

# 5

## Formulation of Functional Strategy

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### Syllabus covered

Marketing strategy, Financial strategy, Production strategy, Logistics strategy, Human resource strategy.

### Question 1

State with reasons which of the following statements is correct / incorrect:

- (a) *Functional level constitutes the lowest hierarchical level of strategic management.*  
(2 Marks May, 2007)
- (b) *A core-competence is a unique opportunity of an organisation not shared by other.*  
(2 Marks Nov., 2007)
- (c) *Tele-shopping is an instance of direct marketing.* (2 Marks Nov., 2007)
- (d) *Production strategy implements, supports and drives higher strategies.* (2 Marks May, 2010)
- (e) *Marketers alone can deliver superior value to customers.* (2 Marks May, 2011)
- (f) *The role of human resource manager is significant in building up core competency of the firm.* (2 Marks, Nov., 2011)

### Answer

- (a) **Correct:** Functional-level managers and strategies operate at the lowest hierarchical level of strategic management. Functional level is responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Although they are not responsible for the overall performance of the organisation, functional managers nevertheless have a major strategic role to develop functional strategies in their area that help to fulfil the strategic objectives set by business and corporate-level managers.
- (b) **Incorrect:** Core competencies are unique strengths rather than opportunities of an organisation. They are resources and capabilities that serve as a source of competitive advantage over rivals. In comparison with competitors an organisation is in better position to leverage and take advantage of the core competencies.

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- (c) **Correct:** Direct marketing is done through various advertising media that interact directly with customer. Teleshopping is a form of direct marketing which operates without conventional intermediaries and employs television and other IT devices for reaching the customer. The communication between the marketer and the customer is direct through third party interfaces such as telecom or postal systems.
- (d) **Correct:** For effective implementation of higher level strategies, strategists need to provide direction to functional managers, including production, regarding the plans and policies to be adopted. Production strategy provides a path for transmitting corporate and business level strategy to the production systems and makes it operational. It may relate to production planning, operational system, control and research & development.
- (e) **Incorrect:** A marketer alone cannot deliver superior value to the customers. It needs to work in coordination with other departments to accomplish this. It is important to be part of organization chain & marketer needs to work in coordination with other departments in the search for competitive advantages. Organisations need to look at the value chain network along with its own chain of activities and the chain of suppliers, distributors and ultimately customers.
- (f) **Correct:** The human resource manager has a significant role to play in developing core competency of the firm. A core competence is a unique strength of an organization which may not be shared by others. Core-competencies can be generated and maintained only through the effective management of human resources and their skills.

### Question 2

*Explain the meaning of the following concepts:*

- (i) *Relationship Marketing* (1 Mark, May, 2011)
- (ii) *Supply Chain Management* (1 Mark, May, 2011)
- (iii) *Joint Venture* (1 Mark, Nov., 2011)
- (iv) *Service Marketing* (1 Mark, Nov., 2011)
- (v) *Enlightened Marketing* (1 Mark, Nov., 2011)
- (vi) *Person Marketing* (1 Mark, Nov., 2011)
- (vii) *Logistics Strategy* (1 Mark, Nov., 2011)
- (viii) *Production System* (1 Mark, May, 2012)
- (ix) *Differential Marketing* (1 Mark, May, 2012)
- (x) *Demarketing.* (1 Mark, May, 2012)
- (xi) *Synchro-marketing* (1 Mark, Nov., 2012)

**Answer**

- (i) **Relationship marketing** is the process of creating, maintaining, and enhancing strong, value-laden relationship with customers and other stakeholders, thus, providing special benefits to select customers to strengthen bonds. It will go a long way in building relationship.
- (ii) **Supply chain management** is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organisations and enhances customer service by linkages between suppliers, manufacturers and customers. Supply chain management is an extension of logistics management.
- (iii) A **joint venture** is a business agreement in which parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.
- (iv) **Service Marketing** is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing. These may be from business to consumer and from business to business.
- (v) **Enlightened Marketing** helps a company to support the best long-run performance of the marketing system. It is based on five principles – customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.
- (vi) **Person marketing** consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people. For example, politicians, sport stars, film stars, professionals market themselves to get votes or promote their careers and income.
- (vii) Logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a **logistics strategy** it is defining the service levels at which its logistics is smooth and is cost effective.
- (viii) The production system is concerned with the activities directed towards creation of products and services for customers. It covers factors such as capacity, location, layout, design, work systems, automation, and so on.
- (ix) A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. Differentiation can be achieved through variation in size, shape, colour, brand names and so on.
- (x) Demarketing is a marketing strategy to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it. This happens when the demand is too much to handle. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on

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Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

- (xi) **Synchro-marketing:** When the demand for the product is irregular causing idle capacity or over-worked capacities, synchro-marketing can be used to find ways to alter the pattern of demand so that it equates more suitably with the pattern of supply. It can be done through flexible pricing, promotion, and other incentives.

### Question 3

*Briefly answer the following questions in 2-3 sentences each:*

- (a) *Logistics Strategy* (2 Marks, Nov., 2007)  
(b) *Enlist the components of marketing mix.* (2 Marks, June, 2009)

### Answer

- (a) **Logistics Strategy:** Management of logistics is a process which integrates the flow of materials into, through and out of an organization to achieve a level of service that the right materials are available at the right place at the right time, of right quality and at the right cost. For a business organization effective logistics strategy will involve raising and finding solutions to the questions relating to raw material, manufacturing locations, products, transportation and deployment of inventory. Improvement in logistics can result in saving in cost of doing business.

When a company creates a logistics strategy it is defining the service levels at which its logistics systems are highly effective. A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers to address different categorical requirements.

- (b) **Marketing mix** is a systematic way of classifying the key decision areas of marketing management. It is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The original framework of marketing mix comprises of 4Ps- product, price, place and promotion. These are subsequently expanded to highlight certain other key decision areas like people, processes, and physical evidence. The elements of original framework are:
- ◆ **Product:** It stands for the "goods-and-service" combination the company offers to the target market.
  - ◆ **Price:** It stands for the amount of money customers have to pay to obtain the product.
  - ◆ **Place:** It stands for company activities that make the product available to target consumers and include marketing channel, distribution policies and geographical availability.

- ◆ **Promotion:** It stands for activities that communicate the merits of the product and persuade target consumers to buy it.

#### Question 4

*Why functional strategies are needed for any business?*

*(3 Marks, Nov., 2013)*

#### Answer

The reasons why functional strategies are really important and needed for business can be enumerated as follows:

- ◆ Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- ◆ Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

#### Question 5

*What is meant by Functional strategies? In term of level where will you put them? Are functional strategies really important for business?*

*(4 + 2 + 4 = 10 Marks, Nov., 2007)*

#### Answer

Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for each functional area. For effective implementation, strategists have to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Strategy of one functional area can not be looked at in isolation, because it is the extent to which all the functional tasks are interwoven that determines the effectiveness of the major strategy.

Functional area strategy such as marketing, financial, production and Human Resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation is identified.

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In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organisation. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

Major strategies need to be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. The reasons why functional strategies are really important and needed for business can be enumerated as follows:

- ◆ The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- ◆ Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- ◆ Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

### Question 6

*Write short notes on the Elements of Marketing Mix. (3 Marks, Nov., 2010), (4 Marks, May, 2013)*

### Answer

Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These are usually referred to as 4Ps - product, price, place and promotion.

Product stands for the "goods-and-service" combination the company offers to the target market. Price stands for the amount of money customers have to pay to obtain the product.

Place stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate channel to reach target customer. Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. It includes - Personal Selling, Advertising, Publicity and Sales promotion

The traditional concept of 4Ps is also expanded further with more Ps such as, people, physical evidence and process. Under the dynamics of market all the Ps are extremely important so as to build and sustain a competitive advantage over the rivals.

#### Question 7

*Write a short note on Expanded Marketing Mix. (3 Marks, Nov., 2014)*

#### Answer

**Expanded Marketing Mix:** Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. There are a few more elements that may form part of an organizational marketing mix strategy as follows:

- **People:** all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
- **Physical evidence:** the environment in which the market offering is delivered and where the firm and customer interact.
- **Process:** the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

#### Question 8

*Distinguish between the Social Marketing and Service Marketing. (3 Marks, May, 2014)*

#### Answer

Social Marketing and Service Marketing are marketing strategies primarily with different orientations. Social Marketing refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking or encouraging girl child, etc.

On the other hand, service marketing is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing. These may be from business to consumer and from business to business.

#### Question 9

*"Evaluating the worth of a business is central to strategy implementation." In the light of this statement, explain the methods that can be used for determining the worth of a business.*

*(4 Marks, May, 2011)*

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### Answer

It is true that evaluating the worth of a business is central to strategy implementation. There are circumstances where it is important to evaluate the actual worth of the business. These circumstances can be wide and varied. At a higher level they may include acquisition, mergers or diversification. They may also include other situations such as fixing of share price in an issue. Acquisition, merger, retrenchment may require establishing the financial worth or cash value of a business to successfully implement such strategies.

Various methods for determining a business's worth can be grouped into three main approaches.

- (i) **Net worth or stockholders' equity:** Net worth is the total assets minus total outside liabilities of an individual or a company.
- (ii) **Future benefits to owners through net profits:** These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.
- (iii) **Market-determined business worth:** This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

### Question 10

*What do you mean by financial strategy of an organization? How the worth of a business is evaluated?*  
(3 Marks, May, 2013)

### Answer

Meaning of the Financial Strategy: The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business.

Various methods to determine the worth of business see the previous answer.

### Question 11

*Successful implementation of any project needs additional funds. What are the different sources of raising funds and their impact on the financial strategy which you as a Financial Manager will consider?*  
(3 Marks, Nov., 2011)

**Answer**

Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Being a financial manager to determine an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. If ordinary stock is issued to finance strategy implementation; ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions.

The major factors regarding which strategies have to be made by a financial manager are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

**Question 12**

*Write short note on the Production System.*

*(3 Marks, May, 2014)*

**Answer**

**Production System** is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. Strategies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives.

Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives.

**Question 13**

*What do you mean by Logistic Strategy? What are the different areas to examine while developing a logistic strategy?*

*(1 + 3 = 4 Marks, Nov, 2013)*

**Answer**

Management of logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy it is defining the service levels at which its logistics is smooth and is cost effective.

A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers because of constant changes in supply chains. There are

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different areas that should be examined for each company that should be considered and should include:

- ◆ **Transportation:** Does the current transportation strategies help service levels required by the organisation?
- ◆ **Outsourcing:** Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation is also to be examined.
- ◆ **Competitors:** Review the procedures adopted by competitors. It is also to be judged whether adopting the procedures followed by the competitors will be overall beneficial to the organisation. This will also help in identifying the areas that may be avoided.
- ◆ **Availability of information:** The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis.
- ◆ **Strategic uniformity:** The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.

### Question 14

*Distinguish between Logistic Management and Supply Chain Management. (4 Marks, Nov., 2012)*

### Answer

Supply chain management is an extension of logistic management. However, there are differences between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfillment of orders, inventory management and supply/demand planning. Although these activities also form part of supply chain management, the latter is much broader. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption. Supply chain management is an integrating function of all the major business activities and business processes within and across organisations. Supply Chain Management is a systems view of the linkages in the chain consisting of different channel partners – suppliers, intermediaries, third-party service providers and customers. Different elements in the chain work together in a collaborative and coordinated manner. Often it is used as a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price.

### Question 15

*What are the requirements for the successful implementation of supply chain management system? Discuss. (3 Marks, Nov., 2011)*

*Explain the major steps which are required for the successful implementation of supply chain management in the business organization. (7 Marks, Nov., 2013)*

**Answer**

Successful implementing of supply chain management systems require a change from managing individual functions to integrating activities into key supply chain processes. A key requirement for successfully implementing supply chain will be network of information sharing and management.

The following are the major steps which are required for the successful implementation of Supply Chain Management in business organizations:

1. **Product development:** Customers and suppliers must work together in the product development process. When products are developed and launched in shorter time, it would help organizations to remain competitive.
2. **Procurement:** Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling the uninterrupted supplies and also to involve them in planning the manufacturing process.
3. **Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Changes in the manufacturing process be made to reduce manufacturing cycle.
4. **Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing.
5. **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company ought to focus on those activities where it has competency and everything else will be outsourced.
6. **Customer services:** Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn helps in producing positive feelings in the organization and the customers.
7. **Performance measurement:** There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

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### Question 16

*How would you argue that Research and Development Personnel are important for effective strategy implementation?*  
(3 Marks, Nov., 2014)

### Answer

Research and development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications.

Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

### Question 17

*Explain any three prominent areas where Human Resource Manager can play a strategic role.*  
(3 Marks, Nov., 2012)

### Answer

The prominent areas where the human resource manager can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource management must be able to lead people and the organization towards the desired direction involving people. The management have to ensure harmony between organisational objectives and individual objectives. Objectives are specific aims which must be in the line with the goal of the organization and the all actions of each person must be consistent with them.
2. **Creating competitive atmosphere:** In the present business environment, maintaining competitive position or gains is an important objective of any business. Having a highly committed and competent workforce is very important for getting a competitively advantageous position.
3. **Facilitation of change:** The human resource manager will be more concerned about furthering the organization not just maintaining it. He has to devote more time to promote acceptance of change rather than maintaining the status quo.
4. **Diversion of workforce:** In a modern organization, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female, young and old, educated and uneducated, unskilled and professional employee and so on. Maintaining a congenial healthy work environment is a challenge for HR Manager. Motivation, maintaining morale and commitment are some of the key task that a HR manager has to perform.

5. **Empowerment of human resources:** Empowerment involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.
6. **Building core competency:** The human resource manager has an important role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. Organization of business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.
7. **Development of works ethics and culture:** A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

#### Question 18

*Explain the strategic role of Human Resources Management in the following areas:*

- (i) *Facilitation of Change*
- (ii) *Building Core Competency*
- (iii) *Development of Work Ethics and Culture* *(3 x 1 = 3 Marks, Nov., 2011)*

#### Answer

- (i) **Facilitation of change:** The Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personnel function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo.
- (ii) **Building core competency:** The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. If the business is organized on the basis of core competency, it is likely to generate competitive advantage. Because of this reason, many organization have restructured their businesses by divesting those businesses which do not match core competence.
- (iii) **Development of works ethics and culture:** As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary. Focus will shift from extrinsic to intrinsic motivation. A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

**Question 19**

*State the factors of human resource that influence on employee's competence.*

*(3 Marks, May, 2014)*

**Answer**

Human resource management has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and reward systems. The following points should be kept in mind as they can have a strong influence on employee competence:

- i. *Recruitment and selection:* The workforce will be more competent if a firm can successfully identify, attract, and select highly competent applicants.
- ii. *Training:* The workforce will be more competent if employees are well trained to perform their jobs properly.
- iii. *Appraisal of performance:* The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counselling, coaching or training.
- iv. *Compensation:* A firm can usually increase the competency of its workforce by offering pay, benefits and rewards that are not only attractive than those of their competitors but also recognizes merit.