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Strategic Planning

Learning Objectives

- ◆ Learn the meaning of strategic intent and vision.
- ◆ Understand the process of strategy formulation.
- ◆ Know the different stages of strategy-formulation-implementation process
- ◆ Have knowledge of different generic strategies as taken up by corporate.
- ◆ To have a basic knowledge of alternative growth/directional strategies

Chance favors the prepared mind.

Louis Pasteur

Far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can be made precise.

John Tukey, Statistician

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

Bruce D. Henderson

1. Introduction

Generally, the strategic planning process culminates in the formulation of corporate strategy. The strength of the entire process of strategic planning is tested by the efficacy of the strategy finally forged by the firm. The ultimate question is whether the strategy ironed out is the appropriate one-whether it would take the firm to its objectives. Corporate strategy is the game plan that actually steers the firm towards success. The degree of aptness of this game plan decides the extent of the firm's success. That is why formulation of corporate strategy forms the crux of the strategic planning process.

2. Planning

Planning is future oriented. It relates to deciding what needs to be done in the future (today, next week, next month, next year, over the next couple of years, etc.) and generating blueprints for

action. Good planning is an important constituent of good management. Planning involves determining what resources are available, what resources can be obtained, and allocating responsibilities according to the potential of the employees. Planning can be strategic or operational. Strategic plans are organization wide, establish overall objectives, and position the organization with relation to its environment. On the other hand operational plans specify details on how individual objectives are to be achieved.

There are several myths about planning as well. It is said that planning is often inaccurate and is a waste of time. It also reduces flexibility in management. However, these myths are not true. In fact, uncertainty of environment is the major reason for the planning. It does not stifle flexibility, rather it guides the management in the uncertain environment.

Strategic planning: Strategic planning is process of determining organizational strategy. It gives direction to the organization and involves making decisions and allocating resources to pursue the strategy. It is the formal consideration of future course of an organization. Strategic planning deals with one or more of three key questions:

- ◆ What are we doing?
- ◆ For whom do we do it?
- ◆ How to improve and excel?

Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide, or focused on a major function such as a division or other major function.

As such strategic planning is a top level management function. The flow of planning can be from corporate to divisional level or vice-versa. There are two approaches for strategic planning - top down or bottom up. Top down strategic planning describes a centralized approach to strategy formulation in which the corporate centre or head office determines mission, strategic intent, objectives and strategies for the organization as a whole and for all parts. Unit managers are seen as implementers of pre-specified corporate strategies. Bottom up strategic planning is the characteristic of autonomous or semi-autonomous divisions or subsidiary companies in which the corporate centre does not conceptualize its strategic role as being directly responsible for determining the mission, objectives, or strategies of its operational activities. It may prefer to act as a catalyst and facilitator, keeping things reasonably simple and confining itself to perspective and broader strategic intent.

Dealing with strategic uncertainty: Strategic uncertainty, uncertainty that has strategic implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Sometimes the strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically

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accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

Impact of a strategic uncertainty: Each strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential strategic business units (SBUs). For example, a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty. The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others. The importance of established SBUs may be indicated by their associated sales, profits, or costs. However, such measures might need to be supplemented for proposed or growth SBUs for which present sales, profits, or costs may not reflect the true value to a firm. Finally, because an information-need area may affect several SBUs, the number of involved SBUs can also be relevant to a strategic uncertainty's impact.

3. The Stages of Corporate Strategy Formulation Implementation Process

Crafting and executing strategy are the heart and soul of managing a business enterprise. But exactly what is involved in developing a strategy and executing it proficiently? And who besides top management has strategy – formulation – executing responsibility?

Crafting and executing a company's strategy is a five-stage managerial process as given below:

1. Developing a strategic vision of where the company needs to head and what its future product-customer-market-technology focus should be.
2. Setting objectives and using them as yardsticks for measuring the company's performance and progress.
3. Crafting a strategy to achieve the desired outcomes and move the company along the strategic course that management has charted.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

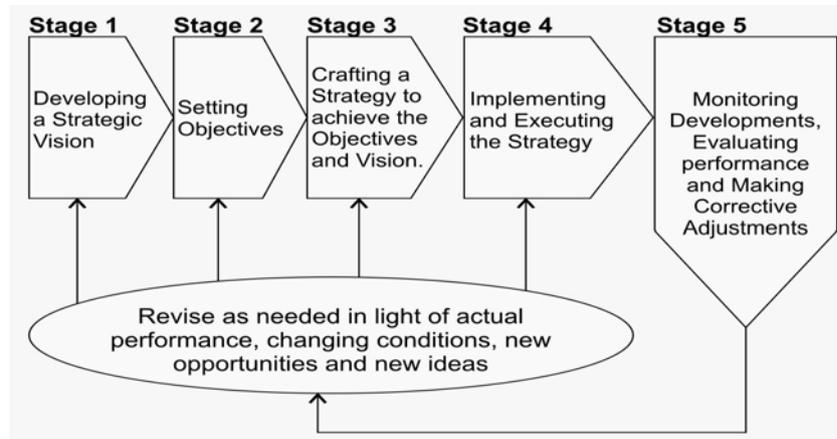


Figure: The Stages of Corporate Strategy Formulation- Implementation Process

Stage 1 : Developing a strategic vision

First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out. Top management's views and conclusions about the company's direction and the product-customer-market-technology focus constitute a strategic vision for the company. A strategic vision delineates management's aspirations for the business and points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organizational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

Mission and Strategic Intents: Managers need to be clear about what they see as the role of their organization, and this is often expressed in terms of a statement of mission or strategic intent. This is important because both external stakeholders and other managers in the organization need to be clear about what the organization is seeking to achieve and, in broad terms, how it expects to do so. At this level, strategy is not concerned with the details of SBU competitive strategy or the directions and methods the businesses might take to achieve competitive advantage. Rather, the concern here is overall strategic direction.

The managers of a subsidiary, charged with developing a strategy for that business, also need to be clear where they fit into the corporate whole. As Hamel and Prahalad have highlighted, the importance of clear strategic intent can go much further: it can help galvanise motivation and enthusiasm throughout the organization by providing what they call a sense of destiny and discovery. In the absence of this, there is a risk of the different parts of the organization, different levels of management, indeed all members of the organization, pulling in different directions.

Decisions on overall mission in a major corporation will exercise constraints elsewhere. Does the corporation aspire to short-term profits or long-term growth; to a focused set of highly related businesses or a more diversified set of businesses; to global coverage or the focus on selected countries; to investment in internal innovation and new products, or the acquisition of other businesses? These are, of course, all matters of strategic choice, but they are unlikely to change regularly. The overall stance of the corporation with regard to such matters may develop over many years, but by being made explicit it can help direct strategic choice.

Stage 2 : Setting objectives

Corporate objectives flow from the mission and growth ambition of the corporation. Basically, they represent the quantum of growth the firm seeks who achieve in the given time frame. They also endow the firm with characteristics that ensures the projected the growth. Through the objective setting process, the firm is tackling the environment and deciding the locus it should have in the environment. The objective provides the basis for it major decisions of the firm and also said the organizational performance to be realised at each level. The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets – results and outcomes the management wants the achieve - and then use these objectives as yardsticks for tracking the company's progress and performance.

Ideally, managers ought to use the objective-setting exercise as a tool for truly stretching an organization to reach its full potential. Challenging company personnel to go all out and deliver big gains in performance pushes an enterprise to be more inventive, to exhibit some urgency in improving both its financial performance and its business position, and to be more intentional and focused in its actions.

The balanced scorecard approach: A combination of strategic and financial objectives – The balanced scorecard approach for measuring company performance requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made. The surest path to sustained future profitability quarter after quarter and year after year is to relentlessly pursue strategic outcomes that strengthen a company's business position and, ideally, give it a growing competitive advantage over rivals. What ultimately enables a company to deliver better financial results from operations is the achievement of strategic objectives that improve its competitiveness and market strength.

A need for both short-term and long-term objectives: As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets. Having quarterly or annual objectives focuses attention on delivering immediate performance improvements. Targets to be achieved within three to five years prompt considerations of what to do now to put the company in position to perform better down the road. A company that has an objective of doubling its sales within five years can't wait until the third or fourth year to begin growing its sales and customer base. By spelling out annual (or perhaps quarterly)

performance targets, management indicates the speed at which longer-range targets are to be approached.

Long-term objectives: To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

- ◆ Profitability.
- ◆ Productivity.
- ◆ Competitive Position.
- ◆ Employee Development.
- ◆ Employee Relations.
- ◆ Technological Leadership.
- ◆ Public Responsibility.

Long-term objectives represent the results expected from pursuing certain strategies, Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years,

Qualities of Long-Term Objectives

- ◆ Acceptable.
- ◆ Flexible.
- ◆ Measurable.
- ◆ Motivating.
- ◆ Suitable.
- ◆ Understandable.
- ◆ Achievable.

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Each objective should also be associated with a time line. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility. Clearly established objectives offer many benefits. They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs,

Short-range objectives can be identical to long-range objectives if an organization is already performing at the targeted long-term level. For instance, if a company has an ongoing objective of 15 percent profit growth every year and is currently achieving this objective, then the company's long-range and short-range objectives for increasing profits coincide. The most important situation in which short-range objectives differ from long-range objectives occurs

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when managers are trying to elevate organizational performance and cannot reach the long-range target in just one year. Short-range objectives then serve as stair-steps or milestones.

Concept of Strategic Intent: A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective. A company's objectives sometimes play an other role – that of signaling unmistakable strategic intent to make quantum gains in competing against key rivals and establish itself as a clear-cut winner in the marketplace, often against long odds. A company's strategic intent can entail becoming the dominant company in the industry, unseating the existing industry leader, delivering the best customer service of any company in the industry (or the world), or turning a new technology into products capable of changing the way people work and live. Ambitious companies almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market positions. But they are undeterred by a grandiose objective that may take a sustained effort of 10 years or more to achieve. So intent are they on reaching the target that they set aggressive stretch objectives and pursue them relentlessly, sometimes even obsessively.

The need for objectives at all organizational levels: objective setting should not stop with top management's establishing of companywide performance targets. Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit. Company performance can't reach full potential unless each area of the organization does its part and contributes directly to the desired companywide outcomes and results. This means setting performance targets for each organization unit that support-rather than conflict with or negate-the achievement of companywide strategic and financial objectives.

The ideal situation is a team effort in which each organizational unit strives to produce results in its area of responsibility that contribute to the achievement of the company's performance targets and strategic vision. Such consistency signals that organizational units know their strategic role and are on board in helping the company move down the chosen strategic path and produce the desired results.

Stage 3: Crafting a strategy to achieve the objectives and vision

A company's strategy is at full power only when its many pieces are united. Ideally, the pieces and layers of a company's strategy should fit together like a jigsaw puzzle. To achieve this unity, the strategizing process generally has proceeded from the corporate level to the business level and then from the business level to the functional and operating levels. Midlevel and frontline managers cannot do good strategy making without understanding the company's long-term direction and higher-level strategies. All the strategy makers in a company are on the same team and the many different pieces of the overall strategy crafted at various organizational levels need to be in sync and united. Anything less than a unified collection of strategies weakens company performance.

Achieving unity in strategy making is partly a function of communicating the company's basic strategy themes effectively across the whole organization and establishing clear strategic

principles and guidelines for lower-level strategy making. Cohesive strategy making down through the hierarchy becomes easier to achieve when company strategy is distilled into pithy, easy-to-grasp terminology that can be used to drive consistent strategic action throughout the company. The greater the numbers of company personnel who know, understand, and buy in to the company's basic direction and strategy, the smaller the risk that people and organization units will go off in conflicting strategic directions when decision making is pushed down to frontline levels and many people are given a strategy-making role. Good communication of strategic themes and guiding principles thus serves a valuable strategy-unifying purpose.

A company's strategic plan lays out its future direction, performance targets, and strategy. Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks. They map out the company's direction, its short-range and long-range performance targets, and the competitive moves and internal action approaches to be used in achieving the targeted business results. Together, they constitute a strategic plan for coping with industry and competitive conditions, the expected actions of the industry's key players, and the challenges and issues that stand as obstacles to the company's success.



Figure: Structuring Strategic Decisions

In making strategic decisions, inputs from a variety of assessments are relevant. However, the core of any strategic decision should be based on three types of assessments. The first concerns organizational strengths and weaknesses. The second evaluates competitor strengths, weaknesses, and strategies, because an organization's strength is of less value if it is neutralized by a competitor's strength or strategy. The third assesses the competitive context, the customers and their needs, the market, and the market environment. These assessments focus on determining how attractive the selected market will be, given the strategy selected.

The goal is to develop a strategy that exploits business strengths and competitor weaknesses and neutralizes business weaknesses and competitor strength. The ideal is to compete in a healthy, growing industry with a strategy based on strengths that are unlikely to be acquired or

neutralized by competitor. Figure '*Structuring Strategic Decisions*' summarizes how these assessments combine to influence strategy.

Stage 4 : Implementing & executing the strategy

Managing strategy implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. It is easily the most demanding and time-consuming part of the strategy-management process. To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets.

In most situations, managing the strategy-execution process includes the following principal aspects:

- ◆ Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
- ◆ Ensuring that policies and operating procedures facilitate rather than impede effective execution.
- ◆ Using the best-known practices to perform core business activities and pushing for continuous improvement.
- ◆ Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
- ◆ Motivating people to pursue the target objectives energetically
- ◆ Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution.
- ◆ Creating a company culture and work climate conducive to successful strategy implementation and execution.
- ◆ Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization's work climate and culture.

Stage 5 : Monitoring developments, evaluating performance and making corrective adjustments

A company's vision, objectives, strategy, and approach to strategy execution are never final;

managing strategy is an ongoing process, not an every now and then task. The fifth stage of the strategy management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods. So long as the company's direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may decide to stay the course. Simply fine-tuning the strategic plan and continuing with ongoing efforts to improve strategy execution are sufficient.

But whenever a company encounters disruptive changes in its external environment, questions need to be raised about the appropriateness of its direction and strategy. If a company experiences a downturn in its market position or shortfalls in performance, then company managers are obligated to ferret out whether the causes relate to poor strategy, poor execution, or both and then to take timely corrective action. A company's direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant. It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.

Proficient strategy execution is always the product of much organizational learning. It is achieved unevenly – coming quickly in some areas and proving nettlesome and problematic in others. Periodically assessing what aspects of strategy execution are working well and what needs improving is normal and desirable. Successful strategy execution entails vigilantly searching for ways or continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

4. Strategic Alternatives

4.1 Glueck and Jauch Generic Strategic Alternative

According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

Stability Strategies: One of the important goals of a business enterprise is stability – 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 products and services.
- ◆ The strategic decisions focus on incremental improvement of functional performance

Stability strategies are implemented by approaches wherein few functional changes are made

in the products or markets. It is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

Expansion Strategy: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. An enterprise on the move is a more agreeable stereotype than a steady-state enterprise. 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. Expansion also includes diversifying, acquiring and merging businesses. The strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

Expansion through diversification: Diversification is defined as 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 of the market are different from the firm's present experience.

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. They feel that diversification offers greater prospects of growth and profitability than expansion.

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.

Expansion through acquisitions and mergers: 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 sum of the effects of the individual resources before merger or acquisition.

Retrenchment Strategy: A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal—'Strategic retreat' is often resorted to in military engagements. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse effects of advancing forces, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency. The enterprise has several options open to it in designing and acting upon its strategy. In cases of temporary and partial setbacks, the enterprise can endeavour to cut back on its capital and revenue expenditures—new administrative blocks, replacement of worn-out machinery, advertising, R & D activities, employee welfare subsidies, community development projects, executives perks, and so on. In somewhat more serious cases of hard times, inventory levels, manufacturing level, manpower, plant maintenance, dividend to shareholders and interest on deposits, are some of the areas for slashing or postponement as the case may be. In the next stage, the enterprise may think of withdrawing from some marginal markets, withdrawal of some brands and sizes of products, withdrawal of even some slow moving products, winding up some branch offices, abolition of some executive positions and so on. In the fourth stage, the enterprise may resort to sale of some manufacturing facilities and individual product divisions which are a drag on the enterprise's resources. It may also seek retirement either from the production or the marketing stage. It is also possible to think of offering itself for take-over by another more viable enterprise. As a last option an enterprise may seek liquidation which means corporate death. This is the difficult solution, an answer to all problems of existence and a liberation from the fetters of frustration.

Combination Strategies: The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organizations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

4.2 Michael Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter calls these base generic strategies. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing

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products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. Focus means producing products and services that fulfill the needs of small groups of consumers.

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.



Figure: Michael Porter's Generic Strategy

Porter stresses the need for strategists to perform cost-benefit analyses to evaluate "sharing opportunities" among a firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation. In addition to prompting sharing, Porter stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

Cost Leadership Strategies: A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. Other cost elements to consider in choosing among alternative strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labor costs, tax rates, energy costs, and shipping costs.

Striving to be the low-cost producer in an industry can be especially effective when the market is composed of many price-sensitive buyers, when there are few ways to achieve product

differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to under price competitors and thereby gains market share and sales, driving some competitors out of the market entirely.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts. Some risks of pursuing cost leadership are that competitors may imitate the strategy, thus driving overall industry profits down; that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interest may swing to other differentiating features besides price.

Differentiation Strategies: Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are best. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.

Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people.

Focus Strategies: A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence

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follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer preferences will drift toward the product attributes desired by the market as a whole. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

The comparative skill and resource requirement for these generic strategies is given below:

Generic Strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Overall Cost Leadership	<ul style="list-style-type: none"> ◆ Sustained capital investment and access to capital ◆ Process engineering skills ◆ Intense supervision of labour ◆ Products designed for ease in manufacture ◆ Low-cost distribution system ◆ 	<ul style="list-style-type: none"> ◆ Tight cost control ◆ Frequent, detailed control reports ◆ Structured organization and responsibilities ◆ Incentive based on meeting strict quantitative targets
Differentiation	<ul style="list-style-type: none"> ◆ Strong marketing abilities ◆ Product engineering ◆ Creative flair ◆ Strong capability in basic research ◆ Corporate reputation for quality or technological leadership ◆ Long tradition in the industry or unique combinations of skills drawn from other business ◆ Strong cooperation from channels 	<ul style="list-style-type: none"> ◆ Strong coordination among function in R & D, product development, and marketing. ◆ Subjective measurement and incentives instead of quantitative measures ◆ Amenities to attract highly skilled labour, scientists, or creative people.
Focus	<ul style="list-style-type: none"> ◆ Combination of the above policies directed at the particular strategic target 	<ul style="list-style-type: none"> ◆ Combination of the above policies directed at the particular strategic target

4.3 Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies. It is directed towards giving customers more value for the money by emphasizing both low cost and upscale differences. The objective is to keep costs and prices lower than those of other sellers of comparable products.

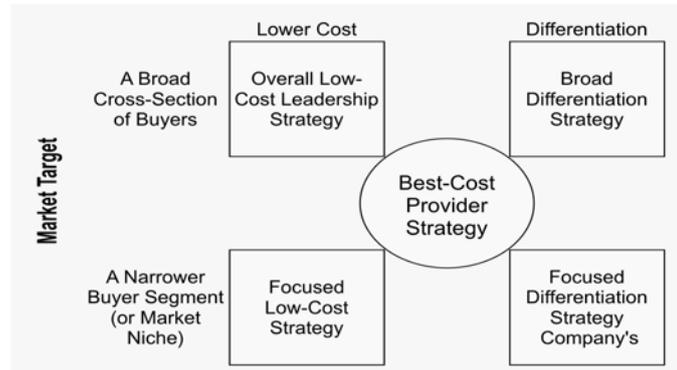


Figure: The Five Generic Competitive Strategies Distinctive features of the generic competitive strategies are given below:

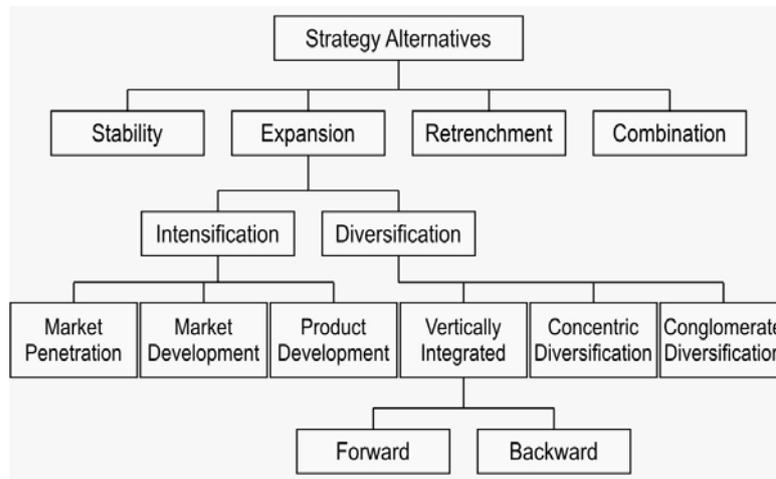
Type of Feature	Low-Cost Provider	Broad Differentiation	Best-Cost Provider	Focused Low-Cost and Focused Differentiation
◆ Strategic target	◆ A broad cross-section of the market	◆ A broad cross-section of the market	◆ Value-conscious buyer	◆ A narrow market niche where buyer needs and preferences are distinctively different from the rest of the market
◆ Basic of competitive advantage	◆ Lower costs than competitors	◆ An ability to offer buyers something different from competitors	◆ More value for the money	◆ Lower cost in serving the niche (focused low cost) or special attributes that appeal to the tastes or requirements of niche members (focused differentiation)
◆ Market emphasis	◆ Try to make a virtue out of product features that lead to low cost	◆ Build in whatever features buyers are willing to pay for ◆ Charge a premium price	◆ Either underprice rival brands with comparable features or match the price of rivals and	◆ Communicate how the focuser's product attributes and capabilities aim at catering to niche member tastes and/or specialised requirements

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		to cover the extra costs of differentiating features	provide better features-to build a reputation for delivering the best value	
◆ Sustaining the strategy	<ul style="list-style-type: none"> ◆ Offer economical prices/good value ◆ Aim at contributing to a sustainable cost advantage-the key is to manage costs down, year after year, in every area of the business 	<ul style="list-style-type: none"> ◆ Communicate the points of difference in credible ways ◆ Stress constant improvement and use innovation to stay ahead of initiative competitors ◆ Concentrate on a few differentiating features; tout them to create a reputation and brand image. 	◆ Develop unique expertise in simultaneously managing costs down and upscaling features and attributes	◆ Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's image and efforts by entering other segments or adding other product categories to widen market appeal.
◆ Product line	◆ A good basic product with few frills (acceptable quality and limited selection)	◆ Many product variations, wide selection, strong emphasis on differentiating features	◆ Good-to-excellent attributes, several-to-many upscale features	◆ Features and attributes that appeal to the tastes and/or special needs of the target segment
◆ Product emphasis	◆ A continuous search for cost reduction without sacrificing acceptable quality and essential features	◆ Creation of value for buyer; strive for product superiority	◆ Incorporation of upscale features and attributes at low cost	◆ Tailor-made for the tastes and requirements of niche members

4.4 Grand Strategies/Directional Strategies

Various strategy alternatives are available to a firm for achieving its growth objective. Here we shall see what these alternatives are, how they have been classified into a few broad categories, We shall also analyse the scope of each of these alternatives, since it is in view of their scope that firms choose the particular alternative. The corporate strategies a firm can adopt have been classified into four broad categories: *stability*, *expansion*, *retrenchment* and *combination* known as grand strategies. Grand strategies, which are often called master or business strategies, are intended to provide basic direction for strategic actions. They are seen as the basic of coordinated and sustained efforts directed toward achieving long-term business objectives.



The basic features of the grand strategies are as follows:

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 a given business (es), 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 requirement of the firm.

Characteristics and Scope of Various Grand Strategies

A. 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.
- ◆ Naturally, the growth objective of firms employing this strategy will be quite modest. Conversely, only firms with modest growth objective will vote for this strategy.
- ◆ Stability strategy does not involve a redefinition of the business of the corporation.
- ◆ It is basically a safety-oriented, status quo-oriented strategy.
- ◆ It does not warrant much of fresh investments.
- ◆ The risk is also less.
- ◆ It is a fairly frequently employed strategy.
- ◆ With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses/products and markets.
- ◆ But the strategy does not permit the renewal process of bringing in fresh investments and new products and markets for the firm.

B. Expansion strategy:

- ◆ 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 is the most frequently employed generic strategy.
- ◆ Expansion strategy is the true growth strategy. A firm with a mammoth growth ambition can meet its objective only through the expansion strategy.
- ◆ Expansion strategy involves a redefinition of the business of the corporation.
- ◆ 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.
- ◆ With intensification strategy, the firm pursues growth by working with its current businesses.
- ◆ Intensification, in turn, encompasses three alternative routes:
 - ◆ Market penetration strategy
 - ◆ Market development strategy
 - ◆ Product development strategy
- ◆ Diversification strategy involves expansion into new businesses that are outside the current businesses and markets.
- ◆ There are three broad types of diversification
 - ◆ Vertically integrated diversification
 - ◆ Concentric diversification
 - ◆ Conglomerate diversification
- ◆ Vertically integrated diversification involves going into new businesses that are related to the current ones.
- ◆ It has two components – forward integration and backward integration.
- ◆ The firm remains vertically within the given product-process sequence; the intermediaries in the chain become new businesses.
- ◆ In concentric diversification, too, the new products are connected to the firm's existing process/technology. But the new products are not vertically linked to the existing ones. They are not intermediates. They serve new functions in new markets. A new business is spinned off from the firm's existing facilities.
- ◆ In conglomerate diversification too, a new business is added to the firm's portfolio. But, it is disjointed from the existing businesses; in process/ technology/function, there is no connection between the new business and the existing ones. It is unrelated diversification.

C. Divestment strategy:

- ◆ Divestment strategy involves retrenchment 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.

- ◆ Like expansion strategy, divestment strategy, too, involves a redefinition of the business of the corporation.
- ◆ Compulsions for divestment can be many and varied, such as
- ◆ Obsolescence of product/process
 - ◆ Business becoming unprofitable
 - ◆ High competition
 - ◆ Industry overcapacity
 - ◆ Failure of strategy

Major reasons for organizations adopting different grand strategies:

A. Stability strategy is adopted because:

- ◆ It is less risky, involves less changes and people feel comfortable with things as they are.
- ◆ The environment faced is relatively stable.
- ◆ Expansion may be perceived as being threatening.
- ◆ Consolidation is sought through stabilising after a period of rapid expansion.

B. Expansion strategy is adopted because:

- ◆ It may become imperative when environment demands increase in pace of activity.
- ◆ Psychologically, 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.
- ◆ Increasing size may lead to more control over the market vis-a-vis competitors.
- ◆ Advantages from the experience curve and scale of operations may accrue.

C. Retrenchment strategy is adopted because:

- ◆ The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- ◆ The environment faced is threatening.
- ◆ Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

D. Combination strategy is adopted because:

- ◆ The organization is large and faces complex environment.
- ◆ The organization is composed of different businesses, each of which lies in a different industry requiring a different response.

Expansion Strategy

Expansion or growth strategy can either be through intensification or diversification. Igor Ansoff gave a framework as shown which describe the intensification options available to a firm.

<p>I. Growth in existing product markets</p> <p>Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current users</p>	<p>II. Product development</p> <p>Add product features, product refinement Develop a new-generation product Develop new product for the same market</p>
<p>III. Market development</p> <p>Expand geographically Target new segments</p>	<p>IV. Diversification involving new products and new markets</p> <p>Related Unrelated</p>

Figure: Product-Market Expansion Grid

Market Penetration: The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

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.

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.

Diversification Strategy: Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

- (i) Vertically integrated diversification
- (ii) Horizontally integrated diversification
- (iii) Concentric diversification
- (iv) Conglomerate diversification

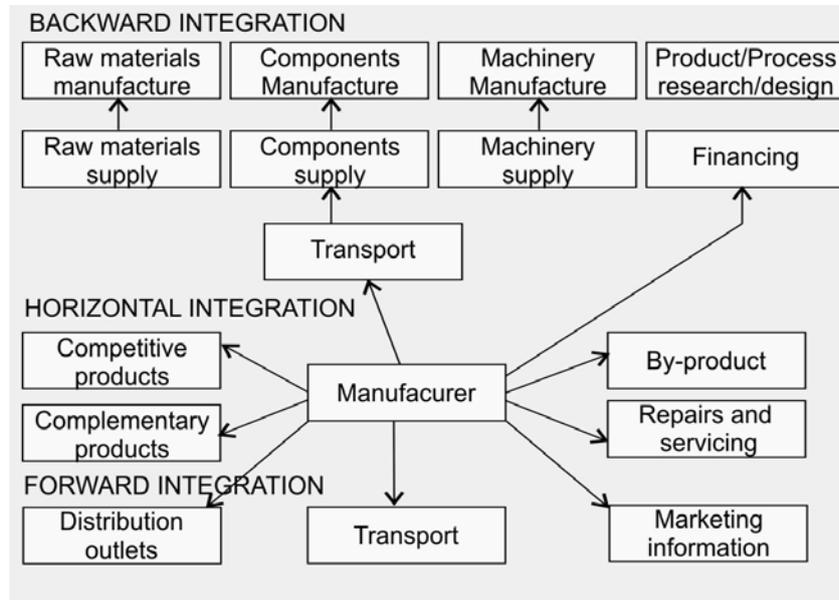


Figure: Motivations for Diversification

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 here, the firm does not jump outside the vertically linked product-process chain.

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 and enter specific product/process steps with the intention of making them into new businesses for the firm.

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. 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.

Horizontal Integrated Diversification: Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

<u>RELATED DIVERSIFICATION</u>	<u>UNRELATED DIVERSIFICATION</u>
Exchange or share assets or competencies, there by exploiting <ul style="list-style-type: none"> • Brand name • Marketing skills • Sales and distribution capacity • Manufacturing skills • R&D and new product capability • Economies of scale 	<ul style="list-style-type: none"> • Manage and allocate cash flow. • Obtain high ROI. • Obtain a bargain price. • Refocus a firm. • Reduce risk by operating in multiple product markets. • Tax benefits. • Obtain liquid assets. • Vertical integration. • Defend against a takeover.

Figure: Related Diversification Options for a Manufacturer

Concentric Diversification: Concentric diversification too amounts to related diversification. In concentric diversification, the new business 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. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. 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.

Conglomerate Diversification: In conglomerate diversification, no such linkages 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.

Retrenchment, Divestment and Liquidation Strategies: Retrenchment grand strategy is 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 a 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.

Turnaround Strategies: 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 organization has to survive. These danger signs are:

- ◆ Persistent negative cash flow
- ◆ Negative profits
- ◆ Declining market share
- ◆ Deterioration in physical facilities
- ◆ Over-manning, high turnover of employees, and low morale
- ◆ Uncompetitive products or services
- ◆ Mismanagement

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 should include:

Analysis of product, market, production processes, competition, and market segment positioning.

Clear thinking about the market place and production logic.

Implementation of plans by target-setting, feedback, and remedial action.

A set of ten elements that contribute to turnaround are:

- ◆ Changes in the top management
- ◆ Initial credibility-building actions
- ◆ Neutralising external pressures
- ◆ Initial control
- ◆ Identifying quick payoff activities
- ◆ Quick cost reductions
- ◆ Revenue generation
- ◆ Asset liquidation for generating cash

- ◆ Mobilization of the organizations
- ◆ Better internal coordination.

Divestment Strategies: 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.
- ◆ 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.

Liquidation Strategies: A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

5. Mergers and Acquisitions in organizations:

Many organizations in order to achieve quick growth or expansion or diversification often use strategies such as mergers and acquisitions. This also helps in deploying surplus funds.

5.1 Merger and Acquisition Strategy

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 considered to be 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 the trade barriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes its power. 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 either consumes the operation or a company in loss is forced to sell its entity.

5.2 Types of Mergers:

1. Horizontal merger:

Horizontal mergers are combinations of firms engaged in the same industry. It is a merger with a direct competitor. The principal objective behind this type of mergers 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.

2. 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.

3. 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 include 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, organization in the white goods categories such as refrigerators can diversify by merging with another organization having business in kitchen appliances.

4. 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.

Summary

Strategic planning is a process of determining organizational strategy. It gives direction to the organization and involves making decisions and allocating resources to pursue the strategy. This chapter introduces strategic planning, corporate strategy formulation and implementation process with five defined stages – Developing a strategic vision, Setting objectives, Crafting a strategy to achieve the objectives and vision, implementation & executing the strategy, monitoring developments, evaluating performance and making corrective adjustments.

We have also discussed the various strategic alternatives as given by Glueck and Jauch, viz., stability strategy, expansion strategy, retrenchment strategy and combination strategy. This was followed by the three generic strategies propounded by Michael Porter. These strategies are cost leadership strategies, differentiation strategies and focus strategies. The chapter also elucidates different strategies that an organization may employ including diversification, divestment, retrenchment, turnaround and merger & acquisition strategies.