CHAPTER 2

# DYNAMICS OF COMPETITIVE STRATEGY

## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Understand the dynamics of competitive strategy.
- Have knowledge of competitive landscape.
- Know the importance of strategic analysis in the formulation of strategy.
- Learn some of the methods of competitive analysis that are used in business organizations.
- Understand the terms core competence, competitive advantage.
- Have an understanding of some of the methods used in portfolio analysis.
- Appreciate the applicability of SWOT and TOWS analysis.

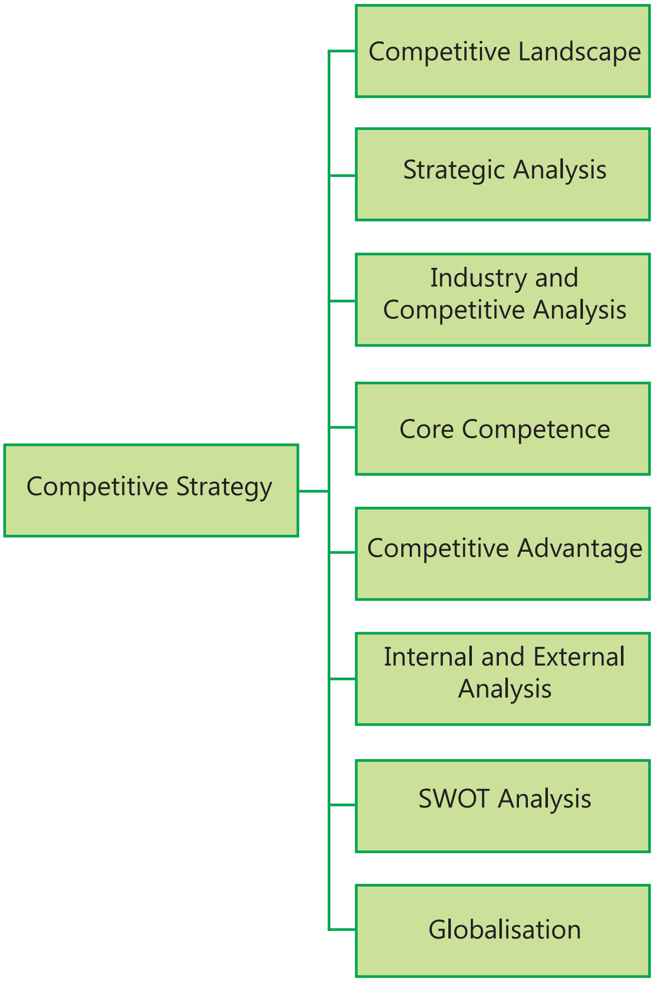
*Analysis is the critical starting point of strategic thinking.*

*Kenichi Ohmae*

*The idea is to concentrate our strength against our competitor's relative weakness.*

*Bruce Henderson*

## CHAPTER OVERVIEW




## 2.1 INTRODUCTION

The business environment is highly dynamic and continuously evolving. The changes happening in the external environment challenge organisations to find novel and unique strategies to remain in business and succeed. As the world is getting smaller and competition is increasing, organisations have increasing pressure to develop their business and strengthen its competitiveness. Strategic thinking and strategic management are highly relevant and important for all the managers in organisations in order to achieve competitive advantage, high performance for success and to ensure company's survival and growth.

**Competitive Strategy**

Competitive strategy of a firm evolves out of consideration of several factors that are external to it. The external environment affects the internal environment of the firm. The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organization and also creating threats. Similarly, the broader expectation of the society in which the organization operates is again an important factor to determine the competitive strategy.

A firm must identify its position relative to the competitors in the market. The objective of a competitive strategy is to generate competitive advantage, increase market share and beat competition. A competitive strategy consists of moves to:

- Attract customers.
- Withstand competitive pressures.
- Strengthen market position.

Having a competitive advantage is necessary for a firm to compete in the market. Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals. But what is more important is whether the competitive advantage is sustainable. By knowing if it is a leader, challenger, or follower, it can adopt appropriate competitive strategy.

## 2.2 COMPETITIVE LANDSCAPE

Competitive landscape is a business analysis which identifies competitors, either direct or indirect. Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses. Understanding of competitive landscape requires an application of "competitive intelligence".

An in-depth investigation and analysis of a firm's competition allows it to assess the competitor's strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

**Reality Bite:** Hyundai is an important player in the Indian Automobiles (car) market. The company has achieved success year after year since its entry into the Indian market where Maruti has been the industry leader. Hyundai has a deep understanding of its competitive landscape where Tata motors, Mahindra & Mahindra, Toyota, Honda, Ford etc. are competing besides Maruti. To succeed in the competitive environment, it brings out new cars and improved models of existing cars every year to cater to various segments of customers.

### 2.2.1 Steps to understand the Competitive Landscape

i. **Identify the competitor:** The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

This answers the question:

- Who are the competitors?

ii. **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

This answers the question:

- What are their product and services?

iii. **Determine the strengths of the competitors:** What are the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers. Why do customers give them their business?

This answers the questions:

- What are their financial positions?
- What gives them cost and price advantage?
- What are they likely to do next?
- How strong is their distribution network?
- What are their human resource strengths?

iv. **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

This answers the question

- Where are they lacking?

v. **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

This answers the questions:

- What will the business do with this information?

- What improvements does the firm need to make?
- How can the firm exploit the weaknesses of competitors?

## 2.3. STRATEGIC ANALYSIS

Strategy formulation is not a task in which managers can get by with intuition, opinions, instincts, and creative thinking. Judgments about what strategies to pursue need to flow directly from analysis of a firm's external environment and its internal resources and capabilities. The two most important situational considerations are:

(1) industry and competitive conditions, and

(2) an organisation's own competitive capabilities, resources, internal strengths, weaknesses, and market position.

The analytical sequence is from strategic appraisal of the external and internal situation, to evaluation of alternatives, to choice of strategy. Accurate diagnosis of the company's situation is necessary for managerial preparation for deciding on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy. Without perceptive understanding of the strategic aspects of a company's external and internal environments, the chances are greatly increased that managers will finalise a strategic game plan that doesn't fit the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.

**Issues to consider for Strategic Analysis**

**Strategy evolves over a period of time:** There are different forces that drive and constrain strategy and that must be balanced in any strategic decision. An important aspect of strategic analyses is to consider the possible implications of routine decisions. Strategy of a firm, at a particular point of time, is result of a series of small decisions taken over an extended period of time. A manager who makes an effort to increase the growth momentum of an organization is materially changing strategy.

**Balance of external and internal factors:** The process of strategy formulation is often described as one of the matching the internal potential of the organization with the environmental opportunities. In reality, as perfect match between the two may not be feasible, strategic analysis involves a workable balance between diverse and conflicting considerations. A manager working on a strategic decision has to balance opportunities, influences and constraints. There are pressures that are driving towards a particular choice such as entering a new market. Simultaneously, there are constraints that limit the choice such as existence of a big competitor. These constraining forces will be producing an impact that will vary in nature, degree, magnitude and importance. Some of these factors can be managed to an extent, however, there will be several others that are beyond the control of a manager.

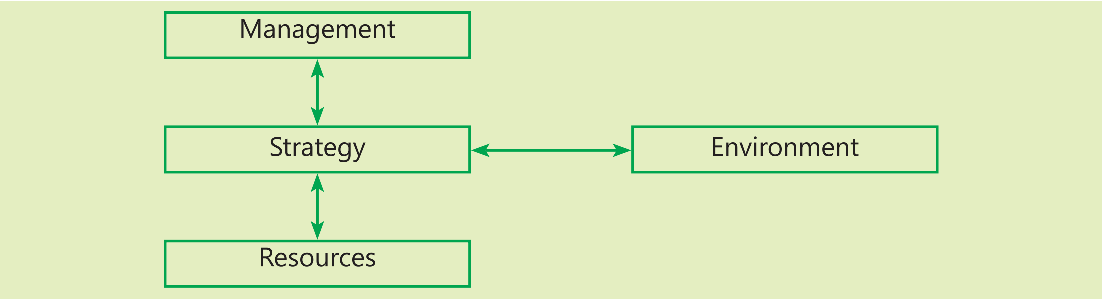



**Figure: Strategy and Environment**

*Risk*: In strategic analyses, the principle of maintaining balance is important. However, the complexity and intermingling of variables in the environment reduces the strategic balance in the organisation. Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degrees. An important aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences. A broad classification of the strategic risk that requires consideration in strategic analysis is given below:

| **Strategic Risks** | **Time** Short-term | Long-term |
|---|---|---|
| External | Errors in interpreting the environment cause strategic failure | Changes in the environment lead to obsolescence of strategy. |
| Internal | Organizational capacity is unable to cope up with strategic demands. | Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences |

**Figure: Strategic Risk**

External risk is on account of inconsistencies between strategies and the forces in the environment. Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis

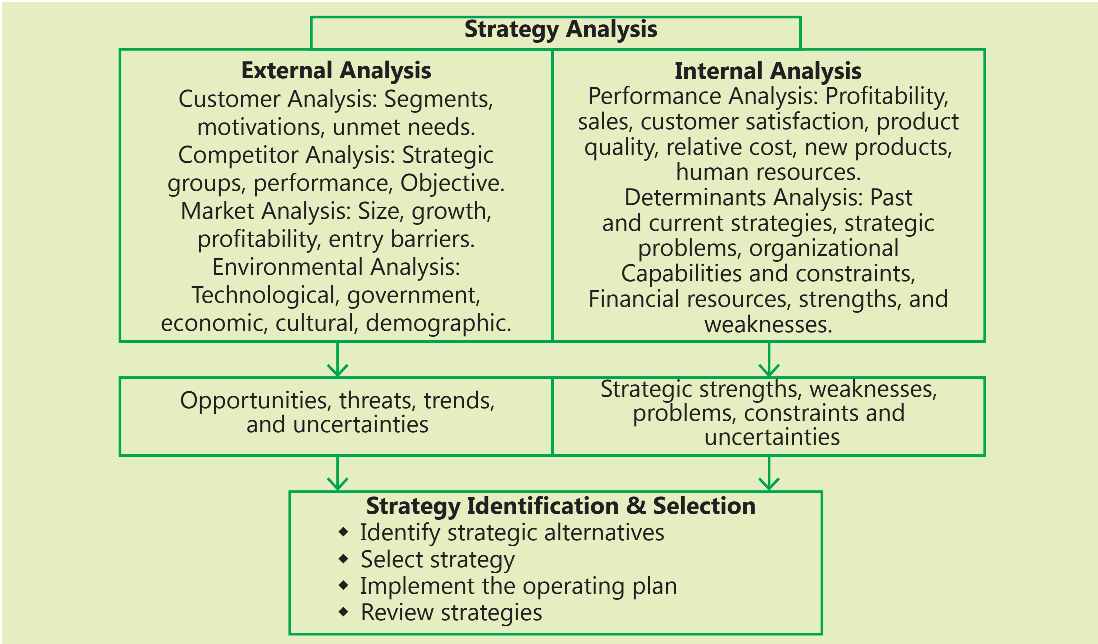



**Figure: Framework of Strategic Analysis**

Industries differ widely in their economic characteristics, competitive situations, and future profit prospects. For example, the economic and competitive traits of the fast-food business have little in common with those of Internet service providers. The telecom business is shaped by industry and competitive considerations radically different from those that dominate the aviation industry.

The economic character of industries varies according to such factors as overall size and market growth rate, the pace of technological change, the geographic boundaries of the market (which can extend from local to worldwide), the number and size of buyers and sellers, whether sellers' products are virtually identical or highly differentiated, the extent to which costs are affected by economies of scale, and the types of distribution channels used to access buyers. Competitive forces can be moderate in one industry and fierce, even cutthroat, in another. In some industries competition focuses on who has the best price, while in others competition is centred on quality and reliability (as in monitors for PCs and laptops) or product features and performance (as in mobile phones) or quick service and convenience. (as in online shopping and fast foods) or brand reputation (as in laundry detergents and soft drinks). In other industries, the challenge is for companies to work cooperatively with suppliers, customers, and maybe even select competitors to create the next round of product innovations and open up whole new vistas of market opportunities.

An industry's economic traits and competitive conditions, and how they are expected to change, determine whether its profit prospects are poor, average, or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits, while even weak companies in attractive industries can achieve in good performances.

## 2.4. Methods of Industry and Competitive Analysis

Industry and competitive analysis can be done using a set of concepts and techniques to get a clear picture on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, competitive success, and profit prospects. It provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for organisational funds. The analysis entails examining business in the context of a wider environment. Industry and competitive analysis aims at developing insight in several issues. Analysing these issues build understanding of a firm's surrounding environment and, collectively, form the basis for matching its strategy to changing industry conditions and competitive realities. The issues are discussed below:

### 2.4.1 Dominant Economic Features of the Industry

Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. Industry is "*a group of firms whose products have same and similar attributes such that they compete for the same buyers*." The factors to be considered in profiling an industry's economic features are fairly standard and are given as follows:

- Size and nature of market.
- Scope of competitive rivalry (local, regional, national, international, or global).
- Market growth rate and position in the business life (early development, rapid growth and takeoff, early maturity, saturation and stagnation, decline).
- Number of rivals and their relative market share.
- The number of buyers and their relative sizes. Whether and to what extent industry rivals have integrated backward and/or forward.
- The types of distribution channels used to access consumers.
- The pace of technological change in both production process innovation and new product introductions.
- Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical?
- Whether organisation can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising?

- Whether key industry participants are clustered in a particular location, for example, lock industry in Aligarh. Saris and diamonds in Surat, information technology in Bangalore. Similarly, there is also concentration of business in different countries on account of geographical and other reasons?
- Whether certain industry activities are characterized by strong learning and experience effects ("learning by doing") such that unit costs decline as cumulative output grows?
- Whether high rates of capacity utilization are crucial to achieving low-cost production efficiency?
- Capital requirements and the ease of entry and exit.
- Whether industry profitability is above/below par?

### 2.4.2 Nature and Strength of Competition

An important component of industry and competitive analysis involves delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is. This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character. Even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces.

Porter's five forces model is useful in understanding the competition. It is a powerful tool for systematically diagnosing the main competitive pressures in a market and assessing how strong and important each one is. Not only is it the widely used technique of competition analysis, but it is also relatively easy to understand and apply.

### 2.4.3 Triggers of Change

An industry's economic features and competitive structure revealed a lot about its fundamental character but little about the ways in which its environment may be changing. All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response from participating firms. The popular hypothesis about industries going through a life cycle helps explain industry change but is still incomplete. The life-cycle stages are strongly linked to changes in the overall industry growth rate (which is why such terms as rapid growth, early maturity, saturation, and decline are used to describe the stages). Yet there are more causes of industry change than an industry's position in the life cycle.

*Driving forces:* While it is important to judge what growth stage an industry is in, there's more analytical value in identifying the specific factors causing fundamental industry and competitive adjustments. Industry and competitive conditions change because forces are in motion that creates incentives or pressures for changes. The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. Analyzing driving forces has two steps: identifying what the driving forces are and assessing the impact they will have on the industry.

*Most common driving forces:* Many events can affect an industry powerfully enough to qualify as driving forces. Some are unique and specific to a particular industry situation, but many drivers of change fall into general category affecting different industries simultaneously. Some of the categories/examples of drivers are follows:

- The internet and e-commerce opportunities and threats it breeds in the industry.
- Increasing globalization.
- Changes in the long-term industry growth rate.
- Product innovation.
- Marketing innovation.
- Entry or exit of major firms.
- Diffusion of technical know-how across more companies and more countries.
- Changes in cost and efficiency.

### 2.4.4 Identifying the Strongest/Weakest Companies (Strategic Group Mapping)

The next step in examining the industry's competitive structure is to study the market positions of rival companies. One technique for revealing the competitive positions of industry participants is strategic group mapping, which is useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth.

*A strategic group consists of those rival firms which have similar competitive approaches and positions in the market*. Companies in the same strategic group can resemble one another in any of the several ways: they may have comparable product-line breadth, sell in the same price/quality range, emphasize the same distribution channels, use essentially the same product attributes to appeal to similar types of buyers, depend on identical technological approaches, or offer buyers similar services and technical assistance. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

- Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.
- Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

### 2.4.5 Likely Strategic Moves of Rivals

Unless a business organisation pays attention to what competitors are doing, it ends up flying blind into competitive battle. A company can't expect to outmanoeuvre its rivals without monitoring their actions, understanding their strategies, and anticipating what moves they are likely to make next. Competitive intelligence about the strategies rivals are deploying, their latest moves, their resource strengths and weaknesses, and the plans they have announced is essential to anticipating the actions they are likely to take next and what bearing their moves might have on a company's own best strategic moves. Competitive intelligence can help a company determine whether it needs to defend against specific moves taken by rivals or whether those moves provide an opening for a new offensive thrust.

### 2.4.6 Key Factors for Competitive Success

An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success or, to put it another way, KSFs are the rules that shape whether a company will be financially and competitively successful. The answers to three questions help identify an industry's key success factors:

- On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?
- What resources and competitive capabilities does a seller need to have to be competitively successful?
- What does it take for sellers to achieve a sustainable competitive advantage?

For example, in apparel manufacturing, the KSFs are appealing designs and colour combinations (to create buyer interest) and low-cost manufacturing efficiency (to permit attractive retail pricing and ample profit margins).

Determining the industry's key success factors, given prevailing and anticipated industry and competitive conditions, is a top-priority analytical consideration. At the very least, managers need to understand the industry situation well enough to know what is more important to competitive success and what is less important. They need to know what kind of resources are competitively valuable. Misdiagnosing the industry factors critical to long-term competitive success greatly raises the risk of a misdirected strategy. In contrast, an organisation with perceptive understanding of industry KSFs can gain sustainable competitive advantage by training its strategy on industry KSFs and devoting its energies to being distinctively better than rivals on one or more of these factors. Indeed, business organisations that stand out on a particular KSF enjoy a stronger market position for their, efforts-being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. Hence, using the industry's KSFs as cornerstones for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.

Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance. Managers, therefore, have to resist the temptation to include factors that have only minor importance on their list of key success factors. The purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important. To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

### 2.4.7 Prospects and Financial Attractiveness of Industry

The final step of industry and competitive analysis is to use the results of analysis of previous six issues to draw conclusions about the relative attractiveness or unattractiveness of the industry, both near-term and long-term. Company strategists are obligated to assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and profit prospects are gloomy. The important factors on which to base such conclusions include:

- The industry's growth potential.
- Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?

- Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces?
- The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker. (Being a well-entrenched leader or strongly positioned contender in an otherwise lacklustre industry can still produce good profitability; however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry unattractive).
- The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make the industry unattractive?
- The degrees of risk and uncertainty in the industry's future.
- The severity of problems confronting the industry as a whole.
- Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

As a general proposition, if an industry's overall profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is unattractive. However, it is a mistake to think of industries as being attractive or unattractive to all firms in the industry and all potential entrants. Attractiveness is relative, not absolute. Industry environments unattractive to weak competitors may be attractive to strong competitors.

An assessment that the industry is fundamentally attractive typically suggests that current industry participants employ strategies calculated to strengthen their long-term competitive positions in the business, expanding sales efforts and investing in additional facilities and equipment as needed. If the industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to invest cautiously, look for ways to protect their long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right; over the longer term, strong companies may consider diversification into more attractive businesses. Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

## 2.5. Core Competence

Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals. C.K. Prahalad and Gary Hamel have advocated a concept of core competency, which is a widely-used concept in management theories. They defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

Competency is defined as a combination of skills and techniques rather than individual skill or separate technique. For core competencies, it is characteristic to have a combination of skills and techniques, which makes the whole organization utilize these several separate individual capabilities. Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources. The optimal way to define core competence is to consider it as sum of 5- 15 areas of developed expertise.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - **competitor differentiation, customer value, and application** to other markets.

**Competitor differentiation** is one of the main three conditions. The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it. The company has to keep on improving these skills in order to sustain its competitive position. Competence does not necessarily have to exist within one company in order to define as core competence. Although all companies operating in the same market would have the equal skills and resources, if one company can perform this significantly better; the company has obtained a core competence.

The second condition to be met is **customer value.** When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them. If customer has chosen the company without this impact, then competence is not a core competence and it will not affect the company's market position.

The last condition refers to **application of competencies** to other markets. Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used through out the organisation to open up potential markets to be exploited.

If the three above-mentioned conditions are met, then the company can regard it competence as core competency.

Core competencies are often visible in the form of organizational functions. *For example:* Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.

A core competency for a firm is whatever it does best: For example: Wal-Mart focuses on lowering its operating costs. The cost advantage that Wal-Mart has created for itself has allowed the retailer to price goods lower than most competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

Core competencies are the knowledge, skills, and facilities necessary to design and produce core products. Core competencies are created by superior integration of technological, physical and human resources. They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities. Cultural capabilities refer to the ability to manage change, the ability to learn and team working. Organizations should be viewed as a bundle of a few core competencies, each supported by several individual skills. Core Competence-based diversification reduces risk and investment, and increases the opportunities for transferring learning and best practice across business units.

Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses. For competitive advantage, a core technological competence should be difficult for the competitors to imitate.

Core competencies distinguish a company competitively and reflect its personality. These competencies emerge over time through an organizational process of accumulating and learning how to deploy different resources and capabilities. It is important to identify core competencies because it is difficult to retain those competencies in a price war and cost-cutting environment. A Core competency fulfills three criteria:

i. It should provide potential access to a wide variety of markets.

ii. It should make a significant contribution to the perceived customer benefits of the end product.

iii. It should be difficult to imitate for competitors/rivals.

*Examples:*

**A.** Small retail shops have core competencies and gain competitive advantage in the areas of -

(i) personal service to customers, (ii) extended working hours, (iii) easy credit, (iv) free home deliveries, (v) amicable style of the owner, and (vi) proximity.

**B.** Big retail stores (for e.g. Big Bazaar) and supermarkets have special core competence in the areas of-

(i) merchandising, (ii) securing supplies at lower cost, (iii) in-house activity management, (iv) computerized stock ordering, billing systems and (v) own brand labels.

**C.** Supermarkets compete with one another with core competencies as to –

(i) locational advantage, (ii) quality assurance, (iii) customer convenience in shopping, etc.

**How to build Core Competencies (CC)?**

There are two tools that help the firm to identify and build its core competencies.

**1. Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.**

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

i. **Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.

ii. **Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

iii. **Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily. *For example*: Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

iv. **Non-substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

*For Example*: For years, firms tried to imitate Tata's low-cost strategy but most have been unable to duplicate Tata's success. They did not realize that Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.

The strategic value of capabilities increases as they become more difficult to substitute.

*For example:* Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.

To sum up, we can say that only when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage. Over a time, core competencies must be supported. Core competencies are a source of competitive advantage only when they allow the firm to create value by exploiting opportunities in its external environment.

Failing to identify core competencies is a kind of opportunity loss for a company. That failure is due to the inability of management to conceive of a company as other than a mere collection of discrete businesses.

### A. Value Chain Analysis

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. The two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter.

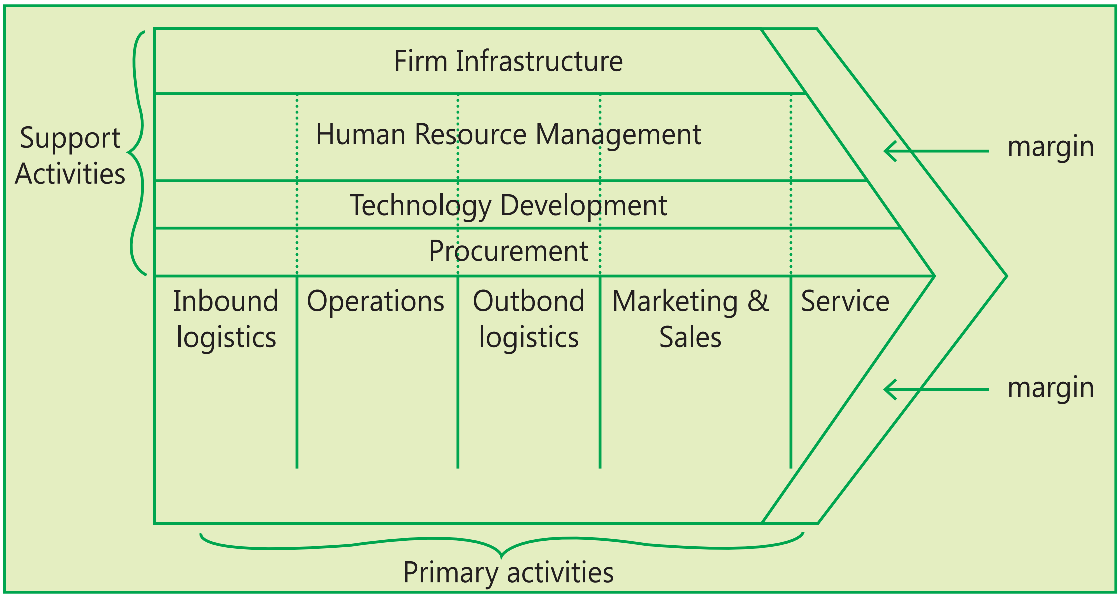



**Figure: Value Chain (Michael Porter)**

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, material, money and people. These resources are of no value unless deployed into activities and organised into systems and routines which ensure that products or services are produced which are valued by the final consumer/user. In other words, it is these competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. Porter argued that an understanding of strategic capability must start with an identification of these separate value activities.

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- ***Inbound logistics*** are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.
- ***Operations transform these inputs into the final product or service:*** machining, packaging, assembly, testing, etc.
- ***Outbound logistics*** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc.

In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g. sports events).

- ***Marketing and sales*** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.
- ***Service*** are all those activities, which enhance or maintain the value of a product/ service, such as installation, repair, training and spares.

Each of these groups of primary activities are linked to support activities. These can be divided into four areas

- ***Procurement:*** This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
- ***Technology development:*** All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).
- ***Human resource management:*** This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
- ***Infrastructure:*** The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

**Use of value Chain Analysis for Identifying Core Competences:** Value chain analysis is useful in describing the separate activities which are necessary to underpin an organization's strategies and how they link together both inside and outside the organization.

Although a threshold competence in all of these activities is necessary to the organization's successful operation, it is important to identify those competences which critically underpin the organization's competitive advantage. These are known as the core competences and will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing. For example, a typical 'corner shop' grocery store gains competitive advantage over supermarkets by concentrating more on convenience and service through different core competences. It is also important to understand that those unique resources and core competences which allow supermarkets to gain competitive advantage over corner shops are not unique resources or core competences in the competitive rivalry between supermarkets.

The development of global competition in the automobile industry over recent decades also illustrates this issue well. During the 1950s and 1960s, the US giants such as Ford and GM dominated the global market through their market access core competences of establishing dealer networks and later overseas production plants. Meanwhile, Japanese manufacturers were developing competences in defect-free manufacture. By the mid-1970s they were significantly outperforming Ford on quality and reliability - which became critical success factors in allowing them to achieve global sales. By the mid-1980s, both Ford and the major Japanese companies had achieved similar competence in these two areas of global networks and quality. Although maintaining a global network was a critical success factor which continued to distinguish Ford and the Japanese from many European companies such as Peugeot, the production and supplier management activities underpinning quality (reliability) were becoming threshold competences.

It is important to identify an organization's core competences not only for reasons of ensuring or continuing good 'fit' between these core competences and the changing nature of the markets or environment. Core competences may also be the basis on which the organization stretches into new opportunities. So, in deciding which competences are core, this is another criterion which should be used - the ability to exploit the competence in more than one market or arena. The development of 'added value' services and/or geographical spread of markets are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

Value chain analysis is a reminder that the long-term competitive position of an organization is concerned with its ability to sustain value for-money products or services, and it can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization. However, in order to do this, it is necessary to identify the basis on which an organization has gained competitive advantage and hence which are the core competences in sustaining this advantage. Different bases as to how organizational competences can be analysed and understood are given below:

**Managing linkages:** Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors. Core competences are likely to be more robust and difficult to imitate if they relate to the management of linkages within the organization's value chain and linkages into the supply and distribution chains. It is the management of these linkages which provides 'leverage' and levels of performance which are difficult to match.

The ability to co-ordinate the activities of specialist teams or departments may create competitive advantage through improving value for money in the product or service. Specialization of roles and responsibilities is common in most organizations and is one way in which high levels of competence in separate activities is achieved. However, it often results in a set of activities which are incompatible - different departments pulling in different directions - adding overall cost and/or diminishing value in the product or service.

This management of internal linkages in the value chain could create competitive advantage in a number of ways:

- There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, it will probably add to the overall cost of operations.
- It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers.
- The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competitors. Computer-based systems have been exploited in many different types of service organizations and have fundamentally transformed the customer experience (Ola and Uber). Travel bookings and hotel reservation systems are examples which other services would do well to emulate. They have created within these organizations the competence to provide both a better service and a service at reduced cost.
- Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.

In addition to the management of internal linkage, competitive advantage may also be gained by the ability to complement/co-ordinate the organization's own activities with those of suppliers, channels or customers. Again, this could occur in a number of different ways:

- Vertical integration attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization. However, the practical difficulties and costs of co-ordinating a wider range of internal activities can outweigh the theoretical benefits.
- Within manufacturing industry the competence in closely specifying requirements and controlling the performance of suppliers (sometimes linked to quality checking and/or penalties for poor performance) can be critical to both quality enhancement and cost reduction.
- A more recent philosophy has been total quality management, which seeks to improve performance through closer working relationships between the specialists within the value system. For example, many manufacturers will now involve their suppliers and distributors at the design stage of a product or project.

## 2.6. Competitive Advantage

Why do some companies succeed while others fail? Why did Hindustan Motors do so well for several decades? How did Apple return from near obsolescence in the late 1990s and become the world leader and a dominant technology company of today? In the Indian airline industry, how has Indigo Airlines managed to keep increasing its revenues and profits through both good times and bad, while rivals struggled?

For most, if not all, companies, achieving superior performance relative to rivals is the ultimate challenge. If a company's strategies result in superior performance, it is said to have a competitive advantage.

Strategic management involves development of competencies that managers can use to achieve better performance and a competitive advantage for their organization. Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.' In other words, an organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

***"If you don't have a competitive advantage, don't compete"***

*- Jack Welch*

Competitive advantage is the achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry. It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate. Further, it can be said that a firm is successful in achieving competitive advantage only after other firm's efforts to duplicate or imitate it fails.

**Role of Resources, Capabilities and Value Creation in achieving Competitive Advantages**

| Resources | Capabilities |
|---|---|
| Tangible resources are assets that can be seen and quantified.<br>Example: Production equipment, manufacturing plants etc. | Capabilities exist when resources have been purposely integrated to achieve a specific task or set of tasks. These tasks range from human resource selection to product marketing and research and development activities. |
| Intangible resources include assets that typically are rooted deeply in the firm's history and have accumulated over time. Because they are embedded in unique patterns of routines, intangible resources are relatively difficult for competitors to analyse and imitate.<br>Example: Knowledge, trust between managers and employees, managerial capabilities, organizational routines, scientific capabilities, the capacity for innovation, and the firm's reputation for its goods or services and how it interacts with people such as employees, customers, and suppliers. | Examples:<br>i. Effective use of logistics management techniques.<br>ii. Effective and efficient control of inventories.<br>iii. Effective customer service.<br>iv. Innovative merchandising.<br>v. Product and design quality.<br>vi. Digital Technology. |

Competitive advantages and the differences they create in the firm's performance are often strongly related to the resources firms hold and how they are managed. Resources are the foundation for strategy and unique bundles of resources generate competitive advantages leading to wealth creation. To identify and successfully use their resources over time, those leading firms need to think constantly about how to manage them to increase the value for customers.

If a firm possesses resources and capabilities which are superior to those of competitors, then as long as the firm adopts a strategy that utilizes these resources and capabilities effectively, it should be possible for it to establish a competitive advantage. But in terms of the ability to derive profits from this position of competitive advantage, a critical issue is the time period over which the firm can sustain its advantage.

Resources and capabilities are not inherently valuable, but they create value when the firm can use them to perform certain activities that result in a competitive advantage. In time, the benefits of any firm's value-creating strategy can be duplicated by its competitors. In other words, all competitive advantages have a limited life. The question of duplication is not if it will happen, but when.

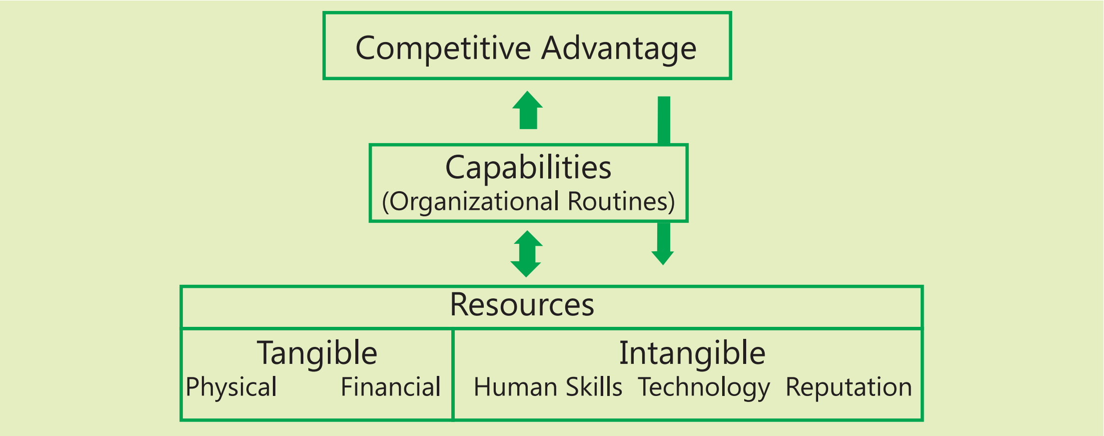



**Figure: Creating Competitive Advantage**

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:

**Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.

**Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

**Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. For Example: In financial services, innovations lack legal protection and are easily copied. Here again the complexity of many organizational capabilities can provide a degree of competitive defence. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

**Appropriability:** Appropriabilityrefers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns onthese resources.

**What is Value Creation?**

The concept of value creation was introduced primarily for providing products and services to the customers with more worth. Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay. Further, the concept took more space in the business and organizations started discussing about the value creation for stakeholders.

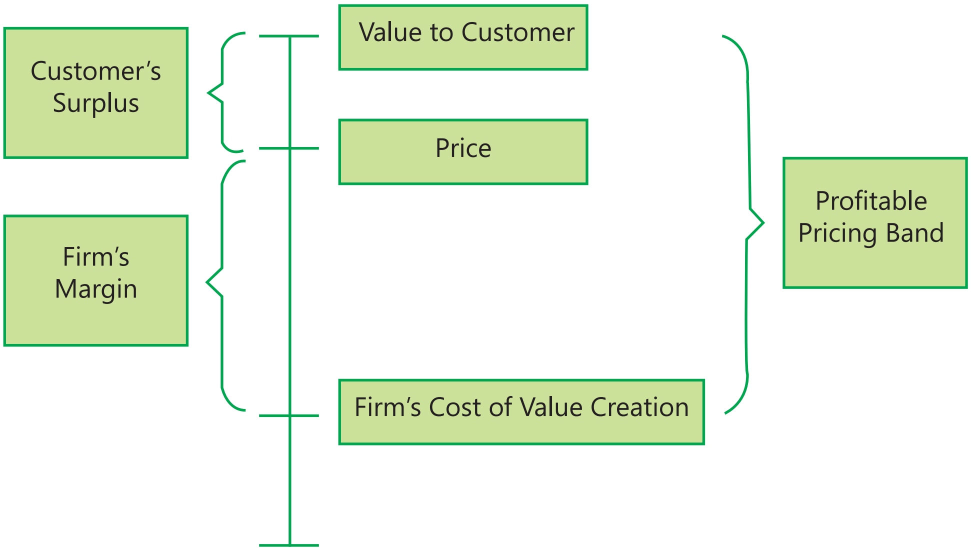



**Figure: Value Creation**

Thus, we can say that the value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes or even the whole business system. Many businesses now focus on value creation both in the context of creating better value for customers purchasing its products and services, as well as for stakeholders in the business who want to see their investment in business appreciate in value. Ultimately, this concept gives business a competitive advantage in the industry and helps them earn above average profits/returns.

Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:

(1) the value customers place on the company's products;

(2) the price that a company charges for its products; and

(3) the costs of creating those products.

The value customers place on a product reflects the utilitythey get from a product—the happiness or satisfaction gained from consuming or owning the product. Utility must be distinguished from price. Utility is something that customers get from a product. It is a function of the attributes of the product, such as its performance, design, quality, and point-of-sale and after-sale service.

Companies are ultimately aiming to achieve sustainable competitive advantage, which enables them to succeed in the long run. Michael Porter argues that a company can generate competitive advantage in two different ways, either through differentiation or cost advantage. According to Porter's, differentiation means the capability to provide customers superior and special value in the form of product's special features and quality or in the form of aftersales customer service. As a result of differentiation, a company can demand higher price for its products or services. A company will earn higher profits due to differentiation in case the expenses stay comparable to the costs of competitors.

The above-mentioned differentiation and cost advantage will affect a company's ability to achieve competitive advantage, but there are many different organizational functions that will influence whether a company can achieve cost advantage or differentiation advantage. Michael Porter used the concept of value chain to explore closer different functions of the organisations and mutual interactions among those functions. Value chain analysis provides an excellent tool to examine the origin of competitive advantage. It divides the organisations into two different strategically important group of activities, namely, primary activities and supporting activities, which can help to comprehend the potential sources for differentiation and to understand an organisation's costs behaviour.

## 2.7. Internal and External Analysis(Portfolio Analysis)

In order to analyse the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company). In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. A business portfolio is a collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi-product and multi business firms. They may also be used in less-diversified firms, if these consist of a main business and other minor complementary interests. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential. For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

In order to design the business portfolio, the management must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses management may develop growth strategies for adding new products or businesses to the firm's portfolio.

There are three important concepts, the knowledge of which is a prerequisite to understand different models of portfolio analysis:

***Strategic Business Unit:*** Analysing portfolio may begin with identifying key businesses also termed as strategic business unit (SBU). SBU is a unit of the company that has a separate mission and objectives and which can be run independently from other company businesses. The SBU can be a company division, a product line within a division, or even a single product or brand. SBUs are common in organisations that are located in multiple countries with independent manufacturing and marketing setups. An SBU has the following characteristics:

- It has single business or collection of related businesses that can be planned for separately.
- It has its own set of competitors.
- It has a manager who is responsible for strategic planning and profit.

After identifying SBUs, the management will assess their respective attractiveness and decide how much support each deserves.

There are a number of techniques that could be considered as corporate portfolio analysis techniques. The most popular is the Boston Consulting Group (BCG) Matrix or product portfolio matrix. But there are several other techniques that should be understood in order to have a comprehensive view of how objective factors can help strategists in exercising strategic choice.

***Experience Curve:*** Experience curve is an important concept used for applying a portfolio approach. The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition. In the contemporary Indian automobile industry, the experience curve phenomenon seems to be working in Maruti Suzuki. The likely strategic choice for competitors can be a market niche approach or segmentation based on demography or geography.

***Product Life Cycle:*** Another important concept in strategic choice is that of product life cycle (PLC). It is a useful concept for guiding strategic choice. Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is at a lower rate because of lack of knowledge on the part of customers.

The second phase of PLC is growth stage. In the growth stage, the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

The third phase of PLC is maturity stage. In this stage, the competition gets tough and market gets stablised. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.

In the declining stage of PLC, the sales and profits fall down sharply due to some new product replaces the existing product. So a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

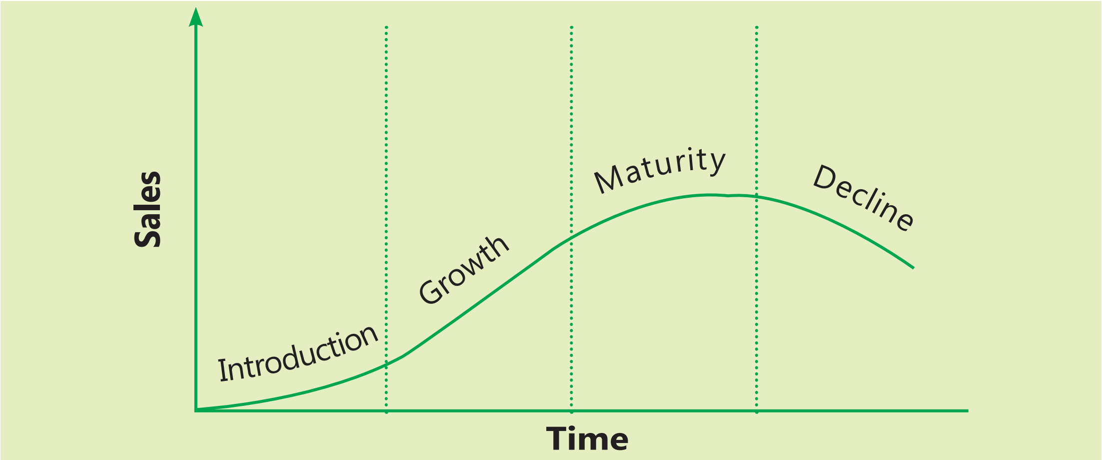



**Figure: Product Life Cycle**

The main advantage of PLC approach is that it can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

### 2.7.1 Boston Consulting Group (BCG) Growth-Share Matrix

The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company strength in the market.

Using the matrix, organisations can identify four different types of products or SBU as follows:

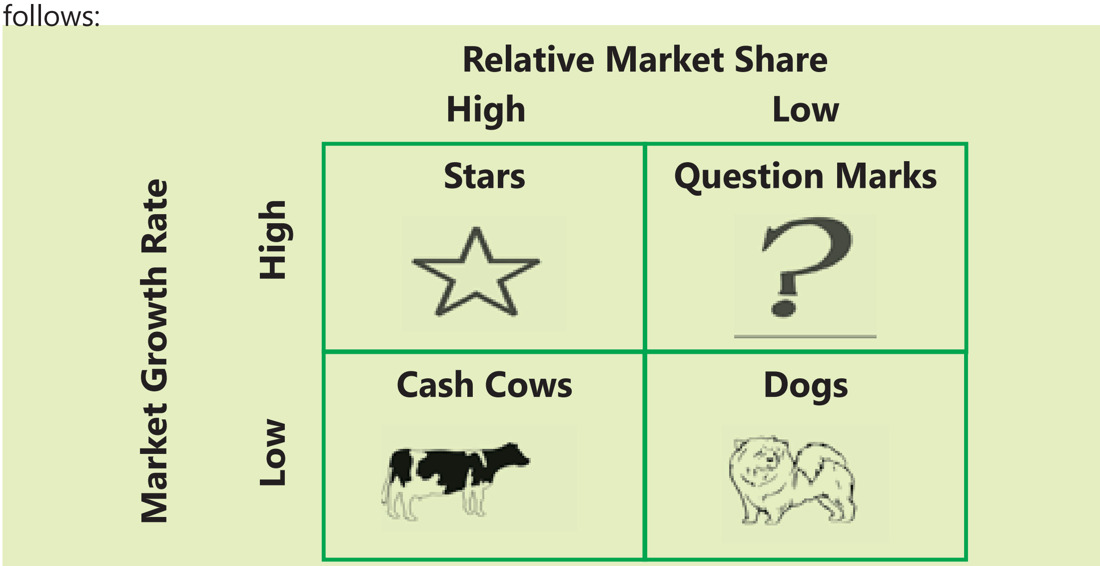



**Figure: BCG Growth-Share Matrix**

- Stars are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
- Cash Cows are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need

less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

- Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.
- Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

After a firm, has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

1. **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
2. **Hold:** Here the objective is to preserve market share.
3. **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.
4. **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

The growth-share matrix has done much to help strategic planning; however, there are some problems and limitations with the technique. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

### 2.7.2 Ansoff's Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying growth opportunities for the company.

| | Existing Products | New Products |
|---|---|---|
| Existing Markets | Market Penetration | Product Development |
| New Markets | Market Development | Diversification |

**Figure: Ansoff's Product Market Growth Matrix**

**Market Penetration:** Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Penetration is also done by effort on increasing usage by existing customers.

**Market Development:** Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

**Product Development:** Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

**Diversification:** Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically the business is moving into markets in which it has little or no experience.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

### 2.7.3 ADL Matrix

The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak. It is four by five matrix as follows:

| | Stage of industry maturity | | | |
|---|---|---|---|---|
| **Competitive position** | **Embryonic** | **Growth** | **Mature** | **Ageing** |
| Dominant | Fast grow<br>Build barriers<br>Act offensively | Fast grow<br>Attend cost leadership<br>Renew<br>Defend position<br>Act offensively | Defend position<br>Attend cost leadership<br>Renew<br>Fast grow<br>Act offensively | Defend position<br>Renew<br>Focus<br>Consider withdrawal |
| Strong | Differentiate<br>Fast grow | Differentiate<br>Lower cost<br>Attack small firms | Lower cost<br>Focus<br>Differentiate<br>Grow with industry | Find niche<br>Hold niche<br>Harvest |
| Favourable | Differentiate<br>Focus<br>Fast grow | Focus<br>Differentiate<br>Defend | Focus<br>Differentiate<br>Harvest<br>Find niche<br>Hold niche<br>Turnaround<br>Grow with industry<br>Hit smaller firms | Harvest<br>Turnaround |
| Tenable | Grow with industry<br>Focus | Hold niche<br>Turnaround<br>Focus<br>Grow with industry<br>Withdraw | Turnaround<br>Hold niche<br>Retrench | Divest<br>Retrench |
| Weak | Find niche<br>Catch-up<br>Grow with industry | Turnaround<br>Retrench<br>Niche or withdraw | Withdraw<br>Divest | Withdraw |

**Figure: Arthur D. Little Strategic Condition Matrix**

The competitive position of a firm is based on an assessment of the following criteria:

**Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

**Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.

**Favourable:** This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

**Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

**Weak:** The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

### 2.7.4 General Electric Matrix ["Stop-Light" Strategy Model]

This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company). This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model. The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop. This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market ***attractiveness*** and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- Size of the market.
- Market growth rate.
- Industry profitability.
- Competitive intensity.
- Availability of Technology.
- Pricing trends.
- Overall risk of returns in the industry.
- Opportunity for differentiation of products and services.
- Demand variability.
- Segmentation.
- Distribution structure (e.g. direct marketing, retail, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- Market share.
- Market share growth rate.
- Profit margin.
- Distribution efficiency.
- Brand image.
- Ability to compete on price and quality.
- Customer loyalty.
- Production capacity.
- Technological capability.
- Relative cost position.
- Management calibre, etc.

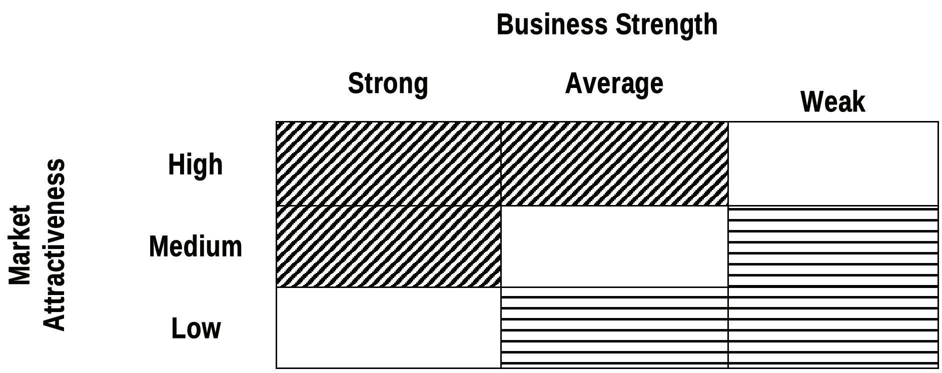
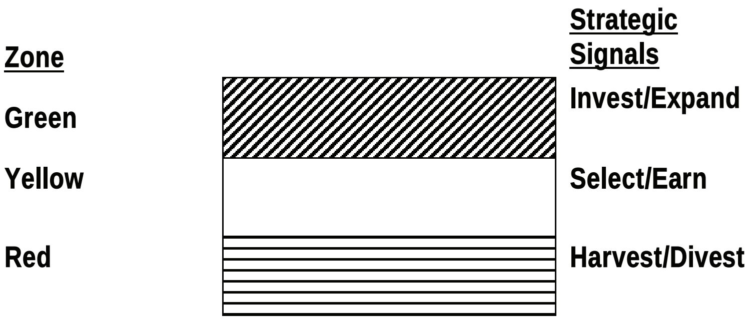



**Figure : The GE Portfolio Matrix**



If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

This model is similar to the BCG growth-share matrix. However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

## 2.8. SWOT Analysis

For the generation of a series of strategic alternatives or choices, it is necessary to analyse the firm's internal strengths and weaknesses and its external opportunities and threats. The identification and analysis of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

The major purpose of SWOT analysis is to enable the management to create a firm-specific business model that will best align, fit, or match an organisational resources and capabilities to the demands of the environment in which it operates. Strategic managers compare and contrast the various alternative possible strategies against each other with respect to their ability to achieve major goals and superior profitability.

- *Corporate-level strategy,* which answers the primary questions. What business or businesses should we be in to maximize the long-run profitability of the organization, and how should we enter and increase our presence in these businesses to gain a competitive advantage?
- *Business-level strategy,* which encompasses the business's overall competitive theme, the way it position; itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings-for example, cost leadership, differentiation, focusing on a particular niche or segment of the industry, or some combination of these.

- *Functional-level strategy,* directed at improving the effectiveness of operations within a company, such as production, finance, marketing, materials management, product development, and customer service.
- *Global strategy,* addressing how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.

The organization's performance in the marketplace is significantly influenced by the three factors:

- The organization's correct market position.
- The nature of environmental opportunities and threat.
- The organization's resource capability to capitalize the opportunities and to protect against the threats.

The significance of SWOT analysis lies in the following points:

- ***It provides a logical framework of analysis:*** SWOT analysis provides us with a logical framework for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and the choice of a strategy. Variation in managerial perceptions about organizational strengths and weaknesses and the environmental opportunities and threats lead to the approaches to specific strategies and finally the choice of strategy that takes place through an interactive process in dynamic backdrop.
- ***It presents a comparative account:*** SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship. The patterns are combinations say, high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths.
- ***It guides the strategist in strategy identification:*** It is natural that a strategist faces a problem when his organization cannot be matched in the four patterns. It is possible that the organization may have several opportunities and some serious threats. It is equally, true that the organization may have powerful strengths coupled with major weaknesses in the light of critical success factors. In such situation, SWOT analysis guides the strategist to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, global competitive environment that characterizes most industries today.

Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

| | |
|---|---|
| Potential Resource Strengths and Competitive Capabilities<br>**A** | Potential Resource Weaknesses and Competitive Deficiencies<br>**B** |
| Potential Company Opportunities<br>**C** | Potential External Threats to Company's Well-Being<br>**D** |

**Figure: SWOT Analysis: What to look for in sizing up**

**Strengths, weaknesses, Opportunities, and Threats.**

**A. Potential Resources Strengths and Competitive Capabilities**

- A powerful strategy supported by competitively valuable skills and experience in key areas.
- A strong financial condition; ample financial resources to grow the business.
- Strong brand name, image/company reputation.
- A widely recognized market leader and an attractive customer base.
- Ability to take advantage of economies of scale and/or learning and experience curve effects.
- Proprietary technology/ superior technological skills/ important patents.
- Superior intellectual capital relative to key rivals.
- Cost advantages.
- Strong advertising and promotion.
- Product innovation skills.
- Proven skills in improving product processes.

- Sophisticated use of e-commerce technologies and processes.
- Superior skills in supply chain management.
- A reputation for good customer service.
- Better product quality relative to rivals.
- Wide geographic coverage and/or strong global distribution capability.
- Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

**B. Potential Resource Weaknesses and Competitive Deficiencies**

- No clear strategic direction.
- Obsolete facilities.
- A weak balance sheet, burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Missing some key skills or competencies/lack of management depth/ a deficiency of intellectual capital relative to leading rivals.
- Subpar profitability; no cost control measures or cost accounting practices.
- Plagued with internal operating problems.
- Falling behind rivals in putting e-commerce capabilities and strategies in place.
- A product line that is too narrow in comparison to that of rivals.
- Weak brand image or reputation.
- Weaker dealer network than key rivals and/or lack of adequate global distribution capability.
- Subpar e-commerce systems and capabilities relative to rivals.
- Short on financial resources to fund promising strategic initiatives.
- Lots of underutilized plant capacity.
- Behind on product quality and/or R&D and/or technological know-how.
- Not able to attract new customers as rapidly as rivals.

**C. Potential Company Opportunities**

- Serving additional customer groups or expanding into new geographic markets or product segments.
- Expanding the company's product line to meet a broader range of customer needs.

- Utilizing existing company skills or technological know-how to enter new product lines or new businesses.
- Using the internet and e-commerce technologies to dramatically cut costs and/or to pursue new sales growth opportunities.
- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Openings to take market share away from rivals.
- Ability to grow rapidly because of sharply rising demand in one or more market segments.
- Acquisition of rival firms or companies with attractive technological expertise.
- Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.
- Openings to exploit emerging new technologies.
- Market openings to extend the company's brand name or reputation to new geographic areas.

**D. Potential External Threats to Company's Well-Being**

- Likely entry of potent new competitors.
- Loss of sales to substitute products.
- Mounting competition from new Internet start-up companies pursuing e-commerce strategies.
- Increasing intensity of competition among industry rivals – may cause squeeze on profit margins.
- Technological changes or product innovations that undermine demand for the firm's product.
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly new regulatory requirements.
- Growing bargaining power of customers or suppliers.
- A shift in buyer needs and tastes away from the industry's product.
- Adverse demographic changes that threaten to curtail demand for the firm's product.
- Vulnerability to industry driving forces.

## 2.9 TOWS Matrix

Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. Thus TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an action tool whereas SWOT analysis is a planning tool.

The TOWS Matrix is tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

**SO(Maxi-Maxi):** SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to build up the competitive advantage.

**ST(Maxi-Mini):** ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

**WO(Mini-Maxi):** The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

**WT(Mini-Mini):** WT is a position that any firm will try to avoid. A firm facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

The matrix is outlined below:

| | | **Internal Elements** | |
|---|---|---|---|
| | | Organizational Strengths | Organizational Weaknesses |
| **External Elements** | Environmental opportunities (and risks) | **SO**<br>**Maxi-Maxi** | **WO**<br>**Mini-Maxi** |
| | Environmental threats | **ST**<br>**Maxi-Mini** | **WT**<br>**Mini-Mini** |

**Figure : The TOWS Matrix**

By using TOWS Matrix, a strategist can look intelligently at how he can best take advantage of the opportunities open to him, at the same time that he can minimize the impact of weaknesses and protect himself against threats. Used after detailed analysis of threats, opportunities, strength and weaknesses, it helps the strategist to consider how to use the external environment to his strategic advantage, and so he can identify some of the strategic options available to him.

## 2.10 Globalization

Globalization can be explained in different perspective.

***For developing countries,*** it means integration with the world economy. In simple economic terms, globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries. Even political and geographical barriers become irrelevant

***At the company level,*** globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) the company's ability to compete in domestic markets with foreign competitors.

A company which has gone global is called a multinational (MNC) or a transnational (TNC). An MNC is, therefore, one that, by operating in more than one country gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

The global company views the world as one market, minimises the importance of national boundaries, sources, raises capital and markets wherever it can do the job best.

To be specific, a global company has three characteristics:

- It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.
- Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
- The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.

A further development, perhaps, will be the super-national enterprise. It is a worldwide enterprise chartered by a substantially non-political international body such as WTO, IMF or World Bank.

It operates as a private business without direct obligations. Its function is international business service, and it remains viable only by performing that service adequately for nations which permit its entry. With its integrative view, it should be able to draw the economic world closer together. It could serve all nations without being especially attached to anyone of them.

**Why do companies go global?**

There are several reasons why companies go global. These are discussed as follows:

- The first and foremost reason is need to grow. It is basic need of organisations. Often finding opportunities in the other parts of the globe organisation extend their businesses and globalise.
- There is rapid shrinking of time and distance across the globe thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.
- It is being realised that the domestic markets are no longer adequate and rich. Japanese have flooded the U.S. market with automobiles and electronics because the home market was not large enough to absorb whatever was produced.

**MULTINATIONAL Vs TRANSNATIONAL**

| | |
|---|---|
| Multinational companies own a home company and its subsidiaries. | Transnational companies do not have subsidiaries but just many companies. |
| Multinational companies have a centralized management system. | Transnational companies do not have a centralized management system. |
| Multinational companies will face a barrier in decision making due to its centralized management system. | Transnational companies are able to gain more interest in the local market since they maintain their own systems |

- There can be varied other reasons such as need for reliable or cheaper source of raw-materials, cheap labour, etc.

  *For Example: Hyundai got competent engineers at lower cost, industry friendly Maharashtra Govt. which allowed them to setup a unit in India which supplies spare parts for all Hyundai Cars across the world.*

- Companies often set up overseas plants to reduce high transportation costs.

  *For Example: Making a car in Korea & exporting it in Europe & America is expensive & time consuming therefore India as a manufacturing hub for Hyundai proved to be better place.*

- When exporting organisations find foreign markets to open up or grow big, they may naturally look at overseas manufacturing plants and sales branches to generate higher sales and better cash flow.

  *For Example: Hyundai cars made by Korea, sold in India were highly demanded and Hyundai decided to setup a plant here.*

- The rise of services to constitute the largest single sector in the world economy;

and regional economic integration, which has involved both the world's largest economies as well as certain developing economies.

- The apparent and real collapse of international trade barriers redefines the roles of state and industry. The trend is towards increased privatization of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain market place competitiveness. The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.
- Globalization has made companies in different countries to form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

## SUMMARY

Competitive landscape is a business analysis which identifies competitors, either direct or indirect. The chapter also covers competitive analysis, core competence and value chain analysis. Having a competitive advantage is necessary for a firm to compete in the market. Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals. We can say that when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage.

Here we are analyzing the Industry and competition by finding the possible issues such as – Dominant economic features of the industry, nature and strength of competition, triggers of change, identifying the companies that are in the strongest/weakest positions, likely strategic moves of rivals, key factors for competitive success (KSFs), prospects and financial attractiveness of industry.

The chapter explains SWOT analysis and TOWS matrix that help managers to craft a business model that will allow a company to gain a competitive advantage in its industry. In order to analyze the current business portfolio, the company must conduct Portfolio analysis through BCG matrix, Ansoff's product market growth matrix, ADL matrix and the General electric matrix. The chapter concludes with a discussion on globalisation and brings out why companies go global.

## TEST YOUR KNOWLEDGE

### Very Short Answer Type Questions

**Question 1**

(a) Define competitive advantage.

(b) What do you mean by core competencies?

(c) Components of a Value Chain of an organisation.

**Answer**

**(a)** Competitive advantage is the position of a firm to maintain and sustain a favorable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.

**(b)** A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses.

**(c)** Value chain refers to separate activities which are necessary to underpin an organization's strategies and are linked together both inside and outside the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities. The primary ones are inclusive of inbound logistics, operations, outbound logistics, marketing and sales, and services. The supportive activities relate to procurement, human resource management, technology development and infrastructure.

Value chain analysis helps in building and maintaining the long-term competitive position of an organization to sustain value for-money in its products or service. It can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization.

## Short Answer Type Questions

**Question 2**

State with reasons which of the following statements is correct / incorrect:

(a) Competitive strategy is designed to help firms achieve competitive advantage.

(b) A strength is an inherent capacity of an organization.

(c) The purpose of SWOT analysis is to rank organizations.

(d) SWOT analysis merely examines internal environment of an organization.

(e) "B" in BCG Matrix stands for balance.

(f) Growth share matrix is popularly used for resource allocation.

(g) A core competence is a unique strength of an organization which may not be shared by others.

**Answer**

**(a)** **Correct:** Competitive strategy is designed to help firms achieve competitive advantage. Having a competitive advantage is necessary for a firm to compete in the market. Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals.

**(b)** **Correct:** Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of strength is superior research and development skill which can be used for continuous product innovation or for new product development so that the company gains competitive advantage.

**(c)** **Incorrect:** SWOT analysis stands for the analysis of strengths, weaknesses opportunities, and threats. It is not used for ranking of organizations. It is a tool for organizational and environmental appraisal necessary for formulating effective strategies.

**(d)** **Incorrect:** SWOT analysis presents the information about both external and internal environment in a structured form to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that strategic decision makers in an organisation can come out with suitable strategies by identifying patterns of relationship and develop suitable strategies.

**(e)** **Incorrect:** The acronym BCG stands for Boston Consulting Group, an organization that developed a matrix to portray an organizational corporate portfolio of investment. This matrix depicts growth of business and the business share enjoyed by an organization. The matrix is also known for its cow and dog metaphors and is popularly used for resource allocation in a diversified company.

**(f)** **Correct:** Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Primarily it categorises organisations/products on the basis two factors consisting of the growth opportunities and the market share enjoyed.

**(g)** **Correct:** A core competence is a unique strength of an organization which may not be shared by others. If business is organized on the basis of core competence, it is likely to generate competitive advantage. A core competence provides potential access to a wide variety of markets. Core competencies should be such that it is difficult for competitors to imitate them.

**Question 3**

Briefly answer the following questions:

(a) What is an opportunity?

(b) Write a short note on SWOT analysis.

(c) Discuss the relevance of Tows Matrix in strategic planning.

(d) In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?

(e) In the light of BCG Growth Matrix, state the situations under which the following strategic options are suitable:

(i) Build
(ii) Hold
(iii) Harvest
(iv) Divest

(f) Explain the concept of Experience Curve and highlight its relevance in strategic management.

(g) Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.

(h) To which industries the following developments offer opportunities and threats?

"Increasing trend in India to organize IPL (Cricket) type of tournaments in other sports also."

**Answer**

**(a)** An opportunity is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.

**(b)** SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

**Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.

**Weakness:** A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

**Opportunity:** An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

**Threat:** An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

**(c)** The TOWS matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with company's internal strengths and weaknesses to result in possible strategic alternatives to be competitive. It is a good way to use brainstorming and to create alternative strategies that might not otherwise be considered. It forces strategic managers to design various growth, stability or retrenchment strategies. It can be used to generate corporate as well as business strategies.

Moreover, TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered. Nevertheless, the TOWS Matrix is only one of the many ways to generate alternative strategies.

In a way TOWS is considered to be an improvement over the SWOT. However, it does not undermine the utility of SWOT analysis.

**(d)** The BCG growth-share matrix is a popular way to depict different types of products or SBUs as follows:

- Stars are products or SBUs with high market share in a market which is growing rapidly.
- Cash Cows are low-growth, high market share businesses or products.
- Question Marks are low market share business in high-growth markets.
- Dogs are low-growth, low-share businesses and products.

**(e)** In the light of BCG Growth Matrix, once an organisation has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

(i) *Build*: Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.

(ii) *Hold*: Here the objective is to preserve market share.

(iii) *Harvest*: Here the objective is to increase short-term cash flow regardless of long-term effect.

(iv) *Divest*: Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

**(f)** Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.

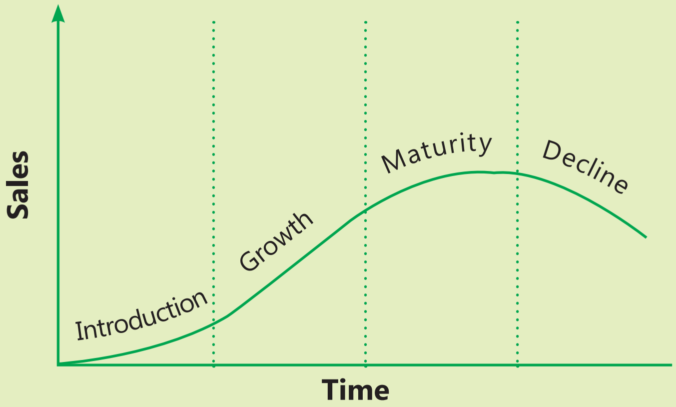
**(g)** Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is also at a lower rate.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands.

The third stage of PLC isthe maturity stage, where in the competition gets tough and market gets stabilized. Profit comes down because of stiff competition.

The fourth stage is the declining stage of PLC, in which the sales and profits fall down sharply due to some new product replaces the existing product.




**Product Life Cycle**

PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

**(h)** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. An opportunity is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rivals can.

The IPL (Cricket) tournament is highly profit and entertainment driven. A number of entities and process are involved in this IPL type tournament. IPL (Cricket) type of tournament would offer opportunities/threats to the following industries:

**Opportunities:**

- Stadia.
- Sports Industry.
- Media Industry – Sports channels / television, advertisers.

**Threats:**

- Entertainment industry like TV serials, cinema theatres, Entertainment theme parks as competitors will be fighting for the same viewers/target customers.
- Tourism and hotel Industry.
- Event Management.

## Questions with Descriptive Answers

### Question 4

*Describe the construction of BCG matrix and discuss its utility in strategic management.*

### Answer

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units or major product lines. The BCG growth-share matrix named after its developer facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company's strength in the market.

Thus the BCG matrix depicts quadrants as shown in the following table:

| Market Growth Rate | | |
|---|---|---|
| *High* | **Stars** | **Question Marks** |
| *Low* | **Cash Cows** | **Dogs** |
| | *High* | *Low* |

**Relative Market Share**

**BCG Matrix**

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

(a) **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.

(b) **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

(c) **Question Marks,** sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

(d) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus BCG matrix is a powerful tool for strategic planning analysis and choice.

**Question 5**

What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?

**Answer**

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analyses are:

- It provides a logical framework.
- It presents a comparative account.
- It guides the strategist in strategy identification.

**Question 6**

How is TOWS Matrix an improvement over the SWOT Analysis? Describe the construction of TOWS Matrix.

**Answer**

Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. The matrix is outlined below:

| External Elements \ Internal Elements | Organizational Strengths | Organizational Weaknesses |
|---|---|---|
| Environmental opportunities (and risks) | **SO** **Maxi-Maxi** | **WO** **Mini-Maxi** |
| Environmental threats | **ST** **Maxi-Mini** | **WT** **Mini-Mini** |

**TOWS Matrix**

The TOWS Matrix is tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

**SO(Maxi-Maxi):** SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to build up the competitive advantage.

**ST(Maxi-Mini):** ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

**WO(Mini-Maxi):** The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

**WT(Mini-Mini):** WT is a position that any firm will try to avoid. A firm facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

**Question 7**

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

| ***Product*** | ***Revenues (in ₹)*** | ***Percent Revenues*** | ***Profits (in ₹)*** | ***Percent Profits*** | ***Percentage Market Share*** | ***Percentage Industry Growth rate*** |
|---|---|---|---|---|---|---|
| *A* | *6 crore* | *48* | *120 lakh* | *48* | *80* | *+ 15* |
| *B* | *4 crore* | *32* | *50 lakh* | *20* | *40* | *+ 10* |
| *C* | *2 crore* | *16* | *75lakh* | *30* | *60* | *-20* |
| *D* | *50 lakh* | *4* | *5 lakh* | *2* | *5* | *-10* |
| *Total* | *12.5 crore* | *100* | *250 lakh* | *100* | | |

**Answer**

Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:

**Retain Market Share**

| **Market Growth Rate** | | ***High*** | ***Low*** |
|---|---|---|---|
| | ***High*** | *Product A*<br>*[80% Market Share*<br>*+15% Growth Rate]*<br>**Stars** | *Product B*<br>*[40% Market Share*<br>*+10% Growth Rate]*<br>**Question Marks** |
| | ***Low*** | *Product C*<br>*[60% Market Share*<br>*-20% Growth Rate]*<br>**Cash Cows** | *Product D*<br>*[05% Market Share*<br>*-10% Growth Rate]*<br>**Dogs** |

Product A is in best position as it has a high relative market share and a high industry growth rate. On the other hand, product B has a low relative market share, yet competes in a high growth industry. Product C has a high relative market share, but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run. Product D is in the worst position as it has a low relative market share, and competes in an industry with negative growth rate.

**Question 8**

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options.

**Answer**

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

The Ansoff's product market growth matrix is as follows:

| | Existing Products | New Products |
|---|---|---|
| Existing Markets | **Market Penetration** | **Product Development** |
| New Markets | **Market Development** | **Diversification** |

**Ansoff's Product Market Growth Matrix**

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company. Product development is refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

**Question 9**

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

(i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.

(ii) A business giant in hotel industry decides to enter into dairy business.

(iii) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.

(iv) A renowned auto manufacturing company launches ungeared scooters in the market.

**Answer**

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organisation might follow.

(i) *Market Penetration*: A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.

(ii) *Diversification*: A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.

(iii) *Market Development*: One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.

(iv) *Product Development*: A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

**Question 10**

"Management of internal linkages in the value chain could create competitive advantage in a number of ways". Briefly explain.

**Answer**

The management of internal linkages in the value chain could create competitive advantage in a number of ways:

- There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, an assessment needs to be made whether the value added to the customer by this faster response through holding stocks is greater than the added cost.
- It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost of production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So competence in separate activities need to be compatible.
- The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.
- Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.