

## STRATEGIC MANAGEMENT – MBA 3rd

### 1. Strategic Management Model

#### Meaning

The Strategic Management Model is a systematic and continuous process by which an organization formulates, implements, and evaluates strategies to achieve its long-term objectives in a dynamic environment.

#### **Objectives of Strategic Management**

Achieve long-term survival and growth

Gain competitive advantage

Efficient use of resources

Respond effectively to environmental changes

#### **Stages of Strategic Management Model**

Environmental Analysis

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Strategy Formulation

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Strategy Implementation

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Strategy Evaluation & Control

□ (Feedback)

#### 1. Environmental Analysis

It involves identifying opportunities and threats in the external environment and strengths and weaknesses in the internal environment.

##### **(a) External Environment Analysis**

Economic factors – inflation, GDP, income levels

Political & Legal factors – government policies, regulations

Social factors – culture, lifestyle, demographics

Technological factors – innovation, automation

Competitive environment – competitors, customers, suppliers

Tools Used:

PESTLE Analysis

Porter's Five Forces Model

### **(b) Internal Environment Analysis**

Organizational structure

Human resources

Financial resources

Production and operational efficiency

Corporate culture

Tools Used:

SWOT Analysis

Value Chain Analysis

#### 2. Strategy Formulation

It involves selecting the best course of action to achieve organizational goals.

Key Activities

Defining Vision and Mission

Setting long-term objectives

Identifying strategic alternatives

Choosing appropriate strategies

#### **Types of Strategies Formulated:**

Corporate strategies

Business strategies

Functional strategies

#### **SWOT Matrix (TOWS Matrix)**

The SWOT Matrix helps in converting analysis into strategic actions.

Weaknesses (W)

Opportunities (O)

Threats (T)

Strengths (S)

SO Strategies – Use strengths to exploit opportunities

ST Strategies – Use strengths to counter threats

WO Strategies – Overcome weaknesses using opportunities

WT Strategies – Minimize weaknesses and avoid threats

### **Value Chain Analysis**

Value Chain Analysis is a strategic management tool developed by Michael E. Porter to analyse the sequence of activities through which a firm creates value for its customers. It helps identify activities that add value, reduce costs, and create competitive advantage.

A value chain represents the entire process from procurement of raw materials to delivery of the final product and after-sales service.

### **Porter's Generic Strategies**

Meaning

Porter's Generic Strategies are a set of three basic competitive strategies proposed by Michael E. Porter that organizations use to achieve competitive advantage in an industry. These strategies help firms decide how to compete—either by being the lowest-cost producer, offering unique products, or focusing on a specific market segment.

The Three Generic Strategies

#### 1. Cost Leadership Strategy

Meaning

Under this strategy, a firm aims to become the lowest-cost producer in the industry while offering acceptable quality.

Key Features

Large-scale production

Efficient operations

Strict cost control

Economies of scale

## 2. Differentiation Strategy

Meaning

The firm offers products or services that are unique and valued by customers, allowing it to charge a premium price.

Key Features

Strong brand image

Innovation and design

High quality and customer service

Advanced technology

## 3. Focus Strategy

Meaning

The firm concentrates on a narrow market segment and serves it better than competitors.

Types of Focus Strategy

Cost Focus – Lowest cost in a niche market

Differentiation Focus – Unique offerings for a niche market

## **Retrenchment Strategy**

Meaning

Retrenchment is a defensive corporate-level strategy in which an organization reduces its scope of operations to improve financial performance, control losses, and ensure survival during adverse business conditions.

It is adopted when a firm faces continuous losses, declining market share, poor performance, or environmental threats.

Types of Retrenchment Strategies

1. Turnaround Strategy - Improving internal efficiency

Cost reduction and restructuring, Change in leadership or operations.

Example: Reducing unnecessary expenses to regain profitability

2. Divestment Strategy - Selling or closing unprofitable business units, Disposal of non-core assets.

Example: Selling a loss-making division

3. Liquidation Strategy -Closing the business completely

Selling assets to pay liabilities

Example: Bankruptcy and shutdown

4. Captive Company Strategy - Operating under a strong parent firm, Reduced autonomy but assured survival

## **Porter's Five Forces Model**

Porter's Five Forces Model is a strategic framework developed by Michael E. Porter to analyze the competitive structure of an industry. It helps firms understand the intensity of competition, profitability, and attractiveness of an industry.

# Porter's 5 Forces Model

## Threat of Competitive Rivalry

- Growth rate of the industry
- Ratio of cost structure to the value added
- Cost of over-capacity
- Degree of output differences among competitors
- Impact of brand and its conversion to sales
- Switching costs
- Concentration among the leading players (herfindal index)
- Information flow and complexity
- Diversity of competing businesses and exit barriers.

Industry  
Attractiveness

## Bargaining power of suppliers:

- Differentiation of inputs
- Switching cost of the suppliers
- Relationship specific investments required
- Presence of substitute inputs
- Supplier's industry concentration
- Importance of volume to the suppliers
- Cost relative to the total purchases in the industry
- Impact of supplier's inputs to overall cost structure
- Impact of supplier's inputs to offering differentiation
- Threats of forward integration
- Potential for backward integration

## Threat of substitutes:

- Relative price advantage of the substitutes
- Relative functional performance advantage of the substitute
- Switching costs of the customer
- Customer's propensity to substitute
- Customer's relation specific investments

## Threat of New Competitors

- Economies of scale
- Proprietary product differences
- Brand identity
- Switching costs for the customers
- Capital intensive nature of the industry
- Access to distribution channels
- Absolute cost advantages
- Government policy for new entrants
- Potential retaliation or fallouts.

## Bargaining power of customers

- Buyer's concentration as compared to the industry's concentration
- Customer's volume vs industry output
- Customer's switching cost
- Price sensitivity
- Degree of product differences
- Buyer's profits
- Decision maker's incentives.