CHAPTER 3- STRATEGIC ANALYSIS

- External analysis leads to identification of opportunities & threats thrown open to org.
- Internal analysis lead to study of strengths & weaknesses which will decide as to what extent each company is going to capitalize the opportunities & threats thrown open.

SITUATIONAL ANALYSIS:
- all business org. operates in a “macro envt.”
- macro envt. influences org. & shapes it
- such influences are notable enough + there exists strategically relevant trends & developments
- such influences have low impact on org.’s business situation
- such influences shape only edges of org’s direction & strategy
- During scanning external envt., managers must do following-
  - Watch for potentially important envtl. forces
  - Assess their impact & influence
  - Adapt its direction & strategy as needed
- Org.’s immediate industry & competitive envt. have highest impact on the org.
- Factors to be taken into account while conducting analysis are-
  - Envtl. factors: external & internal factors present in the envt. that have a bearing on the performance
  - Opportunity & Issue analysis: Opportunities available in the market, main threats business is facing or may face, strengths business can rely on & any weaknesses that may affect business performance
  - Competitive situation: Analyse main competitors of the org.
  - Product Situation: Details about current product. This can be done by dividing into parts core product & secondary (or supporting) product (or services), so as to relate this observation back to core needs of customer.

FIG: From thinking strategically about the situation to choosing a strategy
STRATEGIC ANALYSIS -

- Judgements about what strategy to pursue flow directly from org’s internal & external analysis
- Two most important situational considerations:
  - Industry & competitive conditions
  - Org’s own conditions (strength, weakness, capabilities, resources) & market position
- Accurate analysis of company’s situation is necessary managerial preparation for:
  - Deciding a sound long term direction
  - Setting appropriate objectives
  - Crafting a winning strategy
- Issues to be considered:
  - **Strategy evolves over a period of time** -
    → strategy, at a particular point of time, is a result of series of small decisions taken over an extended period of time
    → hence, consider possible implications of routine decisions
  - **Balance** -
    → strategic analysis involves a workable balance b/w diverse & conflicting considerations
    → match internal potential of org. with envtl. opportunities
    → constraining forces produce impact of varying nature, degree, & importance
    → some constraining forces are controllable, while others are uncontrollable
  - **Risk** -
    → complexity & intermingling of envtl. variables reduce strategic balance of org.
    → identify potential imbalances of risks & assess their consequences
    → competition, booms, recessions, liberalization, globalisation, technological advancements, inter-country relations affect business & pose risks.

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**EXTERNAL ANALYSIS**
- Customer analysis (segments, unmet needs)
- Competitor analysis (group, cost, objective)
- Market analysis (size, growth, barriers)
- Envtl. analysis (PESTLE)

**INTERNAL ANALYSIS**
- Performance analysis (sales, profitability, customer satisfaction, new products)
- Determinant Analysis (past & current strategies, strategic problems, financial resources, strengths & weaknesses)

**STRATEGY IDENTIFICATION & SELECTION**
- Identify strategic alternatives; Select strategy; Implement selected strategy; Review strategies

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METHODS OF INDUSTRY & COMPETITIVE ANALYSIS:

1 Dominant economic features of the industry:
   1.1. Industry is a group of firms whose products have same & similar attributes such that they compete for the same buyers
   1.2. Factors to be considered are-
      • Market size
      • Scope of competitive rivalry (local, regional, national, international, global, etc.)
      • Market growth rate & position in business life (development, maturity, decline, etc.)
      • No. of buyers & their relative sizes
      • Industry profitability (above/below par)

2 Nature & strength of competition:
   2.1. Needs to discover main sources of competitive pressures and how strong each of them are.
   2.2. Without in-depth understanding of industry’s competitive character, one cannot devise successful strategy
   2.3. Porter’s five forces model is a good tool for this

3 Triggers of change:
   3.1. Industry & competitive conditions change because forces are in motion that creates pressure for change
   3.2. Most dominant forces are called driving forces
   3.3. ‘Driving forces’ have biggest influence on kinds of changes that will take place in the envt.
   3.4. Analyse it in two steps-
      • Identify the driving forces
      • Assess their impact on industry
   3.5. Examples of drivers-
      • Internet & new e-commerce opportunities & threats
      • Increasing globalisation
      • Product/marketing innovation
      • Entry or exit of major firms

4 Identify companies that are in strongest/weakest positions:
   4.1. This can be done by the technique of “strategic group mapping”
   4.2. This technique is an analytical tool for comparing the market positions of each firm separately or for grouping them into like positions
   4.3. Strategic group consists of rival firms with similar competitive approaches & positions in market
   4.4. Companies of same strategic group resemble one another in any of the several ways like:
      • Geographic coverage (local, regional, national)
      • Price/quality range (high, medium, low)
      • Use of distribution channels (one, some, all)
4.5. Procedure for construction of strategic group map is-
   • Identify competitive characteristics that differentiate firms in industry (eg- bullets in pt. 4.4)
   • Plot firms on two-variable map using pairs of these differentiating characteristics
   • Assign firms that fall in about the same strategy space to same strategic group
   • Draw circles around each strategic group, where circle size is proportional to size of group’s respective share in total industry sales revenue.

5 Likely strategic moves of rivals
   5.1. Unless org. pays attention to acts of competitors, they end up flying blind into competitive battle
   5.2. Competitive intelligence is required on following matters-
   • Strategies that rivals are deploying
   • Latest moves of rivals
   • Resource strengths & weaknesses of rivals
   • Plans rivals have announced
   5.3. Competitive intelligence is essential so as to-
   • Anticipate the actions, competitors are likely to take next
   • Bearings their moves have on org’s own best strategic moves

6 Key factors for competitive success-
   6.1. An industry’s KSFs are those elements that most affect industry members’ ability to prosper in the marketplace. These KSFs can be-
   • Product attributes
   • Resources
   • Competencies
   • Competitive capabilities
   6.2. KSFs spell the difference b/w profit & loss; b/w competitive success or failure.
   6.3. These are the prerequisites for industry success
   6.4. Understand the industry situation well enough to know what is more important to competitive success and what is less important
   6.5. Misdiagnosing KSFs that are critical to long-term competitive success greatly raises the risk of a misdirected strategy
   6.6. Org that stand out on a particular KSF enjoy stronger market position for their distinctive efforts, better than rivals, as a competitive advantage.

7 Prospects & financial attractiveness of industry-
   7.1. Use results of analysis of previous six issues to draw conclusions about relative attractiveness or unattractiveness of the industry
   7.2. Factors on which to base conclusions-
   • Industry’s growth potential
   • Competition currently permits adequate profit or not?
   • Competitive forces will become stronger or weaker?
   • Competitive position of org in industry; if its position is likely to grow stronger or weaker?
   7.3. If industry’s overall profit prospects are above avg. then, consider it attractive; if it is below avg then, consider it unattractive

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7.4. Attractiveness is relative, not absolute
7.5. Industry envt. unattractive to weak competitors may be attractive to strong competitors
7.6. Weak org in unattractive industry may consider merging with rival to boost market share; profitability; or may look for attractive diversification opportunities outside industry

**SWOT ANALYSIS**

➢ What are Strengths, weakness, opportunity, threats?  (REFER Chapter-1)
➢ Central purpose is to identify such strategies that will best align (or fit or match) the org’s resources & capabilities to demands of envt. in which it operates
➢ **Significance**-
  - Provides us with logical framework to defeat systematically those issues that have a bearing on business situation, generation of alternative strategies & choice of strategy.
  - Presents comparative account of information about both external & internal envt. in a structured form enabling strategists to compare external opportunities & threats with internal strengths & weaknesses, so that a suitable strategy can come out.
  - Guides the strategist in strategy identification by helping him to think of overall picture of the org., especially when the org. cannot be matched in four patterns so that he can identify the major purpose of strategy under focus
➢ **Matrix**-

<table>
<thead>
<tr>
<th>Potential resource strengths &amp; competitive capabilities-</th>
<th>Potential resource weaknesses &amp; competitive deficiencies-</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cost advantages</td>
<td>• no cost control measures</td>
</tr>
<tr>
<td>• Strong brand name</td>
<td>• weak brand image</td>
</tr>
<tr>
<td>• Strong financial condition</td>
<td>• weak balance sheet</td>
</tr>
<tr>
<td>• Strong strategy supported by competitive skills &amp; experience in key areas</td>
<td>• no clear strategic direction</td>
</tr>
<tr>
<td>• Attractive customer base</td>
<td>• not able to attract new customers</td>
</tr>
<tr>
<td>• Ample financial resources</td>
<td>• short on financial resources</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential company opportunities-</th>
<th>Potential external threats to company-</th>
</tr>
</thead>
<tbody>
<tr>
<td>• sharply rising demand</td>
<td>• loss of sales to substitute products</td>
</tr>
<tr>
<td>• acquisition of rival firms/companies</td>
<td>• likely entry of new competitors</td>
</tr>
<tr>
<td>• using internet &amp; e-commerce to cut costs</td>
<td>• competition from e-commerce orgs.</td>
</tr>
<tr>
<td>• fall in trade barriers of attractive foreign markets</td>
<td>• adverse forex rates or trade policies of foreign govt</td>
</tr>
<tr>
<td>• serving additional customer groups</td>
<td>• shift in buyer needs &amp; tastes</td>
</tr>
<tr>
<td>• expanding org’s product line</td>
<td>• costly new regulatory requirements</td>
</tr>
</tbody>
</table>

➢ Strategies-
  - Functional level strategy aims to improve effectiveness of operations within an org
  - Global strategy addresses how to expand operations outside home country to grow & prosper in a world
  - Corporate Level strategy REFERENCES
  - Business level strategy REFERENCES

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TOWS MATRIX-

➢ Matches strengths & weaknesses of an org with the external opportunities & threats
➢ Incremental benefit of TOWS over SWOT is its wider scope as it identifies relationships b/w these factors & select strategies on their basis
➢ TOWS is action tool; SWOT is a planning tool.
➢ Helps to consider how to use external envt to its strategic advantage; so that one can identify strategic options available to him

<table>
<thead>
<tr>
<th>EXTERNAL ELEMENTS</th>
<th>INTERNAL ELEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENVTL OPPORTUNITIES (&amp; RISKS)</td>
<td>SO (MAXI-MAXI) Utilize strength to capitalize opportunities</td>
</tr>
<tr>
<td>ENVTL. THREATS</td>
<td>ST (MAXI-MINI) Minimize existing/emerging threats through its strengths</td>
</tr>
<tr>
<td></td>
<td>WO (MINI-MAXI) Overcome org. weaknesses to exploit opportunities fully</td>
</tr>
<tr>
<td></td>
<td>WT (MINI-MINI) AVOID THIS POSITION as here org. may have to struggle for survival</td>
</tr>
</tbody>
</table>

PORTFOLIO ANALYSIS-

a) Defined as set of techniques that helps strategists in taking strategic decisions with regard to individual products or businesses in a firm’s portfolio
b) advantages to multi-product, multi-business firm is “resources can be allocated at corporate level to those businesses that have greatest potential”
c) analyse the current business portfolio
   • to design the business portfolio
   • to decide which business need more, less or no investment
   • to develop growth strategies for adding new business/products to portfolio
d) concepts to understand different models of portfolio analysis-
   • STRATEGIC BUSINESS UNIT-
     ▪ SBU- unit of company, having a separate mission & objectives & which can be planned independently from businesses of other company
     ▪ Common in orgs. that are located in multiple countries with independent manufacturing & marketing setups
     ▪ Characteristics- it can be planned for separately, has its own set of competitors, as has a separate manager
     ▪ After identifying SBUs, assess their respective attractiveness to decide how much support each deserves
   • EXPERIENCE CURVE-
     ▪ Based on phenomenon “unit costs decline as org accumulates experience in terms of cumulative volume of production”, implying “larger org in an industry tend to have lower unit costs as compared to smaller org, gaining competitive cost advantage
     ▪ Results from a variety of factors such as learning effects, economies of scale, technological improvements in production
     ▪ Considered as a barrier for new firms
     ▪ Also used to build market share & discourage competition
• PRODUCT LIFE CYCLE-
  - It is an S-shaped curve which exhibits the relationship of sales w.r.t time for a product that passes through four successive stages as discussed below-

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction (slow sales growth)</td>
<td>Negligible competition, relatively higher prices, limited markets, sales growth at lower rate due to lack of knowledge on part of customers</td>
</tr>
<tr>
<td>Growth (rapid market acceptance)</td>
<td>Demand expands rapidly, prices fall, competition increases, market expands, customer has knowledge about product &amp; shows interest in purchasing it</td>
</tr>
<tr>
<td>Maturity (slowdown in growth rate)</td>
<td>Tough competition, stabilised market, profit comes down due to stiff competition</td>
</tr>
<tr>
<td>Decline (sharp downward drift)</td>
<td>Sales &amp; profit falls sharply as new products replace existing. Needs particular attention; may go for diversification/retrenchment to stay in market</td>
</tr>
</tbody>
</table>

• BOSTON CONSULTING GROUP (BCG) GROWTH-SHARE MATRIX-
  - Simplest way to portray a company’s portfolio of investments
  - Used for resource allocation in a diversified company
  - Under this approach, company classifies different businesses on a 2-D matrix

<table>
<thead>
<tr>
<th>RELATIVE MARKET SHARE</th>
<th>MARKET GROWTH RATE</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HIGH</td>
<td>LOW</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARKET GROWTH RATE</td>
<td>HIGH</td>
<td>STARS</td>
<td>QUESTION MARKS (problem child/wildcats)</td>
<td>CASH COWS</td>
<td>DOGS</td>
<td></td>
</tr>
<tr>
<td>LOW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Stars** – businesses growing rapidly; needs heavy investment to maintain their position & finance their rapid growth potential; best expansion opportunities
- **Cash cows** – low growth, high market share businesses; generate cash; have low costs; are established & successful; need less investment to maintain their market share; in long run when growth rate slows down--stars become cash cows.
- **Question Marks** – low market share business in high-growth markets; require lot of cash to hold their share; need heavy investment to generate cash; if left unattended may become cash traps; high growth rate makes it easier to increase it; it is upon org. to turn them to stars & then cash cows when growth rate reduces
- **Dogs** – low-growth, low-share businesses; may generate enough cash to maintain themselves; do not have much future; minimise them by divestment/liquidation

- After classification, follow four strategies as below-

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILD</td>
<td>Increase market share, even by forgoing short-term earnings</td>
</tr>
<tr>
<td>HOLD</td>
<td>Preserve market share</td>
</tr>
<tr>
<td>HARVEST</td>
<td>Increase short-term cash flow regardless of long-term effect</td>
</tr>
<tr>
<td>DIVEST</td>
<td>Sell or liquidate the business</td>
</tr>
</tbody>
</table>
- **LIMITATIONS** - difficult, time-consuming, costly, provides little advice for future planning

- **ANSOFF’S PRODUCT MARKET GROWTH MATRIX** -
  - Using this, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new & existing markets

  - **MATRIX** -

<table>
<thead>
<tr>
<th>EXISTING PRODUCTS</th>
<th>NEW PRODUCTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXISTING MARKETS</strong></td>
<td><strong>NEW MARKETS</strong></td>
</tr>
<tr>
<td><strong>MARKET PENETRATION</strong></td>
<td><strong>PRODUCT DEVELOPMENT</strong></td>
</tr>
<tr>
<td>Growth strategy where business focus on selling existing products into existing markets; by making more sales to present customers without major changes in products. It can be achieved by advertising, personal selling, pricing strategy or by increasing usage by existing customers.</td>
<td>growth strategy where business aims to introduce new products into existing markets by offering modified (or new) products to current markets. It can be achieved by development of new competencies or by developing modified products</td>
</tr>
<tr>
<td><strong>MARKET DEVELOPMENT</strong></td>
<td><strong>DIVERSIFICATION</strong></td>
</tr>
<tr>
<td>Growth strategy where business sells its existing products into new markets. It is a strategy for company growth by identifying &amp; developing new markets for current company products.</td>
<td>growth strategy where business markets new products in new markets, by starting up/acquiring businesses outside company’s current products &amp; markets. It is risky strategy as doesn’t either rely on company’s successful products nor on established markets</td>
</tr>
</tbody>
</table>

- **GENERAL ELECTRIC MODEL (STOP-LIGHT STRATEGY MODEL)** -
  - Also known as business planning matrix, GE nine-cell matrix & GE electric model
  - It is inspired form traffic control lights, used as crossings to manage traffic: green for go, amber/yellow for caution & red for stop
  - Factors while taking strategic decisions - business strength & market attractiveness
  - Factors to measure market attractiveness - size of the market, market growth rate, industry profitability
  - Factors to measure business strength - market share, market share growth rate, profit margin & brand image

  - **MATRIX** -

<table>
<thead>
<tr>
<th>MARKET ATTRACTIVENESS</th>
<th>STRONG</th>
<th>AVERAGE</th>
<th>WEAK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HIGH</strong></td>
<td>GREEN</td>
<td>GREEN</td>
<td>YELLOW</td>
</tr>
<tr>
<td><strong>MEDIUM</strong></td>
<td>GREEN</td>
<td>YELLOW</td>
<td>RED</td>
</tr>
<tr>
<td><strong>LOW</strong></td>
<td>YELLOW</td>
<td>RED</td>
<td>RED</td>
</tr>
</tbody>
</table>

- **Green** - Invest/Expand
- **Yellow** - Select/Earn
- **Red** - Harvest/Divest

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**BCG vs GE MATRIX**

1. Market attractiveness replaces market growth to include a broader range of factors other than just market growth rate.

2. Competitive strength replaces market share by which competitive position of each SBU is assessed.

   - **ADL MATRIX**
     - It is a Portfolio analysis method that is based on PLC; based on “stage of industry maturity” & “firm’s competitive position”
     - **MATRIX**

<table>
<thead>
<tr>
<th>Competitive position</th>
<th>Embryonic</th>
<th>Growth</th>
<th>Mature</th>
<th>Ageing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strong</strong></td>
<td>-Differentiate -Fast grow</td>
<td>-Differentiate -Lower cost -Attack small firms</td>
<td>-Lower cost -Focus -Differentiate -Grow with industry</td>
<td>-Find niche -Hold niche -Harvest</td>
</tr>
<tr>
<td><strong>Favourable</strong></td>
<td>-Differentiate -Focus -Fast grow</td>
<td>-Focus -Differentiate -Defend</td>
<td>-Focus -Differentiate -Harvest -Find niche -Hold niche -Turnaround -Grow with industry -Hit smaller firms</td>
<td>-Harvest -Turnaround</td>
</tr>
<tr>
<td><strong>Tenable</strong></td>
<td>-Grow with industry -Focus</td>
<td>-Hold niche -Turnaround -Focus -Grow with industry -Withdraw</td>
<td>-Turnaround -Hold niche -Retrench</td>
<td>-Divest -Retrench</td>
</tr>
<tr>
<td><strong>Weak</strong></td>
<td>-Find niche -Catch up -Grow with industry</td>
<td>-Turnaround -Retrench -Niche/withdraw</td>
<td>-Withdraw -Divest</td>
<td>-Withdraw</td>
</tr>
</tbody>
</table>

**DOMINANT** - comparatively rare position, attributable either to monopoly or strong & protected technological leadership

**STRONG** - firm having considerable degree of freedom over its choice of strategies, without being threatened by its competitors

**FAVOURABLE** - when industry is fragmented & no competitor can stand out clearly, giving market leaders reasonable degree of freedom

**TENABLE** - able to perform satisfactorily & can justifying stay in industry; vulnerable in face of increased competition from stronger & more proactive companies in the market

**WEAK** - unsatisfactory performance, although opportunities for improvement do exist

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