16

CHAPTER

Strategic Choices

THEORY

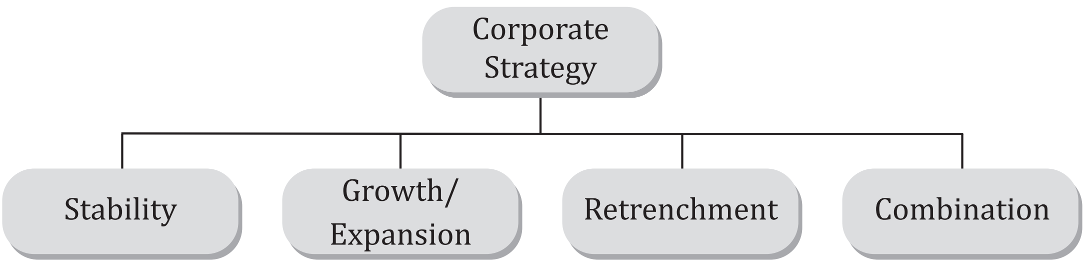
INTRODUCTION

Strategy formulation **involves** well thought of decision making and cover actions dealing with the objective of the firm, shareholders and allocation of resources and coordination of strategies of various business units for optimal performance.

STRATEGIC CHOICES

- Businesses follow different types of strategies to enter the market, to stay relevant and grow in the market.
- **William F Glueck and Lawrence R. Jauch** discussed four generic strategies including stability, growth, retrenchment and combination.
- These strategies have also been called Grand Strategies/Directional Strategies by many other authors.
- **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.

- Functional Strategies are meant for strategic management of distinct functions such as Marketing, Financial, Human Resource, Logistics, Production etc.
- Business conglomerates having multiple product folios formulate strategies at different levels, viz.,
  - Corporate,
  - Business Unit and
  - Functional.
- **The corporate strategies a firm can adopt may be classified into four broad categories:**

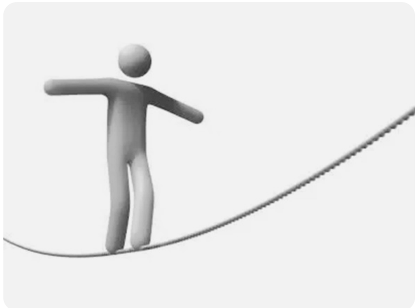


The basic features of the corporate strategies are as follows:

Stability	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
Expansion	Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business 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

- **A stability strategy is pursued by a firm when:**
  - It continues to serve in the same or similar markets and deals in same or similar products and services.
  - This strategy is typical for those firms whose product have reached the maturity stage of product life cycle or those who have a sufficient market share but need to retain that.



- Hence, stability strategy should not be confused with **'do nothing'** strategy. Small organizations may also follow stability strategy to consolidate their market position and prepare for the launch of growth strategies.

Characteristics of Stability Strategy

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.

The endeavour is to enhance functional efficiencies in an incremental way. through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.

Stability strategy does not involve a redefinition of the business of the corporation

It is a safe strategy that maintains status quo.

It does not warrant much of fresh investments.

While opting for this strategy, the organization can concentrate on its resources and existing businesses/products and markets, thus leading to building of core competencies.

The firms with modest growth objective choose this strategy.

Major Reasons for Stability Strategy

A product has reached the maturity stage of the product life cycle.

The staff feels comfortable with the status quo as it involves less changes and less risks.

It is opted when the environment in which an organisation is operating is relatively stable.

After rapid expansion, a firm might want to stabilize and consolidate itself.

Why don't Startups aim for stability?

A startup is an entrepreneurial venture in the early stages of ideation and development, generally created for solving real-life problems through technology. For it, the most important factors are speed and agility, because of it being in a nascent stage of operations. Stability on the other hand is more meaningful strategy when the size of operations is expanded to full capacity and business is at a mature stage. Thereby, we rarely see startups aiming for stability.

Growth/Expansion Strategy

- Growth/Expansion strategy is implemented by redefining the business by enlarging the scope of business and substantially increasing investment in the business.
- It is a strategy that can be equated with dynamism, vigour, promise and success.
- This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

Characteristics of Growth/Expansion Strategy

Expansion strategy involves a redefinition of the business of the corporation.

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.

Expansion strategy leads to business growth. A firm with a mammoth growth ambition can meet its objective only through the expansion strategy.

The process of renewal of the firm through fresh investments and new businesses/ products/markets is facilitated only by expansion strategy.

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. Both of them are growth strategies; the difference lies in the way in which the firm actually pursues the growth.

Major Reasons for Growth/Expansion Strategy

May become imperative when environment demands increase in pace of activity.

Strategists may feel more satisfied with the prospects of growth from expansion, chief executives may take pride in presiding over organizations perceived to be growth-oriented.

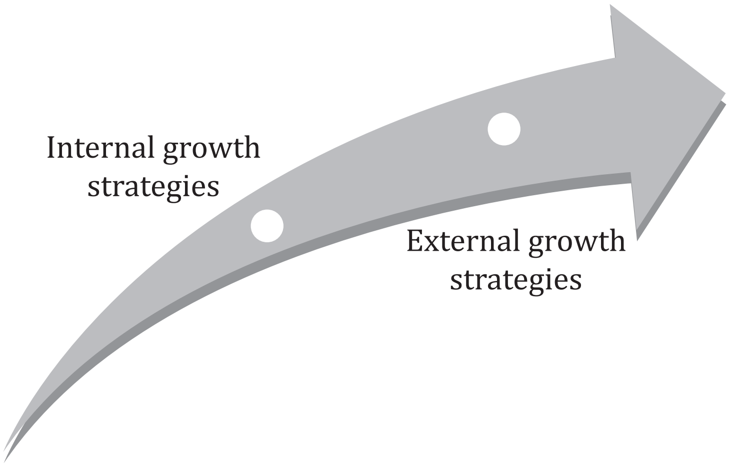
Expansion may lead to greater control over the market vis-a-vis competitors.

Advantages from the experience curve and scale of operations may accrue.

Expansion also includes intensifying, diversifying, acquiring and merging businesses.

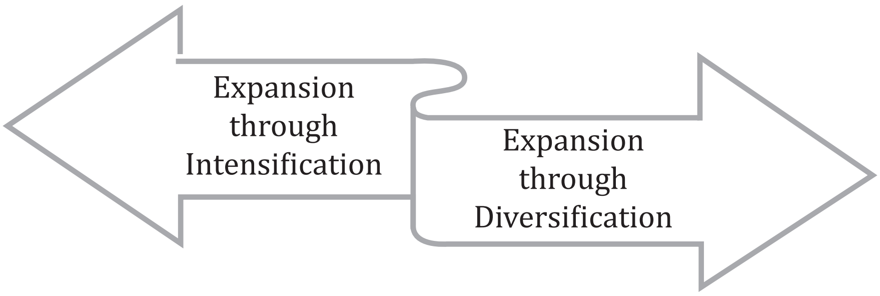
Types of Growth/ Expansion Strategy

The growth strategies can be classified into **two main types:**



■ INTERNAL GROWTH STRATEGIES

Internal growth strategies **can be further divided into:**



I. Expansion or growth through Intensification

- Expansion or growth through intensification means that the organisation tries to grow internally by intensifying its operations either by market penetration or market development or by product development.
- **The firm can intensify by adopting any of the following strategies:**

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.

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.

Product Development
- Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.

- Igor. H. Ansoff gave a framework as shown in figure below which describes the intensification options available to a firm.

Market Penetration
- Increase market share.
- Increase product usage.
- Increase the frequency used.
- Increase the quantity used.
- Find new application for current users .

Product Development
- Add product features, product refinement.
- Develop a new-generation product.
- Develop new product for the same market

Diversification involving new products and new markets
- Related/ Unrelated.

Market Development
- Expand geographically Target new segments

II. Expansion or Growth through Diversification

- When a firm tries to grow and expand by diversifying into various products or fields, it is called growth by diversification. This is also an internal growth strategy.
- **Diversification is defined** as an entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.
- 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.

- **Based on the nature and extent of their relationship to existing businesses, diversification can be classified into two broad categories:**

Concentric Diversification | Conglomerate Diversification

<table>
<tr><td rowspan="7">Concentric Diversification</td><td colspan="3">❍ Concentric diversification takes place when the products are related.
❍ In this diversification, the new business that is it diversifies into is linked to the existing businesses through process, technology or marketing.
❍ The new product is a spin-off from the existing facilities and products/ processes.
❍ The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.
❍ Example, a company producing clothes ventures into the manufacturing of shoes.
❍ Concentric diversification is generally understood in two directions, vertical and horizontal integration;</td></tr>
<tr><td rowspan="5">Vertically Integrated Diversif-ication</td><td colspan="2">❍ Firms opt to engage in businesses that are related to the existing business of the firm.
❍ The characteristic feature of vertically integrated diversification is that the firm remains in the vertically linked product-process chain. A firm can either opt for forward or backward integration or horizontal integration.
❍ Forward and backward integration forms part of vertically integrated diversification.</td></tr>
<tr><th>Backward Integration</th><th>Forward Integration</th></tr>
<tr><td>Concerned with creation of effective supply by entering business of input providers.</td><td>Moving forward in the value chain and entering business lines that use existing products.</td></tr>
<tr><td>Strategy employed to expand profits and gain greater control over production/ supply of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.</td><td>Forward integration will also take place where organizations enter into businesses of distribution channels.</td></tr>
<tr><td>Example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.</td><td>Example, A coffee bean manufacture may choose to merge with a coffee cafe.</td></tr>
<tr><td>Horizontal Integrated Diversif-ication</td><td colspan="2">A firm gets horizontally diversified by integrating through acquisition of one or more similar businesses operating at the same stage of the production-marketing chain. They can also integrate with the firms producing complementary products or by-products or by taking over competitors' products.</td></tr>
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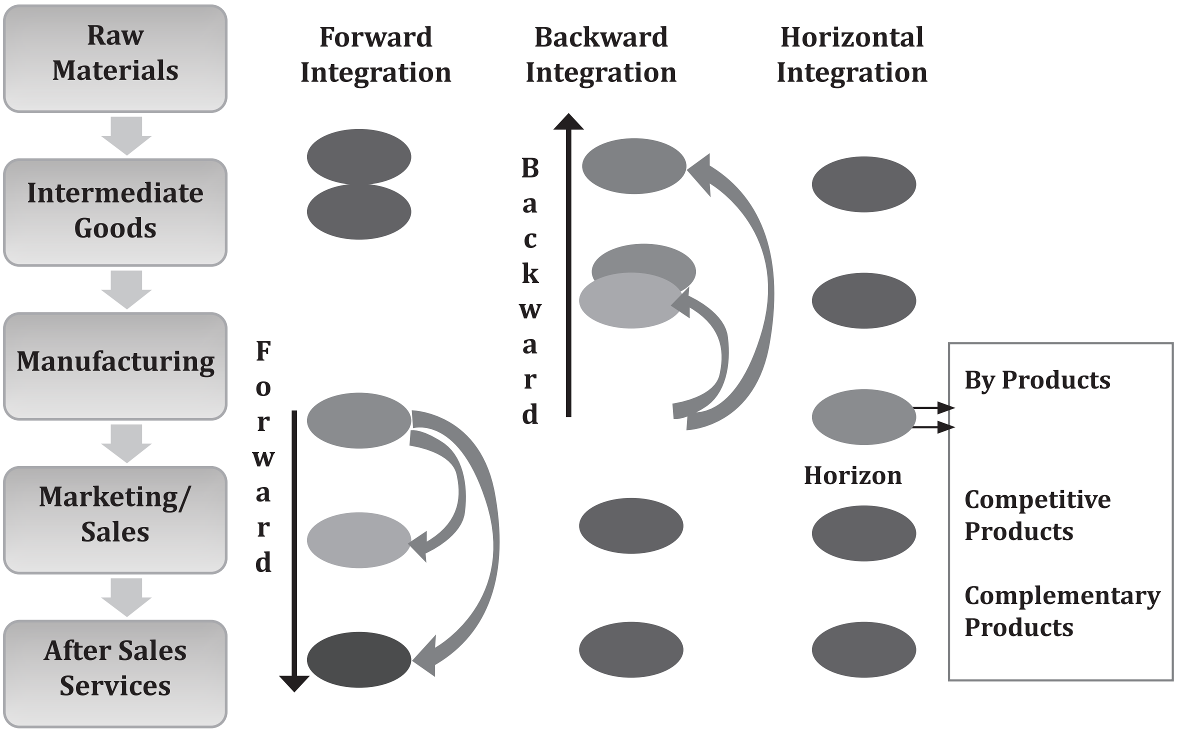

Conglomerate Diversification	❍ No linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/ products in every way; it is a totally unrelated diversification. ❍ Conglomerate diversification has no common thread at all with the firm's present position. ❍ **Example,** A cement manufacturer diversifies into the manufacture of steel and rubber products.

- **Related vs. Unrelated Diversification**

Related Diversification	Unrelated Diversification
❍ Exchange or share assets or competencies by exploiting. ❍ Brand name. ❍ Marketing skills. ❍ Sales and distribution capacity ❍ Manufacturing skills. ❍ R&D and new product capability. ❍ Economies of scale.	❍ Investment in new product portfolios. ❍ Employment of new technologies. ❍ Focus on multiple products. ❍ Reduce risk by operating in multiple product markets. ❍ Defend against takeover bids. ❍ Provide executive interest.

Is it really worth expanding so much to diversify a business into unrelated products?

Despite of its complexity, conglomerate diversification (diversification into unrelated business) financially makes a lot of sense. It creates access a new pool of customers, thereby expanding its customer base. It allows access to markets and cross-selling new products, leading to increased revenues. Further, it eases the management of losses in a business; profits in one business can be used to keep the loss-making business afloat within the same organisation.

<table>
<tr>
<td>Innovation</td>
<td>Innovation drives upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction. Some may argue that innovation leads to unnecessary expenses that do not give as much returns, but on the contrary, for a business to grow long term, innovation offers the following;

<table>
<tr>
<td>Help to solve complex problems</td>
<td>❍ A business strives to find opportunities in existing problems of the society, and it does so though planned innovation in areas of expertise.
❍ Example, the pressing problem of environmental damage is being tackled heads on by shifting to renewable sources of energy like solar, wind, sea waves, etc.
❍ It might be costly in introductory stages but in the long run it will only have economic and environmental sustainability.</td>
</tr>
<tr>
<td>Increases Productivity</td>
<td>❍ Innovation leads to simplification and in most cases automation of existing tasks.
❍ Productivity is defined as a measure of final output from a task or a process, and companies are willing to spend millions on increasing their productivity.
❍ Example, MS Excel, every finance professional uses this software to simplify and automate their manual tasks.
❍ Improved productivity, creates opportunities to further develop processes and products within and outside the organization.
❍ Thus, innovation creates a ripple effect that has a far and wide impact across industries.</td>
</tr>
<tr>
<td>Gives Competitive Advantage</td>
<td>❍ An interesting concept about innovation is- the faster a business innovates, the farther it goes from its competitor's reach.
❍ Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage.
❍ Innovation not only helps retain the existing customers but helps acquire new ones with ease.</td>
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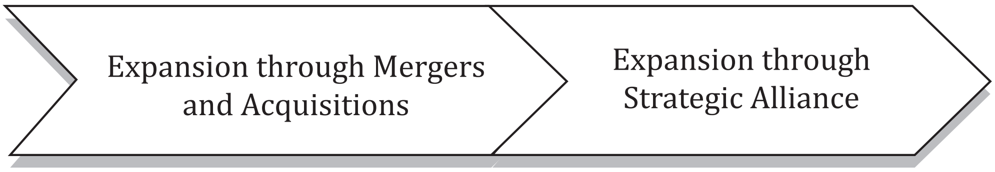
EXTERNAL GROWTH STRATEGIES

When the organization instead of growing internally thinks of diversifying by making alliances with external organisations, it is called external growth diversification.

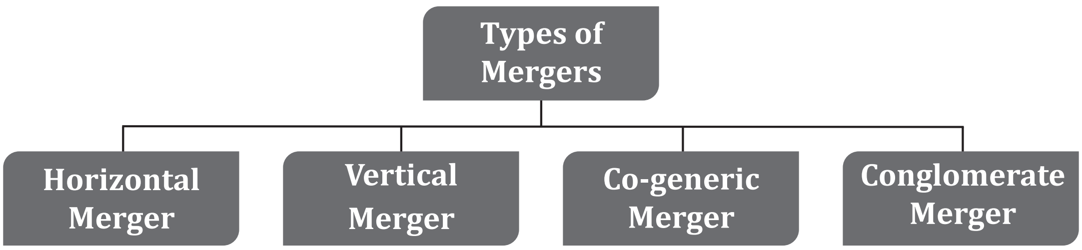
It can be classified in two ways:



I. Expansion through Mergers and Acquisitions

- Acquisition or merger with an existing concern is an instant means of achieving the expansion.
- It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth.
- Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on.
- Positive synergistic effects are relevant in this connection which denotes that the positive effects of the merged resources are greater than the effects of the individual resources before merger or acquisition.
- There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. Some organizations prefer to grow through mergers, Merger is a process when two or more companies come together to expand their business operations.
- A merger two organizations combine to increase their strength and financial gains along with breaking of the trade barriers.
- When one organization takes over the other organization and controls all its business operations, it is known as acquisition.
- In acquisition, one financially strong organization overpowers the weaker one.
- Acquisitions often happen during recession in economy or during declining profit margins. The stronger one overpowers the weaker one.
- A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization acquires the operations of the company that is in a weaker position and is forced to sell its entity.

TYPES OF MERGERS



<table>
<tr><th>Horizontal Merger</th><th>Vertical Merger</th><th>Co-generic Merger</th><th>Conglomerate Merger</th></tr>
<tr>
<td>❍ Horizontal merger is a combination of firms engaged in the same industry.
❍ It is a merger with a direct competitor.
❍ The principal objective behind this type of merger is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on.
➢ Example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.</td>
<td>❍ It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system.
❍ This often leads to increased synergies with the merging firms.
❍ 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.
❍ Vertical merger results in many operating and financial economies.
❍ Vertical mergers help to create an advantageous position by restricting the supply of inputs to other players, or by providing the inputs at a higher cost.
➢ Example, backward integration and forward integration.</td>
<td>❍ 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.
❍ Such merger includes the extension of the product line or acquiring components that are required in the daily operations.
❍ It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements.
➢ Example, an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchen appliances.</td>
<td>❍ Conglomerate mergers are the combination of organizations that are unrelated to each other.
❍ There are no linkages with respect to customer groups, customer functions and technologies being used.
❍ There are no important common factors between the organizations in production, marketing, research and development and technology.
❍ In practice, however, there is some degree of overlap in one or more of these factors.</td>
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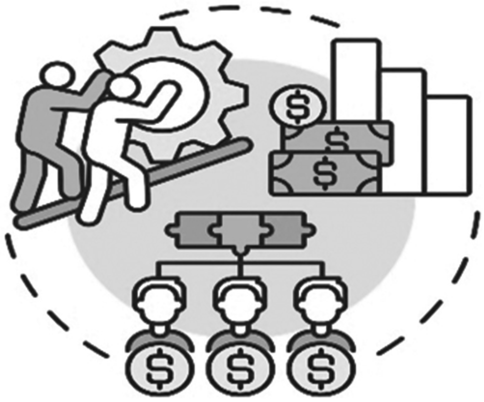
II. Expansion through Strategic Alliance

- 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 Alliance

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance.

Organizational	Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Strategic partners may provide a good or service that complements thereby creating a synergy. Having a strategic partner who is well-known and respected also helps 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. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.
Strategic	Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.
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 of Strategic Alliance

Strategic alliances do come with some disadvantages and risks.
The major disadvantage is 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.

Agreements can be executed to protect trade secrets, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them.
Strategic alliances may also create potential competition when an ally becomes an opponent in future when it decides to separate out.

STRATEGIC EXITS

- Strategic Exits are followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems.

Strategic Exits
- Turnaround Strategy
- Divestment Strategy

I. Turnaround Strategy

- 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.
- There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:
  - Persistent negative cash flow from business(es)
  - Uncompetitive products or services
  - Declining market share
  - Deterioration in physical facilities
  - Over-staffing, high turnover of employees, and low morale
  - Mismanagement

Action Plan for Turnaround

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. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.
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. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

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, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.
Stage Four-Restructuring the business	The financial state of the organization's core business is particularly important. The core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyse assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Morale building is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity amongst employees to think about profits and return on investments.
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. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

- **The important elements of turnaround strategy are as follows:**

Changes in the top management

Initial credibility-building actions

Neutralising external pressures

Identifying quick payoff activities

Quick cost reductions

Revenue generation

Asset liquidation for generating cash

Better internal coordination

II. Divestment Strategy

- Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre 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.
- **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.

Severity of competition and the inability of a firm to cope with it may cause it to divest.

It is not possible for the business to do Technological upgradation that is required for the business to survive, 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 business.

Characteristics of Divestment Strategy	
This strategy involves divestment of some of the activities in a given business of the firm or sell-out of some of the businesses as such.	**Divestment is to be viewed as an integral part of corporate strategy without any stigma attached.**

Major Reasons for Retrenchment/Turnaround Strategy

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- The management feels that business could be made viable by divesting some of the activities or liquidation of unprofitable activities.
- 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.
- 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.

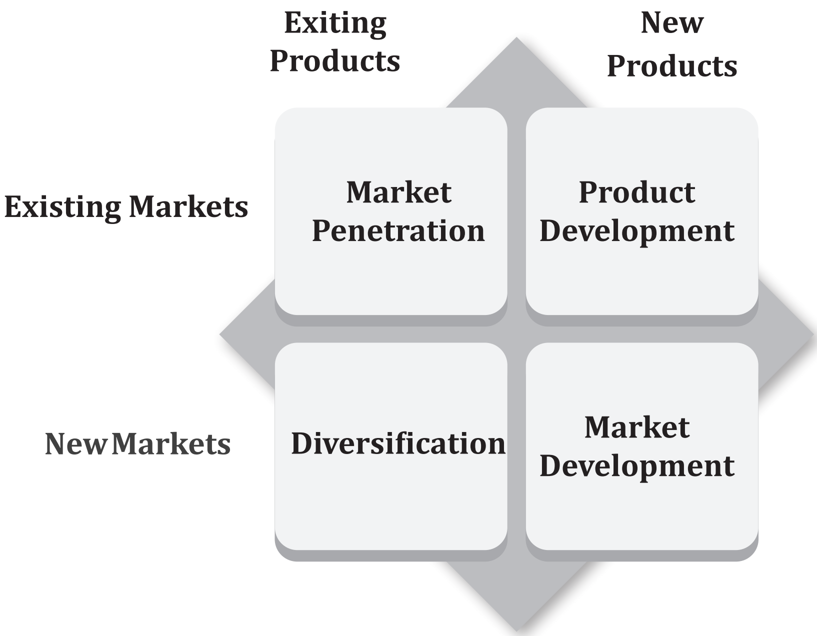
> **Is Turnaround strategy only relevant to loss making businesses?**
> Interestingly, turnaround strategy is relevant when a company is experiencing a period of poor performance. Poor performance does not always mean losses, it may also mean lower than expected growth, no future clarity, or even lesser than target profits.

STRATEGIC OPTIONS

- Strategic options need to be carved out from existing products and innovations that are happening in the industry.
- Primarily used for competitive analysis and corporate strategic planning in multi-product and multi business firms.
- They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests.
- A diversified company may decide to divert resources from its cash rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

ANSOFF'S PRODUCT MARKET GROWTH MATRIX

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying growth opportunities for the company.



Market Penetration	Market penetration refers to a growth strategy was the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. Penetration is also done by effort on increasing usage by existing customers. **Example,** Gucci, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.
Market Development	Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products. **Example,** Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.
Product Development	Product development refers to a growth strategy was business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets. **Example,** Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.
Diversification	Diversification refers to a growth strategy where a business market new product in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically, the business is moving into markets in which it has little or no experience. **Example,** Gucci, a luxury clothing brand, selling casual clothing in Chinese markets, is diversification. As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

ADL MATRIX

- The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle.
- The approach forms a two- dimensional matrix based on stage of industry maturity and the firm’s competitive position, environmental assessment and business strength assessment.
- Stage of industry maturity is an environmental measure that represents a position in industry's life cycle.
- Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions:
  - dominant,
  - strong,

- favourable,
- tenable and
- weak

It is four by five matrix as follows:

Stage of industry maturity - Arthur D. Little (ADL) Matrix				
Competitive position	**Embryonic**	**Growth**	**Mature**	**Ageing**
Dominant	- Fast grow - Build barriers - Act offensively	- Fast grow - Attend cost leadership - Renew - Defend position - Act offensively	- Defend position - Attend cost leadership - Renew - Fast grow - Act offensively	- Defend position - Renew - Focus - Consider withdrawal
Strong	- Differentiate - Fast grow	- Differentiate - Lower cost - Attack small firms	- Lower cost - Focus Differentiate - Grow with industry	- Find niche - Hold niche - Harvest
Favourable	- Differentiate - Focus - Fast grow	- Focus - Differentiate - Defend	- Focus Differentiate - Harvest - Find niche - Hold niche - Turnaround - Grow with industry - Hit smaller firms	- Harvest Turnaround
Tenable	- Grow with industry - Focus	- Hold niche - Turnaround - Focus - Grow with industry - Withdraw	- Turnaround - Hold niche - Retrench	- Divest - Retrench
Weak	- Find niche - Catch-up - Grow with industry	- Turnaround - Retrench - Niche or withdraw	- Withdraw - Divest	- Withdraw

The competitive position of a firm is based on an assessment of the following criteria:

Dominant	This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
Strong	By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.
Favourable	This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.
Tenable	Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
Weak	The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

BOSTON CONSULTING GROUP (BCG) GROWTH-SHARE MATRIX

- The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments.
- Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company.
- Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix.

In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company strength in the market.

Using the matrix, organisations can identify four different types of products or SBU as follows:

Stars	Are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
Cash Cows	Are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.
Question Marks	Sometimes **called problem children or wildcats,** are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.
Dogs	Are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

BCG MATRIX: POST IDENTIFICATION STRATEGIES

- After a firm, has classified its products or SBUS, it must determine what role each will play in the future. The **four strategies that can be pursued are:**

1. Build	Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
2. Hold	Here the objective is to preserve market share.
3. Harvest	Here the objective is to increase short-term cash flow regardless of long-term effect.
4. Divest	Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

Is BCG Matrix really helpful?

The growth-share matrix has done much to help strategic planning; however, there are some problems and limitations with the technique. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUS and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

GENERAL ELECTRIC MATRIX [“STOP-LIGHT” STRATEGY MODEL]

- This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey and Company).
- This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model.
- The strategic planning approach in this model has been inspired from traffic control lights.
- The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.
- This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness.

Understanding the GE Matrix

The vertical axis indicates market attractiveness, and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- Size of the market.
- Market growth rate.
- Industry profitability.
- Competitive intensity.
- Availability of Technology.
- Pricing trends.
- Overall risk of returns in the industry.
- Opportunity for differentiation of products and services.
- Demand variability
- Segmentation.
- Distribution structure (e.g., direct marketing, retail, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- Market share.
- Market share growth rate.
- Profit margin.
- Distribution efficiency.
- Brand image.
- Ability to compete on price and quality.
- Customer loyalty.
- Production capacity.
- Technological capability.
- Relative cost position.
- Management calibre, etc.

Market attractiveness \ Business strength	Strong	Average	Weak
High	Invest/Expand	Invest/Expand	Select/Earn
Medium	Invest/Expand	Select/Earn	Harvest/Divest
Low	Select/Earn	Harvest/Divest	Harvest/Divest

- If a product falls in the green section, the business is at advantageous position.
- To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.
- If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations.
- In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.
- This model is similar to the BCG growth-share matrix.
- However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness and includes a broader range of factors other than just the market growth rate.
- Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

TEST YOUR KNOWLEDGE – MCQS

1. **Which strategy is implemented after the failure of turnaround strategy?**
   (*a*) Expansion strategy
   (*b*) Diversification strategy
   (*c*) Divestment strategy
   (*d*) Growth strategy

2. **Retrenchment strategy in the organisation can be explained as**
   (*a*) Reducing trenches (gaps) created between individuals
   (*b*) Divesting a major product line or market
   (*c*) Removal of employees from job through the process of reorganization
   (*d*) Removal of employees from job in one business to relocate them in other business.

3. **An organisation diversifies in backward sequence in the product chain and enters specific product/process to be used in existing products. It is:**
   (*a*) Forward diversification
   (*b*) Vertical diversification
   (*c*) Horizontal diversification
   (*d*) Reactive diversification

4. **Corporate strategy includes:**
   (*i*) Expansion and growth, diversification, takeovers and mergers
   (ii) Vertical and horizontal integration, new investment and divestment areas
   (iii) Determination of the business lines
   From the combinations given below select a correct alternative:
   (*a*) (i) and (ii)
   (*b*) (i) and (iii)
   (*c*) (ii) and (iii)
   (*d*) (i), (ii) and (iii)

5. **Vertical integration may be beneficial when**
   (*a*) Lower transaction costs and improved coordination are vital and achievable through vertical integration
   (*b*) Flexibility is reduced, providing a more stationary position in the competitive environment.
   (*c*) Various segregated specializations will be combined
   (*d*) The minimum efficient scales of two corporations are different.

6. **Stability strategy is a ______ strategy.**
   (*a*) SBU level
   (*b*) Corporate level
   (*c*) Business level
   (*d*) Functional level

7. **Conglomerate diversification is another name for which of the following?**
   (*a*) Related diversification
   (*b*) Unrelated diversification
   (*c*) Portfolio diversification
   (*d*) Acquisition diversification

8. **Diversification primarily helps to:**
   (*a*) Reduce competition
   (*b*) Reduce risk
   (*c*) Reduces taxes
   (*d*) Reduce costs

9. **If suppliers are unreliable or too costly, which of these strategies may be appropriate?**
   (*a*) Horizontal integration
   (*b*) Backward integration
   (*c*) Market penetration
   (*d*) Forward integration

ANSWER KEY

1.	(c)	**2.**	(b)	**3.**	(b)	**4.**	(d)	**5.**	(a)	**6.**	(b)
7.	(b)	**8.**	(b)	**9.**	(b)						

TEST YOUR KNOWLEDGE – CASE STUDIES

1. **Gautam and Siddhartha, two brothers, are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future.**

   Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markets, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments.

   Discuss the nature of strategic choices being suggested by the two brothers with reference to the payoffs and the risks involved.

Ans. Gautam 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 Faridabad manufacturing stationery items such as permanent markets, notebooks, pencils and pencil sharpeners, envelopes and other office supplies, which is not related to their existing product. In conglomerate diversification, the new business/products are disjointed from the existing business/products in every way; it is an unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

On the other hand, Siddhartha seeks to move forward in the chain of existing product by adopting vertically integrated diversification/forward integration. The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business. In such diversification, firms opt to engage in businesses that re related to the existing business of the firm. The firm remains vertically withing the same process and moves forward or backward in the chain. It enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.

Both types of diversifications have their own risks. In conglomerate diversification, there are no linkages with customer group, customer marketing functions and technology used, which is a risk. In the case of vertical integrated diversification, there is a risk of lack of continued focus on the original business.

2. **XYZ Company is facing continuous losses. There is decline in sales and product market share. The products of the company became uncompetitive and there is persistent negative cash flow. The physical facilities are deteriorating and employees have low morale. At the board meeting, the board members decided that they should continue the organization and adopt such measures such that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organization. What corporate strategy should Shayamli adopt for this company and what steps need to be taken to implement the corporate strategy adopted by Shayamli? [SM, Nov 2019]**

Ans. XYZ Company is facing continuous losses, decline in sales and product market share, persistent negative cash flow, uncompetitive products, declining market share, deterioration in physical facilities, low morale of employees. In such a scenario, Shayamli may choose a turnaround strategy as this strategy attempts to reverse the process of decline and bring improvement in organizational health. This is also important as the Board has decided to continue the company and adopt measures for its proper functioning. For success, Shayamli needs to focus on the short and long-term financing needs as well as on strategic issues. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. A workable action plan for turnaround would involve:

Stage One – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.

Stage Two – Analyze the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

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.

Stage Four – Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

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

3. Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides organo with a sufficient amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo? (SM)

Ans. Organo is large supermarket chain. By opting backward integration and purchase a number of farms, it will have greater control over its supply chain. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed ot expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

4. With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyester, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month.

Suggest a grad strategy that can be opted by Soft Cloth Ltd. (SM)

Ans. Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment/turnaround strategy. The strategy is suitable in case of issues such as:

- Persistent negative cash flows
- Uncompetitive products or services
- Declining market share
- Deterioration in physical facilities
- Overstaffing, high turnover or employees, and low morale
- Mismanagement

The company may consider to substantially reduce the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next steps are taken to solve the problems.

These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, a resulting in a liquidation strategy.

5. X Pvt. Ltd. had recently ventured into the business of co-working spaces when the global pandemic struck. This has resulted in the business line becoming unprofitable and unviable, and a failure of the existing strategy. However, the other businesses of X Pvt. Ltd. are relatively less affected by the pandemic as compared to the recent co-working spaces. Suggest a strategy for X Pvt. Ltd. with reasons to justify your answer. [SM, Jan 2021]

Ans. It is advisable that divestment strategy should be adopted by X Pvt. Ltd. In the given situation where the business of co-working spaces became unprofitable and unviable due to Global pandemic, the best option for the company is to divest the loss-making business. Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for a divestment strategy.

Further, divestment helps address issues like:

1. Persistent cash flows from loss making segments could affect other profit-making segments, which is the case in the given scenario.
2. Inability to cope from the losses, which again is uncertain due to pandemic.
3. Better investment opportunity, which could be the case if X Pvt. Ltd. can invest the money it generates from divestment.

6. 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 ahs 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. (SM)

Ans. 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:

(*a*) Invest in new product development and switchover to the new technology. Atrix Ltd. also need time to invest in emerging new technology.

(*b*) They can acquire or takeover a competitor provided they have or are able to generate enough financial resources.

(*c*) They may also consider unrelated growth and identify other areas for expansion. This will enable Atrix Ltd. to spread their risks.

(*d*) 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.

7. **XYZ Ltd. is a multi-product company, suffering from continuous losses since the last few years and has accumulated heavy losses which have eroded its net worth. What strategic option is available to the management of this sick company? Advise with reasons. [May 2018]**

Ans. XYZ Ltd. is a sick company with accumulated losses that have eroded its net worth. The multi-product company may analyze its various products to make decisions on the viability of each. The company may consider a retrenchment strategy. Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. Retrenchment strategy is adopted because of continuous losses and unviability and stability can be ensured by reallocation of resources from unprofitable to profitable businesses. Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies as follows:

Turnaround strategy: If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on.

Divestment Strategy: 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.

Liquidation Strategy: In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. 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 of failure. The management of multiproduct sick companies manufacturing various items need to understand the pros and cons of each strategic option. The decision will depend upon the specific circumstances of each product and management goals of the company.

8. **ABC Steel Industries finds out that its products have reached at maturity stage and already has overcapacity. Therefore, it concentrates on maintaining operational efficiency of its plants. Identity the strategy implemented by ABC Steel Industries along with reasons. [May 2022]**

Ans. ABC Steel Industries has opted to implement a Stability strategy. Stability strategies are intended to safeguard the existing interests and strengths of business. It involves organizations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in the same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain a comfortable market or profit position.

Major reasons for Stability strategy are:

- A product has reached the maturity stage of the product life cycle.
- The staff feels comfortable with the status quo as it involves less changes and less risks.
- It is opted when the environment in which an organization is operating is relatively stable.
- Where it is not advisable to expand as it may be perceived as threatening.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

9. **Quick N Sturdy Inc., a multinational company, is undergoing feasibility study to introduce new luxury and sports car for specific group of customers. The product is meant for customers with distinctive preferences and special requirements. The product is not a standard one and as such the target market is also narrow. Company knows that demand for the product is large enough to be profitable for the company, but small enough to be ignored by other major industry players. The company wants to position itself in the niche market with the prime consideration to offer unique features in the product for the target market.**

   In the given situation, identify the generic strategy as suggested by Michael Porter. Also state the advantages and disadvantages of such strategy. [Nov 2022]

Ans. Quick N Sturdy Inc. has adopted Focused Differentiation Strategy which is one of the Michael Porter's Generic strategies. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiation strategy.

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

10. **A company started its operation in 2015 with Product Alpha. In early 2021, with intent to have its better presence in the market, the company diversifies by acquiring a company with product Beta. After sometime, it was observed that product Beta is not faring well. Aggressive competition was therein market for the product. It was also revealed that though customers are not price sensitive, but product was not keeping pace with the fast-changing unique features as expected by its customers.**

    Company has tried one of the retrenchment strategies by putting efforts to improve its internal efficiency, but could not get desired results. In the situation, company is of a considered view to remain and grow in product alpha and to decouple with product Beta from its portfolio.

    As a strategist, suggest the retrenchment strategy to be adopted by the company. Also delineates reasons why a company should adopt such strategy? [Nov 2022]

Ans. As per the facts of the case, company had tried to improve its internal efficiency. In other words, had tried turnaround strategy but could not get the desired results. Company does not want to go for complete close down of business. Rather it wants to continue and grow in its original business i.e., product Alpha. As a strategist, it is advisable that the company should adopt divestment strategy. In the given situation where the business of product Beta is not faring well and became unprofitable and unviable due to aggressive competition in the market, the best option for the company is to divest the product Beta which is loss-making business. Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

A divestment strategy may be adopted due to various reasons:

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
4. It is not possible for the business to do Technological up-gradation that is required for the business to survive, a preferable option would be to divest.
5. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business

TEST YOUR KNOWLEDGE – DESCRIPTIVE QUESTIONS

1. Explain the meaning of Directional Strategy. **[May 2018]**

Ans. Directional strategies, also called grand strategies, provide basic directions for strategic actions towards achieving strategic goals. Such strategies are formulated at the corporate level so are also known as corporate strategies. The corporate strategies a firm can adopt have been classified into four broad categories: stability, expansion, retrenchment, and combination.

2. Briefly describe the meaning of divestment and liquidation strategy and establish difference between the two. **[Nov 2020]**

Ans. 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. Liquidation strategy is a retrenchment strategy considered the most extreme and unattractive strategy, which involves closing down a firm and selling its assets.

Difference between Divestment strategy and Liquidation strategy:

Basis of Difference	Divestment Strategy	Liquidation Strategy
Meaning	Divestment strategy involves sale or liquidation of a portion of business	Liquidation strategy involves closing down a firm and selling its business
Policy option	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. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer	Liquidation becomes the only option in case of severe and critical conditions where either turnaround or divestment are not seen as a solution or have been attempted but failed.

Basis of Difference	Divestment Strategy	Liquidation Strategy
Purpose	Efforts are made for the survival of the organization.	Liquidation as a form of retrenchment strategy is unattractive and considered as the last resort
Consequences	Survival of organization helps in retaining personnel, at least to some extent	There is loss of employment and opportunities with stigma of failure.

3. The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for a turnaround to the CEO. **(July 2021)**

Ans. A workable action plan for turnaround of the textile mill would involve:

- **Stage One -** Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.
- **Stage Two -** Analyze the situation and develop a strategic plan: Identify major problems and opportunities develop a strategic plan with specific goals and detailed functional actions after analysing strengths and weaknesses in the areas of competitive position.
- **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.
- **Stage Four -** Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.
- **Stage Five -** Returning to normal: In the final stage of the turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value- Added.

4. "There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive". Discuss. **(Dec 2021)**

Ans. Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations require turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When an organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being an organization's first objective is to survive and then grow in the market; turnaround strategy is used when an organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies: When firms are losing their grip over market profits due to several internal and external factors, and if they have to survive under the competitive environment, they have to identify danger signals as early as possible and undertake rectification steps immediately. These are certain conditions or indicators which point out that a turnaround is needed if the company has to survive.

These danger signals are:

- Uncompetitive products or services.
- Declining market share.
- Deterioration in physical facilities.
- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

5. What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy? (Nov 2022)

Ans. Cost leadership strategy emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. It frequently results from productivity increases and aggressive pursuit of cost reduction throughout the development, production, marketing, and distribution processes. It allows a firm to earn higher profits than its competitors.

The circumstances in which an organization can gain competitive advantages from cost leadership strategy are:

- When the market is composed of many price-sensitive buyers.
- When there are few ways to achieve product differentiation.
- When buyers do not care much about differences from brand to brand.
- When there are a large number of buyers with significant bargaining power.

The basic idea is to underprice competitors and thereby gain market share driving some of the competitors out of the market.

Some risks of pursuing cost leadership are:

- That competitors may imitate the strategy, therefore driving overall industry profits down
- That technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

6. Describe the construction of BCG matrix and discuss its utility in strategic management. (SM)

Ans. Refer to above notes.

7. An industry comprises of only two firms – Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	Revenues (in ₹)	Percent Revenues	Profits (in ₹)	Percent Profits	Percentage Market Share	Percentage Industry Growth rate
A	6 crore	48	120 lakh	48	80	+15
B	4 crore	32	50 lakh	20	40	+10
C	2 crore	16	75 lakh	30	60	-20
D	50 lakh	4	5 lakh	2	5	-10
Total	12.5 crore	100	250 lakh	100		

Ans. Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on markets share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:

Retain Market Share

Market Growth Rate	**High**	**Low**
High	*Product A* *[80% Market Share + 15% Growth Rate]* **Stars**	*Product B* *[40% Market Share +10% Growth Rate]* **Question Marks**
Low	*Product C* *[60% Market Share – 20% Growth Rate]* **Cash Cows**	*Product D* *[05% Market Share – 10% Growth Rate]* **Dogs**

Product A is in best position as it has a high relative market share and a high industry growth rate. On the other hand, product B has a low relative market share, yet competes in a high growth industry. Product C has a high relative market share but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run. Product D is in the worst position as it has a low relative market share and competes in an industry with negative growth rate.

8. Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options. (SM)

Ans. The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets. The Ansoff's product market growth matrix is as follows:

	Existing Products	**New Products**
Existing Market	**Market Penetration**	**Product Development**
New Market	**Market Development**	**Diversification**

Ansoff's Product Market Growth Matrix

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products its result of extensive research and involves huge costs. There are social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focusses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way.

Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company.

Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.

Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product market growth strategies. For example, when its present market is fully saturated a company have no choice other than to pursue new market.

9. In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

(i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.

(ii) A business giant in hotel industry decides to enter into dairy business.

(iii) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.

(iv) A renowned auto manufacturing company launches ungeared scooters in the market.

Ans. The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organisation might follow:

(i) Market Penetration – A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.

(ii) Diversification – A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.

(iii) Market development – One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.

(iv) Product Development – A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.