

Strategy Formulation



Contents

- **Strategy & Types**
- **Strategy Formulation**
- **Porters five force model**
- **Functions and Attributes of Strategy**
- **How to formulate a strategy**
- **Business Intelligence**
- **Smart Goals**

Contents



Strategy is a plan of action to achieve the organizational goal efficiently and effectively .

Contents

Corporate Strategy



“What business are we in?”

- Acquisition of new business
- Addition of business unit, plants or product lines
- Joint venture with another company in new areas

Business Unit Strategy



“How do we compete?”

- New product development
- Advertisement
- Equipment and facilities
- Research and development

Contents

- **Development of firm's goal and a specific strategic plan**
- **Analysing external environment and internal problems**
- **Integrating the results into goals and strategy**



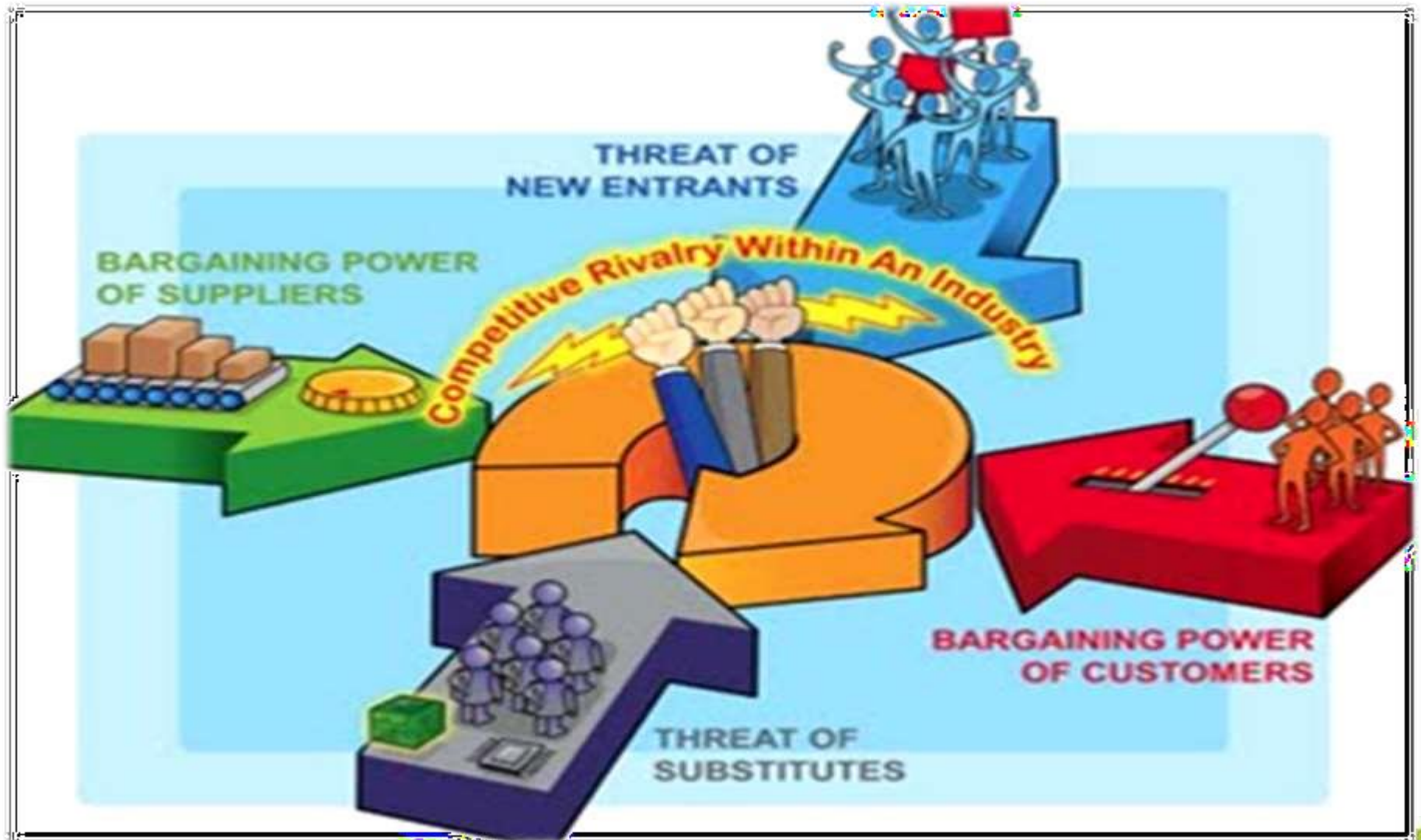
Contents

It refers to how a company competes in a particular business which requires

- **Selection of an attractive environment or market**
- **Leveraging all available resources to create maximum competitive advantage**



Porter's Five Competitive Forces



Porter's Five Competitive Forces

Threat of new Entrants



- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels
- Government Policy

Example: Coca Cola



- Low threat in soft drink industry
- High Capital requirement
- High fixed costs
- Heavy advertising
- Strong brand name
- Loyal customers

Porter's Five Competitive Forces

Bargaining power of buyers



- Buying volume
- Buyers Profit
- Differentiation
- Buyers information
- Number of customers

Example: Coca Cola



- Moderate threat in soft drink industry
- Buyers: large grocers, convenience stores, super markets, restaurants
- Buy large volumes, bargain a lower price

Porter's Five Competitive Forces

Threat of substitute product



- Substitute performance
- Switching cost
- Buyer willingness

Example: Coca Cola



- Strong threat in soft drink industry
- Many substitutes appear (sports drink, energy drink, coffee etc.)
- Trend to healthier drink
- New innovation product

Porter's Five Competitive Forces

Bargaining power of Suppliers



- Number of suppliers
- Switching cost
- Unique service/product
- Cost related to purchase
- Industry dominated by few

Example: Coca Cola



- Low threat in soft drink industry
- Better control distribution
- Quicker to market with products
- Integrated Coca Cola Enterprises in earlier 2010 for bottling

Porter's Five Competitive Forces

Rivalry among existing firms



- Number of competitors
- Brand identity
- Market share
- Switching cost
- Exit barriers

Example: Coca Cola



- Strong threat in soft drink industry
- Competitive pressure from rival sellers, example : Pepsi
- High sales in Global market
- Owns the four among top five drinks in the industry : Coca Cola, Fanta, Sprite, Diet coke

Therefore...

Management

should define a strategy

for outstanding
performance in long
run.



Top 10 most profitable industries in America 2008

RETURN ON REVENUES	RETURN ON ASSETS	RETURN ON SHAREHOLDERS' EQUITY
Industry Rank	Industry	2008 Profits as % of Revenues
1	Network and Other Communications Equipment	20.4
2	Internet Services and Retailing	19.4
3	Pharmaceuticals	19.3
4	Medical Products and Equipment	16.3
5	Railroads	12.6
6	Financial Data Services	11.7
7	Mining, Crude-Oil production	11.5
8	Securities	10.7
9	Oil and Gas Equipment, Services	10.2
10	Scientific, Photographic, and Control Equipment	9.9

<http://money.cnn.com/magazines/fortune/fortune500/2009/performers/industries/profits/index.html>

Factors for Future Profitability

Not only the tangible Resources



Financial statements and key performance indicators like revenue, profit etc because they reflect only past performance

But the intangible Assets











Employees knowledge and experience, Customer satisfaction, brand value because they lead to new product and the associated benefits

Brand Value

- Consumers want value for money
- Value is what buyers are ready to pay for
- When a product or brand offers a bundle of benefits from which customers derive a greater value, we say that brand has created value for the customer

Source:

http://news.cnet.com/8301-1001_3-20003629-92.html

TOP 100 Most Valuable Global Brands 2010			
#	Brand	Brand Value 2010 (\$M)	% Brand Value Change 2010 vs. 2009
1		114,260	14%
2		86,383	30%
3		83,153	32%
4	Microsoft	76,344	0%
5		67,983	1%
6		66,005	-1%
7	Marlboro	57,047	15%
8	 中国移动通信 CHINA MOBILE	52,616	-14%
9		45,054	-25%
10		44,404	-17%

Strategy and Competitive Advantage

- **Attract Customers**
- **Beat competitors**
- **Strengthen organizations market position**
- **Differentiation**
- **Loyalty of customers**



Strategy and Competitive Advantage

- **Inimitability:** Own resources which are hard to copy. Eg. Airbus A380
- **Durability:** Degree by which a resource depreciates in value.
- **Appropriability:** The unique resources are shared between shareholders, employees, distributors and other groups.
- **Substitutability :** Can the unique resource be replaced by a different resource? Eg. Typewriters by Computers
- **Competitive superiority :** The resource should be superior to competitors.

Strategy and Competitive Advantage

1. Strategy sets Direction

Advantage: A goal which the organization can follow

Disadvantage: It can limit the perspective and the preparedness for threats surfacing and opportunities passing by



Strategy and Competitive Advantage

2. Strategy focuses efforts

Advantage: Promotes coordination and avoid chaos

Disadvantage: Nobody will volunteer to articulate their concerns because of “Groupthink”



Strategy and Competitive Advantage

3. Strategy defines the organization

Advantage: Provides identity to the organization and allows to distinguish it from others

Disadvantage: It may take away the richness and versatility, sometimes to the point of stereotyping



Strategy and Competitive Advantage

4. Strategy provides consistency

Advantage: It is needed to reduce ambiguity and provide order. It facilitates action

Disadvantage: Innovation and creativity thrives on inconsistency. Because strategy is not an object of reality, misrepresentations and misunderstanding can have distorting effects.



Strategy and Competitive Advantage

- **Always keep monitoring the environment to remain flexible when needed**
- **Appreciate the articulation of disruptive and innovative ideas**
- **Communicate the strategy and maintain constant dialog on how to achieve the objectives**



Strategy and Competitive Advantage

- Lack of knowledge
- Uncertainty whether the strategy is perfectly suited to reach defined goals
- Lack of information



Strategy and Competitive Advantage

- A Process of predicting future events
- Underlying basis for all business decisions

Examples:

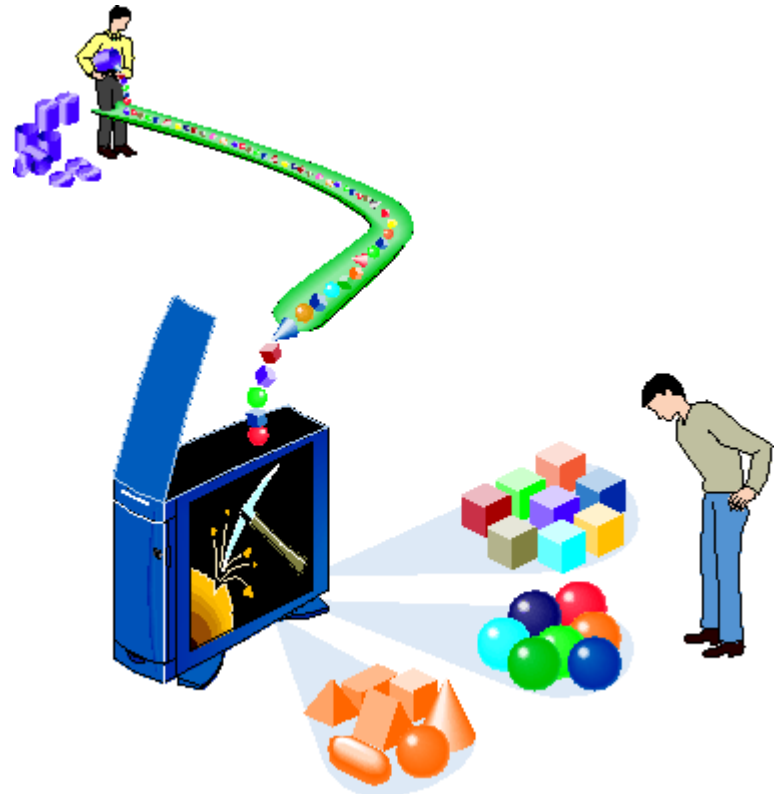
- Rental car agencies predict demand for vehicles
- Consulting organizations predict demand for specific set of skills to recruit and develop right talent



Strategy and Competitive Advantage

- Extracting useful information or patterns from a large database
- Leveraging statistical models to gain insights for predictive analysis

Example: Market analysis – target market, segmentation , CRM



Strategy and Competitive Advantage



Strategy and Competitive Advantage

Case : Database Marketing Program

- In 1998, Gary Loveman was appointed as COO of Harrah's
- He had limited experience in Casino operations and therefore wanted to predict what kind of promotion will be most effective to increase the revenue



Strategy and Competitive Advantage

Test Conducted on two promotions



- A package including a free room worth \$100 including two dinners and \$30 free gambling
- \$60 free gambling

Test Findings



- \$ 60 offer led to higher revenue
- Most profitable customers were the locals, and had no use of rooms
- Less expensive promotions like direct mail campaigns were used to attract more clients

Strategy and Competitive Advantage

Use statistics to predict behaviour and optimize business

- Harrah's acquired Ceasars entertainment
- Both used Loyalty programs
- Harrah's database = 25 million card members
- Ceasars database = 15 million card members
- Harrah's invested \$130 million to combine these sources in a single database of 40 million customers
- This helped in developing customers profiles and understand there preferences



Strategy and Competitive Advantage

Conclusion

- Harrah's spent \$863 million on casino promotion
- Leveraging customer database lead to effective marketing as well as increased profit



**The further we get ahead the more test we run..the more we learn..
the more we understand our customers.**

Strategy and Competitive Advantage



Strategy and Competitive Advantage

- **Define target:** Where the organization wants to be
- **Define vision:** Detailed strategy including means to reach the goal
- **Motivation:** Provide confidence that these goals can be achieved



Anyone can craft a strategy, but it takes real managerial skills to implement them.

SMART Goals

S

Specific

**What, Where
How?**

A specific goal is distinct & defines as much of the goal as possible and contains no ambiguous language

M

Measurable

From and To

A measurement gives feedback and let's one know when the goal is complete.

A

Assignable

Who?

Goals must be assignable to individuals or groups

R

Realistic

Feasible?

Realistic goals are challenging yet attainable within the given timeframe

T

Time-Based

When?

Timeframe must be aggressive yet realistic

Columbus: Strategic goal to reach India

Spanish Involvement



- Columbus wanted to find a quicker route to India and was convinced that if he sailed west he would reach faster than travelling around Africa
- He asked Queen Isabella of Spain to fund his trip
- In 1492, several years after his appeal, he received money for the trip
- There was a deal that Columbus would keep only 10% of the wealth he brought back
- Interestingly he failed to reach India.

Columbus: Strategic goal to reach India

Learning's from Columbus

- **Strategy motivates individuals to risk their life and for investors to fund projects often based on wrong assumptions**

Despite failing to reach he gained admiral's rank, governorship and shares of profit.

- **Strategy formulation is not once a year but a permanent activity which evolves based on new insights**

Instead of trying to find India on their next trip, he repeated his trips to America three more times.

Thank You!

