CHAPTER 4

CORPORATE LEVEL STRATEGIES

CORPORATE STRATEGY

The Corporate strategies may be classified into 4 broad Categories -

Stability	• Firm stays in current business & product market • maintains existing level of efforts • Satisfied with Incremental growth
Expansion	• Firm enters into new business may be related or Unrelated • Seeks significant growth
Retrenchment	• Closes/discontinue some of the activities • or a part of business • Liquidation
Combination	• Firm combines the above strategic alternatives as per requirement.

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STABILITY STRATEGY (FEATURES)

S : Same business, process, efforts

T : Tarakki jyda nahi hogi = Incremental growth

A : Able to concentrate on Existing business

B : Better use of Resources

I : Investment ↓↓

L : Low Risk

I : Increase in functional efficiency

T : Tension ↓↓ = safety Oriented

Y : 'Y' because of below mentioned Reasons -

- Less risky
- Comfortable
- Environment is stable
- Expansion is threatning
- Rapid expansion just finished.

EXPANSION STRATEGY (FEATURES)

"Expansion strategy is the opposite of Stability Strategy"
Therefore,

- Different business (Related / Unrelated)
- Significant Growth
- Not able to Concentrate on existing business
- Better Use of Resources
- Investment ↑↑
- High Risk
- Overall efficiency increases
- Tension ↑↑ Not Safety Oriented
- Because of below mentioned reasons
  - Environment is in pace of activity (speed)
  - Executives pride in presiding over growth oriented organisation
  - More control over market
  - Advantages of Economies of Scale.

Expansion strategy has two routes

Intensification

- Market Penetration
- Market development
- Product development

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Diversification

- Vertically Integrated Diver.
- Horizontally Inte. Diver.
- Concentric Diversification
- Conglomerate Diversification

RETRENCHMENT STRATEGY (FEATURES)

It involves retrenchment of
- some of the activies
- division / SBU
- Complete business.

Compulsions may be such as -
- Obsolescence of product
- Business becoming Unprofitable
- High competion
- Industry Overcapacity
- Failure of strategy

Retrenchment strategy is adopted because
- mgt no longer wishes to remain in that business area
- Environment is threatning
- Stability ऐसी आ सकती है where business is un-profitable.

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DIVERSIFICATION

- Vertical
- Horizontal
- Concentric
- Conglomerate

Vertical Diversification

- The firms remain vertically within the same process sequence moves forward or backward in the chain
- Forward & Backward integration forms part of Vertically integrated diversification

Backward Intregration → Entering business of Input Providers

Forward Integration → Entering business of Output distributors.

Horizontal Diversification

- Through the Acquisition of one or more similar business operating at the same stage of chain
- Which means going into
  - Complemary products
  - by-products
  - taking over Competitor's products.
- It is of two types

Related Diversificatn (Done for Economies of Scale & etc..)

Unrelated Diversificatn (Done for Tax benefits, Obtain high ROI etc)

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Concentric Diversification

- New product are connected to the firm's existing process/ technology
- But they are not intermediates
- They serve new functions & new markets
- New product is "spinned off" from existing facilities

Conglomerate Diversification

- A new business is added to the firm's portfolio
- But, it is disjoined from the existing businesses
- No connection between new business & existing ones.

RETRENCHMENT, DIVESTMENT & LIQUIDATION STRATEGY.

Retrenchment

The firm retrenches some of the Activities in a given business(es).

Ways of Retrenchment (MC: CROWDS)

C : Cutting back on expenditure
R : Reduction in Inventory Levels
O : Offering itself for take-over
W : Withdrawal of some products
D : Disposal of facilities like mfg, mktg etc
S : Seeking Liquidation

Turnaround

- laying emphasis on improving internal efficiency so as to bring about internal retrenchment

- Indicators are
  - Negative cash flow
  - Mis-management
  - Declining market value
  - Over-manning
  - Uncompetitive product/service
  - Deterioration in Physical facilities

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- Important Elements of Turnaround
  - changes in top mgt
  - Quick cost reductions
  - Asset Liquidation for generating Cash
  - Better Internal coordination.

- Action Plan
  - Assessment of current Problems
  - Analyze the situation & develop strategic plan
  - Implement Action plan
  - Restructuring the business
  - Returning to Normal.

Divestment

- It includes liquidation of a portion of business like a division, SBU.
- Reasons
  - Acquired Business proved to be a MisMatch
  - Continuous losses / negative cash flows
  - Inability to Cope up with Heavy Competition
  - Inability to Invest in Updated technology
  - Availability of Better alternative for investment than the current business.

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Liquidation strategy

- Includes closing down of a firm or selling off all the assets & paying off all its liabilities.
- It is the most extreme strategy when turn-around & divestment will not be successful
- Effects
  - loss of employment for workers
  - Termination of opportunities (upcoming नौकरी)
  - Stigma of failure

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STRATEGIC ALLIANCE

Meaning

Relationship between two or more business that enables to achieve certain strategic objectives

↓

which neither would be able to achieve on its own

Advantages [MC: ESOP]

E = Economic Advantages	• Reduction in cost • Economies of scale • Co-specialization
S = Strategic Advantages	• Useful to create competitive Advantage by Pooling of Resources & Skills
O = Organisational Advantages	• Creates Synergy • Increases Credibility
P = Political Advantages	• Improve own influence & position (If partner is politically influence)

Disadvantage

Sharing → Not only of Resources but also skills & knowledge.