

Strategy

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What is Strategy?



Usually

- Outsourcing.....Internationalization.....consolidation.....research and development.....focus on one product.....focus on section of customer.....
- What will give us a competitive advantage?
- How will we sustain that advantage over a period of time?



Strategy

- We use this word indiscriminately ...in many aspects and many meanings.
- What this basically means is how we are going to survive and succeed and probably win...in the corporate sense of the word.
- In the coming years you will hear this word repeatedly...
- Good strategy without good execution does not help...but also we need to understand that good execution skills with a bad strategy will not help us win.



What do we mean by strategy?

- To understand this ; lets look at the fundamental strategic challenge that any organization faces.
- Common point of initiation by most managers...goes like this
- **“What am I trying to do, who am I trying to be better than and how do I be better than my competition? How do I be better in my market place...”**
 - **So we as managers try to be the best. We assume our job is to be the best. This is the issue. If we try to be the best. It becomes a trap.**
 - The best mobile company. The best laptop company. The best car company. The best bank. And to be the best we have to come up with the best product and the best service and the best people and the best supply chain and if can be the best in all these then we will ultimately win.
 - This is a very flawed way of thinking. Which is really the best mobile company? Really that depends on the customer they are trying to serve.
 - Depends on the customer , the customer needs, the customer segments.
 - What we can see is there are no best companies that are the best at serving every kind of a customer. There are lots of different customers in virtually every business. As its impossible to be the best at serving every need of every customer.



Operational Effectiveness ?

- Operational effectiveness is not strategy.
 - Your competition also does the same. It does not help differentiate .
 - Neither does it add significant value.
 - Everyone will have same products
 - Same services
 - Then it will get in to a rate war!!! Which is bad!!
- Doing things better is not really a strategy – Doing things differently to deliver superior value is!!



So the starting point...

- How can we deliver unique value to the customer. Where as if we are trying to be the best...every company will try the same and not able to succeed in the long term.
- So what is strategy really?
 - It is different from the goals. Or aspirations.
- Strategy is actually how are u going to position your company to achieve your goals. How will u achieve? How will you be number one or two?
 - Strategy is not the same as vision and values
- Strategy is the big picture of how the organization is going to play and try to win.



Starting Point...

- How do we create unique value for the customers we are seeking to serve.
 - **This is the essential starting point of strategy**
 - The unique the value you deliver- the higher chances to win
- Where as if you are trying to be the best at everything you do, or the best compared to every other competition,
 - You will just be like any other competition
 - Your resources will be stressed out and chances of success are lower.



Starting point – Value Proposition

- What Customers?
 - End users
 - Channels
- Which Needs?
 - Products
 - Features
 - Services
- What relative price?
 - Premium
 - Discount
 - Parity



Economic Foundation of Competition

- At the core is business strategy
 - This is for a single business.
 - In case of conglomerates, there might be a group level strategy, but the core will always be the business level strategy which is the core.
 - This is a route map on how to compete in a particular business



Performance at business level

1. The business (industry) itself
 1. Because businesses differ in their inherent attractiveness from point of view of profitability
 2. This is industry structure
2. The positioning of the company within the industry
 1. How the company differs from the rivals
 2. Positioning the concept

So when u analyze a business strategy, you need to look at both the above factors. A company may have great position in a lousy industry or be a badly positioned player in a great industry.



Looking at an Industry

- Every industry is different.
 - Supply chain
 - Value chain
 - Technology etc etc
- But every industry has a set of fundamental characteristics.
This we can understand through the five forces model.



5 forces model

Threat of New Entry

- Time and cost of entry
- Specialist knowledge
- Economies of scale
- Cost advantages
- Technology protection
- Barriers to entry

Threat of
New Entry

Competitive Rivalry

- Number of competitors
- Quality differences
- Other differences
- Switching costs
- Customer loyalty

Supplier
Power

Supplier Power

- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Your ability to substitute
- Cost of changing

Competitive
Rivalry

Buyer
Power

Buyer Power

- Number of customers
- Size of each order
- Differences between competitors
- Price sensitivity
- Ability to substitute
- Cost of changing

Threat of
Substitution

Threat of Substitution

- Substitute performance
- Cost of change



5 forces

- Airline Industry
 - Toughest
- Soft Drink Industry
 - Easy



Value Chain

PART II



Michael Porter VALUE CHAIN1985



Margins | Profits ??

- 9 activities in value chain : Together they add value
- Margin is the value chains 10th field.
- The field size of margin is dependent on the previous 9 fields.
- **Profit =**
Value Chains total value (which is the value derived by the customer) (which is the price the customer is willing to pay for the product)
less
the total cost of producing the product (which is the cost incurred in these 9 activities)



Value Chain



Two categories here

First

Primary Activities

Directly Involved in production & Selling

Second

Support Activities

Aim to coordinate the primary activities

Discuss Primary Activities

Support Activities may greatly influence profits
May transform in to newer business models



Using the value chain

- Why analyze?
 - Profitability
 - Survival
 - Competitiveness
- Analyze each activity
- Compare cost of activity with value derived by customer
- Examples – class discussion
 - Mobile phone
 - Umbrella
 - Car

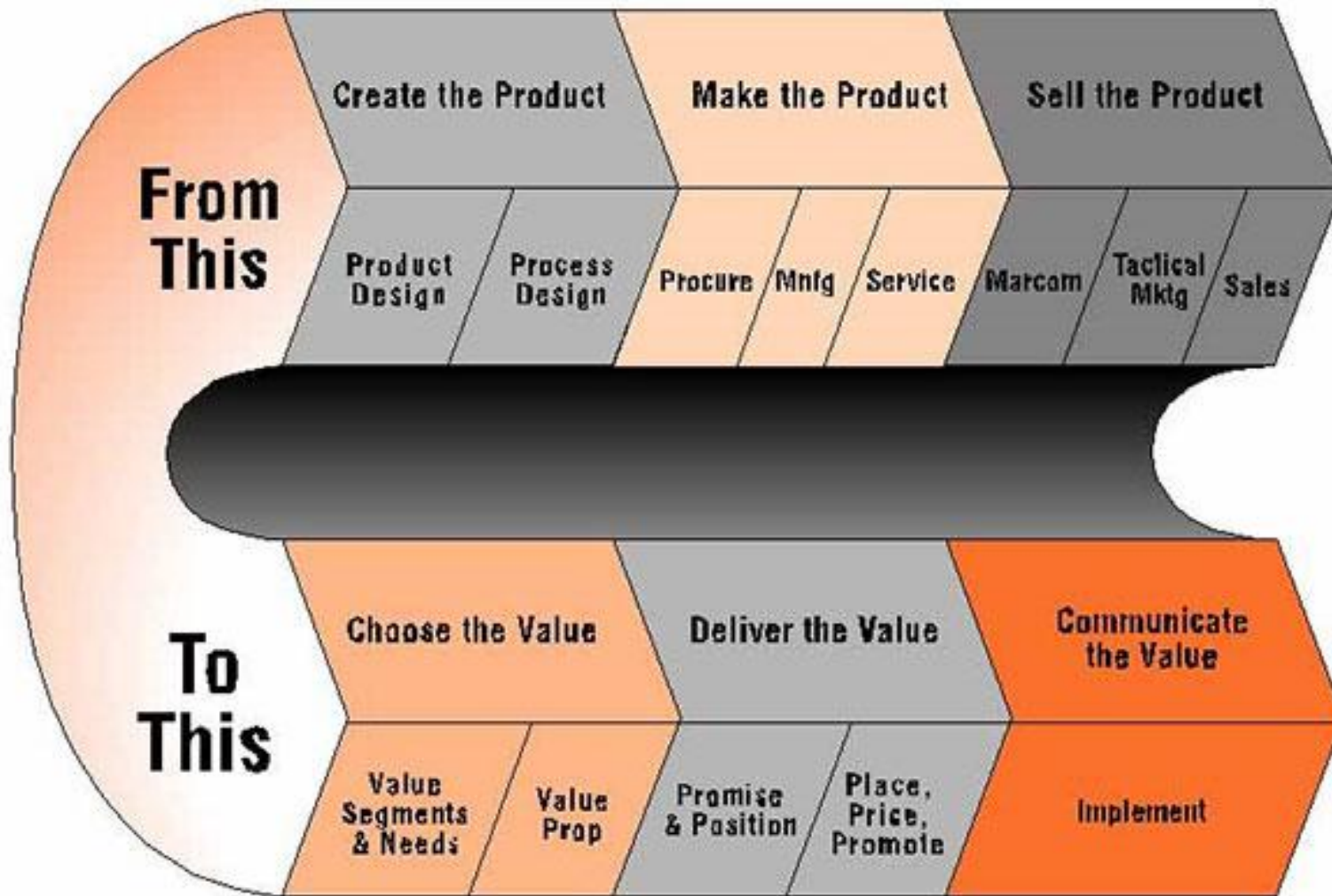


Analyze Value Chain

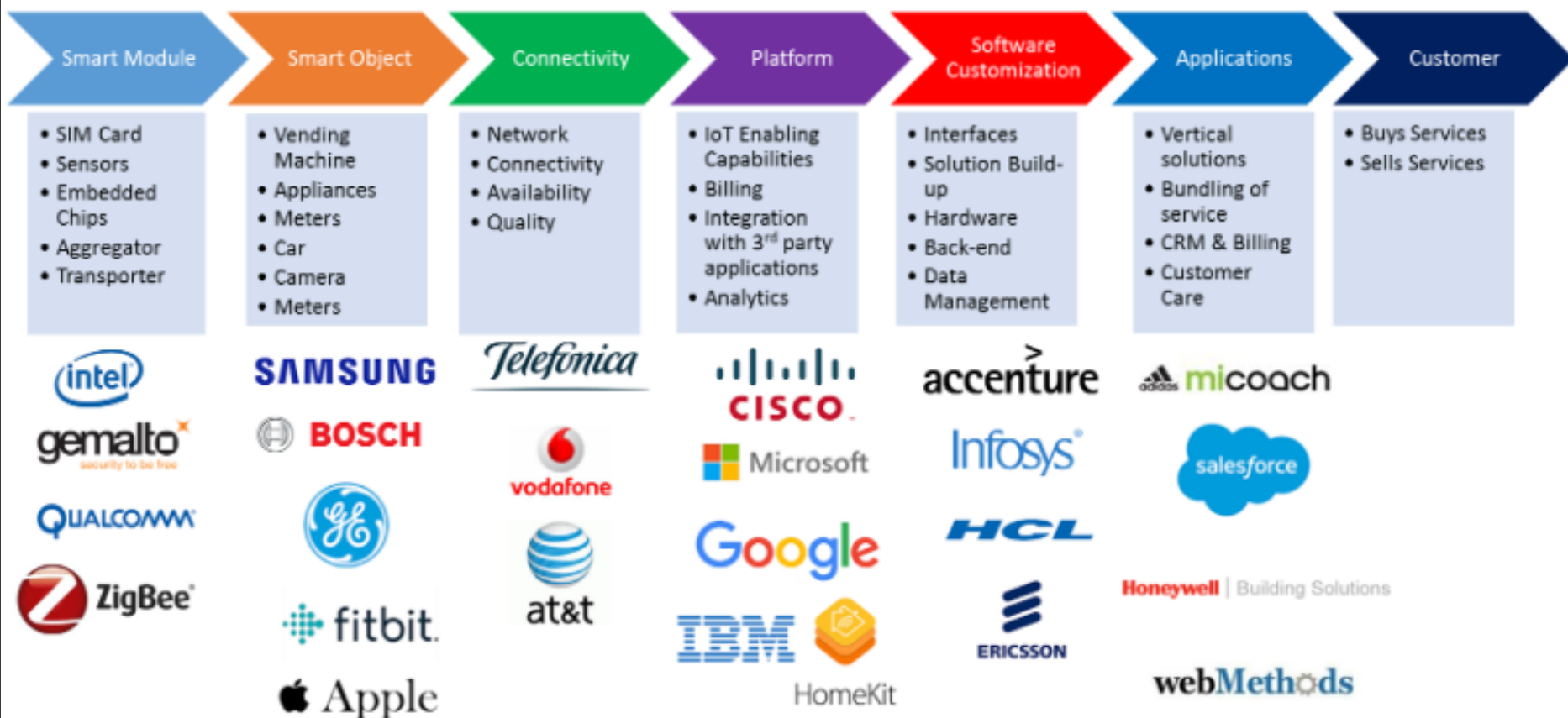
- Discuss any one Industry



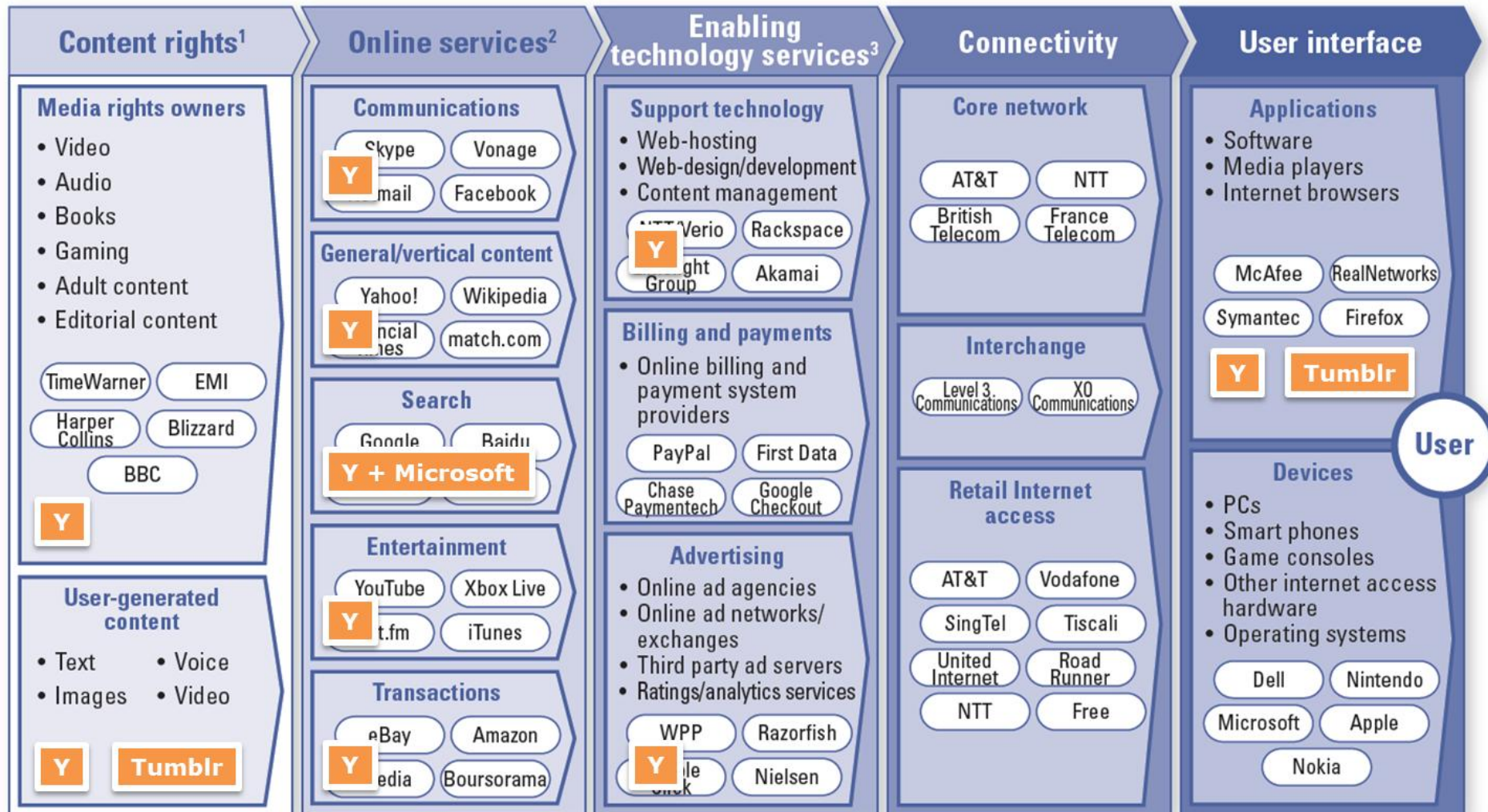
The New Value Chain



IOT Value Chain



Value Chain – Internet based Services



Generic Strategies

Part III



Generic Strategies



Source: Adapted from Porter, 1980

Cost leadership

- firms attempt to create low cost structures in order to be price competitive

Differentiation

- firms attempt to differentiate their offerings by offering superior quality and/or valuable product features

Focus

- firms attempt to target a specific niche or market to develop a competitive advantage

Understanding Generic Strategies

<i>Industry Force</i>	<i>Generic Strategies</i>		
	Cost Leadership	Differentiation	Focus
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.



Part IV

Your Candidature



When the day starts

- In Africa, when you get up in the morning, it does not matter if you are an antelope or a lion. You better start running.
- A Lion has to run faster than the slowest antelope or it stays hungry!!
- An antelope has to run faster than the fastest lion or it becomes food!!



What is your goal?

- The one thing....

-Focus!



Compare

- Strategy to Career management
- How are you differentiating your CV??

