

BBA

G. G. S. Indraprastha University

BBA(CAM) 311: Business Policy & Strategy

L-4 T-0 Credits-4

Objectives:

The course aims to acquaint the students with the nature, scope and dimensions of Business Policy and Strategy Management Process.

Course Contents

Unit I

lectures:-14

Introduction: Nature, scope and importance of the course on Business Policy; Evolution of this course – Forecasting, Long-range planning, strategic planning and strategic management.

Strategic Management Process: Formulation Phase – vision, mission, environmental scanning, objectives and strategy; implementation phase – Strategic Activities, Evaluation and Control.

Unit II

lectures:-10

Environmental Analysis: Need, Characteristics and categorization of environmental factors; approaches to the environmental scanning process – structural analysis of competitive environment; ETOP a diagnosis tool.

Unit III

lectures:-10

Analysis of Internal Resources: Strengths and Weakness; Resource Audit; Strategic Advantage Analysis; Value-Chain Approach to Internal Analysis; Methods of analysis and diagnosing Corporate Capabilities – Functional Area Profile and Resource Deployment Matrix, Strategic Advantage Profile; SWOT analysis.

Unit IV

lectures:-14

Formulation of Strategy: Approaches to Strategy formation; major strategy options – Stability, Growth and Expansion, Diversification, Retrenchment, Mixed Strategy; Choice of Strategy – BCG Model; Stop-Light Strategy Model; Directional Policy Matrix (DPM) Model, Product/Market Evolution – Matrix and Profit Impact of Market Strategy (PIMS) Model;

Major Issues involved in the Implementation of strategy: Organization structure; leadership and resource allocation

UNIT – 1

NATURE OF BUSINESS POLICY

A business policy is: guidelines that facilitate to reach a predetermined objective both in mode and manner formulated from the top to the lower level management while Objectives are the endpoints to a plan. The nature and objective of business policy are both formulated as plans and determined by a business organization. Once established the policy decisions shape the future of a company channel the available resources along desired lines and direct the energies of people working at various levels toward predetermined goals. In a way, business policy implies the choice of purposes, the shaping of organizational identity and character the continuous definition of what is to be achieved and the deployment of resources for achieving corporate goals. Objective is the end to a plan while policy is the mode and manner to reach the objective. Business policy basically deals with decisions regarding the future of an ongoing enterprise. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in terms of product price, quality, leadership position, resources etc., in relation to its environment.

Some useful definitions of Business Policy

- 1) It is an implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.
- 2) A business policy focuses attention on the strategic allocation of scarce resources. Conceptually speaking strategy is the direction of such resource allocation while planning is the limit of allocation.

- 3) It represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions.
- 4) A business policy is the study of the nature and process of choice about the future of independent enterprises by those responsible for decisions and their implementation
- 5) The purpose of a business policy is to enable the management to relate properly the organization's work to its environment Business policies is guides to action or channels to thinking.

Business policies generally have a long life. They are established after a careful evaluation of various internal and external factors having an impact on the firm's market standing as and when circumstances change in a major way the firm is naturally forced to shift gears, rethink and reorient its policies. During the World Oil crisis 70s has forced many manufacturers all over the globe to reverse the existing practices and pursue a policy of manufacturing fuel efficient cars Therefore, policies should be changed in response to changing environmental and internal system conditions.

Types of policies

There are many types of policies – marketing policies, financial policies, production policies, personnel policies to name a few in every organization. Within each of these areas more specific policies are developed. For example, personnel policies may cover recruitment training promotion and retirement policies. Viewed from a systems angle, policies form a hierarchy of guides to managerial thinking. The management is responsible for developing and approving major comprehensive company policies. At the top of level policy statements are broad, Middle managers usually establish less critical policies relating to the operation of their sub units. Policies tend to be more specific at lower levels. The manager's job is to ensure the consonance of these policies, each must contribute to the objectives of the firms and there should be no conflict between sub system policies.

Although it is customary to think of policies as written statements it is not necessarily the case. For example a firm may simply decline to consider handicapped employees in the selection of new personnel. In effect, this becomes an effective policy even though the company has never verbalized its position.

IMPORTANCE OF BUSINESS POLICY

A written business policy communicates your company's expectations about appropriate employee work performance. Some employers prefer a written policy that covers every conceivable situation; others prefer no written policy, whereby management decides each case as the situation merits. Policy illustrates the acceptable performance boundaries while simultaneously addressing the employees' needs. Find the ideal balance when creating a business policy for your business.

Balance

The ideal business policy encourages individual productivity without making the employee feel as though you micromanage him. According to Entrepreneur magazine, neither an extremely detailed nor a nonexistent business policy creates a highly productive work environment. Put your business expectations in writing, so employees know how to meet your requirements. Address employee goals, and tell him how you expect him to achieve the goals. Once communicated, faithfully enforce, manage and update your business policies.

Job Descriptions

Include in your business policy a description of each position in the organization. Employees must understand their role and how they will interact with others within the organization. Each employee should understand how their work impacts others in the company. Make the reporting

structures clear both inside the department, between departments and companywide. Once employees understand their responsibilities, hold them responsible for their work performance. The AME Info website describes business policies as "the strategic link between the company's vision and its day-to-day operations." A well-written business policy allows for management guidance in business operations without constant intervention by management.

Liability

All employees, including managers, must understand the acceptable behavior boundaries at work. Entrepreneur magazine states that when employees misbehave on the job, the employer may be held liable for how that situation affects clients, individuals or other employees. A written business policy with clear behavioral expectations helps establish that you do not approval of and are not contributing to the employee's bad behavior. The lack of a written business policy can lead to litigation.

Consequences for Violations

Establish rules that address any violations of your business policy. Stating the consequences for violating business policy puts the employee on notice and also increases the employer's options for effectively dealing with behaviors contrary to policy. When possible, improve the employee's future performance and the company's employee retention rate by helping the employee strengthen a flawed performance, rather than losing him as a valued member of your team. Decide what behaviors mandate an immediate dismissal and what behaviors will trigger a disciplinary approach, and clearly outline the steps involved in your disciplinary procedure. From policy, the employee understands the disciplinary process.

FORECASTING

Forecasting is the process of making statements about events whose actual outcomes (typically) have not yet been observed. A commonplace example might be estimation for some variable of interest at some specified future date. Prediction is a similar, but more general term. Both might

refer to formal statistical methods employing time series, cross-sectional or longitudinal data, or alternatively to less formal judgmental methods. In any case, the data must be up to date in order for the forecast to be as accurate as possible. Usage can differ between areas of application: for example in hydrology, the terms "forecast" and "forecasting" are sometimes reserved for estimates of values at certain specific future times, while the term "prediction" is used for more general estimates, such as the number of times floods will occur over a long period. Risk and uncertainty are central to forecasting and prediction; it is generally considered good practice to indicate the degree of uncertainty attaching to forecasts. The process of climate change and increasing energy prices has led to the usage of Egain Forecasting of buildings. The method uses Forecasting to reduce the energy needed to heat the building, thus reducing the emission of greenhouse gases. Forecasting is used in the practice of Customer Demand Planning in everyday business forecasting for manufacturing companies. Forecasting has also been used to predict the development of conflict situations. Experts in forecasting perform research that use empirical results to gauge the effectiveness of certain forecasting models. Research has shown that there is little difference between the accuracy of forecasts performed by experts knowledgeable of the conflict situation of interest and that performed by individuals who knew much less. Similarly, experts in some studies argue that role thinking does not contribute to the accuracy of the forecast. The discipline of demand planning, also sometimes referred to as supply chain forecasting, embraces both statistical forecasting and a consensus process. An important, albeit often ignored aspect of forecasting, is the relationship it holds with planning. Forecasting can be described as predicting what the future will look like, whereas planning predicts what the future should look like. There is no single right forecasting method to use. Selection of a method should be based on your objectives and your conditions (data etc.). A good place to find a method is by visiting a selection tree. An example of a selection tree can be found here. Although quantitative analysis can be very precise, it is not always appropriate. Some experts in the field of forecasting have advised against the use of mean square error to compare forecasting methods.

Categories of forecasting methods

Qualitative vs. Quantitative Methods

Qualitative forecasting techniques are subjective, based on the opinion and judgment of consumers, experts; appropriate when past data is not available. It is usually applied to intermediate-long range decisions.

Example of qualitative forecasting methods:

- Informed opinion and judgment
- Delphi method
- Market research
- Historical life-cycle Analogy.

Quantitative forecasting models are used to estimate future demands as a function of past data; appropriate when past data is available. It is usually applied to short-intermediate range decisions.

Example of Quantitative forecasting methods:

- Last period demand
- Arithmetic Average
- Simple Moving Average (N-Period)
- Weighted Moving Average (N-period)
- Simple Exponential Smoothing
- Multiplicative Seasonal Indexes

Naïve Approach

Naïve forecasts are the most cost-effective and efficient objective forecasting model, and provide a benchmark against which more sophisticated models can be compared. For stable time series data, this approach says that the forecast for any period equals the previous period's actual value.

Time series methods

Time series methods use historical data as the basis of estimating future outcomes.

- Moving average
- Weighted moving average
- Exponential smoothing
- Autoregressive moving average (ARMA)
- Autoregressive integrated moving average (ARIMA)

e.g. Box-Jenkins

- Extrapolation
- Linear prediction
- Trend estimation

Causal / econometric forecasting methods

Some forecasting methods use the assumption that it is possible to identify the underlying factors that might influence the variable that is being forecast. For example, including information about weather conditions might improve the ability of a model to predict umbrella sales. This is a model of seasonality which shows a regular pattern of up and down fluctuations. In addition to weather, seasonality can also be due to holidays and customs such as predicting that sales in college football apparel will be higher during football season as opposed to the off season. Casual forecasting methods are also subject to the discretion of the forecaster. There are several informal methods which do not have strict algorithms, but rather modest and unstructured guidance. One can forecast based on, for example, linear relationships. If one variable is linearly related to the other for a long enough period of time, it may be beneficial to predict such a relationship in the future. This is quite different from the aforementioned model of seasonality whose graph would more closely resemble a sine or cosine wave. The most important factor

when performing this operation is using concrete and substantiated data. Forecasting off of another forecast produces inconclusive and possibly erroneous results.

Such methods include:

- Regression analysis includes a large group of methods that can be used to predict future values of variable using information about other variables. These methods include both parametric (linear or non-linear) and non-parametric techniques.
- Autoregressive moving average with exogenous inputs (ARMAX)

Judgmental methods

Judgmental forecasting methods incorporate intuitive judgments, opinions and subjective probability estimates.

- Composite forecasts
- Surveys
- Delphi method
- Scenario building
- Technology forecasting
- Forecast by analogy

Artificial intelligence methods

- Artificial neural networks
- Group method of data handling
- Support vector machines

Other methods

- Simulation

- Prediction market
- Probabilistic forecasting and Ensemble forecasting
- Reference class forecasting

STRATEGIC PLANNING & STRATEGIC MANAGEMENT

Strategic planning is defined as an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. Generally, strategic planning deals with at least one of three key questions:

1. "What do we do?"
2. "For whom do we do it?"
3. "How do we excel?"

In many organizations, this is viewed as a process for determining where an organization is going over the next year or—more typically—3 to 5 years (long term), although some extend their vision to 20 years.

Key components

The key components of 'strategic planning' include an understanding of the firm's vision, mission, values and strategies. The vision and mission are often captured in a Vision Statement and Mission Statement.

- **Vision:** outlines what the organization wants to be, or how it wants the world in which it operates to be (an "idealized" view of the world). It is a long-term view and concentrates on the future. It can be emotive and is a source of inspiration. For example, a charity working with the poor might have a vision statement which reads "A World without Poverty."

- **Mission:** Defines the fundamental purpose of an organization or an enterprise, succinctly describing why it exists and what it does to achieve its vision. For example, the charity above might have a mission statement as "providing jobs for the homeless and unemployed".
- **Values:** Beliefs that are shared among the stakeholders of an organization. Values drive an organization's culture and priorities and provide a framework in which decisions are made. For example, "Knowledge and skills are the keys to success" or "give a man bread and feed him for a day, but teach him to farm and feed him for life". These example values may set the priorities of self sufficiency over shelter.
- **Strategy:** Strategy, narrowly defined, means "the art of the general." A combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there. A strategy is sometimes called a roadmap which is the path chosen to plow towards the end vision. The most important part of implementing the strategy is ensuring the company is going in the right direction which is towards the end vision.

Organizations sometimes summarize goals and objectives into a **mission statement** and/or a **vision statement**. Others begin with a vision and mission and use them to formulate goals and objectives. Many people mistake the vision statement for the mission statement, and sometimes one is simply used as a longer term version of the other. However they are meant to be quite different, with the vision being a descriptive picture of future state, and the mission being an action statement for bringing about what is envisioned (i.e. the vision is what will be achieved if the company is successful in achieving its mission). For an organization's vision and mission to be effective, they must become assimilated into the organization's culture. They should also be assessed internally and externally. The internal assessment should focus on how members inside the organization interpret their mission statement. The external assessment — which includes all of the businesses stakeholders — is valuable since it offers a different perspective. These discrepancies between these two assessments can provide insight into their effectiveness.

Strategic planning process

There are many approaches to strategic planning but typically one of the following approaches is used:

<i>Situation-Target-Proposal</i>	<i>See-Think-Draw</i>	<i>Draw-See-Think-Plan</i>
<ul style="list-style-type: none"> • Situation - evaluate the current situation and how it came about. • Target - define goals and/or objectives (sometimes called ideal state) • Path / Proposal - map a possible route to the goals/objectives 	<ul style="list-style-type: none"> • See - what is today's situation? • Think - define goals/objectives • Draw - map a route to achieving the goals/objectives 	<ul style="list-style-type: none"> • Draw - what is the ideal image or the desired end state? • See - what is today's situation? What is the gap from ideal and why? • Think - what specific actions must be taken to close the gap between today's situation and the ideal state? • Plan - what resources are required to execute the activities?

Tools and approaches

Among the most useful tools for strategic planning is SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats). The main objective of this tool is to analyze internal strategic factors, strengths and weaknesses attributed to the organization, and external factors beyond control of the organization such as opportunities and threats.

Other tools include:

- Balanced Scorecards, which creates a systematic framework for strategic planning;
- Scenario planning, which was originally used in the military and recently used by large corporations to analyze future scenarios.
- PEST analysis (Political, Economic, Social, and Technological)
- STEER analysis (Socio-cultural, Technological, Economic, Ecological, and Regulatory factors)
- EPISTEL (Environment, Political, Informatic, Social, Technological, Economic and Legal).

Situational analysis

When developing strategies, analysis of the organization and its environment as it is at the moment and how it may develop in the future, is important. The analysis has to be executed at an internal level as well as an external level to identify all opportunities and threats of the external environment as well as the strengths and weaknesses of the organizations.

There are several factors to assess in the external situation analysis:

1. Markets (customers)
2. Competition
3. Technology
4. Supplier markets
5. Labor markets
6. The economy
7. The regulatory environment

It is rare to find all seven of these factors having critical importance. It is also uncommon to find that the first two - markets and competition - are not of critical importance. (Bradford "External Situation - What to Consider"). Analysis of the external environment normally focuses on the customer. Management should be visionary in formulating customer strategy, and should do so

by thinking about market environment shifts, how these could impact customer sets, and whether those customer sets are the ones the company wishes to serve.

Analysis of the competitive environment is also performed, many times based on the framework suggested by Michael Porter. With regard to market planning specifically, researchers have recommended a series of action steps or guidelines in accordance to which market planners should plan.

Goals, objectives and targets

Strategic planning is a very important business activity. It is also important in the public sector areas such as education. It is practiced widely informally and formally. Strategic planning and decision processes should end with objectives and a roadmap of ways to achieve them. The goal of strategic planning mechanisms like formal planning is to increase specificity in business operation, especially when long-term and high-stake activities are involved. One of the core goals when drafting a strategic plan is to develop it in a way that is easily translatable into action plans. Most strategic plans address high level initiatives and over-arching goals, but don't get articulated (translated) into day-to-day projects and tasks that will be required to achieve the plan. Terminology or word choice, as well as the level a plan is written, are both examples of easy ways to fail at translating your strategic plan in a way that makes sense and is executable to others. Often, plans are filled with conceptual terms which don't tie into day-to-day realities for the staff expected to carry out the plan. The following terms have been used in strategic planning: desired end states, plans, policies, goals, objectives, strategies, tactics and actions. Definitions vary, overlap and fail to achieve clarity. The most common of these concepts are specific, time bound statements of intended future results and general and continuing statements of intended future results, which most models refer to as either goals or objectives (sometimes interchangeably).

One model of organizing objectives uses hierarchies. The items listed above may be organized in a hierarchy of means and ends and **numbered** as follows: Top Rank Objective (TRO), Second

Rank Objective, Third Rank Objective, etc. From any rank, the objective in a lower rank answers to the question "How?" and the objective in a higher rank answers to the question "Why?" The exception is the Top Rank Objective (TRO): there is no answer to the "Why?" question. That is how the TRO is defined. People typically have several goals at the same time. "Goal congruency" refers to how well the goals combine with each other. Does goal A appear compatible with goal B? Do they fit together to form a unified strategy? "Goal hierarchy" consists of the nesting of one or more goals within other goal(s). One approach recommends having short-term goals, medium-term goals, and long-term goals. In this model, one can expect to attain short-term goals fairly easily: they stand just slightly above one's reach. At the other extreme, long-term goals appear very difficult, almost impossible to attain. Using one goal as a stepping-stone to the next involves **goal sequencing**. A person or group starts by attaining the easy short-term goals, then steps up to the medium-term, then to the long-term goals. Goal sequencing can create a "goal stairway". In an organizational setting, the organization may co-ordinate goals so that they do not conflict with each other. The goals of one part of the organization should mesh compatibly with those of other parts of the organization.

Business analysis techniques

Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats), PEST analysis (Political, Economic, Social, and Technological), STEER analysis (Socio-cultural, Technological, Economic, Ecological, and Regulatory factors), and EPISTEL (Environment, Political, Informatic, Social, Technological, Economic and Legal).

SYSTEM:



System Pyramid

Successful and sustainable transformation efforts require leaders who know how to manage change. At the simplest level, managing change means:

- Knowing what you want to accomplish and creating a compelling vision that motivates others
- Understand stakeholders and communicating with them early, consistently and often
- Managing the varying levels of support and resistance that will inevitably emerge in response to any change
- Change Leadership is a skill set that is required throughout any deployment, from planning and executing to sustaining improvements.
- Change Leadership are essential for both high level executives and program leaders, who are responsible for setting the vision, communicate the vision and make the changes happen

STRATEGIC MANAGEMENT

Strategic management is a area that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments. It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and

programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives. Recent studies and leading management theorists have advocated that strategy needs to start with stakeholders expectations and use a modified balanced scorecard which includes all stakeholders.

Strategic management is a level of managerial activity under setting goals and over Tactics. Strategic management provides overall direction to the enterprise and is closely related to the field of Organization Studies. In the field of business administration it is useful to talk about "strategic alignment" between the organization and its environment or "strategic consistency." Strategic management includes not only the management team but can also include the Board of Directors and other stakeholders of the organization. It depends on the organizational structure. "Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment."

STRATEGIC MANAGEMENT PROCESS - MEANING, STEPS AND COMPONENTS

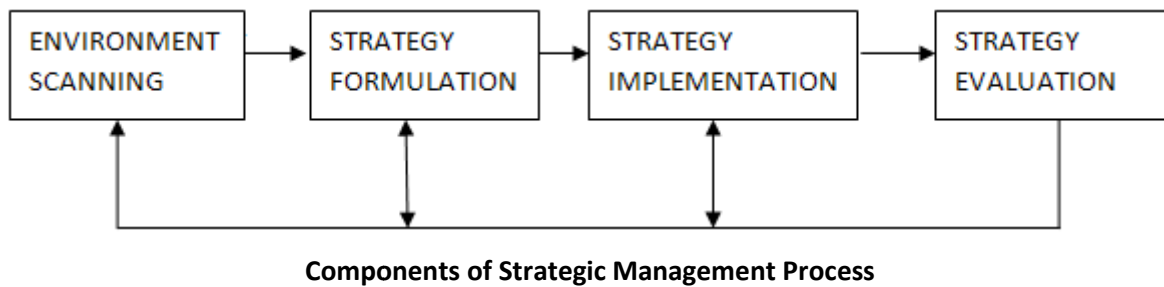
The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

Strategic management process has following four steps:

- 1. Environmental Scanning-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
- 2. Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
- 3. Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.

4

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.



Strategic management is an ongoing process. Therefore, it must be realized that each component interacts with the other components and that this interaction often happens in chorus.

ENVIRONMENTAL SCANNING - INTERNAL & EXTERNAL ANALYSIS OF ENVIRONMENT

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. **Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment.** It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.

Internal analysis of the environment is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc.

Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an

organization.

As business becomes more competitive, and there are rapid changes in the external environment, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors' moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. Environmental factors are infinite, hence, organization should be agile and vigil to accept and adjust to the environmental changes. For instance - Monitoring might indicate that an original forecast of the prices of the raw materials that are involved in the product are no more credible, which could imply the requirement for more focused scanning, forecasting and analysis to create a more trustworthy prediction about the input costs. In a similar manner, there can be changes in factors such as competitor's activities, technology, market tastes and preferences.

While in **external analysis**, three correlated environment should be studied and analyzed —

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the **industry environment** needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and its main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry. Analyzing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization's external environment reveals opportunities and threats for an organization. Strategic managers must not

only recognize the present state of the environment and their industry but also be able to predict its future positions.

STEPS IN STRATEGY FORMULATION PROCESS

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. **The process of strategy formulation basically involves six main steps.** Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organizations' objectives** - The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

2. **Evaluating the Organizational Environment** - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well

as their competitors' strengths and weaknesses. After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.

3. **Setting Quantitative Targets** - In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.
4. **Aiming in context with the divisional plans** - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.
5. **Performance Analysis** - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.
6. **Choice of Strategy** - This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

Following are the main **steps in implementing a strategy**:

- ✓ Developing an organization having potential of carrying out strategy successfully.
- ✓ Disbursement of abundant resources to strategy-essential activities.
- ✓ Creating strategy-encouraging policies.
- ✓ Employing best policies and programs for constant improvement.
- ✓ Linking reward structure to accomplishment of results.
- ✓ Making use of strategic leadership.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc. Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

Following are the main differences between Strategy Formulation and Strategy Implementation-

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is placing the Forces before the action.	In short, Strategy Implementation is managing forces during the action.
Strategy Formulation is an Entrepreneurial Activity based on strategic decision-making.	Strategic Implementation is mainly an Administrative Task based on strategic and operational decisions.

Strategy Formulation emphasizes on effectiveness.	Strategy Implementation emphasizes on efficiency.
Strategy Formulation is a rational process.	Strategy Implementation is basically an operational process.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of initiative and logical skills.	Strategy Implementation requires specific motivational and leadership traits.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy Formulation.

UNIT – 2

ENVIRONMENTAL FACTORS

NEED

Environmental scanning is one component of the global environmental analysis. Environmental monitoring, environmental forecasting and environmental assessment complete the global environmental analysis. Environmental scanning refers to the macro environment. The global environment refers to the macro environment which comprises industries, markets, companies, clients and competitors. Consequently, there exist corresponding analyses on the micro-level. Suppliers, customers and competitors representing the micro environment of a

company are analyzed within the industry analysis. Environmental scanning can be defined as 'the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market'. The factors which need to be considered for environmental scanning are events, trends, issues and expectations of the different interest groups. Issues are often forerunners of trend breaks. A trend break could be a value shift in society, a technological innovation that might be permanent or a paradigm change. Issues are less deep-seated and can be 'a temporary short-lived reaction to a social phenomenon'. A trend can be defined as an 'environmental phenomenon that has adopted a structural character'.

There are a number of common approaches how the external factors, which are mentioned in the definition of Kroon and which describe the macro environment, can be identified and examined. These factors indirectly affect the organization but cannot be controlled by it. One approach could be the PEST analysis. PEST stands for political, economic, social and technological. Two more factors, the environmental and legal factor, are defined within the **PESTEL analysis** (or PESTLE analysis).

The segmentation of the macro environment according to the six presented factors of the PESTEL analysis is the starting point of the global environmental analysis.

PESTEL analysis

The six environmental factors of the PESTEL analysis are the following:

Political factors

- Taxation Policy
- Trade regulations
- Governmental stability
- Unemployment Policy etc.

Economical factors

- Inflation rate
- Growth in spending power
- Rate of people in a pensionable age
- Recession or Boom
- Customer liquidations

Socio-cultural

- Age distribution.
- Education levels.
- Income level.
- Consumerism.
- Diet & nutrition.
- population growth
- life expectancies
- Religion

Technological factors

- Technological changes
- New or improved distribution channels
- Improved communication and knowledge transfer etc.
- moral factor

Environmental factors

- Laws on
- Waste disposal
- Energy consumption

- Pollution monitoring etc.

Legal factors

- Unemployment law
- Health and safety
- Product safety
- Advertising regulations
- Product labelling etc

Ecology

- Affects customer's buying habits.
- Affect the firm production process.

Potential supplies

- labor supply
 - Quantity of labor available.
 - Quality of labor available.
- Material suppliers.
 - Delivery delay.
 - level of competition to suppliers,
- Service provider.
 - Special requirement.

ENVIRONMENTAL SCANNING PROCESS

Environmental scanning is a research process, in which businesses collect all types of relevant information that helps these businesses in making decisions regarding surviving, expanding or entering new markets. In simple words, it can be described as keeping a close eye on external or internal happenings and analyzing this information to know how it can be detrimental or

beneficial for the business. The information must be collected, arranged and disseminated among the company directors and managers. Mostly, environmental scanning is limited to external factors; however some businesses also carry out internal scanning. Environmental scanning is critical for the management or decision makers, as this information helps in making well informed decisions and that too, at the right time. These decisions include expansion, innovation, entering or leaving a market. Small businesses usually carry out environmental scanning only when starting; for the reason that their resources do not allow them to perform environmental scanning on continual basis. However, big corporations are always scanning the macro environment factors to gain competitive advantage over their competitors, at the end of the day, it's all about spotting the opportunities (or threats) before your competitors do.

Something worth mentioning is that it is important to take immediate actions according to the situation or information, because environmental scanning is useful only when followed by appropriate responses. Sitting and waiting for other businesses to respond before you decide your future course of action is going to be of no use. Successful businesses are always born out of bold, timely decisions. A business is affected by many external factors and it must monitor these factors all the time. For example, if you are entering into a new market, you must obtain information about the import and export tariffs, rate of exchange or an idea of political stability in the region. Similarly, you should base your business expansion (or contraction) decisions on the economic growth, income level or employment rate in the market. When introducing a new product or technology, you have got to have an idea of how patent laws or copyrights work. Other legal factors include union laws, environmental protection or minimum wage laws. Similarly, observing the demographic factors like population distribution, income or education level can help you identify the future trends and eventually opening up various new opportunities for your business. Internal scanning can include the identification of resources in terms of workforce, capital, technology, strength and weaknesses.

ETOP Analysis

Market Environmental Analysis (Opportunities/threats)

Market environmental analysis (ETOP model - environmental threats and opportunities model) is carried out to understand and give quantitative measure to opportunities and threats that are impelling on the operational space of the company.

Example:

Key environmental factors	Relative importance (1-10)	Impact (-5 < +5)	Score
Market demand	8	+4	+32
Cheap raw material	5	+3	+15
Regulations	3	-4	-12
			+35

Market Environmental Analysis (Opportunities/threats)

Market environmental analysis (ETOP model - environmental threats and opportunities model) is carried out to understand and give quantitative measure to opportunities and threats that are impelling on the operational space of the company.

Meaning of Environmental Scanning:

Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions. **Appraising the Environment:** In order to draw a clear picture of what opportunities and threats are faced by the organization at a given time. It is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal identifying the environmental factors and structuring the results of this environmental appraisal. **Structuring Environmental Appraisal:** The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. There are many techniques to structure the environmental appraisal. One such technique suggested by Gluek is that preparing an ETOP for an organization. The preparation of an ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization.

UNIT – 3

ANALYSIS OF INTERNAL RESOURCES

While environmental survey helps to identify areas of opportunities and threats in the areas of interest, in order to tap these opportunities, it is necessary to find out whether the firm has the requisite capabilities. For this an internal appraisal is undertaken.

Internal appraisal has three distinct parts:

- Assessment of the strengths and weaknesses of the firm in different functional areas;
- Appraisal of the health of individual businesses;
- Assessment of the firm's competitive advantage and core competence.

The main task here is to decide the extent of business growth, the firm wants to achieve. The firm examines the present level of performance, its achievable level over the planning period, and its aspirational level. Balancing the opportunities with the organization's capabilities and ambitions, the firm figures out its growth objective. Usually, firms set objectives in all key areas, like, sales, profits, asset formation, productivity, market share, and corporate image. Objectives have to be stated clear-cut in a measurable time-bound manner. In setting objectives, the firm integrates its growth ambition with the findings it has made with its environment survey and internal appraisal. Product-market scope, growth vector, competitive advantage and synergy are the constituents of corporate strategy. Findings from the environment survey/opportunity-threat profile, the competitive advantages and synergies enjoyed, and the resources available for growth, are the other major parameters in deciding the basket of businesses and the product market posture. Corporate strategy has to specify through which businesses and through what kind of product-market posture is the growth objective going to be achieved. And it is from this

statement that each business of the corporation –existing and new ones – derives its growth targets, direction and priority.

Internal Analysis

Tangible Resources – Assets that can be seen touched or quantified.

- Financial resources (borrowing capacity)
- Physical Resources (facilities, locations)
- Organizational structure (reporting structures)
- Technological (patents)

Intangible Resources

- Human resources (experience, training)
- Resources for innovation (technical employees, facilities)
- Reputation

Brand Equity

- Brand name
- maintaining brand equity (Mercedes example – value/performance and Japanese automakers)

VALUE CHAIN ANALYSIS

Introduction

For a company to survive in today's highly flooded markets a company must, at least temporarily, achieve a competitive advantage. There are many ways for a firm to achieve this advantage and two generic ones are: price leadership and differentiation. Price leadership is simply when a company keeps prices below those of his competitors. Differentiation occurs when a company creates a distinctive position in the market through product functionality, service, or quality.

If either of these two management strategies are chosen to be implemented by a company, value chain analysis can help the firm focus its plan and thus achieve a competitive advantage. There are two components of value chain analysis: the industry value chain and the company's internal value chain. The industry value chain includes all of the value-creating activities within the whole industry, beginning with the basic raw material and finishing with the delivery of the product. The internal value chain of a company includes all the value creating activities within that specific firm.

The Company's Internal Value Chain

A firm's internal value chain includes all the physical and technological activities within the company that add value to the product. The key to evaluating a company's internal value chain is to understand the activities that give that company a competitive advantage, and then pin point and exploit those advantages better than other companies in the industry.

This evaluation is done in four steps:

Identify value chain analysis
Look for discrete activities. These create value in different ways. They will include different costs, different cost drivers, separable assets, and different personnel involved. For example, contrast product design activities with advertising activities.
Identify structural, procedural, and operational activities. Structural activities determine the basic economic nature of the company. Procedural activities include all aspects of the firm's operations and reflect the company's ability to carryout the processes efficiently and effectively.
Focus on structural and procedural activities. Most companies emphasize operational activities, but proponents of value chain analysis say that focus is too narrow and only deals with the short run and will not be able to give the company an overall competitive advantage.
Determine which activities are strategic



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To determine which activities are strategic a company must identify which product characteristics are valued by existing customers.

A company should then find characteristics that it can exploit, and thereby create value for future customers. Examples of these characteristics are quality, service, or any tangible or intangible product features.

Trace costs to activities

The company needs an accounting technique that traces costs to different value chain activities. This is important for a company to focus on these value-added processes, so they will be able to manage them more efficiently.

Improve management of value chain activities

To achieve a competitive advantage a company must manage their value chain better than their competitors. This means reducing a company's total cost while enlarging the competitive advantage. This does not however mean that all costs have to be reduced, it means that all costs that do not adversely affect the competitive advantage can and should be reduced.

The Industry Value Chain

The value chain of an industry starts with the raw material manufacturer and finishes with the delivery of the final product to the customer. The key to analyzing the industry value chain is to comprehend and use the advantage of a company's comparative strength within the industry.

All industries begin with a raw material and end with a sale to a customer. There are many links within this process. There are upstream links and downstream links. Each separate link stands for an independent, economically viable segment of the industry. To establish which links in the industry value chain are separate, assess these two questions:

1. Is there a market for the output of this link in the industry value chain, or can a market price be determined objectively?

2. Are there any companies that produce and sell only within this link of the chain?

If the answer is “yes” to either of these questions, then the industry under consideration may be a separate link in the industry value chain. Then, after the industry value chain is determined, a company should examine the relative strength of its position, in any separate link, in the industry value chain. A company’s position within the industry link can be found by using a myriad of measurements, including industry margins, return on assets, benchmarking, and capital budgeting. When a company then finds where it has deficiencies in relative industry strength, it can go back to the internal value chain activities to improve its standing with its competitors and then gain a competitive advantage.

Conclusion

Value chain analysis comes with a few challenges. First, accounting systems are not designed to assign costs to value-added activities, but when ABC is implemented that problem can be solved. Second, it can be difficult to find accurate return on sales and return on asset data to determine the value chain. But, rough estimates still can be used to give some insight into the value chain. Lastly, not only do estimates make the value chain difficult to determine, but many industries have very complex value chains. Even though there are some challenges to a value chain approach it can be a very effective strategic management tool. When competition is fierce, firms must very precisely manage their activities and costs to continue their competitive advantage.

STRATEGIC ADVANTAGE PROFILE.

Every firm has strategic advantages and disadvantages. For example, large firms have financial strength but they tend to move slowly, compared to smaller firms, and often cannot react to changes quickly. No firm is equally strong in all its functions. In other words, every firm has strengths as well as weaknesses. Strategists must be aware of the strategic advantages or strengths of the firm to be able to choose the best opportunity for the firm. On the other hand they must

regularly analyse their strategic disadvantages or weaknesses in order to face environmental threats effectively. In this session, we shall examine the strategic advantage factors that management analyses and diagnoses to determine the internal strengths and weaknesses with which it must face the opportunities and threats from the environment. In the discussion of these factors, it is not possible to consider in detail, subject matter which are covered by courses on Marketing, Human Resources, and Finance Management etc. Only a listing of these factors will be presented. Students should refer to books and courses that they have attended for details. The order of discussion does not indicate importance of the subjects. It is just a convenient ordering of line and staff factors. These factors will be covered under the following broad headings:

- 4.2.1 Marketing and Distribution
- 4.2.2 R & D and Engineering
- 4.2.3 Production and Operations Management
- 4.2.4 Corporate Resources and Personnel
- 4.2.5 Finance and Accounting

Examples:

The Strategist should look to see if the firm is stronger in these factors than its competitors. When a firm is strong in the market, it has a strategic advantage in launching new products or services and increasing market share of present products and services.

Strategic Advantage Factors: Marketing and Distribution

1. Competitive structure and market share: To what extent has the firm established a strong mark share in the total market or its key sub markets?
2. Efficient and effective market research system.
3. The product-service mix: quality of products and services.
4. Product-service line: completeness of product-service line and product-service mix; phase of life-cycle the main products and services are in.

5. Strong new product and new-service leadership.
6. Patent protection (or equivalent legal protection for services).
7. Positive feelings about the firm and its products and services on the part of the ultimate consumer.
8. Efficient and effective packaging of products (or the equivalent for services).
9. Effective pricing strategy for products and services.
10. Efficient and effective sales force: close ties with key customers. How vulnerable are we in terms of concentrating on sales to a few customers?
11. Effective advertising: Has it established the company's product or brand image to develop loyal customers?
12. Efficient and effective marketing promotion activities other than advertising.
13. Efficient and effective service after purchase.
14. Efficient and effective channels of distribution and geographic coverage, including internal efforts.

R & D (Research and Development) and Engineering function can be a strategic advantage for two reasons:

1. It can lead to new or improved products for marketing
2. It can lead to the development of improved manufacturing or material processes to gain cost advantages through efficiency.

Strategic Advantage Factors: R&D and Engineering

1. Basic research capabilities within the firm
2. Development capability for product engineering
3. Excellence in product design
4. Excellence in process design and improvements

5. Superior packaging developments being created
6. Improvements in the use of old or new materials
7. Ability to meet design goals and customer requirements
8. Well equipped laboratories and testing facilities
9. Trained and experienced technicians and scientists
10. Work environment suited to creativity and innovation
11. Managers who can explain goals to researchers and research results to higher managers
12. Ability of unit to perform effective technological forecasting.

DIFFERENT APPROACHES TO DEVELOP AN COMPETITIVE ADVANTAGE:

1. The first approach is to compete based on existing strengths. This approach is called KFS, abbreviated from Key Success Factors. The firm can gain strategic advantage if it focuses resources on one crucial point.
2. The second approach is still based on existing strengths but avoids head-on competition. The firm must look at its own strengths which are different or superior to that of the competition and exploit this relative superiority to the fullest. For example, the strategist either (a) makes use of the technology, sales network, and so on, of those of its products which are not directly competing with the products of competitors or (b) makes use of other differences in the composition of assets. This avoids head-on competition.
3. The third approach is used for example to compete directly with a competitor in a well-established, stagnant industry. Here an unconventional approach may be needed to upset the key factors for success that the competitor has used to build an advantage. The starting point is to challenge accepted assumptions about the way business is done and gain a novel advantage by creating new success factors.
4. Finally, a competitive advantage may be obtained by means of innovations which open new markets or result in new products. This approach avoids head-on competition but requires the firm to find new and creative strengths. Innovation often involves market segmentation and finding new ways of satisfying the customer's utility function.

5. In each of these approaches the principal point is to avoid doing the same thing as the competition on the same battleground. So the analyst needs to decide which of these approaches might be pursued to develop a sustainable distinctive competence.

Strategic Advantage Profile	
Internal Area	Competitive Strength or Weakness
Marketing	↑ Product line is extensive, and service is excellent. ↓ Channels of distribution are weak in the southwest.
R&D Operations	↓ No R&D performed. ↑ Excellent sourcing for raw materials. ↓ Facilities are old and becoming outdated.
Corporate resources	- Company size is about average for the industry. - Profits have been consistent but average. ↓ Union employees complain frequently
Finance	↑ Balance sheet shows ability to obtain needed capital; low debt-equity ratio, high working capital position, and favourable stock price.

FUNCTIONAL AREA PROFILE & RESOURCE DEVELOPMENT MATRIX

To make a comparative analysis of a firm's own resource deployment position and focus of efforts with those of competitors.

- First, technique requires preparation of matrix of functional area with common features.
- Secondly matrix is prepared showing deployment and focus of efforts over a period of time.

STRATEGIC ADVANTAGE PROFILE

SAP tries to find out the org strengths and weaknesses with relation to some CSF

CRITICAL SUCCESS FACTOR ANALYSIS

Developed – John Rockart

- Satisfactory performance – required – for organization
– achieve goals
- Identify – tasks & requirements – for success
- CSFs – means to achieve goals
- Sources of CSF - industry, environment & temporal factors

Characteristics of CSF Analysis

- Internal
- External
- Monitor
- Develop

Process of CSF Analysis – Identify

- CSF
- Critical information – internal & external
- Critical assumption set
- Critical decision

Benefits of CSF Analysis

- Results –needs – enterprise – clearly

- Measure success – prioritize goals
- Needs of end users & enterprise are

UNIT – 4

FORMULATION OF STRATEGY

Approaches to Strategy Formation

The initial task in strategic management is typically the compilation and dissemination of a mission statement. This document outlines, in essence, the *raison d'être* of an organization. Additionally, it specifies the scope of activities an organization wishes to undertake, coupled with the markets a firm wishes to serve. Following the devising of a mission statement, a firm would then undertake an environmental scanning within the purview of the statement.

Strategic formation is a combination of three main processes which are as follows:

- Performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental.
- Concurrent with this assessment, objectives are set. These objectives should be parallel to a time-line; some are in the short-term and others on the long-term. This involves crafting vision statements (long term view of a possible future), mission statements (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.

STEPS IN STRATEGY FORMULATION

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. **The process of strategy formulation basically involves six main steps.** Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organizations' objectives** - The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider

term which believes in the manner of deployment of resources so as to achieve the objectives.

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

2. **Evaluating the Organizational Environment** - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses. After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.

3. **Setting Quantitative Targets** - In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

4. **Aiming in context with the divisional plans** - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.

5. **Performance Analysis** - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An

attempt is made by the organization to estimate its probable future condition if the current trends persist.

6. **Choice of Strategy** - This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

DIVERSIFICATION

Diversification is a form of corporate strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally very interesting entering a promising business outside of the scope of the existing business unit.

Diversification is part of the four main growth strategies defined by the Product/Market Ansoff matrix:

		Products	
		Present	New
Markets	Present	Market penetration	Product development
	New	Market development	Diversification

Ansoff pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

RETRENCHMENT

Retrenchment is a corporate level strategy that aims to reduce the size or diversity of an organization. Retrenchment is also reduction in expenditure to become financially stable. Retrenchment strategy is a strategy used by corporate in order to reduce the diversity or to cut the overall size of the operations of the company. This strategy is often used to cut down expenses with the goal of becoming more financially stable business. Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or services in order to make a beneficial turn around. Retirement is one of the retrenchment strategies. It is a point where a person stops employment completely. A person may also semi retire by reducing work hours. Many people choose to retire when they are eligible for private or public pension benefits, although some are forced to retire when physical conditions do not allow them to work anymore. Retrenchment is something akin to downsizing. When a company or government goes through retrenchment, it reduces outgoing money or expenditures or redirects focus in an attempt to become more financially solvent. Many companies that are being pressured by stockholders or have had flagging profit reports may resort to retrenchment to shore up their operations and make them more profitable. Although *retrenchment* is most often used in countries throughout the world to refer to layoffs, it can also label the more general tactic of cutting back and downsizing. Companies can employ this tactic in two different ways. One way is to slash expenditures by laying off employees, closing superfluous offices or branches, reducing benefits such as medical coverage or retirement plans, freezing hiring or salaries, or even cutting salaries. There are numerous other ways in which a company can employ retrenchment. These can be non-employee related, such as reducing the quality of the materials used in a product, streamlining the process in which a product is manufactured or produced, or moving headquarters to a location where operating costs are lower. The second way in which a company may practice retrenchment is to downsize in one market that is proving unprofitable and build up the company in a more profitable market. If one market has become obsolete due to

modernization or technology, then a company may decide to change with the times to remain profitable.

Retrenchment Strategy

A strategy used by corporations to reduce the diversity or the overall size of the operations of the company. This strategy is often used in order to cut expenses with the goal of becoming a more financial stable business. Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or service in order to make a beneficial turnaround.

Different Types of Retrenchment Strategies of Business are given below:

Retrenchment can be divided into the following categories:

1. Turn around Strategies

Turnaround strategy means backing out, withdrawing or retreating from a decision wrongly taken earlier in order to reverse the process of decline. There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are as follows:

- a) Persistent negative cash flow
- b) Continuous losses
- c) Declining market share
- d) Deterioration in physical facilities

2. Divestment Strategies

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a restructuring plan and is adopted when a

turnaround has been attempted but has proved to be unsuccessful or it was ignored. A divestment strategy may be adopted due to the following reasons:

- a) A business cannot be integrated within the company.
- b) Persistent negative cash flows from a particular business create financial problems for the whole company.
- c) Firm is unable to face competition

3. Liquidation Strategies

Liquidation strategy means closing down the entire firm and selling its assets. It is considered the most extreme and the last resort because it leads to serious consequences such as loss of employment for employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Generally it is seen that small-scale units, proprietorship firms, and partnership, liquidate frequently but companies rarely liquidate. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies do not generally prefer liquidation.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.

Liquidation strategy may be difficult as buyers for the business may be difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.

Reasons for Liquidation include:

- (i) Business becoming unprofitable
- (ii) Obsolescence of product/process

(iii) High competition

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