CHAPTER 4: STRATEGIC PLANNING

- **PLANNING**:  
  - It is future-oriented  
  - Important constituent of good management  
  - Involves determining what resources are available, what resources can be obtained & allocating responsibilities according to potential of the employees

- **STRATEGIC PLANNING**:  
  - Process of determining organisational strategy as gives direction to the org. & involves making decisions & allocating resources to pursue the strategy  
  - It is a top level management function  
  - It has two approaches: top-down; bottom-up  
    - **Top down strategic planning** describes an approach to strategy formulation in which corporate centre determines mission, strategic intent, objectives & strategies for the org. as a whole & for parts. Unit managers are seen as implementers of pre-specified corporate strategies  
    - **Bottom up strategic planning** is the approach where corporate centre doesn’t conceptualize its strategic role, rather, they prefer to act as a catalyst & facilitator, keeping things reasonably simple & keeping itself to broader strategic intent

- Scenario analysis accepts the uncertainty & uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organisational & strategic flexibility.

- **STAGES OF CORPORATE STRATEGY FORMULATION-IMPLEMENTATION PROCESS**:  
  - **Stage 1**: Develop a strategic vision  
  - **Stage 2**: Setting objectives  
  - **Stage 3**: Crafting a strategy to achieve the objectives & vision  
  - **Stage 4**: Implement & execute strategy  
  - **Stage 5**: Monitor developments, evaluate performance & make corrective adjustments

- **STAGE 1**: determine what directional path the org. should take.  
  (Refer chapter 2 for what is strategic vision & mission)  
- **STAGE 2**: Refer chapter 2 for objectives.
The balanced scorecard approach: It is a combination of strategic & financial objectives. Unless an org. is in deep financial difficulty, such that its survival is threatened, it is advised to put more focus on strategic objectives. Pursuing strategic objectives strengthen an org’s business position.

Need for both short-term & long term objectives: include both short term & long term performance targets. Org. objectives need to be broken down into performance targets for individual work unit, department, product, etc.

Long-term objectives: these are commonly established in the areas of profitability, productivity, competitive position, technological leadership & public responsibility. Its qualities are suitable, acceptable, achievable, measurable, (easily) understandable

• STAGE 3: The strategy process proceeds from corporate level to business level, then from business level to functional level, then to operating level. Mid-level & frontline managers can’t do good strategy making without understanding the company’s long term direction & higher level strategies. Hence, they should be pen down into easy-to-grasp terminology. Here goal is to develop a strategy that exploits business strengths & competitors’ weaknesses as well as neutralizes business weakness & competitor strengths. Hence, it should be crafted by assessing three areas: SW (of swot); competitor’s strengths/ weakness/ strategies; OT (of swot).

• STAGE 4: It aims to shape the performance of core business activities in a strategy-supportive manner. To convert strategic plans into actions & results, a manager must be able to direct organisational change, motivate people, build & strengthen company competencies & competitive capabilities, create strategy-supportive work envt. & meet (or beat) performance targets. It involves creating strong fit b/w strategy & organisational capabilities. It includes following principal aspects-
  ▪ Staffing, developing budgets, installing information & operating systems, motivating people, trying rewards & incentives, relevant company culture & policies, etc.

• STAGE 5: managing strategy is an ongoing process. It involves- evaluating company’s progress, assessing impact of new external developments, making corrective adjustments. It is the trigger point to decide whether to continue or change vision, objectives, strategy, etc. Periodically assess what aspects of strategy execution works well, & what needs improvement.

➢ GLUECK & JAUCH GENERIC STRATEGIC ALTERNATIVE

Four generic ways to consider strategic alternatives are dealt in below-

• Stability Strategy:
  ▪ one of the most important goals of org is stability
  ▪ implemented wherein few functional changes are made in the products/markets
  ▪ Not a “do nothing” strategy, but a “do nothing new” strategy
  ▪ Involves keeping track of new developments to ensure that strategy continues to make sense
  ▪ Pursued when firm continue to serve same or similar markets/products & focus is on incremental improvement of performance.
• **Expansion Strategy**-
  ▪ Implemented by redefining the business by adding business scope substantially, which increases the efforts of current business
  ▪ Promising & popular strategy, which may take enterprise along relatively unknown & risky paths, full of promises & pitfalls
  ▪ Also includes diversifying, acquiring & merging businesses
  ▪ Can be done in 2 ways - through diversification & through mergers/acquisitions

• **Expansion through diversification**-
  ▪ Diversification means entry into entry into new product/product lines, new services/new markets involving substantially different skills, technology & knowledge
  ▪ Conglomerate diversification is when an established firm introduces new product having little or no affinity with its present product line & which is meant for new class of customers different from firm’s existing customer groups
  ▪ Reasons for this includes utilising existing facilities/capabilities in a more effective & efficient manner. Also, it may be possible to improve sales of existing products by adding suitably related/new products (because of linkages in technology/markets)

• **Expansion through acquisitions & mergers**-
  ▪ Consider it systematically, so that marriage will be mutually beneficial, a happy & lasting affair
  ▪ Apart from growth, it helps in achieving synergy between parent & acquired org.

• **Retrenchment Strategy**-
  ▪ Redefinition of business by divesting a major product line/market
  ▪ Not always bad proposition as it saves org’s vital interests, minimise certain adverse effects, regroup resources before launching a rise on growth ladder
  ▪ Several options are open to act on this strategy
  ▪ For temporary setbacks, cut on its capital & revenue expenditure, advertising, executive perks, employee welfare subsidies, community development projects
  ▪ In second stage, cut on inventory levels, manpower, dividend, interest on deposits
  ▪ In third stage, withdraw marginal markets, some brands, product sizes, etc.
  ▪ In fourth stage, go for sale of some manufacturing facilities, product divisions, retirement either from production or marketing stage, may offer itself for take over
  ▪ At last option, org may seek for liquidation which means corporate death

• **Combination Strategy**-
  ▪ Above strategies are not mutually exclusive
  ▪ May adopt a mix of above to suit particular situations
  ▪ May seek stability in some areas, expansion in some & retrenchment in others.

➢ **MICHAEL PORTER’S GENERIC STRATEGIES**-
  • As per him, strategies provide competitive advantage from 3 different bases (called as generic strategies) : cost leadership, differentiation & focus.
  • **Cost Leadership**-
    ▪ Aim on producing standardized products at a low per-unit cost for price sensitive consumers but better to be pursued with differentiation
    ▪ Effective when market is composed of many price-sensitive buyers, & there are few ways to achieve differentiation

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Basic idea is to under price competitors to gain market share & wipe out competitors
- Evidenced by high efficiency, low overhead, limited perks, intolerance of waste, etc
- Risks include-
  - Competitors imitating strategy which drives overall profits down; technological breakthroughs making strategy ineffective; buyer interest swings to differentiating features besides price
- It is achieved by org. by pursuing forward/backward/horizontal integration

**Differentiation-**
- Aim at producing products/services, considered unique industry-wide for relatively price-insensitive consumers
- Pursued only after careful study of buyer’s needs & preferences
- Can’t guarantee competitive advantage if standard products meet customer needs or quick imitation by competitors is possible
- Need is of durable products protected by barriers to quick copying by competitors
- It means greater product flexibility & compatibility, lesser cost & maintenance, greater convenience & improved services.
- Example include “Product Development”
- **Advantages:** higher price for products, customer loyalty.
- **Risks include-**
  - Customer may not value unique product highly enough to justify high price (it can be defeated by cost leadership strategy), copy by competitors.
- **Requirements for differentiation strategy-**
  - Strong co-ordination among R&D & marketing, substantial amenities to attract scientists & creative people

**Focus-**
- Producing products/services that fulfil needs of small consumer group
- Success depends on industry segment of sufficient size having good growth potential & is not crucial to success of other major competitors
- Example—Market Penetration & Market Development
- Midsize & large firms can pursue it only with differentiation/cost leadership strategy
- Most effective when consumers have distinct requirements & rival firms do not attempt to specialize in same target segment
- **Risks include-**
  - Recognition & copying of successful focus strategy by numerous competitors, drift of consumer preference to attributes desired by common market
- **Requirements for focus strategy-**
  - Concentrate on particular customer group/geographical market/product-line to serve well-defined narrow market better than competitors who serve broader market
- Perform cost-benefit analysis to evaluate sharing opportunities among a firm’s existing & potential business units to enhance competitive advantage by lowering costs or raising differentiation & also transferring skills among business units

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### Skill & resource requirement table

<table>
<thead>
<tr>
<th>Generic Strategy</th>
<th>Common skills/resources required</th>
<th>Common organisational requirements</th>
</tr>
</thead>
</table>
| Overall Cost Leadership | • Process engineering skills  
• Intense labour supervision  
• Low-cost distribution system | • Tight cost control  
• Frequent, detailed reports  
• Incentive based on meeting strict quantitative requirements |
| Differentiation | • Strong marketing ability  
• Product engineering skills  
• Strong “basic research” ability | • Strong coordination among R&D, product development, marketing  
• Incentives based on subjective measures  
• Amenities to attract scientists, creative people |
| Focus | • Combination of above | • Combination of above |

#### BEST COST PROVIDER STRATEGY
- Further development of above three Michael Porter’s Generic Strategy
- Gives more value of money to customers by emphasizing on both low-cost & differentiation
- Objective- keep cost (& prices) lower than other sellers of “comparable products”
- Five generic competitive strategies:

![Type of Advantage Sought diagram](chart)  

#### GRAND/DIRECTIONAL STRATEGIES
- Classified into four broad categories- stability, expansion, retrenchment & combination
- Synonyms (also called as) – Grand strategies, master strategies, business strategies
- Aim- provide basic direction for strategic actions
- Seen as basic coordinated efforts directed towards achieving long-term business objectives
- Strategies are explained below

#### STABILITY STRATEGY
- Means staying with same business/product-market posture & functions, maintaining same level of effort as at present
- Doesn’t involve redefinition of business
- Safety-oriented strategy
- Doesn’t warrant much of fresh investments
- Less risk & less rewards

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• **Aim** – enhance functional efficiencies through better utilization of resources
• **Merit** - gives benefit of concentrating its resources & attention on existing business/product/market
• **Demerit** - doesn’t permit renewal process of bringing in fresh investments & new products/markets for the firm
• **Reasons for adopting** - Less risky, lesser changes required, environment is stable, expansion can be threatening, feels comfortable with things as they are

**EXPANSION STRATEGY**
• Opposite of stability strategy- higher risk & higher rewards
• Involves redefinition of business
• permit renewal process of bringing in fresh investments & new products/markets for the firm
• Note: (state intensification, diversification, etc. explained later each in single lines)
• **Reasons for adopting** - Environment demands increased pace of activity, may lead to more control over market, to exploit advantages from experience curve & scale of operations, for psychological satisfaction by taking pride in growth prospects

**DIVESTMENT STRATEGY**
• Involves retrenchment of some activities of business or sell-out some businesses as a whole
• Involves redefinition of the business
• **Reasons** - high competition, strategy failure, unprofitable business, obsolete product/process
• **Types** are explained later.
• **Reasons for adopting** - Threatening envt., to ensure stability by reallocating resources from unprofitable to profitable businesses, no wish to continue business due to continuous losses

**COMBINATION STRATEGY**
• Combines above strategic alternatives so as to suit specific requirements of the firm
• **Reasons for adopting** - Org. is large, envt. is complex, org. contains different business of different industry requiring different response.

➢ **EXPANSION STRATEGY**
  • **INTENSIFICATION** – Refer chapter-3 Ansoff’s framework (market penetration, market development, product development)
  • **DIVERSIFICATION** - (refer Ansoff’s framework (diversification)
    It can be related or unrelated to existing businesses of firms & classified into four categories explained below-
    ▪ Vertically Integrated Diversification
    ▪ Horizontally Integrated Diversification
    ▪ Concentric Diversification
    ▪ Conglomerate Diversification

➢ **VERTICALLY INTEGRATED DIVERSIFICATION**
  • Firms opt to engage in business which are relate to existing business of the firm
  • Firm decides not to jump out outside the vertically linked product-process chain

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• Firms remains vertically in same process sequence, moving forward or backward in chain with the aim to make it into its new business
• It is further of two types- Forward Integration & Backward Integration
  • **Forward Integration**
    It is moving forward in the value chain & entering business lines that use existing products. Eg- when org enter into business of “distribution channels”
  • **Backward Integration**
    It is a step towards creation of effective supply by entering into business of “input providers” whereby org enters into a business that will increase its supply capability or lessen its cost of production

➢ **HORIZONTALLY INTEGRATED DIVERSIFICATION**
  • Firms acquire one or more similar business operating at same stage of “production-marketing” chain. Eg- complementary products, by-products, competitor’s products

➢ **CONCENTRIC DIVERSIFICATION**
  • Here, new business is linked to existing business through process/technology/marketing
  • Eg – telephone companies offering internet services
  • **Concentric v/s vertical diversification**
    Difference is in nature of linkage, as in vertical diversification new product falls within current product-process chain, but in concentric diversification there is departure from this vertical linkage

➢ **CONGLOMERATE DIVERSIFICATION**
  • There exists no linkage between existing & new business
  • New products are disjoint from existing products in every way
  • No common thread at all with firm’s present position

<table>
<thead>
<tr>
<th>RELATED DIVERSIFICATION</th>
<th>UNRELATED DIVERSIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Done by exploiting</td>
<td>Done by</td>
</tr>
<tr>
<td>&gt; Brand name</td>
<td>&gt; Manage &amp; allocate cash flow</td>
</tr>
<tr>
<td>&gt; Marketing skills</td>
<td>&gt; Obtain high ROI</td>
</tr>
<tr>
<td>&gt; Manufacturing skills</td>
<td>&gt; Obtain a bargain price</td>
</tr>
<tr>
<td>&gt; Economies of scale</td>
<td>&gt; Tax benefits</td>
</tr>
<tr>
<td>Vertical/Horizontal/Concentric Integration</td>
<td>Conglomerate diversification</td>
</tr>
</tbody>
</table>

➢ **MERGER & ACQUISITION STRATEGY**
  • **Def-** process of combining two or more org. together
  • Thin line of difference in two terms, but impact is completely different in both cases
  • **Merger**- here org. come together to expand their business operations by finalizing deal on friendly terms, where both org. sharing profits of new org. & increase their strength & financial gains along with breaking trade barriers
  • **Acquisition** - here one financially strong org. takes over other weaker org & controls all its business operations, wherein combined operations run under the name of powerful org by finalizing the deal in an unfriendly manner as it is a forced association, either because powerful org consumes the operation or org, in loss is forced to sell itself. It often happens during recession or during declining profits.
  • **Types:** Horizontal Merger, Vertical Merger, Co-generic Merger, Conglomerate Merger
  • **HORIZONTAL MERGER**
Combination of firms engaged in same industry at same stage
  It is merger with a direct competitor
  Aim- achieve economies of scale in production process by removing duplication of functions, widening product line, decreasing working capital & investment in fixed assets “and” getting rid of competition.
  Eg- Brook Bond Lipton India Ltd. Is a merger of Lipton India & Brook Bond

**VERTICAL MERGER**
  Combination of org engaged in same industry at different stages of production/distribution system
  If org take over supplier, its backward integration & if it takes over distribution channel/buyer org, its forward integration
  Aim- operating & financial economies, restrict supply of inputs to other players or providing inputs at higher cost, thus, creating advantageous position

**CO-Generic MERGER**
  Org. are associated in some way or other, related to production processes, business markets, or required technologies
  Aim- extension of product line or acquiring components required in daily operations or to diversify around common set of resources & strategic requirements
  Eg- refrigerator company acquiring kitchen appliances company

**CONGLomerate MERGER**
  Combination of org. unrelated to each other
  No linkages in customer group, customer functions, technologies used, production, marketing, R&D, etc
  However, practically there is some degree of overlap in one or more of these factors

➢ **RETrenchment/DIVestment/Liquidation STRATEGY**-
  Retrenchment strategy is where org. substantially reduces the scope of its activity
  It includes certain steps, which results in different kind of “retrenchment strategy”

**TURNAROUND STRATEGY**-
  Org. chooses to focus on ways & means to reverse the process of decline
  May be done either internally(by improving internal efficiency) or externally
  For its success, focus on short & long-term financing needs & strategic issues
  **Danger Signs**
  Negative profits, negative cash flow, declining market share, high employee turnover, mismanagement, uncompetitive products/services
  **Inclusions in action plan**
  Analyse product/market ; clear thinking about market place ; implementation of plants by target-setting/feedback/remedial actions
  **Elements contributing turnaround**
  Change in top management, neutralise external pressures, quick cost reductions, revenue generation, asset liquidation for cash

**DIVESTMENT STRATEGY**-
  Sale/liquidation of portion of business/major division/profit centre/SBU
  Usually a part of rehabilitation/restructuring plan
  Adopted when attempted turnaround failed (or ignored if failure is confirmed)
- Reasons for adopting it-
  Acquired business proves a mismatch & can’t be integrated; persistent negative
cash flows create financial problem for entire org; severity of competition & inability
to cope with it: technological upgradation required but not possible; better
alternative available for investment.

  - LIQUIDATION STRATEGY-
    - Most extreme & unattractive, involving closing down of firm & selling its assets
    - Action of last resort, leading to serious results, eg- employment loss for employees,
termination of possibility of exploiting future opportunities, stigma of failure
    - Selling assets for implementing this strategy is not easy due to difficulty in finding
buyers & no expectation for adequate compensation as assets are mostly unusable
    - Chosen when “dead business is worth more than alive”
    - If planned, it involves systematic plan to reap the maximum benefits for the firms
and shareholders
    - Winding up (liquidation) can be done by either court or voluntarily