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4

Strategic Planning

<u>Strategic Planning</u>

<u>Strategic management process</u>

<u>Corporate strategy, how its to be formulated, & most importantly different types strategies</u>

<u>Generating blueprints of action.(strategic planning) factors? Resource allocation, responsibilities allocation</u>

1. Developing a **<u>"Strategic Vision"</u>**
2. **<u>"Setting Objectives"</u>**
3. ***"Crafting Strategy"*** to achieve the desired outcomes
4. **<u>"Implementing & Executing strategy"</u>**
5. Monitoring, evaluating the performance and corrective actions

GLUECK & JAUNCH

- **There are 4 ways of strategic alternatives stability, expansion, retrenchment, combinations**

1.Stability strategies :(work hard to maintain existing market share)

2.Expansion strategy:

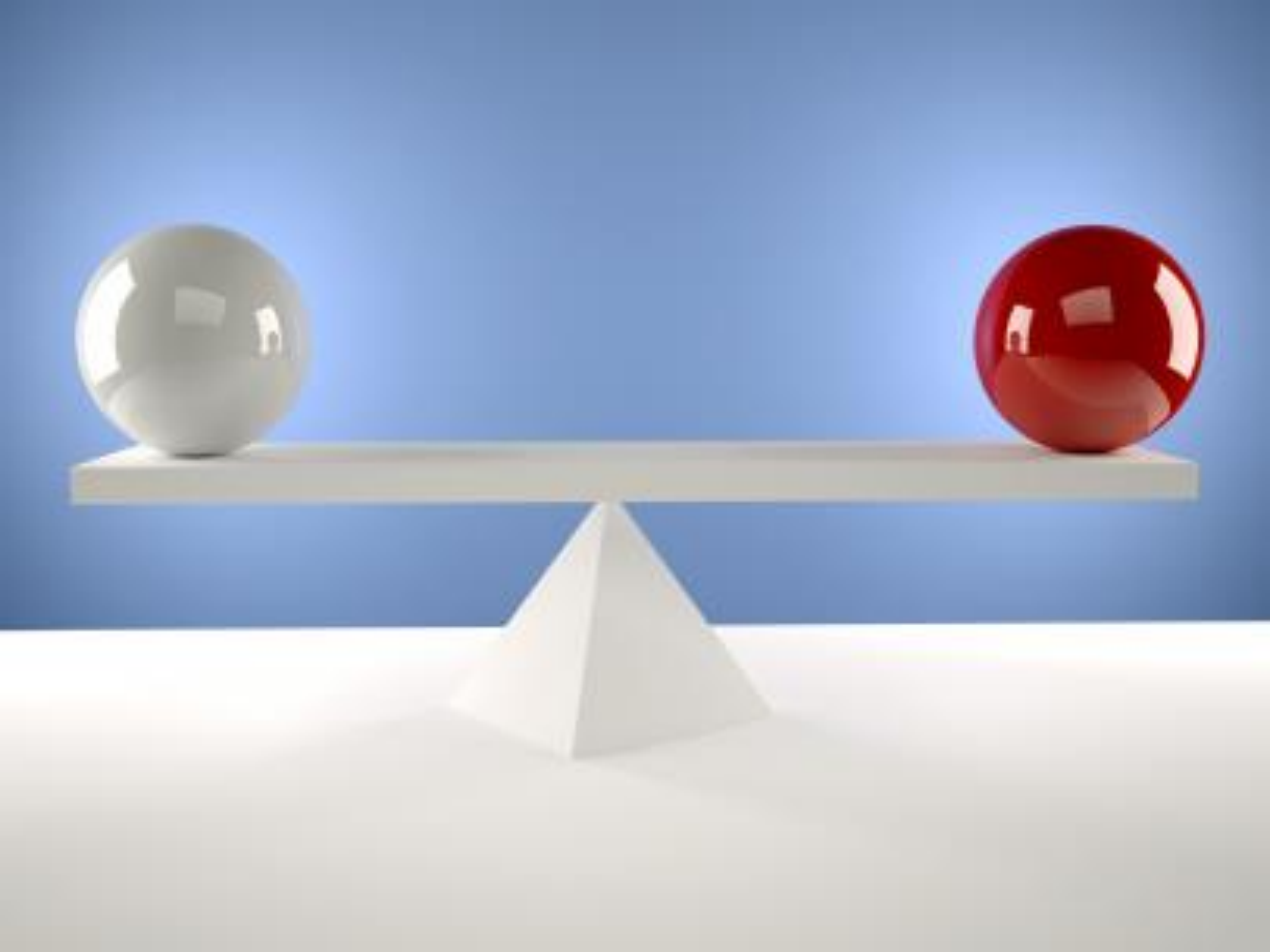
Expansion through Diversification:

Expansion through Acquisition and mergers:

3.Retrenchment strategy:

4.Combination strategies:

- **Stability**: Consolidating the commanding position already reached. Continue with the chosen path, maintaining operational efficiency
- **Expansion**: Adding the scope by increasing efforts, reformulating goals and direction, investment, innovative decisions, it includes diversifying, Acquiring, Merging
- **Retrenchment**: Divesting a major product line or market(retreat), when Adverse situation, when Hostile situation, Retreat is not bad always, regrouping and recoup the resources
- **combination**: stability, expansion, retrenchment all are good but situation may demand for combination of all



Stability strategy

- Same business, same product, same market posture and same functions,
- Focus is to enhance functional efficiencies
- Firms with modest growth objective will vote for this strategy
- Safety-oriented, status quo-oriented strategy
- It is fairly “frequently employed strategy”
- It does not permit the renewal process of bringing fresh investments
- Rewards are limited

Examples of Stability strategy

- Steel Authority of India has adopted stability strategy because of overcapacity in steel sector. Instead it has concentrated on increasing operational efficiency of its various plants rather than going for expansion.
- NTPC and ONGC have also adopted stability strategy instead of expansion.
- Bata also comes under stable strategy following company.

Expansion strategy

- True growth strategy, mammoth(massive) growth strategy
- Redefinition of the business of the corporation
- Highly versatile/ it can be further divided in to two parts(1) Intensification(2) Diversification
- Intensification can be termed as growth strategies(Penetration, Market Development, Product Development)
- Diversification: (vertical, concentric, conglomerate)(all are part of expansion strategy only)

Retrenchment

- Divestment and retrenchment are used interchangeably
- The word divestment is part of corporate strategy without any stigma(dishonour) attached to it.
- Redefinition of the business, (business becoming unprofitable, high competition, industry overcapacity, failure of strategy)
- Part of Rehabilitation or Restructuring plan
- Cutting down around 15000 employees by Air India is an example of retrenchment strategy.

Porters generic strategies

- Cost leadership
- Differentiation strategies
- Focused strategies
- Focused differentiation
- Broad differentiation
- Broad cost leadership

Example

- Companies pursuing an overall cost leadership strategy
  - McDonalds
  - Wal-Mart
- Companies pursuing a differentiation strategy
  - Harley Davison
  - Apple
- Companies pursuing a focus strategy
  - Rolex
  - Lamborghini

Porters generic strategies

- **Cost leadership:(standardised product at low cost, for price sensitive customers)** The Ultimate goal of any strategy, learning curve, economics of scale, % of capacity utilisation. High efficiency and low overheads.
- Ultimate goal for all the processes, wide spans of control, Reducing Process wastage for achieving competitive advantage

Cost leadership

- Standardised product/services at Low cost
- For price sensitive customers
- Why companies do Forward, Backward and Horizontal Integration? For having cost leadership
- Result of high efficiency/where completion is high
- A leading cost strategy for McDonalds is the ability to purchase the land and buildings of its restaurants. McDonalds also developed a strong division of labour for its production processes, tight management control and product development strategy. Creating a strong top-down style of management is another leading cost strategy for McDonalds.

There are two types of cost leadership strategies.

- a. A low-cost strategy offers products to a wide range of customers at the lowest price available on the market.
- b. A best-value strategy offers products to a wide range of customers at the best price-value available on the market.

Example(cost leadership)

- Wal-Mart Stores Inc. has been successful using its strategy of everyday low prices to attract customers.
- The idea of everyday low prices is to offer products at a cheaper rate than competitors on a consistent basis, rather than relying on sales. Wal-Mart is able to achieve this due to its large scale and efficient supply chain.
- They source products from cheap domestic suppliers and from low-wage foreign markets. This allows the company to sell their items at low prices and to profit off thin margins at a high volume.
- Brand Factory

- **Ikea** The Swedish furniture retailer Ikea revolutionized the furniture industry by offering cheap but stylish furniture.
- Ikea is able to keep its prices low by sourcing its products in low-wage countries and by offering a very basic level of service.
- Ikea does not assemble or deliver furniture; customers must collect the furniture in the warehouse and assemble at home themselves. While this is less convenient than traditional retailers, it allows Ikea to offer lower prices that attract customers.
- <u>**What Home Town is Doing in India? Again future Group**</u>

Differentiation

- You are providing which others are not
- Not necessarily to have competitive advantage/ as cost may be high/
- Market study for class of customer is must/ customers are not price sensitive
- Advantage of first entrance/ rapid imitation is possible too…apple uses its own platform for its product line/Strong R&D/ and good brand name.
- A successful differentiation strategy allows a firm to charge higher prices for its products to gain customer loyalty because consumers may become strongly attached to the differentiation features.

<u>Differentiation strategies:(aim is at producing product or services unique in the industry) price insensitive customers)</u>

different degree of differentiation.

It may allows the co. to charge higher price for the product, not necessarily allows competitive advantage.

Unique product may not be valued highly every time customer.

Pixar also targets the mass market with its movies, but adopts a differentiation strategy, using its unique capabilities in story-telling and animation to produce signature animated movies that are hard to copy, and for which customers are willing to pay to see and own.

Examples of Differentiation

- **Apple** - Steve Jobs said this about the difference between Dell and Apple: Apple and Dell are the only ones in this industry making money. They make it by being Wal-Mart. We make it by innovation.

Service centre/ expensive/few centres only in few city/ for class of people/ who basically values time/ in USA/ proper market study was done

Examples of Differentiation

FedEx's former slogan "When it absolutely, positively has to be there overnight" highlights the commitment to very speedy delivery that differentiates them from competitors such as UPS and the U.S. Postal Service.

Focused

- **Focus(specific need of small group of consumers)**
- such a Segment of the industry which is not Crucial Segment for the other leading competitors
- when customers have distinctive preferences these strategies helps.
- Rival firms are not attempting to specialise in the same target segment.

Focused

Focus means producing products and services that fulfill the needs of small groups of consumers. Emphasis on segment having chances of growth potentiality

2. There are two types of focus strategies.

a. A low-cost focus strategy offers products or services to a small range (niche) of customers at the lowest price available on the market.

b. A best-value focus strategy offers products to a small range of customers at the best price-value available on the market. This is sometimes called "**focused differentiation**".

Focused differentiation

- Means targeting a Small group of customers with **differentiated** products.
- Some firms using this concentrate their efforts on particular sales channel
- c. Johnson and Johnson products mainly focuses on babies.

Firms that compete based on uniqueness and target a narrow market are following a focused differentiation strategy. Several examples of firms pursuing a focused differentiation strategy are illustrated below.

Whole Foods Market focuses on selling natural and organic products. The supermarket's reputation for high prices has led to a wry nickname – "Whole Paycheck" – but a sizable number of consumers are willing to pay a premium in order to feel better about the food they are buying. After all, you are what you eat!

At Build-A-Bear Workshop, customers enjoy an interactive process of designing and assembling teddy bears. Build-A-Bear customers are willing to pay a premium price because they receive a unique, hands-on experience rather than simply buying a stuffed toy.

You can buy a cinnamon roll cheaper elsewhere, but Cinnabon's pricey pastries are so delicious that sugar-obsessed snackers line up to buy them. Perhaps in a nod to Cinnabon's strategy, the brand is owned by a parent company named Focus Brands.

The dedication of Mercedez-Benz to cutting-edge technology, styling, and safety innovations has made the firm's vehicles prized by those who are rich enough to afford them.

Broad cost leadership	Focused cost leadership	Broad differentiation	Focused differentiation
Air Asia	MAXIS	BONIA	PORSCHE
MYDIN	GOOGLE	NIKE	ROLLS ROYCE
KFC	GIANT	TOYOTA	BUGATTI VEYRON
MCDONALDS	TESCO	PERODUA	LAMBORGHINI
SUBWAY	KAMDAR	PROTON	
AL-IKHSAN	AVON		
COCA-COLA			

Examples of Focused cost leadership

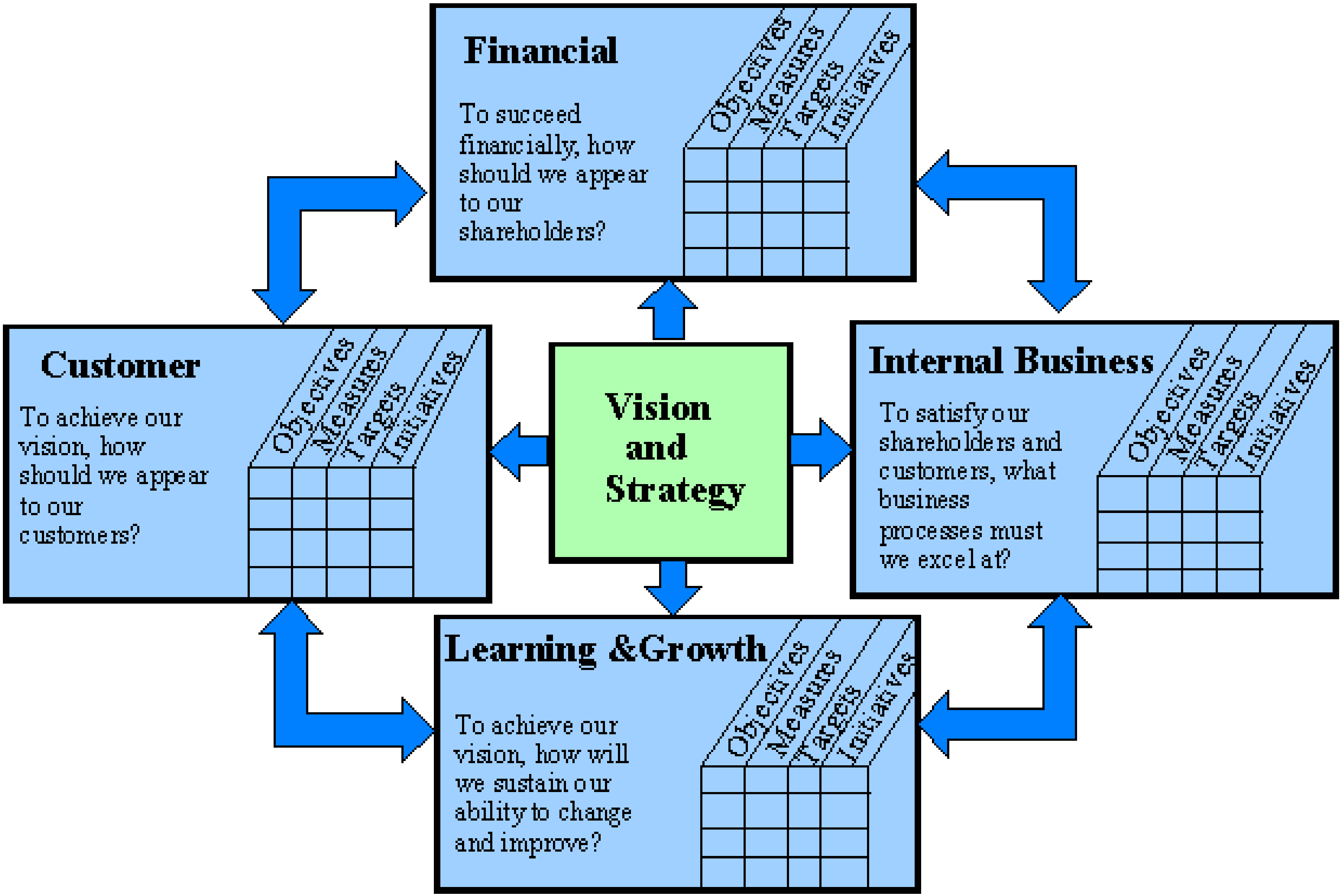
Redbox uses vending machines placed outside grocery stores and other retail outlets to rent DVDs of movies for $1.

Balanced Scorecard

The **Balanced Scorecard** (**BSC**) is a strategy(performance management) tool - a semi-standard structured report, supported by **design methods** and **automation tools**, that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions.

The first generation of balanced scorecard designs used a "4 perspective" approach to identify what measures to use to track the implementation of strategy. `The original four "perspectives" proposed were:

Balanced Scorecard Framework*



* Adapted from Kaplan & Norton 1996. *The Balanced Scorecard*. Harvard Business School Press: 9. Original from HBR Jan/Feb 1996, p. 76.

- The original thinking behind a **"Balanced Scorecard"** was for it to be focused on information relating to the implementation of a strategy
- Translating the vision into **"operational goals"**
- Communicating the vision and link it to individual performance(imp)
- Business planning; index setting
- Feedback and learning, and adjusting the strategy accordingly.

Financial: encourages the identification of a few relevant high-level financial measures. In particular, designers were encouraged to choose measures that helped inform the answer to the question **"How do we look to shareholders?" Examples: cash flow, sales growth, operating income, return on equity.**

Customer: encourages the identification of measures that answer the question "How do customers see us?" **Examples: percent of sales from new products, on time delivery, share of important customers' purchases, ranking by important customers.**

business processes: encourages the identification of measures that answer the question "What must we excel at?" **Examples: cycle time, unit cost, yield, new product introductions.**

Learning and growth: encourages the identification of measures that answer the question "How can we continue to improve, create value and innovate?". **Examples: time to develop new generation of products, life cycle to product maturity, time to market versus competition.**

Examples of BSC

- In 1992 marketing and refining division of Mobile Oils (US) was performing poorly. It was last in the industry in profitability. In 1993 they adopted BSC and by 1995 division climbed to first place.
- In 1993 the property and causality division of Cigna lost nearly $275 million. In 1998 the company's performance placed it in the top quartile of its industry.
- The retail division of 'Chemical Retail Bank'(now known as 'Chase Manhattan Bank' enjoyed 30% market share in 1992. They implemented BSC in 1993. By 1996 profitability was increased by 20%

TYPES OF STRATEGIES

Integration

- Forward Integration
- Backward Integration
- Horizontal Integration

Intensive

- Market Penetration
- Market Development
- Product Development

Diversification

- Concentric Diversification
- Horizontal Diversification
- Conglomerate Diversification

Defensive

- Retrenchment
- Divestiture
- Liquidation

Grand strategies/expansion/Intensification

- **Market penetration:**(currant business, profitable growth of single product, single market, single technology)
- Android follows a penetration pricing strategy.
- Apple uses a skimming strategy.
- **Market development:**(new market, new channels of distribution, new promotional methods)
- **Product development:**(substantial change in product, modified product)

Diversification

- New product / New product line/New Services/
- New Market/ Different Skill/ Different Technology /Innovation/Capacity Utilisation
- Synergy (behaviour of a system that can not be predicted due to combining various efforts or people

- Related diversification
- Unrelated diversification

Diversification

Vertical Integration Diversification

Vertical Integration Strategies

- Forward Integration
- Backward Integration

Horizontal integration diversification

Concentric integration diversification

Conglomerate integration diversification


Arnold Clark
MOTORSTORE
Forward Vertical Integration
Ford
Horizontal Integration
VAUXHALL
Backward Vertical Integration
DUNLOP

Forward

- Gaining ownership or increased control over distributors or retailers
- General Motors is acquiring 10% of its dealers.
- Going forward, previously co was making raw steel and now making products from it by mixing other metals in to it
- Reliance industries owning refineries diversified in to petrol pumps
- If Intel acquires Dell, it is a forward integration because it is an acquisition of manufacturer by a supplier.

Examples

- If Dell acquires a distributor of computers such as BestBuy it will be a forward integration too since it is an acquisition of a distributor by a manufacturer.
- Why to go for “forward integration”?
  - ✓ Present distributors are expensive, unreliable, or incapable of meeting firm’s needs
  - ✓ Availability of quality distributors is limited
  - ✓ When firm competes in an industry that is expected to grow markedly
  - ✓ Advantages of stable production are high
  - ✓ Present distributor have high profit margins

Backward Integration

- Entering business of input provider
- Seeking ownership or increased control of a firm's suppliers
- Seeking ownership or increased control of a firm's suppliers
- *Your value chain means your product if you buy companies dealing in raw material of your product its backward, if you buy a company who uses your product as raw material its forward integration*

Examples

- Amazon.com backward vertically integrated when it became not only a bookseller but a book publisher.
- A simple example of **<u>backward vertical integration strategy</u>** is an ice cream company that buys a dairy farm.
- Automobile manufacturers diversifying in to tyre production(example of work book)

Why go backward

- ✓When present suppliers are expensive, unreliable, or incapable of meeting needs
- ✓Number of suppliers is small and number of competitors large
- ✓High growth in industry sector
- ✓Firm has both capital and human resources to manage new business
- ✓Advantages of stable prices are important
- ✓Present supplies have high profit margins

Horizontal Integration

- Seeking ownership or increased control over competitors
- Palestinian Islamic Bank acquired Cairo-Amman Bank Islamic transaction branch.
- After reaching a certain level of success, Walt Disney has been considering ways to expand and increase profits. Disney started out as an animation studio targeting children and families, which also represent their currently core target audience. However, in the process of diversifying and developing their company, Disney did a horizontal integration into live action films (For example, Pirates of the Caribbean series). In this manner the company managed to reach new audiences and control a bigger share of the film industry.

One example of a horizontally integrated company is AT&T.

- AT&T is a telecommunications company that has acquired other firms in that industry, such as T-Mobile and BellSouth.
- While the firms operate in some of the same areas, there are areas that AT&T did not operate in until acquiring those companies.
- AT&T was able to increase its market

Horizontal Integration

Concentric Diversification

- One kind of related diversification
- New business is linked through process/ technology or marketing,customer
- Synergy from currant operations/ little spin off
- Kotak Mahindra bank gets into insurance and asset management business(module)
- Adding new & related products increases sales of current products
- New & related products offered at competitive prices
- Current products are in decline stage of the product life cycle
- Strong management team

Example of Concentric Diversification

- The addition of tomato ketchup and sauce to the existing "Maggi" brand processed items of Food Specialities Ltd. is an example of technological-related concentric diversification

Example of Concentric Diversification

- A sewing machine manufacturer starts manufacturing Kitchen appliances (Wider Industry situation – Women as concentrated target group, Kitchen appliances as concentrated product range etc)

C D by sharing resources

Companies do this to achieve economies of scale and reduce costs.

For example, a metals distributor who needs a larger warehouse may contract with a manufacturing company that has a processing facility with extra space.

The manufacturer benefits because it operates on just-in-time principles and now part of its raw materials are now on site. The distributor benefits from the space, the equipment and the warehouse management expertise of the manufacturer.

C D by strategic partnership

a billing software company with strong ties to the energy industry may strategically partner with a much larger customer relationship management, or CRM, software company.

The billing software provider gets the opportunity to expand to a different industry via the partnership and the CRM company gets to build deeper inroads into the energy industry. -

Point of differences

- In Vertical integration the new product falls within the firms existing process product chain
- In concentric diversification the new product is only connected as (loop-like manner) at one or more point in the firms existing process(remember for objective question)

Conglomerate Diversification

- Adding new, unrelated products or services /No linkage to the new product and old product /Product are disjoined from existing business /No common thread at all with firms present position
- Yash birla group (auto & engineering) decides to enter wellness, solar power and schools.
- Consultant Construction Engineering acquired Bisects factory.

Why conglomerate?

- ✓Declining annual sales and profits
- ✓Capital and managerial talent to compete successfully in a new industry
- ✓Financial synergy between the acquired and acquiring firms
- ✓Exiting markets for present products are saturated

Retrenchment

- **Can be done internally / externally**
- Also known as **"Retreat"**/ hostile and adverse situation in the business
- No strategy is working/ organisation is reducing its scope of activities
- Reallocation of the resources requires from non profit making to profit making
- A company sold off a land and 4 apartments to raise cash needed. It introduce expense effective control system.

Why go for Retrenchment?

- Firm has failed to meet its objectives and goals consistently over time but has distinctive competencies
- Firm is one of the weaker competitors
- Inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.
- When an organization's strategic managers have failed
- Very quick growth to large organization where a major internal reorganization is needed.

- The US market has proven to be a money loser for Tesco.
- In 2007, Tesco opened stores in California, Arizona and Nevada under the Fresh & Easy banner.
- Fresh & Easy is a convenience market that concentrates on fresh prepared food and groceries.
- It competes directly with Walmart's Neighborhood Market.
- Despite growing to 216 stores generating $960 million in sales, it has not generated a profit.
- For 2011, the company reported a loss of $269 million in the US. Attribute this struggle in part to the fact that many of the Tesco brands are not familiar to the US consumer. Also, California is an extremely competitive market in food.

Example of Retrenchment ?

- Michael Dell, the founder of Dell returned as the CEO in January 2007, **and the company has a turnaround plan which it promises will yield $3 billion in annual savings over the next three or four years.**
- Dell's plans include depending more on resellers and contract manufacturers to cut costs and boost sales of which the consumer personal computer business is expected to contribute more than the current 15 percent of total revenue.

Turnaround strategies

- Turnaround is a restructuring process that converts the loss-making company into a profitable one. It brings the industrial unit into its original position and stabilize its performance.
- When internal retrenchment is implemented for improving internal efficiency then such retrenchment is known as turnaround strategy
- Negative Cash Flow, Negative Profit, declining market share, deterioration in physical facilities, high turnover of employees
- It is of prime importance to focus on the short and long term financing needs of the organisation while implementing turnaround strategies

Divestiture

- Selling a division or part of an organization
- Restructuring of the organisation by selling segment or unit, major division, or SBU,
- Rehabilitation or restructuring plan.
- Harcourt General, the large US publisher, is selling its Neiman Marcus division.

Liquidation

- Selling all of a company's assets, in parts, for their tangible worth
- El-Ameer Block factory sold all its assets and ceased business.
  - ✓ When both retrenchment and divestiture have been pursued unsuccessfully
  - ✓ If the only alternative is bankruptcy, liquidation is an orderly alternative
  - ✓ When stockholders can minimize their losses by selling the firm's assets

Merger

- Horizontal(same industry, direct competitor, economic scale is the motive
- Vertical(same industry, different stage of production, you are becoming bigger and cost can be reduced)
- Co-generic(two co. basic generic(non specific) is same,
- In merger object is to increase strength and financial gain, removing trade barrier
- One takes control over the other and operations are controlled, one financially strong acquires weaker company

Examples merger

- **Mergers** and **acquisitions** are both **changes in control** of companies that involve combining the operations of multiple entities into a single company.
- Tata Steel is one of the biggest ever Indian's steel company and the Corus is Europe's second largest steel company. In 2007, Tata Steel's takeover European steel major Corus for the price of $12.02 billion, making the Indian company, the world's fifth-largest steel producer.

Merger Examples

- Vodafone India Ltd. is the second largest mobile network operator in India by subscriber base, after Airtel. Hutchison Essar Ltd (HEL) was one of the leading mobile operators in India. In the year 2007, the world's largest telecom company in terms of revenue, Vodafone made a major foray into the Indian telecom market by acquiring a 52 percent stake in Hutchison Essat Ltd, a deal with the Hong Kong based Hutchison Telecommunication International Ltd. Vodafone main motive in going in for the deal was its strategy of expanding into emerging and high growth markets like India. **Vodafone**'s purchase of 52% stake in Hutch Essar for about **$10 billion**. Essar group still holds 32% in the Joint venture.

Merger Example

- Ranbaxy Laboratories Limited is an Indian multinational pharmaceutical company that was incorporated in India in 1961 and Daiichi Sankyo is a global pharmaceutical company, the second largest pharmaceutical company in Japan.
- In 2008, Daiichi Sankyo Co. Ltd., signed an agreement to acquire the entire shareholders of the promoters of Ranbaxy Laboratories Ltd, the largest pharmaceutical company in India.
- **Ranbaxy's** sale to Japan's Daiichi at the price of **$4.5 billion.**

  Merger of Broke bond and Lipton

Merger & Acquisition

- Two companies are joining for betterment
- Acquisition, where one company controls other and takes it
- Tatas acquisition of anglo dutch stelmakers corus
- Tatas acqusition of british jaguar land rover
- Mittal steels takeover of arcelor
- Asian Acquired 50.1% controlling stake in Berger International. Deal Rs.57.6 Crores.
- 3. Emami acquired 57% stakes of zandu

Meaning.....strategic intent

- Strategic Intent captures the essence of winning, is stable over time, and sets goals that deserve personal effort and commitment.
- It is a vision that defines the desired leadership position for a firm and grounds the objectives by which success will be assessed.
- The Strategic Intent of an organisation describes how the firm's energy and resources are channelled into a focused and unified overall goal (Daft et al., 2010; Hamel & Prahalad, 1989).

Mission & Strategic Intents

- **Strategic intent — focusing all organizational energies on a unifying (combining)and compelling(convincing) goal**
- It can help galvanize motivation and enthusiasm throughout the organization by providing what they call a sense of destiny and discovery
- A readily grasped declaration of the course that the management of a business plans on taking the company in over some future time frame.
- The strategic intent of a business needs to be easily understood by every member of the firm so that all staff can be working toward a consistent overall goal.

It is the strategic direction and destiny to be pursued by the company (Landrum, 2008).

Ambitious companies almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market positions

Exam Questions

- Combination strategies (expansion, diversification, retrenchment) what we feel?
- **Directional strategies/corporate strategies/grand strategies** are used together(stability, expansion, retrenchment, combination)
- **Cost leadership** (high efficiency, low overhead cost, waste reduction, substantial competitive advantage, imitate is difficult, low cost leadership, competitors are there)
- Best cost providing strategy(value for money, low cost, less than rivals, or similar price)
- **Stability strategy is do-nothing strategy—(advisable in the recession situation, reduced demand of their product even at lowest price, funds become scare, expenditure on expansion is stopped)**

1. Strategic planning is an attempt to improve operational efficiency---
2. First step of strategy formulation in strategic mgt model is to undertake internal analysis—(vision, mission)
3. **BSC is combination of strategic and marketing objectives—**(strategic & financial) emphasis should be more on strategic, when financial difficulties takes place focus should be more on financial)
4. Divesting(separating) a major product line or market can be termed as retrenchment?
5. Diversification only means entering new businesses that are relating to the existing business---
6. Vertical diversification integrates firms forward or backward in the production change
7. Concentric diversification amounts to unrelated diversification--

1. Turnaround is internal & retrenchment Can be done internally / externally
2. **Retrenchment implies(indicates) downsizing(reducing, downscaling, slim down, rationalizing) business? No not always**

- Retrenchment implies giving up certain products and reducing the level of business as compulsive measure to cope up with certain adverse developments on which the firm has little control
- Downsizing (rightsizing) is planned elimination.
- downsizing can be used for implementing retrenchment strategy

THANK YOU