The Definition of Strategic Management

The Art and Science of Formulating, Implementing, and Evaluating Cross-Functional Decisions That Enable an Organization to Achieve Its Objectives
The Basis for Good Strategic Decisions

Intuition + Analysis

Effective Strategic Decisions
Keys to Formulating Strategies

Business Mission

External Opportunities and Threats

Internal Strengths and Weaknesses

Strategy Formulation
A Comprehensive Strategic Management Model

- Develop Mission Statement
- Develop Mission Statement
- Establish Long-term Objectives
- Establish Long-term Objectives
- Generate, Evaluate, and Select Strategies
- Generate, Evaluate, and Select Strategies
- Establish Policies and Annual Objectives
- Establish Policies and Annual Objectives
- Allocate Resources
- Allocate Resources
- Measure and Evaluate Performance
- Measure and Evaluate Performance
- Perform External Audit
- Perform External Audit
- Perform Internal Audit
- Perform Internal Audit
- Strategy Formulation
- Strategy Formulation
- Strategy Implementation
- Strategy Implementation
- Strategy Evaluation
- Strategy Evaluation

Feedback
A Strategic Management Framework

Value Creation drives the strategy process

Customers

Value Creation

Owners

Employees

Effective strategic management creates value

Develop Mission & Vision

Perform Situation Analysis

Set Objectives & Craft Strategy

Implement Strategy

Assess Value Creation & Provide Feedback

Effective strategic management creates value

Value Creation drives the strategy process
The Stages and Activities in the Strategic Management Process

**Stages**
- Strategy formulation
- Strategy implementation
- Strategy evaluation

**Activities**
- Conduct research
- Integrate intuition with analysis
- Make decisions
- Establish annual objectives
- Devise policies
- Allocate resources
- Review internal and external factors
- Measure performance
- Take corrective action
Forces Influencing Design of Strategic Management Systems

**Organization**
- Small one-plant companies
- Large companies

**Management Styles**
- Policy maker
- Democratic-permissive
- Authoritarian
- Day-to-day operational thinker
- Intuitive thinker
- Experienced in planning
- Inexperienced in planning

Toward more formality and more details
Toward less formality and fewer details
Forces Influencing Design of Strategic Management Systems

Complexity of Environment

Toward more formality and more details:
- Stable environment
- Turbulent environment
- Little competition
- Many markets and customers
- Single market and customer
- Competition severe

Toward less formality and fewer details:
- Stable environment
- Turbulent environment
- Little competition
- Many markets and customers
- Single market and customer
- Competition severe
Forces Influencing Design of Strategic Management Systems

Complexity of Production Process

Toward more formality and more details:
- Long production lead times
- Short production lead times
- Capital intensive
- Labor intensive
- Integrated manufacturing processes
- Simple manufacturing processes
- High technology
- Low technology
- Market reaction time for new product is short
- Market reaction time is long

Toward less formality and fewer details:
Forces Influencing Design of Strategic Management Systems

Nature of Problems

Toward more formality and more details
- Facing new, complex, tough problems having long-range aspects
- Facing tough short-range problems

Toward less formality and fewer details
- Coordinate division activities
- Train managers
Levels of Strategic Decisions

- **Corporate Level**
  - What business to be in?

- **Business Level**
  - How to compete in a chosen Business

- **Functional Level**
  - Support at each function
Intended or Realized Strategy

Intended

Unrealized Strategy

Realized

Decisions by Organization

FIO Decisions
Financing
Investing Operations
Vision Versus Mission

Mission Statement
Answers the Question

“What is Our Business?”

Vision Statement
Answers the Question

“What Do We Want to Become?”
The Growth Matrix

- **Market Penetration**
  - Present Products
  - Present Markets

- **Product Development**
  - New Products
  - Present Markets

- **Market Extension**
  - Present Products
  - New Markets

- **Diversification**
  - New Products
  - New Markets
Expansion Strategies

**Market Penetration**
Seeking Increased Market Share For Present Products or Services in Present Markets

**Market Development**
Introducing Present Products or Services into New Geographic Areas

**Product Development**
Seeking Increased Sales by Improving Present Products/Services or Developing New Ones
Expansion Strategies

Diversification Strategies

Related Diversification
Adding New, But Related, Products or Services
Adding New, Unrelated Products or Services for Present Customers

Unrelated Diversification
Adding New, Unrelated Products or Services
What Else Besides Growth

- Staying the Course
- Reduction in operations
Retrenchment Strategies

**Cost-Cutting**
Reducing the use of allocation of resources for a specific function

**Liquidation**
Closing all operations

**Divestment**
Selling a Division or Part of an Organization
Key External Forces

- Economic
- Social
- Cultural
- Demographic
- Governmental
- Political
- Technological
- Legal
- Environmental

Competitive
Formulating Strategies Based on Key Internal Factors

Developing Strategies That Use An Organization’s Strengths To

- Take full advantage of external opportunities
- Reduce the effects of external threats
- Improve an organization’s weaknesses
Overview of the External Environment

- Macroenvironment: the set of broad forces and factors that affect the behavior of key players in the task environment
- Task Environment: the key players whose behavior directly impacts the firm and its prospects for success
Industry Analysis

Market Share Analysis
• Definition of “market”
• Definition of competitors

Financial Analysis
• Sales
• Net Income
• Other Indicators
• Ratios
Competitor Analysis

- Who are the existing and potential competitors?
- What strategic groups can be identified?
- What are their levels of sales, share and profits?
- What are their growth trends?
- What are their strengths, weaknesses, strategies?
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<th>OPPORTUNITIES - O</th>
<th>STRENGTHS - S</th>
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<td><strong>SO STRATEGIES</strong></td>
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<td>Use strengths to take advantage of opportunities</td>
<td>Overcome weaknesses by taking advantage of opportunities</td>
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<td><strong>ST STRATEGIES</strong></td>
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<td>Use strengths to avoid threats</td>
<td>Minimize weaknesses and avoid threats</td>
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So What Matters?

Idea of SWOT analysis

- Just a basic tool
- This is a starting point for strategic analysis

Identifying long term and Short term trends

- in macro environment
  - economic, socio-cultural, legal-political and knowledge-technology
- in task environment
  - customers, competition, and suppliers
Sustainable Competitive Advantage is Based on:

- Assets and Skills
- People and Culture
- Processes and Systems
- R&D Capability
- Manufacturing or Service Capability
Sustainable Competitive Advantage

SCA’S Should Be:
- Substantial...Enough to Make a Difference
- Sustainable...In the Face of Inevitable Changes, Competitive Actions
- Leveraged...Into Viable Business Attributes That Will Influence Customers
Sustainable Competitive Advantage

SCA Based a Combination of Strategic Thrusts:
- Differentiation
- Low Cost
- Focus
Differentiation Strategies

Characteristics:

- Provide Customer Value
- Be Difficult to Copy
Approaches to Differentiation

- Invest in Quality
- Focus on Customer Satisfaction
- Build Strong Brands
Low Cost Strategies

**Bases:**
- No Frills Product / Service
- Sourcing
- Design
- Operations
- Experience Curves
- Economies of Scale
- Low Cost Culture
Scale Economies

Natural Efficiencies Associated With Size
- Can Spread Fixed Costs
- Can Support Specialized Assets and/or Activities
Focus Strategies

Product and or Market Concentration

Benefits:

- Avoids Strategy Dilution, Distraction
- Minimizes Impact of Limited Resources
- Potential to Bypass Competitor Assets/Skills
  - e.g., Private Label Producers
- Niche Strategy
Focus Strategies - Options

Note: These Are Not Mutually Exclusive

- Focus Product Line
  - Enhance Technical Superiority; Exciting, Innovative, High Quality
- Target a Segment
- Target a Geographical Area
- Target Low-Share Competitors
Cross-Functional Integration

Level III - Functional

Operational Strategy

SBU Strategy

Marketing/ Sales Strategy

R&D Strategy

Human Resources Strategy

Accounting/ Control Strategy
Behavioral Aspects of Strategic Choices

- Senior Management Team
- Organizational Culture
- Personal Ethics
- Corporate Social Responsibility
Barriers to Implementation

- Unclear strategy
- Management style
- Lack of coordination
- Resistance to change

Reasons for Resistance
- Loss of control
- Fear of the unknown
- Lack of confidence to learn
- Increasing workload
- Past resentment or distrust
- Loss of status or security
- And others
Overcoming Resistance

- Establish a sense of urgency
- Communicate and involve
- Create a shared vision
- Anticipate and remove barriers
- Reinforce and institutionalize new approaches
A Case Study

- Using Internet: an Indian Firm
- In a very unlikely industry
- Innovative marketing tool
- Use of HRM
The timeless beauty of trust

WWW.SURATDIAMOND.COM
eBay and SDJ

- Surat Diamond Jewellery is one of the few players who have secured a firm footing in this internationally reputed e-commerce site.
- It goes a long way in proving the credibility and goodwill to its customers.
Comments

- Great Item, fast delivery, easy transaction, A+++++++++++++++++++++ from Buyer dsg143 (249) ebay auction 4901680135

- NICE, NICE ITEMS FROM THIS SELLER AND THEY ARE APPRECIATED VERY MUCH! From Buyer steppingstones4489 (134) ebay auction 4112106777

- Sent item as described from Buyer hollyrose50 (87) ebay auction 4111213756

- good communication, well packed and shipped. good transaction, thank you, from Buyer wambamela (50) ebay auction 4901274266
How SDJ did it?

- Competitive intelligence
- Hard work
- Feedback from customers
- but
- key ingredient: HR
Strategy and Value for Owners

- $P - TC = \text{Profit}$, a *contribution* to value for owners

- $P = \text{Price paid by customer}$

- $TC = \text{Total Cost of making and delivering the product/service}$
Value for Employees

- Financial
- Non-financial
Value for Employees (2)

- Attraction and retention
- Company cash flow and tax incentives
- Awareness of success of the company
- More employee commitment to the company and greater satisfaction
- Better organizational performance
Customer Value

- Benefits derived from solving the customer’s problem, a function of product - service quality
  
  …. Relative to …. 

- The total cost of the acquisition and use of the product, including out of pocket expense, time, effort, etc.
Customer Value

- Operational Excellence
- Customer Intimacy
- Product Leadership
- People in the organization