CHAPTER 4 STRATEGIC CHOICES

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CORPORATE / DIRECTIONAL / GRAND STRATEGIES ARE OF 4 TYPES GIVEN BY WILLIAM F GLUECK AND LAWRENCE R JAUCH:

- STABILITY
- EXPANSION
- RETRENCHEMENT
- COMBINATION

STABILITY STRATEGY

- Stability Strategy is done when **companies continue in same markets & deals in same products**
- It focus on **Incremental Improvement**
- It does **not involve redefinition of business**
- **Safety oriented , status-quo strategy**
- **Less risky & Less Investment** .
- It is **NOT Do Nothing** Strategy , but **DO Nothing New**
- Involves **minor improvement** & not drastic changes .
- Eg – SAIL , Liquor & Tobacco Industry due to Government regulations

MAJOR REASONS FOR STABILITY STRATEGY (EEE)

- A Product has reached **maturity stage of Product Life Cycle**
- **Less risky as it involves less changes**
- Environment is **relatively stable**
- Expansion is **perceived as threatening** (OTT , Telecomm)
- **After Rapid Expansion , firm wants to stabilise itself**

EXPANSION STRATEGY

- It involves **Redefining the Business** by **enlarging scope of Business**
- It involves **Dynamism ,Vigour , Promise & Success**
- It involves **new products , markets & technology , innovation decisions etc**
- It is **risky & highly versatile strategy**
- It involves **Diversifying ,Acquiring & Merging Business**
- It involves **Fresh Investments & New Businesses/ Products / Markets** . Eg – Reliance , Patanjali , Tata , Adani

MAJOR REASONS FOR GROWTH/ EXPANSION STRATEGY

- When **Organisation wishes to Grow**
- Due to **Change in Environment**
- It helps in **greater control over competitors**
- Advantages from **Experience Curve & Scale of Operation may acrue**

TYPES OF EXPANSION STRATEGIES

INTERNAL GROWTH STRATEGIES		EXTERNAL GROWTH STRATEGIES	
INTENSIFICATION	DIVERSIFICATION	MERGERS	ALLIANCE ADVANTAGES (ESOP)
MARKET PENETRATION	CONCENTRIC 1. VERTICAL 2. HORIZONTAL	VERTICAL	Economic
MARKET DEVELOPMENT	CONGLOMERATE	HORIZONTAL	Strategic
PRODUCT DEVELOPMENT	INNOVATION	COGENERIC	Organizational
		CONGLOMERATE	Political

DIVERSIFICATION

1. Concentric
- Vertical – Backward & Forward
- Horizontal
2. Conglomerate
3. Innovation

INTENSIFICATION

- **Market Penetration** – In this we will **direct our resource towards Profitable Growth of existing products in existing market .**

- **Market Development** – In this we will **market existing products to New Markets** by **changing content of advertising or Promotional media**

- **Product Development** – It involves **substantial modification of existing products that can be marketed to current customers** through established channels

DIVERSIFICATION

- **CONCENTRIC** – In this **New Business is linked through existing Business through process , technology or marketing** . New Product is spin-off from existing product through products / processes

- **Vertically Integrated Diversification** – In this firms **opt to engage in Business that are related to existing Business**

- **Forward Integration** is **moving forward in the value chain** & entering business lines that use similar products , we can also **enter into Business of distribution channels**
- **Backward Integration** is step towards **creation of effective supply chain by entering into Business of input providers** , so we can **increase our capacity and reduce the cost of production**

HORIZONTAL CONGLOMERATE

- HORIZONTAL – Acquisition of **one or more similar Business operating at same stage of production** – marketing chain that is offering similar product or taking over competitor's products

- CONGLOMERATE – In this **there is no linkage , new products are totally different from existing products in every way** , it is UNRELATED DIVERSIFICATION. There is **no relation in Process / Technology / Function**

INNOVATION

It drives **upgradation of existing product lines or process , leads to increased market share , revenues , profits , & most important customer satisfaction** .

- **Benefits of Innovation (SIA)**

1. **Helps to Solve Complex Problems** – Helps to **solve problems by offering customer centric sustainable solutions** . Eg – Solar , Alternative Sources of Fuel
2. **Increases Productivity** – **By automating repetitive tasks , adds productivity of teams** & thereby benefitting organization as a whole . Eg – MS Excel
3. **Gives Competitive Advantage** – **More we do innovation , more far we go from competitor's reach** . It needs less marketing , it will not only help retain old customers , but also help acquire new ones

TYPES OF MERGER

- **Horizontal** – It is **merger of 2 or more organisation in same industry , can be merger with direct competitor** , to achieve economies of scale , reducing duplication of work , avoiding competition , reduction in fixed cost & working capital etc

- **Co-generic** – In merger of 2 or more organisation that are associated in some way either through **production process or business market or basic required technologies**. It involves extension of Product line or acquiring components that are required in daily operation

- **Conglomerate** – It is combination of organization that are **unrelated to each other.** There is **no linkage with respect to customer groups , functions or technologies used .**

VERTICAL MERGER – BACKWARD & FORWARD

- It is merger of 2 or more organisation that are **operating in same industry but at different stages of production or distribution system** . This leads to increased synergies with merging firms

- **Backward** – It an **organisation takes over its suppliers/ producers of raw material**

- **Forward** – It happens **when organisation take over its buyer organisation or distribution channels**

EXPANSION THROUGH STRATEGIC ALLIANCE

- Alliance is **2 or more Business that enables each other to achieve strategic objectives which neither would have achieved on it's own**
- In this both partners **maintain their status as independent** & separate entities , share benefits & control & continue to make contribution till alliance is terminated
- It is made in **different regions in the world to make the presence GLOBAL**

ADVANTAGES OF ALLIANCE (ESOP)

- **ECONOMIC** – **Reduction in cost and risk** , as volume will be more . Advantage of specialisation , creating additional value
- **STRATEGIC** – **Rivals can come together instead of competing** , it helps to create competitive advantage , and helps in creating new products & technologies
- **ORGANIZATIONAL** – Organisation can **getting benefit by learning new skill and certain capability** . Enhance productive capacity , good distribution system or extend supply chain and help enhancing reputation in market
- **POLITICAL** – It helps to **gain entry into Foreign Market either because of local prejudices**. It may help to influence our own position

DISADVANTAGES OF ALLIANCE

- Sharing – In this we need to **share resources** , knowledge , skills . It can **create competitiors when they decide to break the alliance** .
- Thou there are **agreements , but they can be broken**

STRATEGIC EXITS

- When Organisation substantially reduces it's scope of activity it follows this .There are different kinds of Retrenchment Strategies -
- When organisation **focus on ways and means to reverse the process of decline** , it adopts **TURNAROUND STRATEGY**
- If it **cuts-off loss making units , divisions or SBU's curtails its product line or reduces funtions performed ,** it follows **DIVESTMENT STRATEGY**
- If both don't work , and **it choose to close its business** then comes **LIQUIDATION STRATEGY**

DANGER SIGNALS OF TURNAROUND

- Turnaround is done when there are danger signals like :

- **Persistent negative cash flows**
- **Uncompetitive products** / services
- **Declining market share**
- **Deterioration in physical facilities**
- **Overstaffing and high turnover of employees**
- **Mismanagement**

MAJOR REASONS FOR RETRENCHMENT / TURNAROUND STRATEGY ARE -

- Management **no longer wishes to remain in Business** wholly or partly , due to losses
- Management feels business **could be better by divesting or liquidating** unprofitable activities
- A Business **proves to be mismatch** & cannot be integrated with company
- Persistent **Negative Cashflows from the Business** , creating need for Divestment
- **Severity of Competition** & inability to cope up with it
- **Technological upgradation is required** , if business is to survive , but not possible to invest
- **A better alternative is available , causing firm to divest** a part of its unprofitable business

ACTION PLAN FOR TURNAROUND / STAGES OF TURNAROUND

- **Assessment of Current Problems –** First step is to get to **root cause of the problem , all resources should be focused towards** those areas on **correcting & repairing any immediate issues**
- **Analyse the Situation & Develop a Strategic Plan – Do SWOT Analysis and out of various alternative strategies , select the best one** taken into consideration **viable core business , adequate bridge financing & available resources . Develop a plan with specific goals & detailed functional actions**
- **Implementing an Emergency Action Plan –** We will **implement the plan in each area to improve working capital , reduce costs , improve budgeting practices & positive cash flow will be there**

- **Restructuring the Business – Product mix** should be done , **withdraw from certain markets to make organisation leaner or target its product towards a different niche**

  People Mix – Morale Building should be done , **Reward & Compensation should be given to encourage creativity among employees**

- **Returning to Normal –** Organisation will **show signs of improvement** . Emphasis is **placed on number of Strategic Efforts such as carefully adding new products , improving customer service , creating alliance with other organisations , increasing the market share**

DIVESTMENT STRATEGY

- It involves **sale or liquidation of portion of Business or division or profit center or SBU.**
- It is **usually part of rehabilitation plan**
- It is done **when Turnaround is attempted , but proven to be unsuccessful**
- **Sometimes Turnaround is not done , if we feel Divestment is the only answer**

DIVESTMENT IS DONE DUE TO SEVERAL REASONS LIKE :

- A Business **proves to be mismatch and cannot be integrated with company**
- **Persistent negative Cashflows** from particular business
- **Severity of competition and firms inability** to cope with it
- Technology **upgradation is required and there is no investment**
- A **Better alternative is there for Investment of firm** , so we will divest Unprofitable Business

LIQUIDATION STRATEGY

- It is **most unattractive strategy** as it involves closing down a firm and selling it's assets .
- It is **last resort** and leads to loss of employment , termination of opportunities
- **Selling Assets is difficult because difficult to find buyers** for loss making Business
- It is most **unpleasant as a strategic alternative** because **" A DEAD BUSINESS IS WORTH MORE THAN ALIVE"**

COMBINATION STRATEGY

- In this we will adopt mix of Strategies for different Business of ONE Company . Eg – Stability in some areas , Expansion in some & Retrenchment in some.

- **Major Reasons for COMBINATION STRATEGY**

- Organisation is large & faces Complex Environment

- Organisation has Several Business , each of which is Different industry requiring Different response

ANSOFF'S PRODUCT MARKET GROWTH MATRIX

ANSOFF PRODUCT MARKET GROWTH MATRIX

- Developed by Igor Ansoff , it is **useful tool for businesses to decide their Product & Market growth strategy**
- With this we can know what **growth we can do in terms of markets / product**
- It is **portfolio tool for identifying growth opportunities for the company**
- It can be achieved in 4 ways :
- **MARKET PENETRATION** – It refers to growth strategy where we focus on **existing products and existing markets**. We can do this by **greater spending on advertising , aggressive promotion , new product dimensions , pricing strategy** so new entrants don't come

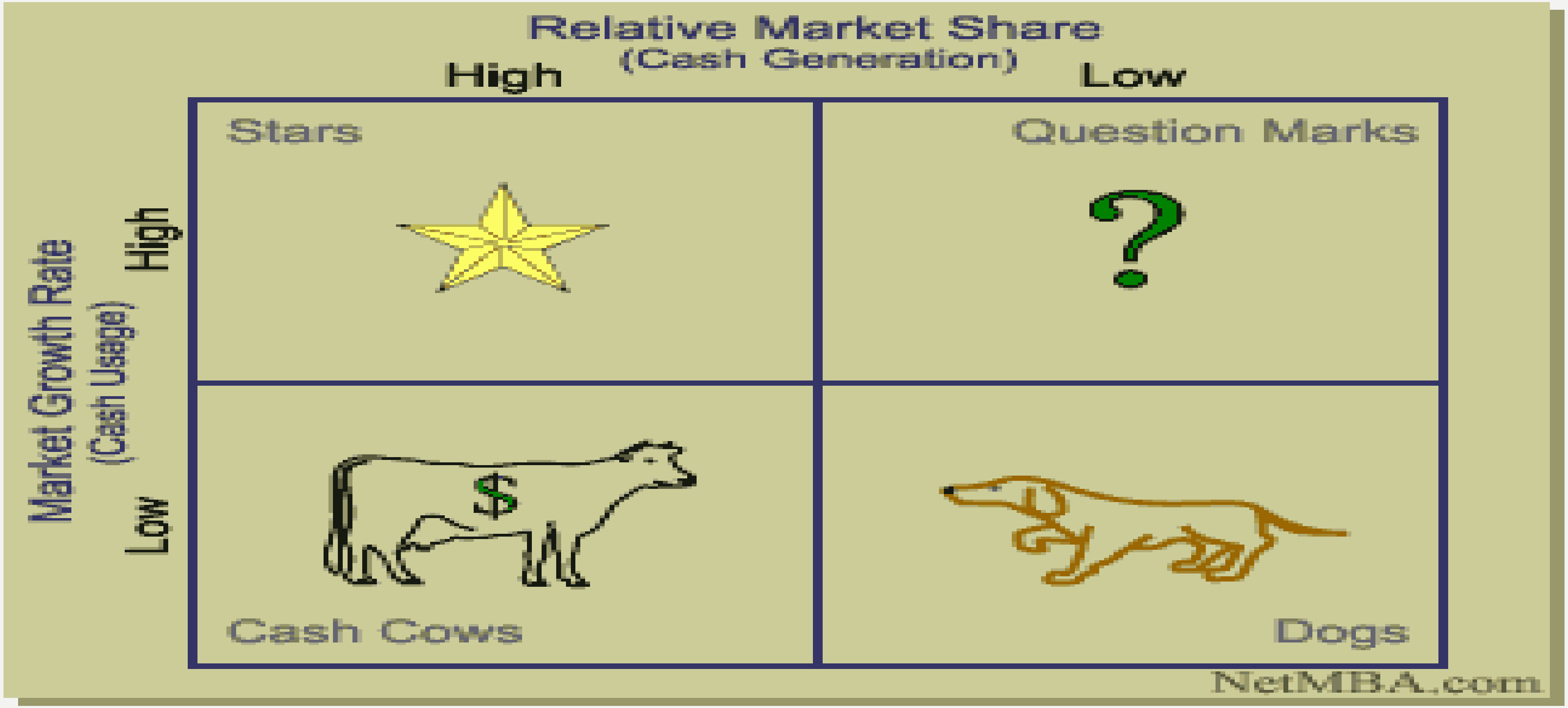
MARKET DEVELOPMENT , PRODUCT DEVELOPMENT & DIVERSIFICATION

- **MARKET DEVELOPMENT** – Refers to **Growth Strategy where we will expand existing products in new markets.** This can be achieved by **new markets , new product dimensions or packaging , new distribution channels or different pricing policy** to create new market segments

- **PRODUCT DEVELOPMENT –** Refers to Growth Strategy **where business aims to expand new products in existing markets.** It requires **development of new competencies and requires business to develop modified products which can appeal existing markets**

- **Diversification –** It is Growth Strategy where we will market **New Products in New Markets.** It can be by **starting or acquiring business outside the company** . It is risky because **we have no position of that product in the market**

BOSTON CONSULTING GROUP GROWTH SHARE MATRIX



BCG GROWTH SHARE MATRIX

- It is used for **resource allocation in a diversified company**
- It is the **simplest way to portray a corporation's portfolio of investment**
- It can be **time-consuming , & costly to implement**
- It focuses on **current scenario and does not focus on future**
- This only focuses on **market-share growth**

4 TYPES OF PRODUCTS / SBU ARE :

- **STARS** are products that are **growing rapidly and need heavy investment** to **maintain their position** and finance their growth potential. They show **best opportunity for expansion**
- **Cash Cows** are **low growth , high market share products** . They **generate cash and have low costs**. They need less investment to maintain market share . In long run when **growth rate is down Stars become Cash Cows**
- **Question Marks** are **problem child , low market share , high growth market**. They require **lot of cash to hold their share** , and need heavy investment with low potential to generate cash. We should **try to turn them into STARS**
- **Dogs** are **low growth , low share business and products**. They generate cash to maintain themselves , but do not have much future. They should be **minimised by means of Divestment or Liquidation**

AFTER FIRM HAS CLASSIFIED IT'S PRODUCT , 4 STRATEGIES ARE :

- **BUILD** – Here **objective is to increase market share by forgoing short term earnings** in favour of large market share
- **HOLD** – Here **objective is to preserve the market share**
- **HARVEST** – Here **objective is to increase short term cashflow** regardless of long term effect
- **DIVEST –** Here **objective is to sell or liquidate business** and allocate resources else where

ADL MATRIX

Strategic condition matrix / ADL matrix

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Industry life cycle stage

Competition position	Embryonic	Growth	Mature	Ageing
Dominant	All out push for share. Hold position	Hold position. Hold share	Hold position. Grow with industry	Hold position
Strong	Attempt to improve position. All out push for share	Attempt to improve position. Push for share	Hold position. Grow with industry	Hold position or harvest
Favourable	Selective. Selectively attempt to improve position	Attempt to improve position. Selective push for share	Custodial or maintenance. Find niche and protect it	Phased out withdrawel or harvest
Tenable	Selectively push for position	Find niche and protect it	Phased out withdrawel or find niche and hang on	Phased out withdrawel or abandon
Weak	Up or out	Turnaround or abandon	Turnaround orphaned out withdrawel	Abandon

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ADL MATRIX

- It is **portfolio analysis technique based on product life cycle.**
- It measures the **business strength of product or SBU's based on one of the 5 competitive positions such as**

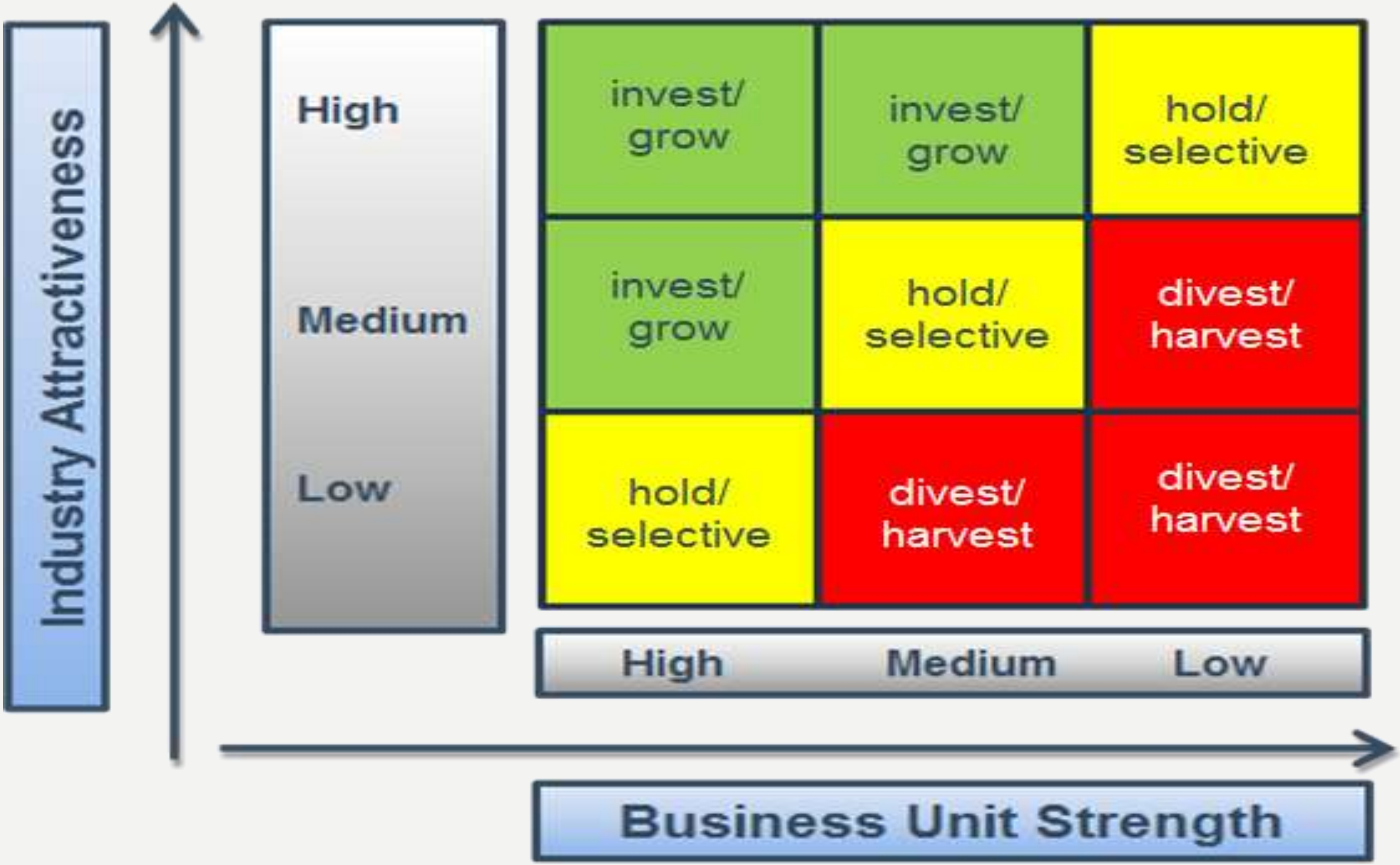
- **DOMINANT**
- **STRONG**
- **FAVOURABLE**
- **TENABLE**
- **WEAK**

- **Dominant** – It is **rare position and is due to either a monopoly or strong** and protected technological leadership
- **Strong** – Firm has **considerable power to choose it's own strategies without it's market position threatened by it's competitors**
- **Favourable** – In this **no competitors stand out , but this we have reasonable degree of freedom due to market leaders**
- **Tenable** – Although **firms in this category are doing good** , there are **generally vulnerable because of strong competitors**
- **Weak** – Performance is not satisfactory , **although opportunities for improvement do exist**

GENERAL ELECTRIC MATRIX

- This model is known as **Business Planning Matrix , GE Nine-Cell Matrix & GE Model**
- It is developed by **General Electric along with Mckinsey**
- This approach has been **inspired from traffic control lights**
- 3 lights mean – **GREEN for GO ,AMBER OR YELLOW for CAUTION & RED for STOP**

- It uses 2 things **Business Strength & Market Attractiveness** whereas BCG considers Relative Market Share & Market Growth
- In **Green** Business must expand , to **invest and grow**
- If **Amber or Yellow** it needs caution and **managerial discretion is called for strategic decision**
- If in **Red Zone** , it will **lead to losses , so it be retrenchment , divestment or liquidation**


Industry Attractiveness
High
Medium
Low
invest/ grow
invest/ grow
hold/ selective
invest/ grow
hold/ selective
divest/ harvest
hold/ selective
divest/ harvest
divest/ harvest
High
Medium
Low
Business Unit Strength

MARKET ATTRACTIVENESS & BUSINESS STRENGTH

MARKET ATTRACTIVENESS

- Size of Market
- Market growth rate
- Industry Profitability
- Competitive intensity
- Pricing trends
- Over-all risk in industry
- Opportunity for differentiation
- Demand Variability
- Segmentation

BUSINESS STRENGTH

- Market Share
- Market share growth rate
- Profit margin
- Distribution effiency
- Brand image
- Ability to compete on price & quality
- Customer loyalty
- Production capacity
- Technological capacity , Management calibr

DIFFERENCE BETWEEN BCG V/S GE MATRIX

BCG

- Developed by Boston Consulting Group
- Market Growth Rate
- Relative Market Share
- 4 cell
- Thinks only of present & takes decision

GE MATRIX

- Developed by General Electric together with Mckinsey
- Industry Attractiveness (Which is wider)
- Business Unit Strength (Which is wider)
- 9 cell
- Thinks both about present & future potential