PROGRAMME: MASTER OF BUSINESS ADMINISTRATION

MODULE: Strategic and Change Management

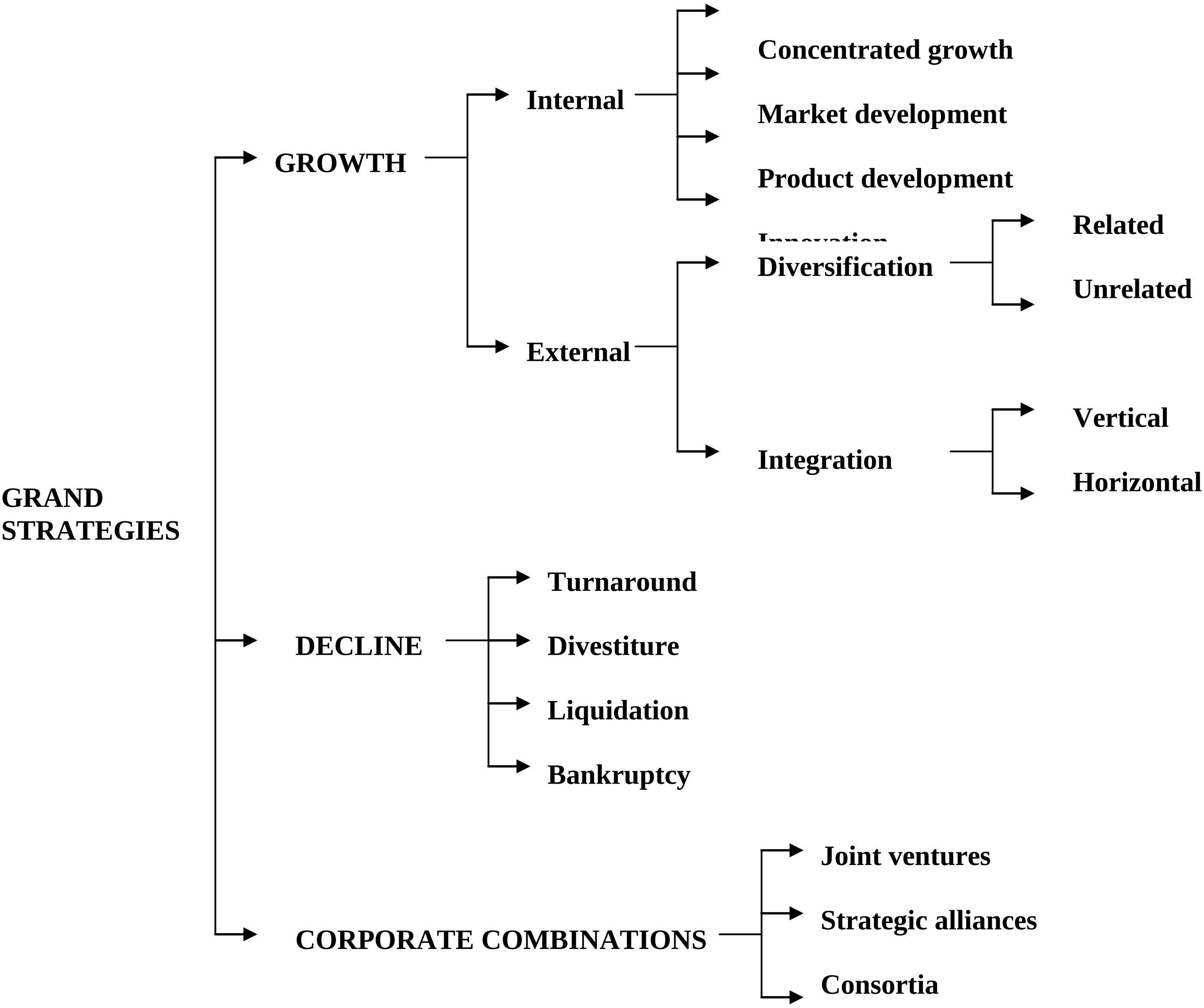
Strategy Formulation: Grand Strategies

The three generic strategies, namely cost leadership, differentiation and focus, can be viewed as restricting the strategic options of organisations. In addition, the reduction of competitive advantage to two broad categories (cost and differentiation) can be regarded as simplistic.

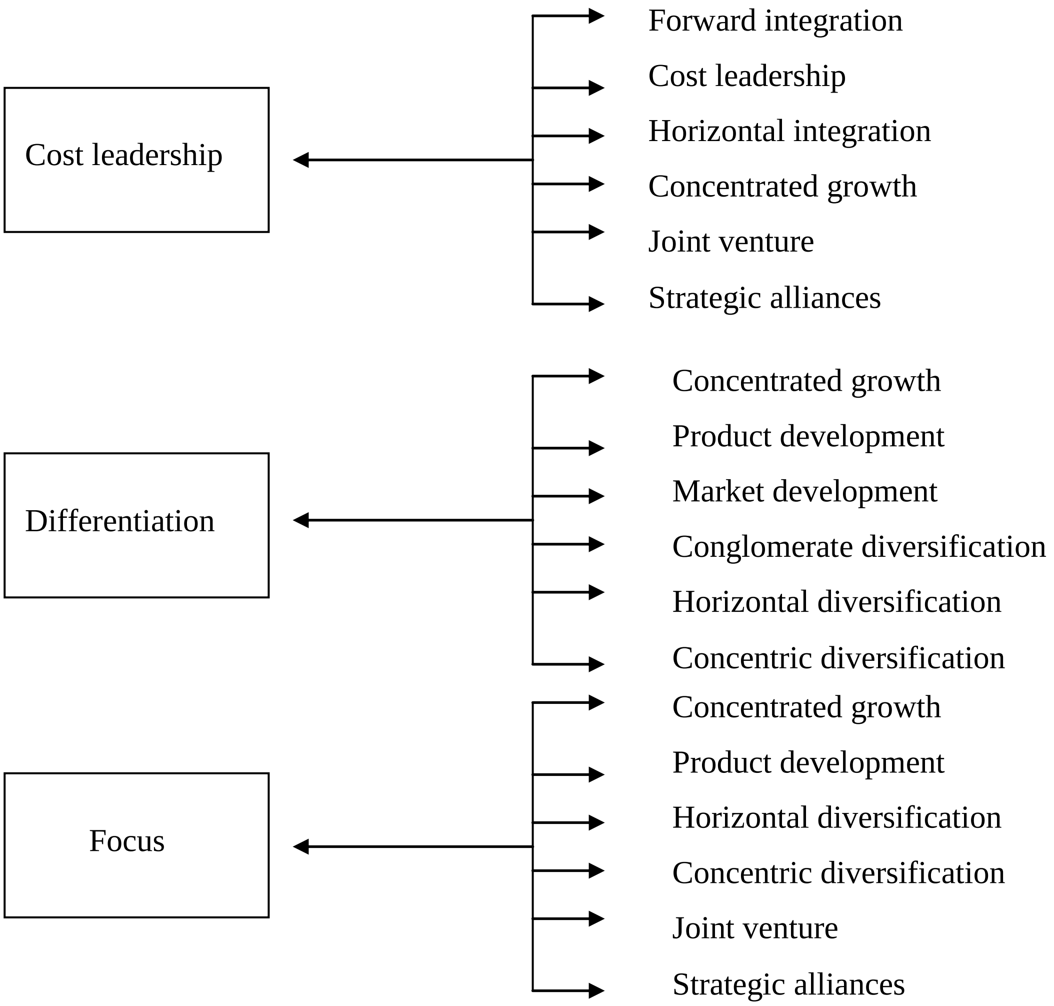
Additional and more specific strategies are therefore required to complement the generic strategies. One classification of such complementary strategies is termed grand strategies (also referred to as alternative strategies, business strategies or master strategies)

Grand strategies provide basic direction for strategic actions. They use as a point of departure a selected generic strategy with its associated competitive advantage. They form the basis of coordinated and sustained efforts directed towards achieving long-term objectives. A **grand strategy** can be described as a comprehensive general approach that guides an organisation's major actions.

Fifteen principal grand strategies are defined and classified under four broad categories – external growth strategies, internal growth strategies, decline strategies and corporate combinations strategies.



The interrelationship between the generic strategies (Porter) and the grand strategies can be illustrated as follows:



This illustration show how grand strategies contribute to achieving cost leadership, differentiation and focus.

Grand strategy type			Description	Effective when
Growth	Internal	Concentrated growth	Also referred to as market penetration, it seeks to increase the market share of an organisation through concentrated marketing efforts. The challenge is to grow market share through customisation of product features, prices, distribution channels and promotional strategies in order to meet the needs and expectations of consumers in that particular market better than any competitor.	• The market for the product or service is not saturated. • There is room to increase the usage rate of present customers • The market share(s) of competitor(s) have been declining while total sales have been increasing. • Scale economies can provide cost benefits • There is not much fluctuation in the availability, price and quality of raw materials.
		Market Development	Involves expanding the portfolio of markets that the organisation serves. Present products/ services are introduced into new geographic areas.	• Organisation has access to reliable and affordable distribution channels in the areas it wishes to enter
		Product Development	Requires the improvement and modification of products/ services in order to increase sales.	• Industries are characterised by rapid technological developments. • Capital is available for investment in research and development, technology and attainment of appropriate human resources.
		Innovation	Suits an organisation having distinctive technological competencies and capital reserves to invest in research and development.	• Customers demand differentiation • Industry is characterised by rapid changes and advances in technology • Organisational culture fosters innovativeness • Organisation has R&D skills
	External	Diversification (related)	The addition of new but related products or services to the product line is called related or concentric diversification. The objective is to expand the market share or to enter new markets.	• In industries that experience slow growth or no growth • Current products/services are in the decline stage of the product life cycle • Potential exists to reap economies of scale • Potential exists to utilise a core competence
		Diversification (unrelated)	The addition of new unrelated products/services in an effort to reach and penetrate new markets is called unrelated or conglomerate diversification.	• Basic industry is experiencing declining sales and profits • Existing markets are saturated • Capital and managerial talent is available

Growth	External	Integration (Vertical)	Extends the scope of operations to other activities within the industry. Backward vertical integration involves gaining ownership or increased control of an organisation's suppliers.	• Current suppliers are unreliable • Adequate capital and human resources are available
			Forward vertical integration entails gaining ownership over distributors or retailers.	• Existing distributors/ retailers are unreliable, have high margins or are incapable of servicing consumers
		Integration (Horizontal)	Seeking ownership or increased control over certain value chain activities of competitors.	• Organisation is competing in a growing industry. • Economies of scale could provide cost benefits
Decline (defensive)		Turnaround	Focuses on strengthening the distinctive competencies of an organisation in order to break a downward spiral of sales and profits.	• Organisations have been managed poorly or have grown too quickly and therefore need major reorganisation
		Divestiture	Selling a division or part of the organisation to raise capital for further acquisitions or investments	• In diversified organisations where units have become liabilities.
		Liquidation	Selling all the assets in order to avoid bankruptcy.	• Retrenchment and divestiture efforts have been unsuccessful
		Bankruptcy	Closing doors and selling off assets in parts to compensate creditors	• No hope exists of turning around activities.
Corporate Combination		Joint Ventures	A temporary partnership for the purpose of capitalising on a particular opportunity	• Distinctive competencies of two or more organisations complement each other
		Strategic Alliances	Organisations share skills and expertise for a defined period (no sharing of ownership)	• An organisation wants to venture into new and unfamiliar markets
		Consortia	Large interlocking relationships between organisations in a particular industry.	• Multipartner alliances and complex linkages are needed.

Grand strategies are pursued by organisations to achieve competitive advantage based on cost leadership, differentiation or focus and to coordinate their efforts towards the attainment of long-term objectives. Most organisations integrate two or more grand strategies in order to achieve their long-term objectives.

The grand strategies that organisations identify to achieve their objectives have to be implemented at both functional and operational level. This means that functional strategies and action plans have to be formulated to ensure that all units, divisions, departments and project teams do what is required in order to implement the strategy successfully.

Ehlers and Lazenby (editors) (2007) Strategic Management Southern African concepts and cases 2nd edition. Van Schaik