Module No. # 04
Lecture No. # 26
Functional Strategy-3 and Strategic Choice

Welcome to this class, we dealt in the last class with different types of strategies. So, just to refurbish your memory, we looked at operations strategy, we looked at marketing strategy, R and D strategy, like that.

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Now, just a recap of some of the later portions of this lecture - that is where we said logistics strategy. Logistics strategy deals with the flow of the product into and out of the manufacturing function. This is becoming important right now, because people are interested in the distribution of the product, so how much money you can really save on the transportation of the finished products to the different retail outlets.

What could be the best transportation methods, so all transportation algorithms coming into place; lot of OR type of work which goes in models come in and companies try to

draw models to find out how they can optimize on the transportation cost, that is, minimize the transportation cost and maximize the movement of materials.

This is the reason why it requires synergies across business units and expertise in transportation modes. These transportation modes, you combine the different modes you may at some point combine the rail mode with road mode. Sometimes combines the air mode with the road mode, so bring it by air up to a certain destination then from that destination you move it by road all these types of things, this is combination of modes. All the transportation models will be very helpful in these logistics strategies.

If a company is able to save money on the transportation then, it would be contributing to the profit - increase in profit - so this straight increase in profit. Two important decisions on logistics strategy, whether it should be centralized or it should be outsourced.

As I dealt with in the earlier class, outsourcing when you should do? It is not your core competence and the company may be better of outsourcing that function to another company which has core competence in that area. So, it takes care of that function here in this case the logistics, let us say FedEx in the context of the United States. Most materials from one side of the country to the other side, similarly in our context it can be TVS or it can be different types of roadways where you enter into - what do you call - decisions whether it can be outsource to this firm, so this is the logistics strategy.

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Human Resource Management Strategy

- This strategy deals with the recruitment of skilled employees and their training to participate in self managed work teams.

Information Systems Strategy

- Information systems make use of information technology to provide companies with competitive advantage

Next part of this was where I dealt with the human resources strategy, that is, where you recruit people, when you recruit people what is the most important thing that is you should be able to chart out a career for them, so why should he stay in your company.

In other words, what does it mean is you should be able to reduce the rates of attrition, so people should not be leaving the company in a very short time, so this is the type of thing. In other words, you create an environment where the people are satisfied and they would like to stay put with the company. The other thing is, one is the attrition and the second is the self-managed work teams, so you do not require heavy supervision for these people.

So, they are able to manage themselves, sometimes in virtual work teams, you may be here in Bangalore but the job might be executed somewhere outside the country like what is happening in many of the firms in Bangalore. So, you have this well-known firm Bosch which is having a linkup in Germany, so virtual teams working.
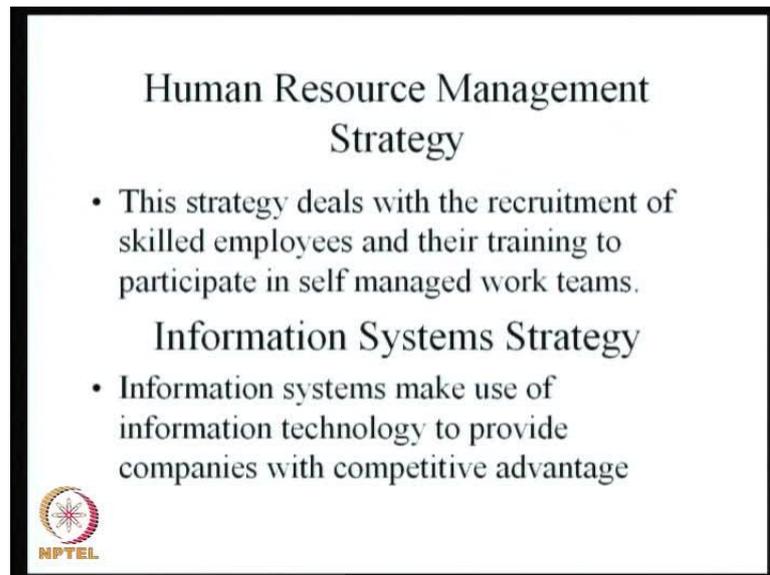
You give the command from Bangalore the execution takes place in Germany, so similarly there are companies like Honeywell where the virtual teams work from the United States. So, all involved with the aerospace industries, so lot of emphases on quality, lot of emphases on team working but virtual team working, they are self-managed work teams. So, this is the way the industries moving towards, now what is this information systems strategy? Information systems make use of information technology to provide companies with competitive advantage; most of these companies like the Honeywell make use of IT to derive competitive advantage.

Sort after by the aerospace industry similarly, this is how IS being used by firms to gain strategic advantage and in the market place the competitive advantage. Now, we looked at all these strategies, which is our strategy, how do we pick up that strategy, which is the best one this, where I said strategic choice and development of policies.

So, you evaluate the alternative strategy and select that best alternative which suits you from all aspects that must be the one which the company should pickup, so that is the way a strategic choice is made. Now, I just read for you one particular aspect of strategic decision making process which happened in Intel sometime back. This is the strategic decision making process of Intel, BOD of Intel met in 1991 to decide the future of the company, they were being asked to vote on a proposal to commit 5 billion dollars for

making the next generation of microprocessor chip 5 times the amount previously needed for the 486 chip and 50 times for that of the earlier 386 chip. It is latest chip, the 486 was just beginning to takeoff it is successor the Pentium was still on the drawing board.

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Intel's CEO Andy Grove received the startling estimate of the capital spending required to make the Pentium, just before the start of the board meeting. Grove hastily drew the spending curve on the graph paper as the directors looked on.

In looking back on the board meeting Grove remarked I remember people's eyes looking at the chart and getting big, I was not even sure I believed those numbers at that time the proposal committed the company to build new factories something Intel had been slow to do in the 80s

According to Intel director Arthur rocka wrong decision would mean that the company would end up with a killing over capacity, you had to have faith said rock based on Grove's presentation, the board decided to take the gamble. As a result Intel's manufacturing expansion consumed 10 billion dollars from 91 to 95, it was however timed perfectly for the boom in PC sales although rivals Motorola and IBM were also adding to the capacity none have been able to generate the cash generated by Intel's 75 percent market share of the microprocessor sales.
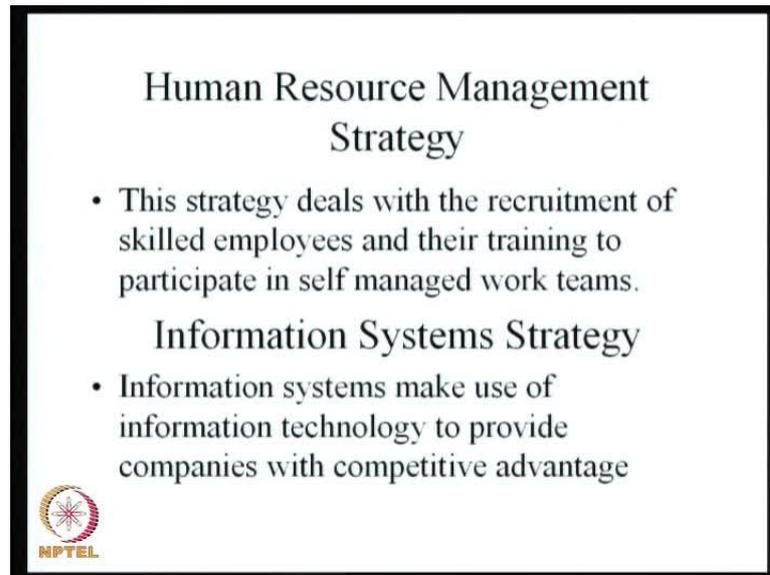
In this one crucial decision Intel was able to turn the spiraling cost of competition into a competitive weapon, so this is how strategic choice was made in Intel and that turned out to be a very heavy competitive advantages - significant competitive advantage - for Intel, so you might have seen this - what do you call this adds - of Intel Pentium inside, Pentium inside. Now you have this dual core of the Intel significantly replay prominently displayed on the logo saying with respect to (()) of the computers which are done there.

In other words, how this best strategic alternative can help? It can help in defining policies that can serve as a broad guideline for decision making. Suppose, you change your strategy that is the company changes its strategy then, what does it entail? It entails changes in policy too, so changes in strategy require changes in policy too.

One way of managing corporate culture is to manage this policy and this is where strategy can be quite helpful. So, you drop the appropriate strategy that can help you to formulate good policies and that can be a very good response for managing corporate culture. How does the situation look for the Indian firms? If you look at the Indian scenario - I just going by what I have written in the book - for Indian firms to be competitive in the global market it is essential to raise the quality of their products and be competitive in pricing.

The expectations in the international market will be much higher than in the domestic market, so this is the first type of inference that you can draw for the Indian firm. The Indian firms have always to be watchful about the quality of the product that is being put out in an international market and also the competitive pricing aspect. So, they have to price that product competitively in the international market is, it is not just making profit

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If we are able to match the competitor in terms of the attributes of the product and the performance of the product then, price it competitively automatically profits will flow in. This is what most of our software firms have realized, they have realized that profit flows in much bigger terms then even expected.

This is what the Indian scenario looks like; an Indian company operating in the global market must constantly revue the appropriateness of its current mission and objectives. This becomes crucial in the context of the return on investment, in other words, what does that mean? It means that, this mission and objectives many times it was thought that this mission and objectives cannot undergo changes, some a few decades back - just a few decades back - till 80s and beginning of the 90s when the country liberalization era started.

So, it was never thought that this one would be - what do you call - looking at or revisiting the mission of a company. Now, this situation is such that you are not only revisiting the mission of the company you are also changing the mission and the objectives to suit the environment, the environment being the business landscape, so this is what Indian companies should be doing in the global market place. The third one is, it is likely that corporate parenting may become a dominants strategy model to evaluate business units in orders to achieves synergies.

The underlying concept is that a high performing unit can transfer knowledge, skill, resources and capabilities to an underperforming unit; this is what we looked at in this parenting matrix, the corporate parenting matrix. This corporate parenting is something which is likely to become a key in the years to come. So, you may be having a high performing unit, many things are learned in that high performing unit. So, you should be able to transfer that to another unit which is not performing at the same level, so that you can bring that unit also up to the same level.

The manufacturing strategy of Indian companies operating overseas should be adjusted to suit local conditions. Similarly, for the Indian company operating in the Indian market let us say what should it be? You should be thinking global but acting local that is you should be able to create lot of opportunities for the people of the region where you are operating from because you have drawn on the type of infrastructure that is available in the local areas. Say, a Bangalore company it should be able to create a large number of jobs for people from in and around the city or the state because they are looking for such types of opportunities from these companies.

Similarly, when an Indian companies operating abroad the local people there also are looking for working opportunities in this Indian companies, so I find that TCS is doing this very well. Similarly, Infosys when it is operating it is development centers abroad, so large number of local people also recruited in the whole scenario.

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Indian organizations should use outsourcing as an importance strategy component to become globally competitive, so this outsourcing may become or may hold the key to gain competitive advantage. In the hyper competitive information technology market, it is increasingly difficult to retain core distinctive competencies however, Indian firms should strive to retain this by preventing limitation or by replacement of obsolete technology, so you should be able to readout obsolete technology and that is, take current with the technology.

The technology updation should be a constant endeavor, suppose, the core technology itself becomes obsolete then, what should you do, this is the question which many times people ask. Then, at that point of time the product itself becomes obsolete this is what I told with respect to two types of product lines.

From the company Indian telephone industries that is the strowger and the crossbar, the core product itself - the core technology itself - became obsolete then, what this going to be happen? That product has to be withdrawn from the market it cannot sale in the market.

Strowger and crossbar replaced by electronic products, this is the type of scenario which ITI found itself in. When such a thing happens, what is going to happen? All your skills sets have to undergo changes those things will automatically coming. So, this is where the company will be put to lot of hardship in that type of a scenario. So, what we have looked at? So far, the different types of portfolio matrices how they can be useful in Indian conditions, how they can be useful for strategic choice and how they can be useful for policies.

Now, I want you to attempt a few assignments which could be helpful since we have come quite a long way. This is a type of assignments which you can look at, let us look at this assignment 4, so far we have looked at 3 assignments.

We looked at this assignment question number 4, what are the different types of environments that a firm faces? For a firm you are acquainted with, chart the related environment, this is the first question. So, I have discussed with you in the earlier process that what are the different types of environment? You have the macro environment, you have - what do you call - the micro environment and then, you have the internal environment of the firm and the related environment.

If you go back to the taxonomy of the firm which you see the internal environment - this question should be slightly chart, just hang on for a minute, so this should be actually relevant environment, just minute on this relevant environment , so this is the relevant environment for the firm which you can look at.

So, the second question is, according to Porter's model what determines the competition intensity in an industry, so in order to answer the first question just going back. What will you do if you see the different types of environment, could be your mega environment, micro environment and the internal environment. From these different environments the firm will have some certain relevant environment, it can be encompassing some elements of all these.

From this micro and mega you may not completely deal with all the elements of the micro and mega but you may be having some relevant environment drawn from this but

for all that the internal environment is your key from that draws some aspects of the micro and the mega.

The second question is, according to the Porter's model what determines the competition intensity in an industry with respect to a firm that identify the key strategic factors in its external environment. What I am asking you is, go to the external environment of the firm find out what is the type of factors which are going to influence.

For all these questions you can identify a firm with which you are familiar you may not be working in that firm but you may be having lot of data about the firm. So, you can pick up any software firm or a manufacturing firm that you know off where you have data and you can answer these questions from that angle.

Then, for the above firm develop the industry matrix and any of EFAS. So, industry matrix means where some opportunities come they may be attractive opportunities, there may be some threats also which may be coming in some of them depending on the probability of that occurrence of that threat they may be serious threats or it may be very mild threats about which the company need not worry too much on that. The last question that I have asked here on this assignment is for the same firms compare and contrast different scenarios by using Trend Extrapolation.

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Assignment 4
- What are the different types of Environments that a firm faces? For a Firm you are acquainted with, chart the related Environment.
- According to Porter's Model, what determines the Competition Intensity in an Industry? With respect to a Firm that you know, identify the key Strategic factors in its External Environment.
- For the above Firm, develop the Industry Matrix and an EFAS.
- For the same Firm, compare and contrast different scenarios by using Trend Extrapolation.

What I have said is take the same firm, so draw different scenarios what is going to happen if this type of opportunity comes and if this type of threat comes. In other words, all these comes in the present day scenario or in the present day nomenclature called this strategy landscape your visualizing. So, you are trying to visualize a number of scenarios which can happen. Depending on the scenarios which present itself, you are equipped to deal with that scenario, so this is what this strategic management helps you with or helps a company with.
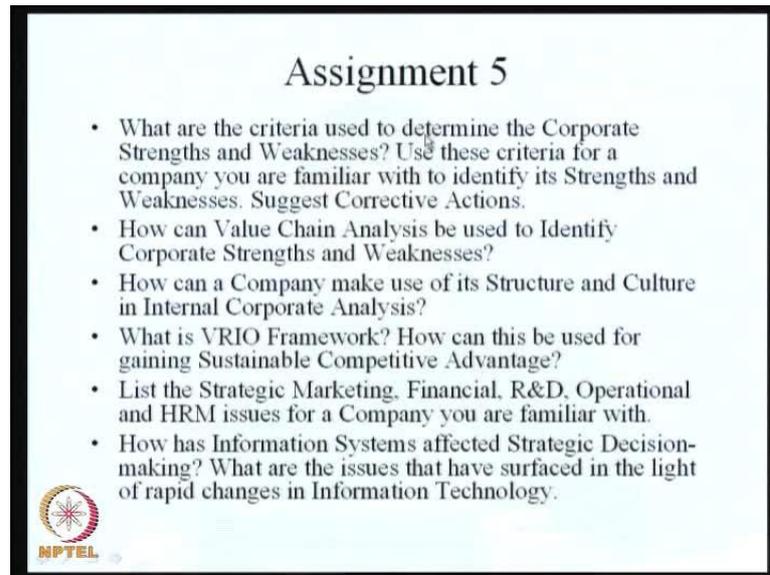
So, its provides you a different scenario analysis the types of scenarios which can possibly come and helps you to face the scenarios confidently, instead of running away from the scenarios, that is the last question which I have wanted you to answer in this assignment 4.

Now come to assignment 5, I have concentrated more on the internal environment of the firm here, so what are the types of questions that I have asked? I said, what are the criteria used to determine the corporate strengths and weaknesses, if you go back to the earlier classes have said you can use different types of criteria to determine the corporate strengths and weaknesses. So, we make use of the past performance or we make use of - what do you call - the key factor of success or how, which is the one you want to do.

I have also dealt with the different types of matrices that can be drawn for this the internal corporate analysis, so you can make use of historical data that is past data. Then, you can also make use of - what do you call - normative data, so you just try to find out from experts what could be the type of scenarios that can expect for the industry concern.

Then, the competitive parity depending on the type of competition that you are facing that is the firm is facing. What is the type of strategy that (( )) how should you determine your strengths and weaknesses then the critical factors of success, so what could be the criteria that you can make use of, so this is what I have asked.

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Assignment 5

- What are the criteria used to determine the Corporate Strengths and Weaknesses? Use these criteria for a company you are familiar with to identify its Strengths and Weaknesses. Suggest Corrective Actions.
- How can Value Chain Analysis be used to Identify Corporate Strengths and Weaknesses?
- How can a Company make use of its Structure and Culture in Internal Corporate Analysis?
- What is VRIO Framework? How can this be used for gaining Sustainable Competitive Advantage?
- List the Strategic Marketing, Financial, R&D, Operational and HRM issues for a Company you are familiar with.
- How has Information Systems affected Strategic Decision-making? What are the issues that have surfaced in the light of rapid changes in Information Technology.

The second part of this question is, use these criteria for a company you are familiar with to identify its strengths and weaknesses. You pick up a firm not the same firm that you picked up for the previous assignment, pick up a different firm and try to analyze that firm from this internal environment angle.

Then, try to see you are looking at that whole firm as an outsider kindly note that. So, if you are looking at it as an outsider, you are in a better position to analyze the strengths and weaknesses of the firm visa a via an insider, an insider may have certain preferences or he may have certain predilections towards a particular situations.

In other words, he may not be completely unbiased, so as an outsider who is analyzing this you are in that wonderful position of being capable of taking an unbiased view for that firm. Now, when you take this type of unbiased view you can always give corrective actions - suggest corrective actions - that is what I want you to attempt, that is, suggest corrective actions, so you analyze this suggest corrective actions. Now, what will this question help you? It will help you to analyze a firm objectively and it will also help you to build on your ability to suggest strategic actions for the firm, so the corrective actions can be strategic actions for the firm. This could be one of the things which you can attempt.

The second question which I want you to attempt is how value chain analysis can be used to identify corporate strengths and weaknesses. So, this is what you can go back to the 4 porter's value chain analysis.
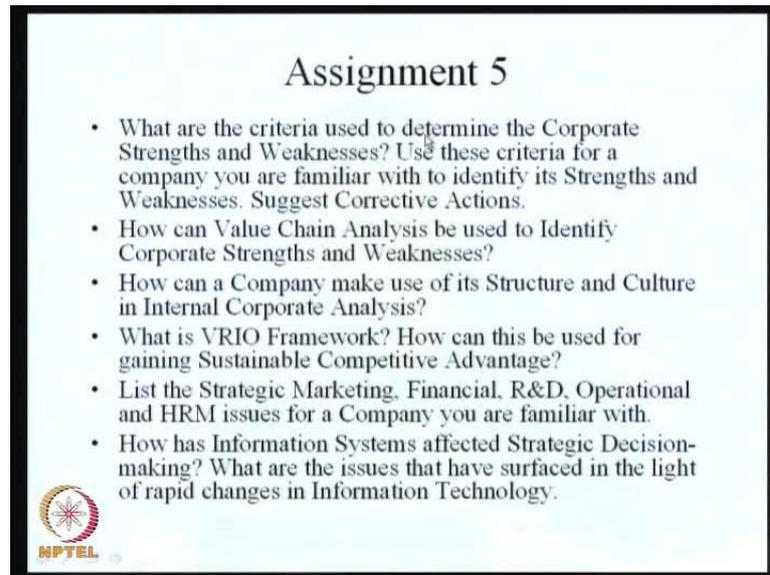
What is the type of primary activities, what is the type of support activities, how does the company derive margin and what should be the margin for the firm to be reasonably happy with. So, you can do all these analysis if you require, again for a firm and say these are the supporting activities, these are the primary activities of the firm and this is the type of margin which the firm is getting, compare it you get data for a few years it will give you lot of inputs to analyze this question.

The third question which I want you to attempt is how a company can make use of its structure and culture in corporate analysis in internal corporate analysis. There is a structure for the firm; there is a culture for the firm. So, what is the structure, that is, the authority which is flowing down and then there is a culture also, like the culture of the Institute of Science, a great place to work with and terrific freedom for work, then what is the type of culture? The type of culture is not just priding in the freedom of the work but also it works with checks and balances.

So, there are no hard and fast rules which the institute imposes on its employees but at the same times they are check and balance mechanism by which the institute draws the best from the employees. So, this is the type of thing which can happen in organizations also. What is the structure? The authority flowing down, what is the culture? There are different ways the culture permeates in organizations, so some of them are in fact shown in their logo statement also like Infosys says powered by intellect driven by values.

These are the types of things which the company wants to convey, so they say that Intellect's stewarded here and the company is having values. All these types of things these are some inputs for you to attempt this type of question. The fourth question is what is V R I O framework - VRIO framework?

We have discussed what this VRIO framework is, and how it can be helpful for you in an organization. So, this you can look at this VRIO framework how this can be used for gaining sustainable competitive advantage.

What is gaining sustainable competitive advantage? An advantage which the competitors will find it difficult to - what do you call - imitate, so it should not be imitated easily in the market place, the longer they take to imitate your product, then you have a sustainable competitive advantage in the market place. Then, the next question I have asked to you about is, list the strategic marketing financial, R and D, operational and HRM issues for a company you are familiar with.

What I want you to look at is what the types of problems these companies are facing are, so take a company what is the type of strategic marketing? Any company if you look at now marketing has become extremely important not only has it become extremely important, it is not the usual traditional marketing any more in a company. So, companies are looking at strategic marketing.

Strategy has become the key word in the whole business environment they say, this is the type of environment which the company is to operate in. Now, what is the type of strategy that the company has to draw? It is no longer the prerogative of a war or a battle field to think about the strategy, it has come to the corporate offices now. So, corporate offices have to draw their strategies on the drawing board and discuss it in their board

rooms, give the best alternative strategy that is pickup the best or select the best alternative strategy and then say to the organizations common implement the strategy.

Any strategic decision that is taken will have a long term impact, but kindly note that any decision which is taken also has certain amount of risk. The management should be prepared to take that risk - this is what I read from that Intel case. There is an element of risk which needs to be boron when you are taking a strategic decision and the management should be willing to take that risk.
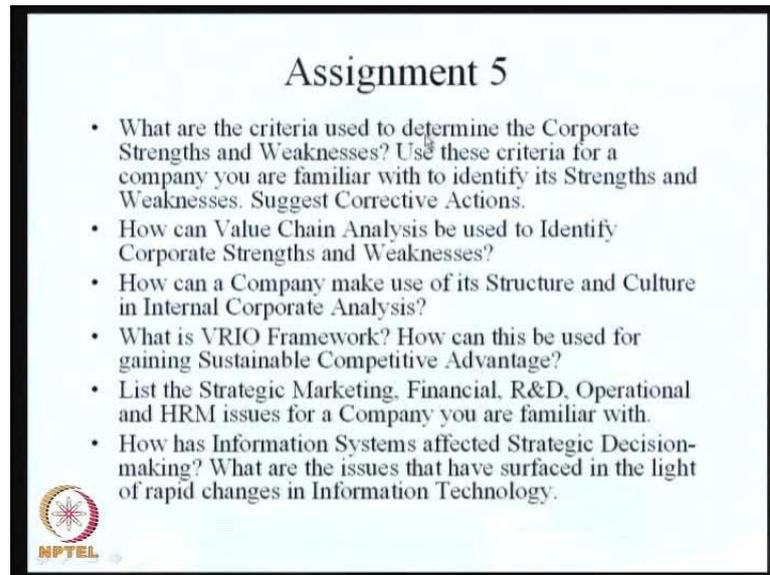
This is not the case just for a manufacturing firm or a software firm or a services firm, it is true for any firm or any activity, any strategic decision that you are going to take has certain risks and as a management you should be prepared to face that situations in totality - in unison - to face that risk.

Even an educational institution, let us say, you want to start a new program, starting a new educational program, let us say, new masters program not an easy decision, lot of sub activities are involved before this main activity can take off. Each of these sub activities has to be (( )) to fruition lot of teams have to be engaged in doing this sub activities and all these sub activities the teams involved in these sub activities they have to ensure that results are opened before the main activity could be got going.

When the main activity gets going also there could be lot of teething problems which have to be addressed. So, this is the type of things which issues which a company may be faced, so this is the type of answers which I am looking from you for a company which you are familiar with.

Then, the last question I want you to attempt is, how the information systems affected strategic decision making.

Assignment 5

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- How has Information Systems affected Strategic Decision-making? What are the issues that have surfaced in the light of rapid changes in Information Technology.

What are the issues that have surfaced in the light of rapid changes in information technology, so what is the type of scenario that you are seeing in companies now. You are hearing a number of terms with respect to information technology; even governments are saying e-governance.

What is this e-governance? Many times decisions are taken on correspondence through email - important decisions. So, what is it that you are able to achieve by this, you are able to really cut the time and decision making – one. The speed of decision has really drastically improved and lot of paper works saved, so when it is extremely important you may get in the present day context it may also change.

The signature of the boss for the decision that you have taken; saying sir, this decision is taken on the basis of this correspondence, so for records secured like to file this. This is the type of extraordinary changes that this IT has brought in the work place, so this work place that this as an affected strategic decision making.

What I want you to attempt is what is the type of these issues which have changed that is with respect to different strategies which we discussed, say, marketing strategy, the R and D strategy, the logistic strategy, the human resource you look at all those things see how IT has changed decision making or affected strategy decision making, this is the last question which I want you to attempt in this assignment 5.

One more assignment this is assignment number 6, the first question is what is a propitious niche? Which industry forces can make it to disappear? So, this I have try to answer in the last few classes, a company might concentrate on a niche market that might happen to be propitiates niche for the company.

For example, for a product like Surf, the Surf Excel Matic can be provided a propitious niche. The thing is, it provided a market with respect to certain types of washing machines where you are safe, that is, the owner of the washing machine is safe in using this powder, at the same time the cloths safety is also ensured, that is, the machine safety and cloths safety both are ensured and you get a good wash for the company.

This was a type of niche market which it enters, so if you look at to this product Surf Excel Matic, it will give you all the features of this product and say, this is how it can be. This type of what you look at different products, what is the type of niche? Take a company. Now, which are the forces that can make it to disappear? Suppose, you imagine a scenario where washing machine itself becomes extinct, how it becomes extinct and all, difficult to imagine right now, but suppose it becomes extinct then what happens this product also becomes extinct that niche vanishes.

What I am trying to ask is think of these types which are the types of industry forces which can make it to disappear. The second question which I am asking you is, when the

industry becomes hyper competitive, is it possible to so have a sustainable competitive advantage.

So, this is what I gave the examples of Microsoft, so this many times Microsoft cannibalization of its own products, not that the product had reached the dock stage in the BCG matrix, but still it went in for cannibalization. So, what does the type of justification that was given, so being a hyper competitive market if they do not cannibalized the product their competitors will.

So, this is the type of thing which was given. Now, you should also look at these what I want you to look at these types of scenarios, what is the type of reasoning that was given in that type of decisions, so when the industry becomes hyper competitive is it possible to have a sustainable competitive advantage.

The third question which I have asked you is strategic alliances are temporary, this is statement which is made strategic alliances temporary do you agree? Justify. You just entering to strategic alliance with a company for a short period or do you entered with a long term commitment in view.

Then, if it is a long term commitment, you cannot say strategic alliance are temporary, so we have to justify taking some scenarios. Then, the fourth question that I have asked is, what doom loop is, so this we have discussed in great detail why do industries find the difficult get out of it. So, you are caught in that whirlpool which I have just described in great details, so the companies find it difficult to come out of this whirlpool or this overtakes. So this Now, what do you can do is, think of industries which got caught into that.

Now suppose, you are to take some decisions, you can also look at what could the decision, how differently the industries could have taken the decisions having being caught in that type of a scenario that could be one of the things which you can look at.

So, then the next question which I have asked you is discuss how corporate parenting is different from portfolio analysis in what respects are they similar, how could this be useful in global marketing.

This I have again discussed in this class also, you can make use of a better performing firm, the skills of a better performing firm to bring an underperforming firm to the same level as a better performing firm, this is where corporate parenting can be extremely helpful. So, this you can just answer taking different firms, different scenarios and say this is how it can be.

Then, the next question which I want you to answer is when should a company outsource a function or activity? This is what again which we have answered in great detail. Suppose, a company finds that a particular activity is not in the core competence area and it may be better off for the firm to outsource that activity, I have taken different examples, sometimes a company may be better off to outsource its transport activity.

Sometimes it may be better off to outsource its catering activity, so if you look at most of the software firms they have done this catering outsourced, then the travel outsourced, many times the HR function itself outsourced, the pay rolls outsourced, so this the reason being that company is better off in concentrating in its core competence area.

In the last question which I have asked you is how does policy relate to strategy, so this what I have again answered, so when you are taking a strategic choice, so different alternatives have presented.

When you pick up a choice it can help you to improve or effect policy changes in the company, when you effect some policy changes in the company it can bring about a better management of corporate culture.

So, this is what you should be answering for this question, you can take the example of any company which you are familiar to explain all these points. This can be the different assignments which you can attempt for all the classes that we have covered that can be this can be the one. We stop here, we continue in the next class, thank you.