Strategy formulations: Functional strategy & Strategic choice

functional strategy is the approach a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity. For example the difference between McDonalds and Domino Pizza. While McDonalds expect you to visit its outlet and have Pizza, Domino Pizza designed its supply chain in such a way that whenever you are hungry you can have Pizza. It is functional strategy based on supply chain.

Core competency

The Core Competence is a term coined by, C.K. Prahalad and Gary Hamel and it may be defined as collective learning and coordination skills behind the firm's product lines. They made the case that core competencies are the source

of competitive advantage and enable the firm to introduce an array of new products and services. According to Prahalad and Hamel, core competencies lead to the development of core products. Core products are not directly sold to end users; rather, they are used to build a larger number of end-user products. For example, motors are a core product that can be used in wide array of end products. The business units of the corporation each tap into the relatively few core products to develop a larger number of end user products based on the core product technology. The intersection of market opportunities with core competencies forms the basis for launching new businesses. By combining a set of core competencies in different ways and matching them to market opportunities, a corporation can launch a vast array of businesses.

Without core competencies, a large corporation is just a collection of different businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio. For Reliance Group size, scale and project management skills form the basis of core competence.

Core Competencies

Core competencies arise from the integration of multiple technologies and the coordination of diverse production skills. Some examples include Philip's expertise in optical media, Sony's ability to miniaturize electronics and Airtel‘s ability to provide cheapest services in telecom with maximum customer satisfaction.

A core competence should:

1. provide access to a wide variety of markets, and

3. contribute significantly to the end-product benefits, and be difficult for competitors to imitate.

4. Should be developed by the organization

Core competencies tend to be rooted in the ability to integrate and coordinate various groups in the organization. While a company may be able to hire a team of brilliant scientists in a particular technology, in doing so it does not automatically gain a core competence in that technology. It is the effective coordination among all the groups involved in bringing a product to market that results in a core competence.

It is not necessarily an expensive undertaking to develop core competencies. The missing pieces of a core competency often can be acquired at a low cost through alliances and licensing agreements. In many cases an organizational design that facilitates sharing of competencies can result in much more effective utilization of those competencies for little or no additional cost.

What core competence is not;

1.Trying to overtake others by R&D

2.Sharing costs among business units

3.Integrating vertically

These strategies with no objective of getting the four aspects elaborated cannot be called core competence. They may help to build but by themselves they do not lend to any competencies.

Failure to recognize core competencies may lead to decisions that result in their loss. During 1970's many U.S. manufacturers closed down television manufacturing businesses arguing that industry was mature and that high quality, low cost models were available from Japanese manufacturers. In the process, they lost their core competence in video, and this loss resulted in a handicap in the newer digital television industry. Similarly American hardware manufacturers started outsourcing to China , the cheaper option and lost totally to Foxconn; Foxconn manufactures 170 billion $ worth of hardware and America is left with very less number of workers and people with the socio eco system of manufacturing competencies.

Core Products

Core competencies manifest themselves in core products that serve as a link between the competencies and end products. Core products enable value creation in the end products. Examples of firms and some of their core products include:

- 3M - substrates, coatings, and adhesives
- UAE motors in any grinding machine in India
- Canon - laser printer sub systems
- Honda - gasoline powered engines
- Intel Processors

The core products are used to launch a variety of end products. For example, Honda uses its engines in automobiles, motorcycles, lawn mowers, and portable generators.

Because firms may sell their core products to other firms that use them as the basis for end user products, traditional measures of market share are insufficient for evaluating the success of core competencies. Prahalad and Hamel suggest that core product share is the appropriate measure. While a company may have a low brand share, it may have high core product share and it is this share that is important from a core competency standpoint. Once a firm has successful core products, it can expand the number of uses in order to gain a cost advantage via economies of scale and economies of scope.

implications for Corporate Management

Prahalad and Hamel suggest that a corporation should be organized into a portfolio of core competencies rather than a portfolio of independent business units. Business unit managers tend to focus on getting immediate end-products to market rapidly and usually do not feel responsible for developing company-wide core competencies. Consequently, without the incentive and direction from corporate management to do otherwise, strategic business units are inclined to under invest in the building of core competencies.

If a business unit does manage to develop its own core competencies over time, due to its autonomy it may not share them with other business units. As a solution to this problem, Prahalad and Hamel suggest that corporate managers should have the ability to allocate not only cash but also core competencies among business units. Business units that lose key employees for the sake of a corporate core competency should be recognized for their contribution.

A core competency is something that a corporation can do exceedingly well. It is a key strength. It should have the following characteristics;

1. It should have been developed by the organization

2. It cannot be easily copied by others

3. It should give access to the wider market.

4. If all the conditions are satisfied then it is known as core competency.

Selection of strategy:

After the pros and cons of the potential strategies alternatives have been identified any one must be selected from implementation. The most important criteria is the identity of the propose strategy to deal with the specific strategic factors developed earlier in SWOT analysis.

Corporate scenario:

The corporation may choose stability over growth by continuing its current activities without any significant change in direction. The stability family of corporate strategies can be appropriate for a successful corporation operating in a reasonably predictable environment. Stability strategies can be very useful in short run but can be dangerous if followed for too long.

Sum of the strategies are;

1. Pause and proceed with caution strategy

2, no change strategy

3. Profit strategy

Corporate parenting:

Corporate parenting views corporation in terms of resources and capabilities that can be used to build business value as well as generates synergies across business units.

The corporate parenting strategies can be developed in following ways.

1. Examine each business unit in terms of its critical success factors.

2. Examine each business unit in terms of areas in which performance can be

Corporate scenario:

Corporate scenario are pro forma balance sheet and income statement that forecast the effects that each alternative strategy and its various programs will likely have on division and corporate return on investment. Corporate scenario is extension of industry scenario.

Development of policies:

The selection of the best strategic alternative is not the end of the strategy formulation. Management now must established policies that define the ground rule for implementation. Flowing from the selected strategy, policies provide the guidance for decision making an action throughout the organization. Policies tend to be rather long lived and can even outlast the particular strategy that created them.