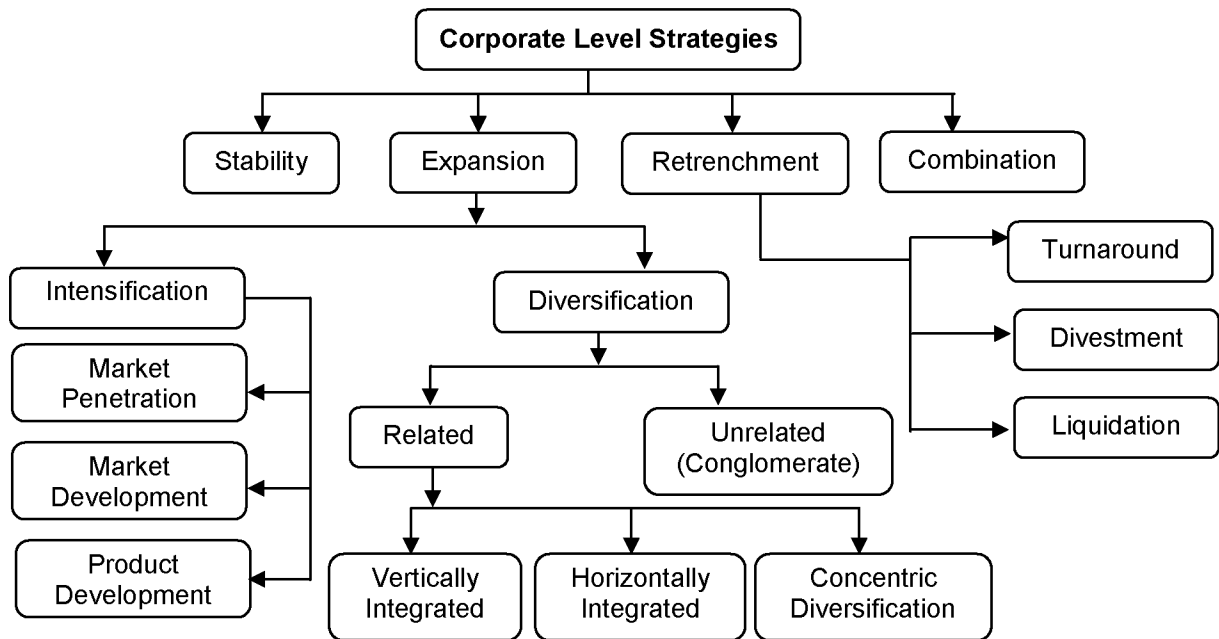


**4. CORPORATE LEVEL STRATEGIES**



**Q.No.1. Explain the concept of typologies of strategies? (B) (NEW SM)**

**INTRODUCTION:**

- a) Businesses follow different types of strategies to enter the market and to stay and grow in the market.
- b) A large number of strategies have been employed by different businesses as suggested by different authors.
- c) William. F. Glueck and Lawrence P. Jauch discussed four generic strategies including stability, growth, retrenchment and combination. These strategies are called Grand Strategies or Directional Strategies.
- d) Michael E. Porter suggested competitive strategies including Cost Leadership, Differentiation, Focus Cost Leadership and Focus Differentiation which could be used by the corporates for their different business units.
- e) We can classify the different types of strategies on the basis of levels of organisation, stages of business life cycle and competition as given in the table given below:

Basis of Classification	Types
Level	Corporate Level, Business Level, Functional Level
Stages of Business Life Cycle	Entry / Introduction Stage - Market Penetration Strategy Growth Stage - Growth/Expansion Strategy Maturity Stage - Stability Strategy Decline Stage - Retrenchment/ Turnaround Strategy
Competition	Competitive Strategies - Cost Leadership, Differentiation, Focus Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance

For e.g. Patanjali Ayurvedic adopted market penetration strategy to be successful. It concentrates on product development and high quality at low cost. It is now at the growth stage and is following competitive strategies. It is competing with both domestic and multinational companies.

**SIMILAR QUESTION:**

1. Businesses follow different types of strategies to enter the market and to stay and grow in the market. What are the different types of strategies followed by a business organisation at different levels?

A. Refer answer above.

**Q.No.2. What are Grand / Directional / Master Strategies? Explain four generic strategies as discussed by Glueck & Jauch? (A) (NEW SM, OLD PM, RTP M14, M07 - 10M)**

According to Glueck and Jauch, the corporate strategies a firm can adopt have been classified into four broad categories: *stability*, *expansion*, *retrenchment* and *combination* known as grand strategies. Grand strategies, which are often called master or directional strategies, are intended to provide basic direction for strategic actions. They are seen as the basis of coordinated and sustained efforts directed towards achieving long-term business objectives.

a) **Stability Strategy**: Through Stability strategy a business enterprise attempts

- i) To safeguard its existing interests and strengths,
- ii) To pursue well established and tested objectives,
- iii) To continue in the chosen business path,
- iv) To maintain operational efficiency on a sustained basis,
- v) To consolidate the commanding position already reached, and
- vi) To optimise returns on the resources committed in the business.

b) **Expansion Strategy**:

- i) It is implemented by redefining the business by increasing the scope of business and substantially increasing the efforts of the current business.
- ii) It is often characterized by significant reformulation of goals and directions, major initiatives and moves involving investments, entry into new products, new technology and new markets, innovative decisions and action programmes and so on.
- iii) It includes diversifying, acquiring and merging businesses.

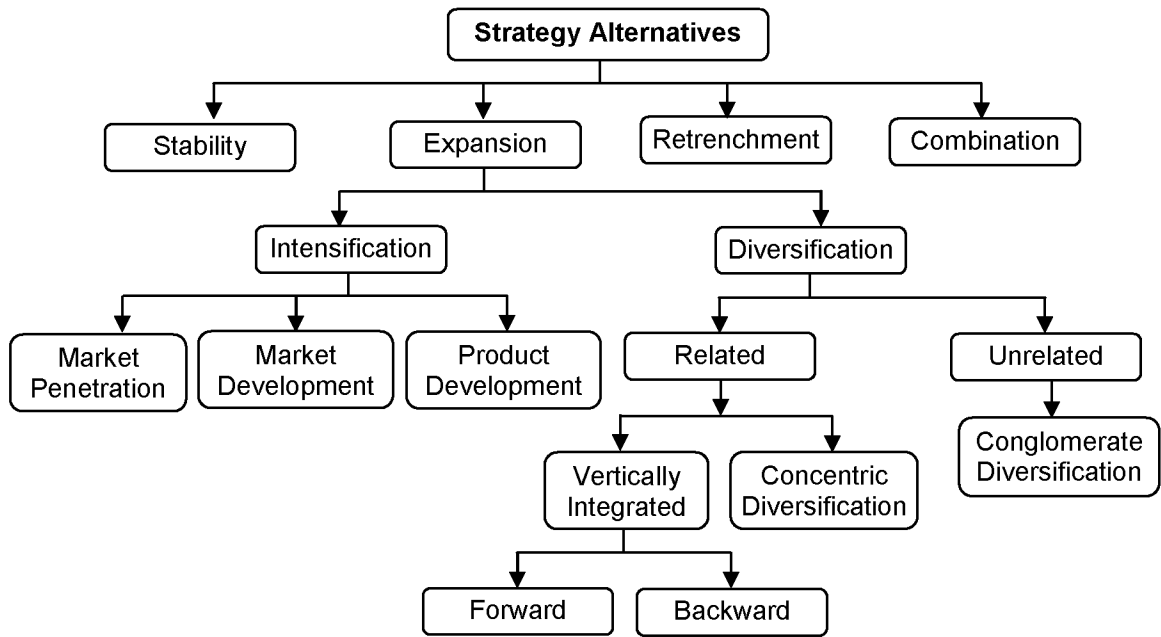
c) **Retrenchment Strategy**:

- i) A business organisation can redefine its business by divesting a major product line or market.
- ii) Retrenchment or retreat strategy becomes necessary to cope up with some hostile and adverse situations in the environment and when any other strategy is going to be suicidal.
- iii) This strategy is intended to save the enterprise's vital interests, to minimise the adverse environmental effects, or even to regroup the existing resources before a fresh assault and ascent on the growth ladder is launched.

d) **Combination Strategy**:

- i) Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations.
- ii) An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others.
- iii) For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

**GRAND STRATEGIES / MASTER STRATEGIES / CORPORATE STRATEGIES / DIRECTIONAL STRATEGIES**



<b>Strategy</b>	<b>Basic Feature</b>
<b>Stability</b>	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
<b>Expansion</b>	Here, the firm seeks significant growth - may be within the current businesses; may be by entering new businesses that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
<b>Retrenchment</b>	The firm retrenches some of the activities in some business(s), or drops the business as such through sell-out or liquidation.
<b>Combination</b>	The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of the firm.

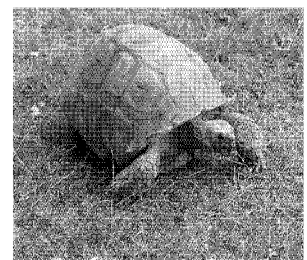
**SIMILAR QUESTIONS:**

- What do you understand by “Strategy? Explain the four generic strategies as discussed by Glueck and Jauch. (M07 - 10M)
  - Refer the meaning of strategy as given in 1<sup>st</sup> chapter + write the above answer.
- Explain the meaning of directional strategies?
  - Refer introduction in above answer.

**STABILITY STRATEGY**

**Q.No.3. Write short notes on Stability Strategy (B) (NEW SM)**

- MEANING:** Through Stability strategy a business enterprise attempts
  - To safeguard its existing interests and strengths,
  - To pursue well established and tested objectives,
  - To continue in the chosen business path,
  - To maintain operational efficiency on a sustained basis,
  - To consolidate the commanding position already reached, and
  - To optimise returns on the resources committed in the business.



*Stability means growing at a constant rate in business.*

**2. WHEN IT IS PURSUED BY A FIRM?**

- a) When a firm prefers to continue to serve in the same or similar markets and deals in same products and services.
- b) The strategic decisions focus on incremental improvement of functional performance.

**3. NATURE OF STABILITY STRATEGY:**

- a) Few functional changes are made in the products or markets.
- b) It is not a 'do- nothing' strategy.
- c) *It involves keeping track of new developments to ensure that the strategy continues to make sense.*

**SIMILAR QUESTION:**

1. **Businesses need to consolidate their existing positions in the markets for planning future growth. Write down the meaning, importance and nature of the stability strategy.**

A. Refer the above answer.

**Q.No.4. What are the Characteristics of Stability Strategy? (B)**

**(NEW SM)**

**Characteristics of Stability Strategy:**

- a) A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
- b) The Endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources.
- c) Stability strategy does not involve a redefinition of the business of the corporation.
- d) It is basically a safety-oriented, status quo oriented strategy.
- e) It does not warrant much of fresh investments.
- f) It involves minor improvements in the product and its packaging.
- g) The risk is also less.
- h) With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses/products and markets.
- i) The growth objective of firms employing this strategy is quite modest. Conversely, only firms with modest growth objective choose for this strategy.

**SIMILAR QUESTION:**

1. **Quite often, the concept of stability strategy is misunderstood and some think that it is a do-nothing strategy. Clearly list out the characteristics of stability strategy.**

A. Refer the above answer.

**Q.No.5. What are the reasons for adopting the stability strategy? (B)**

**(NEW SM)**

- a) The company's product has reached the maturity stage of the product life cycle.
- b) It is less risky as it involves less changes and the staff feels comfortable with things as they are.
- c) The environment faced is relatively stable.
- d) Expansion may be perceived as being threatening.
- e) Consolidation is sought through stabilizing after a period of rapid expansion.

**SIMILAR QUESTION:**

1. **Why Stability strategy has to be adopted?**

A. Same as above

## EXPANSION STRATEGY

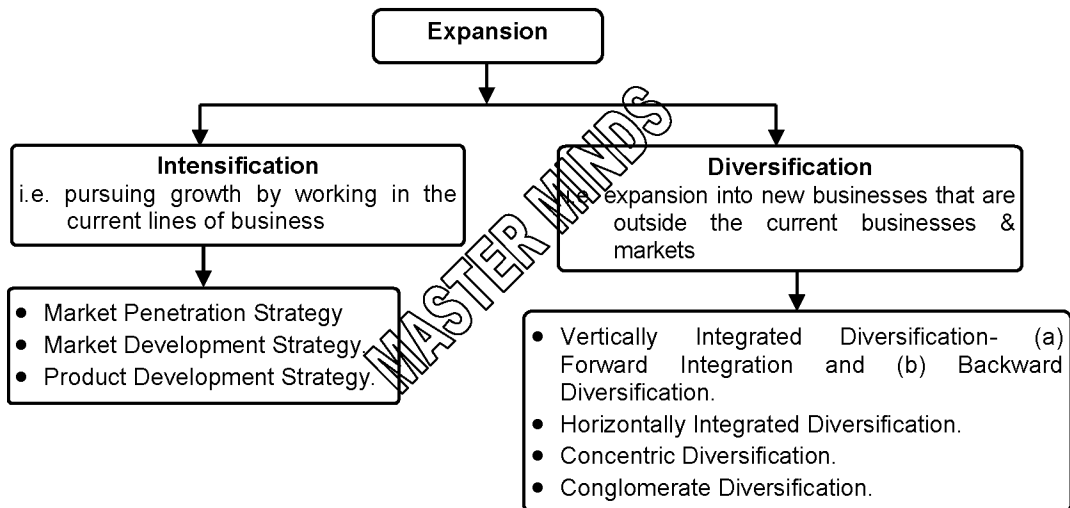
**Q.No.6. What is Growth/Expansion strategy? (B)**

**(NEW SM)**

- a) Growth/Expansion strategy is implemented by redefining the business by enlarging the scope of business and substantially increasing investment in the business.
- b) It is a popular strategy that tends to be equated with dynamism, vigour (enthusiasm), promise and success.
- c) It is often characterized by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and entry into new products, new technology and new markets, innovative decisions and action programmes and so on.
- d) Expansion also includes diversifying, acquiring and merging businesses.
- e) This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.



*Expansion strategy leads to high growth rate.*



### SIMILAR QUESTION:

1. Generally organisations are growth oriented hence they should look out for the growth opportunities and formulate strategies for growth. Write a short note on growth/ expansion strategy.
- A. Refer the above answer.

**Q.No.7. Characteristics of Growth/Expansion Strategy. (B)**

**(NEW SM)**

- a) Expansion strategy involves a redefinition of the business of the corporation.
- b) Expansion strategy is the opposite of stability strategy. While in stability strategy, rewards are limited; in expansion strategy they are very high. In the matter of risks, too, the two are the opposites of each other.
- c) Expansion strategy leads to business growth. A firm with high growth ambition can meet its objective only through the expansion strategy.
- d) The process of renewal of the firm through fresh investments and new businesses/products/markets is facilitated only by expansion strategy.

- e) Expansion strategy is a highly versatile strategy; it offers several permutations and combinations for growth. Expansion strategy holds within its fold two major strategy routes: Intensification Diversification.

**SIMILAR QUESTION:**

1. **Expansion strategy involves various organizational changes and sometimes takes many routes. In this context write about the characteristics of the expansion strategy?**

A. Refer the above answer.

**Q.No.8. Reasons for adopting Expansion Strategy? (C)**

**(NEW SM)**

1. It may become imperative when environment demands increase in pace of activity.
2. Strategists may feel more satisfied with the prospects of growth from expansion since organisations are perceived to be growth-oriented.
3. Increasing size may lead to more control over the market vis-à-vis competitors.
4. May gain advantages from experience curve and scale of operations.

**SIMILAR QUESTIONS:**

1. **Why an organisation has to adopt Expansion Strategy?**

A. Same as above.

2. **“Strike the rod when it is hot”. It applies to business context also. When the time is ripe, business organisations should go for expansion.** Hence write down the reasons for adopting the expansion strategy.

A. Refer the above answer.

**Q.No.9. Explain the concept of expansion through intensification? (B)**

**(NEW SM)**

1. **Market Penetration:** Highly common expansion strategy is market penetration/ concentration on the current business. The firm directs its resources to the profitable growth of its existing product in the existing market.
2. **Market Development:** It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.
3. **Product Development:** Product development involves substantial modification of existing products or creations of new but related items that can be marketed to current customers through establish channels.

**Q.No.10. Explain the concept of Expansion through Diversification and state reasons why it is adopted? (A)**

**(NEW SM)**

1. **DIVERSIFICATION:**

- a) Diversification refers to the entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.
- b) Technology of the product and the market are different from the firm's present experience.

2. **WHY IS IT ADOPTED?**

- a) **Right strategy for innovative firms:** Innovative and creative firms look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship. Diversification offers greater prospects of growth and profitability, for such “active” firms.

- b) **To ensure excess capacity utilization:** Firms which have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, etc. can utilise them in a more effective and efficient manner.
- c) **To Achieve Synergy Benefit:** Sales and profits of existing products can be improved by adding suitably related or new products, because of linkages in technology and/or in markets.



*Reliance is an innovative & creative firm which is always on look out for opportunities & challenges to grow & ventures into new businesses on a regular basis.*

### SIMILAR QUESTION:

1. **Diversification offers new opportunities and challenges for the firms to grow and expand in the dynamic marketplace and there are several reasons for the firms to choose diversification strategy. In this context, define diversification and list out the reasons for the adoption of diversification strategy.**

A. Refer the above answer.

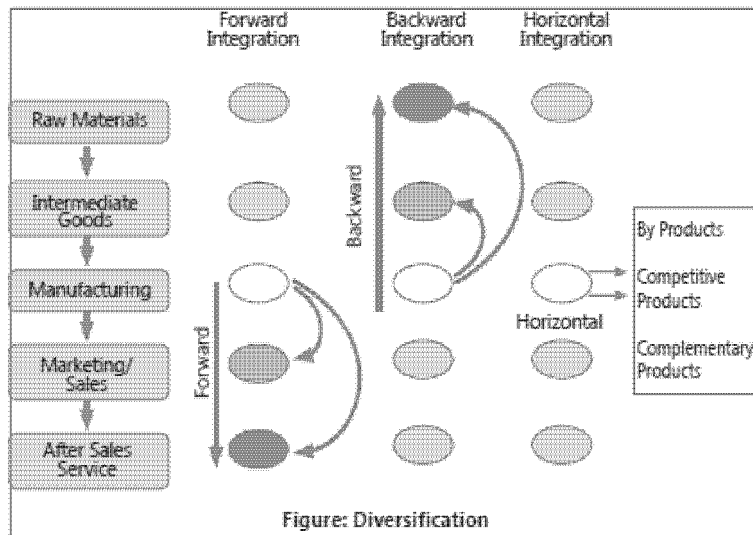
**Q.No.11. Write about Vertical and Horizontal Integration Diversification Strategies (A)  
(NEW SM, N12 - 3M, RTP N14)**

### VERTICALLY INTEGRATED DIVERSIFICATION STRATEGY:

1. **Comes under Related Diversification:** In Vertically Integrated Diversification, the firm engages in businesses that are related to its existing business. The firm remains vertically within the same product-process chain.
2. **Types:** The firm moves forward or backward in the chain, and enters specific product / process steps with the intention of making them into new business for the Firm. The intermediaries in the chain become new businesses.
- a) **Backward integration** involves entering into business of input providers for effective supply. It is employed to expand profits and gain greater control over production of a product by starting/ acquiring a business that will increase firm's own supply capability or lessen its cost of production.
- b) **Forward integration** is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels.

### HORIZONTALLY INTEGRATED DIVERSIFICATION STRATEGY:

1. This involves adding/acquisition of one or more similar businesses at the same stage of the production - marketing chain.
2. **This can be achieved by:**
- Taking over Competitor's Products,
  - Production of Complementary Products,
  - Sale of By-Products,
  - Entering into Repairs and Servicing of products.



**SIMILAR QUESTIONS:**

1. What is diversification? Distinguish between vertically integrated diversification and horizontally integrated diversification. (RTP N14)
- A. Refer meaning in the previous question + refer the above answer.
2. Differentiate clearly between forward and backward integration. (J09 - 2M)
- A. Refer Fast Track Material.
3. What are forward and backward integration? (M07 - 2M)
- A. Refer the above answer
4. What is backward integration? (N14 - 1M)
- A. Refer the above answer.

**Q.No.12. What are the Reasons for Adopting Related and Unrelated Diversification Strategies? (B) (NEW SM)**

PURPOSES / REASONS FOR

1. Related Diversification	2. Unrelated Diversification
<p>a) To exchange or share assets or competencies, by exploiting-</p> <ul style="list-style-type: none"> <li>• Brand Name,</li> <li>• Marketing Skills,</li> <li>• Sales and Distribution Capacity,</li> <li>• Manufacturing Skills,</li> <li>• R&amp;D, and</li> <li>• New Product Capacity,</li> </ul> <p>b) To achieve economies of scale.</p>	<ul style="list-style-type: none"> <li>• To invest in new product lines.</li> <li>• To introduce new technologies.</li> <li>• To focus on multiple products.</li> <li>• To reduce risk by operating in multiple products and markets.</li> <li>• To defend against takeover bids.</li> <li>• To satisfy the executive/ top management's interest.</li> </ul>

**SIMILAR QUESTION:**

1. A firm XYZ is thinking to diversify its business portfolio and it is facing a dilemma either to opt for related diversification or unrelated diversification. Being a strategic consultant, provide the list of reasons for related and unrelated diversification to make them understand and come out of the dilemma.
- A. Refer the above answer.



**Q.No.13. Write short notes on “Concentric Diversification” and “Conglomerate Diversification Strategies”. (A)**  
(NEW SM, OLD PM, RTP N11, M07 - 2M, N11 - 3M)

**CONCENTRIC DIVERSIFICATION:**

- a) Concentric diversification also comes under related diversification.
- b) In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off (=derivative) from the existing facilities and products/processes.
- c) Even in concentric diversification, there are will be synergy benefits with the current operations.
- d) Concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones.
- e) In vertically integrated diversification, the new product falls within the firm’s current process-product chain. But in concentric diversification, the new product is connected in a loop-like manner at one or more points in the firm’s existing process/technology/product chain.

**CONGLOMERATE DIVERSIFICATION:**

- a) When an organization adopts a strategy which requires taking up activities which are unrelated to the existing businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification.
- b) Conglomerate diversification has no common thread at all with the firm’s present position. It is a totally unrelated diversification.
- c) For example, the businesses of Godrej are diversified into furniture, soaps, oils, insecticides and so on.

**SIMILAR QUESTIONS:**

1. **What is meant by concentric diversification?** (OLD PM)
  - A. Refer above concentric diversification point
2. **Explain conglomerate diversification.** (OLD PM)
  - A. Refer above conglomerate diversification point.
3. **An established firm introduces a new product which has no affinity with its present product line and is meant for new customers. Identify and explain the diversification followed by the firm.**
  - A. When an established firm introduces a new product which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm’s existing customer groups, the process is known as conglomerate diversification. + write about conglomerate diversification as given above.
4. **Distinguish between concentric diversification and conglomerate diversification.**
  - A. Refer Fast Track Material. (N11 - 3M, N13 - 4M)
5. **Vastrapal Ltd., was started as a textile company to manufacture cloth. Currently, they are in the manufacturing of silk cloth. The top management desires to expand the business in the cloth manufacturing. To expand they decided to purchase more machines to manufacture cotton cloth. Identify and explain the strategy opted by the top management of Vastrapal Ltd.** (RTP N18)
  - A. Vastrapal Ltd. is currently manufacturing silk cloth and its top management has decided to expand its business by manufacturing cotton cloth. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Vastrapal Ltd. has opted is concentric in nature. They were in business of manufacturing silk and now they will manufacture

cotton as well. They will be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification. + write the meaning of Concentric Diversification as given in the above answer.



*Wipro (started in 1945) was initially a vegetable oil manufacturing company, producing Sunflower Vanaspati oil & Soaps. During 1970's & 1980's, the company shifted its focus and began to look into business opportunities in IT and Computing Industry, which is entirely an unrelated diversification.*

**Q.No.14. Explain the concept of Expansion through Mergers and Acquisitions? (A)**  
(NEW SM, OLD PM, RTP- M12, M17, N14 - 3M)

**1. Introduction:**

- In order to achieve quick growth, many organizations use strategies such as mergers and acquisitions.
- It is an instant means of achieving the expansion. It is an attractive method, as it saves the time, risks and skills involved in analysing internal growth opportunities, seizing them and building up the necessary resource base required to achieve growth.
- This also helps in deploying surplus funds.

**2. Meaning:** In simple words, Mergers and acquisitions are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact is completely different in both the cases.

**a) MERGER:**

- It is considered to be a process when two or more organizations join together to expand their business operations.
- In a merger, two organisations combine to increase their strength and financial gains along with breaking the trade barriers.
- In this case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity.
- Some organisations prefer to grow through mergers.

**b) ACQUISITION:**

- When one organization takes over the other organization and controls all its business operations, it is known as acquisition.
- In this process of acquisition, one financially strong organization takes over the weaker one.
- Acquisitions often happens during recession in economy or during declining profit margins.
- In this process, financially stronger and bigger organisation establishes its power. The combined operations then run under the name of the powerful entity.



*Lakshmi Nivas Mittal built a big steel empire through his acquisition / takeover Strategy.*

**3. Purpose of adopting this strategy:**

- To meet the basic business urge to grow.
- To achieve synergy benefit, which results from integrated physical facilities, technical and managerial skills, distribution channels, general administration, R&D, etc.

**SIMILAR QUESTIONS:**

1. Write short note on expansion through acquisitions and mergers. (OLD PM)

A. Refer the above answer, no need to write 3<sup>rd</sup> point.

2. What do you understand by merger and acquisitions?

A. Refer 1<sup>st</sup> & 3<sup>rd</sup> points in the above answer.

3. Many organizations in order to achieve quick growth use strategies such as mergers and acquisitions. Explain. Discuss various types of mergers.

A. Refer 1<sup>st</sup> & 2<sup>nd</sup> points in the above answer + write types of mergers as given in the next question.

**Q.No.15. Discuss how mergers and acquisitions are used for business growth. What are the various types of mergers? (A) (NEW SM, OLD PM, RTP N14, M17 - 3M)**

Many organizations in order to achieve quick growth, use strategies such as mergers and acquisitions. This also helps in deploying surplus funds.

**TYPES OF MERGERS:**

- Horizontal Merger:** Horizontal mergers are combinations of firms engaged in the same industry. It is a merger with a direct competitor. For example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.
- Vertical Merger:** It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels.
- Co - generic merger:** In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. For example, an organization manufacturing refrigerators can diversify by merging with another organization having business in kitchen appliances.
- Conglomerate merger:** Conglomerate mergers are the combination of organizations that are unrelated to each other. There will be no common factors between the organizations in production, marketing, research and development and technology.

**SIMILAR QUESTION:**

1. Write short note on conglomerate merger?

(M15 - 3M, MTP M18)

A. Refer conglomerate merger point in above question.

**Q.No.16. What is expansion through Strategic Alliance? State its advantages and disadvantages? (A) (NEW SM, RTP - M18, N18- 2M)**

**Meaning:**

- A Strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own.
- The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.
- Strategic alliances are often formed in the global market place between businesses that are based in different regions of the world.

**Advantages:**

- Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Having a well-known and respected strategic partner helps to add legitimacy and creditability to a new venture.
- Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.

3. **Strategic:** Rivals can join together to cooperate instead of compete. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills.
4. **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically-influential partners may also help improve your own influence and position.

#### Disadvantages:

1. **Sharing:** Strategic alliances require sharing of resources and profits, and also sharing knowledge and skills that otherwise organisations may not like to share. Sharing knowledge and skills can be problematic if they involve trade secrets.
2. Strategic alliances may also create a potential competitor. An ally may become a competitor in future when it decides to separate out.

#### SIMILAR QUESTIONS:

1. **Strategic alliances are formed if they provide an advantage to all the parties in the alliance. Do you agree? Explain in brief the advantages of a strategic alliance? (RTP - M18)**
  - A. Refer the above answer.
2. **List the advantages of Strategic Alliances (N18- 2M)**
  - A. Refer advantages in the above answer.
3. **Strategic alliances, offer avenues for the organizations to learn and gain competitive advantage in the marketplace and provides a win-win situation to all the parties involved. In this context, write about strategic alliances and its pros and cons.**
  - A. Refer the above answer.

### RETRENCHMENT STRATEGY

Q.No.17. Write about Retrenchment Strategy. (A) (NEW SM, OLD PM, M08 - 2M)

#### MEANING:

- a) Retrenchment strategy involves substantial reduction in the scope of organisation' s activity.
- b) Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal or hopeless.
- c) The nature, extent and timing of retrenchment are carefully decided by the management, depending upon each situation.
- d) *Retrenchment Strategy constitutes re-definition of the business of the Firm.*



*Retrenchment means a reduction in the size / scope of the firm's business.*

#### WAYS OF RETRENCHMENT:

- a) Cutting back on capital and revenue expenditure, e.g. R & D projects, advertising, executives perks, etc.
- b) Reduction in inventory levels, production volumes, manpower, and dividend rates, etc.
- c) Withdrawal of some products / product versions, winding up some branch offices, etc.
- d) Disposal / Sale of manufacturing facilities and product divisions,
- e) Retirement either from the production or the marketing stage.
- f) Offering itself for take-over by another more viable enterprise.
- g) Seeking liquidation or winding up (corporate death).

**TYPES:** Retrenchment may be done either - (a) Internally (i.e. Turnaround) or (b) Externally (i.e. Divestment or Liquidation).

**SIMILAR QUESTIONS:**

1. **What is meant by retrenchment strategy?** (OLD PM, M08 - 2M)
  - A. Refer meaning in the above answer.
2. **To retrench is not bad when things are moving beyond your control in business or your business is not in good shape. Write about retrenchment strategy.**
  - A. Refer the above answer.

**Q.No.18. What are the Reasons for Adopting Retrenchment Strategy? (B) (NEW SM)**

**RETRENCHMENT STRATEGY IS ADOPTED IN ANY OF THE FOLLOWING SITUATIONS:**

1. Management no longer wishes to remain in business either partly or wholly due to continuous losses and unavailability.
2. Unmanageable threats from the environment, due to intense competition, reduced margins, etc.
3. To ensure stability by reallocation of resources from unprofitable to profitable businesses.
4. Obsolescence of product/ process.
5. Industry overcapacity.
6. Failure of strategy.

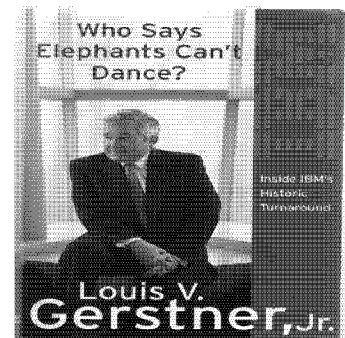
**SIMILAR QUESTION:**

1. **Why Retrenchment Strategy has to be adopted?**
  - A. Same as above.

**Q.No.19. Write about Turnaround Strategy (A) (NEW SM, OLD PM, RTP M14, M08 - 5M, M10 - 2M)**

1. **MEANING:**

- a) Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.
- b) Turnaround is needed when an enterprise's performance deteriorates so much that it needs a radical change of direction in strategy, in structure and culture as well.
- c) The overall goal of turnaround strategy is to return an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow.
- d) It is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level.



*Louie Gerstner, the former CEO of IBM successfully turned around IBM from losses to profits in the early 1990's.*

2. **INDICATORS / DANGER SIGNS:** There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are:

- a) Persistent Negative Cash Flows
- b) Declining Market share value,
- c) Deterioration in Physical Facilities,
- d) Over manning, High Turnover of Employees & Low Morale,
- e) Uncompetitive products or services, and
- f) Mismanagement.

**3. ELEMENTS THAT CONTRIBUTE TURNAROUND ARE / PROCEDURE:**

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Changes in the Top Management,</li> <li>• Initial Credibility-building actions,</li> <li>• Neutralizing external pressures,</li> <li>• Identifying Quick-payoff Activities,</li> </ul> | <ul style="list-style-type: none"> <li>• Quick Cost Reduction</li> <li>• Revenue generation</li> <li>• Asset Liquidation for generating cash,</li> <li>• Better internal coordination</li> </ul> |
|---|--|

**SIMILAR QUESTIONS:**

- Write short notes on reasons to adopt Turnaround Strategies.** (N16 - 3M)  
A. Refer 2<sup>nd</sup> point in above answer
- Contraction and consolidation are basic to turnaround strategy. Discuss.**  
A. Refer meaning in the above answer.
- What is the need for Turnaround Strategy?** (OLD PM, M10 - 2M)  
A. Refer meaning in the above answer.
- Explain why some organizations adopt turnaround strategy?**  
A. Refer 'meaning' in the above answer.
- Why Turnaround Strategy is required for a business?** (MTP2 N18 - 4M)  
A. Refer 1<sup>st</sup> point in the above answer.

**Q.No.20. Write about suitable action plan for Turnaround? (A)**

**(NEW SM)**

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for turnaround would involve the following stages:

**Stage One - Assessment of current problems:** The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused.

**Stage Two - Analyze the situation and develop a strategic plan:** Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan.

**Stage Three - Implementing an emergency action plan:** If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, etc.

**Stage Four - Restructuring the business:** The financial state of the organization's core business is particularly important. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

**Stage Five - Returning to normal:** In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

**SIMILAR QUESTION:**

- Arena Ltd. manufactures computers that are of low in production cost, competitive price, and quality to their competitor's product. Profits and market share are declining day by day. Shreekanth, a senior executive realizes that drastic strategies have to be created for the survival of a company. After SWOT analysis by assessing the strengths and weaknesses, they come up with the conclusion that they cannot compete in the computers with the competitors. The management directs Shreekanth to act quick and develop a suitable strategic plan. Discuss the strategy which can be opted by Shreekanth.** (MTP M18)  
A. Shreekanth opt for turnaround strategy which is a highly-targeted effort to return Arena Ltd. to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. Once turnaround is successful the organization may turn to focus on growth. + write 2<sup>nd</sup> point in the answer of Q.no.19 & and list out the stages in the answer of Q.no. 20 (no need to explain them).

**Q.No.21. Write about divestment strategy. (A) (NEW SM, OLD PM, RTP M17, N18, N12 - 3M)**

1. **Meaning:**

- Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU.
- Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.
- Sometimes the option of a turnaround may even be ignored if divestment is the only answer.

2. **WHY DIVESTMENT STRATEGY?** Divestment Strategy may be adopted due to any of the following reasons:

- When a turnaround has been attempted but has proved to be unsuccessful.
- When the acquired business proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the
- Severity of competition and the inability of a firm to cope with it may cause it to divest.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- A better alternative may be available for investment.

**SIMILAR QUESTIONS:**

1. **What is Divestment Strategy? When is it adopted?**

(RTP N18)

A. Same as above.

2. **Sometimes divestment from a business is advisable for several reasons. In this context write about divestment strategy and also the reasons for the adoption of divestment strategy.**

A. Refer the above answer.

**Q.No.22. Write short notes on liquidation strategy? (A) (NEW SM, RTP M14, M17)**

**MEANING:**

- Liquidation strategy involves closing down a firm and selling of all of its assets and paying of its liabilities.
- It is considered the most extreme and unattractive retrenchment strategy.
- It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma(=shame/dishonor) of failure.
- Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India.
- The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask for liquidation.*



- f) Selling assets for implementing a liquidation strategy is also difficult as it is difficult to find buyers. Moreover, the firm cannot expect adequate compensation.
- g) Liquidation strategy may be unpleasant as a strategic alternative but when a “dead business is worth more than alive”, then it is a good option. *For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.*
- h) When liquidation is evident, an abandonment plan is desirable. Planned liquidation will reap the maximum benefits for the firm and its shareholders.

**SIMILAR QUESTIONS:**

- Liquidation is the last resort option for a business organization. Explain. (RTP M14)**
  - Same as above.
- “A dead business is worth more than alive” is a good proposition if the situations are very worst and any other strategy proves to be suicidal. In this context write about liquidation strategy.**
  - Refer above answer.

**COMBINATION STRATEGY****Q.No.23. Meaning of Combination Strategy & Reasons for adopting it. (A) (NEW SM, OLD PM)****1. MEANING:**

- Combination Strategies refer to a mix of different strategies like stability; expansion, diversification or retrenchment to suit particular situations that an enterprise is facing.
- Stability, Expansion and Retrenchment alternatives are not mutually exclusive. Hence, a combination thereof can be adopted. An enterprise may seek stability in R&D area of activity, expansion in some product lines and retrenchment in the less profitable products. Retrenchment of ailing products followed by stability and capped by expansion in some situations is also possible.

**2. REASONS: Some reasons for adopting Combination Strategy are**

- The organisation is large and faces complex environment.
- The organisation is composed of different businesses, each of which lies in a different industry requiring a different response.

**SIMILAR QUESTIONS:**

- Explain the meaning of Combination Strategies?**
  - Refer 1<sup>st</sup> point in the above answer.
- When the organisation is large and facing complex environment, following a single strategy across the organisation is not possible due to the requirement of different responses in different industries where the organisation’s businesses operate. In this context write about combination strategy.**
  - Refer above answer.

**APPLICATION ORIENTED QUESTIONS****Q.No.24. What are the various bases on which an existing firm can diversify strategically? (B) (NEW SM, OLD PM)**

Diversification can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification plans have been classified into four broad categories as follows:

- Vertically integrated diversification
- Horizontally integrated diversification



- c) Concentric diversification
- d) Conglomerate diversification

**Q.No.25. What are Acquisitions? Discuss with examples of two companies? (B) (OLD PM)**

1. **Meaning:** Refer Theory questions discussed above.
2. **Reasons:** Refer Theory questions discussed above.
3. **Examples:**
  - a) Tata's acquisition of Anglo Dutch steelmaker Corus
  - b) Tata's acquisition of British Jaguar Land Rover
  - c) Mittal Steel's takeover of Arcelor
  - d) HPCL's acquisition of Kenya Petroleum Refinery Ltd.
  - e) HINDALCO's acquisition Canada based Novelis.

**Q.No.26. Which Grand strategy alternative is followed during recession? (C)  
(OLD PM, RTP M12, M10 - 2M)**

1. Stability strategy is advisable option for the organisations facing recession.
2. During recession, businesses face reduced demand for their products even at low prices. Funds become scarce, expenditure on expansion is stopped, profits decline and businesses try to minimise the costs. They work hard to maintain the existing market share, so that company survives the recessionary period.

**Q.No.27. Explain the meaning of the following strategies and also give suitable examples: (i) Forward integration (ii) Backward integration (iii) Horizontal integration (iv) Conglomerate diversification (v) Divestment (vi) Liquidation (vii) Concentric diversification. (C)  
(OLD PM, N10 - 7M)**

Strategy	Meaning	Example
<b>Forward Integration</b>	Gaining ownership or increased control over the next level the value chain Manufacturing or intermediaries)	Reliance Industries (owning refineries) diversified into petrol pumps.
<b>Backward Integration</b>	Gaining ownership or increased control over the previous level in the value chain (Manufacturing or suppliers)	An automobile manufactures diversifying into tyre production.
<b>Horizontal Integration</b>	Seeking ownership or increased control of a firm's competitors	ICICI Bank taking over Bank of Rajasthan
<b>Conglomerate Diversification</b>	Adding new, unrelated products or services	Yash Birla Group (auto & engineering) decides to enter wellness, solar power and schools.
<b>Divestment</b>	Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.	Godrej Group's withdrawal from the JV with Sara Lee from Africa
<b>Liquidation</b>	Liquidation strategy is an extreme strategy as it involves closing down a firm and selling its assets. It is considered as the last resort when all other options fail.	Those companies whose products are no more in demand sell all their assets.
<b>Concentric Diversification</b>	In concentric diversification, the new business are added that are linked to	Kotak Mahindra Bank gets into insurance and asset management

the existing businesses through process, technology or marketing.	businesses.
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**Q.No.28. What is meant by backward integration? Name any two backward integration strategies that hospitals may pursue. (B) (OLD PM)**

1. **Meaning:** Refer Theory questions discussed above.
2. In case of hospitals there can be number of businesses that can be entered. Following are indicative list of backward integration strategies that hospitals may pursue:
  - a) Drugs and pharmaceuticals- specific drugs can be manufactured or traded.
  - b) Business of gases required in hospitals- oxygen
  - c) Pathology labs/ diagnostic services. This can be created in- house if not available already. Alternatively, a chain can be started.
  - d) Blood banks
  - e) Ambulance services.

**Q.No.29. A bakery starts producing pastries and other similar products. What type of diversification strategy if being followed by it and why? (B) (OLD PM, N15 - 3M)**

1. A bakery normally is a small organization that produces and sells flour-based food baked in an oven. Typically, a bakery produces breads, cakes, cookies, pastries, pies, etc.
2. A bakery which is not producing pastries earlier, starts producing them and other similar products. It is said to be following concentric diversification which is basically related diversification.
3. In this form of diversification, the new business is linked to the existing businesses through existing systems such as processes, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. The most common reasons for pursuing a concentric diversification are that opportunities in existing line of business are available.

**Q.No.30. Identify with reasons the type of growth strategies followed in the following cases.**

- i) A leading producer of confectionary products advertising the new uses of its product 'Chokoo Mix' aggressively.
- ii) A company in publishing industry deciding to revise college text books.
- iii) A renowned company in textile industry starting to manufacture PFY and PSF, critical raw materials for textiles.
- iv) A business giant in auto manufacturing enters into edible oils, hotels, financial services and dairy businesses. (B) (N 15 - 4M, OLD PM)

- i) The organisation has adopted market penetration strategy (intensification) through advertising the new uses of its product 'chokoo mix' aggressively. Here the organisation seeks significant growth - within the current business by selling existing products in the existing markets without changing the product in a major way.
- ii) The company has adopted product development strategy (intensification) by deciding to revise college text books. The company is already in publishing industry and must be having appropriate competencies in dealer network and acceptance amongst the student community. Revising the college text books (new product) would enable it to expand in the college text books segment (existing market).
- iii) The company has adopted backward integration strategy (vertically integrated diversification) by starting to manufacture PFY and PSF, critical raw materials for textiles. This strategy, apart from overall growth of the organisation, ensures uninterrupted supply of critical raw materials for the present business of the firm. It will also enable the organization to retain the margins in dealing with the raw materials which otherwise would have gone to its suppliers.

- iv) The business giant in auto manufacturing has adopted conglomerate diversification strategy by entering into edible oils, hotels, financial services and dairy businesses. In conglomerate diversification a business enters into new businesses that may have little or no linkages with existing business. The organisation has mammoth growth ambition.

**Q.No.31. The management of a sick company manufacturing various electrical home appliances seeks your advice for an appropriate retrenchment strategy. What will be your advice and why? (B) (OLD PM, RTP M17, M15 - 7M)**

1. **INTRODUCTION:** A sick company has huge accumulated losses that have eroded its net worth. The electric home appliance company may analyse its various products to take decisions on their individual viability. Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. The nature, extent and timing of retrenchment are matters carefully decided by management, depending upon each contingency.
2. **MEANING OF RETRENCHMENT:** Refer Theory questions discussed above.
3. **REASONS:** Refer Theory questions discussed above.
4. **TYPES OF RETRENCHMENT:** Retrenchment strategy is of the following types:
  - a) **Turnaround strategy:** Refer Theory questions discussed above.
  - b) **Divestment Strategy:** Refer Theory questions discussed above.
  - c) **Liquidation Strategy:** Refer Theory questions discussed above.
5. **SELECTION OF AN APPROPRIATE RETRENCHMENT STRATEGY:** The management of a Sick company manufacturing various electrical home appliances be explained about the each of the above three options of retrenchment strategy with their pros and cons. But the appropriate advice with respect to a particular option of retrenchment strategy will depend on the specific circumstances of each electrical home appliances and management goals of the company.

**Q.No.32. Swift Insurance is a company engaged in the business of providing medical insurance maintaining a market share of 25 to 30 per cent in last five years. Recently, the company decided to enter into the business of auto insurance by having foreign collaboration. Identify the strategy being followed by the Swift Insurance with its advantages. (A) (RTP M18)**

1. Overall Swift Insurance is following growth or expansion strategy as it is redefining the business and enlarging its scope. The step will also substantially increase investment in the business. The new business is related and at the same time caters to a different segment and accordingly can be termed as related diversification. The new business falls within the scope of general insurance and horizontally related to the existing business.
2. In the process of expansion, the company will be able to exploit:
  - Its brand name.
  - The marketing skills available.
  - The existing sales and distribution infrastructure.
  - Research and development.
  - Economies of scale

**Q.No.33. Shoaib and Salem, two brothers are the owners of a cloth manufacturing unit located in Lucknow. They are doing well and have substantial surplus funds available within the business. Shoaib is interested in acquiring another industrial unit located in Lucknow manufacturing tableware such as dinner sets, cups and saucers, bowls. etc. On the other hand, Salem desires to start another unit to produce readymade garments. Discuss the nature of corporate strategies being suggested by two brothers. Which one is better? (A) (MTP M18)**

1. Shoab wishes to diversify in a business that is not related to their existing line of product and can be termed as conglomerate diversification. He is interested in acquiring another industrial unit located in Lucknow manufacturing tableware such as dinner sets, cups and saucers, bowls, which is not related to their existing product. Write the meaning of Conglomerate Diversification as given in the answer of Q.no.13.
2. On the other hand, Salem seeks to move forward in the chain of existing product by adopting vertically integrated diversification. The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business. + write the meaning of Vertically Integrated Diversification as given in the answer of Q.no.11.
3. Both types of diversifications have their own benefits. While vertically integrated diversification brings synergy a conglomerate diversification helps in diversifying the risk. It is possible that a downturn in one business is offset by upswing in other business. In the vertically integrated diversification firms can take advantage of their existing competence that in turn will improve chances of success.

**Q.No.34. Atrix Ltd. is a company engaged in the designing, manufacturing, and marketing of mechanical instruments like speed meters, oil pressure gauges, and so on. Their products are fitted into two and four wheelers. During the last couple of years, the company has been observing a fall in the market share. This is on account of shift to the new range of electronic instruments. The customers are switching away mechanical instruments that have been the backbone of Atrix Ltd. As a CEO of Atrix Ltd., what can be the strategic options available with you? (MTP1 N18)**

Atrix is having a product portfolio that is evidently in the decline stage. The product is being replaced with the technologically superior product. Strategically the company should minimize their dependence on the existing products and identify other avenues for the survival and growth. As a CEO of Atrix Ltd., following can be the strategic options available with the CEO:

- Invest in new product development and switch over to the new technology. Atrix Ltd. also need time to invest in emerging new technology.
- They can acquire or takeover a competitor provided they have or are able to generate enough financial resources.
- They may also consider unrelated growth and identify other areas for expansion. This will enable Atrix Ltd. to spread their risks.
- In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

### TEST YOUR KNOWLEDGE

1. Why did a majority of Indian firms follow stability strategy prior to liberalization?
2. Explain the backward integrated diversification strategy pursued by Reliance in its various businesses.
3. Explain both forward and backward integrated diversification strategies from the point of view of a CA educational Institution
4. Rama Naidu, a leading Film Producer in Telugu film industry owns studios, produces, distributes and exhibits movies. Identify the strategy being adopted by him?
5. What could be the reasons behind ITC'S diversification from its cigarettes business to many unrelated business like hotels, paperboards, FMCGS, apparel etc.
6. A news paper company acquires a distribution truck company. What type of diversification strategy is this?
7. A luggage firm acquires another luggage company. What type of strategy is this?
8. List out the various potential areas/fields which a CA educational institution can diversify into?

9. Had you been the Managing Director of Subhiksha Retailing, what mistakes would you have avoided in managing the company successfully?

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**THE END**

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