Major Strategy Option: Stability, Growth and Expansion

Stability Strategy

When the institution is satisfied with its current state, it will not want to change from here and it will be a strategy of stability. The stabilization strategy will succeed when the environment is stable. This strategy is often practiced and is less risky as a business step. It will follow a worrying stability strategy for example when the organization is satisfied with the same product, serving the same groups of consumers and maintaining the same market share.

The organization may not be adventurous to try new strategies to change the status quo. This strategy may be possible in a mature industry with proven technology. A stabilization strategy may lead to complacency among managers. Managers of this organization may find it difficult to deal with changes when they come.

(i) No-Change Strategy

Stability strategy is a conscious decision to do nothing new that is to continue with the present work. It does not mean an absence of strategy, rather taking no decision in it is a strategy. When external environment is predictable and organizational environment is stable then a businessman may like to continue with the present situation. There may be major opportunities or threats operating in the environment.

There may be no new threat from competitors or no new competing product may be coming into the market, under these circumstances it will be prudent to continue the present strategies. The small and medium firms generally operate in a limited market and supply products and services with the use of time tested technology, such firms will prefer to continue with their present work. Unless otherwise there is a major threat in the environment or occurrence of some major upset in the market, the present strategy will serve the firms well.

(ii) Profit Strategy:

Sometimes things change in such a way that the firm has to adopt changes in its working. There may be unfavorable external factors such as increase in competition, recession in the industry, government attitude, industry down turn etc. Under these situations it becomes difficult to sustain profitability.

A supposition is that the changed situation will be a temporary phase and old situation will again return. The firm will try to sustain profitability by controlling expenses, reducing investments, raise prices, cut costs, increase productivity etc. These measures will help the firm in sustaining current profitability in the short run.

With the opening of markets, Indian industry is facing lot of problems with the presence of multinationals and reduction in tariff on imports. The firms will have to adjust their policies to the changing environment otherwise they will find it difficult to stay in the market.

Profit strategy will be successful for a short period only. In case things do not improve to the advantage of the firms then this strategy will only deteriorate their position. This strategy can work only if problems are temporary.

(ii) Proceed-With Caution Strategy:

Proceed with caution strategy is employed by firms that wish to test the ground before moving ahead with full-fledged grand strategy or by those firms which had a rapid pace of expansion and now wish to rest for a while before moving ahead. The pause is sometimes essential because intervening period will allow consolidation before embracing on further expansion strategies. The main object is to let the strategic changes seep down the organizational levels, allow structural changes to take place and let the system adopt to new strategies.

To have a better understanding of Stability Strategy go through the following examples in the context of customer groups, customer functions and technology alternatives.

1. The publication house offers special services to the educational institutions apart from its consumer sale through the market intermediaries, with the intention to facilitate a bulk buying.
2. The electronics company provides better after-sales services to its customers to make the customer happy and improve its product image.
3. The biscuit manufacturing company improves its existing technology to have the efficient productivity.

In all the above examples, the companies are not making any significant changes in their operations, they are serving the same customers with the same products using the same technology.

Growth Strategies

A growth strategy is one under which management plans to advance further and achieve growth of the enterprise, in fields of manufacturing, marketing, financial resources etc.

As growth entails risk, especially in a dynamic economy, a growth strategy might be described as a safest policy of growth-maximizing gains and minimizing risk and untoward consequences.

Financially sound, bold and adventurous managements vote for growth strategies.

(i) Growth through Concentration:

Growth involves converging resources in one or more of enterprise's businesses in terms of their respective customer needs, customer functions or alternative technologies in such a way that it results in growth. This strategy involves the investment of resources in a product line for an identified market with the help of proven technology. It may be done in a number of ways.

The enterprise may focus on existing markets with present products by using market penetration or it may attract new users for existing products or it may introduce newer products in existing markets by concentrating on product development. The concentration strategy will apply when industry possesses high growth potential and the firm should be strong enough to sustain the growth.

(ii) Growth through Integration:

Under integration strategy the firm continues serving the same customers but increases the scope of its business definition. Integration involves taking up more activities than taken up earlier. There can be backward integration as well as forward integration.

There are activities ranging from procurement of raw materials to marketing of finished products. The firm may move up or down of the value chain for increasing its scope of work. Several process based industries such as petrochemicals, steel, textiles etc. have integrated firms. These firms deal with products with a value chain extending from the basic raw materials to ultimate consumer. The firms operating at one end of the value chain attempt to move up or down in the process while integrating activities adjacent to their present activities.

While adopting integration strategy the firm must take into account the alternative cost of make or buy. If the cost of manufacturing one's product is less than the cost of procuring it from the market only then this activity should be integrated. Similarly, if the cost of selling the finished product is lesser than the price paid to the sellers to do the same thing then it will be profitable to move down on the value chain.

(iii) Growth through Diversification:

Diversification strategy involves a substantial change in the business definition, singly or jointly, in terms of customer functions, customer groups or alternative technologies of one or more of a firm's business. When an organization takes up an activity in such a manner that it is related to the existing business it is called concentric diversification.

The firm may market more products to the same customers, a new product or service may be offered to the same customers, these are the cases of diversification of business activities. Growth may also be undertaken by taking up those activities which are unrelated to the existing business, a cigarette company may diversify into hotel industry, it will be a case of conglomerate diversification. Diversification strategies are helpful in spreading risk over several businesses. If environmental and regulatory factors block growth then diversification may be a proper way.

(iv) Growth through co-operation:

There is a view that firms operate in a competing market. When one firm gains in its market share then one or more firms lose this share. It is a win-lose situation where if one wins then one or several others have to lose. But thinkers like James Moore, Ray Noorda, Barry J. Nalebuff are of the view that competition could co-exist with co-operation.

The strategies could take into account the possibility of mutual co-operation with competitors while competing with them at the same time so that market potential could expand. The co-operative strategies can take the form of mergers, acquisitions, joint ventures and strategic alliances. All these strategies taken separately or jointly can help the growth of a firm.

(v) Growth through Internationalization:

International strategies are a type of growth strategies that require firms to market their products or services beyond the national or domestic market. A firm would have to assess the international environment and evaluate its own capabilities and to form strategies to enter foreign markets. The firm may start exporting products or services to foreign countries or it may set up a subsidiary in other countries for producing and marketing the products or services there. In such situations the firm would have to implement the strategies and monitor and control its foreign operations. International strategies require a different strategic perspective than the strategies implemented in national context.

Advantages of Diversification Growth Strategy

Following are some advantages of diversification, as an internal growth strategy:

(i) Diversification enables a company to make better use of its resources like managerial personnel, technology, marketing network, research facilities etc. As such, diversification may lead to cost reduction and profit-maximization.

(ii) Diversification helps to minimize risk associated with growth. For example, loss in one line may be made good through profits in some other lines.

(iii) Diversification adds to the competitive strength of a company because of more products, greater resources, wider distribution network etc.

(iv) Diversification acts as shock-absorber for a company, in phases of business cycle. For instance, if there is depression in one product line; the firm may survive if there is good business in other lines of production.

(v) Diversification adds to the goodwill of a firm; because of its brand name associated with a variety of product items.

Expansion Strategy

An expansion strategy is synonymous with a growth strategy. A firm seeks to achieve faster growth, compete, achieve higher profits, grow a brand, capitalize on economies of scale, have greater impact, or occupy a larger market share. This may entail acquiring more market share through traditional competitive strategies, entering new markets, targeting new market segments, offering new produce or services, expanding or improving current operations. Below are common expansion strategies:

- **Expansion through Concentration** – This involves focusing resource allocation and operational efficiency on one or a select group of business units or core business functions. Concentration might include: penetrating an existing market with an existing value proposition; developing a new market by attracting new customers to an existing value proposition; developing a new value proposition to introduce in the existing market. The benefits of expansion through concentration is that it allows the firm to focus on areas where it already has operations and a level of competency. It is comfortable to avoid major changes in operations while employing existing knowledge. This type of strategy can be risky from the stand point of putting too many eggs in one basket. Changes in the market (price fluctuations, customer sentiment, new value propositions, etc.) may cause the strategy to be unsuccessful.

- **Expansion through Diversification** – This strategy involves diversifying the value offering of the company in one of two methods:

1) Concentric Diversification entails developing a new value proposition that are related to existing value propositions; or

2) Conglomerate Diversification entail entering into new markets (either with an existing value proposition or by combining with another industry competitor). This strategy generally reduces specific industry risks, such as an economic downturn. The profits of one value offering might offset losses in another business unit during difficult times.

- **Expansion through Integration** – Integration involves the consolidation of operational units anywhere along the value chain to create greater efficiency and produce economies of scale. Unlike other strategies, it does not involve making changes to existing markets or targeting new customer groups. There are two primary types of integration:

  1) Vertical integration involves consolidation up or down the value chain. Forward vertical integration involves consolidating closer to the point at which value is delivered to the consumer. Backward vertical integration involves consolidating closer to the genesis of value (such as the point of manufacturing).

  2) Horizontal integration involves consolidating operations at the same point in the value chain. This consolidation may be between business units or by acquiring or combining with the competitors. See our separate discussion of Horizontal and Vertical integration for greater detail.

- **Expansion through Cooperation** – This strategy entails working closely with a competitor (while potentially still competing against them in the market). Working with the competitor provides both companies an advantage that trumps any advantage (or disadvantage caused to the competitor) from not working together. Working together will generally provide operational efficiency to one or both competitors or expand the market potential for one or both competitors. Working together may take the form of consolidation of business units (mergers or acquisitions), strategic alliance (affinity group or association), or joint venture (loose partnership-like alliance generally used to undertake a project or enter into foreign markets).

- **Expansion through Internationalization** – This method involves creating new markets for a value offering by looking outside of the immediate nation. Generally, this option is preferable when there is little room for expansion in domestic markets. Internationalization can be carried out through the following strategic approaches: 1) International Strategy – focusing on offering a value proposition in a foreign country without modification of differentiation; 2) Multi-domestic Strategy – involves modifying or differentiating a product to make it attractive or suitable to foreign markets; 3) Global Strategy – focuses on delivering the standardized value proposition in countries where there is a low cost structure for delivery; 4) Transnational Strategy – employs both a global and multi-domestic strategy by modifying or differentiating a product in foreign markets where there is a low cost structure that results in profits from delivering the value proposition.