School of Higher Commercial Studies

« EHEC »

Master dissertation in order to obtain a master degree in commercial studies (major in management and entrepreneurship)

Theme:

Strategic analysis of an insurance company(applicationSWOTmodel and BCGmatrix)

Case study:The National Insurance Company SAA

Elaborated by:Supervised by:

Khadidja MAMECHE **Dr. Widad CHABANI**

University year: 2018/2019

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Dedication

I dedicate this work to who taught me the value of education and knowledge to my beloved parents mom and dad.

To my other half of my heart and soul my twin sister Meriem.

To my brothers: Hakim, Cherif and Hacen.

To whom i consider as my second family my sister Fatima and her hunsbandAissa.

To my grandparents, uncles and aunts.

To my friends: Meriem ,Radia, Nassima , Wissam .

To my little nieces: Hajar, Lodjay,Inass and Rahaf.

Acknowledgements:

I would like to express my grateful to Dr.Widad CHABANI who accepted to supervise me ,and who has guided me through this research work, and who was very patient and supportive all along.

Moreover, I would like to thank the insurance Agency's manager Sir.Smail ABBOUD who helped me to make the case study.

Finally, I want to express my great thanks and gratitude to my parents for their support, love and caring for my whole life and especially during my research preparation.

Thanks

Abstract

This study aims to understand how the company conducts strategic analysis in order to determine the internal and external factors that affect the company's performance.

Moreover, strategic analysis is the core success of the company, it enables the company to select appropriate competitive strategies to changing environment that allow it to establish a profitable and sustainable position against the competitors.

The Algerian insurance market is oligopolistic consists of few number of competitor, according to this type of competition we applied the SWOT model and BCG matrix to analyze the strategic position of the National Insurance Company SAA compared to its competitors.

Therefore, we identified the strengths and weaknesses of the SAA, and the opportunities and threats that SAA face on the market, the strongest point of the SAA is its large distribution network which allow it to be the leader on the market;

We also analyze the competitive position of the SAA on each strategic business units by creation the BCG matrix on two variables (relative market share and market growth rate of each strategic business unit).

The BCG analysis shows that the SAA has business portfolio characterized by a cash cow (automobile insurance), two dogs (various risk insurance and transport) and a question mark (credit insurance).

According to case study results, we suggested to the SAA to adopt leadership strategy in order to maintain and strength its leader position in the future.

Finally, the SAA prepares the strategic plans, makes a clear vision of its strategy and shares it with its staff, and motivates its employees to follow that strategy in order to achieve their goals.

Key words: strategic analysis, strategic business unit SBU, competitive advantage, SWOT model, BCG matrix.

ملخص :

تهدف هذه الدراسة إلى فهم كيفية إجراء المؤسسة للتحليل الاستراتيجي من أجل تحديد العوامل الداخلية والخارجية التي تؤثر على أدائها، إضافة إلى ذلك فإن التحليل الاستراتيجي هو النجاح الأساسي للمؤسسة فهو يمكنها من اختيار استراتيجيات تنافسية مناسبة للبيئة المتغيرة التي تسمح لها بإنشاء موقع مربح ومستدام ضد المتنافسين.

ومن خلال هذه الدراسة تم التوصل إلى أن السوق التأمين الجزائري يتكون من عدد قليل من المنافسين، ووفقا لهذا النوع من المؤسسة طبقنا نموذج SWOT ومصفوفة BCG للتحليل الوضع الاستراتيجي لشركة التأمين الوطنية SAA مقارنة بمنافسيها، ووفقا لهذا تم تحديد نقاط القوة والضعف ل SAA والفرص والتهديدات التي تواجهها، واقوى نقطة في SAAهي التوزيع الكبير الذي يسمح للمؤسسة أن تكون رائدة في السوق، كما تم تحليل الوضع التنافسي على كل وحدات النشاط الاستراتيجي من خلال إنشاء مصفوفة BCG على اثنين من المتغيرات (الحصة النسبية للسوق ومعدل نمو السوق لكل وحدة نشاط استراتيجي).

يوضح تحليل BCG أن SAA لديها محفظة أعمال تتكون من بقرة حلوب (التأمين على السيارات) وأجزاء ميتة (التأمين ضد المخاطر والنقل) وعلامة استفهام (التأمين الائتماني).

ووفقا لنتائج دراسة الحالة اقترحنا على SAA استراتيجية القيادة من أجل الحفاظ على موقعها القيادي وتعزيزيه في المستقبل .

وفي الاخير تبين أن SAA تقوم بإعداد خطط استراتيجيةٍ واضحة وتحفيز عمالها من أجل تحقيق اهدافها المرجوة

الكلمات المفتاحية : التحليل الاستراتيجي، وحدة النشاط الاستراتيجي الميزة التنافسية ، نموذج SWOT، مصفوفة BCG

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List of abbreviation

SAA: **S**ociété**A**lgérienned'**A**ssurance.

SWOT: **S**trengths,**W**eaknesses,**O**pportunities and **T**hreats.

BCG: **B**oston **C**onsulting **G**roup.

GE: **G**eneral **E**lectric.

ADL: **A**rthur **D**.**L**ittle.

UAR: **U**nion **A**lgérienne de **R**eassurance.

CNA :**C**onseil **N**ational des **A**ssurances.

SAE-EXACT : **S**ociété **A**lgérienne d'**E**xpertise et du contrôle technique automobile.

IPA : **I**nter **P**artner **A**ssistance.

COTA : **C**ontrôle **T**echnique **A**utomobile.

SPA : **S**ociété **P**ar **A**ction.

SIVAC : **S**ociété d'**I**nvestissement à **C**apital **V**ariable.

SAPS : **S**ociété d'**A**ssurance de **P**révoyance et de **S**anté.

ALFA:**A**gence pour la **L**utte contre la **F**raude àl'**A**ssurance.

AFRICA RE : **AFRICA**n**RE**insurance.

CAGEX : **C**ompagnie **A**lgérienne d'assurance de **G**arantie des **EX**portations.

SGCI : **S**ociété de **G**arantie du crédit **I**mmobilier.

SRH : **S**ociété de **R**efinancement **H**ypothécaire.

SIH : **S**ociété d'**I**nvestissement **H**ôtelière.

CEO : **C**hief**E**xecutive**O**fficer.

ETRHB : **E**ntreprise des **T**ravaux **R**outières, **H**ydrauliques et **B**âtiments.

FILTRANS: Internationaltransit transport.

List of abbreviation

ENIE : **E**ntreprise **N**ational de l'**I**ndustrie **E**lectronique.

BATENCO :**BAT**imetal **EN**gineering and **Co**nstruction.

ENICAB : **E**ntreprise des **I**ndustries du **C**âble.

CMA CGM:La Compagnie maritime d'affrètement - Compagnie générale maritime.

SAPTA :**S**ociété **A**lgérienne des **P**onts &**T**ravaux d'**A**rts.

Sitram:Société Industrielle de Transformation de Métaux.

SOCOTHYD :Société de Coton Hydrophile & d'Articles d'Hygiène.

ADE: L'**A**lgérienne **D**es **E**aux.

SEOR :Société de l'Eau et de l'Assainissement.

ENGTP: Entreprise Nationale De Grands Travaux Pétroliers.

AGRODIV:Groupe Agro Industries .

BADR :**B**anque de l'**A**griculture et du **D**éveloppement **R**ural.

BDL :**B**anque de **D**éveloppement **L**ocal.

BNA: **B**anque **N**ationale d'**A**lgérie.

CNEP: la **C**aisse **N**ational d'**E**pargne et de **P**révoyance –banque.

I.A.R.D : Incendie **A**ssurance **et R**isque **D**ivers

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Introduction

Introduction

Algeria has undergone significant economic reforms in recent years, which have led to the opening up of enterprises in all sectors on the world of the market economy and the new insurance legislation according to order 95/07 of 25/01/1997 and these application texts to liberalized and specialized insurance activity which is characterized by oligopolistic competition means “the existence of a small number of companies and a multitude buyer, made up of public, private, administration , private companies, etc.”

As a matter of fact, insurance companies today are facing new competitors: new entrants direct sales specialists offer insurance products, banks; large distribution groups ... etc.

In other hand, businesses seek survival, improvement and success. To fulfill such outcomes, management planning and decision making require information about business operations and the circumstances which surround them such information is the basis upon which business decisions may be made.

By monitoring the business environment it is possible to gain a view of the market and competitive position of the business. If no such activity is undertaken, businesses increase their risks to a point where their survival may be in jeopardy.

All these factors push the insurance company to evaluate its inside and outside environment to get those piece of information that needed in strategic decision-making that allows the company to select appropriate strategies adapted to environment evolutions, in order to develop or maintain its competitive position on the insurance market.

Strategic analysis is the process of conducting research on internal environment, evaluation of company’s resources and capabilities which represent the organization’s strengths or weaknesses, external environment: identifying both the opportunities open to the company and the Threats it face, and analyzing competitive forces that influence its competitive position   in an industry and internal and external environment, overall all analysis of the company by identifying the internal and the external factors that affect its performance and analyzing the company’s position relative to the competitors or the market on which it operates using internal and external data.

Researching the business and the environment in which it operates can help the manager to uncover opportunities to take advantage, eliminate and manage the weaknesses and the threats and the strategies that help distinguish a company from competitors can be formulated.

The purpose of this study is to understand how the company conducts research on its internal and external environment and the factors that determine the gain or loss of competitive advantage. In order to select appropriate strategies which enable the company to stay competitive and gain sustainable advantage.

We will try to develop the research questions to gain more understanding of this overall problem:

Main question: how can the company apply strategic analysis to make adapted strategic decisions to changing circumstances of its environment?

The research questions: represent the base of the overall problem:

RQ1: what's the impact of strategic analysis on a company's performance?

RQ2: what are the strategic analysis tools used to make environmental scanning?

RQ3: What is the predominance activity of the SAA?

Statement of hypotheses:

H1: strategic analysis enhances the company's performance.

H2: there are several techniques that can be applied in strategy analysis.

H3: the predominance activity of the SAA is automobile insurance.

The choice of the theme:

The strategic analysis represents the core successes of the companies who want to differentiate and survive, for this we chose the strategic analysis as theme, to evaluate the use of strategic analysis tools in the Algerian companies.

Research aims:

The study aims to understand the role of strategic analysis to adopt strategic choices in changing environment by applying tow methods SWOT and BCG matrix.

Through the analysis, we aim to find out appropriate strategies for SAA to maintain and enhance its strategic position on the market.

The importance of the study:

The importance of study related to importance of strategic analysis and its role in maintaining the company's customers and its market share.

The changing environment circumstances push the company to adopt strategic analysis in order to adapt to the technological evolution and new customers' needs, for this reason the study of strategic analysis and its importance for strategy formulation is interesting point should be developed.

We made the study in the insurance agency in Bouira, from 03/03/2019 to 03/05/2019.

The study method:

To conduct the research, we adopted analytical and descriptive method. To develop the theory study we used books, articles, websites, as data collection, and we used internal data and documents of the company and make interview with the manager of the insurance agencyas data collection for case study.

CHAPTER 1

Presentation of the strategic concepts

Chapter1: Presentation of the strategic concepts

To carry out a good research in order to allow the readers to get and to understand the object and the purpose of this work, it is necessary to define and to put in point certain concepts, it is the reason for which we considered it useful to dedicate this first chapter to define the concepts related to the strategy and the strategic analysis and the competitive advantage.

To reach this goal, we will try to divide this chapter into two sections, the first will be dedicated to defining the concepts related to strategy and strategic analysis and in the second section we will develop the competitive advantage concepts.

Section1: The strategic analysis concepts

Decision making is critical for firm's success, to develop effective strategies; it has to analyze the environment on which it operates by carrying out strategic analysis.

This section will be dedicated to develop the concept of strategy and strategic analysis, strategy segmentation and defining different types of strategies for firm’s growth.

1-1-The concept of strategy:

1-1-1-The military origins of strategy:

The concept of strategy is an ancient one and originated in the study of success in war.The word strategy comes from Greek “stratos” means army and “agein” means to lead.The Greek saw strategy setting as one of the responsibilities of a leader, a connection that continues in modern thinking. The Greeks also gave serious thoughts to what kind of person would be suitable to the role and how they should be trained .Interestingly, they concluded that intellectual skills , while essential for a good strategist, were not sufficient unless supported by practical learning gained from experience .

At about the same time, and quite independtly the Chinese general, Sum Tzu wrote about strategy, also relating itclosely to duties of a leader :[1]”only a brilliant ruler and an excellent leader, who’s able to conduct their intelligence with superiority and cleverness, is certain

[1]Hugh Macmillan, MahenTampoe, **Strategic management: Process, Content, and Implementation**,1st Ed, Oxford University Press, USA,2001,p 14-15.

to achieve great results.The entire force relies on this for every more.This is essence of strategy".

Sun Tzu saw the aim of strategy as defeating the enemy by fighting as few battles as possible.He defines priorities for gaining advantage over an adversary .The highest priority is to foil the enemy‘s plots, second to ruin his alliances, third to attack his armies, and lowest of all to besiege his castles .In his view, strategy is as much about avoiding battles as it is about fighting them. Sun Tzu's book "The art of war" has sometimes been used as a management text because of the relevance of its insights to business strategy. Military thinking certainly has some relevance to business strategy. Its emphasis on winning, on the importance of leadership, and on taking action to achieve desired results is all themes which resonate.[1].

1-1-2-Definitions of strategy:

Many writers have attempted to define strategy, such definitions emphasize one or more of the aspects described above .A definition that included all the aspects would have to be very long.

-One of the earliest definitions of strategy comes from the ancient Greek writer Xenophon: "strategyis knowing the business you propose to carry out", this definition stresses that strategy requires knowledge of the business, an intention for the future, and orientation towards action. This definition also emphasizes the link between leadership and strategy formulation;

-Kenneth Andrewsdefines strategy as the pattern of major objectives,purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or it is to be;[2]

-According to Porter:"the essence of strategy is choosing perform activities differently than rivals to do a company can outperform rivals only if it can establish a difference that it can preserve, to get more out of their inputs than others because they eliminate wasted effort, employ more advanced technology, motivate employees better, or have greater insight into managing particular activities or sets of activities**"**;[3]

[1]Hugh Macmillan, MahenTampoe, Op-cit, p 14-15.
[2]Ibid,P13
[3]Michael E. Porter, **What is strategy,** Harvard Business School Press, 1996, P62-64.

- Mintzbergprovides five definitions of strategy:[1]

- Strategy as plan: strategy may represent a direction or journey which leads the organization into thefuture and which defines all the intended activities which will contribute to get there;
- Strategy as pattern: strategy could also be a specific behavior which coordinate all the activities, sothat people know what to do whereas this behavior must be consistent;
- Strategy as position: strategy may also stand for definition of the position of the company in particularmarket and its relation towards the environment which explains what organization does;
- Strategy as perspective: strategy could be defined as a way how the organization is doing things by specification of perspective which provide order, follow the vision and which is shared by allthe members of the organization;
- Strategy as ploy: finally, strategy could stand for a manoeuvre by which the company would like to outsmart the competitors.

- **Johnson** defines strategy as a direction and scope of organization over the long term, which achieves advantage in changing environment through its configuration of resources and competences with the aim of fulfilling shareholder expectations.In other words,strategy is about:[2]

- Where is the business trying to get to in the long-term? (Direction)
- Which markets should a business compete in and what kinds of activities are involved in such markets?(markets, scope)
- How can the business perform better than the competition in those markets?(Advantage)
- What resources (skills, assets, finance, relationships, technical competence and facilities) are required in order to be able to compete? (Resources)
- What external, environmental factors affect the businesses' ability to compete? (Environment)[3]

[1]Henry.M, Joseph.L, Bruce.A,**StratagySafary,** Free Press,1998,P9-15.

[2]Gerry Johnson, Kevan Scholes, Richard Whittington, **Fundamentals of Strategy**, 2nd printing Ed, Pearson Education Limited, 2009,P2-3.

1-1-3-Levels of strategy:

Strategies exist at a number of levels in an organization, it is possible to distinguish at least three different levels of strategy:[1]

- **Corporate-level strategy:** concerned with the overall scope of an organization and how value will be added to the different parts (business units) of the organization. This could include issues of geographical coverage, diversity of products/services or business units, and how resources are to be allocated between the different parts of the organization;
- **Business-level strategy:** which is about how the various businesses included in the corporate strategy should compete in their particular markets. In the public sector, the equivalent of business-level strategy is decisions about how units should provide best value services.
  This typically concerns issues such as pricing strategy, innovation or differentiation, for instance by better quality or a distinctive distribution channel. So, whereas corporate-level strategy involves decisions about the organization as a whole, strategic decisions relate to particular strategic business units (SBU) within the overall organization;
- **Operational or functional level:** the third level of strategy is at the operating end of an organization. Herethere are operational strategies, which are concerned with how the component parts of an organization deliver effectively the corporate-and business –level strategies in terms of resources, processes and people.

1-1-4-The role of strategy:

Distinctive competencies shape the strategies that the company pursues, which lead to competitive advantage and superior profitability. However, it is also very important to realize that the strategies a company adopts can build new resources and capabilities or strengthen the existing resources and capabilities of the company, thereby enhancing the distinctive competencies of the enterprise. Thus, the relationship between distinctive competencies and strategies is not a linear one; rather, it is a reciprocal one in which distinctive competencies shape strategies, and strategies help to build and create distinctive competencies.[2]

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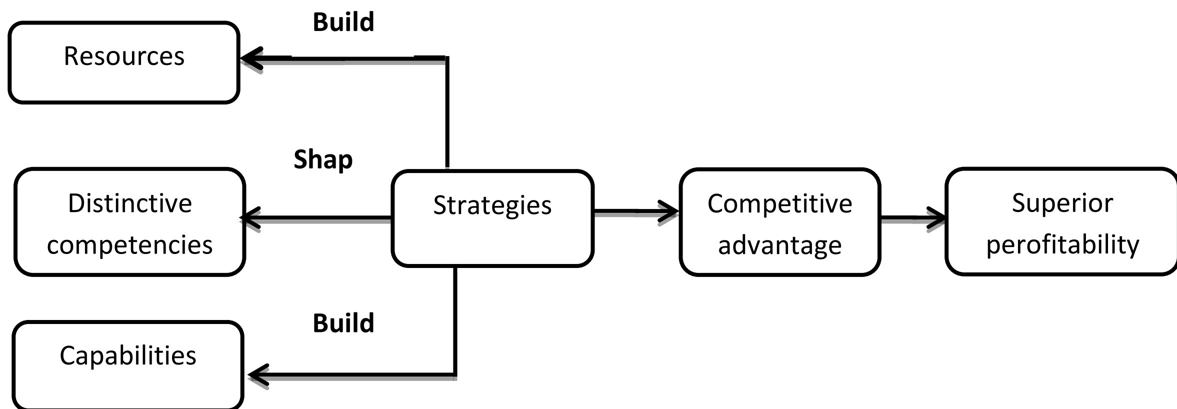
[1]Gerry.J, Kevan.S, Richard.W, Op-cit,P7-8.
[2] Charles W. L. H, Gareth R. J, Melissa A. S, **Strategic Management,**11[th]edition,Cengage Learning, 2014,P84.

FigureN°(1-1): the role of strategy



Source: Charles W. L. H, Gareth R. J, Melissa A. S, Op-cit,P85

1-2-The concept of strategic analysis:

1-2-1-Definition of strategic analysis:

The process of conducting research on the business environment within which an organization operates and on the organization itself, in order to formulate strategy.

A theoretically informed understanding of the environment in which an organization is operating, together with an understanding of the organization's interaction with its environment in order to improve organizational efficiency and effectiveness by increasing the organization's capacity to deploy and redeploy its resources intelligently.

A range of analytical methods that can be employed in the analysis such as SWOT analysis, PEST Model, BCG matrix, Mackinseymatrix, Porter's five forces analysis and value chain analysis.

1-2-2-Strategic analysis's objectives:

For a strategy to be successful, it must be consistent with the firm's external environment, and with its internal environment, its goals and values, resources and capabilities, and structure and systems. As we shall see, the failure of many companies is caused by lack of consistency with either the internal or external environment.

- **The objectives of internal strategic diagnostic of a company :**To understand the true sources of existent competitive advantage and to identify the way in each it can reinforce an existent advantage or to create a new one through four partial diagnostics:[1]

- The strategic diagnostic of the resources, which intends to identify the assembly of technical, human, financial and both external and internal informational resources which the company can exploit to apply and consolidate its strategy;
- The analysis of company's competences, respectively the identification of the advantages of the key success factors, of the "savoir faire" of that company. This diagnostic will allow the reinforcement of the competitive advantage in the fight for supremacy with the competitors, using these distinctive competences;
- The value chain analysis, which allows the systematic identification of the sources of competitive advantage of the company and of its activities;
- The financial diagnostic, which will allow a better positioning of the company compared to its main competitors in terms of efficiency and effectiveness.

- **The objectives of external analysis:**The analysis (Opportunities / Threats market) is to investigate the threats and opportunities before the company could face. The company is located in a sector, which mean in a set composed by all companies involved in the industry, directly or indirectly in the production and / or sells of goods and services in order to satisfy a type of need. Study the micro and macro environment means understanding the conditions of struggle between actors in the same sector.[2]
- **Micro-environmental Factor:** the microenvironment includes internal factors which are close to the company and have a direct impact on the organizations strategy. A good knowledge about studying these factors will have gainful influence on marketing decision.
  - **Customers:** They are vital for the company and the whole organization thus knowing what they need and what they want will provide benefits for business.
  - **Competitors:** To stay in a market a full analysis about what is doing or what plan competitors are making is crucial to maintain its position in the market. Getting information about competitors will allow a differentiation which can give the opportunity of getting better than others.

[1]**Business Excellence,** management journal ,Volume 2 ,Issue 2/JUNE 2012 ,P 7.
[2]Ibid ,P 9.

- **Employees:** Having the right staff, motivated and well trained is essential to get a good strategic planning process of the organization but also to get competitive edge.
- **Suppliers:** Having good relationships with supplier will help to have bests prices on raw material will affect on the mix strategy of the organization. Moreover it also helps to get the best quality of products which are going to be sold to customers.
- **Media:**can have a very powerful impact on customer's way of buying. It can be positive or negative thus make a company revise its strategic plan according to what media said. This is the reason why media shouldn't be neglected at all.

- **Macro-environmental factors:**

- **The pest analysis:**the whole company environment is composed by several factors, Politic, Economic, Social and Technologic that have to be studied and taking in consideration.

PEST factors play an important role in the opportunities for value creation strategy in order to promote the company development and sustainability.

- **The porter analysis:**Michael Porter is the creator of a methodology to analyze the competitive environment, represented by five "forces" in order to know the intensity of competition: Bargaining power of suppliers, Substitutes, Bargaining power of customers, new entrants and Intensity of competition.The analysis of five forces, or threats, helps the marketing team to simulate a competitive situation. This analysis tends to focus on a single Strategic Business Area rather than a product line, these five forces determine the ability of firms involved to make a profit.

1-3-Strategy segmentation:

Strategic business units (SBUs) are a modification of the divisional structure. Strategic business units are divisions or groups of divisions composed of independent product-market segments that are given primary responsibility and authority for the management of their own functional areas.

An SBU may be of any size or level, but it must have a unique mission, identifiable competitors, an external market focus, and control of its business functions.

1-3-1-Segmentation variablesaccording toMichael Porter:

To segment an industry, four observable classes of segmentation variables are used either individually or in combination to capture differences among producers and buyers .In any given industry,any or all of these variables can define strategically relevant segments:[1]

- **Product variety:** the discrete product varieties that are, or could be, produced.Some of the most typical product differences that are good proxies for structural or value chain differences that define segments are as follows:
  - **Physical size:** is often a proxy for technological complexity or how a product is used, both of which affect the possibilities for differentiation. Size may also imply differences in the value chain required to produce different varieties, different sized varieties must often be manufactured on different machines, and require different components.
  - **Price level:** the price level of product varieties is often associated with buyer price sensitivity.
  - **Features:** product varieties with different features may be associated with different levels of technological sophistication, different production processes, and different suppliers.
  - **Technology or design:** differences in technology or design among product varieties can involve different levels of technological complexity, different production processes, and other factors.
  - **Inputs employed:** sometimes product varieties differ significantly in their use of raw materials or other inputs. Such differences often have implication for the manufacturing process or supplier bargaining power.
  - **Packaging:** varieties may differ in the way they are packaged and subsequently delivered, this translates into value chain differences in both the firm and buyers .
  - **Performance:** performance differences such as pressure rating .fuel economy .and accuracy are related to the technology and design of product varieties, and often reflect differences in R&D, manufacturing sophistication, and testing.
- **Buyer type:** in most industries, there are several ways in which buyers can be classified. In consumer goods, for example, some key factors include age, income, household size and decision maker. In industrial sophistication, and nature of use for the product are among the factors that distinguish buyers.

[1] Michael E. Porter, **Competitive advantage,**Op-cit,P233-251.

- **Channel (immediate buyer):** The channel employed usually has implications for how a firm configures its value chain and the vertical linkages that are present. Typical differences in channels that define segments include: direct versus distributors, direct mail versus retail (or wholesale), distributors versus brokers, and types of distributors or retailers.
- **Geographic buyer location:** the geographic location of buyers, defined by locality, region, country, or group of countries. Geographic location can affect both buyer needs and the costs of serving buyers and may also affect the value chain required to reach buyer.

1-3-2-The industry segmentation matrix:

Having identified the relevant segmentation variables with structural or value chain implications, the next task is to combine them into overall segmentation of the industry; the task is usually difficult because there are many relevant segmentation variables. The challenge is to distillthese variables into the most meaningful segments for developing competitive strategy.[1]

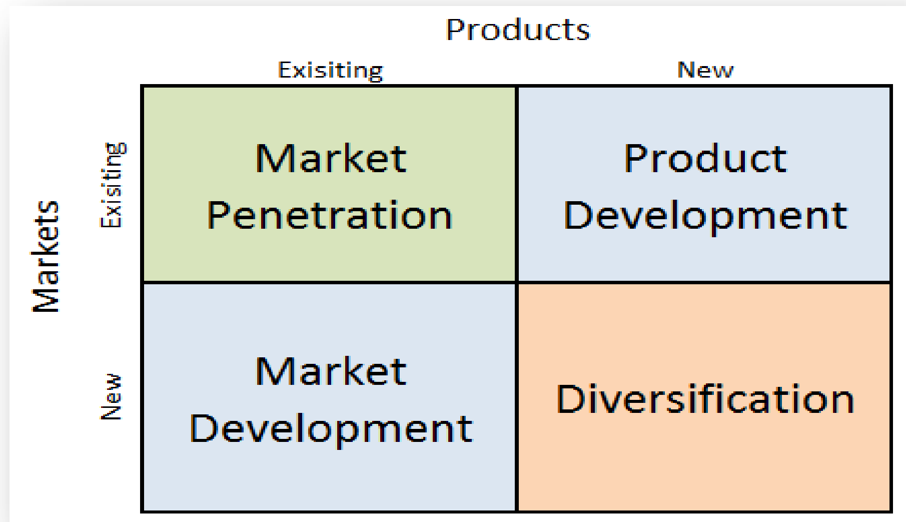
1-4- The types of strategies:

1-4-1- Ansoff Matrix:

The Ansoff matrix is a strategic tool used by businesses to achieve growth. The Ansoff matrix considers whether the marketing strategy is targeted at existing customers or new customers and if existing products should be used or as an alternative, new product should be developed.A business can use any number of these options depending on its products and product range.

[1] Michael E. Porter, **Competitive advantage,**Op- cit P 233-251.

Figure N° (1-2): Ansoff matrix



Source :https://research-methodology.net/amazon-ansoff-matrix-2/ consulted on 13/03/2019 at 4pm .

- Market penetration (existing products for existing markets):

This growth strategy focuses on existing products for existing markets. This involves the business aiming to increase sales within its present market. To be successful at market penetration a business must be aware of what has made the product a success in the first place.

There are several market penetration strategies open to businesses, including:[1]

- Attracting customers who have not yet become regular users, but are occasional users by increasing brand loyalty.
- Attacking competitors'sales. This will often happen in mature markets, where increased sales for a business will have to be captured from competitors. The strategy in this case will be an adjustment of the marketing mix, altering one or more of the elements such as price or promotion techniques.
- Increasing consumption amongst existing users perhaps by reducing the price or offering promotions. This can work very well with services, consumption goods and consumer

[1]Gerry Johnson, Kevan Scholes, Richard Whittington, Op-cit, P174.

durables. In consumer durable markets, the introduction of new and rapidly changing technologies can encourage further purchases.

- **Market development (develop markets for existing products):**

If the business takes the option of market development, the objective will be to find new markets for the businesses' existing products. There are two broad market development strategies. These are:[1]

- Identifying users in different markets with similar needs to existing customers, the market could be in a different country, but generally concentrates on a new geographical market.
- Identifying new customers who would use a product in a different way.

- **Product development (new products for existing markets):**

In the case of product development, the business will attempt to increase profitability and growth by introducing new products targeted at the existing customer base. This involves creation and development of new products that are similar to those that the business already sells to existing customers. Product development strategies require businesses to innovate and look at new ways of extending the product life cycle of their existing products.

- **Diversification (develop new products for new markets):**

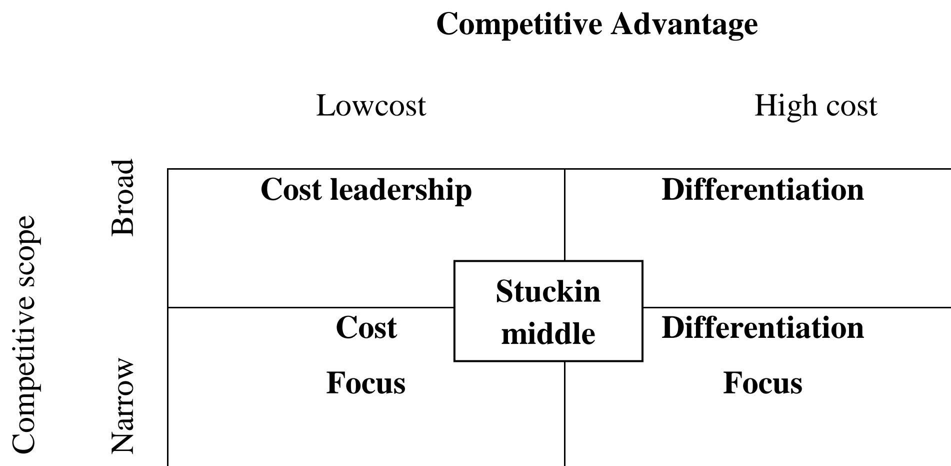
Developing new products for new markets involves changes to both a business's product and market. Diversification may be attempted if a business sees a new opportunity and has investment funds available. Alternatively, a business may be forced into this type of action because of pressures in existing markets or on existing product ranges, such as sales declining in existing markets or for certain products.[2]

[1]Gerry Johnson, Kevan Scholes, Richard Whittington, Op-cit, P174.
[2]Ansoff I, **Strategies for diversification,** Harvard Business Review, Vol. 35 Issue 5,Sep-Oct 1957, p 113-124.

1-4-2-Michael Porter's Generic Strategies:

The notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, and achieving competitive advantage requires a firm to make a choice, if a firm is to attain a competitive advantage, it must take a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it.

Figure N° (1-3):Porter's competitivestrategies



Source: Michael.EPorter ,**competitive strategy**, free press, 1998, p 39

- **Cost leadership:**

In cost leadership, a firm sets out to become the low-cost producer in its industry. The firm has a broad scope and serves many industry segments, and may even operate in related industries, the firm's breadthis often important to its cost advantage. The sources of advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale,proprietary technology, preferential access to raw materials, etc.[1]

The reasons for low costs are different for every business and vary depending on the industry.As Michael Porter underlines, a low-cost producer must find and exploit all sources for cost advantage. Low-cost firms usually sell just the product itself without any additions or services.

[1]Michael.Eporter ,**competitive strategy**, Op-cit P 34.

- **Differentiation:**

The second generic strategy is differentiation ,in a differentiation strategy ,a firm seeks to be unique in its industry along some dimensions that are widely valued by buyer in an industry perceive as important,and uniquely positions itself to meet those needs.It is rewarded for its uniqueness with a premium price.[1]

The means for differentiation are peculiar to each industry.Differentiation can be based on the product itself, the delivery system by which it sold the marketing approach,and a broad range of other factors.

-Focus: The third generic strategy is focus. This is quite different from the others because it rests on the choice of a narrow competitive scope within an industry .The focuser selects a segment or a group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage overall. [2]

In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus,a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segments and other segments in the industry the target segments must either have buyers with unusual needs or else the production and delivery system that best servesthe target segment must differ from that of other industry segments.

- **Stuck in the middle:**

There is also the category or companies that try to use each generic strategy but fail to succeed at any of them, or those that are not willing to make a choice between the strategies. They are called "stuck in the middle". Such companies have no competitive advantage. They also have a very little chance of survival, because in each of their strategies there are better performing competitors.

Stuck in the middle firm can be in favor only if its competitors are also stuck in the middle, or if its industry structure is highly favorable.[3]

[1]Michael.EPorter ,**competitive strategy**, Op-cit. P 35.
[2]Ibid ,P 40.
[3]Ibid ,P 41.

1-4-3-Market dominance strategies:

Based upon the market share, each company enjoys one of these positions:

- **Dominant:** a firm is in a dominant position, has control over other competitors. Dominance in the market gives a firm chance to enjoy more freedom to select suitable strategic options;
- **Strong:** a strong firm doesn't control behavior of other competitors, but can take independent actions without jeopardizing its long-term position. But, other competitorsactions do not have a notable impact on its position;
- **Favorable:** these firms are in position to exploit opportunities to improve their positions. They need to constantly adjust their strategies to continue enjoying the better-than-average opportunities for which they have to remain alert and struggle constantly;
- **Tenable (Average):**these firms have satisfactory performance, but they suffer due to dominant and strong competitors. These firms have less-than-average opportunities to improve their positions;
- **Weak:** weak firms have unsatisfactory performance. However, they need to keep a watch on opportunities to improve their positions. Weak firms must change or adjust constantly to exist;
- **Nonviable (non-survivable):** such firms have unsatisfactory performance and have no opportunity to improve their performance and position.

Depending on the position of firms in market, there are four types of market dominance strategies:[1]

- **The market leader**:

Represents the most dominant form of market interferes in a specific market industry. Usually, there is in one industry one firm that interacts as the market leader. It is characterized by having the largest market share. There are three key strategies for market leaders in order to achieve and maintain its strong position:

- The first strategy is the expansion of the overall market by identification of new uses and increasing the usage rates of the product.

[1]Philip kotler, kevinkeller, **Marketing management**, 12 ed, Preason prentice hall, 2006, p 315.

- The second strategy for market leaders is to guard their existing market share. This may be done in several ways. Companies concentrate on their significant competitive advantage(s). Furthermore, continuous product innovation and process is important to increase the competitive effectiveness and value to the customer. Heavy advertising, strong customer and distributor relations are important in this strategy.
- The third strategy for market leaders in order to remain leaders is the expansion of market share. This involves heavy advertising, improved distribution, price incentives and new product development, furthermore, market leaders may build mergers and takeovers,and another opportunity is the geographic expansion and the distributor expansion.

- **Market challengers**:

Identify themselves as company who always wants to gain more market share and who use aggressive strategies to beat of the market leader.

Market challengers are known as runner-up firms. They occupy second, third and lower ranks in an industry.Market challengers are capable to attack the leader and other competitors. Sometimes, capable challengers can overtake the leader.

A market challenger can attack any of the following opponents:[1]

- Attacking the market leader.
- Attacking the firms of its own size that are not doing the job well and are underfinanced.
- Attacking the small local and regional firms that are not doing the job well and are underfinanced.

- **Market followers**:

The firms prefer to follow leader rather than to challenge are called the followers. They do not face the leader directly. Some followers are capable to challenge but they prefer to follow. However, market followers always react strongly in case of any loss.[2]

[1] Colin Gilligan, Richard M.S. Wilson, **Strategic Marketing Planning**, 1st Ed, Butterworth-Heinemann, 2003, P519-520.
[2]Ibid , P 520-530.

Market nichers:

Niche is a more narrowly defined small market (limited number of buyers) whose needs are not being well-served by existing sellers. It is a small segment that has distinctive needs and is, mostly, ready to pay high price. [1]

Marketers can identify niches by dividing a segment into sub-segments or by dividing a group with a distinctive set of traits.

Nichersunderstand their niche's needs so well and minutely that their customers are willing to pay a premium price. They design special products with distinctive features, qualities, uses, and value for special group of limited customers. They have the special skills to serve the niches in a superior fashion and can gain certain economies through specialization.

1-4-4-Strategies for growth:

Three broad categories of growth strategies are:

- **Intensive Strategies:**market penetration, market development, and product development are sometimes referred to asintensive strategies because they require intensive efforts if a firm's competitive position withexisting products is to improve.

-Integration Strategies:forward integration and backward integration are sometimes collectively referred to as verticalintegration. Vertical integration strategies allow a firm to gain control over distributors and suppliers,whereas horizontal integration refers to gaining ownership and/or control over competitors.Vertical and horizontal actions by firms are broadly referred to as integration.[2]

- **Forward Integration:**Forward integration involves gaining ownership or increased control over distributors or retailers. Increasing numbers of manufacturers (suppliers) are pursuing a forward integration strategy by establishing websites to sell their products directly to consumers.

[1]Colin Gilligan, Richard M.S. Wilson, Op-cit, P 530-541.

[2]Fred R David; Forest R David, **Strategic Management: A Competitive Advantage Approach, Concepts and Cases,**16 Ed, Pearson,2016,P124-131.

- **Backward Integration:**backward integration is a strategy of seeking ownership or increased control of a firm's suppliers.This strategy can be especially appropriate when a firm's current suppliers are unreliable, too costly,or cannot meet the firm's needs.
- **Horizontal Integration:**seeking ownership of or control over a firm's competitors, horizontal integration is arguably the most common growth strategy. Thousands of mergers, acquisitions, and takeovers among competitors are consummated annually. Nearly all these transactions aim for increased economies of scale and enhanced transfer of resources and competencies.
- **Diversification Strategies:** the two general types of diversification strategies are related diversification and unrelateddiversification. Businesses are said to be related when their value chains possess competitivelyvaluable cross-business strategic fits, businesses are said to be unrelated when their value chainsare so dissimilar that no competitively valuable cross-business relationships exist.

Section 2:The competitive advantage concepts

Competitive advantage is at the heart of firm's performance in competitive market. Competition is the core success or failure of firms; it determines the appropriateness of a firm's activities that can contribute to its performance. In this section we will try to define the competitive advantage ,the types of competitive advantage and how can the firm build up a competitive advantage.

2-1-Definitions of competitive advantage

-According to Michael Porter: [1]"competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition"**.**

Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm's cost of creating it.Value is what buyer are willing topay,and superior value stems from offering lower prices than competitors for equivalent benefits or

[1]Michael E. Porter, Competitive advantage, Op-cit; P1-3.

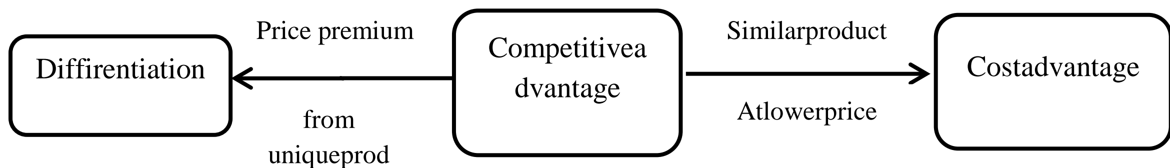
providing unique benefits that more than offset a higher price.There are two basic types of competitive advantage:cost leadershipand differentiation.

-According toDavidson:[1]"competitive advantage is achieved whenever you do something better than competitors. If that something is important to consumers, or if a number of small advantages can be combined, you have an exploitable competitive advantage. One or more competitive advantages are usually necessary in order to develop a winning strategy, and this in turn should enable a company to achieve above-average growth and profits".

2-2-Types of competitive advantage:

A firm can achieve a higher rate of profit (or potential profit) over a rival in oneof two ways: either it can supply an identical product or service at a lower cost**,**or it can supply a product or service that is differentiated in such a way that thecustomer is willing to pay a price premium that exceeds the additional cost ofthe differentiation.

Figure N°(1-4): the types of competitive advantage



Source: Robert M. Grant, **Contemporary Strategy Analysis**, 7thEd, Wiley, 2010, P223.

2-2-1-Cost advantage:

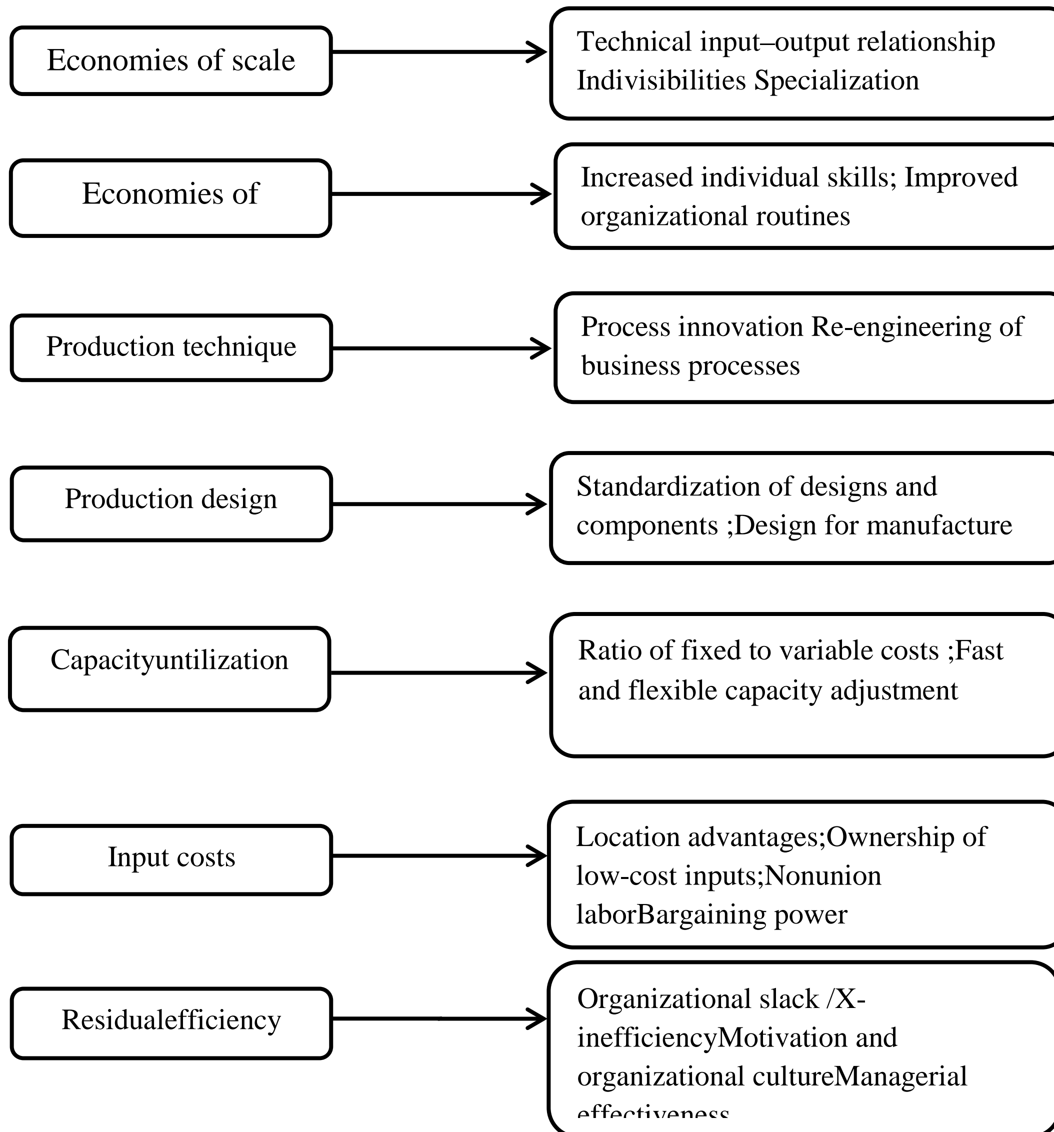
A firm has a cost advantageif its cumulative cost of performing all value activities is lower than competitors costs .The strategic value of cost advantage hinges on its sustainability. Sustainability will be if the sources of a firm's cost advantage are difficult for competitors to replicate or imitate.

[1]Richard M.S. Wilson, Colin Gilligan, Strategic **Marketing Management : planning, implementation and control**, 3rd Ed, Butterworth-Heinemann,2005,P402.

Cost advantage leads to superior performance if the firm provides an acceptable level of value to the buyer so that its cost advantage is not nullified by need to charge a lower price than competitors.[1]

-The drivers of cost advantage:there are seven principal determinants of a firm's unit costs (cost per unit of output) relative to its competitors,we refer to these as cost drivers:

Figure N°(1- 5):the drivers of cost advantage



Source: Robert M. Grant, Op-cit, P231.

[1]Robert M. Grant, **Contemporary Strategy Analysis**, Op-cit, P221.

The drivers of cost advantage are:[1]

- **Economies of scale:**the predominance of large corporations in most manufacturing and service industriesis a consequence of economies of scale. Economies of scale exist wherever proportionate increases in the amounts of inputs employed in a production processresult in lower unit costs. Economies of scale have been conventionally associated withmanufacturing.Scale economies are also important in nonmanufacturing operations such as purchasing, R&D, distribution, and advertising. Scale economies arise from three principal sources:

✓ **Technical input-output relationships*:***in many activities, increases in output do not require proportionate increases in input.

✓ **Indivisibilities***:* Many resources and activities are "lumpy",they are unavailable in small sizes. Hence, they offer economies of scale as firms are able to spread the costs of these items over larger volumes of output.

✓ ***Specialization:*** Increased scale permits greater task specialization that is manifest in greater division of labor. Mass production, whether in Adam Smith's pin factory or Henry Ford's auto plants,involves breaking down the production process into separate tasks performed by specialized workers using specialized equipment. Specialization promotes learning, avoids time loss from switching activities, and assists mechanization and automation. Similar economies are important in knowledge-intensive industries such as investment banking, management consulting, and design engineering, where large firms are able to offer specialized expertise across a broad range of knowhow.

- **Economies of Learning:**The experience curve is based primarily on learning by doing on the part ofindividuals and organizations. Repetition develops both individual skills andorganizational routines.
- **Process Technology and Process Design:**For most goods and services, alternative process technologies exist. A process is technically superior to another when, for each unit of output, it uses less of one input without using more of any other input. Where a production method uses more of some inputs but less of others, then cost efficiency depends on the relative prices of the inputs. New process technology may radically reduce costs.

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[1]Michael E. Porter, **Competitive advantage,** Op-cit ,P 70-77.

When process innovation is embodied in new capital equipment, diffusion is likely to be rapid. However, the full benefits of new processes typically require system-wide changes in job design, employee incentives, product design, organizational structure and management controls,the greatest productivity gains from process innovation are typically theresult of organizational improvements rather than technological innovation and new hardware.

The fundamental rethinking and radical redesign of businessprocesses to achieve dramatic improvements in critical contemporary measures ofperformance, such as cost, quality, service, and speed

- **Product Design:**Design for manufacture, designing products for ease of production rather than simply for functionality and esthetics, can offer substantial cost savings, especially when linked to the introduction of new process technology.
- **Capacity Utilization:**Over the short and medium term, plant capacity is more-or-less fixed and variationsin output cause capacity utilization to rise or fall. Underutilization raises unit costsbecause fixed costs must be spread over fewer units of production.
- **Input Costs:**The firms in an industry do not necessarily pay the same price for identical inputs.There are several sources of lower input costs:

✓ **Locational differences in input prices:** the prices of inputs may vary between locations, the most important being differences in wage rates from one country to another.

✓ **Ownership of low-cost sources of supply:** In raw material-intensive industries, ownership or access to low-cost sources can offer crucial cost advantage.

✓ **Nonunion labor:**Labor unions result in higher levels of pay and benefits and work restrictions that lower productivity.

✓ **Bargainingpower:**where bought-in products are a major cost item, differences in buying power among the firms in an industry can be an important source of cost advantage.

- **Residual Efficiency:**In many industries, the basic cost drivers: scale, technology, product and process design, input costs, and capacity utilization fail to provide a complete explanation for why one firm in an industry has lower unit costs than a competitor. Even after taking all these cost drivers into account, unit cost differences between firms remain. These residual efficiencies relate to the extent to which the firm approaches its efficiency frontier of optimal operation.

2-2-2-Differentiation:

A firm differentiates itself from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price.Differentiation in one of the two types of competitive advantage a firm may possess.[1]

Differentiation allows the firm to command a premium price, to sell more of its product at a given price, or to gain equivalent benefits such as greater buyer loyalty during cyclical or seasonal downturns.

Differentiation leads to superior performance if the price premium achieved exceeds any added costs of being unique. A firm's differentiation may appeal to a broad group of buyers in an industry or only to a subset of buyers with particular needs.

-The Drivers of Uniqueness: differentiation is concerned with the provision of uniqueness. A firm's opportunities for creating uniqueness in its offerings to customers are not located within a particular function or activity, but can arise in virtually everything that it does.

The principal unique drivers for differentiation according to Porter are: Policy choices, linkages, timing, location, interrelationships, learning, integration, scale, and institutional factors:[2]

- **Policy Choices**: refer to choices a company can take in relation to what activities and how to perform them. Policy choices that provide uniqueness to differentiating companies are:

✓ Enhanced performance and product features offered to buyers.

✓ Additional services provided to customer to support the product sold (credit, on time delivery, maintenance and repair).

✓ Intensity (usability rate) and content of an activity adopted.

✓ Technology adopted in performing an activity;

✓ Skill and experience required for employees with purpose to perform an activity); information employed to perform and activity.

[1] Robert M. Grant, Op-cit,P232-239.
[2] Michael E. Porter, **Competitive advantage,** Op-cit, p 70-79.

- **Linkages**:refer to uniqueness that can be achieved within a company's value chain activities. Creating "unique" features and performance involves the coordination of a company's activities.

For instance, coordination between the sales force and services could potentially to responsive customer needs. Moreover, linkages refer to uniqueness in relation to an effective and efficient coordination with suppliers. For instance, sharing information with suppliers can lead to the development of additional product or service features and functionality.

According to Porter, there is a third type of linkages: the channel linkages. Uniqueness can be provided by coordinating with channels in joint selling efforts, educating and training them in various aspects of the business, and subsidizing for investments in personnel, facilities and performance.

- **Timing:** relates to a company's action to adopt and introduce something new and unique to its customersand introduce something new and unique to its customers.
- **Location**:refers to convenience created for a company's customers .It may involve an extended network of stores and/or availability of its product or services and spares to a number of locations.
- **Interrelationships:** between a company's business units can generate uniqueness of a value activity.For instance, sharing a sales force between two different business units can increase the cross-selling opportunities for an organization.
- **Learning:**how to perform and activity better results to the uniqueness of activity. For example, quality in the manufacturing process may be possible only through learning.
- **Integration:** refers to bringing together old and new activities that may create a unique advantage by enabling a company to control and coordinate its activities .Integration could provide more activities as additional sources of differentiation. For instance, carrying out in-house activities rather than outsourcing them could provide companies with a form of uniqueness compare to its rivals. Porter states that integration involves company activities with supplier activities; channel activities; and buyer activities (such as online ordering).
- **Scale:**refers to the size of an activity that a company could be involved in .Hence, large scale activities performed by a company rather than in a small scale could provide unique advantage.

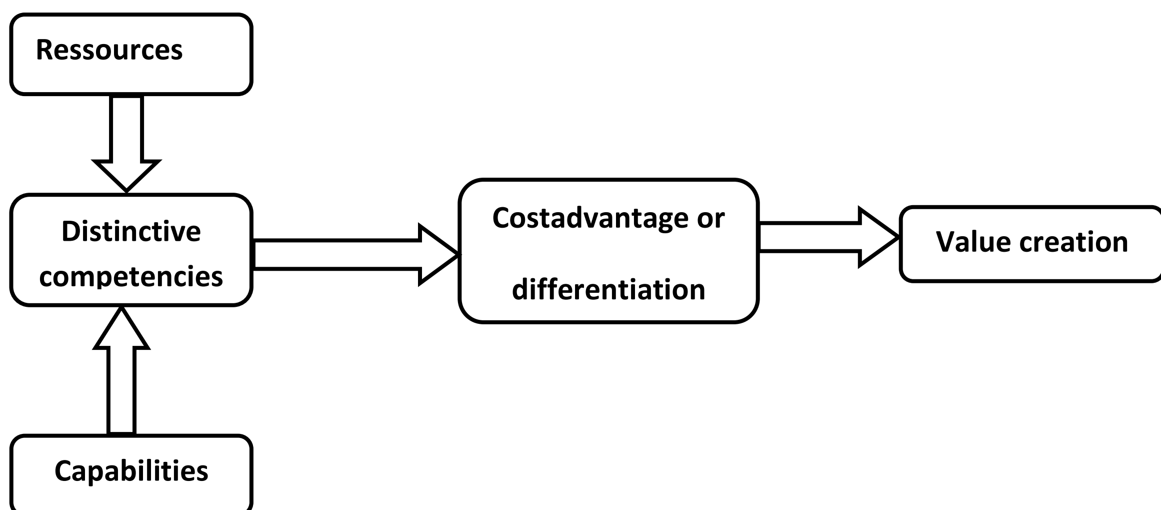
- **Institutional Factors:**relate to regulations imposed by governments and can have important effects on a firm's unique advantages .Preferential treatment based on good relations with other institutions (such as government, and trade unions) could provide a uniqueness factor for firms.

2-3-The Sources of competitive advantage:

Competitive advantage is based upon distinctive competencies. Distinctive competencies are specific strengths that allow a company to differentiate its products from those offered by rivals, and/or achieve substantially lower costs than its rivals.

Distinctive competencies are what give a company one or more competitive advantagesthat cannot be easily imitated, in creating and delivering value to its customers in its chosen field. Also called core capabilities or core competencies.

Figure N°(1-6): The sources of competitive advantage



Source: Charles W. L. H, Gareth R. J, Melissa A. S, Op-cit,P85

Distinctive competencies arise from two complementary sources: resources and capabilities.

2-3-1-Resources : refer to the assets of a company. A company's resources can be divided into two types: tangible and intangible resources.[1]

[1]Charles W. L. H, Gareth R. J, Melissa A. S, Op-cit.P83

-Tangible resources: are physical entities, such as land, buildings, manufacturing plants, equipment, inventory, and money.

-Intangible resources:are nonphysical entities that are created by managers and other employees, such as brand names, the reputation of the company, the knowledge that employees have gained through experience, and the intellectual property of the company, including patents, copyrights, and trademarks.

Resources are particularly valuable when they enable a company to create strong demand for its products, and/or to lower its costs.

Valuable resources are more likely to lead to a sustainable competitive advantage if they are rare, in the sense that competitors do not possess them, and difficult for rivals to imitate, that is if there are barriers to imitation.

2-3-2-Capabilities:

Refer to a company's resource-coordinating skills and productive use. These skills reside in an organization's rules, routines, and procedures, that is, the style or manner through which it makes decisions and manages its internal processes to achieve organizational objectives.

More generally, a company's capabilities are the product of its organizational structure, processes, control systems, and hiring strategy. They specify how and where decisions are made within a company, the kind of behaviors the company rewards, and the company's cultural norms and values.

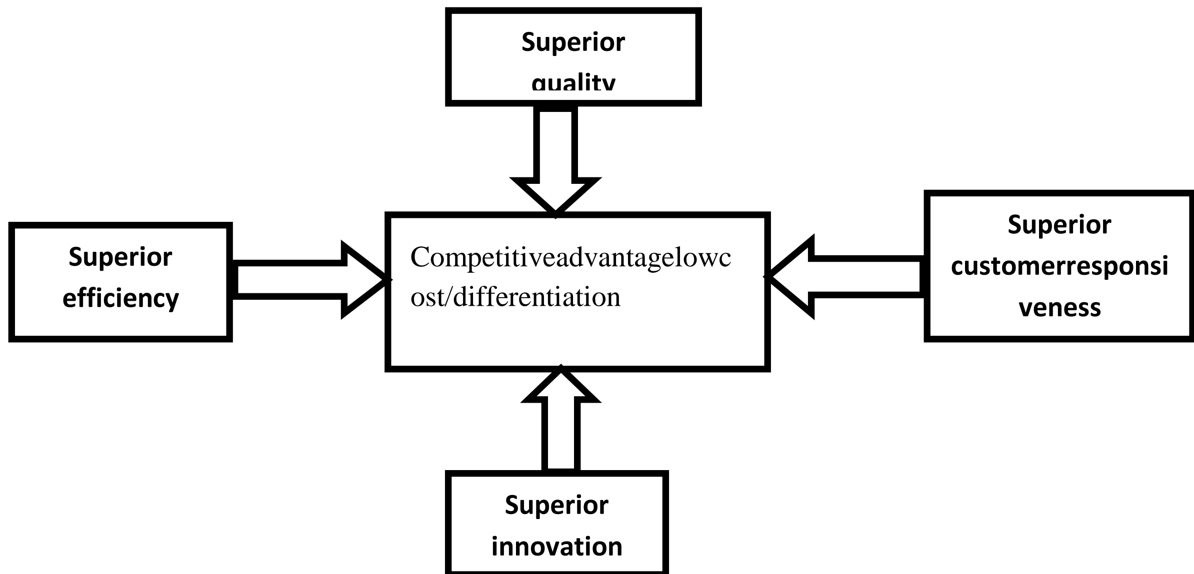
2-4-Building blocks of competitive advantage:

Four factors help a company to build and sustain competitive advantage: superior efficiency, quality, innovation, and customer responsiveness.

Each of these factors is the product of a company's distinctive competencies. Indeed, in a very real sense they are "generic"distinctive competencies. These generic competencies allow a company to differentiateits product offering, and hence offer more value to its customers, and lower its coststructure.

These factors can be considered generic distinctive competenciesbecause any company, regardless of its industry or the products or services it produces,can pursue these competencies.

Figure N°(1-7):building blocks of competitive advantage



Source: Charles W. L. H, Gareth R. J, Melissa A. S, Op-cit,P94.

2-4-1-Efficiency:

In one sense, a business is simply a device for transforming inputs into outputs. Inputs are basic factors of production such as labor, land, capital, management, and technological knowhow. Outputs are the goods and services that the business produces. The simplestmeasure of efficiency is the quantity of inputs that it takes to produce a given output, that is, efficiency outputs/inputs. The more efficient a company is, the fewer inputs required to produce a particular output, and the lower its costs will be.[1]

One common measure of efficiency is employee productivity. Employee productivityrefers to the output produced per employee.Employee productivity helps a company attaina competitive advantage through a lower coststructure.

[1] Charles W. L. H, Gareth R. J, Melissa A. S, Op-cit,P93.

2-4-2-Quality as Excellence and reliability:

A product can be thought of as a bundle of attributes. The attributes of many physicalproducts include their form, features, performance, durability, reliability, style, and design.

A product is said to have superior quality when customers perceive that its attributesprovide them with higher utility than the attributes of products sold by rivals. [1]

When customers evaluate the quality of a product, they commonly measure it againsttwo kinds of attributes: those related to quality as excellence and those related to qualityas reliability. From a quality-as-excellence perspective, the important attributes are thingssuch as a product's design and styling, its aesthetic appeal, its features and functions,the level of service associated with the delivery of the product, and so on.

With regard to quality as reliability, a product can be said to be reliable when it consistentlyperforms the function it was designed for, performs it well, and rarely, if ever,breaks down. As with excellence, reliability increases the value (utility) a consumer getsfrom a product, and thus the price the company can charge for that product and/or demandfor the product.

Second, greater efficiency and lower unit costs associated with reliable products of highquality impact competitive advantage. When products are reliable, less employee time iswasted making defective products, or providing substandard services, and less time has tobe spent fixing mistakes which means higher employee productivity and lower unit costs.Thus, high product quality not only enables a company to differentiate its product from thatof rivals, but, if the product is reliable, it also lowers costs.

2-4-3-Innovation:

Innovation refers to the act of creating new products or processes. There are two main types of innovation: product innovation and process innovation. [2]

-Product innovation:is the development of products that are new to the world or have superior attributes to existing products. Product innovation creates value by creating new

[1]Charles W. L. H, Gareth R. J, Melissa A.S, Op-cit, P 96.
[2]Ibid P 96.

products, or enhanced versions of existing products, that customers perceive as having more value, thus increasing the company's pricing options.

-Process innovation is the development of a new process for producing products and delivering them to customers .Process innovation often allows a company to create more value by lowering production costs.

2-4-4-Customer Responsiveness:

To achieve superior responsiveness to customers, a company must be able to do a better job than competitors of identifying and satisfying its customers' needs.

Customers will then attribute more value to its products, creating a competitive advantage based on differentiation. Improving the quality of a company's product offering is consistent with achievingresponsiveness, as is developing new products with features that existing products lack.In other words, achieving superior quality and innovation is integral to achieving superiorresponsiveness to customers.[1]

[1]Charles W. L. H, Gareth R. J, Melissa A.S,Op-cit,P-97.

Conclusion of the first chapter:

After we developed strategic concepts including the concepts of strategy, strategic analysis and competitive advantage we got the following results:

The ambition of business strategy is to create a sustainable competitive .Competitive advantage is the most important goal of any organization and may be the most important single attribute on which each firm must place its most focus.

The firm can develop strategies for a business and select the appropriate strategies by researching the business and the environment in which it operates that enable the company to achieve cost advantage or differentiation advantage.

Strategic decisions are made at a number of levels in organizations. Corporate-level strategy is concerned with an organization’s overall purpose and scope; business-level (or competitive) strategy with how to compete successfully in a market; and operational strategies with how resources, processes and people can effectively deliver corporate- and business-level strategies.

CHAPTER 2

The tools of strategic analysis

Chapter 2: The tools of strategic analysis

In this chapter we will present the different methods used to analyze the internal and external factors that affect firm's activity. We also classify it into: environmental strategic analysis tools including internal, external and internal and external factorsand portfolio models.

To understand well these techniques we devise the chapter into two section ,the first dedicated to explain the tools used to analyze overall company and those used to analyze the capabilities and competitors' forces of the firm, and the second section we will present the portfolio matrices.

Section 1: Environmental analysis tools

For understanding how can the firm apply strategic analysis tools in order to find out the internal and external variables that affect the firm's performance.

this section will be dedicated to explain, how can SWOT model be used to get the strengths,weaknesses ,opportunities and threats of the company, the use of value chain to analyze company's activities to find out its capabilities and how can Porter's five forces model be used to diagnose competitors' forces on defined market .

1-1-The SWOT analysis:

1-1-1-Definition of SWOT analysis:

SWOT Analysis is a tool used for strategic planning and strategic management in organizations. It can be used effectively to build organizational strategy and competitive strategy. In accordance with the System Approach, organizations are wholes that are in interaction with their environments and consist of various sub-systems. In this sense, an organization exists in two environments, one being in itself and the other being outside. [1]

It is a necessity to analyze these environments for strategic management practices. This process of examining the organization and its environment is termed SWOT Analysis.

SWOT is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project, organization, or in a business venture**.**

[1]Gerry Johnson, Kevan Scholes, Richard Whittington, Op-cit,P81.

1-1-2-The components of SWOT analysis:

SWOT Analysis is a process that involves four areas into two dimensions. It has four components: Strengths, weaknesses, opportunities and threats. Strengths and weaknesses are internal factors and attributes of the organization, opportunities and threats are external factors and attributes of the environment. [1]

The figure below shows the fourth areas of SWOT analysis.

-**Strengths:** characteristics that give advantage over others in the industry;

-**Weaknesses:** characteristics that place at disadvantage relative to others;

-**Opportunities:** external elements in the environment that give benefits for organizations;

-**Threats:** external elements in the environment that could cause trouble for organizations.

[1]Ronald Quincy, Shuang Lu, Chien-Chung Huang **, SWOT Analysis: Raising Capacity of Your Organization** ,2012,P4 .

Table N°(2-1):the components of SWOT analysis.

Strengths	**Weaknesses**
- What advantages does your organization have? -What do you do better than others? -What unique or lowest-cost resources? -Can you draw upon that others cannot? -What is your organization's unique selling proposition? -What do people in your market see as your strengths? -What factors mean that you “get the sale”?	-What could you improve? -What should you avoid? -What factors limit your growth? -What are people in your market likely to see as your weaknesses (challenges)? - What factors may cause you to lose your sale? - What good opportunities can you spot? -What interesting trends are you aware of? -Who can be your partner? -Who can be your potential donor? -How to keep and develop your key stakeholders' interests?
Opportunities	**Threats**
-What could you improve? -What should you avoid? -What factors limit your growth? -What are people in your market likely to see as your weaknesses (challenges)? -What factors may cause you to lose your sale? -What good opportunities can you spot? -Who can be your partner?Who can be your potential donor?	-What obstacles are you facing? -Are quality standards or specifications -for your job, products or services changing? -Is changing technology challenging your position? -Are changing policies or social context challenging your service area? -Do you have bad debt or cash-flow problems?

Source: Ronald Quincy, Shuang Lu, Chien-Chung Huang , Op-cit,P4

-Organizational strengths: Strength at organizational level involves properties and abilities by which an organization gains an advantage over other organizations and competitor organizations that are revealed as a result of the analysis of its internal environment.

In other words, organizational strength defines the characteristics and situations in which an organization is more effective and efficient compared to their competitors. An organization can be described as strong, equal or weak compared to their competitors based on five criterias, relative market situation, relative financial structure, relative production and technical capacity, relative research and development potential, relative human capacity and management effectiveness.[1]

They consist of the organizational competencies playing an active role in achieving organizational goals. Before going into action when encountered a problem or opportunity, an organization has to know the potential that it has and the aspects that makes it more advantageous than its competitors.

Being strong and having strengths are quite important for an organization. Otherwise, the opportunities created by the outside environment cannot be used. Moreover, the organization has to answer to the threats of the outside environment by using its strengths. All these issues highlight the importance of organizational strengths.

-Organizational Weaknesses: Weakness at organizational level refers to the situations in which the current existence and ability capacities of an organization are weaker compared to other organizations and competitor organizations.

These aspects negatively affect the organizational performance and weakens the organization among its competitors. Consequently, the organization is not able to respond to a possible problem or opportunity, and cannot adapt to changes.A weakness is a limitation or deficiency in resource, skills, and capabilities that seriously impedes an organization's effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image can be sources of weaknesses[2].

Internal strengths and internal weaknesses are an organization's controllable activities that are performed especially well or poorly. They arise in the management,

[1]Journal of International Social Research ,Volume: 10 , Issue: 51 August 2017 P 997.
[2] Tony proctor ,**Strategic marketing,** 1st Ed ,Routledge London ,2000,P139,141.

marketing,finance/accounting, production/operations, research and development, and managementinformation systems activities of a business.

The following tableshowsstrengths and weaknesses checklist:

TableN°(2-2): strengths and weaknesses checklist

1-Marketing	2- Research and development
-Product quality -Number of product quality -Product differentiation -Market share -Pricing policies -Distribution channels -Promotional programs Customer services -Marketing research -Advertising -Sale forces	-Product and R&D capabilities -Process R&D capabilities -Pilot plant capabilities
3-Management information system	**4-Management team**
-speed and responsiveness -quality of current information -expandability -user-oriented system	-Skills -Value congruence -Team spirit -Experience -Coordination of effort
5-Operations	**6-Finance**
-Control of raw materials -Production capacity -Product cost structure -Facilities and equipment -Inventory control -Energy efficiency	-Financial leverage -Operation leverage -Balance sheet ratios -Stockholder relations -Tax situation
7-Human resources	
-Employee capabilities -Personnel systems -Employee turnover -Employee morale -Employee development	

Source: the Journal of International Social Research, Op-cit ,P 998.

-Environmental Opportunities:opportunity means a situation or condition suitable for an activity. Opportunity is an advantage and the driving force for an activity to take place. For this reason, it has a positive and favorable characteristic.

For organizational managements, an opportunity is the convenient time or situation that the environment presents to the organization to achieve its goals. [1]

-Environmental Threats: threat is a situation or condition that jeopardizes the actualization of an activity. It refers to a disadvantageous situation. For this reason, it has a negative characteristic that should be avoided.

For organizational managements, a threat is the element that makes it difficult or impossible to reach the organizational goals.

External opportunities and external threats refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future.[2]

The figure below shows the different environmental variables that may present opportunities or threats for organization**:**

[1]Tony proctor ,Op-cit ,P139-140.
[2]Ibid ,P 139-140.

Table N°(2-3): environmental variables checklist

1-Societal changes
Changing customers preferences impacting product demand or design Population trends impacting distribution ,product demand or design
2-Governmental changes
New legislation impacting products costs New enforcement priorities impacting investment, products, demand
3-Economic changes
Interest rates impacting expansion, debt costs Exchange rates impacting domestic and overseas demand, profits Real personal income changes impacting demand
4-Competitive changes
Adoption of new technologies impacting cost position product quality New competitors impacting prices ,market share, contribution margin Price changes impacting market share, contribution margin New products impacting demand, advertising expenditures Supplier changes Changes in input cost impacting prices, demand, contribution margin Supply changes impacting production processes investment requirements Changes in number of suppliers impacting costs , availability
5-Market changes
New uses of product impacting demand ,capacity utilization New market impacting distribution channels ,demand ,capacity utilization

Source: The Journal of International Social Researche, Op-cit, P 999

1-1-3-Strategies associated to SWOT analysis:

SWOT matrix is an important matching tool that helps managers to develop four types of strategies:

-SO (strengths-opportunities) strategies;

-WO (weaknesses-opportunities)strategies;

-ST (strengths-threats) strategies;

-WT (weaknesses threats) strategies.

Figure N°(2-1): SWOT strategies matrix

	Strengths	**Weaknesses**
Opportunities	Achieve opportunities that greatly match the organization's strengths	Overcome weaknesses to attain opportunities
Threats	Use strengths to reduce the organization's vulnerability to threats	Prevent weaknesses to avoid making the organization more susceptible to threats

Source: Tony proctor ,Op-cit ,P137.

-SO strategies: use a firm's internal strengths to take advantage of external opportunities. All managers would like their organization to be in a position in which internal strengths can be used to take advantage of external trends and events.

Organizations generally will pursue WO, ST, or WT strategies to get into a situation in which they can apply SO strategies. When a firm has major weaknesses, it will strive to overcome them and make them strengths. When an organization faces major threats, it will seek to avoid them to concentrate on opportunities.

-WO strategies: aim at improving internal weaknesses by taking advantage of external opportunities. Sometimes key external opportunities exist, but a firm has internal weaknesses that prevent it from exploiting those opportunities.

One possible WO strategy would be to acquire this technology by forming a joint venture with a firm having competency in this area. An alternative WO strategy would be to hire and train people with the required technical capabilities.

-ST strategies: use a firm's strengths to avoid or reduce the impact of external threats. This does not mean that a strong organization should always meet threats in the external environment head on.

Rival firms that copy ideas, innovations, and patented products are a threat in many industries.

-WT strategies: Are defensive tactics directed at reducing internal weakness and avoiding external threats. An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position.

In fact, such a firm may have to fight for its survival, merge, retrench, declare bankruptcy, or choose liquidation.

1-1-4-Advantages of SWOT analysis:[1]

-SWOT Analysis is an analysis technique that has a general perspective and presents general solutions.

Details and specific issues are not the focus of SWOT Analysis, but the other analyses that would follow. In this sense, SWOT Analysis is a road map that guides one from the general to the specific.

-SWOT Analysis is an interactional analysis technique that makes macro evaluations possible.

As an analysis tool, SWOT provides the opportunity to focus on positive and negative aspects of internal and external environment of the organization.

-SWOT Analysis can help organizational managements to uncover opportunities to take advantage.

By understanding weaknesses, threats can be managed and eliminated. To examine an organization and its competitors through SWOT Analysis, strategies that help distinguish a company from competitors can be formulated.

-SWOT Analysis promotes group discussion about strategic issues and strategy development.

By using creative participatory techniques such as brain storming, group meetings, it enables the pool knowledge.

1-1-5-Disadvantages of SWOT analysis:

-Listing strengths on paper is prone to bias and is very different from testing the organization and experiencing the strengths at work.

-SWOT Analysis has a general perspective as an approach and present general solutions.

-SWOT Analysis was developed in the periods when the environmental conditions were still. For this reason, it is not a valid technique in today’s world based on change and competition.

[1] Gerry Johnson, Kevan Scholes, Richard Whittington,Op-cit,P81-83.

Dynamic and structural changes at the level of system, sub-system, and supersystem affect the validity of entries in a SWOT Matrix.

1-2-Porter's Value Chain:

Value chain analysis is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation. Value chain represents the internal activities a firm engages in when transforming inputs into outputs.

Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage.

In other words, by looking into internal activities, the analysis reveals where a firm’s competitive advantages or disadvantages are. The firm that competes through differentiation advantage will try to perform its activities better than competitors would do.If it competes through cost advantage, it will try to perform internal activities at lower costs than competitors would do. When a company is capable of producing goods at lower costs than the market price or to provide superior products, it earns profits.[1]

M. Porter introduced the generic value chain model in 1985. Value chain represents all the internal activities a firm engages in to produce goods and services.

Value Chain is formed of primary activities that add value to the final product directly and support activities that add value indirectly.

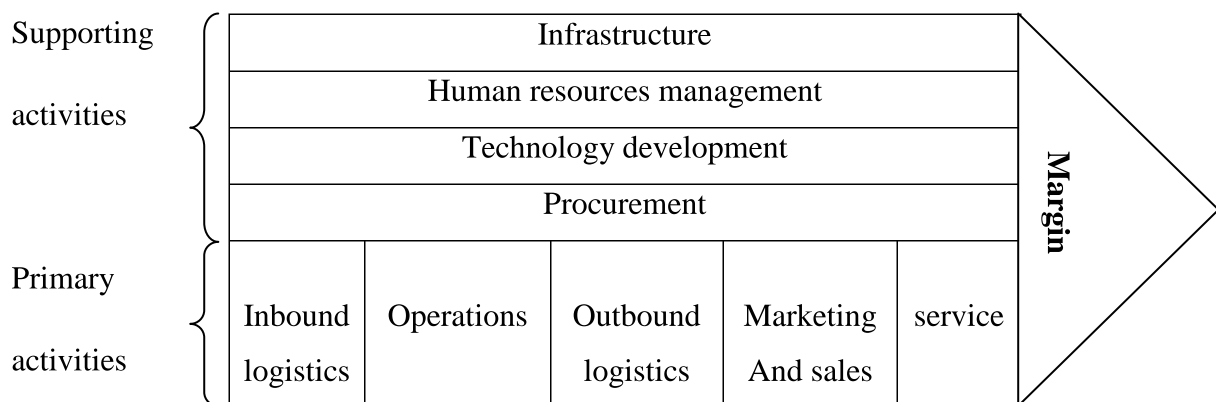
- **Primary activities:**are directly involved in the flow of product to the customer and include :[2]

- **Inbound logistics:**consist of the receiving, warehousing, and also stock or inventory management and control of input Resources;
- **Operations (or transformation):** are the value-creating activities in which transform the inputs in the direction of final product or service;
- **Outboundlogistics**: are the activities found it necessary to access the finished product or service to the customer, such as warehousing, order fulfillment, physical distribution..etc.;

[1] Michael E. Porter, **Competitive advantage**, Op-cit,P45.
[2]Ibid, P46-47.

- **Marketing and sales:** are the activities most typically associated with getting prospective buyers to purchase the product or service, together with sales channel selection, promotion, advertising and pricing;
- **Service:**are those that maintain as well as improve the product's value consisting of customer support, maintenance services, installation, repair …etc.
  - **Support activities:** exist to support primary activities. They include:[1]
- **Procurement:**the function of purchasing the raw components as well as the other inputs used in value-creating activities;
- **Technology development:**involves research and development, process mechanization as well as other technological advances used to support the value-chain activities;
- **Human resource management:**the activities involving hiring people, continuing development and training as well as compensation of workforce;
- **Firm's infrastructure:**consists of activities including financial resources, legal ,quality management…etc.

FigureN°(2-2) :the value chain model



Source :Michael E. Porter,**Competitive Advantage,**Op-cit,P46

[1]Michael E. Porter, **Competitive Advantage,** Op-cit,P39,40.

1-2-1-Using value chain to analyze costs :

There are two different approaches on how to perform the analysis, which depend on what type of competitive advantage a company wants to create (cost or differentiation advantage).

-A value chain analysis of a firm's cost position comprises the following stages:[1]

- Identify the firm's primary and support activities:

All the activities (from receiving and storing materials to marketing, selling and after sales support) that are undertaken to produce goods or services have to be clearly identified and separated from each other.

This requires an adequate knowledge of company's operations because value chain activities are not organized in the same way as the company itself. The managers who identify value chain activities have to look into how work is done to deliver customer value.

- Establish the relative importance of each activity in the total cost of the product:

The total costs of producing a product or service must be broken down and assigned to each activity. Activity based costing is used to calculate costs for each process.

Activities that are the major sources of cost or done inefficiently (when benchmarked against competitors) must be addressed first.

- Identify cost drivers for each activity:

Only by understanding what factors drive the costs, managers can focus on improving them. Costs for labor-intensive activities will be driven by work hours, work speed, wage rate, etc. Different activities will have different cost drivers.

- Identify links between activities:

Reduction of costs in one activity may lead to further cost reductions in subsequent activities. For example, fewer components in the product design may lead to less faulty parts and lower service costs.

[1]Robert M. Grant, Op-cit, P240.

Therefore identifying the links between activities will lead to better understanding how cost improvements would affect he whole value chain. Sometimes, cost reductions in one activity lead to higher costs for other activities.

- Identify opportunities for reducing costs:

When the company knows its inefficient activities and cost drivers, it can plan on how to improve them. Too high wage rates can be dealt with by increasing production speed, outsourcing jobs to low wage countries or installing more automated processes.

1-2-2-The Value Chain in Differentiation Analysis:[1]

Using the value chain to identify opportunities for differentiation advantage involves four principal stages:

-Construct a value chain for the firm and the customer:

It may be useful to consider not just the immediate customer but also firms further downstream in the value chain

-Identify the drivers of uniqueness in each activity:

Assess the firm's potential for differentiating its product by examining each activity in the firm's value chain and identifying the variables and actions through which the firm can achieve uniqueness in relation to competitors' offerings.

-Select the most promising differentiation variables for the firm:

Among the numerous drivers of uniqueness that we can identify within the firm, which one should be selected as the primary basis for the firm's differentiation strategy, on the supply side, there are three important considerations:

First, we must establish where the firm has greater potential for differentiating from, or can differentiate at lower cost than, rivals. This requires some analysis of the firm's internal strengths in terms of resources and capabilities.

Second, to identify the most promising aspects of differentiation, we also need to identify linkages among activities, since some differentiation variables may involve interaction among several activities.

[1]Michael E. Porter, **Competitive Advantage,** Op-cit, P120-127.

Thus, product reliability is likely to be the outcome of several linked activities: monitoring purchases of inputs from suppliers, the skill and motivation of production workers, and quality control and product testing.

Third, the ease with which different types of uniqueness can be sustained must be considered. The more differentiation is based on resources specific to the firm or skills that involve the complex coordination of a large number of individuals, the more difficult it will be for a competitor to imitate the particular source of differentiation.

Thus, offering businessclass passengers wider seats and more leg room is an easily imitated source of differentiation. Achieving high levels of punctuality represents a more sustainable source of differentiation.

- Locate linkages between the value chain of the firm and that of the buyer:

The objective of differentiation is to yield a price premium for the firm. This requires that the firm's differentiation creates value for the customer. Creating value for customers requires either that the firm lowers customers' costs, or that customers' own product differentiation is facilitated.

Thus, by reorganizing its product distribution around quick-response technologies .To identify the means by which a firm can create value for its customers it must locate the linkages between differentiation of its own activities and cost reduction and differentiation within the customer's activities.

Analysis of these linkages can also evaluate the potential profitability of differentiation.

1-2-3-Advantages and disadvantages of value chain analysis:[1]

Value chain analysis is a flexible strategy technique that the business can employ to identify the needs of its customers as well as establishing ways that can be used to overcome competition from other firms. This means the technique can be used to help the company achievecompetitive advantage in the market.

Moreover, the method can be implemented in any business regardless of the size because it involves the same steps in identifying customer needs. However,this technique is majorly

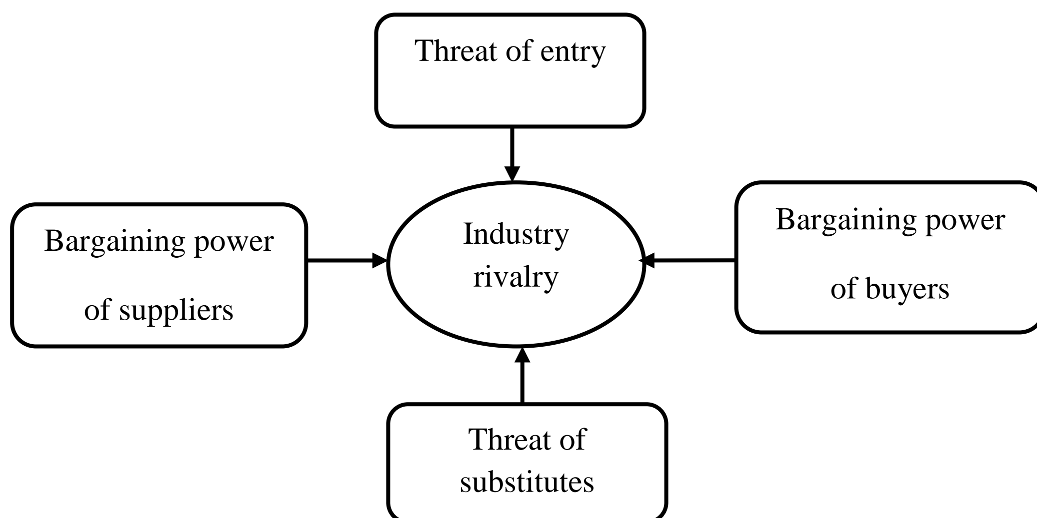
[1]Henry. M, Joseph.L, Bruce.A ,Op-ci,P106

oriented to manufacturing firms and therefore it might take a longer time to implement in other types of business

1-3-Porter's five forces:

Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level. Five forces model was created by M. Porter in 1979 to understand how five key competitive forces are affecting an industry.

Figure N° (2-3): Porter's five forces



Source :Gerry Johnson,Kevan Scholes,Richard Whittington,Op-cit,P31

These forces determine an industry structure and the level of competition in that industry. The stronger competitive forces in the industry are the less profitable it is.

An industry with low barriers to enter, having few buyers and suppliers but many substitute products and competitors will be seen as very competitive and thus, not so attractive due to its low profitability.

It is every strategist's job to evaluate company's competitive position in the industry and to identify what strengths or weakness can be exploited to strengthen that position. The tool is very useful in formulating firm's strategy as it reveals how powerful each of the five key forces is in a particular industry.[1]

[1] Gerry Johnson, Kevan Scholes, Richard Whittington, Op-cit,P30

1-3-1-The five forces are:

-Threat of new entrants:

This force determines how easy (or not) it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies.

When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers to enter to deter new entrants. Threat of new entrants is high when:[1]

- Low amount of capital is required to enter a market.
- Existing companies can do little to retaliate.
- Existing firms do not possess patents, trademarks or do not have established brand reputation.
- There is no government regulation.
- Customer switching costs are low (it doesn't cost a lot of money for a firm to switch to other industries).
- There is low customer loyalty.
- Products are nearly identical.
- Economies of scale can be easily achieved.

-Bargaining power of suppliers:

Strong bargaining power allows suppliers to sell higher priced or low quality raw materials to their buyers.

This directly affects the buying firms' profits because it has to pay more for materials. Suppliers have strong bargaining power when:[2]

- There are few suppliers but many buyers.
- Suppliers are large and threaten to forward integrate.
- Few substitute raw materials exist.
- Suppliers hold scarce resources.
- Cost of switching raw materials is especially high.

[1] Henry. M, Joseph. L, Bruce. A ,Op-ci,P101
[2] Ibid, P101.

-Bargaining power of buyers:

Buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong.

Lower price means lower revenues for the producer, while higher quality products usually raise production costs. Both scenarios result in lower profits for producers. Buyers exert strong bargaining power when:[1]

- Buying in large quantities or control many access points to the final customer.
- Only few buyers exist.
- Switching costs to other supplier are low.
- They threaten to backward integrate.
- There are many substitutes.
- Buyers are price sensitive.

-Threat of substitutes:

This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. For example, to switch from coffee to tea doesn't cost anything, unlike switching from car to bicycle.

-Rivalry among existing competitors:

This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when:[2]

- There are many competitors.
- Exit barriers are high.
- Industry of growth is slow or negative.
- Products are not differentiated and can be easily substituted.
- Competitors are of equal size.
- Low customer loyalty.

[1]Henry. M, Joseph. L, Bruce. A ,Op-ci,P101
[2] Ibid ,P 101

1-3-2-The pro and con of five forces analysis:

The pro: it provides a comprehensive framework to help think about competitive forces contained within simple business structures.

The con: it is incomplete because it does not address broader business issues in a multi-national, multi-channel, multi-product marketplace.

Section 2: Portfolio analysis models

The purpose of an analysis of elements of a company's product is to determine the optimum allocation of its resources.

This section will be dedicated to introduce three types of portfolio matrices used by a large firms with decentralized profit center called strategic business units, are BCG,McKinsey and ADL matrices.

2-1- The BCG matrix:

2-1-1-Definition of the growth-share matrix:

The BCG matrix is a model developed by Bruce Henderson of the Boston Consulting Group; the growth-share matrix is part of "portfolio planning," which addressed the question of how to allocate funds to the different businesses of a diversified company. Before its appearance, corporations depended on capital budgeting and the like to assess return on investment of different proposals. The growth-share matrix sought to embed these choices in a systematic framework.[1]

2-1-2-building up the BCG matrix:

The Boston Consulting Group's (BCG) growth–share model involves SBUs being plotted on a matrix according to the rate of market growth and their market share relative to that of the largest competitor.

-Relative market share: One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate's market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits.

[1]Henry.M, Joseph.L, Bruce.A, Op-cit,P94.

Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

Relative market share can be calculated as following:

It is calculated by dividing your own brand's market share (revenues) by the market share (or revenues) of your largest competitor in that industry.

$$\text{Relative market share} = \frac{\text{the company's turnover or revenue}}{\textit{the largest competitor's turnover or revenue}}$$

-Market growth rate: high market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth.

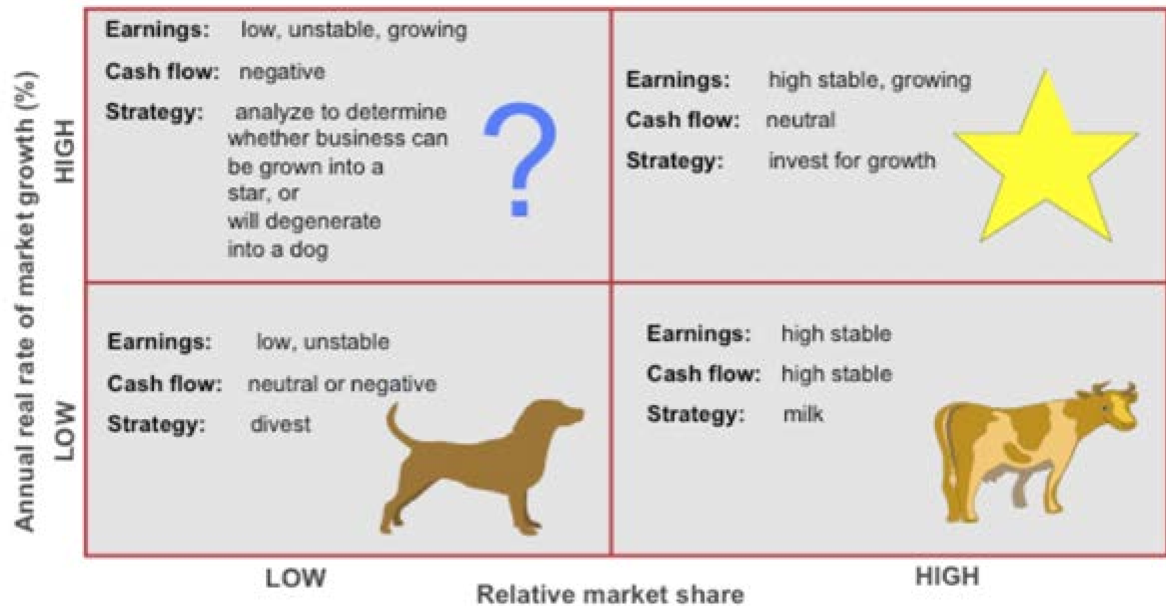
Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

The industry growth rate can be found in industry reports, which are usually available online for free. It can also be calculated by looking at average revenue growth of the leading industry firms.

Market growth rate is measured in percentage terms. The midpoint of the y-axis is usually set at 10% growth rate, but this can vary. Some industries grow for years but at average rate of 1 or 2% per year.

The matrix itself is divided into four cells, each of which indicates a different type of business with different cash-using and cash-generating characteristics, as illustrated below:

Figure N°(2-4): the BCG matrix



Source: Henry.M, Joseph.L, Bruce.A, Op-cit, P95.

- **Star:**

Products with high-share and high-growth, it nearly always shows reported profits, but it may or may not generate all of its own cash. If it stays a leader, however, it will become a large cash generator when growth slows and its reinvestment requirements diminish. [1]

The star eventually becomes the cash cow providing high volume, high margin, high stability, security and cash throwoff for reinvestment elsewhere.

- **Question marks (problem children):**

Products with low-market-share and high-growth, they almost always require far more cash than they can generate. If cash is not supplied, they fall behind and die. Even when the cash is supplied, if they only hold their share, they are still dogs when the growth stops.[2]

The “problem children” require large added cash investment for market share to be purchased. The low-market-share, high-growth product is a liability unless it becomes a leader. It requires very large cash inputs that it cannot generate itself.

[1]Henry. M, Joseph. L, Bruce. A, Op-cit, P96.
[2]Ibid ,P96.

- **Cash cows:**

Products with high market share and slow growth are characteristically, they generate large amounts of cash, in excess of the reinvestment required to maintain share. [1]

This excess need not, and should not, be reinvested in those products. In fact, if the rate of return exceeds growth rate, the cash cannot be reinvested indefinitely, except by depressing returns.

- **Dogs:**

Products with low market share and slow growth, they may show an accounting profit, but the profit must be reinvested to maintain share, leaving no cash throwoff. The product is essentially worthless, except in liquidation.[2]

2-1-3-Appropriate strategies according to BCG matrix:

Having plotted the position of the organization's SBUs, the balance and health of the portfolio can be seen fairly readily.

A balanced portfolio typically exhibits certain characteristics, including a mixture of cash cows and stars. By contrast, an unbalanced and potentially dangerous portfolio would have too many dogs or question marks, and too few stars and cash cows. The likely consequence of this is that insufficient cash will be generated on a day-to-day basis to fund or support the development of other SBUs.

Having identified the shape of the portfolio, the planner needs then to consider the objectives, strategy and budget for each SBU. In essence, four major strategies can be pursued:[3]

-Build: a building strategy, the primary objective is to increase the SBU's market share in order to strengthen its position.

In doing this, short-term earnings and profits are quite deliberately forsaken in the expectation that long-term returns will be far greater. It is a strategy that is best suited to question marks, so that they become stars.

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[1] Henry. M, Joseph. L, Bruce. A, Op-cit, P95.
[2] Ibid, P95.
[3] Colin Gilligan, Richard M.S. Wilson, Op-cit, P366-370.

-Hold: the primary objective in this case is to maintain the current share. It is the strategy that typically is used for cash cows to ensure they continue to generate the maximum amounts of cash.

-Harvest: a harvesting strategy, management tries to increase short-term cash flows as far as possible, even at the expense of the SBU's longer-term future. It is a strategy best suited to cash cows that are weak or are in a market with seemingly only a limited future life.

It is also used on occasions when the organization is in need of cash and is willing to mortgage the future of the product in the interests of short-term needs. Harvesting is also used for question marks when there appear to be few real opportunities to turn them into stars, and for dogs.

-Divest or terminate: the essential objective here is to rid the organization of SBUs that act as a drain on profits or to realize resources that can be used to greater effect elsewhere in the business.

Having decided which of these four broad approaches to follow, the strategist needs then to give consideration to the way in which each SBU is likely to change its position within the matrix over time.

SBUs typically have a life cycle that begins with their appearance as question marks and their progression through the stages of star, cash cow and, finally, dog.

2-1-4-Benefits and Limitations of the BCG-Matrix:

-Benefits of the BCG-Matrix:

- The BCG-Matrix is helpful for managers to evaluate balance in the companies' current portfolio of Stars, Cash Cows, Question Marks and Dogs.
- BCG-Matrix is applicable to large companies that seek volume and experience effects.
- The model is simple and easy to understand.
- It provides a base for management to decide and prepare for future actions.
- If a company is able to use the experience curve to its advantage, it should be able to manufacture and sell new products at a price that is low enough to get early market share leadership. Once it becomes a star, it is destined to be profitable.

-Limitations of the BCG-Matrix:

- It neglects the effects of synergies between business units.
- High market share is not the only success factor.
- Market growth is not the only indicator for attractiveness of a market.
- Sometimes Dogs can earn even more cash as Cash Cows.
- The problems of getting data on the market share and market growth.
- There is no clear definition of what constitutes a “market”.
- A high market share does not necessarily lead to profitability all the time.
- The model uses only two dimensions – market share and growth rate. This may tempt management to emphasize a particular product, or todivest prematurely.
- A business with a low market share can be profitable too.
- The model neglects small competitors that have fast growing market shares.

2-2-The GE/McKinsey matrix

2-2-1-Definition:

GE Matrix or McKinsey Matrix is a strategic tool for portfolio analysis. This strategic portfolio analysis tool has been initially developed by GE and McKinsey.

GE-McKinsey nine-box matrix is a strategy tool that offers a systematic approach for the multi business corporation to prioritize its investments among its business units.[1]

2-2-2-building up the GE matrix:

The GE matrix is based on two dimensions two major dimensions:

-Market attractiveness:A term used to describe interesting profit possibilities one may obtain by investing in an available market and/or industry. The better a market's attractiveness, the greater the potential profits to be had by investing in that market.

Nevertheless, companies considering entering new industries or markets often conduct many types of analysis to determine whether this kind of move would be beneficial or if it might instead hinder the company's prospects. Many different factors exist that can influence market attractiveness. For example, the size and depth of a market and the number of potential customers can significantly affect the market attractiveness of any given business or endeavor.

Factors that Affect market attractiveness:[1]

[1]Gerry Johnson, Kevan Scholes, Richard Whittington, Op-cit, P194.

- Market factors: market size, market growth rate, cyclicality, seasonality, power of sellers and buyers, distributors, price sensitivity. Competition: number of competitors, type and power of competitors, ease of market entry, risk of product substitution, market share, image in market, possibility of new technology, volatility.
- Technological: sophistication of technology, patents, copyrights, maturity.
- Economic: financial strength and barriers, economies of scale, capacity utilization.
- Socio-political: social values, attitudes and trends, laws, etc.

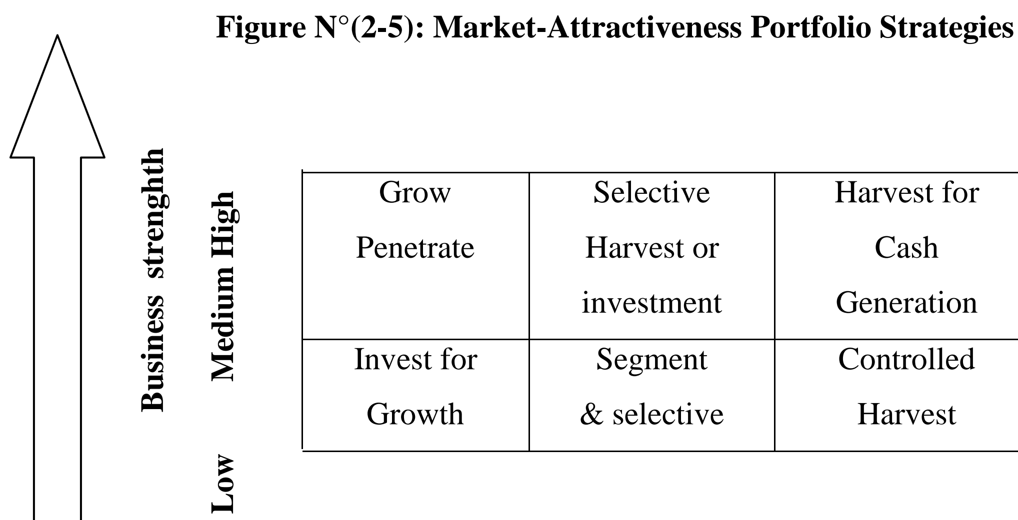
-Business strength: Capital, knowledge, skill, or other advantage that a firm has or can acquire over its competitors in meeting the needs of its customers.

Factors that affect business strength:[2]

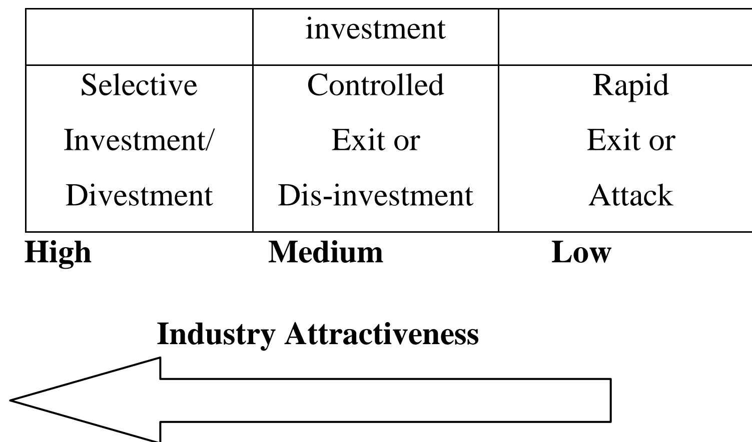
- Market: market share, company and market image, distribution channels.
- Product: pricing policy, product range, reputation for product reliability and quality standards, breadth of product line.
- Capability: managerial competence, design capability, ability to respond to changing circumstances, manufacturing strength, R&D, capital strength and finances.
- Customer relations: service levels, sales force coverage.

Using these two dimensions, the GE matrix is divided into nine cells, as shown in the figure below.

Figure N°(2-5): Market-Attractiveness Portfolio Strategies



[1]Tony Proctor, Op-cit ,P33
[2]Ibid ,P33.



	investment	
Selective Investment/ Divestment	Controlled Exit or Dis-investment	Rapid Exit or Attack

Source: Philip Kotler, Op-cit, P44.

2-2-3-Strategies according to McKinsey matrix

-Protect position (grow / penetrate):

These businesses are a target for investment, they have strong business strengths are in attractive markets and they should therefore have high returns on investment and competitive advantage.

They should receive financial and managerial support to maintain their strong position and to continue contributing to long-term profitability.

-Invest to build (selective harvest or investment):

Businesses in this box have good business strength in an industry that is losing its attractiveness. They should be supported if necessary but they may be self-supporting in cash flow terms.

Selective harvesting is an option to extract cash flow but this should be done with caution so as not to run down the business prematurely.

-Build selectively (harvest for cash generation) :

Strong businesses in unattractive markets should be net cash generators and could provide funds for use throughout the rest of the portfolio.

Investment should be aimed at keeping these businesses in a dominant position of strength but over investment can be disastrous especially in a mature market. Be aware of competitors trying to revitalize mature industries

-Build selectively (invest for growth):

Businesses here are in very attractive industries but have average business strength. They should be invested in to improve their long-term competitive position.

-Selectivity (manage for earnings):

Businesses with average business strengths and in average industries can improve their positions by creative segmentation to create profitable segments and by selective investment to support the segmentation strategy. The business needs to create superior returns by concentrating on building segment barriers to differentiate themselves.

-Limited expansion or harvest (Controlled Harvest):

They have average business strengths in an unattractive market and the strategy should be to harvest the business in a controlled way to prevent a defeat or the business could be used to upset a competitor.

-Protect and refocus (selective investment or divestment): These businesses are in very attractive markets but their business strength is weak. Investment must be aimed at improving the business strengths.

These businesses will probably have to be funded by other businesses in the group as they are not self-funding. Only businesses that can improve their strengths should be retained, if not they should be divested.

-Manage for earnings (controlled exit or harvest):

Businesses with weak business strengths in moderately attractive industries are candidates for a controlled exit or divestment. Attempts to gain market share by increasing business strengths could prove to be very expensive and must be done with caution.

-Divest (rapid exit or attack business):

These businesses have neither strengths nor an attractive industry and should be exited. Investments made should only be done to fund the exit.

2-2-4-Advantages and disadvantages of GE-McKinsey Matrix:

-Advantages:

- This matrix takes into account a number of factors that the BCG Matrix does not.
- It is visually easy to understand and provides more options to place a product as compared to the BCG Matrix, due to the inclusion of the "low" level on both axes.
- It is conceptually similar to the BCG Matrix, so anyone who is familiar with the BCG Matrix can easily use the GE-McKinsey Matrix.

-Disadvantages:

- This matrix does not take into account the synergies between various products. Discontinuing one might adversely impact another.
- The scoring of the various factors using the weights is subjective and leaves the tool open to bias.
- It does not help in allocating the relative investments for each product.

2-3-ADL matrix:

2-3-1-Definition:[1]

The ADL Matrix or Arthur D Little Strategic Condition Matrix is a Portfolio Management technique that is based on the Product Life Cycle (PLC). It is developed in the 1980's byArthur D. Little, one of the best-known consulting firms, intended to help a company manage its collection of product businesses as a portfolio.

2-3-2-Creating the ADL matrix:

The industry attractiveness-business strength matrix, it is a pictorial representation of all the businesses of the firm, in two dimensions industry maturity and Competitive position.

-Industry maturity:the normal stages that an industry goes through during the course of its lifecycle in the market. An industry lifecycle is broken into five separate phases:

Early stages phase, innovation phase, cost/shakeout phase, maturity phase and decline phase. During the initial phase, the product may be altered to make a place for it in the industry. The

[1]Richard M.S. Wilson, Colin Gilligan, Op-cit, P464.

innovation phase looks to expand the product even further to come up with a concrete design. The next phase involves companies within the industry establishing a concrete design thus eliminating some of the smaller companies that do not follow this model.

At the maturity stage, revenue from the product becomes the main focus of the company. Finally, the decline phase is marked by decreasing revenue as demand shifts to another product in the industry.

Four classifications ofindustry lifecycle:[1]

- Embryonic stage: the introduction of the product is characterized by a rapid growth market, very little competition and (still) high sales prices.
- Growth stage: the market continues to strengthen and sales increase, there are few (if any) competitors.
- Maturity stage: the market and market shares are stable, there is an established customer base and the price is lowered because of the growing competition.
- Ageing stage: The demand for the product decreases and companies are abandoning the market. Companies stop consolidating or leave the market. [2]

-Competitive position:is influenced by the geographical scope of the industry and the specific product–market sectors in which the SBU operates. It is not therefore simply market share that influences competitive position, but also competitive economics and a series of other factors, including technology. This led ADL to the recognition of five main categories of competitive position:

- **Dominant:** this is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
  The implications are that the firm is able to exert considerable influence over the behavior of others in the industry and has a wide variety of strategic options open to it.
- **Strong:** by virtue of this position, the firm has a considerable degree of freedom over its choice of strategy and is often able to act without its market position being unduly threatened by competitors.

[1]Tony proctor, Op-cit, P35
[2]Ibid, P35

- **Favorable:** this position, which generally comes about when the industry is fragmented and no one competitor stands out clearly, results in the market leaders having a reasonable degree of freedom.

  Companies with a favorable market position often have strengths that can be exploited by particular strategies and hence a greater than average opportunity to increase market share
- **Tenable:** although firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

  The opportunities for an organization to strengthen its position tend to be lower than average. The profitability of the tenable firm is best achieved and sustained through a degree of specialization.
- **Weak:** the performance of firms in this category is generally unsatisfactory, although opportunities for improvement do exist.

  Often, however, the firm is either too big or inefficient to compete with any real degree of effectiveness, or it is too small to cope with competitive pressures. Unless the firm changes, it is ultimately likely to be forced out of the market or to exit of its own accord.

In the model below, ADL matrix is highlighted, in which the combination of various stages in the competitive position and in the industry maturity are decisive for an organization's strategy, this Table shows the specific strategic options corresponding to the 20 quadrants of the ADL matrix:

Figure N°(2-6) : ADL matrix

ADL Matrix

		Industry Life Cycle Stage			
		Embryonic	Growth	Mature	Aging
Competitive Position	Dominant	All out push for share. Hold Position	Hold Position. Hold Share.	Hold Position. Grow with industry	Hold Position.
	Strong	Attempt to improve position. All out push for share	Attempt to improve position. Push for share.	Hold Position. Grow with industry	Hold Position or Harvest.
	Favorable	Selective or all out put for share. Selective attempt to improve position.	Attempt to improve position. Selective push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phased out withdrawal.
	Tenable	Selectively push for position	Find niche and protect it.	Find niche and hang on, or phased out Withdrawal.	Phased out withdrawal, or Abandon
	Weak	Up or out	Turnaround or abandon	Turnaround, ophaned out withdrawal.	Abandon

Source: Richard M.S. Wilson, Colin Gilligan, Op-cit,P378

2-3-3-strategy according to ADL matrix:

-Strategy 1 (Dominant, Embryonic):at this stage your business is either the only or the chief player in the market, so your business should aim to increase and strengthen its consumer base.

The more control you have over your customer base, the easier it will be for you to prevent the competitors from entering into the game.

-Strategy2 (Dominant, Growth): the business should focus its strategies towards maintaining its market share as well as its market position.

-Strategy3 (Dominant, Mature):the ideal course at this juncture would be to hold on to your market positions and grow your market share.

-Strategy 4 (Dominant, Ageing): here a business should focus on holding onto its market position, and as for the market share it’s bound to fall and nothing much can be done about it.

-Strategy 5 (Strong, Embryonic):this combination requires an aggressive effort to improve competitive position as well as to increase the market share.

-Strategy 6 (Strong, Growth):here, the strategy remains quite the same as above, except that the focus should be slightly more on improving the competitive position.

-Strategy 7 (Strong, Mature):since the industry is maturing at this point, you need to safeguard your market position. At the same time try to grow your market share, keeping it proportionate to the growing market share of the industry.

-Strategy 8 (Strong, Ageing):here you're left with two options either to tightly hold on to your market position, or to cut down on the expenses so as to harvest more profits.

-Strategy 9 (Favorable, Embryonic):the business should find ways to improve its market position and it should keep pushing to increase its market share.

-Strategy 10 (Favorable, Growth): in this situation the business should make investments to boost its market position, and thus increase its market share.

-Strategy 11 (Favorable, Mature):at this point, the strategy should aim at identifying a niche market, to protect the business's market position and to grow its market share.

-Strategy 12 (Favorable, Ageing): with the exit point approaching, the ideal strategy here is to cut out expenses, start harvesting profits and develop a phased withdrawal plan.

-Strategy 13 (Tenable, Embryonic):the one and only thing that should remain in focus is the market position, and all efforts should be directed towards improving the market position.

-Strategy 14 (Tenable, Growth):the business with such odds cannot survive until it finds a niche for itself or can add in a strong differentiating factor to entice the consumers and increase its market share.

-Strategy 15 (Tenable, Mature): as with the above strategy, here too you need to find a niche and guard it closely. And if that's not possible, quitting the industry is advisable.

-Strategy 16 (Tenable, Ageing):this situation is not likely to bring in any substantial profits, thus the business should think along the lines of planning a phased withdrawal or abandoning the industry.

-Strategy 17 (Weak, Embryonic):this is a bad situation, and the business needs to measure the rewards of staying in the industry against the costs. If it's not a profitable proposition, it's best to get out of the market.

-Strategy 18 (Weak, Growth):either you can work on ways to improve both the market share and the market position, or you can call it quits.

-Strategy 19 (Weak, Mature):again, either you work on ways to turnaround your competitive position and market share, or simply plan a phased out withdrawal.

-Strategy 20 (Weak, Ageing): the only choice a business has in this extreme situation is to abandon.

2-3-4-The advantages and disadvantages of the ADL matrix:

-Advantages:

Unlike other models of product portfolio analysis the ADL matrix is based on an enhanced applicability because it fits to all situations of competition encountered in a marketplace.

Also the ADL matrix can be applied to the fragmented industries, holding a small competitive advantage but with a large number of ways of obtaining it (provides multiple ways of differentiation).

As such we can say that the ADL matrix has a high degree of adaptability to situations of a qualitative nature.

-The disadvantage:

A first disadvantage is that the matrix does not take into account a number of phenomena that can generate long-term involution in the products life cycle of a company.

Another weakness is related to the high level of difficulty in terms of objective evaluation of the ADL model variables. This is often the case for the competitive position indicator.

Conclusion of second chapter:

To conclude strategic analysis is the process of conducting research on the business environment within which an organization operates and on the organization itself to formulate strategy.

Strategy analytics helps companies to build distinctive strategies in order to win on complex technology markets, on a global and regional scale.

Strategic analysis is the use of tools such as SWOT analysis, value chain analysis, Porter's five forces, and portfolio matrices with an aim of determining the best way an organization can reach the desired goals and objectives using the available resources.

CHAPTER 3

Applying SWOT model and BCG matrix on the Algerian Insurance Company SAA

Chapter 3: Applying SWOT model and BCG matrix on the Algerian Insurance Company SAA

In this chapter we will try to analyze the national insurance company SAA on SWOT model and BCG matrix.

In the first section we will present the insurance basics and the national insurance company SAA.

In the second section we will try to list or identify strengths /weaknesses, opportunities / threats and apply the BCG model, to analyze the strategic position of the company "SAA" on each DAS that allow us to suggest strategic directions and both general and specific recommendations.

Section 1: Presentation of the insurance concepts and the Algerian Insurance company "SAA"

For understanding how insurance works this section will be dedicated to present insurance basics including definition, concepts, principles, kinds of insurance.

And presentation of the National insurance company SAA, its evolution, activities and organization.

1-1-Presentation of the insurance concepts:

1-1-1-Definition of insurance:[1]

-Financial Sense:insurance is a social device in which a group of individuals (insureds) transfer risk to another party (insurer) ill order to combine loss experience, which permits statistical prediction of losses and provides for payment of losses from funds contributed (premiums) by all members who transferred risk.

-Legal Sense:a contract of insurance is a contract by which one party in consideration of the price paid to him proportionate to the risk provides security to the other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events. Insurance is

[1]P. K. Gupta, **Fundamentals of Insurance,** 2nd Ed, Himalaya Pub. House, 2008, P19.

meant to protect the insured against uncertain events, which may cause disadvantage to him. Life insurance however is a distinctive type of insurance where there is certainty of the payment of a specified amount either on the death of the insured or on the maturity of the policy whichever is earlier.

1-1-2- Basics insurance concepts:[1]

-Insurer (insurance company):a business that provides coverage, in the form of compensation resulting from loss, damages, injury, treatment or hardship in exchange for premium payments. The company calculates the risk of occurrence then determines the cost to replace (pay for) the loss to determine the premium amount.

-Insured:party covered by an insurance policy. In life insurance policies there is one designated insured, the person so named, or a policy can be issued to numerous insureds on a group basis. The insured persons in property and casualty policies may also include residents of the insured's household.

-Indemnity:compensation for loss, in a property and casualty contract, the objective is to restore an insured to the same financial position after the loss that he or she was in prior to the loss. But the insured should not be able to profit by damage or destruction of property, nor should the insured be in a worse financial position after a loss.

-Risk:is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for. At its most general level, risk is used to describe any situation where there is uncertainty about what outcome will occur. Life is obviously risky.

-Insurable risk:eventuality for loss or damage that is definable, fortuitous, similar to a large number of known exposures, and pays a premium that is commensurate with the potential loss.

-Uninsurable risk:condition or situation that fails to meet the requirements of an insurable risk, such as where a loss is inevitable (as the death of a patient suffering from a terminal illness) or where the damage is gradual (as corrosion or rusting of metals).

-Peril : a peril refers to the cause of loss, in literary sense, it means the serious and immediate danger. Perils refer to the immediate causes of loss.

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[1]Harvey W. Rubin**, Dictionary of Insurance Terms**, 4th ED, Barron's Educational Series, 2000.

Perils may be general or specific, fire may affect assets like building, automobile, machinery, equipment and also, humans. Collusion may cause damage to the automobile resulting in a financial loss.

-Premium:rate that an insured is charged, reflecting his or her expectation of loss or risk. The insurance company will assume the risks of the insured (length of life, state of health, property damage or destruction, or liability exposure) in exchange for a premium payment.

Premiums are calculated by combining expectation of loss and expense and profit loadings. Usually, the periodic cost of insurance is computed by multiplying the premium rate per unit of insurance by the number of units purchased. The rate class in which the insured is placed includes large numbers of individuals with like characteristics who pose the same risk.

-Claim: request by an insured for indemnification by an insurance company for loss incurred from an insured peril.

-Insurance contract:general legally binding unilateral agreement between an insured and an insurance company to indemnify the buyer of a contract under specified circumstances. In exchange for premium payment(s) the company covers stipulated perils.

1-1-3-principles of insurance:

-Indemnity: indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. [1]

Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss.In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less.

The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit.

[1] P. K. Gupta, Op-cit , P22.

However, in case of life insurance, the principle of indemnity does not apply because the value of human life cannot be measured in terms of money.

-Utmost Good Faith: theprinciple of Utmost Good Faith is a very basic and first primary principle of insurance. According to this principle, the insurance contract must be signed by both parties (insurer and insured) in an absolute good faith or belief or trust. [1]

The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured.

-Subrogation: subrogation means substituting one creditor for another. Principle of subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. [2]

According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer. This principle is applicable only when the damaged property has any value after the event causing the damage.

The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation.

-Contribution: principle of contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. [3]

According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer, if one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers.

-Insurable interest:the principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance.

[1]P. K. Gupta, Op-cit , P22.
[2] Ibid, P 23.
[3] Ibid, P24.

A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.[1]

-Proximate Cause:it is defined as the active efficient cause that sets into motion a train of events, which bring about a result, without the intervention of any force started and working actively from a new and independent source. [2]

Therefore there must be an efficient cause, which brings about a loss with no other intervening cause, which breaks the chain of events. A loss could be due to a cause of causes. In the chain reaction, it is the dominant cause, which would be the proximate cause to be considered for the purpose of a claim. It is always the duty of the insured to prove that the loss arose out of the insured peril, which is proximate.

1-1-4-Kinds of insurance:

The commonly known categories of various insurance covers are:

-Non-life insurance:

- **Property:** personal and business property insurance that covers risks against fire, marine, theft and burglary. The types of insurance under this category are:
  - ✓ Home Insurance/Domestic cover;
  - ✓ Business insurance ;
  - ✓ Commercial Insurance.
- **Liability:** this protects the insured against injury or damage claims made by a third party. The types of insurance under this category are:
  - ✓ Motor insurance;
  - ✓ Workmen compensation;
  - ✓ Liability insurance;
  - ✓ Aviation insurance and project;
  - ✓ Engineering Insurance.

[1]P. K. Gupta, Op-cit , P24
[2]Ibid ,P 25.

- **Health:** in case of an illness or injury suffered by the insured or his/her dependents, health insurance covers their medical expenses incurred. The types of insurance under this category are:
  - ✓ Hospital Insurance;
  - ✓ Medical cover.
- **Life insurance:** life Insurance products can be broadly divided into various categories, which include :
  - ✓ Money back;
  - ✓ Pension;
  - ✓ Women, Girl child and couple;
  - ✓ Endowment;
  - ✓ Whole Life.

1-1-5-Benefits and costs of insurance:

The purpose of insurance mode of risk transfer is to provide economic protection against the losses that may be incurred but to chance events such as death, disability, and economic losses. One party (the insurer) for a set amount of money (premium) agrees to pay the other party (insured or beneficiary), a sum of money (benefit) upon the occurrence of an event, which may or may not occur.[1]

Insurance provides economic protection against losses that may be incurred due to chance events that may or may not occur during the effective time of the contract called a policy.

The insurance of business organizations is essential in the sense that adverse events, if not guarded, may affect the business itself, the business owner or owner's personal property and may also threaten the continued operation of the business and threaten the owner's financial well-being.

The fundamental advantages of insurance contracts are:

It involves transfer of risk from the individual to the group, and there is a sharing (pooling) of losses on some equitable basis such that fortuitous losses will be indemnified (paid).

More specifically the benefits and costs of insurance are:

[1]P. K. Gupta, Op-cit , P19

-Benefits:

- Reimbursement for losses;
- Reduction in tension and fear;
- Prevention of losses;
- Credit multiplication.

1-2- Creation of the SAA:

The national insurance company SAA is public economic enterprise approved to operate in all sectors of insurance. It's company per share with social capital of 30 billion dinars. The headquarters of SAA is in business center of Bab-Ezzouar.[1]

The National insurance company SAA is the leader of the national insurance market, the second insurer in the Maghreb region, the third insurer in the Arab region, one of the six first insurers in Africa.

1-2-1-The SAA's history: [2]

SAA was created after the independence of Algeria; maintain its leadership in the Algerian market today with over 2 million customers is the result of strong involvement of its men and women, a proven expertise and active listening skills as well as effective.

-1963: mixed capital company- Algerian and Egyptian, a national insurance company is created as a general insurance company under the name SAA.

-December 1963: first outlet opens its doors in the center of Algiers, under the sign SAA Assurance. It is the first step, which will develop over the years to constitute a network of agencies of more than 520 across the country.

-May 1966: the institution of a state-owned monopoly on insurance operations according to the order No.66.127, which led the nationalization of SAA according to the Ordinance NO.66.129.

-January 1976: SAA specializes in the simple risk insurance, developing adapted offers to individuals, professionals, local authorities and institutions in the health sector.

[1] www.saa.dz ,consulted on 02/05/2019 at 3 Pm.
[2] Internal document of the SAA.

-February 1989: SAA became an EPE, Public Economic Enterprise, with a capital of 80 000 000 DA within the framework of the autonomy of the companies.

-1990: removal of the specialization of public insurance companies, SAA extends its activities to industrial risks, engineering, transportation, agricultural risks and life and health insurance.

SAA holds the leading position in the Algerian market with regional and continental partners in the main insurance groups.

-1995: opening the market to local and foreign investors ,reintroduction of private intermediaries (general agents, brokers and bancassurance), implementation of market control tools and creation of the National Insurance Supervision Commission.

-1997: redesign of the network organization, an organization focused efficiency; Compensation of direct agencies according to their performance.

-2003: a new regional division, the introduction of ERP ORASS and development of an IS according to the needs of SAA, the implementation of a new strategic plan.

-2004: structural reorganization, the creation of divisions according to market segment to boost the productivity, end of SAA's term as manager of FSI and FGA.

-2010: separating personal insurance from damage insurance.

-2011: the share capital of the company has increased to 20 000 000 000 DA.

-2015: launching of the Network Relooking program, portfolio diversification strategy.

-2016: changing of the headquarters, to an intelligent tower that reinforces the company with a new dynamic, classification of the agencies / ranking according to their results.

-2017: SAA will increase its share capital to 30 billion DA, the equivalent of 275 million US $, SAA shows the most elevated indicators in the market, allowing the company to face the future with serenity:

- Equity: 34 billion DA, the equivalent of 310 million US $;
- Investments: 46 billion DA, the equivalent of 420 million US $;
- Real estate assets (land/buildings): 29 billion DA the equivalent of 265 million US$.

-The SAA today: influential company in its market and a partner of several companies**,** the SAA has maintained its leading position since its creation, a company with forward-looking perspective, strongenough to meet more challenges ,corporate citizen and an engaged company and it is a partner of choice for its clients throughout their projects, in all safety.

1-2-2-Strategic investment of the company:[1]

-SAA owns 34 % of total shares in several companies operating in different fields:

- Assure Immo SPA, a company practicing in the real estate field;
- SICAV, an investment company;
- SAPS SPA, a company specializing in health and insurance, under the trade name Amana insurance;
- ALFA, a company specializing in detection of fraud insurance;
- An insurance printing company: imprimerie des assurance SPA.

-SAA owns 20 %of total shares in:

- AFRICA RE (African Reinsurance Corporation);
- CAGEX (Algerian Insurance and Export Credit Guarantee);
- SGCI (Mortage Corporation);
- SRH (Mortage refinancing company ‘leasing’);
- SIH (hotel Investment Company).

1-3-The SAA's activities and objectives:

1-3-1-The SAA's activities:

The SAA offers solutions adapted to the specificities of your activity .Proximity, listening and availability characterize SAA's relation with is policyholders.

Its activity extends itself to many sectors aiming a large clientele: individuals, professionals, small medium and large companies and institutions , its products consist of :[2]

-Property damage (liability coverage) includes:[1]

[1] Internal documents of the SAA
[2] www.ssa.dz , Consulted on 05/05/2019 at 9 am.

- Industrial risk insurance;
- Vehicle insurance;
- Insurance for merchants, individuals and professionals;
- Construction-related insurance;
- Agricultural risk insurance;
- Transportation insurance;
- Multi-risk insurance housing ,building and commercial space ;
- Credit insurance.

-Civil liability coverage includes:

- General insurance;
- Professional liability insurance;
- Head of family insurance;
- Products delivered insurance ;
- Decennial insurance;
- Hospitals and clinics insurance;
- Doctors ,dentists, midwives insurance
- Pharmacist insurance;
- Laboratories of analysis insurance;
- Accountant,chartered accountants ,auditors insurance.

-Services: the vehicle assistance service is available through a specialized subsidiary whose role is to provide troubleshooting and assistance to customers in case of an accident.

The home repair, as part of coverage for homeowners, offers customers a support free of charge and allows the restoration of their property.

-Industrial risk coverage:it's multi-risk insurance contract for the insurance of all professional premises such as workshops, manufacturing or processing units. This offer is a combined insurance by several guarantees.

-Transportation risk coverage:transportation insurance covers customers' merchandise from throughout the entire transport chain (from the factory to the final delivery), regardless of the means of transport used :

- Shipping;
- Land transportation;
- Fluvial transportation;
- Air transport.

-Comprehensive coverage in housing, building, and commercial premises: It allows a landlord or tenant to secure his or her place of residence or commercial premises.

-Auto insurance (the most dominant category):first category in the market. SAA's historical segment, even though the company is initiating its portfolio diversification strategy.

1-3-2-The SAA's objectives: the SAA aims to

- Maintain its strong market position by providing first class security and service topped with its customer friendly approach and proven track of excellent claim payment.

-Become the customer's first choice when selecting insurance products and service offered by the industry by:

- Adding value to its core services;
- Exchanging knowledge and expertise which would contribute to understanding the market and the standards required to fulfill its client's expectations.

-Operate by a code of conduct driven by a value system that promotes performance, integrity and personal growth in all dealings with shareholders for guaranteeing continuity and growth.

-Maintain the vitality of the work climate where employees feel the importance of trust and teamwork.

-Support harmony of performance that encourages the achievement of excellence, which stems from understanding of the important connection between good performance and the Company's success.

1-4- Organization of the SAA:

1-4-1- General organization of the SAA

-A headquarters office: who is responsible for hosting the general meetings of the board of directors, setting of objectives and the retracement of a general policy that will be piloted by a

chief executive officer who's "Nacer SAIS" elected by the board members, in order to achieve the objectives set, for the support of CEO we find :

- A general technical director"Kamel RAHEM" who implements a plan for the operating policy of each branch of insurance;
- A general administrative director "Nacera BOURENANE" who's responsible of economic and administrative management.

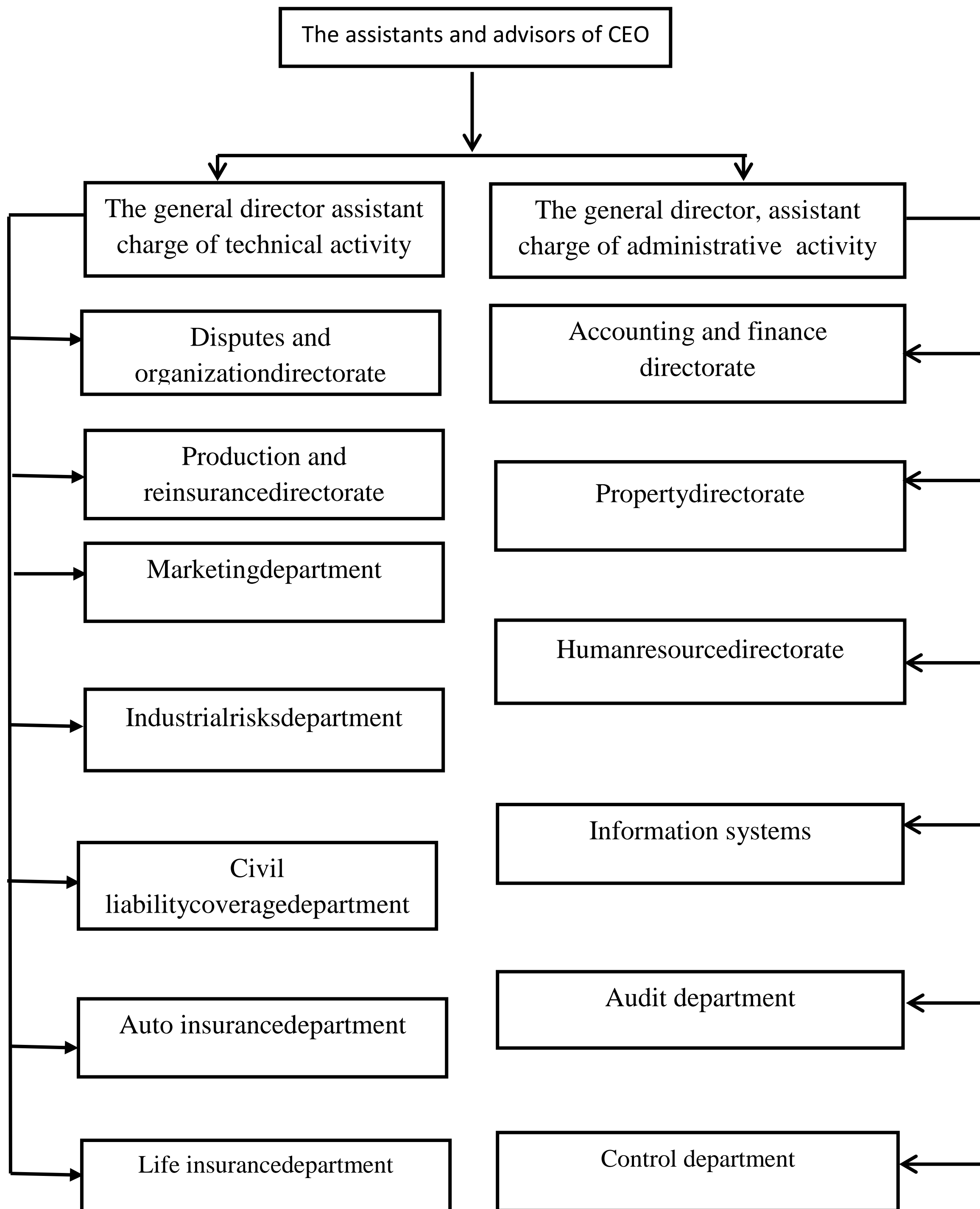
-Regional units: it consist of 15 directorates spread across the national territory ,that is through the provinces: Algiers(Algiers 1,Algiers 2,Algieries 3),Mouzaia, Tizi-ouzou,Relizane, Setif, Batna, Constantine, Annaba, Sidibel abbes, Oran, Telemcen, Ourgla,Bechar.

-Agencies: with 520 agencies (direct agencies, insurance brokers and insurance agents) and bancassurance, it holds 21% of the total distribution network of the sector which is 2448 agencies.

This dense presence makes it possible for the clients to benefit from local service, there are 165 agencies in center region, 104 agencies in west region, 191 agencies in east region and 55 agencies in south region.

The figure below show general organization of SAA:

FigureN°(3-1) : general organization of the SAA

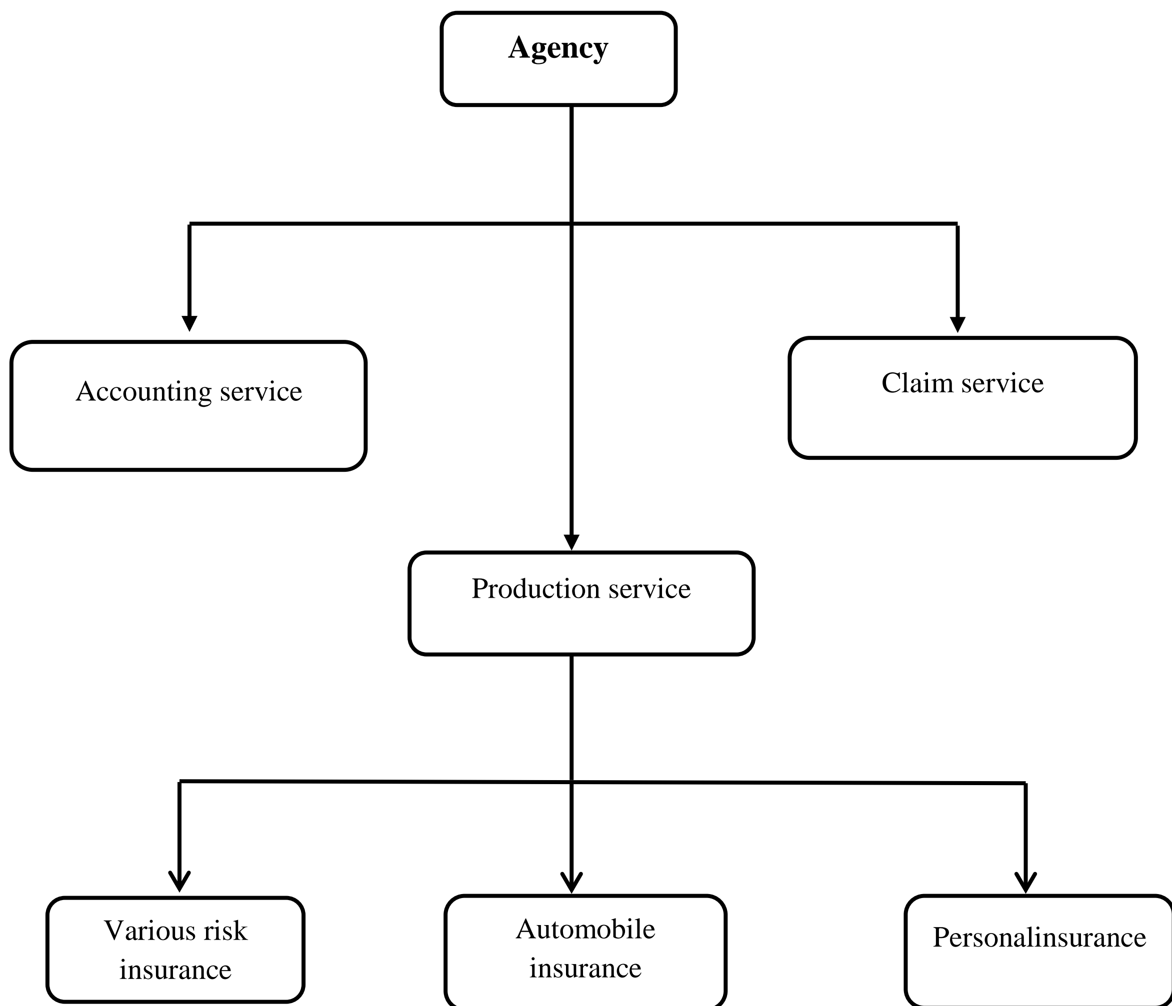


Source:internal documents of the SAA.

1-4-2-Presentation of Bouirainsurance agency:

It opened on 1st July 1988 in frame of the expansion of the SAA sales network.

Figure N°:(3-2) hierarchy structure of the Bouira insurance agency



Source :internal document of the SAA.

-The agency manager: The agency manager's mission is to develop the commercial activity of his point of sale, to animate it, to manage his team in order to achieve the objectives defined by the general directorate of its structure.

-Accounting service: The accounting service in charge of collecting, categorizing, measuring, recording, summarizing, reporting, analyzing and monitoring financial information about the financial condition and performance of the agency.

-Claim service:the claim service sees that the company's insureds are adequately indemnified for their losses. Claim adjusters or representatives are used to inspect a loss, determine whether there is coverage for the loss, estimate indemnification, and pay for the loss.

-Production service:the service inchargeofcreating and distributing insurance products, including including the both damage and personal insurance (auto insurance , housing insurance ,life products , health insurance , credit insurance , retirement ... etc.)

Section 2: case study in the Algerian insurance company SAA

This section will be dedicated to case study, we will try to analyze the strengths, weaknesses, opportunities and threats of the SAA, and to apply the BCG matrix to find out each SBU's strategic position that allow us to recommend strategic orientations.

2-1-SWOT analysis:

2-1-1-Analyze strengths and weaknesses of the SAA:

-Strengths: SAA have many strengths which allow it to take leadership position on the Algerian insurance market, the following strengths are:

- **Marketing:**
  SAA places marketing functions at the heart of its development strategy**:**

✓ **Large distribution:** [1] SAA has the largest distribution network compared to its competitors, a national geographic coverage, SAA has more than 520 agencies:
293 direct agencies;
210 insurance agents;
20 brokers that allow a company to serve a large number of customers on the national territory**.**

✓ **Strong customer base:**[2]SAA has more than 2 million customers, several companies trust SAA like: SONATRACH, ALGERIE TELECOM, ETRHB HADDAD, FILTRANS,ENIE , BATENCO, ENICAB**,** CMA CGM, ,COSIDER, SAPTA , SITRAM, SOCOTHYD, , ADE, SEOR, ENGTP, AGRODIV, BADR , BDL , BNA, CNEP,PROMO INVEST SAHRAOUI.

✓ **Pricing:** SAA adopt competitive pricing.

[1]www.saa.dz, consulted on 20/05/2019 at 7 pm.
[2]Annex N°1

- ✓ **Effective advertising and communication:** [1]SAA designs a variety of advertising campaigns using words, speech, and pictures, in order to make its products known in the market and introduce the new ones to increase sales and fight the competition.

  Thus, SAA use number of means such as billboards, magazine, newspapers, radio, television, and internet by which promotional messages are communicated to the public.

  The company's magazine is "SAA news", the announcements of SAA are strongly present in this magazine, which is issued once a month by the company, it includes the various activities of the SAA through pictures and figures, and introducing its services in prominent pages. The magazines are distributed at the level of agencies where they are available to customers and staff as well.

  Moreover, The SAA create website (www.saa.dz) providing on it information about its creation, its products and services, distribution network, number phone and address of agencies, company's archive…ext.

  In addition to these advertising campaigns, the company offers some gifts to its customers Calendars, memos, pens, wallets, keyboards, all of which carry the company logo;

  The SAA is present every year at various vital economic meetings, fairs and exhibitions, in a convivial space where insurance professionals present their products and services.

  It has meaningful slogan "**the national insurance company…the best choice".**
- ✓ **Good reputation:** the SAA has good reputation through its values; responsibility, leadership, being leader on daily basis in all its actions and compliance with commitment, it's fully aware of its responsibility and economic and social Role.
- ✓ **Launching of new products adapted to market needs:**

  SAA differentiates itself from its competitors by launching , only the SAA who provides :
  - o Home repairs insurance ;
  - o Special Auto insurance for women, [2]
  - o Top repairer insurance, the customers benefit repair of their vehicle by repairers approved by the SAA;
  - o Insurance loss of exploitation, in the case of accident the insureds benefit from this coverage of daily indemnity between 3 and 12 days.
  - o Aqualon insurance.

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[1] SMAIL ABBOUD, insurance agency, **Marketing policy of the SAA,** Bouira agency ,on 09/05/2019 ,(interview)

[2] Annex N°2

- **Production:**
  - ✓ **Diversified business portfolio:** a large range of offers and services provided by SAA: auto insurance, industrial risk insurance, simple risk insurance, agriculture insurance, transportation insurance and life insurance.
  - ✓ **More than 54 years of experience:** SAA is the leader in Algerian insurance industry with turnover of 27 billion dinars in 2017 on market estimated between 130 and 135 billion dinars, or 23% of market share, this denotes its dynamism.[1]
  - ✓ **Process innovation:** [2] theSAA have launched a new system of transaction, is E-payment of insurance premiums , they have made this mechanism of online payment in more than 150 agencies since 2015, and that's to improve the quality of customer service in frame of company modernization .

The launch of new service by acquisition of an automated program allows the sending of short messages to the insureds 15 days before the expiration of their insurance contracts.

- **Personnel:**

SAA has the biggest workforce compared to its competitors ,SAA prioritizes valuing human capital; SAA has the means to implement a human resource policy that is able to attract young talent, encourage the development of its staff and develop human capital.

- ✓ **Recruiting talents:** [3]the SAA offers great opportunities for jobs to young graduates in its quest of development and modernization. It employs a total of 4140 employees, with 40% female operational staff,
  - o Professions of expertise: 1632.
  - o Support function: 2508.

In addition ,it has 25 expertise centers for prevention of risks[4]; the experts play a role of Informing SAA, on all the risks that its potential clients can incur, in order to enable it to take charge of this risk or to reject it, verifying the accuracy of the claims and the veracity of the event and determining the causes and circumstances of the damage, known or presumed to seek the exact origin to estimate the damages caused, and to identify cases of negligence, deficiencies or cases of fraud or false claims.

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[1] www.saa.dz, consulted on 20/05/2019 at 4 pm.
[2] SMAIL ABBOUD, insurance agency, **Innovation at the SAA,** Bouira agency , on 09/05/2019 ,(interview)
[3] Internal document of the SAA.
[4] www.saa.dz, consulted on 20/05/2019 at 6 Pm.

- ✓ **Training:**[1] working on skills development is primordial in the human resource policy of SAA, the SAA accompanies men and women throughout their careers and provides them with the conditions to succeed. SAA invests massively in training, which allows it to adapt to the changes occurring in the working environment;

  In other hand, SAA is a shareholder in several renowned training institutes: IAHEF (Algerian Institute of High Financial Studies) and EHEA (School of High Insurance Studies), it has also 3 training centers in Tizi-ouzou, Batna and Oran, There are more than 500 executives are trained annually.

- ✓ The SAA use a motivating remuneration system (proportional income) that enhances the company's performance.

- **Financial resources:**

  SAA is in good financial health which allows it to achieve its potential goals, SAA is solvent which give it ability to face its commitments, to pay the amounts of compensation immediately, and the payment processes don't lead a company to stop or bankrupt. The SAA owns: [2]

- ✓ Solvency margin of 33 billion DA.
- ✓ Social capital of 30 billion DA.
- ✓ Own funds of 34 billion DA.

- **Research and development:**

  The SAA encourage research and development, they are going to integrate digital technologies in providing insurance contracts, receiving premiums and compensation damages.

-Weaknesses: SAA suffers from these weaknesses:

- The SAA focus on the automobile branch and the amount of claims expenses related to this type of insurance.
- Waiting customers for damage compensation, the company delay the damage compensation to its customers, when SAA's customer is contracted to a compulsory guarantee and an accident occurs with another person who is responsible of the accident, the latter is insured by another company. SAA cannot pay the compensation to its client until the compensation is received from that company.

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[1] Internnal document of the SAA.
[2] Ibid.

- Housing insurance represent only 10%.[1]

2-1-2-analyze opportunities and threats of the SAA:

-Opportunities:

- The insurance companies sign the convention of direct indemnity to insureds (IDA) which allows it to reduce the deadlines of damages compensation, then improving the company's image.
- Partnership of SAA with Algeria Renault[2], allows SAA to offer high service to their customers, by taking in charge the repairs of Renault and Dacia damaged vehicles. Thus, and without any cost to the customer because the repair costs will be paid directly by the insurer to the dealer. These clients will benefit auto repair in Renault body shops, and ensure original spare parts and they also get guaranty of the spare parts and the labor.
- Existence of Algerian Union of Insurance and Reinsurance Companies (UAR) which have advantage of negotiation with state to develop insurance market, and the National Council of Insurance (CNA) for risk prevention .
- National initiative projects in the investment domain (ANSEG) which increase insurance demand (agriculture insurance, material insurance, transportation insurance and insurance for merchants, professionals)
- Evolution of building housing units, which increase demand of multi-risk insurance housing.

-Threats:

- The predominance of automotive activity on Algerian market.
- Rising accident number in recent years, SAA receive more claims, and then it pays higher costs.
- The citizens still have lack of insurance culture.
- The impact of economic crisis on purchasing power, the customers buy only compulsory guarantees instead of comprehensive guarantees.
- Absence of a national network for client files and fight against fraud.

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[1] Activity report of the SAA.
[2] www.saa.dz, consulted on 20/05/2019 at 7Pm.

- Decline of the tariff policy.
- Cultural attitudes not favorable to life insurance (religious considerations).
- Unfair competition of the insurance companies that belong to the same sector.
- Undeveloped insurance credit at citizens.

2-1-3-Strategies recommended according to SWOT analysis:

The SAA should take advantage of its strengths and opportunities, to enhance its weaknesses and face threats, the following points are suggested to SAA:

- SAA have a strong customer base, it's recommended to SAA gives privileges and pricing reductions in order to maintain its customer base and expand it.
- SAA in good financial health, it should enhance its investments in order to increase its profitability and reduce losses resulting from compensations. And invest in the development of the quality of the external appearance and interior decoration of the company and its branches of direct agencies and intermediaries to ensure the interaction between the service provider and the customer to improve its performance.
- SAA is solvent, it's better for it to compensate for damages as soon as possible, especially by making convention of direct indemnity, to enhance the trust of its clients and company's reputation.
- SAA should communicate the clients about its partnership with RENAULT automobile dealer, to let more customer take advantage of the high service offered.
- SAA should also develop its partnership with others automobile-dealerships like PEUGEOT, TOYOTA, KIA …etc. In order to offer high service to more customers who have different automobile brands.
- Improving training programs and training courses through its training centers and institutes to develop the technical skills of employees to absorb technological developments, develop their professional and managerial capabilities, and refine their marketing talents in the following areas: negotiation, persuasion, listening to the clients, responding to complaints and receiving their suggestions, understanding current and future needs of insurance coverage.
- SAA should take the advantage of 54 years of experience, and its capabilities and resources to establish subsidiaries abroad, to get multinational company.

- Contracting with the National Agency for Publication and Advertising (ANEP) by placing banners containing the company's mark on the highways, with the risk of excessive speed and traffic accidents to reduce accidents number.
- Establishing national network for client files between insurance companies to fight against fraud by detecting false and fabricated claims.
- Develop the insurance culture among citizens through its website, magazine and social media.
- The SAA should develop its different strategic business units instead of focusing only on automobile insurance.
- The SAA should give reductions of auto insurance to those who buy building insurance contracts.

2-2- Applying the BCG matrix:

2-2-1-Identifacation SAA's SBUs:

On the Algerian insurance market, we can distinguish the following strategic segments:

automobile insurance, agricultural insurance, simple insurance, transportation insurance, multi-risks insurance ,industrial insurance ,personal insurance, life and health insurance, credit insurance …etc.

For reasons of availability of statistics in global and not detailed way of each product, we'll opt the segmentation of SAA into only four SBUs:

SBU1: auto insurance

SBU2: transportation insurance

SBU4: IARD insurance

SBU3: credit insurance

2-2-2-Creation the BCG matrix:

As we mentioned before, the application of BCG matrix is based on two variables: relative market share and market growth rate.

-**Calculate SAA's relative market share :**the SAA's relative market share means the firm's market share in relation to the largest competitor which is the Algerian company of total insurance (CAAT) so the SAA's relative market share equation can be expressed as:

SAA's SBU relative market share $= \frac{SAA's\ Turnover}{CAAT's\ Turnover}$

Table N°(3-1):The SAA's relative market share in 2017

Branch	The production of SAA (DA)	The production of the CAAT(DA)	Relative market share
Automobile	20 005 000 000	7 553 422 000	2.64
Various risks	5 994 000 000	14 009 685 000	0.42
Transport	405 000 000	1 497 884 000	0.27
Credit	5 000 000	67 449 000	0.07

Source: statistics of the National Insurance Council (NIC) and the SAA's data.

-**Calculate market growth rate on each SBU:**divide the variation (product's turnover of the year -product's turnover of the last year) by the product's turnover of the last year.

-**Market growth rate by segment: 2016-2017:**

Table N° (3-2): Market growth rate between 2016-2017

Segment	The production in 2016(DA)	The production in 2017 (DA)	Variations	Marketgrowth rate variation %
Automobile	65 252 643 781	65 341 571 444	88 927 663	0,13
Various risks	45 689 282 208	42 451 536 499	3 237 745 709	7,6
Transport	6 941 021 068	5 852 474 441	-1 088 546 627	-15 ,68
Crédit	1 422 969 946	2 111 704 794	688 734 848	48,4

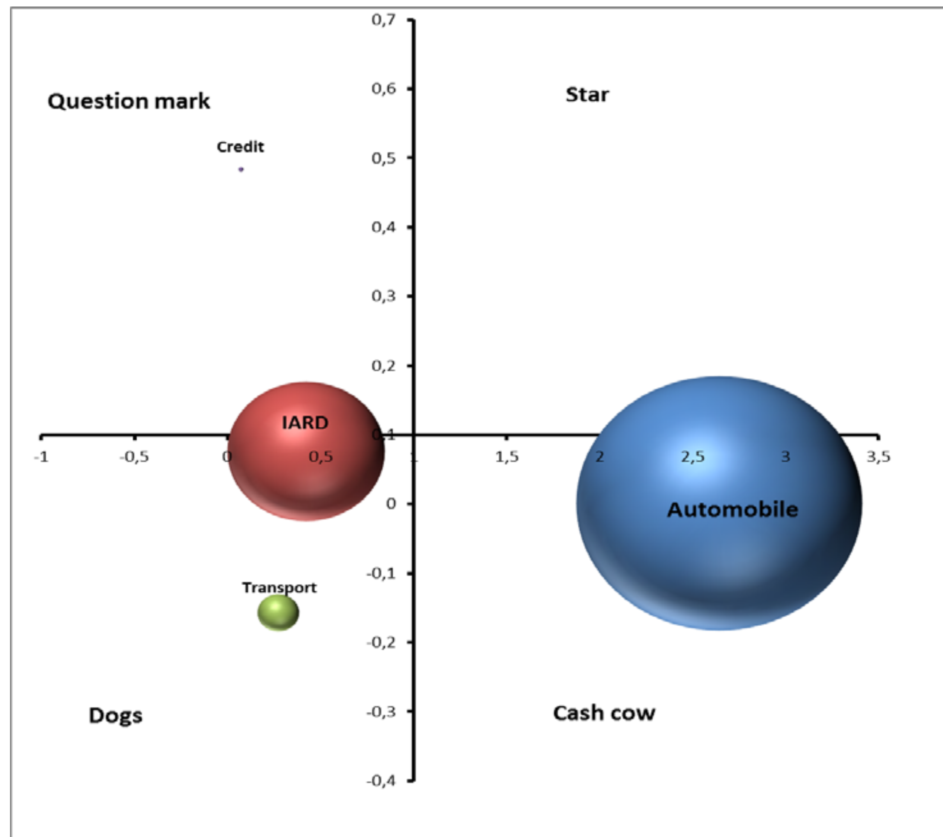
Source:statistics of the National Insurance Council (NIC) of the year 2017.

On the horizontal axis we plot the relative market share. The x-axis is divided into measures on a scale from right to left, from 0% to 100%, the median value being 50%.

On the vertical axis we plot the market growth, is divided into measures from 0% to 20%, the median value being 10%.

The sizes of the circles are corresponding to the proportion of business revenue generated by those SBUs.

Figure N° (3-3):the SAA's SBUs on BCG matrix



Source: made by researcher by using the previous tables

The SAA's Automobile disposes the highest cash and the credit insurance generates the low cash.

The SAA disposes balanced Portfolio consists of:

A cash cow: automobile insurance

A question mark: credit insurance

Two dogs: IARD and transport insurance

-Recommendation strategic orientation to each SBU:

Through the SAA's business portfolio structure, it is suggested to the SAA to:

- Use the surpluses released by the cash cow (car insurance) to develop credit insurance transport insurance.
- Encourage credit insurance.
- Maintain the market share of transport insurance, various risks.

- The SAA should not give up any SBU, nevertheless if we carry out a more detailed analysis of sub business units (insurance products) we could find products to give up among the DAS studied.
- Regarding of the two dogs, it will be necessary to segment them into products to be able to analyze them each independently, it is from this analysis that the SAA will be able to take decisions about which product abandon and trying to introduce technical and commercial innovations to revive these products that are promoters.

Conclusion of the third chapter:

In this chapter, we developed insurance concepts and made case study in the national insurance company SAA.

To let the leaders understand how insurance works, we explained the insurance concepts and we presented the national insurance company SAA in the first section.

In the second section, by using internal data of the company and making interview with the insurance agency's manager "Smail ABBOUD", we arrived to some results, we mention among them:

- The SAA requires large distribution strength and face the danger threats of focusing on insurance activity.
- Partnership of the SAA with RENAULT dealer represents the best opportunity on the insurance market.
- The SAA has business portfolio characterized by cash cow (auto insurance), a question mark (credit insurance) and two dogs (transport and various risks insurance)

According to the obtained results, we suggested strategic orientations that allow the company to improve its performance we mention among them:

- SAA should adopt leadership strategy to maintain and enhance its leader position through developing all its business strategic SBUs.
- The SAA has high capabilities and competencies, it's better for it to think to expand its activity abroad, by creation subsidiaries in France, like the French insurance company AXA has subsidiary in Algeria.

Conclusion

Conclusion:

The strategic analysis of any company is an essential step, the Algerian insurance company today must have a strategic vision and must define its position in the market to allow itself to evolve.

To do this, it is necessary for managers to use modern tools of management, among these tools we find the strategic analysis.

Strategic analysis is the core success of the company, it plays an important role in strategy formulation, it enables the company to select appropriate competitive strategies to changing environment that allow it to maintain or gain one or more competitive advantage that shapes its performance.

The insurance market in Algeria is characterized by oligopolistic competition; it is composed of a small number of companies that know each other (CAAR, CAAT, SAA, CNMA, 2A, TRUST ...), according to this type of the competition of the Algerian insurance market , we applied the SWOT model and BCG matrix on the Algerian insurance company SAA.

During this study, we tried to determine the strategic position of the National Insurance Company (SAA) and therefore to recommend strategic orientations.

After developing and explaining the concepts related to the strategy and those related to the insurance business, we have defined the SBUs on which the SAA operates, and there are eight: automobile insurance, various risks insurance, transport insurance, personal insurance, industrial risk insurance, agricultural risks insurance, credit insurance, engineering and construction insurance,

For reasons of unavailability of information that could have enabled us to take all theSBUs and / or all the products, we have contented ourselves to analyze the fourSBUs (motor insurance, various risks insurance, transport insurance and credit insurance).

Testing hypotheses:

The firs hypothesis is correct, the strategic analysis of the company has positive impact on its performance, it enables the company to adapt to changing environment (technology evolution, new customer needs) ,it also help the company to analyze its functions in order to offer

products with lower cost, so the strategic analysis allow the company to maintain or gain one or more competitive advantage that shape the company’s performance.

The second hypothesis correct too , there are several tools used in strategic analysis of a company, we distinguish environmental analysis tool as SWOT to analyze the internal and external varriables ,Portet’s five forces to study the competition on the market and Porter’s value chain to analyze a company’s functions.

In addition, there are models of portfolio analysis that use to analyze strategic position of each strategic business unit of the company on defined dimensions, such as BCG matrix, ADL matrix and Mckinsey matrix.

The third hypothesis is correct, after conducting analysis in the Algerian insurance company SAA, we noted that the SAA focus on automobile activity.

After we consulted the SAA's documents and make interview with Bouira agency's manager, we have identified the strengths,weaknesses,opportunities and threats of the SAA.

And the second part of this analysis was devoted to the application of the model proposed by the BCG group, after we calculated the relative market share and the market growth rate of the SAA that allowed us to make observations.

Through the analysis, we arrived to some results; we mention among them the following points:

The SAA’s strengths: strong customer base, large distribution and motivated personal;

The SAA’s weaknesses: focusing on car insurance branch;

- The opportunity that SAA have to take advantage of: its partnership with RENAULT dealer.
- The SAA face the danger of increasing accidents number.
- Through the BCG analysis, we found out that the SAA has business portfolio characterized by cash cow (auto insurance), a question mark (credit insurance) and two dogs (transport and various risks insurance).

After the analysis, we have recommended the following appropriate strategies:

- SAA should adopt leadership strategy which consist of:

Conclusion

- ✓ Development all its strategic business units focusing on both damage and personal insurance, and should maintain its market share and strength it in future.
- In terms of generic strategies proposed by M. Porter, it's suggested to SAA to opt for:
- ✓ Intensification of the relationship with the customer and improvement of the quality of service offered.
- ✓ SAA should create its own subsidiaries "bancassurance" in order to develop insurance credit.
- ✓ Expand its partnership with other car dealer,
- ✓ Adaptation to customer needs and improve its service offered.
- ✓ Calculate the performance of human and material resources.
- ✓ Drawing development plans.
- ✓ Improve reception and training.
- ✓ Encourage continually research and development.
- ✓ Satisfy the staff.

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