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Unit -V Strategic Issues

Other Strategic Issues

Research studies have pointed out that innovative companies such as 3M, Procter Gamble and Rubbermaid are slow in introducing new products and their rate of success is not encouraging

Role of Management:

The top management should emphasize the importance of technology and innovation and they should provide proper direction.

- Environmental Scanning: External Scanning
- Impact of stakeholders on innovation Lead users

Market Research

- New product Experimentation Internal scanning
- Resource allocation issues

Time to Market Issues:

The new product development period is again a crucial issue. Within four years many new products are imitated. Shorter the period, more beneficial for the company. Japanese auto manufacturers have gained competitive advantage over their rivals due to relatively short product development cycle.

Strategy Formulation:

The following crucial questions are raised in strategy formulation

- Is the firm a leader or follower in respect of R&D strategy?
- Should we develop our own technology?
- Or should we go for technology outsourcing?
- What should be the mix of basic and applied research?

Technology sourcing:

There are two methods for acquiring technology. It involves make or buy decision. In-house R&D capability is one method and tapping the R&D capabilities of competitors, suppliers and other organizations through contracts is another choice available for companies.

Strategic R&D alliance involves

- Joint programmes to develop new technology
- Joint ventures establishing a separate company to take a new product to market.

Minority investments in innovative firms.

It will be appropriate for companies to buy technology which is commonly available from others but make technology themselves which is rare, to remain competitive. Outsourcing of technology will be suitable under the following conditions.

- The technology is of low significance to competitive advantage
- The supplier has proprietary technolog
- The supplier‟s technology is easy to adopt with the present system

- The technology development needs expertise
- The technology development needs new resources and new people

Technology competence:

In the case of technology outsourcing, the companies should have a minimal R&D

capability in order to judge the value of technology developed by others.

Strategy Implementation:

To develop innovative organizations deployment of sufficient resources and development of appropriate culture are crucial at all stages of new product development.

Innovative Culture

Entrepreneurial culture is a part of innovative culture which presupposes flexibility and dynamism into the structure. ―Diffusion of Innovation‖ observes that an innovative organization has the following characteristics.

- Positive Attitude to change
- Decentralized Decision Making

- Informal structure
- Inter connectedness
- Complexity

- Slack resources
- System openness

The employees who are involved in innovative process usually fulfill three different roles such as:

Product champion Sponsor

Orchestrator

Corporate entrepreneurship:

Corporate Entrepreneurship is also known as intrapreneurship. According to Gifford Pinchot an intrapreneur is a person who focuses on innovation and creativity and who transforms and dreams of an idea into a profitable venture by operating within the organizational environment. Intrapreneur acts like an entrepreneur but within the organizational environment.

Evaluation and control:

The purpose of research is to gain more productivity at a speedy rate. The effectiveness of research function is evaluated in different ways in various organizations.

Improving R&D:

The following best practices can be considered as benchmark for a company‟s R&D

activities.

- Corporate and business goals are well defined and clearly communicated to R&D department.

- Investments are made in order to develop multinational R&D capabilities to tap ideas throughout the world.

- Formal, cross functional teams are created for basic, applied and developmental projects.

New Business models and strategies for the Internet Economy

INTERNET ECONOMY

The internet economy is an economy is based on electronic goods and services produced by the electronic business and traded through electronic commerce. The Internet Economy refers to conducting business through markets whose infrastructure is based on the internet and world-wide web. An internet economy differs from a traditional economy in a number of ways, including communication, market segmentation, distribution costs and price.

Impact of the Internet and E-commerc

1. Impact on external industry environment

2. Changes character of the market and competitive environment

3. Creates new driving forces and key success factors

4. Breeds formation of new strategic groups

5. Impact on internal company environment

6. Having, or not having, an e-commerce capability tilts the scales

7. toward valuable resource strengths or threatening weaknesses

8. Creatively reconfiguring the value chain will affect a firm‟s competitiveness rivals.

Characteristics of Internet Market Structure:

Internet is composed of

1. Integrated network of user‟s connected computers

2. Banks of servers and high speed computers

3. Digital switches and router

4. Telecommunications equipment and lines

Strategy-shaping characteristics of the E-Commerce Environment

nternet makes it feasible for companies everywhere to compete in global markets.

- Competition in an industry is greatly intensified by new e-commerce. Strategic initiatives of existing rivals and by entry of new, enterprising e-commerce rivals.

- Entry barriers into e-commerce world are relatively low

- On-line buyers gain bargaining power

- Internet makes it feasible for firms to reach

Effects of the Internet and E-commerce

Major groups of internet and e-commerce firms comprising the supply side include

1. Makers of specialized communications components and equipment
2. Providers of communications services
3. Suppliers of computer components and hardware
4. Developers of specialized software
5. E-Commerce enterprises

Overview of E-Commerce Business Models and Strategies:

Business Models: Suppliers of communications Equipment:

1. Traditional business model of a manufacturer is being used by most firms to make money.
2. Sell products to customers at prices above costs
3. Produce a good return on investmen
4. Strategic issues facing equipment maker
5. Several competing technologies for various components of the internet infrastructure exist

6. Competing technologies may have different performance pluses and minuses and be compatible

Strategy options for suppliers of communications Equipment:

1. Invest aggressively in R&D to win the technological race against rival

2. Form strategic alliances to build consensus for favored technological approaches

3. Acquire other companies with complementary technological expertise

4. Hedge firm�trs bets by investing sufficient resources in mastering one or more of the competing technologies

Business Models: Suppliers of Communication Services:

1. Business models based on profitably selling selling services for a fee-based on a flat rate per month or volume of us

2. Firms must invest heavily in extending lines and installing equipment to have capacity to provide desired point-to- point service and handle traffic load.

3. Investment requirements are particularly heavy for backbone providers, creating sizable up-front expenditures and heavy fixed costs

Strategic Options:

1. Provide high speed internet connections using new digital line technolog
2. Provide wireless broadband services or cable internet service
3. Bundle local telephone service, long distance service, cable TV service and Internet access into a single package for a single monthly fee

Business Models: suppliers of Computer Components and Hardware:

Traditional business model is used-Make money by selling products at prices above

costs Strategic approaches

Stay on cutting edge of technology Invest in R&D

Move quickly to imitate technological advances and product innovations of rivals Key to success- Stay with or ahead of rivals in introducing next-generation products Competitive advantage will most likely be based on strategies key to low cost

- Business Models: Developers of Specialized E-Commerce Software
- Business model involves
- Investments in designing and developing specialized softwar
- Marketing and selling software to other firms

- Profitability hinges on volume
- Strategic approaches: Sell software at a set price per copy
- Collect a fee for every transaction provided by the software.
- Rent or lease the software

Business Models: Media Companies and content providers:

- Using intellectual capital to develop music, games, video, and text, media firms
- Charge subscription fees or
- Rely on a pay-per-use model
- Business model of content providers involves creating content to attract users, then selling advertising to firms wanting to deliver a message
- Key success factors for content provider
- Create a sense of community
- Deliver convenience and entertainment value as well as information.

Business Models: E-Commerce Retailers:

• Sell products at or below cost and make money by selling advertising to other merchandisers

• Use traditional model of purchasing goods from manufacturers and distributors, marketing items at a web store

• Filling orders from inventory at a warehouse

• Operate website to market and sell product/ service and outsource manufacturing, distribution and delivery activities to specialists.

Strategic Approaches: E-Commerce Retailers:

• Spend heavily on advertising to build widespread

• Add new product offerings to help attract traffic to firm‟s website.

• Be a first-mover or at worst on early mover

• Pay consideration attention to website attractiveness to generate ―buzz‖ about the site among surfers

• Keep the web site innovative, fresh, and entertaining

Key Success Factors: Competing in the E-Commerce Environment:

• Employ an innovative business model

• Develop capability to quickly adjust business model and strategy to respond to changing conditions

• Focus on a limited number of competencies and perform a relatively specialized number of value chain activities

- Stay on the cutting edge of technology
- Use innovative marketing techniques that are efficient in reaching the targeted audience and effective in stimulating purchases
- Engineer an electronic value chain that enables differentiation or lower costs or better value for the money.

Strategic issues for Non-Profit organizations

Meaning:

—A non-profit organizations also known as a not-for- profit organization is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to help pursue its goals/

Types of non-profit-organizations:

- Private non-profit organizations
- Public governmental units

Two Major Reasons:

Society needs certain goods services

Private not for profit organization are exempted.

Sources of Revenue:

Profit making organization (Sales of goods or services)

Not for profit organization (Sponsor or donations)

Constraints in Not-for-profit organization:

- Service is intangible in nature.
- The clients have very little influence.
- The sponsor mainly donate the fund for not for profit organization
- the professional people is going to join
- Restraints on the use of rewards and punishments.

Problems in the strategy formulation:

The main aim is to collect the funds.

They don‘t know how to frame strategy. Internal conflict with the sponsor

Worthless will be rigid.Problems in Strategy implementation:The problem in decentralization Links in internal externalRewards and punishment.

Popular Strategies for Not-for-profit organizations:

Strategic piggybacking Mergers

Strategic Alliances

Words that have specific meaning for Strategic Management

Competitive advantage - What a firm does better than its competitors. Characteristics that allow a firm to outperform its rivals.

Distinctive competence - Special skills and resources that generate strengths that competitors cannot easily match or imitate.

First mover advantage - The competitive advantage held by a firm from being first in a market or first to use a particular strategy.

Late mover advantage - The competitive advantage held by firms that are late in entering a market. Late movers often imitate the technological advances of other firms or reduce risks by waiting until a new market is established.

Sustainable competitive advantage - A competitive advantage that cannot easily be imitated and won‘t erode over time.

Group think - A tendency of individuals to adopt the perspective of the group as a whole. It occurs when decision makers don‘t question the underlying assumptions.

Competitive strategy - How an enterprise competes within a specific industry or market. Also known as business strategy or enterprise strategy.

Competitor analysis - The competitive nature of an industry. It determines how a rival will likely react in a given situation.

Barriers to entry - Factors that reduce entry into an industry.

Switching costs - The costs incurred when a buyer switches from one supplier to another

Barriers to exit - Factors that impede exit from an industry.

Contestable markets - Markets where profits are held to a competitive level. Due to the ease of entry into the market.

Strategic groups - Clusters of firms within an industry that share certain critical asset configurations and follow common strategies.

Predatory pricing - Aggressiveness by a firm against its rivals with the intent of driving them out of business.

Concentration - Focus the firm‘s efforts and resources in one industry

Core business - The central or major business of the firm. The core business is formed around the core competency of the firm. Management of the firm‘s core business is central to any decision about strategic direction.

Core competency - What a firm does well. The core competency forms the core business of the firm.

Critical success factors - Those few things that must go well if a firm‘s is to succeed

Typically 20 percent of the factors determine 80 percent of the performance. The critical success factors represent the 20 percent. Also called key success factors.

Culture - The collection of beliefs, expectations, and values learned and shared by the firm‘s members and passed on from one generation to another.

Diversification - The process a firm into new products or enterprises.

Concentric diversification - Diversification into a related industry.

Conglomerate diversification - Diversification into an unrelated industry

Economics - Cost savings

Economies of integration - Cost savings generated from joint production, purchasing, marketing or control.

Economies of size - Fixed costs decline as output increases.

Economies of scope - The products of two or more enterprises produced from shared resources which allows for cost reductions.

Minimum efficient scale - The smallest output for which unit costs are minimized.

Enterprise - The production of a single crop or type of livestock, such as wheat or dairy. A responsibility center.

Primary enterprise - An enterprise that provides the foundation of the firm. The success of the primary enterprise is critical to the success of the firm.

Secondary enterprise - An enterprise that supports a primary enterprise and/or the mission and goals of the firm.

Competitive enterprises - Enterprises for which the output level of one can be increased only by decreasing the output level of the other.

Complementary enterprise - Enterprises for which increasing the output level of one also increased the output level of the other.

Supplementary enterprises - Enterprises for which the level of production of one can be increased without affecting the level of production of the other.

Enterprise strategy - How an enterprise competes within a specific market or industry. Also called business or competitive strategy.

Transfer price - The price at which a good or resource is transferred across enterprises within a firm. Entrepreneur - An entrepreneur sees change as normal and healthy. He/she is involved in searching for change, responding to it, and exploiting it as an opportunity.

Environmental scanning - To monitor, evaluate and disseminate information from the external environment to key people within the firm.

Environmental analysis - An analysis of the environmental factors that influence afirm‘s operations.

Environmental opportunity - An attractive area for a firm to participate in where the firm would enjoy a competitive advantage.

Environmental threat - An unfavourable trend or development in the firm‘s environment that may lead to an erosion of the firm‘s competitive position.

Excess capacity - The ability to produce additional units of output without increasing fixed capacity.

Experience curve - Systematic cost reductions that occur over the life of a product. Product costs typically decline by a specific amount each time accumulated output is doubled.

Externalities - A cost or benefit imposed on one party by the actions of another party. Costs are negative externalities and benefits are positive externalities.

Firm vision - The collection of statements listed below indicating the desired strategic future for the firm.

Mission statement - A statement of the reason why a firm exists.

Goals - General statements of where the firm is going and what it wants to achieve.

Objectives - Specific and quantifiable statements of what the firm is to accomplish and when it is to be accomplished.

Innovation - A new way of doing things.

Diffusion curve - The rate over time at which innovations are copied by rivals.

Systematic innovation - The purposeful and organized search for changes, and the systematic analysis of the opportunities these changes might offer for economics and social innovation.

Internal scanning - Looking inside the business and identifying strengths and weaknesses of the firm.

Operations management - Focuses on the performance and efficiency of the production process. It involves the day-to-day decisions of the business.

Portfolio - A group of enterprises within a firm that are managed as individual responsibility centers.

Portfolio analysis - Each product and enterprise is considered as an individual responsibility center for purposes of strategy formulation.

Portfolio management - Management of a firm‘s individual enterprises and resources across these enterprises.

Proactive - Seek out opportunities and take advantage of them. Anticipate threats and neutralize them

Responsibility center - An enterprise whose performance is evaluated separately and is held responsible for its contribution to the firm‘s mission and goals.

Cost center - An enterprise that has a manager who is responsible for cost performance and controls most of the factors affecting cost.

Investment center - An enterprise that has a manager who is responsible for profit and investment performance and who controls most of the factors affecting revenues, costs, and investments.

Profit center - An enterprise that has a manager who is responsible for profit performance and who controls most of the factors affecting revenues and costs.

Restructuring - Selling off unrelated parts of a business in order to streamline operations and return to a core business.

Stakeholder - Individuals and groups inside and outside the firm who have an interest in the actions and decisions of the firm.

Strategic - Manoeuvring yourself into a favourable position to use your strengths to take advantage of opportunities.

Strategic audit - A checklist of questions that provide an assessment of a firm's strategic position and performance.

Strategic myopia - Management's failure to recognize the importance of changing external conditions because they are blinded by their shared, strongly held beliefs.

Strategic thinking - How decisions made today will affect the business years in thefuture.

Strategic predisposition - A tendency of a firm by virtue of its history, assets, or culture to favour one strategy over competitive possibilities.

Strategic decisions - A series of decisions used to implement a strategy.

Strategic management - The act of identifying markets and assembling the resources needed to compete in these markets. The set of managerial decisions and actions that determine the long-run performance of the firm.

Strategic planning - A comprehensive planning process designed to determine how the firm will achieve its mission, goals, and objectives over the next five or ten years or longer

Business planning - A plan that determines how a strategic plan will be implemented. It specifies how, when, and where a strategic plan will be put into action. Also known as tactical planning.

Strategy - A pattern in a stream of decisions and actions.

Dominant strategy - A strategy that is optimal regardless of the action taken by

Emergent strategy - Unplanned strategy that emerge from within the organization.

Intended strategy - Planned strategy developed through the strategic planning process.

Realized strategy - The real strategy of a firm that is either an intended (planned) strategy of management or an emergent (unplanned) strategy from within the organization.

Strategy formulation - The development of long-range plans for the management of environmental opportunities and threats, in light of the firms strengths and weaknesses.

Strategy implementation - The process by which strategies and policies are put into action through the development of programs, budgets, and procedures.

Strategy control - Compares performance with desired results and provides the feedback for management to evaluate results and take corrective action.

Firm strategy - How a firm will reach its goals and objectives by using firm strengths to take advantage of environmental opportunities.

Enterprise strategy - How an enterprise competes within its specific market or industry. Also called business or competitive strategies

Niche strategy - A strategy serving a specialized part of the market.

SWOT analysis - Analysis of the strengths and weaknesses of the firm, and the opportunities and threats of the firm‘s environment.

Strategic issues - Trends and forces which occur within the firm or with environment surrounding the firm.

Strategic factors - Strategic issues expected to have a high probability of occurrence and impact on the firm.

Opportunities and threats - Strategic factors in the firm‘s external environment are categorized as opportunities or threats to the firm.

Strengths and weaknesses - Strategic factors within the firm are categorized as strengths or weaknesses of the firm.

Strategic fit - Fit between what the environment wants and what the firm has to offer.

Strategic alternatives - Alternative courses of action that achieve business goals and objectives, by using firm strengths to take advantage of environmental opportunities.

Vertical integration - The process in which either input sources or output buyers of the firm are moved inside the firm.

Backward (upstream) integration - Input sources are the firm.

Forward (downstream) integration - Output buyers are the firm.

Contractual integration - Separate firms in the various stages of production link the stages through contractual arrangements.

Full integration - Where one firm has full ownership and control over all the stages in the production of a product

Quasi-integration - A firm gets most of its requirements from an outside supplier that is under its partial control.

Tapered integration - A firm produces part of its own requirements and buys the rest from outside suppliers.

Vertical coordination - The stages in the production of a product are linked by more than open markets but less than ownership and control by one firm.