3 Strategic Analysis

Basic Concepts

The basic purpose of the chapter is to learn the importance of strategic analysis, situational analysis, SWOT analysis, TOWS matrix and to know the methods used in Portfolio analysis etc.

1. Introduction

The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of environment and such environmental scanning covers both scanning of external environment and internal environment.

2. Strategic Analysis

Judgments about what strategy to pursue need to flow directly from solid analysis of a company's external environment and internal situation. The two most important situational considerations are (1) industry and competitive conditions and (2) a company's own competitive capabilities, resources, internal strengths and weaknesses, and market position.

3. Situational Analysis

A company's macro environment includes all relevant factors and influences outside the company's boundaries; by relevant, we mean important enough to have a bearing on the decisions the company ultimately makes about its direction, objectives, strategy, and business model. For the most part, influences coming from the outer ring of the macro environment have a low impact on a company's business situation and shape only the edges of the company's direction and strategy. There are notable exceptions, though. There are enough strategically relevant trends and developments in the macro environment to justify a watchful eye. As company managers scan the external environment, they must watch for potentially important environmental forces, assess their impact and influence, and adapt the company's direction and strategy as needed.

4. The Methods of Industry and Competitive Analysis

Industry and competitive analysis provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for the funds of the company. Industry and competitive analysis aims at developing insight on several issues. The issues are:

- Dominant economic features of the industry.
- Nature and strength of competition.
- Triggers of change.
- Identifying the companies that are in the strongest/weakest positions.
- Likely strategic moves of rivals.
- Key factors for competitive success.
- Prospects and financial attractiveness of industry.

5. SWOT Analysis

The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.

Threat: A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

5. SWOT Analysis

The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis.

6. TOWS Matrix

Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and weaknesses of organization with that of market opportunities and threats, a variant of SWOT. It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this, Piercy argues for the TOWS Matrix, which, while using the same inputs (Threats, Opportunities, Weakness and Strengths) reorganizes them and integrates them more fully into the strategic planning process.

7. Portfolio Analysis

Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms.

There are three important concepts, the knowledge of which is a prerequisite to take portfolio analysis:

Strategic business unit: Analysing portfolio may begin with identifying key businesses also termed as strategic business unit (SBU). SBU is a unit of the company that has a separate mission and objectives and which can be planned independently from other businesses of the company.

Experience Curve: Experience curve is an important concept used for applying a portfolio approach. The concept is akin to a learning curve.

Product Life Cycle: Product Life Cycle (PLC) is an useful concept for guiding strategic choice. Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slow down in growth rate) and decline (sharp downward drift).

7.1 Boston Consulting Group (BCG) Growth-share Matrix

Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. In the matrix:

- The vertical axis represents market growth rate.
- The horizontal axis represents relative market share.

Using the matrix, organisations can identify four different types of products or SBUs as follows:

- **Stars** are products or SBUs that are growing rapidly.
- **Cash Cows** are low-growth, high market share businesses or products.
- **Question Marks,** sometimes called problem children or wildcats, are low market share business in high-growth markets.
- **Dogs** are low-growth, low-share businesses and products.

7.2 Ansoff's Product Market Growth Matrix

The product/market growth matrix is a portfolio-planning tool for identifying company growth opportunities.

Market Penetration: Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets.

Market Development: Market development refers to a growth strategy where the business seeks to sell its existing products into new markets.

Product Development: Product development refers to a growth strategy where business aims to introduce new products into existing markets.

Diversification: Diversification refers to a growth strategy where a business markets new products in new markets.

7.3 ADL Matrix

The ADL matrix, which has derived its name from Arthur D. Little, is a portfolio analysis method that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position.

The competitive position of a firm is based on an assessment of the following criteria:

Dominant: This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.

Favourable: This position, which generally comes about when the industry is fragmented and no single competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

Tenable: Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

Weak: The performance of firms in this category is generally unsatisfactory although the opportunity for improvement does exist.

7.4 The General Electric Model

The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) is similar to the BCG growth-share matrix. However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

Very Short Answer Type Questions

Question 1

(i) Explain the meaning of the Strategic Group Mapping.

(ii) Explain the meaning of Market Penetration.

(iii) Explain the meaning of ADL Matrix.

Answer

(i) Strategic group mapping is a technique for displaying the different markets or competitive positions that rival firms occupy in the industry. A strategic group is a cluster of firms in an industry with similar competitive approaches and market positions. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. It involves plotting firms on a two-variable map using pairs of differentiating characteristics such as price/quality range; geographic coverage and so on.

(ii) Market penetration is a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling.

(iii) ADL Matrix: The ADL matrix which has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) "Industry is a grouping of dissimilar firms".

(b) A strength is an inherent capacity of an organization.

(c) The purpose of SWOT analysis is to rank organizations.

(d) SWOT analysis merely examines internal environment of an organization.

(e) "B" in BCG Matrix stands for balance.

(f) Growth share matrix is popularly used for resource allocation.

(g) Portfolio analysis helps the strategists in identifying and evaluating various businesses of a company.

(h) A strategic group consists of rival firms with similar competitive approaches and positions in the market.

(i) An industry can have more than one strategic group.

Answer

(a) Incorrect: Industry is a consortium of firms whose products or services have homogenous attributes or are close substitutes such that they compete for the same buyer. For example, all paper manufacturers constitute the paper industry.

(b) Correct: Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of strength is superior research and development skill which can be used for continuous product innovation or for new product development so that the company gains competitive advantage.

(c) Incorrect: SWOT analysis stands for the analysis of strengths, weaknesses opportunities, and threats. It is not used for ranking of organizations. It is a tool for organizational and environmental appraisal necessary for formulating effective strategies.

(d) Incorrect: SWOT analysis presents the information about both external and internal environment in a structured form to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that strategic decision makers in an organisation can come out with suitable strategies by identifying patterns of relationship and develop suitable strategies.

(e) Incorrect: The acronym BCG stands for Boston Consulting Group, an organization that developed a matrix to portray an organizational corporate portfolio of investment. This matrix depicts growth of business and the business share enjoyed by an organization. The matrix is also known for its cow and dog metaphors and is popularly used for resource allocation in a diversified company.

(f) Correct: Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Primarily it categorises organisations/products on the basis two factors consisting of the growth opportunities and the market share enjoyed.

(g) Correct: A business portfolio is a collection of businesses and products that make up the organisation. Portfolio analysis is a tool by which management identifies and evaluates its various businesses. In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. The best business portfolio is the one that best fits its strengths and weaknesses to the opportunities and threats in the environment. Through portfolio analysis, organisations are able to compare its various businesses and categorize them in various strata as promising, growing, without good future and so on.

(h) Correct: A strategic group consists of those rival firms that have similar competitive approaches and positions in the market. Organisations in the same strategic group can resemble one another in any of the several ways: they may have comparable product-line breadth, sell in the same price/quality range, emphasize the same distribution channels, use essentially the same product attributes to appeal to similar types of buyers, depend on identical technological approaches, or offer buyers similar services and technical assistance.

(i) Correct: An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

Question 3

Briefly answer the following questions:

(a) Write a short note on Industry.

(b) Explain 'Strategic groups'.

(c) *What do you understand by Key Success Factors?*

(d) *What is an opportunity?*

(e) *Write a short note on SWOT analysis.*

(f) *Discuss the relevance of Tows Matrix in strategic planning process.*

(g) *In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?*

(h) *Discuss 'dogs' in BCG Matrix.*

(i) *Explain the term 'star' in the context of BCG matrix.*

(j) *Growth phase of product life cycle.*

(k) *In the light of BCG Growth Matrix state the situation under which the following strategic options are suitable:*

  (i) *Build*

  (ii) *Hold*

  (iii) *Harvest*

  (iv) *Divest*

(l) *Write short notes on elements considered for Situational Analysis.*

(m) *Explain the concept of Experience Curve and highlight its relevance in strategic management.*

(n) *Write a short note on Product Life Cycle.*

(o) *To which industries the following developments offer opportunities and threats?*

"Increasing trend in India to organize IPL (Cricket) type of tournaments in other sports also."

Answer

(a) Industry is a consortium of firms whose products or services have homogenous attributes or are close substitutes such that they compete for the same buyer. For example, all paper manufacturers constitute the paper industry.

(b) Strategic groups are clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strong economic compulsions often constrain these firms from switching one competitive posture to another. An industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the market place.

(c) Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

(d) An opportunity is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.

(e) SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.

Weakness: A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

Threat: An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

(f) The TOWS matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with company's internal strengths and weaknesses to result in possible strategic alternatives to be competitive. It is a good way to use brainstorming and to create alternative strategies that might not otherwise be considered. It forces strategic managers to design various growth, stability or retrenchment strategies. It can be used to generate corporate as well as business strategies.

Moreover, TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered. Nevertheless, the TOWS Matrix is only one of the many ways to generate alternative strategies.

In a way TOWS is considered to be an improvement over the SWOT. However, it is not undermining the SWOT analysis.

(g) The BCG growth-share matrix is a popular way to depict different types of products or SBUs as follows:

- Stars are products or SBUs with high market share in a market which is growing rapidly.
- Cash Cows are low-growth, high market share businesses or products.
- Question Marks are low market share business in high-growth markets.
- Dogs are low-growth, low-share businesses and products.

(h) Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

(i) Star in BCG Matrix: BCG growth-share matrix is a simple way to portray an organisation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. The matrix is based on combinations of relative market share of the products or SBUs and their market growth rate.

Stars, a position in the matrix, are characterised by high market share and high growth rate. They are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. Business organisations that enjoy star positions have best opportunities for expansion and growth.

(j) Product life cycle (PLC) is a concept that describes a product's four major life stages, i.e., introduction, growth, maturity and decline in terms of sales, profits, customers, competitors and marketing emphasis. As the product finds market acceptance in introduction stage, it gradually enters the 'Growth' stage. During growth stage there is an exponential rise of the volumes accepted by the market. Many new entrants join the industry and then fight for market share. In this stage consolidation and concentration begins. Profits increase and mass marketing is done with product differentiation.

(k) In the light of BCG Growth Matrix, once an organisation has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

(i) Build: Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.

(ii) Hold: Here the objective is to preserve market share.

(iii) Harvest: Here the objective is to increase short-term cash flow regardless of long-term effect.

(iv) Divest: Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

(l) The elements considered for situational analysis are as follows:

- Environmental factors: What external and internal environmental factors are there that needs to be taken into account. This can include economic, political, demographic or sociological factors that have a bearing on the performance.
- Opportunity and issue analysis: What are the current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.
- Competitive situation: Analyze main competitors of the organisation: Who are they, what they up to are, how they compare. What are their competitive advantages?
- Distribution situation: Review the distribution situation - how are the products moving through channels.

- **Product situation**: The details about current product. The details about current product may be divided into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to relate this back to core client needs.

(m) Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.

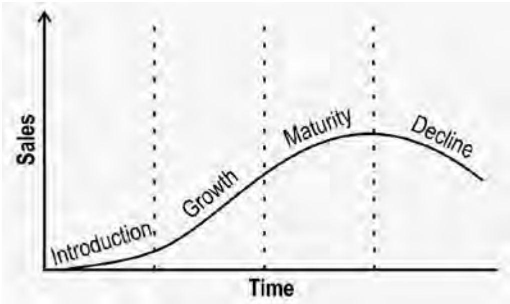
(n) Product Life Cycle is a useful concept for guiding strategic choice. Product Life Cycle is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction, growth, maturity and decline.

Introduction Stage is the first stage of PLC in which competition is almost negligible, prices are relatively high and markets are limited.

Growth Stage is the second phase of PLC in which the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

Maturity Stage is the third phase of PLC in which the competition gets tough and market gets stablised. Profit comes down because of stiff competition. At this stage organisations may work for maintaining stability.

Decline Stage: In the declining stage of PLC, the sales and profits fall down sharply due to some new product replaces the existing product. So a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.



Product Life Cycle

(o) An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. An opportunity is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rivals can.

The IPL (Cricket) tournament is highly profit and entertainment driven. A number of entities and process are involved in this IPL type tournament. IPL (Cricket) type of tournament would offer opportunities/threats to the following industries:

Opportunities:

- Stadiums.
- Sports Industry.
- Manufactures of sports items.
- Media Industry – Sports channels / television, advertisers.

Threats:

- Entertainment industry like TV serials, cinema theatres, Entertainment theme parks as competitors will be fighting for the same viewers/target customers.
- Tourism and hotel Industry.
- Event Management.

Questions with Descriptive Answers

Question 4

Describe the construction of BCG matrix and discuss its utility in strategic management.

Answer

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units or major product lines. The BCG growth-share matrix named after its developer facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company's strength in the market.

Thus the BCG matrix depicts quadrants as shown in the following table:

Market Growth Rate	*High*	Stars	Question Marks
	Low	Cash Cows	Dogs
		High	*Low*

Relative Market Share

BCG Matrix

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

(a) **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.

(b) **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

(c) **Question Marks**, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

(d) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus BCG matrix is a powerful tool for strategic planning analysis and choice.

Question 5

What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?

Answer

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- Threat: A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to craft a business model *(or* models) that will allow a company to gain a competitive advantage in its industry *(or* industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analyses are:

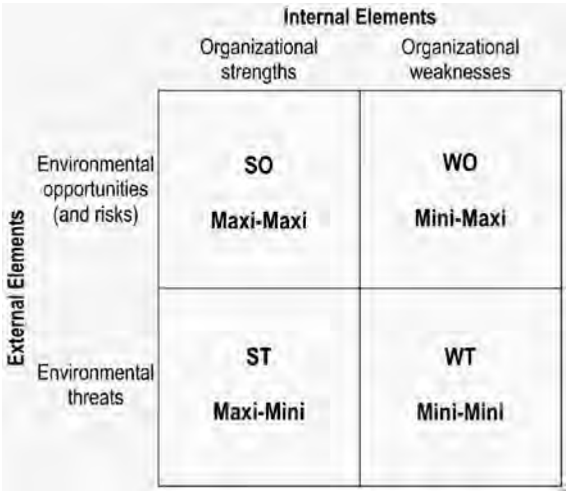
- It provides a logical framework.
- It presents a comparative account.
- It guides the strategist in strategy identification.

Question 6

How is TOWS Matrix an improvement over the SWOT Analysis? Describe the construction of TOWS Matrix.

Answer

Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. The matrix is outlined below:



TOWS Matrix

The TOWS Matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

SO (Maxi-Maxi): SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities.

ST (Maxi-Mini): ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

WO (Mini-Maxi): The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited to maximum.

WT (Mini-Mini): WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival.

Question 7

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	*Revenues (in ₹)*	*Percent Revenues*	*Profits (in ₹)*	*Percent Profits*	*Percentage Market Share*	*Percentage Industry Growth rate*
A	*6 crore*	*48*	*120 lakh*	*48*	*80*	*+ 15*
B	*4 crore*	*32*	*50 lakh*	*20*	*40*	*+ 10*
C	*2 crore*	*16*	*75lakh*	*30*	*60*	*-20*
D	*50 lakh*	*4*	*5 lakh*	*2*	*5*	*-10*
Total	*12.5 crore*	*100*	*250 lakh*	*100*		

Answer

Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows :

Relative Market Share

Market Growth Rate		*High*	*Low*
	High	Product A *[80% Market Share +15% Growth Rate]* Stars	Product B *[40%Market Share +10%Growth Rate]* Question Marks
	Low	Product C *[60% Market Share -20% Growth Rate]* Cash Cows	Product D *[05% Market Share -10% Growth Rate]* Dogs

Product A is in best position as it has a high relative market share and a high industry growth rate. On the other hand, product B has a low relative market share, yet competes in a high growth industry. Product C has a high relative market share, but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run. Product D is in the worst position as it has a low relative market share, and competes in an industry with negative growth rate.

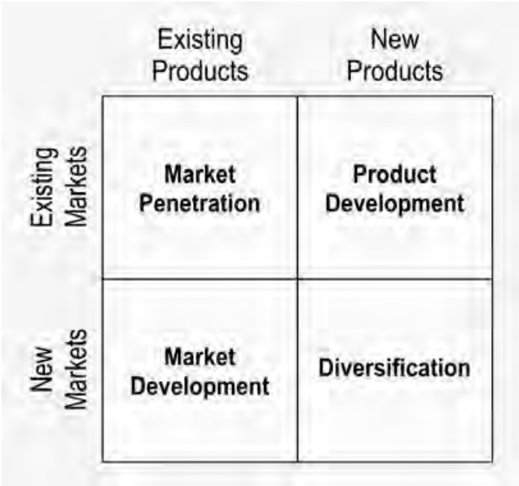
Question 8

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

The Ansoff's product market growth matrix is as follows:



Ansoff's Product Market Growth Matrix

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company. Product development is refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

Question 9

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

(i) *A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.*

(ii) *A business giant in hotel industry decides to enter into dairy business.*

(iii) *One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.*

(iv) *A renowned auto manufacturing company launches ungeared scooters in the market.*

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organisation might follow.

(i) Market Penetration: A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.

(ii) Diversification: A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.

(iii) Market Development: One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.

(iv) Product Development: A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

Question 10

To which industries the following development offers opportunities and threats?

'The number of nuclear families, where husband and wife both are working, is fast increasing'.

Answer

An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. Different developments in the environment can offer different opportunities and threats.

In the social environment, there is growth of nuclear families that is away from the joint family system. Often both husbands and wife are working. Having double income increases their spending capacity. Such developments bring direct opportunities to different businesses such as ready to eat food, eateries, ready to cook items, dish washers, washing machines, crèches for children and so on. Indirect opportunities exists for other lifestyle products. At the same time, such development also acts as threat to traditional raw food suppliers, kitty party organizers and so on.

Question with Hints

Question 11

Discuss General Electric model of analyzing business portfolio.

Answer

In order to analyse the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company). In portfolio analyses top management views its product lines and business units as a series of investments from which it expects returns. The General Electric Model uses two factors in a matrix / grid situation as shown below:

		Business Position		
		High	Medium	Low
Market Attractiveness	High	Invest	Invest	Protect
	Medium	Invest	Protect	Harvest
	Low	Protect	Harvest	Divest

Questions for Practice

1. *Write an explanatory note on strategic analysis.*
2. *How one can compare the industry and competitive analysis.*
3. *Why organizations undertake portfolio analysis?*
4. *Explain the strategic implications of each of the following types of businesses in a corporate portfolio: (a) Stars (b) Question marks (c) Cash cows (d) Dogs.*

Activity

- Identify an industry and apply the SWOT analysis on any company in that industry. For information refer to business magazines, financial newspapers and internet.