# BHARATHIDASAN UNIVERSITY

***MBA (II YEAR )***

***SUB: STRATEGIC MANAGEMENT***

***UNIT II***

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# Unit - II

After Environmental appraisal and organisational appraisal ( Seen in the last class) an organisation can identify strategic alternatives.

These strategic alternatives exist at **THREE** levels. They are

i) Corporate Level

ii) Business Level

iii) Functional level

Corporate Level Strategies: Strategic alternatives at corporate level is called corporate or grand strategies. Corporate strategies gives possible directions in which organisation Move. Corporate strategies involves decision concerning allocation of resources, transfer of resources from one business to another and managing a portfolio of business.

# Classification of Corporate level strategies( 4 Types)

I. <u>Growth/Expansion Strategy</u>

   a) Concentration strategies

   b) Integration strategies

   c) Diversification strategies

   d)Co-operation strategies

II. <u>Stability Strategy</u>

   a) No change strategy

   b) Pause/Proceed with caution strategy

   c) Profit strategy

# Cont..

III. Retrenchment Strategy

- a) Turnaround strategy
- b) Restructuring Strategy
- c) Divestment Strategy
- d) Liquidation strategy

IV. Combination strategy

- a) Simultaneous strategy
- b) Sequential strategy
- c) Simultaneous cum Sequential strategy

# *Concentration Strategy*

( Ansoff's Product Market Mix )

| Product/ Market | Present | New |
|---|---|---|
| Present | Market Penetration | Product Development |
| New | Market Development | Diversification |

# Concentration Strategy

Expansion in present business is known as **Concentration strategy**. It involves more investment in a Product line. Company may expand its production capacity and increase its market share.

There are **three variants** of concentration strategy( *Ansoff's Product market Matrix*):

**1.Market Penetration**: In this strategy, firms attempts to sell more of the existing product in existing markets. It increases its market share by higher usage of product by existing customers. It can be done by price reduction , free gifts , improvement in packaging ,better promotion and distribution.

Eg. Indigo Airlines and other Budget airlines- Made higher growth rate through low pricing and aggressive promotion.

# Contd..

**Market Development**: Under this strategy, firm attempts to sell the existing product to new Markets.

It helps to attract new users find new geographical markets and new segments.

Eg. ITC ,HUL and Dabur launched low priced sachets of their products in rural markets.

**Product Development**: Here firms sells new products to existing markets. The basic product remains same but new features like size, price, package etc., are added.

Eg. Tourism industry introduced Medical tourism.

# Contd..

**Advantages of Concentration strategies**:

1. It is easy strategy of growth as there is Minimal change.
2. It enables benefits of specialisation.
3. Here company gains competitive advantage .
4. Use of Past experience.

Eg. of Concentration strategy: Bajaj Auto – Two/Three wheelers – Increased turnover by market penetration (selling more in urban areas),market development (selling to well to do customers in rural areas) Product development ( state of art motorcycles and mopeds).

# Integration strategies

It involves widening the scope of business firms definition ( Customer groups, customer function and alternative technologies)

Integration is of two types: Horizontal and vertical Integration strategies.

a) Horizontal Integration: Here the firm launches same type of product at same level of production/marketing process.

Eg. A cement Mfg. company takes over its competitor. The firm remains in the same industry continue to serve the same markets and customers through its present product by using same technology.

Eg. By taking over United Western Bank, the IDBI Increased its retail network from 181 to 420 branches. It had also gained access to low cost deposit rate.

# Cont..

b) Vertical Integration:

Vertical integration is of two types- Forward and backward Integration.

Eg. Reliance Industries started as cloth Mfr. – went for backward integration by manufacturing filament yarn, petrochemicals and hydrocarbons .It launched garment mfg. units and export of ready- mades - went for forward integration.

# Diversification strategies

There are two types of Diversification strategies:

Concentric diversification

Conglomerate diversification

Concentric/related Diversification: When a firm's new business is any way related to existing business in terms of Customer Groups , Customer function and alternative technology. It is called Concentric Diversification.

There are THREE types of Concentric diversification:

a) Marketing related Diversification
b) Technology related Diversification
c) Marketing and technology related Diversification

# Contd…

- Marketing related Diversification: In this strategy, New/Old Products can be distributed through same marketing channel.
- Tech. related Diversification: In this strategy, New/Old product use same Tech.
- Marketing and Tech. related Strategy: Here firm introduces similar products with the help of similar technology.

Eg. of concentric diversification: L&T is basically Engg. and Construction company – Diversified into related business like electrical ,electronics, machinery and industrial projects.

# Conglomerate diversification

In this strategy there is combination of two or more business which are not related by Tech. and Marketing .So it means diversifying into unrelated business.

Eg. Tata Group- It is a conglomerate of 20 businesses from salt to software-Tata operates into hotel, airlines, Software and food and several business.

# Co-operation strategies

Competing or rival firms can get benefit through Mutual co-operations strategies. These are

a) Strategic alliances
b) Joint Ventures(JV)
c) Mergers and Acquisitions(M&A)
d) Co-operative strategies

a) Strategic alliances: It is co-operative arrangement in which two or more independent firms combine their resources and capabilities for mutually agreed common objectives.

# Contd…

Here, two or more firms unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of alliances.

The partnering firm share the benefits of alliances and control over the performance of assigned task.

The partner firm contribute on continuous basis in the key strategic areas like Tech, Product Etc.

Eg. Taj Group of hotels-Alliance with British airways-Taj Group gives Priority to clients travel by British airways- Helps in booking of Taj group of hotels.

Renault and Nissan-150 years of alliance-Nissan's tech and cash, Renault's Management.

# Contd.

Reasons of Strategic alliance:

- To enter New markets
- To reduce Manufacturing costs.
- To develop New Products.
- To Preempt competitions.

Types of Strategic alliance: There are 5 types of Strategic alliance.

1. Tech. Development Alliance
2. Operations and Logistics Alliance
3. Mktg. sales and service alliance
4. Single/Multi country alliance
5. X and Y alliance.

# Contd.

X alliance: when Partner perform different activities.

Y alliance: when partner have similar types of skill and perform similar functions.

B) Joint Venture (JV):

It is a new Company formed jointly by two or more independent companies. Each partner contributes a distinctive competence such as finance, Technology , Managerial expertise Etc.

A joint venture is usually formed between two or more firms with complimentary skills.

# Types of JV

There are 5 Types of JV.

*TYPE 1*. A joint venture between two companies belonging to same country and same industry.

Eg. NTPC and Indian Railways created as JV named Bharatiya Rail Bijlee Company - NTPC -74% Equity and 26% Equity.

*TYPE 2.* A JV between two companies belonging to different industries.

Eg. Nissan Motors (Japan)

Renault (France)

Mahindra and Mahindra(India)

It is a JV To manufacture Sedan Tram cars in Chennai.

# Contd..

*TYPE 3.* A JV between two companies from different countries but belonging to same Industry.

Eg. Hero Group (India)

Honda Motors(Japan)

*TYPE 4*. A JV between two companies from different countries and different Industries.

*TYPE 5*. A JV between GoI and Foreign Company

Eg. Suzuki Motors of Japan.

# Advantages of JV….. Merger

- Technology
- Geography
- Regulations
- Sharing risk and capital
- Intellectual Exchange

C) Merger

It refers to integration of two or more firms. The combining firm lose their separate identities and form a new and bigger firms.

Eg.ACC was created through merger of 11 cement firms.

# Types of Merger

1. Horizontal Merger: Two or more organizations in same business combine together. Eg. ACC.

2. Vertical Merger: It takes place when two or more organisation at different levels of business in same industry integrate.

Eg. Footwear company combines with leather tannery or chain of retail stores selling footwear.

3. Concentric Merger: When combining firms are related to each other either by customer group, customer function and alternative technology.

Eg. Footwear company combine with hosiery firm making socks.

# Contd..

4. Conglomerate Merger: It involves combining firms are totally unrelated . Eg. Footwear firm may combine with automobile firm.

Opposite of Merger is called Demerger/Spine off.

Eg. Zee-Tele films demerged into three firm; Namely

Zee Entertainment Enterprises

Zee news and wire

Wireless India

# Acquisitions/Turnover strategy

When one Company acquires majority or full ownership and control of another company it is called Acquisition.

When it is done through mutual agreement between two companies – friendly Takeover.

When the company is acquired against its wishes - Hostile Takeover.

Eg. Tata Steel acquired Corus Steel and Jaguar Land Rover Brand Cars of UK.

Bharathi Airtel Acquired Zain of South Africa.

# Stability Strategy

It is adopted when it attempts an INCREMENTAL IMPROVEMENT in its functional performance by bringing change in customer groups, customer function and alternative Technology either singly or collectively.

Eg. A packaged Tea company provides a special services to its industrial buyers apart from its consumer sales in order to encourage bulk buying.

The major Types of stability strategies is

a) " No Change strategy".

b) Pause /Proceed with caution strategy

c) Profit Strategy

# Types of Stability Strategy

- " No Change strategy" – It is a decision as NOTHING TO DO.
- Pause/Proceed with caution strategy: It is employed by the firm that wish to test the ground before moving ahead with a full fledged strategy.

Eg. In shoe market- Bata and liberty were leaders, In late 2000, HLL Produced Shoes and shoe uppers for the export market. It started selling shoes in cities to assess the market reaction. This is called proceed with caution strategy.

- Profit Strategy. When the firm is in a situation and the problem they face is novel ,short lived and temporary .
- Eg. Selling off lands available in prime locality.

# Retrenchment Strategy

- The aim of the strategy is contraction of its activities by reduction or elimination of one or more of its business in terms of customer groups, customer function and alternative technology.

Eg. 1.A pharmaceutical firm pulls out from retail selling to concentrate on industrial selling.

2. A Corporate hospital focusses only on specialty treatment and stops general cases.

3. A training organisation focuses only on distance learning systems to discard face to face interaction.

# Types of Retrenchment Strategy

- Turnaround Strategy: it means reversing a negative trend or converting an unprofitable or sick business into profitable one.

Actions plan involved in turnaround are

1. Change in top management
2. Strategic turnaround: It involves increase in market share, exit from unprofitable business focus on niche markets and defensive product /Market segment.
3. Operating turnaround : It involves cost cutting measures revenue generation measures and asset reduction

# Corporate restructuring

- It refers to use of restructuring in different ways.
- The various restructuring are

a) Organisational restructuring: It refers to change in organisation structure such as delayering, downsizing, redesigning managerial positions and changing reporting relationships.

b) Financial restructuring : It refers to change in equity holdings ,debt servicing schedule ,altering debt equity ratio etc.

c) Business restructuring : It refers to change in company's portfolio to improve its profitability.

# Forms of Corporate restructuring

- Joint Venture
- M & A
- Portfolio restructuring
- Split or spin off of a division as a separate company
- Divestiture
- Buy back of shares
- Management buyout
- Rescheduling loss
- Conversion of debt into equity.

# Divestment strategy and liquidation strategy

Divestment strategy :

Under this strategy the organisation sells a part of its business or a major division that cannot be turned around.

Eg GoI has divested its share holding in Maruti Udyog ltd. in favour of Suzuki motors.

Liquidation strategy:

It involves closing down the entire company and selling of its assets.

# BUSINESS LEVEL STRATEGIES

- These are the strategies that can be used by individual businesses within the organisation.

Business strategies are those courses of action adopted by firm for each of its business separately to serve identified customer group and provide value to the customer by satisfying their needs.

Business level strategies are concerned with

a) Positioning the business against competitors

b) Anticipating changes in demand and other factors

c) Influencing the nature of competition through strategic action.

# Contd.

Generic Business strategy

Combination of competitive advantage and competitive scope yields the following 3 strategies.

1. Cost Leadership strategies: when a product or services are low compared to the competitor it is termed as Cost leadership.

Eg. Gujarat Co-operative Milk marketing Federation (GCMMF) country's largest milk federation's corporate brand AMUL – it has achieved cost advantage through chain of milk processing plants and procurement of milk through a networked cooperative societies located across the country and an efficient distribution network.

These are inherent strength used to gain competitive advantage

# Contd.

How to achieve competitive advantage:

Understand the value chain of product or service of the firm. Costs are spread over entire value chain in all the activities to the making of the product.

To achieve ensure that cumulative costs across the value chain is lower that its competitor. For this it is essential to analyze the cost drivers and then identify the area of optimization of cost.

2.Differentiation business strategy: When the firm has the special feature in its product/service which are demanded by customers and are willing to pay more for those – the strategy is differentiation strategy.

Company can charge “Premium Price”, get additional customers , customer loyalty.

# Contd.

In year 1985, Parle agro, introduced ,FROOTI-Non aerated natural fruit based drink.

Tetra Pack (First) with natural fruit over glass bottle and it was priced AT PAR with popular aerated drink.

How to achieve Differentiation strategy:

By incorporating features and attributes at any point of value chain. The places like High quality raw material, superior process technology, speedy and reliable distribution ,better after sales service in value chain.

# Contd..

Focus Business strategy:

Here the company cater to the narrow segment of the market. so the focus strategy is called niche strategies.

Eg. The branded jewelry of titan- Tanishq – Differentiated Strategy – offers gold, pearl, diamond jewelry for men and women .

Design –continuous feedback from customers through retail outlets every quarter.

This product has a guarantee of purity from Titan/Tata

# Blue Ocean Strategy

A new strategy called ‘Blue ocean strategy’ claims to make competition Irrelevant in comparison to all previous strategies that we have seen now ( focus is on competitive ) .

This was developed by Kim and Mauborgne based on the study of 150 companies in US. These companies created Unique customer value by entering uncontested business space.

According to Kim and Mauborgne the business universe consists of two distinct kinds of space –red oceans and blue oceans.

# Blue Ocean Strategy ......Contd…

Red oceans are known market space consisting of all existing industries. In this space, industry boundaries are well defined and accepted ,rules of competition are well understood. Here firms try to capture a greater share of existing demand by outperforming their rivals.As a result, space gets crowded ,competition becomes intense and prospects for profits and growth declines.

# Blue Ocean Strategy ......Contd...

Blue space /Blue oceans consists of all the industries that do not exist now. They constitute the unknown market space without competition. Firms in this space create rather than fight demand. There exists considerable opportunity for profits and growth.

Blue oceans are created in Two ways:

1. A firm can create completely new industries.

Eg. Ford motors replaced horse drawn carriages with motor cars in US.

2. A firm can create a blue ocean within red oceans by altering the boundaries of existing industry. This is more common method of creating blue oceans.

# THANK YOU

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