# IT STRATEGY FOR BUSINESS

PARAG KULKARNI
*Director and Chief Scientist*
*Anomaly Solutions Pvt. Ltd*
*Pune*

PRADIP K. CHANDE
*Former Professor of Information Systems,*
*IIM Indore*

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# Contents

CHAPTER

# 1

# IT and Strategy

## Learning Objectives

*After reading this chapter, you will be able to understand the*

- meaning and role of strategy and discuss strategy from a business perspective
- relationship between strategy and IT (Information Technology)
- role of information revolution in formulation of strategy for an organization
- concept of IT management and its relationship with IT strategy
- need for alignment between IT strategy and business strategy and appreciate the role of IT strategy in achieving the business objective
- role of IT in business decision-making
- evolution and development of IT strategy
- strategic importance of IT
- IT-strategic initiatives
- basics of formulating IT strategy for an organization.

## INTRODUCTION

The term 'strategy' originates from the Greek word *strategos*, meaning 'general in the army'. Strategy is the plan to gain advantage over the enemy in war. Other disciplines, including business and manufacturing, have borrowed this term. Strategy in business means to create new opportunities, position the product, and beat competition. The meaning of strategy is much broader in business scenarios and is built around creating a competitive advantage for the organization.

Information Technology (IT) has evolved over the last few decades and has become an important part of organizational resources. It has blended into every activity of an organization owing to its agility and flexibility. It is now possible to use IT both as a strategic tool and as a strategic partner of an organization.

No organization can achieve success without a proper strategy. Strategy allows positioning and use of all resources of the organization through an activity or a set of activities, that contribute towards building the strategic advantage for the organization. It is about leading the organization towards success with strategic means.

Effective use of information, knowledge building, and the use of all IT resources are some of the major aspects of IT strategy. This chapter discusses how IT has revolutionized the business and social environment of organizations. It also discusses the role of IT strategies in success. The overall strategic positioning and strategic hierarchy are also discussed in this chapter. IT is not a resource – it is a business environment. This chapter elaborates on the evolution and role of IT in business environment.

## INFORMATION REVOLUTION

'Information technology' and 'communication technology' are terms that are often used interchangeably. These technologies provide the means to transmit text, voice, and video data to any place in the world in real time. They also provide the capability to process and transform information available in different forms. They enable easy storage of data and provide the ability to retrieve the required data at any time. They further provide the abilities to store huge amounts of data that can be analysed and retrieved as per business requirements. These technologies, thus, enable the processing and mapping of information and facilitate decision-making. In this book, we shall use the most common term, IT, to represent the above-mentioned and allied technologies.

IT refers to technologies that enable:

- information acquisition,
- information processing,
- information management,
- information transmission, and
- information transformation.

IT has universally revolutionized the business and social environment of organizations. The effect of information revolution can now be felt in day-to-day life. Some outcomes of information revolution are listed here.

- IT has become a dominant part of our culture. It has changed the way we interact and carry out our day-to-day activities. With its rapid pace, variations, and changes, it has created many dimensions and made the whole system dynamic.
- IT has connected the world through an information highway and revolutionized communication by reducing unnecessary delays.
- IT has accelerated development and created the need for proactive measures in decision-making to sustain organizations in the market.
- Further, IT has become a part of all industries, businesses, and communications infrastructure.

Exhibit 1.1 provides some facts on the use of IT worldwide.

**Exhibit 1.1 Facts on the Use of IT Worldwide**

- The number of computer users has increased approximately from 540 million in 2000 to two billion in 2007.
- The number of Internet users doubled to 320 million in 2005 as compared to the year 2000. It is expected to increase four fold by 2008.
- e-business and e-applications have increased dramatically. e-banking and e-transactions have become commonplace.
- Many schools are now running e-learning and distant learning programs. Concepts such as e-conferences, like IeCCS (International e-Conference on Computer Science), have begun to grow.
- There is a significant growth in wireless communication. It has increased reliability and has made any-time, any-place communication possible. The number of cell phone subscribers in the United States reached approximately 159 million in 2003, up from 34 million in 1995. It increased to 219 million in 2005.
- In India the cell phone users are estimated (2008) to be around 246 million, next only to China at 408 million. India is stated to be among the fastest growing mobile phones market in the world.
- Today financial transactions are also possible through cell phones. Use of cell phones across the world has increased manifold.

Chuck Martin, former vice-president at IBM, was of the opinion that the Internet, Intranet, and Extranet would forever revolutionize the face of global businesses. Martin (1998) identified various 'cyber-trends' that characterize the emerging economy. Cyber trends identified by him are now a reality. In fact, there are now many new developments in the information world that have surpassed these trends.

Some ways in which IT has revolutionized business are listed here.

1. The face of the economy has changed completely. Transactions are now more in cyber currency than in actual paper currency. The cyber-economy and electronic transactions have penetrated the domain of the common man. Online consumers and people adopting the electronic route expect faster delivery, easier transactions, and more factual information. The layers and delays in the market are diminishing gradually and many electronic business portals such as Amazon.com and ebay.com are now getting closer to the customer. Such portals eliminate delays and intermediate obstacles.

2. Companies are connected and the workforce is wired together. The intranets and bulletin boards within organizations put more information in employees' hands and create virtual work communities. Further, the access and security mechanism of intranet enables users to keep information within select groups. This allows research groups in companies such as Microsoft to work from different international locations.

3. Customers are now better informed. As a result, they are becoming more and more demanding. Open-book corporations are emerging. Sites such as e-bay and Amazon can be termed as open-book corporations in some sense. Power will gradually shift from providers to recipients of products, information, and services. The consumer now has more options and power, and has a crucial role to play in market economics.

4. Trends like monopoly and 'fixed price for longer duration or even a year' are gone. Many products have become commodities. There is a shift to real-time flexible pricing as value is established moment-by-moment. The overall market has become dynamic and knowledge driven. For example, gas prices in US are changing by the hour. Even in India the grocery and vegetable prices change everyday on the basis of supply, demand, and competition and the customer checks the best rates for the day.

5. Customer behaviour is captured in various ways. For example, a customer-centric economy has necessitated new ways of predicting customer behaviour, needs, and changes in taste in real time. Dynamic

behaviour tracking and behavioural-pattern-matching tools have become a part of modern yield optimization solutions. The yield systems based on tracking customer behaviour are common. For example, we see rates of hotels and airlines change frequently based on tracking of customer behaviour to maximize returns to service providers.

6. Experience communities and data banks are now integral parts of business. Collective experience is playing a large role in information gathering, knowledge building, data analysis, and decision making. Universities such as Stanford and MIT are providing data banks for research. Even the data on mortgage and customers is traded.
7. Learning in today's environment is more dynamic and 'real time'. The new generation comprises of empowered and independent learners. To be successful an organization needs to know a scenario at any given moment so as to appropriately react to it. Product companies and knowledge organizations, such as Apple and Google are built around learning and innovation.
8. Knowledge force is driving the business and market. Business can no longer be built around the ignorance of the customer. Knowledge has made all transactions in the market more efficient. As a result the market is becoming more efficient and knowledge driven. As knowledge is available and the customer is aware, it's the knowledge about differentiation that drives the business. It is based on what the customer wants and not what he does not know.

These trends and revolutions have had different rates and intensities of impact on various business sectors. Different societies as a result of competitive requirements and/or peer pressure, are adopting new trends in businesses and society, enabling knowledge building and knowledge management, thereby allowing the business to increase the wealth of stakeholders. IT builds competitive advantage by

- making information available at a greater speed,
- enabling information processing,
- facilitating data warehousing and mining,
- enhancing decision-making,
- helping to improve the quality of internal and external processes,
- facilitating knowledge building and management,
- reducing turnaround time and information loss,
- making the market knowledge-efficient, and
- enhancing the capacity of the organization as a whole.

> 'The objective of information technology systems development in business is to increase the wealth of shareholders by adding to the growth premium of their stock.'
>
> **—Christopher Gardner**

IT facilitates knowledge management and transaction across the organization, so much so that IT management and IT strategies sit at the centre of many activities. Figure 1.1 shows the association between IT management, knowledge, and knowledge processing. IT management focuses on making the overall system knowledge-efficient. It deals with:

**Knowledge workers and related transactions** IT management makes information available to knowledge workers and empowers them to build knowledge. It also increases the pace of knowledge transactions.

**Market and sales** IT management influences sales and marketing by processing sales and marketing data, and by reducing the marketing time.

**Overall optimization of processes** The analysis of demand and supply data and the capability to forecast requirements allows IT management to optimize the overall process. The automation of different processes further minimizes the delay in transactions.

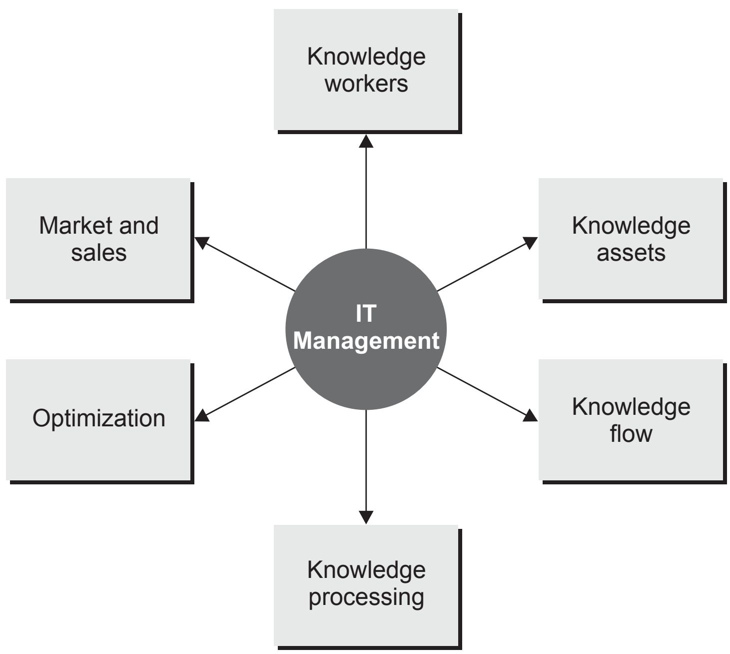


**Figure 1.1** IT Management and Knowledge processing

**Gathering, building, and processing the available knowledge** This helps to provide a better insight into the system and decision-making.

**Building knowledge assets** IT management helps an organization to build its knowledge assets such as optimal method, patterns of sales, etc., through capable handling of information.

**Optimization of overall knowledge flow** Communication and information processing helps IT management in optimizing the overall flow of knowledge across the organization.

## BUSINESS AND STRATEGY

It has always been a challenge for entrepreneurs and CEOs to make their business work.

Big companies with excellent marketing back-up and abundance of talent may sometimes fail in the absence of a proper strategy or lack of required agility in their strategy. There have been failures like those of Enron and K-mart and there have been success stories such as those of Apple, Google, and Microsoft. Achieving sustainable success requires proper strategy, proper technology, and, most importantly, a strategic balance between the technology and business powered with total alignment. But most importantly a strategy needs to be dynamic and agile.

Consider the following scenarios:

A company is selling articles at very low costs and with very small margins to beat the competition. As it has captured the complete value chain, it can afford to do that.

A producer claims to be in a niche market. He makes products that no one else is producing or no one is producing the way he is. He then targets that particular segment. This allows him to position his product in a unique way, get higher margins, and create a stable customer base.

Strategy can be of low pricing or it can be of capturing the complete value chain. The overall strategy of an organization needs to focus on getting a sustainable value for business. Sony has worked on innovation as their strategy while innovation, customer satisfaction, and quality are Toyota's strategic positioning.

*Strategy* can thus be defined as:

*A plan, which when put into action, drives business, manages knowledge, and various initiatives in an organization. It positions products and leads you to success.*

Or

*The science and art of effective use of all possible forces of a nation or entity to execute approved plans optimally or as effectively as possible during different social and political situations including peace or war.*

Or

*The science and art of military command as applied to the overall planning and conduct of large-scale combat operations.*

As stated earlier, the word 'strategy' has its origins in war. It is all about positioning yourself and your forces to lead you to win the war. It could involve losing some of the battles, messaging or creating certain scenarios, and finding out the plan of the opposition. The objective is to develop a sustainable competitive advantage that would result in an ultimate win. But the most important part is developing a right strategy, or a sequence of right strategies, or a sequence of right strategic initiatives. This is done with the ultimate objective of winning the war, getting more returns, or becoming a leader in a particular area.

As James Brian Quinn indicates in *The Strategy Process: Concepts and Contexts*: "A strategy is the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents."

Strategy is not just planning. Strategy for business has business objectives at the centre, and is driven by various forces like time, available resources, overall knowledge, and business guidelines. Strategy is not just resource management. It considers past experiences for learning, present situation for action, and future forecast to identify avenues. It involves out-of-the-box innovative techniques to achieve business goals. A better strategy is one which learns with every action and develops foresight for future actions. It is dynamic, knowledge-enabled, clear, and simple.

## INFORMATION TECHNOLOGY STRATEGY

Businesses require some kind of a strategy to be successful. In its absence there is a waste of efforts and resources which may not result in the expected outcome. Every organization and business needs a strategy to gain a competitive advantage over its rivals.

The overall business strategy is made up of different strategies: marketing strategy, competitive strategy, knowledge management strategy, and technology strategy. IT can be used strategically to build a sustained competitive advantage. It provides the flexibility and agility to build up strategic advantage in specific scenarios. Each organization can have its own way of using IT to build a position of strategic advantage.

**IT strategy** in the same context as above could be defined as: *The science or art of effective use of information and allied technologies, and IT resources of the organization to execute strategic plans optimally or as effectively as possible to achieve business objectives.*

What are organizational resources and what are the strategies that could help to use them optimally? As we proceed through the book we will address each of these aspects with appropriate case studies to provide clarity. During the early days of IT, it was used more to organize information and increase the pace of execution. But gradually it has become part of all activities and impacts on other areas like quality, penetration, user satisfaction, user experience, and most importantly decision-making.

There are different resources within the organization. These include money, skilled employees, information (its impact on others), infrastructure, physical property, time, knowledge base, extended organizations, and contacts with them. Using these resources optimally with the help of IT is defined as IT strategy. Driving these strategies are the three 'Cs' of business, viz.,

**Company** Business is about the company and its resources and their optimal use to achieve the business goals,

**Customer** Customers are the most important part of the business, and

**Competition** Business is about building a sustainable competitive advantage over rivals.

When an organization is in the process of deciding its strategy, the management should be very clear about how they would position the organization to succeed. The clarity about goal in terms of business strategy; resources in terms of availability; and environment in terms of market and competition helps in building a proper strategy. Strategy development is about rethinking of resources, competition, innovation, and the existing strategy. Strategy is the best possible policy, positioning and set of actions that lead the organization from current state to a desired state. Strategy is knowing the present state vis-a-vis the desired or objective state, understanding the different forces at play, and then deciding the strategic path and tools for achieving the required transition.

Similarly, IT strategy is about rethinking of information technology, the allied technology, and existing information technology resources to achieve the ultimate business objective. IT strategy is positioning a set of actions related to IT technology.

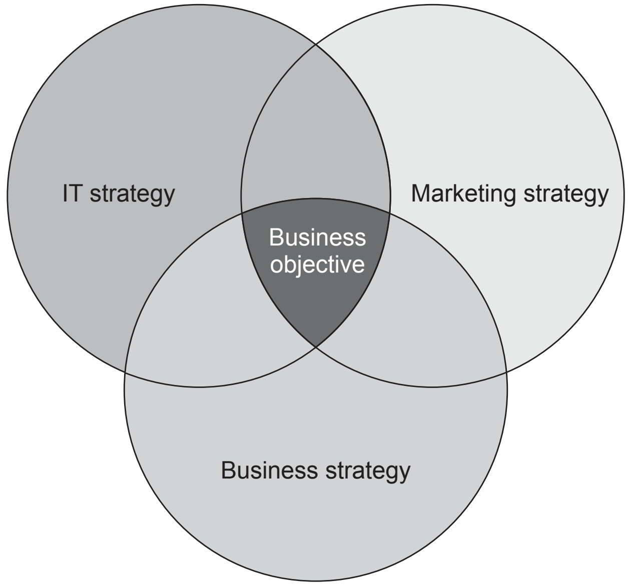


**Figure 1.2** Relationship between IT strategy, Business strategy, and Marketing strategy to achieve business objective

With strategy, an organization creates the environment that would lead to success. It positions all the resources to achieve the business goal of the organization. Defining and implementing the strategy is a dynamic process. When an organization reaches its goal, or the first milestone, it finds new challenges and new goals. This further changes all the coordinates resulting in a need for renewal of strategies. Strategy can be upgraded any time to take an organization from its current state to the expected state with reference to the new co-ordinates. This is the most important part of strategy formulation. The renewal includes taking into account the previous state and the new coordinates, learning, and the future.

The relationships among all these factors is depicted in Figure 1.2.

As shown in Figure 1.2, IT strategy, business strategy, and marketing strategy are driven by business objective. They do overlap as they drive each other's initiatives.

The company, customer, and IT competition, are important parts of the business, which drive IT strategy.

The customer and related parameters include:

**Available customer segment** Which is the available customer segment?

**His needs** What are the needs of the customer? Does he perceive the need in the same way?

**Customer pain points** What are the pain points of the customer and can the existing technology or a possible technology address these pain points?

The company and the related parameters include:

**The knowledge base of the company** The knowledge existing within the organization.

**Resources and their skills** How can they help in achieving business objectives and enhance knowledge building?

**Money and time** The money or the financial capability of the organization and the time it would like to take to achieve different milestones.

Similarly, competition-related parameters include:

**Core competitors** The competitors who are targeting the same clientele with the same product or service.

**Promotion strategies** What are the possible promotional strategies and what competitive advantage can they bring to the table? What are the promotional strategies being used by competitors?

**Market share** The market share of different competitors and use of different strategies to build a competitive edge and capture greater market share.

The relationship between company, competition, customer, and IT strategy is depicted in Figure 1.3. The figure also shows the relationship between IT strategy and business objective. The IT strategy makes use of IT to enable and optimize the use of available resources to drive the company.

The IT strategy drives a company towards business objectives and *vice-versa.* To avoid the confusion Figure 1.3 indicates that the IT strategy drives the company towards business objectives with all other inputs. This aspect is further elaborated in chapter three where we have tried to establish a clear relationship among different entities.

In short, *IT strategy can be termed as the effective use of IT and resources to help an organization fight competition, satisfy customer needs in the interest of the company, and position IT to achieve the business objectives.*

Quinn (1992) noted that an effective business strategy should include three elements:

1. A clear and decisive statement of the primary goals or objectives to be achieved;
2. An analysis of the main policies guiding or limiting the company's actions; and
3. A description of the major programmes that will be used to accomplish the goals within the limits.

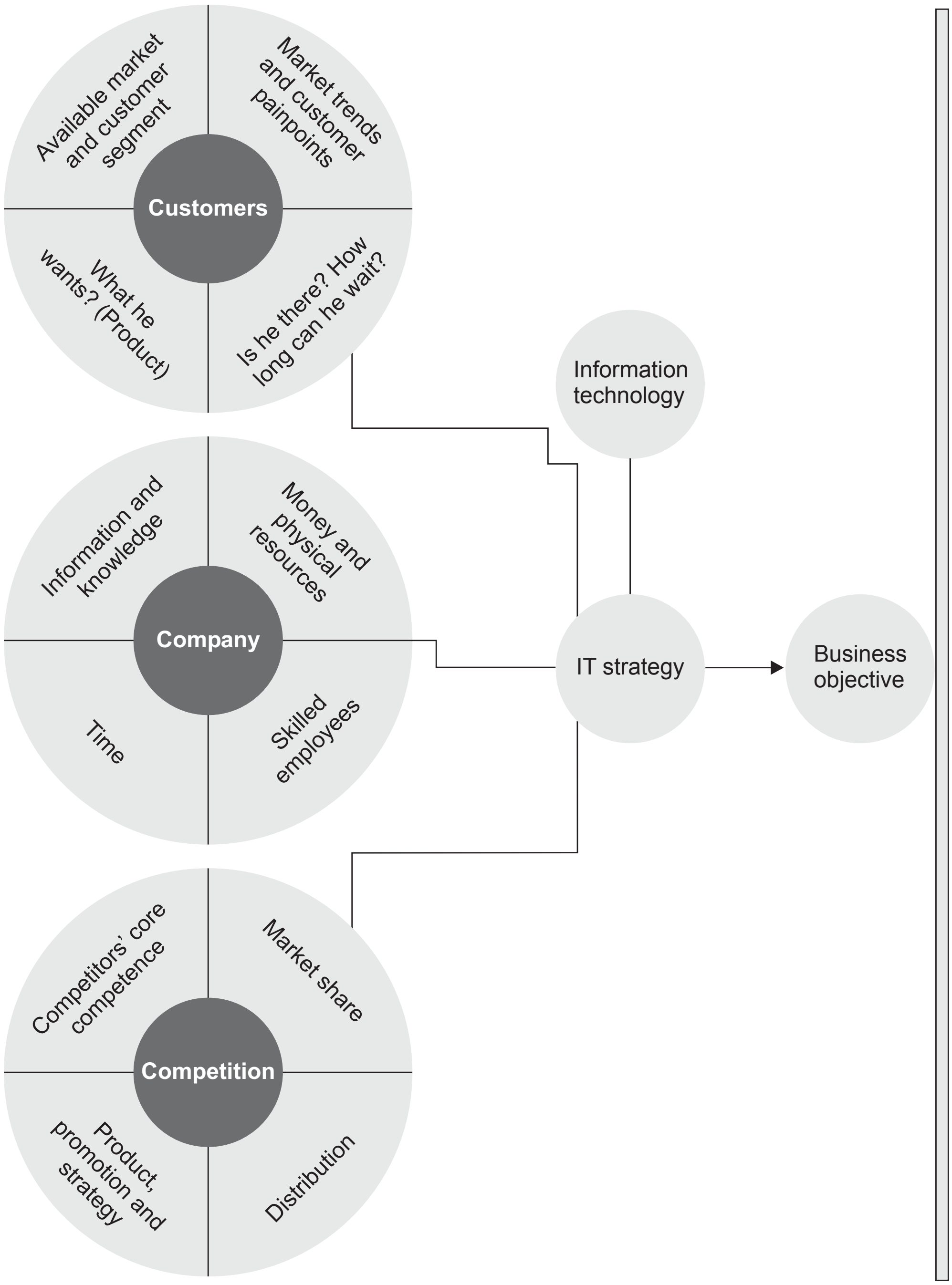


**Figure 1.3** Relationship between company, customer, competition, and IT strategy

IT of an organization is based on its information, technology, computing processes, and communications' infrastructure. It includes information, information resources, and information methodologies. IT management includes the tasks of managing IT infrastructure and related standards, all resources (including people) and operations, making technology-related investments, and recommending appropriate corporate policy. An IT strategy is the use and effective management of these factors to achieve business objectives.

In addition, it is important that strategies are not verbose. They should be crisp, focused, and should include only a few main concepts or thrusts in order to maintain focus. They should also relate to other strategies in a hierarchical fashion, with each level supporting those above and below. The relationships among various strategies should be very clear. Finally, strategies should attempt to build a strong yet flexible position for the company so that it may achieve its goals, whatever be the reaction of external forces. An IT strategy should allow an organization to achieve a strong position with the use of available information technology.

According to Quinn, *strategic decisions are those that determine the overall direction of an enterprise and its ultimate viability in light of the predictable, the unpredictable, and the unknowable changes that may occur in its most important surrounding environments.*

The strategic choice available to a company depends upon the company's capabilities and its position in the marketplace. It is true even for an IT strategy, which could be – less expenditure on IT resources in the beginning, selective automation in a particular part of the organization for competitive advantage, use of IT for marketing in a particular region, positioning IT for penetration, and use of IT for improvement of speed.

## STRATEGIES AND SUCCESS

To succeed one should have a proper strategy in place.

My CEO wanted to launch a product in the financial market.

"We will try to capture the complete value chain without disturbing any of the players who are there right now, he said."

"How is it possible?", I asked.

"We will have roles for each existing player in the new model, which is more attractive!", he elaborated.

That was his strategy with which he built a company worth 100 million dollars.

If one looks at corporate history and various case studies, it becomes clear that strategy drives one to business goals, and at the same time, it leads an organization to success. There are many challenges in implementing the strategies especially if IT is a major player. Also it is always not easy to come up with the right strategy.

A few challenges in implementing IT strategies are as follows:

1. Organizations have high expectations about the benefits they will derive from technology and software purchases.
2. Technology brings structural changes in organizations.
3. Unmanaged expectations and ongoing changes test the personnel management skills of IT managers.
4. IT managers must be technological leaders and superb generalists.
5. It is difficult to align IT with business objectives.
6. It is always difficult to measure ROI (Return On Investment) in case of IT.

Further, a good strategy may fail because of multiple reasons. Some of the reasons are as follows:

1. It is misaligned with business objectives.
2. It is inappropriate. If the strategies are not appropriate with reference to economy and competition, they may fail.
3. It is not dynamic. If the strategy is static and there is a change in the market and the economy, then it may lead to failure.
4. It is too common to be termed as strategy. Common business practices followed by all companies cannot give an organization a competitive edge.
5. It is based on wrong figures. It is based on numbers that do not reflect actual sales or reality and is, therefore, bound to fail.
6. It fails to incorporate the learning element. The strategies where learning element is absent may not be able to react appropriately.
7. It is not applied properly, failing to convert strategies into action processes.
8. It is not implemented properly. For example, differentiation is the strategy but its improper implementation may not allow the organization or product to differentiate on a sustainable basis. This means improper implementation does not result in expected strategic benefits.

9. It is delayed. Delays in implementing strategy and learning. Strategy is always dynamic. Failure to learn from failures or changes in the market may result in failure. Delay in implementation of strategy may also result in failure.
10. It is ignorant of the environment and the market. Without considering the market, the strategies are formulated in the board room and are too theoretical for effective implementation.
11. It is too complicated. If the strategy is too complex to implement.

The number of potential businesses and IT strategies are probably as large as the number of different businesses. Each distinct organization must develop a strategy that best matches its internal capabilities and its situation with regard to the external environment. Yet, numerous strategies pursued by businesses can be loosely grouped under three main heads – create leadership position, differentiation, and focus. These are also evenly applicable to an organization's IT strategy.

1. IT to gain leadership: IT strategy can be used to maximize production, improve quality, increase efficiency, and other soft aspects to gain a leadership position in the market.
2. IT to differentiate: IT strategy can help differentiate competitors' products and services.
3. IT to gain focus: IT strategy can be harnessed to gain focus, concentrate on niche areas using information, and knowledge.

Whatever be the IT strategy of an organization, it should always be in alignment with the business strategy to achieve the business objectives. Apart from these high level generic strategy guidelines, there is a need to develop one's own IT strategy in consonance with one's business requirements, objectives, and constraints. While developing one's company strategy one needs to analyse in detail the external and internal factors specific to the organization. Two companies concentrating on differentiation may have similar business strategies, yet their IT strategy may be completely different. This happens because there may be many other factors which may impact IT strategy. Some of these are as follows:

**Customer needs** It includes the urgency and the means of delivery with reference to customer needs.

**IT infrastructure** The existing IT infrastructure of the company and strategizing the use of resources to achieve the business goal.

**Business impact** Impact of different IT initiatives on business. For example, if online delivery and related IT initiatives are planned then IT strategy needs to take into account the business impact of such measures.

**ROI on IT investments** The strategy should consider the ROI on IT investment in terms of sustainable business value, customer satisfaction, and profits.

**Internal and external factors** The market and organizations are linked with IT and other communication means and it needs to take into account, organizational and market readiness for IT initiatives.

**Technological innovation and capabilities** New innovations are hitting the market everyday and organizations are also developing their capabilities. IT strategy should be formulated in line with technical innovations and after taking into account the technical capabilities.

M. Porter (1980 and 1885) termed these categories as 'generic strategies,' and claimed that most companies use variations of them, either singly or in combination, to create a unique position in their industry. On the other hand, companies that fail to target their efforts toward any of the generic strategies, risk becoming 'stuck in the middle,' which leads to low profitability and a lack of competitiveness.

Strategy (and tactics) must constantly evolve in response to technological advances, changes in the market, and innovations. Strategy should be dynamic. The same is true about IT strategy. It should change with advancements in information technology. IT strategies should respond to these innovations and should balance the overall act.

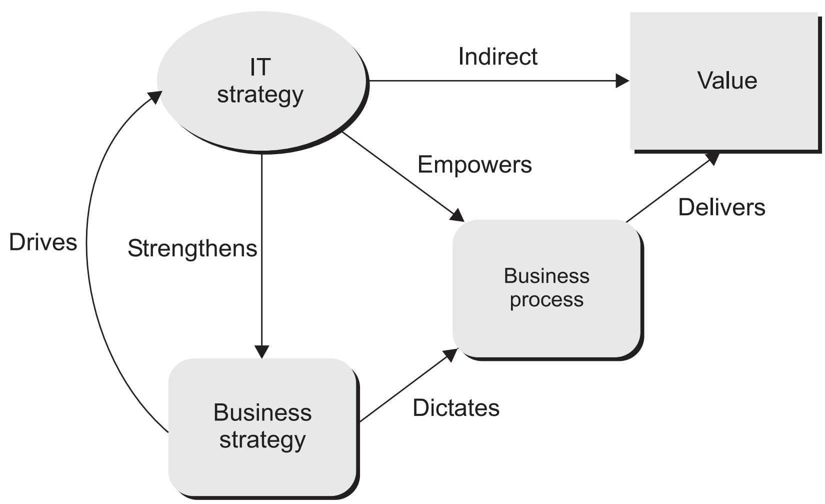


**Figure 1.4** Role of IT in value creation and business strategy

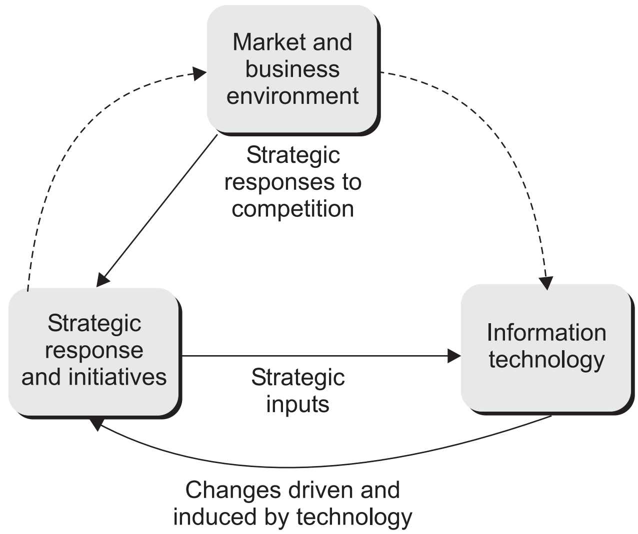


**Figure 1.5** Cause and effect relationship between IT and strategic response

Value creation through IT or profit impact of IT is exhibited by Wigand (1995) as indirect and *via* the improvement of business process. IT enables the improvement in processes, which in turn, impacts the profit and business outcomes. All the measures taken for improvement or any directional change has to be in sync with and aligned to the business strategy, which itself affects the enabling potential and apt use of IT.

IT has an indirect but very important relationship with value creation as shown in Figure 1.4.

Besides enabling business and information, it also defines business process and business strategy, which then delivers value to the customers. In some industries, IT has both direct and indirect relationship with business value. Business strategy drives IT strategy and IT strategy in turn helps to define business strategy.

Further, changes driven by technology are echoed in strategic and organizational changes. Strategy is effectively an organizational, structural, and technical response to competition (see Figure 1.5).

## DESIGN PARAMETERS

Strategy design is influenced by various internal as well as external parameters. Some of these parameters are independent, while others are inter-dependent. Further, strategy drives some of these parameters directly and indirectly and that results in learning. The design parameters include:

**Marketing** The market, relationships among different segments, and the marketing initiatives influence the marketing strategy and the overall IT and business strategies of an organization.

**Knowledge management** Understanding the knowledge repositories and the knowledge management initiatives.

**Customer segment** (specific to one's business) Understanding one's customers, their needs, and how the business is going to address those needs.

**Future and scope** Strategy is always futuristic and needs to take into account the future and scope of the business and product(s).

**Resources** The available resources and the resource constraints.

**Competitive environment** The competitive environment and the different competitive forces influence the business strategy.

**Co-operative relations** Organizations should take into account the relationships among different entities and extended organizations while designing their strategies.

**Innovation** Understanding the need of innovation in technology and business processes.

These parameters have an impact on deciding the strategy design parameters. They act as dynamic inputs in the strategy design. They influence and are in turn influenced by the strategic design. The dimensions of strategic positioning are depicted in Figure 1.6.

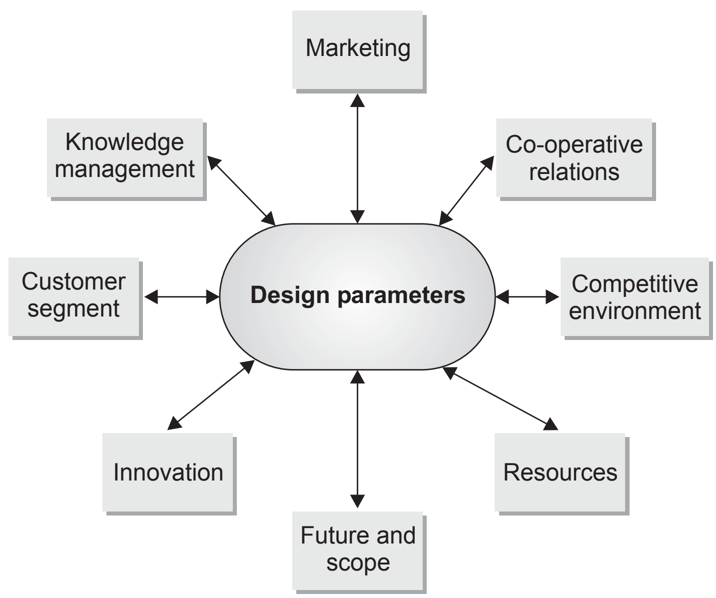


**Figure 1.6** Dimensions of strategic positioning

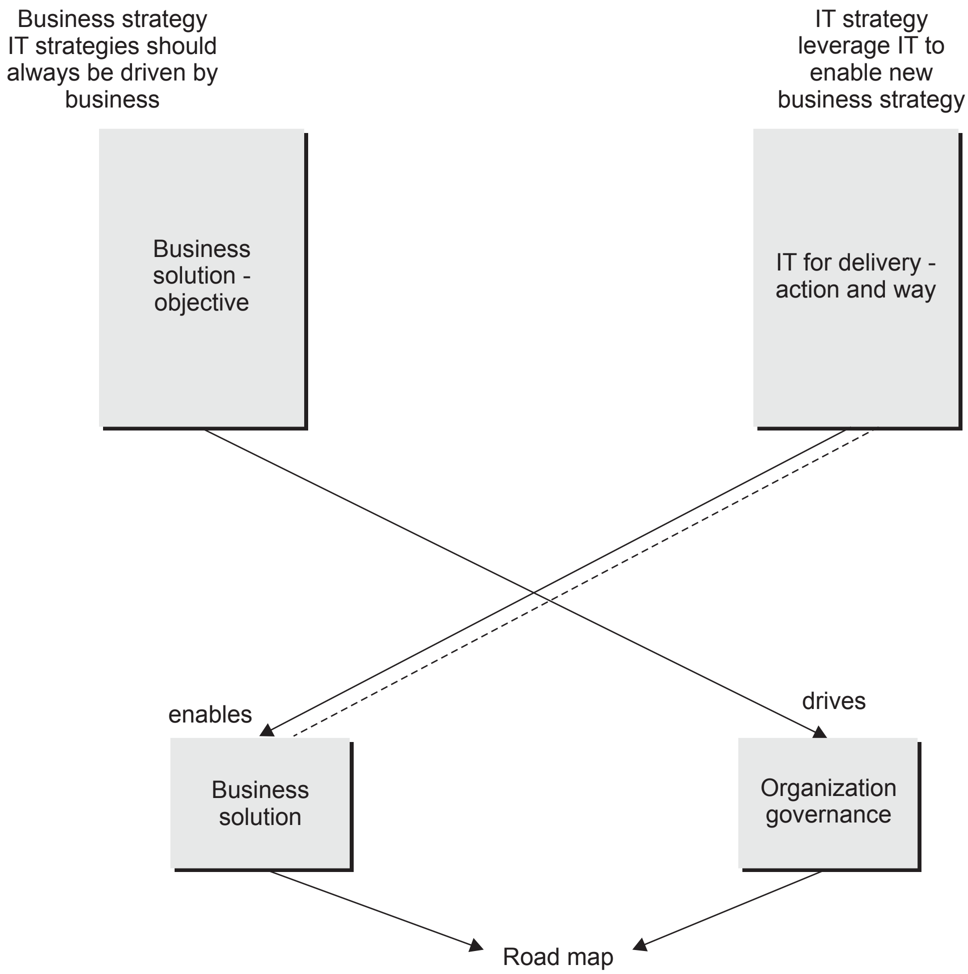


**Figure 1.7** Relationship between Business strategy and IT strategy

A more clear depiction of the relationship between business strategy and IT strategy is shown in Figure 1.7. Besides enabling business strategy, IT strategy leverages IT to enrich new business strategies and helps drive the business by empowering it to achieve the business objectives.

## STRATEGIC POSITIONING

To begin with, let us discuss strategic positioning in detail.

Given below are the information systems whose unique functions or specific applications shape an organization's competitive strategy and provide it with a competitive advantage.

These internal or external systems provide a firm with a competitive advantage. They range from transaction-processing systems to decision-support systems. (This includes systems based on Artificial Intelligence (AI), business intelligence, forecasting, etc.)

An IT strategy allows us to position IT in many different *avatars* (forms). During the last decade many governments and private companies positioned IT as a modern resource to achieve higher efficiency. Today IT is positioned as the information backbone and decision-making tool of many an institution or organization.

Deciding strategic positioning changes the context of the product, and, in some cases, makes the competition even irrelevant. To position a product in a particular way, we also need technology support and relevant product positioning with the customers' inclination to accept the product the way it is positioned. Thus, positioning is always an important strategic component. It has a long-term impact. You cannot change product-positioning overnight. A soap which is positioned as toilet soap cannot be positioned as a beauty soap overnight. Product positioning has an impact even on the company positioning. Strategic positioning enables the product to address the customer segment, attract them, and give them a clear purpose of the product.

In 1988, Charles Wiseman made a detailed addition to the general framework of strategy development. He developed a theory based on the following five thrust areas:

**Differentiation** The organization differentiates itself from other organizations. Typical differentiation factors may be quality, service, etc.

**Cost** Making the same quality product available to the customer at a much lower price.

**Innovation** Adopting new technologies and making innovations in areas of products, services, etc.

**Growth** Growth in terms of business size, penetration, and overall capabilities.

**Alliances** Strategic business alliances.

A couple of decades ago, watches were positioned as an ornament, they were expensive, and only the rich could possess them. Over the years, Japanese watch companies positioned them as an object of regular use which anyone could possess. However, during the last few years, a few companies have been attempting to, once again, position them as an ornament.

Strategic positioning of the companies also has a huge impact on customer segments. Companies position themselves as innovators, cheap solution providers, quality masters, personal caretakers, unique solution providers, knowledge enablers, decision providers, and end-to-end solution providers.

IT helps in strategic positioning of an organization or strategic positioning of a product. It is not about campaigns alone. Product positioning is also about technical readiness and technical claims that the product proposes to make. With better IT management and better IT strategies, it becomes possible to strategically position the product in the market.

IT allows better positioning of products and organizations, by providing organizations the knowledge required for such positioning. Advanced technology shapes the products and services of the future by allowing information management and correcting positioning errors. Advancements in information management are magnified. These are further amplified across business processes. This in turn offers opportunities to innovative business organizations to increase their value.

A strategy can also be viewed as a collection of policies, proposed actions, or statements that express or propose a means through which an organization can fulfill its primary purpose or mission. A chosen strategy must focus and coordinate the firm's activity from top down towards accomplishing its mission. Developing such a strategy begins with a thoughtful understanding of the firm's mission, analysis of its environment, and a detailed assessment of how various business units interact. For any strategy development, there is a need to understand business opportunities and business threats. There is a need for a clear understanding of business objectives. Further, a clear understanding of the business environment, with all possibilities of changes in future, helps in strategy development.

The relationship between a strategic plan and an operating plan is depicted in Figure 1.8.

The nature and type of business and business goals together help in describing the strategic representation of the goals. Strategic representation of goals is exemplified by various strategic parameters such as the following:

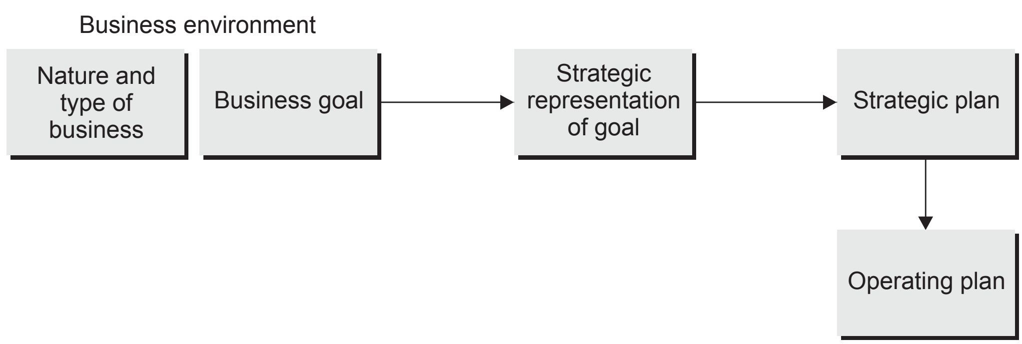


**Figure 1.8** Relationship between a strategic plan and an operating plan

**Strategic positioning** Positioning the company or product in a different way to gain competitive advantage. For example, positioning the company as a true customer-care company or as one offering products for different utility devices.

**Strategic actions for the goal** These include the actions which result in a strategic advantage and ultimately help in achieving business goals. For example, quality improvement, introduction of a new promotional scheme, etc.

**Strategic initiatives** The strategic initiative is divided into a number of strategic actions.

**Goals from the perspective of strategic actions** Every strategic initiative has an impact on the process of achieving goals and it is very important to understand the strategic perspective behind each action.

The strategic representation of goals drives the strategic plan and that helps in operating the plan.

## EVOLUTION OF STRATEGY

No strategy can ever be static and there is always a scope for its evolution. The process of evolution of IT business strategy begins as soon as a business starts. The strategy continues to evolve in the face of competition and in some cases when confronted with new technical facts.

Originally drawn from military terminology, strategy has reached every corner of the world. From a simple planning process it has now evolved into various complex models and is further powered by technology. With evolution, the strategy enables an organization to build up its competitive strength. Strategies that are not well laid fail to build competitive strength.

The process of evolution of a strategy includes:

- Development of basic strategy
- Deciding strategic sequence
- Analysis and deployment of different strategic initiatives
- Study of the environment and forces in the market
- Study of the impact of strategic actions
- Learning based on the impact of strategic actions
- Re-tuning and finalizing the strategic sequence
- Re-deciding the strategic sequence

Strategy evolves with learning and introduction of new facts. Figure 1.9 depicts strategic evolution on a timescale. The initial stage is business objective analysis followed by strategy development at the next level. Then strategy is fine-tuned with the help of learning and analysis.

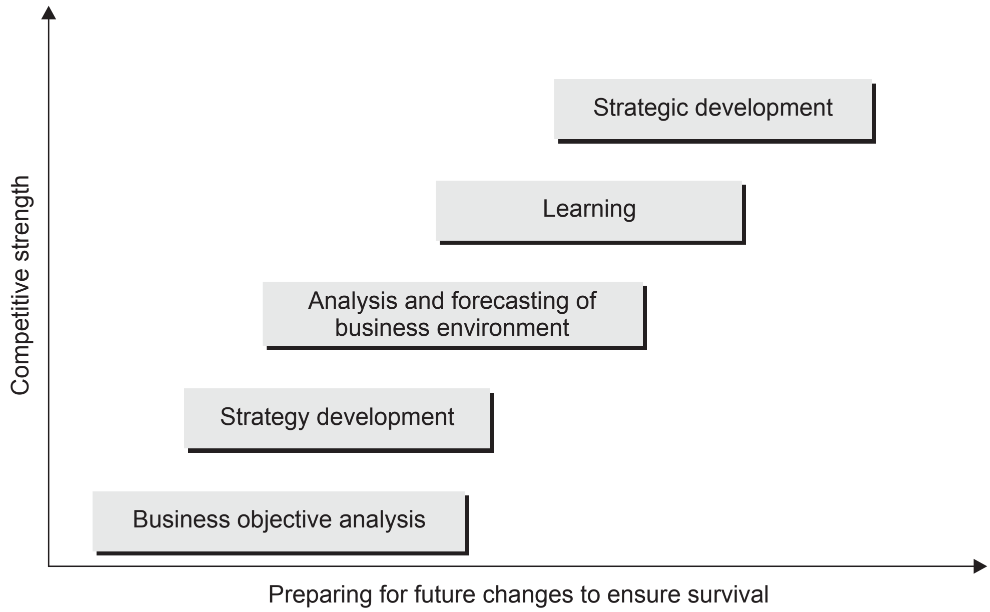


**Figure 1.9** Relationship between a strategic plan and an operating plan

Successful strategies are based on the following:

- Vision
- Re-inventing the business, market, and organization
- 10,000 meter altitude view (looking at the big picture) [Exhibit 1.2]
- Reality
- Core competencies
- Charismatic leadership
- Shared vision, shared values, and shared processes
- Attention to details
- Mapping between organizational strengths and market opportunities

**Exhibit 1.2 The 10,000 metre Altitude View**

Sanjeev Malaney, CEO of Media Tel, in an address to his employees once said:

'Do you know what is the difference between a CEO and a developer? A CEO has a 10,000-meter overview of the organization, so he is in a better position to take strategic decisions. It is about altitude, and if each employee tries to reach higher altitudes the company can get moving in the strategically correct direction. This creates a shared vision. But one should not forget that we need all types of employees: Employees who have a 10-meter view as also those who have a 10,000-meter view. But higher altitudes can certainly help one in taking strategically correct decisions.'

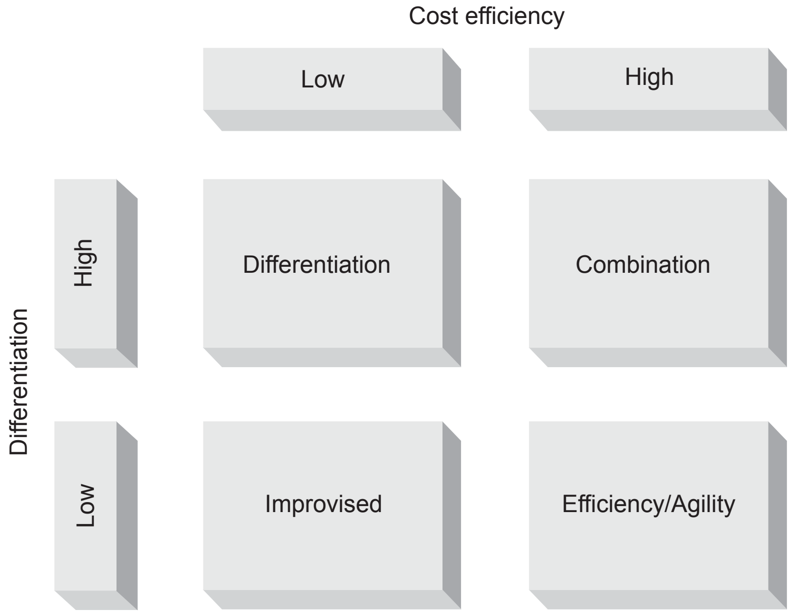


**Figure 1.10** A combination of two strategies — differentiation and cost efficiency

There could be a combination of two strategies; for example, differentiation and cost efficiency as shown in Figure 1.10.

Cost efficiency and differentiation generally do not go hand in hand. As differentiation increases cost efficiency goes down and the resulting competitive factor is only differentiation. In case of low differentiation and high cost efficiency the competitive factor is agility. There is a need for improvement if both are low. The organization may achieve both high efficiency and differentiation. In this case it will gain a better competitive advantage.

## STRATEGIC SEQUENCES AND GETTING THEM RIGHT

Just as a war consists of a number of battles, success in business consists of a number of small milestones. The overall strategy of a company could be represented as a strategy statement, where there is a particular direction and a strategic sequence. Sometimes it may consist of a number of strategic moves. The strategic sequence deals with a set of strategic moves that follows a particular order. The most important thing here is to get the right sequence, which could go wrong even when all the individual strategies are correct. While deciding on the sequence, there is a need for a proper strategic feedback mechanism. This may involve deciding strategic objectives and analysing strategic arrangement of resources. Further, strategic pricing, strategic information management, strategic ordering of actions, and, most importantly, strategic alignment play important roles. The strategic sequence has to work with a lot of information that helps one to move in the right direction. IT makes that information available and further helps in strategic decision-making. IT strategy should thus help an organization to get the strategic sequence right.

The effect of strategic moves depends on the current state of the system. Making a number of right moves to achieve overall business objectives involves getting the strategic sequence right. A series of right moves not sequenced properly could result in failure.

The strategic sequence helps to retain the advantageous positions gained during previous moves and chooses the next move to build a sustainable advantage, which can help the organization in the long run.

Once the overall business and IT strategy is formulated there is a need to define strategic sequence and tactics associated with each state. Deciding the strategic sequence and prioritising various moves are an important part of strategy formulation. Once the overall strategy is finalized there is a need to devise the strategic initiatives for the organization. These initiatives are associated with action items. These actions take the organization to the next state and getting this sequence right to achieve business objectives is the most important aspect of any strategy execution.


**Figure 1.11** Strategies and their components

As shown in Figure 1.11 'objective' is formulation of business goals and implementation is the process to achieve those goals. The strategic components of 'process' are policies and their implementation done through tactics. The strategic component of 'objective' is influenced by business goals. The implementation of the business objective is achieved by using the process to achieve the target goals.

## DEVELOPMENT OF A STRATEGY

In this section, we will cover the basic steps and guidelines for the development of IT strategy.

There is always a need for enabling conditions to develop strategies. The conditions enabling the development of an effective strategy are depicted in Figure 1.12. The performance attributes such as skills and willingness balanced with tasks result in commitment and insights that provide these conditions. Skill and insight leads to the ability to adapt and spread new concepts, while willingness and insight leads to the inclination and desire to spread these concepts. Skill and commitment leads to the development of policies, while willingness and commitment leads to the willingness for innovation. The most important aspect of this development is keeping it as simple as possible.

> Everything should be made as simple as possible but not simpler.
>
> **—Albert Einstein**

Innovation is one of the major aspects of strategy.

> The lifeblood of our business is R&D spend. There is nothing that flows through a pipe or down a wire or anything else. We have to continuously create new innovation that lets people do something they didn't think they could do the day before.
>
> **—Steve Balmer**

There are soft aspects for enabling conditions to develop any strategy. A model for these soft aspects is given in Figure 1.12. Strategy without alignment and willingness will not be effective. There is a need to balance willingness and ability, and insight and commitment. Employees at various altitudes and at various strategic positions in the organization should be made to understand and sign for the strategy.

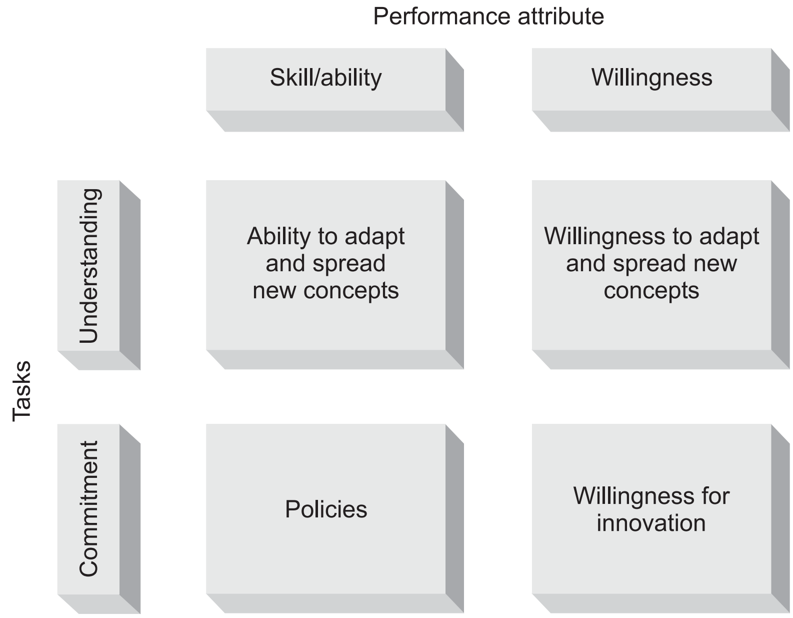


**Figure 1.12** Performance and task attributes with reference to skill and will matrix

Innovation and research are important aspects of strategy and IT strategy. Without proper innovation and research there is no competitive advantage. Research and innovation strategies need to direct the direction of innovation. Innovation is not limited to technology and it includes innovation in marketing, positioning, technology, and strategy.

These soft aspects, if handled properly, create a condition favourable for the development and implementation of strategy. Skill and ability coupled with insight makes it possible to develop, adapt, and spread new concepts. Both the ability and willingness to adapt to these new concepts are required for strategy implementation. There is a need for skills and willingness to innovate. Figure 1.12 shows the performance and the task attributes with reference to the skill and will matrix.

Strategy development is achieving a balance between various components. Figure 1.13 gives a strategy development framework. The framework has three axes:

- Who
- How
- Level of strategy

It can be used to map the roles of various levels of management in strategy development and the high level initiatives used for the same. This framework

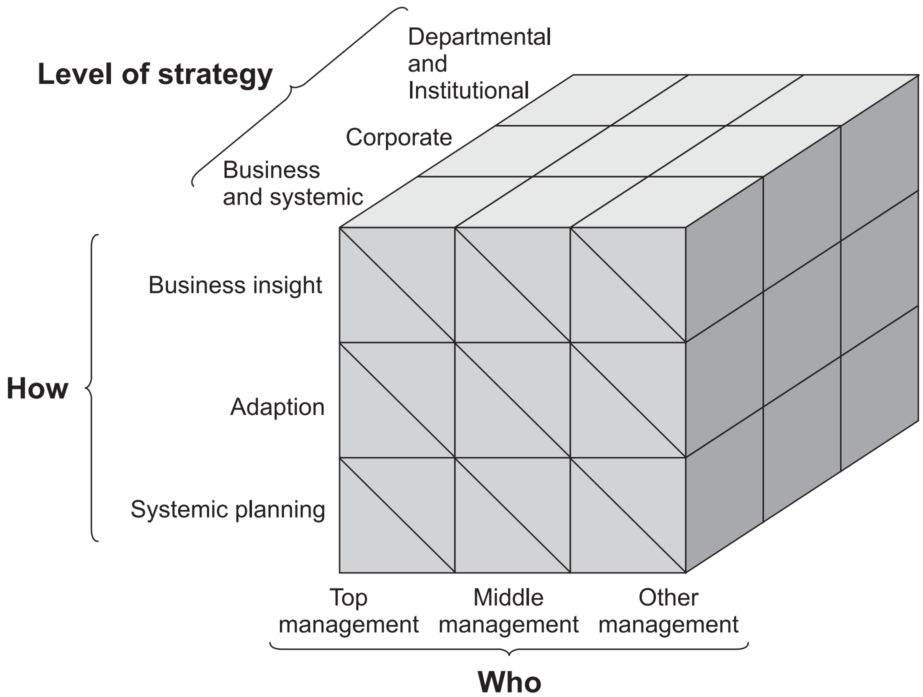


**Figure 1.13** Strategy development framework

can be further extended to IT strategy development framework. Strategy is a three-legged stool and is the act of balancing innovation, positioning, and competition with business objectives sitting at the top.

## Difficulties in Implementation

There are many possible difficulties in the implementation of IT strategies. These include the following:

**Agreement of all employees** It is absolutely essential to establish an agreement among all employees regarding the strategy. In the absence of such an agreement, implementation of IT strategy becomes almost impossible.

**Disaster** Unexpected events or disasters in the market or on the business front render the IT strategy ineffective.

**Changes in business environment** Sudden changes in market conditions, similar to 9/11, can make it difficult to implement the strategy or even necessitate a change in the overall strategy.

**Wrong reward systems** Efforts when not rewarded properly lead to reluctance in strategy implementation.

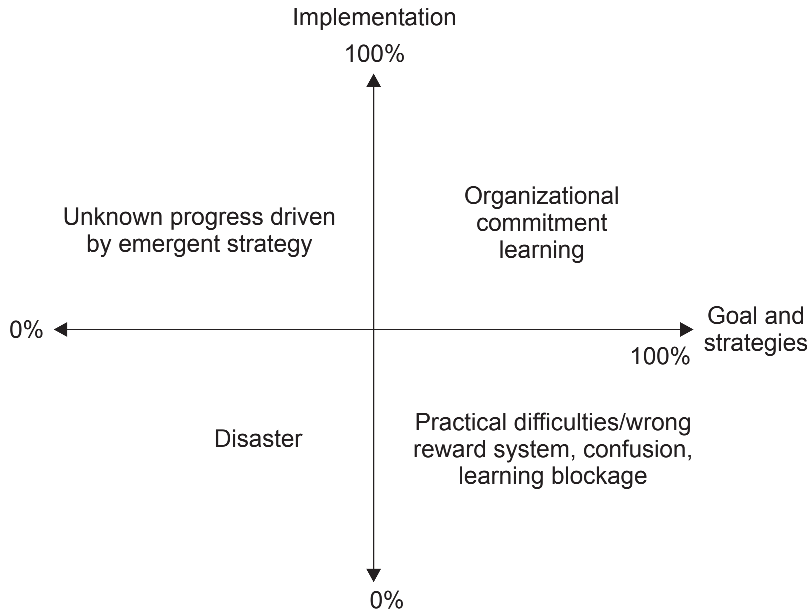


**Figure 1.14** Strategy implementation difficulties

**Confusion between management and strategy** When management and strategic initiatives are confused it results in the improper prioritization of actions.

**Learning blockage** A learning blockage may result in repeating the same mistakes again and again.

The possible implementation difficulties also have technology-related issues. IT strategies empower organizations to overcome these issues with effective use of technology and information. Figure 1.14 depicts the difficulties in strategy implementation. Organizational commitment and learning drives the proper implementation of strategy and achievement of business goals. In cases of learning blockage and wrong rewards system, the organization may formulate a strategy but fail miserably to implement it.

The SWOT (Strength, Weakness, Opportunities, and Threats) given for strategy can be further extended to IT strategy. In SWOT analysis of a strategy, one of the factors can be information technology and there could be listing of strength, weakness, opportunity, and threats with reference to business strategy. But IT also drives various categories such as material, methods, and manpower. Further, there are knowledge-management aspects of business that help in overcoming these obstacles. A typical SWOT matrix in relation to business parameters are depicted in Figure 1.15.

| | Strength | Weaknesses | Opportunities | Threats |
|---|---|---|---|---|
| Market | | | | |
| Knowledge | | | | |
| Manpower | | | | |
| Methods | | | | |
| Money | | | | |
| Time | | | | |
| Material | | | | |

**Figure 1.15** SWOT matrix and parameters

## Strategy Hierarchy

Strategy hierarchy begins with high-level strategies and moves to lower levels. Though the strategies at each level are very important the impact of higher level strategies is more significant.

A strategy hierarchy chart depicted in Figure 1.16 leads to an overall business strategy. The various levels of strategies can broadly be studied under the following heads:

**Corporate strategy** It mainly deals with the scope of business. This is more about deciding business and less about competition.

**Product group strategy** This is more about high-level strategic initiatives and industries-specific.

**Site strategy** This is about strategy with reference to the site and may include more than one business unit.

**Business unit strategy** These strategies are concerned with the profitability, operation, and all other strategic aspects of a business unit.

**Manufacturing/Development/Project management strategies** These are related to various activities carried out at a business unit.

**Implementation technology infrastructure strategy** The infrastructure strategy is about the strategic use and management of infrastructure.

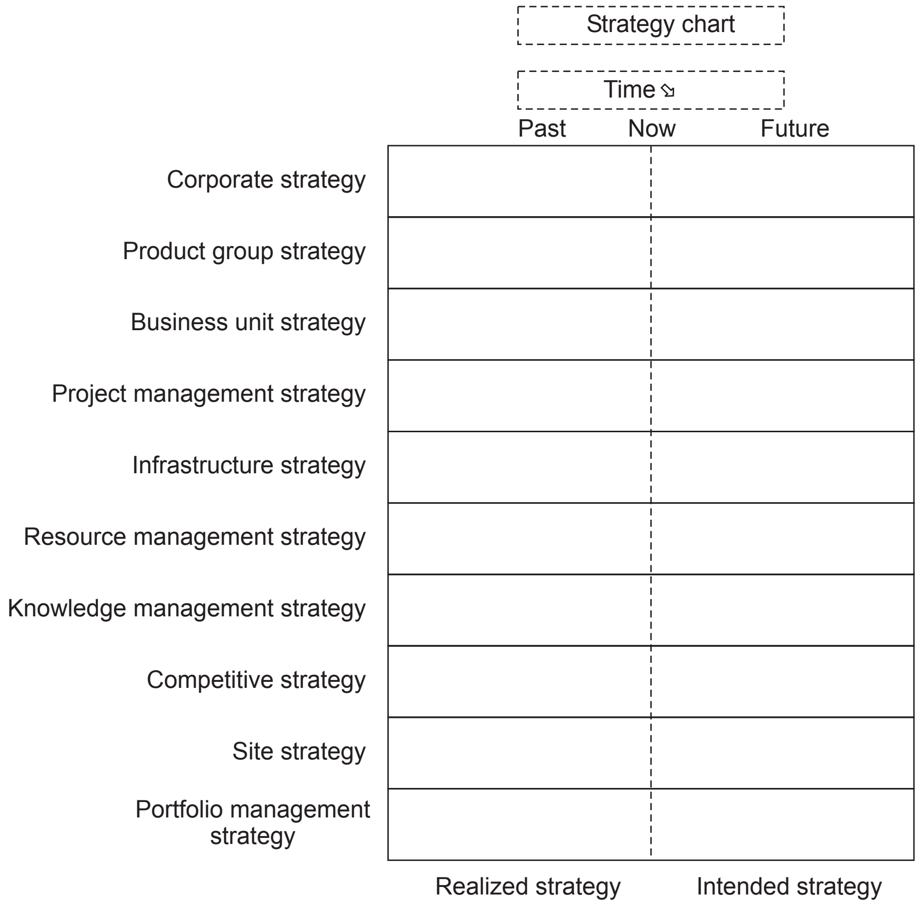


**Figure 1.16** Strategy hierarchy chart

**Resource management strategy** These pertain to optimal and strategic use of organizational resources.

**Knowledge management strategy** This relates to the strategic use of knowledge which is the building block for overall strategy.

**Competitive strategy** The positioning of resources, products, and services strategically to derive competitive advantage.

**Portfolio management strategy** Strategic management of portfolio to optimize the gains and deal with difficult scenarios.

## STRATEGIC PLANNING AND IT

In a dynamic business, social, and economical environment, there is a need for strategic planning, as it involves strategic decision-making. In the absence of strategic planning, external forces and technology could disrupt work. It is also not possible to align business objectives without strategic planning and consequent decision-making. Besides, strategic planning allows monitoring progress from time-to-time to achieve business objectives.

The various phases in strategic development planning (Figure 1.17) are listed as under:

1. Financial and resource-based planning
2. Forecast-based planning
3. Externally-oriented planning
4. Strategic management

It is always advantageous to plan and the best plans are those that are manageable, simple, and flexible. While planning, we need to look at the Company-Cause-Business (CCB). At every phase we need to keep track of the impact resulting from strategic decision-making. We need to assess potential value of each asset and each resource. The improper valuation of assets and resources may lead to errors and loss of strategic advantage. Planning is based on financial capabilities, resource availability, and business forecasts. The different planning criteria are described below.

### *Financial and Resource-based planning*

Financial and resource-based planning is the major part of strategic planning. It takes into account the financial feasibility and resource optimization. It is

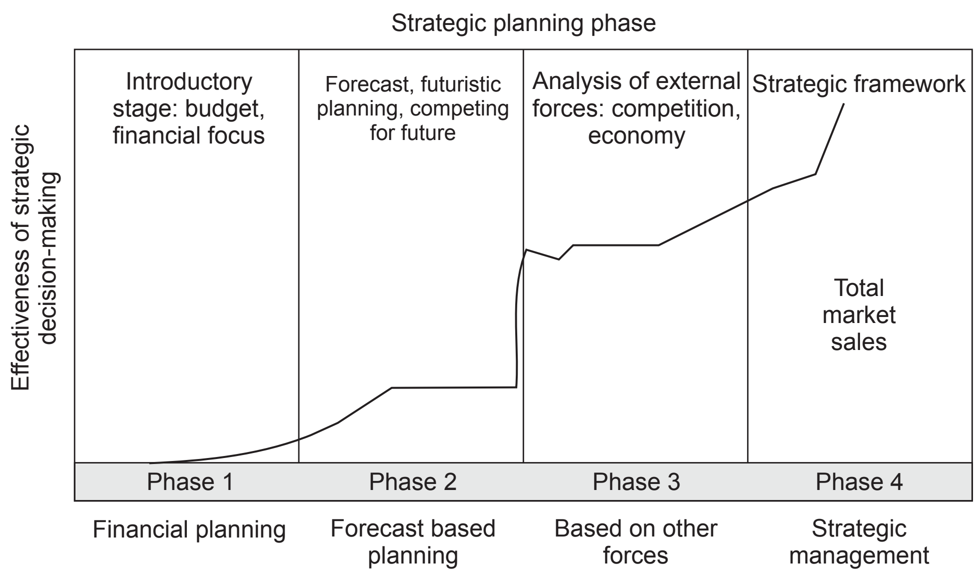


**Figure 1.17** Major phases of strategic development planning

mainly undertaken for seizing the initiatives. Resources and assets have their own value from a business perspective. This planning involves resource and asset valuation in business context and also determines the maximum one can get out of one's forces.

### *Forecast-based planning*

Planning is generally undertaken to deal with various scenarios in future. In order to determine possible future scenarios we need to forecast and infer. Forecast-based planning depends on the accuracy of forecast. There is a need to conduct a market study and understand the market factors and their futuristic impacts. Further, promising moves with proper support, and the best use of a good hunch or gut-feeling, are also a part of forecast-based planning.

### *Planning based on other forces*

There are a number of forces in the market. In business the internal and external factors together decide the outcome. The external forces need to be analysed and hence externally-oriented planning includes analysis of competitive forces, which is the analysis of one's weaknesses with reference to external forces.

Based on the outcome of these analyses, an organization needs to plan to convert its weaknesses into its strengths.

### *Strategic management*

Strategic management involves strategic decisions to fetch competitive advantage for the business. It also includes learning from external and internal forces, analysing the situations further, and developing strategies to capture every advantage. Finally and most importantly, there is a need for application of principles according to the merit of various situations.

## TYPES OF IT STRATEGIES

Figure 1.18 shows the relationship between information technology and income gain. This can help us in broadly visualizing the IT strategies and their impact. IT makes the available information useful for taking economic and marketing decisions. This information flow creates an effective market. This further drives income or financial gains and ultimately economical growth of the business. Information is required for all sorts of decision-making. IT builds the information backbone and creates the information environment in the organization. This information environment enables the business and ultimately creates the business environment.

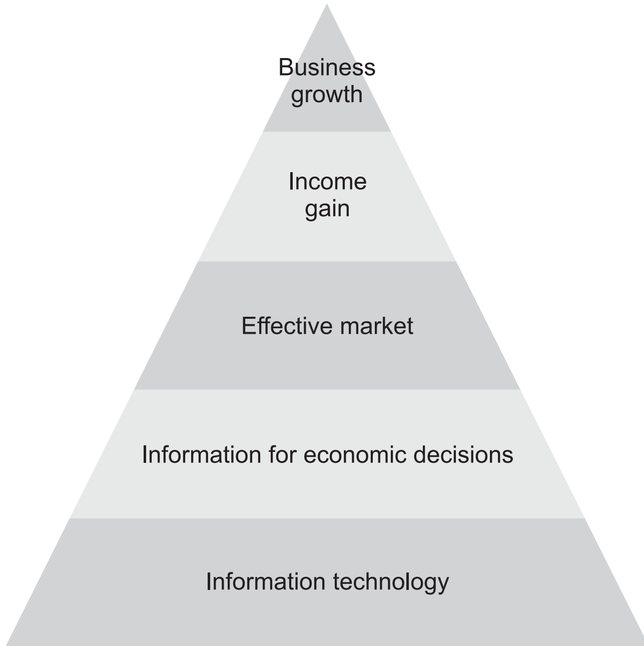


**Figure 1.18** Role of IT in driving business growth

> Information technology is no longer a business resource. It is the business environment
>
> **—John Browning (Economist)**

As shown in Figure 1.18, information technology drives the business growth and therefore business objectives should drive IT strategy. Just as business strategies are divided into various categories, we can divide IT strategies into various types. This differentiation is based on the following:

**Type of companies** Project companies, product companies, manufacturing, etc.

**Business objective** Providing software as a solution, or as a product, or it can even effect the penetration and the addressed market segment based on business objective.

**Type of business** IT strategy differentiation is also driven by the type of business, e.g., domain of business.

A brief introduction to the strategies and their types are mentioned here. We will learn about these in detail in later chapters.

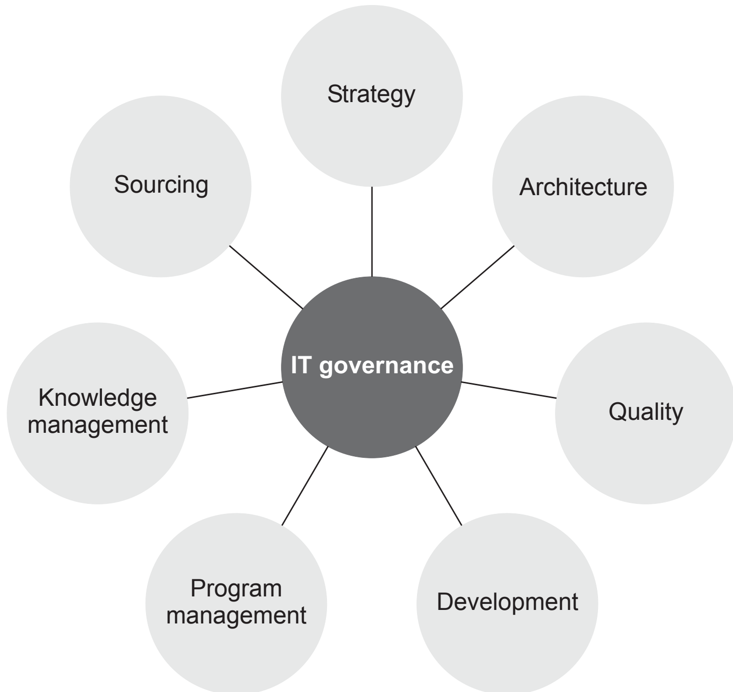


**Figure 1.19** Various aspects of IT governance

- IT marketing strategy
- IT competitive strategy
- IT project strategy
- IT product strategy
- IT infrastructure strategy

The main aim is that strategy should be focused. The overall Information Technology strategy consists of the listed IT strategies. It also includes the existing IT capabilities and present goals along with the forecasted IT capabilities and future business goals. IT strategy drives IT governance, which in turn drives programme management, development, quality, architecture, and sourcing. IT strategy makes the organization capable of prospering in a changing environment. The various aspects of IT governance are depicted in Figure 1.19.

## CONTEXT AND STRATEGY

Business context drives an IT strategy. In case the business is dynamic, it could lead to different sorts of issues. The importance of relating IT to business processes is essential, and it should not succumb to external forces. It acts as a major correcting factor in a business context. As Trout (2004) rightly mentioned, 'Strategy is all about survival'. In case of a change in business context a need may arise to change or re-orient the IT strategy. Reality, survival, and perception are some of the important components of this strategy.

## EVOLVING A DYNAMIC NATURE OF THE BUSINESS

All the components of a business are constantly evolving. There is a need to develop a strategic guideline to build a learning organization. Knowledge is at the centre of all evolving organizations. It is IT strategy that enables proper knowledge management in a business and helps it to succeed in such dynamic and evolving situations. Moreover, strategy is about learning, de-learning, and re-learning, to acquire or hold a winning position. Innovation is one of the major aspects of this process. There is a need to develop a strategic IT plan for the organization so that it could be a vehicle for management and business units. A strategic IT plan helps organizations reach the targeted advantageous position.

> 'The good Lord set definite limits to man's wisdom, but set no limit on his stupidity – and that is just not fair.'
>
> **—Konrad Adenauer**

Strategy is all about minimizing errors. The changing business environment changes external factors. Even though the business objective may remain the same, it may be impacted upon by many variables. The most important aspect of IT strategy under these dynamic circumstances is to retain its simplicity. Therefore, abrupt changes in strategy are not recommended. Changes (if any) in business strategy should be mapped to IT strategy.

The models introduced in this book could help in mapping these changes. Finally, strategy is all about winning, and an evolving and dynamic situation is a great challenge area for strategy development.

## Summary

To be successful you need a proper strategy in place and strategies are needed for all actions in an organization. The strategies are defined at various altitudes or levels. An overall strategy is always derived from the view available at the highest

altitude, but with some specific inputs from the lower altitudes so that a person looking from any altitude is aware of the strategic view along with the overall strategy at the highest altitude. It allows a person to think beyond limitations. If the strategy is developed at a lower altitude it will be like the story of blind men who saw only a part of the elephant's body and therefore perceived different strategies for it. But a CEO or anyone who looks from a higher altitude gets an overall view and is able to devise a strategy for the whole organization. Also, on a cautionary note, he should not ignore any specific and important input coming to him through people who have lower altitude views. He also needs to consider the strengths of the organization at a lower level which could be converted into strategic competitive advantages. The second important aspect of strategy is agility, i.e., a strategy should be evolving continually and should be able to cope with dynamic business needs, changing realities, and changing technologies. The third important aspect of strategy is maintaining the advantageous position with the help of leadership, specialization, competitive advantage, and differentiation. The fourth and last important aspect of strategy is innovation, which is not limited to technologies and includes innovation through processes, technologies, and different business activities.

This strategically advantageous position can be empowered through IT strategy. It has a potential to offer a dynamic and flexible business environment, and if used strategically, it can lead to a competitive advantage. The strategy should be simple, agile, and evolved at a higher altitude. IT strategy is not just about technology; it is about strategic use of information and technology to enable business strategy and business activity to empower business. IT strategy should be aligned with the business strategies.

Strategy needs to be evolving and dynamic so as to capture and respond to the changes in the market. Again one must be mindful of the fact that frequent changes in strategy are harmful to the organization, and that is why each strategic step should be thought through and the requirements of the future considered carefully.

## Keywords

**Business strategy** The overall strategy of an organization to achieve its business objective is termed as business strategy.

**Competitive strategy** A strategy that specifically focuses on building an organization's competitive advantage, rendering the competition irrelevant, or dealing with competition, is termed as competitive strategy.

**Information Technology (IT) governance** It is the part or subset of overall corporate governance that deals with governance related to information technology. IT deals with risk management, performance management, overall governance of information technology, and IT resources in the business or corporate environment.

**Information Technology (IT) strategy** The science and art of effective use of information technology, allied technologies, and IT resources of an organization to execute its strategic plans optimally, or as effectively as possible, to achieve its business objectives.

**Knowledge management** Managing the knowledge within the organization and optimum use of knowledge resource. It deals with making proper knowledge available to the right person at the right time and in proper form.

**Knowledge worker** A person involved in processing, capturing, building, or using knowledge in the organization.

**Marketing strategy** Strategies or positioning related to marketing.

**Strategic sequence** A set of strategic moves that follows a particular order is termed strategic sequence. Once the overall business and IT strategy is formulated there is a need to define strategic sequence and tactics associated with each state.

**Strategy evolution** The way strategy evolves within the organization right from conceptualization to implementation analysis, learning, and re-formulation is termed as strategy evolution.

**Strategy** The science and art of effective use of all possible forces of a nation or entity to execute approved plans optimally or as effectively as possible during different social and political situations including peace or war.

## Concept Review Questions

1. What is a strategy?
2. What are the various parameters within and outside an organization that effect the strategic decision-making process?
3. What is a strategic sequence?
4. What is an IT strategy?
5. Why is IT also known as 'business environment'?

## Critical Thinking Questions

4. What is strategic decision matrix? Develop a strategic decision matrix for your organization.
5. What are the various stages in strategy evolution? Elaborate the learning phase in strategic evolution.
6. Explain why strategies need to be dynamic.
7. When can a strategy fail?
8. Explain mapping between competitive strategy and IT strategic initiatives.

## Project Work

1. Develop a business strategy for a small IT company which
   - focuses on building a software product
   - is an application service provider
   - has plans to sell the product in international market
   - faces competition from products that are very slow.
2. Discuss the IT strategy for the above companies.
3. Elaborate on the strategic sequences for these companies.

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## Case Study

### STRATEGIC DECISION-MAKING

### Media Tel: Success Story

In 1998, Media Tel was voted among the 100 fastest growing companies.

The following year the company took a major policy decision. It decided to sell Media Tel to Captaris. The following narration is a ball-by-ball account of the events that led to such a startling decision. It was October 1999, all Media Tel directors were in the boardroom. There was a very intense discussion going on. The topic was whether to go public or not. After an extremely heated discussion and a lot of analysis the board decided to sell (merge with the buying company) Media-Tel to Captaris, a NASDAQ listed company for $48 million in spite of the possibility of going public for $250 million. All formalities were completed and the company merged with Captaris. Sanjeev Malaney, CEO of Media Tel, was very happy with the merger. He said, "it is all achieved through shared vision, strategic planning, and strategic decision-making that could give us returns close to 500 times".

#### History

Sanjeev was working in a software firm in the Silicon Valley. The elder son of an entrepreneur in India, Sanjeev had an inclination towards entrepreneurship right from the beginning of his career. Though he had decent savings, they were not enough for a new venture. He had full confidence in his leadership and problem-solving skills and believed that problem solvers ruled the business world. One day, he decided to start his own venture. He met his manager and had an hour-long discussion with him in this connection. The manager agreed to allow him two extra days off in a week with proportionate deductions.

Sanjeev often said, "I like to solve problems in a different way! When I stand in front of a wall, instead of measuring its height, I look for cracks. In case of problems, I am interested in solutions which are innovative. Those are the cracks I always look for…" He was interested in developing products which could offer better service. In his opinion, products should come after innovations and a product company should create its own culture of innovations! He discussed a problem that a bank was facing with its officials, and proposed a possible solution to them. He came up with a concrete solution in six months after a lot of hard work. But, the bank manager, and the CEO were skeptical about the proposed solution. They suggested many changes to the solution given by Sanjeev. When Sanjeev incorporated those changes the CEO came up with another list of changes. Sanjeev realized that this was not one of the problems that the bank was keen to seek a solution for. He made a couple of more attempts, but to no avail. Nothing was working out. His bank balance and salary were going down, as he had to seek more offs every week.

One fine day, when he entered a bank for some financial work, he saw a secretary standing in front of a fax machine. She was feeding the same page continuously to a fax machine and dialing the numbers again and again. He could not understand what she was doing. He asked her why she was doing so. She replied that the same fax was to be sent to a few hundred customers and she had no option but to dial the numbers again and again. It was a regular feature and she had to go through this painful drill almost every alternate day.

Sanjeev said, “I can solve your problem”. Elated with the possibility of a solution, she took Sanjeev to her boss. The bank’s chief executive told him, “if you can solve this problem for us, I am ready to buy your services/product”.

Sanjeev went back home with many ideas to crack the problem. He started working on the solution. He did all the coding required and finally came up with the solution in two months. He was ready with the solution but he needed $20,000 for fax cards and other equipment. He spent most of his savings to buy it. Once he was ready with the solution and fax cards he went back to the bank CEO. The bank tried his solution. This solution was delivered as an ASP (Application Service Provider) and all the services were offered from provider’s premises. It worked for the bank. His first customer was very happy with him and expressed it by calling him back the same day.

The software he had delivered to the bank was a vast improvement over his original idea. When he launched his company, Media Tel, in 1989, he envisioned selling banks an electronic fax and phone system that enabled customers to access account records with a single phone call. With the new technology, he began delivering fax services to other banks that subscribed to his automatic information access service.

This was just the beginning. To grow and become successful, Sanjeev wanted to develop contacts and the only way of doing so was to take a membership of Mortgage Bankers’ Association. He spent $1,000 on it. In the meantime Thomas, a technical genius, joined the company as its CTO. With his technical acumen and Sanjeev’s business sense, growth and sales registered an upward swing.

## On the Way to Success!

For Media Tel, shared vision and values were the principles. It had a small team of motivated people, who came together for a purpose. Starting the journey from Sanjeev's garage, they wanted to reach the pinnacles of business excellence. It was a challenge to keep things moving. Entrepreneurship for a purpose was their slogan. Giving value to customers and solving their problems was their agenda.

In 1993, Media Tel managed to become a million-dollar company. There was always a chance and the need to expand. However, it had a competitor in East Coast Company. East Coast Company was getting stronger every day. Spread all across the East Coast, it was planning to expand all over USA. East Coast Company had acquired the required manpower and had recently gone public. Besides, it had the money and power to address all the issues related to their business.

Though there was a constant growth in Media Tel sales, the marketing experts were not satisfied. They experienced a marginal drop in getting small and middle-size customers in the central part of the US. Till then they had also failed to attract big customers. Media Tel team was quick to read and sense these market signals. It was time to take decisions. Media Tel took two important strategic decisions in 1994. One, they wanted to go after big customers with all their marketing and sales might and at the same time they had to decide about small customers, who were the bread and butter of the company. The company decided to hire contractors for all small customers.

A new licensing policy was announced. All mid-size and small-size companies from then on were to be handled by contractors. This gave the company ample bandwidth to handle big customers and to focus on strategies. The company launched a special cell for customer care. Things started moving but were still not satisfactory. There were a few problems which hindered the pace of business.

While new customers were not easy to come by, the company lost a few older ones due to channel conflicts.. In December 1994, the company board members met again to analyse the problem. The CEO stressed on the importance of avoiding channel conflicts and providing measurable value to the customers. He also announced signing a 'Service Level Agreement (SLA)' with customers to give them values that they could measure. Other board members had some doubt about it. But Medias Tel team had full confidence in their customer care. The board members eventually agreed on the decision of signing SLAs. In December 1994, the company came up with guidelines to avoid channel conflicts and developed 15-minute-SLAs. "Give us documents and your fax will be delivered in 15 minutes. Give us the responsibility and forget it!"

Within 15 minutes of signing SLAs, things worked like magic. Media Tel was able to attract many big customers. Even customers like United Airways who were earlier reluctant to go with Media Tel became one of their big admirers. No customer of Media Tel switched to another company. Most of the customers established a long-term relationship with Media Tel. Strong customer retention paid off. Media Tel thus outsmarted East Coast in many ways. It developed a strong customer base over the next two years. No other company could enter this business. SLAs and strong customer care had built a barrier that was difficult for others to overcome.

"The biggest challenge has always been to find good people and motivate them," Sanjeev said. He said he used to look for a 'values match' in his employees. "People who will best embody the principles of the company." His first two employees, a sales person and a secretary, were still on board and were key members of his team.

Another management issue in front of the company was to attract a good management team and improve the sales force. To achieve that there was a need for money. In 1994, the company decided to go in for an institutional round of VC (Venture Capital) funding, and showed its first profit. There were a number of VCs ready to invest in the company. The board met to decide about VC funding, and ways to attract a good management team to bring expertise in the company. It chose VCs who could not only guide and put money, but also bring knowledge and experience, which was needed at that stage of growth.

The company took VC funding of $2.5 million and then recruited an expert management team to develop its growth plans.

"When innovation stops, companies die." This was Sanjeev's firm belief. Media Tel always allocated 15–20% of its budget to R&D. There was always innovation in marketing, technology, and decisions. With all these innovations the company managed an exponential progress over the next three years. In 1998, when market was good, the company turnover touched US $25 million.

According to the CEO's estimates, San Francisco based Media Tel had delivered over a billion pages of documents to some 2,000 customers over the past eight years. The company's headquarters housed 5,000 telephone lines and the technology to send out 5,000 faxes in a very short time. In fact, Media Tel customers could configure their fax software so that they needed to only press a single button on a desktop computer to instantaneously fax personalized reports, statements, or invoices to thousands of different business locations. Customers also had a number of options to provide documents on request, to check the history of transactions, and re-routing.

Equipped with the right product, Sanjeev focused on two things to grow his business: his employees and his customers. From the beginning, Sanjeev wanted to develop life-time customers, "even at the expense of growth," he used to say. One of the main reasons for Media Tel's success was "We walk our talk," as Sanjeev put it. The result: "People love our service."

## Shared Values and Vision

During the expansion, one thread was common. Media Tel was working with persons who were completely aligned with the company's values and had a common vision. The company's vision was to become a leader in fax-related communication and relieve the pain of customers in the financial domain.

The company's values were based on ethical grounds and had depth. Values that could be best described by the following statements:

**Customers** We are in business to serve customers and to enhance their productivity.

**Profit** Be financially prudent in all matters. Profit is a vehicle for achieving our other goals.

**Growth** Anticipate and plan for growth. Growth is a vehicle for achieving our other goals.

**Quality** Deliver first-class products and services in a first-class way. Continuously improve upon everything we do.

**Ethics** Maintain the highest standards of professionalism, personal integrity, and business ethics. Be a role model in our industry.

**Respect** Treat each other and our customers with respect and dignity, irrespective of organizational position, age, sex, religion, race, sexual preference, or national origin. Create a work environment characterized by mutual respect and trust.

**Commitment** Commit only what we can deliver and always deliver on what we have committed – whether to customers, vendors, or fellow employees.

**Community** Be a good citizen wherever we do business. Contribute to enhancing the community, the environment, and the workplace.

**Personal development** Encourage an environment that stimulates learning, individual growth, and development.

**Fun** Create an enjoyable work environment. Treasure humour.

## Going Public

The company kept growing as its turnover went on increasing continuously. By the end of 1998 the net ROI was 10.

Some of the sales figures are as shown in Table 1.1.*

**Table 1.1**

| *Sl No.* | *Year* | *Revenue (Million $)* | *Profits (Million $)* | *Investment in dollars* |
|---|---|---|---|---|
| 1. | 1990 | 0.1 | 0 | 25,000 (Self) |
| 2. | 1991 | 1.1 | 0 | 240,000 (Friends and family investment round) |
| 3. | 1992 | 3.5 | 0 | |
| 4. | 1993 | 6.0 | 0 | |
| 5. | 1994 | 9.5 | 0.22 | 2.5 million (Institutional Investment Round) 20% Shares |
| 6. | 1995 | 14.5 | 1.45 | |
| 7. | 1996 | 19 | 3.6 | |
| 8. | 1997 | 22 | 4.4 | |
| 9. | 1998 | 25 | 5.0 | |
| 10. | April 1999 | Sold/merger took place for USD 50 million | | Total Investment <3 million |

*All figures mentioned here are approximate based on projections and inputs given by the CEO, Sanjeev Malaney.

ROI = NP/I = 47/3 = 15.66

The profit increase was higher even though there was no increase in revenue (Figures 1.20 and 1.21). The company enjoyed a complete life cycle of the product with very little investment and much higher returns after 1997.

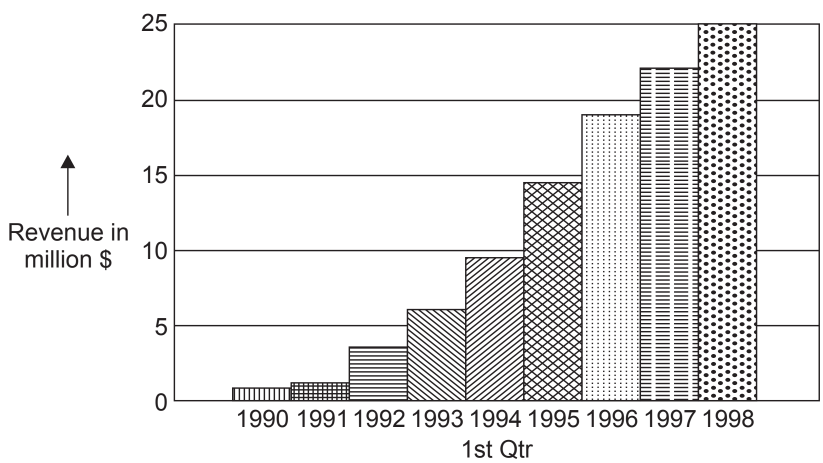


**Figure 1.20** Profit chart of Media Tel

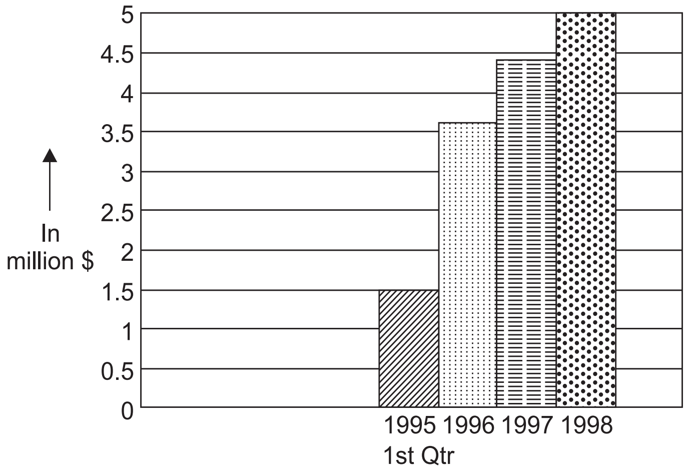


**Figure 1.21** Revenue chart of Media Tel

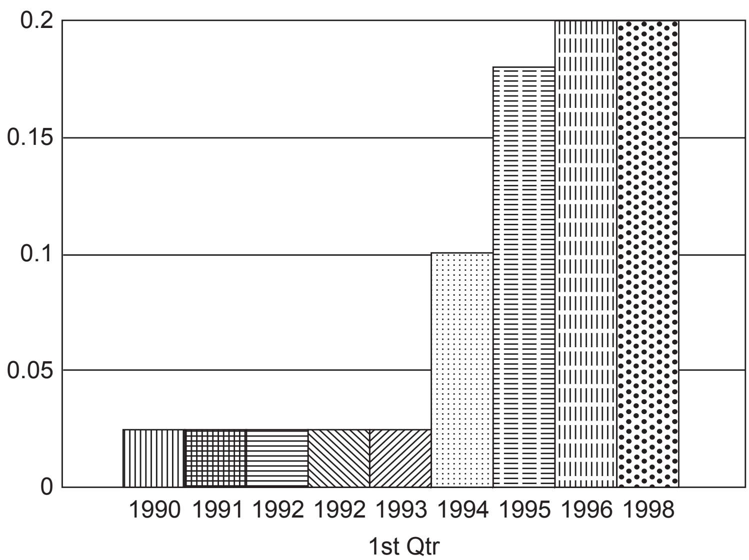


**Figure 1.22** Profit/investment chart of Media Tel

Company's growth in terms of manpower

| | |
|---|---|
| 1990 – 2 | 1995 – 22 |
| 1991 – 3 | 1996 – 24 |
| 1992 – 4 | 1997 – 25 |
| 1993 – 5 | 1998 – 30 |
| 1994 – 20 | 1999 – 35 |

Investment and ROI in US $
For friends and family:
Investment = (215,000 + 25,000) = 240,000 $
Returns = 50% = 25 million $
R/I = 25,000,000/240,000 = 117
For founder = 15,000,000/25,000 = 600
For investors = 10/2.5 = 4.0

The company doubled its revenue between 1995 and 1997. In 1998, it was among the hundred fastest-growing companies in the US. Company profit was increasing and the company had reached a point when it was time to go public. The whole Silicon Valley was riding on the dot.com boom and the market was one of growth. The CEO had kept a close watch on the market and was working closely on all fronts to take decisions. With all these thoughts in mind he called a meeting to discuss the liquidation phase of the company. According to him this was the time to liquidate.

Therefore on the board-meeting day, all board members were discussing the strategy for liquidating. There was also a serious discussion about going public. It was obvious that Sanjeev had clearly studied all the aspects. He had been talking to many entrepreneurs prior to this meeting and was ready with all the statistics and possible implications of various decisions. There were three clear options:

- One: Wait and watch for a few more months,
- Two: To go public right away as there were clear indications that the company could have gone public for $200-250 million dollars.
- Three: Merger with a company that had offered them $50 million.

Most of the board members were in favour of going public as profits had started coming in and the market was good. Share values were going up every other day and one of the board members even said, “We can earn as much as double the money if not more if we delay our decision of selling the company.” But now it was the turn of the CEO. Sanjeev explained all the consequences in detail. He knew what he was going to do and what was right for the future of the company and all its employees. His study for the last six months along with all current market signals helped the board reach a unanimous decision.

By the end of the day the board decided to sell the company for $50 million.

Principles, vision, and shared values paid off. Sanjeev said, “Modern era is of problem solvers. You can succeed with values, ethics, and vision”.

## Questions for Discussion

1. What was the core strategy of the organization?
2. Explain the licensing strategy of the organization.
3. Discuss the various strategic decisions taken by Media Tel along with the background of those decisions.
4. Discuss the dynamic nature of strategies of Media Tel.
5. Discuss the following:
   a. Marketing Strategy of Media Tel
   b. Innovation Strategy
   c. Information Technology Strategy
   d. Overall Business Strategy
6. Discuss the strategic sequences with reference to the various strategic initiatives taken at Media Tel.