STRATEGIC ANALYSIS

What does **strategic analysis** comprise?
Evaluate the company's current situation and environment it is operating in.

Finding answers to **3 key questions** –
1. Where is the business now?
2. How might events around impact the business?
3. How could the business respond to these changes?

SWOT

Strength → Employee / management experience → Tech know-how / patents → Loyal workforce → Good product range → Goodwill, brand loyalty → Anything that adds value to product/services	**Weakness** → Debt → Excess, under-utilised capital → Workforce not sufficiently trained → Dated, ageing equipment / technology → Poor product/service quality → Location of business → Undifferentiated product line
Opportunities → New product / technology being developed → New government policy/ economic situation favouring the business → Lower rates of interest → New emerging / international market → Merger / JV → One or more lesser competitor(s)	**Threat** → New competition → Global conditions driving prices up/down (eg. dependency on crude-oil prices) → Government's economic policies (Eg. GST) → Competitors have superior access to market / distribution channels

Note:
- SWOT by itself does not help arrive at any solution – it is **not a prescription**.
- It points out a direction to a best possible 'fit' and to assess the most likely future strategies.
- It is **more subjective** in nature and need not have hard-core data
- The cost of correcting a weakness may not justify a lost opportunity which may have high potential profits.

****IMPORTANT**** - Read the exam question carefully – Are you being asked to **do a SWOT** analysis or **evaluate the SWOT** technique for the given case.

PEST

→ Analysis of the macro–environment
→ Gives the 'big picture' → Political, Economic, Social, Technological factors
→ Not a substitute **to SWOT**, but **complementary** and indicates if the strategy is likely to be successful.
→ Needs to be **constantly reviewed**, in this rapidly-changing environment.
→ Would be especially important for expansions in new foreign markets

<u>Boston Matrix</u> (BCG Matrix – Boston Consulting Group) - Product portfolio analysis

Market growth %		
High	**<u>Problem child / Question mark</u>** → Consumes resources. → Generates little return. → If it's a new product, it could grow to be a cash cow. → Future uncertain. Decision required if sales don't improve → **<u>SA* - Building</u>** – support with additional promos using cash from Cash Cow products	**<u>Star</u>** → Successful in an expanding market → Promotional cost high – co. keen to maintain growth → Differentiate product & reinforce brand image → High cost but also high income → **SA*** - **<u>Holding</u>** – continue support and freshen the product in the eyes of the customers
Low	**<u>Dog</u>** → Offers very little to the business → Low cash flow in a saturated market → Business may withdraw the product altogether → **<u>SA* - Divesting</u>** – other issues such as workforce and freed up capacity with production stop need to be considered carefully	**<u>Cash Cow</u>** → Well established in a mature market → High positive cash flow & profitable → High consumer awareness – low promotional costs → **<u>SA* - Milking</u>** - Cash from product can be 'milked' and used for other products – hence 'cow'
	Low	**High**

Market share % →

***SA – Strategic Action**

- BCG cannot predict future success/failure. Continuous market research is required to track product performance.
- Only a tool, and criticised as highly simplified
- Higher rates of profit ≠ high market shares, as high market share could have been due to lower prices

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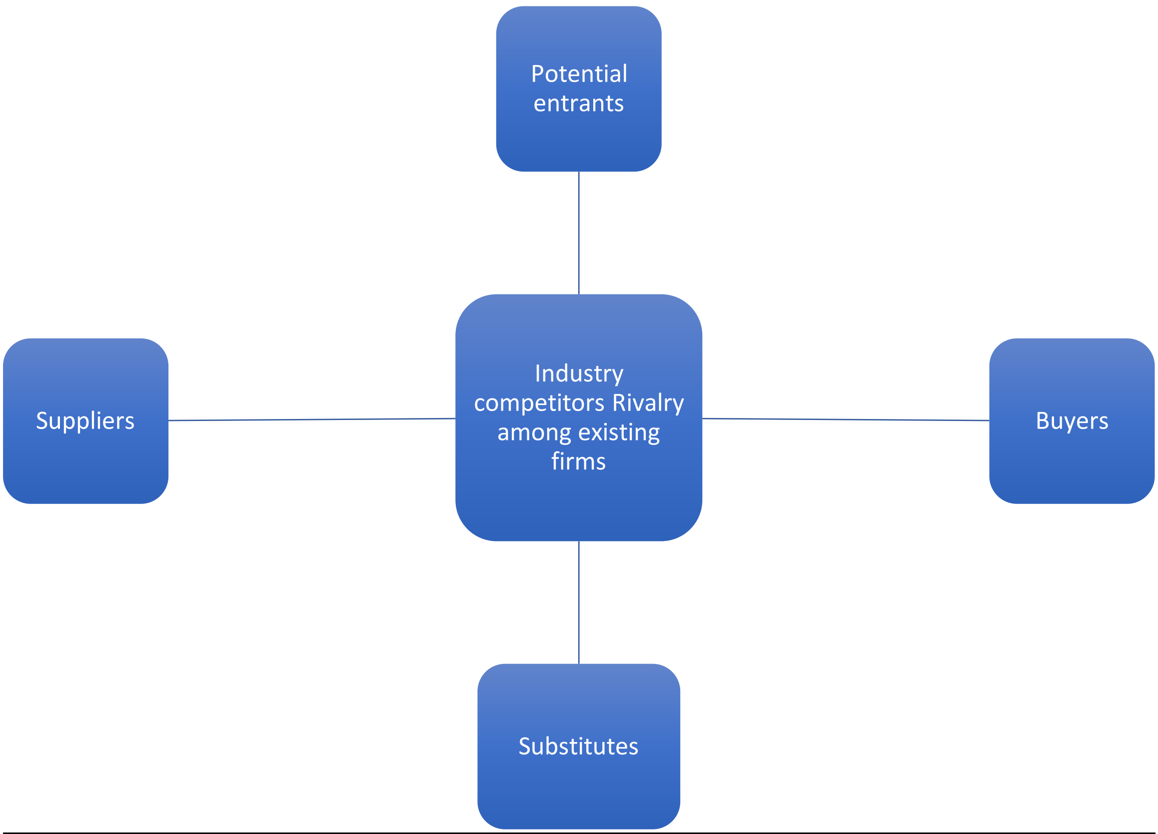
Porter's Five Forces analysis

- Establishing competitive advantage over rivals keeping in mind the overall industry / environment the business operates in.
- Focusses on single or stand-alone business units / strategic business units

SWOT vs. 5 forces
While they both help in assessing your company's strengths and weaknesses relative to industry opportunities and challenges, a primary **difference** is that **SWOT** focuses more on **company-specific elements** while **Five Forces** involves a look at **five** important competitive factors when making a strategic decision.

PEST vs. 5 forces
The major **difference between Porter's five forces** and **PEST** analysis is that **PEST** analysis is designed more for the company that wishes to perform **market research on its products** and industry. **Porter's five forces** is geared for **those examining competition in the market** and relating it to profitability.



Industry competitors

- Rivalry increases when they come under pressure
- What happens - Price wars, advertising battles, product introductions, increased customer service or warranties
- If moves and countermoves escalate, it may adversely impact all firms and leave the entire industry worse off.
- Number of firms with similar market share – with a number of players of equal standing
    - there could be a few mavericks who think they can make moves that others won't notice.
    - Even otherwise, it is more likely to have a fierce fight amongst equals
    - If there is imbalance, there are clear leaders, who discipline the industry and there is lesser disturbance
- How high or slow the market growth is – if slow, then extra effort to increase sales and market share and more volatile the market reaction would be to changes. In a rapidly growing industry, there is more space and companies can improve by simply keeping up with the industry.
- High fixed costs that push firms to develop economies of scale – firms try to fill capacity by producing more to break-even & this could lead to price cuts to sell. Typically, basic materials like paper & aluminium suffer from this problem
    - Paper - low market growth, very high cost machinery
- High storage costs of finished goods could also apply pressure to cut costs – this sort of pressure is high in industry such as lobster fishing or manufacturers of hazardous chemicals
- Lack of differentiation of switching costs – competition gets more intense
- Diverse competitors – competitors diverse in strategies, origins, personalities & relationships to their parent companies – have different goals and strategies – have a hard time understanding each other's intentions accurately. Strategic choices for one may be wrong for the other
- High exit barriers –
    - high-end, expensive machines with low liquidation values.
    - Strategic interrelationships between business units and rest of the company – sharing of facilities, marketing abilities, access to financial market – forms high strategic importance of staying in the business
    - Emotional barriers
    - Government and social restrictions – job loss, regional economic effects
    - Simple eg. - For example, a retailer may wish to eliminate underperforming stores in certain geographic markets, particularly if the competition has established a dominant presence that makes further growth unlikely. A retailer might also wish to leave one location for another that offers potentially higher foot traffic or access to a demographic with customers with higher salaries. Before making such moves, the retailer might be locked into a lease with terms that make it prohibitive to shut down or leave their current locations

Barriers to entry

Entry barrier high or low? – threat is high if barrier is low

→ Economies of scale – forces entrant to come in at large scale and risk strong reaction from existing firms, or come in at small scale and accept a cost disadvantage.

→ Brand identity – product differentiation – will involve heavy spends to overcome existing customer loyalties

→ Capital requirements – need to invest large financial resources in order to compete, particularly if the capital is required for risky or unrecoverable upfront advertisement

→ Access to distribution channels – new firm must persuade channels to accept its product through price breaks, cooperative advertising allowances etc., reducing profitability (*sharing of costs for locally placed* ***advertising*** *between a retailer or wholesaler and a manufacturer*)

→ Proprietary technology, patent

→ Favourable access to raw materials, location, government subsidies, learning or experience curve (leading to improved systems, processes, leading to reduced costs)

→ Government policies – Govt. can limit or even foreclose entry into industries with controls such as licensing requirements and limits on access to raw materials – like coal lands, mountains on which to build ski areas. Other eg.s – liquor retailing, freight forwarding.
  - Pollution control requirements
  - Product testing standards – esp. in food industry
  - Rural area policy

→ Expected retaliation -
  - established firms with substantial resources to fight back
  - established firms with great commitment to the industry and highly illiquid assets employed in it

Threat of substitutes

- Substitutes do not stand of a rival brand, but a different product that can be used instead. Eg. Plastic to glass
- New technology – satellite vs. antenna. Different electronic devices
- Price pushes choice of other products – Eg. with low-fare airfares, flights were chosen over trains. More recently, what impact will the Ahmedabad-Mumbai High-speed rail have on flights between the two cities?
- Significant new product leads to lesser spends on other items

Supplier power

- Suppliers are concentrated into fewer companies
  - Customers are smaller and fragmented compared to suppliers – supplier power is high
- Ability of/cost to customers to switch – if cost is high, supplier is more powerful
- Threat of forward integration of supplier
- Supplier has built up differentiation, which has built up switching costs
- Presence of substitute inputs, lowers the supplier's power

Buyer power

- Many undifferentiated products
- Large volume buyer has more power
- Cost of switching power is high if cost is low
    - Eg. – in the past, mobile service providers charged a high cancellation fee for cancelling connections. Others started compensating them for it, nullifying the cost.
    - Eg. of low cost – apparels – buyers can easily walk around & compare prices
- If product forms a significant fraction of the buyer's cost/purchases, buyer is more price-sensitive
- If buyers earn low profits, they tend to force purchasing price down. Highly profitable buyers are less price-sensitive, unless it is a substantial fraction of their costs.
- Threat of backward integration – Eg., GM and Ford are well-known to use this to bargaining lever.
    - Some firms practice ***tapered integration*** i.e., manufacture a few of the parts themselves and buy the others. This means that they are quite capable of manufacturing the others also. Plus, they have higher knowledge of the costs of these parts and thus their negotiating power increases.
- Buyer has full information and thus more negotiating power.

Criticism:

- Static and at-the-moment in nature - Does not take into account the dynamic environment – global and technological... ***I tend to disagree, as the nature of analysis seems to consider this as well***
- Model can become very complex when analysing joint ventures, multiple product /segment businesses

Core competencies – **Gary Hamel** (1954. American management expert. He is a founder of Strategos, an international management consulting firm based in Chicago) & **C.K. Prahalad** (1941-2010. Paul and Ruth McCracken Distinguished University Professor of Corporate Strategy at the Stephen M. Ross School of Business in the University of Michigan, USA.

- Core competence model or the Hamel and Prahalad Model
- Businesses focussing on core competencies
- Do not sell to the end customers but their products are used for several other products
- Not easy for others to copy
- Provide unique benefits to customers
- Integrating process & design engineering, IT and other experts would be required

three characteristics that the core qualities must fulfill

- It must create an advantage for buyers and is valuable
- It is hard to imitate
- It is rare and there are many potentials to profit from it, for example: various markets or many products.

The Core Competence Model focuses on a combination of specific, collaborative, integrated and applied knowledge, skills and attitude. According to Hamel and Prahalad the strategic objectives should not focus on fighting off the competition, but on creating a new competitive space. They should look to the future rather than look back on the past.

These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the company where the most **value is added** to its products.

For example, for a manufacturer of electronic equipment, key areas of expertise could be in the design of the electronic components and circuits. For a ceramics manufacturer, they could be the routines and processes at the heart of the production process. For a software company the key skills may be in the overall simplicity and utility of the program for users or alternatively in the high quality of software code writing they have achieved.

Core Competencies are not seen as being fixed. Core Competencies should change in response to changes in the company's environment. They are flexible and evolve over time. As a business evolves and adapts to new circumstances and opportunities, so its Core Competencies will have to adapt and change.

Identifying Core Competencies

Prahalad and Hamel suggest three factors to help identify core competencies in any business:

(1) Provides potential access to a wide variety of markets

The key core competencies here are those that enable the creation of new products and services.
Example: Why has Saga (**Insurance**. *Possibilities. Holidays & Cruises. MySaga. Magazine. Personal finance. Health. Care services.* **Saga** *Charities. Retirement villages. Legal. Corporate.)* established such a strong leadership in supplying financial services (e.g. insurance) and holidays to the older generation?
Core Competencies that enable Saga to enter apparently different markets:
- Clear distinctive brand proposition that focuses solely on a closely-defined customer group
- Leading direct marketing skills - database management; direct-mailing campaigns; call centre sales conversion
- Skills in customer relationship management

(2) Makes a significant contribution to the perceived customer benefits of the end product

Core competencies are the skills that enable a business to deliver a **fundamental customer benefit -** in other words: what is it that causes customers to choose one product over another? To identify core competencies in a particular market, ask questions such as "why is the customer willing to pay more or less for one product or service than another?" "What is a customer actually paying for?

Example: Why have Tesco been so successful in capturing leadership of the market for online grocery shopping?

Core competencies that mean customers value the Tesco.com experience so highly:
- Designing and implementing supply systems that effectively link existing shops with the Tesco.com web site
- Ability to design and deliver a "customer interface" that personalises online shopping and makes it more efficient
- Reliable and efficient delivery infrastructure (product picking, distribution, customer satisfaction handling)

(3) Difficult for competitors to imitate

A core competence should be "competitively unique": In many industries, most skills can be considered a prerequisite for participation and do not provide any significant competitor differentiation. To qualify as "core", a competence should be something that other competitors wish they had within their own business.

Example: Why does Dell have such a strong position in the personal computer market?
Core competencies that are difficult for the competition to imitate:
- Online customer "bespoking" of each computer built

- Minimisation of working capital in the production process
- High manufacturing and distribution quality - reliable products at competitive prices

A competence which is central to the business's operations but which is not exceptional in some way should not be considered as a core competence, as it will not differentiate the business from any other similar businesses. For example, a process which uses common computer components and is staffed by people with only basic training cannot be regarded as a core competence. Such a process is highly unlikely to generate a differentiated advantage over rival businesses. However it is possible to develop such a process into a core competence with suitable investment in equipment and training.

It follows from the concept of Core Competencies that resources that are standardised or easily available will not enable a business to achieve a competitive advantage over rivals.

Source: https://www.tutor2u.net/business/reference/core-competencies - could play video (8:14)

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