FEUP | Academic Year 2024-2025

Course OGE
Organizational Design and Management

Managing the Planning Process (part II)

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The contents presented here has been collected from different sources (Books: Organizational theory, design and change (Gareth R.Jones); Modern Management (Certo); Managment and Organizations (Robbins Coultler) and lectures notes from several origins). Several additions, modifications and updates have been made by Américo Azevedo (ala@fe.up.pt) *in order to support the learning process defined in the context of OGE program .*

Which of the following is not true of the functional structure?

a) Function organization are fairly effective in unstable environment, where they are part of heterogeneous, global market

b) There is an inherent ease of control and review in function organizations.

c) There is low level of duplication of work and internal competition

d) It is slow to adapt to market needs

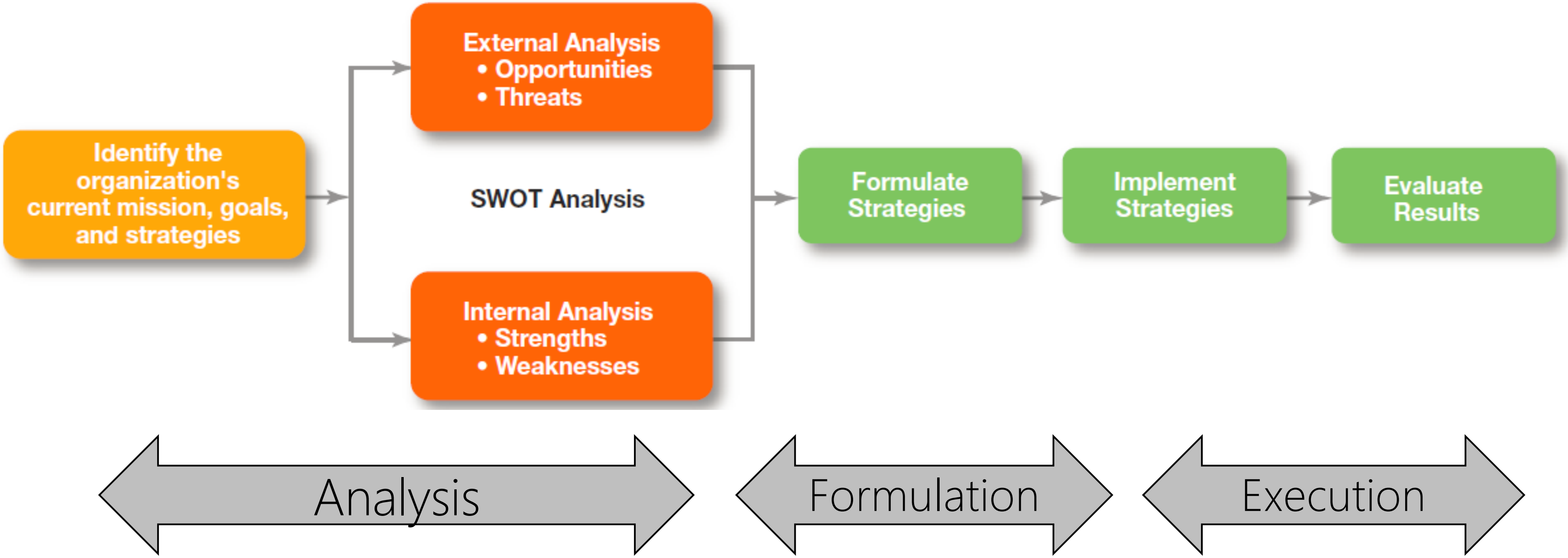
e) It helps develop specialization in the employees.

After studying this class, you should be able to:

- **Understand** frameworks for help managers establish priorities for allocating resources
- **Describe main** strategic tools, such as:
  - BCG Matrix,
  - GE/McKinsey Matrix,
  - Ansoff Matrix
  - Value Curves Canvas

Planning: the process of setting objectives and determining how to best accomplish them

- Planning –
  - defining the organization's **goals/Objectives**, establishing **strategies** for achieving those goals, and developing **plans** to integrate and coordinate work activities.



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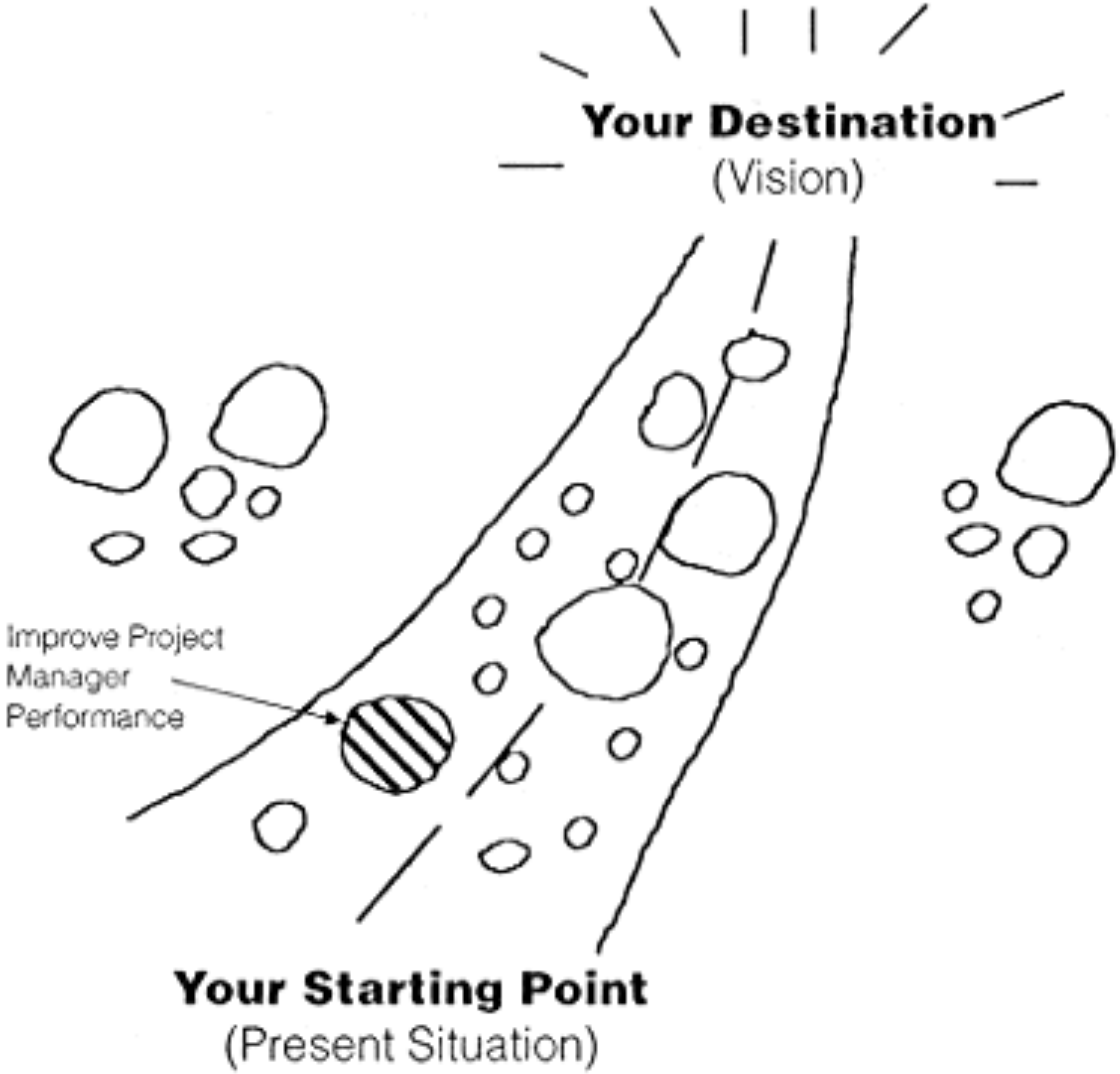
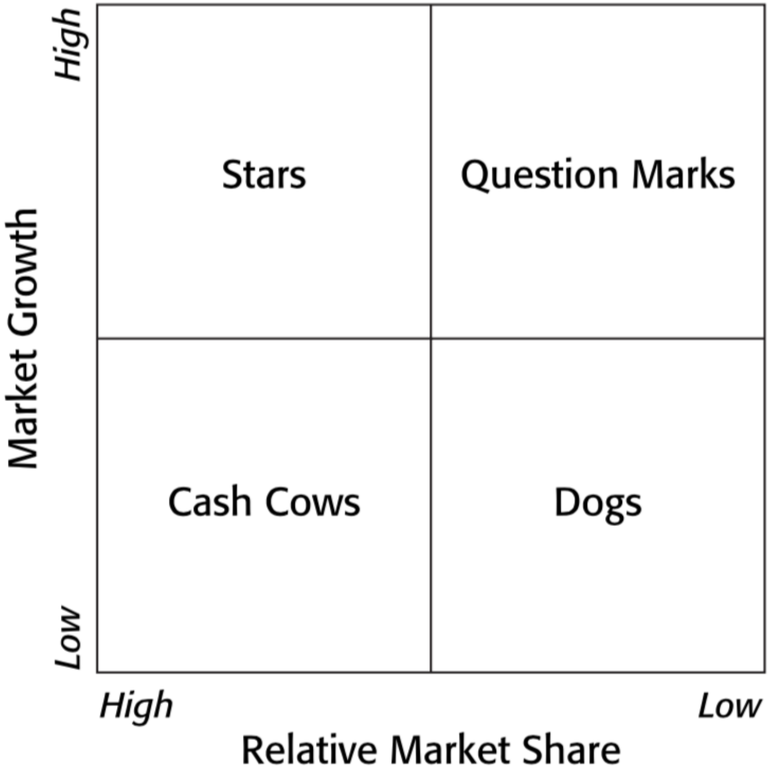
Remember Strategy Definiton



BCG: Product Portfolio Matrix

BCG founder Bruce Hendersen created the Product Portfolio matrix in the early 1970s.

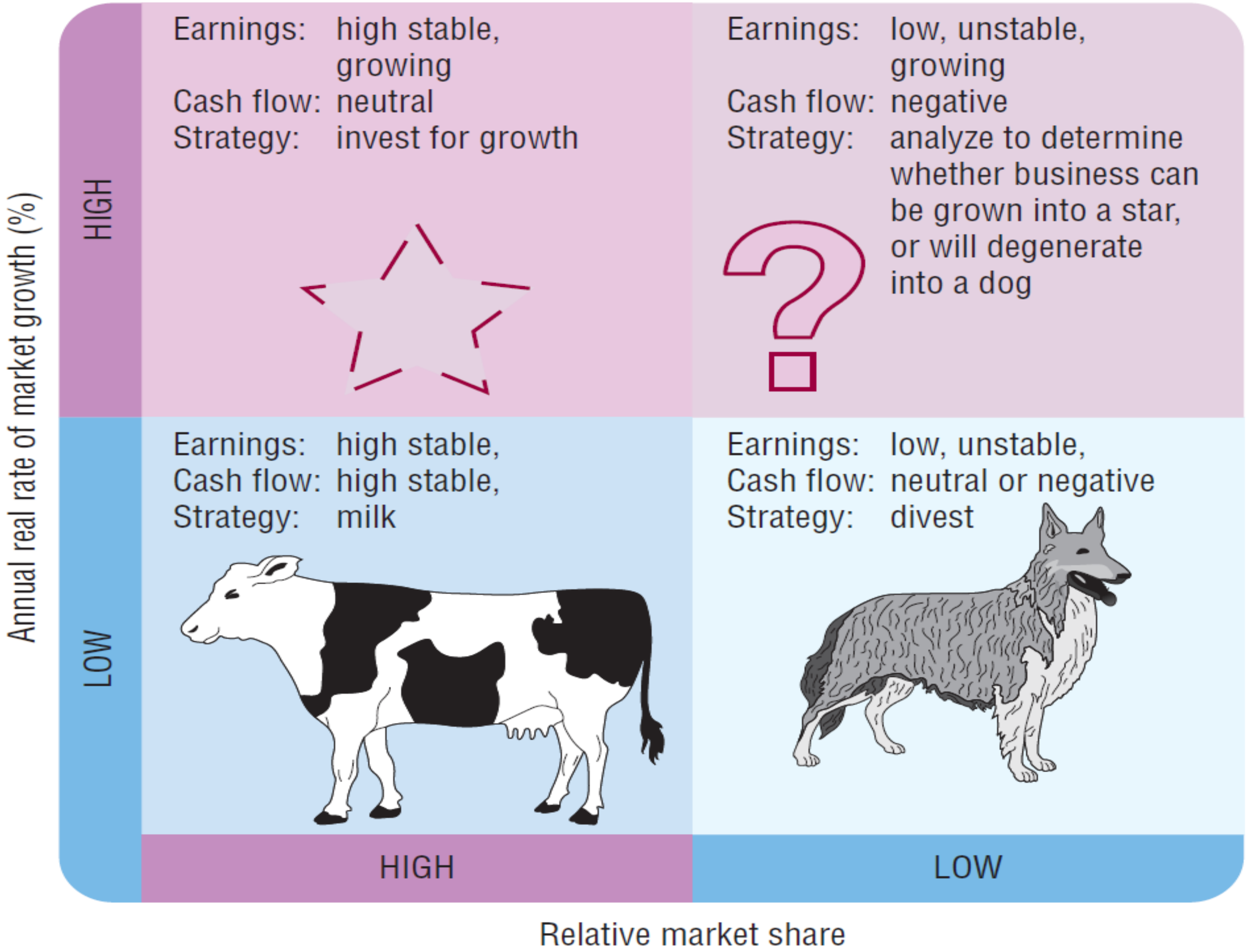
The BCG matrix is used for analysis and to support strategic decision making (business units, subsidiaries, and products): framework for understanding businesses and helps managers establish priorities for allocating resources



Market Growth serves as a proxy for cash requirement.
A rapidly expanding market requires more investment to maintain a competitive position.

Relative Market Share is determined by dividing the percentage of the market held by a firm by its largest competitor.

BCG matrix is used for analysis and to support strategic decision making



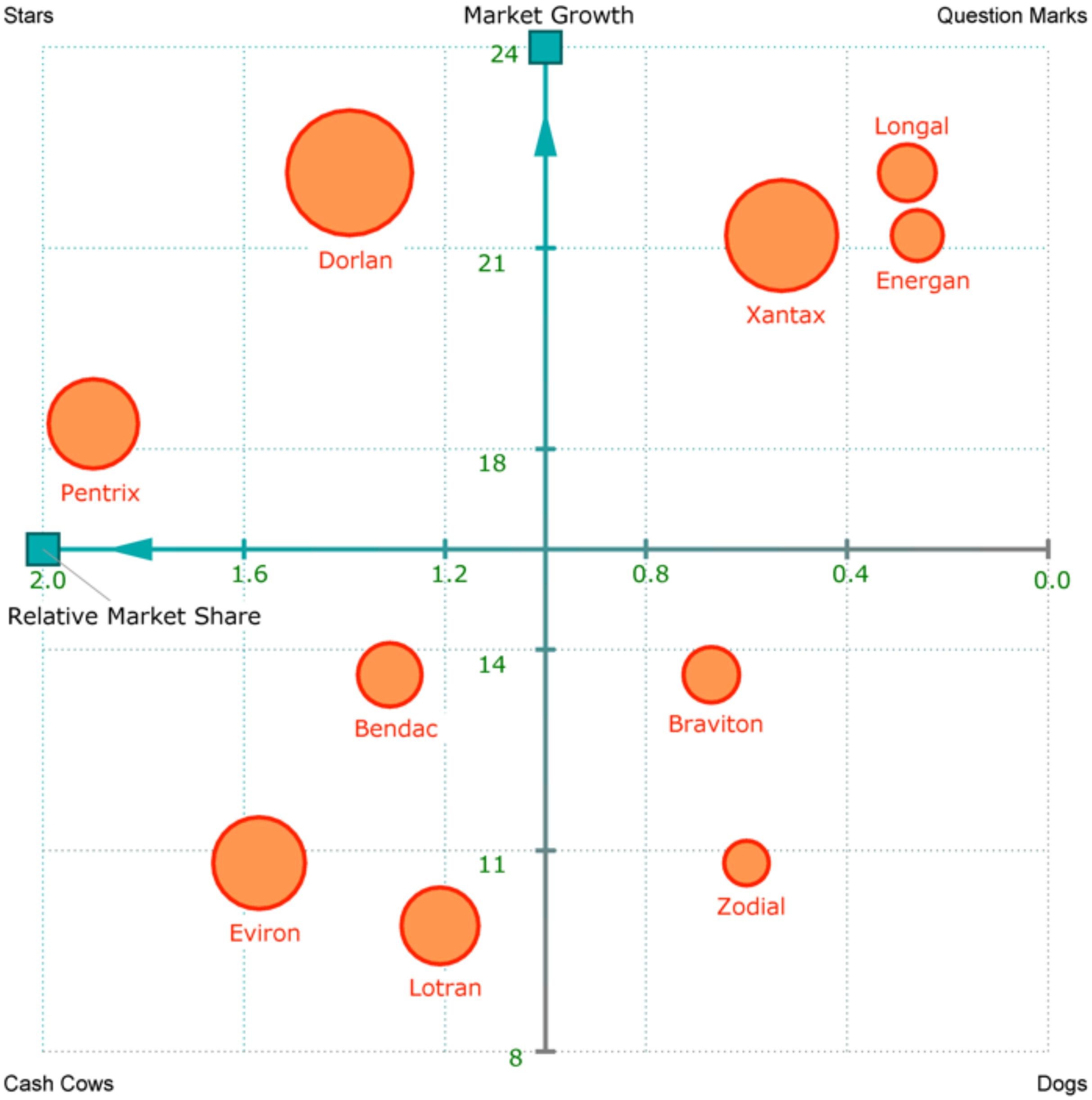
Earnings: high stable, growing
Cash flow: neutral
Strategy: invest for growth

Earnings: low, unstable, growing
Cash flow: negative
Strategy: analyze to determine whether business can be grown into a star, or will degenerate into a dog

Earnings: high stable,
Cash flow: high stable,
Strategy: milk

Earnings: low, unstable,
Cash flow: neutral or negative
Strategy: divest

BCG Example



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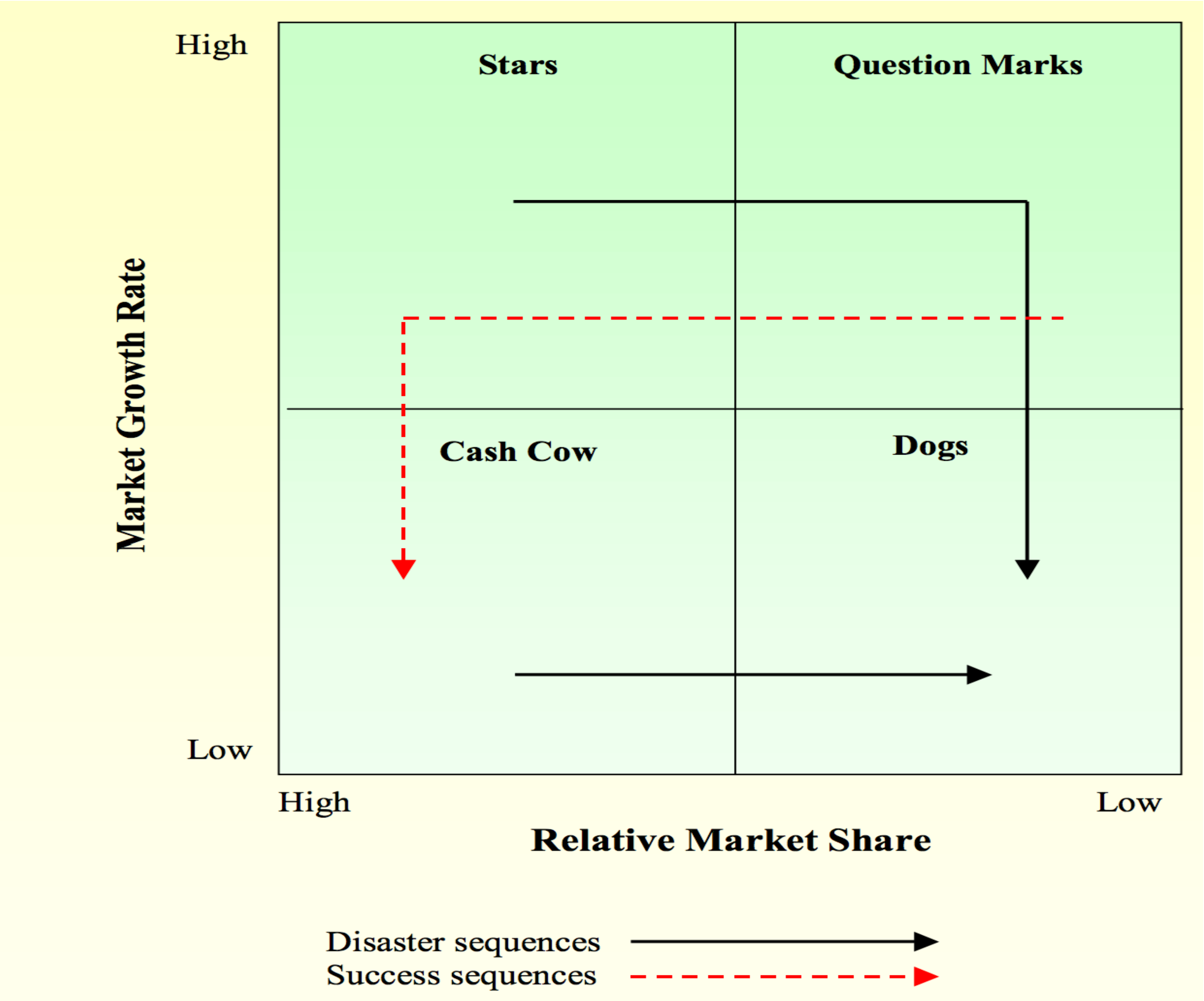
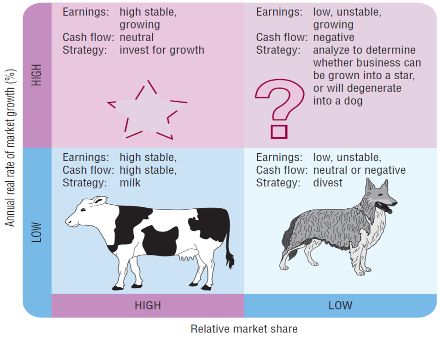


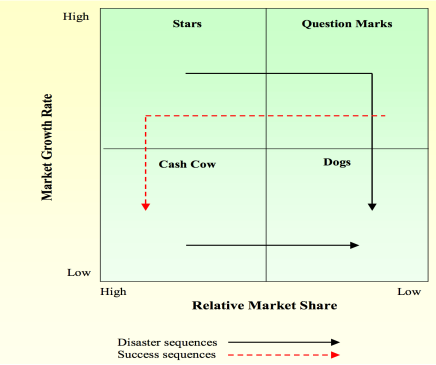
High
Stars
Question Marks
Market Growth Rate
Cash Cow
Dogs
Low
High
Low
Relative Market Share
Disaster sequences
Success sequences

BCG dimensions

- **Question Marks:** Products with a Low share of a High anticipated growth market
  - A new product launched into a high-growth market with an existing market leader would normally be considered a question mark.
  - They absorb most money as you attempt to increase market share
  - Strategic options include market development, product development



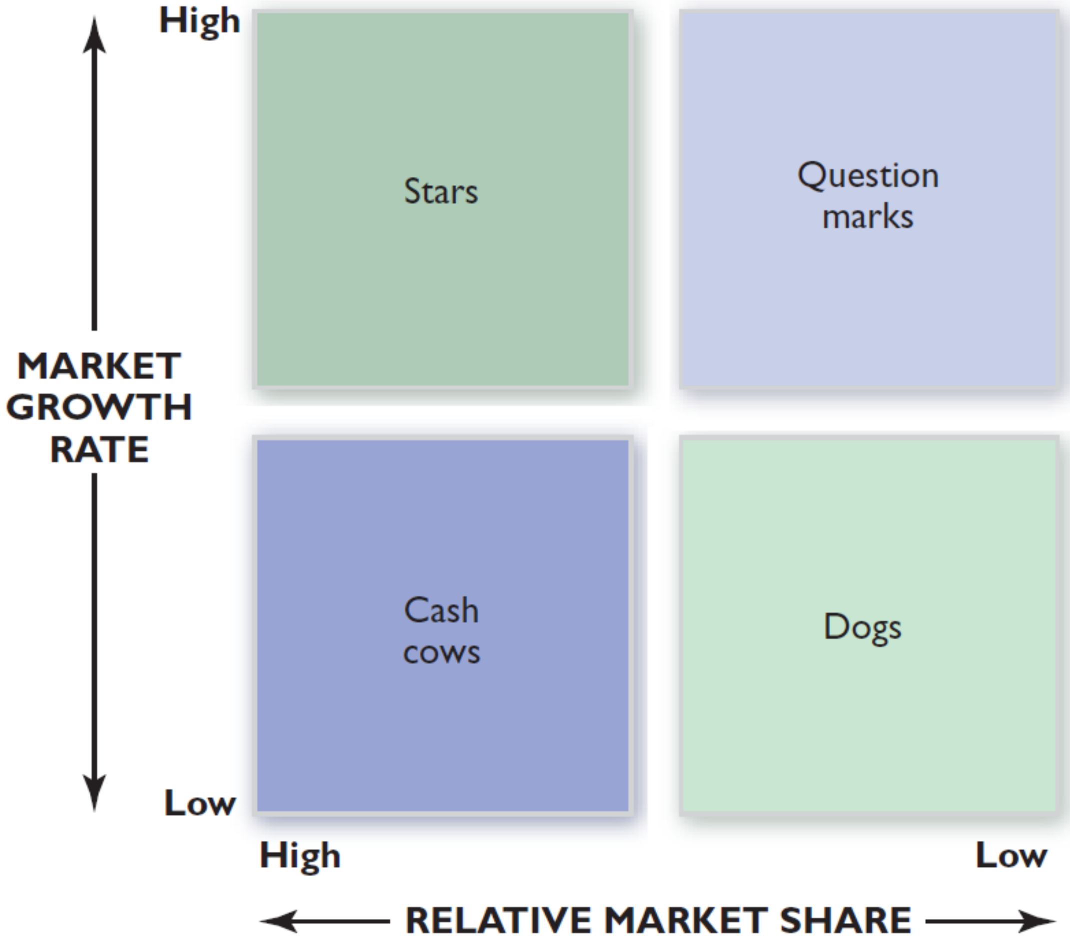
- **Stars:** Products in high-growth markets with a relatively high share of that market.
  - Stars tend to generate high amounts of income - The stars provide the basis for long-term growth and profitability
  - Investment is normally still required to maintain growth and defend the leadership position - Keep and build your stars.
  - Strategic options include: integration (backwards, forward), joint-ventures



- **Cash Cows:** High market share/Low anticipated growth rate, strong competitive position
  - The funds generated by your Cash Cows is used to turn “Question Marks” into Stars
- **Dogs:** Low market share/Low anticipated growth rate - generate either low profit or return a loss

BCG: calculations

$$\text{Market growth rate} = \frac{\text{total market (current year)} - \text{total market (previous year)}}{\text{Total market (previous year)}} \text{ x } 100$$



10x High	4x	2x	1.5x	1x	0.5x	0.2x	0.1x Low

Relative market share (current year) = SBU sales / Leading competitor's sales
(Current year) (Current year)

BCG Exercise (I)

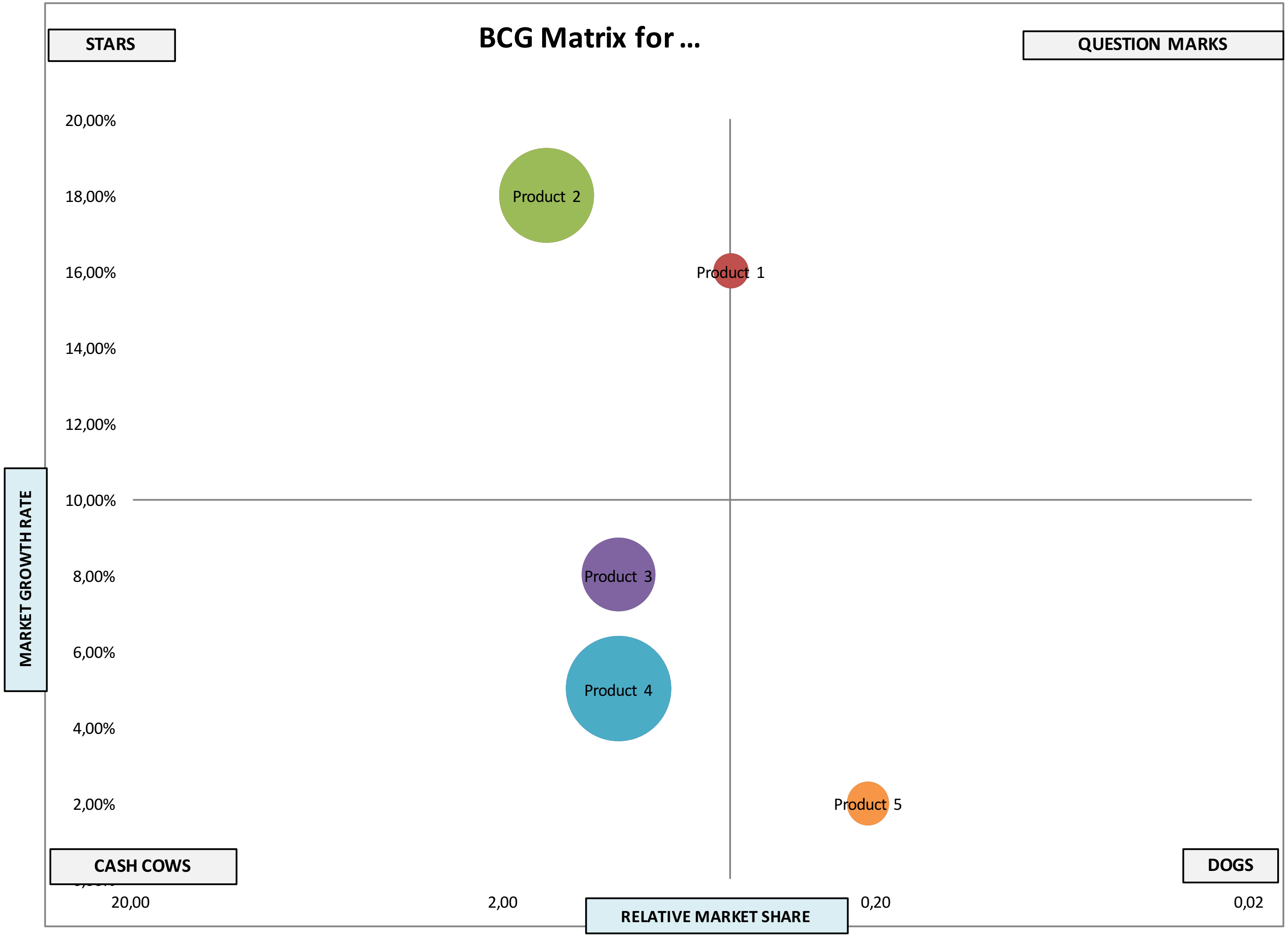
- Consider the following data related to a company.

Division / Product	1	2	3	4	5
Sales k€	400	2800	1700	3500	600
# Competitors	6	20	16	3	8
Sales Market Leaders k€	800	1800	1700	3500	2800
Market growth (%)	16	18	8	5	2
Total Market k€	2300	12200	8400	5300	7300
Profitability % sales	8	6	9	5	6

- Has the company a balanced portfolio?
- From the BCG what do you see as strengths and why?
- Propose generic strategies for each division or product.

BCG Exercise (II)

$$\text{Market growth rate} = \frac{\text{total market (current year)} - \text{total market (previous year)}}{\text{Total market (previous year)}} \times 100$$



Relative market share (current year) = SBU sales / Leading competitor's sales
(Current year) (Current year)

Quizz

The market for vehicle washing products worth 160 million euros and is stagnant. The brand CarShampoo exists for over 15 years in the market and has a market share of 60%. If you had to classify the business unit responsible for the segment of vehicle washing products according to the BCG matrix, how would you classify it

1. *Star.*
2. *Cash Cow.*
3. *Question Mark.*
4. *Dog.*
5. None of the previous

The BCG Limitations

- There is an **assumption** that higher rates of profit are directly related to high rates of market share.
  - This may not always be the case!
  - Growth rate is only one aspect of industry attractiveness and high growth markets are not always the most profitable!

- It considers the product or business in **relation to the largest player** only.
  - It ignores the impact of small competitors whose market share is rising fast.

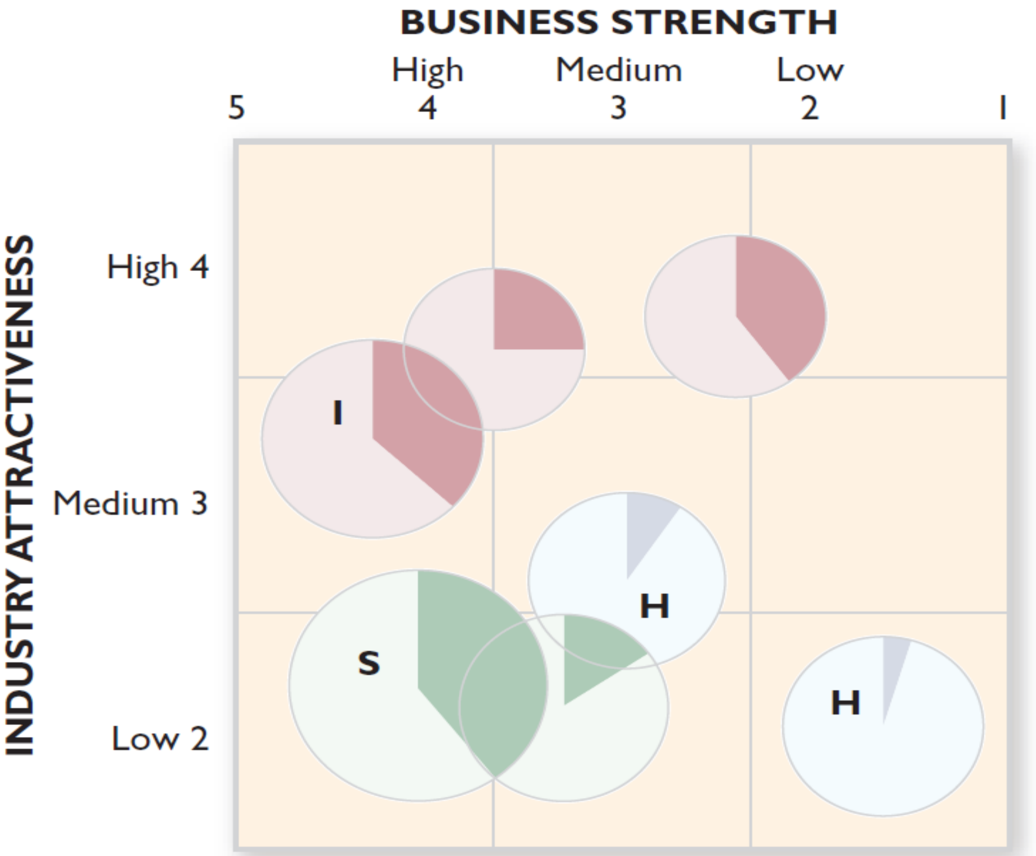
- It ignores interdependence and synergy

The GE/ McKinsey Matrix

Used for classifying <u>product lines</u> or <u>strategic business units</u>, It considers two group of criteria:

- The **attractiveness of the industry/market** concerned
- The **strength of the business**

Can be described as a **multifactor portfolio model** and it has a greater flexibility compared to the BCG, in terms of the elements that can be included.



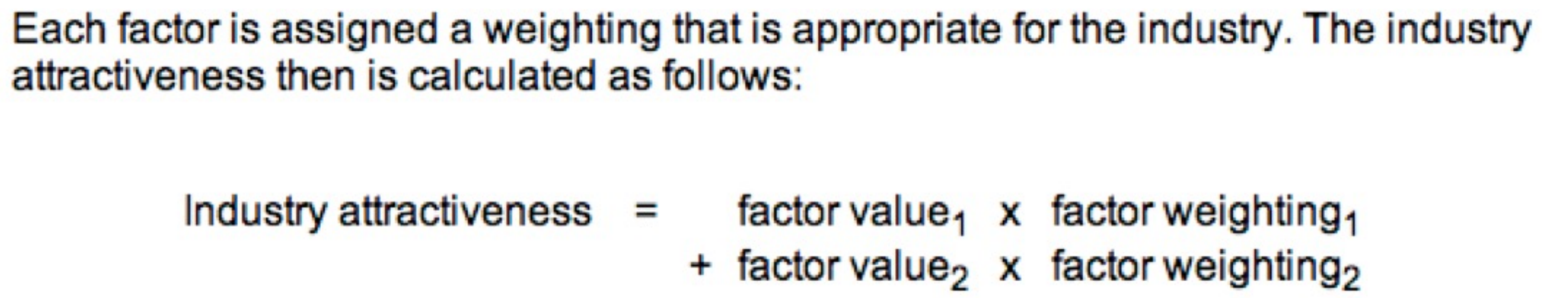
I – Invest/grow
S – Selective investment
H – Harvest/divest

Each business unit can be portrayed as a circle plotted on the matrix, with the information conveyed as follows:

- Market size is represented by the size of the circle.
- Market share is shown by using the circle as a pie chart.
- The expected future position of the circle is portrayed by means of an arrow.

Vertical axis: industry attractiveness

- Market size
- Growth rate
- Overall returns in the industry
- Industry profitability
- Intensity of competition
- Profit margins
- Differentiation
- Industry fluctuations
- Customer/supplier relations
- Variability of demand
- Rate of technological change
- Volatility
- Availability of market intelligence
- Availability of work force
- Global opportunities
- PEST factors
- Entry and exit barrier
- Government regulation

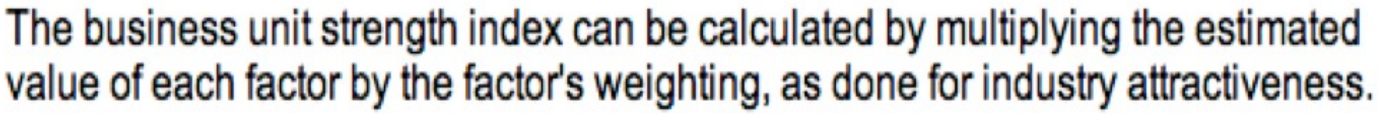


Each factor is assigned a weighting that is appropriate for the industry. The industry attractiveness then is calculated as follows:

$$\text{Industry attractiveness} = \text{factor value}_1 \times \text{factor weighting}_1 + \text{factor value}_2 \times \text{factor weighting}_2$$

Horizontal axis: assessing business strengths

- Production capacity
- Production flexibility
- Unit costs
- R and D capabilities
- Quality
- Reliability
- Company image
- Product uniqueness
- Cost and profitability
- Profit margins relative to competitors
- Manufacturing capability
- Organisational skills
- Market share
- Growth in market share
- Marketing capabilities
- Management competence
- Skills of workforce
- Distribution network
- Size and quality of sales force
- Service quality
- Customer loyalty
- Brand recognition



The business unit strength index can be calculated by multiplying the estimated value of each factor by the factor's weighting, as done for industry attractiveness.

Example: Rating Industry Attractiveness

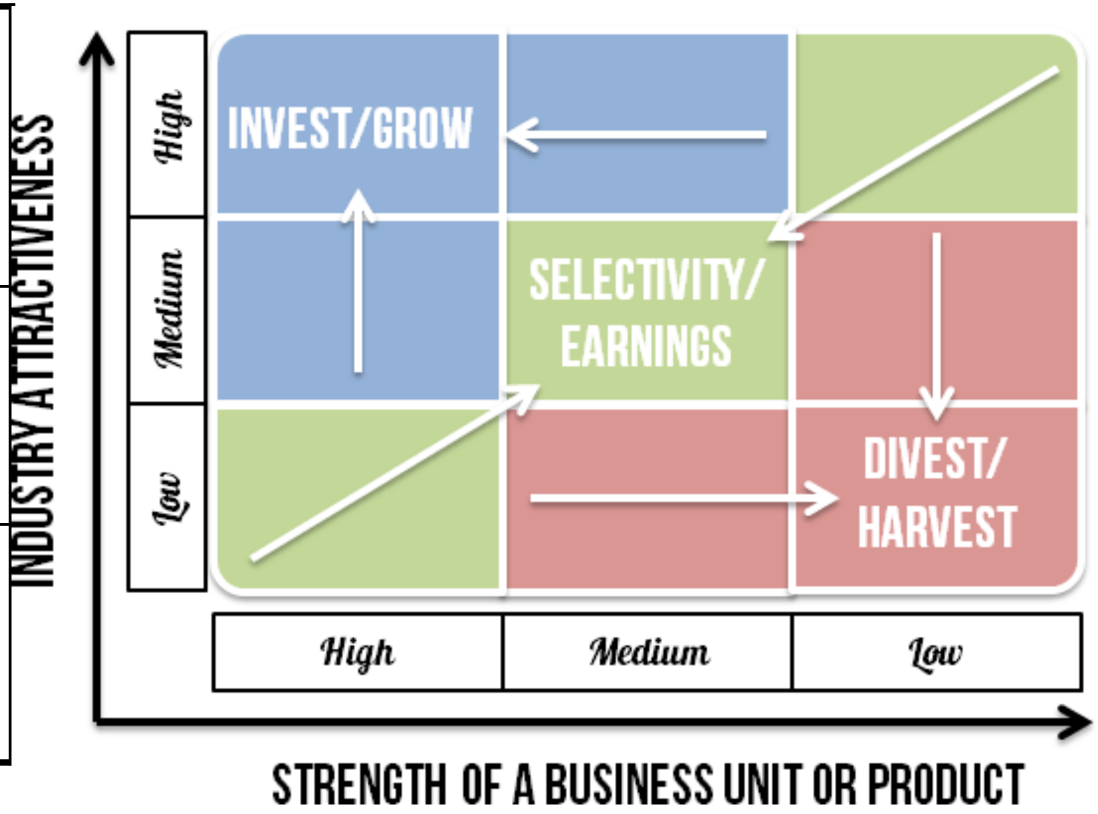
Industry Attractiveness Factor	Weight	Attractiveness Rating	Weighted Industry Rating
Market size and projected growth	0.15	5	0.75
Intensity of competition	0.30	8	2.40
Emerging industry opportunities and threats	0.05	2	0.10
Social, political, regulatory, and environmental factors	0.05	6	0.30
Seasonality and cyclical influences	0.05	4	0.20
Resource requirements	0.15	7	1.05
Industry profitability	0.15	4	0.60
Degree of risk and uncertainty	0.10	5	0.50
Sum of weights	1.00		
Industry attractiveness rating			5.90

Example: Rating Competitive Strength

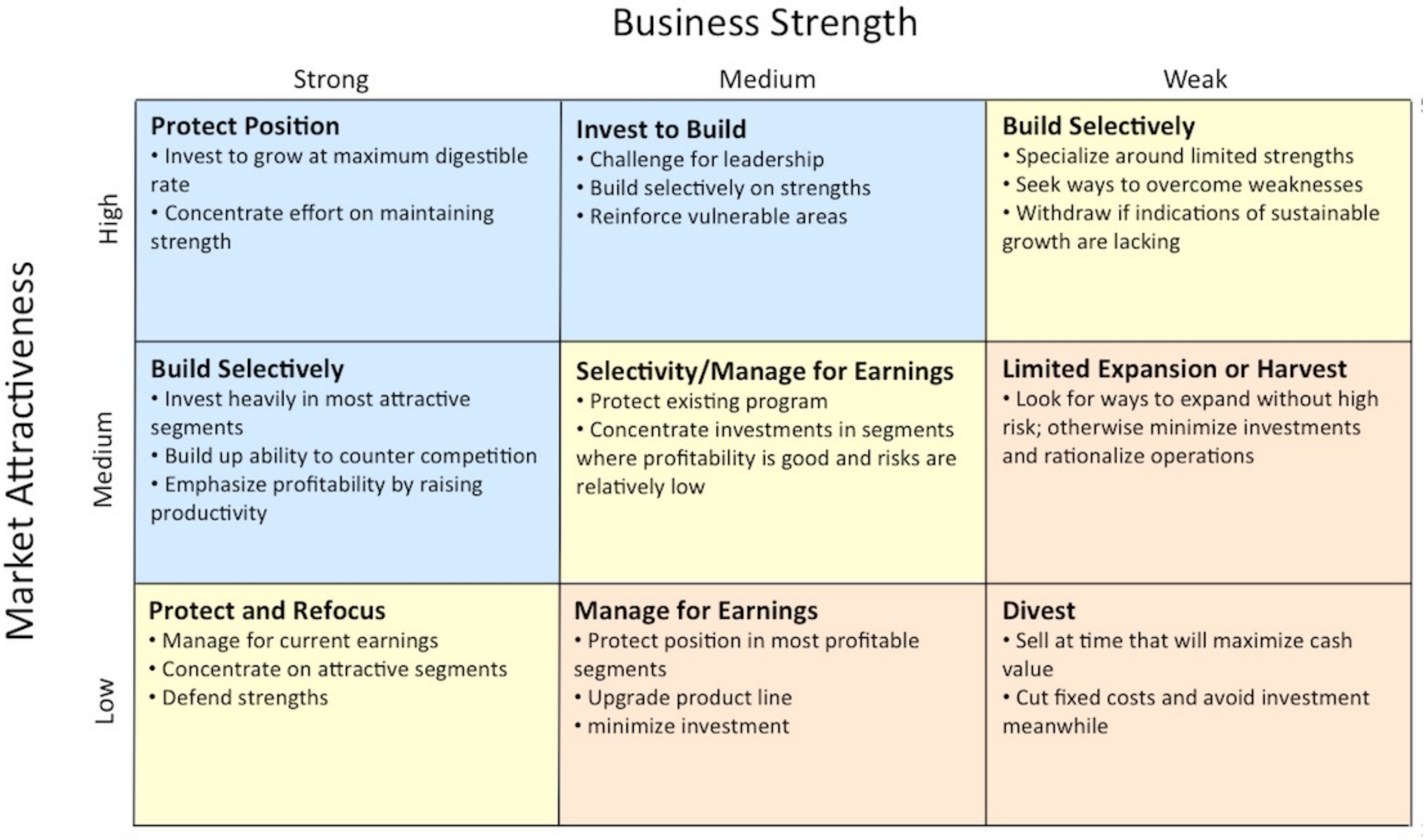
Competitive Strength Measure	Weight	Strength Rating	Weighted Strength Rating
Relative market share	0.20	5	1.00
Ability to compete on cost	0.25	8	2.00
Ability to match rivals on quality or service	0.05	2	0.10
Bargaining leverage	0.10	6	0.60
Technology/innovation capabilities	0.05	4	0.20
How well resources match KSFs	0.15	7	1.05
Brand name reputation/image	0.10	4	0.40
Degree of profit relative to rivals	0.10	5	0.50
Sum of weights	1.00		
Competitive strength rating			5.85

Recommended strategies

Grow	-strong business units in attractive industries -average business units in attractive industries -strong units in average industries
Hold	-average business units in average industries -strong units in weak industries -weak units in attractive industries
Harvest	-weak units in unattractive industries -average units in unattractive industries -weak units in average industries



Options for each cell



Business Strength

Market Attractiveness

	Strong	Medium	Weak
High	**Protect Position** • Invest to grow at maximum digestible rate • Concentrate effort on maintaining strength	**Invest to Build** • Challenge for leadership • Build selectively on strengths • Reinforce vulnerable areas	**Build Selectively** • Specialize around limited strengths • Seek ways to overcome weaknesses • Withdraw if indications of sustainable growth are lacking
Medium	**Build Selectively** • Invest heavily in most attractive segments • Build up ability to counter competition • Emphasize profitability by raising productivity	**Selectivity/Manage for Earnings** • Protect existing program • Concentrate investments in segments where profitability is good and risks are relatively low	**Limited Expansion or Harvest** • Look for ways to expand without high risk; otherwise minimize investments and rationalize operations
Low	**Protect and Refocus** • Manage for current earnings • Concentrate on attractive segments • Defend strengths	**Manage for Earnings** • Protect position in most profitable segments • Upgrade product line • minimize investment	**Divest** • Sell at time that will maximize cash value • Cut fixed costs and avoid investment meanwhile

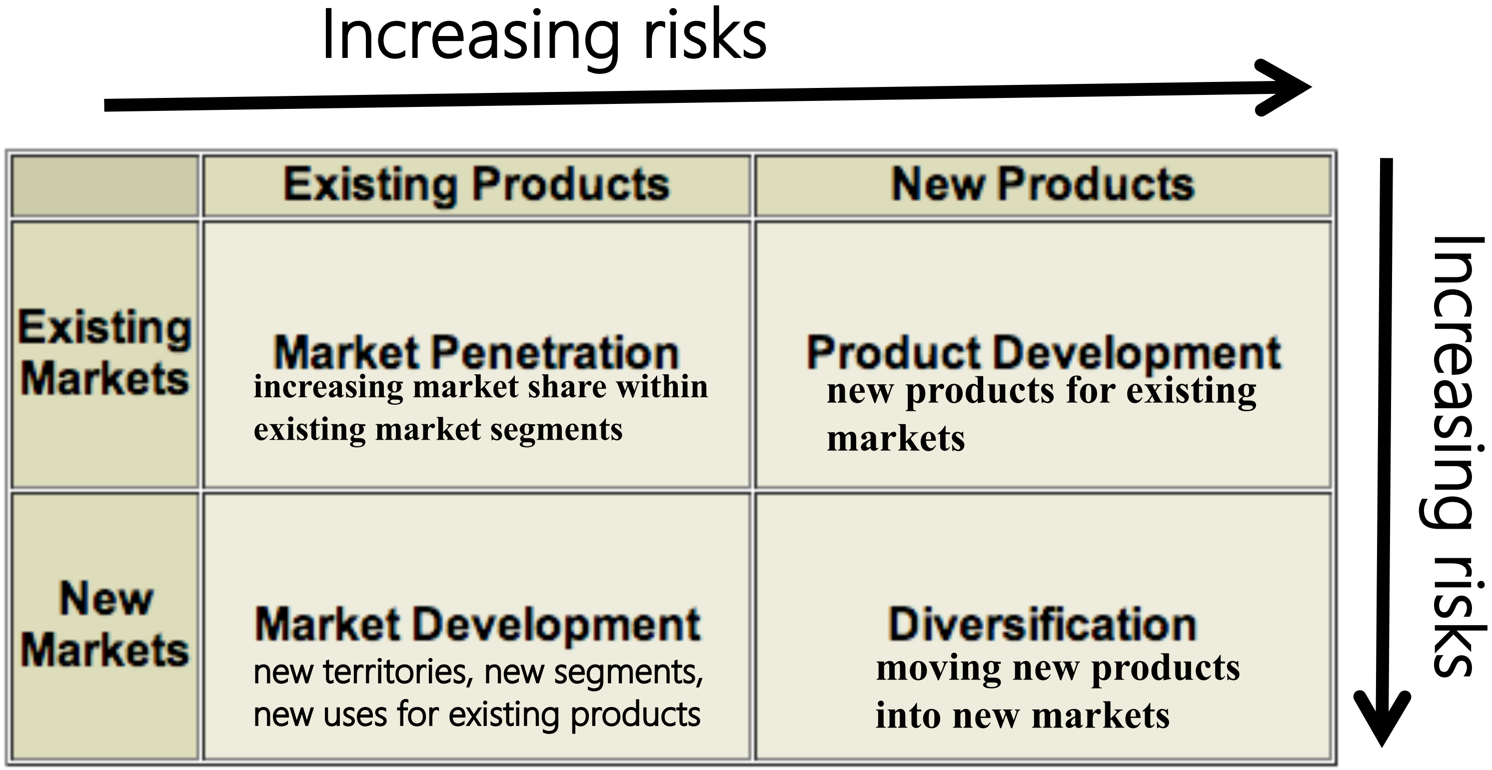
GE/Mckinsey vs BCG?

- There are similarities
  - Two dimensions are used to create a matrix (market share and market growth)
  - Each cell suggests an appropriate strategy
  - In both cases we are concerned with the future strategy for a particular area (eg a division) within the firm

- There are major differences
  - The GE/McKinsey matrix involves a wider analysis of the firm's operations
  - The dimensions of the GE matrix are industry attractiveness and business strength (rather than market share and market growth)
  - There are nine cells and a wider choice of strategies

Ansoff Matrix: the product/market matrix

- A matrix that focused on the firm's present and <u>potential products and markets</u>
- The purpose of this matrix is to help managers consider how to grow their business through existing or new products or in existing or new markets.



Increasing risks

	Existing Products	New Products
Existing Markets	**Market Penetration** increasing market share within existing market segments	**Product Development** new products for existing markets
New Markets	**Market Development** new territories, new segments, new uses for existing products	**Diversification** moving new products into new markets

Increasing risks

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Ansoff Matrix

- Market penetration
  - This involves increasing market share within existing market segments.
  - This can be achieved by selling more products/services to established customers or by finding new customers within existing markets.
- Product development
  - This involves developing new products for existing markets.
  - Product development involves thinking about how new products can meet customer needs more closely and outperform the products of competitors.
- Market development
  - This strategy entails finding new markets for existing products.
  - Market research and further segmentation of markets helps to identify new groups of customers.
- Diversification
  - This involves moving new products into new markets at the same time.
  - It is the most risky strategy. The more an organisation moves away from what it has done in the past the more uncertainties are created. However, if existing activities are threatened, diversification helps to spread risk.

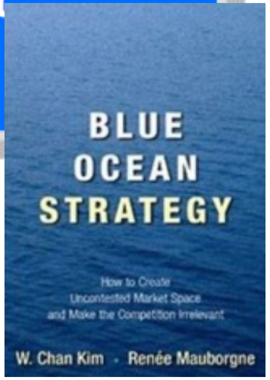
Blue Ocean Approach

Red Ocean Strategy

- Compete in existing market space
- Beat the competition
- Exploit existing demand
- Make the value-cost trade off
- Align strategy choice of differentiation or low cost

Blue Ocean Strategy

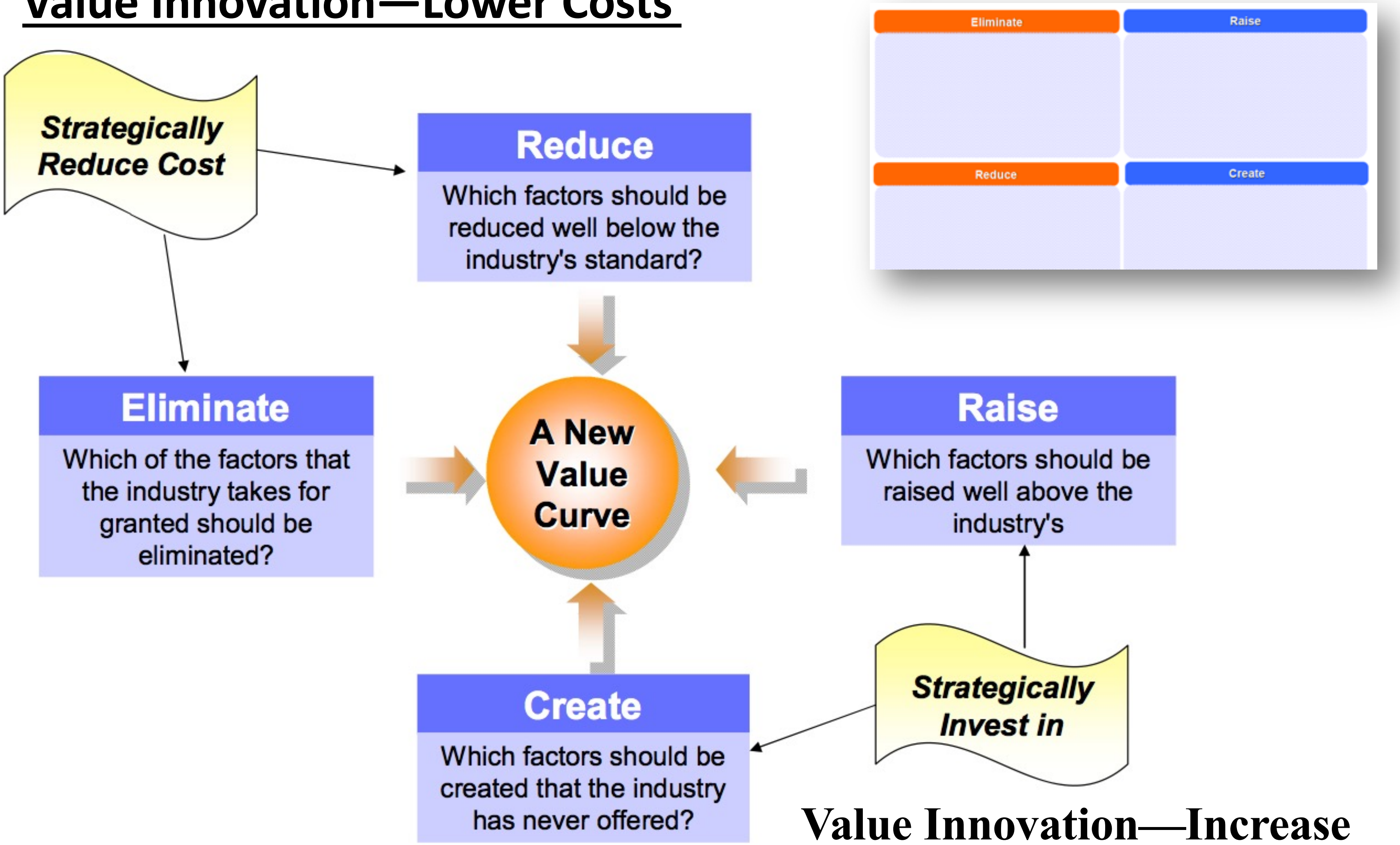
- Create uncontested market space
- Make the competition irrelevant
- Create & capture new demand
- Break the value- cost trade off
- Simultaneous pursuit strategy of differentiation and low cost



- Authored by W. Chan Kim and Renee Mauborgne in 2005.
- Based on a study of 150 strategic moves spanning more than 100 years and 30 industries.

Actions framework to create a blue ocean

Value Innovation—Lower Costs



Strategically Reduce Cost

Reduce

Which factors should be reduced well below the industry's standard?

Eliminate

Which of the factors that the industry takes for granted should be eliminated?

A New Value Curve

Raise

Which factors should be raised well above the industry's

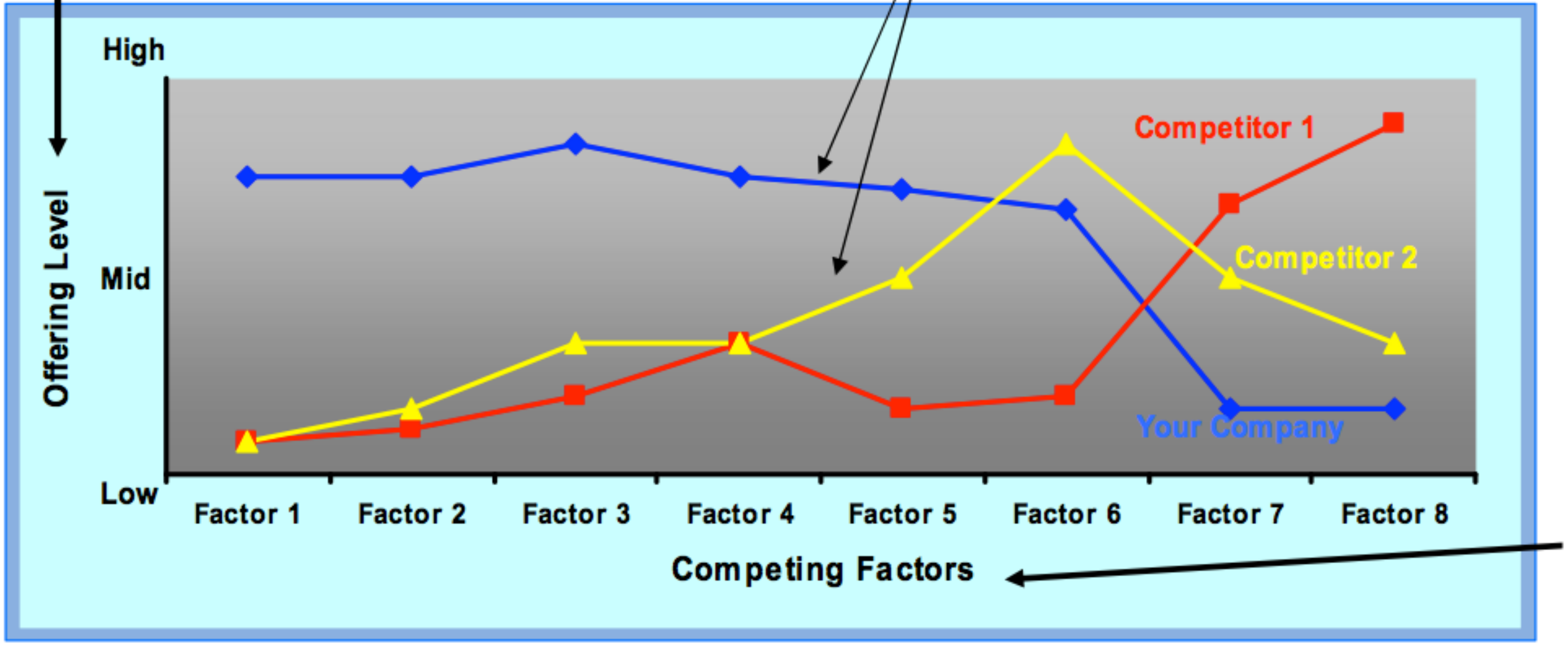
Create

Which factors should be created that the industry has never offered?

Strategically Invest in

Value Innovation—Increase Perceived Consumer Benefits

Value Canvas



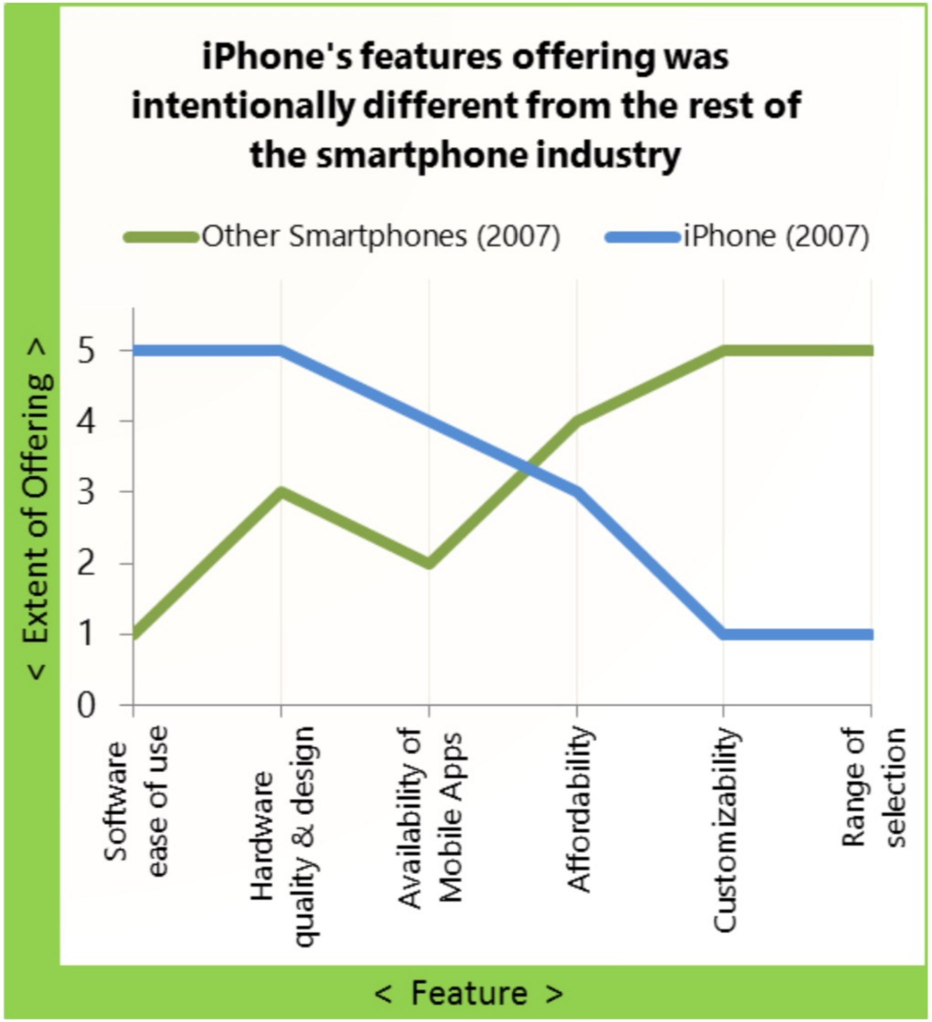
Degree of which each competitor offers/invests in each factor

Value Curves

Factors that the industry competes & invests, also potential areas where customer value could be created.

Graphical Representation of Strategy
+
Big Picture View
+
Landscape Scanning
+
Relative Positioning vs. Competitors

Example


iPhone's features offering was intentionally different from the rest of the smartphone industry
Other Smartphones (2007)
iPhone (2007)
< Extent of Offering >
0
1
2
3
4
5
Software ease of use
Hardware quality & design
Availability of Mobile Apps
Affordability
Customizability
Range of selection
< Feature >