CHAPTER 4

STRATEGIC CHOICES

LEARNING OUTCOMES

After studying this chapter, you will be able to:

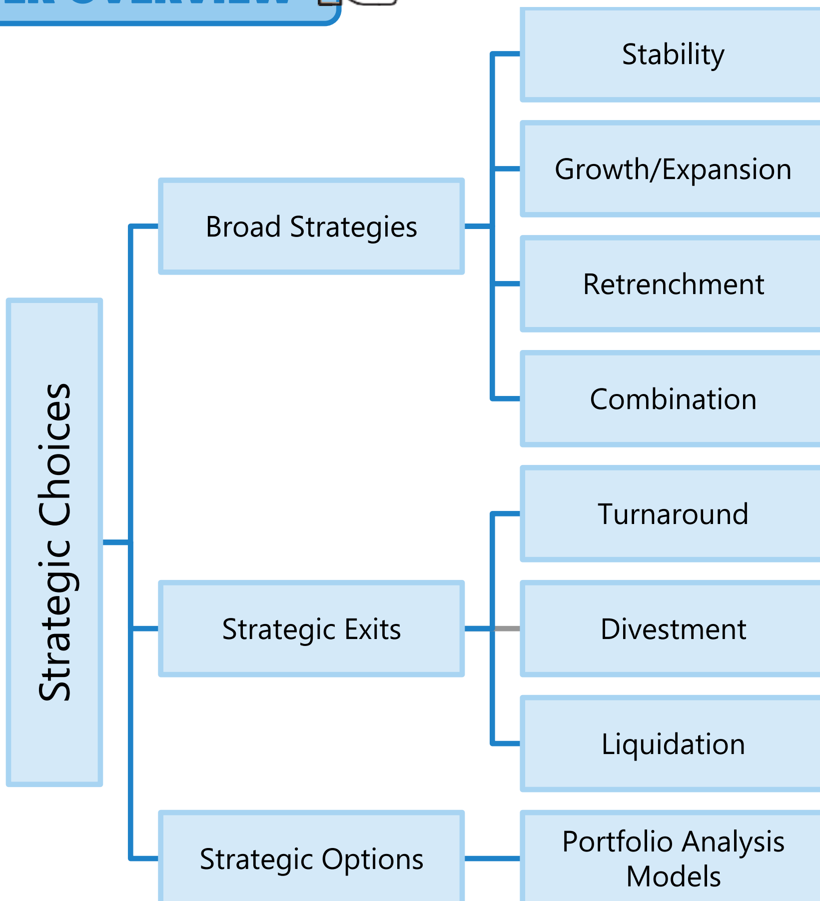
- Describe and discriminate between strategic choices such as strategic intensification, strategic diversification and strategic exits.
- Formulate strategic options.
- Explain the reasons for- relative costs & risks and benefits of the adoption of various types of corporate strategies.
- Describe the circumstances necessitating pursuit of combination strategies and strategic alliances.

Know about combination strategies and strategic alliances.

Chance favours the prepared mind. ***Louis Pasteur***

Strategy is a deliberate search for a plan of action that will develop a business competitive advantage and compound it.
Bruce D. Henderson

CHAPTER OVERVIEW



4.1 INTRODUCTION

Strategies are formulated at different levels of an organization. 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. Top management of the organization makes strategic decisions, which pan down for delegation at middle management level and finally the functional level managers execute the same with their teams.

4.2 STRATEGIC CHOICES

Businesses follow different types of strategies to enter the market, to stay relevant and grow in the market. A large number of strategies with different nomenclatures have been employed by different businesses and also suggested by different authors on strategy. For instance, 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. Besides these, we come across functional strategies in the literature on Strategic Management and Business Policy. Functional Strategies are meant for strategic management of distinct functions such as Marketing, Financial, Human Resource, Logistics, Production etc.

We can classify the different types of strategies on the basis of levels of the organisation, stages of business life cycle and competition as given in the Table –1.

Table: 1- Different types of strategies on the basis of their classification

Basis of Classification	Types
Level of the organisation	Corporate Level Business Level Functional Level
Stages of Business Life Cycle	Entry/Introduction Stage - Market Penetration Strategy Growth Stage - Growth/Expansion Strategy Maturity Stage - Stability Strategy Decline Stage - Retrenchment/ Turnaround Strategy
Competition oriented	Competitive Strategies - Cost Leadership, Differentiation, Focus Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance

Above are the various types of strategies available for an organisation to adopt. The organisation adopts either of these depending upon their needs and requirements. For instance, a start-up or a new enterprise might follow either a competitive strategy i.e., entering the market where a number of rivals are already operating, or a collaborative strategy, i.e., enter into a joint venture with an established company. However, majority of startups are launched on a small scale and their main strategy is to penetrate the market and to reach the breakeven stage at the earliest and later pursue growth strategy. While a going concern can continue with the competitive strategy or resort to collaborative strategy to ensure business growth.

Business conglomerates having multiple product folios formulate strategies at different levels, viz., corporate, business unit and functional. Corporate level strategies are meant to provide 'direction' to the company. Business level strategies are formulated for each product/process division known as strategic business unit. While for implementation of the corporate and business strategies, functional strategies are formulated in business areas like production/operations, marketing, finance, human resources etc. In fact, big corporates follow an elaborate system of strategy formulation, implementation and control at different levels in the company to survive and grow in the turbulent business environment. In this chapter, we shall discuss the corporate level strategies.

The corporate strategies a firm can adopt may be classified into four broad categories:

1. Stability strategy
2. Expansion strategy
3. Retrenchment strategy
4. Combination strategy

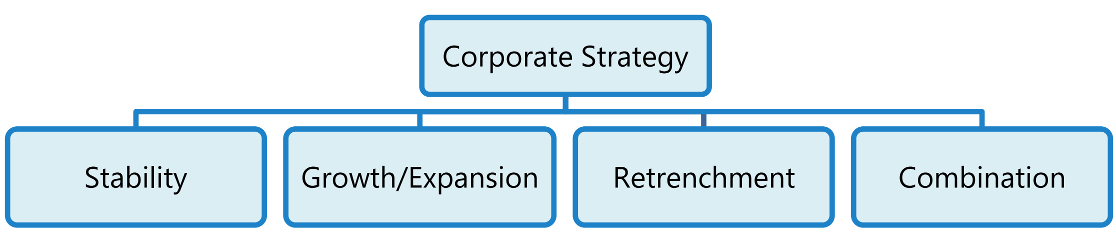


Figure:-Types of Corporate Strategies

Before proceeding further, let us discuss the basic features of all the types of corporate strategies to get the bird's eye view. The basic features of the corporate strategies are as follows:

Table:2- Basic Features of Corporate Strategies

Strategy	Basic Feature
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) 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.

4.2.1. Stability Strategy

One of the important goals of a business enterprise is stability strategy is to stabilise- it may be opted to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

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. They have to remain updated and have to pace

with the dynamic and volatile business world to preserve their market share. 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. For deeper understanding of these strategies, let us delve into their characteristics:

4.2.1.1. 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.
- The risk involved in this strategy is less.
- 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.

4.2.1.2 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.
- 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.

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.

4.2.2. 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. It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

4.2.2.1 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. A firm opting for the expansion strategy can generate many alternatives within the strategy by altering its propositions regarding products, markets and functions and pick the one that suits it most.

- 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.

4.2.2.2 Major Reasons for Growth/Expansion Strategy

- It 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. Therefore, growth strategies can take the following forms:

4.2.2.3 Types of Growth/ Expansion Strategy

The growth strategies can be classified into two main types:

A. Internal growth strategies

B. External growth strategies

A. Internal growth strategies

Internal growth strategies can be further divided into:

I Expansion through Intensification

II Expansion through Diversification

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. It tries to cash on its internal capabilities and internal resources. The firm can intensify by adopting any of the following strategies:

(i) **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.

(ii) **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.

(iii) **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.

Table:3- Product-Market Expansion Grid

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.
Market Development ♦ Expand geographically Target new segments.	**Diversification involving new products and new markets** ♦ Related / Unrelated.

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. Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship using their internal resources. They feel that diversification offers greater prospects of growth and profitability than intensification.

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. Both the technology of the product and the market are different from the firm's present experience.

For some firms, diversification is a means of utilising their existing facilities and capabilities in a more effective and efficient manner. They may have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth. Another reason for diversification lies in its synergistic advantage. It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or in markets.

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

(i) Concentric diversification: diversification into related business to benefit from synergistic gains

(ii) Conglomerate diversification: diversification into unrelated business to explore more opportunities beyond existing areas of expertise

(iii) Expansion through Innovation

Diversification endeavours can be related or unrelated to existing businesses of the firm.

(i) **Concentric Diversification:** 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. This means that in concentric diversification too, there are benefits of synergy with the current operations. 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. **For example,** a company producing clothes ventures into the manufacturing of shoes.

Concentric diversification is generally understood in two directions, vertical and horizontal integration;

(a) **Vertically Integrated Diversification:** In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process sequence moves forward or backward in the chain and 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 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: Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain.

Backward integration is concerned with creation of effective supply by entering business of input providers. 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. **For example,** A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.

On the other hand, forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels. **For example,** A coffee bean manufacture may choose to merge with a coffee cafe.

(b) **Horizontal Integrated Diversification:** 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. The following figure explains the horizontal diversification, wherein, textile mill 1 acquires textile mill 2 and 3 as well.

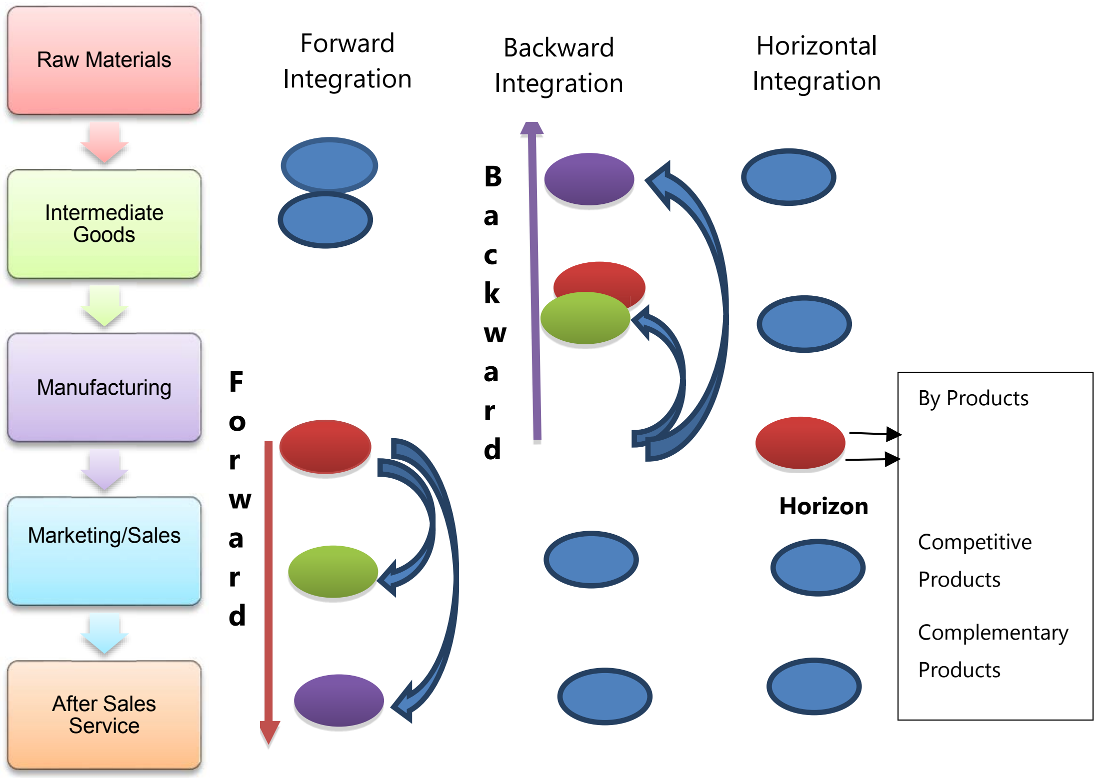


Figure: Diversification

(ii) Conglomerate Diversification: In 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. 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. **For example,** *A cement manufacturer diversifies into the manufacture of steel and rubber products.*

Table 4: 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.

(iii) Innovation: 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;

- **Helps to solve complex problems:** A business strives to find opportunities in existing problems of the society, and it does so though planned innovation in areas of expertise. This guided innovation help solve complex problems by developing customer centric sustainable solutions. **For 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 economical and environmental sustainability.

- **Increases Productivity:** 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, Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organisation as a whole. **For example,** MSExcel, every finance professional uses this software to simplify and automate their manual tasks. Such digital innovation which leads to improved productivity, creates opportunities to further develop processes and products within and outside the organisatoin. Thus, innovation creates a ripple effect that has a far and wide impact across industries.

- **Gives Competitive Advantage:** Being ahead of competition is a need, and businesses spend majority of their strategic time building solutions to achieve this advantage. 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.

B. 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. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only 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.

Merger and acquisition in simple words are defined as a process of combining two or more organizations together. 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. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In 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. In this process, the stronger one overpowers the weaker one. The combined operations then run under the name of the powerful entity. 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

The following are the types of mergers and are quite similar to the types of diversification.

(a) Horizontal Merger

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. **For example**, *formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.*

(b) Vertical Merger

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. **For example**, *backward integration and forward integration.*

(c) Co-generic Merger

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. **For example**, *an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchen appliances.*

(d) Conglomerate Merger

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.

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 alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows:

1. **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.

2. **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.

3. **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.

4. **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.

4.3 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. 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 (or divestiture) strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategies below.

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. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze 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. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

  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. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

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.

4.4 STRATEGIC OPTIONS

Strategic options need to be carved out from existing products and innovations that are happening in the industry. There are a set of models that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. 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. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential.

For instance, 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.

In order to design the business portfolio, the management must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses management may develop growth strategies for adding new products or businesses to the firm's portfolio.

4.4.1 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.

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

Figure: Ansoff's Product Market Growth Matrix

Market Penetration: Market penetration refers to a growth strategy where 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. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Penetration is also done by effort on increasing usage by existing customers. **For 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. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments. **For 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 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. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets. **For 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 markets new products 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. **For 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.*

4.4.2 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 firms 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
Favorable	- 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

Figure: Arthur D. Little Strategic Condition Matrix

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.

4.4.3 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:

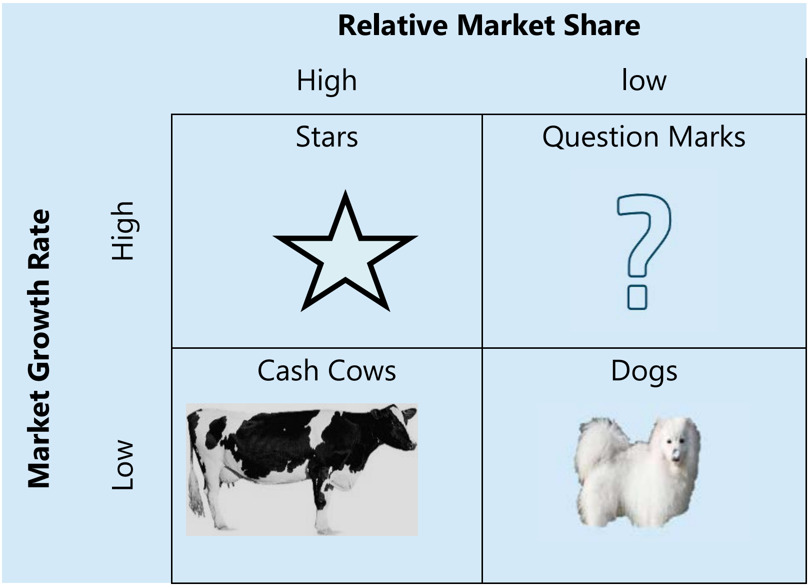


Figure: BCG Growth-Share Matrix

- **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.

4.4.3.1 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.

Identify if the following is a Star or a Cash Cow?
SO Pharma Ltd. developed a new age medicine which cures cough in 3 hours with an investment of INR 80 crores in R&D. They named it “COUFIX”. Coufix needs a lot of marketing spend to create awareness amongst the public and also needs funds to get licenses from the regulators. Interestingly, Coufix has gained 60% market share within 6 months of launch and been profitable since day 1. Is Coufix, a cash cow or a star for SO Pharma Ltd.?

It is a Star.

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.

Just one parameter of market share cannot define the status of an SBU, it should be categorised basis the inherent characteristics, and hence Coufix has more representation as a Star.

4.4.4General 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.

Business strength

Market attractiveness	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.

SUMMARY

Businesses are born out of ideas to solve existing problems with an aim to survive forces of competition and charter a path of constant growth. For a business, having multiple strategic choices for any and every situation is imperative and strategy teams should regularly analyse the possibilities of slowing down, growing faster, or liquidating the business as it demands. For each of these broad decisions, there are multiple strategic choices with advantages and disadvantages of each.

Deciding the stage in its life cycle of, identifying its current position with its Vision and Mission, and developing a future path is crucial, and strategic choices of growth, stability and expansion shall be explored with an eye for all stakeholders.

In order to develop the strategic options, the company must conduct Portfolio analysis through BCG matrix, Ansoff's product market growth matrix, ADL matrix and the General Electric matrix.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

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 organization 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) *Reduce 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*

Scenario Based Questions

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 markers, 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.

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 strategic choice adopted by Shayamli?*

3. *Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant 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?*

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, polyster, 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 grand strategy that can be opted by Soft Cloth Ltd.

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.*

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 has 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.

Descriptive Questions

1. *Describe the construction of BCG matrix and discuss its utility in strategic management.*

2. *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	75lakh	30	60	-20
D	50 lakh	4	5 lakh	2	5	-10
Total	12.5 crore	100	250 lakh	100		

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

4. *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.

ANSWERS/SOLUTION

Multiple Choice Questions

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

Answers to Scenario Based Questions

1. 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 markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies, which is not related to their existing product. In conglomerate diversification, the new businesses/ products are disjointed from the existing businesses/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 are related to the existing business of the firm. The firm remains vertically within 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, 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 ***turnaround strategy*** as this strategy attempts to reverse the process of decline and bring improvement in organizational health. This is also important as 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 turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

3. *Organo* is a 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 to 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. 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 flow.
- Uncompetitive products or services
- Declining market share
- Deterioration in physical facilities
- Overstaffing, high turnover of 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, resulting in a liquidation strategy.

5. 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 divestment strategy.

Further, divestment helps address issues like:

1. Persistent cash flows from loss making segment 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 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 with the CEO:

- Invest in new product development and switchover to the new technology. Atrix Ltd. also need time to invest in emerging new technology.
- They can acquire or takeover a competitor provided they have or are able to generate enough financial resources.

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

Answers to Descriptive Questions

1. Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing portfolio of different business units or major product lines. The BCG growth-share matrix facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. 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's strength in the market.

Thus, the BCG matrix depicts quadrants as shown in the following table:

		Relative Market Share	
		High	*Low*
Market Growth Rate	*High*	**Stars**	**Question Marks**
	Low	**Cash Cows**	**Dogs**

BCG Matrix

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

(a) **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.

(b) **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.

(c) **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.

(d) **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.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus, BCG matrix is a powerful tool for strategic planning analysis and choice.

2. 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 market 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.

3. 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 Markets	**Market Penetration**	**Product Development**
New Markets	**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 is result of extensive research and involves huge costs. There are also 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 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.

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 may have no choice other than to pursue new market.

4. 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.

NOTES