip FTSE 100 Index, Thomas Cook is a high-profile victim of the malaise affecting the European holiday market. For decades, tour operators such as Thomas Cook and Germany's TUI AG thrived by offering package holidays to sun-starved Europeans.

But the rises of discount airlines and online distribution have squeezed profits in an industry that is highly seasonal and prone to shocks from terrorism to political turmoil.In the space of little more than a year, Thomas Cook's business outlook degenerated from concern about the sales impact of a freak north European heatwave to a full-on fight for survival.

Summary

Corporate strategy is the overall organizational strategy that addresses the question "What business(es) are we in or should we be in?". It deals with three issues directional, portfolio and parenting strategies.

A stability strategy can be chosen by a corporation that is continuing its current activities without any significant change in direction. Sometimes viewed as a lack of strategy, the stability strategy can be appropriate for firms operating in a reasonably predictable environment.

A concentrated growth strategy is the strategy of the firm that directs its resources to the profitable growth of a dominant product, in a dominant market, with a dominant technology.

Integration means combining activities related to the present activity of a firm. It is an expansion strategy that involves integrating any business activity in the value chain ahead or backward existing business of an organization.

Expansion through cooperation is a strategy that works on the possibility of cooperation with competitors; with the competition also going at the same time.

The term 'turnaround' refers to the measures which reverse the negative trends in the performance indicators of the company.

Selling a division or part of an organization is called 'divestiture'. It is often used to raise capital for further strategic acquisitions or investments.

Liquidation involves the selling of the entire operation. Selling all of a company's assets, in parts, for their tangible worth is called 'liquidation'.

Keywords

Grand Strategies: Corporation directional strategy is composed of three general orientations known as grand strategies.

Stability Strategies: A corporation may choose stability by continuing its current activities without any significant change in direction.

Concentrated Growth Strategy: It is the strategy of the firm that directs its resources to the profitable growth of a dominant product, in a dominant market, with a dominant technology.

Strategic alliance:Two or more firms unite to pursue a set of agreed-upon goals but remain independent after the formation of the alliance.

Divestiture Strategy:Selling a division or part of an organization is called 'divestiture'. It is often used to raise capital for further strategic acquisitions or investments.

SelfAssessment

1. The industries or markets in which the firm competes through its products and business units are known as_______________.

A. Parenting strategy

B. Directional strategy

C. Portfolio strategy

D. None of these

2. Which one of these strategic alternatives could be the best when the external environment demands an increase in the pace of activity?

A. Expansion

B. Stability

C. Retrenchment

D. Combination

3. A company has several businesses, each of which belongs to a different industry. Which one of these strategic alternatives is this company more likely to adopt?

A. Expansion

B. Stability

C. Retrenchment

D. Combination

4. When organizations face temporary problems, they try to use a profit stability strategy that involves any of these measures EXCEPT:

A. Reducing investments

B. Cutting costs

C. Cutting prices

D. Raising productivity

5. ____________ is a deliberate attempt to make only incremental improvements until a particular environmental situation change.

A. Profit strategy

B. Proceed with caution strategy

C. No change strategy

D. None of these

6. A luggage company taking over a rival luggage company is an example of:

A. Vertical integration

B. Backward integration

C. Forward integration

D. Horizontal integration

7. An example of _______ strategy is establishing Web sites to sell products directly to consumers.

A. Backward integration

B. Conglomerate diversification

C. Forward integration

D. Horizontal integration

8. Which one of these is NOT an advantage of using a horizontal integration strategy?

A. Economies of scale

B. Economies of scope

C. Lesser product differentiation

D. More market powers

9. The most appropriate type of integration strategies in which the company moves towards its sources of raw materials is:

A. Backward integration.

B. Forward integration.

C. Vertical integration.

D. Horizontal integration.

10. Concentric diversification is the same as:

A. Horizontal diversification

B. Vertical diversification

C. Unrelated diversification

D. Related diversification

11. Which one of these is the biggest reason why firms diversify?

A. To maximize output

B. To minimize risk

C. To increase profit

D. To decrease dependence

12. Adding new but unrelated products or services for appealing present customers is known as:

A. Forward integration

B. Backward integration

C. Conglomerate diversification

D. Horizontal diversification

13. A good example of vertical integration is

A. A global public accounting firm acquiring a small local or regional public accounting firm

B. A supermarket chain getting into convenience food stores

C. A crude oil refiner purchasing a firm engaged in drilling and exploring for oil

D. None of the Above

14. Which of the following is not a potential advantage of backward vertical integration?

A. Reduced business risk because of controlling a bigger portion of the overall industry value chain

B. Reduced vulnerability to powerful suppliers (who may be inclined to raise prices at every opportunity)

C. Reduced risks of disruptions in obtaining crucial components or support services

D. Reduced costs

15. Your oldest supplier, Zorro Distributors, is a family-owned firm. Recently, the firm's president, Diego De La Vega, decided to retire. To his disappointment, none of his five children stepped forward to take his place at the helm of the firm. You approach your old

friend with a generous offer to buy Zorro and continue its current operations. Should your offer be accepted, You would be undertaking ___________?

A. Lateral growth
B. Unrelated diversification
C. Forward vertical integration
D. Backward vertical integration

16. When two organizations of about equal size unite to form one enterprise, which of the following takes place?
A. Hostile takeover
B. Merger
C. Liquidation
D. Divestiture

17. Abdullah group of industries is involved in the sale of its marginal business. It is most likely to say that Abdullah group is implementing one of the following strategies?
A. Divestiture
B. Liquidation
C. Acquisition
D. Joint venture

18. Which of the following is not a part of the retrenchment strategy?
A. Turnaround
B. Liquidation
C. Acquisition
D. Divestiture

19. ___________ refers to the measures which reverse the negative trends in the performance indicators of the company.
A. Liquidation
B. Divestiture
C. Hostile takeover
D. Turnaround

20. Which of the following is not a grand strategy?
A. Stability
B. Cost leadership
C. Growth
D. Retrenchment

21. _____________ is often used to raise capital for further strategic acquisitions or investments.
A. Divestiture
B. Turnaround
C. Proceed with caution
D. None of these

22. Which of the following is not a type of divestiture strategy?

A. Hive-off
B. Spin-off
C. Spit-off
D. Split-off

23. ____________ happens when an organization has to come out of shortage of cash and serve liquidity problems.
A. Spin-off
B. Hive-off
C. Split-off
D. None of these

24. ___________ involves the selling of the entire operation.
A. Turnaround
B. Divestment
C. Liquidation
D. Diversification

Answer for Self Assessment

1.	C	2.	A	3.	D	4.	C	5.	B
6.	D	7.	C	8.	C	9.	A	10.	D
11.	B	12.	C	13.	C	14.	A	15.	D
16.	B	17.	A	18.	C	19.	D	20.	B
21.	A	22.	C	23.	B	24.	C		

Review Questions

1. What is corporate-level strategy? Why is it important for a diversified firm?
2. Explain in detail why do companies pursue growth strategies?
3. Define stability strategy and explain various types of stability strategy.
4. State the conditions and actions plan for turnaround strategies.
5. What do you understand by liquidation strategy? Explain with the help of an example.

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Unit04: International Strategy

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Objectives

After studying this unit, you should be able to

- outline the global strategic planning.
- identify the reason why firms globalize.
- apply the competitive strategies for firm in foreign markets.
- outline globalization in the Indian context.

Introduction

The global business environment can be defined as the environment in different sovereign countries, with factors exogenous to the home environment of the organization, influencing decision making on resource use and capabilities. According to Coulson -Thomas (1991), "Organisations face an unprecedented range of challenges and opportunities in the social, economic, political and business environment. This external environment is characterised by uncertainty, surprise, turbulence and discontinuity". Andrew Harrison also states in Business Environment in a global context: "No organization exits within a vacuum. Its strategies and operations are influenced by and must take account of its external environment." Furthermore, external environment or business environment includes the activities of consumers and competitors, the government policies, technology developments, social and cultural context (A. Harrison, 2010). The business environment is also considered as a complex adaptive system with many elements which operate independently and interact with each other.

4.1 Globalization

It refers to the strategy of pursuing opportunities anywhere in the world that enable a firm to optimize its business functions in the countries in which it operates."Going global" is termed as a gradual process, starting with increased exports or global sourcing, followed by a modest international presence, growing into a multinational organization, and ultimately evolving into a global posture.

Phases of Global Strategy

The process of globalization of companies evolves through distinct phases. In the first phase of globalization, companies normally tend to focus on their domestic markets. They develop and strengthen their capabilities in some core areas. This is termed as single country strategy.

In the second phase of globalization, companies begin to look at overseas markets more seriously, but the orientation remains predominantly domestic. The various options a company has in this stage are exports, setting up warehouses abroad and establishing assembly lines in major markets. The company gets a better understanding of overseas markets at low risk, but without committing large amounts of resources.

Global Strategy

It involves the carefully crafted single strategy for the entire network of subsidiaries and partners, encompassing many countries simultaneously and leveraging synergies across many countries.This stands in contrast to an international strategy, which involves a wide variety of business strategies across countries and a high level of adaptation to the local business environment.

Example: Air BNB

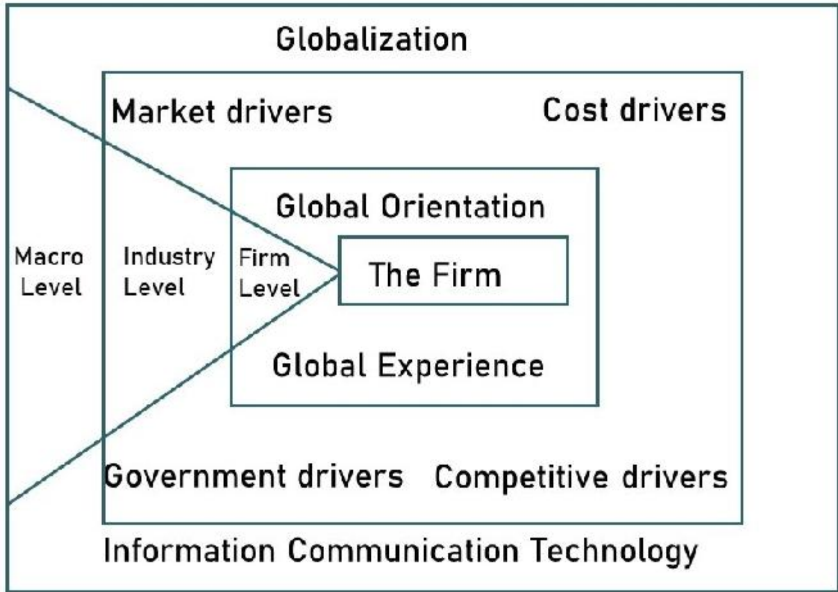
It started in 2008 and now having its footprints in more than 200+ countries.It is an online community marketplace that connects people looking to rent their homes with people who are looking for accommodation. Key to Airbnb's global strategy is localisation.The brand has introduced a universal symbol as its logo – the Belo – which symbolises 'belonging' no matter where you are in the world.

Airbnb generated $3.4 billion in revenue in 2020, a 30 percent loss year-on-year due to the coronavirus pandemic. Airbnb has 150 million users, though that number has not been updated since 2018. In 2020, 193 million bookings were made on Airbnb, a 41 percent contraction on the 272 million in 2019. There are over seven million listings on Airbnb, run by four million hosts.

4.2 Global Strategic Management

It is the process of designing a coherent, coordinated, integrated, and unified strategy that sets the degree to which a firm globalizes its strategic behaviour in different countries through standardization of offerings, configuration, and coordination of activities in different countries, and integration of competitive moves across countries.

Drivers of Global Strategic Perspective



The answer to the important question that why a firm should globalize can be very well seen through the drivers of global strategic perspective. There are several drivers that can be seen like market drivers, cost drivers, government drivers, and competitive drivers. These drivers motivate a firm to globalize like if the cost of production is very cheap in some other country as compared to the home country, firm can think of establishing its production unit in that country to take advantage in cost of production. Similarly, other drivers also encourage the firms to go for globalization.

4.3 Strategic Orientations of Global Firms

Multinational corporations typically display one of the four orientations towards their overseas activities. They have a certain set of beliefs about how the management of foreign operations should be handled. The following are the strategic orientations of global firms:

- Ethnocentric Orientation
- Polycentric Orientation
- Regiocentric Orientation
- Geocentric Orientation

Ethnocentric Orientation

When the values and principles of the parent organization guide the strategic decision making of all its international operations.

Polycentric Orientation

When the culture of the country in which the strategy is to be implemented is allowed to dominate a company's international decision-making process.

Regiocentric Orientation

When a parent company blends its own predisposition with those of its international units to develop region-sensitive strategies.

Geocentric Orientation

When an international firm adopts a system of approach to strategic decision making that emphasizes global integration.

International firms have found it necessary to institute formal global strategic planning to provide a means for top management to identify opportunities and threats from all over the world, formulate strategies to handle them and stipulate how to finance the strategies implementation.

Global strategic plans not only provide for constancy of action among the firm's managers worldwide but also require the participants to consider the ramifications of their actions on the other geographical and functional areas of the firm.

Global Strategic Planning

Global strategic planning is the primary function of managers. The process of strategic planning provides a formal structure in which managers:

- Analyse the company's external environments
- Analyse the company's internal environments
- Define the company's business and mission
- Set corporate objectives
- Quantify goals
- Formulate strategies and
- Make tactical plans.

In global firms' managers cannot view operations as a set of independent decisions. These managers are faced with trade-offs decisions in which multiple products, country environments, resource sourcing options, corporate and subsidiary capabilities, and strategic options must be considered.

Complexity of the Global Environment

There are five factors that contribute to the increase in complexity:

- Global organization face multiple political, economic, legal, social and culture environments.
- Interactions between the national and foreign environments are complex, because of national sovereignty issues and widely differing economic and social conditions.
- Geographic separation, cultural and national differences, and variations in business practices tend to communication and control difficult between headquarters and overseas subsidiary.
- Globals face extreme competition, because of difference in industry structures within countries.
- Globals are restricted in their selection of competitive strategies by various regional blocs and economic integrations like the European free trade area.

4.4 Competitive Strategies in Foreign Market

Strategic decision to move towards globalization is motivated by two main factors. The first is the degree of complexity of each foreign market being targeted and the diversity in a company's product line Complexity refers to the number of critical success factors required to prosper in each competitive arena. When a company offers many product lines, diversity is high. These two factors result in different competitive strategies for firms as mentioned in the following section.

Licensing:

A business arrangement in which one company gives another company permission to manufacture its product for a specified payment.

Licensing agreements may be

- exclusive or nonexclusive.
- used for patents, copyrights, trademarks, and other intangible property.

Let us understand the same with the help of an example.

Example: Philips-Van Heusen was in talks for licensing out Calvin Klien and IZOD in India in 2019.

The U.S. clothing giant Philips-Van Heusen (PVH) had started negotiations with leading Indian apparel companies in 2019 to put its global designer brand, Calvin Klein, and premium lifestyle brand IZOD, on domestic shelves through a licensing arrangement. Philips-Van Heusen owns or licenses the ten most successful apparel and footwear brands in the U.S. This includes Calvin Klein, Van Heusen, IZOD, and G.H. Bass & Co, which are owned, and Arrow, Kenneth Cole, and Geoffrey Beene, licensed.

The designer brand Calvin Klein always enjoyed high recall in most Asian markets, including India, and Philips-Van Heusen, following the acquisition of Calvin Klein Inc in February 2003, had been exploring new business opportunities in the region. However, the U.S. giant's move to India as a market for IZOD could provide an interesting twist as the potential licensees might not be as keen on the brand as they were on Calvin Klein. In 2018, Philips-Van Heusen closed a licensing deal for IZOD in China, Hong Kong, and Taiwan with Hernpal International.

Philips-Van Heusen already has a licensing agreement with Indian major Madura Garments for the Van-Heusen brand in West Asia. In contrast, it has ties with the Sanjay Lalbhai-managed Arvind Mills in the sourcing side of the business.

Cross-licensing

Companies in various countries often exchange technology or other intangible property rather than compete on every product in every market; such an arrangement is known as cross-licensing. An example of the same is Google (U.S.) and Samsung (Korea) entering a cross-licensing agreement to access each other's current and future patents.

Franchising

It includes providing an intangible asset (usually a trademark) and a continual infusion of necessary assets. Many types of products, companies, and countries participate in franchising. Let us consider an example here for understanding the franchising concept well.

Example: Domino's Pizza and Dunkin Donuts are operated by Master franchise Jubilant Foodworks in India.

Domino's Pizza, Inc., branded as Domino's, is an American multinational pizza restaurant chain founded in 1961. Global pizza powerhouse Domino's Pizza operated a total of 17,020 restaurants worldwide in 2019. In addition, the company runs a network of 1,126 Domino's Pizza restaurants across 264 cities in India, and Dunkin' Donuts has 50 stores across 12 cities in India.

Another example here can be seen of Burger King in India. In 2019, InterGlobe showed interest in being the master franchise of Burger King in India. Rahul Bhatia-controlled InterGlobe group was in advanced discussions to acquire the Burger King India franchise from private equity firm Everstone Capital for about Rs 1,400 crore. The franchise rights for the fast-food chain were held by Singapore-based Everstone Capital's QSR Asia Pte, a holding company for its restaurant investments in the region.

Challenges faced by franchisors:

These are:

- Inadequacy of local supplies may hamper global product uniformity.
- The more global standardization, the less acceptance in the foreign country.
- The more adjustment to the foreign country, the less the franchisor needed.

4.5 Management Contracts

Foreign management contracts are used primarily when the foreign company can manage better than the owners. An organization may pay for managerial assistance under a management contract when it believes another can manage its operation more efficiently than it can, usually because the contractor has industry-specific capabilities. For example, British Airport Authority has these for airport administration, and it manages some airports in the United States, Italy, and Australia.

Example: ApeejaySurrendra Park Hotels Signed on 320 rooms under management contract in January 2021.

ApeejaySurrendra Park Hotels (ASPH) has four brands: The Park Hotels, The Park Collection, Zone by The Park, and Zone Connect. Zone Connect, a limited-service brand under its Zone by The Park portfolio, has been launched with four hotels, under the management contract, in Coimbatore, Goa, Port Blair, and Tirupathi. The hotels would open in the first half of 2021. Like most other hotel companies, ASPH has decided to go asset-light. Therefore, the ratio between owned and managed properties had been revised to 60:40; By 2024, the plan is to reverse it in favor of more managed properties.

4.6 Turnkey Operations

Turnkey operations are:

- Most performed by industrial equipment, construction, and consulting companies,
- Often performed for a government agency.

Turnkey operations generally differ from other collaborations because they:

- May be so large,
- Depend on top-level governmental contracts,
- Are often in very remote areas.

Let us consider an example here for understanding turnkey operations as one type of collaborative arrangement.

Example: In August 2020, Tata Projects completed 110 kilometersSurathani- Phuket transmission line project in Thailand.

Tata Projects Limited and its consortium partner had completed an important 110-km stretch of the 200-km Surathani-Phuket transmission line project in Thailand. This 500kV transmission line was an achievement since it passed through thick jungles and mountainous terrain. Tata Projects Limited provides turnkey end-to-end solutions to set up power generation plants, power transmission and distribution systems, fully integrated rail and metro systems, commercial buildings and airports, chemical process plants, water and wastewater management solutions, complete mining and metal purification systems.

Joint Ventures

It is a strategy where two or more companies combine to form a new company to use the strengths of the partners to gain access to a new business. For example, Maruti-Suzuki in India can be seen. It is a business arrangement in which two or more parties agree to pool their resources to accomplish a specific task. This task can be a new project or any other business activity.

Joint ventures also create synergies and give the companies cost and benefit advantage. It can be formed because of different reasons to enter a new market or geography, to enter into a new business line altogether. Also, there are no separate governing bodies for joint ventures as they decided to enter into a new agreement. Let us consider an example for understanding it well.

Example: Volvo and Uber had announced a $300 million joint venture to developed self-driving cars in 2016.

The partnership was meant to saw the Swedish-based carmaker, owned by China's Geely, and ride-hailing service Uber pool resources into initially developing the autonomous driving capabilities of its flagship XC90 SUV. The investment was roughly shared equally by the two companies. Uber was supposed to purchase Volvos and then installed its driverless control system for the specific needs of its ride-hailing service. Volvo was considered to use the exact vehicle for its autonomous driving project based on a plan that envisaged having a driver in the car.

As we have got some clarity with the help of the above example, let us now consider a small case of the Indian company Tata and AirAsia from Malaysia to understand the concept of joint venture well

Case Study: Joint venture between Tata (An Indian multinational conglomerate) and AirAsia (Malaysia).

Tata group, the pioneer of commercial air travel in India, was set to re-enter the country's aviation sector in partnership with Malaysia's AirAsia, Asia's biggest budget carrier, and Telestra Tradeplace in early 2013. Tatas Sons thought of being the minority investor with a 30 percent stake, and Telestra Tradeplace would hold a 21 percent stake. At the same time, the Malaysian airline would have operational control with a 49 percent stake. These were the joint venture partners, which expected to begin operations by the fourth quarter of the year 2013.

AirAsia was a Malaysian low-cost airline headquartered near Kuala Lumpur, Malaysia. It was the largest airline in Malaysia by fleet size and destinations. AirAsia Group operated scheduled domestic and international flights to more than 165 destinations spanning 25 countries. AirAsia had carefully evaluated developments in India over the last few years, and the organization strongly believed that the environment in 2013 was perfect for introducing their low fares.

The Tata-AirAsia deal was in line with the estimate of industry experts that the policy change would lead to equity deals in 2-3 existing airlines and 1-2 fresh startups. This was expected to enhance competition, expand the spread of air connectivity to tier 3-4 cities, and would bring down airfares for the Indian passenger. In addition, the short notice startup in AirAsia's joint venture - including 30% shareholder Tata - had surprised competitors and could gain the airline the advantage of the early mover at that time.

AirAsia's experience across the region could lead to the introduction of new norms into the Indian market. Still, the speedy introduction of changes to the five years/20 aircraft rule would be necessary to secure the airline's success in the medium term. In addition, AirAsia's proposed pricing strategy was unlikely to allow the carrier to achieve breakeven within four months as targeted during the launch of the operations in India.

AirAsia India, which launched operations in June 2014, was set up as a tripartite joint venture between Tata Sons (who owned 30 percent then), Telestra Tradeplace (21 percent), and AirAsia Berhad of Malaysia (49 percent). Over the last 18 months, Tata Sons have been increasing its stake in the airline by buying Telestra Tradeplace. With these developments, Tata Sons consolidated its position in the Indian aviation industry.

Budget carrier AirAsia India announced the induction of 20th aircraft in its fleet, making it eligible to fly on international routes in 2018. The delivery of the 20th Airbus A320 plane to AirAsia helped it launch flight services in international markets. Airlines were earlier required to fly for at least five years on domestic routes and have a fleet of 20 aircraft before being allowed to fly international. However, with new policy measures in 2017-18, organizations could operate in overseas markets just by having 20 aircraft in the fleet or 20 percent of total capacity (in terms of an average number of seats on all departures put together).

In 2020, the environment became more troublesome for the budget carrier AirAsia. In May 2020, this budget airline had a 7.8 percent share in the Indian market and was placed in the fifth position. However, AirAsia has been facing a severe downhill as per the disruptions that COVID-19 has caused. After shutting down operations in Japan, Malaysian firms evaluated investment in Indian budget airline that had never reported an annual net profit. AirAsia India was expected to get breakeven as their strategy in the first four months of the operations, but that did not happen. AirAsia's losses widened to 332 crore in the June quarter of 2020, mainly due to the lockdown.

AirAsia's businesses in Japan and India were draining cash, causing the group much financial stress. Cost containment and reducing cash burns remained key priorities evident by the closure of AirAsia Japan and an ongoing review of their investment in AirAsia India in 2020. A detailed

network and fleet optimization strategy was implemented across the network, putting the right foundations for a sustainable and viable future. AirAsia continually reviewed its network to fly the most popular and profitable routes in the ASEAN region.

In December 2020, Tata Group Paid AirAsia around $38million (£28m) for the increased stake in the AirAsia India joint venture, which began in 2014. The deal kept the Indian conglomerate firmly in command of the budget carrier. AirAsia had been looking to reduce its cash-burn, and its Japan unit filed for bankruptcy in November 2020. AirAsia India had struggled to make money in a market considered one of the world's toughest due to high fuel taxes and fierce competition. It said, "India is a non-core market," and the transaction would allow it to concentrate on recovery in its key markets of Malaysia, Thailand, Indonesia, and the Philippines.

So, just starting a joint venture does not guarantee success to international companies. Organizations are supposed to evaluate the other important factors that impact their nature of business the most.

4.7 Equity Alliance

An equity alliance is a strategic alliance where one of the partners in the alliance purchases equity in the other partner firm. These equity investments are typically made through a direct purchase of the shares in the firm via a private placement.

4.8 Globalization & India

India undertook a cascading set of economic reforms beginning in June 1991. Industrial controls over the most investments were removed. Controls over diversification and expansion were also removed. Import controls, except for most consumer goods, were dismantled.Foreign investment restrictions came to an end to attract investment. Alongside, financial sector reforms were initiated with the objective of greater management efficiency. The government also sought better management by introducing competition to areas of public sector monopoly by allowing the entry of new private sector firms.

Structural reforms aimed at deregulating the economy and shifting from the path of relatively protected inward looking industrialization to a new phase based on greater competition in the domestic markets, openness to trade and investment, and fuller integration with the global economy were implemented.

In today's time developed countries have been trying to pursue developing countries to liberalize the trade and allow more flexibility in business policies to provide equal opportunities to multinational firms in their domestic market. International Monetary Fund (IMF) and World Bank helped them in this endeavour.

Indian government did the same and liberalized the trade and investment due to the pressure from World Trade Organization. Import duties were cut down phase-wise to allow MNC's operate in India on equality basis. As a result, globalization has brought to India new technologies, new products and also the economic opportunities.

Impact of Globalization in India

It includes:

- Economic Impact
- Socio-Cultural Impact
- Psychological Impact
- Technology and Communication Impact

Let us understand the impact of these one by one.

Economic Impact

It consists of

- Rise in employment

- More choice to consumers
- Higher disposable incomes
- Shrinking Agriculture sector
- Increasing health-care cost
- Child Labour

Rise in employment

The advent of foreign companies and growth in economy has led to job creation. However, these jobs are concentrated more in the services sector and this has led to rapid growth of service sector creating problems for individuals with low level of education.The last decade came to be known for its jobless growth as job creation was not proportionate to the level of economic growth.

More choice to consumers

Globalisation has led to a boom in consumer products market. We have a range of choice in selecting goods unlike the times where there were just a couple of manufacturers.

Higher disposable incomes

People in cities working in high paying jobs have greater income to spend on lifestyle goods. There has been an increase in the demand of products like meat, egg, pulses, organic food as a result. It has also led to protein inflation.

Shrinking Agriculture sector

Agriculture now contributes only about 15% to GDP. The international norms imposed by WTO and other multilateral organizations have reduced government support to agriculture. Greater integration of global commodities markets leads to constant fluctuation in prices.

Increasing health-care cost

Greater interconnections of the world have also led to the increasing susceptibility to diseases. Whether it is the bird-flu virus or Ebola, the diseases have taken a global turn, spreading far and wide. This results in greater investment in healthcare system to fight such diseases.

Child Labour

Despite prohibition of child labor by the Indian constitution, over 60 to a 115 million children in India work. While most rural child workers are agricultural laborers, urban children work in manufacturing, processing, servicing and repairs.

Globalization most directly exploits an estimated 300,000 Indian children who work in India's hand-knotted carpet industry, which exports over $300 million worth of goods a year.

Socio-Cultural Impact

It includes:

- Access to education
- Growth of cities
- Nuclear families
- Old age vulnerability
- Pervasive media

Access to education

Globalisation has aided in the explosion of information on the web that has helped in greater awareness among people. It has also led to greater need for specialisation and promotion of higher education in the country.

Growth of cities

It has been estimated that by 2050 more than 50% of India's population will live in cities. The boom of services sector and city centric job creation has led to increasing rural to urban migration.

Nuclear families

The increasing migration coupled with financial independence has led to the breaking of joint families into nuclear ones. The western influence of individualism has led to an aspirational generation of youth. Concepts of national identity, family, job and tradition are changing rapidly and significantly.

Old age vulnerability

The rise of nuclear families has reduced the social security that the joint family provided. This has led to greater economic, health and emotional vulnerability of old age individuals.

Pervasive media

There is greater access to news, music, movies, videos from around the world. Foreign media houses have increased their presence in India. India is part of the global launch of Hollywood movies which is very well received here. It has a psychological, social and cultural influence on our society.

Psychological Impact

It includes:

- Development of Bicultural Identity
- Growth of Self-Selected Culture
- Emerging Adulthood
- Consumerism

Development of Bicultural Identity

The first is the development of a bicultural identity or perhaps a hybrid identity, which means that part of one's identity is rooted in the local culture while another part stems from an awareness of one's relation to the global world.

The development of global identities is no longer just a part of immigrants and ethnic minorities. People today especially the young develop an identity that gives them a sense of belonging to a worldwide culture, which includes an awareness of events, practices, styles and information that are a part of the global culture.Media such as television and especially the Internet, which allows for instant communication with any place in the world, play an important part in developing a global identity.

Growth of Self-Selected Culture

It means people choose to form groups with like-minded persons who wish to have an identity that is untainted by the global culture and its values.The values of the global culture, which are based on individualism, free market economics, and democracy and include freedom, of choice, individual rights, openness to change, and tolerance of differences are part of western values.

Emerging Adulthood

The timing of transitions to adult roles such as work, marriage and parenthood are occurring at later stages in most parts of the world as the need for preparing for jobs in an economy that is highly technological, and information based is slowly extending from the late teens to the mid-twenties.

Additionally, as the traditional hierarchies of authority weaken and break down under the pressure of globalization, the youth are forced to develop control over their own lives including marriage and parenthood. The spread of emerging adulthood is related to issues of identity.

Consumerism

Consumerism has permeated and changed the fabric of contemporary Indian society. Western fashions are coming to India: the traditional Indian dress is increasingly being displaced by western dresses especially in urban areas.Media- movies and serials- set a stage for patterns of behavior, dress codes and jargon. There is a changing need to consume more and more of everything.

Technological and Communication Impact

It includes

- Disruption in technology space
- Telecom upgradation
- Internet penetration

Technology has transformed the once big and far world into a tiny global village. Thanks to technology, we now have the power to communicate with anybody on the other side of the world.The nature of communication has changed significantly over the last few decades with theadvent of the Internet and mobile communications. Internet penetration has brought significant changes in the lifestyle of the people in the entire country like India.

Summary

Globalization refers to the strategy of pursuing opportunities anywhere in the world that enable a firm to optimize its business functions in the countries in which it operates.

Ethnocentric orientation is when the values and principles of the parent organization guide the strategic decision making of all its international operations.

Polycentric orientation is when the culture of the country in which the strategy is to be implemented can dominate a company's international decision-making process.

Regiocentric orientation is when a parent company blends its own predisposition with those of its international units to develop region-sensitive strategies.

Geocentric orientation is when an international firm adopts a system of approach to strategic decision making that emphasizes global integration.

The delegation of authority of some market property right form an original institution to a motivated licensee is called licensing.

Keywords

Globalization:It refers to the strategy of pursuing opportunities anywhere in the world that enable a firm to optimize its business functions in the countries in which it operates.

Polycentric orientation: It is when the culture of the country in which the strategy is to be implemented can dominate a company's international decision-making process.

Cross-licensing:Companies in various countries often exchange technology or other intangible property rather than compete on every product in every market; such an arrangement is known as cross-licensing.

Joint venture:It is a strategy where two or more companies combine to form a new company to use the strengths of the partners to gain access to a new business.

Self Assessment

1. Being a global organization means:

a) creating both standardized and customized products.
b) customizing the product range for each segment in part.
c) creating standardized products for homogeneous markets.
d) None of the above

2. Which of the following is not a driver of global strategic management?

a) Market
b) Cost
c) Union
d) Competition

3. When management believes or assumes that the home country is superior and the needs of the home country are most relevant in terms of doing business internationally, then management is thought to have a(n) ____________________ business orientation

a) Ethnocentric orientation
b) Geocentric Orientation
c) Polycentric Orientation
d) Regiocentric Orientation

4. Which staffing policy is the most consistent with an international multidomestic strategy?

a) Regiocentric
b) Ethnocentric
c) Polycentric
d) Geocentric

5. The process of ____________ provides a formal structure in which managers analyse the company's external environments.

a) Mission
b) Strategic planning
c) Vision
d) None of these

6.This strategy involves selling a product from a home base, usually without any product modification.

a) exporting
b) licensing
c) joint venture
d) manufacturing

7. This market entry strategy offers the largest potential profits and control.

a) Licensing
b) Joint Venture
c) Manufacturing
d) Sourcing

8. Disney (U.S.A.) does not own the Disneyland amusement park in Japan but receives royalties because of this type of arrangement.

a) Exporting
b) Licensing
c) Joint Venture
d) Manufacturing

9. Sony and Pepsi joined to market Wilson sporting goods in Japan. This strategy is

a) Assembly operations
b) Manufacturing

c) Joint Venture

d) Exporting

10. ______________ are most performed by industrial-equipment, construction, and consulting companies.

a) Management contracts

b) Turnkey operations

c) Equity alliance

d) None of these

11. ____________is the free movement of people, goods, and services across boundaries.

a) Exporting

b) Globalization

c) Franchising

d) Licensing

12. Which of the following is not an impact of globalization in India?

a) Economic Impact

b) Psychological Impact

c) Institutional Impact

d) Socio-Cultural Impact

13. Which of the following is not a part of economic impact?

a) Rise in employment

b) More choice to consumers

c) Higher disposable incomes

d) Nuclear families

14. Which of the following is not a part of socio-cultural impact?

a) Child labour

b) Old age vulnerability

c) Pervasive media

d) Modern retail

15. Which of the following is not a part of Psychological Impact?

a) Growth of Self-Selected Culture

b) Emerging Adulthood

c) Growth of cities

d) Consumerism

Answers for Self Assessment

1.	A	2.	C	3.	A	4.	C	5.	B
6.	A	7.	C	8.	B	9.	C	10.	B
11.	B	12.	C	13.	D	14.	A	15.	C

Review Questions

1.How does environmental analysis at the domestic level differ from the global analysis?

2. Do you agree with the statement that soon all industries will need to evaluate global environments?

3. Explain when and why it is important for a company to globalize?

4. Discuss in brief the four major orientations of global firms.

5. Distinguish between franchising and licensing along with an example.

6. Distinguish between multinational and global firms along with an example.

7. Evaluate various competitive strategies for firms in foreign markets.

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Unit 05: Business Level Strategies

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Objectives

After studying this unit, you should be able to

- Illustrate the theoretical framework behind Generic Strategies.
- Apply cost leadership and differentiation as a strategic option to achieve Competitive advantage.
- Identify why a business would choose a low-cost or differentiation strategy.
- Demonstrate the nature and value of a market focus strategy.
- Apply dominant product/service in building value.

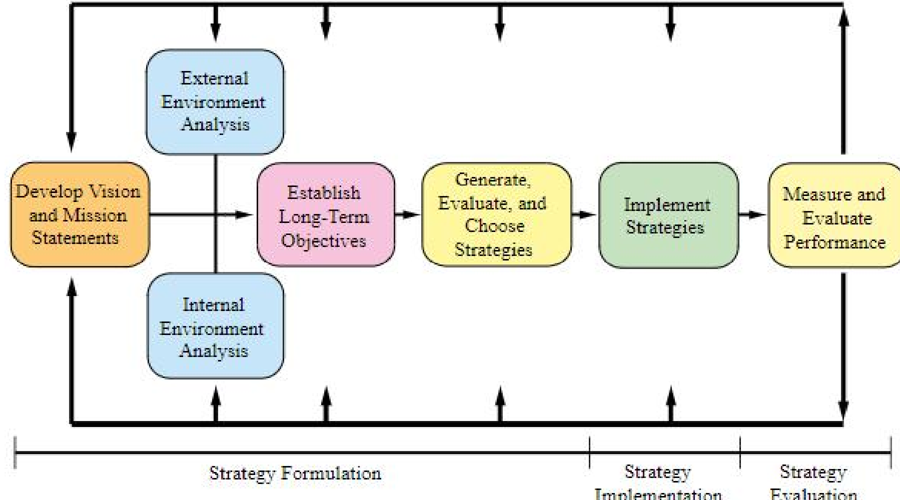
Introduction

Strategic managers recognize that short-run profit maximization is rarely the best approach to achieve sustained corporate growth and profitability. An often-repeated adage states that if needy people are given food, they will eat it and remain impoverished.However, if they are given seeds and tools and shown how to grow crops, they will be able to improve their condition permanently. A parallel choice confronts strategic decision-makers, should they eat the seeds to improve the near-term profits picture and increase dividend payments cost-saving measures?Or should they sow the seeds in the effort to reap long-term rewards by reinvesting profits in growth opportunities, committing resources to employee training, or increasing advertising expenditure?

Long-term objectives are prepared from the mission statement of the organization based on which all other activities depend. Long-term objectives highlight the expected consequences that emerged from the application of certain strategies. All the strategies of the Business Organization are formulated & implemented in the guidance of the long-term objectives. These objectives are for a longer period ranging from two to five years & this time frame should also be consistent for the resulting strategies.

Michael Porter developed three generic strategies, that a company could use to gain a competitive advantage, back in 1980. These three are cost leadership, differentiation and focus.Michael Porter's Generic Strategies are a useful framework for organizations to identify a potential niche in which they can gain a competitive advantage in any industry.They are referred to as generic as they can be applied to products, services across all industries, and in organizations of a variety of sizes.

So far in the strategic management process, we have seen how an organization develops its mission and vision statements. After developing the organization's mission and vision, the top management focuses upon environmental scanning. The top management does the external environment analysis and tries to identify the untapped opportunities that the organization can exploit. It also focuses upon the threats that can act as a hurdle in the smooth conduct of the organizational operations. Similarly, top management does the internal analysis as well where the focus remains on knowing the resources and identification of core competencies.



Business strategy can be understood as the course of action or set of decisions that assist the entrepreneurs in achieving specific business objectives. It is a master plan that the management of a company implements to secure a competitive position in the market, carry on its operations, please customers and achieve the desired ends of the business.In business, it is the long-range sketch of the desired image, direction, and destination of the organization. It is a scheme of corporate intent and action, which is carefully planned and flexibly designed with the purpose of:

- Achieving effectiveness,
- Perceiving and utilizing opportunities,
- Mobilizing resources,
- Securing an advantageous position,
- Meeting challenges and threats,
- Directing efforts and behavior and
- Gaining command over the situation.

A business strategy is a set of competitive moves and actions that a business uses to attract customers, compete successfully, strengthening performance, and achieve organizational goals. It outlines how business should be carried out to reach the desired ends.

Business strategy equips the top management with an integrated framework, to discover, analyze and exploit beneficial opportunities, sense and meet potential threats, make optimum use of resources and strengths, to counterbalance weakness.

Now the focus would be on business level strategies. It is the time where management can decide the future course of action concerning the organization.

The Business-level strategy is what most people are familiar with and is about the question “How do we compete?”, “How do we gain (a sustainable) competitive advantage over rivals?”. To answer these questions, it is important to first have a good understanding of a business and its external environment. At this level, we can use internal analysis frameworks like the Value Chain Analysis and the VRIO Model and external analysis frameworks like Porter’s Five Forces and PESTEL Analysis. When a good strategic analysis has been done, top management can move on to strategy formulation by using frameworks like Porter’s generic strategies.

Functional-level strategy is concerned with the question "How do we support the business-level strategy within functional departments, such as Marketing, HR, Production, and R&D?". These strategies are often aimed at improving the effectiveness of a company's operations within departments. Within this department, workers often refer to their 'Marketing Strategy', 'Human Resource Strategy' or 'R&D Strategy'. The goal is to align these strategies as much as possible with the greater business strategy.

At the corporate level strategy, however, management must not only consider how to gain a competitive advantage in each of the lines of businesses the firm is operating in but also which businesses they should be in in the first place. It is about selecting an optimal set of businesses and determining how they should be integrated into a corporate whole: a portfolio. Typically, a major investment and divestment decisions are made at this level by top management. Mergers and Acquisitions (M&A) are also an important part of corporate strategy. This level of strategy is only necessary when the company operates in two or more business areas through different business units with different business-level strategies that need to be aligned to form an internally consistent corporate-level strategy.

5.1 Business Level Strategies/Generic Strategies

Before we proceed with generic strategies let us focus on one of the important questions that need to be addressed here. What is the primary determinant of a firm's profitability?

Let us understand the answer of the same with the help of an example from the aviation industry. Let us consider the perspective of the global aviation industry. A healthy outlook for the global airline industry was projected by IATA for 2020.

- 2020- Net profit of $29.3 billion
- 2019- Net profit of $25.9 billion

Overall industry revenues are forecast to reach $872 billion (+4.0% on $838 billion in 2019). The net profit margin is forecast at 3.4% (up from 3.1% for 2019).Average net profit per departing passenger of $6.20 ($5.70 in 2019). If the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates then this forecast was projecting a very good outcome for the aviation industry. During the same tenure in 2019, the Indian aviation industry was expected to post a loss of $600 million.

But in the Indian aviation industry, one of the service providers named Air India Express did well and posted profit FY 2019. The net profit earned in fiscal 2019was particularly significant as the aviation sector has had to face many challenges, including high input costs. The unit cost incurred on fuel alone, increased by around 35 % during that period. The impact of this on profitability was huge, as more than 40 % of the airline's operating costs were incurred on fuel. Despite this organization was able to drivein profit by greater utilization of their assets and resources, like aircraft, manpower, and materials.

This somehow points towards the fact, that there must be a secondary determinant of a firm's profitability. But what is this secondary determinant of a firm's profitability?

Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns. A firm positions itself by leveraging its strengths. Michael Porter has

argued that a firm's strengths ultimately fall into one of the two headings: cost advantage and differentiation.

By applying these strengths in either a broad or narrow scope, three generic strategies result in cost leadership, differentiation, and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry-dependent. The below chart reflects all generic strategies that can be taken up by the organization. We would be discussing each one of these in detail one by one.

Target/Market Scope	Advantage	
	Low Cost	Product/Service Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Cost Leadership

Firms that succeed in cost leadership often have the following internal strengths:

- Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.
- Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
- High level of expertise in manufacturing process engineering.
- Efficient distribution channels.

Let us consider an example to have a better understanding of cost leadership strategy.

Example: IKEA

The Ikea Group which is owned by Stichting INGKA Foundation since 1982 is the largest furniture and home article retailer worldwide. The company from Småland in Sweden produces ready-to-assemble furniture and furnishings in a Scandinavian style

Based on Porter's Generic Strategies, which were proposed by Michael Porter, IKEA mainly follows the "Cost Leadership Strategy". IKEA seeks suppliers who could manufacture well-designed subassemblies at the lowest costs and customers need to assemble the products themselves. This method could save delivery costs for both producers and customers. It allows manufacturers to reduce a lot of costs as soon as customers could pay for the products at a much lower price with high quality and therefore, to receive different segments of customers.

Shoppers love Ikea because of how affordable its furniture is. Many Ikea products cost about half the price of competitors. Part of why Ikea's prices are so low is that it packs everything flat to save

on storage and transportation costs.In other words, IKEA chooses what it wants to sell a product for, and then designers work with suppliers to make that possible.

Ikea explains on its website that it constructs its furniture by layering sheets of wood over a honeycomb core. This type of construction saves Ikea money, so it can price furniture lower.By making so many things of everything, Ikea can get discounts on production and keep the prices lower.

Everything is packed completely flat, so it costs less to store and transport it.Ikea doesn't have a ton of store associates at each store. By hiring fewer people, IKEA can save money and keep the prices lower.Customers must take furniture home by themselves. It may not be the most convenient option, but it means the company won't be paying a delivery fee.

Similarly, we can have examples of the companies like Walmart, McDonald's, and Southwest Airlines.

Example: Walmart

Walmart stores have been successful in using its strategy of everyday low prices to attract customers. The idea of everyday low prices is to offer products at a cheaper rate than its competitors consistently, rather than relying on sales.

Walmart can achieve this due to its large-scale and efficient supply chain. They source products from cheap domestic suppliers and low-wage foreign markets. This allows the company to sell its items at low prices and to profit off thin margins at a high volume.

Example: McDonald's

In the case of Mcdonald's, the restaurant industry is known for yielding low margins that can make it difficult to compete with a cost leadership marketing strategy. McDonald's has been extremely successful with this strategy by offering basic fast-food meals at low prices.

They can keep prices low through division of labor that allows them to hire and train inexperienced employees rather than trained cooks. It is also relying on few managers who typically earn higher wages. These staff savings allow the company to offer its foods at bargain prices.

Example: Southwest Airlines

The airline industry has typically been an industry where profits are hard to come by without charging high ticket prices. Southwest Airlines challenged this concept by marketing itself as a cost leader. Southwest attempts to offer the lowest prices possible by being more efficient than traditional airlines.

They minimize the time that their planes spend on the ground to keep them flying and to keep profits up. They also offer little in the way of additional thrills to customers but pass the cost savings on to them.

Differentiation

Firms that succeed in a differentiation strategy often have the following internal strengths:

- Access to leading scientific research.
- Highly skilled and creative product development team.
- Strong sales team with the ability to successfully communicate the perceived strengths of the product.
- Corporate reputation for quality and innovation.

A differentiation strategy advocates that a business must offer products or services that are valuable and unique to buyers above and beyond a low price. The ability for a company to offer a premium price for their products or services hinges upon how valuable and unique these offerings

are in the marketplace. A differentiator invests its resources to gain a competitive advantage from superior innovation, excellent quality, and responsiveness to customer needs.

Differentiation allows a firm to build brand loyalty, obtain customers who exhibit less price sensitivity, and increase its profit margins. As opposed to costing leaders, differentiators are not as concerned with supplier price increases. Differentiators can more easily pass on price increases to their customers because customers are more willing to pay the increases.

Let consider an example to understand the differentiation strategy implementation.

Example: Lush Cosmetics Company

What makes Lush different is the fresh approach to the way their products are made. All the cosmetics available in their stores and online are handmade from only fresh fruit and vegetables, and where possible, are organic. These are combined with the finest essential oils and safe synthetics from sustainable suppliers around the world, making the products 100% vegetarian too.

The differentiator for the brand isthat it brings a natural beauty brand to the makeup industry as an authentic alternative to traditional products.While most makeup brands focus on mass-producing their products and using whatever ingredients it takes to get the desired effects, Lush paves a path of its own.

The crazy thing is, this sounds more like what you'd expect to read about a high-end restaurant (minus the animal testing) rather than a makeup brand, but that's what makes Lush different.They know that there are plenty of women who, while wanting to look good, are sick and tired of all of the chemically-laden products, mass-production side effects, and cruel animal testing that runs rampant in the beauty industry, and so Lush differentiates on all of it to appeal to those very women.

Instead of going for a luxurious brand feel that is common for makeup brands, Lush focuses on authenticity and ethical ingredients.Their honesty and confidence in their productsconsider that everything is up for sampling in-stores so that you know you're not getting duped whichdraws customers into their unique stores and helps them stand out from the tons of brands in their space.

Now let us see whether this strategy has worked for Lush or not.

Lush is on the rise, with more locations opening around the world constantly. They've surpassed the $1 billion mark in annual sales, and for being around for only 22 years,they've already climbed the ranks of becoming a top beauty brand, sitting pretty at 34th place. If you consider that Nivea, a brand that's over 100 years old, is currently ranked as 5th, Lush is catching up quite quickly for its age.

Similarly, another example that can be considered for differentiation strategy is Brompton folding bikes.

Example: Brompton folding bike

Brompton's history can be traced back to 1975, when the inventor and founder, Andrew Ritchie, created prototypes of Brompton bikes from his bedroom in South Kensington, London opposite the Brompton Oratory. Brompton is the leading bike manufacturer in the UK, and all bikes are manufactured in their West London factory.

Brompton's bikes are differentiated by their sturdy frames and, more importantly, by how compact they become when folded for storage. The company has a cult following, with some customers chronicling their bike adventures on blogs or via other social media.

Focus Strategy:

The 'focus' strategy involves focusing on a narrow, defined segment of the market, also called a 'niche' segment. For example, Porche markets to the particular segment that likes fast and expensive cars and can afford them. A company in a niche market has customers who understand, appreciate, and can pay a premium for their indulgence. Competitive advantage - either by cost or differentiation- is created especially for the niche. But the risks are that the niche may not grow, or it may disappear with time and change.

Focus strategy can serve businesses in multiple ways. For starters, it is the best approach to understand your target customers' needs effectively. Focus strategy concentrates on the specific needs of a specific group of customers.

The focus strategy has two variants:

- Focused differentiation strategy
- Focused low-cost strategy

Focused Differentiation Strategy

Focused differentiation strategy is the first type of focus strategy that focuses on developing a differentiated product for a specific market segment. An organization focusing on differentiation strategy concentrates on a narrow customer segment adding differentiable and customized attributes to the product. Let us consider an example here to understand it better.

Example: Breezes Resorts

Breezes Resorts is one of the finest practical examples of a focused differentiation strategy. The company only serves couples without children. The company has seven tropical resorts, and it guarantees a children-free and noise-free place to its customers. Couples who wish to spend some time alone highly favor these types of services.

AugustinoLoPrinzi Guitars & Ukuleles is another classic example of a focused differentiated strategy. The firm has been making customized high-end guitars for almost 50 years now. Their handmade products range between $1100 to $10,000.

Focused Low-Cost Strategy

A focused low-cost strategy is often a common choice for firms entering the market. These firms enter the market with a different product offering more benefits to their target customers at a lower price. However, this doesn't mean that established firms cannot or do not follow the focused low-cost strategy.

A new entrant cannot compete against the market giants directly. Therefore, these companies prefer market penetration with lower prices for their products. Of course, it can be difficult to continue this strategy in the long term, but it is very effective for new entrants.

Example: Papa Murphy

Papa Murphy's, a highly reputed company, is a classic example of the focused low-cost strategy. Papa Murphy's is the United States' fifth-largest Pizza chain. The company operates differently from traditional pizza makers.

Papa Murphy prepares the pizza but does not bake it. The customers buy the pizza and bake it themselves. This approach favors both parties. The cost of operations becomes lower for Papa Murphy's because the firm does not need baking equipment, and it requires less restaurant space. On the other hand, customers with a low budget can enjoy restaurant-made pizza.

Now let us focus upon what competitive strategy, positions a business most effectively in its industry? The answer for the same can be understood well with the help of an example.

Example: BIBA ethnic wear

Bindra's BIBA fuels ethnic wave in India. BIBA, India's leader in the ethnic wear industry, understood the growth potential and converted a predominantly unorganized industry into an organized retail chain with 275 exclusive stores pan India and with presence in large format stores such as Shoppers Stop, Lifestyle, and Central.

Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their

competitors.The two most prominent sources of competitive advantage can be found in the business's cost structure and its ability to differentiate the business from competitors.

5.2 Evaluating & Choosing Business Strategies

The important business strategies that managers of the organization can look up to:

- Evaluating cost leadership opportunities
- Evaluating differentiation opportunities

Evaluating Cost Leadership Opportunities

It includes:

- skills and resources that foster cost leadership.
- organizational requirements to support and sustain cost leadership activities.

When we consider skills and resources that foster cost leadership, it includes:

- Sustained capital investment and access to capital.
- Process engineering skills.
- Intense supervision of labor or core technical operations.
- Products or services designed for ease of manufacture or delivery.
- Low-cost distribution system.

But, along with the things mentioned above, there are certain organizational requirements as well that need to support and sustain cost leadership activities. These are:

- Trust cost control
- Frequent, detailed control reports
- Continuous improvement and benchmarking orientation
- Structured organization and responsibilities
- Incentives based on meeting strict, usually quantitative targets

Business success built on cost leadership requires the business to be able to provide its product or service at a cost below what its competitors can achieve. Let us understand the same with the help of an example.

Example: Nirma

Nirma is one of the few names which is instantly recognized as a truly Indian brand, which took on mighty multinational.India is one of the largest consumer economies with a burgeoning middle class.Nirma concentrated all its efforts towards creating and building a strong consumer preference towards its value-for-money products. In the 60s and 70s where the domestic detergent market had only a premium segment, with very few players, and was dominated by MNC.

Karshanbhai Patel started door-to-door selling of his detergent powder, priced at Rs. 3 per kg. When the cheapest available brand in the market was Rs. 13 per kg. It was an innovative, quality product with the indigenous process, packaging, and low-profile marketing which changed the habit of Indian housewives for washing their clothes. In a short span, Nirma created an entirely new market segment in the domestic marketplace, which is, eventually the largest consumer pocket and quickly emerged as dominating market player.

The main reason behind the success of Nirma was that it has gone for massive backward integration along with expansion and modernization of the manufacturing facilities.To ensure a regular supply of major raw materials, Nirma had opted for backward integration strategies.

These strategic moves allowed Nirma to manage the effective and efficient supply chain. Nirma has always provided value for money offering. Distinct market vision and robust infrastructure allowed Nirma to have Cost leadership.Apart from this lean distribution network, umbrella

branding and low-profile media promotions allowed it to offer quality products at affordable prices. This is the kind of advantage that cost leadership strategy provides to organizations.

Low-Cost Strategies

Business strategies that seek to establish long-term competitive advantages by emphasizing and perfecting value chain activities that can be achieved at costs substantially below what competitors can match on a sustained basis.

Let us now focus on the implementation of low-cost strategies with the help of value chain analysis.

Low-Cost Strategies (Value Chain Support Activities):

The areas where cost can be reduced in value chain support activities are:

- Process innovations lower production costs.
- Product redesign reduces the number of components.
- Safety training for all employees reduces absenteeism, downtime, and accidents.
- A computerized, integrated information system reduces errors and administrative costs.
- Favorable long-term contracts with a key supplier.

Similarly, we can see for value chain primary activities as well.

Low-Cost Strategies (Value Chain Primary Activities):

The areas where cost can be reduced in value chain primary activities are:

- Global online suppliers provide automatic restocking of orders based on sales.
- The economy of scale in plants reduces equipment costs and depreciation.
- Computerized routing lowers transportation expenses.
- Cooperative advertising with distributors creates a local cost advantage in buying media space and time.
- Subcontracted service technicians repair products correctly the first time or they bear all costs.

Now, let us shift our focus towards evaluating differentiation strategy.

Evaluating Differentiation Opportunities

It includes:

- Skills and Resources that Foster Differentiation.
- Organizational Requirements to Support and Sustain Differentiation Activities.

When we consider skills and resources that foster differentiation, it includes:

- Strong marketing abilities.
- Product engineering.
- Creative talent and flair.
- Strong capabilities in basic research.
- Corporate reputation for quality or technical leadership.
- Strong cooperation from channels.
- Strong cooperation from suppliers of major components of the product or service.

But, along with the things mentioned above, there are certain organizational requirements as well that need to support and sustain differentiation activities. These are:

- Strong coordination among functions in R&D, product development, and marketing.
- Subjective measurement and incentives instead of quantitative measures.
- Amenities to attract highly skilled labor, scientists, and creative people.
- The tradition of closeness to key customers.

- Personnel skilled in sales and operations.

Let us now consider an example to understand it better.

Example: Apple Inc.

Apple pursues a differentiation-based business strategy, its success mantra lies in hardware design, dynamic product line, marketing and promotion, and software. If we consider hardware design, Apple has built-in its practices, its culture, its image, and its core passion for simple, clean, elegant, and compact hardware design packed with features and user experience focused.

Similarly, for the dynamic product line, Apple has repeatedly created an initial product that defines a new user experience solution, then builds overtime on that same product, adding new features and upgrades as the customer's needs evolve. As far as software is concerned core, unique software capabilities are integrated overtime with hardware. Apple's marketing and promotion is a very strong aspect of the company and has got a very good brand recall.

Differentiation Strategies

A business strategy that seeks to build competitive advantage with its product or service by having it be 'different from other available competitive products based on features, performance, or other factors not directly related to cost and price.

Let us now focus on the implementation of differentiation strategies with the help of value chain analysis.

Differentiation Strategies (Value Chain Support Activities):

The areas where differentiation can be applied in value chain support activities are:

- Use cutting-edge production technology and product features to maintain a distinct image and actual product.
- Develop programs to ensure technical competence of sales staff and marketing orientation of service personnel.
- Maintain quality control presence at key supplier facilities.

Similarly, we can see for value chain primary activities as well.

Differentiation Strategies (Value Chain Primary Activities):

The areas where differentiation can be applied in value chain primary activities are:

- Purchase superior quality, well-known components, raising the quality and image of the final products.
- Carefully inspect products at each stepin production to improve product performance and lower defect rate.
- Coordinate with buyers, use own or captive transportation service to ensure timeliness.
- Build a brand image with expensive, informative advertising and promotion.
- Allow service personnel considerable discretion to credit customers for repairs.

5.3 Dominant Product/Service Building Value

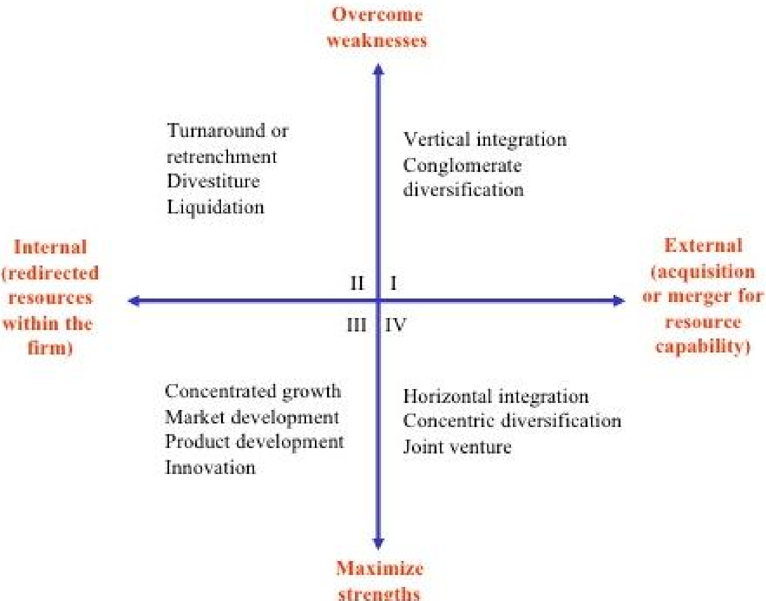
We would be able to understand the impact of a dominant product or service on the overall organization as well as the value it creates for the organization stakeholders and the customers. The same can be understood well with the grand strategy selection matrix.

Grand Strategy Selection Matrix

A grand strategy matrix consists of a four-quadrant graph, similar to a SWOT matrix, that lists strategic options for companies in either strong or weak competitive positions in industries experiencing either rapid or slow growth.

The idea of a strategy matrix is to utilize a variety of analyses—or matrices—to consider whether a company is manipulating its Strengths, Opportunities, or Weaknesses for an optimal position in an industry as well as its exposure to a Lagging area. Matrix planners often seek growth as a way to strengthen themselves against competitors and the overall industry.

Analysis of industry position leads to decision making on how to utilize company resources such as capital or R&D more efficiently and defines strategies for the different types of industry growth, either rapid or slow. All strategic decisions affect other areas of a company's strategy. Thus one needs to consider possible competitive reactions and possible changes in customer behavior. Sometimes an analysis of the weaknesses of competitors, or industry trends, suggests the need to develop new products or technologies.



Quadrant 1: The strongest companies in the industry with the strongest R&D spending may choose to invest more money into R&D efforts to proactively combat the most threatening weaknesses such as low quality and limited functionality. Conversely, companies in this quadrant can decrease R&D spending and allow competitors in the strategy matrix to grow faster and take the lead in the industry.

Quadrant 2: The strongest companies often increase investment in R&D, depending on how they view their opportunities in the industry. Companies with strong market share and R&D spending may choose to increase their R&D spending to promote the dominance of market share and possibly increase their market share further. However, these companies may also choose to rely on the growth of their market share instead of increasing spending, take the lead, and allow other companies to increase their market share, while still beating out the competition with value-added products.

Quadrant 3: Companies under the "weak" label are typically based on the size of market share. Their strategic decisions can include R&D to increase their market share, out-spend the industry on R&D, or rely on differentiation to increase market share. Companies that are weak or leap-frogging relative to industry growth may be more willing to take the lead in research and development than companies with strong positions.

Quadrant 4: Companies in this quadrant are "weak relative to the industry" as well as "weak relative to R&D spending." Companies that are in this quadrant are most fearful of industry growth over a short amount of time. These firms are likely to choose to operate in the slow growth or no-growth industry yet may need to invest in R&D to continue to innovate and provide changes that meet their customers' ever-changing needs. Although these companies may choose to invest in R&D, they must choose to do so at a lower rate (relative to industry growth) than other companies.

Let us take a small case on McDonald's and Yum brands to understand it better.

Case Study: McDonald's and Yum brands

McDonald's has frequently looked at numerous opportunities to diversify into related businesses or to acquire key suppliers. Its decision has consistently been to focus on its core business using the grand strategies of concentration, market development, and product development. In 2020, McDonald announced new growth strategies. McDonald's had decided to use the following strategies:

- Maximize its marketing
- Commit to the Core
- Double Down on the 3D's (Digital, Delivery & Drive Thru

It is going Maximize itsmarketing by investing in new, culturally relevant approaches to effectively communicate the story of the brand, food, and purpose. The organization is committed to the core by tapping into customer demand for the familiar and focusing on serving delicious burgers, chicken, and coffee. The company is also focusing on double down on the 3 D's (Digital, Delivery, and Drive-Thru) by leveraging competitive strengths and building a powerful digital experience growth engine that provides a fast, easy experience for our customers.

Maximize its Marketing:

A renewed focus on McDonald's purpose will come to life in a new campaign, "Serving Here." The campaign demonstrates the Company's values and illustrates its commitments to the communities, customers, crew, farmers, franchisees, and suppliers it partners with and will be animated with actions in its top markets.

Customers want to love and connect with McDonald's creative content as much as the food. To drive that connection, the Company will continue listening to customers and finding opportunities to create cultural moments.

Affordability is also crucial in today's environment and remains a cornerstone of the McDonald's brand. The Company is committed to offering the right price and product combination so that customers realize value at every tier of the menu.

Commit to the Core:

What customers love most about McDonald's menu is the classics - like the Big Mac, Quarter Pounder, Chicken McNuggets, and World-Famous Fries. Core menu items, like these, represent the heart of the business, making up about 70 percent of food sales across its top markets.

As demand for the familiar in these uncertain times is more important than ever, the Company believes these core classics will continue to be significant drivers of growth thanks to both their popularity and profitability.

McDonald's heritage is in burgers, and committing that customers get the best version of their popular burgers every time they visit is a priority. To improve upon the great taste of its burgers and to serve them hot and deliciously juicy,markets around the world are implementing a series of operational, process, and formulation changes. These include using new buns toasted to golden brown and an enhanced grilling approach to unlock more flavor.

Double Down on the 3 D's: Digital, Delivery, and Drive-Thru

The shift in customer behavior during COVID-19 has illustrated the competitive advantages of McDonald's. Delivery is booming and the use of the McDonald's app has surged as more and more customers are ordering and paying for their food on mobile devices.

McDonald's 25,000 drive-thru lanes worldwide have become an oasis for customers around the world. To unlock further growth, the Company will accelerate technology innovation so that tens of millions of customers.Those who interact with McDonald's every day can enjoy a fast, easy experience that fits their needs at the moment, whether a family dinner delivered to a doorstep or late-night fries from the drive-thru.

To transform its digital offerings across drive-thru, takeaway, delivery, curbside pick-up, and dine-in, the Company announced a new digital experience growth engine, "MyMcDonald's."Through the digital tools across this platform, McDonald's will offer customers the fast and easy experiences they love and provide them with many reasons to keep coming back.

Customers will receive tailored offers, be able to participate in a new loyalty program, and easily order and receive McDonald's food through the channel of their choice.Nearly 75% of the population across the Company's top markets lives within three miles of a McDonald's, and this advantage allows the Company to meet customers' evolving needs for speed and convenience.

In the past three years, McDonald's has expanded the number of restaurants that offer delivery nine-fold, to about 28,000 restaurants.Building on this progress means enhancing the delivery experience for customers. This includes the ability to order on the McDonald's app, which is already available in several markets around the world, and optimizing operations with a focus on speed and accuracy.

McDonald's drive-thru presence and experience with operating high-performing drive-thru's for over 45 years is unrivaled. McDonald's has a drive-thru in approximately 65% of its restaurants around the world and, in the U.S., nearly 95% of the approximately 14,000 locations have a drive-thru.During COVID-19, this channel has heightened importance and will be even more critical in the future to meet the demand for flexibility and choice.

McDonald's will maximize the advantages of its strong drive-thru presence by testing new concepts and technology to make the customer experience even faster. This includes innovations to provide a faster, more convenient experience such as automated order taking;a new drive-thru express pick-up lane for customers with a digital order; and a restaurant concept that offers drive-thru, delivery, and takeaway only. In addition, the Company will build on its drive-thru advantage as most new restaurants in the U.S. and International Operated Markets will include a drive-thru.

McDonald's reinvigorated strategy is underpinned by a relentless focus on running great restaurants and empowering restaurant crew.The Company has reduced its drive-thru service times by about 30 seconds over the past two years in its largest markets, on average. McDonald's will continue to focus on driving efficiencies in its operations to enhance the customer experience.

Now if we focus on its strategy for particular geography like India, as a part of its business strategy, fast food company Mc Donalds India, North and East is looking at technology, restaurant reimaging, and menu innovation to drive better customer experience and engagement in 2021 and beyond.

The company has completed 25 years of its operation in the country. It opened its first restaurant in Basant Lok, New Delhi in 1996.Digital technology was already transforming the industry before Covid-19, and now it has turbo-charged the penetration of technology. At a time when customers are cautious about their safety,the company focus on providing convenience with technology, best-in-class safety measures, and the value-for-money proposition that offers an optimistic growth trajectory for the brand in the region.

India's QSR segment accounts for nearly 5 percent of the overall Rs 4.23 lakh crore food services business, according to NRAI India food services report 2019. With plans to accelerate its transformation journey,the brand will continue to infuse more tech-based innovations and its globally successful digital assets in 2021 along with reimaging plans for restaurants to drive growth and deeper customer engagement.

On the other hand, if we see the rival Yum brand. They chose to diversify in related businesses and vertical acquisitions as the best grand strategies for it to build long-term Value.Yum! Brands, Inc., based in Louisville, Kentucky, has over 48,000 restaurants in more than 140 countries. The company's restaurant brands – KFC, Pizza Hut, and Taco Bell – are global leaders of the chicken, pizza, and Mexican-style food categories.

Worldwide, the Yum! Brand's system opens over eight new restaurants per day on average, making it a leader in global retail development.In 2018, Yum! Brands was named to the Dow Jones Sustainability North America Index and ranked among the top 100 Best Corporate Citizens by Corporate Responsibility Magazine. In 2019, Yum! Brands was named to the Bloomberg Gender-Equality Index for the second consecutive year.

It has acquired Tictuk Technologies, a leading Israeli omnichannel ordering, and marketing platform company. The addition of Tictuk to Yum! Brands' technology portfolio will give the companythe ability to offer more ways for consumers globally to access and order its KFC, Pizza Hut, Taco Bell, and The Habit Burger Grill brands through some of the world's most popular social media and conversational platforms.

In 2020, Yum! Brands' digital sales hit a record of $17 billion, about a 45% increase over the prior year, a testament to the Company's focus on pivoting its business model to win in an off-premises environment and meeting new consumer needs.

Yum! Brands' global technology strategy, in partnership with the KFC, Pizza Hut, Taco Bell, and The Habit Burger Grill divisions, is focused on providing a best-in-class digital journey across mobile, online, delivery, and restaurant operations.

The company continues to accelerate its digital commerce strategy through data and advanced analytics and innovative emerging technologies to unlock new sources of global growth.Yum! Brands has successfully deployed Tictuk's platform in approximately 900 KFC, Pizza Hut, and Taco Bell restaurants in 35 countries outside of the U.S. The Company plans to scale and offerTictuk's omnichannel ordering and marketing capabilities to more markets and franchisees globally to deliver more ways for consumers to access its brands through social media and other conversational commerce channels.

Its brands are effectively positioned to win in an off-premise environment and that its business model is positioned for sustained rapid growth after the pandemic.

Summary

Long-term objectives usually include specific improvements in the organization's competitive position, technology leadership, profitability, return on investment, employee relations and productivity, and corporate image.

Cost leadership is a term used when a company projects itself as the cheapest manufacturer or provider of a particular product or commodity in a competition. It is difficult to deploy the strategy because the management must constantly work on reducing costs at every level to remain competitive.

A differentiation strategy is an approach businesses develop by providing customers with something unique, different, and distinct from items their competitors may offer in the marketplace. The main objective of implementing a differentiation strategy is to increase competitive advantage.

The 'focus' strategy involves focusing on a narrow, defined segment of the market, also called a 'niche' segment.

Business strategy can be understood as the course of action or set of decisions that assist the entrepreneurs in achieving specific business objectives. It is a master plan that the management of a company implements to secure a competitive position in the market, carry on its operations, please customers and achieve the desired ends of the business.

A grand strategy matrix consists of a four-quadrant graph, similar to a SWOT matrix, that lists strategic options for companies in either strong or weak competitive positions in industries experiencing either rapid or slow growth.

Keywords

Social Responsibility: It is defined as the obligation and commitment of managers to take steps for protecting and improving society's welfare along with protecting their interests.

Cost leadership:It is a term used when a company projects itself as the cheapest manufacturer or provider of a particular product or commodity in a competition.

Differentiation strategy:It is an approach businesses develop by providing customers with something unique, different, and distinct from items their competitors may offer in the marketplace.

Focus strategy: It involves focusing on a narrow, defined segment of the market, also called a 'niche' segment.

Self Assessment

1. According to Porter, which strategy offers products or services to a small range of customers at the lowest price available on the market?

a) Low cost
b) Best value
c) Cost focus
d) Differentiation

2. Business-level strategies are concerned specifically with:

a) creating differences between the firm's position and its rivals.
b) the industries in which the firm will compete.
c) how functional areas will be organized within the firm.
d) how a business with multiple physical locations will operate one of those locations.

3. A differentiation strategy provides products that customers perceive as having:

a) acceptable features.
b) features of little value relative to the value provided by the low-cost leader's product.
c) features for which the customer will pay a low price.
d) features that are non-standardized for which they are willing to pay a premium.

4. When implementing a focus strategy, the firm seeks:

a. to be the lowest cost producer in an industry.
b. to serve the specialized needs of a market segment.
c. to avoid being stuck in the middle.
d. to offer products with unique features for which customers will pay a premium.

5. The marketing strategy emphasizes price as the key to good value; operations run with tight cost control; development focuses on cost reduction. Which of Porter's competitive strategies is illustrated here?

a. Differentiation
b. Cost Leadership
c. Focus
d. None of these

6. A focused low-cost strategy seeks to achieve competitive advantage by

a) Outmatching competitors in offering niche members an absolute rock-bottom price.
b) Delivering more value for the money than other competitors.
c) Dominating more market niches in the industry via a lower cost and a lower price than any other rival.
d) Serving buyers in the target market niche at a lower cost and lower price than rivals.

7. A focused low-cost strategy can lead to attractive competitive advantage when

a) Buyers are looking for the best value at the best price.

b) Buyers are price sensitive and are attracted to brands with low switching costs.
c) Demand in the target market niche is growing rapidly and a company can achieve a big enough volume to fully capture all the available scale economies.
d) A firm can lower costs significantly by limiting its customer base to a well-defined buyer segment; its two options for achieving a low-cost advantage are (1) out-managing rivals in controlling the factors that drive costs and (2) reconfiguring its value chain in ways that deliver a cost edge over rivals.

8. The keys to sustaining a broad differentiation strategy are

a) To stress constant innovation to stay ahead of imitative rivals and to concentrate on a few differentiating features.
b) To charge a premium price that more than covers the extra costs of differentiating features and to convince customers to be brand loyal.
c) To out-innovate and out-advertise rivals.
d) None of the Above.

9. How does cost leadership business strategy offer a chance to an organization to have better profitability?

a) By making products at a lower cost
b) By offering products at lower prices
c) By saving money on research
d) By doing direct marketing

10. All these are actions for achieving cost leadership EXCEPT:

a) Accurate demand forecasting
b) Attaining economies of scale
c) High level of standardization
d) Aiming at premium customers

11.The keys to sustaining a broad differentiation strategy are

a) To stress constant innovation to stay ahead of imitative rivals and to concentrate on a few differentiating features
b) To charge a premium price that more than covers the extra costs of differentiating features and to convince customers to be brand loyal
c) To out-innovate and out-advertise rivals
d) None of the Above.

12. In the airline industry, frequent-flyer programs, ticket kiosks, and e-ticketing are all examples of capabilities that are

a) rare.
b) causally ambiguous.
c) socially complex.
d) valuable.

13. When a product's unique attributes provide value to customers, the firm is implementing

a) a differentiation strategy.
b) a cost leadership strategy.
c) an integrated cost leadership/differentiation strategy.
d) a single-product strategy.

14. All the following would be considered as opportunities for a business, EXCEPT:

a) Removal of international trade barriers
b) The emergence of unfulfilled customer need
c) The emergence of substitute products
d) Loosening of govt regulations

15. Corporate strategies are basically about decisions related to all of these EXCEPT:

a) allocating resources among the different businesses of a firm.
b) transferring resources from one set of businesses to others.
c) changing internal strengths into external opportunities
d) managing and nurturing a portfolio of businesses

16. Porter's generic strategies are:

a) Low price, differentiation, focus
b) Cost leadership, differentiation, cost focus, focus differentiation
c) Price leadership, differentiation, focus
d) Low cost, differentiation, focus differentiation

17. In Porter's Generic Strategies model, a focus strategy involves:

a) Selling a limited range of products
b) Selling to a narrow customer segment
c) Selling to one region only
d) Selling simple products that are cheap to produce

18. H&M, the clothes retailer is for most of its products following which generic strategy?

a) Focused differentiation
b) Hybrid
c) Cost Focus
d) No Frills

19. Which of the following strategy should be used while overcoming weakness and redirecting internal resources within the firm?

a) Vertical integration
b) Divestiture
c) Market development
d) Joint venture

20. Which of the following strategy should be used while maximizing strengths and redirecting internal resources within the firm?

a) Product development
b) Turnaround
c) Horizontal integration
d) Liquidation

21. Which of the following strategy should be used while overcoming weaknesses and going for acquisition or merger for resource capability?

a) Horizontal integration
b) Product development
c) Vertical Integration
d) Divestiture

22. Which of the following strategy should be used while maximizing strengths and redirecting internal resources within the firm?

a) Market development
b) Liquidation
c) Conglomerate diversification
d) Concentric diversification

23. Which of the following strategy should be used while overcoming weaknesses and redirecting internal resources within the firm?

a) Concentrated growth
b) Joint venture
c) Vertical integration
d) Turnaround

24. Which of the following strategic options is the odd one out?

a) Focus
b) Hybrid
c) Differentiation
d) Cost leadership

25. Which of the following statements best defines the term 'core competencies?

a) Groups of skills and technologies enable an organization to provide particular benefits to customers.
b) Capabilities without which the core operations of the organization cannot be performed.
c) Strategic capabilities that correspond directly to the key factors for success in the industry.
d) The key skills workers need to function in a particular job role within the organization.

26. _______________ is defined as a system of moral standards or values.

a) Social
b) Culture
c) Ethics
d) Religious

27. _____________ is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public.

a) Business Ethics
b) Corporate Social Responsibility
c) Sustainability
d) None of these

28. _____________ is an initiative through which employees 'give back' to the society.

a) Employee stock options
b) Employee social options
c) Employee stake options
d) None of these

Answers for Self-Assessment

1.	C	2.	A	3.	D	4.	B	5.	B
6.	D	7.	D	8.	A	9.	A	10.	D
11.	A	12.	D	13.	A	14.	C	15.	C
16.	B	17.	B	18.	B	19.	B	20.	A
21.	C	22.	A	23.	D	24.	B	25.	A
26.	C	27.	B	28.	B				

Review Questions

1. Discuss in brief the importance of long-term objectives in the strategic management process.

2. Explain under which conditions are these business strategies used: (a) cost leadership? (b)

differentiation? (c) focus?

3. What is the importance of business strategies? Explain the concept of differentiation strategy with the help of examples of companies whohave used this strategy and doing well in the Indian market.

4. Explain the benefits and risks associated with the low-cost leadership strategy.

5. Do you think cost leadership and differentiation of products are the key driversof competitive advantage? Justify with the help of suitable examples.

6.Write short notes on Michael Porter's generic strategies along with an example.

7. Should dominant product/service businesses diversify to build value and competitive advantage? What grand strategies are most appropriate?

8. Evaluate a business's cost leadership opportunities along with an example.

9. Evaluate a business's differentiation opportunities along with an example.

10. What strategies are most effective at building sustainable competitive advantages for single business units?

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Rajeev Gupta, Lovely Professional University

Unit06: Multi-Business Strategy & Strategy Implementation

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6.4 Patching Approach

6.5 Strategy Implementation:

6.6 Organization Culture

Summary

Keywords

Self Assessment

Answer for Self Assessment

Review Questions

Further Readings

Objectives

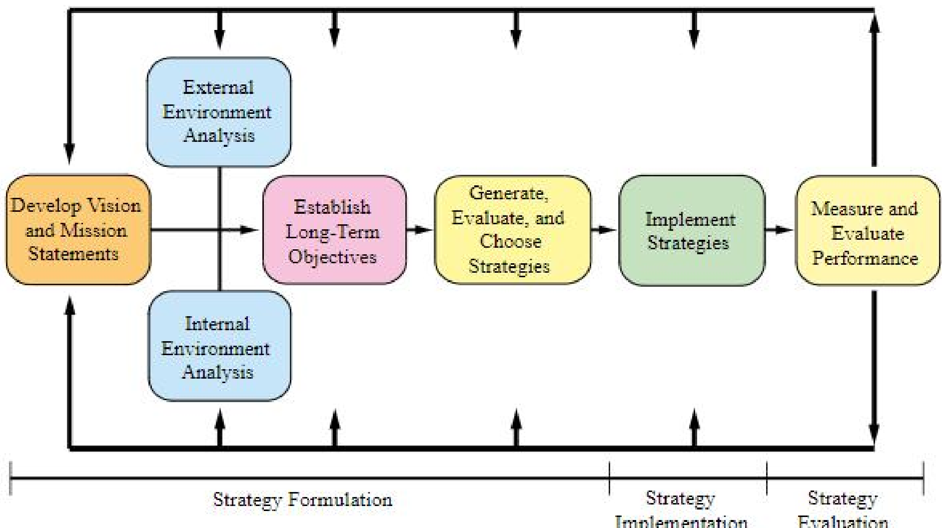
After studying this unit, you should be able to

- define the portfolio approach for an organization,
- analyze the portfolio of a firm using GE Nine Cell Matrix,
- create a BCG matrix for a given multi-business entity,
- comprehend synergy approach to strategic analysis and choice in multi-business companies,
- evaluate the parent company's role in strategic analysis and choice to determine whether and how it adds tangible value to a multi-business company,
- demonstrate the patching approach to development in companies,
- identify different organizational structures,
- identify ways of improving traditional organizational structures,
- examine what good organizational leadership involves,
- illustrate the role of leadership in strategic implementation.

Introduction

So far in the strategic management process, we have seen how an organization develops its mission and vision statements. After developing the organization's mission and vision, the top management focuses on environmental scanning. The top management does the external environment analysis and tries to identify the untapped opportunities that the organization can exploit. It also focuses on the threats that can act as a hurdle to the smooth conduct of organizational operations. Similarly, top management does the internal analysis as well where the focus remains on knowing the resources and identification of core competencies.

Once the core competencies are identified by the organization, it starts focusing on formulating its long-term objectives and choice of strategy which is going to help the organization in achieving the desired results.



Strategic analysis and choice are the phases of the strategic management process in which business managers examine and choose a business strategy that allows their business to maintain and create a sustainable competitive advantage.Their starting point is to evaluate and determine which competitive advantage provides the basis for distinguishing the firm in the customer's mind from other reasonable alternatives. After the selection of strategy, the implementation part comes into the picture, where the execution of the strategy takes place. It is a very important part of the entire strategic management process. This phase along with a multi-business strategy will be covered in this unit.

6.1 Portfolio Strategy

The industries or markets in which the firm competes through its products and business units are known as a portfolio strategy.Companies that are into diversified businesses, manage complicated business portfolios, mostly, consisting of a huge range of products and services.

These diversified products or business units are different from each other in terms of their functioning, prospects, and performance. So, it becomes very difficult for companies to decide upon which products they should invest in.

Corporate Portfolio Analysis

CPA is defined as a set of techniques that help strategists in taking strategic decisions about individual products or businesses in a firm's portfolio.It is primarily used for competitive analysis and strategic planning in multi-product and multi-business firms.

This corporate portfolio analysis technique is based on the pioneering efforts of the General Electric (GE) company of the United States, supported by the consulting firm Mckinsey& Company.

GE Nine Cell Matrix

Industry Attractiveness	Business Unit Strength		
	Strong	Average	Weak
High	Grow	Grow	Hold
Medium	Grow	Hold	Harvest
Low	Hold	Harvest	Harvest

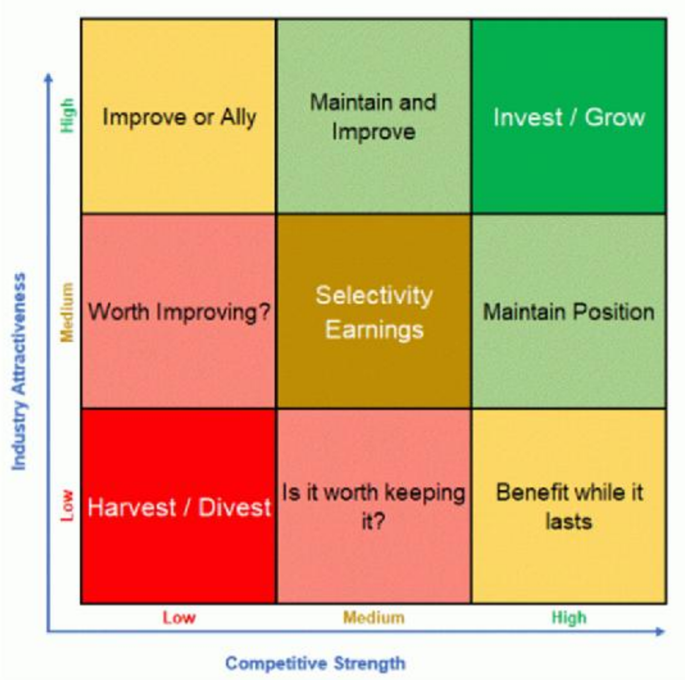
The Vertical axis represents industry attractiveness, which is a weighted composite rating based on eight different factors:

- Market Size
- Growth Rate
- Industry Profit Margin
- Competitive Intensity
- Seasonality
- Cyclicality
- Economies of Scale
- Technology, Social, environmental, legal & Human impacts

The Horizontal axis represents business strength competitive position, which is again a weighted composite rating based on seven factors:

- Relative Market Share
- Profit Margin
- Ability to Compete on Price & Quality
- Knowledge of Customer & Market
- Competitive Strengths & Weaknesses
- Technological Capabilities
- Calibre of Management

GE-McKinsey Matrix Representation:



These 2 variables namely competitive strength and industry attractiveness are both quantified into three categories:

- High
- Medium
- Low

The result is a 3 x 3 Matrix with 9 scenarios but 3 main approaches:

- The Invest / Grow scenario.

- The Selectivity / Earnings scenario.
- The Harvest / Divest scenario.

You can assess how attractive an Industrial sector is by analyzing:

- Its Growth: If it is growing at higher or lower rates than the general economy.
- Several competitors: The more saturated a market is the worse.
- Entry barriers: The higher, the better, as long as you have access to it.
- Its average Profitability: How profitable it is? Are there substitute products that jeopardize this profitability?

You can assess how attractive competitive strength is by analyzing:

- Market share: Which is your Market share?
- Your average profitability: You can compare it with the market average.
- The size of your Product Mix: How deep you have penetrated the market?
- The strength of your Brand: How does an average customer perceive your Brand?

Now let us focus on the three main approaches to the matrix:

The Invest / Grow scenario:

As its name indicates, if you have:

- A product placed in a very attractive market.
- High Competitive Strengths.
- You should invest as much as possible in this product line (or business activity).

The Selectivity / Earnings scenario:

As its name indicates, if you have:

- A product placed in a tempered market: Not growing, not declining, for example.
- On-average Competitive strengths: Not more, not less than your average competitor.
- You should worry about keeping your Earnings and/or selecting them properly.

The Harvest / Divest scenario:

As its name indicates, if you have:

- A product placed in a Low attractive market: For example, a declining obsolete market.
- Your Competitive Strengths are reduced.
- You should "take your money and run away".

Intermediate positions are always the most difficult to assess. If a company is earning billions of dollars with a product, if it has 90% of the Market share, it is very easy to say: "You are doing it very well. Keep it up". But what about those products that were successful in the past but whose Market is now falling? What about companies with "terrible" products in very attractive markets?

For these intermediate Scenarios, we propose you these reflections:

Low Competitive Strength – Medium Industry Attractiveness:

- Is it worth improving your Strength?
- Is the Industry's Attractiveness increasing or is it a declining market?

Low Competitive Strength – High Industry Attractiveness:

- What would be more cost-effective: Improving internally or Partnering with a third party?
- Wichis your opportunity costs?

Medium Competitive Strength – Low Industry Attractiveness:

- How much are you obtaining from this Business activity?

- Do you have a contingency plan for when the market falls?

Medium Competitive Strength – High Industry Attractiveness:

- Is it worth improving your Market position? Or is it better to keep being a "second player"?
- Should you worry about losing your position?

High Competitive Strength – Low Industry Attractiveness:

- How much is costing you this Competitive Strength?
- Which are your Opportunity costs?
- How long will this situation last?

High Competitive Strength – Medium Industry Attractiveness:

- How much profitability do you get? Is it worth it?
- Is the Market declining, increasing, or is it stable?

Example: Apple Incorporation

Let's see the practical implication of GE-McKinsey Matrix with an example of a large technology brand Apple Inc. The company hasmulti-businesses or multi-business units that are operating in different marketssuch as laptops, desktops, Tablets (iPads), smartphones (iPhones), portable music players (iPods), etc. Apple also develops software to facilitate these products.

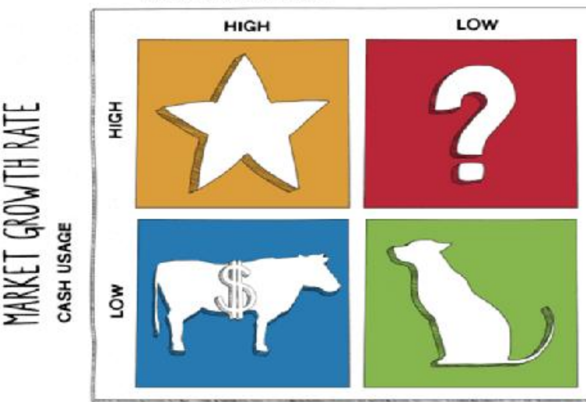
A competitor of Apple who is looking to gain competitive access to Apple's activities could do this by plotting its business units in the matrix. Through this analysis, the competitor could find out different business units into which apple is about to invest a huge amount, divest, or develop selectively.

The x-axis i.e. industry attractiveness would be comparatively easy to access for the competitor in case of operating in the same market, as this includes Apple's external factors.This consists of information that could be easily revealed like the growth rate of the market, the current size of the market, etc. Still, a few factors would have to be examined thoroughly, like entry barriers and technological development.

On the other hand, the competitive strength of the business unit i.e. y-axis would be quite tough to be assessed as it includes internal factors of Apple i.e. access to resources, the strength of management, customer loyalty. In this, secondary sources like media, the internet, etc. could be a great help to obtain a great amount of information.

BCG Growth-Share Matrix

The Boston Consulting Group (BCG) growth-share matrix is a planning tool that uses graphical representations of a company's products and services to help the company decide what it should keep, sell, or invest more in.The matrix plots a company's offerings in a four-square matrix, with the y-axis representing the rate of market growth and the x-axis representing market share. It was introduced by the Boston Consulting Group in 1970.



The Boston Consulting Group (BCG) matrix is developed by Bruce Henderson of the Boston consulting group in the early 1970s.According to this technique, businesses or products are classified as low or high performers depending upon their market growth rate and relative market share.

- Relative market share is calculated as:

= business unit sales this year/Leading rival sales this year

- Market growth (MGR) is used as a measure of a market's attractiveness.

MGR = Individual sales this year - individual sales last year/ Individual sales last year

Markets experiencing high growth are ones where the total market share available is expanding, and there are plenty of opportunities for everyone to make money.

Dogs (or Pets):

If a company's product has a low market share and is at a low rate of growth, it is considered a "dog" and should be sold, liquidated, or repositioned. They don't generate much cash for the company sincethey have a low market share and little to no growth. Because of this, dogs can turn out to be cash traps, tying up company funds for long periods. For this reason, they are prime candidates for divestiture.

Example: Coca Cola retired Tab, it's first diet soda as it trims its portfolio

Tab, Coca-Cola's first diet soda, was among the drinks heading for retirement at the end of the year 2020 as the company trimmed its portfolio to focus on bigger brands and products with more growth potential. Coke first introduced Tab in 1963, but its popularity faded after the company introduced Diet Coke. The coronavirus pandemic has accelerated the company's plans to slim down its number of product offerings.

Cash Cows (Low Growth, High Market Share):

Products that are in low-growth areas but for which the company has a relatively large market share are considered "cash cows," and the company should thus milk the cash cow for as long as it can. Cash cows, seen in the lower left quadrant, are typically leading products in mature markets.

Generally, these products generate returns that are higher than the market's growth rate and sustain themselves from a cash flow perspective. These products should be taken advantage of for as long as possible.

The value of cash cows can be easily calculated since their cash flow patterns are highly predictable. In effect, low-growth, high-share cash cows should be milked for cash to reinvest in high-growth, high-share "stars" with high future potential.

Example: Coca Cola

Coca-Cola is one such example of Cash Cows. This product is sold across 200 countries in the mature beverage industry. The bottling partners in different regions help in making the finished beverages available to the market.This is how the organization is earning a significant amount of revenue from its finished products. In a mature industry, a company should keep the sales volume high as the business unit is comparatively a good source to generate revenue.

Stars (High Growth, High Market Share):

Products that are in high-growth markets and that make up a sizable portion of that market are considered "stars" and should be invested in more.In the upper left quadrant are stars, which generate high income but also consume large amounts of company cash. If a star can remain a market leader, it eventually becomes a cash cow when the market's overall growth rate declines.

Example: Kinley water bottle

The bottled water Kinley, a Coca-Cola product, is one such example of Stars. This example is suitable here because the mineral water industry is still viewed as a gradually growing segment on an international scale.

The rising population would require more bottled water to fulfill the needs of the people. Due to the rising need for bottled water, the growth opportunities for this business product in the industry have increased.Even though Kinley faces competition from other competitors, nevertheless, the management needs to understand that the bottled water brands will remain a source of significant sales in the future.

Question Marks (High Growth, Low Market Share):

Questionable opportunities are those in high growth rate markets but in which the company does not maintain a large market share.These businesses represent a low market share in a high-growth industry. As the name suggests, it is difficult to say if these products will become the Stars or drop into the Dogs category.

Generally, these products are the startup or new products, which have a good commercial prospects. Therefore, they require a huge amount of investment to gain or maintain market share and to become a Star product.No doubt the market has growth opportunities, but these products have not succeeded to take benefit of these market opportunities to such an extent that they can be recognized as Stars.

They typically grow fast but consume large amounts of company resources. Products in this quadrant should be analyzed frequently and closely to see if they are worth maintaining.

Example: Fanta (Coca Cola)

Fanta, a Coca-Cola product, is one such example where the business units can be seen as a question mark,as the brand has not been able to gain widespread popularity similar to Coke.Therefore, the brand is losing its popularity. However, in some areas, it has been able to obtain a generous sales volume.

A matrix is a decision-making tool, and it does not necessarily take into account all the factors that a business ultimately must face. For example,increasing market share may be more expensive than the additional revenue gained from new sales. Because product development may take years, businesses must plan for contingencies carefully.

6.2 The Synergy Approach

Opportunities to build value via diversification, integration, or joint venture strategies are usually found in market-related, operations-related, and management activities.Each business's basic value chain activities or infrastructure becomes a source of potential synergy and competitive advantage for another business in the corporate portfolio.

Synergy occurs when a company chooses to utilize teams to increase performance, drive strategic growth and reach common goals.

The synergy approach states:

- Each core competency should provide a relevant competitive advantage to the intended businesses
- Businesses in the portfolio should be related in ways that make the company's core competencies beneficial
- Any combination of competencies must be unique or difficult to recreate

The core competency must assist the intended business in creating strength relative to the key competition. This could occur at any step in the business's value chain.But it must represent a major source of value to be a basis for competitive advantage and the core competency must be transferable.

Businesses in the portfolio should be related in ways that make the company's core competencies beneficial: Related versus unrelated diversification is an important distinction to understand as you evaluate the diversification question.Related businesses are those that rely on the same or similar capabilities to be successful and attain a competitive advantage in their respective product markets.

The product of various businesses does not necessarily have to be similar to leverage core competencies. While their products may not be related, some activities in their value chains must require similar skills to create a competitive advantage if the company is going to leverage its core competency in a value-creating way.

Example: Raymond

Raymond was setup in 1925 at Thane for making cheap and coarse woolen blankets and low-priced woolen fabrics. The company forward integrated by setting up its first exclusive retail showroom in Mumbai in 1958.In 1964, it backward integrated into a combing and processing of multi-fibers and blended fabrics. Four years later, Raymond forwarded integrated into the manufacture of readymade garments.

Leveraging its existing manufacturing facilities, the Park Avenue brand was launched in 1986 providing a complete wardrobe solution to men who liked to dress well and be current on style and fashion.Parx, a premium casual wear brand was launched in 1999. Having understood the discerning male customer, Raymond turned its attention to women also with the launch of Be, exclusive ready-to-wear designer clothing for men and women.

In 2006, Raymond launched Zapp the kids wear brand. Thus over more than eight decades, Raymond has been able to leverage its competencies and find synergy in technology, operations, and marketing to fuel its growth.

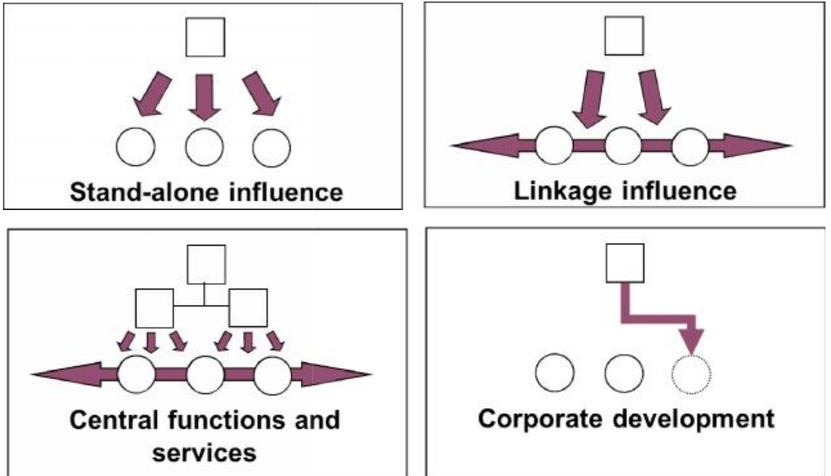
The most compelling reason companies should diversify can be found in situations where core competencies- key value-building skills- can be leveraged with other products or into markets that are not a part of where they were created.Where this works well, extraordinary value can be built. Managers undertaking diversification strategies should dedicate a significant portion of their strategic analysis to this question.

6.3 Parenting Approach

Realizing synergies from shared capabilities and core competencies is a key way value is added in multi-business companies. The question that needs to be addressed here is:

What is the corporate parent doing to add value to its business units and how might it do it better?

The answer for the same can be seen in the approaches through which the Parent Company creates value for its subsidiaries.



Stand-alone influence:

Each subsidiary is viewed as a separate profit center. Using basic performance targets, the businesses are controlled and monitored. Value creation is provided by making strategic decisions such as the appointment of managers and approving major capital expenditures.

Linkage influence:

Value is created by improved cooperation and synergy benefits.

Central functions and services:

Corporate value is created through the provision of administrative and managerial services to businesses.

Corporate development:

Value creation through portfolio management

Different approaches to corporate parenting are:

- Portfolio management style (balance investments in businesses; reviewing acquisition targets, buying wisely, divesting poor performers).
- Restructurer (shifting of experienced executives within the organization).
- Managing synergy (transfer skills and competencies from one SBU to another).
- Sharing activities.

Corporate Parenting:

It is the search for a fit between the skills of the corporate center and the strategies of SBUs to add value to those SBUs. The parenting framework focuses on the competencies of the parent organization and the value created from the relationship between the parent and the business.

The fit between parents and their business is a two-edged sword:

- A good fit can create value.
- A bad one can destroy it.

The parenting advantage is creating more value than your competitors would with the same businesses. For example, would eBay (previous owner of Skype) or Microsoft (current owner of Skype) create more value by owning Skype—Lync.Chances are Microsoft will create more value so they would have the parenting advantage over eBay in this case.

The characteristics that lead to value creation are:

- There must be a parenting opportunity – the parent (corporate center) must have some opportunity to help businesses in its portfolio to improve performance.
- The parent must possess some parenting characteristics – special capabilities or resources that will enable it to improve performance.

- The parent must have a "feel for the business" – sufficient understanding of critical success factors to ensure it does not influence the business unit in inappropriate ways.
- The best parents also have "distinctive parenting characteristics" – special skills and resources that fit particularly well with the other characteristics and their portfolio of businesses.

Corporate Parenting Strategy:

It views the corporation in terms of resources and capabilities that can be used to build business unit value as well as generate synergies across the business unit. If there is a good fit between the Parent's skills and resources with the needs and opportunities of the business units, the corporation is likely to create value.

The steps involved in the corporate parenting approach are:

- Identify Strategic Factors responsible for the firm's success and/or failure.
- Identify areas for performance improvement.
- Analyze fit between parent and business units.

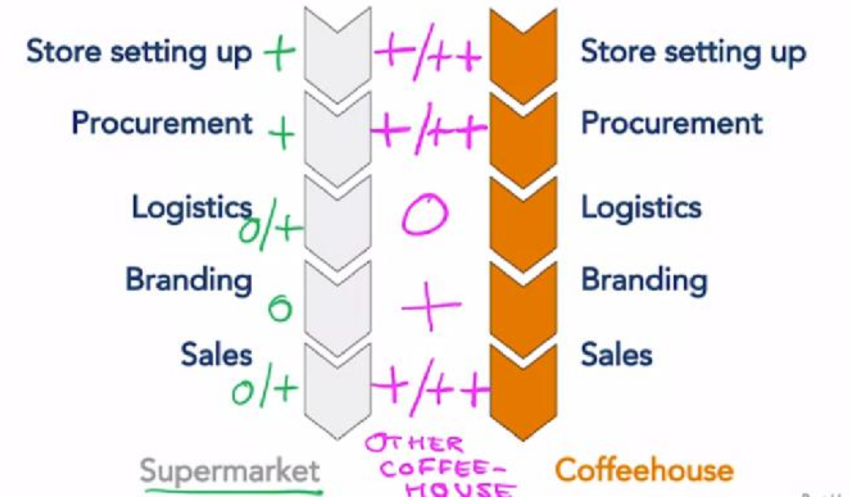
Let us understand the same with the help of an example

Example: Tesco's Harris+Hoole

Tesco invested in Harris + Hoole when it launched in 2012, taking a 49% stake with the rest owned by sibling founders Nick, Laura, and Andrew Tolley.Philip Clarke, then Tesco's chief executive, was continuing the company's record of spreading its tentacles into apparent growth opportunities as consumer tastes moved upmarket and Britons started drinking more coffee.

Now let us focus on synergies in both the businesses

It can be easily seen from the above figure that there are a few areas where synergy can be seen in the above-mentioned two businesses. But if we compare the supermarket and coffee business in terms of identifying better parents for the coffee business. We can take the figure mentioned below into consideration.

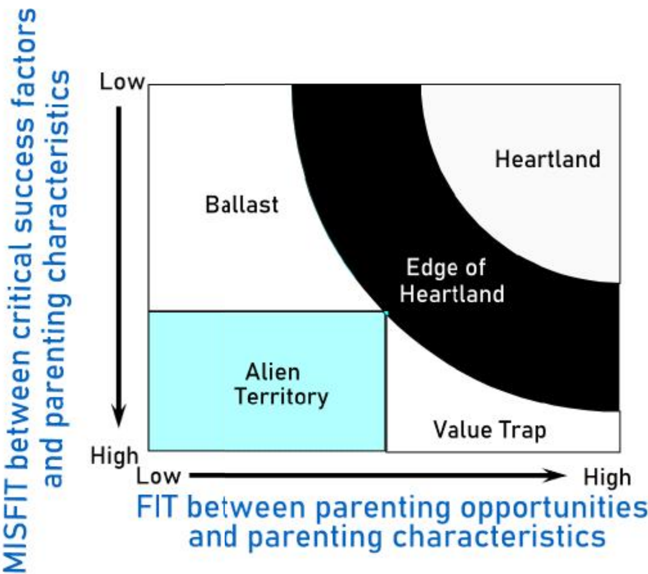


We can see that a coffee business can be better managed by a coffee business only rather than the supermarket. So to manage Harris & Hoole the parent company should be from the same business at it creates more synergy. In June 2016, Caffe Nero acquired Harris & Hoole from Tesco.

Parenting-Fit Matrix:

It composes of 2 dimensions: Positive contributions that the parent can make and the negative effects the parent can make. The combination of these two dimensions creates 5 different positions:

- Heartland Businesses
- Edge-of-Heartland Businesses
- Ballast Businesses
- Alien Territory Businesses
- Value Trap Businesses



Heartland Businesses:

Heartland Businesses should be at the heart of the corporation's future. These Heartland Businesses have opportunities for improvement by the parent, and the parent understands their critical success factors well. These businesses should have priority for all corporate activities.

Edge-of-Heartland Businesses:

In these businesses, some parenting characteristics fit the business, but others do not. The parent may not have all the characteristics needed by a unit, or the parent may not understand all of the

unit’s strategic factors. For example, a unit in this area may be very strong in creating its image through advertising — a critical success factor in its industry. The corporate may however not have this strength and tends to leave this to its advertising agency.

If the parent forced the unit to abandon its creative efforts in favor of using the corporation’s favorite ad agency, the unit may struggle. Such business units are likely to consume much of the parent’s attention, as the parent tries to understand them better and transform them into Heartland Businesses.

Ballast Businesses:

Ballast Businesses fit very comfortably with the parent corporation but contain very few opportunities to be improved by the parent. Like cash, cows may be important sources of stability and earnings.But if environmental changes, ballast could move to alien territory. Therefore corporate decision-makers should consider divesting this unit as soon as they can get a price that exceeds the expected value of future cash flows. E.g.: IBM’s mainframe business.

Alien Territory Businesses:

Alien Territory Businesses have few opportunities to be improved by the corporate parent, and a misfit exists between the parenting characteristics and the unit's strategic factors.There is little potential for value creation but a high potential for value destruction on the part of the parent. The corporation must divest this unit while it still has value.

Value Trap Businesses:

Value Trap Businesses fit well with parenting opportunities, but they are a misfit with the parent’s understanding of the units. This is where the corporate headquarters can make its biggest error.It mistakes what it sees as opportunities for ways to improve the business unit's profitability or competitive position. E.g.: To make the unit a world-class manufacturer (because the parent has world-class manufacturing skills)it may not notice that the unit is primarily successful because of its unique product development and niche marketing expertise.

6.4 Patching Approach

The process by which corporate executives routinely ‘remap’ their business to match rapidly changing market opportunities- adding, splitting, transferring, exiting, or combining chunks of business.

Patching helps in:

- Map and remap business units swiftly against shifting market opportunities.
- Emphasis: Getting patch roughly right & fixing problem later

Patching is less critical when markets are relatively unchanging, but when markets are turbulent, patching becomes crucial. It allows corporate managers to focus on the best opportunities and leave the less promising ones behind.

By dynamically adjusting businesses to match changing market opportunities, managers are more likely to focus on high-potential businesses, uncover the profit levers that drive effective strategy in those businesses, and create economic value for the corporation.

At first glance, patching may seem to be just another name for reorganizing. But patchers have a distinctive mindset. While managers in traditional companies see structure as mostly stable, managers in companies that patch believe structure is inherently temporary.

	Reorganization	Patching
Role of Change	Change as defensive reaction	Change as proactive weapon
Scale of Change	Changes are sweeping	Changes are mostly small, some are moderate, a few are large
Frequency	Changes are rare	Changes are ongoing
Formalization	Every change is unique	Change process is routine and follows standard patching moves
Driver of Change	Get business focus right	Get business focus and size right
Precision	Optimal restructuring at specific point in time	Roughly right realignments over time
Metrics	Collect fine-grained metrics only for infrequent reorganizations	Regularly track extensive, fine-grained metrics on modular businesses
Compensation	Not relevant	Companywide parity

Reorganization vs. Patching

Patching changes are usually small in scale and made frequently—think evolution, not revolution. Managers at patching companies pay extraordinary attention to the size of their business units, which should be small enough for agility and large enough for efficiency.They've also learned that patching won't work without the right infrastructure: business chunks must be modular, business-unit-level metrics should be fine-grained and complete, and compensation within the company needs to be consistent.

Example:Dell Computers

DELL regularly uses splits to focus more closely on target markets. 1994, Dell split into two segments. The transaction segment dealt with customers who bought equipment in quantities of one or two; the relationship segment catered to customers who bought in greater quantities – in the 50s, 100s, or 1,000s.1996, Dell's managers had split the company into six segments. Since then, Dell has announced a new split almost quarterly.

Commercial relationship accounts are now segmented into corporate and small business; government accounts are split into federal, state, and local; other nonprofits are divided into segments such as education and medicine.As a result, Dell's business-level managers stay tightly focused on increasingly specific market opportunities, which they can exploit in the very targeted market.

Managers at Dell's arch-rival, Compaq, also patch, but they rely more on additions of new product divisions—such as storage devices and workstations—and exits—such as the company's departure from the networking business.Compaq's corporate executives keep business-level managers focused on taking well-defined product market "hills," without dictating the strategy for making it happen. Because the edge between agility and efficiency in business unit size shifts as markets evolve, patching managers must track the subtle shifts along that edge closely.

The Internet and multimedia technologies have created extreme turbulence in computing and altered the balance from efficiency to agility.In response, Dell's managers have shifted their patch size. They have not only created more patches in recent years, but they have also cut their average patch size (as measured by revenues) despite the company's overall growth.

As a result, Dell has been able to finely tune product offerings, sales approaches, and profit levers in customer service, and by doing so has achieved extraordinary financial performance.

While most patching changes are small, patchers do execute changes of all sizes. As a general rule, managers who patch make lots of small changes, occasional medium-sized ones, and a few large ones. Small moves, such as splitting the government business into state and local divisions, are the norm at Dell.But Dell's managers occasionally make a large move, such as shifting their Asian business from a country focus to a channel focus.

Patchers also develop corporate strategies differently. Traditional managers set corporate strategy first, whereas managers who patch keep the organization focused on the right overall set of

business opportunities and then let strategy emerge from individual businesses.In this landscape of continuous flux, corporate-level strategists must continually remap their businesses to market opportunities. Patching is the best way we know to tackle this crucial task.

For managers in dynamic markets, then, patching becomes an enormously important skill to add to the corporate repertoire. Corporations that don't learn to patch are asking their employees to compete with the handicap of a misaligned organization.

Many management thinkers today are asking, Can the corporation add value beyond that of the sum of the businesses? The answer is yes. Managers who can quickly re-configure resources into the right chunks at the right scale to address shifting market opportunitiesin other words, managers who can patch well—can create multibusiness companies that outperform even the most efficient capital markets. Patching is a crucial, corporate-level strategic process that can build extraordinary value by dynamically stitching the quilt of businesses within the corporation.

6.5 Strategy Implementation:

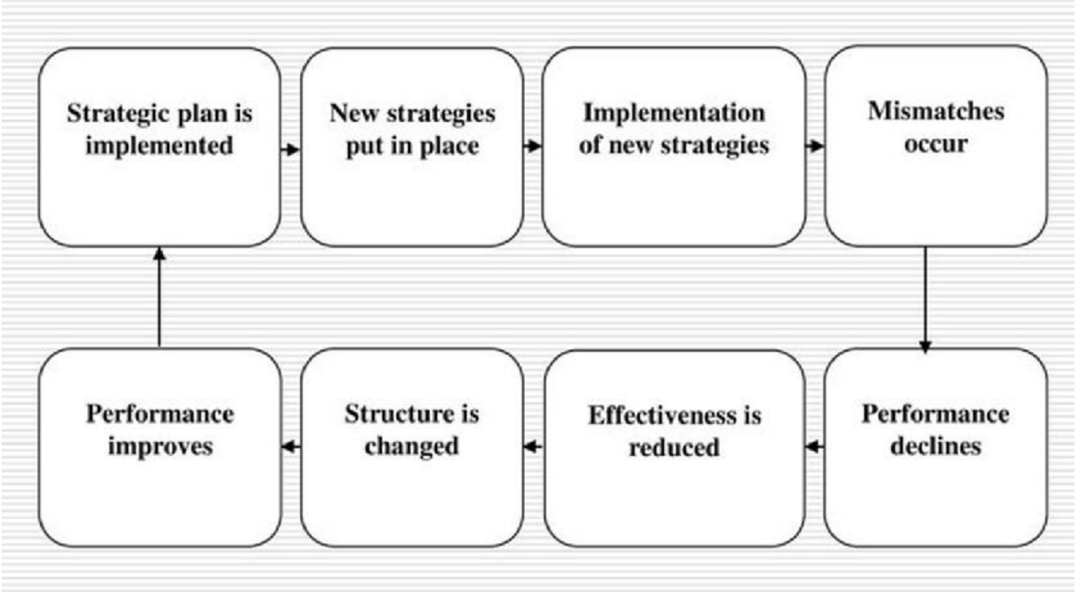
The implementation process is initiated through the creation of action plans detailing tactics and actions to be taken that initiate long-term strategies through the work of the organization.Getting the work done involves a simple but serious and sometimes contentious question about the organization's structure-How can an organization best get the work of the business done efficiently and effectively to make the chosen strategy work? The answer to the same can be addressed by the structural consideration.

Organization Structure:

An organization structure is the arrangement of tasks and sub-tasks required to implement a strategy.It also governs the flow of information through levels of the company and outlines the reporting relationship among midlevel staff, senior management, executives, and owners. It is effectively a hierarchy for a company, though some organizational structures emphasize a near-total lack of hierarchy.

A structural consideration is:

- An organization structure specifies three key components:
- It identifies the formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers.
- It specifies the grouping of individuals into departments and of departments into the total organization.
- It consists of the design of systems to ensure effective communication, coordination, and integration of efforts across departments.
- It is the continual process of matching the structure of an organization with its chosen strategy.



Structural Implementation

Types of Organizational Structures:

It includes:

- Simple Organizational Structure
- Functional Organizational Structure
- Divisional Structure
- Matrix Organizational Structure
- Product-Team Structure

Simple Organizational Structure:

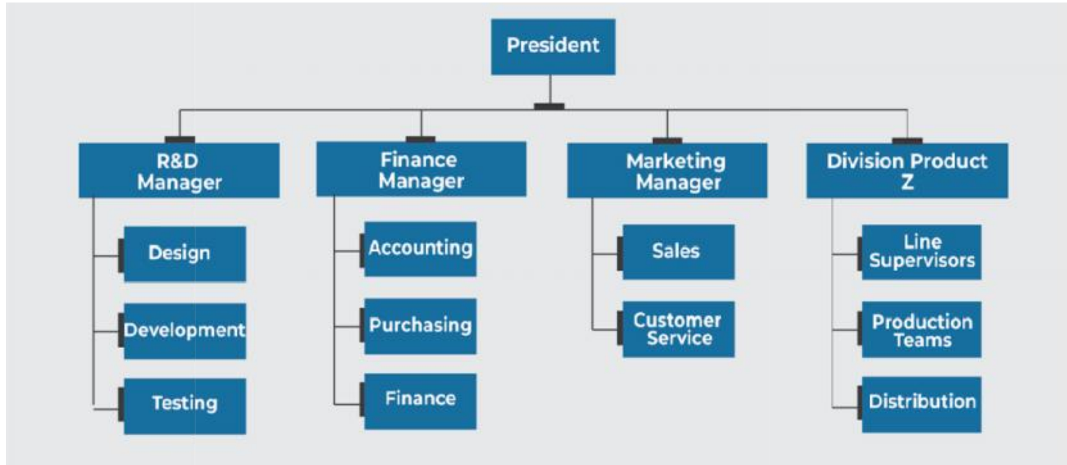
A structure in which there is an owner and a few employees and where the arrangement of tasks, responsibilities, and communication is highly informal and accomplished through direct supervision.All strategic and operating decisions are made by the owner or a small owner-partner team. Because the scopes of the firm's activities are modest, there is little need to formalize roles, communication, and procedures.

Most businesses in India and around the world are of this type. Many survive for some time and then go out of business because of financial, owner, or market conditions. Some grow, having been built on an idea or capability that taps a great need for what the company does.

Functional Organizational Structure:

It is one in which the tasks, people, and technologies necessary to do the work of the business are divided into separate functional groups with increasingly formal procedures for coordinating and integrating their activities to provide the business's products and services. Dividing tasks into functional specialties enables the personnel of these firms to concentrate on only one aspect of the necessary work. This allows the use of the latest technical skills and develops a high level of efficiency.

For example, a small business entity AB Company deals in the manufacturing of diapers and has nearly one hundred employees.It has adopted a functional organizational structure and has created departments for finance, marketing, sales, research, production, administration, and human resources.



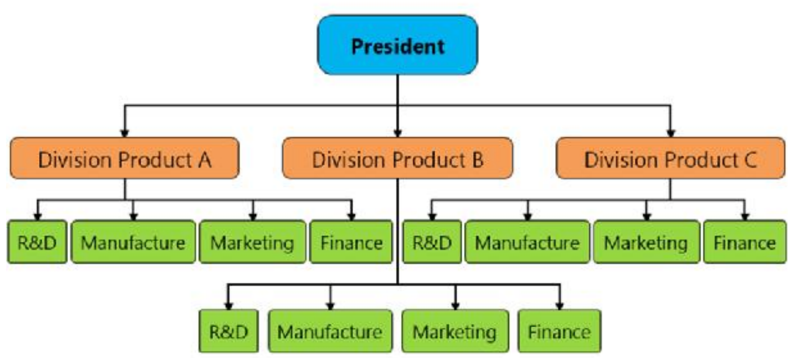
Functional Organizational Structure

Features of Functional Organizational Structure:

- The functional organization structure determines the weakness and strengths of every individual and then places them in specific groups.
- The functional organizational activity is divided into definite functions and departments like marketing, accounting, and finance.
- The functional organization structure follows a vertical hierarchy system that requires the employee to report to one functional manager.
- An important feature of a functional organization is that it encourages healthy competition amongst its members.

Divisional Organizational Structure:

It is one in which a set of relatively autonomous units, or divisions, are governed by a central corporate office but where each operating division has its functional specialists who provide products or services different from those of other divisions.



The centralized structure, known as a divisional organization, is more common in enterprise companies with many large departments, markets, or territories.For example, a food conglomerate may operate on a divisional structure so that each of its food lines and products can have full autonomy. In the divisional structure, each line or product has its chief commanding executive. For many years even global automobile companies have used divisional structures organized by product groups.

Matrix Organizational Structure:

It is one in which functional and staff personnel are assigned to both a basic functional area and to a project or product manager. It provides dual channels of authority, performance responsibility,

evaluation, and control.In large companies, increased diversity leads to numerous product and project efforts of major strategic significance. The result is a need for an organizational form that provides skills and resources where and when they are most vital.

For example, a product development project needs a market research specialist for two months and a financial analyst one day per week. In such situations, matrix organization structure helps temporarily put people and resources where they are most needed.

Infosys, Microsoft, IBM, Procter & Gamble, and Accenture are just a few of many firms that use some form of a matrix organization.

Matrix Organization Structure

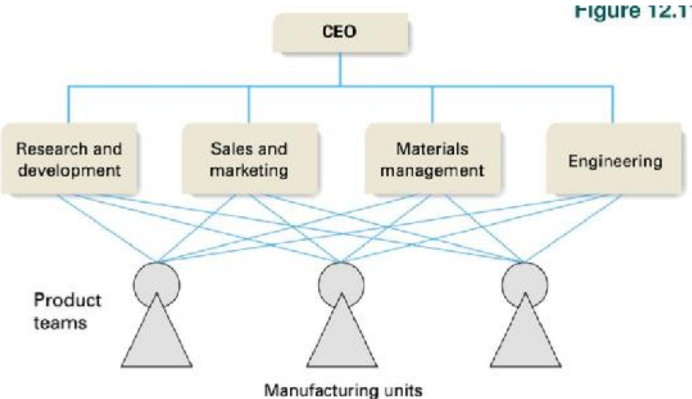
Advantages of a matrix organization

- Supervisors have the flexibility to choose the best employees for a project.
- It allows a dynamic org chart with varying responsibilities for employees.
- Employees have the opportunity to learn and foster skills outside their primary roles.

Product-Team Organizational Structure:

It seeks to simplify and amplify the focus of resources on a narrow but strategically important product, project, market, customer, or innovation.It assigns functional managers and specialists to a new product, project, or process team that is empowered to make major decisions about their product.

Team organization structures have changed the way many industries work. Globalization has allowed people in all industries around the world to produce goods and services cooperatively.Especially, manufacturing companies must work together with suppliers around the globe while keeping the cost to a minimum while producing high-quality products.



Product-team organization structure

In today's fast changing, global economy demands ever-increasing productivity, speed, and flexibility from companies that seek to survive, perhaps thrive. To do so companies must change their organizational structures dramatically,retaining the best of their traditional structures while embracing radically new structures that leverage the value of the people who generate ideas, collaborate with colleagues and customers, innovate and therein generate future value for the company.

6.6 Organization Culture

It is the set of important assumptions (often unstated) that members of an organization share in common. Every organization has its own culture.An organization's culture is similar to an individual's personality- an intangible yet ever-present theme that provides meaning, direction, and the basis for action.

The Role of Organizational Leader in Organizational Culture:

The leader is the standard-bearer, the personification, the ongoing embodiment of the culture. Let us consider the example of Mr. Tim Cook CEO of Apple incorporation.

Example:Mr. Tim CookCEO of Apple Inc.

Tim cook when became the CEO of the organization was having the benefit of knowledge of the culture and credibility as an initiated member of that culture.This may be quite useful in helping engender confidence as they take on the task of the leader of that culture or, perhaps more difficult as a change agent for parts of that culture as the company moves forward.

When Cook took over, Apple was worth under $400 billion, but it is worth five times more than that today, and earlier this month the tech giant created history, becoming the first U.S. company to boast a market value of $2 trillion.

Tim Cook has been with Apple for 23 years and served as its chief executive officer for nearly a decade, while the 59-year-old's journey has been riddled with challenges, that include privacy allegations, a slowdown in iPhone sales, and recently the pandemic, Jobs's trust in him has been established by the strides the company has made despite these challenges.

Apple's other products and services were also growing. It has music and TV streaming services, recently announced a new key- and a backpack-tracking device called Air Tags, and a watch, as well as computers and iPads.

Meanwhile, the company's steadily expanding services division, which includes streaming services, and the 15% to 30% commissions Apple collects from most paid transactions completed with iPhone apps, generated revenue of $16.9 billion during the first quarter of 2021.

Example:Mr. Reed Hastings CEO of Netflix

Netflix founder and CEO Reed Hastings sought to dramatically change the culture and way of doing things at Netflix,Hastings has instilled a very unique freedom and responsibility culture that seeks to revolutionize both the way people rent movies and, perhaps more important to Hastings, how his managers work.

Facing Blockbuster, Walmart, Amazon, and Apple, Hastings created a culture so unique at Netflix that it is an A talent magnet, ensuring the best players in the business line up to help Netflix outsmart these very sizable competitors.And in doing so Hastings is a new leader of a new company with a different business model that is trying to outlast and outcompete other, well-established players in selling movie rentals.

The culture of Netflix is like an unlimited vacation. No dress code (just don't show up naked). No approval is needed for expenses. And if you criticize the company, you might get rewarded with a promotion.More than smart strategy, good timing, or simply luck, Hastings credits the company's unorthodox workplace culture for its meteoric rise.

Netflix's fortunes have continued to soar during the pandemic with millions of people stuck at home. Already the world's largest subscription video-streaming service,Netflix has added 26 million new users so far this year, pushing its subscriber base near 200 million worldwide. "Our

IPO was at $1 about 20 years ago. Now we're about $500," he said. "We do attribute a lot of that to the culture."

Hastings counters that people of all backgrounds have ways to rise in the company. He notes that of Netflix's top 20 leaders, half are women, and a quarter is people of colour, even as he concedes that the Netflix way is not for everyone.

Summary

The industries or markets in which the firm competes through its products and business units are known as a portfolio strategy.

The Boston Consulting Group (BCG) growth-share matrix is a planning tool that uses graphical representations of a company's products and services to help the company decide what it should keep, sell, or invest more in.

Synergy occurs when a company chooses to utilize teams to increase performance, drive strategic growth and reach common goals.

The parenting framework focuses on the competencies of the parent organization and the value created from the relationship between the parent and the business.

The process by which corporate executives routinely 'remap' their business to match rapidly changing market opportunities- adding, splitting, transferring, exiting,or combining chunks of business is known as the patching approach.

An organization structure is the arrangement of tasks and sub-tasks required to implement a strategy. It also governs the flow of information through levels of the company and outlines the reporting relationship among midlevel staff, senior management, executives, and owners.

An organization's culture is similar to an individual's personality- an intangible yet ever-present theme that provides meaning, direction, and the basis for action.

Keywords

Synergy: It occurs when a company chooses to utilize teams to increase performance, drive strategic growth and reach common goals

Corporate parenting:It is the search for a fit between the skills of the corporate center and the strategies of SBUs to add value to those SBUs.

Patching: It is the process by which corporate executives routinely 'remap' their business to match rapidly changing market opportunities- adding, splitting, transferring, exiting, or combining chunks of business.

Product-team organization structure: It seeks to simplify and amplify the focus of resources on a narrow but strategically important product, project, market, customer, or innovation.

SelfAssessment

1. Which of the following is not a stage in the product lifecycle?

A. Growth
B. Maturity
C. Introduction
D. Survival

2. ___________is defined as a set of techniques that help strategists in taking strategic decisions regarding individual products or businesses in a firm's portfolio.

A. Directional strategies
B. Corporate portfolio analysis
C. Retrenchment strategies

D. None of these

3. Manager can assess how attractive an industrial sector is by analyzing which of the following except

A. Its growth

B. Entry barriers

C. Its average profitability

D. The size of the product mix

4. Manager can assess competitive strength by analyzing which of the following criteria?

A. Its growth

B. Market share

C. Entry barriers

D. None of these

5. In the BCG (Boston Consulting Group) Matrix, a business that has a low market share in an industry set apart by high market growth is termed a

A. Star.

B. Cash cow.

C. Question mark.

D. Dog.

6. Denoted in the Boston Consulting Group Portfolio management technique, a "cash cow, refers to a business that has

A. Relatively low market share and low market growth.

B. Low market growth and relatively high market share.

C. Relatively low market share and high market growth.

D. High market growth and relatively high market share.

7. Recently, you purchased a company that manufactures a new satellite dish, allowing you to enter the cable television market. The business is profitable and growing, but the technological unknowing make it risky. BCG considers it a ___________.

A. Cash cow

B. Star

C. Question mark

D. Dog

8. You called the Boston Consulting Group (BCG), and they have provided you with some advice based on their famous corporate portfolio matrix. Your oldest company, Taco Rocket, has not grown much in recent years, but due to low debt, it generates a huge amount of cash. According to BCG, Taco Rocket would be considered a ____________.

A. Cash cow

B. Star

C. Question mark

D. Dog

9. _______________occurs when a company chooses to utilize teams to increase performance, drive strategic growth and reach common goals.

A. Synergy
B. Portfolio
C. Retrenchment
D. Stability

10. Each __________ should provide a relevant competitive advantage to the intended businesses.

A. Strategy
B. Tactics
C. Core competency
D. None of these

11. Which of the following is not a way of creating value forthe parent company?

A. Stand-alone influence
B. Linkage influence
C. Central functions and services
D. Generic Strategy

12. What is meant by corporate parenting?

A. Exercising control over the different businesses in a portfolio.
B. Managing and nurturing businesses by the corporate center.
C. Enabling weaker businesses to grow with corporate support.
D. Distributing resources among different businesses in a portfolio.

13. The use of corporate parenting analysis for managing a set of businesses in a portfoliofocuses on the:

A. individual businesses in that portfolio.
B. industries that the firm competes in.
C. functions of top managers.
D. role of corporate headquarters.

14. Which of the following is not an approach to corporate parenting?

A. Portfolio management style
B. Managing synergy
C. Differentiation
D. Restructurer

15. _________________is creating more value than your competitors would with the same businesses.

A. The parenting advantages
B. The patching approaches
C. Strategic Alliance
D. None of these

16. ____________ is the process by which corporate executives routinely 'remap' their business to match rapidly changing market opportunities- adding, splitting, transferring, exiting, or combining chunks of business.

A. Parenting approach
B. Patching approach
C. Retrenchment
D. None of these

17. DELL regularly uses ________ to focus more closely on target markets.

A. Spin-off
B. Hive-off
C. Splits
D. Profits

18. ____________organize their company into discrete business units that they call planets and then into focused product teams within them.

A. Dell
B. The Economist
C. Sun Microsystems
D. Hewlett Packard

19. ____________is a significant and disruptive overhaul of a troubled business intended to restore it to profitability.

A. Patching
B. Parenting
C. Reorganization
D. None of these

Answer for Self Assessment

1.	D	2.	B	3.	D	4.	B	5.	C
6.	B	7.	C	8.	A	9.	A	10.	C
11.	D	12.	B	13.	D	14.	C	15.	A
16.	B	17.	C	18.	C	19.	C		

Review Questions

1. Discuss in detail the importance of the BCG matrix and its limitations as well for an organization.
2. What do you understand by standalone influence parenting approach? Discuss with an example
3. Distinguish between parenting and patching approach with suitable examples.
4. What do you understand by parenting-fit matrix? Discuss in brief.
5. Discuss in brief the types of organization structures along with examples.

Further Readings

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Rajeev Gupta, Lovely Professional University

Unit 07: Evaluation, Control & Contemporary Issues

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Objectives

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7.4 Business Ethics

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Objectives

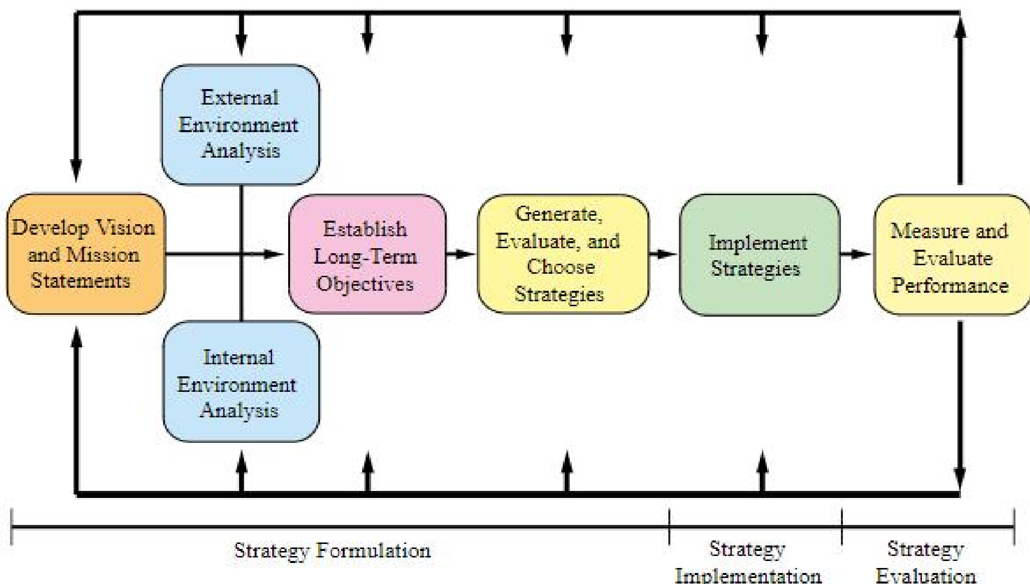
After studying this unit, you should be able to

- explore nature of strategic evaluation and control and features of an effective evaluation system,
- apply Premise and Implementation control under a given set of conditions,
- apply effective Strategic Surveillance Control and Special Alert Control under a given set of conditions,
- create a Balanced Scorecard and use it for strategy implementation,
- comprehend the concept of corporate governance in strategic management,
- comprehend the role of business ethics in an organization,
- comprehend the environmental and social aspect of corporate strategy.

Introduction

So far in the strategic management process, we have seen how an organization develops its mission and vision statements. After developing the organization's mission and vision, the top management focuses upon environmental scanning. The top management does the external environment analysis and tries to identify the untapped opportunities that the organization can exploit. It also focuses upon the threats that can act as a hurdle in the smooth conduct of the organizational operations. Similarly, top management does the internal analysis as well where the focus remains on knowing the resources and identification of core competencies.

Once the core competencies are identified by the organization, it starts focusing upon formulating its long-term objectives and choice of strategy which is going to help the organization in achieving the desired results.



Strategic analysis and choice are the phases of the strategic management process in which business managers examine and choose a business strategy that allows their business to maintain and create a sustainable competitive advantage.Their starting point is to evaluate and determine which competitive advantage provides the basis for distinguishing the firm in the customer's mind from other reasonable alternatives. After the selection of strategy, the implementation part comes into the picture, where execution of strategy takes place. It is a very important part of the entire strategic management process. Once the strategy is implemented, top management needs to evaluate the performance of the same and this is what will be covered in the following unit.

7.1 Strategic Evaluation & Control

It is defined as the process of determining the effectiveness of a given strategy in achieving the organizational objectives and taking corrective action wherever required. While taking care of strategic evaluation and control, some questions need to be addressed by the top management. These are:

- Is the strategy guiding the organization towards its intended objectives?
- Are the organization & its managers doing things that ought to be done?
- Is there a need to change and reformulate the strategy?
- Are the resources been utilized properly?

Requirements for Effective Evaluation

The Major points that need to be kept into consideration are:

- Control should involve only the minimum amount of information as too much information tends to clutter up the control system and create confusion.
- Control should monitor only managerial activities and results even if the evaluation is difficult to perform.
- Controls should be timely so that corrective actions can be taken quickly.
- Long-term & short-term control should be used so that a balanced approach to evaluation can be adopted.
- A reward of meeting or exceeding standards should be emphasized so that managers are motivated to perform.

Strategic Control

It is an early warning system and differs from post-action controls that evaluate only after the implementation has been completed.

Notes

Every strategy is based on certain assumptions about environmental and organizational factors.Some of these factors are highly significant and any change in them can affect the strategy to a large extent.

Types of Strategic Controls:

These are:

- Premise Control
- Implementation Control
- Strategic Surveillance
- Special Alert Control

Premise Control:

It is necessary to identify the key assumptions and keep track of any change in them to assess their impact on strategy and its implementation.

Example: The government of India raise a target of ethanol blending of petrol in 2018

State-run oil marketing companies (OMCs) in 2018 were implementing the EBP programme with the annual target of 5 percent blending with ethanol, while India had targeted a 10 percent blending of petrol with biofuel by 2022.The government intended to raise the target for programme of blending petrol with ethanol, the production of which had crossed a record 140 crore liters in the year 2018.

In 2019, Cabinet did approve the ethanol project funding. The scheme focused to incentivise the 2G Ethanol sector and supporting that nascent industry by creating a suitable ecosystem for setting up commercial projects and increasing research & development in that area. In February 2019, amid the growing clamor to insulate the Rs 1 trillion domestic sugar economies from market volatility by diversifying the sugarcane value chain, the country's sugar mills have lined up fresh investment to the tune of Rs 6,000 crore to upgrade for producing ethanol from sugarcane. Apart from that, Indian Oil and SunLight Fuels were also foraying into ethanol production with over Rs 2,500 crGreenfield investment.

These were announced investment figures and many more private sugar mills and cooperatives would have also followed suit to address the issue of excess sugar production.4-5 percent of ethanol was mixed with petrol as against the federal target of 10 percent blending with biofuel by 2022, which was lower than 25 percent mandated ethanol mixing in Brazilthen.

Even for 10 percent blending, there was a requirement of 3.3 billion litres of ethanol, which indicated the enormous economic opportunities for Indian sugar mills.The central government had received applications from nearly 200 sugar mills for installing ethanol capacity, of which 114 projects have already been approved, which would add nearly 25 percent to the existing ethanol capacity. Now this reflects the premise control from the perspective of Sugar mills, as these sugar mills were able to identify the key assumptions and kept a track of any change in them to assess their impact on strategy and its implementation.

Implementation Control:

Implementation control is aimed at evaluating whether the plans, programme, and projects are guiding the organization towards its predetermined objectives or not.

Example: Dabur

In 2020, Dabur expanded its baby care portfolio by launching eight new Ayurveda-based products. The 137-year-old company was capitalizing on its herbal heritage and banking on nine power brands to grow during the pandemic. Being a pioneer in the field of Ayurveda, Dabur is committed to offering Ayurveda-based solutions, The launch of Dabur Baby Range was another step forward

in this direction of launching products,which are based on the age-old knowledge of Ayurveda but available in modern-day convenient formats.

The 137-year-old company demonstrated a feline-like speed and ferocity in pouncing on new opportunities, overhauling its go-to-market strategy, and capitalizing on its ayurvedic lineage. This example of Dabur reflects the implementation control by the company. The launches of these products are guiding the organization towards its predetermined objectives.

Strategic Surveillance:

It is aimed at a more generalized and overarching control design to monitor a broad range of events inside and outside the company that is likely to threaten the course of a firm's strategy.

Example: Infosys

Indian IT firms have long sought to hold on to employees by offering the prospect of a US posting. But the US has tightened visa rules to give preference to applicants with master's degrees, most of whom prefer American tech companies. Besides, Indian IT companies face numerous administrative hurdles in both applying for new visas and extending existing ones.

Infosys faced the most visa rejections in 2018 — as many as 2,042 — resulted in Infosys' attrition having climbed to more than 18% on a standalone annualized basis, compared with 16.6% in the same period last year. Indian companies were also losing out on talent with less than five years' experience, particularly in the newer digital and cloud skills, to local operations of companies such as Amazon and captive operations of global MNCs such as Deloitte, Tesco, and Walmart.

The above example reflects the impact on the organization's strategy due to external factors and accordingly,the company is supposed to make amendments to continue with its strategy. Infosys in the leadership of Mr. Salil Parekh came up with a three-year transformation plan.

Infosys' strategy had become more client-centric, driven by feedback. They were witnessing an exponential increase in the adoption of digital. The extent of disruption varies; some were being disrupted, some disrupting. Focus had been on re-imaging the experience, slow to digitalize the core. Service line boundaries were blurring, looking for integrated solutions. Digital was not just about technologies but driving business in actuals.

Infosys had a blockbuster year with large deal signings hitting an all-time high of $14 billion. The Bengaluru-based technology services giant had issued a revenue growth guidance of 12% to 14% for the year ending March 2022.A strong momentum exiting FY21, alongside a focused strategy to accelerate client digital journeys, gave Infofsys confidence for a stronger FY22.

The companyearned more than half of its revenue from digital services. The company did plan to continue with mergers and acquisitions activity in the coming years. This is how an organization has strategic surveillance in place.

Special Alert Control:

It is based on a trigger mechanism for rapid response and immediate reassessment of strategy in the light of sudden and unexpected events. It can exercise through the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams.

Example: Second Covid wave derailed hospitality industry recovery in India

From mid-April 2021 to almost June end 2021, the industry had been affected by the pandemic-related lockdowns/restrictions on mobility by various states and increased wariness to travel due to fear of infection contagion. The industry was impacted in the first quarter of the fiscal year 2021 after two-quarters of sequential recovery witnessed in the third and fourth quarters of the fiscal year 2020. The situation was evolving and remained contingent on the pace of vaccination, efficacy of vaccines, high infection rates, and the possibility of a third Covid wave. It was expected to report operating losses in FY2022 as well, although it was assumed to be lower at low-single-digit, compared to the 23 percent operating loss witnessed in FY2021. Such unforeseen events trigger a mechanism for rapid response and immediate reassessment of strategy in the organization. The same can be done through special alert control.

7.2 Balance Scorecard

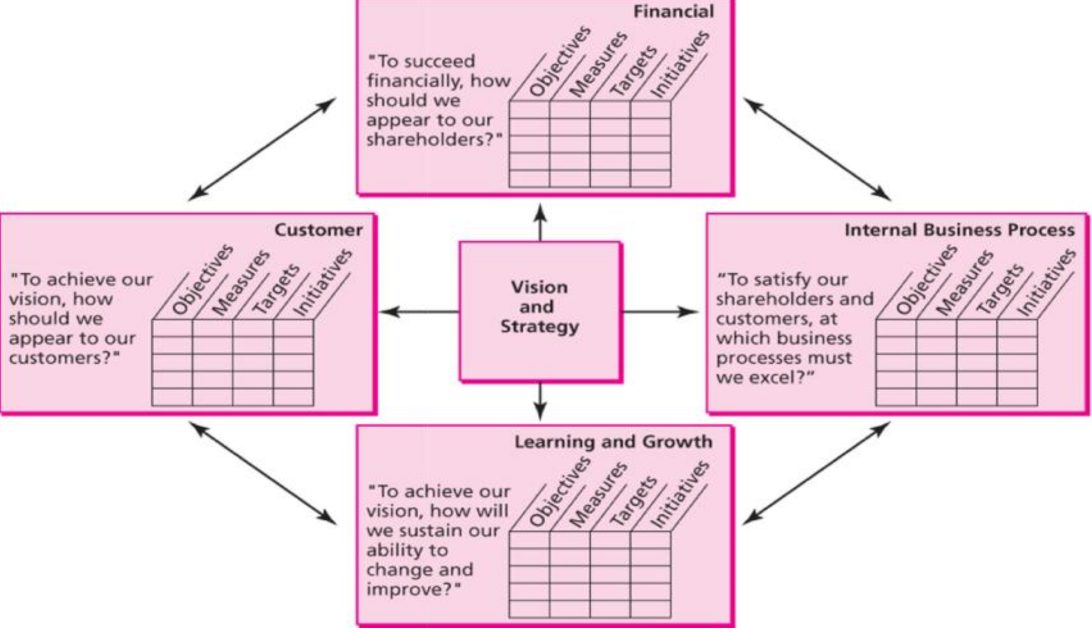
A Balanced Scorecard is a tool that translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system.

At the highest level, the Balanced Scorecard is a framework that helps organizations put strategy at the center of the organization by translating strategy into operational objectives that drive both behavior and performance.

It was introduced in 1992, by Robert Kaplan and David Norton. The Balanced Scorecard is the most commonly used framework for ensuring that agencies execute their strategies. In the modern era, about 70% of the Fortune 1,000 companies utilize the Balanced Scorecard to help manage performance.

History of Balanced Scorecard

The balanced Scorecard framework:



While using the balanced scorecard, the manager needs to ensure that components of the scorecard fit together and create a tight model for driving the execution of strategy.The balanced scorecard allows managers to look at the business from four important perspectives.While giving senior managers information from four different perspectives, the balanced scorecard minimizes information overload by limiting the number of measures used. Companies rarely suffer from having too few measures. More commonly, they keep adding new measures whenever an employee or a consultant makes a worthwhile suggestion. One manager described the proliferation of new measures at his company as its "kill another tree program." The balanced scorecard forces managers to focus on the handful of most critical measures.

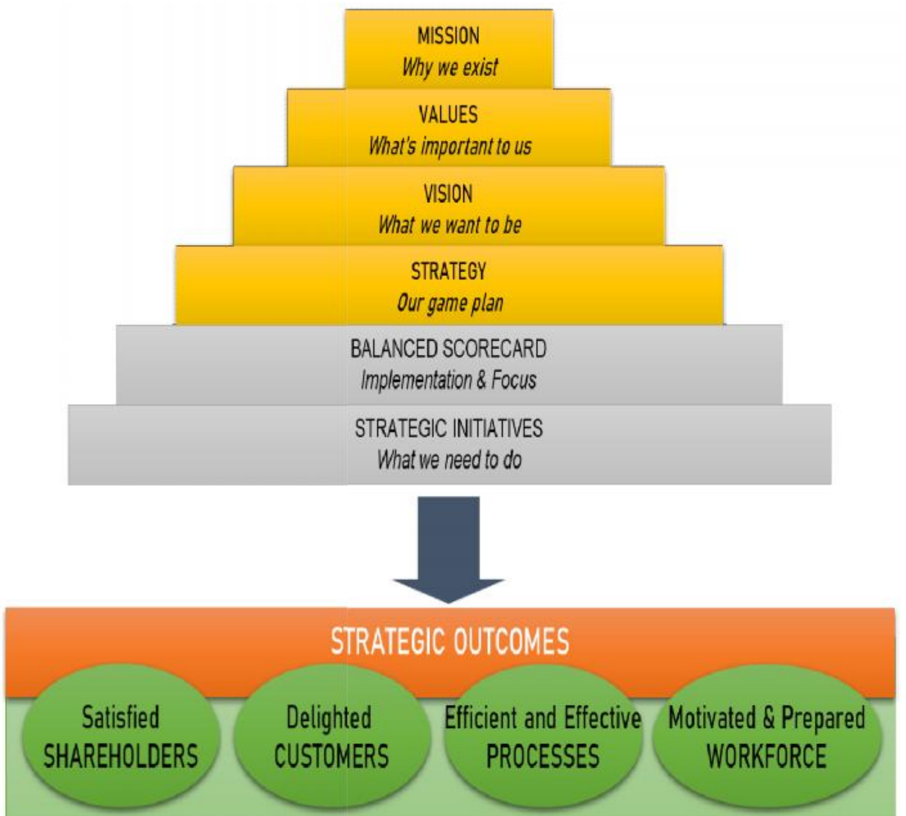
Several companies have already adopted the balanced scorecard. Their early experiences using the scorecard have demonstrated that it meets several managerial needs. First, the scorecard brings together, in a single management report, many of the seemingly disparate elements of a company's competitive agenda: becoming customer-oriented, shortening response time, improving quality, emphasizing teamwork, reducing new product launch times, and managing for the long term.

Balanced Scorecard creates:

- A balance between financial and non-financial indicators of success.
- A balance between internal and external constituents of the organization.
- A balance between lag and lead indicators of performance.

Organizations often have a gap between strategy and action. The same can be seen in the figure below:

We can see from the figure above that once the strategy is formulated, a manager is leaping over to the strategic outcomes. This is a gap where a balanced scorecard fits in and provides a meaningful evaluation of the overall performance. So if we fit the balanced scorecard in the gap mentioned above, the updated figure will be like:



This creates a comprehensive system for measuring the performance of the organization. The measurement system translates mission, vision, and strategy through objectives and measures. It provides a framework to describe the key elements in the achievement of the strategy.

It measures four perspectives:

- Customer Relations
- Financial
- Internal Service Process
- Learning, Innovation, and Growth

Each Balanced Scorecard should be customized to match organizational structure, strategy, and situation. Still, all Balanced Scorecards should contain these components:

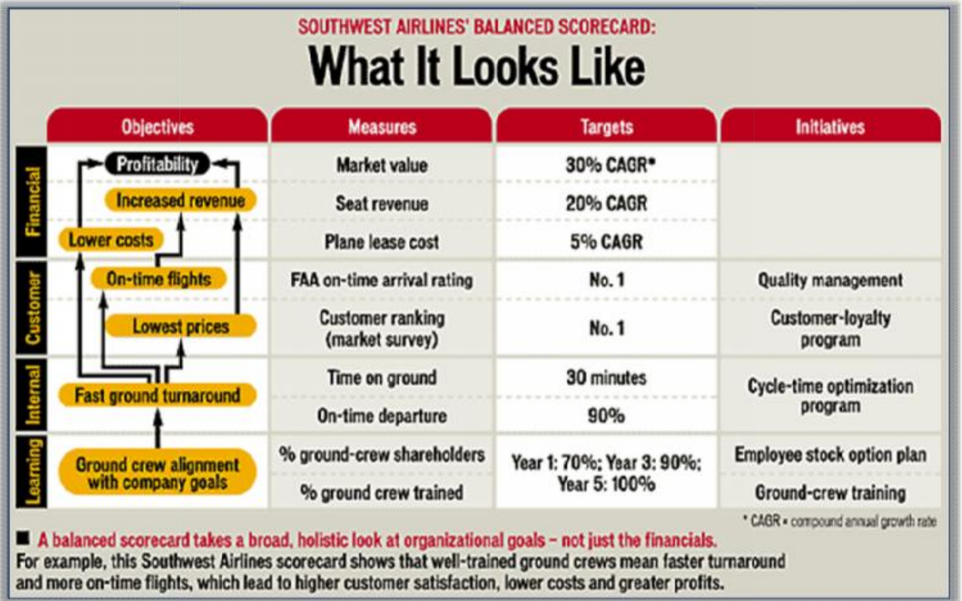
Perspectives – Groupings of the organization's high-level focus areas (should take all key "stakeholders" into account).

Objectives – Critical top-level goals derived from the current strategic plan (phrased in short, verb-noun statements, e.g. "improve customer satisfaction.")

Measures – The best indication(s) that co is on track to achieve each objective (should have no more than 1-3 per objective).

Initiatives – Time-specific projects (e.g. with defined start- and enddates) that are separate from, but aligned to, strategic objectives and measures.

Example: South West Airlines



SOUTHWEST AIRLINES' BALANCED SCORECARD:

What It Looks Like

	Objectives	Measures	Targets	Initiatives
Financial	Profitability	Market value	30% CAGR*	
	Increased revenue	Seat revenue	20% CAGR	
	Lower costs	Plane lease cost	5% CAGR	
Customer	On-time flights	FAA on-time arrival rating	No. 1	Quality management
	Lowest prices	Customer ranking (market survey)	No. 1	Customer-loyalty program
Internal	Fast ground turnaround	Time on ground	30 minutes	Cycle-time optimization program
		On-time departure	90%	
Learning	Ground crew alignment with company goals	% ground-crew shareholders	Year 1: 70%; Year 3: 90%; Year 5: 100%	Employee stock option plan
		% ground crew trained		Ground-crew training

* CAGR = compound annual growth rate

■ A balanced scorecard takes a broad, holistic look at organizational goals – not just the financials. For example, this Southwest Airlines scorecard shows that well-trained ground crews mean faster turnaround and more on-time flights, which lead to higher customer satisfaction, lower costs and greater profits.

Southwest Airlines developed in balanced scorecard analysis based onStrategic Theme: 'operating efficiency'

The four perspectives

- Financial: What will drive operating efficiency?
- Answer: More customers on fewer planes.
- Customer: How will we get more customers on fewer planes?
- Answer: Attract targeted segments of customers who value price and on-time arrivals.
- Internal: What must our internal focus be?
- Answer: Fast aircraft turnaround time.
- Learning: How will our people accomplish a fast turnaround?
- Answer: Educate and compensate the ground crew regarding how they contribute to the firm's success.

7.3 Corporate Governance

Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involvesbalancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Important Aspects of Corporate Governance:

- Corporate governance is the structure of rules, practices, and processes used to direct and manage a company.
- A company's board of directors is the primary force influencing corporate governance.
- Bad corporate governance can cast doubt on a company's operations and its ultimate profitability.
- Corporate governance entails the areas of environmental awareness, ethical behavior, corporate strategy, compensation, and risk management.
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- Corporate governance entails the areas of environmental awareness, ethical behavior, corporate strategy, compensation, and risk management.

Let us understand the importance of corporate governance with help of a case study

Case Study: Mrs. Chanda Kocchar Case (ICICI Bank)

The former ICICI Bank chairperson Chanda Kochhar, the glamour girl of Indian banking faced her worst phase of life. She was one of the main poster girls of women empowerment in India's corporate and banking sectors.Kochhar was instrumental in establishing ICICI Bank during the 1990s. In 1993, Kochhar was appointed as one of the core team members who were assigned the responsibility of setting up the bank.She was promoted to the assistant general manager (AGM) in 1994 and then to deputy general manager (DGM) in 1996.

In 1996, Kochhar headed the newly formed Infrastructure Industry Group of ICICI Bank, which aimed to create dedicated industry expertise in the areas of power, telecom, and transportation.In 1998, she was promoted as the General Manager (GM) and headed ICICI Bank's major client group, which handled relationships with ICICI's top 200 clients. In 1999, she also handled the strategy and e-commerce divisions of ICICI Bank.

Under Kochhar's leadership, ICICI Bank started building the nascent retail business in 2000 focusing largely on technology, innovation, process engineering, and expansion of distribution and scale. In April 2001, she took over as executive director.

In 2006, Kochhar was appointed as deputy managing director of ICICI Bank. In 2006–07, Kochhar handled the international and corporate businesses of the bank. From 2007 to 2009, she was the bank's chief financial officer (CFO) and joint managing director. In 2009 Kochhar was appointed as managing director and chief executive officer of the bank and has been responsible for the bank's diverse operations in India and overseas.

The Videocon loan issue was first raised by whistle-blower Arvind Gupta in 2016 when he wrote about it on a blog. He accused Kochhar of conflict of interest and corporate misconduct while sanctioning loans to the Videocon group. He wrote to the Prime Minister, the Reserve Bank of India governor, and several other authorities demanding a probe. However, his complaint drew no response from the authorities. Following allegations of nepotism and conflict of interest against Kochhar, and also a letter from a whistleblower earlier in the year 2016, the bank in late May 2016 set up the Justice Srikrishna Committee to probe the matter.

The allegations centered around ICICI Bank's loan to Videocon Group and a subsequent deal by her husband with the same group and the latter being suspected of a quid pro quo. The agency pointed out that the ICICI Bank board had fully backed Kochhar once in 2016 and twice in 2018 (in March and June) when allegations about her wrongful conduct had come up and added that the Kochhar case can lead to a relook by boards across the corporate world in the country.

However, when the issue did not die down, the bank agreed to institute an independent probe by Justice Srikrishna whofound that Kochhar indeed violated the code of conduct,by not recusing herself from the committee that sanctioned the loan to Videocon and not making necessary disclosures required under the company code.Kochhar, whose company NuPower Renewables allegedly received an investment from a Videocon group company as a quid pro quo for a loan from the bank.Dhoot allegedly invested crores of rupees in Nupower months after the Videocon group got Rs 3,250 crore as a loan from the ICICI Bank in 2012.

Gupta (Whistleblower) alleged that ICICI Bank awarding the loan to Videocon and the loan later becoming an NPA in 2017 were due to Dhoot's business relations with Deepak Kochhar whose wife, Chanda,was part of the committee that sanctioned the loan. Nearly 86 percent of Videocon's ICICI Bank loan remains unpaid.

The ED had filed the money-laundering case in January 2019, after the Central Bureau of Investigation booked the Kochhars, Videocon Group chairman Venugopal Dhoot and six others over alleged quid pro quo in loan transactions between ICICI Bank and Videocon.The CBI had accused Chanda Kochhar of receiving a kickback through her husband from Videocon for sanctioning loans. The Kochhars, Dhoot, and the other accused had denied the allegations. ICICI has filed a suit seeking recovery of amounts towards the clawback of bonuses given to the petitioner (Kochhar) from April 2009 to March 2018 under the termination of the petitioner's services," the bank said in its affidavit.

A clawback is a provision in which incentive-based pay, as a bonus, is taken back from an employee by an employer following misconduct or declining profits.The bank further stated that Kochhar flagrantly violated the ICICI Group Code of Business Conduct and Ethics.The affidavit further said that Kochhar's petition challenging her sacking by the bank claiming violation of RBI rules is a "malafide attempt" to secure valuable stock options of the bank.

The investigation by ED has allegedly revealed that ICICI Bank disbursed a loan of Rs 300 crore (Rs 283.45 crore actual disbursed amount) to Videocon International Electronics Ltd (VIEL) on September 7, 2009, when Chanda was at the helm.On the very next day, Rs 64 crore was transferred out of the loan received by VIL group from ICICI was transferred to NuPower Renewables Pvt Ltd (NRL) through Supreme Energy Private Ltd (SEPL).The said amount of Rs 64 crore was not used by VIL for the intended purpose and was transferred to NRL.

ED has termed Rs 64 crores as proceeds of crime and is treating it as quid pro quo for the loan sanctioned to the VIL group by ICICI when Chanda was heading it.The agency claimed that the said money was used to purchase assets including wind farm projects of 33.15 MW capacity.She continued to be a part of the committees that sanctioned credit facilities to Videocon when she ought to have distanced herself on basis of conflict of interest.

The CBI inquiry report holds her guilty of a violation of the bank's "code of conduct, its framework for dealing with conflict of interest and fiduciary duties, and in terms of applicable Indian laws, rules and regulations."It is hard to believe that the board was not aware of these developments, as a whistle-blower had made these allegations public in October 2016, but still, the board gave a clean chit to her.

This case raises doubts over the standards of corporate governance at one of India's largest banks. The ICICI Bank episode is only one among several instances of governance lapses in corporate India in recent times. It highlights the need for regulators to maintain a strict vigil on the functions of corporate boards in an era of corporate misgovernance.

7.4 Business Ethics

Business ethics is the study of appropriate business policies and practices regarding potentially controversial subjects including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.

Some have argued that the purpose of a business is to earn a profit and that its only goal. Do you agree with that?This challenge is represented by the mission statement from the CEO of Ford Motor Company:

"To sustain our Company, meet our responsibilities and contribute to tackling global sustainability issues, we must operate at a profit."

Corporate Social Responsibility

It is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public.Companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

Example: Mahindra Group launched #CelebrateDifferently, under the group's theme of #RiseAgainstClimateChange.

The company informs that under the Mahindra Hariyali initiative, over 16 million trees have been planted in the past 12 years, with a commitment to plant a million trees every year.Mahindra Group prefers digital and social media as a platform for cause marketing over TV. This is primarily because the target group (TG) is millennials and Gen Z'ers.Beside #CelebrateDifferently, the initiatives rolled out under girl child education like 'Nanhi Kali' have enabled and educated over 165,000 girls.

The company also supported a pilot project for Project Nanhi Kali 2.0 which will help aspiring girls complete their graduation as well as achieve proficiency in spoken English and digital literacy.Employee social options or ESOPs is an initiative through which employees give back to society. Employees are encouraged to participate in initiatives like health camps and youth skills development through this programme, a common practice among most large corporates.Many of these are designed to cater to specific local needs, such as a 14-day programme for women in the

automotive plant in Mumbai to develop their skills.As per the company, in FY19, 91 thousand ESOPs volunteers contributed nearly 600, 000 (6 lakh) man-hours to the initiative.

7.5 Sustainable Development

The growth that meets economic, social, and environmental needs without compromising the future of any one of them. Sustainability is meeting our society's needs in ways that don't compromise the ability of future generations to meet theirs. At its core, sustainability is about being responsible with resources – people, land, energy, water, materials, and capital.

The word sustainability is all too often confused with simple survival in challenging economic conditions.Managers consider the traditional business model as one that fits with Growth and Profit Maximisation. However, a new and evolving corporate management paradigmhas emerged that includes the economic (growth and profit maximization) together with the social and environmental issues.

Thus the ideology is to sustain profit maximization, together with sustaining environment for intergenerational purposes as well as sustaining socially responsible to the community at large.

Let us consider an example to understand it better.

Example: DHL

Shipping companies are large consumers of oil and gasoline. DHL is taking shipping back-to-the-basics, enacting a revolutionary delivery program to illustrate that shipping can be more efficient.

DHL estimates that this change will reduce their carbon dioxide emissions by 152 metric tons per year.

Example: McDonald's Recyclable Packaging

Triple Bottom Line:

Triple bottom line (or otherwise noted as TBL or 3BL) is an accounting framework with three parts: social, environmental (or ecological) and financial.Many organizations have adopted the TBL framework to evaluate their performance in a broader perspective to create greater business value. The term was coined by John Elkington in 1994.

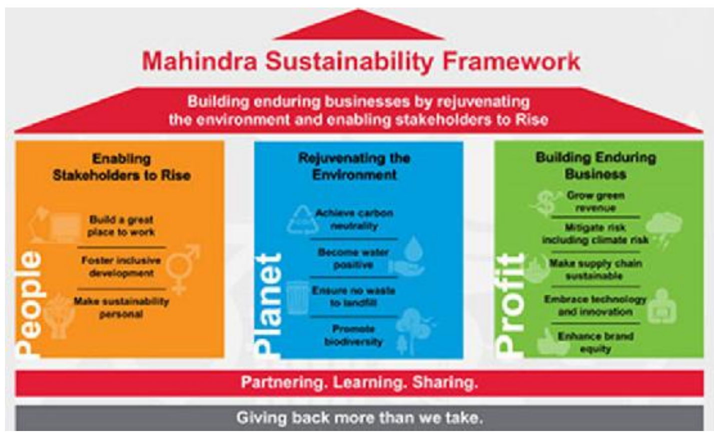
Let us consider an example of Mahindra and Mahindra to understand it better.

Example: Mahindra's triple bottom line approach to sustainability

The Group is a pioneer in the country, taking aggressive and ambitious goals of being carbon neutral by 2040, increasing energy productivity, and announcing an internal carbon price.Talking about the actions taken by the businesses and their climate change impact, Anand Mahindra says, "As a businessman, it benefits to create a business that promotes the economic prospects of asmany people as possible. Businesses need to find a purpose that is transcending. And this work aligns itself to our guiding principle of shared value — doing good and doing well."

The Group's journey on sustainability started 12 years ago nudged by an investor query on 'triple bottom line'.In a remarkably short period, the Group has gone from searching for the meaning of the triple bottom line to being a pioneer in scaling planet-friendly practices like energy efficiency, clean energy, water efficiency,zero waste to landfill and afforestation; investing in climate-friendly businesses like electric vehicles, shared mobility, green buildings, automobile recycling, micro-irrigation, waste to energy and sustainable cities;driving social development programmes like girl child education, integrated watershed management, and community health interventions.

At the same time, it has adopted cutting-edge business practices like policy deployment, balanced scorecard, total productivity management, and rapid prototyping.



The first pillar of sustainability is about people, within the organization and outside. It is about building a great place to work where people achieve their full potential.It is about fostering inclusive growth in society, especially in communities touched by the business, and about making sustainability personal for each person associated with Mahindra to build a powerful movement.

Mahindra has committed to being a carbon-neutral Group by 2040 and has taken decisive steps towards the same on carbon, water, and waste management.One of the major areas of innovation today is climate action. The biggest reason why we can expect organizations to contribute significantly towards achieving climate goals is that climate action makes business sense.

Investments in projects to achieve carbon neutrality, water security, zero waste to landfill, resource efficiency, and other elements of environmental sustainability give handsome economic returns.They help reduce system cost, reduce operating risk and make the business more resilient.

Summary

Strategic evaluation and controlare defined as the process of determining the effectiveness of a given strategy in achieving the organizational objectives and taking corrective action wherever required.

A Balanced Scorecard is a tool that translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system.

Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Business ethics is the study of appropriate business policies and practices regarding potentially controversial subjects including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.

Sustainability means growth that meets economic, social, and environmental needs without compromising the future of any one of them.

Keywords

Special Alert Control:It is based on a trigger mechanism for rapid response and immediate reassessment of strategy in the light of sudden and unexpected events.

Strategic Surveillance: It is aimed at a more generalized and overarching control design to monitor a broad range of events inside and outside the company that is likely to threaten the course of a firm’s strategy.

Quid-pro-quo: It describes an agreement between two or more parties in which there is a reciprocal exchange of goods or services.

Triple bottom line:It is an accounting framework with three parts: social, environmental (or ecological) and financial.

SelfAssessment

1. What is the central purpose of strategic evaluation?

A. Evaluate the effectiveness of the strategy to achieve organizational objectives.
B. Evaluate the effectiveness of the control system to measure achievements.
C. Evaluate the effectiveness of strategies to be implemented efficiently.
D. Evaluate the effectiveness of the strategy implementation process.

2. The purpose of strategy evaluation is to

A. Increase the budget annually.
B. Alert management to problems or potential problems.

C. Make budget changes.

D. Evaluate employees' performance.

3. Which of these is the cornerstone of effective strategy evaluation?

A. Adequate and timely feedback

B. Quality and quantity of managers

C. The smaller ratio of top-to lower-level management

D. Evaluation preceding implementation stage

4. Corrective actions are __________ as a result of strategy evaluation.

A. Needed

B. Rarely needed

C. Almost always needed

D. None of the above

5. ______________ determine the final design of a firm's strategy-evaluation and control system.

A. Opportunities

B. Threats

C. External characteristics

D. The organization's characteristics

6. Controls need to be ____________ rather than ____________.

A. action oriented; information oriented

B. cultural; political

C. qualitative; quantitative

D. measurable; timely

7. Which of the following is not a part of the basic principle behind a balanced scorecard?

A. Customers

B. Financial

C. Leadership

D. Learning and growth

8. Which one of the following is the result of a strategy map?

A. Long-term shareholder value

B. Human capital

C. Internal perspective

D. Customer value proposition

9. _____________ is a framework that helps organizations put strategy at the center of the organization by translating strategy into operational objectives that drive both behavior and performance.

A. Teamwork

B. Balanced scorecard

C. Organization learning

D. None of these

10. Balanced scorecard does not create:
A. The balance between financial and non-financial indicators of success.
B. The balance between internal and external constituents of the organization.
C. The balance between lag and lead indicators of performance.
D. The balance between leader and subordinates

11. _____________ is the system of rules, practices, and processes by which a firm is directed and controlled.
A. Strategic control
B. Corporate governance
C. Organization structure
D. None of these

12. Which of the following is not an important aspect of corporate governance?
A. Corporate governance is the structure of rules, practices, and processes used to direct and manage a company.
B. The basic principles of corporate governance are accountability, transparency, fairness, and responsibility.
C. Bad corporate governance can cast doubt on a company's operations and its ultimate profitability.
D. None of these

13. Organizations are controlled and directed by which one of the following?
A. Corporate ethics
B. Corporate codes
C. Corporate governance
D. Corporate mechanism

14. _____________ is a tool for corporate governance.
A. Training
B. Recruitment
C. Consulting
D. Communication

15. The stakeholder view of social responsibility states that organizations must respond to the needs of
A. employees and customers
B. shareholders and owners
C. all interested parties
D. all those who might sue the organization

16. A firm is said to have good corporate social performance when:
A. stockholders invest in socially responsible causes
B. charitable deductions are automatically deducted from pay without the consent of employees

C. the company has not been convicted of ethical violations for five consecutive years
D. stakeholders are satisfied with its level of social responsibility

17. What is the triple bottom line?
A. An accounting tool that looks at the impact on people, planet, and profits
B. A management strategy that states all the attention should be on profits
C. An accounting tool that looks at cost, profit, and loss
D. A management strategy that focuses on corporate social responsibility

18. Sustainable Development focuses on more use of:
A. Renewable resources
B. Abiotic resources
C. Agricultural resources
D. Natural resources

Answer for Self Assessment

1.	A	2.	B	3.	A	4.	C	5.	D
6.	A	7.	C	8.	A	9.	B	10.	D
11.	B	12.	D	13.	C	14.	D	15.	C
16.	D	17.	A	18.	A				

Review Questions

1. Explain in brief the strategic evaluation and control part ofthe strategic management process.
2. What do you understand by a balanced scorecard? Explain in brief with the help of an example.
3. Do you think corporate governance is an important aspect of today's market environment? Justify your answer with suitable information.
4. What do you understand by the triple bottom line concept? Mention a real-life example from the industry.
5. Discuss in brief the concept of business ethics in organizations.

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Unit08: Strategic Management & Entrepreneurship

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Objectives

After studying this unit, you should be able to

- comprehend the concept of entrepreneurship,
- Illustrate the role of strategic management for start-ups,
- analyze the strategies for growing and maturing businesses,
- analyze the strategies for technology-oriented businesses.

Introduction

Entrepreneurship plays an important role in the creation and growth of businesses, as wellas in the growth and prosperity of regions and nations. These large-scale outcomes canhave quite humble beginnings; entrepreneurial actions begin at the nexus of a lucrativeopportunity and enterprising individual.1 Entrepreneurial opportunity are "thosesituationsin which new goods, services, raw materials, and organizing methods can beintroducedand sold at greater than their cost of production."2 For example, anentrepreneurialopportunity could stem from introducing an existing technological productused in one market to create a new market. Alternatively, an entrepreneurial opportunitycould be creating a new technological product for an existing market or creating botha new product/service and a new market. The recurring theme is that an entrepreneurialopportunityrepresentssomething new. However, such possibilities require an enterprisingindividual or a group of enterprising individuals to recognize, evaluate, and exploit thesesituations as possible opportunities. Therefore, entrepreneurship requires action—entrepreneurialactionthrough the creation of new products/processes and/or the entry intonew markets,which may occur through a newly created organization or within anestablishedorganization.

An entrepreneur is someone who organizes, manages, and assumes the risks of a business or enterprise. An entrepreneur is an agent of change. Entrepreneurship is the process of discovering new ways of combining resources. When the market value generated by this new combination of resources is greater than the market value these resources can generate elsewhere individually or in some other combination, the entrepreneur makes a profit. An entrepreneur who takes the resources necessary to produce a pair of jeans that can be sold for thirty dollars and instead turns them into a denim backpack that sells for fifty dollars will earn a profit by increasing the value those resources create. This comparison is possible because, in competitive resource markets, an entrepreneur's costs of production are determined by the prices required to bid the necessary resources away from alternative uses. Those prices will be equal to the value that the resources could create in their next-best alternate uses.

8.1 Entrepreneurship

Entrepreneurship is undertaking the creation of an enterprise or business that has the chance of profit or success. It is one of the resources economists categorize as integral to production, the other three being land/natural resources, labor, and capital. An entrepreneur combines the first three of these to manufacture goods or provide services. They typically create a business plan, hire labor, acquire resources and financing, and provide leadership and management for the business.

An important question that should be focused upon here is why enter the field of entrepreneurship? The answer to same caries certain important reasons like:

- Money
- Independence
- Freedom
- Create
- Help

All the above-mentioned reasons motivate an individual to enter into the field of entrepreneurship.

Some entrepreneurs are motivated by the desire to create the next "unicorn" – a privately-held company with a valuation of over $1 billion (see examples). Far more common is the entrepreneur who is seeking financial security. They might be excluded from traditional employment because of limited education, poor language skills, illegal discrimination, or previous incarceration. For them, one of the best options for achieving financial security is starting a business and creating their opportunity.

Independence and autonomy are profound and compelling human desires. Entrepreneurs set their own goals, pick their partners, and face the consequences of their decisions.Many entrepreneurs are motivated by a desire to give back to the community or solve an ongoing social problem.

Another important aspect that should be focused on now is why an individual should not enter the field of entrepreneurship? It can be answered with the help of the following reasons:

- Risk
- Failure
- Peer Pressure
- Family Pressure
- Opportunity Cost

All of the above-mentioned reasons demotivate an individual to be an entrepreneur.

Starting a business is a big risk — sometimes it will work, and sometimes it will not. Many are afraid of starting a business because of the looming fear that their business will fail. They have never been exposed to entrepreneurship so they did not consider starting a business to be an option for them. Everyone in their lives has worked, or is working, for someone else and so they have been conditioned to think that being an employee is the only path for them.

Sometimes you’re up and sometimes you’re down. This means that there might be days of plenty, but also days when cashflow is extremely tight, especially during a down economy. Some people cannot live with the downs and ups of running a business, and instead, prefer the stability and security of a job and a regular paycheque.

After knowing the pros and cons of being an entrepreneur, let us now focus on what does it take to succeed in entrepreneurship? This has got a very simple answer, it revolves around two main things. They are:

- Opportunity Discovery
- Opportunity Analysis

‘Entrepreneurship is an activity that involves thediscovery, evaluation, and exploitation of opportunities to introduce new goods and services, waysof organizing, markets, process, and raw materials through organizing efforts that previouslyhad not existed. Once this is recognized then you are supposed to evaluate the opportunity whether it will sustain in the market for the long run or not.

Strategic Entrepreneurship:

Strategic Entrepreneurship (SE) is defined as organizationally consequential innovations within existing firms that involve the combination/integration of opportunity- and advantage-seeking behaviours.

Here, we need to focus on what strategic management does for a start-up? This will help in understanding the relationship between corporate strategy and entrepreneurship. The following are the tasks that can be accomplished by strategic management for a start-up:

- Establish a clear and specific goal
- Makes the planned commercial
- Foundation for blue ocean strategy
- Substantial & judicial resource utilization
- Fastens the business operations

Establish a clear and specific goal:

As per business planning, the main reason for an organization's establishment is a vision that is chased by a mission. One has to move step by step towards goal completion. Strategies further deepen this philosophy by creating objectives to realize the identified goals.

Especially in the early years, start-ups need to have clear and well-defined goals. Through strategic management, they can ensure that they remain growth-oriented and on the path to expanding by following the already set objectives.

Makes the planned commercial:

A start-up business plan needs to have an investor to bank on, and it isn't an easy task to convince one. Often the investor will be more interested in knowing how and how much the plan will generate revenue throughout the initial years and beyond.

When you strategize things during the business planning, you have a very fine and very well-curated business plan with revenue mark-ups to present to a potential investor. This provides them with the required information as to how your revenue and monetary cycles will go.It's not wrong to say that through strategic planning, start-up business plans get necessary detailing and are even proof tested for revenue generation.

Foundation for Blue Ocean Strategy:

The popular and widely used term these days for start-up growth and expansion is the blue ocean strategy. Being a strategy itself, surely it will be a significant part of strategic management.This strategy is developed on the notion that when businesses work on developing new markets with innovative products, they not only add more value but also create a loyal customer base for themselves.

Start-ups all around the world are in awe of this theory. Why they shouldn't be, as conventional businesses don't have as much freedom for experimentation and innovation, then a start-up has. This is also the reason why strategic management has 'Instil Innovation' as one of its scopes.The Blue ocean strategy is what allows the start-ups and entrepreneurs to develop that competitive edge that corporates might find more challenging to compete with.

Substantial & judicial resource utilization:

Resources here go for capital, raw material, workforce, and every other component of business that acts as an asset. This is one benefit that strategic management can provide for every business it has been adopted.As the basic principle is to take every step towards goal realization, strategic management also firmly holds effectiveness and efficiency as it's the basis for decision making.

With this approach, management will always find ways to provide better than expected results by keeping their expenses under the budget. The objectives and goals are met with strategies that are direct and cost-effective.

Fastens the business operations:

This is what strategic management is known for; it supports decision-making like anything. Apart from helping managers make a decision, it even determines how much time they have to make that decision which is very important in a competitive environment.

Start-ups can't even take long while prepare a business plan because there can be someone who might be working on the almost same plan. They need to take quick actions, develop newer markets, and unleash their potential.

Through setting objectives, strategic management has already done half of the work by providing a direction, and management only needs to move quicker in that direction which is further done by considering different variables and assessing their response to a particular decision.

This process is fastened as managers already acknowledge these variables and are prepared to brainstorm on them. While this also checks the effectiveness of a decision while it has been figured out more quickly.

Let us consider an example to understand it better.

Example: Chaayos

In 2008, while he was living in Houston in the US, Nitin Saluja and his wife were craving a cup of tea after dinner but they couldn't find a place that served a freshly-brewed cup of strong tea. That's when the idea of starting a tea cafe came to him. Two years later, Saluja returned to Indiaand discussed the idea of starting a chain of tea cafes with his colleague and friend Raghav Verma. Both were Indian Institute of Technology (IIT) graduates who worked together at software company Opera Solutions LLC.

Both were also tea lovers and realized that a potentially lucrative opportunity existed for "a good cup of tea outside of the home".The idea led to a lot of research on tea. The duo discovered that India was predominantly a tea-drinking country, consuming 30 cups of tea for every cup of coffee. At the same time, they found that more than 1,500 cafes existed for coffee—and none for tea.

The value of tea consumed in the country today can be estimated at roughly Rs1 trillion; yet, most of this was inconsistent or unhygienic and not what the customer was looking for. This was a market ready to be disrupted, it was felt that chai had always been neglected and had not been given the treatment it truly deserved. It was one of those few daily consumption items that had seen no change in how it was consumed since independence.

It was an idea whose time had come, given the sheer size of the opportunity. This was no easy task as it required the creation of a new category. The acceptance of tea outside of the home was a daunting task.It took two years of thorough research to figure out consumer preferences including a survey of people on the ground.

That is how Chaayos launched its first cafe in November 2012; since then, the chain has been adding outlets at a rapid pace, with more than 100% growth year-on-year since inception. In 2015, Chaayos had a total of 15 cafés in the Delhi/National Capital Region region and by 2016,it expanded to Mumbai with a total of 33 cafés in the country.

8.2 Growth Driven Business

A growth-driven business is focused on long-term, sustainable business growth.Companies that are growth-driven plan and build consistently. They are always a step ahead of their growth trajectory. A growth-driven company will identify that they must have adequately planned three main elements which are revenue generation, customer service, and technological developments. While a growing company would put all its resources into sales and marketing.

Let us consider an example of Marico and understand how this organization has adopted the path of growth-driven business.

Case study on Marico

Marico Limited is an Indian multinational consumer goods company providing consumer products and services in the areas of health, beauty, and wellness. The products offered by Marico are:

If we focus on the top line and bottom line of the organization, we can see that organization is on growth driven business path. The figure below mentions both revenue and profits for the last 5 years.

Particluars	2021	2020	2019	2018	2017
Revenue	11,307	9,796	8,768	7,815	6,916
Net Profit	3,109	2,647	2,023	1,643	1,440

Marico remains committed to sustainable value creation through a consumer and community-centric strategy.Being the market leader in ~90% of its business segments, the organization focuses on maintaining its leadership position and driving category growth by bringing value to its consumers in the form of right pricing as well as superior product offerings.

Let us now focus on the strategic pillars of Marico:

- Grow the core
- New Growth Engines
- Create Shared Value

Grow the core:

Marico continues to consolidate its leadership position with market share gains across its core segments: coconut oil, value-added hair oils, and super-premium refined edible oils. There continues to be significant headroom for category growth as well as market share gains. Marico would continue to drive unbranded to branded conversions and penetration at the bottom of the pyramid, through attractive consumer pricing as well as enhanced distribution reach.

At the same time, the organization continues to pursue opportunities for premiumization in select pockets through product innovations by delivering enhanced value to the consumer.

New growth engines:

In India, the company has witnessed consistently strong traction in the Foods portfolio in FY20. The organization would continue to focus on driving penetration of savory oats and further extending the category with new offerings focused on immunity, convenience, and nutrition.
Male Grooming and Premium Personal Care have seen muted growth due to a slowdown in discretionary spending, which was expected to continue in FY21 owing to the COVID-19 impact. The company aimed to realign the business strategy with relevant product innovations and go-to-market models in line with emerging consumer needs and preferences.

Create share value:

Marico lived by its purpose of 'Make a Difference' and continuously strives to create shared value in collaboration with all stakeholders.Shared Value' was anchored in the ethos of the way the company does business and applied to ensure that all business decisions balance economic, environmental, and social considerations. To enable this, the organization has charted its path to sustainability, with dynamic and challenging objectives as milestones.

Strategy Enablers for Marico:

These are:

- Business and go-to-market models
- Product innovations
- Technology & Automation
- Cost Management
- Talent and Culture
- Mainstreaming Sustainability

Business and go-to-market models:

Marico has strived to continuously experiment and adapt its business and go-to-market models in line with the changing market landscape and business realities. Marico had significantly enhanced its presence in modern trade and e-commerce, with the share of these channels increasing from 12% to 22% during 2019-2021.Given the acceleration in the adoption of online shopping, this would continue to be a strategic priority for the organization. It continued to work towards creating a win-win proposition for its channel partners and expanding its reach in the rural parts of the country.

In addition, the company was piloting multiple models and was working with strategic partners toward building direct-to-retail as well as direct-to-consumer capabilities. That would ensure continued product availability for consumers, even if the traditional supply chain was disrupted.

Product Innovations:

Consumer-centric innovation was a key growth driver and the organization's effort had been to bring in more agility through structural interventions. Marico had created roles focusing on driving consumer insights and innovations for its growth engines. There was a well-defined stage-gate structure guiding the product innovations process right from conceptualization to product launch.

The organization Innovation Council (led by the MD & CEO) was the central cross-functional forum for stress testing ideas and was focused on bringing in the best of Marico to ideation, design, and execution of product innovations.

Technology and Automation:

Marico has always focused on technology and automation as a key lever for building a future-ready organization. With increased restrictions on human movement and social distancing norms, technology would have a huge role to play in defining the art of possible and future workplace design. The organization was leveraging technology to redefine its business model for enhanced reach and continued engagement with its partners and consumers, even in the absence of regular channels.

For example, Marico Miner League wasits front-end analytics team working on predictive modeling using digital and e-commerce platforms data, enabling the business with the right decisions and spend optimization. The organization had also built-in social listening capabilities to ensure it stayed abreast of changing consumer needs and preferences.

Cost Management:

The Marico Value Enhancement (MarVal) programme continued to drive organization-wide efficiency initiatives across functions and geographies. The organization was also using data and analytics for very sharp prioritization in resource allocation and would continue to focus on passing on the value to our consumers and shareholders.

Talent and Culture:

At Marico, its core value proposition was to provide challenging, enriching, and fulfilling opportunities that maximize the potential of its people. The company aimed to develop members into leaders by leveraging a combination of proven experiential and futuristic approaches and

ensuring an active role in Learning & Development through customized functional and leadership training modules.

Mainstreaming Sustainability:

Sustainability was embraced as a part of Marico's mainstream business approach to creating shared value. The organization has a defined governance mechanism with a Sustainability/Business Responsibility Committee constituted by the Board of Directors and headed by the Chief Operating Officer (COO).

This small case of Marico reflects the path adopted by growth-driven businesses.

8.3 Technology Strategy

It is the creation of an overall business plan which consists of principles, objectives, and tactics for using technology to achieve organizational objectives. When we talk about technology-oriented business, it is a firm focusing on the development and manufacturing that uses leading-edge scientific and technological knowledge systematically and continuously to produce new goods or services with high added value.

Let us consider an example to understand it better.

Example: Paytm

Paytm is a payments and financial technology company based in Noida. Founded in August 2010 by Vijay Shekhar Sharma, it began as a prepaid mobile and DTH recharge platform and has since diversified into e-commerce, banking, insurance, and more.

Paytm, has achieved over 1.2 billion monthly transactions led by the massive growth in offline payments and financial services. With this achievement, the platform has consolidated its leadership position as the largest digital enabler promoting all payment methods including Wallet, UPI, cards, and netbanking.

Strategies used by Paytm:

- Ease of Onboarding Merchants
- Viral Distribution
- Feet on Street Approach
- Frictionless Payments

Ease of Onboarding Merchants:

Merchants can sign up for PayTM without a bank account. They can receive money into their PayTM wallets without a bank account. They can even spend their wallet balance by shopping at other merchants that accept PayTM payments.It's only when they want to cash out their money from their PayTM account that they need a bank account.

Viral Distribution:

When PayPal launched in the late 1990s, it incented existing users to send money to nonusers. When users sent money to their friends and family members (that were not on PayPal), PayPal sent them an email saying "Collect $$ by signing up for PayPal". This gave non-users a far more compelling reason to join PayPal than any direct advertising or PR efforts could have and generated a massive amount of viral distribution for PayPal. Paytm has copied this approach. Paytm has probably reaped the rich rewards à la PayPal.

Feet on Street Approach:

Paytm salespersons made daily rounds in retail hotspots asking storekeepers if they wanted PayTM.Paytm sales reps ride on their motorbikes up and down a street near Pune Airport where hundreds of Uber and Ola taxis were parked, asking drivers if they wanted to sign up for Paytm.When a driver says yes, the rep connects the driver's smartphone on his own 4G network using tethered Wi-Fi hotspot, downloads the app, installsand onboards the driver on Paytm.

This process generally takes 10 minutes, without being judgmental about whether the driver was tech-savvy or not. It did not cost any data charges to the cabbie. Therefore Uber driver was so conversant with Paytm's merchant acquisition program that he knew the Paytm rep's sales quota (10 merchants a day)!

Frictionless Payments:

By design or default, the Sign Out link in Paytm's mobile app is buried deep inside the app. As a result, many users have never seen it and stay logged into their app all the time. This means they're able to make a payment without a password or PIN.This creates a significant security vulnerability in Paytm. But it also makes Paytm's CX that much more frictionless, which makes a lot of difference when people use it many times a day.

Paytm's core business has always revolved around payments. But the company sees itself more as a 'problem solver' than a bank or a tech firm.The first pain point the company solved for India's consumers was around pre-paid mobile top-ups: Paytm allowed customers to top their accounts up instantly on their phones rather than going to a store,buying a top-up card, and struggling with an extraordinarily long password. That allowed it to build brand awareness and a loyal customer base.

When the company was founded, the vast majority of India's population had no access to formal banking services at all. Those that did have bank accounts often struggled to use the instruments available to them. Less than 2 percent of the population had a credit account. Cash and cheques were the norms.

China-based Alibaba Group and Japan-based SoftBank have both made significant investments in Paytm over the past 10 years. So, too, have Western investors such as Sapphire Ventures and Berkshire Hathaway. As of the start of last year, the company was valued at more than US$20 billion.

With the help of the example of Paytm, we can easily see the difference it has created in the life of its target market and therefore technology-oriented businesses have become the need of the hour for the market.

Summary

Entrepreneurship is undertaking the creation of an enterprise or business that has the chance of profit or success.

A growth-driven business is focused on long-term, sustainable business growth. Companies that are growth-driven plan and build consistently. They are always a step ahead of their growth trajectory.

It is the creation of an overall business plan which consists of principles, objectives, and tactics for using technology to achieve organizational objectives.

Keywords

Strategic entrepreneurship: It is defined as organizationally consequential innovations within existing firms that involve the combination/integration of opportunity- and advantage-seeking behaviors.

Growth-driven business: A growth-driven business is focused on long-term customer base retention.

Technology Strategy:It is the creation of an overall business plan which consists of principles, objectives, and tactics for using technology to achieve organizational objectives.

Technology-oriented business: It is a firm focusing on the development and manufacturing that uses leading-edge scientific and technological knowledge systematically and continuously to produce new goods or services with high added value.

SelfAssessment

1. Which of the following is not a quality of long-term objectives?

A. Flexible
B. Measurable
C. Suitable
D. None of these

2. Which of the following is not an area for establishing long-term objectives?

A. Strategy formulation
B. Productivity
C. Social responsibility
D. Employee development

3. _______________ undertaking the creation of an enterprise or business that has the chance of profit or success.

A. Entrepreneur
B. Entrepreneurship
C. Intrapreneur
D. None of these

4. Which of the following could not be a reason for being an entrepreneur?

A. Money
B. Create
C. Freedom
D. Failure

5. What does it take to succeed in entrepreneurship?

A. Opportunity discovery
B. Opportunity analysis
C. Both a & B
D. None of these

6. ______________ describes how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts.

A. Growth driven-business
B. Business model
C. Product portfolio
D. None of these

7. A ____________business is focused on long term and sustainable business growth.

A. growth-driven
B. profit-driven
C. contraction-driven
D. None of these

8. Marico's business model is not based on which of the following?

A. Produce
B. Distribute
C. Sustainability
D. Focused

9. Which of the following is not a strategic pillar for Marico?

A. Grow the core
B. Sustainability
C. New growth engines
D. Create shared value

10. Which of the following is not a strategic enabler?

A. Cost management
B. Product innovation
C. Create shared value
D. Mainstreaming sustainability

11. Which of the following is a strategic enabler?

A. New growth engines
B. Create shared value
C. Grow the core
D. Cost management

12. ______________ is the creation of an overall business plan which consists of principles, objectives, and tactics for using technology to achieve organizational objectives.

A. Growth strategy
B. Technology strategy
C. Profit strategy
D. Stability strategy

13. Which of the following strategy is not used by Paytm in the example discussed?

A. Viral distribution
B. Feet on the street approach
C. Building a network community
D. Frictionless payments

14. Which type of business model Nykaa has adopted?

A. Omnichannel experience
B. Inventory based

C. Digital marketing

D. None of these

15. Which of the following strategy is used by Nykaa in the example discussed?

A. Ease of Onboarding Merchants

B. Viral Distribution

C. Omnichannel Experience

D. Frictionless payments

16. ________________ business focuses on the development and manufacturing that uses leading edge scientific and technological knowledge.

A. Profit oriented

B. Technology oriented

C. Growth-oriented

D. None of these

Answer for Self Assessment

1. D	2. A	3. B	4. D	5. C
6. B	7. A	8. D	9. B	10. C
11. D	12. B	13. C	14. B	15. C
16. B				

Review Questions

1. Define entrepreneurship? Explain the characteristics of entrepreneurship in detail.
2. Discuss the role that entrepreneurs can play in developing countries like India.
3. Why do you think technology-oriented businesses will disrupt the future course of markets? Justify your answer with suitable information.
4. What do you understand by technology strategy? Discuss in brief.
5. Discuss the growth-driven businesses along with an example.

Further Readings

- Strategic Management by John Pearce II, Richard B Robinson, Amita Mital, Mc Graw Hill
- Strategic Management Concept and Cases by Fred R.David, Forest R.David, Pearson
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- Entrepreneurship By Rajeev Roy, Oxford University Press

Web Links

- https://www.livemint.com/Companies/3akE3dA7MGg2ip5RGZQYoN/How-Chaayos-got-its-brew-right.html
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Unit 09: Latest Trends in Entrepreneurship

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Objectives

After studying this unit, you should be able to

- illustrate the impact of social entrepreneurs on society,
- appreciate the role of intrapreneurship in organizations,
- appreciate the role of women's entrepreneurship,
- comprehend the challenges and strategic solutions for entrepreneurs in India.

Introduction

Entrepreneurs think differently from non-entrepreneurs. Moreover, an entrepreneur in aparticularsituation may think differently when faced with some other task or decisionenvironment. Entrepreneurs must often make decisions in highly uncertain environmentswhere the stakes are high, time pressures are immense, and there is a considerable emotionalinvestment. We all think differently in these strained environments than we do when the natureof a problem is well understood and we have time and rational procedures at hand to solve it.

Entrepreneurial action is most often intentional. Entrepreneurs intend to pursue certainopportunities, enter new markets, and offer new products—and this is rarely the process ofunintentional behavior. Intentions capture the motivational factors that influence behavior;they are indications of how hard people are willing to try and how much of an effortthey are planning to exert to perform the behavior. As a general rule, the stronger the intentionto engage in a behavior, the more likely should be its performance.

Gone are those days when India had the world's lowest entrepreneurial activity, with just 5% of Indians owning a business. Today the scenario is entirely different. According to The State of Indian Startup Ecosystem Report 2021, India has over 5,694 active investors and 38K startups. Hence, the trend of entrepreneurship and startup boom is increasing. However, running a business successfully or starting a new business makes sense when you stay updated about the entrepreneurship trends and develop business acumen.

Social innovation, or creating ideas for change, has played a vital role in academic debates and the international political community's agenda. As an outcome of the 2008 economic and financial crisis, social innovation began to gain strength as practical solutions for tackling social, political, economic, and environmental challenges such as poverty, aging, or migration.Social

entrepreneurship as a mindset has steadily gained momentum over the past two decades, and several trends are emerging in this field.

Today, women are increasingly entering the entrepreneurial world. Although the number of female entrepreneurs hasn't yet matched up to the number of males, as entrepreneurship is still a male-dominated area, we cannot deny the fact that women have certainly been trailblazers in the ever-evolving entrepreneurial world.

9.1 Social Entrepreneurship

Social entrepreneurship is the process of recognizing and resourcefully pursuing opportunities to create social value.Social entrepreneurs are innovative, resourceful, and results-oriented. They draw upon the best thinking in both the business and non-profit worlds to develop strategies that maximize their social impact.

These entrepreneurial leaders operate in all kinds of organizations: large and small; new and old; religious and secular; non-profit, for-profit, and hybrid. These organizations comprise the "social sector."The entrepreneurial process is allabout entrepreneurship resulting in the "creation,enhancement, realization, and renewal of value."The result of social entrepreneurship is no different,but it helps clarify the definition of value. Specifically,social value is derived from entrepreneurialactivities that seek to address problems related topeople and the planet—regardless of profit orientation.In other words, social entrepreneurship seekscreative and valuable solutions to such issues aseducation, poverty, health care, global warming,water shortages, and energy.

It is all about making research to completely define a particular social problem and then organizing, creating, and managing a social venture to attain the desired change.The change may or may not include a thorough elimination of a social problem. It may be a lifetime process focusing on the improvement of the existing circumstances.

While general and common business entrepreneurship means taking a lead to open up a new business or diversifying the existing business, social entrepreneurship mainly focuses on creating social capital without measuring the performance in profit or return in monetary terms.The entrepreneurs in this field are associated with non-profit sectors and organizations. But this does not eliminate the need of making a profit. After all, entrepreneurs need capital to carry on with the process and bring a positive change to society.

Let us now consider the difference between a social entrepreneur and an entrepreneur to get a better understanding of both fields. The most significant difference between a socialpreneur and an entrepreneur is the end goal. The former is less interested in defining their successes through high-profit margins, but instead by how their operations benefit communities of interest.

Traditional business ideas can also come from identifying a social need but the difference between a social enterprise and a traditional business is the motivation of the entrepreneur. The primary motivation for a traditional entrepreneur is more often than not a desire to make money whereas a social entrepreneur isdriven first and foremost by a passion to solve a social problem. Setting up as a business or using market principles (i.e. selling products or services) are used as a mechanism to solve the social or environmental problems they seek to impact.Social businesses focus on double or triple bottom line business practices that lead to social, environmental, and economic profitability.

Do we need to get a clear distinction on what qualifies as a social enterprise? Social Enterprise is the practice of using market-based, entrepreneurial strategies to progress an organization's social or environmental impact.Social Enterprises can take many forms and are not restricted to one particular legal structure or business model design.

The social enterprise works with goals to achieve both social impact and financial sustainability, social enterprises look to a unique set of business models to achieve their goals.

Business Model Framework for Social Enterprises:

Some of the most common business model frameworks social enterprises use are:

- Cross-Compensation
- Fee for Service
- Employment and skills training
- Market Intermediary
- Market Connector

- Independent Support
- Cooperative

Cross-Compensation: One group of customers pays for the service. Profits from this group are used to subsidize the service for another, underserved group.

Fee for Service: Beneficiaries pay directly for the goods or services provided by the social enterprise.

Employment and skills training: The core purpose is to provide living wages, skills development, and job training to the beneficiaries: the employees.

Market Intermediary: The social enterprise acts as an intermediary, or distributor, to an expanded market. The beneficiaries are the suppliers of the product and/or service that is being distributed to an international market.

Market Connector: The social enterprise facilitates trade relationships between beneficiaries and new markets.

Independent support: The social enterprise delivers a product or service to an external market that is separate from the beneficiary and social impact generated. Funds are used to support social programs for the beneficiary.

Cooperative: A for-profit or non-profit business that is owned by its members who also use its services, providing virtually any type of goods or services.

Let us now consider a few examples of social enterprises.

Example: 734 Coffee (Social Enterprise)

734 Coffee is a social venture dedicated to supporting Sudanese refugees. The business works with local co-op farms in Gambelia to grow and harvest coffee, sells products to U.S. retailers, and uses a portion of profits to fund scholarships for Sudanese refugees.734 Coffee is a social enterprise, providing ethically sourced, fair trade naturally farmed coffee from Gambelia, Ethiopia, a region that currently hosts over 700,000 refugees from South Sudan.

734 Coffee is led by Manyang Reath Kher, who spent much of his young life in a refugee camp in Gambelia,before eventually earning a degree in International Law from the University of Richmond. It was there that he founded the Humanity Helping Sudan Project, a non-profit that works in close coordination with 734 Coffee. Currently, 80% of profits are used to provide scholarships and education programs for refugees in Sudan.

Example: TOMS (Social Enterprise)

TOMS arguably put social entrepreneurship on the map. It started as a one-for-one model; Buy a pair of shoes, and TOMS would give a pair to a child in need. Today, buying a pair of TOMS shoes or sunglasses provides shoes, sight, water, safe birth, and bullying prevention services to people across the globe.

While visiting Argentina in 2006, TOMS founder, Blake Mycoskie, noticed that a lot of children in rural villages needed shoes, as well as the hardships that can come along with that. He was inspired to find a way to solve this problem.What started with an action to help one community, turned into a bigger idea: a business plan to enable consumers to help people in need, through everyday purchases. For every pair of shoes purchased, TOMS (Tomorrow Shoes) would give a pair to a child in need. One for One.

For TOMS, giving is at the heart of everything they do. The whole business started as a social mission and the business model was built around that, not the other way around. After seeing how powerful this model could be,TOMS realized they could use the same concept to fill other needs. That's how the brand launched other concepts after five years of giving shoes. TOMS Eyewear and TOMS Roasting Co. are meant to provide safe water and support safe births for mothers around the world.

TOMS created a strong business model, by integrating the whole aspect of giving at every level of the business. The strong relationships they have internally and externally enabled them to realize this model.A dedicated team and working with many partners is the key. TOMS is working with some of the leading non-profit and humanitarian organizations, which offer deep experience in international development and poverty alleviation.By working closely with them, TOMS can determine how their giving can add the most value to the community.

9.2 Intrapreneurship

The term intrapreneurship refers to a system that allows an employee to act like an entrepreneur within a company or other organization. Intrapreneurs are self-motivated, proactive, and action-oriented people who take the initiative to pursue an innovative product or service.An intrapreneur knows failure does not have a personal cost as it does for an entrepreneur since the organization absorbs losses that arise from failure.

If we try and distinguish between intrapreneur and entrepreneur, we can see that an intrapreneur is an individual who works within the company or an organization and act as a leader of one's startup business.Intrapreneurs usually have their team or group of people working for their product or service which may be different from the company's main line of business.

An entrepreneur, on the other hand, is a person who doesn't work for anyone and runs one's own business or company. For good or bad, he has complete autonomy and responsibility for his company.

Benefits of Intrapreneurship for Organizations

It includes:

- Increase productivity
- Problem solver
- Innovator
- Moderate risk-taking ability

Increase productivity:

An intrapreneur is a person with leadership skills and he's working on a tight deadline to deliver results. He will keep his team motivated so that they remain excited to meet their targets. In the process of doing it, the productivity of the company keeps on increasing.

Problem Solver:

Intrapreneurs are usually assigned to certain tasks of the company to improve different processes. If the output of the company has slowed down, then they investigate the cause of the problem and find creative ways to solve the issue at hand.If they see aperformance gap, then they will evaluate different functions of the company to minimize the gap or finish it.

Innovator:

Intrapreneurs adopt creative and innovative ways to keep things changing in the company. Keep imagining and visualizing different scenarios innovative ways to increase the growth level of the company.

Risk-Taking Ability:

Intrapreneurs are risk-takers and they are not afraid to fail. Lack of fear has a different level of confidence because people usually make mistakes when they are under pressure.They take calculated risks and their chances of failure are very low; because they know that the failure would also teach a unique lesson about what to avoid in the future under what circumstances.

Example: Facebook

Facebook conducts an annual one-night competition by the name ''hack-a-thone'' where programmers and coders work on an idea to produce something new. It is started in 2007 when they developed a prototype Facebook ''like'' button and it's been going on ever since.

9.3 Women Entrepreneur

It may be defined as a woman or group of women who initiate, organize and run a business enterprise.The government of India has defined women entrepreneurs as owning and controlling an enterprise with a woman having a minimum financial interest of 51% of the capital and giving atleast 51% of the employment generated in the enterprise to women.

Definitions:

"Women who innovate initiate or adopt business actively are called women entrepreneurs."

-J. Schumpeter

"Women entrepreneurship is based on women's participation in equity and employment of abusiness enterprise."

-Ruhani J. Alice

Importance of Women Entrepreneurs:

It includes:

- A good share of the population.
- Traditionally outside the domain of economic activities.
- They must be made part of the economic development because it will ensure the economic & social development of the women along with providing more human resources to strengthen the economy of the country.
- The economic status of women is now accepted as an indicator of a society's stage of development.

Let us now focus on the reasons that attract women to choose entrepreneurship as a career option:

Pull Factors:

- An urge to do something new
- Liking for business
- Need and perception of Women's Liberation, Equity, etc.
- To gain recognition, importance, and social status.
- To get economic independence
- To build confidence
- To develop the risk-taking ability
- To gain greater freedom and mobility

Push Factors:

- Death of breadwinner
- Sudden fall in family income
- Permanent inadequacy in the income of the family
- The category of push factors forms a negligible percentage of women entrepreneurs

All the above-mentioned factors motivate women to enter the field of entrepreneurship.

Let us also take note of the major constraints for women entrepreneurs.

- Lack of confidence
- Socio-cultural barriers
- Market-oriented risks
- Low risk-taking ability

- Lack of education
- Lack of awareness about the financial assistance
- Identifying the available resources

Categories of Women Entrepreneurs:

Women entrepreneurs are divided into three categories respectively. These are:

First Category:

It consists of women who are established in big cities, has higher levels of technical and professional qualifications, and have sound financial positions. This category of entrepreneurs might be dealing with non-traditional items.

Second Category:

Women entrepreneurs coming in this category are situated in cities and towns. They are having sufficient educational qualification and deals in both traditional and non-traditional items. Women in this category might be undertaking women's services-kindergarten, crèches, beauty parlors, health clinics, etc

Third Category:

In this category, women from rural areas are considered with very less or no educational background. They are financially weak and involved in family businesses such as agriculture, horticulture, animal husbandry, dairy, fisheries, agroforestry, handloom, etc.

Based on the demographics and geographic factors these categories are made and accordingly the women are categorized in these categories.

There are a few important associations for women entrepreneurs that should be known for better encashment of the opportunities lying in the area of women entrepreneurship. These are:

- FLO (FICCI Ladies organization)
- WAWE (World association of women entrepreneur)
- ACWW (Association of country women of the world)

The FLO organizes meetings, seminars, and discussions on various aspects of business fields for women and prepares them for the challenge that they may have to face in the operation and growth of their enterprises.

WAWE is an international association of women entrepreneurs. It organizes an international conference on women's entrepreneurship.

The association ACWW has one crore women entrepreneurs as its members from sixty countries. These are mainly rural entrepreneurs.

Let us now consider a few examples of successful women entrepreneurs across the globe. This will provide better clarity on women's entrepreneurship.

Example: Dr Kiran Mazumdar Shaw

She started her own company, Biocon, in her garage with an investment of Rs. 10000 in the year 1978. When she thought of raising funds for the startup, her loan application was turned due to the reasons that biotechnology was nascent at the time in India. At that time, she moved ahead with courage and commitment as her organization was having nil assets. Dr. Shaw put in lots of hard work and transformed Biocon into one of the leading biopharmaceutical firms in India.

Example: Ms. Falguni Nayar (Founder & CEO Nykaa.com)

After serving 20 years as a venture investor and merchant with Kotak Mahindra, Ms. Falguni Nayar thought of leaving the job and starting her venture to follow her dreams. Capitalizing on the scope of beauty and skincare products online, she steered herself towards Nykaa, and out came a platform that created history with its arrival.She expanded her online business successfully, by

opening up 35 physical stores, making way for an entrepreneur who told the world that age is just a number.

In April 2015, Falguni started a physical beauty product store at the T3 terminal (Indira Gandhi International Airport). According to Nykaa.com, the company has stored more than 1500 Genuine brand and provide free shipping.The brand has become an epitome in wellness and beauty, and it continued opening its luxury stores (Nykaa luxury) in premier destinations.

Falguni claimed that Nykaa has faster emerged as India's biggest omnichannel beauty destination with more than millions of satisfied customers across the county.Nykaa has also been a front runner in bringing international luxury brands to India, giving Indian customers all-encompassing products and services to choose from.

Example: Ms. Cher Wang (Co-founder of HTC)

Cher Wang is the co-founder of HTC, a famous mobile technology company.Cher was born in 1958 and went on to receive a degree in economics from the University of California in 1981.It was only a year after that she joined the company 'First International Computer', and after co-founding VIA in 1987, Cher Wang went on to co-found HTC in 1997.Having a net worth of 1.6 billion dollars, Cher has been featured on Forbes world's billionaire's list in 2010, 2011, and 2012. She has even been featured on their list of the world's most powerful women in 2012.

9.4 Challenges faced by Entrepreneurs

There are typical challenges that startups all over the world struggle with. Certain obstacles, however, are more peculiar to the Indian business environment. In this study, India was often described as a harsh environment for startups. This section outlines the five key challenges facing Indian startups:

- Building and Scaling an Indian Startup
- Diversity and Digital Divide
- Taking Products to Market and Low Willingness to Pay
- Hiring Qualified Employees
- Complex Regulatory Environment

Building and Scaling an Indian Startup:

The challenges faced by Indian startups begin with essentials such as hiring and managing a team, dealing with customers, and developing a marketing strategy. In particular, many Indian founders have a technical background and lack business knowledge.

For running a startup, a significant amount of working capital is required. Many startups, especially at early stages, are bootstrapped, i.e. self-funded through the founders' savings, or using capital from friends and family.Some startups have enough paying customers so that they are or become self-sustaining through the revenue and profits they generate and can grow organically. Thus, while not every startup needs external investment,many of them start looking for investors as they plan to scale their business. However, finding the right investor and raising funds is difficult, even if they have received positive responses on their product and have some proven market validation.

Diversity and the Digital Divide:

In general, an information gap exists between those who provide solutions and those who are supposed to use them. To build successful products, startups need to bridge this gap and develop an in-depth understanding of the customers and their needs.

This is particularly difficult in the Indian context: India is a highly diverse country with a plethora of cultures, languages, ethnicities, and religions.Because Indian customers are equally diverse, the start-ups' understanding of them is often limited to certain regions, that they know well and where they know local people to work with. In that sense,comparative advantages are linked to specific regions. Therefore, building up a pan-Indian startup is more difficult, because they have little understanding of customers in other regions.

In addition, there is a disconnect between the startup founders and the customers, for whom they aim to build products. Most startup founders are well-educated and come from well-off backgrounds in urban metro cities. However, as nearly 70 percent of the Indian population live in rural areasthe customers of the mass market tend to come from low-income backgrounds in villages. Due to different living environments, startups often have an insufficient understanding of the customers and their needs.

Taking Products to Market and Low Willingness to Pay:

A further challenge for startups is to take their products to the market as Indian markets appear difficult to penetrate. One reason is the competitive landscape: Often, many firms are already present and many more enter the market, including copycats. A second reason is that startups are at a disadvantage compared to large companies.

On the one hand, this is because big market players are more capable of dealing with bureaucratic regulations. On the other hand, public procurement is seen as weak and government prefers to sign contracts with established companies.

However, if startups are promoted by large companies (for instance, through partnering with them in the context of their open innovation initiatives), they may find it easier to capture a market.A third reason is that communication with and retention of customers takes time and effort. Convincing Indian customers is difficult, especially if the startup develops innovative products and caters to new market segments.

Furthermore, it is hard for startups to generate a willingness to pay for their products and services. Despite increasing incomes, the Indian customer base continues to be price-sensitive and has little willingness to pay for products and services.Often customers expect discounts or buy cheaper versions from China. Therefore, startups face the challenge of building affordable solutions, which is sometimes done at the expense of quality.

Hiring Qualified Employees:

For many job-seekers, joining a startup as an employee is not an attractive career option, due to the inherent risk that the startup might fail. Instead, the majority prefer to work for large corporations, which promise more stable jobs.

In addition, startups can rarely compete with the reputation and compensation structures that large companies can offer. Many of those who start working for startups switch to established companies after a few years. Job changes in the opposite direction occur less likely because many get used to the benefits of a corporate job.

A second reason is that many job applicants are not sufficiently skilled. Startups see a gap between the knowledge taught to students in colleges and the knowledge needed for the jobs, especially in sectors in which technologies change at a fast pace.Because they have little awareness of industry needs, fresh graduates are usually not readily employable from the beginning. As a consequence, when hiring new staff, startups have to invest a significant amount of time and cost to train new employees.

Complex Regulatory Environment:

The government of India has introduced policies that aim to ease the business environment for startups. However, the present regulatory framework in which startups operate is widely seen as difficult, inefficient, and unpredictable.Indeed, the World Bank Ease of Doing Business index ranks India 77th of 190 countries; the country is 137th of 190 countries in the World Bank Starting a Business Ranking index.

Startups in India often feel encumbered by bureaucratic processes, which appear to lack underlying standards. They have insufficient possibilities to find information, and there is little planning security about how long processes can take.

In addition, regulations can suddenly change or startups receive random notices. As a result, startups have to find frustrating workarounds, waste valuable time or pivot their business model.Other challenges concern the legal incorporation and registration as a startup as well as the closing of a business. Despite the government's declared intention to hasten the setting up of a business, the process is generally described as lengthy and costly.

The tax policy and its enforcement are considered unfriendly for startups. This, on the one hand, applies to the Good and Services Tax (GST), which was introduced in July 2017.If they fail to file the tax on time, they risk huge penalty payments. On the other hand, much criticism was directed towards the so-called "Angel Tax", which was introduced in 2012 to thwart money laundering.

Let us now consider a real-life example to understand the gravity of these challenges on entrepreneurs.

Example: Groove Startup

Groove is a sales engagement platform for enterprises using Salesforce. It specializes in ease of use, ease of administration, and cross-team collaboration. Built for the needs of full-cycle sellers, Groove automates non-sales activities so that pre-and post-sales reps can spend more time building relationships and generating revenue. On average,Groove gives revenue teams 20% of their time back to focus on higher-value activities. Groove's Salesforce-native architecture ensures more accurate reporting and forecasting, lower compliance risk with global privacy laws, and streamlined administration.

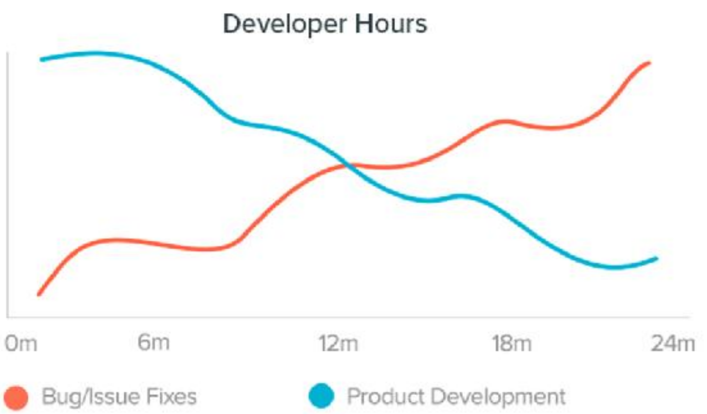
The challenges faced by Groove while scaling up were:

- Scaling shifts the team's focus
- Scaling is expensive
- Scaling amplifies everything

Scaling shifts the team's focus

When the startup had 100 users, rapidly building new features was easy. So was testing major product changes or launching a third-party integration. The team did it. When a couple of users ran into issues because of their browser of choice or another plugin, Team simply helped them work through it. It was simple.The company has thousands of users using a host of browsers, apps, email providers, operating systems, and other variables that all impact the way Groove functions.

Launching a new feature without ensuring that it works for the majority of those customers would mean many thousands of dollars in lost time: time spent emailing back and forth with customers, researching new bugs and issues, and ultimately building and deploying fixes.And even with all of the preparation and testing that companies now do before pushing updates, customers still run into issues. With more customers pushing our product to its furthest reaches, bugs and incompatibilities are being found all the time.This isn't unique to Groove. Every single software founder agrees: more customers mean more bugs.



Scaling is Expensive:

Early on, the company costs were, for the most part, fixed. Its infrastructure could easily handle the first few hundred customers without much issue, and the products and services the organizationused all gave them plenty of wiggle room for early growth without any cost increase. But then, as the number of customers we're supporting rises, so do their costs.

Every expense gets bigger:

- Servers and the infrastructure to support them
- Analytics and marketing apps that price based on traffic or subscribers
- Back-end software that prices based on the actions of our customers

In a perfect world, every incremental dollar of revenue would go toward hiring new talent to continue helping them grow faster and smoother. But as the organization grows, it gets more and more expensive just to keep the lights on.

Groove handled the scaling by future-proofing and building systems.

To mitigate these challenges we will now focus on strategic solutions for entrepreneurs.

Strategic Solutions to Entrepreneurs:

- Improve leadership
- Build a winning team
- Develop a business plan
- Practice creative problem-solving

Improve Leadership:

Keeping your team motivated is essential to reaching your goal. Leadership development is critical to maintain this dynamism and keep businesses relevant and profitable.Communicating with your team, setting up weekly team meetings, setting team goals are some of the ways to manage a team effectively. With so many different ways to lead, the leadership style you use will influence your start-up's culture and its ability to grow.

Build a winning team:

Behind every successful business is a reliable and competent team. Building a successful team is about more than finding a group of people with the right mix of professional skills. The key is to recruit the best people to help you achieve your goals,but more importantly, people who share your vision. Every teammate might bring a different skill set to the table, but the entire team should always be on the same page about the company's vision and values.

Develop a business plan:

A business plan is a very important and strategic tool for entrepreneurs as it lays out your ideas and gives you a sense of direction. A good business plannot only helps entrepreneurs focus on the specific steps necessary for them to make business ideas succeed, but it also helps them to achieve short-term and long-term objectives.

Practice creative problem-solving:

Creative problem solving (CPS) is a way of solving problems or identifying opportunities when conventional thinking has failed. It encourages finding fresh perspectives and coming up with innovative solutions so that you can formulate a plan to overcome obstacles and reach your goals.

Summary

Social entrepreneurship is the process of recognizing and resourcefully pursuing opportunities to create social value. Social entrepreneurs are innovative, resourceful, and results oriented.

Social Enterprise is the practice of using market-based, entrepreneurial strategies to progress an organization's social or environmental impact. Social enterprises can take many forms and are not restricted to one particular legal structure or business model design.

The term intrapreneurship refers to a system that allows an employee to act like an entrepreneur within a company or other organization. Intrapreneurs are self-motivated, proactive, and action-oriented people who take the initiative to pursue an innovative product or service.

Women entrepreneur is defined as a woman or group of women who initiate, organize and run a business enterprise.

The five key challenges facing Indian startups are building and scaling an Indian startup, diversity and digital divide, taking products to market and low willingness to pay, hiring qualified employees, and a complex regulatory environment.

Keywords

Social enterprise: It is the practice of using market-based, entrepreneurial strategies to progress an organization's social or environmental impact.

Women entrepreneur: It is defined as a woman or group of women who initiate, organize and run a business enterprise.

Scaling: scaling means when revenue increases without a substantial increase in resources.

Self Assessment

1. __________________ is the process of recognizing and resourcefully pursuing opportunities to create social values.

A. Intrapreneurship
B. Social entrepreneurship
C. Women Entrepreneurship
D. Partnership

2. The most significant difference between a socialpreneur and an entrepreneur is the____________.

A. Opportunity discovery
B. Opportunity analysis
C. End goal
D. Productivity

3. Social businesses focus on ___________ bottom-line business practices that lead to social, environmental, and economic profitability.

A. Quadruple
B. Triple
C. Single
D. None of these

4. Which of the following is not a business model framework for social enterprise?

A. Fee for Service
B. Employment and skills training

C. Market Intermediary

D. Profit-seeking

5. The term __________________refers to a system that allows an employee to act like an entrepreneur within a company or other organization.

A. Intrapreneurship

B. Social entrepreneurship

C. Technopreneur

D. Entrepreneurship

6. _____________ is defined as a woman or group of women who initiate, organize and run a business enterprise.

A. Social entrepreneur

B. Women entrepreneur

C. Technopreneur

D. None of these

7. Which of the following is not a pull factor in women becoming an entrepreneur?

A. An urge to do something new

B. To build confidence

C. Death of breadwinner

D. To gain greater freedom and mobility

8. Which of the following is not a push factor in women becoming an entrepreneur?

A. Death of breadwinner

B. Sudden fall in family income

C. Permanent inadequacy in the income of the family

D. To develop a risk-taking ability

9. Which of the following is not a major constraint for a women entrepreneur?

A. Socio-cultural barriers

B. Market-oriented risks

C. Low risk-taking ability

D. None of these

10. Which of the following is not a characteristic of the first category of women entrepreneurs?

A. Establish in big cities

B. Sound financial positions

C. Having sufficient education

D. None of these

11. Which of the following is not a challenge faced by an entrepreneur?

A. To have intrinsic motivation

B. Building and Scaling an Indian Startup

C. Diversity and Digital Divide

D. Complex Regulatory Environment

12. India is a highly _________ country with a plethora of cultures, languages, ethnicities, and religions.

A. Religious
B. Diverse
C. Technological oriented
D. None of these

13. __________ can take away market share from existing startup brands.

A. Me too brands
B. Copycat brands
C. Private label brands
D. None of these

14. If a startup develops innovative products and caters to new market segments, it is difficult for the startup to __________ the Indian customers.

A. Retain
B. Get
C. Confuse
D. Convince

15. For many job-seekers, joining a startup as an employee is not a/an _______ career option, due to the inherent risk that the startup might fail.

A. High
B. Low
C. Attractive
D. Risky

Answer for Self Assessment

1.	B	2.	C	3.	B	4.	D	5.	A
6.	B	7.	D	8.	D	9.	D	10.	C
11.	A	12.	B	13.	B	14.	A	15.	C

Review Questions

1. What do you understand about social entrepreneurship? Discuss with a real-life example.
2. Distinguish between intrapreneurship and entrepreneurship along with an example.
3. Do you think women entrepreneurs can play a significant role in the economic revival of a country? Justify your answer with suitable information.
4. Discuss in brief the challenges required to be taken care of by an entrepreneur while setting up his/her startup.
5. Critically discuss the strategic solutions that can be adopted by an entrepreneur to keep his venture floating.

Further Readings

- Strategic Management by John Pearce II, Richard B Robinson, Amita Mital, Mc Graw Hill
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Unit 10: Overview of Business Plan

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Objectives

After studying this unit, you should be able to

- illustrate the importance of business plan creation while starting a new venture,
- comprehend the ways of generating business ideas and making a final selection,
- apply the feasibility study for a start-up,
- illustrate the legalities involved while creating a new venture,
- choose the right form of ownership while starting a venture.

Introduction

When starting a business, one key task is to create a business plan that outlines one's goals and how one aims to achieve them. The business overview is a necessary section that presents these ideas more broadly and provides one's audience with background information about one's company. An effective business overview can garner the audience's attention, making them want to read the rest of the document and support the company.

A business plan precisely defines one business, identifies its goals, and serves as one's firm's resume. The basic components include a current and pro forma balance sheet, an income statement, and a cash flow analysis. A business plan helps an individual allocate resources properly, handle unforeseen complications, and make good business decisions. Because it provides specific and organized information about one's company and how one will repay borrowed money, a good business plan is a crucial part of any loan application. Additionally, it informs sales personnel, suppliers, and others about an individual's operations and goals.

Despite the critical importance of a business plan, many entrepreneurs drag their feet when it comes to preparing a written document. They argue that their marketplace changes too fast for a business plan to be useful or that they just don't have enough time. But just as a builder won't begin construction without a blueprint, eager business owners shouldn't rush into new ventures without a business plan. This unit is going to focus on the importance of a business plan while starting a new venture. It would comprehend the ways of generating business ideas and making a final selection. It will help in applying the feasibility study for a startup along with working on legal formalities and forms of ownership.

10.1 Business Plan

A "Business Plan" is a "Selling Document" that conveys the excitement and promise of one's business to any potential backers and stakeholders. It describes what one's business will produce, how it willproduce it, and who will buy the product. It explains who will run the business and who will supply it with goods. It will help in stating how the business will win over customers from competitors and what they will do to keep them. It shows detailed financial information that reflects how the business will succeed in carrying a profit.

It helps in explaining the idea behind one's business and spells out how the product or service will be produced and sold. The main purpose of a business plan is to assist in setting specific objectives and describes how a budding entrepreneur expects to achieve them.It describes the background and experience of the people who run them.

Importance of Business Plan

The following points describe the importance of a business plan:

- It forces the person preparing the plan to look at the business objectively and critically.
- It helps to focus ideas and serves as a feasibility study of the business's chances for success and growth.
- It helps in securing finance for the business and in communicating one's ideas to others.
- It can serve as a tool for managing the business.
- It defines one's purpose, competition, management, and personnel. The process of constructing a business plan can be a strong reality check.
- The finished report serves as an operational tool to define the company's present status and future possibilities.

Let us now focus on business plan components

Business Plan Components:

The following are the business plan components:

- Executive Summary
- Introduction
- Company Summary
- Products or Services
- Market Analysis
- Strategy and Implementation Summary
- Management Summary
- Financial Plan
- Operations

Executive Summary:

A persuasive summary that will entice a reader to take the plan seriously and read onto the entire document. It includes information on the company's history, objectives, services, market, strategies, management, and funding.

Introduction:

This section covers the vision and mission statements of the proposed venture. It includes starting goals and objectives of the company. It also briefly states the skills and experience of owners.

Company Summary:

The company summaries should discuss in detail the business's ownership and legal status. It should also include information on the company's start-up.

Products or Services:

It is important to discuss the competitive advantage a business' product or service has over the competition. Under product and service reasons should be provided for entering the specific

market. The focus should be on the price of the product or service to make it competitive and still maintain a healthy profit margin.

Marketing Analysis:

It provides an analysis of who your prospective customers are, their purchasing habits, their buying cycle, etc. It helps in estimating the market size and also helps in planning to enter the market. Market analysis helps in planning to deal with competitors. It helps in summarizing the market in the past, present, and future.

It reviews those changes in market share, leadership, players, market shifts, costs, pricing, or competition that provide the opportunity for your company's success. Another aspect of market analysis is industry analysis. It covers the impact of external factors on the overall business. It provides the growth potential of the industry including growth forecast and economic and technology trends.

Strategy and Implementation:

What resources and processes are necessary to get the product to market? This section should describe the manufacturing, R&D, purchasing, staffing, equipment, and facilities required for one's business.

Management Summary:

Investors must feel confident that the management team knows its market, and product and can implement the plan. Therefore, a plan must communicate management's capabilities in obtaining the objectives outlined in the plan.

Financial Plan:

It helps in identifying the risks and the plan to deal with them. New business can include projected financial statements which are also known as pro forma financial statements.

Operations:

This section provided information on how the business can be managed on a day-to-day basis. It includes hiring and personnel procedures. It also covers information on insurance and lease or rental agreements.

Supporting Documents:

It includes documents that lend support to statements made in the body of one's company's business plan. The list of documents is as follows:

- Resumes
- Credit information
- Quotes or Estimates
- Letters of Intent from prospective customers
- Letters of Support from credible people who know you
- Leases or Buy/Sell Agreements
- Legal Documents relevant to the business

Benefits of Business Plan:

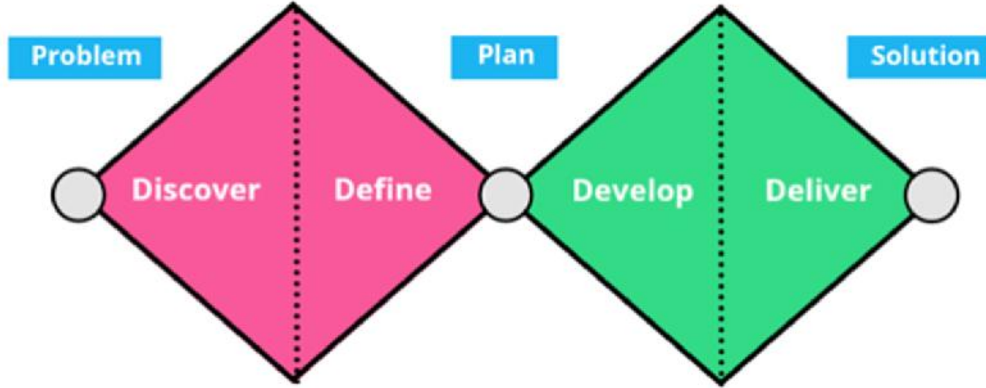
- It puts a business idea to the test; it fine-tunes it up-front.
- It turns a good idea into a viable business or a working enterprise.
- It helps budding entrepreneurs come up with creative ways to make their businesses work.
- It shows an entrepreneur what he/she is up against with competition.
- It creates a detailed action plan to keep a competitive advantage.
- It specifies what you need to start the business that leads to time and money-saving.
- It provides a timetable when one's needs to finish the items on one's to-do list.
- It helps an entrepreneur get the funding he needs.

Let us now shift our focus towards the limitations of a business plan as well. Sometimes unrealistic financial projections can be a part of the business plan whereas projections should be based on solid evidence for potential growth. Poor research initially can lead to faulty projections in the business plan. There can be inconsistencies in the business plan due to ignored competition. Therefore, these points should be kept into consideration while formulating the business plan document.

10.2 Idea Generation

Idea generation is described as the process of creating, developing, and communicating abstract, concrete, or visual ideas.It's the front-end part of the idea management funnel and it focuses on coming up with possible solutions to perceived or actual problems and opportunities.

When it comes to the idea generation process there are two types of idea challenges, problem-centric, and solution-centric approaches, one should first clarify whether he is looking to identify challenges or develop potential solutions for them. The figure provided below depicts both approaches.



Now the point has come where a budding entrepreneur will look for sources from which ideas can be generated. The same can be seen in the section below.

Sources of Ideas:

The sources of ideas are mentioned below:

- Consumers
- Existing Products & Services
- Observing Markets
- Distribution Channels
- Government
- Research and Development
- Competitors
- Development in other Nations
- Trade Fairs and Exhibition

Let us now focus on the methods of generating business ideas.

Methods of Generating Business Ideas:

The following are the methods that can be adopted by budding entrepreneurs for reaching the potential idea to start the venture. These are:

- Focus Groups
- Brainstorming
- Problem Inventory Analysis
- Creative Problem Solving

Focus Groups:

The groups of individuals provide information in a structured format.In a focus group, a moderator leads a group of people through an open, in-depth discussion rather than simply asking questions to solicit participant responses. For a new product area, the moderator focuses the group discussion in either a directive or a nondirective manner. The group of 8 to 14 participants is stimulated by comments from other group members in creatively conceptualizing and developing a new product idea to filling a market need.

Brainstorming:

Brainstorming is an individual or group idea generation technique to find a solution for a particular problem by generating multiple solutions. Importance is attached to the number of ideas and not quality at the generation stage. Even strange ideas are welcome in a brainstorming session. Frequently, far-fetched ideas become practical ones with slight modification.Structured brainstorming that proceeds in the right manner utilizes the human brain's abilities of free association and lateral thinking.

Problem Inventory Analysis:

It is a method for obtaining new ideas and solutions by focusing on problems.It uses individuals in a manner that is similar to a focus group to generate new product ideas.However, instead of generating new ideas, the consumers are provided with a list of problems and then asked to discussthem and it ultimately results in an entirely new product idea.

Creative Problem Solving:

Creative problem-solving is less structured than other innovation processes and encourages exploring open-ended solutions. It also focuses on developing new perspectives and fostering creativity in the workplace. It is a simple process that involves breaking down a problem to understand it, generating ideas to solve the problem, and evaluating those ideas to find the most effective solutions.

The various creative problem-solving techniques are:

- Brainstorming
- Reverse Brainstorming
- Brainwriting
- Gordon Method
- Checklist Method
- Free Association
- Forced Relationships
- Collective Notebook Method
- Attribute Listing
- Big-Dream Approach
- Parameter analysis

Brainstorming:

In creative problem solving, it can generate ideas about a problem within a limited time frame through the spontaneous contributions of participants. The problem statement is neither too broad nor too narrow. In this technique, no group member is recognized as an expert.

Reverse Brainstorming:

It is a technique that builds on our natural ability to more easily see problems than solutions. Instead of asking a group to brainstorm ideas that would work, the group brainstorms all the ways that they could cause a plan to fail.

Brainwriting:

Brainwriting is a great way to share new ideas, encourage creativity, and develop innovative ideas.Shy or introverted team members may be reluctant to speak up in group brainstorming sessions. Brainwriting overcomes these limitations by allowing them to write down their ideas instead, giving everyone an equal opportunity to participate. It also encourages people to take more time to formulate their thoughts and enables them to develop ideas offered up by others.

Gordon Method:

It is a method for developing new ideas when individuals are unaware of the problem.The general concept associated with the problem is given group express idea general concept is developed followed by the related concept.

Checklist Method:

In this method, a new idea is developed through a list of related issues or suggestions. The entrepreneur uses a list of questions or statements to guide the direction of developing entirely new ideas or focusing on specific idea areas.

Free Association:

Free association is a method of developing new ideas through a chain or a cycle of the word association. The process involves a word relating to the problem being written down, then another, and another. A participant says whatever comes into his mind relative to a word he just wrote or relative to a keyword definition of a problem. Creating a semantic relationship between every word from the obtained list of associations and the problem might help to find a useful analogy, which contains creative ideas and could lead to solutions.

Forced Relationships:

This is a process of forcing relationships among some product combinations and their features. It is a technique that asks questions about objects or ideas to develop a new idea.

Collective Notebook Method:

In the collective notebook method, a small notebook that easily fits in a pocket containing a statement of the problem, blank pages, and any pertinent background data is distributed to participants.Participants are expected to consider the problem and its possible solutions recording ideas at least once or three times daily. At the end of the week, a list of the best ideas is developed, together with any suggestions.

Each participant now submits their notebooks to a central coordinator who summarizes all the materials and lists the ideas in order of frequency of mention.The summary thereafter becomes the topic of a final creative focus group discussion by the group participants.

Attribute Listing:

Attribute listing is an idea-finding technique that requires entrepreneurs to list the attributes of an item or problem and then looks at each from different perspectives.Through this method, originally unrelated objects can be brought together to form a new combination and possible new uses that better satisfy a need.

Big-Dream Approach:

Here the entrepreneur dreams about the problem and its solution. He or she thinks big. In this approach, every possibility is recorded and investigated or the resources required are documented.To the entrepreneur, ideas are conceptualized without any constraint until an idea is developed into a workable form.

Parameter Analysis:

This is a method of developing a new idea by focusing on parameter identification and creative synthesis.Parameter identification involves the analysis of variables contained in the situation to determine their relative importance.These variables thereafter become the focus of the investigation with other variables being set aside.

The techniques mentioned above are the ones that can be used by budding entrepreneurs for generating new ideas. Let us now shift our focus towards the idea selection part.

Idea Selection:

Once business ideas are discovered, screening and testing of these ideas are done. The selection of ideas requires knowledge, experience, and methodology. The aim is to identify the best from a multitude of ideas. The following success factors play an important role here: Through the evaluation process, ideas are rolled back and forth, maturing and further developing.

The following considerations are significant in the evaluation and testing of business ideas.

- Technical Feasibility.
- Commercial Viability.

- Idea Selection.

10.3 Feasibility Study

It is a template that evaluates the potential of an idea. It assesses different risks and benefits associated with the business and gives an estimated framework on how the company will perform over time.Many venture capitalist/ angel investors analyze feasibility study reports before making any investment in a startup. It also serves as a guideline for making strategic business decisions. Many companies use it to understand the demographics of their potential customers.

The feasibility study is a window that looks into the future and tries to assess how things will progress over the long run. It considers various matrixes for the business and forecasts future potentials. Depending upon the nature of the business idea, there can be multiple types of feasibility studies. These are:

- Legal feasibility
- Technical feasibility
- Financial feasibility
- Operational feasibility
- Market feasibility

Legal Feasibility:

Legal Feasibility is checked to make sure that the project which is taken fulfills the requirements of the law at the domestic and international levels. Start-up officials need to study carefully and consistently the laws applicable to the project to avoid any violations.

Every country or state has different legal frames, and every business needs to operate under these frameworks. When a company works outside of this framework, it is considered illegal.

Technical feasibility:

This assessment focuses on the technical resources available to the organization. It helps organizations determine whether the technical resources meet capacity and whether the technical team is capable of converting the ideas into working systems.

This assessment focuses on the technical resources available to the organization. It helps organizations determine whether the technical resources meet capacity and whether the technical team is capable of converting the ideas into working systems.

Financial feasibility:

This assessment typically involves a cost/ benefits analysis of the business idea, helping entrepreneurs determine the viability, cost, and benefits associated with a business idea before financial resources are allocated.

Operational feasibility:

This assessment involves undertaking a study to analyze and determine whether and how well the business plan is feasible on the operational front.

Market feasibility:

A market analysis enables an entrepreneur to define competitors and quantify target customers and/or users in the market within his/her chosen industry by analyzing the overall interest in the product or service within the industry by its target market.

Let us take an example to get a better grip on the feasibility study concept

Example: Self-driving Car (Waymo)

Google's Self-driving car i.e. Waymo has its top speed near 56 KMPH. Since Google began working on self-driving cars in 2009, dozens of established automakers such as General Motors and Ford Motors have entered the race, along with other big technology companies, including Apple and ride-hailing service Uber.

With the latest fundraising in 2021, Waymo had raised a total of $5.7 billion in the past two years 2020-21 as it tried to build upon a driverless ride-hailing service that it had been operating in the Phoenix area.

Google later spun out Waymo as a separate subsidiary owned by the same corporate parent, Alphabet Inc.Waymo now operates as part of an Alphabet division called "Other Bets," which has lost nearly $13 billion in the past years.

Even so, analysts have estimated Waymo may be worth about $30 billion - an estimate reflecting the high hopes that autonomous driving technology may finally realize its promise to revolutionize the way people get around.

Let us now focus on the feasibility part of the project. The following points highlight why the baove mentioned project may not be feasible in real-time soon:

- The first reason for the project not being feasible is technological constraints.
- There are possible removals of jobs for drivers, very high prices, and worse accidents due to the non-predictive nature of traffic.
- Possibility of vehicle hacking which can create security issues, weather problems, disturb the driving experience of people, not able to adapt to changes in route or diversion, illegal use by terrorists. As a result, this project faces Technical and Legal Feasibility Issues.

10.4 Ownership

It is the state or fact of exclusive rights and control over property, which may be any asset, including an object, land or real estate, intellectual property, or until the nineteenth century, human beings. Ownership involves multiple rights, collectively referred to as title, which may be separated and held by different parties.Different types of ownership can be taken up by budding entrepreneurs.

Forms of Ownership:

These are:

- Sole Proprietorship
- Partnership
- Public Limited Company
- Private Limited Company
- Cooperatives

Sole Proprietorship:

The vast majority of small businesses start as sole proprietorships. These businesses are owned by one person, usually, the individual who has day-to-day responsibility for running the business. Sole proprietors can be independent contractors, freelancers, or home-based businesses.The easiest and most popular form of business ownership is the sole proprietorship.In a sole proprietorship, the owner must decide how much liability protection he or she needs.

The owner of a sole proprietorship:

- receives the profits,
- incurs any losses, and
- is liable for the debts of the business

The advantages of being a sole proprietor are that it is easy and inexpensive to create. The owner has complete authority over overall business activities.It is the least regulated form of business ownership.The business pays no taxes; income is taxed at the personal rate of the owner.

Now, let us focus on the disadvantages of being a sole proprietor are like the owner has unlimited liability.The business is reliant on the skills and abilities of the owner. The death of the owner dissolves the business unless there is a will to the contrary.

The examples may include individuals who are artists, authors, carpenters, photographers, hairstylists, etc.

Partnership:

A partnership is the simplest type of business ownership when two or more people are involved.

There are two kinds:

- limited partnerships, and
- limited liability partnerships

A limited partnership has one partner with unlimited liability while everyone else involved has limited liability.With limited liability, comes limited control. Since being a partner with limited liability is less of a risk, they get less say in decision-making processes.

A limited liability partnership has only one class of owners, meaning there is no partner with the risk, and power, of unlimited liability. A limited liability partnership shares the liability among the owners, protecting them from the mistakes of their partners.

The advantages of being in a partnership firm are that it is inexpensive to create. General partners have complete control.Partners can share ideas. Now if we talk about the disadvantages, it is difficult to dissolve one partner's interest without dissolving the partnership.There may be personality conflicts.Partners can be held liable for each other's actions.

Examples of partnership firms may include law firms, medical practices, auto-body repair, etc.

Public Limited Company:

In this type of business, the capital is collected from the public in the form of small amounts of shares having a low face value.The requirement is to have a minimum of 7 Shareholders while having no capping on a maximum number of shareholders.Public Ltd Company has to register with the registrar of the companies, have a board of directors for approvals, generate and share balance sheets, profit, and loss statements and conduct Annual general meetings.

The advantages of being a public limited company are that firm has limited liability, it is a high credible entity compared to other types. It has unlimited capital investment opportunities. It helps in widening the shareholder base and spreading the risk. Now, if we talk about the disadvantages of a public limited company. It includes more legal formalities as compared to other forms of company. It does not provide much access to freedom. This type of ownership has control and secrecy issues.

Example: Tata Consultancy Services

Private Limited Company:

A Private Limited is very common among all types of companies. The capital for a business is collected from business partners who may be active or sleeping.The Pvt. Ltd. company does not allow sharing or transfer of stocks and restricts the public from taking up shares.

There is no need for filing a consent of directors in a Pvt. Ltd. company and it does not need a certificate from the registrar of companies for initiation of business and neither is it required to share Balance sheet or Profit and loss statements or hold an annual general meeting like a public limited company.

The advantages of being a private limited company are that firm has limited liability. The firm requires no minimum capital. The private limited company is a separate legal entity and it is easy to raise funds being a private limited company. Now, if we talk about the disadvantages of a private limited company. It restricts the transferability of shares by its articles.It cannot issue a prospectus to the public.In the stock exchange shares cannot be quoted.

Example: Ola

Cooperatives:

Cooperative societies are private ownership which is an amalgamation of large partnerships as well as features of a corporation. The members of cooperative societies pay for buying shares and the profits are then distributed amongst its members.Each member in Cooperative societies has only one vote which prevents the concentration of power in a few hands.

Just like a Public limited company, a cooperative society has a board of directors and conducts periodic meetings of shareholders. The principle behind the formation of cooperative societies is to form cooperation and self-help and to obtain necessities of everyday life at subsidized costs.

The advantages of cooperative enterprises are that it is a democratic form of ownership and overheads are lowered as the members of cooperative may provide honorary services and the common man is benefited from cooperative societies.

One of the greatest business cooperative advantages is members' ability to split these costs. This is especially helpful for small businesses that do not need services on the scale that larger companies do and thus cannot justify purchasing the service packages larger companies typically buy.

Example: Indian Coffee House

Indian Coffee House is a restaurant chain in India, run by a series of worker co-operative societies. It has a strong presence across India with nearly 400 coffee houses. It has been a hub for Communist and Socialist movements for generations. Thus it has played a very important role in the politics of India.

Summary

A "Business Plan" is a "Selling Document" that conveys the excitement and promise of one's business to any potential backers and stakeholders.

A business plan helps to focus ideas and serves as a feasibility study of the business's chances for success and growth.

Idea generation is described as the process of creating, developing, and communicating abstract, concrete, or visual ideas.

The selection of ideas requires knowledge, experience, and methodology. The aim is to identify the best from a multitude of ideas.

The feasibility study is a window that looks into the future and tries to assess how things will progress over the long run. It considers various matrixes for the business and forecasts future potentials.

It is the state or fact of exclusive rights and control over property, which may be an asset, including an object, land or real estate, intellectual property, or until the nineteenth century, human beings.

Keywords

Market analysis: It is a process of assessing and determining different factors and conditions in a market within a special industry

Attribute listing: It is an idea-finding technique that requires entrepreneurs to list the attributes of an item or problem and then looks at each from different perspectives.

Reverse Brainstorming:It is a technique that builds on our natural ability to more easily see problems than solutions. Instead of asking a group to brainstorm ideas that would work, the group brainstorms all the ways that they could cause a plan to fail.

Financial Stability:This assessment typically involves a cost/ benefits analysis of the business idea, helping entrepreneurs determine the viability, cost, and benefits associated with a business idea before financial resources are allocated.

Cooperative societies: It is private ownership which is an amalgamation of large partnerships as well as features of a corporation.

SelfAssessment

1. A "Business Plan" is a __________ that conveys the excitement and promise of your business to any potential backers and stakeholders.

A. Buying concept

B. Retaining concept
C. Pruning concept
D. Selling Concept

2. Which of the following question is least important while creating a business plan document?
A. How many manufacturing units would be established in the next five years?
B. Describes what your business will produce, how will you produce and who will buy the product.
C. Explain who will run the business and who will supply it with goods.
D. How the business will succeed in carrying a profit?

3. Which of the following statement is not defining the purpose of a business plan?
A. It helps in making the business listed on the stock exchange.
B. Explain the idea behind your business and spells out how the product or service will be produced and sold
C. Sets specific objectives and describe how you expect to achieve them.
D. It describes the background and experience of the people who run them.

4. Writing a business plan can ensure that an entrepreneur__________________.
A. Meets his target revenue goals.
B. Achieves her expense projections.
C. Capture the entire target market.
D. Figures out how to make her business work.

5. Making the beliefs, values, and behavioral norms explicit and intentional builds the __________ of an organization.
A. Mission
B. Culture
C. Vision
D. None of these

6. _____________ is described as the process of creating, developing, and communicating abstract, concrete, or visual ideas.
A. Opportunity discovery
B. Opportunity analysis
C. Idea testing
D. Idea generation

7. The _________ analysis addresses the roles of the community, region, nation, and world in a business.
A. Industry
B. Environmental
C. Business
D. None of these

8. The cover page of a business plan should contain

A. Key financial highlights
B. The funding request
C. Contact Information
D. None of these

9. Which of the following phase is not a part of the idea generation process?
A. Detailed
B. Discover
C. Define
D. Deliver

10. A business plan should be _______________ to convey critical information to potential investors.
A. Long and detailed
B. Complex and technical
C. Confidential
D. Crisp and concise

11. ____________ is a method for developing new ideas when the individuals are unaware of the problem.
A. Brainwriting
B. Brainstorming
C. Creative problem solving
D. Gordon method

12. Which of the following is not a phase of parameter analysis?
A. Research Observation
B. Need analysis
C. Creative synthesis
D. Realization

13. ______________ assesses different risks and benefits associated with the business and gives an estimated framework on how the company will perform over time.
A. Creative problem solving
B. Feasibility study
C. Need analysis
D. None of these

14. Which of the following is not a type of feasibility study?
A. Legal feasibility
B. Sales feasibility
C. Financial feasibility
D. Operational feasibility

15. The quick verbal summary of a business plan is called a(n)____________.
A. Business pitch
B. Concept pitch

C. Elevator pitch
D. None of these

16. Which of the following is not a form of ownership?
A. Sole proprietorship
B. Partnership
C. Public limited company
D. Paid partnership

17. ______________ is the simplest type of business ownership when two or more people are involved.
A. Partnership
B. Proprietorship
C. Limited liability partnership
D. Limited partnership

18. Which of the following is not a disadvantage of a partnership firm?
A. It is difficult to dissolve one partner's interest without dissolving the partnership.
B. Partners can share ideas.
C. There may be personality conflicts.
D. Partners can be held liable for each other's actions.

.

Answer for Self Assessment

1. D	2. A	3. A	4. D	5. B
6. D	7. B	8. C	9. A	10. D
11. D	12. A	13. B	14. B	15. C
16. D	17. A	18. B		

Review Questions

1. Discuss the importance of a business plan for a budding entrepreneur.
2. Discuss in brief the components of the business plan while coming up with a new venture.
3. Discuss in brief the different types of feasibility studies an entrepreneur should look for while starting a new venture.
4. Explain different types of ownership in detail along with examples.
5. Illustrate different methods of generating business ideas while looking to start a new venture.

Further Readings

- Strategic Management by John Pearce II, Richard B Robinson, Amita Mital, Mc Graw Hill

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Unit 11: Strategic Marketing Plan

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Objectives

After studying this unit, you should be able to

- identify profitable and sustainable segments of the market and target them effectively,
- develop a positioning strategy for a brand,
- apply marketing mix while working with a startup,
- comprehend the rationale of developing an effective marketing communication,
- develop an insight into how firms price their products.

Introduction

Today, the STP marketing model (Segmentation, Targeting, Positioning) is a familiar strategic approach in modern marketing. It is one of the most commonly applied marketing models in practice, with marketing leaders crediting it for efficient, streamlined communications practice.STP marketing focuses on commercial effectiveness, selecting the most valuable segments for a business and then developing a marketing mix and product positioning strategy for each segment.

The STP model is useful when creating marketing communications plans since it helps marketers to prioritize propositions and then develop and deliver personalized and relevant messages to engage with different audiences. The three-step funnel consists of market segmentation, market targeting, and product positioning.

STP marketing is effective because it focuses on breaking the customer base into smaller groups, allowing one to develop very specific marketing strategies to reach and engage each target audience.In a nutshell, the STP marketing model means to segment the market, target select customer segments with marketing campaigns tailored to their preferences, and adjust one's positioning according to their desires and expectations.

The 4Ps of marketing is a model for enhancing the components of one's "marketing mix" – howone takes a new product or service to market. It helps one to define its marketing options in terms of price, product, promotion, and place so that the organization's offering meets a specific customer need or demand.

The 4Ps marketing mix was designed at a time when businesses were more likely to sell products, rather than services. The 4 Ps represented an early focus on product marketing when the role of customer service in helping brand development wasn't so well known.Over time, Booms and Pinter

added three extended 'service mix P's': Participants, Physical evidence, and Processes. Later 'Participants' was renamed 'People' - the marketing mix covering marketers, customer service reps, recruitment, culture, training, and remuneration.

11.1 Market Segmentation, Targeting & Positioning:

Market segmentation is a marketing term that refers to aggregating prospective buyers into groups or segments with common needs and who responds similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.Market segmentation seeks to identify targeted groups of consumers to tailor products and branding in a way that is attractive to the group.Markets can be segmented in several ways such as geographically, demographically, or behaviourally.Market segmentation helps companies minimize risk by figuring out which products are the most likely to earn a share of a target market and the best ways to market and deliver those products to the market.

A target market is a group of people with some shared characteristics that a company has identified as potential customers for its products. Identifying the target market informs the decision-making process as a company designs, packages, and markets its product.

A target market may be broadly categorized by age range, location, income, and lifestyle. Many other demographics may be considered. Their stage of life, hobbies, interests, and careers, all may be considered.

Positioning defines where your product (item or service) stands with others offering similar products and services in the marketplace as well as the mind of the consumer.A good positioning makes a product unique and makes the users consider using it as a distinct benefit to them. A good position gives the product a USP (Unique selling proposition). In a marketplace cluttered with lots of products and brands offering similar benefits, a good positioning makes a brand or product stand out from the rest, confers it the ability to charge a higher price, and stave off competition from the others. A good position in the market also allows a product and its company to ride out bad times more easily. A good position is also one that allows flexibility to the brand or product in extensions, changes, distribution, and advertising.

Let us consider an example to understand these terms more appropriately:

Example: Samsung India

2018, was just an average year for Samsung Mobiles in India but in the year 2019, it was expected that the company would go all guns blazing to attain glory and capture a significant market share in the mid-end smartphone segment.

Global sales of smartphones to end-users declined 1.7 percent in the second quarter of 2019, totaling 368 million units. India sold a total of 35.7 million smartphones, achieving a market share of 9.7 percent in the second quarter of 2019.

Those sales in India represented a 2.3 percent decline year over year, however, mainly due to slowing consumer upgrades from feature phones to smartphones. Gartner expected that sales of worldwide smartphone sales to end-users would total 1.5 billion units in 2019.

Samsung needed to respect the changing Indian consumer, who was not only younger but also much different from the consumers that were in the market 5 years back. Where to discover that consumer, how to communicate, and finally, how and what to sell to that consumer, the rules have all changed, and the firm needed to move fast.

In retrospect, it would be right to blame some of the 'harshness' on Samsung for what seemed to be its slow moves to adapt to the rising threats from Xiaomi and OnePlus.Looking back at 2018, at best it was a decent year for Samsung where it did enough to maintain its hold in the premium smartphone segment, but in the entry and mid-level price segment, where the maximum action happens, it was found wanting.

In the year 2019, Finally, Samsung India was all set to dial M to strengthen its position in entry and mid-level smartphone market segments. It was a well-known fact that the majority of smartphonebuying in India happened between Rs 8,000 and Rs 20,000. This was the segment in

which Samsung was simply getting outgunned by the likes of Xiaomi and Honour till the year 2018.

That time around, Samsung's new Galaxy M-Series smartphones were planning to target young millennials, who wanted a value for money device. M Series was rumoured to include three phones - Galaxy M10, Galaxy M20, and Galaxy M30 and it was expected that the cheapest smartphone among the three would have a price tag of below the Rs 10,000 mark.

This move, though delayed, would be welcomed by young Indian buyers because apart from pricing and specification Samsung had an extensive service network as well whereas the majority of its competitors were found wanting. More importantly,the resilience of the brand Samsung had demonstrated a loyal, trusting consumer base that would still buy the brand if the product was right.

Samsung India had already confirmed the Galaxy M-Series smartphones would be an online marketplace exclusive product -Amazon India and the Samsung Online Shop, in the first phase. This was considered a big deal because traditionally Samsung has been an offline player who has invested heavily in the retail market and since 2018, online has been growing by leaps and bound, but Samsung had a weak presence over there.Not because its products were not available in the online market, but since the company heavily relied on the offline market the price of smartphones were not competitive enough as distribution cost in offline markets jacked up the price of the device.

In the year 2018, Samsung did launch a couple of smartphones in the A and J series which were priced less than the Rs 20,000 mark but were found wanting in specs and features when compared to similarly priced smartphones available in the market from other brands. Again if looked at the specs of the Galaxy M series, it seemed Samsung had put its foot on the accelerator. Name the feature or specs a consumer would like to have in his smartphone without spending a bomb that was expected to be made available in the new series.Just to name a few features - fast charging, better optics, display, design, bigger battery, triple camera, and remote assistance in case of any issues with the device.

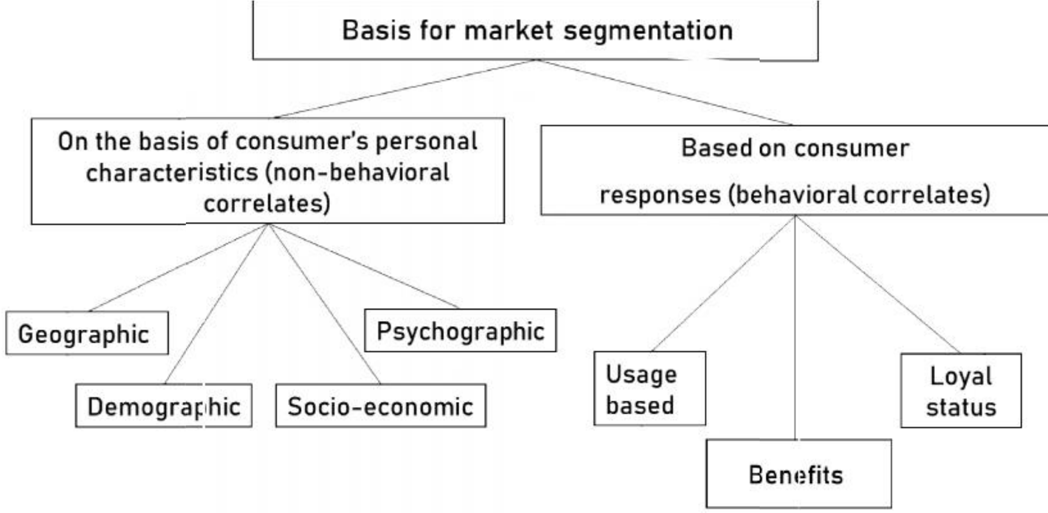
Samsung India hada 52 percent value market share in the premium segment in 2018. That rose to 63 percent in the first half of 2019. By the year-end of 219, the company was confident of expanding this share further to 65 percent and above.The premium category, estimated to be about Rs 15,000-20,000 crore, was growing at about 9-10 percent. Samsung was growing at strong double digits and expected to grow at over 20 percent. Apart from the Note series, the company's line-up in the premium category includes the Samsung Galaxy S series and A80.

Samsung Galaxy M30s a 48-megapixel triple rear camera setup was all set to be launched in India in mid-September 2019, with Samsung India attempting to ride on the success of its online-exclusive Galaxy M-series. Samsung was taking big on Redmi K20 Pro, Mi A3, and Readme 5 Pro - all the latest rival devices with the 48-megapixel rear camera system in the year 2019.

The Galaxy M series, Samsung's exclusive range of online smartphones, was launched earlier in the year 2019 and has seen great adoption in the mid-range price segment. Galaxy M30s would be Samsung's key online offering during the festive season of 2019. Samsung had so far launched Galaxy M10 7,990, Galaxy M20 9,990, Galaxy M30 13,990, and Galaxy M40. All four smartphones were sold through Amazon and Samsung.com.

The Indian smartphone market was increasingly driven by affordable smartphones (Rs. 7,000 - Rs./ 25,000). Smartphone brands were focused on driving consumer upgrades from entry-level buyers to affordable and premium segments (over Rs 30,000) with interesting new propositions. This example of Samsung has just pointed out how the market can be segmented based on the demographics of the target market. Then, it can be seen how Samsung has focused on the different segments with different ranges of products to get more market share. This shows the importance of Segmentation and targeting for an organization along with positioning in the target market.

We can see in the figure below the basis for market segmentation as discussed in the example above.



Let us focus on market target strategies now, these are mentioned in the following figure:

We can understand the same with the help of the following example:

Example: Kiton

Kiton makes made-to-measure suits, jackets, and shirts for Indian consumers. The cost of customized Kiton suits ranges from about Rs. 3 lakhs to as much as Rs. 25 lakhs. When it entered India the brand was aiming to target 250 individuals. These people were rich, looking for quality suits, and already have exposure to the brand. This is an example of micro marketing.

Taking about Kiton as a brand, today, the brand that patriarch Ciro Paone established in Naples in 1956 employs more than 350 skilled tailors and operates a school to train the next generation.Kiton is even home to the world's most expensive suit, the Kiton K-50, a suit that will set you back $50K. The K-50 carries its name because it takes master tailor Enzo D'Oris 50 hours to produce it by hand and no more than 50 are made each year.

Taking position part into consideration, it is the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm.It takes 25 hours to handmade a Kiton suit that will endure the ages. It is a skill that requires 8 to 10 years of practice to master. To achieve this unique construction, the most proficient tailors (typically 40 to 50 years old) are being utilized by the company to produce their offerings.

11.2 Marketing Mix

A marketing mix includes multiple areas of focus as part of a comprehensive marketing plan. The term often refers to a common classification that began as the four Ps: product, price, placement, and promotion.

Price:

It refers to the value that is put on a product. It depends on costs of production, segment targeted, the ability of the market to pay, supply-demand, and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used as a demarcation, to differentiate and enhance the image of a product.

Product:

It refers to the item being sold. The product must deliver a minimum level of performance; otherwise, even the best work on the other elements of the marketing mix won't do any good.

Place:

It refers to the point of sale. In every industry, catching the eye of the consumer and making it easy for her to buy it is the main aim of a good distribution or 'place' strategy. Retailers pay a premium for the right location. The mantra of a successful retail business is 'location, location, location'.

Promotion:

It refers to all the activities undertaken to make the product or service known to the user and trade. This can include advertising, word of mouth, press reports, incentives, commissions, and awards to the trade. It can also include consumer schemes, direct marketing, contests, and prizes.

All the elements of the marketing mix influence each other. They make up the business plan for a company and handled it right, which can give it a great success. But handled wrong and the business could take years to recover. The marketing mix needs a lot of understanding, market research, and consultation with several people, from users to trade to manufacturing and several others.

Let us understand the marketing mix with the help of an example.

Example: Meesho

Meesho is an India-based social commerce platform that was founded by two IIT Delhi graduates (Vidit Aatrey and Sanjeev Barnwell) in December 2015. The platform enables small businesses and individuals to start their online stores via social channels such as WhatsApp, Facebook, Instagram, etc. Meesho had delivered orders from 100K+ registered suppliers till 2021 to over 26,000 pin codes in more than 4,800 cities. It generates over Rs. 500 crore in income for entrepreneurs and serving customers in more than 4,500 Tier 2+ cities bringing e-commerce to India.

Meesho started his journey in Dec 2015 with the two IIT Delhi Graduates. They started Meesho which is a social commerce platform that allows the users to resell the products using their social networkssuch as WhatsApp, Facebook, Instagram, or others. Their motto to start this startup is Empower the Women. They aimed to celebrate the financial Independence of Indian Women.

Meesho saw a unique business opportunity here. Not every reseller would have the access that these two have and no two small businesses functioning from different parts of the country could trust each other enough to offercash on delivery (CoD) options or have a return policy for the end

customer. This is where they came in. Meesho became the platform that became the bridge between supplier and reseller.In just 5 years they touched the milestone of a $1 Billion Valuation.

Marketing Mix of Meesho:

Product: From fashion to groceries, MEESHO offers a range of products to put forth.

Price: This platform works on very less commission than they charged from suppliers.

Place: Being an e-commerce platform, it offers products to the masses.

Promotion: MEESHO takes to TVC and social media profoundly.

The campaign, #SabseKamCommission, was to put in light the commission rate that was taken from the suppliers following the sale of their products.Wunderman Thompson had developed this concept and it perceived the structure of how MEESHO works towards the aim of reducing commission as low as 1%.This marketing strategy catered to everyone who had their small businesses launched, especially during the difficulties of the pandemic.Due to multiple logistic factors, the small business owners had minimal factors to worry about as the venture could cover them.MEESHO grew from local shops to a social e-commerce platform that holds upto 10,000+ entrepreneurs. MEESHO takes to TVC and social media profoundly

Product Mix and Line:

A product mix (also called product assortment) is the set of all products and items that a particular seller offers.A product mix consists of various product lines.

A product line is a group of products that are closely related because they function similarly, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. Some of the important terms that need to be understood in the product mix are:

Width – Number of different product lines offered

Length – Number of products offered within a particular product line.

Product Line Depth – Number of versions offered of each product in the line.

Consistency – how closely related the various product lines are in end-use, production requirement, a distribution channel.

The figure provided below reflects the product mix of HUL

Product-mix Width & Product-Line Length for Hindustan Lever Products

	Product-Mix Width				
	Bath Soaps	Fabric Wash	Beverages	Toothpastes	Cosmetics
Product-Line Length	Dove	Surf	Bru		
	Liril	Rin	Red Label		
	Le Sancy	Wheel	Green Label		
	Pears	Sunlight	3 Roses		
	Rexona	Ala	Taaza		
	Lifebuoy	501	Deepam		
	Hamam		Taj Mahal		
	Breeze		Super Dust		
	Jai		Ruby Dust		
	Moti		A 1		

We can see from the figure above that bath soaps, fabric wash and beverages, etc. represent different product lines. Whereas the brands mentioned in each product line constitute the product line length. The total number of product lines reflects the product mix width.

11.3 Marketing Communication

How firms attempt to inform, persuade, and remind consumers, directly or indirectly, about the products and brands they sell.

Marketing communication activities in every medium contribute to brand equity and drive sales in many ways:

- By creating brand awareness.
- Forging brand image in consumers' memories.
- Eliciting positive brand judgment or feelings.
- Strengthening consumer loyalty.

Let us consider an example of Amul to understand the concept well.

Example: Amul

Amul, the brand worth Rs. 41,000 crores, is marketed by the GCMMF, the biggest cooperative owned by 36 lakh farmers of Gujarat.Recognizing the importance of advertising back in the 1950s, Amul started its iconic advertising campaign with the Amul Butter girl and her iconic positioning, "Utterly Butterly Delicious, Amul".The brand which is 70 years old remains to be young at heart through its "Amul – The Taste of India", 'Amul Doodh Peeta Hai India' and 'Utterly Butterly Delicious' campaigns.

Promotion Mix

A promotion mix is a set of different marketing approaches that marketers develop to optimize promotional efforts and reach a broader audience. The marketer's task is to find the right promotion mix for a particular brand.Developing a promotion mix requires skills and experience in marketing. Marketers should complete various studies and gather lots of data about a particular company to come up with an effective promotion mix.

Components of Promotion Mix:

Advertising:

This is a non-personal promotion of products and services. Marketers use advertising as a vital tool for increasing brand awareness. Advertisers show promotions to masses of people using email, webpages, banner ads, television, radio, etc.

Direct selling:

This is a one-to-one communication between a sales representative and a potential customer. Direct selling influences people to decide to buy certain products or services. It is one of the most effective ways of promoting your brand because the sales rep can tailor the promotion precisely to those who are most likely to make a purchase. On the other hand, this is the most expensive form of sales because companies need to pay for one person's time.

Sales promotion:

This is a set of short-term activities that are designed to encourage immediate purchase. Sales promotions are a campaign that uses time-sensitive offers — sales, discounts, coupons, etc., to engage existing consumers and bring in a larger audience. Many companies make this a core component of their marketing efforts, though sometimes it's the most annoying type of communication for people.

Public relations:

This type of promotional method determines the way people treat the brand. Companies using PR try to build a firm and attractive brand image by planting interesting news stories about their activities in the media. Public relations are not fully controlled by the company, though, as some reviews and webpages may negatively highlight the brand. If a company adequately solves these issues, people will reward them with positive word-of-mouth consideration.

Personal Selling:

Personal selling is also known as face-to-face selling in which one person who is the salesman tries to convince the customer in buying a product. It is a promotional method by which the salesperson uses his or her skills and abilities in an attempt to make a sale.

Steps in Developing Effective Communication:

The main steps that need to be followed while developing an effective communication consist of:

- Identify the target audience
- Determine the communication objectives
- Design the message
- Choose the media
- Select the message source
- Collect feedback

11.4 Pricing

Price is commonly confused with the notion of cost. Price is what a buyer pays to acquire products from a seller whereas cost concerns the seller's investment (e.g., manufacturing expense) in the product being exchanged with a buyer. Price is a component of an exchange or transaction that takes place between two parties and refers to what must be given up by one party (buyer) to obtain something offered by another party (seller). Simply, the pricing method is used to set the price of the producer's offerings relevant to both the producer and the customer.

Factors affecting pricing Decisions:

The factors influencing pricing decisions are divided into internal and external factors based on whether the management has control over the factors or not. If the management has control over the factors, it will come under internal factors, if not it will come under external factors. So the internal factors are within the control of the management and are particularly related to the internal environment of a firm.

The internal factors affecting pricing decisions are:

Company Objectives:

This has a considerable influence on the pricing decisions of a firm. Pricing policies and strategies must conform with the firm's pricing objectives. For example- if a company desires a targeted rate of return on capital investment, then the pricing decisions are so made that the total sales revenue from all products, exceeds the total cost by a sufficient margin, to provide the desired return on the total capital investment.

Organization Structure:

Another significant internal factor affecting pricing decisions is the organizational structure of the firm. Generally, the top management has full authority for framing pricing objectives and policies. Some firms allow workers' participation in decision making and therefore in such firms, all the employees give their views and suggestions for the pricing policy. This is helpful to the firm if the firm has several products, requiring frequent pricing decisions and where prices differ in different markets.

Marketing Mix:

Price, product, promotion, and place are the four 'p's of a marketing mix. The pricing policy of a firm must consider the other components of a marketing mix as well because these factors are closely related. Moreover, these factors will change according to changing market conditions and will be different for each market. Thus, marketing research and the marketing information system can be utilized to form the appropriate pricing policy.

Cost of the Product:

Pricing decisions are based on the cost of production. If a product is priced less than the cost of production, the firm has to suffer the loss. But the cost of production can be reduced, by coordinating the activities of production properly, the firm can reduce the price accordingly.

The external factors affecting the pricing decision of a firm are:

Demand:

Market demand for a product or service has a great impact on pricing. If there is no demand for the product, the product cannot be sold at all. If the product enjoys good demand, the pricing decision can be aimed to utilize this trend.

Competition:

There has been a revolutionary change experienced in the Indian market after the liberalization and opening up of the economy. The impact of competition is more pronounced than in the earlier days. The market is flooded with too many products, both Indian and foreign. The number, size, and pricing strategy, followed by competitors have a significant role to play in the pricing decision. If the product cannot be differentiated with special features, a firm cannot charge a higher price than its competitors.

Buyers:

If there are no ready takers for the product, it is said to have failed in the market. Pricing decision is thus related to the characters, nature, and preferences of the buyers.

Suppliers:

They supply the required items of production to the firm. As already pointed out, the firm can reduce the price, if it can reduce the cost of production. If not, the usual tendency is to charge the increased cost of production to the consumer. For example- the price hike for petrol or diesel will automatically increase the price of vegetables, fruits, provisions, etc. If a firm could get the required raw materials at reasonable rates from suppliers, then it can also price the goods at a less rate.

Economic Conditions:

This also affects the pricing decision of a firm. In a depressed economy, business activities will be considerably less, but in a boom condition, there will be a hectic business activity. Therefore, economic conditions affect the demand for goods and services. So, in a depressed economy, to accelerate business one sells goods at a lesser price, but in a boom period, goods can be sold at a high price.

Government Regulations:

The government has the power to regulate the activities of business firms so that they do not charge high prices and don't indulge in anti-social activities. The government does this by passing various acts; For example- the MRTP Act, Consumer Protection Act, etc.

Process of Setting the Price:

It consists of the following steps:

- Selecting the pricing objective
- Determining Demand
- Estimating Costs
- Analyzing Competitor's Costs, Prices, and offers
- Selecting Pricing Method
- Selecting Final Price

Setting price objectives:

It refers to setting the goals of the pricing policy. An organization can have multiple pricing objectives.

These are:

Survival:

It involves the formulation of a short-term price objective to face the fierce competition. The price of a product is reduced to increase sales volume. However, this strategy does not work in the long term as an organization would not be able to cover its costs, thus, profit margin may decrease in the future.

Quality of a Product:

It affects the price of products. An organization incurs high costs in research and development to improve the quality of a product. Therefore, it covers the research and development cost in the price of the product. Sometimes, the organization raises prices to make customers aware of the improved quality of its products.

Maximizing the current profits:

Many firms try to maximize their current profits by estimating the Demand and Supply of goods and services in the market. Pricing is done in line with the product's demand in the customers and

the substitutes available to fulfill that demand. The higher the demand higher will be the price charged. Seasonal supply and demand of goods and services are the best examples that can be quoted here.

Capturing huge market share:

Many firms charge low prices for their offerings to capture greater market share. The reason for keeping the price low is to have increased sales resulting from the Economies of Scale. Higher sales volume lead to lower production cost and increased profits in the long run.This strategy of keeping the price low is also known as Market Penetration Pricing. This pricing method is generally used when competition is intense and customers are price sensitive. The FMCG industry is the best example to supplement this.

Market Skimming:

Market skimming means charging a high price for the product and services offered by innovative firms and using modern technology. The prices are comparatively kept high due to the high cost of production incurred because of modern technology. Mobile phones, Electronic Gadgets are the best examples of skimming pricing that are launched at a very high cost and gets cheaper with the period.

Estimating the product demand:

It helps in knowing the factors that affect the demand for a product. Some of the important factors can be the prices of products, environmental factors, and income and expectations of customers. Three things are studied by the marketers for estimating the demand.

Analyzing the competitor's prices:

It influences the decisions of setting the prices of products. The pricing strategies of competitors affect the demand for the product and lead to a loss of market share. Thus, it is clear that marketers should be careful about future competition.

Selecting the pricing method:

It involves the selection of a technique for setting the price. There are various types of pricing methods used by organizations. These are:

Markup Pricing:

In this method,the marketer adds a standard markup to the product's cost.

Target-Return Pricing:

In this method,the firm determines the price that yields its target rate of return on investment.

Perceived Value Pricing:

It is made up of a host of inputs, such as the buyer's image of the product performance, the channel deliverables, the warranty quality, customer support, and softer attributes such as the supplier's reputation, trustworthiness, and esteem.

Value Pricing:

It means setting lower prices without sacrificing quality to attract a large number of value-conscious customers.

Going Rate Pricing:

This firm bases its price largely on competitors' prices. In industries that sell a commodity such as steel, paper, or fertilizer, all firms normally charge the same price.

Selecting final price:

It involves a strategy or practice used by an organization to achieve its pricing objectives.

Summary

Market segmentation is a marketing term that refers to aggregating prospective buyers into groups or segments with common needs and who responds similarly to a marketing action.

A target market is a group of people with some shared characteristics that a company has identified as potential customers for its products.

Positioning defines where your product (item or service) stands about others offering similar products and services in the marketplace as well as the mind of the consumer.

The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion, and Place.

A promotion mix is a set of different marketing approaches that marketers develop to optimize promotional efforts and reach a broader audience.

Price is a component of an exchange or transaction that takes place between two parties and refers to what must be given up by one party (buyer) to obtain something offered by another party (seller).

Keywords

Market segmentation:It refers to aggregating prospective buyers into groups with common needs and who respond similarly to a marketing action.

Target market: It is a group of people with some shared characteristics that a company has identified as potential customers for its products.

Positioning:It defines where your product (item or service) stands with others offering similar products and services in the marketplace as well as the mind of the consumer.

Product Mix:A product mix is the total number of product lines and individual products or services offered by a company.

Market skimming: It means charging a high price for the product and services offered by firms that are innovative and use modern technology.

SelfAssessment

1. The philosophy of ______ is to identify market segments, select one or more, and develop products and marketing mixes tailored to each selected segment.

A. Mass marketing
B. Product-variety marketing
C. Target Marketing
D. Macro-marketing

2. ______ is to evaluate each segment's attractiveness and select one or more of the market segments.

A. Market segmentation
B. Market targeting
C. Market positioning
D. Market evaluation

3. _______ divides buyers into different groups based on social class, lifestyle, and personality characteristics.

A. Psychographic segmentation
B. Behavior segmentation
C. Geographic segmentation
D. Demographic segmentation

4. Many marketers believe that ______ is the best starting point for building market segments.

A. Age and life-cycle stage variables

B. Income variables

C. Social class variables

D. Behavior variables

5. A firm using a ________ strategy targets several market segments and designs separate offers for each segment.

A. Concentrated marketing

B. Mass marketing

C. Differentiated marketing

D. Undifferentiated marketing

6. This P is not a part of the 4Ps of the marketing mix?

A. Promotion

B. Price

C. People

D. Purpose

7. A reduction in price on purchase during a stated period is known as.

A. Sale

B. Discount

C. Allowance

D. None of these

8. The term marketing mix describes:

A. A blending of four strategic elements to satisfy specific target markets.

B. A series of business decisions that aid in selling a product.

C. The relationship between a firm's marketing strengths and its business weaknesses.

D. A composite analysis of all environmental factors inside and outside the firm.

9. Which of the following marketing mix activity is most closely associated with newsletters, catalog, and invitations to organization-sponsored events?

A. Pricing

B. Promotion

C. Distribution

D. Product

10. The value that is put for a product is known as ______.

A. Commission

B. Price

C. Profit

D. Revenue

11. ______________ means by which firms attempt to inform, persuade, and remind consumers, directly or indirectly, about the products and brands they sell.

A. Market segmentation

B. Targeting

C. Positioning
D. Market communication

12. Which of the following is not a part of the promotion mix?
A. Advertising
B. Sales promotion
C. Concentrated marketing
D. Personal selling

13. ___________ deals with the specification of the actual product or service and how it relates to the target customers.
A. Price aspect
B. Promotion aspect
C. Product aspect
D. Place aspect

14. Which of the following is not a step in developing effective marketing communication?
A. Identify the target audience
B. Determine the communication objectives
C. Design the message
D. None of these

15. Which of the following is not a major influence on pricing decisions?
A. Customers
B. Communication
C. Cost
D. Competitors

Answer for Self Assessment

1.	C	2.	B	3.	A	4.	D	5.	C
6.	D	7.	B	8.	A	9.	B	10.	B
11.	D	12.	C	13.	C	14.	D	15.	B

Review Questions

1. Discuss Segmentation, targeting, and positioning along with a real-life example from the market.
2. What do you understand by micro-marketing? Explain with the help of an example.
3. Create the product mix of ITC for its FMCG division.
4. What do you understand by marketing communication? Explain in brief with the help of an example.
5. Do you think pricing is one of the important Ps in the marketing mix? Justify your answer.
6. Discuss in brief the various pricing methods that can be taken up by a budding entrepreneur.

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Unit 12: Strategic Operation Plan

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Objectives

After studying this unit, you should be able to

- comprehend the importance of strategic operations plans while setting up a new venture,
- manage the manufacturing process in a startup,
- illustrate the importance of plant size and location decisions while establishing a new enterprise,
- apply the inventory management techniques in the enterprise.

Introduction

In a business plan, the operations plan section describes the physical necessities of one's business operation, such as its physical location, facilities, and equipment. Depending on what kind of business one will be operating, it may also include information about inventory requirements, suppliers, and a description of the manufacturing process.Keeping focused on the bottom line will help one organize this part of the business plan. Think of the operating plan as an outline of the capital and expense requirements one's business will need to operate from day today.

Production planning is the act of developing a guide for the design and production of a given product or service. Production planning helps organizations make the production process as efficient as possible.Production planning is important because it creates an efficient process for production according to the customer and organizational needs. It optimizes both customer-dependent processes -- such as on-time delivery -- and customer-independent processes, such as production cycle time.

A good production plan minimizes lead time, which is the amount of time that passes between the placing of an order and the completion and delivery of that order. Depending on the company and the type of production planning necessary, the definition of lead time varies slightly.

Being in the right location is a key ingredient in a business's success. If a company selects the wrong location, it may have adequate access to customers, workers, transportation, materials, and so on. Consequently, location often plays a significant role in a company's profit and overall success. A location strategy is a plan for obtaining the optimal location for a company by identifying company needs and objectives and searching for locations with offerings that are compatible with these needs and objectives. Generally, this means the firm will attempt to maximize opportunity while minimizing costs and risks.

Inventory planning is an integral part of a company's supply chain management strategy, alongside order management, accounting, warehouse operations, and customer management. Inventory planning involves forecasting demand and deciding exactly how much inventory and when to order. When done successfully, this helps companies meet demand whilst reducing expenditure. In other words, by having just the right amount of inventory at the right time, in the right location, businesses reduce the overall cost of storing merchandise, optimize inventory allocation routes, and ensure that there is always the right amount of stock to meet customer demand (whilst avoiding surplus stock in obsolescence or overstocking).

All of the above-mentioned concepts like production planning, inventory management, and location decisions would be discussed in this unit.

12.1 Operations Plan

It is a plan to establish, expand or improve the day-to-day processes and practices of a business. Operations include everything that a business does on a repeated basis to deliver products and services.It is common for operations to be heavily optimized, expanded, and improved to build a competitive advantage, cut costs and generate new revenue.An operation is a term for the core processes a practice of a business that generates most of a firm's revenue. It is common for operations to represent most of a firm's costs and to have a large impact on strategic goals.

Operational business plans should be flexible enough to allow for challenges that will occur. Some changes must be made on a daily or even an hourly basis. Other changes may be necessary only occasionally throughout the year.However, the purpose of the operational plan is to provide direction and guidance. This way, everyone in the business knows their specific assignments, who is responsible for individual tasks, and when major events occur.

Let us consider one of the important aspects of the operations which is the manufacturing process first.

Manufacturing Process:

Manufacturing is the process of turning raw materials or parts into finished goods through the use of tools, human labor, machinery, and chemical processing. Manufacturing can either mean transforming raw materials into finished goods on a large scale, or the creation of more complex items by selling basic goods to manufacturers for the production of items such as automobiles, aircraft, or household appliances.

Raw materials are transformed into finished products through manufacturing engineering or the manufacturing process. It includes:

- Outline of Day-to-Day Activities
- Location
- Tools and Machinery
- Assets
- Raw Materials
- Manufacturing
- Inventory
- Cost

Outline of day-to-day activities includes the operating hours, working days, and whether there are seasonal hours. Location describes the physical location, any facilities, and where they are located. It may include lease agreements, real estate information, titles, or other applicable data. Demonstrates how much these properties cost and their worth, along with why they are so essential to maintain operations.

Tools and Machinery describe any equipment or tools and how much they cost, along with their worth to the business. Assets include all land, facilities, stock, tools, cars, or any other assets. It defines exactly how much each piece of property is worth in legal language.

Raw Materials explain plans to acquire any raw materials needed to manufacture a product/service. It also lists the contracts with suppliers in regards to these materials. Manufacturing describes the length of time required to manufacture an item and provides a time

frame for when this process will begin. Lists any circumstances that may impact the manufacturing timeline and how these will be mitigated.

Inventory Management describes exactly how the startup plans to optimize inventory management to streamline the reordering process and maintain customer satisfaction while costsgive details of product cost estimates.

Operations Management

Operations management can be summed up in three words: Get it done! Whether one is working in a manufacturing environment in which raw materials are converted into finished products or in a service environment in which customers receive experiences.The firm must have important inputs on:

- Money,
- Methods,
- Machines,
- People, and
- Leadership

Money (Liquidity):

It is a measure of a company's ability to meet its immediate and short-term (i.e., due within one year) debts and obligations. It's a way of describing how well you can cover your current liabilities using your current assets.When a company is liquid, it can meet its financial obligations on time, typically on a very short timeline.

Methods:

The study of how work is performed is called ergonomics. It involves designing, arranging, and coordinating tools and equipment so that the movement of workers who use them is safe and efficient, and products flow through the appropriate workstations in a timely and efficient manner.

Work methods are perhaps most important when complex machinery and equipment are involved. A progressive movement of products from one stage to the next should reduce the employees' time and effort, which reduces costs.Service industries also apply the assembly line approach. When workers become proficient at their tasks, they can perform the minimum actions needed to complete a task without sacrificing quality. The assembly line approach has given birth to another ergonomic philosophy, lean project management.

Example: McDonald's

McDonald's uses the assembly line approach to prepare food quickly and correctly. For example,in making hamburgers, one employee selects the bun, puts the appropriate meat patty on it, and then pushes it to the next worker, who may add onions, cheese, tomato, and lettuce before passing the order to the next station. Once the hamburger is complete, it is passed along to the last worker, who wraps the food and places it in a bag or on a tray.

When employees' tasks are limited to very few functions, repetition of movement makes their work quicker. This specialization results in higher quality. Specialization allows each worker to increase productivity, improve efficiency, and reduce mistakes.

Machines:

For a startup entrepreneur, purchasing machinery can be a difficult, time-consuming, and complicated task. First, one must look at the total costs of ownership (TCO), which is the comprehensive cost of owning large capital items, including initial direct costs, operating direct costs, and indirect costs.Maintaining and repairing operational equipment is difficult, especially when production schedules demand the machine to be operational. Poor planning can be very costly, especially for a startup business, because your ability to produce and deliver products on time reflects on your reliability to both your customers and your employees.

When making equipment purchase decisions, you should consider all the costs associated with the purchase plus the machine's ability to produce income or lower costs. Such expenses include not

only the purchase price but also delivery, installation and setup, calibration, and operational expenses.

One should also consider the interest paid on the loan as part of the cost of acquiring the equipment, a factor that many new business owners overlook, but one that a good accountant should be aware of.

People:

Searching, recruiting, hiring, and supporting a workforce can be some of the most rewarding and frustrating interactions that a new business owner deals with.Selecting the right people at the beginning can be the difference between succeeding or failing in the early years of a business. Many experienced business owners will say that waiting to hire the right person is better than hiring the wrong person now.

Every new owner must be willing to move past the startup phase and into the growth stage, where skills become more important than personal relationships. This natural progression in business maturity requires skilled workers to perform their tasks effectively.Those skills come at a price that may be difficult to match in the early stages of the business, but in the long run, skilled workers will produce more revenue than it costs to employ them.

Leadership:

A leader instils within others a desire to perform. This is more of internal motivation, a psychological approach, which the leader develops via words and actions.Terms commonly associated with a leadership position include owner, manager, supervisor, team lead, leader, and boss. Many of these terms are used interchangeably, even though they have some minor differences in meaning, but normally one person will function as both leader and manager in a small business.

A key difference between leaders and managers is their role in initiating action. Management is typically concerned with administering and directing an organization’s activities. This includes planning, scheduling, coordinating, overseeing, and inspecting tasks performed by staff.

12.2 Plant Location

Plant location refers to the choice of region and the selection of a particular site for setting up a business or factory. It is a strategic decision that cannot be changed once taken.If at all changed only at a considerable loss, the location should be selected as per its requirements and circumstances. Each plant is a case in itself.Entrepreneurs should try to attemptan optimum or ideal location.

An ideal location is one where the cost of the product is kept to a minimum, with a large market share, the least risk, and the maximum social gain. It is the place of maximum net advantage or which gives the lowest unit cost of production and distribution.For achieving this objective, a small-scale entrepreneur can make use of locational analysis for this purpose.

Location Analysis:

The locational analysis is a dynamic process where the entrepreneur analyses and compares the appropriateness or otherwise of alternative sites to select the best site for a given enterprise.It consists of the following:

- Demographic Analysis
- Trade Area Analysis
- Competitive Analysis
- Traffic analysis
- Site economics

Demographic Analysis:

It involves the study of the population in the area in terms of total population (in no.), age composition, per capita income, educational level,occupational structure, etc.

Trade Area Analysis:

It is an analysis of the geographic area that provides continued clientele to the firm. He would also see the feasibility of accessing the trade area from alternative sites.

Competitive Analysis:

It helps to judge the nature, location, size, and quality of competition in a given trade area.

Traffic Analysis:

To have a rough idea of the number of potential customers passing by the proposed site during the working hours of the shop, the traffic analysis aims at judging the alternative sites in terms of pedestrian and vehicular traffic passing a site.

Site Economics:

Alternative sites are evaluated in terms of establishment costs and operational costs under this. Costs of the establishment are costs incurred for permanent physical facilities but operational costs are incurred for running a business on day to day basis, they are also called running costs.

When it comes to finalizing a particular location, then it is important to consider selection criteria.

Selection Criteria:

The important considerations for selecting a suitable location are given as follows:

- Natural or climatic conditions.
- Availability and nearness to the sources of raw material.
- Transport costs-in obtaining raw material and also distribution or marketing of finished products to the ultimate users.
- Market access: small businesses in retail or wholesale services should be located within the vicinity of densely populated areas.
- Availability of skilled and non-skilled labor and technically qualified and trained managers.
- Banking and financial institutions are located nearby.

12.3 Plant Layout

Plant layout refers to the arrangement of physical facilities such as machinery, equipment, furniture, etc. within the factory building in such a manner to have the quickest flow of material at the lowest cost and with the least amount of handling in processing the product from the receipt of material to the shipment of the finished product.

Plant layout is an important decision as it represents a long-term commitment. An ideal plant layout should provide the optimum relationship between output, floor area, and manufacturing process.It facilitates the production process, minimizes material handling, time, and cost, and allows flexibility of operations, easy production flow, makes economic use of the building, promotes the effective utilization of manpower, and provides for employee's convenience, safety, comfort at work, maximum exposure to natural light and ventilation.

From the point of view of plant layout, It can be classified into three categories:

- Manufacturing units
- Traders
- Service Establishments

When two outlets carry almost the same merchandise, customers usually buy in the one that is more appealing to them. Thus, customers are attracted and kept by good layout i.e.,good lighting, attractive colours, good ventilation, air conditioning, modern design and arrangement, and even music. All of these things mean customer convenience, customer appeal, and greater business volume.

Let us now consider the factors that influence plant layouts. These are:

- Factory building
- Nature of product
- Production process
- Type of machinery
- Repairs and maintenance

- Plant environment

Factory building:

The nature and size of the building determine the floor space available for layout. While designing special requirements, e.g. air conditioning, dust control, humidity control, etc. must be kept in mind.

Nature of product:

Product layout is suitable for uniform products whereas process layout is more appropriate for custom-made products.

Production process:

In assembly line industries, product layout is better. In job order or intermittent manufacturing, on the other hand, process layout is desirable.

Type of machinery:

General-purpose machines are often arranged as per process layout while special purpose machines are arranged according to product layout.

Repairs and maintenance:

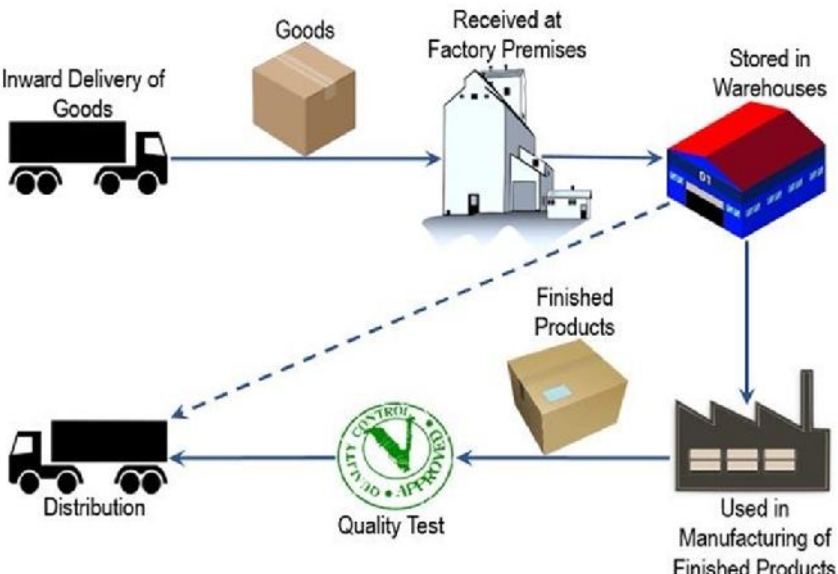
Machines should be so arranged that adequate space is available between them for the movement of equipment and people required for repairing the machines.

Plant environment:

Heat, light, noise, ventilation and other aspects should be duly considered, e.g. paint shops and plating section should be located in another hall so that dangerous fumes can be removed through proper ventilation, etc. Adequate safety arrangements should also be made.

12.4 Inventory Management

Inventory management is an approach for keeping track of the flow of inventory. It starts right from the procurement of goods and their warehousing and continues to the outflow of the raw material or stock to reach the manufacturing units or to the market, respectively. The process can be carried out manually or by using an automated system. The figure below showcases the flowing inventory in an organization.



Flow of Inventory

The goods which are stored in the warehouse can be utilized in the following two ways:

- Direct distribution in the market i.e., to the wholesalers, dealers, retailers, or customers; or

- Sent to the production units for manufacturing of finished goods.

Inventory Management Techniques

There are various types of inventory management techniques that can help inefficient inventory management. They are as follows:

Economic Order Quantity (EOQ) Model:

Economic Order Quantity technique focuses on deciding how much quantity of inventory the company should order at any point in time and when they should place the order. In this model, the store manager will reorder the inventory when it reaches the minimum level. EOQ model helps to save the ordering cost and carrying costs incurred while placing the order. With the EOQ model, the organization can place the right quantity of inventory.

ABC Analysis:

ABC analysis stands for Always Better Control Analysis. It is an inventory management technique where inventory items are classified into three categories: A, B, and C. The items in the A category of inventory are closely controlled as it consists of high-priced inventory, which may be less in number but are very expensive. The items in the B category are relatively less expensive than in the A category, and the number of items in the B category is moderate,so the control level is also moderate. The C category consists of a high number of inventory items that require lesser investments, so the control level is minimum.

Just In Time (JIT) Method:

In the Just in Time method of inventory control, the company keeps only as much inventory as it needs during the production process. With no excess inventory in hand, the company saves the cost of storage and insurance. The company orders further inventory when the old inventory stock is close to replenishment. This is a little risky method of inventory management because a little delay in ordering new inventory can lead to a stock-out situation. Thus this method requires proper planning so that new orders can be timely placed.

First in First out (FIFO):

It seeks to sell older products first so that the business is less likely to lose money when the products expire or become obsolete.Companies operate on the principle of first-in, first-out value inventory on the assumption that the first goods purchased for resale become the first goods sold.

Last in First out (LIFO):

It applies to non-perishable goods and uses current prices to calculate the cost of goods sold.The last in, first-out method of inventory entails using current prices to calculate the cost of goods sold, as opposed to using what was paid for the inventory already in stock. If the price of such goods has increased since the initial purchase, the cost of goods sold will be higher and thereby reduce profits and tax burdens.

Inventory Management Objectives

Inventory management is a strategy for properly storing stored products, inventories, and non-capitalized assets based on their unique shape and location. It includes a process of ordering, storing, and using inventories. This stock management comprises generating the lead on raw materials, components, and completed goods, as well as storing and processing such things in an organization.Certain objectives need to be considered while going for inventory management. These are:

- Preventing dead stock or perishability
- Optimizing storage cost
- Maintaining sufficient cost
- Enhancing cash flow
- Reducing purchase cost of goods

Preventing dead stock or perishability:

The main objective of inventory management is to prevent dead stock. The sum of inventory, from the raw material to the finished product, is handled in most organizations. This entire inventory needs to be carefully handled so that fraud, waste, etc. causes minimal loss.

Hundreds of items are often sent to customers by courier from your warehouse at any given time. At the same time, several parcels come as returns, unlimited deliveries, and so on back to the warehouse. An effective inventory management system must be in place to monitor all of them. If no warehouse staff member marks an inside entrance into the customer's shipment system and just steals it, the company could lose the shipment through theft in its absence.

Optimizing storage cost:

It reduces the chances of maintaining excessive stock, even if the requirements are pre-determined, which ultimately cuts the unnecessary warehousing costs.

Maintaining sufficient stock:

Inventories should be readily stored beforehand, from raw materials to the finished product. To prevent manufacturing from suffering when a consumer needs it, you need to supply the material in sufficient volume. This is one of the main goals of inventory management.

Enhancing cash flow:

Inventory has a significant impact on the cash flow of the company. With effective inventory management, the organization can ensure sufficient liquid cash to enhance its operational efficiency.

Reducing purchase cost of goods:

When there is a constant purchase of goods or stock, the organization can ask for discounts and other benefits to decrease the purchase price.

Summary

The operations plan is to establish, expand or improve the day-to-day processes and practices of a business. Operations include everything that a business does on a repeated basis to deliver products and services.

Manufacturing is the process of turning raw materials or parts into finished goods through the use of tools, human labor, machinery, and chemical processing.

Plant location refers to the choice of region and the selection of a particular site for setting up a business or factory. It is a strategic decision that cannot be changed once taken.

Plant layout refers to the arrangement of physical facilities such as machinery, equipment, furniture, etc. within the factory building in such a manner to have the quickest flow of material at the lowest cost and with the least amount of handling in processing the product from the receipt of material to the shipment of the finished product.

Inventory management is an approach for keeping track of the flow of inventory. It starts right from the procurement of goods and their warehousing and continues to the outflow of the raw material or stock to reach the manufacturing units or to the market, respectively.

Keywords

Operations Management: It is the administration of business practices to create the highest level of efficiency possible within an organization. It is concerned with converting materials and labor into goods and services as efficiently as possible to maximize the profit of an organization.

ABC analysis: It stands for Always Better Control Analysis. It is an inventory management technique where inventory items are classified into three categories: A, B, and C.

Economic Order Quantity:This technique focuses on deciding how much quantity of inventory the company should order at any point in time and when they should place the order.

Trade Area Analysis:It is an analysis of the geographic area that provides continued clientele to the firm.

SelfAssessment

1. Which statement is not true of entrepreneurs?

A. They take risks
B. They apply innovative ideas
C. They generally stick to the processes already in use.
D. They change the way businesses convert inputs into outputs.

2. ______________ is a plan to establish, expand or improve the day-to-day processes and practices of a business.
A. Operation plan
B. Financial plan
C. Marketing Plan
D. HR plan

3. Which of the following is not a part of the manufacturing process?
A. Location
B. Assets
C. Raw material
D. Customers

4. Which of the following is not an important input in operations management?
A. Raw material
B. Money
C. Leadership
D. Machine

5. _________ a measure of a company's ability to meet its immediate and short-term (i.e., due within one year) debts and obligations.
A. Method
B. Money
C. Machine
D. People

6. ____________ refers to the choice of region and the selection of a particular site for setting up a business or factory.
A. Machine
B. Plant location
C. Target market
D. None of these

7. Which of the below function is not done by Entrepreneurs?
A. Taking Decision
B. Innovation
C. Analysis of Environment
D. Money Laundering

8. Which of the following plan helps to plan the work in such a manner that one can form an idea about the plant layout?
A. Operation plan

B. Production plan

C. Financial plan

D. Marketing plan

9. Which of the following analysis is least important in location analysis?

A. Demographic analysis

B. Trade area

C. Machine analysis

D. Competitive analysis

10. Which of the following is not an important consideration for selecting a suitable location for the production plant?

A. Natural or climatic conditions.

B. Banking and financial institutions are located far away.

C. Availability and nearness to the sources of raw material.

D. Availability of skilled and non-skilled labor and technically qualified and trained managers.

11. Goods or services reach the market place through______________.

A. Marketing Channels

B. Multilevel pyramids

C. Financial intermediaries

D. Industrial estate

12. ____________ is the analysis of costs and benefits of a proposed project to assume a rational allocation of limited funds.

A. Project formulation

B. Project evaluation

C. Project appraisal

D. Project design

13. Which of the following is not an inventory management objective?

A. Preventing dead stock or perishability

B. Optimizing storage cost

C. Maintaining sufficient cost

D. Reducing cash flow

14. In ________________ method of inventory control, the company keeps only as much inventory as it needs during the production process.

A. ABC analysis

B. Just in time

C. LIFO

D. FIFO

15. ______________ is primarily concerned with the identification, qualification and evaluation of the project resources.

A. Techno-economic analysis

B. Feasibility analysis

C. Input analysis
D. None of these

Answer for Self Assessment

1. C	2. A	3. D	4. A	5. B
6. B	7. D	8. A	9. C	10. B
11. A	12. C	13. D	14. B	15. B

Review Questions

1. Discuss in brief the activities performed during the manufacturing process along with an example.
2. What do you understand by location analysis? Discuss in brief.
3. Do you think inventory management is very important from the perspective of an entrepreneur? Justify your answer with suitable information.
4. Discuss in detail various inventory management techniques and their usage in different industries.
5. Do you think formulations of inventory management objectives are critical for the success of an enterprise? Discuss.

Further Readings

- Strategic Management by John Pearce II, Richard B Robinson, Amita Mital, Mc Graw Hill
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- Entrepreneurship By Rajeev Roy, Oxford University Press

Web Links

- https://efinancemanagement.com/costing-terms/inventory-management-techniques

Unit 13: Strategic Human Resource Plan

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Objectives

After studying this unit, you should be able to

- illustrate the role of manpower planning in entrepreneurship,
- comprehend the importance of organizational structure while setting up a new venture,
- understand the process of recruitment and selection in a startup,
- illustrate the role of training and development in a startup,
- comprehend the importance of performance appraisal while setting up a new venture.

Introduction

Strategic HR planning is an essential component of HR management. Almost every sized organization has a strategic plan that guides the organization in successfully meeting its mission. Organizations regularly complete financial plans to ensure they achieve organizational goals and workforce plans are not as common. Strategic HR management is defined as "Integrating human resource management strategies and systems to achieve the overall mission, strategies, and success of the firm while meeting the needs of employees and other stakeholders."

Strategic HR planning is a process that helps an organization identify current and future human resources needs to achieve the end goals. It links human resource management to the overall strategic plan of an organization.

Manpower Planning which is also called Human Resource Planning consists of putting the right number of people, the right kind of people at the right place, right time, and doing the right things for which they are suited for the achievement of goals of the organization. Human Resource Planning has got an important place in the arena of industrialization. Human Resource Planning has to be a systems approach and is carried out in a set procedure.

The organizational structure guides all employees by laying out the official reporting relationships that govern the workflow of the company. A formal outline of a company's structure makes it easier to add new positions in the company, as well, providing a flexible and ready means for growth.Recruitment and selection are integral to the success of all organizations, as businesses simply cannot function without the right employees. But first, one needs to find them, attract them, and convince them that working in their business is their best option.

Training and Development is one of the most important functions of Human Resource management in any organization. The objective of this Training is to enhance employees' skills behavior and expertise by putting them learning new techniques for doing work.

Employee Training and Development helps in updating employees' skills and knowledge for performing a job which results in increasing their work efficiency and increasing the productivity of an organization. It ensures that Employees' oddness or eccentricity is reduced and learning or behaviorial change should take place in a very structured format. Training development or learning and development are official ongoing educational activities designed for goal fulfilment and to enhance the performance of employees.

The term performance appraisal refers to the regular review of an employee's job performance and overall contribution to a company. Also known as an annual review, performance review or evaluation, or employee appraisal, a performance appraisal evaluates an employee's skills, achievements, and growth, or lack thereof. In this unit, we will focus on all these aspects of strategic human resource planning.

13.1 Manpower Planning

It is a process of identifying and then matching the human resource requirements and availability to determine the future HR activities of the organization based on the overall organizational objective.Manpower planning is the ongoing process of systematically planning to optimize and maximize one's venture's most valuable asset which is high-quality employees. But here we need to understand the need for manpower planning as well.

It is required for foreseeing the human requirements of an organization and the supply of human resources. The need for manpower planning consists of:

- Replacement of persons
- Labor Turnover
- Expansion Plans
- Technological Changes
- Assessing Needs

Replacement of persons:

A large number of persons are to be replaced in the organization because of retirement, old age, death, etc. There will be a need to prepare persons for taking up a new position in such contingencies.

Labor Turnover:

There is always labor turnover in every organization.The degree of labor turnover may vary from concern to concern but it cannot be eliminated.There will be a need to recruit new persons to take up the positions of those who have left the organization.

If the concern can forecast turnover rate precisely, then advance efforts are made to recruit and train persons so that work does not suffer for want of workers.

Expansion Plans:

Whenever there is a plan to expand or diversify the concern then more persons will be required to take up new positions. Human resource planning is essential in these situations.

Technological Changes:

The business is working in changing technological environment. There may be a need to give fresh training to personnel. In addition, there may also be a need to infuse fresh blood into the organization. Human resource planning will help in meeting the new demands of the organization.

Assessing Needs:

Human resource planning is also required to determine whether there is any shortage or surplus of persons in the organization. If there are fewer people than required, it will adversely affect the work. On the other hand, if more persons are employed than the requirement, then it will increase labor costs, etc. Human resource planning ensures the employment of a proper workforce.

Let us now focus on the manpower planning process.

Manpower Planning Process:

It consists of the following steps:

- Analyzing organizational objectives
- Demand forecasting
- Analyzing human resource supply
- Estimating manpower gaps
- Action planning
- Modify the organizational plans
- Controlling and review

Now let us understand each step of the manpower planning process in brief.

Analyzing organizational objectives:

Human Resource Planning should start with analyzing corporate-level strategies which include expansion, diversification, mergers, acquisitions, reduction in operations, technology to be used, method of production, etc.Therefore Human Resource Planning should begin with analyzing the corporate plans of the organization before setting out on fulfilling its tasks.

Demand Forecasting:

Forecasting the overall human resource requirement following the organizational plans is one of the key aspects of demand forecasting.Forecasting of quality of human resources like skills, knowledge, values, and capabilities needed in addition to the number of human resources is done through the following methods: -

- Executive or Managerial Judgment
- Statistical Techniques
- Work-Study method
- Delphi Technique

Analyzing human resource supply:

Every organization has two sources of supply of Human Resources: Internal & External.Internally, human resources can be obtained for certain posts through promotions and transfers.To judge the internal supply of human resources in future human resource inventory or human resource audit is necessary.

Human resource inventory helps in determining and evaluating the quantity of internal human resources available. Once the future internal supply is estimated, the supply of external human resources is analyzed.

Estimating manpower gaps:

Manpower gaps can be identified by comparing demand and supply forecasts.Such comparison will reveal either deficit or surplus in Human Resources in the future.Deficit suggests the number of persons to be recruited from outside, whereas surplus implies redundant employees to be re-deployed or terminated.

Action Planning:

Once the manpower gaps are identified, plans are prepared to bridge these gaps. Plans to meet the surplus manpower may be redeployment in other departments and retrenchment. People may be persuaded to quit voluntarily through a golden handshake.

Modify the organizational plans:

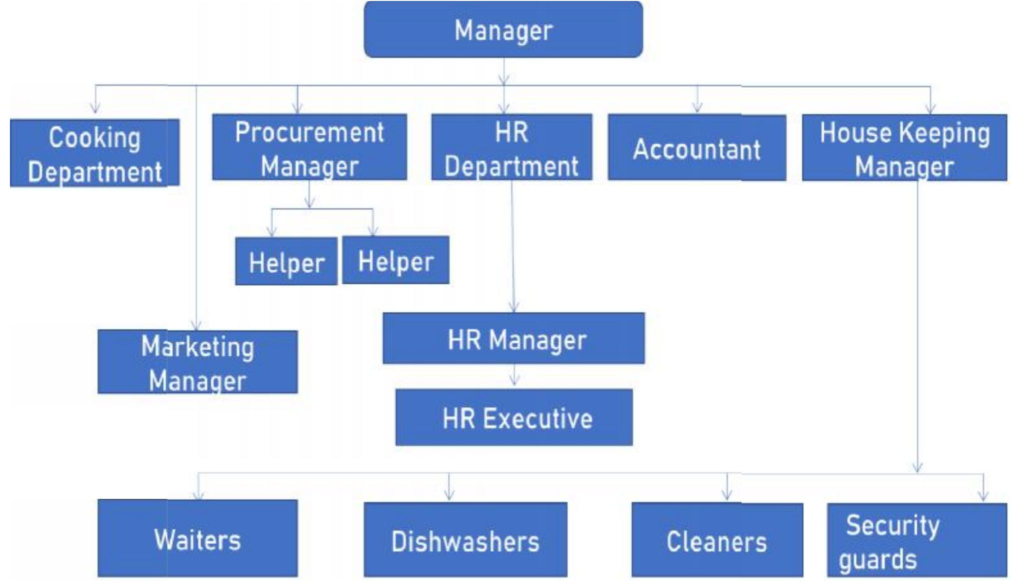
If the future supply of human resources from all the external sources is estimated to be inadequate or less than the requirement, the manpower planner has to suggest to the management the alterations or modifications in the organizational plans.

Controlling & Review:

After the action plans are implemented, the human resource structure and the processes should be controlled and reviewed to keep them following action plans.

13.2 Organizational Structure

An organizational structure is a system that outlines how certain activities are directed to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.The organizational structure also determines how information flows between levels within the company. For example, in a centralized structure, decisions flow from the top down, while in a decentralized structure, decision-making power is distributed among various levels of the organization. We can see the following example of an organization structure to understand how it can be formulated within an organization.



The organizational structure also determines how information flows between levels within the company. For example, in a centralized structure, decisions flow from the top down, while in a decentralized structure, decision-making power is distributed among various levels of the organization.Organizational structure aligns and relates parts of an organization, so it can achieve its maximum performance. The structure chosen affects an organization's success in carrying out its strategy and objectives. Leadership should understand the characteristics, benefits, and limitations oan organizational structure that aligns and relates parts of an organization, so it can achieve its maximum performance. The structure chosen affects an organization's success in carrying out its strategy and objectives. Leadership should understand the characteristics, benefits, and limitations of various organizational structures to assist in this strategic alignment's various organizational structures to assist in this strategic alignment.

13.3 Recruitment & Selection

Recruitment refers to the process of identifying, attracting, interviewing, selecting, hiring, and onboarding employees. In other words, it involves everything from the identification of a staffing need to filling it. Let us now focus on types of recruitment through which candidates can become a part of the organizations. These are:

- Internal recruitment
- Retained recruitment
- Contingency recruitment
- Outplacement recruitment
- Staff recruitment

Internal Recruitment:

The term 'Internal Recruitment' refers to the process of identifying and attracting candidates to another position within the same organization. Instead of opening the position to the public and attracting candidates that are currently unemployed or working for other companies, the human

resources department of some companies may choose to advertise the vacancy internally and allow only members of the staff to apply for it.

Retained Recruitment:

When an organization retains a recruiting firm to fill a vacancy, they pay an upfront fee to fill the position. The firm is responsible for finding candidates until the position is filled.The organization also agrees to work exclusively with the firm. Companies cannot hire multiple recruiting firms to fill the same position.

Contingency Recruitment:

Like retained recruiting, contingency recruiting requires an outside firm.Unlike retained recruiting, there is no upfront fee with contingency. Instead, the recruitment company receives payment only when the clients they represent are hired by an organization.

Staffing Recruitment:

Staffing recruiters work for staffing agencies.Staffing recruiting matches qualified applicants with qualified job openings. Moreover, staffing agencies typically focus on short-term or temporary employment positions.

Outplacement Recruitment:

Outplacement is typically an employer-sponsored benefit that helps former employees transition into new jobs.Outplacement recruiting is designed to provide displaced employees with the resources to find new positions or careers.

An organization can pick and choose any of the above-mentioned methods for the recruitment process. Let us now shift our focus towards the selection part.

Selection is the process of picking the right candidate with prerequisite qualifications and capabilities to fill the jobs in the organization.According to Harold Koontz, "Selection is the process of choosing from the candidates, from within the organization or from outside, the most suitable person for the current position or the future positions."

The difference between recruitment and selection is important to understand. Recruitment refers to the process where potential applicants are searched for and then encouraged to apply for an actual or anticipated vacancy. Selection is the process of hiring employees among the shortlisted candidates and providing them with a job in the organization.

The success of any organization depends on its employees. When an employee is well suited for their job, the entire company can enjoy the benefits of their unbeatable success. Recruitment and selection help organizations choose the right candidates for the right positions. Therefore, understanding the difference between recruitment and selection is essential to reduce any losses for an organization.

The term 'selection' comes with the connotation of placing the right person in the right job. Selection is the process in which various strategies are employed to help recruiters decide which applicant is best suited for the job. Some activities include:

- Screening
- Eliminating unsuitable candidates
- Conducting an examination (aptitude test, intelligence test, performance test, personality test, etc.)
- Interviews
- Checking references
- Medical tests

The selection process is a largely time-consuming step in an employee's hiring experience. HR managers must carefully identify the eligibility of every candidate for the post, being careful not to disregard important factors such as educational qualification, background, age, etc.

The process of selection is critical because the organization's overall performance can be enhanced by the hiring of high-quality resources. Because of poor hiring practices, new hires can harm the work being done, and the cost of replacing them is high. The goal of the process of selection is to identify the most qualified candidates for open positions within a company. Many factors, such as a

candidate's qualifications, experiences, skills, and overall attitude should be considered to ensure that the right person is hired for the job.

A significant amount of money is invested in finding the right person for a position, so the company must use a systematic approach to the HR selection process. When the hiring goes wrong, the company has to spend a significant amount of time, effort, and money training and integrating the new employee.

13.4 Training & Development

Training is an activity leading to skilled behavior, teaching employees the basic skills they need to perform their jobs.Employee training is a program that helps employees learns specific knowledge or skills to improve performance in their current roles.

According to Garry Dressler, "Training is the process of teaching new employees the basic skills they need to perform their jobs."Edwin B. Filippo Said, "Training is the act of increasing the knowledge and skills of an employee for doing a particular job."

Training and development help in bridging the gap in the organization concerning the required skill set for a particular job and the skills currently present in the workforce. The overall goal of training is learning. Do you think the company focuses on training just to make employees learn?

The answer to the same is no because training needs to demonstrate

- How it contributes to the company's competitive advantage through improving employee performance,
- Supporting the business strategy (such as growing the business),
- Contributing positively to business outcomes such as quality, productivity, development of new products, and
- Retaining key employees

So when an employee learns, it leads to the development of human capital which helps in performance improvement of the employee as well as the organization reaches business goals. Training objectives are similar to goals or desired outcomes that provide value to the employees that participate in the program. Many training objectives in the workplace focus on outcomes such as an improved or mastered technical skill, an earned credential, or another professional application that will relate directly to the advancement or overall development of their careers. Additionally, training objectives are essential components for new employee onboarding procedures and can vary between industries and organizations. Some of the important objectives of the training are:

- To enhance the knowledge of employees
- To improve job-related skills
- To develop proper job-related attitudes
- To prepare for higher responsibilities
- To facilitate organizational changes

No matter the career field, many employers may at some point offer specialized training programs. Training objectives help keep the focus of training programs and help employees understand their value.

13.5 Performance Appraisal

Performance Appraisal is a systematic and objective way of judging the relative worth or ability of an employee in performing his task.Performance appraisal helps to identify those who are performing their assigned tasks well and those who are not and the reasons for such performance. Companies use performance appraisals to give employees big-picture feedback on their work and to justify pay increases and bonuses, as well as termination decisions. They can be conducted at any given time but tend to be annual, semi-annual, or quarterly.

Although there are many different kinds of performance reviews, the most common is a top-down review in which a manager reviews their direct report.Employees who believe the evaluation's

construction isn't reflective of their company's culture may feel dissatisfied with the appraisal process.

Performance Appraisal can be done with the following objectives in mind:

- To review past performance;
- To assess training needs;
- To help develop individuals;
- To audit the skills within an organization;
- To set targets for future performance;
- To identify potential for promotion.

The main objective of performance appraisals is to measure and improve the performance of employees and increase their future potential and value to the company.

Process of Performance Appraisal:

Performance appraisal is the process of evaluating a manager’s performance on the job in terms of the requirement of the job.In other words, it is the systematic assessment of an employee in terms of the performance, aptitudes, and other qualities necessary for successfully carrying out his job. It is often linked with the compensation and development plans of the organization.

A systematic performance appraisal goes through different steps. These are:

- Establish performance standards
- Communicate the standards
- Measure actual performance
- Compare actual performance with standards
- Feedback to the employee
- Taking corrective action, if necessary

Establish performance standards:

The performance standards for every job should be developed and discussed with the superiors after a thorough analysis of the job.These standards should be clear and not vague.They must be measurable after a certain period.

Communicate the standards:

After setting the performance standards of the job, the next activity is to communicate these standards to all concerned; at least two parties – (a) appraiser and (b) appraisee.It is necessary, that these standards must be modified.The appraiser must ensure that the information communicated by him has been received by the appraisee and understood clearly.

Measure actual performance:

Generally, four common sources are used by the appraiser to measure actual performance, personal observation, statistical reports, oral reports, and written reports.

Compare actual performance with standards:

The fourth activity is the comparison of actual performance with standards. Sometimes actual performance may be better than standards and sometimes it may go off the track.Any deviations between actual performance and standard performance may be noted carefully for the next activity.

Feedback to the employee:

In this activity, the results of stage fourth are discussed with the employee. The information which is received by the appraisee about his assessment has a great impact on his performance. Communicating poor performance is a difficult task foran appraiser.

Taking corrective action, if necessary:

The feedback received in the previous stage needs corrective action in case some issues exist.Need to look at which step the changes are required.

Summary

Manpower planning is a process of identifying and then matching the human resource requirements and availability to determine the future HR activities of the organization based on the overall organizational objective.

An organizational structure is a system that outlines how certain activities are directed to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.

Recruitment refers to the process of identifying, attracting, interviewing, selecting, hiring, and onboarding employees. In other words, it involves everything from the identification of a staffing need to filling it.

Selection is the process of picking the right candidate with prerequisite qualifications and capabilities to fill the jobs in the organization. According to Harold Koontz, "Selection is the process of choosing from the candidates, from within the organization or from outside, the most suitable person for the current position or the future positions."

Employee training is a program that helps employees learns specific knowledge or skills to improve performance in their current roles.

Performance Appraisal is a systematic and objective way of judging the relative worth or ability of an employee in performing his task. Performance appraisal helps to identify those who are performing their assigned tasks well and those who are not and the reasons for such performance.

Keywords

Outplacement Recruitment: It is typically an employer-sponsored benefit that helps former employees transition into new jobs.

Demand Forecasting:Demand forecasting is the process of estimating the future quantity and quality of people required. The basis of the forecast must be the annual budget and long-term corporate plan, translated into activity levels for each function and department.

Performance appraisal:It is a regular review of an employee's job performance and contribution to a company.

SelfAssessment

1. Leader's clear sense of where they want to lead their company and what results they expect to achieve is known as _____________.

A. Vision
B. Mission
C. Strategic intent
D. None of these

2. Which of the following is not required while building an organization?

A. Ensuring a common understanding of organizational priorities.
B. Clarifying responsibilities among managers and organizational units.
C. Empowering newer managers and pushing authority lower in the organization.
D. Losing the personal commitment to a shared vision from managers throughout the organization.

3. ___________ is the set of important assumptions (often unstated) that members of an organization share in common.

A. Organization culture
B. Organization structure

C. Organization support
D. Strategic intent

4. An individual's motivation is dependent on:
A. Whether path-goal relationships are clarified
B. Expectations that increased effort to achieve an improved level of performance will be successful
C. Their effective performance
D. The necessary direction, guidance, training, and support are provided

5. The goal of the organization's__________ is to capture the hearts and minds of employees, challenge them, and evoke their emotions and dreams.
A. Vision
B. Mission
C. Culture
D. Strategy

6. _______________ is a process of identifying and then matching the human resource requirements and availability to determine the future HR activities of the organization based on the overall organizational objective.
A. Recruitment
B. Manpower planning
C. Selection
D. Job enrichment

7. Which of the following is a reason for manpower planning?
A. Replacement of persons
B. Labour Turnover
C. Expansion Plans
D. Environment scanning

8. Which of the following is not a stage in the manpower planning process?
A. Labor turnover
B. Analyzing organizational objectives
C. Control and review
D. Action planning

9. ___________ is a system that outlines how certain activities are directed to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.
A. Manpower planning
B. Recruitment
C. Organizational structure
D. None of these

10. Which of the following is not a type of recruitment?
A. Retained recruitment

B. Staff recruitment

C. Upgrade recruitment

D. Outplacement recruitment

11. What is the overall goal of training?

A. Performance appraisal

B. Recruitment

C. Selection

D. Learning

12. ______ is an objective assessment of an individual's performance against well-defined benchmarks.

A. Performance Appraisal

B. HR Planning

C. Information for goal identification

D. None of the above

13. What is linked with performance appraisal?

A. Job Design

B. Development

C. Job analysis

D. None of the above

14. Analysers tend to emphasize both ______ and _______ and employee extensive training programmes.

A. Skill building and skill acquisition

B. Current performance and past performance

C. Strategy and behavior

D. None of the above

15. Which of the following is not a step in the performance appraisal process?

A. Establish performance appraisal

B. Measure desirable performance

C. Communicate the standards

D. Feedback to the employee

Answer for Self Assessment

1.	C	2.	D	3.	A	4.	B	5.	A
6.	B	7.	D	8.	A	9.	C	10.	C
11.	D	12.	A	13.	C	14.	A	15.	B

Review Questions

1. Discuss in brief the role of manpower planning while establishing a new venture.

2. Do you think the selection is a positive process and recruitment a negative one? Justify your answer with suitable information.
3. Why do you think an organization needs a standard performance appraisal system?
4. Discuss in brief the importance of an organizational structure in the context of a new IT firm.
5. Discuss in detail the types of recruitment methods adopted by the organizations.

Further Readings

- Strategic Management by John Pearce II, Richard B Robinson, Amita Mital, Mc Graw Hill
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Unit 14: Strategic Financial Plan

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Objectives

After studying this unit, you should be able to

- illustrate the sources of funds that can be utilized for fulfilling the capital requirements,
- demonstrate the importance of breakeven analysis,
- discuss the importance of balance sheet and cash flow for an enterprise,
- illustrate the importance of return on investment for an enterprise.

Introduction

Financial Planning is the process of estimating the capital required and determining its competition. It is the process of framing financial policies concerning procurement, investment, and administration of funds of an enterprise.This ensures effective and adequate financial and investment policies.Sources of Financing for small businesses or startups can be divided into two parts: Equity Financing and Debt Financing.

A break-even analysis is a financial calculation that weighs the costs of a new business, service, or product against the unit sell price to determine the point at which you will break even. In other words, it reveals the point at which you will have sold enough units to cover all of your costs. At that point, you will have neither lost money nor made a profit.

The key components of the financial statements are the income statement, balance sheet, and statement of cash flows. These statements are designed to be taken as a whole, to present a complete picture of the financial condition and results of a business. A case can be made for each of the financial statements being the most important, though the ultimate answer depends on the needs of the user.

A possible candidate for the most important financial statement is the statement of cash flows because it focuses solely on changes in cash inflows and outflows. This report presents a more clear view of a company's cash flows than the income statement, which can sometimes present skewed results, especially when accruals are mandated under the accrual basis of accounting.

The balance sheet is of considerable importance when paired with the income statement since it reveals the amount of investment needed to support the sales and profits shown on the income statement.

Return on investment, better known as ROI, is a key performance indicator (KPI) that's often used by businesses to determine the profitability of expenditure. It's exceptionally useful for measuring success over time and taking the guesswork out of making future business decisions. The ability to calculate return on investment is extremely valuable for any business, regardless of size or industry.

ROI is especially important when it comes to business financing. If an entrepreneur is borrowing money, he wants to make sure the growth opportunity will generate enough revenue to justify the cost of the loan. Otherwise, one could find himself drowning in debt. This unit will help us in understanding all these important aspects of a strategic financial plan.

14.1 Types of Industrial Finance

Finance has been aptly described as the lifeblood of the industry. It is a prerequisite for the mobilization of real resources to organize production and marketing. The provision of adequate finance is of basic importance for the smooth working of the industries and their expansion.Industrial finance pertains to the financial system that provides financial resources for the conduct of industrial activities. The need is for different types of finance and an efficient financial system that adequately finances production and enhances the industrial capacity.

Industrial finance refers to the provision of finance for the conduct of activities connected with the production of industrial goods. Production activities involve such diverse activities as the construction of the building, manufacture of machines, supply/procurement of raw materials, engagement of laborers, etc. These activities are undertaken to produce investmentgoods and consumptiongoods. All these activities imply the use of real/physical resources for production.Depending upon the type of activity to be financed, industries require short-term, medium-term, and long-term finance.

Short-term Finance:

Short-term finance usually refers to the funds required for less than one year. Short-term finance is usually required to meet variable, seasonal or temporary working capital requirements. Borrowing from banks is a very important source of short-term finance. Some of the important sources of short-term finance are:

- trade credit,
- instalment credit, and
- customer advances

Medium-term Finance:

The period of one year to five years may be regarded as medium-term. Medium-term finance is usually required for permanent working capital, small expansions, replacements, modifications, etc. Medium-term finance may be raised by:

- Issue of shares
- Issue of debentures
- Borrowing from banks and other financial institutions
- Plowing back of profits

Although medium-term financial requirements may be met by the issue of shares, this source is of long-term nature.

Long-term Finance:

Periods exceeding 5 years are usually regarded as long-term. Long-term finance is required for procuring fixed assets, for the establishment of a new business, for substantial expansion of existing business, modernization, etc. The important sources of long-term finance are:

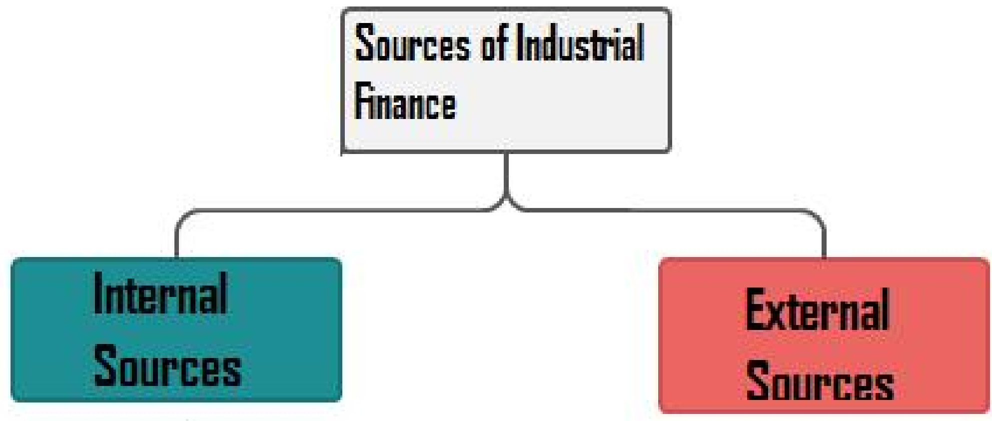
- Issue of shares
- Issue of debentures

- Loans from financial institutions
- Plowing back of profits

The progress of all types of industries entirely depends on the availability of capital and may be held up, if an adequate supply of capital is not ensured. Tile industrial development in India was held up because of the short supply of capital for a pretty long time. Normally, the supply of capital or finance comes from the commercial and other types of banks, the individuals and the money lenders, and the capital markets.

Sources of Industrial Finance

There are Internal and External Sources of Industrial Finance.



Now let us focus on internal Sources of finance, these are:

- Personal Capital
- Family and friends
- Retained profits
- Sale of stock
- Sale of fixed assets
- Debt collection
- Accounts Receivable

Personal Capital:

Self-financing reduces the risks of lending as it does not involve the preparation of documents in respect of a contract, collateral or security, etc. The shortcoming of this source is that it may fall short of investment opportunities or its use may be inefficient i.e. funds may not be wholly or partly invested in the most productive lines.

Family & Friends:

Finance from friends and family is often used to finance start-ups or relatively new businesses.The cost of obtaining finance from friends and family is relatively low. It may rise if the business arrangements become more complicated. If a formal agreement is complex, then it may need to be drafted by a professional. Fees will vary depending on the complexity of the business, its size, and risk.

Retained Profits:

Retained earnings are the portion of a company's net income that management retains for internal operations instead of paying it to shareholders in the form of dividends. In short, retained earnings are the cumulative total of earnings that have yet to be paid to shareholders. These funds are also held in reserve to reinvest back into the company through purchases of fixed assets or to pay down debt.

Sale of Stock:

Selling stock involves selling products owned by the business. This may be used when either a business no longer has a use for the product or they need to raise money quickly.

Sale of Fixed Assets:

This may be used when either a business no longer has a use for the product or they need to raise money quickly. Business assets that can be sold include, for example, machinery, and equipment. An entity can sell the old asset for partial funding of the procurement of a new asset. A firm can decide to sell those operating assets on which repairs and maintenance expenses have increased exponentially. There is no cost of finance for this source of finance.

Debt Collection:

Debt collection refers to realizing the sales proceeds via the sale of products or provision of services. Normally a credit period is offered to the customers. However, if the entity is under a cash crunch scenario, it should lead the sundry debtors. Leading the debt collection means tightening the credit period offered to customers. This source of finance comes with no cost of capital. However, delayed payment by customers may force the entity to take debt, leading to a higher cost of finance.

Account Receivable:

Accounts receivable (AR) financing is a type of financing arrangement in which a company receives financing capital related to a portion of its accounts receivable. Accounts receivable financing agreements can be structured in multiple ways usually with the basis of either an asset sale or a loan.

Now, let us shift our focus towards the external sources of finance. These are:

- Bank Loan
- Additional Partners
- Equity Financing(Public/Private)
- Leasing
- Hire Purchase
- Trade Credit
- Government Grants

Bank Loan:

A bank loan is a money borrowed from a bank by an individual or business. A bank loan is paid off with interest over an agreed period, often over several years.

Additional Partners:

It is when an additional person or people are brought into the business as a new business partner. This means they would provide money to then own part of the business.

Equity Financing:

It refers to an individual or group that is willing to invest money into a new or growing business in exchange for an agreed share of the profits. The venture capitalist will want a return on their investment as well as input into how the business is run.

Leasing:

It is a way of renting an asset that the business requires, such as a coffee machine. Monthly payments are made and the leasing company is responsible for the provision and upkeep of the leased item.

Hire Purchase:

It is used to purchase an asset, such as a delivery van or a piece of equipment. A deposit is paid and the remaining amount for the asset is paid in monthly instalments over a set period. The business does not own the item until all payments are made.

Trade Credit:

A trade credit must be agreed upon with a supplier and formed a credit agreement with them. This source of finance allows a business to obtain raw materials and stock but pay for them at a later date. The payment is usually made once the business has had an opportunity to convert the raw materials and stock into products, sell them to its customers, and receive payment.

Government Grants:

It is a fixed amount of money awarded by the government. Grants are given to a business on the condition that they meet certain criteria such as providing jobs in areas of high unemployment. These do not usually need to be paid back.

14.2 Working Capital

Working Capital is also known as networking capital which represents the excess of current assets over current liability and identifies the liquid portion of total enterprise capital which constitutes a margin of buffer to meet the obligations.However, a company that keeps too much working capital on hand isn't using its working capital efficiently.

Current liabilities are debts that are due within one year or one operating cycle. Current assets are assets that a company plans to use over the same period.Examples of current liabilities are accounts payable, short-term loans, payroll taxes payable, and income taxes payable. Any account that is payable within a year or operating cycle is a current liability.

Some current asset examples are cash, accounts receivable, investments that can be liquidated, and inventory. In general, similar companies in similar industries don't always account for both current assets and liabilities the same internally or on their financial reports.

Similar businesses may have different amounts of working capital and still perform very well. It's also possible to have negative working capital and perform well. Therefore, working capital should be taken in the context of the industry and financial structure of the company.

Several factors affect the working capital requirements. These are:

- Size of the firm
- Process of production
- The proportion of raw material to the total cost
- Inventory turnover
- Labor intensive
- Cash requirements
- Seasonal variations
- Banking facilities
- Growth and expansion

The firm must estimate its working capital very accurately because excessive working capital results in unnecessary accumulation of inventory and wastage of capital whereas a shortage of working capital affects the smooth flow of the operating cycle and the business fails to meet its commitment.So finance manager must estimate the right amount of working capital. The finance manager must keep in mind all the above-mentioned factors before estimating the amount of working capital.

14.3 Breakeven Analysis

The breakeven point (break-even price) for trade or investment is determined by comparing the market price of an asset to the original cost; the breakeven point is reached when the two prices are equal.It involves:

- Fixed costs: Costs that are independent of sales volume, such as rent.
- Variable costs: Costs that are dependent on sales volume, such as the cost of manufacturing the product.
- The selling price of the product.

It is also helpful to note that sales price per unit minus variable cost per unit is the contribution margin per unit. For example, if a book's selling price is $100 and its variable costs are $5 to make the book, $95 is the contribution margin per unit and contributes to offset the fixed costs.

The formula for breakeven analysis is as follows:

- Break-even quantity = Fixed costs / (Sales price per unit – Variable cost per unit)

The formula takes into account both fixed and variable costs relative to unit price and profit. Fixed costs are those that remain the same no matter how much product or service is sold. Examples of fixed costs include facility rent or mortgage, equipment costs, salaries, interest paid on capital, property taxes, and insurance premiums.

Variable costs rise and fall according to changes in sales. Examples of variable costs include direct hourly labor payroll costs, sales commissions, and costs for raw materials, utilities, and shipping. Variable costs are the sum of the labor and material costs it takes to produce one unit of your product.

A break-even analysis has broad uses on its merit. But it's also a critical element of financial projections for startups and new or expanded product lines.More mature businesses use break-even analyses to evaluate their risks in a variety of activities such as moving innovative ideas to production, adding or deleting products from the product mix, and other scenarios. One example is budgeting for the addition of a new employee. A break-even analysis will reveal how many additional sales it will take to break even on expenses associated with the new hire.

Example: Breakeven analysis

Colin is the managerial accountant in charge of Company A, which sells water bottles. He previously determined that the fixed costs of Company A consist of property taxes, a lease, and executive salaries, which add up to $100,000. The variable cost associated with producing one water bottle is $2 per unit. The water bottle is sold at a premium price of $12. To determine the break-even point of Company A's premium water bottle:

Break even quantity = $100,000 / ($12 – $2) = 10,000

Therefore, given the fixed costs, variable costs, and selling price of the water bottles, Company A would need to sell 10,000 units of water bottles to break even.

14.4 Balance Sheet

A balance sheet is a financial statement that highlights what a startup business owes and owns in the form of assets and liabilities. A balance sheet also shows the owner's equity which represents the total assets of a business that can be claimed by owners.

Balance sheets are helpful to review the financial strengths, weaknesses, and potential opportunities of a business. Assets in a balance sheet are resources owned by your startup that have an economic value associated with them and will yield a future benefit.

Liabilities in a balance sheet represent the debts of a startup to fund various business operations.The owner's equity in a balance sheet represents the company's assets that can be claimed by owners or shareholders once the company's debts are paid off.The most common current assets for startup businesses include cash, inventory, prepaid expenses, and accounts receivable.Startup businesses can incur short-term or long-term liabilities.

Startup businesses use balance sheets to make strategic decisions.Balancing assets and liabilities is the key to checking the financial position of a startup business.The key formula to remember for balance sheets is Assets = Liabilities + Owner's Equity. The proforma provided below is used for creating the balance sheet of an organization.

Company Name Here

Balance Sheet

For the Period Ended ___________

Assets				Liabilities			
Current Assets				**Current Liabilities**			
Cash		XXXXXX		Accounts Payable		XXXXXX	
Short-Term Investments		XXXXX		Salaries Payable		XXXXX	
Accounts Receivables		XXXXX		Accrued Interest		XXXXX	
Inventories		XXXXXXX		Taxes Payable		XXXX	
Prepaid Insurance		XXXXXX		Current Portion of Notes		XXXXXX	XXXXXXXX
Others		XXXXX	XXXXXX				
Long-Term Investments				Long-Term Liabilities			
Stock Investments		XXXXXX		Note Payable		XXXXXX	
Cash Value of Investments		XXXXXXX	XXXXXX	Mortgage Liability		XXXXXX	XXXXXXXX
Fixed Assets				**Total Liabilities**			XXXXXXXX
Land		XXXXXX					
Building and Equipment	XXXXXXX			**Stock Holder's Equity**			
Less Accumulated Depreciation	(XXXXX)	XXXXXX	XXXXXXX	Capital Stock		XXXXXXXX	
				Retained Earnings		XXXXXXX	
Intangible Assets							
Good will			XXXXXXX	**Total Stock Holder's Equity**			XXXXXX
Other Assets							
Receivables from Employees			XXXXXXXX				
Total Assets			XXXXXXXXX	**Total Liabilities**			XXXXXXXXX

One should view balance sheets as a way to court investors and present an optimistic financial view of the startup. The complicated structure and mathematical overlaps of a balance sheet might overwhelm an entrepreneur.On the surface, a balance sheet serves as the source to assess the financial capabilities and strengths of the startup business. But one can also take advantage of the balance sheet to analyze financial trends.Whether it's one's approach to collecting receivables or tracking debt management, a balance sheet is a comprehensive document that paints a clear picture of the startup.

The three most critical financial reports for startups are the balance sheet, the income statement, and the cash flow statement. By digging into all three financial reports, investors, lenders, founders, and managers can objectively assess thestart-up's financial health and effectiveness at any given point in time.

14.5 Cash Flow Statement

A cash flow statement tracks the cash coming in and going out of the startup over a certain period.A cash flow statement is broken into three categories:

- Operating activities
- Investing activities
- Financing activities

Cash from Operating Activities:

Operating cash flow is the amount of cash that a startup generates from its products or services over a specific period, such as over a month, quarter, or year.Operating activities may include:

- Payments received for products and services
- Salaries paid to employees
- Payments made to suppliers
- Rent payments
- Interest payments
- Income tax payments

Cash from Investing Activities:

The second element of a cash flow statement includes the cash from investing activities. As a startup, you may invest in purchasing or selling an asset, such as an office building, manufacturing equipment, or security. The cash flow related to these types of investment activities demonstrates how much cash has been generated as a result.

Cash from Financing Activities:

Financing activities include any cash received from investors or banks, cash or dividends paid to shareholders, or corporate loans' repayment.Understanding the cash from financing activities gives founders, strategic advisors, and investors insight into a startup's cash flows – both in and out. For example, a positive cash flow from financing activities indicates that your startup has increased its asset levels.

On the other hand, like cash from investing activities, a negative number can demonstrate commitment to the company's further growth, such as paying off a long-term debt or distributing dividend payments to shareholders.

A sample proforma of cash flow is provided below for reference purposes.

For the Year Ending	12/31/2019
Cash at Beginning of Year	15,700
Operations	
Cash receipts from	
Customers	693,200
Other Operations	
Cash paid for	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(123,000)
Interest	(13,500)
Income taxes	(32,800)
Net Cash Flow from Operations	147,900
Investing Activities	
Cash receipts from	
Sale of property and equipment	33,600
Collection of principal on loans	
Sale of investment securities	
Cash paid for	
Purchase of property and equipment	(75,000)
Making loans to other entities	
Purchase of investment securities	
Net Cash Flow from Investing Activities	(41,400)
Financing Activities	
Cash receipts from	
Issuance of stock	
Borrowing	
Cash paid for	
Repurchase of stock (treasury stock)	
Repayment of loans	(34,000)
Dividends	(53,000)
Net Cash Flow from Financing Activities	(87,000)
Net Increase in Cash	**19,500**
Cash at End of Year	35,200

When we prepare a cash flow statement, it provides the following benefits:

- Verifies your profitability position
- Verifies your liquidity position
- Verifies your capital cash position

- Helps you better manage your cash, currently and in the future

By understanding your start-up's cash inflow and outflow, you can better grow your business while avoiding financial hardships or collapse. The better you know your cash flow, the more precisely you can predict your future, such asexpanding into additional markets or hiring new employees. Further, by having a firm grasp on your cash, you can better prepare for seasonal ups and downs, positioning yourself for any bumps in the road.

14.6 Return on Investment

Return on investment (ROI) is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of several different investments.ROI tries to directly measure the amount of return on a particular investment, relative to the investment's cost. The formula for the same is

ROI = Current Value of Investment – Cost of Investment/Cost of Investment

"Current Value of Investment" refers to the proceeds obtained from the sale of the investment of interest.

So, if one wanted to buy a business for R1 million and expected profits are R300 000, the ROI would be 30%. Among SMEs, the term ROI is widely used as an estimate of the likely return on the investment of non-financial as well as financial resources.For instance, an entrepreneur could ask, "What return will I get from a new business campaign compared to potential losses from existing customers who feel ignored?" Typical investments are management time, floor space, quality upgrades, delivery capacity, or scarce skills, and these are difficult to quantify in financial terms.

ROI is a useful tool to assist decision-making. ROI in the informal sense, with some rules of thumb to make one think about the intangible costs and benefits means one can rely on reasonable information rather than having to fly blind. Thinking about the return in the broader sense is a great way to make better decisions and build one's business.

Summary

Industrial finance refers to the provision of finance for the conduct of activities connected with the production of industrial goods. Production activities involve such diverse activities as the construction of the building, manufacture of machines, supply/procurement of raw materials, engagement of laborers, etc.

Working Capital is also known as networking capital which represents the excess of current assets over current liability and identifies the liquid portion of total enterprise capital which constitutes a margin of buffer to meet the obligations.

The breakeven point (break-even price) for trade or investment is determined by comparing the market price of an asset to the original cost; the breakeven point is reached when the two prices are equal.

A balance sheet is a financial statement that highlights what a startup business owes and owns in the form of assets and liabilities.

A cash flow statement tracks the cash coming in and going out of the startup over a certain period.

Return on investment (ROI) is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of several different investments.

Keywords

Equity financing:It is the process of raising capital through the sale of shares. Companies raise money because they might have a short-term need to pay bills or have a long-term goal and require funds to invest in their growth.

Trade Credit: It is an arrangement to buy goods and/or services on an account without making immediate cash or cheque payments.

Return on investment (ROI):It is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of several different investments.

Self Assessment

1. _________ refers to planning regarding the financial needs of the enterprise various sources of raising funds and their optimum utilization.

A. Financial management
B. Capital structure
C. Financial planning
D. None of these

2. Which of the following is not a type of industrial finance?

A. Short term finance
B. Medium-term finance
C. Long term finance
D. None of these

3. Which of the following is not a short-term finance option?

A. Bank credit
B. Issues of debenture
C. Customers advances
D. Trade credit

4. _____ refers to the structure of total capital funds raised by the company.

A. Fixed capital
B. Capital structure
C. Capital requirements
D. Undercapitalization

5. Which of the following is not a factor that affects working capital requirements?

A. Process of production
B. The proportion of raw material to the total cost
C. Inventory turnover
D. Additional partners

6. Estimating capital requirements is important for the_____________.

A. Breakeven analysis
B. Product management
C. Product design
D. Marketing

7. Operating activities may not include which of the following?

A. Salaries paid to employees
B. Payments made to suppliers
C. Rent payments
D. None of these

8. Which of the following is not a benefit of the cash flow statement?
A. Verifies your profitability position
B. Verifies the owner's equity
C. Verifies your liquidity position
D. Verifies your capital cash position

9. _____________is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of several different investments.
A. Breakeven analysis
B. Balance sheet
C. Return on investment
D. None of these

10. __________________is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of a number of different investments.
A. Working capital
B. Dividend decision
C. Capital budgeting
D. None of these

11. Return on investment ratio (ROI) =
A. (Gross profit/ Net sales) X 100
B. (Gross profit X Sales/ Fixed assets) X 100
C. (Net profit/ Sales) X 100
D. Net profit/ Total assets) X 100

12. A low return on investment ratio indicates_____________.
A. Improper utilization of resources
B. Over investment in assets
C. Both A & B
D. None of the above

13. Lower the debt-equity ratio
A. Lower the protection to creditors
B. Higher the protection for creditors
C. It does not affect the creditors
D. None of the above

14. ROI (Return on Investment) can be decomposed into the following ratios:
A. Overall turnover ratio and a current ratio
B. Net profit ratio and fixed assets turnover
C. Working capital turnover ratio and net profit ratio
D. Net profit ratio and overall turnover ratio

15. Retained earnings for the "base year" equals 100.0 percent. You must be looking at
A. a common-size balance sheet.
B. a common-size income statement.

C. an indexed balance sheet.

D. an indexed income statement.

Answer for Self Assessment

1.	C	2.	D	3.	B	4.	B	5.	D
6.	A	7.	D	8.	B	9.	C	10.	A
11.	D	12.	C	13.	B	14.	D	15.	C

Review Questions

1. Discuss in detail the types of industrial finance options available with the enterprise.
2. Do you consider the balance sheet and cash flow statement as two critical financial reports? Justify your answer with suitable information.
3. Why being an entrepreneur, one should consider the return on investment as an important parameter?
4. Discuss in brief various external and internal sources of funds available to the entrepreneurs.
5. Discuss in brief the three activities that we perform in the cash flow statement.

Further Readings

- Strategic Management by John Pearce II, Richard B Robinson, Amita Mital, Mc Graw Hill
- Strategic Management Concept and Cases by Fred R.David, Forest R.David, Pearson
- Entrepreneurship By Robert D Hisrich, Michael P Peters And Dean A. Shepherd, Mcgraw Hill Education
- Entrepreneurship By Rajeev Roy, Oxford University Press

Web Links

- https://www.accountingtools.com/articles/which-financial-statement-is-the-most-important.html

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