MB 301: BUSINESS STRATEGY

UNIT – III: EXTERNAL ENVIRONMENT & ANALYSTICAL TOOLS

TOPICS COVERED

- EVALUATING THE COMPANY'S STRATEGIC ENVIRONMENT
- SWOT ANALYSIS
- PESTEL ANALYSIS
- COMPETITIVE ANALYSIS
- MICHAEL PORTER'S FIVE FORCE MODEL

EVALUATING THE COMPANY'S STRATEGIC ENVIRONMENT

The Business Environment

Strategic Management is considered to consist of three elements;

- Strategic Analysis,
- Strategic Choice, and
- Strategy Implementation.

Strategic Analysis is concerned with understanding the relationship between the forces of change and its impact on the choice of strategies by the organization.

Industry never reaches a point of equilibrium, by its very principle of operation. There is a continuous transformation or churning of the business environment.

- Improvements in communications,
- focus on economic development,
- concern for the environment, and
- interdependence on technologies

Industry ceaselessly innovates and changes. If industries themselves have changed, clearly the companies within them must have also changed. The changes in these companies impact other organizations in different ways.

Economic liberalization and new regulations have changed the complexion of globalization and the extent of trading between nations.

Demographic changes have created demand for new types of products, impacted geographic market sizes, and altered the pattern of investments of multinational corporations.

There is increased competition resulting in greater consumer choices, which in turn is changing the attitudes and requirements of consumers.

These factors and many other factors exercise major constraints or provides bountiful opportunities to the organization. Business managers need to understand these constraints and opportunities.

Strategic analysis provides the framework to study, forecast, anticipate and prepare the organization to face the challenges of these changes face on.

Some argue that marketplace and its environmental influences are the most important factors to determine strategy.

Others argue that the strategic position of an organization is the organization specific resources and competences.

Either way, these relate to the internal and external environments of the organization. Whatever their impact, these changes need to be understood.

Strategic Analysis provides the organization with the capability to choose strategies that provide it a choice to respond and influence the outcome.

Strategic Analysis deals with Uncertainty

Strategic analysis studies the uncertainty of the environment. In order to do so, it is important to understand the nature of uncertainty.

The nature of uncertainty is dependent on the degree to which the environment is stable or dynamic, simple or complex.

It is also dependent on the industry, the country, the market.

Certain industries have simple or static conditions. Here, the environment is relatively straightforward to understand. Change is not significant and is predictable on the basis of historical data.

In situations of relatively low complexity, it is possible to identify some predictors of environmental influences.

For example, in determining the demand for primary education, demographic data such as birth rates, the price index and inflation, may be used as predicators to project the requirement of schools in each region and the projected investment to provide the facilities.

Unlike a closed system, a dynamic environment increases the level of uncertainty. Organizations, which are in complex situations with a dynamic environment, have the greatest level of uncertainty.

This is the situation in industries in such fields as communication, electronics, bio-technologies etc.

In both these types of uncertainty, i.e. dynamic uncertainty and dynamic uncertainty with complexity, the projection of historical data does not necessarily reflect the future.

Sophisticated tools are required to analyze uncertainty under these conditions.

Managements need to identify those elements that have a significant bearing on the fortunes of the organization. Depending on:

- the size of the organization,
- the markets the organization serves,
- the products that it offers, etc.

the impact of environmental factors will vary.

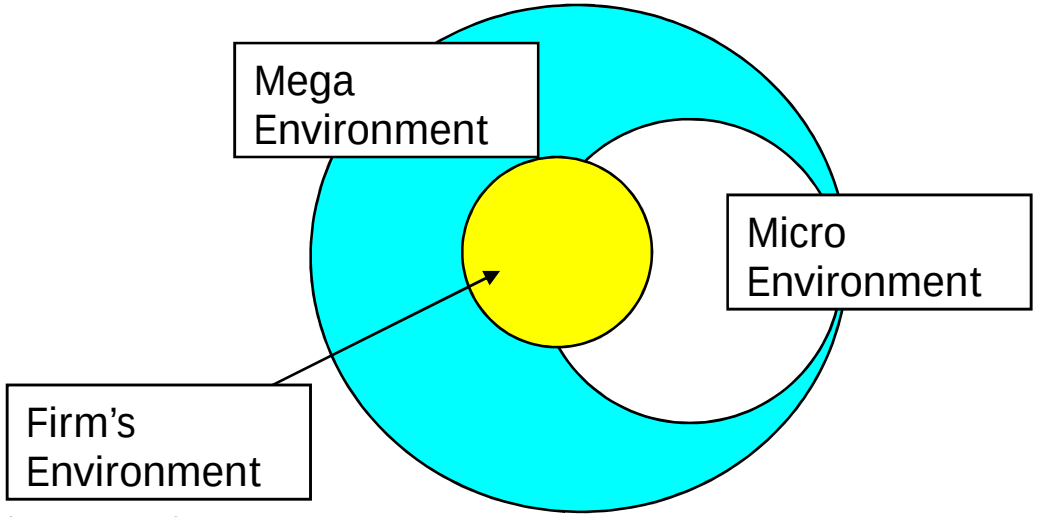
With the changing business environment, the need to encourage and create an organizational environment for innovation, initiative and entrepreneurship has become crucial.

Anticipating changes to meet challenges are important management functions and at the heart of the strategic management process.

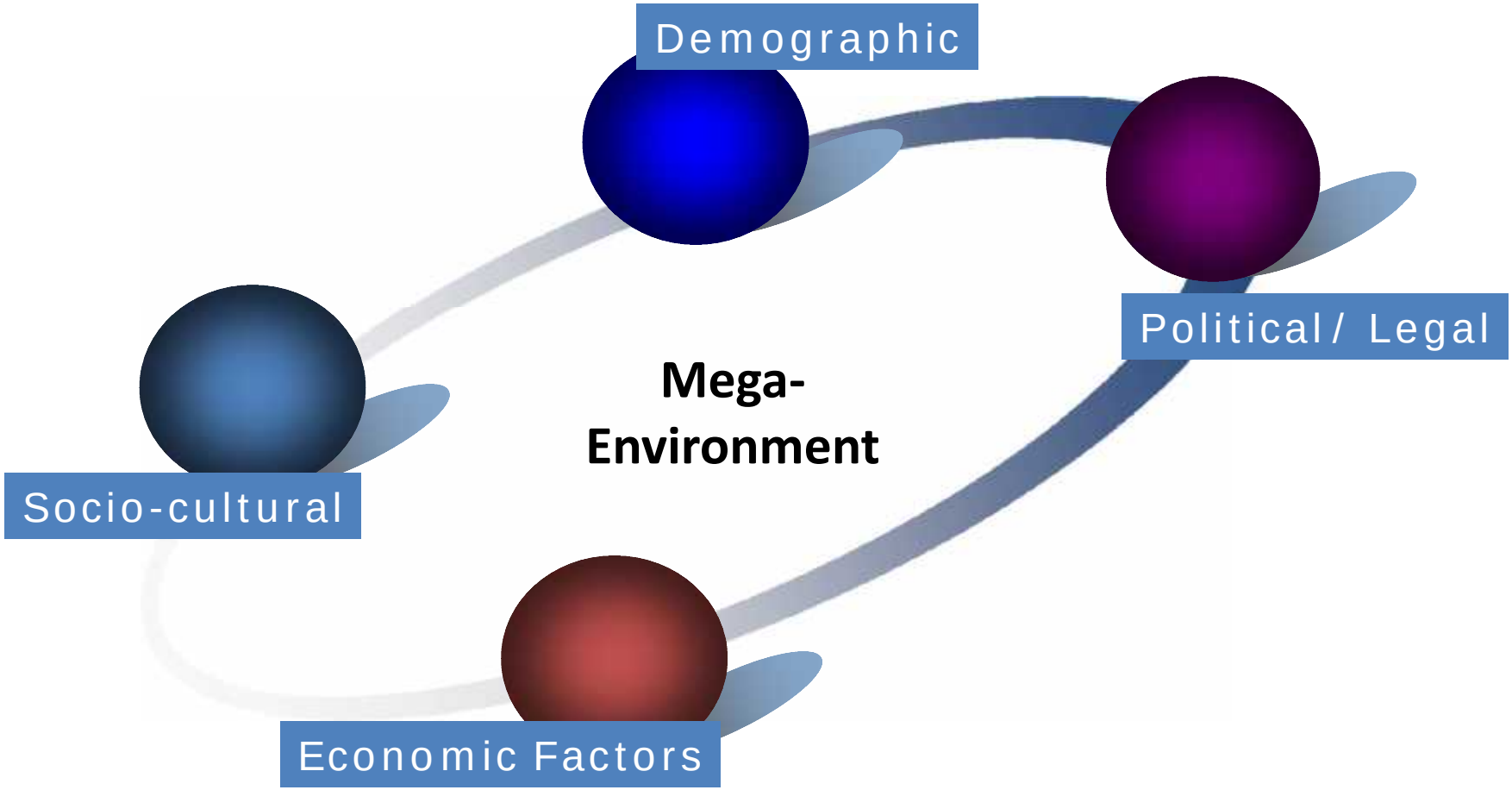
The external business environment is the single most important factor that affects the fortunes of a business enterprise. Businesses have entered a new era of dynamic change where the frontiers of the external business environment are moving ever so often.

This is the challenge that has to be faced by the business firm. The environment needs to be managed so that the organization benefits from it and its threats are neutralized.

The relevant environmental factors may contain elements from the mega as well as the micro environment. These, in turn, determine the firm's environment.



The Mega-environment



DEMOGRAPHICS

Demographics is concerned with a population's:

- size,
- age structure,
- geographic distribution, and
- distribution of income.

The challenge for strategists is to determine what implications these changes have for the future strategic competitiveness of the company.

Population Size:

The size of the population size, whether large or small, may be important to organizations.

Many products and services require a "critical mass" of customers, to make them economically viable.

Changes in the specific make-up of a population's size may have other implications also.

Population affects the availability of natural resources or food supplies.

Population also impacts the macro-economic growth. Factors that impact changes in population sizes are:

- changes in a nation's birth rate and/or family size;
- increases or declines in mortality rates;
- literacy levels.

Age Structure:

Changes in a nation's birth rate or life expectancy can have important implications for demand of different categories of products and services.

Are people living longer? One implication is an increase for health care systems, products and services.

What is the mortality rate of infants? A lower mortality rate implies a growth in the youth population and for the development of products and services targeted at the younger population.

Geographic Distribution:

Movement of populations, from one area to another, changes the demographics and creates new markets for a wide range of products.

Change in the nature of the workforce, e.g. more and more women joining the workforce, changes the buying power and changes the disposable income of families, providing a market for consumable and consumer durable products.

Population shifts from one region of a nation to another or from metropolitan to non-metropolitan areas may have an impact on nature of the company's products and its strategic competitiveness.

Issues that should be considered include:

- The attractiveness of a company's location may be influenced by its proximity to the markets.
- Governmental support and incentives for development of backward areas may impact the economics of production.
- Companies may have to consider relocation if population shifts have a significant impact on the availability of skills in the workforce.
- The trend toward working-at-home and commuting electronically on the "information highway" may imply changes in recruiting and managing the workforce.

Income Distribution:

Changes in income distribution changes in the levels of individual and group purchasing power.

It can also impact the concept of discretionary income which in turn results in changes in the pattern of spending (consumption) and savings patterns.

Tracking, forecasting, and assessing changes in income patterns may identify new opportunities for companies.

These are some examples:

- Higher incomes of the middle class can create higher demand for consumer durables.
- Increase in per capita income will create greater demand for fast moving consumer goods.
- Increase in income of higher income groups will create an additional demand for recreational products.

THE POLITICAL/LEGAL ASPECTS

The political/legal segment is the area that seriously influences the nature of competition as well as on the overall profitability of industries and individual companies.

Governments decide on tariffs on products that are manufactured in the country as well as tariffs that will be imposed on products imported into the country.

Governments use these decisions to protect as well as provide incentives to different sectors of the national economy.

The regulatory framework has important implications for industry. Some examples are given below:

Regulatory Environment
Entry/Exit Controls
Import - Export Controls
Financial Controls
Internal \ External Competition
Capital Availability
Permits & Permissions
Conformity with laws and regulations, e.g. environmental, health, safety etc.

Taxes determine the payout corporations and individuals have to make to the Government treasury. To the extent that this is an outflow, it influences the costs of products.

By introducing tax incentives, the government is also able to direct the manner in which income is disposed of.

For example, by providing a tax exemption on life insurance policies, the Government was able to divert funds to savings, impacting the disposable incomes with wage earners.

This in turn had a bearing on the rate of growth of consumer markets in the country.

Reservations for manufacture of products to specific groups and barriers to entry into various activities, also affects the nature of investments and the competitiveness in various sectors of the economy.

For example, opening up the telecom sector to the private sector in India has resulted in a boom in the mobile phone industry.

Today, it is estimated that the number of mobile connections exceeds the number of land line connections. The cost of making a telephone call has reduced drastically, especially in the case of out of station and international calls.

Sovereign or Political Risk

International trade is based on the assumption that the policies of the governments are stable.

However, with different political and economic systems in operation in different parts of the world, this is not realistic. There is a risk that a country's government will suddenly change its policies.

These risks are assumed by a firm on the likelihood a nation will default on its payments to creditors.

The key drivers to assess political risk are:

- Political institutions -- a focus is on the level of political inclusion
- Political succession -- whether peacefully achieved or not; this is vital to the security issue
- Civil society -- whether the middle class, independent private sector have been successfully developed or not.
- Popular unrest -- potential for civil disorder, this is inversely linked to political inclusion, economic development and distribution of economic gains;
- External factors: the impact and extent of this threat is determined to a greater or lesser degree by government responses and policies; e.g. Ethnic conflict, Religious radicalism.

Sovereign Risk Ratings

Broadly speaking, the ratings are divided into two categories: investment grade and speculative grade:

Investment Grade Ratings			Each category is further modified by the agencies: Moody's uses 1, 2 & 3, with 1 being the highest S&P uses a + or -
Moody's	**S&P**	**Rating**	
Aaa	AAA	Best Quality	
Aa	AA	High Quality	
A	A	High-medium Quality	
Speculative Grade Ratings			
Ba	BB	Speculative elements	
B	B	Default risk in future	
Caa	CCC	Poor quality	
Ca	CC	Highly Speculative	
C	C	Poorest quality	

Businesses limit their risks to reflect the sovereign rating of the country. Fluctuations in exchange rates, for example, can modify gains and losses.

For example, Infosys, TCS and Wipro take a policy on such fluctuations. If the dollar exchange rate goes down by 10 percent, it would wipe off their profit margins, if their contracts are in U.S. dollar. The reverse is true, too. If the dollar strengthens against the local currency, that can work to their advantage.

Proper risk management is essential, when the company operates internationally. The companies who see potential changes in regulations as an opportunity, can reap benefits.

Strategists must assess changes and trends in political philosophies and administration control in the areas shown below:

Important Political/Legal Factors	
Industry regulations	Import-export regulations
Changes in tax laws	Fiscal and monetary policy changes
Special tariffs	Political conditions in foreign countries
Political Manifestos	Special local, state, and national laws
Legislation on employment	Size of government budgets
Law and Order	World currency, and labor markets
Environmental protection laws	Local, state, and national elections
Patents Laws and Patents	Level of government subsidies
Changes in patent laws	Antitrust legislation

THE SOCIO-CULTURAL ASPECTS

The socio-cultural segment is concerned with different societies' social attitudes and cultural values. This segment is important because changes here are reflected in changes in the society's economic, demographic, political/legal, and technological segments.

For example, biting off the ends of a bullet resulted in the first war of independence on the Indian subcontinent because the British had not understood the socio-cultural setting existing in India. However, it did not create a stir amongst the British soldiers outside of the Indian sub-continent.

Life Styles:

Socio-culture effects are also reflected in the psychographic characteristics of consumer groups.

Consumers often try to emulate, follow and fit in with the social groups and classes with whom they identify themselves.

Many of the buying decisions are governed by societal compulsions.

This has significant implications for the demand and growth of many businesses.

Impact of Pressure Groups

The old assumption that the natural environment has an infinite capacity is obsolete. It is now recognized that our actions impinge on others as never before. Humanity walks heavily on nature and that the price of an economic system driven by consumer freedoms is being paid in the form of worse air, dirtier water and poisoned land.

This realization has strengthened the ability of pressure groups to impact national or local legislation. Nations, individuals and small groups have the capability to change legislature.

The heightened concerns for environmental protection, health, and safety, have impacted local regulations and legislature.

The impact of regulations on environment and pollution has made many industries to move out of their existing locations into areas where the legislation is not as tough.

Others have had to spend large amounts to conform to legislative requirements, bringing in new and environmentally acceptable technological changes.

These developments have forced a degree of product diversification on some industries that have felt or believe they will be affected by new legislation. This has also led to new products and alternatives being offered to the customer. This trend has accelerated in recent years.

For example, the effect of chlorofluorocarbons on the ozone layer has created a new set of offerings of non- CFC products in the developed countries. The refrigerant gas industry has been greatly impacted.

Strategists need to pay special attention to socio-cultural changes. It often determines how change is viewed – and how technology is absorbed and diffused. It is effected by:

- Cultural and religious implications on product definitions.
- Workforce composition and the implications for managing increased ethnic and cultural diversity.
- Changes in attitudes about the quality of work life.
- Shifts in work and career preferences, including an increase in employment and business involvement of women.
- Shifts in product and service preferences.
- Activities of Pressure Groups

MACROECONOMICS

The economic segment of the general environment refers to the nature and direction of the economy in which a company competes or may compete.

Strategists must scan, monitor, forecast, and assess a number of key economic indicators. Businesses use analysis of the macro-economy for forecasting the future.

It is beyond the scope of any firm to collect raw macro-economic data. These analyses are commercially available on a quarterly basis from a number of sources.

- They generally provide an indication of the economic stage at which the country is placed at that point of time.
- They also provide an indication of the government's economic policy, and expenditures. Expenditures are often very important factors in determining the direction in which various segments of the economy will move.
- In addition, information on the historical growth of various segments of the economy are given.

This data is extremely important to determine the strategy of the firm

Some of the prime indicators that are monitored by companies are shown below:

- Growth in Gross Domestic Product of goods and services
- Growth in different sectors
- Income differences by region and consumer groups
- Level of disposable income
- Exportation of labor and capital
- Interest rates
- Inflation rates
- Tax rates
- Money market rates
- Government Spending
- Consumption patterns
- Propensity of people to spend
- Demand shifts for different categories
- Availability of credit
- Shift to a service economy
- Price fluctuations
- Monetary & Fiscal policies
- Unemployment trends
- Stock market trends
- Foreign countries' economic conditions
- Import/export factors
- Worker productivity levels
- Coalitions of Countries
- Trade Block Formations

In India, the urban population has changed from 25 percent, a decade ago, to over 30 percent by year 2000. In terms of numbers and disposal income, this constitutes a major shift. A survey by the National Council for Applied Economic Research (NCAER), found that in year 2000, over 50 percent of urban Indians were below 30. Moreover, a larger number of women from the younger generation are training to be professionals. What do these facts tell us about the markets that are emerging in India?

This question requires students to demonstrate an understanding of the importance and relevance of demographics in understanding the market place. Demographic changes have implications for marketers: it means there is a huge opportunity waiting out there for those who target the right market segments.

New products suited to the changes in population characteristics will require large investments. For example, with increases of populations as projected - food, health products, infrastructure, education and energy requirements will grow significantly. It will provide a great opportunity for investment in these areas.

Students are expected to understand the opportunities afforded in using such information to develop strategies and the risks of failure or success of using such analyses.

The essence of business competition implies that risk-adjusted rates of return should be constant across firms and industries. However, different industries sustain different levels of profitability; part of this difference is explained by analyzing an industry's structure.

Competition is rooted in the underlying economic structure. Customers, suppliers, potential entrants and substitute products, all have the potential to impact the market depending on the industry.

These parameters are reflected in Porter's 'Five Forces Model', which represents the competitive universe of the firm. The model is a powerful and simple tool for analysis and provides a structure for discussion and debate around the theme of strategy.

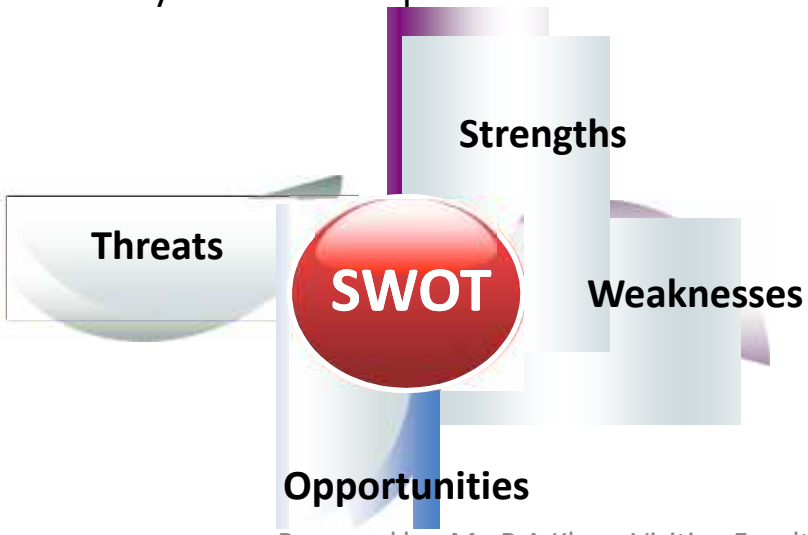
There has been some criticism of this model that because of its simplification of complex relationships, it is linear in structure.

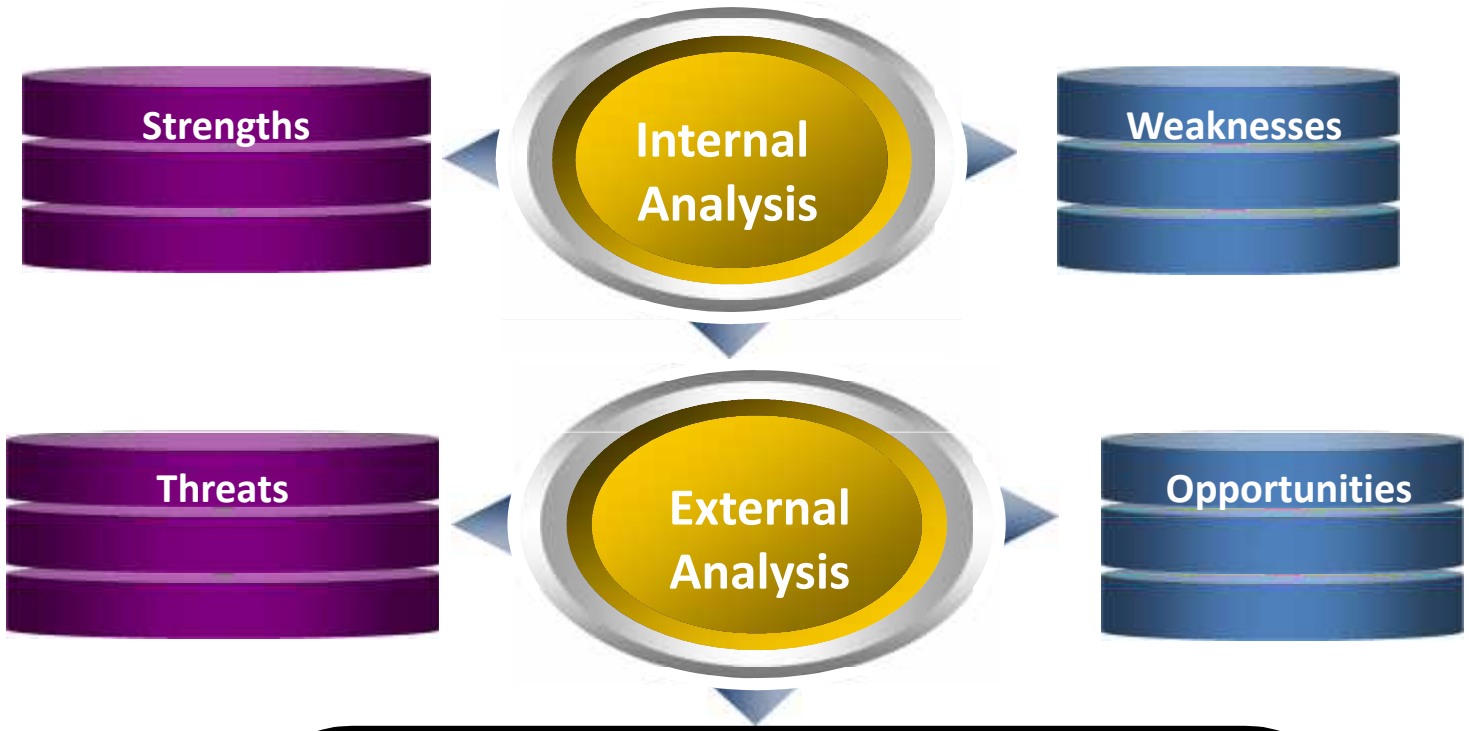
However, even in its simplest form, the model can be extremely helpful in analysing the micro-environment of the company.

SWOT ANALYSIS

SWOT Analysis

This is a popular tool for audit and analysis of the overall strategic position of a business and its environment. The acronym “SWOT” represents:





The environmental factors internal to the firm usually can be classified as strengths (**S**) or weaknesses (**W**), and those external to the firm can be classified as opportunities (**O**) or threats (**T**).

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

Successful businesses *build on their strengths*, *correct their weaknesses* and *protect against internal vulnerabilities and external threats*.

They also keep an eye on their overall business environment and spot and exploit new opportunities faster than competitors.

The technique is simple and effective. It requires an analytical frame of mind. Due to its simplicity, all firms have the capacity to use this tool to advantage.

Analysis of the Firm against Competition

Every business has competitors. Competitors are those who could provide their customers a product or service that fills the same need.

Even if the product or service is truly innovative, a firm needs to look at what else their customers would purchase to accomplish this task.

- Primary competitors are those companies who currently dominate the market.
- Secondary competitors are the businesses who may not go head-to-head with you, but who are targeting the same general market.
- Potential competitors are those companies who might be moving into your market and who we need to prepare to compete against.

The second step is to *analyze strengths and weaknesses of* **y**our competitors. Determine their strengths and find out what their vulnerabilities are.

- Why do customers buy from them?
- Is it price?
- Value?
- Service?
- Convenience?
- Reputation?

Focus as much on "perceived" strengths and weaknesses as on actual ones. This is because customer perception may actually be more important than reality.

The strengths/weaknesses analysis is more easily done in table form.

Write down the names of each of the competitors.

Then set up columns listing every important category for the line of business. It may be price, value, service, location, reputation, expertise, convenience, personnel, or advertising/marketing.

Rate the competitors on each of the identified parameters, and put in comments as to why you have given them that rating.

Step 3 is to *look at opportunities and threats***.** Strengths and weaknesses are often under a company's control. But you also need to examine how to deal with competition on factors outside your control.

Opportunities and threats fall into a wide range of categories. It might be:

- technological developments,
- regulatory or legal action,
- economic factors, or
- even a possible new competitor.

Create a table listing the competitors and the outside factors that will impact the industry. You will then be able to identify opportunities and threats.

Step 4 is to *determine the position***.** Once you figure out what your competitors' strengths and weaknesses are, you need to determine where to position our company with respect to competition.

Rank your company in the same categories that you ranked your competitors. This will give you a clear picture of where your business fits in the competitive environment.

It will also help determine what areas you need to improve, and what characteristics of your business you should take advantage of to gain more customers.

The information is transferred to a SWOT matrix.

The SWOT Matrix

These relationships are generally represented by a 2 × 2 matrix.

	Positive	Negative
Inter-nal	Strengths Patents Strong brand names Good reputation among customers Cost advantages from proprietary know-how Exclusive access to high grade natural resources Favorable access to distribution networks	Weaknesses Lack of patent protection A weak brand name Poor reputation among customers High cost structure Lack of access to the best natural resources Lack of access to key distribution channels
Exter-nal	Opportunities An unfulfilled customer need Arrival of new technologies Loosening of regulations Removal of international trade barriers	Threats Shifts in consumer tastes away from the firm's products Emergence of substitute products New regulations Increased trade barriers

The “Strengths” and “Opportunities” are both positive considerations. “Weaknesses” and “Threats” are both negative considerations. The matrix identifies the Strengths, Weaknesses, Opportunities and Threats of a firm.

This information can be used by the company in many ways in evolving its options for the future. In general, the company should attempt:

- To build its strengths;
- To reverse its weaknesses;
- To maximize its response to opportunities; and
- To overcome its threats.

A firm should develop a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. The firm can use the SWOT analysis to develop strategies

- **S-O strategies** pursue opportunities that are a good fit to the company’s strengths.
- **W-O strategies** overcome weaknesses to pursue opportunities.
- **S-T strategies** identify ways that the firm can use its strengths to reduce its vulnerability to external threats.
- **W-T strategies** establish a defensive plan to prevent the firm's weaknesses from making it susceptible to external threats.

The bottom line: look for ways to leverage your strengths and take advantage of your competitors’ weaknesses.

The PESTLE Analysis

The SWOT analysis is a powerful tool, but involves a large subjective component. Therefore, it is best when used as a guide and not a prescription. Used in conjunction with other established strategic management tools, for example PESTLE analysis, the SWOT Analysis can provide information that is helpful to the firm in strategy formulation and selection.

Like the SWOT analysis, the PESTLE analysis is simple, quick, and uses six key perspectives. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

PESTLE is an acronym for:

- **P**olitical
- **E**conomic
- **S**ocio-cultural
- **T**echnological
- **L**egal
- **E**nvironmental

The construction of the PESTLE matrix is similar to that of the SWOT analysis.

Political • Ecological/environmental issues • Current legislation • Future legislation • Regulatory bodies and processes • Government policies • Government term and change • Trading policies	Economic • Economy situation & trends • Taxation specific to products • Market and trade cycles • Specific industry factors • Customer/end-user drivers • Interest and exchange rates
Social • Lifestyle trends • Demographics • Consumer attitudes and opinions • Brand, company, technology image • Consumer buying patterns • Ethnic/religious factors	Technological • Replacement technology/solutions • Maturity of technology • Manufacturing maturity and capacity • Innovation potential • Technology access, licensing, patents
Legal • International Law • Employment Law • Competition Law • Health & Safety Law • Regional legislation	Environmental • Environmental impact • Environmental legislation • Energy consumption • Waste disposal

The first step is to identify the issue. Focus is very important. Make up your own PESTLE questions and prompts to suit the issue being analyzed and the situation.

Shortlist those that are important.

On the basis of these, it should be possible to identify a number of key environmental influences, which are in effect, the drivers of change.

These are the factors that require to be considered in the matrix.

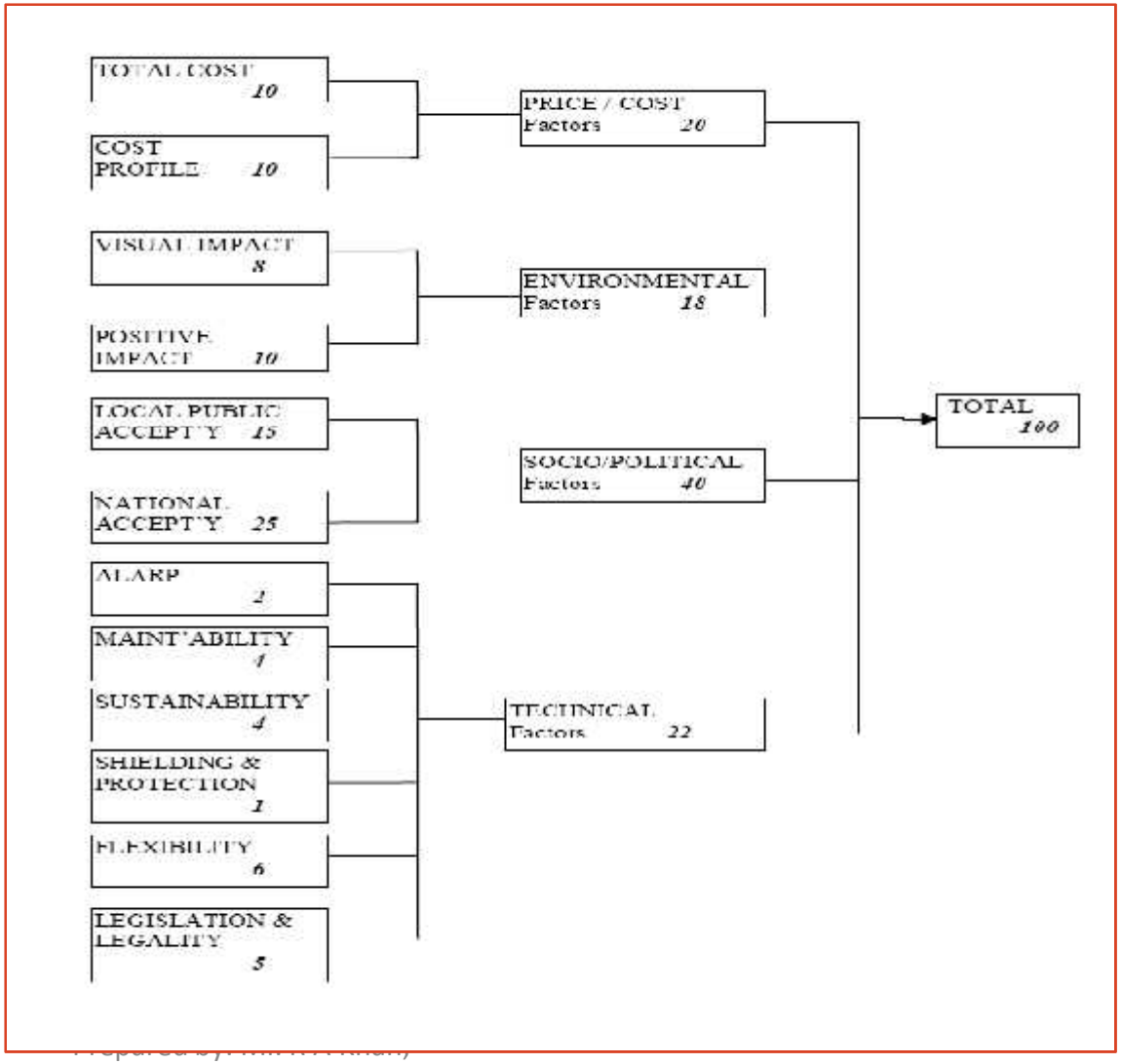
Then transpose the final items that we have identified from your list to a PESTLE matrix.

Making it more Scientific

The PESTLE analysis can be converted into a more specific instrument of measurement by giving a weightage and a score to the items for each of the identified options that the firm has to consider.

For each of the items in each segment, we can give a score on a scale of 1 to 100. Some factors will be more important than the others. Make sure the total weights add up to 100.

Multiply the marks with the weightage factor and then add the total score for each option.



The figure gives weightings for one option in an environmental project. Each option has a score. The higher the score is, the more attractive the option.

The final results give an indication of the attractiveness of the various options and can be the basis for short listing viable options.

Scoring and giving weightage is particularly beneficial if more than one option is being considered.

PESTLE assesses a market, including competitors, from the standpoint of a particular proposition and is useful the larger and more complex the business or proposition.

Even for a very small local businesses a PESTLE analysis can still throw up one or two very significant issues that might otherwise be missed. On completion of the PESTLE analysis, the short listed options can be examined using a SWOT analysis.

PESTLE is useful before SWOT - not generally the other way round. It helps to identify SWOT factors.

PESTLE analysis, has its origins in the PEST analysis, which involves identifying the political, economic, socio-cultural and technological influences on an organization.

Increasingly when carrying out analysis of external influences, legal and environmental factors have become important, making 'PESTLE analysis' more relevant and replacing ‘PEST’ in many applications.

Concept of Case Studies

Controlling market forces and shaping the competitive environment, was at one time considered to be outside the capability of organizations. The development of strategy as an area of study began when there was a realization that it was possible for the organization to impact changes.

In the early 1950s, George Albert Smith Jr. and C. Roland Christensen of Harvard Business School questioned the pedagogical methods used to teach business policy at HBS.

According to them, “The world of the strategist is created, by the interaction between people, each one of them have their own interpretation of what is going on.

As people interact with one another to share their interpretations of the world, their common understanding of 'reality' is said to be socially constructed.

The essence of strategic thinking was understanding of 'reality' and then to build and extend this process logically.”

In teaching students, they produced stories of companies, and related it to the business environment.

Students were instructed to question:

> Do a company's policies "fit together into a program that effectively meets the requirements of the competitive situation?"
>
> How is the whole industry doing? Is it growing and expanding? Or is it static; or declining?

Then, having "sized up" the competitive environment, the student was to asked:

> On what basis must any one company compete with the others in this particular industry?
>
> At what kinds of things does it have to be especially competent, in order to compete?

Another Harvard business policy professor, Kenneth Andrews, in the late 1950s, built on the thinking of Smith and Christensen by arguing that

> "every business organization, every subunit of organization, and even every individual have a clearly defined set of purposes or goals which keeps it moving in a *deliberately chosen direction* and prevents its drifting in undesired directions".

Andrews prepared company cases on Swiss watchmakers, combining industry notes with company cases, a style initiated at HBS by a professor of manufacturing, John MacLean.

Andrews showed significant differences in performance associated with the respective strategies of firms for competing in that industry.

He questioned why it should be so, and challenged his students to analyze the strategies and the ‘perceived reality’ of the firms.

This format was found to be of immense benefit to students and became the norm in Harvard's business policy course to teach the subject.

This format is now standardized and is the basic format for CASE STUDIES and has become a principal method of analysis in business studies.

The purpose of a case study is to help apply the concepts of Strategic Management to a real life like situation.

Analysts are expected to analyze the issues facing a specific organization.

They are to look closely at the issues confronting the organization and the circumstances in which strategic decisions are taken.

Case Study proves valuable in a Strategic Management course for several reasons.

- Cases provide the student with experience of organizational problems in a relatively short period of time, by analyzing problems faced by different companies and to understand how managers tried to deal with them.
- The theory and concepts of Strategic Management are illustrated in case analysis. It allows evaluation of solutions that specific companies adopted to deal with their problems.
- Case studies provide the opportunity to participate in class and to gain experience in presenting our ideas to others. This mode of discussion is an example of the dialectical approach to decision making. This is how decisions are made in the actual business world.

Case Studies draw inputs from other disciplines such as Psychology, Economics, Sociology etc.

Sectional interests and sectoral demands, tunnel visions and departmental loyalties and a host of other disintegrating factors are examined and cross-examined bit-by-bit, piece-by-piece while arriving at answers.

The attempt is to cross-fertilize ideas, synchronize thoughts and deal with issues dispassionately with a view to cross functional boundaries and take look at decision making keeping the best interests of the organization in mind.

Attacking Case Studies

In formulating a scientific approach to case analysis and to analyze case material, there are a number of steps that have to be taken.

There are 3 stages in a Case Study:

- Historical & SWOT analysis
- Analysis of Strategies
- Recommendations & Discussions

Most often you will need to read the case several times. The first reading is to grasp the overall picture of what is happening to the organization. You should read the case several times more till you are certain to have discovered and grasped the specific problems of the organization.

First, familiarize yourself with the history of the organization. This will normally provide the information that will be the basis for the complete analysis.

Analyze history:

Analyze the organization's history, development, and growth.

Identify events that were the most unusual or the most essential for its development into the organization it is today.

This should help you understand how an organization's past strategy and structure affect it in the present.

Some of the events that you will identify will have to do with the founding of the firm, and its initial products.

Understand how the firm makes new-product market decisions, and how it developed and chose functional competencies to pursue.

Identify important milestones, these are entry into new businesses and shifts in its main lines of business.

The critical incidents should provide an insight of the organization's strengths and weaknesses.

SWOT Analysis

The historical profile is followed up with an analysis to identify the company's internal strengths and weaknesses.

Examine each of the functions of the organization, and identify the functions in which the organization is currently strong and currently weak. Make lists of these strengths and weaknesses.

Potential internal strengths

- Many product lines?
- Broad market coverage?
- Manufacturing competence?
- Good marketing skills?
- Good materials management systems?
- R&D skills and leadership?
- Information system competencies?
- Human resource competencies?
- Brand name reputation?
- Portfolio management skills?
- Cost differentiation advantage?
- New-venture management expertise?
- Appropriate management style?
- Appropriate organizational structure?
- Appropriate control systems?
- Ability to manage strategic change?
- Well-developed corporate strategy?
- Good financial management?
- Others?

Potential internal weaknesses

- Obsolete, narrow product lines?
- Rising manufacturing costs?
- Decline in R&D innovations?
- Poor marketing plan?
- Poor material management systems?
- Loss of customer good will?
- Inadequate human resources?
- Inadequate information systems?
- Loss of brand name capital?
- Growth without direction?
- Bad portfolio management?
- Loss of corporate direction?
- Infighting among divisions?
- Loss of corporate control?
- Inappropriate organizational structure and control systems?
- High conflict and politics?
- Poor financial management?
- Others?

Examine the external environment:

After having analyzed the internal environment, the external environment has to be examined to identify environmental opportunities and threats.

Identify which factors in the macro environment, relevant for the organization in question.

You must apply our mind to determine how these factors effect the competitive environment.

Potential environmental opportunities

- Expand core business(es)?
- Exploit new market segments?
- Widen product range?
- Extend cost or differentiation advantage?
- Diversify into new growth businesses?
- Expand into foreign markets?
- Apply R&D skills in new areas?
- Enter new related businesses?
- Vertically integrate forward?
- Vertically integrate backward?
- Enlarge corporate portfolio?
- Overcome barriers to entry?
- Reduce rivalry among competitors?
- Make profitable new acquisitions?
- Apply brand name capital in new areas?
- Seek fast market growth?
- Others?

Potential environmental threats

- Attacks on core business(es)?
- Increases in domestic competition?
- Increase in foreign competition?
- Change in consumer tastes?
- Fall in barriers to entry?
- Rise in new or substitute products?
- Increase in industry rivalry?
- New forms of industry competition?
- Potential for takeover?
- Existence of corporate raiders?
- Increase in regional competition?
- Changes in demographic factors?
- Changes in economic factors?
- Downturn in economy?
- Rising labor costs?
- Slower market growth?
- Others?

As we have identified the organization's external opportunities and threats as well as its internal strengths and weaknesses, we require to relate our findings to the problem on hand by constructing the SWOT matrix.

- Consider what our findings mean.
- We need to balance strengths and weaknesses against opportunities and threats.

The matrix provides a summary of the organization's condition.

Analysis of Strategies

The SWOT analysis will bring up some questions that we may like to examine:

- Is the organization in an overall strong competitive position?
- Can it continue to pursue its current strategies profitably?
- What can the organization do to turn weaknesses into strengths and threats into opportunities?
- Can it develop new strategies to accomplish this change?

Analyze corporate-level strategy:

We have to start by inferring the organization's mission and objectives from available information. The information includes such factors as:

- the organization's business,
- the nature of its subsidiaries and acquisitions.
- If it has more than one business, it is important to analyze the relationship among the company's businesses.

For example, let us take an example of ITC Limited. We know that ITC operates in more than one business. The questions we need answers to are:

- How do its businesses connect?
- Do they trade or exchange resources?
- Are there gains to be achieved form synergy?
- Is the company just running a portfolio of investments?

This analysis should enable us to define the corporate strategy of the organization and to conclude whether the company operates in just one core business.

Sometimes the mission and objectives are stated explicitly. In that case, it becomes easier.

Debate the merits:

Using the SWOT analysis debate the merits of the strategies that we have identified.

- Are the strategies appropriate in the given environment of the organization?
- Could a change in strategies provide new opportunities or transform a weakness into strength?

For example,

- should the company focus on improving its production capability or on Research & Development;
- should it diversify from its core business into new businesses?

We should also consider how and why have the organization's strategies changed over time?

What was the rationale for these changes, if any?

The organization's businesses or products should be assessed.

We should identify the areas that contribute the most to or detract form its competitive advantage.

Find out how the organization has built its portfolio over time.

- Did it acquire new businesses,
- or did it internally venture its own?

All of these factors provide clues about the organization and indicate ways of improving its future performance.

Analyze business-level strategy:

If the organization has a single business, its business-level strategy is identical to its corporate-level strategy. If the organization is in many businesses, each business will have its own business-level strategy.

The next step is to identify the company's business-level strategy. In order to do so, we will need to identify the company's generic competitive strategy.

We will also have to determine its relative competitive position and the stage of the life cycle of the products – this should give we an insight into the investment strategy of the organization. The organization may market different products using different business-level strategies.

For example, Maruti Udyog offers a low-cost product the Maruti 800 and a line of differentiated products catering to different economic segments.

Give a full account of a company's business-level strategy to show how it competes.

Identifying how the functional strategies build competitive advantage is very important. Does the organization do it through superior efficiency, quality, innovation, and customer responsiveness?

We should relate the functional competencies from the SWOT analysis to investigate its production, marketing, or research and development strategy further. This will give us a picture of where the company is going.

For example, pursuing a low-cost or a differentiation strategy successfully, as is being followed by Maruti, requires very different sets of competencies.

- Has the company developed the right ones?
- If it has, how can it exploit them further?

Analyze structure and control systems:

Identify what structure and control systems the organization is using to implement its strategy and to evaluate whether that structure is the appropriate one for the organization. Different corporate and business strategies require different structures.

For example,

- does the organization have the appropriate number of levels in the hierarchy
- or does it have a decentralized control?
- Does it use a functional structure when it should be using a product structure?
- Similarly, is the company using the right integration or control systems to manage its operations?
- Are managers being appropriately rewarded?
- Are the right rewards in place for encouraging cooperation among divisions?

These are all issues to consider.

Recommendations & Discussions

In the last part, we make our recommendations.

- We need to examine the strengths and weaknesses of the organization.
- We also need to consider the corporate strategy and the business level strategy and see how they fit into the strengths and weaknesses we have identified.
- We also need to see the efficacy of strategy implementation, or the way the organization tries to achieve its strategy.

Make recommendations:

The thoroughness with which you prepared the case analysis will reflect in the quality of your recommendations.

Your recommendations should be in line with your analysis and should follow logically from the analysis you have prepared.

Recommendations are directed at solving whatever strategic problem the organization is facing and increasing the organization's future profitability.

The recommendations should center on the specific ways of changing functional, business, and corporate strategies and organizational structure and control to improve business performance.

The recommendations should be mutually consistent and written in the form of an action plan.

The plan may require a sequence of actions that may change the organization's strategy and we should add a description of how changes at the corporate level will necessitate changes at the business level and functional levels.

Class discussion:

The emphasis of the process of the case study is that you must be involved in the case to the maximum extent possible and you should feel the responsibility of decision making.

The final action in a case analysis is a class discussion or a presentation of your ideas to the class. The class discusses it. The professor may assume the role of the facilitator.

Both formats are used depending on the professor's decision.

Remember that you must tailor your analysis to suit the specific issue discussed in your case.

Conclude the Analysis:

Different cases give different types of information about the situation and circumstances. Depending on the case study and what is required of us, we might completely omit one or more of the steps in the analysis, as it may not be relevant to the situation we are considering. We must be sensitive to the needs of the case and not apply the framework blindly.

The framework is meant only as a guide, not as an outline. In some cases, there will be little information on many issues, whereas in others there will be a lot. In analyzing each case, focus on information on salient issues only.

The information given may include facts about the industry, the competitive conditions, the nature of products and their markets, the physical facilities, the work climate and organizational culture, the organizational structure, financial and other economic data, etc.

Keeping in view the information available, be systematic and logical.

In cases relating to organizational analysis, begin with the identification of operating and financial strengths and weaknesses and environmental opportunities and threats.

Only when we are fully conversant with the SWOT analysis, can we assess the organization's strategies effectively.

Do the organization's current strategies make sense given its SWOT analysis? If they do not, we need to determine what changes need to be made. Link any strategic recommendations we may make to the SWOT analysis.

We should explicitly explain how the strategies we identify:

- take advantage of the organization's strengths to exploit environmental opportunities,
- how they rectify the organization's weaknesses, and
- how they counter environmental threats.

Outline what needs to be done to implement our recommendations.

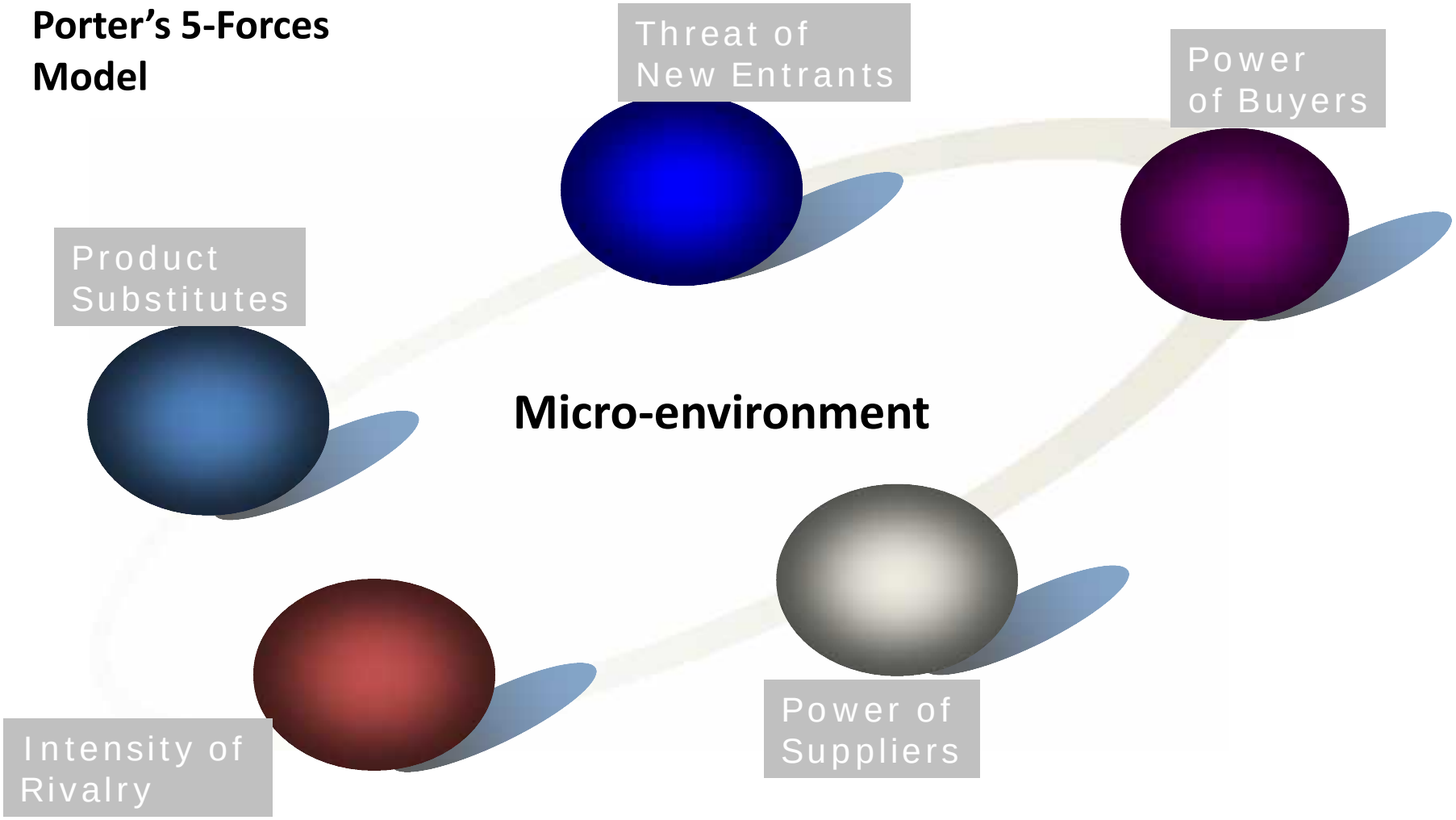
A number of conceptual tools are required for case analysis. These tools will be provided as we go through the rest of the course.

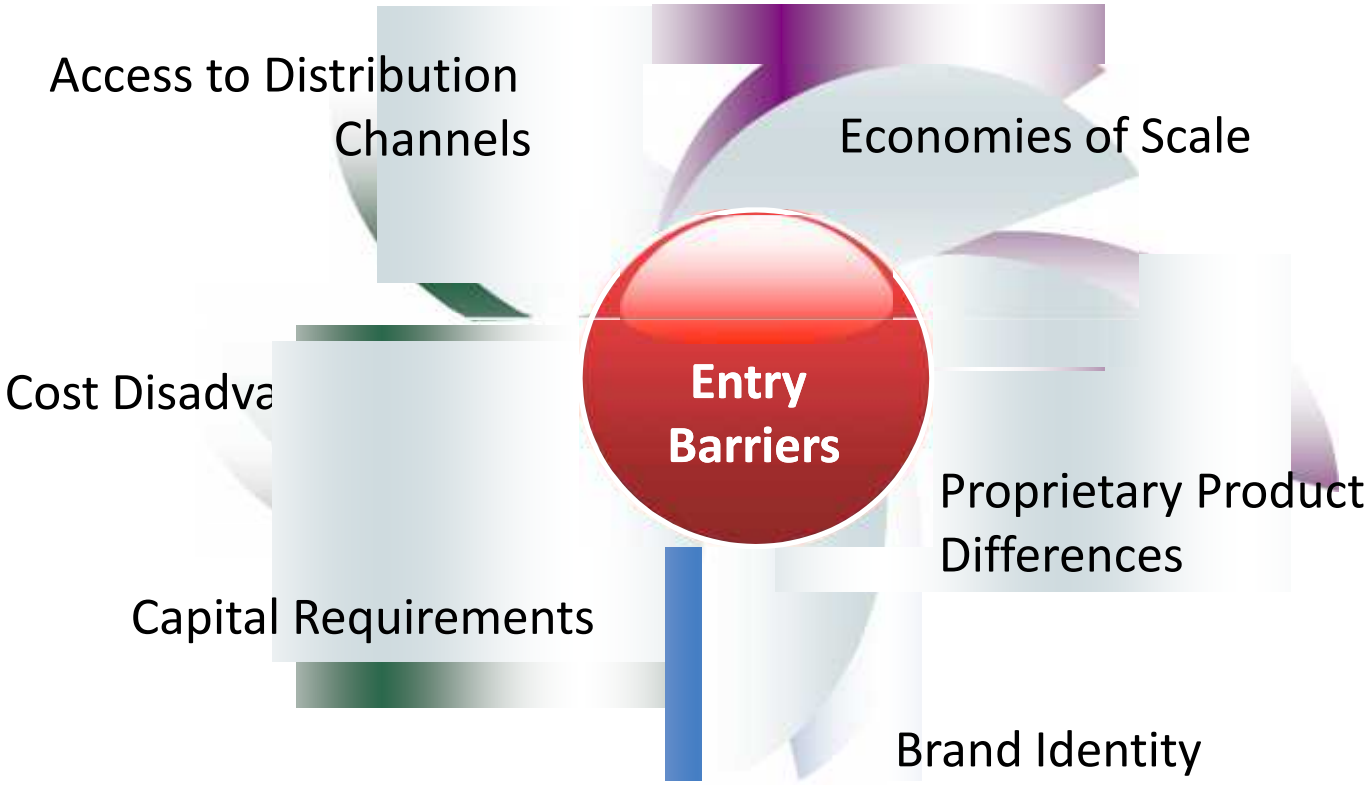
It is important to remember that no one knows what the right answer is in a case analysis. All that managers can do is to make the best guess.

In fact, it is believed that if we are right only half the time in solving strategic problems, we are pretty good.

MICHAEL PORTER'S FIVE FORCE MODEL

Porter's 5-Forces Model




Access to Distribution Channels
Economies of Scale
Cost Disadva
Entry Barriers
Proprietary Product Differences
Capital Requirements
Brand Identity

Entry barriers come in the form of economics of scale – the new entrant may have to come on a large scale or accept a cost disadvantage.

The break-even size for manufacturing units is falling. This is impacting the offerings not only in the developed economies but also in the developing economies.

In the automobile industry, the traditional breakeven volume was 2 to 3 million cars a year. Some manufacturers now claim that they can operate profitably producing less than 50,000 cars a year.

Advantages often stem from proprietary technologies, lower asset costs, effects of the learning curve etc.

Brand identification may require very high entry expenditures in the form of advertising and promotion.

Entrenched companies may have price advantages that are not available to potential competitors.

Requirement of large financial resources can also deter competition from entering the product market. New entrants bring in new capacity, the desire to gain market share and often substantial resources. Examples are industries like chemicals, power or mining.

There are cost disadvantages to the new entrant when there is an established operator who knows the market well and has good relationships with the suppliers and the buyers.

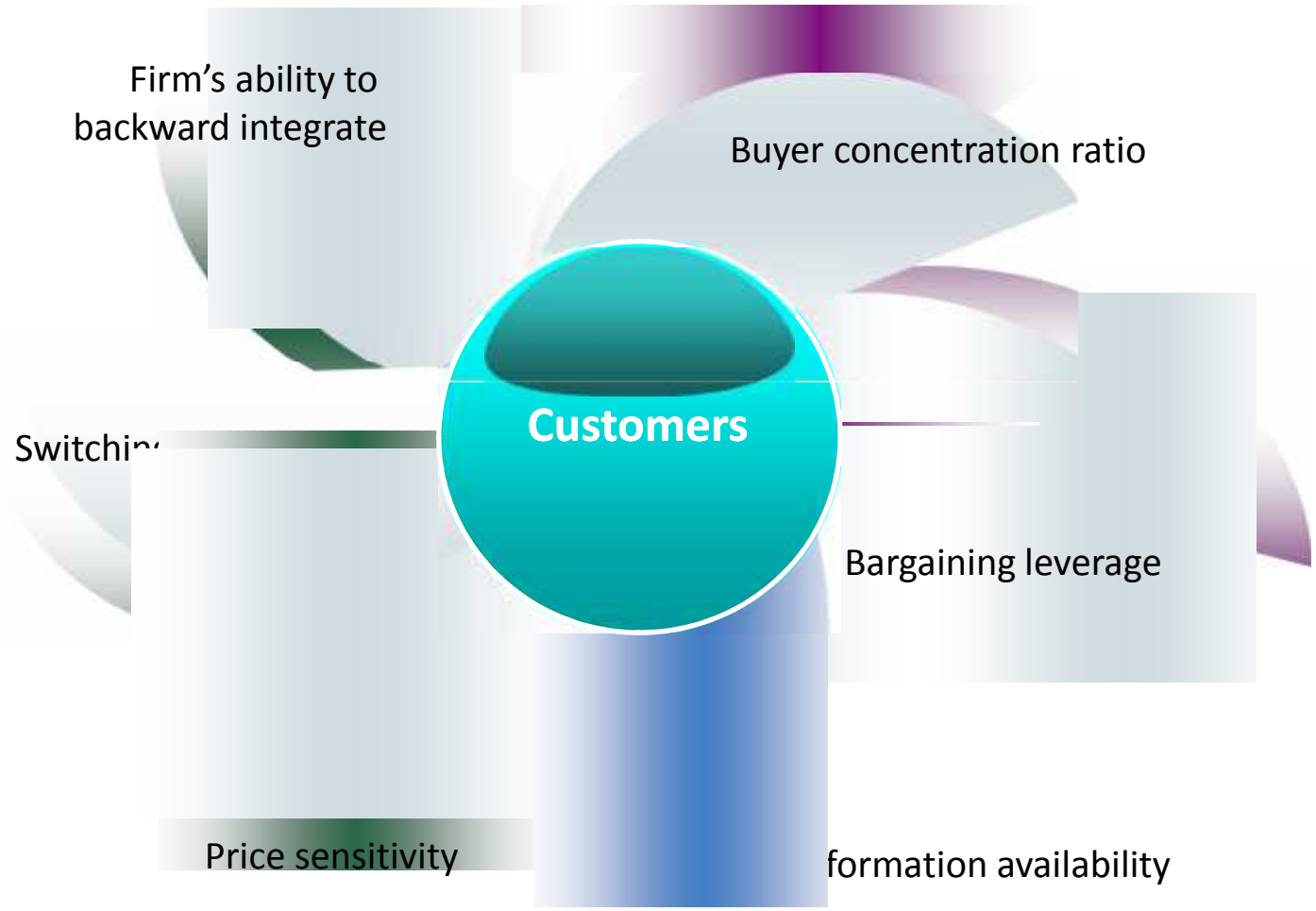
It may not be very cost effective to set-up new distribution network to compete with the entrenched players. Examples are fast moving consumer goods and white goods.

The extent to which there are high ‘entry barriers’ is an indication of strategic strength.

Markets in the developing and the less developed nations are characterized as guided economies. This is because of

- tariff barriers,
- restriction in trade practices, and
- imposing licensing regimes, limit entrants into the market.

High import tariffs give local products a degree of protection from the products of the more developed nations while governmental restrictions in terms of licensing requirements may act as entry barriers.


Firm's ability to backward integrate
Buyer concentration ratio
Customers
Switchin
Bargaining leverage
Price sensitivity
formation availability

Customers can lower the profitability of the firm by forcing down prices, playing competitors against each other, or demand better quality, service and design.

The bargaining power of the buyers is high if:

- it purchases in large quantities;
- there are lower cost substitute products available to the buyer;
- the price, quality and brand identity of the product is not critical to the purchase decision.
- there is little switching costs associated with purchase decision.

By increasing their offerings firms try to raise the switching cost of buyers.

The relationship between the manufacturer and the retailer/ distributor is changing.

Unlike the traditional relationship where the retailer was subservient to the manufacturer, now the sellers can exert enormous influence on manufacturers in terms of:

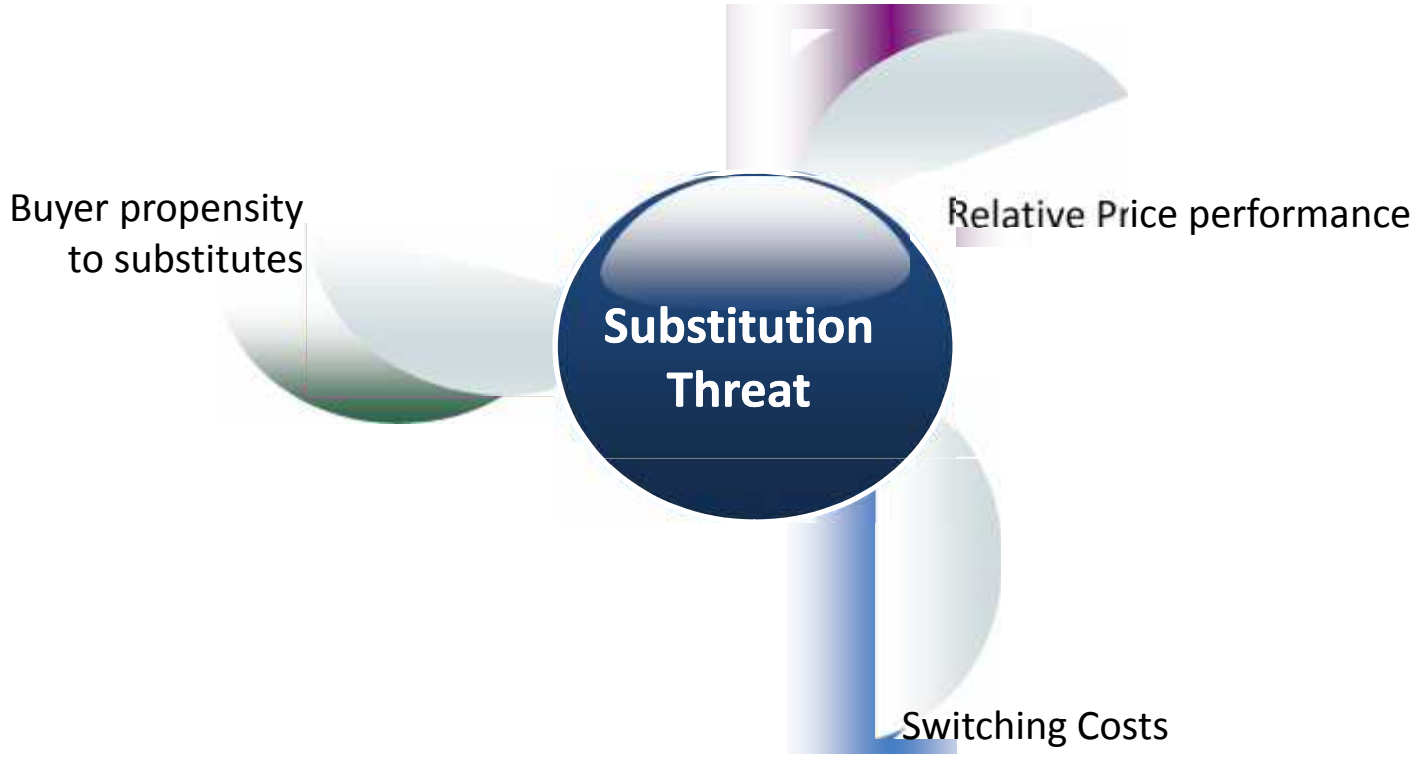
- what they should produce.
- distribution chain management where they can cut out the requirements of buffer stocks.

They are willing to go to competition, if their needs are not met.

With availability of more information, price and quality, which used to be differentiators, are no longer so. The firm is judged on:

- **Order Qualifying Factors:** Order qualifying factors are those factors that are essential to maintain your presence in the market. Price, is today, an order qualifying factor, so are quality and reliability.
- **Order winners**, by contrast, are those factors that can distinguish our offering from competition.

Understanding, what your order winners are, what the gaps between you and your competition are, and how to maintain or further this for advantage, are assurances of survival in the market.



Substitute products limit the potential of an industry by placing a ceiling on the prices it can charge. Products that have potential to improve their price performance trade-off with the firm are potential threats.

The more attractive the price performance trade-off offered by such products, the greater are the limitations of the industry to improve profitability.

For example, a new technology could simultaneously open the doors to substitutes and lower entry barriers to other players.

Equally, a firm that has a product that cannot be easily substituted, either because it is unique or because it has some form of protection (e.g. a patent), is in a strong position.

The key questions for this analysis are:

- Whether or not the substitute poses a threat to the organization's product or service or provides a higher perceived value or benefit.
- What is the ease with which buyers can switch to substitutes.
- Can the organization reduce the risk of substitution by building in switching costs?

Each product idea is copied or **improved** by competition. It is not necessarily the best product idea that becomes dominant. However, improved and new product ideas have become an integral part of the game.

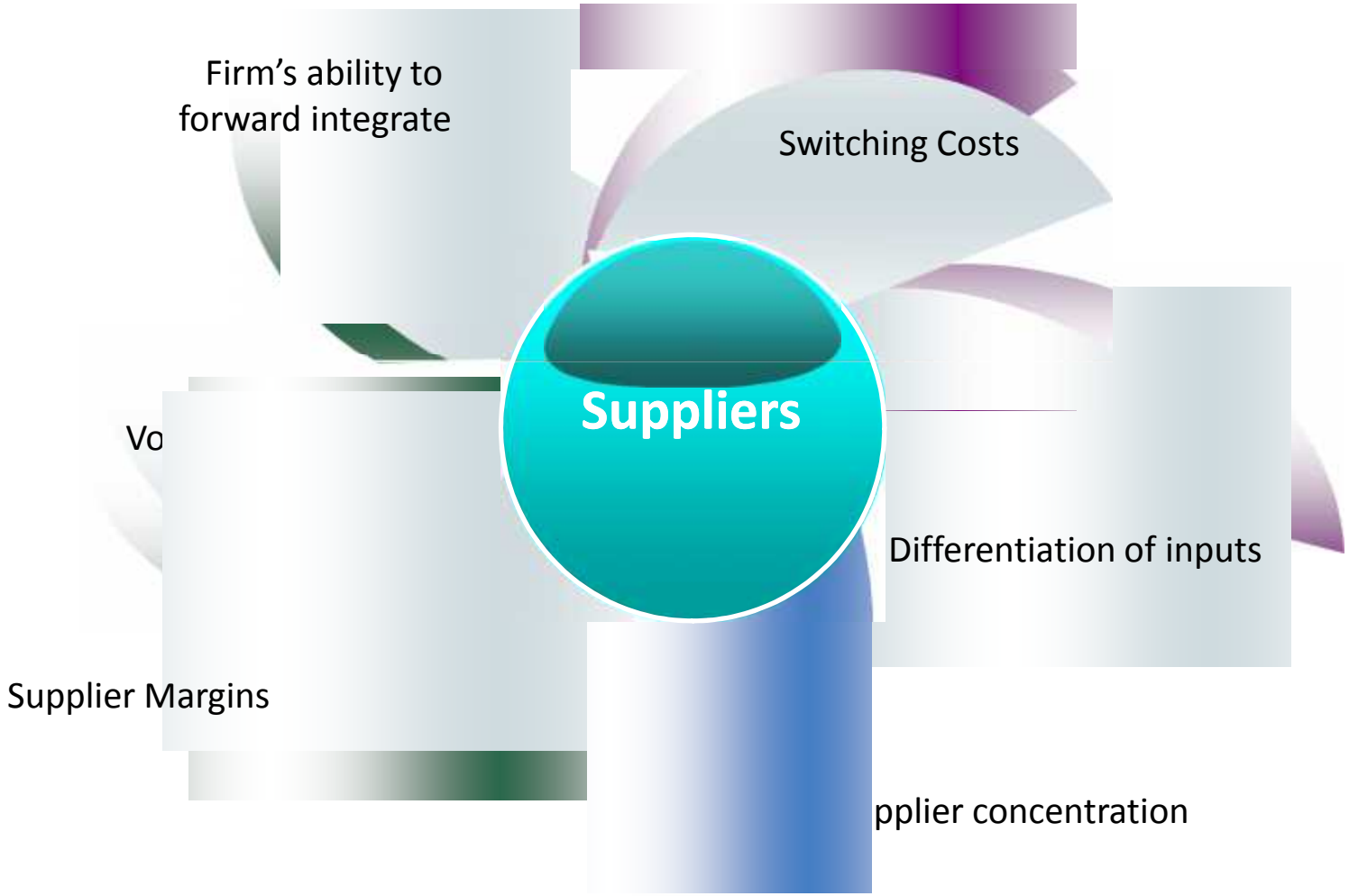
Hero Honda, at one stage found it difficult to get a foot hold in the Indian market for two-wheelers.

However, when most motorcycles were giving a fuel economy of 45-45 kilometers per liter, Hero Honda came out with a self designed motorcycle capable of giving 80 kilometers to a liter.

The idea was copied by competition. In addition, incremental innovation on products and processes pose further competition to existing products.

Using incremental innovation, all two-wheeler manufacturers are now offering products that have a fuel economy between 80-90 kilometers per litre.

To keep ahead of competition, technological life of some products has become so brief that in many cases firms make their own products obsolete to maintain competitive advantage. New models of motor vehicles is an example.


Firm's ability to forward integrate
Switching Costs
Suppliers
Vo
Differentiation of inputs
Supplier Margins
pplier concentration

Suppliers can exert bargaining power in an industry by raising prices or by changing the quality of their goods and services.

For example if a major steel producer selling to a small metal fabricator, the firm has a weak position and its ability to compete will to a large extent depend on the steel producer. If, the supplier decided to raise prices, the firm would have high switching costs and little option but to accept the raise.

In proprietary items, where inputs are differentiated suppliers can influence the strategy of buyers. There are no substitutes for these particular inputs.

The buying industry often faces a high pressure on margins from their suppliers. Powerful supplier groups can squeeze the profitability of the company or industry.

The advantage is with the supplier when:

- it is large and dominated by a few companies;
- its product is unique or differentiated;
- it does not have sufficient competition;
- it has the ability to integrate forward into the industry;
- the industry is not an important customer;
- The buying industry has low barriers to entry.
- the supplier is strong

When customers are fragmented, their bargaining power is low, and the switching costs from one supplier to another are high.

Strategies can be developed that can enhance the power of the organisation or create a situation of mutual interest.

An example in the early nineteen fifties the government floated an organisation, “Directorate General of Supplies and Disposals (DGS&D)”. This organisation consolidated the buying power of Government purchases so as to maximise the negotiating power of the Government.

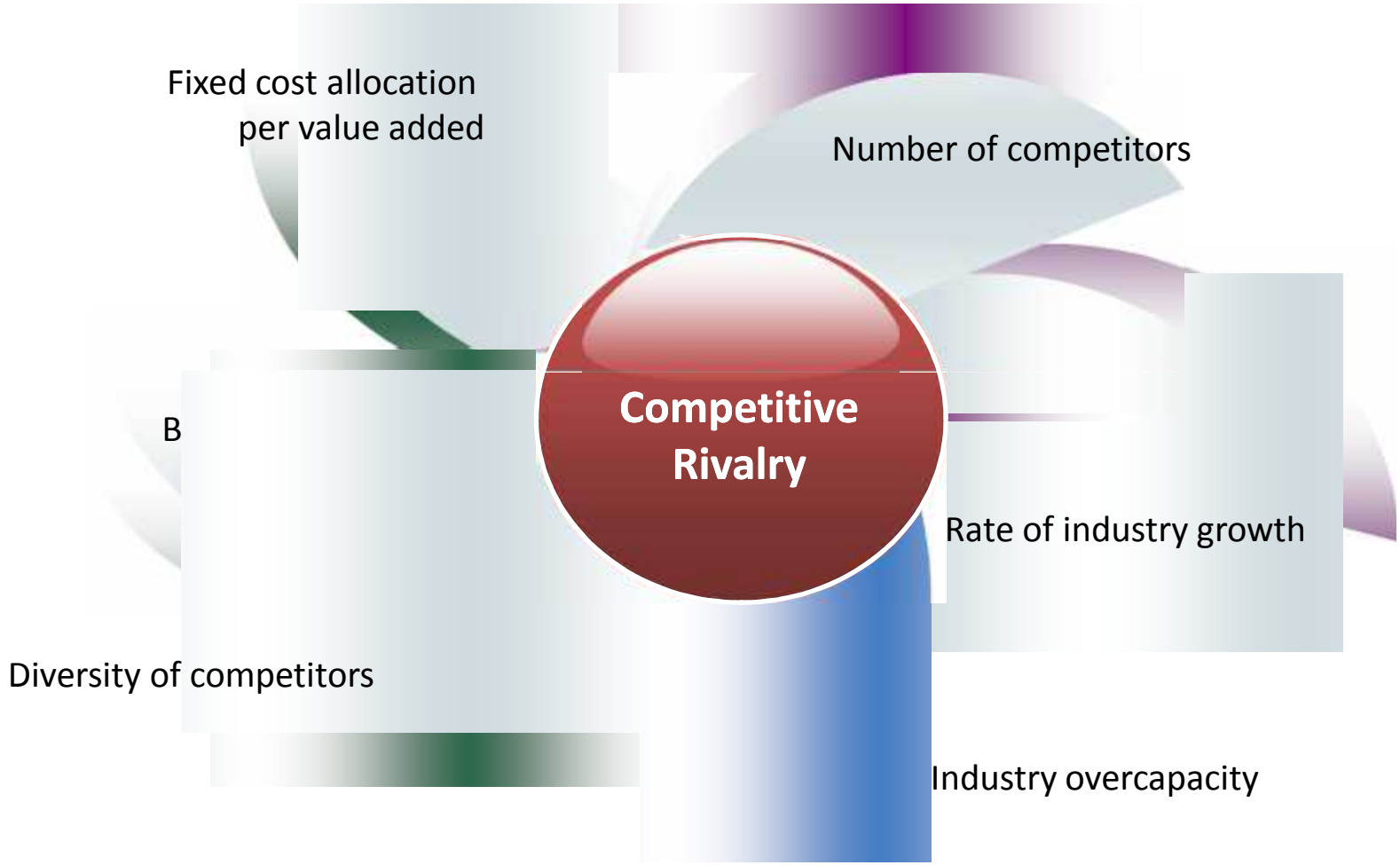
The relationship to powerful suppliers can potentially reduce strategic options for the organization, especially when suppliers have the ability to integrate forward and compete with the buyer.

This threat is especially high when the buying industry has a higher profitability than the supplying industry or the supplier believes that he can obtain higher prices.

The issue is: how do you create a mutually beneficial relationship with the suppliers?

Buyers pose a threat to the firm if they decide to integrate backwards to make the firm’s product. Depending upon the configuration of factors, the buyers can have a profound affect on the market of the product.

Here also, the organisation can develop strategies that can enhance the power of the organisation, create a situation of mutual interest or develop mutually beneficial links.


Fixed cost allocation
per value added
Number of competitors
Competitive
Rivalry
B
Rate of industry growth
Diversity of competitors
Industry overcapacity

There is competitive rivalry between firms on a continuing basis. The various players try to constantly jockey for position and try new product and process innovations in order to develop a strategic edge and hence a stronger position in the competitive space.

Intense rivalry is related to a number of factors:

- competitors are large in number and of comparable sizes;
- industry growth is slow;
- the product or service has low switching costs;
- fixed costs are high;
- the product is perishable

As the competition grows, firms require to provide more variety of products. As a result of this, there are offerings of various consumer products, more than ever before.

It has become a common practice for the same company to offer different products for different market segments.

For example, between 1998-99 Hindustan Lever introduced 64 product innovations. Forty four of these were new launches and twenty were re-launches. 50 percent of its growth during this period came from these launches.

To overcome competition, many firms offerings reflects a shift towards a range of **non-price factors**.

Companies have begun to offer:

- better designs,
- greater reliability,
- better levels of service,
- better quality products,
- better delivery and support, and
- greater specificity in what they buy.

Customers are also demanding competitive prices and a whole set of non-price factors. For example, the Indian automobile market now has over 30 models and a number of model changes every year.

Maruti retains its premier position in the market by innovative offerings e.g. customization for its basic car model, the Maruti 800. This includes:

- Basic face lifting to a completely color coordinated version.
- The customer has been offered a choice of color combinations, material and functionality add-ons.

The facility is available on new purchases. It is also available for in-use cars so that the company retains the goodwill of its existing customers.

Maruti took this decision even before consumers demanded it.

In addition to the factors identified earlier, the intensity of rivalry in the competitive environment in strategic terms, becomes most competitive when:

- Entry barriers are not effective,
- Substitutes threaten,
- Buyer and suppliers exercise control,
- There are many players of about the same size,
- Players have similar strategies,
- There is not much differentiation between players and their products, hence, there is much price competition,
- Low market growth rates (growth of a particular company is possible only at the expense of a competitor).

All firms require a large amount of information on competition and customers, but also on suppliers and buyers, to be effectively used.

A key aspect of the information perspective is the idea of environmental uncertainty, which is the amount of change and complexity in a company's environment.

The nature, type and the details of the information required will depend on the analysis technique that is to be used as well as the required depth of analysis by our organization. It is necessary to make sense of the diversity of information in a way that will contribute to the strategic decision making. Competitive advantage flows from the organization's abilities to create a framework:

- to enhance the organization's knowledge of market forces;
- their complex influences, and
- to reduce the uncertainty that characterizes the market.

The difficult part is to design and use information flows so that it can be used to analyze the changes taking place and will facilitate to reshape work methods and management processes.

Some sources of information include:

- ***Advertising:*** Not only does advertising copy tell us a competitor's price and other product information, it provides an indication of our competitor's entire promotional program and budget. It's also important to notice the design and tone of our competitor's advertisements.
    - What kind of image do they convey?
    - How does our own image compare?
- ***Sales Brochures:*** Sales brochures provide a wealth of product information. We can learn how our competitor is positioning their product and company and what features and benefits they're using to sell their product.
- ***Newspaper and Magazine Articles:*** Articles in newspapers and magazines are a source of information we can use to get an idea of what our competitor is planning for the future, how their organization is run, and what new product information or innovations they have. Be on the lookout for product reviews in magazines; they will reveal a competing product's strengths and weaknesses.
- ***Commercial data sources:*** These include
    - International directories e.g. Dun & Bradstreet Database
    - Competitive data and Analysis from the Chambers of Commerce.
    - Indian Databases provided by CRISIL, India Infoline etc
    - Data from Centre for Monitoring Indian Economy
    - ICICI Portfolio Studies

•***Reference Books and Publications:*** The publications listed in this section are available at most public libraries that have business resources. Such sources include:

- Census Bureau sources of statistics on our business,
- State agency publications such as industry directories, and statistics on local industry employment, production, and equipment
- United Nations, Statistical Year Book
- Current 5 Year Plan, Planning Commission, Government of India
- Guidelines to Industry, Ministry of Industries, Government of India
- RBI Annual Companies Report

•Financial Analysis of companies is published by a number of organizations including financial institutions like ICICI, IDBI etc.

- BSE Official Directory
- Clipping Services
- Security Analysts & RBI Bulletins
- Analyst's Reports
- Patent Records
- Court Records

Online versions of these products not only make their pertinent statistics easy to find. They often permit downloading data so you can combine it with other data to produce your own statistics.

- ***Annual Reports:*** If our competitor is a publicly-held or a privately held company, many of its reports are available with the Registrar of Companies.
- ***Your Sales Force:*** Our sales staff probably has more access to competitive information than anyone else in our organization. Customers often show salespeople sales literature, contracts, price quotes, and other information from competitors.
- ***Other Employees:*** Our employees working in other areas of the company also become exposed to competitive information. They interact with others in their industry area and often learn what your rival is doing or hear gossip and rumors.
- ***Trade Associations:*** Most professional trade associations compile and publish industry statistics and report on industry news and leaders through trade association magazines and newsletters.
- ***Your Competitors:*** We can garner a great deal of information through a simple, friendly conversation. People like to talk about themselves and share their success stories and concerns with business associates.
- ***Your Business Network:*** Make it a point to interview the customers, suppliers, bankers, government employees, and industry experts about your competition's product and service.

Compiling of Data: Compiling data requires an organized mechanism. Many large companies have a Marketing Services Department, a Corporate Planning Department or a similar set-up, that can be used to ensure that the process is efficient.

The details of information gathering and analysis will vary depending on the firm's need, the sophistication of the analysis, the industry as well as the capability of the firm.

Analysis of Data:

One way of using the data is shown in the figure.

However, first the data that has been collected should be ranked according to the reliability of the source.

It has to be compiled into a form that can be used by management.

Probability of Occurrence	Probable Impact on Corporation: High	Medium	Low
High	High Priority	High Priority	Medium Priority
Medium	High Priority	Medium Priority	Low Priority
Low	Medium Priority	Low Priority	Low Priority

You can also catalog the data based on competitors, and creating abstracts.

It could also include:

- periodic comparative financial analysis of key competitors,
- relative product line analysis,
- estimations of competitor's cost curves and relative costs, and
- pro-forma financial statements on competitors under different scenarios about the economy, prices, and competitive conditions.

Gathering data is a useless effort unless it is used to formulate strategy, and concise and creative ways must be devised to put the data in a form that is usable by top management.

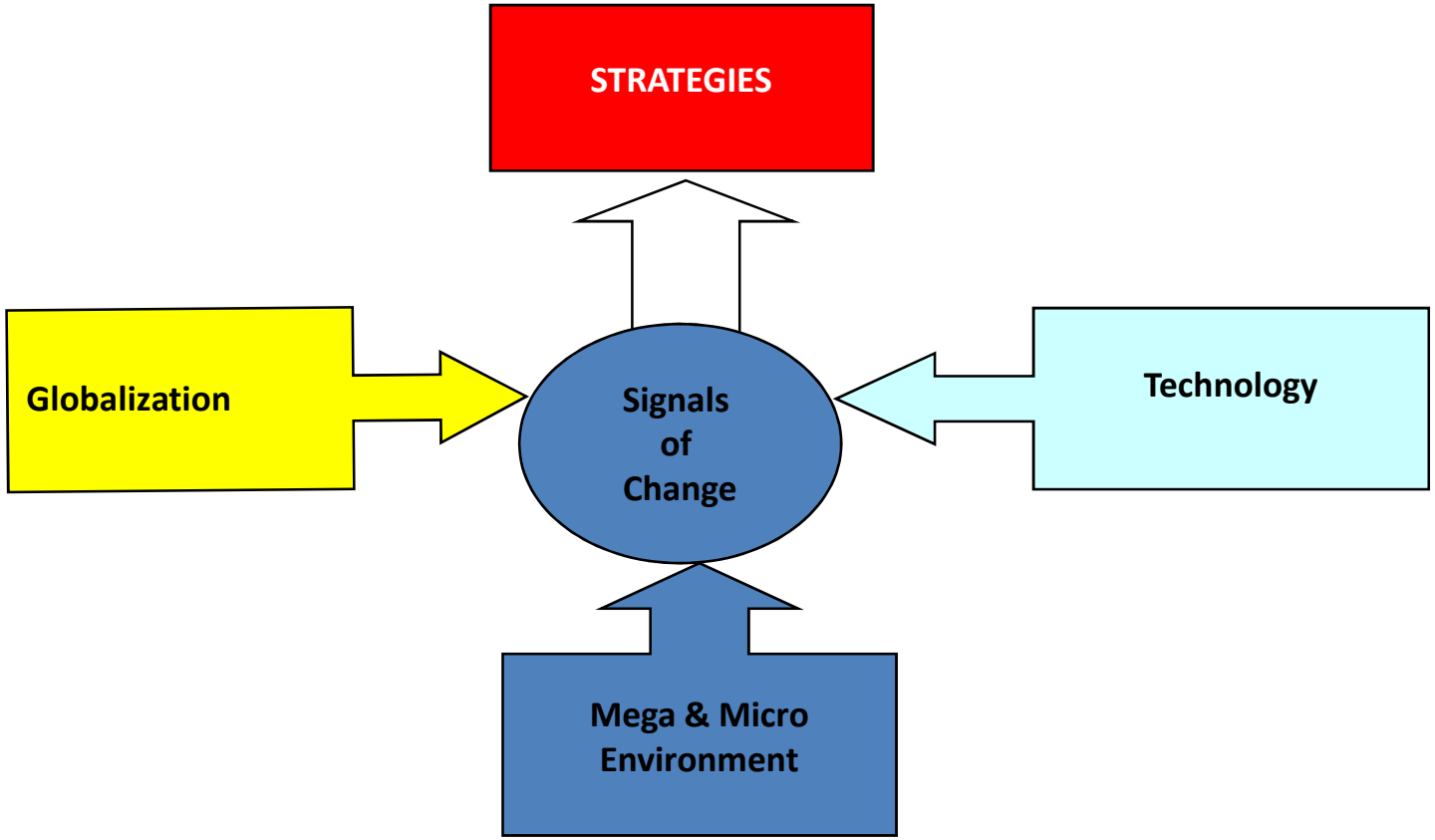
The world economy impacts the economic conditions in every country through international trade, global production, and international finance.

Modern business depends on distant capital markets, distant consumer markets, distant systems of law enforcement and education using technology.

Technological innovation and trade liberalization have contributed to globalization by supplying infrastructure for trans-world connections making a world that is more interdependent and interconnected.

Globalization and technology are important elements in the forces of change that firms have to face up to.

The figure attempts to provide the framework to identify and processes of change.



Globalization and Trade Liberalization

To build enduring and valuable relationships between nations, the General Agreement on Tariffs and Trade (GATT) was established. The aim was negotiating multilateral trade agreements aimed at furthering world trade by the abolition of quotas and the reduction of tariff duties among the nations of the world.

Through various negotiating rounds, a number of agreements have succeeded building confidence and determining the ground rules of operating internationally.

In 1994, GATT was succeeded by a new, powerful international body, the World Trade Organization (WTO). WTO has more than 140 members.

WTO's most important contribution has been in facilitating the transformation of international trade from bilateral trade to multilateral trade.

For example, the clothing industry has been restructured in recent decades so that one process is carried out in one country, the next in a second, and the whole garment is finished in a third.

Expansion of Regional Trade

Trade liberalization has seen the expansion in regional trade:

- European Union (EU) is growing and has a common currency, the Euro.
- Economic co-operation treaties have created the North American Free Trade Agreement (NAFTA), in the North American continent,
- In Asia, the Asia-Pacific Economic Cooperation (ASEAN) in South-east Asia has been established.

These trade agreements have been so successful that other countries are also looking at regional associations to strengthen economic cooperation.

Specialization of Production

An elementary feature of world trade, now, is that countries specialize in the production of different goods and services, exporting those in which they specialize and importing other countries' specialties.

Countries with a large labor force and a low stock of capital - like many Third World countries - specialize in producing labor-intensive products, while countries with a small labor force relative to its stock of capital - such as the United States - specialize in capital-intensive products.

Trade liberalization has resulted in a rapid and huge growth of imports for low cost manufactured items from the developing and less developed countries. This has benefited these nations and resulted in changes in the trade patterns.

For example, exports from the Asia-Pacific region that accounted for over 13 per cent of world trade in 1992, was almost double their share since 1980.

Despite trade liberalization, governments try to protect their local industry. Governments often helps local firms by preferential procurement, imposing limits on imported content, import duties or providing local industry with tax benefits and incentives.

Local Competition

International trade organizations cannot compete when the national markets demand different product varieties. Local markets generally demand many product varieties where international organizations can not easily compete. They often find that economies of scale do not compensate for the transportation and distribution costs of the product.

In many such products, local firms often have advantages in transportation costs and distribution channels, providing a competitive edge against international products.

Globalization can have impact on local industries also. Changing prices of inputs one product in one part of the world can have an impact on other products and competition in other parts of the world.

An example is Jute, used as a common packaging material. The growth of the plastics industry saw synthetic fibers replacing natural fibers in the packaging industry. Jute bags were slowly replaced, strangulating the industry.

In 1973 OPEC hiked the prices of crude. This made synthetic substitutes more expensive, and provided relief to the Jute industry, reviving the industry in India.

The Multinational Corporation:

Multinational corporations are a characteristic form of enterprise in the modern global economy. Since they manufacture on a global scale, sell worldwide, and invest and raise finance internationally, their real home can be said to be the world economy.

There has been proliferation of multinational corporations throughout the world. Now many developing nations have their own multinational corporations.

In India companies like Infosys, Tata Consultancy Services, Ranbaxy, Sundaram Fastners etc. have established themselves as players in the global market.

Globalization is an opportunity for organizations to expand their markets. Global markets offer prospects of :

- increased profits through higher sales volumes,
- enhanced profits due to economies of scale.

Globalization is also a learning opportunity where organizations learn how to improve their overall competitiveness, providing an opportunity to move up the value curve.

As organizations move up on this curve, they benefit from a significant increase in the profit generation potential.

The different forms of international organizations are described below:

Multidomestic ⟷ **Global**

Industry in which companies tailor their products to the specific needs of consumers in a particular country.

- Retailing
- Insurance
- Banking

Industry in which companies manufacture and sell the same products, with only minor adjustments made for individual countries around the world.

Automobiles

- Tires
- Television sets

In practice very few companies fall neatly into these basic categories. They have to develop their own specific ways to balance their approach. Industry primarily multidomestic or primarily global based on:

- Pressure for coordination within the multinational in that industry
- Pressure for local responsiveness to individual country markets

The challenge is identify what can be standardized globally and what needs to be tailored to local conditions.

For example, HLL has adapted its products and services to the local conditions of rural Indian markets.

New Forms of Organizations

New forms of organization with novel management structures, where coordination of activities over large distances is by means of telecommunications, teleworking, and other forms of distance working, are a part of this change.

These technologies have the potential to change the form of existing businesses – and create 'virtual' organizations, with manufacturing and business processing activities that move to locations that will provide maximum strategic advantage to the firm.

Worldwide Sourcing

The lowering of trade barriers has resulted in the expansion of multinational corporations. Many of these corporations have taken the opportunity of trade liberalization and carried out investments to own and operate industrial plants and other facilities in more than one country, where costs are lowest and earnings are greatest.

They have created a new production system of "worldwide sourcing", a foundation of the new world economy. Multinationals integrate their supply chains to manufacture components as subdivisions of a globally organized production process.

Outsourcing

Outsourcing is defined as the management and/or day-to-day execution of an entire business function by a third party service provider. Business segments typically outsourced include information technology, human resources, facilities and real estate management, and accounting.

Many companies also outsource customer support and call center functions. Outsourcing business is characterized by expertise not inherent to the core of the client organization.

The basis is to reduce overhead costs, by outsourcing to countries with lower labor costs. India has been a beneficiary.

There are challenges ahead:

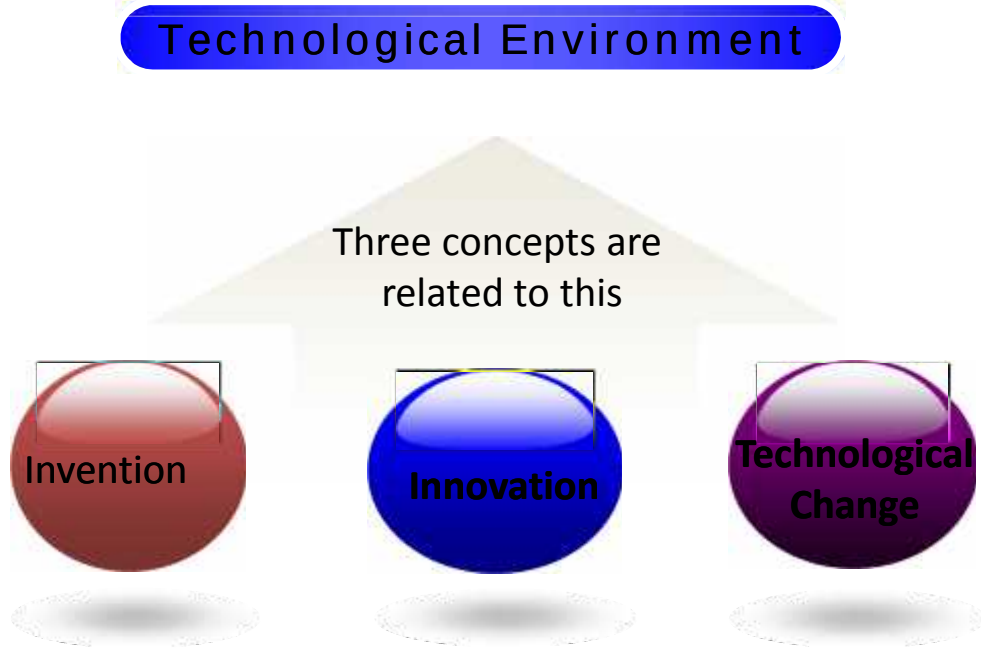
- How can individual companies and industries manage the effects of free trade, which will lower entry barriers for new, lower-cost competitors?
- How might companies position themselves to take advantage of emerging, free-market economies?

These are questions that should concern the managements of most of the companies in India today.

The 1950's and 60's was known as the age of efficiency, the 70's and 80's was the age of quality, and the 1980's and 90's was the age of flexibility. Now we are in the age of innovation. Modern society lives by innovation.

For the past hundred years the business firm has been the key institution for the economic and social development of societies.

For the next hundred years, it is predicted that the key institutions involved with development, will be the institutions that provide the sources of innovation and knowledge.



Invention

An invention is the practical and material embodiment of a concept or idea. It produces an artifact form that is judged to be significantly original by the relevant community.

Innovation

A sequence of activities by which knowledge is translated into a physical reality and becomes used on a scale having substantial societal impact.

Technological Change

An innovation is combined into hardware modules and systems to become subject to governing systems – rules, laws and implementing institutions – a set of soft artifacts. This combination of knowledge and systems constitutes 'technological change'.

The distinction between ‘invention’ and ‘innovation’ is an important one. ‘Innovation’ starts where ‘invention’ stops.

Innovation includes more than the act of invention;

- it includes initiation of the idea,
- acquisition of necessary knowledge,
- its transformation into usable hardware or procedure,
- its introduction into society, and
- its diffusion and adoption.

Commercial exploitation of a concept or invention is an innovation.

Innovation and technology are the drivers for technological change.

Innovations differ significantly in the degree of technological change and its relationships with other parts of technology. Based on this, there are three general types of innovation:

- Radical Innovations
- Systems Innovations
- Incremental Innovations

Radical Innovations

Radical innovations can lead either to a new product class life cycle or a technological discontinuity in an existing life cycle.

For example, Xerography, invented by Carlson, was a radical innovation. Other examples were the electronic vacuum tube and the transistor, which revolutionized the electronics industry.

The invention of the automobile is viewed as a new life cycle. It was a radical innovation. It created a new product class. It was not a continuation of the then existing 'personal transportation' market, which market included bicycles, buggies etc.

System Innovations

System innovations create a new functionality by assembling parts in new ways. This is also called, "evolutionary innovation".

For example, the vacuum tube was first used in long distance telephony. It was improved to become a part of radio communications, television communication systems, and computer systems.

Gottlieb Daimler manufactured the first gasoline powered automobile in 1887. The model T, introduced in 1908, was a systems innovation. It contained innovations and inventions that were incorporated in many cars before it.

Incremental Innovations

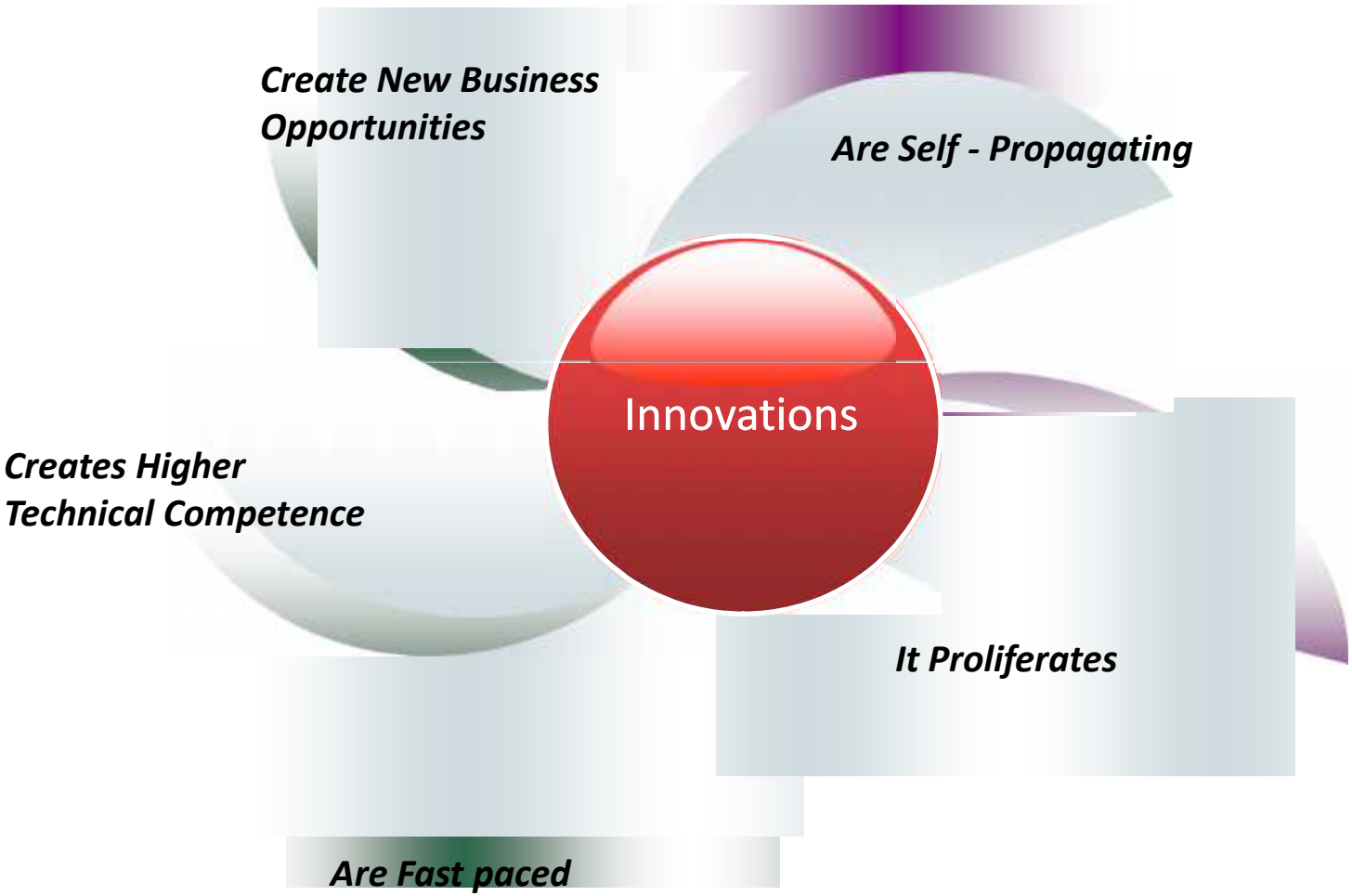
Often described as re-innovation, these continue to extend the applications of radical and systems innovations.

After each new radical or system innovation, there are many, many technological improvements, many new applications, and many new infrastructure developments to improve the original innovations. Technology evolves through a series of incremental changes.

For example, the invention of the vacuum tube required the improved means of creating vacuums before it became a practical and reliable component.

The early tube contained 3 components, a cathode, a plate and a grid. Subsequent developments added up to 6 grids to the vacuum tube.

These re-innovations were incremental in nature, but added to the volume, range, and fidelity of amplification and allowed the tubes to be used in electronic functions, other than telephony for which it had been designed.


Create New Business Opportunities
Are Self - Propagating
Innovations
Creates Higher Technical Competence
It Proliferates
Are Fast paced

Innovations are Self - Propagating

Innovations give rise to other innovations, creating the nucleus for the growth of many new industries that combine technologies and provide synergy to the original innovation and create a new emerging industry.

For example, information technology, based on the synergy created by other innovations such as optical discs and fiber optics, has emerged with the potential to improve any activity that involves storing or retrieving, processing, or communicating information to either man or machine.

This synergy of innovations has created a new business process outsourcing industry.

Innovations Proliferate

And, sometimes the new innovation is not necessarily related to the original innovation.

The computer made possible a sophisticated space effort, created the Internet, made possible computer aided design, computer aided manufacturing, etc.

The consumer durable industry has been transformed by the microprocessor industry. It has also changed the way consumers use many of their products. Mobile phones, automobiles, televisions, etc. are being fitted with special-purpose processors, controllers, and digital signal processors; either included or embedded in these devices.

Each new innovation permits the use existing knowledge in new permutations and combinations.

As the number of innovations increases arithmetically, the number of combinations rises exponentially.

This also results in new models, new designs, better packaging, or improved service.

This is threatening the fortitude of some companies that are not willing or hesitate to change with changes in the consumer's and market expectations.

Meeting this type of challenge requires new approaches to planning.

Sometimes, the challenge of change is of survival itself.

Are Fast Paced

Even large firms cannot keep abreast of all developments in their fields of interest as a result of the exponential growth of knowledge.

The knowledge that they miss sometimes can be expensive. More so because the basic characteristic of knowledge is that it cannot be confined. So in case, they miss a development, others will come forward to take it up.

IBM, a giant firm that laid the foundations of the Information Technology industry, did not keep abreast with developments in networking technologies. Others picked it up and IBM nearly lost the business in the process.

Creates Higher Technical Competence

In 1920 the period between introduction and peak production of the products was 34 years. For the products introduced between 1939 and1959, to reach the peak production it took only 8 years.

This process of reduction in the technological life cycles of products has become more acute. With firms having to introduce products at shorter intervals, the firm requires higher levels of 'technological competence' and the ability to introduce increased number of new products.

This has transformed the way some businesses operate and created a new form of competition based on technological and innovative capabilities.

Creates New Business Opportunities

Innovation is the basis for creation of new business opportunities. It creates new products and services – hence new business opportunities.

It also contributes to the competitive edge of the firm, because a firm with inferior technology cannot compete at the same price level with a firm superior in technology.

Armed with ever more sophisticated research technologies, more creative work environments, and a continuing drive to harness nature everywhere, innovations have become more rampant. There is a quantum jump both in their qualitative and quantitative measures.

There are different types of technological changes. Each has its own impact on the organization.

- changes that are internally generated and involve innovations in process, systems and operations.
- technological changes come from outside.

Internally generated innovations can often be anticipated and even planned.

Some external technological changes can be predicted and some are unexpected.

Technological changes are two-edged weapons, as they can provide opportunities for sustained growth and profitability but they also can be threats to the survival of the firm.

Some technologies are not restricted to a single industry. Such innovations, e.g. information technology, communications technology and biotechnology etc., have changed the complexion of many industries.

These generic innovations are invading areas of business operations in directions that had not been predicted and are impacting the way business is being carried out.

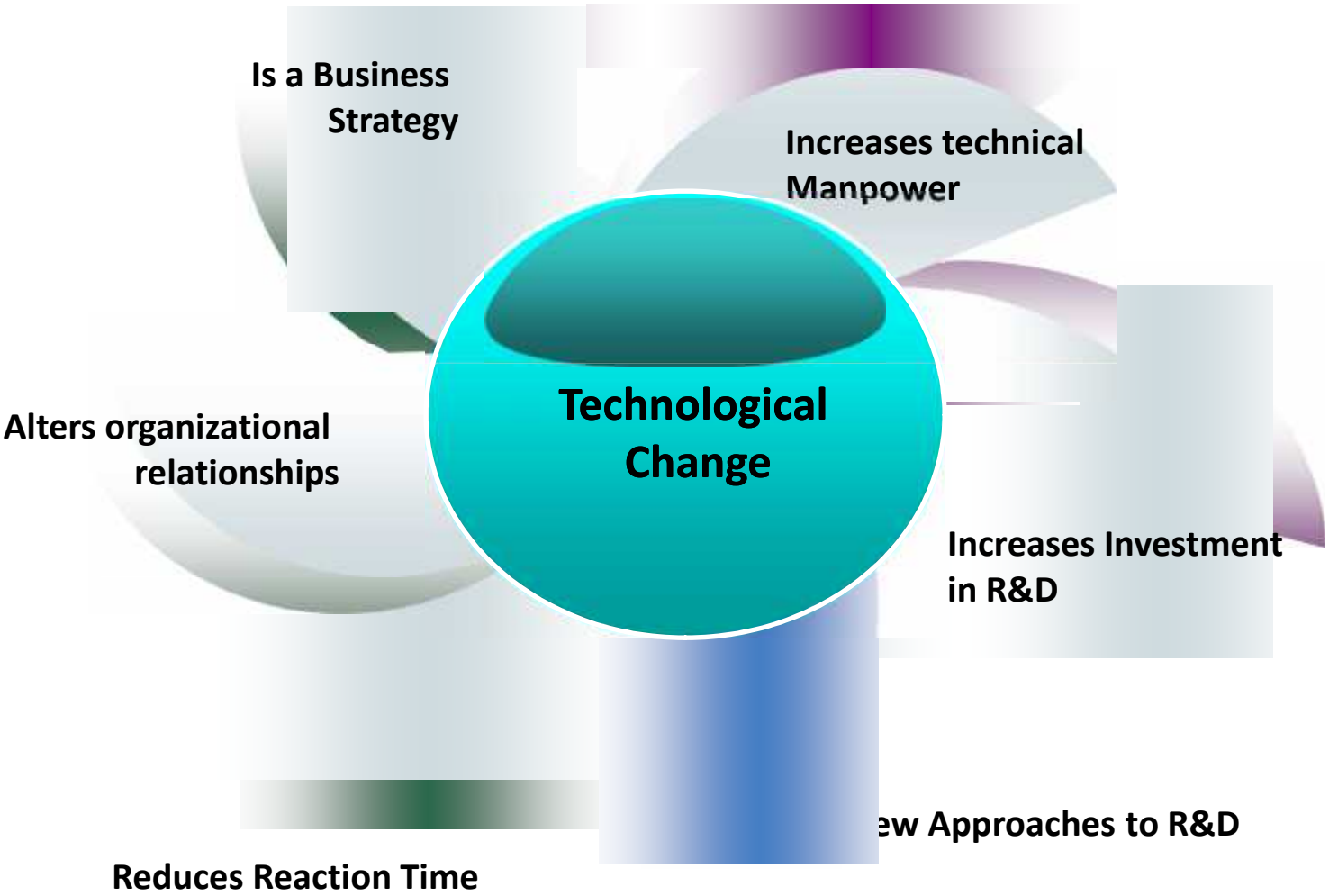
They have applications across the board. No industry can afford to ignore these technologies.

The telephone is a disruptive technology that has changed the way marketing is carried out – direct selling through the telephone. Introduced by the insurance business in the U.K., it resulted in the total restructuring of the insurance industry.

Another example is the World Wide Web. If we think today's Web is transforming the way business is done, imagine the kind of impact tomorrow's Web will have.

Advanced Internet software will hammer out contracts, find suppliers etc. and accomplish all of this in a matter of minutes. One will be able to collaborate and communicate seamlessly, using speech, handwriting and simple gestures, no matter where one is or what device one is using.

Dominant Firm	Product	Disruptive Technology	Winning Challengers
GM and Ford	Small cars	Japanese quality & manufacturing expertise	Toyota and Honda
Gillette	Razor blades	Stainless steel technology	Wilkensen
Parker	Fountain pens	Ball point pen technology	Bic
Swiss watchmakers	Time pieces	Lever-action watch technology	Timex
Timex	Watches	Electronic technology	Casio, etc.


Is a Business Strategy
Increases technical Manpower
Technological Change
Alters organizational relationships
Increases Investment in R&D
ew Approaches to R&D
Reduces Reaction Time

Increases Requirements of Technical Manpower

Industries like chemicals, pharmaceuticals, aeronautical, space, etc. have been created by developments in pure science and depend largely on theoretical research.

Estimates for the USA suggest that in 1990 over one million scientists and engineers were at work on projects, with a total value of $ 100 billion.

This requirement has been growing since. As the growth of knowledge is exponential, many nations will soon run out of their ability to produce and train manpower in sufficient quantities to meet with future requirements.

Increases Investment in R&D

Another consequence is the increasing investment in Research & Development. Competitors are using R&D to develop technologies that compete with each other.

For example, Matsushita and NEC, are promoting an analogue system, the HI-vision system in high definition television while various US companies are testing digital systems. Depending on which system will prevail, the winners will take the loot, while the losers will be left with nothing.

Such developments have raised the investment and stakes of R&D. Even the largest firms are finding it difficult to keep up with developments, as R&D is becoming competitive.

New Approaches to R&D

This has brought in new approaches towards R&D.

Co-operation between former competitors has emerged as a new concept changing the face of commercial competition.

There is a growing trend towards shared approaches to development of technology and a shift towards coping to learn how to effectively ensure absorption of technologies developed outside the firm.

Reduces Reaction Time

Technology is undergoing change so fast that by the time the company realizes that its technology strategy is obsolete, it may have weakened its customer base.

Fierce competition, emanating from technological change, has drastically reduced the reaction time for countering competitor action. Therefore, many organizations are creating new products for the markets in order to spread their risks.

With the time lag between an invention and a product shortening, many new products have just been invented.

According to one estimate, 80 percent of new products that we will be buying in ten year's time have yet to be invented.

Alters organizational relationships

Technological Change can alter relationships to customer bases, channels of distribution, customer applications, and customer knowledge etc. – either reinforcing existing patterns or radically altering them.

The development of fast and efficient photocopying machines has benefited business and government tremendously. It has created a new industry and also sounded the death knell for the carbon copy industry.

Other examples of similar radical innovations are the electronic vacuum tube, the transistor, the incandescent lamp, and microprocessors, each of which fostered new industries.

Is a Business Strategy

Technological change can also be a business strategy. Some companies are using convergent change i.e. introduction of incremental innovations in their products, as a strategy for business growth.

The corporate objectives of 3M specify that 30 percent of its turnover must come annually from new products.

Gillette introduces at least 10 new products every year.

Netscape introduces a new product every six months; and

British Airways refreshes its service classes every five years.

Change, for these companies, has become a way of staying ahead of their competitors.