

# **CHAPTER FIVE**

## **STRATEGIES IN ACTION**

# Chapter Objectives

1. Discuss the value of establishing long-term objectives.
2. Identify 16 types of business strategies.
3. Identify numerous examples of organizations pursuing different types of strategies.
4. Discuss guidelines when particular strategies are most appropriate to pursue.
5. Discuss Porter's five generic strategies.
6. Describe strategic management in nonprofit, governmental, and small organizations.
7. Discuss joint ventures as a way to enter the Russian market.

# Chapter Objectives (cont.)

8. Discuss the Balanced Scorecard.
9. Compare and contrast financial with strategic objectives.
10. Discuss the levels of strategies in large versus small firms.
11. Explain the First Mover Advantages concept.
12. Discuss recent trends in outsourcing.
13. Discuss strategies for competing in turbulent, high-velocity markets.

# The Nature of Long-Term Objectives

- ❖ *Long-term objectives* represent the results expected from pursuing certain strategies.
- ❖ Strategies represent the actions to be taken to accomplish long-term objectives.
- ❖ **Objectives** should be:
  - quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units

# Cont...



## Objectives

- provide direction
- Allow synergy
- aid in evaluation
- establish priorities
- reduce uncertainty
- minimize conflicts
- aid in both the allocation of resources and the design of jobs

# Cont....

- ❖ Long-term objectives are needed at the corporate, divisional, and functional levels of an organization. They are an important measure of managerial performance.
- ❖ Without long-term objectives, an organization would drift aimlessly toward some unknown end. It is hard to imagine an organization or individual being successful without clear objectives.
- ❖ Success only rarely occurs by accident; rather, it is the result of hard work directed toward achieving certain objectives.

# The Desired Characteristics of Objectives

**TABLE 5-2** The Desired Characteristics of Objectives

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1. Quantitative
  2. Measurable
  3. Realistic
  4. Understandable
  5. Challenging
  6. Hierarchical
  7. Obtainable
  8. Congruent across departments
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# Types of Corporate level Strategies

- ❖ Most organizations simultaneously pursue a combination of two or more strategies, but a *combination strategy* can be exceptionally risky if carried too far.
- ❖ No organization can afford to pursue all the strategies that might benefit the firm.
- ❖ *Difficult decisions* must be made and priorities must be established.



# Alternative Strategies Defined and Exemplified

**TABLE 5-4** Alternative Strategies Defined and Exemplified

Strategy	Definition	2011 Examples
Forward Integration	Gaining ownership or increased control over distributors or retailers	Forward Integration—Starbucks reached a deal with Green Mountain Coffee Roasters for that firm to sell packs of Starbucks Tazo-branded coffee and tea in their brewers
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Backward Integration—Dell Inc. acquired network security (virus protection) producer Secure Works Inc.
Horizontal Integration	Seeking ownership or increased control over competitors	Horizontal Integration—French drugmaker SanofiAventis purchased U.S. biotech drugmaker Genzyme for \$20.1 billion
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Market Penetration—Neiman Marcus (NM) launched NM Daily to attract less-affluent customers and hired a new “Managing Editor of Social Media” (Jean Scheidnes) to tweet and post for NM
Market Development	Introducing present products or services into new geographic area	Market Development—Hawaiian Airlines began offering flights from Hawaii to Seoul, Korea, and Tokyo, Japan—rather than mostly flying to and from the U.S. mainland

# Alternative Strategies Defined and Exemplified

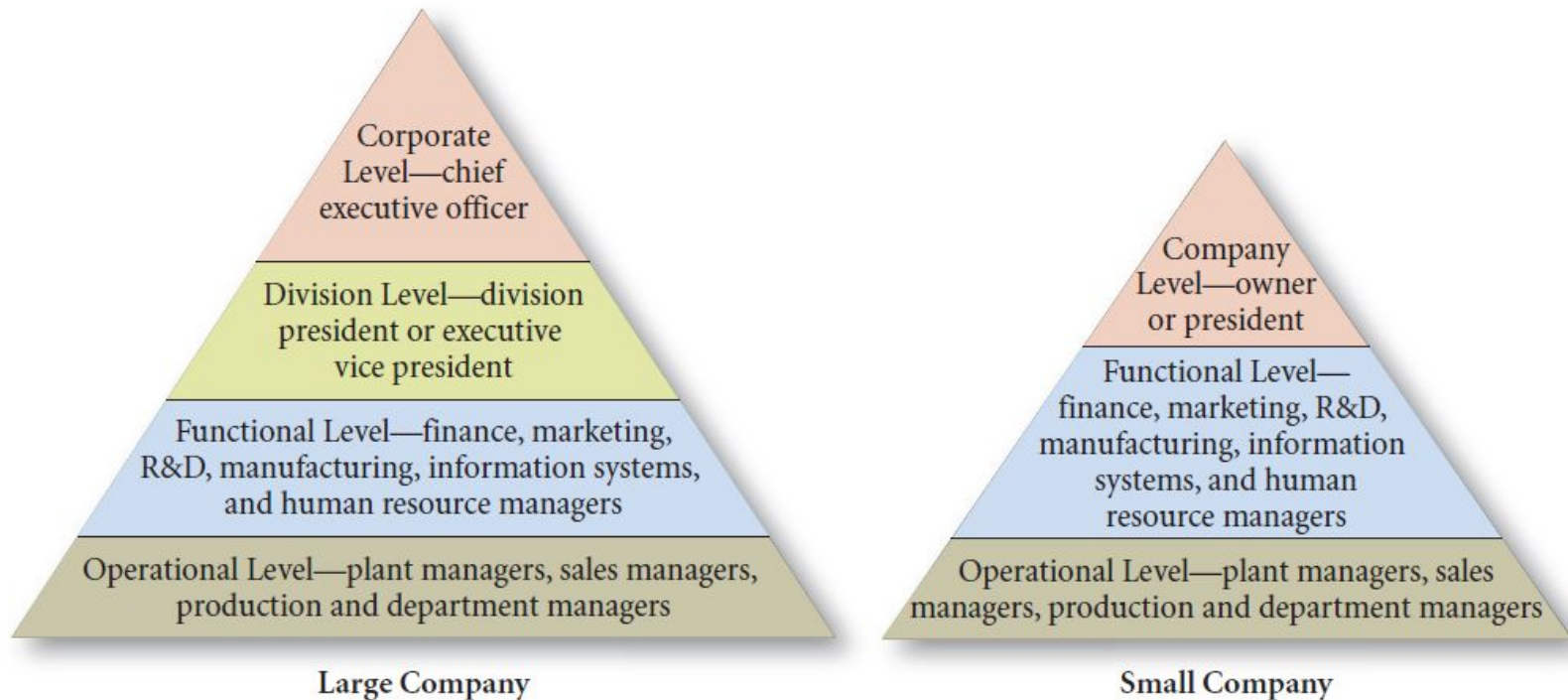
**TABLE 5-4** Alternative Strategies Defined and Exemplified

Strategy	Definition	2011 Examples
Product Development	Seeking increased sales by improving present products or services or developing new ones	Product Development—Apple introduced the new iPad 2
Related Diversification	Adding new but related products or services	Related Diversification—Amazon.com began allowing users to pay \$79 per year for “Amazon Prime,” which allows users to stream over 5,000 movies and TV shows
Unrelated Diversification	Adding new, unrelated products or services	Unrelated Diversification—Many banks now own, by default, many properties, putting many banks reluctantly in the real estate and/or property management business
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	Retrenchment—Borders closed 200 of its 488 superstores and laid off 6,000 of its 19,500 employees
Divestiture	Selling a division or part of an organization	Divestiture—Marriott sold its timeshare business, creating the world’s largest autonomous time-share business, consisting of 71 properties with 33,000 rooms
Liquidation	Selling all of a company’s assets, in parts, for their tangible worth	Liquidation—Blockbuster Inc. barely escaped liquidation in March 2011

# Levels of Strategies With Persons Most Responsible

**FIGURE 5-2**

## Levels of Strategies With Persons Most Responsible



# Integration Strategies

## ◆ **Forward integration**

- involves gaining ownership or increased control over distributors or retailers

## ◆ **Backward integration**

- strategy of seeking ownership or increased control of a firm's suppliers

## ◆ **Horizontal integration**

- a strategy of seeking ownership of or increased control over a firm's competitors

# Forward Integration Guidelines

- ❖ When an organization's present distributors are especially expensive
- ❖ When the availability of quality distributors is so limited as to offer a competitive advantage
- ❖ When an organization competes in an industry that is growing
- ❖ When present distributors or retailers have high profit margins

# Backward Integration Guidelines

- ❖ When an organization's present suppliers are especially expensive or unreliable
- ❖ When the number of suppliers is small and the number of competitors is large
- ❖ When the advantages of stable prices are particularly important
- ❖ When an organization needs to quickly acquire a needed resource

# Horizontal Integration Guidelines

- ❖ When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government
- ❖ When an organization competes in a growing industry
- ❖ When increased economies of scale provide major competitive advantages
- ❖ When competitors are faltering due to a lack of managerial expertise



# Intensive Strategies

- ◆ **Market penetration strategy**
  - seeks to increase market share for present products or services in present markets through greater marketing efforts
- ◆ **Market development**
  - involves introducing present products or services into new geographic areas
- ◆ **Product development strategy**
  - seeks increased sales by improving or modifying present products or services



# Market Penetration Guidelines

- ❖ When current markets are not saturated with a particular product or service
- ❖ When the usage rate of present customers could be increased significantly
- ❖ When the market shares of major competitors have been declining while total industry sales have been increasing
- ❖ When increased economies of scale provide major competitive advantages

# Market Development Guidelines

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- ❖ When new channels of distribution are available that are reliable, inexpensive, and of good quality
- ❖ When an organization is very successful at what it does
- ❖ When new untapped or unsaturated markets exist
- ❖ When an organization has excess production capacity

# Product Development Guidelines

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- ❖ When an organization has successful products that are in the maturity stage of the product life cycle
- ❖ When an organization competes in an industry that is characterized by rapid technological developments
- ❖ When major competitors offer better-quality products at comparable prices
- ❖ When an organization competes in a high-growth industry

# Diversification Strategies



## **Related diversification**

- value chains possess competitively valuable cross-business strategic fits



## **Unrelated diversification**

- value chains are so dissimilar that no competitively valuable cross-business relationships exist

# Synergies of Related Diversification

- ❖ Transferring competitively valuable expertise, technological know-how, or other capabilities from one business to another
- ❖ Combining the related activities of separate businesses into a single operation to achieve lower costs
- ❖ Exploiting common use of a well-known brand name

# Related Diversification Guidelines

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- ❖ When an organization competes in a no-growth or a slow-growth industry
- ❖ When adding new, but related, products would significantly enhance the sales of current products
- ❖ When new, but related, products could be offered at highly competitive prices
- ❖ When an organization has a strong management team

# Unrelated Diversification Guidelines

- ❖ When revenues derived from an organization's current products would increase significantly by adding the new, unrelated products
- ❖ When an organization's present channels of distribution can be used to market the new products to current customers
- ❖ When an organization's basic industry is experiencing declining annual sales and profits

# Unrelated Diversification Guidelines (cont.)

- ❖ When an organization has the opportunity to purchase an unrelated business that is an attractive investment opportunity
- ❖ When existing markets for an organization's present products are saturated
- ❖ When antitrust action could be charged against an organization that historically has concentrated on a single industry



# Defensive Strategies



## Retrenchment

- occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits
- also called a turnaround or reorganizational strategy
- designed to fortify an organization's basic distinctive competence

# Retrenchment Guidelines

- ❖ When an organization is one of the weaker competitors in a given industry
- ❖ When an organization is plagued by inefficiency, low profitability, and poor employee morale
- ❖ When an organization has grown so large so quickly that major internal reorganization is needed

# Defensive Strategies



## **Divestiture**

- Selling a division or part of an organization
- often used to raise capital for further strategic acquisitions or investments

# Divestiture Guidelines

- ❖ When an organization has pursued a retrenchment strategy and failed to accomplish needed improvements
- ❖ When a division needs more resources to be competitive than the company can provide
- ❖ When a division is responsible for an organization's overall poor performance
- ❖ When a division is a misfit with the rest of an organization

# Defensive Strategies

- ◆ **Liquidation**
  - selling all of a company's assets for their tangible worth
  - can be an emotionally difficult strategy

# Liquidation Guidelines

- ❖ When an organization has pursued both a retrenchment strategy and a divestiture strategy, and neither has been successful
- ❖ When an organization's only alternative is bankruptcy
- ❖ When the stockholders of a firm can minimize their losses by selling the organization's assets

# Porter's Five Generic Strategies (Business Level Strategy)

**FIGURE 5-3**

## Porter's Five Generic Strategies

Type 1: Cost Leadership—Low Cost

Type 2: Cost Leadership—Best Value

Type 3: Differentiation

Type 4: Focus—Low Cost

Type 5: Focus—Best Value

		GENERIC STRATEGIES		
		Cost Leadership	Differentiation	Focus
SIZE OF MARKET	Large	Type 1 Type 2	Type 3	—
	Small	—	Type 3	Type 4 Type 5

# Michael Porter's Five Generic Strategies



## **Cost leadership**

- emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive



# Michael Porter's Five Generic Strategies

## ◆ Type 1

□ *low-cost* strategy that offers products or services to a wide range of customers at the lowest price available on the market

## ◆ Type 2

□ *best-value* strategy that offers products or services to a wide range of customers at the best price-value available on the market

# Michael Porter's Five Generic Strategies



## **Differentiation**

- strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive

# Michael Porter's Five Generic Strategies

## ◆ Type 4

- *low-cost focus* strategy that offers products or services to a niche group of customers at the lowest price available on the market

## ◆ Type 5

- *best-value focus* strategy that offers products or services to a small range of customers at the best price-value available on the market

# Cost Leadership Strategies

- ❖ To employ a cost leadership strategy successfully, a firm must ensure that its total costs across its overall value chain are lower than competitors' total costs

# Cost Leadership Strategies

Two ways:

1. Perform value chain activities more efficiently than rivals and control the factors that drive the costs of value chain activities
2. Revamp the firm's overall value chain to eliminate or bypass some cost-producing activities

# Cost Leadership Guidelines

- ❖ When price competition among rival sellers is especially vigorous
- ❖ When there are few ways to achieve product differentiation that have value to buyers
- ❖ When most buyers use the product in the same ways
- ❖ When buyers incur low costs in switching their purchases from one seller to another

# Differentiation Strategies

- ❖ Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes

# Differentiation

- ❖ When there are many ways to differentiate the product
- ❖ When buyer needs and uses are diverse
- ❖ When few rival firms are following a similar differentiation approach
- ❖ When technological change is fast paced



# Focus Strategies

- ❖ Successful **focus strategy** depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the **success** of other major competitors
- ❖ Most effective when consumers have distinctive preferences

# Focus Strategy Guidelines

- ❖ When the target market niche is large, profitable, and growing
- ❖ When industry leaders do not consider the niche to be crucial to their own success
- ❖ When the industry has many different niches and segments
- ❖ When few, if any, other rivals are attempting to specialize in the same target segment

# Means for Achieving Strategies

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- ❖ Cooperation Among Competitors
- ❖ Joint Venture/Partnering
- ❖ Merger/Acquisition
- ❖ First Mover Advantages
- ❖ Outsourcing

# Key Reasons Why Many Mergers and Acquisitions Fail

**TABLE 5-5** Key Reasons Why Many Mergers and Acquisitions Fail

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- Integration difficulties
  - Inadequate evaluation of target
  - Large or extraordinary debt
  - Inability to achieve synergy
  - Too much diversification
  - Managers overly focused on acquisitions
  - Too large an acquisition
  - Difficult to integrate different organizational cultures
  - Reduced employee morale due to layoffs and relocations
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# Potential Benefits of Merging With or Acquiring Another Firm

**TABLE 5-6** Potential Benefits of Merging With or Acquiring Another Firm

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- To provide improved capacity utilization
  - To make better use of the existing sales force
  - To reduce managerial staff
  - To gain economies of scale
  - To smooth out seasonal trends in sales
  - To gain access to new suppliers, distributors, customers, products, and creditors
  - To gain new technology
  - To reduce tax obligations
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# Benefits of a Firm Being the First Mover

**TABLE 5-7** Benefits of a Firm Being the First Mover

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1. Secure access and commitments to rare resources
  2. Gain new knowledge of critical success factors and issues
  3. Gain market share and position in the best locations
  4. Establish and secure long-term relationships with customers, suppliers, distributors, and investors
  5. Gain customer loyalty and commitments
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