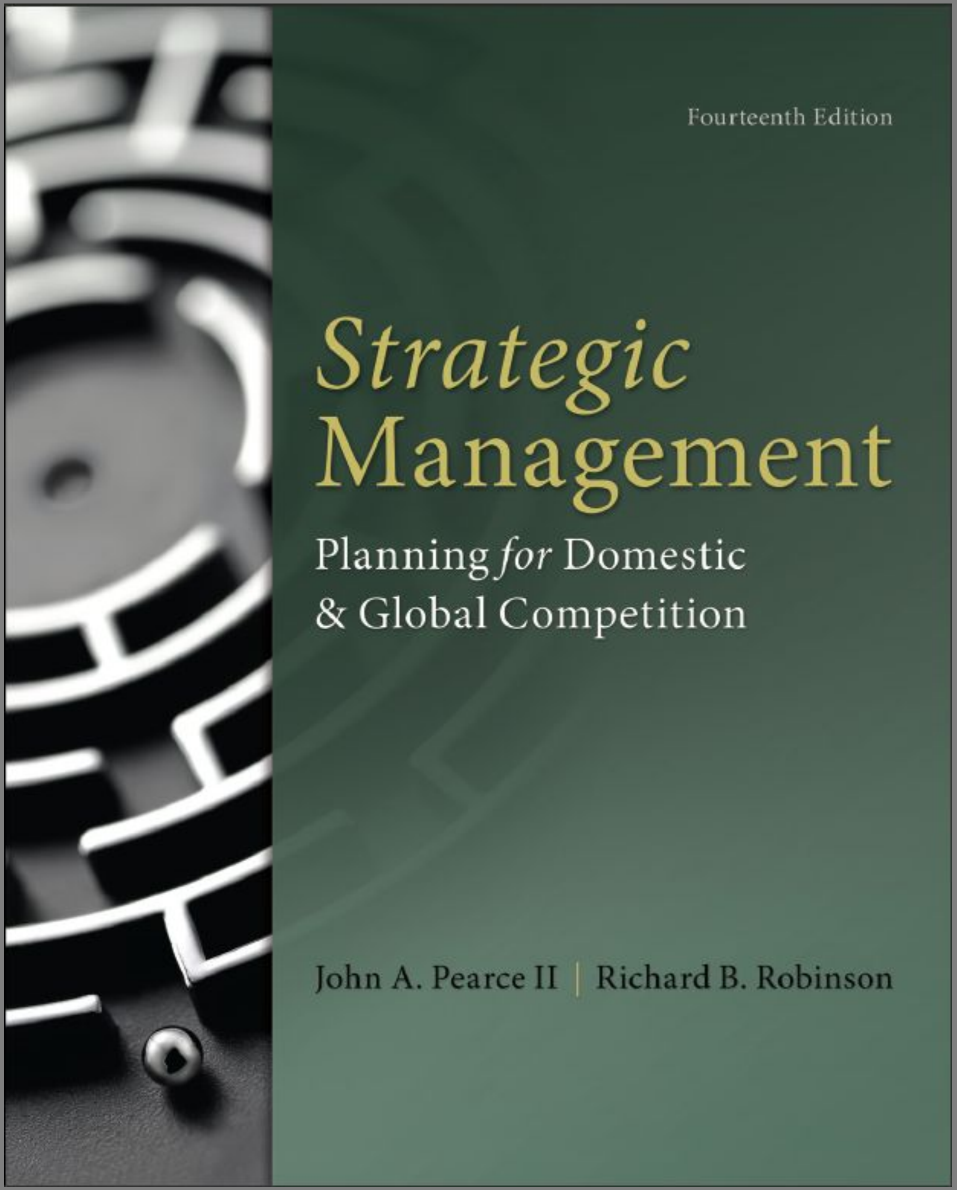
Chapter 7

Long-Term Objectives and Strategies



Learning Objectives

- Discuss seven different topics for long-term corporate objectives
- Describe the five qualities of long-term corporate objectives that make them useful to strategic managers
- Explain the generic strategies of low-cost leadership, differentiation, and focus
- Discuss the importance of the value disciplines
- List, describe, evaluate, and give examples of 15 grand strategies that decision makers use in forming their company's competitive plan
- Understand the creation of sets of long-term objectives and grand strategies options

Long-Term Objectives

- Strategic managers recognize that short-run profit maximization is rarely the best approach to achieving sustained corporate growth and profitability
- To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas:
  - Profitability
  - Productivity
  - Competitive Position
  - Employee Development
  - Employee Relations
  - Technological Leadership
  - Social Responsibility

Qualities of Long-Term Objectives

- There are five criteria that should be used in preparing long-term objectives:
  - Flexible
  - Measurable
  - Motivating
  - Suitable
  - Understandable

The Balanced Scorecard

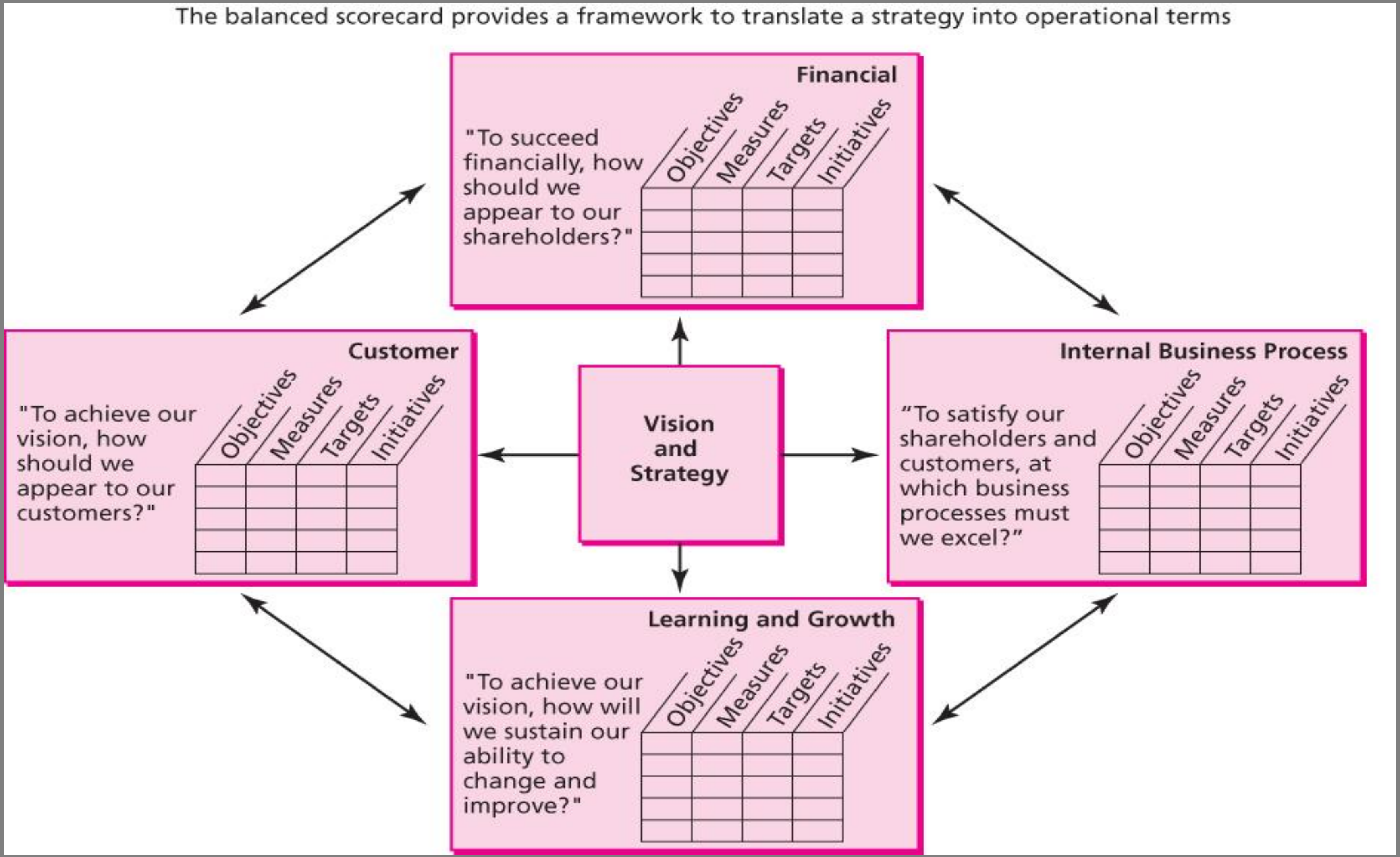
- The **balanced scorecard** is a set of four measures that are directly linked to the company's strategy
  - Developed by Robert S. Kaplan and David P. Norton, it directs a company to link its own long-term strategy with tangible goals and actions.

Balanced Scorecard (contd.)

The scorecard allows managers to evaluate the company from four perspectives:

- financial performance
- customer knowledge
- internal business processes
- learning and growth

Ex. 7.1 The Balanced Scorecard



Generic Strategies

- A long-term or grand strategy must be based on a core idea about how the firm can best compete in the marketplace. The popular term for this core idea is **generic strategy**.

The Three Generic Strategies

- 3 Generic Strategies:
  - Striving for overall ***low-cost leadership*** in the industry.
  - Striving to create and market unique products for varied customer groups through ***differentiation***.
  - Striving to have special appeal to one or more groups of consumers or industrial buyers, ***focusing*** on their cost or differentiation concerns.

Low-Cost Leadership

- Low-cost producers usually excel at cost reductions and efficiencies
- They maximize economies of scale, implement cost-cutting technologies, stress reductions in overhead and in administrative expenses, and use volume sales techniques to propel themselves up the earning curve
- A low-cost leader is able to use its cost advantage to charge lower prices or to enjoy higher profit margins

Differentiation

- Strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute
- By stressing the attribute above other product qualities, the firm attempts to build customer loyalty
- Often such loyalty translates into a firm's ability to charge a premium price for its product
- The product attribute also can be the marketing channels through which it is delivered, its image for excellence, the features it includes, and its service network

Focus

- A focus strategy, whether anchored in a low-cost base or a differentiation base, attempts to attend to the needs of a particular market segment
- A firm pursuing a focus strategy is willing to service isolated geographic areas; to satisfy the needs of customers with special financing, inventory, or servicing problems; or to tailor the product to the somewhat unique demands of the small- to medium-sized customer
- The focusing firms profit from their willingness to serve otherwise ignored or underappreciated customer segments

The Value Disciplines

- **Operational Excellence**
  - This strategy attempts to lead the industry in price and convenience by pursuing a focus on lean and efficient operations
- **Customer Intimacy**
  - Customer intimacy means continually tailoring and shaping products and services to fit an increasingly refined definition of the customer

The Value Disciplines (contd.)

- **Product Leadership**
  - Companies that pursue the discipline of product leadership strive to produce a continuous state of state-of-the-art products and services

Grand Strategies

- **Grand strategy**
  - A master long-term plan that provides basic direction for major actions for achieving long-term business objectives

Grand Strategies (contd.)

- Indicate the time period over which long-range objectives are to be achieved
- Any one of these strategies could serve as the basis for achieving the major long-term objectives of a single firm
- Firms involved with multiple industries, businesses, product lines, or customer groups usually combine several grand strategies

Concentrated Growth

- **Concentrated growth** is the strategy of the firm that directs its resources to the profitable growth of a dominant product, in a dominant market, with a dominant technology
- Concentrated growth strategies lead to enhanced performance
- Specific conditions favor concentrated growth
- The risks and rewards vary

Ex. 7.4 Specific Options -- Concentration

Concentration (increasing use of present products in present markets):

1. Increasing present customers' rate of use:
   a. Increasing the size of purchase.
   b. Increasing the rate of product obsolescence.
   c. Advertising other uses.
   d. Giving price incentives for increased use.
2. Attracting competitors' customers:
   a. Establishing sharper brand differentiation.
   b. Increasing promotional effort.
   c. Initiating price cuts.
3. Attracting nonusers to buy the product:
   a. Inducing trial use through sampling, price incentives, and so on.
   b. Pricing up or down.
   c. Advertising new uses.

Market Development

- **Market development** commonly ranks second only to concentration as the least costly and least risky of the 15 grand strategies
- It consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion
- Frequently, changes in media selection, promotional appeals, and distribution are used to initiate this approach

Ex. 7.4 Specific Options – Market Development

Market development (selling present products in new markets):

1. Opening additional geographic markets:
   a. Regional expansion.
   b. National expansion.
   c. International expansion.
2. Attracting other market segments:
   a. Developing product versions to appeal to other segments.
   b. Entering other channels of distribution.
   c. Advertising in other media.

Product Development

- **Product development** involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels

Ex. 7.4 Specific Options – Product Development

Product development (developing new products for present markets):

1. Developing new-product features:
   a. Adapt (to other ideas, developments).
   b. Modify (change color, motion, sound, odor, form, shape).
   c. Magnify (stronger, longer, thicker, extra value).
   d. Minify (smaller, shorter, lighter).
   e. Substitute (other ingredients, process, power).
   f. Rearrange (other patterns, layout, sequence, components).
   g. Reverse (inside out).
   h. Combine (blend, alloy, assortment, ensemble; combine units, purposes, appeals, ideas).
2. Developing quality variations.
3. Developing additional models and sizes (product proliferation).

Innovation

- These companies seek to reap the initially high profits associated with customer acceptance of a new or greatly improved product
- Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, they search for other original or novel ideas
- The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete

Horizontal Acquisition

- When a firm’s long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called **horizontal acquisition**
- Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets

Vertical Acquisition

- When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products), **vertical acquisition** is involved
- The main reason for backward vertical acquisition is the desire to increase the dependability of the supply or quality of the raw materials used as production inputs

Concentric Diversification

- **Concentric diversification** involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products
- With this grand strategy, the selected new businesses possess a high degree of compatibility with the firm’s current businesses
- The ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk

Conglomerate Diversification

- Occasionally a firm, particularly a very large one, plans acquire a business because it represents the most promising investment opportunity available. This grand strategy is commonly known as **conglomerate diversification**.
- The principal concern of the acquiring firm is the profit pattern of the venture
- Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing businesses

Turnaround

The firm finds itself with declining profits

- Among the reasons are economic recessions, production inefficiencies, and innovative breakthroughs by competitors
- Strategic managers often believe the firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competences. This is **turnaround**.
- Two forms of retrenchment:

    Cost reduction

    Asset reduction

Elements of Turnaround

- A *turnaround situation* represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions
- The immediacy of the resulting threat to company survival is known as *situation severity*
- *Turnaround responses* among successful firms typically include two stages of strategic activities: retrenchment and the recovery response
- The primary causes of the turnaround situation have been associated with the second phase of the turnaround process, the *recovery response*

Divestiture

- A **divestiture strategy** involves the sale of a firm or a major component of a firm
- When retrenchment fails to accomplish the desired turnaround, or when a nonintegrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm
- Reasons for divestiture vary

Liquidation

- When liquidation is the grand strategy, the firm typically is sold in parts, only occasionally as a whole—but for its tangible asset value and not as a going concern
- Planned liquidation can be worthwhile

Bankruptcy

- *Liquidation bankruptcy*—agreeing to a complete distribution of firm assets to creditors, most of whom receive a small fraction of the amount they are owed
- *Reorganization bankruptcy*—the managers believe the firm can remain viable through reorganization
- Two notable types of bankruptcy
  - *Chapter 7*
  - *Chapter 11*

Joint Ventures

- Occasionally two or more capable firms lack a necessary component for success in a particular competitive environment
- The solution is a set of **joint ventures**, which are commercial companies (children) created and operated for the benefit of the co-owners (parents)
- The joint venture extends the supplier-consumer relationship and has strategic advantages for both partners

Strategic Alliances

- **Strategic alliances** are distinguished from joint ventures because the companies involved do not take an equity position in one another
- In some instances, strategic alliances are synonymous with licensing agreements
- Outsourcing arrangements vary

Consortia, Keiretsus, and Chaebols

- **Consortia** are defined as large interlocking relationships between businesses of an industry
- In Japan such consortia are known as ***keiretsus***, in South Korea as ***chaebols***
- Their cooperative nature is growing in evidence as is their market success

Selection of Long-Term Objectives and Grand Strategy Sets

- When strategic planners study their opportunities, they try to determine which are most likely to result in achieving various long-range objectives
- Almost simultaneously, they try to forecast whether an available grand strategy can take advantage of preferred opportunities so the tentative objectives can be met
- In essence, then, three distinct but highly interdependent choices are being made at one time

Sequence of Selection and Strategy Objectives

- The selection of long-range objectives and grand strategies involves simultaneous, rather than sequential, decisions
- While it is true that objectives are needed to prevent the firm’s direction and progress from being determined by random forces, it is equally true that objectives can be achieved only if strategies are implemented

Business Model

- A clear understanding of how the firm will generate profits and the strategic actions it must take to succeed over the long term.

Key Terms

- Balanced scorecard
- Bankruptcy
- Business model
- Chaebol
- Concentrated growth
- Concentric diversification
- Conglomerate diversification
- Consortia
- Divestiture strategy
- Generic strategy

Key Terms (contd.)

- Grand strategy
- Horizontal acquisition
- Innovation
- Joint venture
- Keiretsu
- Liquidation
- Market development
- Product development
- Strategic alliances
- Turnaround
- Vertical acquisition