

# Strategic Management – The Competitive Edge

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Module No. # 03

Lecture No. # 11

## The Synthesis of External Factors and External Factors

### Analysis Summary (EFAS)

So, welcome to this session. In the last session, we discussed some of the important variables in societal environment.

We discussed the variables coming under Economic, Technological, Political-Legal and Socio-Culture factors.

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Some Important Variable in Societal Environment			
Economic	Technological	Political-Legal	Socio-Cultural
GDP Trends	Total Government spending for R&D	Antitrust regulations	Lifestyle Change
Interest rates	Total Industry spending for R&D	Environmental protection laws	Career Expectations
Money Supply	Focus of technological efforts	Tax laws	Consumer activism
Inflation rates	Patent protection	Special incentives	Rate of family formation
Unemployment levels	New Products	Foreign Trade Regulations	Growth rate of population
Wage price controls	New developments in technology transfer from lab to marketplace	Attitude towards foreign companies	Age distribution of population
Devaluation/ Revaluation	Productivity improvements-automation	Laws on hiring and promotion	Regional shifts in population
Energy availability and cost		Stability of Government	Live expectancies
Disposable and discretionary income			Birth rates

So under the Economic, we listed GDP trends, interest rates, money supply, inflation rates, unemployment levels, wage price controls, devaluation revaluation; and energy availability and cost, then disposable and discretionary income.

Under Technological, we listed total government spending for R&D, total industry spending for R&D, the focus of technological efforts, patent protection, new products, new developments and technology transfer from lab to market place and then productivity improvements- typically the automation side, which is taking place.

Then in the Political-Legal factors, we listed antitrust regulations, environmental protection laws, tax laws, special incentives, foreign trade regulations, an attitude towards foreign companies, laws on hiring and promotion and then stability of government.

Under Socio-Cultural factors, we listed life styles change, career expectations, consumer activism, rate of family formation, growth rate of population, age distribution of population, regional shifts in population, then the life expectancies and the birth rates. So, all these are some of the important variables which we have to consider in the mega environment for a firm.

The question now comes, why it is becoming so important to look at this? If you really see what is happening in the present day context, firms are operating in a hypercompetitive environment.

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*Competitive Landscape*

Emergence of global economy

Hypercompetitive environments

Fundamental nature of competition is changing

Goods, services, people, skills, and ideas move freely across geographic borders.

Spread of economic innovations around the world.

Political and cultural adjustments are required.

 NPTEL

The slide features a light blue background with a large yellow circle on the left. The title 'Competitive Landscape' is at the top right. The text is organized into three columns: the left column contains 'Emergence of global economy' and 'Hypercompetitive environments' separated by a horizontal line, with 'Fundamental nature of competition is changing' below it; the middle column contains 'Goods, services, people, skills, and ideas move freely across geographic borders.', 'Spread of economic innovations around the world.', and 'Political and cultural adjustments are required.'; and the bottom left corner has the NPTEL logo.

Thanks to this emergence of global economy. What you are trying to see is a hypercompetitive environment and when the firm is operating in a hypercompetitive environment, what is the premise under which it operates? That is, the fundamental nature of the competition itself is changing.

So, what the competition is today might undergo a change tomorrow, this is the type of scenario which you have to be familiar with. To understand what this hypercompetition is or this hypercompetitive environment which I am talking of, you can go to my book and just refer to this one exhibit 5.1 which I will read for you, Microsoft in a hypercompetitive industry.

Microsoft operates in a hypercompetitive industry, it used its dominance in operating systems to move on to a very strong position in application programs like word and excel even though it held 90 percent of the market for PC operating systems in 1992. It invested millions in developing the next generation, Windows 95 and Windows NT. Instead of trying to protect its advantage in the profitable DOS segment, Microsoft actively started to replace DOS with various versions of windows.

Before hypercompetition, most experts argued against cannibalization of a companies own product line, because it destroys a very profitable product instead of harvesting it like a cash cow. According to this line of thought, it will be better of defending its older

products. New products would only be introduced, if it can be proven that they would not take sales away from current products.

Microsoft was one of the first companies to disprove this argument against cannibalization. Bill Gates co-founder and chairman and CEO of Microsoft realized that if his company did not replace its own product with a better product, someone else would such as IBM with OS/2 Warp. He knew that success in the software industry depends not so much on company size, but moving aggressively to the next competitive advantage before a competitor does.

This is a hypercompetitive market explained Gates - scale is not all positive in this business; cleverness is the position in this business. By 1997, Microsoft still controlled 90 percent of the operating system market and had attained a dominant position in application software as well. So, this is just giving an explanation of what hypercompetitive industry is all about, if you really see the competition- the changing competition.

For the first time we saw a **giant** like Microsoft cannibalizing its own products, which were market leaders. The reason being, suppose they did not do, somebody else will do the same thing and they will be left behind. Before somebody else does it for them, that is a competitor does it for them, they wanted to cannibalize their own product. So, this is what the whole hypercompetitive environment is driving companies towards.

So, even though a product might be well established, having a good market share and in fact may be a leader in the market, still companies are thinking of cannibalizing those products as well. Because the thing is that if they do not do it, some other competitor will do it and they do not want to be left behind in this. This is what is happening in the present day scenario, especially in this in the IT market and also in the electronics market. So, this is the way global economy has manifested itself.

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 NPTEL

The slide features a light blue background with a large yellow circle on the left. The circle is divided into two sections: the top section contains the text 'Emergence of global economy' and the bottom section contains 'Hypercompetitive environments'. Below the circle, the text 'Fundamental nature of competition is changing' is displayed. To the right of the circle, three bullet points are listed: 'Goods, services, people, skills, and ideas move freely across geographic borders.', 'Spread of economic innovations around the world.', and 'Political and cultural adjustments are required.'. In the bottom left corner, there is a small logo for NPTEL, which consists of a red and white circular emblem with a star-like pattern, followed by the text 'NPTEL' in red.

So, what is the characteristic of this global economy? If you really see goods, services, people, skills and ideas move freely across geographic borders; so, this is what you are seeing in the present day Internet era. So, if you really see many of the knowledge that you thought was privy to a particular place or to a particular organization or to a particular individuals sometimes even they also move across geographic borders; it is accessible from wherever you are; this is the type of scenario you are seeing.

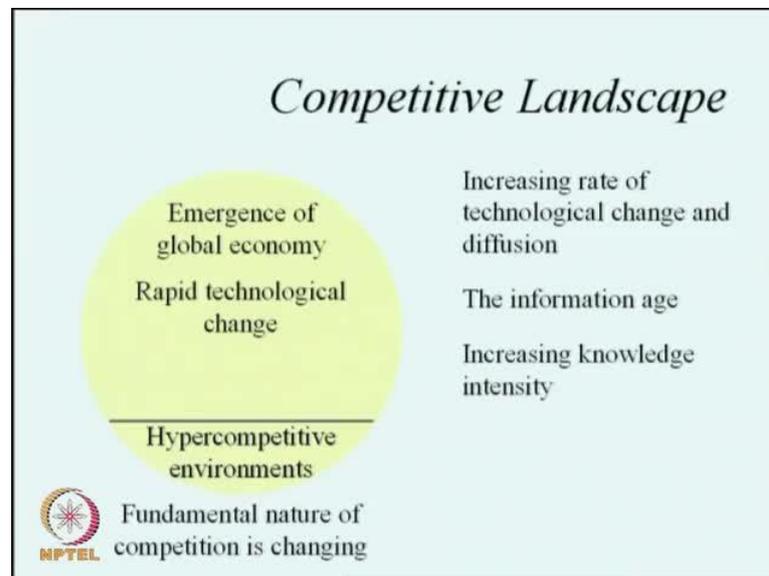
Now what else is happening, spread of economic innovations around the world; so new products are coming and when new products are coming, all these are moving from one side to the other; that is one part of the world to the other and political and cultural adjustments are now required.

See even this can be illustrated by taking the example of China itself. If you just go back a few decades China was operating in a closed environment. Now, what is the type of environment in which China wants to operate? It has moved into the world environment that is, this changing global economy in this global economy and it wants to assert itself as the power next to the United States. So, if United States is the most dominant power in the world; China wants to say, we are only very close behind you.

This is the type of scenario, where earlier China was considered as a communist country. You could not have a free market economy, all those types of things even in a country

like China, where so many restrictions were there; so many such a sea change has taken place.

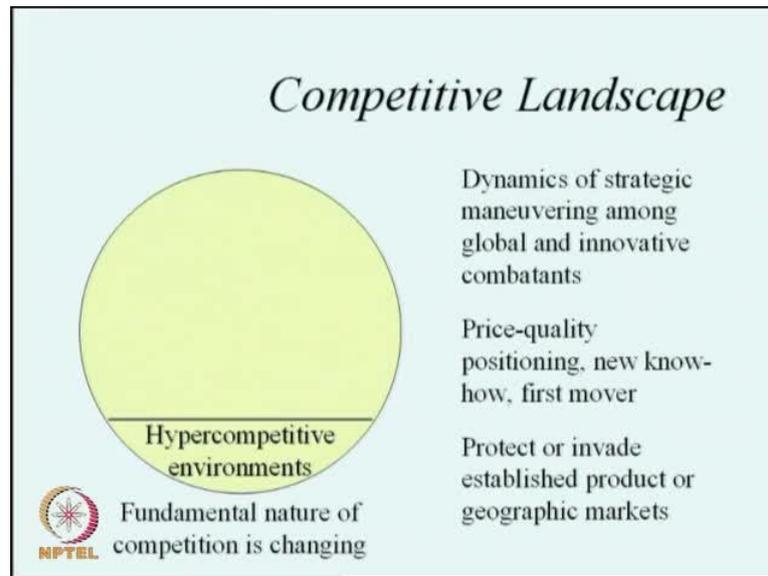
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Now what else is happening, this emergence of global economy and this hypercompetitive environment is resulting in rapid technological change. So, what is this rapid technological change? That is what I just try to bring it to your knowledge, by taking the example of Microsoft. So, companies are less and less, getting sentimentally attached to even their new products. They say ok this is a new product all right, before it goes precious on its own; we should make it to go into **what do you call** it- the back screen, and bring a new product.

So, the increasing rate of technological change and diffusion, which is taking place in the present day context, is simply mind blowing and **this** is more facilitated because of the information exchange that is taking place due to this information age and the increasing knowledge intensity, which is again contributing to innovations in different areas, different fields **and** things which were unknown or unheard of just one or one and half decades back. This is what the IT revolution has made for this markets, so this is a when you are looking at the whole this thing if you go back a little.

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*Competitive Landscape*

Dynamics of strategic maneuvering among global and innovative combatants

Price-quality positioning, new know-how, first mover

Protect or invade established product or geographic markets

Hypercompetitive environments

Fundamental nature of competition is changing

 NPTEL

The slide features a light blue background with a large yellow circle on the left. The circle is divided by a horizontal line, with the text 'Hypercompetitive environments' written in the bottom half. To the right of the circle, there are three lines of text: 'Dynamics of strategic maneuvering among global and innovative combatants', 'Price-quality positioning, new know-how, first mover', and 'Protect or invade established product or geographic markets'. At the bottom left, there is a small circular logo with a starburst pattern and the text 'NPTEL' below it. To the right of the logo, the text 'Fundamental nature of competition is changing' is written.

So, first was the hypercompetitive environment; in this hypercompetitive environment the most important thing, which one could visualize was the dynamics of strategic maneuvering among global and innovative combatants. That is firms were moving scaling up or scaling down depending on what the situation demanded. So this is what, made the firms to take important strategic decisions; then the most important thing the firms use to find themselves in, was the price-quality positioning, a new know-how and the first mover advantage; they wanted to capitalize on all this. Then protect or invade established product or geographic markets, this is the type of scenario which you see in a hypercompetitive environment.

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*Competitive Landscape*

Emergence of global economy

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*Competitive Landscape*

Emergence of global economy

Rapid technological change

Hypercompetitive environments

Fundamental nature of competition is changing

Increasing rate of technological change and diffusion

The information age

Increasing knowledge intensity

 NPTEL

Then this emergence of global economy, which we discussed; then this rapid technological change, all this have made the landscape or the business landscape to become extremely competitive. This is the way the competition has changed the business landscape all together.

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<b>India's Technology Missions</b>	<b>Providing Drinking Water</b> <b>Promoting Literacy</b> <b>Stepping up Child Immunisation</b> <b>Hiking up Production of Oil Seeds</b> <b>Linking Remote Areas (Rural) with Country's</b> <b>Telecommunication N/W</b>
<b>Industry Response</b>	<b>Entrepreneurial</b> <b>- Future Form of Product Group</b> <b>- Future Processing Technology</b> <b>- Future Form of Raw Materials</b> <b>- Technological Developments in Related Areas</b> <b>- Technological Development Stages – Invention, Innovation</b> <b>&amp; Diffusion</b>



Now given this type of change, let us look at some examples from our own country, on what is the type of changes that we have done in technology? I will just give you here some examples from the technology missions of India. One of the missions was to provide drinking water.

Nobody can really argue against a government to provide drinking water to its citizens. It is a fundamental necessity. So, the first technology mission that India took off very recently was to see that, everyone in every village is provided with drinking water; still not fully achieved, but lot of effort is put in by the government to see that drinking water is made available even in the remote parts of the country and all have access to that.

Then the second mission was promoting literacy. So, this is one of the things which you find in a country like India, which is a developing country, where you have a large rural mass of population still not literate. So, what did the government do? The government said that upto this class we are providing free education, kindly take advantage of this free education concept, which the government is providing in government schools all around the country; this is the type of mission with which the government went into mission mode.

So, for adults it went into adult literacy mode; they said that you have gone to a particular age level, does not matter; we will see to that you become literate when you

are having some free time and come to evening classes or whatever and may be want to make you literate to the extent of understanding what is at least in a document, which you may be sign in. So, may most of the people- the villagers did not know how to sign; so the government started going on this technology mission mode. So the second mission mode, which it went up was this literacy. Then this third one is this child immunization- stepping up child immunization.

So, what is this child immunization and what is this stepping up child immunization going to do? It will help in reducing infant mortality. So, the government wanted to see that the children who are born in the country, they do not have this infant mortality problems to the extent that is possible; that is they do not- the child would not die at a very young age or things like that. So, they wanted to immunize the child and all this you see the polio drops- that thing- this thing and all that vaccination, which the government has gone in a very active mode.

The next one which the government did was hiking up production of oil seeds; what is this hiking up production of oil seeds? So this is the one, which can contribute to your increase in the oil market; this is the edible oil market, they said let us grow oil seeds. So this is contributing to agriculture; so this agriculture- if it contributes, the oil seed production goes up and it can lead to a self sustaining agricultural production.

The next one which I wanted to just list for you is, linking remote areas rural with countries telecommunication network. See earlier, if you really look at the country just above a few decades back, not where far ago just in the late 80 even; we did not have access to our rural areas fully; suppose we wanted to get information from the rural areas, it was a real challenge. Now, how did the government get over this, was through this mission mode that is the technology mission mode. That is linking remote areas, the rural remote areas with countries telecommunication network. It made use of the state owned Indian telephone industries to come up with smaller Satcoms.

So it in fact, ITI developed a company for this purpose or it floated a company for this purpose came out with these smaller satellites, which could be put in every rural area and this satellite would be linked to the village headquarters; the village head quarters to the taluk headquarters; from the taluk headquarters to the city and from the cities to the capital of the state and from the capital of the state to the capital of the country.

So, this is the way this whole telecommunication network was visualized, sometimes called by the name “Nick-net”. So, this Nick-net which helped in linking this rural remote areas with the countries telecommunication; Nick and the Institute of Science had a large part to play in this particular technology mission as well.

The next one, which you see suppose- these are the types of changes which you are visualizing or which you are seeing even in the Indian market scenario. This is an emergence of global economy that has changed the face of competition and has made so many changes to become more or less obvious in the Indian scenario as well. Now in this type of hypercompetition because of this emergence of global economy, you can start looking at or you may get a question what should be the type of response that an industry should give in this type of an environment.

The type of response that the industry can give- just go back to some of the things which I just said, one could be an entrepreneurial form of responses. So, when I was discussing what could be the strategic decision making modes, one of the modes was- one of the decision making modes I said one can look at an entrepreneurial decision mode. Here also the industry response could be entrepreneurial; what is entrepreneurial? It can look at or it can try to do some exercises on, what should be the future form of the product group that comes in from the company. So, this is what I just said. In this type of hypercompetitive market, less room for sentiments and you should be willing to cannibalize your own product.

So, you should be willing to cannibalize your own product. If you do not do it, your competitor will do it for you and this is the type of scenario in which you are likely to operate. So that being the case, it may be better for you to cannibalize your product, less the competitor does it. Then in such a type of scenario, what is the key to sustain your self in this hypercompetitive market? The one single face if you want to really write down or if you want to really look at, could be continuous elimination of old products and continuous introduction of new products.

So, this is the way your product mix has to operate, continuous elimination of new products and continuous a continuous elimination of old products and continuous introduction of new products, both have to go side by side. So in other words, this product group- the innovation portion of it becomes extremely important for the firm. So,

it has to think on what should be done for the firm in the next few years to come; what is the type of products which you should be really coming up with.

The second one which the firm should engage itself is, technology is changing especially with reference to processes. Now it should spend sometime of its employees, especially the R&D employees; note that in this present scenario in order to help, the firm takes strategic decisions **and** R&D is playing a vital role. So earlier, we had a situation when people use to question, what is the role of R&D in a firm. Now, here is a scenario which is in contrast to that scenario, where they are saying that R &D should take active interest to see that the company takes right strategic decisions. So this is what we are said, it is not enough if you do things right; what is required is, you do the right things. So, you should do the right things right **and** this is what is required for a company to survive itself in this type of a market scenario and in order to do that all this is going to help and how they are going to help? They are going to help in taking strategic decisions.

So this is the future processing technology. The company has to invest in R&D to find out what is going to be the future form of this product group or what is going to be the future processing technology, depending on a type of industry in which you are there and what is the future form of raw materials you may be using. So earlier you might have been using raw material, whose size was very big **and** now what is a type of scenario you are seeing? You are seeing shrinking raw materials sizes **and** you are seeing shrinking product sizes; this is what **it** is characterizing the new products.

So earlier, when you came out with a very big product or a very big product item, it was considered something extraordinary. Now the sizes are shrinking. So, you come out with a smaller product, this is considered extraordinary in the present day scenario. So, this is the way things have change.

So you have the latest, which is coming in or which is the rage that is people are looking at- the Apple ipad, what it can accomplish. So the Apple that is the company; what is the latest style **and** the latest product to hit the market in the western countries and very likely to hit the Indian market very soon, is the ipad. Now, what are the features of this ipad, what all it can do **and** how it can substitute for **what to do call** the Atom. Atom itself has become a very small computer. Now this Atom itself may be replaced by the way the new products are coming out.

So the many times you are- just the reviews of ipad- if you read up, they say whether ipad will substitute this Atom which is itself a very small computer. So, in other words the future form of products **or the** future forms of raw materials you have is, this nano material **and** all those types of things. Earlier you had these transistors, they gave place to diodes **and** then they gave place to this PCBs. This PCB is giving you started having microchips and you started having large scale integrated circuits; you now have VLSIs **and** all those types of things. This the way technology has changed and this has really contributed a lot.

This technology development, which I just listed not only has contributed a lot in that field of application. So, we whether you look at it as telecommunications or whether you look at it as electronics or whether you look at it as the information technology, all these have contributed a lot to the firm. Similarly, when we are looking at technology development or technological development, we normally look at 3 stages: one is invention, second is innovation **and** third is diffusion.

Invention is, you find out that particular technology. So, you have this plasma TVs, what you are seeing now; so the plasma TVs was an invention. Now the innovation side of it, how do you make use of this plasma technology to come out of with your TVs. The plasma technology was the invention side brought out into a new product; that is, the plasma TVs itself was **an** innovation and you diffuse this innovation to a large market segment to capture the market share. So now if you look at it, the LCDs have coming to the picture; then you have the LCD markets invading the TVs. So in other words, what you thought was the current technological development. So the product life cycle of the technology itself is shrinking.

Now the question comes, with such a short life cycle even for a new technology how should the firm gear up for capturing the market? This is something which the firm has to look at it as inevitable. When x technology is current, the firm can benefits from the products using that x technology. Suppose, x technology stays there for a few years and the firm can really rebenefits in terms of the revenue that it earns from the different types of products which makes use of the technology.

Suppose for the ill luck of the form, the technology with which it came up was very short leaved and this x technology is replaced in a very short time by a technology say y, then

it is very possible the form can be a loser. So sometimes the loss can run very high. So, this is where many times firms have lost out on this technological side. So, one is they have not capitalized first on the technology they have left developed.

Second is because of the present changing competition or the hypercompetition, which you are seeing you find that that changes in technology are also coming about very fast. You find many times before the firm could capitalize on the technology in terms of products, it has been out quieted in the market place. So this is what is happening in the present day scenario. So, the industry response has to really keep in tune all this aspects. Now, all this what all that I just listed that is the industry response from all this aspects you could put it in the form of 2 matrixes.

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		Assessing Impact of Opportunities Threat Matrix	
Seriousness	High	1 Major Threat	2 Moderate
	Low	3 Moderate	4 Minor
		High	Low
		Probability of Occurrences Opportunity Matrix	
Attractiveness	High	Very Attractive	Moderately Attractive
	Low	Moderately Attractive	Least Attractive
		High	Low



One is the impact of opportunities or accessing the impact of opportunities matrix or the threat matrix; so you look at in two ways. One is look at the matrix at the top, assessing the impact of opportunities and if you look at the threat matrix you find basically this is a 2 by 2 matrix. Suppose the seriousness of the threat is very high, then look at the bottom line. What is the probability of occurrence of that threat? Suppose it is let us say, very major that is it is a very high probability that it is going to- it is very high let us say.

Then what is going to happen, the probability of occurrence of the threat is also very high; the seriousness threat of the threat is also very high, then it comes into the realm of

a major threat for the company. So this is a threat with which the company has to deal or has to be on the top of the agenda of the company to deal with this and it cannot be ignored from the market side.

Similarly, when you are looking at the opportunities- suppose the Probability of occurrence of an attractive opportunity is very high and similarly, **the opportunity itself is very is the opportunity** the attractiveness itself is very high of the opportunity. Then both contribute to that opportunity. Becoming a very attractive opportunity, the company should cash in on immediately as early as possible. So the opportunity coming is also high that is the probability of the occurrence of the opportunity, then the opportunity itself the attractiveness of it is very high. So both put together, contribute to make it a very attractive opportunity.

Similarly, you can address or you can give an explanation for the other 3 cells in this threat matrix and for the other 3 cells in the opportunity matrix. So what are we trying to do is, this is how we assess the impact of the opportunities or the threats. Opportunity matrix is presented at the bottom and the threat matrix is presented at the top. So, this is the way you normally can look at.

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Strategic Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
I	II	III	IV	V	VI
TOTAL	1.00				

- Column I lists the Strategic Factors. These can be 8-10 most important Opportunities and threats that the Industry faces.
- Column II assigns a weight to each of the factors, from "I", most important, to "0", not important, based on the probable impact of the factor on the Industry's success. The sum of the weights should be 1, regardless of their number.
- Column III examines a particular Company, say X. A Rating is assigned for each factor 1-5 (from Poor to Outstanding) based on the Company's current Response for each Factor.



Now, having done all this- the question is, how do we develop an industry matrix? This is the question which one might like to answer or one might like to ask, for which I

provide you with an answer. Now from this, let us say you are operating a company typically in the Indian context and when you are operating a company in the Indian context, from the type of environment in which you are operating list down 8 to 10 most important opportunities or threats that the industry faces. So, this can be your column 1 that is they are strategic factors and note that.

Then your column 2 could be the weight that you are attaching to each of this factors. Some factor may be very important for you, as we said some opportunity may be very attractive for you. So you may like to give a weight or assign a weight for each of this factors from say 1, which means most important to 0, which means not important, based on the probability or the on the probable impact of the factor on the Industry's success. So, suppose it is very important, you may give it a rating of 1; not so important or very least important, then it may get a 0. Now all this 8 to 10 factors, note that the sum of the weights should be 1, regardless of their number.

So, when you total all that you should get that 1, because the sum total of the probabilities cannot exceed 1. This column and sum total of this weights also cannot be beyond this 100 percent. Column 3 here takes a particular company. I have said X, here the table gives it as A; you can look at it as X in the explanation, so I have given it as X, but in the table this is a typical company A. A rating is assigned for each factor- 1 to 5 going from poor to outstanding based on the company's current response for each factor.

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Column IV gives a weighted score for each Factor times its Rating in Column III. This can result in weighted score 1-5 from Poor to Outstanding.

Column V and VI are identical to those of Columns III and IV, but examine a different Company Y. The total weighted Score for all the Factors given for X and Y indicate how well each firm is responding to the Industry Environment.

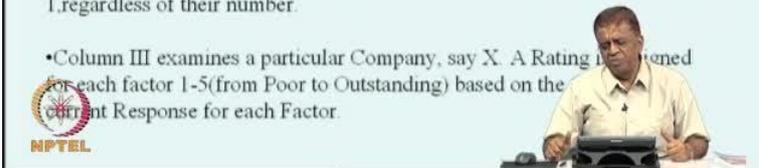


So take each factor you attain give a rating and then column 4 gives a weighted score for each factor times its rating in column 3. This can result in a weighted score- 1 to 5, from poor to outstanding. So, columns 5 and 6 are identical to columns 3 and 4, but for a different company say Y or B or whatever the total weighted score for all the factors given for the 2 companies indicate how well each firm is responding to the industry environment.

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Strategic Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
I	II	III	IV	V	VI
TOTAL	1.00				

- Column I lists the Strategic Factors. These can be 8-10 most important Opportunities and threats that the Industry faces.
- Column II assigns a weight to each of the factors, from "I", most important, to "0", not important, based on the probable impact of the factor on the Industry's success. The sum of the weights should be 1, regardless of their number.
- Column III examines a particular Company, say X. A Rating is assigned for each factor 1-5 (from Poor to Outstanding) based on the current Response for each Factor.



So, I just explain to you ones more on this- what I have done here is, create an industry matrix; what is this industry matrix? This also refers to as an industry matrix in most of the books as well. So this is industry matrix helps to list this strategic factors for the companies. What could be the strategic factors? The strategic factors are identified in terms of the opportunities and the threats which the industry or the company faces.

Now what we are trying to do is, we are listing out the 8 to 10 most important opportunities and the threat the company faces. Assigning each one of these a weight- total should be 1. Then giving the rating of a company using this weights; so company is rating on this. Then the weighted score comes in the next column for that company. Similarly, we do for other companies to get a comparative idea of where does company is stand VIS A VI company B in the market place.

So this is what a company can think of doing in this present hypercompetitive market scenario; that is drop a matrix. So, company should also respond. It should not be just dormant and it should make itself by seeing from the competitors, that it is really responding to this changing environment in its own dynamic fashion. So, it is not keeping quite type of thing.

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Column IV gives a weighted score for each Factor times its Rating in Column III. This can result in weighted score 1-5 from Poor to Outstanding.

Column V and VI are identical to those of Columns III and IV, but examine a different Company Y. The total weighted Score for all the Factors given for X and Y indicate how well each firm is responding to the Industry Environment.




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### EXTERNAL FACTORS ANALYSIS SUMMARY

External Factors	Weight	Rating	Weighted Score	Comments
<b>OPPORTUNITIES</b>				
Emerging Trade Blocks	.15	3	.45	Acquisition of a Company
Trend is to have Quality Products	.10	2	.20	Quality Consciousness
Emerging New Markets	.10	1	.10	Low Presence
Trend Towards Super Stores	.05	4	.20	Company should Capitalize
World Moving Towards a WTO Regime	.20	2	.40	To Improve Capacity Utilization better Market Result




Now, what I have tried to give you here is using all the things which I just told you for a hypothetical company. I am just giving you this is a very hypothetical company; kindly,

note this hypothetical company- the weights are hypothetical, the ratings are hypothetical and so the weighted scores that you are going to get are also hypothetical, but I am trying to only illustrate the points which I try to explain to you. Take for example, in the external factors what could be the type of opportunities which a firm might be looking at.

One is the emerging trade blocks, so this is the type of scenario which you are seeing. You are seeing the world as I discussed in the earlier classes; the world may be looked at as 3 trading blocks. So, what happens when you are having a world looked at as 3 trading blocks; trading within the blocks may be easier, but between the blocks may be harder. So, for which you may be forced to get in to agreements or different types of license to go from one trading zone or one trading block to the other block with respect to the products or the even the innovations being moving from one zone to the other zone, without any problem.

So, this is a way you are looking at the scenario. So, for this you may say, I will assign a weight of 15 and let us say the company got a rating of 3 on this- that means to say, what is it mean? Suppose you are going from 1 to 5 and a company got a rating of 3 means it is aware that the trade scenario is changing very fast. So, the companies aware that the trade scenario internationally is changing very fast and it is not that, it is not aware and in order to meet this it is taking its own steps. So the company gets a weighted score of 0.45 on this.

So, what could be the type of strategies the company might be aiming or trying to do, it may be looking at the acquisition of a company. The company might be very proactive, it might be looking at acquisitions. This is what if you really see many of the Indian companies are doing now.

So earlier, we always used to think that foreign companies might acquire Indian companies, but the scenario has changed now. The Indian companies are also acquiring foreign companies and it is not the usual, formal scenario. The foreign company acquiring the Indian company and Indian companies are also acquiring foreign companies. So examples of TATA, Infosys or Wipro acquiring so many companies abroad and all this has become a reality now. So, the Indian companies, many of them are global players and trend is to have quality products.

So what is the type of scenario which you are seeing in the present day Indian market? The Indian companies are paying lot of attention, whether it is an automotive manufacturer or whether it is any other manufacturer. From the manufacturing Industry to the IT Industry all of them are paying good deal of attention to the quality of the product.

So the result is, suppose you give it a weight of 0.10 and the company, let us say in this instant case gets a rating of 2 it means 0.20 is the weighted score, then there is a quality consciousness, but it has to be built further. Similarly, I have listed some of the other opportunities for the company like emerging new markets, trend towards super stores. So, you are having the mall culture coming into the Indian scenario quite fast.

So you see in a place like Bangalore, so many malls getting inaugurated and initially there is a large bee line. Many of them, curious visitors to the mall to find out what is being on exhibited in this malls, what is on sale, are they really pricewise cheaper than what they are able to get in a retailed shop, outside shop and all those type of things.

Then World Moving Towards a WTO regime, this is what is happening now. You are having so many deliberations on this WTO Regime then what is that the company derives from this type of things.

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External Factors	Weight	Rating	Weighted Score	Comments
<b>THREATS</b>				
Cheap Chinese Imports	.15	5	.75	High Quality of Products
Obsolescence of Product Technology	.10	2	.20	Has to Improve Technology
Opening Up of the Economy	.05	3	.15	Has to Brace itself for the Competition
Labour Laws	.05	4	.20	Good Labour Relations
Attrition of Human Resources	.05	4	.20	Good Image Employer




So, the company has can improve its capacity utilization and that can give better market share for the company. Similarly, I have listed down the different types of threats which can come in: one is this is called cheap Chinese imports. This is what many Indian companies always worried about. The cheap Chinese products which are coming in and they are posing a threat to the Indian companies products. So, there the Indian companies are always looking towards the government for some protective action from their side that is a government side to protect this companies from getting exploited by this poorest products.

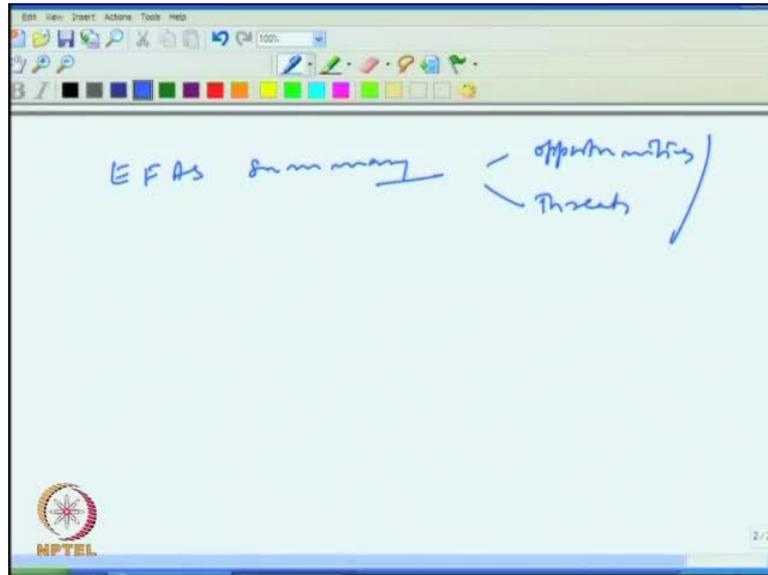
Similarly, the threat could be the obsolescence of product technology; this is what I was just trying to list, the industry response should be looking at the future form of technology whether it is product or process. So that is, how to improve the technology and what should be looking up? Then the third could be opening up of the economy that is what I just listed. So, for some reason whether it was forced or whether the country wanted to embarrass the new economy. It is a fact that the Indian economy is opened and when it is opened now the company has to find how it can braze itself for this competition.

So, the labour laws are there and if the company has to put up with this change its scenario, it should always have good labour relations. Similarly, it should project itself as a good employers. So that the attrition rates can be less even in this changed scenario. I just listed down these are hypothetical factors, mind you this may change from one company to the other but this is just giving you an idea how you can draw an industry matrix taking it to account. The opportunities, the threats- list down some of those opportunities and threats which you think are important for the industry concerned.

So all the weights should total up to 1 and you give a rating for them, you get a weighted score and you can put what is a type of comments or the remarks taking into account that particular company or industry at large. This is what I have tried to give you here looking at this competitive landscape, the company should be able to drop its own industry matrix.

This is the External Factors Analysis Summary for an industry or the industry matrix should help a company to drop an External Factors Analysis Summary or EFAS for short.

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So company should be able to drop an EFAS summary and this EFAS summary is the one which helps the company to come out with the different factors which the company has to keep in mind while facing competition. It can be in terms of opportunities and threats. So, the EFAS matrix is always in terms of opportunities and threats. So, this is the EFAS summary or matrix summary if you want to call that so you are always looking at the opportunities and the threats and coming out with a matrix. So, stop here for this day. Thank you.