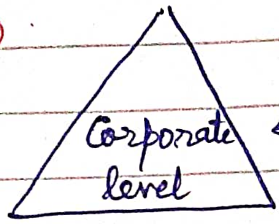
Chapter 4
Strategic Choice.

Concept builder ①



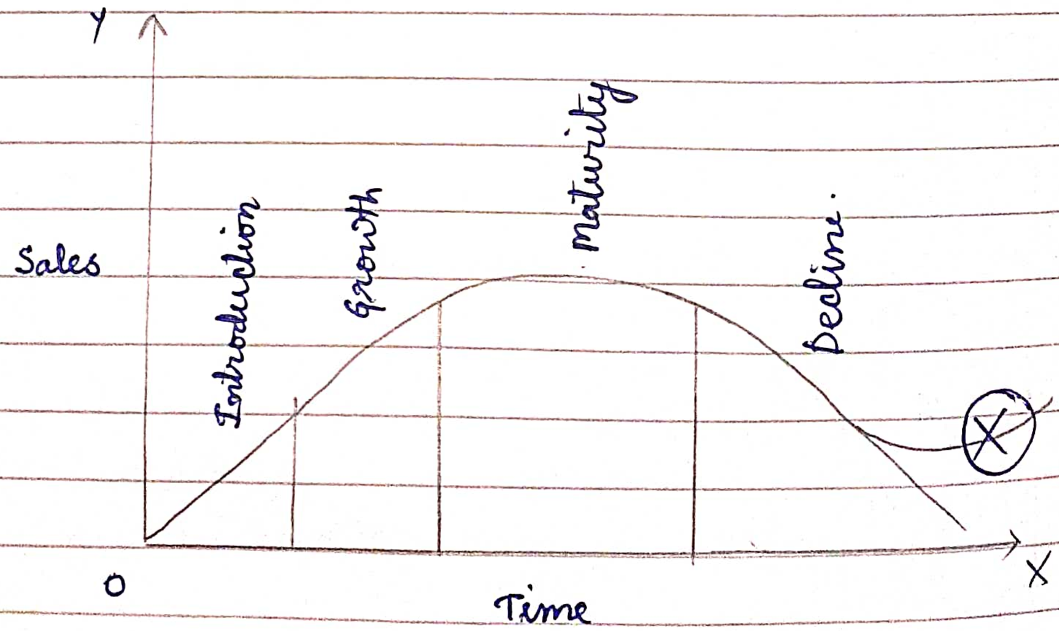
Top level management

Top management of the organisation makes strategic decisions.

Concept builder ②.

Product lifecycle / Business lifecycle

Stages of Product lifecycle (Business lifecycle)
1) Introduction stage (Market Penetration strategy)
2) Growth stage (Growth / Expansion strategy)
3) Maturity stage (stability strategy)
4) Decline stage (Retrenchment strategy)



Product lifecycle (PLC)

① meaning ② stages ③ Significance

① Meaning of PLC

a) ~~PLC~~ PLC is useful framing strategic decisions
b) PLC is S - shaped curve.
c) It tells relationship of sales with respect of time for a product.

② Stages of PLC

Stage 1 - The first stage of PLC is the introduction stage
- It has slow sales growth in which the competition is almost ~~neglegiable~~ negligible
- ~~Price~~ In this phase, prices are relatively high
- Growth in sales is at a lower rate because of lack of awareness on the part of customers.

Stage 2 - The second stage of PLC is growth stage
- In the growth stage the demand expands ~~reo~~ rapidly
- Prices of product falls
- Competition increase in this phase.
- Market expands because the customer has a knowledge about the product and they show interest in purchasing it.

Stage 3 - The 3rd stage of PLC is maturity stage
- In this stage the competition gets tough and market gets stablize.
- Profits comes down because of stiff competition.
- At this stage organisation have to work for maintaining stability because there is slowdown in growth rate.

Stage ~~8~~ 4 - The 4th stage of PLC is <u>Decline stage</u>

- There is sharp downward drift in ~~the~~ sales
- The sales ~~in~~ and profit will fall sharply due to some new product replaces the existing product

③ Significance of PLC

① The main advantage is that, it can be use to ~~daignose~~ diagnose a portfolio of product / Businessess in order to establish the stage at which each of them exist.

② Depending on diagnose apporpriate <u>strategic choice</u> can be made. and company can gain competitive advantage.

Concept Building ③

Different type of strategy (classification)

- Based on level of organisation
  - Corporate level
  - Business level
  - Functional level
- Based on lifecycle
  - ① Introduction stage
    - Market penetration strategy
  - ② Growth stage
    - Growth & expansion strategy
  - ③ ~~Market~~ maturity stage
    - stability strategy
  - ④ Decline stage
    - Retrenchment strategy
- Competition oriented strategy
  - Competitive strategy
    - Cost leadership
    - Differentiation strategy
    - Focus
  - Collabration strategy
    - Merger & Acquisition
    - Strategic Alliance
    - Joint Venture

Introduction of strategic choice

① There are various types of strategies available for an organisation to adopt. we can classify these strategies on different basis

② Michael Porter suggested three strategies
1) cost leadership
2) Differentiation
3) Focus

③ William F Glueck and Lawrence R Jauch discussed ④ generic strategies / Corporate level strategy / Grand strategy / Directional strategy including-
1) Stability
2) Expansion (Growth)
3) Retrenchment
4) Combination

④ In this chapter, we will be discussing corporate level strategies that is- strategic choice available to corporate level manager.

Q Classify Corporate strategy

~~strategies~~ Corporate strategies in 4 ~~strategies~~ categories
1) stability
2) Expansion (Growth)
3) Retrenchment
4) Combination.

1) Stability - The firm stay with current busines and current market.
- Maintain the existing level of effort.
- Organisation is satisfy with incremental growth.

2) Expansion (Growth) - Here, the firm seeks (attempt) significant growth (mam (mamoth) within the current business, or maybe by entering in new business.

- By entering in new business that may be related to existing business or ~~unrealed~~ unrelated to existing business.

3) Retrenchment - The firm retrenches some of the activities in some business(es).

- Drops the business as such through sell out or liquidation.

4) Combination - The firm combines the above strategies in some permutations and combination so as to suit the specific requirement of the firm.

$C = S + R + E$

S - Stability
R - Retrenchment
E - Expansion

- Reliance
  - Oil (S)
  - Jio (E)
  - Dunzo (R)

Concept builder (4)

Flows chart of corporate strategy

Corporate strategy
- Stability
- Growth / Expansion
  - Internal
    - Intensification
    - Diversification
  - External
    - Merger & Acquisition
    - Strategic Alliance
- Retrenchment
  - Internal
    - Turnround
  - External
    - Divestment
    - Liquidation
- Combination

Stability strategy

Stability
→ Meaning
→ Characteristic + Reason

① Meaning & Characteristics

S → Same business, same product, same market, same level of efforts
T → Tarakki Jyada Nahi hogi = Incremental growth ↓ - Modest growth (limited)
A → Able to concentrate on existing business.
B → Better to use of resources leading to core competence.
I → Investment → Fresh investment ↓
L → Low risk
I → Increase in functional efficiency
T → Tension Kam hogi (safety oriented).
Y → Why? - (Reason) - Because of below mentioned reasons:-
a) Product at maturity stage
b) Staff comfortable
c) Environment is stable
d) Expansion may be threanting ~~threatning~~. threatening
e) Rapaid expansion just finished (Consolidate expansion)

Q Whether startup should follow stability strategy?

It is wrong statement

Important for exams

Stability strategy is "Do nothing" Strategy? NO stability strategy means do not do new. since organisation has to remain updated and have to face with dynamic business environment to perserve market share

"Expansion strategy is opposition of stability strategy"

Expansion / Growth strategy

- ① Meaning
- ② Characteristic + Reason
- ③ Types

① Meaning & characteristics

a) High Risk
b) fresh Investment ↑
c) Tension ↑ (not safety oriented).
d) Significant growth (mamoth)
e) Redefinition of business.
f) Not able to concentrate on existing business.
g) Overall efficiency increase.
h) Better use of resources.

② Reasons (Why expansion?)

- Great control over market
- Advantage of economic ~~skill~~ scale ~~expercise~~ (Experience curve benefit)
- Chief executives pride in preceding over growth oriented organisation.
- Environment is in pace of activity.

③ Types of Expansion / Growth strategy

- Internal
  - Intensification
  - Diversification
- External
  - Meger & Expanision
  - strategic Alliance

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Retrenchment strategy

- ① Meaning ~~& characteristic~~
- ② Reasons
- ③ Types.

① Meaning ~~& characteristic~~ / Reasons.

- It involes retrenchment of -
  - a) some of activities
  - b) Division or SBUs (strategic Business Units)
  - c) Complete liquidation

- The management no longer wishes to remain in business
- The mangement feels that business could be ~~made~~ made Viable by ~~disvestment.~~ divesting.
- A business that had been acquired proves to be a mismatch.
- Persistent negative cash flows.
- Technological upgradation is required.
- A better alternative may be available for investment.
- ~~A~~ Severity of competition

② Characteristics

- ~~Absolence~~ Obsolescence of product.
- Business becoming unprofitable.
- High competition
- Industry over capacity (Supply > Demand)
- Failure of strategy

③ Types of Retrenchment strategy

- Internal
  - Turnaround strategy
- External
  - Divestment strategy
  - Liquidation strategy.

⇒ Expansion strategy. (Detail analysis).

Expansion strategy
- Internal
  - Intensification
  - Diversification
- External
  - Merger & acquisition
  - strategic Alliance

a) Internal Growth strategies

I) Intensification (Expansion through Intensification)

An internal growth strategy involves re-defining of business definition by substantially scaling the level of operations through internal development and not taking help of other corporations or business.

Strategies for intensification
- Market Penetration (Same Product, Same Market + Advertisement)
- Market Development (SP, New M)
- ~~Mart~~ Product Development (NP, SM)

(i) Market Penetration
- To sale existing product in existing market
- It is achieved by making more sales to present customers without changing products in a major way
- It may require spending on advertising or personal selling.

Example : Gucci, a luxury clothing brand, selling its product (luxury cloth in Europlan market with new design).

(ii) Market Development
- To sale existing products into new market. ~~it or~~
- It may be achieved through new geographical market, new distribution channels (offline → online business),

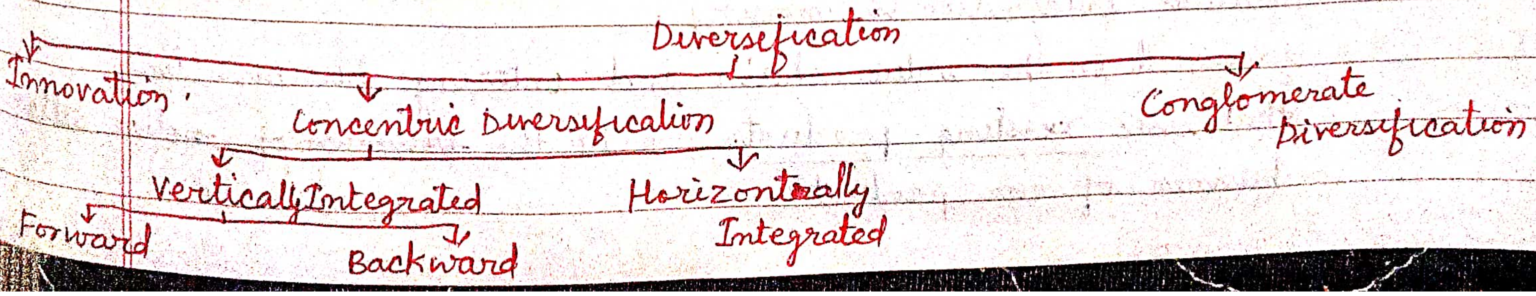
- creating new market segment.
  Example - Gucci, a luxury clothing brand, selling its luxury clothing in chinese market

(III) ~~DA~~ Product Development
- To ~~ond~~ introduce new product in existing market
- This strategy may require development of new competence and to modify the products which can appeal to existing market.
  Example - Gucci, a luxury clothing brand, selling casual ~~causal~~ clothing in European market.

II) Diversification (Expansion through Diversification)
- To sale new product in new market
- It includes starting up or acquiring products outside the ~~compre~~ Companies current ~~portfolio.~~ portfolio.
- This is most ~~riskle~~ risky one.
  Example - Gucci - casual clothing in chinese market.
- Diversification means entering into new product or product line, new market which may involve different skills, technology or knowledge.

For some firms, diversification is a means of utilising there existing facilities / capabilities in more effective and efficiency.

Diversification can classified into two broad categories
1) Concentric Diversification (related business)
2) Conglomerate Diversification (unrelated business)



I) Concentric Diversification

- It takes place when the products are related.
- In this, the new business is link to the existing business through PPM (Process, Technology & Market).
- The new product is only ~~converted~~ connected in loop-like manner at one or more manner.

Concentric Diverfication is generally understood in 2 direction

① Vertically Integrated

② Horizontally Integrated.

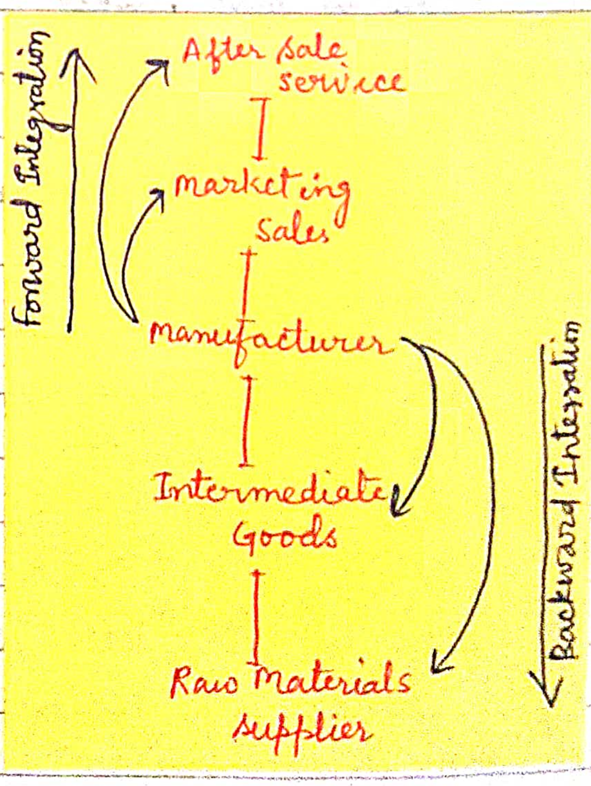
Concentric Diverpification

Vertically Integrated | Horizontally Integrated

① Vertically Integrated Diversification

- Firm opt to engage in businesses that are related to the existing businessess of the firm.

- The firm remain vertically within the same process sequence (move foward or backward) in chain.



Forward Integration

- Forward Integration is moving forward in the value chain and entering business line that uses existing products. (In the ~~business of~~ ~~seller~~ seller business of our product).

- Forward integration will also take place where organisation enter into distribution channel.

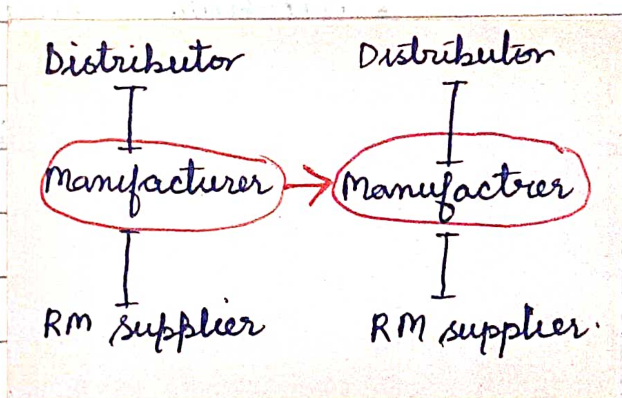
Backward Integration

- Backward Integration is concerned with creation of diff effective supply by entering business input providers.

- strategy employed ~~through~~ to expand, profit and gain over production/ supply of a product. whereby a company will purchase/ build a business that will increase own supply capability or lessen its cost of production.

② Horizontally Integrated Diversification

- A firm gets horizontally diversified by acquisition of one or more similar business operating at the same stage of the chain.



- They can also integrate with the firms producing or manufacturing complementary products, by products or taking over competitor's products.

II) Conglomerate ~~Diverfi~~ Diversification

- In conglomerate, no linkage related to PTM (Product, Market, Technology)
- The new business, products are disjoint from existing
- It is totally unrelated diversification
- Conglomerate diversification has no common thread at all with the firm's present position.

III) <u>Innovation</u> (3 marks).

- Innovation does ~~expwo~~ upgradation of existing product line or process processess, leading to increase market share, revenues, profitability, customer ~~fa~~ satisfaction.

- Innovation offers following :-
  a) Productivity increase P
  b) Competitive Advantage C
  c) Solve Complex Problems. S

a) ~~P~~ Increase Productivity - Innovation leads to simplification and automation of existing task which increase productivity.

b) Gives competitive advantage - A faster a business ~~innol~~ innovates, the farther it goes from its competitor's reach. Innovative product provides added satisfaction to consumers, thus we can say innovation helps in achieving Competitive advantage.

c) Helps to solve complex problems - business strives to find opportunities in existing problems of the society and it does so though innovation.

concentric

Q Benefit of related diversification

① Economical of Sale
② Brand name
③ Marketing skills
④ Manufacturing skills
⑤ R&D and ~~capacity of~~ new product capabilities.
⑥ Sales and distribution capacity

Q Benefit of unrelated diversification → conglomerate.

① Investment in new product portfolios
② Employment of new technologies
③ Focus on multiple products
④ Redeuce risk by operating in multiple product markets.
⑤ Defend against takeover bids
⑥ Provide executive interest.

* Only acquisition word ⇒ Diversification
& merger & acquisition words ⇒ Merger & Acquisition

b) External Growth strategies

External

Merger & Acquisition शादी

Strategic Alliance Living Relationship

① Merger & Acquisition

Meaning

Types of merger (only)

Meaning of Merger & Acquisition
- Merger & acquisition in simple words are defined as a process of combining two or more organisations together.

Merger –
- Merger is a process when two or more companies comes together to expand their business operations.
- Mergers gets finalize on friendly term and both the organisation shares profit in newly created entity.

Acquisition –
- When one organisation takes over other organisation and controls all its business operations it is known as acquisition.
- The acquisition gets finalize ~~g~~ on friendly terms.
- An acquisition one financially strong organisation overpowers the weaker one.
- Acquisition often happens during recession in economy or during declining profits margin.

Takeover -

- When a deal in case of acquisition, finalise on unfriendly manner it is called takeover.
- It is more or less a forced association where the powerful organization ~~as~~ consumes the operation of the company i.e that is in a weaker position.
- Into such acquisition, ~~weaker~~ company in weaker position is forced to sell its entity.

Types of merger (Page 480 - 481)

- Horizontal merger
- Vertical merger
- co-generic merger
- Conglomerate merger.

Types of merges are similar to diversification.

a) Horizontal Merger - ① Horizontal merger is a combination of firms enaged in the same industry ② It is a merger with a direct competitor.

b) Vertical Merger

① It is a merger of two organisation that are operating in the same industry but at different stages of production or distribution stage ② This often leads to increased synergies with merging firom

Backward integration -

If an organisation takeover over its supplier / procedures of raw material, then it is a Backward integration.

Forward integration -

It happens when an organisation decides to take over its buyer organisations or distribution channels.

ⓒ Co-generic Meger

- In co-generic meger two or more merging organizations are associated in some way or other related to the production processes, business markets, or basic required technologies.

Eg- an organisation in the white goods category such as refrigerator can diversify by merging with another orgainsation having busines in kitchen appliances.

d) Conglomerate Merger

A conglomerate merger is the combination of firm's operating in different industries.

Conglomerate merger are the combination of organizalion that are unrelated to each other.

Eg- cement co. acqured IP Co.

② Strategic Alliance

Strategic Alliance

meaning | Advantages | Disadvantages

Meaning

- Strategic Alliance is a relationship between two or more businesses that ~~are~~ enables each to achieve certain objectives which ~~another~~ neither would be able to achieve on its own.

- The strategic partners maintain their status as independent and separate entities, share the benefit and continue to make contribution to alliance, until ~~is~~ it is terminated.

Memory Technique

Advantage ← ESOP SC → Disadvantage

of Resources = MMMT

Advantage and Disadvantage

⇒ Advantage

① E - Economic ~~Advantge~~ Advantage

- Greater economic of scale can be obtain in alliance, as production, volumn can be increase, causing cost per unit to decline.
- Parters can take advantage of co-specialization, creating additional value.

② S - Strategic Advantage

- Rivals can join together to cooperate instead of competing with each other.
- Strategic Alliance may also be useful to create competitive advantage by pooling of resources and skills

③ O - Organisational Advantage

- Strategic Alliance helps to learn necessary skills and obtain certain capabilities from strategic partner.
- Having a strategic parter who is well-known will add creditability to the ~~new~~ venture.

④ P - Political Advantage

- Forming strategic alliance with politically influential parters may also help to improve your own position.

⇒ Disadvantage

① S - Sharing

- Strategic Alliance required sharing of resources and profits and also sharing of knowledge and skills that otherwise organisation may not like share

② C - Competition

- strategic Alliance may also create potential compition when an ally becomes an opponent in future, when decide to separate out.

→ Retrenchment strategy (Detail analysis).

Retrenchment strategy

- Meaning
- Types.

Retrenchment strategy

- Internal
  - Turnaround
- External
  - Divestment
  - Liquidation (not in course)

Meaning

① strategic exists are followed when an organisation wants to reduce the scope of its activities.

② If the organisation choose to focus ~~in~~ on ways and means to reverse the process of decline, it adopt turnaround strategy

③ If it cuts-off the loss making unit, division, SBU's, curtails its production line, it ~~ap~~ adopt ~~diver~~ divestment strategy

④ If none of these work then it may choose to abandon it totally i.e liquidation strategy

Turnaround:

Turnaround

① Meaning | ② Indicator | ③ Action Plan | ④ Elements

② Indicator: [When Turnaround is required]

③ Action Plan: [How to do turnaround]

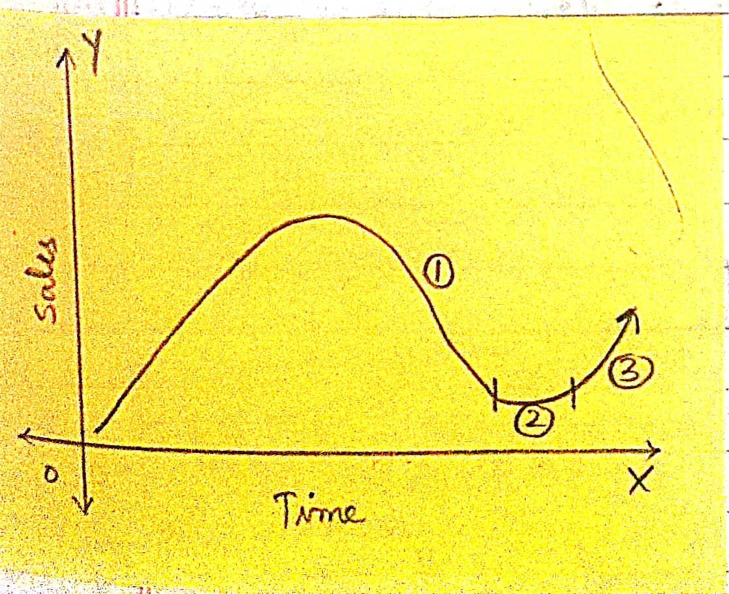
① **Meaning**

Retrenchment may be done either internally or externally, in case of internal retrenchment entity shall to try to improve their internal efficiency, known as turnaround

② **Indicators** (Danger signals). (Page 485)

- Persistent (constant) negative cash flow from business(es).
- Uncompetitive products or services
- Declining market share
- Deterioration in physical facilities
- Over staffing
- high turnover of employee
- Low morale
- mismanagement etc.

③ Action **Action Plan for turnaround**



① Turnover के बारे में सोचा

② Action Plan Taken

a) Assessment of current problems
b) Analyze the situation & develop a strategic plan
c) Implementing an emergency action plan

③ Returning to normal

Step 1 : Assessment of current problems

In this step assess the current problem and get to the root cause and the extent of damage

Step 2 : Analyse the situation and develop a strategic plan

Identify major problems and ~~get to~~ opportunities, ~~develop~~ a develop a strategic plan with specific goals and detailed functional actions.

Step 3 : Implementing an emergency action plan

If the organisation is in a critical stage, an appropriate action plan must be develop to stop the bleeding and enable the organisation to survive.

Step 4 : Restructuring the business.

If core business is irreparably damaged then outlook for entire organisation may be bleak (unprotected).

Efforts to be made to position the organisation for rapid improvement

Step 5 : Returning to normal.

In the final stage of turnaround strategy process the organisation should began to show signs of profitability, return on investment and enhancing economic value-added.

④ Element of turnaround strategy (Page 487)

- Identifying quick payoff activities,
- Revenue generation.
- quick cost reductions.
- Neutralising external pressures
- Asset liquidation for generating cash

Q Can we divest unit before turn~~over~~around ?
Yes

Q Can we divest unit after ~~turnaro~~ step ② of turnaround ? Yes

- Better internal coordination
- Initial credibility - building actions,
- Changes in top level management.

—

Divestment

Divestment
- meaning
- Reason to Adopt

Meaning

① Divestment strategy involves the sale of or liquidation of a portion of business, or major division, SBU.

② It is adopted when turnaround proves to be unsuccessful.

③ Divestment is integral part of corporate strategy without any stigma attached

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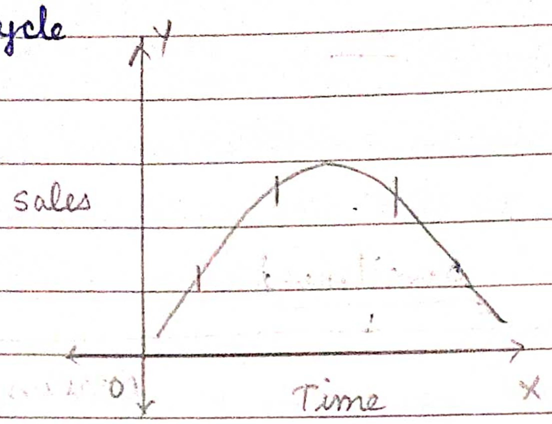
Reasons (points alredy covered in retrenchment strategy) (Pg 487)

Characteristics (Pg 487)

Strategic Option

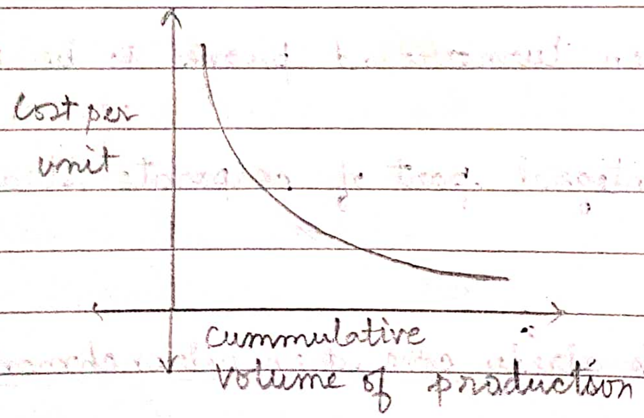
Concept Builder ①

Product lifecycle



Concept Builder ②

Learning curve / Experience curve



Concept Builder ③ – SBU (Strategic Business Unit)

- Strategic Business Unit is collection of similar products or businesses for which separate strategies required.

- Each SBU has its own management.

- Each SBU has its own customers and competitors.

- Each SBU of an organisation has separate vision & mission can be planned independently.

Example - Tata & Sons

TCS (SBU - 1)

a) Own vision
b) Own management
c) Own customers
d) Own competitors

Tata Motors (SBU-2)

a) Own vision
b) Own management
c) Own customers
d) Own competitiors

Strategic options - In order to design the business portfolio, the management must analysis its current business portfolio and decide which business / products / SBU(s) should be invested for.

They are set of model that help strategists in taking this strategic decisions with regards to individuals products in a business portfolio

This strategic options are available as follows-

1) APM Matrix
2) BCG Matrix
3) ~~GA~~ GE Matrix
4) ADL Matrix

APM Matrix (Ansoff's Product Market Growth Matrix)

1) This ~~mastrix~~ matrix is proposed by Igor Ansoff
2) According to this matrix growth depends upon market and products
3) Products may be existing or new, and markets may be existing or new.

This matrix is also called Growth Matrix

Strategies:

1) ~~Mat~~ Market Penetration
2) Market Development
3) ~~Market~~ Product Development
4) Diversification

BCG Matrix (BCG Growth-share Matrix).

1) It is a popular matrix, developed by Boston Consulting Group
2) It is also known for metaphors like cow and dog
3) Using this BCG approach, a company clasify its different business(es) ~~or two~~ on a two-dimensional matrix in which-
   - the vertical axis (Y Axis) represents market growth rate
   - the horizontal axis (X Axis) represent relative market share.

Clasification of product & business (Page 494)

- star
- Cash Cow
- Dog
- Question mark.

Strategies to be followed after classification of business, product or SBUs. (Page 495) Ⓐ.

1) Build - star
2) Hold - Cash flow
3) Harvest - Question mark
4) Divest - Dogs

Limitation of BCG matrix (Other limitations Pg 495-496).

1) A high market share does not nessarily leads to profilability all the time.
2) A business with a low market share can be profitabile too.
3) A model neglects small competitors that have fast growing market shares.
4) BCG matrix can be difficult, time consuming & costly to implement

GE Matrix (General Electric Matrix) ['Stop-light' Strategy Matrix]

(GE matrix is better than BCG matrix). (Page 497)

1) This model develop by GE with assistance of the consulting firm McKinsey & Company.
2) This matrix is also know GE Nine-Cell Matrix and GE Model.
3) This model is inspired by trafic control lights.
4) Two factors.
   a) Market attractiveness
   b) Business strength.

Strategies to be followed under GE matrix

- If products falls in Green section → Expand / Invest / grow
- If products fall in Yellow section → Earn / select / Protect
- If product fall in Red Zone → • Retrenchment • Divest • liquidation

~~ADL Matrix~~

Green zone - The business is at advantageous position.
- To reap (i.e acquire) the benefits.
- strategic decision can be to expand, to invest and grow.

Yellow zone - It needs caution and managerial discretion is called for strategic choices.

Red zone - It will eventually lead to losses that would make things difficult for organisation
- In such a cases, the appropriate strategy should be retrenchment, divestment or liquidation.

ADL Matrix.

ADL Matrix is derived from Arthur D Little. It is based on P C (Product life cycle) / BLC (Business life cycle) / I C (Industry life cycle).

ADL matrix is a two dimensional matrix:
- X-axis represents life cycle of the industry
- Y axis represents competitive position of the firm.

(Refer table Pg 493).

Competitive positions -

1) Dominant - This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
eg Window OS

2) Strong
3) Favourable
4) Tenable
5) Weak.

Page 491 & 492.

Limitations of ADL Matrix.