Naveed Ali

Class MBA

ID 17016

Q1 **By citing details from HBR article of Michael E Porter .Describe what is strategy in detail?**

In 1979 Harvard Business Review published How Competitive Forces Shape Strategy by a Associate professor, Michael E. Porter. It was his first HBR article and it started a revolution in the strategy field. In Porter’s five forces have shaped a generation of academic research and business practice. He also addresses common misunderstandings, provides practical guidance for users of the framework, and offers a deeper view of its implications for strategy today. In essence, the job of the strategist is to understand and cope with competition. Often, however managers define competition too narrowly, as if it occurred only among today’s direct competitors. Yet competition for profits goes beyond established industry rivals to include four other competitive forces as well customers, suppliers, potential entrants, and substitute products. The extended rivalry that results from all five forces defines an industry’s structure and shapes the nature of competitive interaction within an industry. As different from one another as industries might appear on the surface, the underlying drivers of profitability are the same. The global auto industry, for instance, appears to have nothing in common with the worldwide market for art masterpieces or the heavily regulated health-care delivery industry in Europe. But to understand industry competition and profitability in each of those three cases, one must analyze the industry’s underlying structure in terms of the five forces. If the forces are intense, as they are in such industries as airlines, textiles, and hotels, almost no company earns attractive returns on investment. If the forces are benign, as they are in industries such as software, soft drinks, and toiletries, many companies are profitable. Industry structure drives competition and profitability, not whether an industry produces a product or service, is emerging or mature, high tech or low tech, regulated or unregulated. While a myriad of factors can affect industry profitability in the short run including the weather and the business cycle industry structure, manifested in the competitive forces, sets industry profitability in the medium and long run. Understanding the competitive forces, and their underlying causes, reveals the roots of an industry’s current profitability while providing a framework for anticipating and influencing competition over time. A healthy industry structure should be as much competitive concern to strategists as their company’s own position. Understanding industry structure is also essential to effective strategic positioning. As we will see, defending against the competitive forces and shaping them in a company’s favor are crucial to strategy.Forces That Shape CompetitionThe configuration of the five forces differs by industry. In the market for commercial air craft, fierce rivalry between dominant producers Airbus and Boeing and the bargaining power of the airlines that place huge orders for aircraft are strong, while the threat of entry, the threat of substitutes, and the power of suppliers are more benign. In the movie theater industry, the proliferation of substitute forms of entertainment and the power of the movie producers and distributors who supply movies, the critical input, are important.The strongest competitive force or forces determine the profitability of an industry and become the most important to strategy formulation. The most salient force however is The analysis can be readily extended to understand the challenges facing a potential entrant. Threat of entry. New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Particularly when new entrants are diversifying from other markets, they can leverage existing capabilities and cash flows to shake up competition, as Pepsi did when it entered the bottled water industry, Microsoft did when it began to offer internet browsers, and Apple did when it entered the music distribution business. The threat of entry, therefore, puts a cap on the profit potential of an industry. When the threat is high, incumbents must hold down their prices or boost investment to deter new competitors. In specialty coffee retailing, for example, relatively low entry barriers mean that Starbucks must invest aggressively in modernizing stores and menus. The threat of entry in an industry depends on the height of entry barriers that are present and on the reaction entrants can expect from incumbents. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. It is the threat of entry, not whether entry actually occurs, that holds down profitability. Barriers to entry. Entry barriers are advantages that incumbents have relative to new entrants. There are seven major sources:

1. Supply-side economies of scale. These economies arise when firms that produce at larger volumes enjoy lower costs per unit because they can spread fixed costs over more units, employ more efficient technology, or command better terms from suppliers. Supply-side scale economies deter entry by forcing the aspiring entrant either to come into the industry on a large scale, which requires dislodging entrenched competitors, or to accept a cost disadvantage. Scale economies can be found in virtually every activity in the most important varies by industry.1 In microprocessors, incumbents such as Intel are protected by scale economies in research, chip fabrication, and consumer marketing. For lawn care companies like Scotts Miracle-Grow, the most important scale economies are found in the supply chain and media advertising. In small-package delivery, economies of scale arise in national logistical systems and information technology.

2. Demand-side benefits of scale. These bene-fits, also known as network effects, arise in industries where a buyer’s willingness to pay for a company’s product increases with the number of other buyers who also patronize the company. Buyers may trust larger companies more for a crucial product: Recall the old adage that no one ever got fired for buying from IBM Buyers may also value being in a network with a larger number of fellow customers. For instance, online auction participants are attracted to eBay because it offers the most potential trading partners. Demand side benefits of scale discourage entry by limiting the willingness of customers to buy from a newcomer and by reducing the price.

3. Customer switching costs. Switching costs are fixed costs that buyers face when they change suppliers. Such costs may arise because a buyer who switches vendors must, for example, alter product specifications, retrain employees to use a new product, or modify processes or information systems.

4. Capital requirements. The need to invest large financial resources in order to compete can deter new entrants. Capital may be necessary not only for fixed facilities but also to extend customer credit, build inventories, and fund start-up losses. The barrier is particularly great if the capital is required for unrecoverable and therefore harder-to-finance expenditures, such as up-front advertising or research and development. While major corporations have the financial resources to invade almost any industry, the huge capital requirements in certain fields limit the pool of likely entrants. Conversely, in such fields as tax preparation services or short-haul trucking, capital requirements are minimal and potential entrants plentiful. It is important not to overstate the degree to which capital requirements alone deter entry.

5. Incumbency advantages independent of size. No matter what their size, incumbents may have cost or quality advantages not available to potential rivals. These advantages can stem from such sources as proprietary technology, preferential access to the best raw material sources, preemption of the most favorable geographic locations, established brand identities, or cumulative experience that has allowed incumbents to learn how to produce more efficiently. Entrants try to bypass such advantages. Upstart discounters.

6. Unequal access to distribution channels. The new entrant must, of course, secure distribution of its product or service. A new food item, for example, must displace others from the supermarket shelf via price breaks, promotions, intense selling efforts, or some other means. The more limited the wholesale or retail channels are and the more that existing competitors have tied them up, the tougher entry into an industry will be. Sometimes access to distribution is so high a barrier that new entrants must bypass distribution channels altogether or create their own. Thus, upstart low-cost airlines have avoided distribution through travel agents and have encouraged passengers to book their own flights one internet.

7. Restrictive government policy. Government policy can hinder or aid new entry directly, as well as amplify the other entry barriers. Government directly limits or even forecloses entry into industries through, for instance, licensing requirements and restrictions on foreign investment. Regulated industries like liquor retailing, taxi services, and airlines are visible examples. Government policy heighten other entry barriers through such means as expansive patenting rules that protect proprietary technology from imitation or environmental or safety regulations that raise scale economies facing newcomers. Of course, government policies may also make entry easier—directly through subsidies, for instance.

Q 2. Explain origin of the strategy with the help of article by Bruce D Henderson.

By Bruce D. Henderson 1989 article. In 1934, Professor G.F. Gauze of Moscow University published the results of a set of experiments in which he put two very small animals of the same genus in a bottle with an adequate supply of food. If the animals were of different species, they could survive and persist together. If they were of the same species, they could not. This observation led to Gauze’s Principle of Competitive Exclusion: No two species can coexist that make their living in the identical way. Competition existed long before strategy. It began with life itself. The first one-cell organisms required certain resources to maintain life. When these resources were adequate, the number grew from one generation to the next. As life evolved, these organisms became a resource for more complex forms of life, and so on up the food chain. When any pair of species competed for some essential resource, sooner or later one displaced the other. In the absence of counterbalancing forces that could maintain a stable equilibrium by giving each species an advantage in its own territory, only one of any pair survived. Over millions of years, a complex network of competitive interaction developed. Today more than a million distinct existing species have been cataloged, each with some unique advantage in competing for the resources it requires. At any given time, thousands of species are becoming extinct and thousands more are emerging. What explains this abundance? Variety. The richer the environment, the greater the number of potentially significant variables that can give each species a unique advantage. But also, the richer the environment, the greater the potential number of competitors and the more severe the competition. For millions of years, natural competition involved no strategy. By chance and the laws of probability, competitors found the combinations of resources that best matched their different characteristics. This was not strategy but Darwinian natural selection, based on adaptation and the survival of the fittest. The same pattern exists in all living systems, including business. In both the competition of the ecosphere and the competition of trade and commerce, random chance is probably the major, all-pervasive factor. Chance determines the mutations and variations that survive and thrive from generation to generation. Those that leave relatively fewer offspring are displaced. Those that adapt best displace the rest. Physical and structural characteristics evolve and adapt to match the competitive environment. Behavior patterns evolve too and become embedded as instinctual reactions. In fact, business and biological competition would follow the same pattern of gradual evolutionary change except for one thing. Business strategists can use their imagination and ability to reason logically to accelerate the effects of competition and the rate of change. In other words, imagination and logic make strategy possible. Without them, behavior and tactics are either intuitive or the result of conditioned reflexes. But imagination and logic are only two of the factors that determine shifts in competitive equilibrium. Strategy also requires the ability to understand the complex web of natural competition.

If every business could grow indefinitely, the total market would grow to an infinite size on a finite earth. It has never happened. Competitors perpetually crowd each other out. The fittest survive and prosper until they displace their competitors or outgrow their resources. What explains this evolutionary process? Why do business competitors achieve the equilibrium they do? Remember Gauze’s Principle. Competitors that make their living in the same way cannot coexist no more in business than in nature. Each must be different enough to have a unique advantage. The continued existence of a number of competitors is proof per se that their advantages over each other are mutually exclusive. They may look alike, but they are different species. Consider Sears, Kmart, Wal-Mart, and Radio Shack. These stores overlap in the merchandise they sell, in the customers they serve, and in the areas where they operate. But to survive, each of these retailers has had to differentiate itself in important ways, to dominate different segments of the market. Each sells to different customers or offers different values, services, or products. What differentiates competitors in business may be purchase price, function, time utility or place utility or it may be nothing but the customer’s perception of the product and its supplier. Indeed, image is often the only basis of comparison between similar but different alternatives. That is why advertising can be valuable. Since businesses can combine these factors in many different ways, there will always be many possibilities for competitive coexistence. But also, many possibilities for each competitor to enlarge the scope of its advantage by changing what differentiates it from its rivals. Can evolution be planned for in business? That is what strategy is for.

Strategy is a deliberate search for a plan of action that will develop a business’s competitive advantage and compound it. For any company, the search is an iterative process that begins with a recognition of where you are and what you have now. Your most dangerous competitors are those that are most like you. The differences between you and your competitors are the basis of your advantage. If you are in business and are self-supporting, you already have some kind of competitive advantage, no matter how small or subtle. Otherwise, you would have gradually lost customers faster than you gained them. The objective is to enlarge the scope of your advantage, which can happen only at someone else’s expense.

Chasing market share is almost as productive as chasing the pot of gold at the end of the rainbow. You can never get there. Even if you could, you would find nothing. If you are in business, you already have 100% of your own market. So do your competitors. Your real goal is to expand the size of your market. But you will always have 100% of your market, whether it grows or shrinks. Your present market is what, where, and to whom you are selling what you now sell. Survival depends on keeping 100% of this market. To grow and prosper, however, you must expand the market in which you can maintain an advantage over any and all competitors who might be selling to your customers. Unless a business has a unique advantage over its rivals, it has no reason to exist. Unfortunately, many businesses compete in important areas where they operate at a disadvantage often at great cost, until, inevitably, they are crowded out. That happened to Texas Instruments and its pioneering personal computer. TI invented the semiconductor; its business was built on instrumentation. Why was it forced out of the personal computer business? Many executives have been led on a wild goose chase after market share by their inability to define the potential market in which they would, or could, enjoy a competitive advantage.

The basic elements of strategic competition are as follows.

(1) Ability to understand competitive behavior as a system in which competitors, customers, money, people, and resources continually interact.

(2) Ability to use this understanding to predict how a given strategic move will rebalance the competitive equilibrium.

(3) Resources that can be permanently committed to new uses even though the benefits will be deferred.

(4) Ability to predict risk and return with enough accuracy and confidence to justify that commitment.

(5) willingness to act. This list may sound like nothing more than the basic requirements for making any ordinary investment. But strategy is not that simple. It is all-encompassing, calling on the commitment and dedication of the whole organization. Any competitor’s failure to react and then deploy and commit its own resources against the strategic move of a rival can turn existing competitive relationships upside down. That is why strategic competition compresses time. Natural competition has none of these characteristics.

Q3: Discuss five competitive forces that shape industry.

**Ans: Five competitive forces that shape industry**

 The five forces are frequently used to measure competition intensity, attractiveness, and profitability of an industry or market. These forces play a vital role in shaping industry that’s why we have to keep in mind the importance of these forces and must have to consider these forces.

Five competitive forces are:

1.  **Competition in the industry**

**2. Potential of new entrants into the industry**

 **3. Power of suppliers**

**4. Power of customers**

**5. Threat of substitute products**

**Now we will discuss these five steps in detail one by one**

1. **Competition in the Industry**

The first of the five forces refers to the number of competitors and their ability to undercut a company. The larger the number of competitors, along with the number of equivalent products and services they offer, the lesser the power of a company. Suppliers and buyers seek out a company's [competition](https://www.investopedia.com/articles/markets/051215/who-are-netflixs-main-competitors-nflx.asp) if they are able to offer a better deal or lower prices. Conversely, when competitive rivalry is low, a company has greater power to charge higher prices and set the terms of deals to achieve higher sales and profits.

## 2. **Potential of New Entrants Into an Industry.**

A company's power is also affected by the force of new entrants into its market. The less time and money it costs for a competitor to enter a company's market and be an effective competitor, the more an established company's position could be significantly weakened. An industry with strong barriers to entry is ideal for existing companies within that industry since the company would be able to charge higher prices and negotiate better terms.

## 3. **Power of Suppliers**

The next factor in the five forces addresses how easily [suppliers](https://www.investopedia.com/articles/markets/051616/amazon-stock-analyzing-5-key-suppliers-amzn.asp) can drive up the cost of inputs. It is affected by the number of suppliers of key inputs of a good or service, how unique these inputs are, and how much it would cost a company to switch to another supplier. The fewer suppliers to an industry, the more a company would depend on a supplier. As a result, the supplier has more power and can drive up input costs and push for other advantages in trade. On the other hand, when there are many suppliers or low switching costs between rival suppliers, a company can keep its input costs lower and enhance its profits.

## 4.  **Power of Customers**

The ability that customers have to drive prices lower or their level of power is one of the five forces. It is affected by how many buyers or customers a company has, how significant each customer is, and how much it would cost a company to find new customers or markets for its output. A company that has many, smaller, independent customers will have an easier time charging higher prices to increase profitability.

## 5. **Threat of Substitutes**

The last of the five forces focuses on substitutes. Substitute goods or services that can be used in place of a company's products or services pose a threat. Companies that produce goods or services for which there are no close substitutes will have more power to increase prices and lock in favorable terms. When close substitutes are available, customers will have the option to forgo buying a company's product, and a company's power can be weakened.

The Five Forces model can help businesses boost profits, but they must continuously monitor any changes in the five forces and adjust their business strategy.

Q4: **Discuss in detail what you personally have learned about strategic management in this course.**

Ans: I have learned more than things in strategic management so I explain with detail in the following.

Strategic Management: Strategic Management is the management of an organization resource to achieve its goals and objectives. Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies and ensuring that management roll out the strategies.

In the field of [management](https://en.wikipedia.org/wiki/Management), strategic management involves the formulation and implementation of the major goals and initiatives taken by an [organization](https://en.wikipedia.org/wiki/Organization)'s top managers on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization operates.

 Strategic management provides overall direction to an enterprise and involves specifying the organization's [objectives](https://en.wikipedia.org/wiki/Goal), developing [policies](https://en.wikipedia.org/wiki/Policy) and [plans](https://en.wikipedia.org/wiki/Plan) to achieve those objectives, and then allocating resources to implement the plans.

**STRATEGIC MANAGEMENT DEFINITION AND MEANING**: Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry. Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm’s performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn’t ignore the threats. Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage. It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving. Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

LEVELS OF STRATEGY A typical business firm should consider three types of strategies, which form a hierarchy style.

**Corporate strategy**:

Which describes a company’s overall direction towards growth by managing business and product lines. These include stability, growth and retrenchment. For example, Coco cola, Inc., has followed the growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader Business strategy - Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm’s products or services in an industry or market segment served by that business unit. Business strategy falls in the in the realm of corporate strategy. For example, Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design. In contrast, ANZ Grind lays merged with Standard Chartered Bank to emerge competitively.

**Functional strategy:**

It is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide the firm with a competitive advantage. For example, Procter and Gamble spends huge amounts on advertising to create customer demand.

**Operating strategy**:

These are concerned with how the component parts of an organization deliver effectively the corporate, business and functional -level strategies in terms of resources, processes and people. They are at departmental level and set periodic short-term targets for accomplishment.

**OBJECTIVES OF STRATEGIC MANAGEMENT:**

In strategic management, there are strategic objectives and financial objectives. Additionally, all objectives are either short-run or long-run types. When planning a firm's strategy, it is important to have objectives in mind and to understand the differences between the types of objectives. Strategic Objectives Strategic objectives deal with the firm's position in the model. You might do this, for example, by positioning the firm relative to the external forces – bargaining power of customers, bargaining power of suppliers, threat of new entrants, threat of substitutes, and competition within the industry – that can impact a business. Strategic objectives might include expanding market share, changing market position or under-cutting a competitor's costs. Financial Objectives Managers use financial objectives to measure strategic performance. For example, if the firm's strategic objective is to increase efficiency, the financial objective could be to increase return on assets or return on capital. Financial objectives, derived from management accounting, are more concrete. Short-run Objectives Financial and strategic objectives can either be short-run or long-run objectives. Short-run objectives deal with the immediate future. They typically focus on tangible goals that management can realize in a short time. An example of a short-run objective might be to increase monthly sales. Long-run Objectives Long-run objectives target the firm's long-term position. While short-run objectives focus on a firm's annual or monthly performance, long-run objectives concern themselves with the firm's development over several years. Examples of long-term objectives might be to become the market leader or to attain sustainable growth.

**Strategic Management Process:**

VISION, MISSION, OBJECTIVES, POLICIES A Mission Statement defines the company's business, its objectives and its approach to reach those objectives. A Vision Statement describes the desired future position of the company. Elements of Mission and Vision Statements are often combined to provide a statement of the company's purposes, goals and values.