Chapter 4: Strategic Choices

Overview

- Different types of strategies
- Corporate strategy
- Stability strategy
- Expansion/growth strategy
- Strategic Exits-Retrenchment strategies
- Strategic options
  - Ansoff's Product Market Growth Matrix
  - ADL Matrix
  - BCG Growth share Matrix
  - GE Matrix
  - Difference between GE Matrix and BCG Matrix

Different Types of Strategies Based on Their Classification

1. Level of the Organization
   - Corporate Level Strategy
   - Business Level Strategy
   - Functional Level Strategy
2. 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
3. Competition-Oriented Strategies:
   - Competitive Strategies - Cost Leadership, Differentiation, Focus
   - Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance

Strategies Followed by Business Conglomerates

Businesses with multiple products and divisions formulate strategies at different levels, including corporate, business unit, and functional strategies.

Three Levels of Strategies:

1. Corporate Level Strategy
   - Provides direction to the company.
   - Focuses on overall business growth, diversification, and long-term planning.
2. Business Level Strategy
   - Formulated for each product/process division, known as a Strategic Business Unit (SBU).
   - Focuses on competition, market positioning, and profitability.
3. Functional Level Strategy
   - Designed for the implementation of corporate and business strategies.
   - Includes strategies in business areas such as:
     - Production/Operations
     - Marketing
     - Finance
     - Human Resources (HR)

Corporate Level Strategies - Introduction

Also Known as

- Corporate-level strategies are ***grand strategies*** that provide direction to the company.
- They are sometimes referred to as "**directional** strategies" or **generic** strategies.

Discussed By

These strategies were initially discussed by William F. Glueck and Lawrence R. Jauch and are also known as **Glueck** and **Jauch Strategies**.

Importance of Corporate Strategy

Corporate strategy ensures the growth of the firm due to the following reasons:

1. Correct **Alignment**:
   - Aligns the firm with its external environment.
   - Serves as a design for strategic planning.
2. **Help** to **Managers**:
   - Assists managers in handling uncertainties and complexities in the environment.
3. **Competitive Advantages**:
   - Helps build relevant competitive advantages for the firm.
4. **Harnessing Opportunities**:
   - Utilizes available opportunities in the environment while countering potential threats.

Question-ABC Ltd. intends to grow its business. Its top management argues that its 'Corporate Strategy' will ensure the growth of the firm. Do you agree with the top management's argument? Give reasons.-(MTP2, May 2023, 5 Marks)

Basic Corporate Strategies

1. Stability Strategy
2. Expansion Strategy
3. Retrenchment Strategy
4. Combination Strategy (noted in handwritten correction)

Basic Features of Corporate Strategies

Self read this topic after completing all the strategies

Stability

Stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth. NOT a do-nothing strategy.

Expansion

Seeks significant growth—

- Maybe within the current businesses
- Maybe by entering new businesses that are related to existing businesses
- Or by entering new businesses that are unrelated to existing businesses

Retrenchment

The firm retrenches some of the activities in some business(es), or drops the business as such through sell-out or liquidation.

Combination

The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of the firm.

Stability Strategy

Meaning & Concept

Stability Strategy

- Serve **same**/similar **markets**
- Offer **same**/similar **products**/services
- Focus on **incremental functional improvements**

Stability strategy is not a 'do-nothing' strategy. It involves keeping track of new developments to ensure that the strategy remains relevant.

Major Reasons for Stability Strategy

1. Maturity Stage – A product has reached the maturity stage of its life cycle.
2. Less Risk, Less Change – It involves fewer changes, making staff feel comfortable.
3. Expansion is Threatening – Expansion may seem risky or challenging.
4. Consolidation – Stability is preferred after rapid expansion.
5. Stable Environment – The business operates in a relatively stable market.

Other Characteristics of Stability Strategy

- **No Redefinition**: It does not redefine the business model.
- **Safety-Oriented** (Status Quo): Maintains the current status quo and avoids unnecessary risks.
- **Fresh Investment**: Requires minimal investment.
- **Minor Improvement**: Involves small changes in products and packaging.
- **Risk**: Lower risk strategy compared to expansion.
- **Benefit**: Focuses resources on existing businesses, products, and markets.
- **Growth Objective**: Modest growth expectations while maintaining stability.

Question-Startups rarely aim for stability strategy.While agreeing with the statement or otherwise ,support your point of view by briefly stating as to when the stability strategy is meaningful.State the major reasons for considering stability strategy as one of the corporate strategies by a company.-(SA Sep 2024,5 Marks)

Answer - Start-ups rarely choose a stability strategy as they focus on speed, agility, rapid growth, and market penetration in early stages. Stability strategy suits mature businesses aiming to maintain operations and market share, usually after expansion to full capacity.

Also write reasons and scenarios of stability strategy.

Expansion Strategy

Meaning & Concept

Expansion Strategy (or Growth Strategy) is a corporate-level strategy where a business enlarges operations and increases investment. It shows dynamism, vigour, and success. It includes entering new markets, adopting new technologies, launching new products, and making fresh investments. It aims for ambitious growth, which is risky but rewarding.

Characteristics of Expansion Strategy

1. Redefinition of Business Scope: The strategy involves a fundamental reshaping of the corporation's business operations by exploring new areas, markets and technologies.
2. High Risk – High Reward Nature: Unlike stability strategy, expansion is characterized by high risks but also potentially high rewards. It is suited for firms willing to take bold steps for growth.
3. Facilitates Business Growth: It is a key strategy for firms aiming at substantial business growth, helping them to meet large-scale ambitions.
4. Drives Renewal through Investment: Expansion enables the renewal of the firm through fresh investments in new businesses, products and markets.
5. Versatile Strategy with Multiple Growth Routes: The strategy is flexible and versatile, allowing firms to design growth through various permutations in products, markets and functions.

Question-Explain in brief the expansion strategy as one of the corporate strategies. Also state the characteristics of expansion strategy.-(SA,May 2025,1+4 Marks)

Major Reasons for Growth/Expansion Strategy:

- **Demand** of Environment: Expansion may become necessary when the environment demands faster activity.
- **Satisfaction**:
  - Strategists feel more satisfied with growth prospects.
  - Chief executives prefer to lead growth-oriented organizations.
- **Greater** Control:
  - Expansion provides firms with better control over the market as compared to competitors.
- **Experience** Curve Benefits:
  - Leverages scale and operational experience for better efficiency.

Question-Which strategy is implemented by redefining the business, by enlarging its scope of business and substantially increasing investment in the business? Explain the major reasons for adopting this strategy.-(MTP2, Sep 2024, 5 Marks) (Model test paper 5,May 2025, 5 marks)

Type of Growth or Expansion

Growth and Expansion Overview				
Internal	Intensification	Market Penetration		
		Market Development		
		Product Development		
	Diversification	concentric diversification (Related)	vertical integrated diversification	Forward
				Backward
			horizontal integrated diversification	
		conglomerate diversification (Unrelated)		
		innovation		
External	Mergers and Acquisition	horizontal merger		
		vertical merger		
		Co-generic merger		
		Conglomerate merger		
	Strategic alliance	meaning		
		advantage		
		disadvantage		

Expansion or Growth through Intensification and Igor Ansoff Product – Market Expansion Grid

Intensification - Igor Ansoff Product – Market Expansion Grid				
Market Penetration	Focus is to concentrate on growing existing products in the current market	Method utilise resources of company to enhance the profitability and market share of current offerings	other points	increase product usage
				increase the frequency used
				increase the quantity used
				find new application applications for current users.
Market Development	Focus Markets existing products to new customer groups or regions.	Methods Includes using different distribution channels, modifying advertising content, or changing promotional media.	Other Points	Expand geographically, target new segments.
Product Development	Focus Involves significant changes to existing products or creating new, related items	Methods Targets current customers using established distribution channels.	Other points	Add product features, product refinement.
				Develop a new-generation product.
				Develop a new product for the same market.
Diversification	(Involving new products and new markets) Related / Unrelated			

Question-Explain the 'product market growth matrix' as propagated by Igor Ansoff as a device for identifying growth opportunities for the future.-(SA,Jan 2025)

Question-ABC Fashion, a prominent brand in the domestic market, is now venturing into the international arena. As part of its global expansion strategy, the company is introducing a variety of products tailored to meet the unique tastes and preferences of customers in different regions. By customizing its offerings for each market, ABC Fashion aims to capture a broader audience and establish a strong international presence. Which expansion strategy from Ansoff's Product-Market Growth Matrix best aligns with ABC Fashion's approach?-(MTP 1, May 2025, 5marks)

Example - Coca-Cola
Market Penetration (Existing Product, Existing Market)

- *Coca-Cola focuses on increasing sales of its existing beverages in current markets.*
- *Methods:*
  - *Increasing consumption through advertisements (e.g., "Open Happiness" campaign).*
  - *Promotional discounts to boost sales.*
  - *Expanding availability in restaurants, supermarkets, and vending machines.*
- *Example: Introducing smaller pack sizes (e.g., 200ml bottle) at a lower price to encourage frequent purchases.*

Market Development (Existing Product, New Market)

- *Coca-Cola expands its existing products to new geographical areas or customer segments.*
- *Methods:*
  - *Entering new countries or rural areas.*
  - *Changing advertising to appeal to different cultures.*
  - *Using different distribution channels.*
- *Example: Coca-Cola expanding aggressively in African and Asian rural markets by making bottles more affordable.*

Product Development (New Product, Existing Market)

- *Coca-Cola introduces new products to its existing customers.*
- *Methods:*
  - *Developing healthier beverage options (e.g., Diet Coke, Coke Zero).*
  - *Launching flavored versions of Coca-Cola.*
- *Example: Introduction of Coca-Cola Zero to appeal to health-conscious consumers who prefer zero-calorie drinks.*

Diversification (New Product, New Market)

- *Coca-Cola enters completely new industries or develops unrelated products.*
- *Methods:*
  - *Acquiring or launching products in different industries.*
  - *Expanding into non-beverage categories.*
- *Example: Coca-Cola acquiring Costa Coffee to enter the coffee retail market.*

Concentric Diversification	
Related	Amounts to related diversification.
Linked	In concentric diversification, the new business is linked to the existing businesses through:
	Process
	Technology
	Marketing
Spin-off	The new product is a spin-off from the existing facilities and products/processes.
Benefits	There are benefits of synergy with the current operations.
Understood in two directions	Vertical integration
	Horizontal integration

Apple is a great example of concentric diversification. Let's break it down based on the elements in the image.

1. *Related Diversification:*
   - *Apple started as a computer company but expanded into related products like smartphones, tablets, smartwatches, and services.*
   - *Each new product is connected through Apple's ecosystem.*
2. *Linked through Process, Technology, and Marketing:*
   - *Process: Apple uses the same high-quality design and production processes across its product lines.*
   - *Technology: Apple's operating systems (iOS, macOS, iPadOS) and chips (A-series & M-series) are shared across devices.*
   - *Marketing: Apple's branding, retail stores, and online platforms create a unified customer experience.*
3. *Spin-off Products:*
   - *Apple Watch was a spin-off from iPhones, leveraging similar software, hardware, and app ecosystem.*
   - *AirPods spun off from Apple's audio and wireless technology, enhancing its ecosystem.*
4. *Benefits of Synergy:*
   - *Apple ensures seamless integration across devices, encouraging users to buy multiple Apple products.*
   - *Shared resources and R&D efforts reduce costs and increase efficiency.*

"Spin-off" means a new product that has been developed from an existing product by using similar technology, software, or ecosystem for example- Apple created new products by leveraging its existing expertise and innovations.

Question-Leatherite Ltd., was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in leather manufacturing goods. To expand

they decided to purchase more machines to manufacture leather bags for males and females. Identify and explain the strategy opted by the top management of Leatherite Ltd.-(MTP1, May 2019, 5 Marks) (RTP, Nov 2021, NA)(MTP1, Jan 2025, 5 Marks) (Model test paper 6,May 2025, 5 marks)

Question-There has been fierce demand for both Gecko and FlyBee for the last 3 years. Gecko makes mass consumption pens while FlyBee is a notebook and diary brand - both being complementary goods of each other. But to grow further,
FlyBee decided to take up competition with Gecko in the pens segment and thereby launched FlyPens. Identify and explain the growth strategy opted by FlyBee? -(MTP1, May 2022, 5 Marks)

Hint:FlyBee, a notebook and diary brand, has entered the pen market by launching FlyPens, competing with Gecko. This is a concentric diversification strategy since pens are functionally related to notebooks and cater to the same customer base.

Vertically Integrated Diversification	
Related	Engage in businesses that are related to the existing business of the firm.
Same Process	Remains vertically within the same process sequence and moves forward or backward in the value chain.
Does Not Jump	The characteristic feature of vertical integrated diversification is that the firm does not jump outside the vertically linked product process chain.

Types of Vertically Integrated Diversification	Backward Integration	Purpose	To create an effective supply chain by becoming an input provider.
		Strategy	Enhance profits and control over product production through the establishment of businesses that improve supply capability or reduce production costs.
		Example	A large supermarket chain considers entering into farm business that would provide it a significant amount of fresh produce.
	Forward Integration	Definition	Moving forward in the value chain to enter businesses that utilize existing products.
		Application	Includes entering into distribution channels or related retail sectors.
		Example	A coffee bean manufacturer starting coffee café chain.

Example: Starbucks
Let's apply the two types of vertical integration to Starbucks, the global coffee chain.
1. Backward Integration (Moving Back in the Supply Chain)
- *Starbucks owns coffee farms and sources coffee beans directly instead of relying on third-party suppliers.*
- *Purpose: Ensures high-quality raw materials and reduces dependency on external suppliers.*

2. Forward Integration (Moving Forward in the Supply Chain)
- *Starbucks opened its own retail stores instead of selling coffee through third-party retailers.*
- *Application: Starbucks controls the entire coffee experience by owning the coffee shops, creating a premium brand experience.*

Horizontal Integrated Diversification:
- A firm diversifies by acquiring similar businesses at the same production-marketing stage.
- Can integrate with firms producing complementary products or by-products.
- Can also take over competitors' products.
- Example: Textile Mill 1 acquires Textile Mill 2 and 3.

- *Coca-Cola acquiring a juice brand like Minute Maid*
- *A biscuit company acquiring a jam company*

- *Maruti Suzuki taking over a small car model from a rival brand*

Swift Insurance is a company engaged in the business of providing medical insurance, maintaining a market share of 25 to 30 per cent in the 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.

Swift Insurance is following a horizontal diversification strategy because it is expanding into a new but related industry (insurance) rather than moving up or down its existing supply chain.

Conglomerate Diversification Strategy Overview	
Nature	Diversification into completely unrelated businesses or products.
Characteristics:	No linkages in product, market, or technology between the new and existing businesses.
Distinctiveness:	The new ventures are entirely separate in terms of process, technology, or function.
Example:	A cement manufacturer diversifying into steel and rubber product manufacturing.

Question-NovaTech Pvt. Ltd. is a well-established educational technology (EdTech) company in India. The company has been performing well in the online learning industry. The management of NovaTech Pvt. Ltd. has now decided to expand its business by launching a luxury skincare brand named "GlowNova." Identify and explain the growth strategy adopted by NovaTech Pvt. Ltd.-(MTP2, May 2025,5 Marks)

Acquisitions and Mergers (Two or More Companies Combine)		
Attractive & Tempting:	Circumvents (reduces) the time, risks, and skills involved in screening internal growth opportunities and seizing them.	
	Another main objective of achieving the expansion.	
Synergy:	Synergy may result from:	Physical facilities
		Technical and managerial skills
		Research and development
		Distribution channels, general administration
Definition and Differences:	Merger:	A union of two or more companies to form a new entity, usually on friendly terms, with shared profits and goals.
	Acquisition:	One company (usually stronger financially) takes over another, often in situations like economic recession or declining profits.
		Can be unfriendly, with the dominant company absorbing the weaker one.

Synergy -The positive effects of the merged resources are greater than the effects of the individual resources before merger or acquisition.

Different Types of Mergers

Horizontal Merger

- Merger of companies in the ***same industry***, often ***direct competitors***.
- Achieve ***economies of scale***, reduce ***duplication***, expand ***product lines***, ***reduce competition***.
- Merger of ***Lipton*** India and ***Brooke Bond*** to form Brooke Bond Lipton India Ltd.

Vertical Merger

- Union of companies at ***different stages*** of production or distribution in the same industry.
  - ***Backward*** Integration – Company ***acquires*** its suppliers or raw material producers.
  - ***Forward*** Integration – Company ***acquires*** its distribution channels or buyers.
- Increases ***synergies***, creates an advantageous ***market position*** by controlling supplies or distribution.

Co-generic Merger

- Merger of companies **related** in **some aspects** of **production**, **market**, or **technology**.
- Extend product lines or acquire needed components, based on shared resources or strategic requirements.
- A refrigerator manufacturer merging with a kitchen appliance company.

Question-TechNova, a leading software development firm known for its cutting edge operating systems, is developing a groundbreaking new platform. ElectroWave, an emerging player in the electronics and hardware industry, specializes in manufacturing advanced devices. TechNova and ElectroWave have decided to join forces to design innovative laptops and smartphones, aiming to tap into new markets and broaden their business horizons. What kind of external growth strategy is being considered by TechNova and ElectroWave?-(MTP2, Sep 2024, 5 Marks) (Model test paper 5,May 2025, 5 marks)

Conglomerate Merger

- Combination of companies that are **completely unrelated** in terms of customer groups, functions, or technologies.
- **No significant commonalities** in production, marketing, R&D, or technology, though **some overlap may exist**.
- These mergers are more **diverse** and may **not** have **immediate synergies** or related business functions.

Example

Horizontal Merger (Same Industry, Competitors Merge)

- *Example: Tata Steel acquiring Bhushan Steel*
- *Why?*
  - *Both companies are in the steel industry and direct competitors.*
  - *The merger helped Tata Steel expand capacity, reduce competition, and achieve economies of scale.*
  - *Bhushan Steel's assets improved Tata Steel's market position in India.*

Co-generic Merger (Related Businesses Merge for Synergy)

- *Example: Tata Consumer Products merging with Tata Coffee*
- *Why?*
  - *Both companies are in the food & beverage industry.*
  - *Tata Consumer Products (which owns Tata Tea) can now control its coffee supply chain, improving product diversity.*
  - *Helps Tata expand into the premium coffee market using shared resources.*

Conglomerate Merger (Unrelated Businesses Merge)

- *Example: Tata Group acquiring BigBasket (E-commerce Grocery Platform)*
- *Why?*
  - *Tata Group, originally known for automobiles, steel, and IT, diversified into online grocery retail.*
  - *There was no direct connection between Tata's previous businesses and BigBasket.*
  - *This move helped Tata enter India's booming e-commerce and digital consumer market.*

Why Mergers Matter?

- *Horizontal Mergers: Reduce competition, improve market share.*
- *Vertical Mergers: Strengthen supply chain control.*
- *Congeneric Mergers: Expand related product offerings.*
- *Conglomerate Mergers: Diversify business risks and explore new markets*

Innovation	
Meaning:	Innovation is the process of creating and implementing new ideas, methods, or products that lead to significant positive change.
	Innovation improves product lines or processes, enhancing market share, revenues, profitability, and customer satisfaction.
Advantages	
Problem-Solving Through Innovation:	Addresses complex societal issues with customer-centric solutions.
	Example: Environmental challenges tackled by renewable energy innovations.
	Initial high costs are offset by long-term economic and environmental sustainability.
Enhancing Productivity:	Innovations simplify and automate tasks, boosting productivity.
	Example: MS Excel automates financial tasks, leading to increased efficiency.
Competitive Advantage:	Innovation distances a company from its competitors.
	Innovative products naturally attract customers, reducing the need for extensive marketing.
	Helps in retaining existing customers and attracting new ones.

Example: Tesla's Innovation in Electric Vehicles

Question-'Innovation leads to unnecessary expenses that do not give as many returns.' Do you agree with the statement? Give reasons in support of your answer.-(SA, May 2024, 5 Marks) (MTP2, May 2025,5 Marks)

Tesla is a prime example of innovation in the automobile industry. Let's analyze its innovations based on the elements in the image.

1. *Problem-Solving Through Innovation*
   - *Tesla addressed environmental challenges by developing electric vehicles (EVs) to reduce carbon emissions.*
   - *Example: Renewable energy innovations, such as Tesla's battery technology and solar energy integration.*

   - Impact: Reduces dependence on fossil fuels and supports sustainability.
2. Enhancing Productivity
   Tesla automates many aspects of vehicle production with robotics and AI.
   - Example: Tesla's Gigafactories use highly automated assembly lines, improving manufacturing efficiency.
   - Impact: Faster production, lower costs, and higher-quality vehicles.
3. Competitive Advantage
   - Tesla distances itself from competitors by leading in EV technology.
   - Example: Autopilot & Full Self-Driving (FSD) features, giving Tesla an edge over traditional car manufacturers.
   - Impact: Attracts tech-savvy customers and increases brand loyalty.

Expansion Through Strategic Alliances

Definition of Strategic Aliance
- A collaboration between two or more businesses to achieve strategic objectives.
- Entities remain independent but share benefits, control, and contributions to the alliance.
- Common in global marketplaces between companies from different regions.

Advantages of Strategic Alliances

- Organizational – Learning new skills, enhancing capacity, extending supply chains, and adding legitimacy to new ventures through respected partners.
- Economic – Cost and risk reduction, achieving economies of scale, and co-specialization (e.g., bundling products from different companies).
- Strategic – Collaboration with rivals, vertical integration in supply chains, pooling resources for competitive advantage, accessing new technologies, and joint R&D efforts.
- Political – Gaining entry into foreign markets through local partners, overcoming legal barriers, and improving political influence.

Disadvantages of Strategic Alliances
- Sharing Risk: Requirement of sharing resources, profits, knowledge, and skills, which can include sensitive trade secrets.
- Legal and Compliance Risks: Potential issues with enforcing agreements to protect trade secrets.
- Future Competition: Risk of an ally turning into a competitor if the alliance dissolves or objectives change.

Example: Starbucks & PepsiCo (Global Beverage Expansion)
Starbucks and PepsiCo formed a strategic alliance to expand Starbucks' bottled coffee products worldwide.

1. Definition of Strategic Alliance in this Case:
   - Starbucks (a coffee company) and PepsiCo (a global beverage distributor) joined forces.
   - Starbucks provided its brand and coffee expertise.
   - PepsiCo handled distribution, logistics, and retail partnerships.
2. Advantages of this Alliance:
   - Organizational: Starbucks learned large-scale distribution and gained access to PepsiCo's extensive supply chain.
   - Economic: Starbucks reduced costs by leveraging PepsiCo's existing infrastructure instead of building its own.
   - Strategic: Starbucks focused on product development while PepsiCo focused on logistics, creating a win-win situation.
   - Political: Starbucks expanded into new global markets without facing regulatory hurdles alone.
3. Disadvantages of this Alliance:
   - Sharing Risks: Starbucks had to share trade secrets about its coffee formulation with PepsiCo.
   - Legal & Compliance Risks: Ensuring PepsiCo honored branding and quality standards.
   - Future Competition: If the alliance ended, PepsiCo could launch its own coffee-based beverages.

Question-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, May 2018, NA) (MTP2, May 2024, 5 Marks)(MTP2, Jan 2025, 5 Marks) (Model Test Paper 2,May 2025,5 Marks) (Model test paper 7,May 2025, 5 marks)

Strategic Exits – Retrenchment Strategies

Types of Strategic Exits or Retrenchment strategies
- Turnaround Strategy
- Divestment
- Liquidation

Turnaround Strategy

Nature of Turnaround Strategy

- Focuses on internal retrenchment.
- Aims to enhance internal efficiency of the organization.

Indicators Necessitating a Turnaround Strategy

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share.
- Deterioration in physical facilities.

- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive." Discuss.

Action Plan for Turnaround

A workable action plan for turnaround would involve the following stages

Stage One – Assessment of current problems (ACP- DCP)

Assess current problems & find the extent of damage caused by the problem. Resources should be focused toward those areas which are essential.

Stage Two – Analyze the situation and develop a strategic plan (S/PAP/CB/ABF)

Identify appropriate strategies & develop preliminary action plans & look for viable core businesses, adequate bridge financing & available organizational resources.

Stage Three – Implementing an emergency plan (HR/F/M/O – Action – RD/IWC/RC/IBP)

- The plan typically includes human resource, financial, marketing & operations actions to restructure debts, improve working capital, reduce costs, and improve budgeting practices etc.

Stage Four – Restructuring the business

- "Product mix" must be changed to do some repositioning.
- Core products neglected over time may require immediate attention to remain competitive.
- Organisation may withdraw from certain markets to target its products toward a different ideal position.
- "People mix" – an important ingredient should also be enhanced by allowing rewards & compensation that will encourage employees' dedication & creativity.

Stage Five – Returning to normal (P/ROI/EVA – NP, CS, CA, MS)

- In the final stage, the organization should begin to show signs of profitability, return on investments & enhancing economic value added.

- Adding new products, improving customer service, creating alliances with other organizations, increasing market share, etc., shall be the areas of emphasis.

Question-Pizza Galleria was India's first pizza delivery chain enjoying monopoly for several years. However, after entry of Modino and Uncle Jack it is struggling to compete. Both Modino and Uncle Jack have opened several eateries and priced the product aggressively. In last four years the chain has suffered significant losses. The chain wishes to know whether they should go for a turnaround strategy. List out components of the action plan for turnaround strategy.-(RTP, Nov 2019, NA) (RTP, Sep 2024, NA) (Study material)

Elements of Turnaround Strategy

Just Read them 3 Times before Exams

- Changes in the top management
- Identifying quick payoff activities
- Quick cost reductions
- Revenue generation
- Asset liquidation for generating cash
- Mobilization of the organizations resources
- Better internal coordination.

DIVESTMENT

Meaning of Divestment Strategy

- Sale or liquidation of a portion of business, or a major division, profit center, or SBU.
- Part of restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.
- The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

Reasons for Divestment

A divestment strategy may be adopted due to various reasons:

- A business that had been **acquired** 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 whole company, creating the need for divestment of that business.
- **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, causing a firm to divest a part of its unprofitable businesses.

Question-MaAi is a prominent group of companies. Currently it has businesses 1 named Alpha, Bravo, Charlie and Delta. In year 2020, the company had acquired a business dealing in product 'Nota'. In evaluating the contribution to its portfolio, it was observed that product 'Nota', is not contributing as it was expected rather causing a financial duress. After identifying apparent problem area, in the year 2023, an emphasis was placed on change in management and improvement in internal efficiency. However, on further evaluation in the year 2024, it was observed that even after due emphasis, positive outcome is not there and in-turn the company decided to get rid-of the business related to product 'Nota'.

Identify the retrenchment strategies followed by the company for product 'Nota' (i) in the year 2023 (ii) in the year 2024.

Also state various reasons to adopt the strategy by any organization, as followed in the year 2024 for product 'Nota".-(SA,May 2025,5 Marks)

LIQUIDATION

Definition of Liquidation

- The process of **closing down** a firm and **selling** its assets.
- Considered the most **extreme** and **unattractive** strategy.

Consequences of Liquidation

- Loss of **employment** for **workers** and staff.
- Termination of future **business opportunities**.
- Associated **stigma** of **failure**.

Frequency and Reluctance

- More **common** in **small-scale**, proprietorship, and partnership firms.
- **Rare** in **medium** and **large**-sized companies in India **due** to **reluctance** from management, government, banks, trade unions, suppliers, creditors, and other stakeholders.

Challenges in Asset Sales

- **Difficulty** in **finding buyers**.
- **Assets** are often sold at a **value** much **lower** than their worth, sometimes only as scrap.

Appropriateness of Liquidation

- When a "**dead business** is worth more than alive," it is a good proposition.
- For instance, the **real estate** owned by a firm may fetch more money than the actual returns of doing business.

Planned Liquidation

- When liquidation is **evident**, an **abandonment plan** is desirable.
- Involves a systematic approach to maximize benefits for shareholders during the liquidation process.

Combination Strategy

- The above strategies are not mutually exclusive.
- It is possible to adopt a mix of the above to suit particular situations.
- An enterprise may seek stability in some areas of activity, expansion in some, and retrenchment in the others.
- Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of.
- For some organizations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities, and plant locations.

Major Reasons for Combination Strategy
The organization is large and faces a complex environment.
The organization is composed of different businesses, each of which lies in a different industry requiring a different response

Strategic Options - Portfolio Analysis Models

- Used for competitive analysis and corporate strategy in multi-product, multi-business firms.
- Enables resource allocation to the most promising businesses at the corporate level.

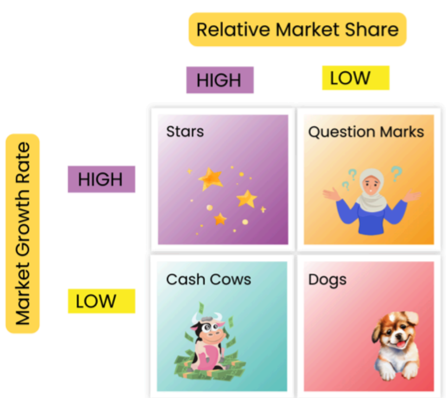
BCG Growth-Share Matrix:

Simplest way to portray a corporation's investment portfolio.

- Known for cow and dog metaphors.
- Used for resource allocation in diversified companies.
- Classifies businesses on a two-dimensional matrix:
  - Vertical axis: Market growth rate.
  - Horizontal axis: Relative market share (company strength).

Four Types of Products/SBUs

- **Stars (High growth, high market share)**
  - Require heavy investment to sustain growth.
  - Best opportunities for expansion.
- **Cash Cows (Low growth, high market share)**
  - Generate cash with low costs.
  - Require minimal investment to maintain market share.
  - Stars eventually become cash cows.
- **Question Marks (High growth, low market share)**
  - Need significant cash to hold their share.
  - Heavy investment, low cash generation.
  - Can become cash traps if ignored.
  - Aim: Convert them into stars, then cash cows.
- **Dogs (Low growth, low market share)**
  - May generate enough cash for survival.
  - Often require cash support.
  - Best strategy: Divest or liquidate.



BCG Growth Share Matrix

Problems and Limitations of the BCG Method

- Difficult, **time-consuming**, and
- Costly to implement.
- Defining **SBUs** and measuring **market share & growth** can be challenging.
- Focuses **on current businesses**, offers little guidance for future planning.
- May **overemphasize market-share growth**, leading to risky expansions.
- Risk of **abandoning established units too soon** for new, uncertain ventures.

Strategies in the BCG Model

Four possible strategies:

- **Build**
  - Aim: Increase market share, even at the cost of short-term earnings.
  - Requires high investment to turn Question Marks into Stars.
- **Hold**
  - Aim: Preserve market share when investment is not feasible.
  - Suitable when the company has other financial commitments.
- **Harvest**
  - Aim: Maximize short-term cash flow with little concern for the future.
  - Best for Cash Cows with low investment needs.
- **Divest**
  - Aim: Sell or liquidate businesses in the Dog quadrant.
  - Redirects resources to better opportunities.

- *Stars (High Growth, High Market Share)*
  - *Example: Apple iPhone (Latest Models)*
  - *Market leader in fast-growing smartphones.*
  - *Heavy R&D, marketing, and innovation investment.*
  - *Goal: Sustain growth and leadership.*
- *Cash Cows (Low Growth, High Market Share)*
  - *Example: Apple MacBook & iPad*
  - *High revenue, slow market growth.*
  - *Minimal investment needed.*
  - *Goal: Use profits to fund Stars & Question Marks.*
- *Question Marks (High Growth, Low Market Share)*
  - *Example: Apple TV & Apple Watch*
  - *Growing market but not dominant.*
  - *Competes with Fitbit & Samsung.*
  - *Goal: Invest to turn into Stars.*
- *Dogs (Low Growth, Low Market Share)*
  - *Example: iPod*
  - *Market shrank due to smartphones & streaming.*
  - *Discontinued in 2022.*
  - *Best Strategy: Divest and focus on growth areas.*

Question-Explain the strategic implications of each of the following types of business in a corporate portfolio:
(a) Stars
(b) Question Marks
(c) Cash Cows
(d) Dogs
-(RTP, May 2022, NA)(MTP 2 Jan 2025,5 Marks) (Model test paper 7,May 2025, 5 marks)

Question-Organic Beverages has been manufacturing various soft drinks for over a decade. It has developed a sugar free beverage to cater to the needs of specific customers by spending *heavily on research and development for this product. In addition, a lot of money was spent on marketing (branded as 'Say no to Sugar') and in obtaining a licence for it. In a span of five months, the company has gained a major share in the market for this new product and it is growing rapidly. Profitability of this product is also better. In order to take advantage of the best opportunity for expansion, it has to make heavy investments to maintain their position in the current and new market.*

Classify 'Say no to Sugar' product in the most related category in the two dimensional growth share matrix as per Boston Consulting Group. Explain the strategies which can be pursued post identification and classification of products in such a matrix. Also state the limitations of this technique as one of the strategic options.-(SA,Jan 2025,5 marks)

General Electric (GE) Model for Business Portfolio Analysis

Also known as:

- Business Planning Matrix
- GE Nine-Cell Matrix
- GE Model

Concept & Approach

- Inspired by traffic control lights:
  - Green → Go (Invest & Grow)
  - Yellow → Caution (Strategic Decision Required)
  - Red → Stop (Retrenchment/Exit)

Key Factors in Strategic Decisions

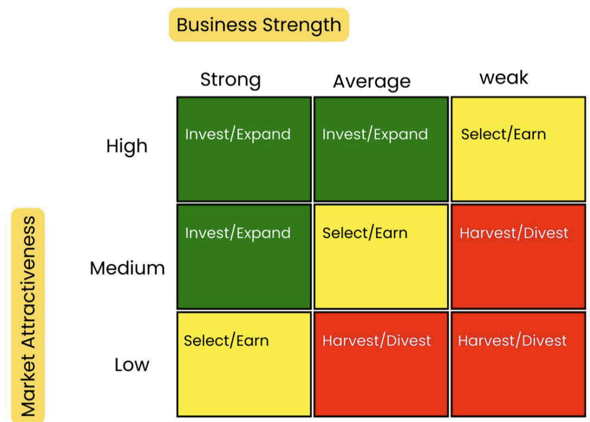
- Vertical Axis → Market Attractiveness
- Horizontal Axis → Business Strength

Strategic Implications

- Green Zone (Advantageous Position)
  - Business is well-placed.
  - Strategy: Expand, Invest, and Grow.
- Yellow Zone (Caution Required)
  - Needs careful evaluation.
  - Strategy: Managerial discretion for strategic choices.
- Red Zone (High Risk, Potential Losses)
  - Business is weak and unsustainable.
  - Strategy: Retrenchment, Divestment, or Liquidation.

Comparison with BCG Matrix

- Market Attractiveness replaces Market Growth (considers broader factors).
- Competitive Strength replaces Market Share (assesses SBU competitiveness).



Antivirus

- *Green Zone (Go: Invest & Grow)* 🚀
  - *Example: Tata Nexon EV, Tata Tiago EV*
  - *Market: High growth due to govt. incentives, rising fuel costs, and EV adoption.*
  - *Strength: 80%+ market share in Indian EVs, expanding lineup.*
  - *Strategy: Invest in R&D, battery tech, charging infra, global expansion.*
- *Yellow Zone (Caution: Strategic Decision)* ⚠️
  - *Example: Commercial Vehicles (Buses & Trucks)*
  - *Market: Moderate growth, high competition (Ashok Leyland, Volvo, Eicher).*
  - *Strength: Leading player but faces cost pressures, fuel price fluctuations, BS-VI norms.*
  - *Strategy: Focus on CNG, hydrogen trucks, efficiency, and exports.*
- *Red Zone (Stop: Retrench/Exit)* 🛑
  - *Example: Jaguar Land Rover (JLR) in China & Europe*
  - *Market: Slowing luxury car demand, competition from Tesla, BMW EVs.*
  - *Strength: Profitability struggles, shrinking market share in key regions.*
  - *Strategy: Reposition JLR with EVs or reduce focus on fuel-based models.*