



STRATEGIC MANAGEMENT

Stretch, Leverage and Fit

Porter's Value Chain Analysis

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MASTER OF BUSINESS ADMINISTRATION (ON WEEKEND BASIS)

Strategic Management

Course code: MBA 202

L-2, Credits: 3

Objective: To develop an understanding of the Strategic Management process in a dynamic and competitive global environment.

Course Contents

Unit I

Nature of Strategic Management: Concept of Strategy; Vision Mission, Goals and Objectives; External Environmental Analysis; Analyzing Companies Resource in Competitive Position; Mintzberg's 5Ps of Strategy; Strategic Management Process, Corporate Governance. **(10 Hours)**

Unit II

Strategy Formulation: External Environmental Analysis; Analyzing Companies Resource in Competitive Position; Concept of Stretch, Leverage and Fit; Strategic Analysis and Choice, Porter's Five Forces Model, Concept of Value Chain, Grand Strategies; Porter's Generic Strategies; Strategies for Competing in Global Markets. **(12 Hours)**



BY THE END OF THIS SESSION, YOU WILL KNOW...

- Concept of Stretch, Leverage and Fit
- What is Value
- What are the sources of value
- Is Value tangible or intangible; context sensitive or independent of context
- Porter's Value chain
- Value chain versus Supply chain

ASPIRATION VERSUS RESOURCES

Rewind the clocks by 10 - 15 years. We're in 2005-10. Now consider:

- 1. What are the chances that any other company would overtake Nokia in cellphones market?**
- 2. Can any company overtake Coca Cola in overall Brand valuation?**
- 3. Can anyone surpass Walmart as the world's largest retailer?**

These companies - Nokia, Coca Cola, Walmart had strong reputations, distribution channels, deep pockets, technological riches.

ASPIRATION VERSUS RESOURCES

Abundant resources alone won't keep an industry giant on top when its hungrier rival practices the strategic discipline of stretch.

Stretch - Misfit or gap between aspirations and resources

Leverage

- Seeks to get the most out of the resources one has—to get a much bigger bang for the buck.
- Act of concentrating, accumulating, complementing, recovering resources in such a manner that meagre (less sufficient) resource base can be stretched to meet the aspiration that an Organization dares to achieve.

Fit - Opposite to Stretch - positioning the firm by matching it's Organisational resources to it's environment.

WHAT IS VALUE?



Role play exercise to determine the cola without knowing the brand
It's not just the "taste" .. it's something else.
Image it creates, perhaps. Similarly, think of Harley Davidson or Bullet motorbikes

IS VALUE TANGIBLE OR INTANGIBLE?

- Tangible - you buy or use the product for the product itself. Example: Asian paints that are waterproof (damp proof)
- Intangible - you buy the product because of something not directly related to the product feature. Example: Coca Cola
- Example of restaurants

IS VALUE CONTEXT SENSITIVE?

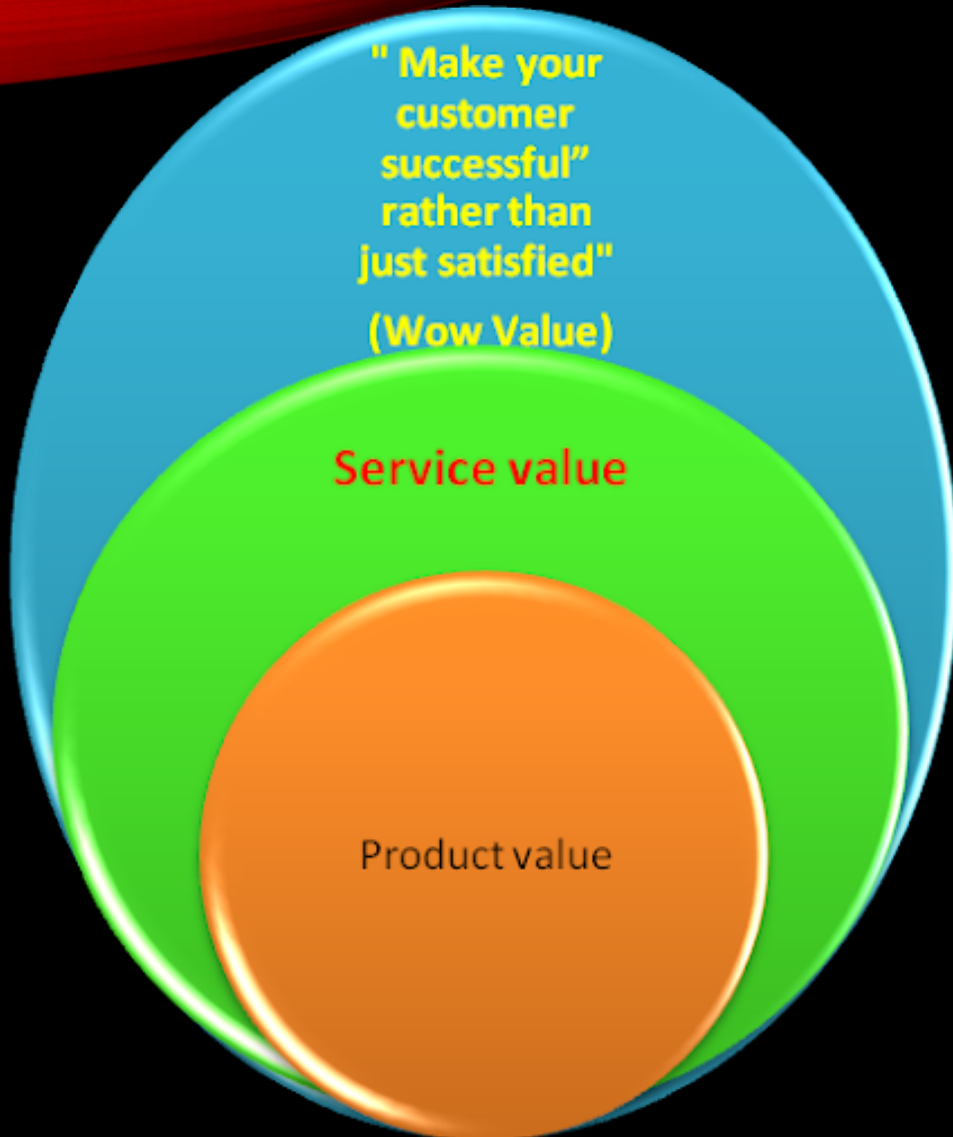
- Discussion
- Current examples

VALUE

- ..is the perception of uniqueness by the customer
- ..more value means willingness to pay more
- ..Creating more value is a strategic imperative for firms

Definition - Value is the sum total of the benefits received by the customer and a quantitative measure of value is the willingness to pay by the customer

SOURCES OF VALUE



- Intrinsic Product value - Sugar free sugar, Organic Food (not because of home delivery)
- Service value - Delivery Pizza within 30 minutes (not taste but service)
- "Wow" value - Fast food joint has a play are for children (nothing to do with the food)

• Source: Jim Clemmer, 1990, sources of value

UNILEVER

- Unilever lays a lot of stress on the environmental factors it considers after it's products are used. How these products are disposed off is a value proposition which customers perceive as very important.
- What category do you think does this fall into -
 - Product value
 - Service
 - Wow value

PORTER'S VALUE CHAIN

- Disaggregate the activities of a firm
- Now identify related activities and group them under certain heads
- This is meant to make it easier to analyse them together under one head.
- Include in this exercise only those activities that have a potential to add **value** to the customer.

PORTER'S VALUE CHAIN - ELEMENTS

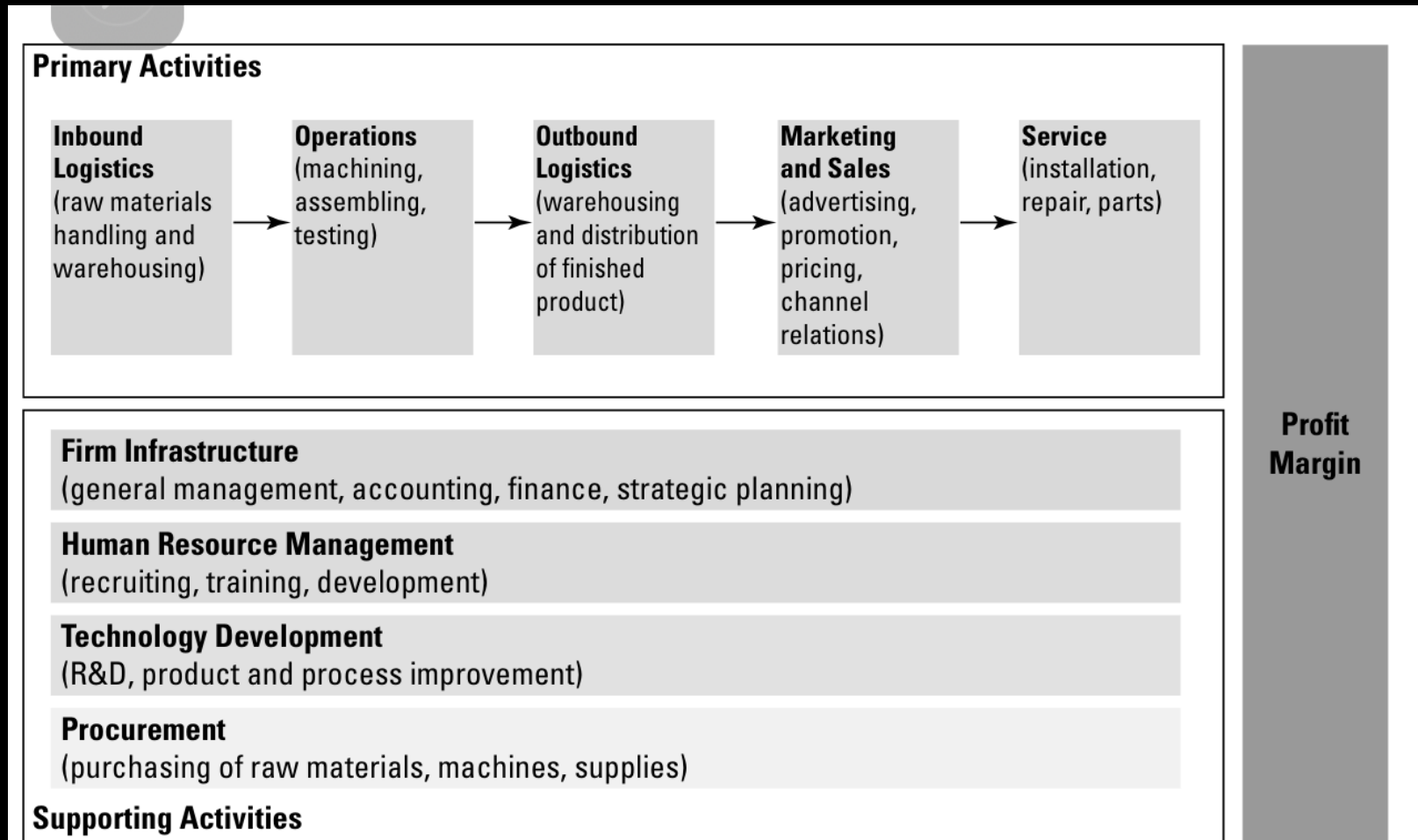
Primary activities:

- Inbound logistics
- Operations
- Outbound logistics
- Sales and marketing
- Service and support

Support activities:

- Human Resource
- Technological development
- Procurement
- Firm infrastructure

PORTER'S VALUE CHAIN



SOURCE: Based on The Free Press, a division of Simon & Schuster, from *Competitive Advantage: Creating and Sustaining Superior Performance* by Michael E. Porter. © Thomas L. Wheelen.

SUPPORT ACTIVITIES

INFRA - Google provides play or xxx area

INFRA - University provides library as a support activity

HR - Google provides time-off for personal projects. Many products are a result of that.

HR - HCL said Employee **First** Customer **Second**

TECHNOLOGY - Intel example (design and automation)

PROCUREMENT – Purchasing, Servicing, Suppliers not only for raw material –
Toyota

WEIGHTAGE OF VALUE ACROSS THE CHAIN

NOTE: All value activities are relevant, however, their weightage are different across industries based on end user expectation.

- Banking – Operations is key
- FMCG – Sales & Marketing
- Domestic Sales Electrics – After Sales Service
- Healthcare equipment – After Sales Service

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THREE TIERS IN VALUE CHAIN

- Internal Cost Analysis
- Internal Differentiation Analysis
- Vertical Linkage Analysis

INTEGRATION OF VALUE CHAIN / LINKAGES BEYOND THE FIRM

- Forward – Customers
- Backward – Vendors
- Distribution – Dealers

BENEFITS OF VALUE CHAIN ANALYSIS

- If someone outside the firm can do it better than in-house -> outsourcing
- After breaking down activities into value chain you can figure that out.
- Structured way of assessing
- Strategic choice to purchase some activities from outside suppliers

EXAMPLES - CLICK THE LINKS

- [Coke's value chain](#)
- [Unilevers value chain](#)

ASSIGNMENT

1. What is the difference between Supply chain and Value chain?
2. Create a value chain for an educational institute.
3. What are the benefits of value chain analysis