

Strategic Business Unit

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Semi-autonomous divisions within a corporation, each responsible for its own strategy, operations, and performance in a specific market or product line.



Semi-autonomous divisions

Concept of SBUs

Strategic Business Units (SBUs) are semi-autonomous units within a larger corporation that are responsible for their own strategy, resources, and operations. Each SBU focuses on a specific market or product line and operates independently, although they report to the headquarters. The concept of SBUs allows large organizations to decentralize decision-making, streamline management, and focus on distinct business areas. They operate with a degree of independence, allowing them to manage their own strategy, operations, and resources while aligning with the broader corporate objectives.

Structure and Management of SBUs

1. **Distinct Market or Product Focus:**

- Each SBU targets a specific market or product category, differentiating itself from other units within the corporation.
- Example: A company might have separate SBUs for consumer electronics, home appliances, and healthcare products.

2. **Autonomy:**

- SBUs operate with a significant degree of independence, handling their own strategic planning, marketing, and operations.
- They have their own management teams responsible for their performance.

3. **Resource Management:**

- Each SBU manages its own resources, including budgets, human resources, and R&D.
- This autonomy allows for more precise allocation and use of resources based on the unit's specific needs and goals.

4. **Performance Metrics:**

- SBUs are measured by distinct performance metrics, such as revenue growth, profitability, and market share.
- These metrics help in assessing the effectiveness of each SBU's strategies and operations.

5. **Strategic Alignment:**

- While SBUs operate independently, their strategies must align with the overall corporate vision and objectives.
- The parent company provides overarching goals and guidelines to ensure coherence.

Importance / Benefits of SBUs in Strategic Management

1. **Enhanced Focus and Specialization:**

- SBUs develop deep expertise in their respective areas, leading to better products and services.
- They can focus on specific customer needs and market trends, allowing for more targeted and effective strategies.

2. **Improved Responsiveness:**

- The autonomy of SBUs allows them to respond quickly to changes in the market or competitive landscape.
- This flexibility is crucial in dynamic industries where timely responses can create a competitive advantage.

3. **Increased Accountability:**

- With clear performance metrics, SBUs foster a culture of accountability among managers and employees.
- Successes and failures can be more directly attributed to the actions of the SBU, promoting responsibility and motivation.

4. **Resource Optimization:**

- SBUs can optimize their resources based on specific priorities and strategies, leading to more efficient operations and better resource utilization.

Implementation Considerations:

1. **Organizational Structure:** Defining the boundaries and responsibilities of each SBU is crucial. This includes determining which functions (e.g., marketing, R&D) will be centralized or decentralized.
2. **Alignment with Corporate Strategy:** While SBUs operate independently, their strategies must align with the broader goals and values of the parent company.
3. **Performance Metrics:** Establishing clear, relevant, and measurable performance indicators is essential for monitoring and managing SBUs.
4. **Leadership and Culture:** Effective leadership is key to ensuring that each SBU operates efficiently and aligns with the overall corporate culture.

Examples of Companies with SBUs:

- **General Electric (GE):** Known for its diverse range of businesses, GE operates several SBUs, including GE Aviation, GE Healthcare, and GE Power.
- **Procter & Gamble (P&G):** P&G organizes its operations into SBUs such as Beauty, Grooming, Health Care, Fabric & Home Care, and Baby, Feminine & Family Care.
- **Samsung:** Samsung's SBUs cover various industries, including Consumer Electronics, IT & Mobile Communications, and Device Solutions.

Example: Procter & Gamble (P&G)

Procter & Gamble (P&G) is a prime example of a company that effectively utilizes the SBU structure. P&G operates multiple SBUs, each focusing on a distinct product category.

1. P&G's SBU Structure:

- **Beauty:** This SBU handles products related to skin care, hair care, and personal beauty.
- Manages products related to skin care, hair care, and personal beauty.
- Example Brands: Olay, Pantene
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- **Grooming:** Focuses on products like razors, shaving creams, and other grooming products.
- Focuses on products like razors, shaving creams, and other grooming products.
- Example Brands: Gillette, Venus.
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- **Health Care:** Manages health-related products, including oral care and personal health.
- Manages health-related products, including oral care and personal health.
- Example Brands: Crest, Oral-B.
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- **Fabric & Home Care:** Includes household cleaning products and detergents.
- Includes household cleaning products and detergents.
- Example Brands: Tide, Ariel.
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- **Baby, Feminine & Family Care:** Covers products like diapers, baby wipes, and feminine hygiene products.
- Covers products like diapers, baby wipes, and feminine hygiene products.
- Example Brands: Pampers, Always.
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2. **Autonomy and Management:**

- Each SBU has its own management team responsible for strategy, operations, and performance.
- They operate semi-independently but align with P&G's overall corporate strategy and objectives.

3. **Performance Metrics:**

- P&G evaluates each SBU based on specific performance metrics such as sales growth, market share, and profitability.
- These metrics help P&G identify which SBUs are performing well and which need strategic adjustments.

4. **Strategic Alignment:**

- While SBUs have the autonomy to develop and implement their own strategies, they must align with P&G's overarching mission to improve consumers' lives.
- P&G's corporate headquarters provide strategic direction and support to ensure coherence across all SBUs.

5. **Benefits Realized:**

- The SBU structure has allowed P&G to maintain a diverse portfolio of products, each receiving focused attention.
- This specialization has led to innovations and improvements in product quality and customer satisfaction.
- P&G's ability to quickly adapt to market changes and consumer needs in different product categories has been a significant competitive advantage.

By dividing a large organization into SBUs, companies can achieve a balance between the benefits of scale and the agility of smaller, focused units. This structure allows businesses to navigate complex markets and competitive environments more effectively.

Class Notes

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