

CHAPTER 4

CORPORATE LEVEL STRATEGIES

CORPORATE STRATEGY

The Corporate strategies may be classified into 4 broad categories -

Stability	<ul style="list-style-type: none">• Firm stays in current business & product market• maintains existing level of efforts• Satisfied with Incremental growth
Expansion	<ul style="list-style-type: none">• Firm enters into new business may be related or Unrelated• Seeks significant growth
Retrenchment	<ul style="list-style-type: none">• Closes/discontinue some of the activities or a part of business• Liquidation
Combination	<ul style="list-style-type: none">• Firm combines the above strategic alternatives as per requirement.

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 -

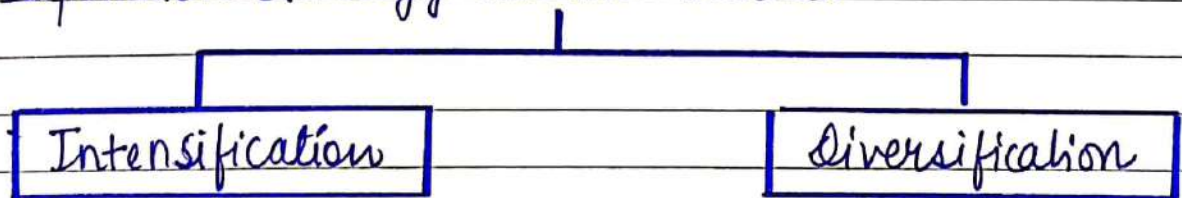
- Less risky
- comfortable
- Environment is stable
- Expansion is threatening
- Rapid expansion just finished.

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



- Market Penetration
 - Market development
 - Product development
- [Chapter = 2]

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

RETRENCHMENT STRATEGY (FEATURES)

It involves retrenchment of

- some of the activities
- division/SBU
- complete business.

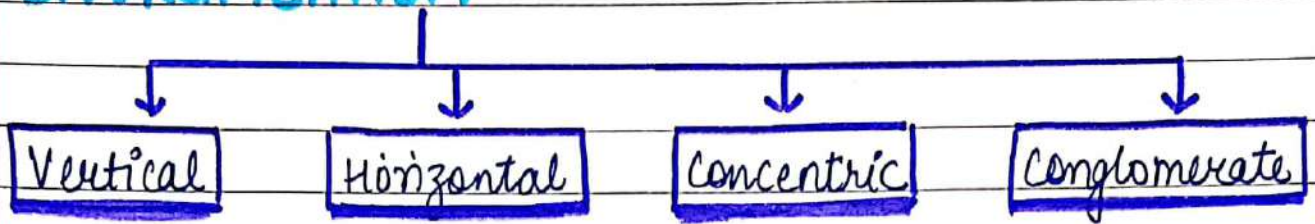
Compulsions may be such as -

- obsolescence of product
- Business becoming Unprofitable
- High Competition
- Industry Overcapacity
- Failure of strategy

Retrenchment strategy is adopted because

- mgt no longer wishes to remain in that business area
- Environment is threatening
- stability देखी जा रही है where business is un-profitable.

DIVERSIFICATION



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
Integration



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
 - Complementary products
 - by-products
 - taking over competitor's products.
- It is of two types

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

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

Concentric Diversification

- New products 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 disjointed 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

• 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.

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 staff)
 - Stigma of failure

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]

<p>E = Economic Advantages</p>	<ul style="list-style-type: none"> • Reduction in Cost • Economies of Scale • Co-specialization
<p>S = Strategic Advantages</p>	<ul style="list-style-type: none"> • Useful to create competitive Advantage by Pooling of Resources & Skills
<p>O = Organisational Advantages</p>	<ul style="list-style-type: none"> • Creates Synergy • Increases Credibility
<p>P = Political Advantages</p>	<ul style="list-style-type: none"> • Improve own influence & position (If partner is politically influence)

Disadvantage

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