3

Strategic Analysis

Learning Objectives

- Know the importance of strategic analysis in the formulation of strategy.
- Learn some of the methods of competitive analysis that are used in business organizations.
- Know what is SWOT and TOWS analysis.
- Have an understanding of some of the methods used in portfolio analysis.

Analysis is the critical starting point of strategic thinking.

Kenichi Ohmae

However beautiful the strategy, you should occasionally look at the results.

Sir Winston Churchill

The idea is to concentrate our strength against our competitor's relative weakness.

Bruce Henderson

1. Introduction

The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of environment in which all organizations work as sub-systems. The environmental scanning covers both scanning of external environment and internal environment. The scanning of external environment leads to the identification of the opportunities and threats thrown open to organizations while the internal analysis leads to the study of strengths and weaknesses which will decide as to what extent each company is going to capitalize the opportunities and threats thrown open.

2. Situational Analysis

All business organisations operate in a "macro environment" shaped by influences emanating from the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors and so on. These factors have been discussed in chapter 1. Strictly speaking, an organisation's macro environment includes all relevant factors and influences outside its boundaries that have a bearing on its direction, objectives, strategy, and business model. For the most part, influences coming from the macro environment have a low impact on a company's business situation and shape only the edges of the organisation'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 organisational managers scan the external environment, they must watch for potentially important environmental forces, assess their impact and influence, and adapt its direction and strategy as needed.

However, the factors and forces in a company's macro environment having the biggest strategy-shaping impact almost always pertain to the organisation's immediate industry and competitive environment.

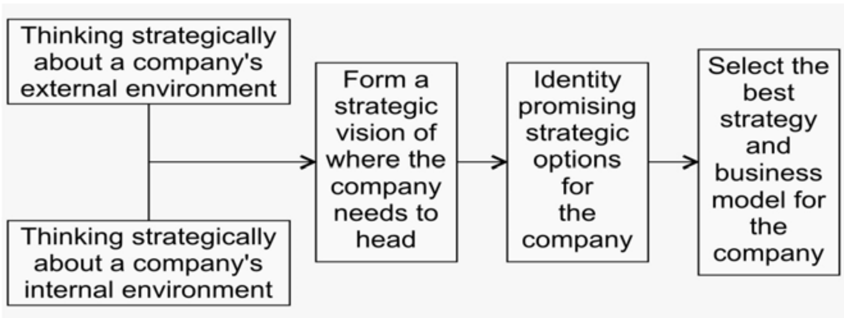


Figure: From Thinking Strategically about the Situation to Choosing a Strategy

Some form of analysis should form an essential part of any business plan and should be reviewed over time to ensure that it is kept current. A preliminary introduction as to what to take into account when conducting an analysis and provide a checklist of the important factors to consider are.

- *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 organisation: Who are they what are they up to - how do they compare. What are their competitive advantages? Analyse their strength and weaknesses.
- *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 be able to relate this back to core needs of customer.

3. Strategic Analysis

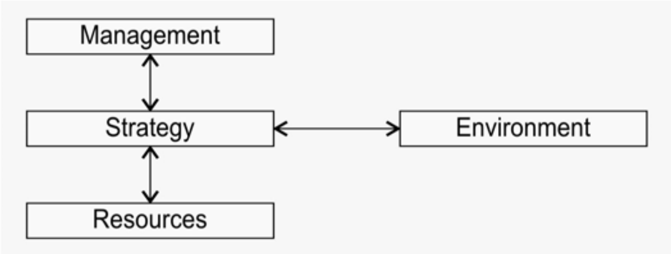
Strategy formulation is not a task in which managers can get by with intuition, opinions, good instincts, and creative thinking. Judgments about what strategy to pursue need to flow directly from analysis of an organisational external environment and internal situation. The two most important situational considerations are (1) industry and competitive conditions and (2) an organisation's own competitive capabilities, resources, internal strengths and weaknesses, and market position.

The analytical sequence is from strategic appraisal of the external and internal situation, to evaluation of alternatives, to choice of strategy. Accurate diagnosis of the company's situation is necessary managerial preparation for deciding on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy. Without perceptive understanding of the strategic aspects of a company's external and internal environments, the chances are greatly increased that managers will finalise a strategic game plan that doesn't fit the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.

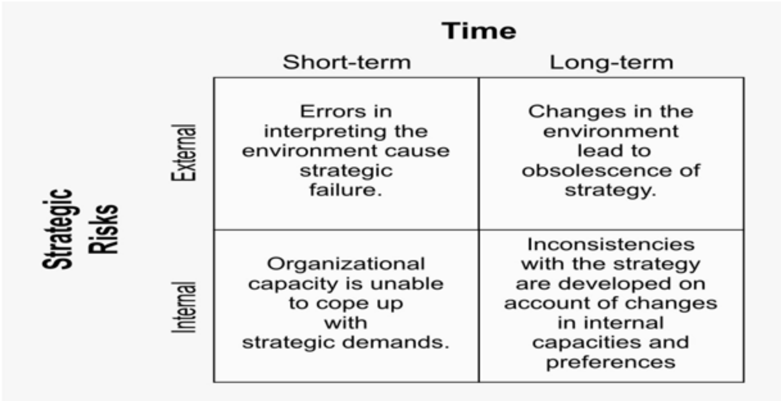
Issues to consider for strategic analysis

Strategy evolves over a period of time: There are different forces that drive and constrain strategy and that must be balanced in any strategic decision. An important aspect of strategic analyses is to consider the possible implications of routine decisions. Strategy of a business, at a particular point of time, is result of a series of small decisions taken over an extended period of time. A manager who makes an effort to increase the growth momentum of an organization is materially changing strategy.

Balance: The process of strategy formulation is often described as one of the matching the internal potential of the organization with the environmental opportunities. In reality, as perfect match between the two may not be feasible, strategic analysis involves a workable balance between diverse and conflicting considerations. A manager working on a strategic decision has to balance opportunities, influences and constraints. There are pressures that are driving towards a particular choice such as entering a new market. Simultaneously there are constraints that limit the choice such as existence of a big competitor. These constraining forces will be producing an impact that will vary in nature, degree, magnitude and importance. Some of these factors can be managed to an extent, however, there will be several others that are beyond the control of a manager.



Risk: In the strategic analyses the principle of maintaining balance is important. However, the complexity and intermingling of variables in the environment reduces the strategic balance in the organization. Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degree. An important aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences. A broad classification of the strategic risk that requires consideration in strategic analysis is given below:



External risk is on account of inconsistencies between strategies and the forces in the environment. Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis.

Figure: Framework of Strategic Analysis

Industries differ widely in their economic characteristics, competitive situations, and future profit prospects. For example, the economic and competitive traits of the fast-food business have little in common with those of Internet service providers. The telecom business is shaped by industry and competitive considerations radically different from those that dominate the aviation business.

The economic character of industries varies according to such factors as overall size and market growth rate, the pace of technological change, the geographic boundaries of the market (which can extend from local to worldwide), the number and size of buyers and sellers, whether sellers' products are virtually identical or highly differentiated, the extent to which costs are affected by economies of scale, and the types of distribution channels used to access buyers. Competitive forces can be moderate in one industry and fierce, even cutthroat, in another. In some industries competition focuses on who has the best price, while in others competition is centred on quality and reliability (as in monitors for PCs and laptops) or product features and performance (as in mobile phones) or quick service and convenience. (as in online shopping and fast foods) or brand reputation (as in laundry detergents and soft drinks). In other industries, the challenge is for companies to work cooperatively with suppliers, customers, and maybe even select competitors to create the next round of product innovations and open up whole new vistas of market opportunities.

An industry's economic traits and competitive conditions, and how they are expected to change, determine whether its profit prospects are poor, average, or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits, while even weak companies in attractive industries can turn in good performances.

4. The methods of Industry and Competitive Analysis

Industry and competitive analysis can be done using a set of concepts and techniques to get a clear picture on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, competitive success, and profit prospects. It provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for organisational funds. The analysis entails examining business in the context of a wider environment. Industry and competitive analysis aims at developing insight in several issues. Analysing these issues build understanding of a firm's surrounding environment and, collectively, form the basis for matching its strategy to changing industry conditions and competitive realities. The issues are given below:

4.1 Dominant economic features of the industry

Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. *Industry* is "a group of firms whose products have same and similar attributes such that they compete for the same buyers." The factors to consider in profiling an industry's economic features are fairly standard and are given as follows:

Market size.

- Scope of competitive rivalry (local, regional, national, international, or global).
- Market growth rate and position in the business life (early development, rapid growth and takeoff, early maturity, maturity, saturation and stagnation, decline).
- Number of rivals and their relative sizes.
- Size and nature of business?
- The number of buyers and their relative sizes. Whether and to what extent industry rivals have integrated backward and/or forward.
- The types of distribution channels used to access consumers.
- The pace of technological change in both production process innovation and new product introductions.
- Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical.
- Whether organisation can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising.
- Whether key industry participants are clustered in a particular location, for example, lock industry in Aligarh. Saris and diamonds in Surat, information technology in Bangalore. Similarly, there is also concentration of business in different countries on account of geographical and other reasons.
- Whether certain industry activities are characterized by strong learning and experience effects ("learning by doing") such that unit costs decline as *cumulative* output grows.
- Whether high rates of capacity utilization are crucial to achieving low-cost production efficiency.
- Capital requirements and the ease of entry and exit.
- Whether industry profitability is above/below par.

4.2 Nature and strength of competition

One important component of industry and competitive analysis involves delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is. This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character. Even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces.

Porter’s five forces model included in the first chapter is useful in understanding the competition. It is a powerful tool for systematically diagnosing the principle competitive pressures in a market and assessing how strong and important each one is. Not only is it the widely used technique of competition analysis, but it is also relatively easy to understand and apply.

4.3 Triggers of change

An industry's economic features and competitive structure say a lot about its fundamental character but little about the ways in which its environment may be changing. All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response from participating firms. The popular hypothesis about industries going through a life cycle helps explain industry change but is still incomplete. The life-cycle stages are strongly linked to changes in the overall industry growth rate (which is why such terms as rapid growth, early maturity, saturation, and decline are used to describe the stages). Yet there are more causes of industry change than an industry's position in the life cycle.

The concept of driving forces: While it is important to judge what growth stage an industry is in, there's more analytical value in identifying the specific factors causing fundamental industry and competitive adjustments. Industry and competitive conditions change because forces are in motion that creates incentives or pressures for changes. The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. Analyzing driving forces has two steps: identifying what the driving forces are and assessing the impact they will have on the industry.

The most common driving forces: Many events can affect an industry powerfully enough to qualify as driving forces. Some are unique and specific to a particular industry situation, but many drivers of change fall into general category affecting different industries simultaneously. Some of the categories/examples of drivers are follows:

- The internet and the new e-commerce opportunities and threats it breeds in the industry.
- Increasing globalization.
- Changes in the long-term industry growth rate.
- Product innovation.
- Marketing innovation.
- Entry or exit of major forms.
- Diffusion of technical know-how across more companies and more countries.
- Changes in cost and efficiency.

4.4 Identifying the companies that are in the strongest/weakest positions

The next step in examining the industry's competitive structure is to study the market positions of rival companies. One technique for revealing the competitive positions of industry participants is **strategic group mapping**, which is useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth.

A strategic group consists of those rival firms with similar competitive approaches and positions in the market. Companies 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. 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.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

- Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.
- Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

4.5 Likely strategic moves of rivals

Unless a business organisation pays attention to what competitors are doing, it ends up flying blind into competitive battle. A company can't expect to outmanoeuvre its rivals without monitoring their actions, understanding their strategies, and anticipating what moves they are likely to make next. As in sports, scouting the opposition is essential. Competitive intelligence about the strategies rivals are deploying, their latest moves, their resource strengths and weaknesses, and the plans they have announced is essential to anticipating the actions they are likely to take next and what bearing their moves might have on a company's own best strategic moves. Competitive intelligence can help a company determine whether it needs to defend against specific moves taken by rivals or whether those moves provide an opening for a new offensive thrust.

4.6 Key factors for competitive success

An industry's 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. KSFs by their very nature are so important that all firms in the industry must pay close attention to them - they are - the prerequisites for industry success or, to put it another way, KSFs are the rules that shape whether a company will be financially and competitively successful. The answers to three questions help identify an industry's key success factors:

- On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?
- What resources and competitive capabilities does a seller need to have to be competitively successful?
- What does it take for sellers to achieve a sustainable competitive advantage?

For example, in apparel manufacturing, the KSFs are appealing designs and colour combinations (to create buyer interest) and low-cost manufacturing efficiency (to permit attractive retail pricing and ample profit margins). In tin and aluminium cans, because the cost of shipping empty cans is substantial, one of the KSF is having plants located close to end-use customers so that the plant's output can be marketed within economical shipping distances (regional market share is far more crucial than national share).

Determining the industry's key success factors, given prevailing and anticipated industry and competitive conditions, is a top-priority analytical consideration. At the very least, managers need to understand the industry situation well enough to know what is more important to competitive success and what is less important. They need to know what kinds of resources are competitively valuable. Misdiagnosing the industry factors critical to long-term competitive success greatly raises the risk of a misdirected strategy. In contrast, an organisation with perceptive understanding of industry KSFs can gain sustainable competitive advantage by training its strategy on industry KSFs and devoting its energies to being distinctively better than rivals on one or more of these factors. Indeed, business organisations that stand out on a particular KSF enjoy a stronger market position for their, efforts-being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. Hence, using the industry's KSFs as cornerstones for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.

Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance. Managers, therefore, have to resist the temptation to include factors that have only minor importance on their list of key success factors-the purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important. To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

4.7 Prospects and financial attractiveness of industry

The final step of industry and competitive analysis is to use the results of analysis of previous six issues to draw conclusions about the relative attractiveness or unattractiveness of the industry, both near-term and long-term. Company strategists are obligated to assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and profit prospects are gloomy. The important factors on which to base such conclusions include:

- The industry's growth potential.
- Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker.
- Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces.
- The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker. (Being a well-entrenched leader or strongly positioned contender in an otherwise lack lustre industry can still produce good profitability; however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry unattractive).
- The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make the industry unattractive.
- The degrees of risk and uncertainty in the industry's future.
- The severity of problems confronting the industry as a whole.
- Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests.

As a general proposition, if an industry’s overall profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is unattractive. However, it is a mistake to think of industries as being attractive or unattractive to all industry participants and all potential entrants. Attractiveness is relative, not absolute. Industry environments unattractive to weak competitors may be attractive to strong competitors.

An assessment that the industry is fundamentally attractive typically suggests that current industry participants employ strategies calculated to strengthen their long-term competitive positions in the business, expanding sales efforts and investing in additional facilities and equipment as needed. If the industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to invest cautiously, look for ways to protect their long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right; over the longer term, strong companies may consider diversification into more attractive businesses. Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

5. SWOT Analysis

The next component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the organisational internal strengths and weaknesses and its external opportunities and threats. 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.

Its central purpose is to identify the strategies that will create a firm-specific business model that will best align, fit, or match an organisational resources and capabilities to the demands of the environment in which it operates. Strategic managers compare and contrast the various alternative possible strategies against each other with respect to their ability to achieve major goals and superior profitability. Thinking strategically requires managers to identify the set of strategies that will create and sustain a competitive advantage:

- *Functional-level strategy,* directed at improving the effectiveness of operations within a company, such as manufacturing, marketing, materials management, product development, and customer service.
- *Business-level strategy,* which encompasses the business's overall competitive theme, the way it position; itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings-for example, cost leadership, differentiation, focusing on a particular niche or segment of the industry, or some combination of these.
- *Global strategy,* addressing how to expand operations outside the home country to grow

and prosper in a world where competitive advantage is determined at a global level.

- *Corporate-level strategy,* which answers the primary questions. What business or businesses should we be in to maximize the long-run profitability of the organization, and how should we enter and increase our presence in these businesses to gain a competitive advantage?

The organization's performance in the marketplace is significantly influenced by the three factors:

- The organization's correct market position.
- The nature of environmental opportunities and threat.
- The organization's resource capability to capitalize the opportunities and its ability to protect against the threat.

The significance of SWOT analysis lies in the following points:

- *It provides a Logical Framework*: SWOT analysis provides us with a logical framework for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and the choice of a strategy. Variation in managerial perceptions about organizational strengths and weaknesses and the environmental opportunities and threats lead to the approaches to specific strategies and finally the choice of strategy that takes place through an interactive process in dynamic backdrop.
- *It presents a Comparative Account:* SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses. The helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship. The patterns are combinations say, high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths.
- *It guides the strategist in Strategy Identification:* It is natural that a strategist faces a problem when his organization cannot be matched in the four patterns. It is possible that the organization may have several opportunities and some serious threats. It is equally, true that the organization may have powerful strengths coupled with major weaknesses in the light of critical success factors. In such situation, SWOT analysis guides the strategist to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

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, global competitive environment that characterizes most industries today.

Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

Potential Resource Strengths and Competitive Capabilities **A**	Potential Resource Weaknesses and Competitive Deficiencies **B**
Potential Company Opportunities **C**	Potential External Threats to Company's Well-Being **D**

Figure: SWOT Analysis: What to look for in sizing up Strengths, weaknesses, Opportunities, and Threats.

A. Potential Resources Strengths and Competitive Capabilities

- A powerful strategy supported by competitively valuable skills and experience in key areas.
- A strong financial condition; ample financial resources to grow the business.
- Strong brand name, image/company reputation.
- A widely recognized market leader and an attractive customer base.
- Ability to take advantage of economies of scale and/or learning and experience curve effects.
- Proprietary technology/ superior technological skills/ important patents.
- Superior intellectual capital relative to key rivals.
- Cost advantages.
- Strong advertising and promotion.
- Product innovation skills.
- Proven skills in improving product processes.
- Sophisticated use of e-commerce technologies and processes.
- Superior skills in supply chain management.
- A reputation for good customer service.

- Better product quality relative to rivals.
- Wide geographic coverage and/or strong global distribution capability.
- Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

B. Potential Resource Weaknesses and Competitive Deficiencies

- No clear strategic direction.
- Obsolete facilities.
- A weak balance sheet, burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Missing some key skills or competencies/lack of management depth/ a deficiency of intellectual capital relative to leading rivals.
- Subpar profitability; no cost control measures or cost accounting practices.
- Plagued with internal operating problems.
- Falling behind rivals in putting e-commerce capabilities and strategies in place.
- A product line that is too narrow in comparison to that of rivals.
- Weak brand image or reputation.
- Weaker dealer network than key rivals and/or lack of adequate global distribution capability.
- Subpar e-commerce systems and capabilities relative to rivals.
- Short on financial resources to fund promising strategic initiatives.
- Lots of underutilized plant capacity.
- Behind on product quality and/or R&D and/or technological know-how.
- Not able to attract new customers as rapidly as rivals.

C. Potential Opportunities

- Serving additional customer groups or expanding into new geographic markets or product segments.
- Expanding the company's product line to meet a broader range of customer needs.
- Utilizing existing company skills or technological know-how to enter new product lines or new businesses.
- Using the internet and e-commerce technologies to dramatically cut costs and/or to pursue new sales growth opportunities.

- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Openings to take market share away from rivals.
- Ability to grow rapidly because of sharply rising demand in one or more market segments.
- Acquisition of rival firms or companies with attractive technological expertise.
- Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.
- Openings to exploit emerging new technologies.
- Market openings to extend the company's brand name or reputation to new geographic areas.

D. Potential External Threats to Company's Well-Being

- Likely entry of potent new competitors.
- Loss of sales to substitute products.
- Mounting competition from new Internet start-up companies pursuing e-commerce strategies.
- Increasing intensity of competition among industry rivals – may cause squeeze on profit margins.
- Technological changes or product innovations that undermine demand for the firm's product.
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly new regulatory requirements.
- Growing bargaining power of customers or suppliers.
- A shift in buyer needs and tastes away from the industry's product.
- Adverse demographic changes that threaten to curtail demand for the firm's product.
- Vulnerability to industry driving forces.

SWOT Analysis at Moser Baer

Strengths	Weaknesses
♦ Integrated manufacturing allowing cost efficiencies and enhanced speed to market.	♦ Need to scale up operations and evolve internal controls to meet exponential growth.
♦ Lower capital investment, manpower	♦ Need to constantly expand capacities,

and overhead costs allow cost leadership. ♦ Strong focus on R&D and engineering to constantly innovate products and reduce costs. ♦ Committed shareholders add strength, longevity and sustainability to future plans.	requiring continuing capital investment.
Opportunities	**Threats**
♦ Exploding DVD-R market: With world-class capacities, existing top-tier customer base and efficient in-house technology, the Company is well positioned to tap this opportunity. ♦ Domestic market: India has one of the largest movie industries in the world and customers are shifting to CDs for audio and DVDs for video requirements. ♦ Blu-ray/HD-DVD: Efforts are on worldwide to define and develop the next-gen storage format and Moser Baer is part of that effort.	♦ Emerging technologies: In a dynamic technology environment, the Company's business could be threatened from more efficient emerging technologies. However, the extent of the threat is mitigated by the explosive growth in digital content, low cost and ease of storage on optical media, the huge installed base of read/write drives and time to market for a new format. ♦ Anti-dumping and anti-subsidy levies: The Company derives a significant part of its revenues from international markets. These have seen a growing protectionist attitude and a tendency by some local governments to use anti-dumping and trade protection tools to provide protection to local businesses. However, the Company continues to keep a close watch on this front and take necessary steps to minimize any fallout. ♦ Fall in product prices: As products move into the mature phase in their life-cycle, they start to emulate commodity-type characteristics. Also, as the industry is characterized by high volumes, large capacities and investments, a sharp reduction in product pricing can impact performance. Pricing could fall due to oversupply, low demand, cost reduction due to reduction in input costs or setting up of capacities in low-cost regions

About Moser Baer: Moser Baer, incorporated in 1983, is one of India's leading technology companies and ranks among the top three media manufacturers in the world. Based in New Delhi, India. it has a broad and robust product range of floppy disks, compact discs (CDs) and digital versatile discs (DVDs). (Source: http://moserbaer.com/investor_swot.asp)

6. TOWS Matrix

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. Thus TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an action tool whereas SWOT analysis is a planning tool.

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 it. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to take the competitive advantage.

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. WT strategy is a strategy which pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

The matrix is outlined below:

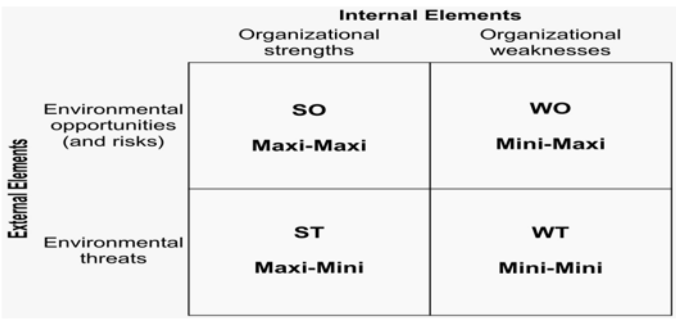


Figure : The TOWS Matrix (Source: Weihrich, H)

By using TOWS Matrix, one can look intelligently at how one can best take advantage of the opportunities open to him, at the same time that one can minimize the impact of weaknesses and protect oneself against threats. Used after detailed analysis of threats, opportunities, strength and weaknesses, it helps one to consider how to use the external environment to his strategic advantage, and so one can identify some of the strategic options available to him.

7. Portfolio Analysis

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 analysis top management views its product lines and business units as a series of investments from which it expects returns. A business portfolio is a collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

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. They may also be used in less-diversified firms, if these consist of a main business and other minor complementary interests. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential. For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives in an optima manner.

In order to design the business portfolio, the business must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses businesses may develop growth strategies for adding new products or businesses to the portfolio.

There are three important concepts, the knowledge of which is a prerequisite to understand different models of 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 company businesses. The SBU can be a company division, a product line within a division, or even a single product or brand. SBUs are common in organisations that are located in multiple countries with independent manufacturing and marketing setups. An SBU has following characteristics:

- ♦ Single business or collection of related businesses that can be planned for separately.
- ♦ Has its own set of competitors.

- Has a manager who is responsible for strategic planning and profit.

After identifying SBUs the businesses have to assess their respective attractiveness and decide how much support each deserves.

There are a number of techniques that could be considered as corporate portfolio analysis techniques. The most popular is the Boston Consulting Group (BCG) matrix or product portfolio matrix. But there are several other techniques that should be understood in order to have a comprehensive view of how objective factors can help strategists in exercising strategic choice.

Experience Curve: Experience curve is an important concept used for applying a portfolio approach. The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that units 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 for smaller companies, 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. In the contemporary Indian two wheeler market, the experience curve phenomenon seems to be working in favour of Bajaj Auto, which for the past decade has been selling, on an average, 5 lakh scooters a year and retains more than 60 per cent of the market. Its only serious competitor is LML Vespa Ltd., which has a far lesser share of the market. The primary strategic advantage that Bajaj Auto has is in terms of costs. Other competitors like Gujarat Narmada and Kinetic Honda find it extremely difficult to compete due to the cost differentials that currently exist. The likely strategic choice for underdog competitors could be a market niche approach or segmentation based on demography or geography.

Product Life Cycle: Another important concept in strategic choice is that of product life cycle (PLC). It is a 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 (slowdown in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is at a lower rate because of lack of knowledge on the part of customers.

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

The third phase of PLC is maturity stage. In this stage, the competition gets tough and market gets stablised. Profit comes down because of stiff competition. At this stage organisations may work for maintaining stability.

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.

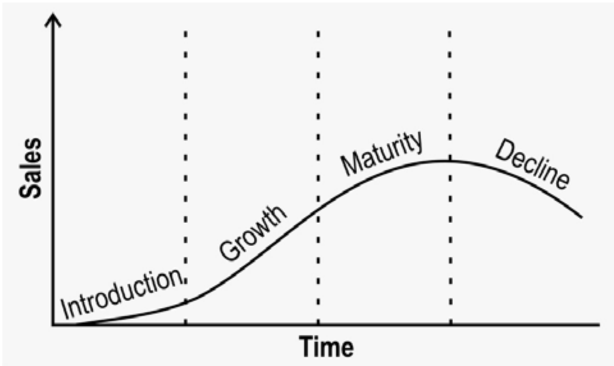


Figure: Product Life Cycle

The main advantage of PLC is that it can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

7.1 Boston Consulting Group (BCG) Growth-Share Matrix

The BCG growth-share matrix is the simplest way to portray a corporation'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. 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.

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

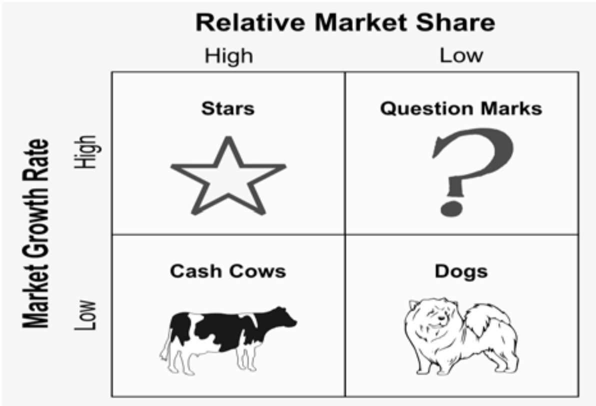


Figure: BCG Growth-Share Matrix

- **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.
- **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.
- **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.
- **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.

  Once the organisations have classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

  1. **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.
  2. **Hold:** Here the objective is to preserve market share.
  3. **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.
  4. **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

The growth-share matrix has done much to help strategic planning study; however, there are problems and limitations with the method. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

7.2 Ansoff's Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a 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 it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying company growth opportunities.

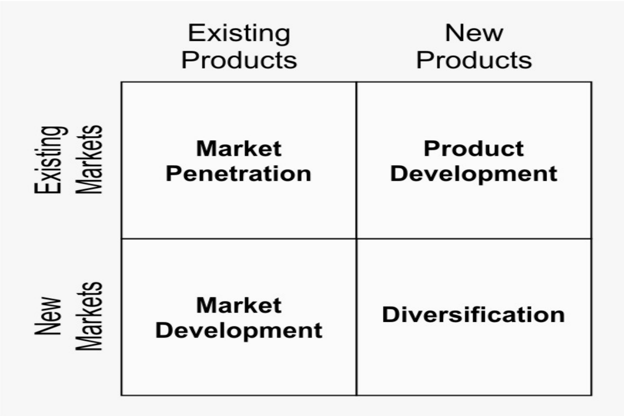


Figure: Ansoff's Product Market Growth Matrix

Market Penetration: 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. Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Penetration is also done by effort on increasing usage by existing customers.

Market Development: 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 current company products. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

Product Development: 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. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

Diversification: 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. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically the business is moving into markets in which it has little or no experience.

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.

7.3 ADL Matrix

The ADL matrix 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. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak. It is 4 by five matrix as follows:

	Stage of industry maturity			
Competitive position	Embryonic	Growth	Mature	Ageing
Dominant	Fast grow Build barriers Act offensively	Fast grow Attend cost leadership Renew Defend position Act offensively	Defend position Attend cost leadership Renew Fast grow Act offensively	Defend position Renew Focus Consider withdrawal

Strong	Differentiate Fast grow	Differentiate Lower cost Attack small firms	Lower cost Focus Differentiate Grow with industry	Find niche Hold niche Harvest
Favourable	Differentiate Focus Fast grow	Focus Differentiate Defend	Focus Differentiate Harvest Find niche Hold niche Turnaround Grow with industry Hit smaller firms	Harvest Turnaround
Tenable	Grow with industry Focus	Hold niche Turnaround Focus Grow with industry Withdraw	Turnaround Hold niche Retrench	Divest Retrench
Weak	Find niche Catch-up Grow with industry	Turnaround Retrench Niche or withdraw	Withdraw Divest	Withdraw

Figure: Arthur D. Little Strategic Condition Matrix

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 one 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 opportunities for improvement do exist.

7.4 General Electric Model ["Stop-Light" Strategy Model]

This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company). This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Electric Model. The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop. This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- Size of the market.
- Market growth rate.
- Industry profitability.
- Competitive intensity.
- Availability of Technology.
- Pricing trends.
- Overall risk of returns in the industry.
- Opportunity for differentiation of products and services.
- Demand variability.
- Segmentation.
- Distribution structure (e.g. retail, direct, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- Market share.
- Market share growth rate.
- Profit margin.
- Distribution efficiency.
- Brand image.
- Ability to compete on price and quality.

- Customer loyalty.
- Production capacity.
- Technological capability.
- Relative cost position.
- Management caliber, etc.

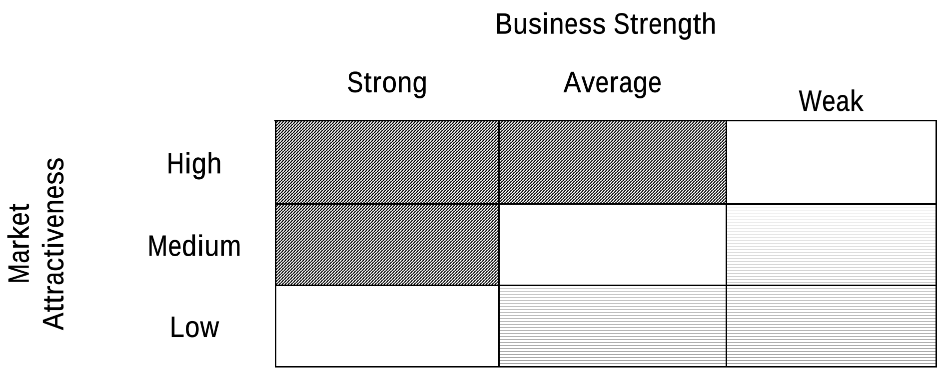
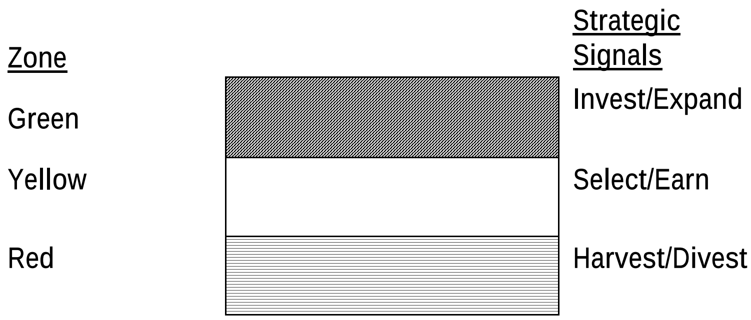


Figure : The GE Portfolio Matrix



If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

This model 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.

Summary

Environmental scanning covers both scanning of external environment and internal environment through the strategic analysis and the situational analysis.

Here we are analyzing the Industry and competition by finding the possible issues such as – 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 (KSFs), prospects and financial attractiveness of industry.

This chapter also discusses SWOT analysis and TOWS matrix which help managers to craft a business model that will allow a company to gain a competitive advantage in its industry. In order to analyze the current business portfolio, the company must conduct Portfolio analysis through BCG matrix, Ansoff's product market growth matrix, ADL matrix and the General electric model.