Lecture 1

LONG RANGE PLG / STRATEGIC PLANNING:

MGT PROCESSES IN ORGNS THRO' WHICH THE FUTURE IMPACT OF CHANGE IS DETD AND CURRENT DECISIONS TO REACH A DESIGNED FUTURE ARE MADE

NPTEL

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INCLUDE ENTIRE PROCESS OF MAJ OUTSIDE INTEREST GRPS AND THEIR STAKES; EXPECTATIONS OF DOMINANT INSIDE STOCK HOLDERS INFN - PAST, PRESENT & PROJD PERF; EVALN OF CO. STRENGTHS & WEAKNESSES; FORMLN OF ORGNL PURPOSE, MISSION, OBJS, POLICIES AND STRATEGIES

STRATEGIC MANAGEMENT

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STRATEGY: LONG - TERM DECISIONS - INCLUDES OBJS, GOALS & COURSES OF ACTION

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Ex: (ANSOFF: CORP. STRATEGY...., '65)

OBJS : ROI: THRESHOLD 10%, GOALS 15%

SALES GROWTH RATE : THRESHOLD 5%, GOALS 10%

STRATEGY: COURSES OF ACTION

PROD-MKT: BASIC CHEMICALS & SCOPE PHARMACEUTICALS

GROWTH VECTOR : PROD DEVPT & CONCENTRIC DIVSFN

COMPETITIVE ADVANTAGE: PATENT PROTECTN, SUPERIORRES COMPETENCE

SYNERGY : USE OF FIRM'S RES CAPABILITIES & PRODN TECHNOLOGY

PURPOSE & MISSION: USED INTERCHANGEABLY

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<u>STRATEGY:</u>

COURSES OF ACTION

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Mission statement

- A strategically revealing mission statement incorporates three elements
  - What customer need is being satisfied
  - Who is being satisfied
  - How value is created and delivered to customers satisfying their needs

Example
The Saturn Corporation's Mission Statement

" Market vehicles developed and manufactured in the United States that are world leaders in quality, cost, and customer satisfaction through the integration of people, technology, and business systems and to transfer knowledge, technology, and experience throughout General Motors"

Business Mission

- An organization's business mission complements its business definition.
- It reflects management's vision of what the organization seeks to do.
- Some are general statements, others may be very specific.
- Clearly stated mission statements add focus to the organization's efforts.

Example
The Hallmark Company

- What needs/wants do they fulfill?
- Generic versus product markets
- The search for growth opportunities
- Greeting cards versus the "personal expression" market.

GOALS: LEGITIMISE ORGN; IDENTIFY INTER ORGNL RELNSHIPS;
HAVE PR VALUE;IMAGE BLDG WITH SUPPLIERS, CUST, PUBLIC POLICY
MAKERS AND THE GOVT; COORDN OF MULTIPLICITY
OF TASKS, MANAGING OF CONFLICTS; STDS OF PERF;
MOTIVATORS

GOALS: OFFICIAL (DESCRIBED IN MOA, CHARTER, ANN. REPORT)
OPERATIVE - WHAT ORGN IS REALLY ATTEMPTING TO DO CAN BE
INFERRED FROM ORGNL POLICIES; HELP FOCUS ATTN,
REDUCE UNCERTAINTY, CHOOSE ORGNL DESIGN ALTVES
OPERATIONAL - USED BY SUP. PERSONNEL OR MGRS TO INFLUENCE
THE BEHVR OF SUBORDINATES AND MEASURE THEIR
PERFORMANCE
OFFICIAL - ABSTRACT, IDEALISTIC; OPERATIVE -
ACTUAL GOALS BUT NOT ARTICULATED;
OPERATIONAL - DETAILED, MEASURABLE

POLICIES: GUIDE TO ACTION

PYRAMID OF BUSINESS POLICIES (FROM STEINER, TOP MGT PLG, P.268)

Lecture 2

STRATEGIES: GROWTH STRATEGIES

I. HOLD RELATIVE POSN IN HIGH GROWTH PROD/MKT AREA
II. ↑ MKT SHARE IN HIGH GROWTH MKT
III. ↑ MKT SHARE IN MATURE MKTS
IV. HOLD STRONG RELATIVE POSITION IN MATURE MKT, USE 'EXCESS' CASH FLOW, FUNDS,... TO EFFECT PENTN WITH EXISTING PRODUCT LINE - MULTI NATL MKT
V. AS IN (IV) -WRT NEW PROD/MKTS DOMESTICALLY
VI. HOLD STRONG RELATIVE POSN IN DIVERSIFIED PROD. LINE DOMESTICALLY, AND USE 'EXCESS' CASH FLOW, FUNDS CAPABILITY AND OTHER RESOURCES TO DIVERSIFY MKTS

DEPENDANCY REDN STRATEGIES

I. ' MAINTAINING ALTERNATIVES'
II. BLDG 'POSITIVE IMAGE'
III. 'DIRECT CONFRONTATION'
IV. CONTRACTING - TO REDUCE UNCERTAINTIES
V. CO-OPTATION - TO INVOLVE REPS OF OTHER ORGNS INTO POLICY-MAKING POSITIONS TO ACHIEVE CERTAINTY OF FUTURE
VI. 'COALITIONS' - TO ACHIEVE COMMON GOALS LIKE OPPOSING A COMMON ENEMY

VERTL. INTEGN. STRATEGIES - BACKWARD; FORWARD RISK: LOSS OF FLEXIBILITY

GENERIC: I. OVERALL COST LEADERSHIP
II. DIFFERENTIATION
III. FOCUS

MERGERS AND JOINT VENTURES

Tests of a winning strategy

- Goodness of fit test
  - Match to industry and competitive condition, opportunities and threat
  - Tailored to company's strengths and weakness, competencies, and capabilities
- Competitive advantage test
  - Leads to sustainable competitive advantage
- Performance test
  - Boosts profitability and competitive strength and long term position

MGT. DECISIONS

- STRATEGIC - INTERFACE BETWEEN OPEN & EXTL. ENVNT - ALLOCATION OF TOT. RES- INFREQUENT.
- OPERATING - RES. CONVN
- ADMNVE - FACILITATIVE

ORGN' S SUCCESS OR FAILURE IN THE LONG-RUN DEPENDS UPON STRATEGIC DECISION MAKING i.e. UPON DOING THE RIGHT THINGS THAN UPON DOING THINGS RIGHT

Table 1.1: Comparison Of Operating and Strategic Decisions

How \ What		STRATEGIC DECISIONS: Clear	STRATEGIC DECISIONS: Unclear
OPERATING DECISIONS	Effective	I Clear strategy and effective operations have contributed to success in the past and will contribute to success in the future.	II Unclear strategy but effective operations have contributed to success in the past but success in the future is doubtful.
	Ineffective	III Clear strategy but ineffective operations have sometimes worked in the past in the short-run, but increasing competition makes success doubtful in the future.	IV Unclear strategy and ineffective operations have meant failure in the past and will be so in the future.

Source: Tragoe B. and J Zimmerman ,1980, Top Management Strategy, John Martin: London, pp.20

Important Definitions

Strategic Management Process

The full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns

Strategic Competitiveness

Achieved when a firm successfully formulates and implements a value-creating strategy

Above-Average Returns

Occurs when a firm develops a strategy that competitors are not simultaneously implementing

Provides benefits which current and potential competitors are unable to duplicate

Important Definitions

Risk

An investor's uncertainty about the economic gains or losses that will result from a particular investment

Average Returns

Returns that are equal to those an investor expects to earn from other investments with a similar amount of risk

Strategic Flexibility

A set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment

It involves coping with uncertainty and the accompanying risks

Strategic Management – Decision Making Process

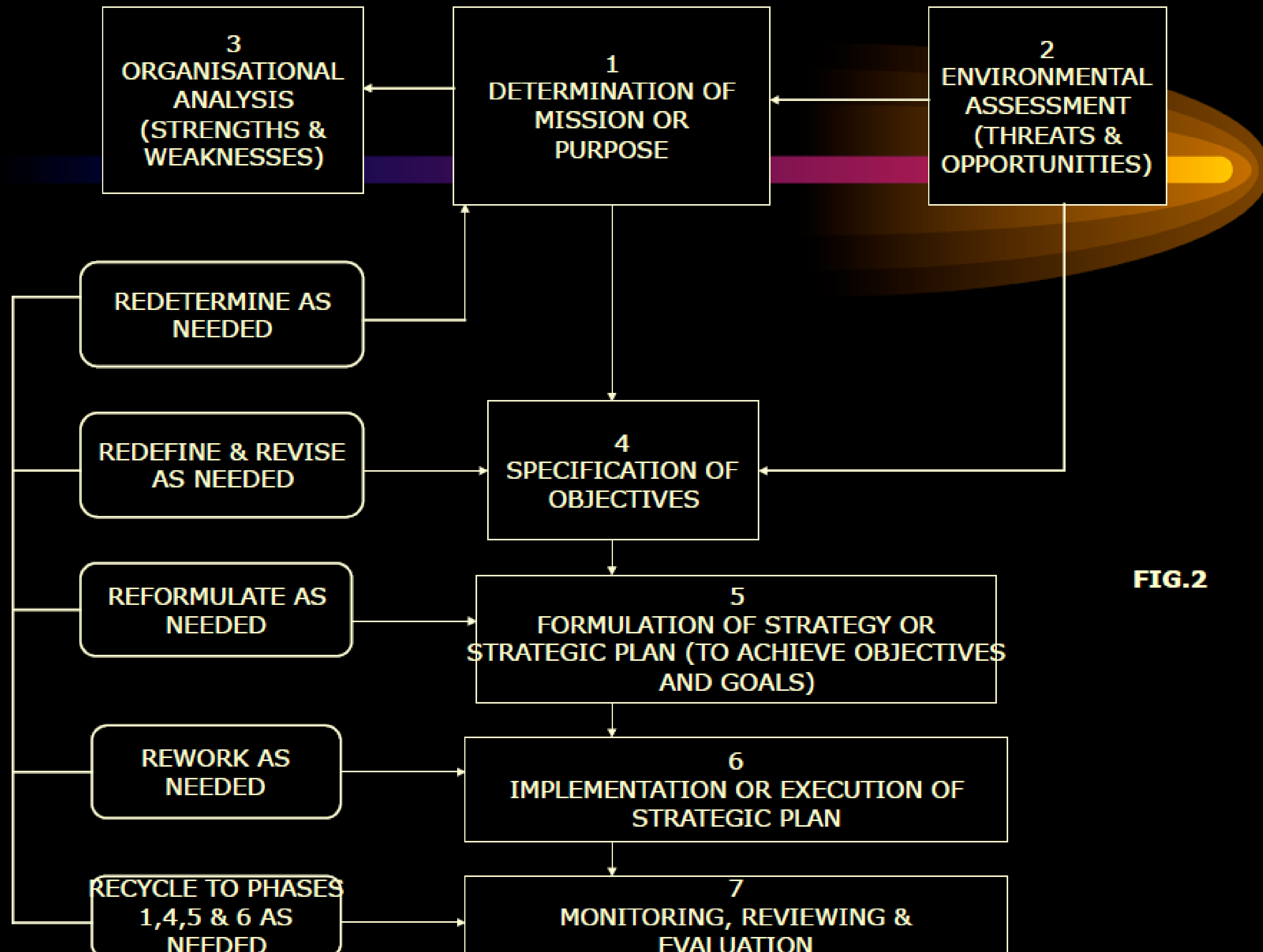


FIG.2

Lecture 3

Business Strategy

- A company can make use of its business strategy to improve the competitive position of its business units and products/services within the specific market segment or industry

- The generic strategies suggested by Porter i.e., cost leadership, differentiation and focus, could help the company in drawing up the business strategy

- Whereas the corporate strategy asks what industry/industries, should the company be in, the business strategy asks how the company should compete or co-operate in each industry

<u>Cost Dynamics</u>

Cost Levels in India:

Textiles — For comparable pre-tax RET. On invest, a typical Indian Plant with cap of 6,000 tons/yr polyester production has 84% higher selling price than a typical polyester plant with 30,000 tons/yr cap in USA. Even with same cap, India: 24% higher selling prices

Similar trends are obtained in tyre and tube, Al, Steel

Causes — Excise, Customs, Sales Tax Levies, Etc, Uneco, Production levels, Obsolete technology, high B/E points, excess dependence on import of semi=finished goods

High costs narrowed Dom. Cons. Markets & competition in International markets

Larger size plants not only save on initial invest. Cost but also on operational costs (cost v/s size of production)

Cost v/s Market — <u>Sellers Market</u>

Product's Price = Intl. Cost + desired profit margin

<u>Buyers market</u>

Profit Margin = Permissible price – intl. Cost

OR

Tolerable Cost = Permissible price – acceptable profit

Experience Curve:

Unit Manufacturing Cost $\downarrow$ When Production Quantity $\uparrow$

When Production Quantity $\uparrow$ of time of Dir. Lab components for each item $\uparrow$

<u>80%</u> <u>Experience</u> <u>Curve</u>

Accumulated Production		Cost/Unit (RS)
2		100
4 (100*0.80)	=	80
8 (80*0.80)	=	64
16(64*0.80)	=	51

Plot give 80% Exp. Curve – Hyperbola

Causes: Improved Lab. Productivity
- Incre4ased specialisation
- Innovation in production methods
- Value engineering & fine tuning
- Line balancing
- Rationalisation of methods & systems

Exp. Curves - Simple approximations of extremely complex real-time relationships; extreme care is to be exercised to get rreliable results – distinguish time from exp; unit exp; consider influence of time

Sensitivity Analysis:	**Can be w.r.t., FC, VC, and/or price decrease in FC results in decrease in B-E-P. Profitability at a particular volume of production improves with lower FC ↑ in VC has marked effect on B-E-P & eats up profits ↓ in VC improves profitability ↑in permissible price, B-E-P ↓and vice-versa. At a particular volume of production profitability improves. Price-most sensitive instrument followed by VC & FC**
Non-Linear B/E Analysis	**When prices may be consciously reduced to gain additional sales vol. & market share or in response to computer's action**
Assumptions (often unrealistic)	**FC Fixed for all production volumes VC do not fall with increasing level of production TC && TR vary in linear relationship with output Maximise profit BEF int. & tax is the desirable BUS. objective**

Experience curve relationship

- Good framework for marginal considerations for predicting industrial scenario w.r.t., future costs, profit margins and corresponding cash flows for own & competitor's opns
- Has done very well in segments such as PC mkt; implications – a few large plants with standardised productions would be able to supply global market marketing efforts SH. Be fully coordinated with manufacturing plans; lowering prices SH. Not be inferior quality; more applicable when dem is elastic

- Limitations: detn. of cost; data reg. competitors; a late market entrants has to operate at lower initial prices to survive

B/E Analysis

TC = FC + VC * Q (VC-Unit Var. Cost-R/M, electricity, fuel, packing etc)

TR = P * Q

At B/E point TR = TC

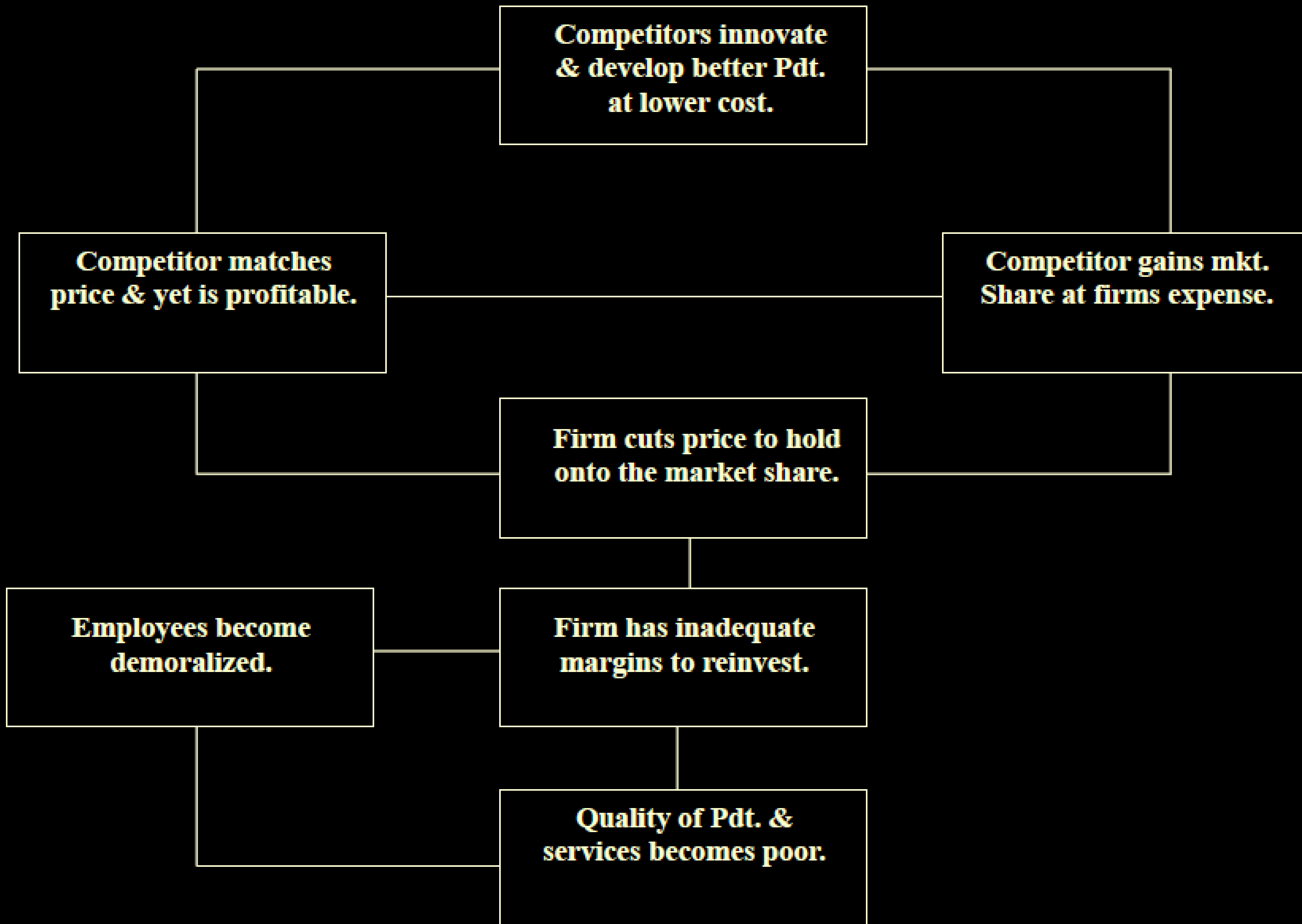
p * QB = FC + VC * QB QB = FC/(P-VC)

[P – VC = Unit Contribution]

Doom Loops

- ✓Self reinforcing processes.
- ✓Drive an organization into cyclical situations from which an organization finds it difficult to extract itself.
- ✓To avoid getting into a doom loop, it is required to constantly upgrade the products, services and efficiency of distribution channels.
- ✓To get out of a doom loop – refocus on the small business units and a change has to be brought about in the firm’ s culture.

Doom loop - Example



End of Resource