Strategic Management -The Competitive Edge
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Lecture – 4

Different Types of Strategies

In the last session, we were looking at generic strategies, the overall cost leadership, differentiation and focus. We took the examples of two American companies, Delta Airlines, and Iomega Corporation to illustrate these strategies. Then, we have as a form of strategy, mergers and joint ventures. This has now become the order of the day. If you really see what is happening even in the retail market also.

There were so many small players, these small players, many of them have joined together. This was happening in the eighties also, when the Reliance entered the market. Reliance was then Vimal. So, when Vimal entered into the textile market, there existed Garden, not by name Garden, but there existed a number of small units, which were putting out sarees. So, when Vimal entered the market in the eighties, it really created a commotion in this saris market, because of the terrific financial backing, the Vimal Company of Dhirubhai Ambani had at that point of time.

Dhirubhai Ambani was having financial muscle, so most of these small and medium enterprises could not stand to this onslaught of Vimal in the market. So, what did they do? Most of these units in Ahmedabad, and mainly in Gujarat, merged together and formed a composite unit to give competition to Vimal. They came out with the product Garden. Garden sarees and designs proved to be a real hit in the market, in spite of Vimal being there, using at that point of time, cinema heroines for promoting their product.

Garden was not using these type of high profile figures, but at the same time was able to capture or hold on to its market share. Now, turn to the present-day scenario. If you look at the malls screening different films, etc. What is the latest happening? We find that two cinema malls have joined together to form or merge together, to form a very strong unit in this market to give effective competition to the players, who might come into the market, or who are already in the market, or who might be coming into the market later on.

We will be dealing with mergers and joint ventures when we go along in more detail. The next type of strategy is the turnaround strategies. Turnaround, as you can see, something has gone wrong with the company, and that company needs to be turned around in order to see that it is able to stand on its feet in the market. There are two types of turnarounds possible, one is an entrepreneurial turnaround, another is efficiency turnaround. What is this entrepreneurial turnaround? No better example than that of Sylvania Laxman.An entrepreneur made this electric bulb manufacturing company at that point of time to turn around, and become a profit-making venture. Efficiency turnaround is where you look into the different cost divisions of the company- to find out how these divisions are working and where cost cutting is possible.

If cost cutting is not possible, you will look into all the divisions of the company to find out whether efficiency can be increased. So, these types of efficiency turnaround, is happening almost on a continuous basis in most of the organizations in the country today, most predominantly in the automotive industry, because you have to compete with a number of players in the market.

When you have to compete with a number of players in the market, you have to offer to the market a cost-efficient product. So, whether it is the two-wheeler market or whether it is the four-wheeler market, this is the present scenario in the country. It is a highly competitive market. When it is a highly competitive market, all sorts of strategies have to be adopted to keep the company afloat in the market, not only afloat, but also to make an impact in the market with respect to sales.

The next strategy that we look at is a business unit strategy and a corporate strategy. A business unit strategy is the strategy that you are considering for a particular business unit of the company. Take for example, ITI ,Indian Telephone Industries- its defence production is a business unit. For this business unit strategy is used. Contrast it with the corporate strategy. Corporate strategy is looking at all the divisions of the company- all the units.

Suppose you say I am able to look at my company in the form of six business units, so corporate strategy looks at this strategy of all the six business units. Suppose, it is say x1 to x6, but if you sum it x1, x2, x3 up to x6, it may not give the corporate strategy; note that that summation of business units strategy may not necessarily result in corporate strategy.

So, essentially these are the types of strategies you have to look at with respect to organizations. First is the growth strategy- in the growth strategy we looked at six examples.Second is the dependency reduction strategy, we again looked at six examples. Then, we looked at vertical integration strategies, it can be backward or forward. Then, we also said there is a risk in this of loss of flexibility; then we looked at the generic strategies essentially given by Porter on overall cost leadership, differentiation and focus. Then, the mergers and joint ventures, turnaround strategy -can be entrepreneurial or efficiency, and business unit strategy and corporate strategy.

Suppose, you look at any organization any strategy, whether it is a business unit strategy or a corporate strategy, whether is it a winning strategy or not. So, there should be some tests available to the person, that is the strategic planner to find out whether his strategy will succeed in the marketplace or not. So, these are called tests of a winning strategy. The tests of a winning strategy or basically three- Goodness of fit test- Match to industry and competitive condition, opportunities and threats. In other words, when you are looking at a winning strategy, an important point that comes out is you should do a rigorous business landscape analysis. This business landscape analysis should be very rigorous, you should take into account almost all the points which are existing in the external environment and the internal environment. Internal environment is tailored to company's strengths and weaknesses, competencies and capabilities. So, whenever you formulate a strategy, you should be reasonably sure that this strategy can be executed with the type of resources that you have in the company.

If you are diffident yourself, then this strategy is not going to get going in the marketplace. So, you will have more problems than solutions. Then, what is the competitive advantage test? It leads to sustainable competitive advantage. No better example than that of the Gillette Company’s Mach3 blade, what is this Mach3 blade? It is a triple blade technology and this triple blade technology, has sustained itself in marketplace for a number of years. In spite of so many players who were there in the market, when this triple blade technology was introduced, so many other players also came into the market.

Some of them said we will do a five-blade technology, some of one of them said will give seven blade technology. With all that, this three-blade technology of Mach3 is the market leader even to this day. So, this is what is called the competitive advantage that the company has obtained by coming out with this type of a product, which has proved itself in the marketplace.

So, the third one is the Performance test. What is this performance test? It boosts profitability and competitive strength and long-term position. So, if you are having competitive advantage in the market place, there is a very good possibility that the performance of the company also gets reflected in better performance, increased profitability, and also having a competitive strength and long-term position in the marketplace.

So, these are the tests of a winning strategy that the strategic planner is always concerned with. This strategic planning job and the marketing planning job in an organization, are highly strenuous exercises, because you have to take into account so many factors, so many scenarios. Sometimes the scenarios are visible to you, sometimes the scenarios are not even visible to you. So, when they are not even visible to you, how do you really succeed in the market? So many times, people compare all this with the type of astrology predictions.

An astrologer predicts your fate or whatever. Suppose, it turns out that whatever he has predicted has not come true, the astrologer takes umbrage in one sentence- before analyzing your horoscope - A good astrologer always says-Phalani grahacharen suchyanti manishinaha, kovakt tartamyasya vidhi sumvinah. He is saying as an astrologer, I am seeing your horoscope, and analyzing the movement of the planets and forecasting the type of events that might happen in the coming years.Suppose, it does not happen, it is destiny, it is not in my hands. So, in the case of the company, what is going to happen? Suppose the strategy were to fail, then the impact on the company can be quite tumultuous. So, many times you find that when your strategic planning process has got a hit many heads might roll in the organization. So, some people might really look for other openings in other organizations. So, they will not be talking about this exercise for a number of years, but they will always be talking about that exercise, which was a success in the marketplace throughout their lifetime. This is what really happens with respect to organizations.

Now, we look at management decisions- You could have management decisions under three heads. One could be strategic, second is operating, third is administrative. So, what is this strategic decisions? It is the interface between the organization and the external environment. So, it involves allocation of total resources, many does not happen frequently-infrequent. Operating decisions look at resource conversion, that is how do you convert your resources into products.Administrative decisions are looking facilitative decisions-measures for employee welfare, or employee growth,etc. So, in fact, administrative decisions was mainly created, so that it can help the employee.

We had in our country, a great engineer by name Sir M. Visvesvaraya. He was the Diwan of Mysore. You can contrast his decision making with the present day. So, at that point of time, people were mostly interested in getting into government jobs, the scenario is different now. So,for getting into government jobs, they had to get good merit- at that point of time, there was first class, second class, third class, and pass class also. When he was the Diwan of Mysore, one particular case came up, where the person who had applied for the job, was none other than his nephew. And he had only a pass class in diploma in engineering.

So, when it came to Sir MV's notice, he wrote this person should not be recruited. Then there was not much of competition, jobs were there under the Maharaja's reign in Mysore. The file went up to the Maharaja.The persons who took the file told the Maharaja that he is Sir MV's nephew. So, without writing anything, Maharaja approached Sir M.V. and said, after all he is your nephew, your sister's son. Why don't you give him the job? We have got jobs in the state.

Then Sir M.V. replied, Maharaja suppose you prefer this candidate, then you are really depriving a deserving candidate of a job in the government service. Now, compare and contrast this with the present day, when you have a clamor for reservation. So, this is what can be a good administrative decision, where you facilitate an organization by your informed decision making, so that the organization will benefit in the long run. So, if you really look at it, once the reservations were introduced after independence, no government is able to touch it.

Organizations success or failure in the long run depends upon strategic decisions, that is upon doing the right things rather than upon doing things right. No better example than that of a cricket match. You might have set the field in the best possible manner, but your bowler might bowl not to your field, but in his own way, which may be thrashed.

A T-20 match is a very good example of this. You will have balls going in all directions in the field, most of the times clearing the field.The blood pressure of the captains will be going up and down- this is one of the things which can happen even in organizations as well. So, the right strategy is what is required, not upon doing things right.

So, if you look at these things, this can give you an idea of comparison of operating and strategic decisions. So, what is this comparison of operating and strategic decisions? If you really see, suppose you have an operating decision, this, I put it into four compartments. This is taken from a well-known source- from the book by Tragoe and Zimmerman on Top Management Strategy. So, what does this first block or the first compartment tell you? The first compartment tells clear strategy and effective operations have contributed to success in the past, and will contribute to success in the future, quite easily understandable

What is the second one? The second one is unclear strategy but effective operations. So, you maybe having, or not having the right strategy, but you may be having effective operations- have contributed to success in the past, but success in the future is doubtful. This is comparing again in the present-day competitive market. In the present competitive market, if you thought that earlier I was having effective operations, and I was very successful in the market even though I did not have the right strategy, it may not work now. Best example for this is a well-known bakery in Bangalore. Even today, it is one of the best bakeries in Bangalore. Bangalore has developed by leaps and bounds over the years, still people come to that bakery for the taste of the product.This Iyengars bakery, in Visvesvarapuram in Bangalore has made a mark for itself- known as the VB bakery, even though is there is a cut-throat competition.

But, here is a competition which is coming out with new products. Company should also come out with new products. So, in other words, your strategy has to be undergoing change in the marketplace.

The third compartment is clear strategy, but ineffective operations. What is this ineffective operations? So, you had a good strategy, but your operations of the company are not helping you to implement this strategy, - no better example than most of the public sector undertakings in the country. Many times, they have a clear strategy, but ineffective operations.

When they have ineffective operations, it has sometimes worked in the past in the short run, but increasing competition makes success doubtful in the future. Example for that could be Mysore Soaps and Detergents, now called Karnataka soaps and detergents, started during the time of the Maharajah by Sir M.V. - known for its very reputed product, the Mysore sandal soap. Many players came into the market and started imitating but they could not.

So, even to this day, you find that Mysore sandal soap is sustaining in the marketplace, but there are number of players who are coming out with different soaps. When you have such a cut throat competition, to hold on in the market place, company's decades old strategy formulated at the time of the inception of the company needs immediate revisiting- the company should come out with different/new products.

The fourth compartment is very clear, unclear strategy and ineffective operations have meant failure in the past, and will be so in the future. So, you did not have a good strategy, your operations were also not effective. So, it meant failure in the past and will be so in the future. So many of the public sector undertakings in the country when they started having competition wound up shop. It tells you should have a clear strategy, and also have good effective operations to sustain in this marketplace. We stop here. We continue in the next class.