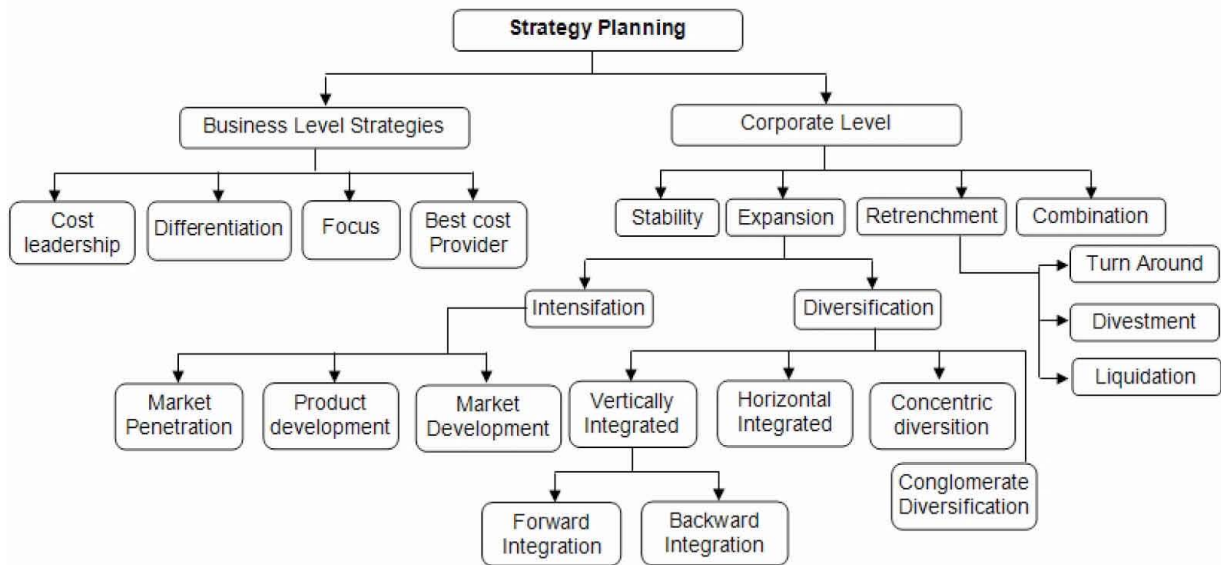


4. STRATEGIC PLANNING (OLD NAME AS PER MM MATERIAL - STRATEGY FORMULATION)



BUSINESS - LEVEL STRATEGIES

Q.No.1. Write short notes on Michael Porter's Generic Strategies (A)
(PM, M 10 - 10M, RTP - M12, M15, N16)

According to Michael Porter, Generic or basic strategies allow organisations to gain competitive advantage from 3 different bases as stated below. Porter calls these bases as generic strategies. *The basic purpose of following a generic strategy is to gain competitive advantage so as to ensure long-time survival and growth.*

COST LEADERSHIP: Emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. It results from increasing productivity and implementing cost reduction methods in development, production, marketing, and distribution processes. *It allows a firm to earn higher profits than its competitors.*

DIFFERENTIATION: It is a strategy aimed at producing unique products and services and directed at consumers who are relatively price-insensitive. Uniqueness can be achieved through design features, technological leadership, unique uses of products and attributes like quality, environmental impact and customer service.

FOCUS: It means producing products and services that fulfill the needs of small groups of consumers. It involves selecting or focussing a market or customer segment in which to operate.

FACTORS INFLUENCING A FIRM TO CHOOSE A PARTICULAR GENERIC STRATEGY:
Depending upon factors such as type of industry, size of firm and nature of competition, a company can select an appropriate option among the above generic strategic alternatives.



Figure: Michael Porter's Generic Strategy

SIMILAR QUESTIONS:

- Discuss strategic alternatives with reference to Michael Porter's strategies?
- A. Same as Above.

Q.No.2. Write short notes on Cost Leadership Strategy? (B)**1. MEANING:**

- Cost Leadership strategy involves producing standardized products at a very low cost per unit and charging a low price, targeting price-sensitive buyers/consumers. Cost Leadership Strategy attempts to make the firm a low-cost producer in the industry.
- But cost leadership generally must be pursued in conjunction with differentiation.*

2. WHEN IT WILL BE EFFECTIVE? (SITUATIONS): This strategy is more effective when

- The market consists of many price sensitive buyers.
- There are only very few ways to achieve product differentiation.
- Buyers do not care about differences from one brand to another brand,
- There is large number of buyers with significant bargaining power.



In 2004, Nirma's detergent approached 800,000 tonnes – one of the largest volumes sold in the world – under a single brand 'Nirma'.

3. EFFECT (ADVANTAGE): Successful implementation of Cost Leadership strategy will enable a company to lower cost and under- price competitors, in order to gain market share and sales in a short span of time. In this process, some competitors may quit the market entirely.**4. HOW THIS CAN BE ACHIEVED?:** Cost leadership strategy can be achieved by

- High Efficiency,
- Low Overheads,
- Limited perks,
- Intensive screening of budget requests,

- Reduction of Waste and Inefficiency,
- Rewards linked to Cost Containment, and
- Broad employee Participation in Cost Control Efforts.
- Wide span of control*

5. RISKS INVOLVED IN PURSUING THIS STRATEGY:

- Competitors may imitate the strategy, thus decreasing the overall industry profits,
- Technological breakthroughs in the industry may make the strategy ineffective, or
- Buyer interest may shift from price to other differentiating features.

Q.No.3. Write short notes on Differentiation Strategy? (B)**1. MEANING:**

This strategy involves producing unique products and services and charging a premium price, targeting consumers who are relatively price-insensitive.

Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features.

Special Features that differentiate one's product may include: Superior Quality, Spare Parts Availability, Engineering Design, Product Performance, Useful Life, Ease of Use, etc.



Mercedes Benz is the world's most prestigious brand of cars and its positioning strategy is based on differentiation platform.

2. **WHEN IT WILL BE EFFECTIVE? (SITUATIONS):** This strategy is more effective,
- When the customers are attracted to specific attribute(s) of the products.
 - It is directed towards creating separate market with a product with different attribute(s).
 - The strategy is useful in a perfectly competitive market where all the products look similar.

3. **BENEFITS TO THE FIRM (ADVANTAGES):**

- | | |
|--|---|
| <ul style="list-style-type: none"> The firm can charge higher price for its product Sustaining Competitive Advantage Increase in number of units sold | <ul style="list-style-type: none"> Can gain customer loyalty because customers may become strongly attached to the differentiation features. |
|--|---|

4. **HOW THIS CAN BE ACHIEVED? / ORGANISATIONAL REQUIREMENTS:** Differentiation strategy can be achieved by

- Suitable facilities to attract scientists and creative people,
- Strong co-ordination between the R&D and marketing functions, and
- Possibility of creating customer loyalty by offering special features.



Surf Excel is the premium quality detergent brand of HUL with its communication theme 'Dirt is good'.

5. **RISKS INVOLVED IN PURSUING THIS STRATEGY:**

Differentiation strategy will not be successful if

- Standardised products are sufficient to meet the customer needs.
- Uniqueness of the product is not valued by the customers to justify a higher price.
- Competitors quickly copy the differentiating special features of the product.

6. **Conclusion:** *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.*

Q.No.4. Write short note on Focus Strategy? (B)

1. **MEANING:** Focus strategy involves producing products and services that fulfill the needs of a narrow market that consists of consumers whose needs and preferences are distinctively different from the rest of the market.

2. **HOW THIS CAN BE ACHIEVED?:**

- 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.
- 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.
- Only one firm can differentiate itself with lowest cost. So, remaining firms in the industry must find other ways to differentiate their products.*
- Strategies such as market penetration and market development offer substantial focusing advantages.*



Harley - Davidson concentrates only on the super - heavy weight motors cycles market. It does not produce small street bikes or off-road bikes.

e) *Midsized and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies.*

3. **WHEN IT WILL BE MORE EFFECTIVE (SITUATIONS):**

- When Consumers have distinctive preferences or requirements, and
- When rival firms are not attempting to specialise in the same target segment.

4. **RISKS INVOLVED IN PURSUING A FOCUS STRATEGY:**

- Number of competitors may recognise the successful focus strategy and copy it (or)
- Consumer preferences may shift towards the product attributes desired by the market as a whole.

Q.No.5. Write short notes on Best- Cost Provider Strategy (A)

(PM) (N12 -1M)

- Best Cost provider strategy is a further development of 3 generic strategies i.e. Cost Leadership, Differentiation and Focus Strategies.
- Best - cost provider strategy involves providing more value for money to the Customers by emphasizing low cost and better quality difference. It can be done in any of the following 2 ways:
 - By offering products at lower price than what is being offered by rivals for products with comparable quality and features or
 - Charging similar price as that of rivals for products with much higher quality and better features.
- The objective is to keep costs and prices lower than those of other sellers of comparable products.

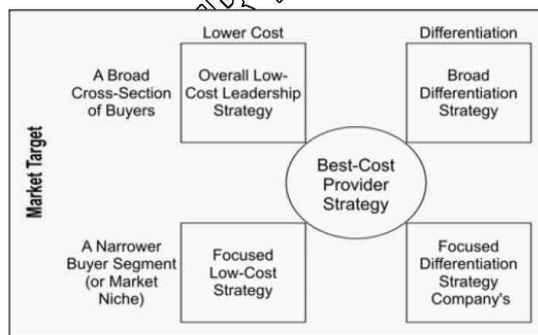


Figure: The Five Generic Competitive Strategies

SIMILAR QUESTIONS:

- Explain the meaning of 'Best cost provider strategy' (N 12 - 1M)
- A. Refer 2nd point in above answer.

CORPORATE LEVEL STRATEGIES

Q.No.6. What are Grand / Directional / Master Strategies? Explain four generic strategies as discussed by Glueck & Jauch? (A) **(PM, RTP - M14, M07- 10M)**

According to Glueck and Jauch, 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 towards achieving long-term business objectives.

- a) **Stability Strategy:** Through Stability strategy a business enterprise attempts
- 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.
- b) **Expansion Strategy:**
- It is implemented by redefining the business by increasing the scope of business and substantially increasing the efforts of the current business.
 - It is often characterized by significant reformulation of goals and directions, major initiatives and moves involving investments, entry into new products, new technology and new markets, innovative decisions and action programmes and so on.
 - It includes diversifying, acquiring and merging businesses.
- c) **Retrenchment Strategy:**
- A business organisation can redefine its business by divesting a major product line or market.
 - Retrenchment or retreat strategy becomes necessary to cope up with some hostile and adverse situations in the environment and when any other strategy is going to be suicidal.
 - This strategy is intended to save the enterprise's vital interests, to minimise the adverse environmental effects, or even to regroup the existing resources before a fresh assault and ascent on the growth ladder is launched.
- d) **Combination Strategy:**
- Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations.
 - An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others.
 - For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

SIMILAR QUESTIONS:

- What do you understand by „Strategy“? Explain the four generic strategies as discussed by Glueck and Jauch. (M07 - 10M)
- A. Refer the meaning of strategy as given in 2nd chapter + write the above answer.
- Explain the meaning of directional strategies?
- A. Refer introduction in above answer.

GRAND STRATEGIES / MASTER STRATEGIES / CORPORATE STRATEGIES / DIRECTIONAL STRATEGIES



Q.No.7. Write short notes on Stability Strategy (A)

1. **MEANING:** Through Stability strategy a business enterprise attempts

- 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.



Stability means growing at a constant rate in business.

2. **WHEN IT IS PURSUED BY A FIRM?**

- i) When a firm prefers to continue to serve in the same or similar markets and deals in same products and services.
- ii) The strategic decisions focus on incremental improvement of functional performance.

3. **NATURE OF STABILITY STRATEGY:**

- i) Few functional changes are made in the products or markets.
- ii) It is not a 'do- nothing' strategy.
- iii) *It involves keeping track of new developments to ensure that the strategy continues to make sense.*

4. **SUITABILITY:**

- i) Generally suitable for mature business organizations.
- ii) Some small organizations may also use this as a strategic focus to maintain comfortable market or profit position.

Q.No.8. What are the reasons for adopting Stability Strategy? (C)

1. Stability strategy is less risky, involves less changes, and people feel comfortable with things as they presently are.
2. The environment faced is also relatively stable.
3. Expansion may be perceived as being threatening.
4. Consolidation is sought through stabilizing after a period of rapid expansion.



SIMILAR QUESTIONS:

1. Why Stability strategy has to be adopted?
- A. Same as above

Q.No.9. What is Expansion Strategy? (A)

EXPANSION STRATEGY:

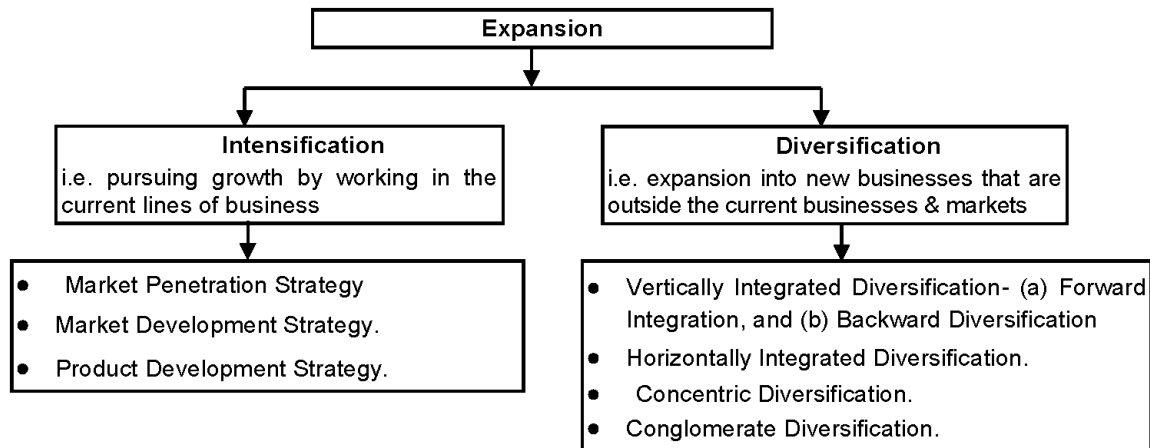
- a) It is implemented by redefining the business by increasing the scope of business and substantially increasing the efforts of the current business.
- b) It is often characterized by significant reformulation of goals and directions, major initiatives and moves involving investments, entry into new products, new technology and new markets, innovative decisions and action programmes and so on.
- c) It includes diversifying, acquiring and merging businesses.



Expansion strategy leads to high growth rate.

d) Expansion strategy is the opposite of stability strategy. In stability strategy rewards are limited. But in expansion strategy they are very high. Even in the matter of risk, both are opposite to each other.

Classification: There are 2 major routes of Expansion strategy as shown in the diagram given below:



Q.No.10. Reasons for adopting Expansion Strategy? (C)

1. It may become imperative when environment demands increase in pace of activity.
2. Strategists may feel more satisfied with the prospects of growth from expansion since organisations are perceived to be growth-oriented.
3. Increasing size may lead to more control over the market vis-à-vis competitors.
4. May gain advantages from experience curve and scale of operations.

SIMILAR QUESTIONS:

1. Why an organisation has to adopt Expansion Strategy?
A. Same as above.

Q.No.11. Explain the concept of Expansion through Diversification? (B)

1. **DIVERSIFICATION:**

- a) Diversification refers to the entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.
- b) Technology of the product and the market are different from the firm's present experience.

2. **WHY IS IT ADOPTED?**

- a) **Right strategy for innovative firms:** Innovative and creative firms look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship. Diversification offers greater prospects of growth and profitability, for such "active" firms.
- b) **To ensure excess capacity utilization:** Firms which have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, etc. can utilise them in a more effective and efficient manner.
- c) **To Achieve Synergy Benefit:** Sales and profits of existing products can be improved by adding suitably related or new products, because of linkages in technology and/or in markets.



Reliance is an innovative & creative firm which is always on look out for opportunities & challenges to grow & ventures into new businesses on a regular basis.

Q.No.12. Write about Vertical and Horizontal Integration Diversification Strategies (A)
(N 12 - 3M, RTP - N14)

VERTICALLY INTEGRATED DIVERSIFICATION STRATEGY:

- 1. Comes under Related Diversification:** In Vertically Integrated Diversification, the firm engages in businesses that are related to its existing business. The firm remains vertically within the same product-process chain.
- 2. Types:** The firm moves forward or backward in the chain, and enters specific product / process steps with the intention of making them into new business for the Firm. The intermediaries in the chain become new businesses.



Colgate produces not only toothpaste but also its complementary product i.e. tooth brushes.

- a) Backward integration** involves entering into business of input providers. It is employed to expand profits and gain greater control over production of a product by starting/ acquiring a business that will increase its own supply capability or lessen its cost of production.
- b) 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.

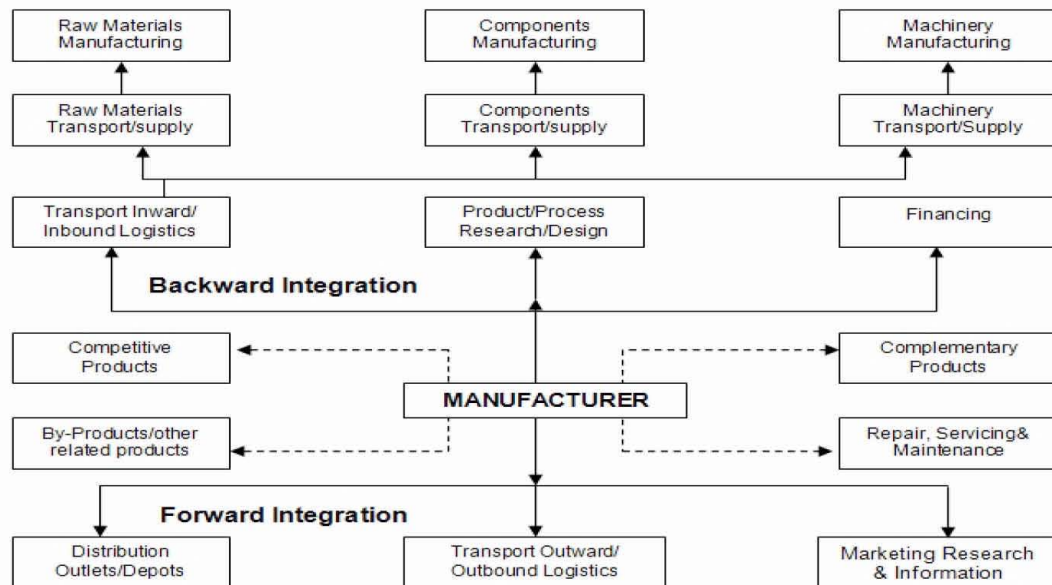
HORIZONTALLY INTEGRATED DIVERSIFICATION STRATEGY:

1. This involves adding/acquisition of one or more similar businesses at the same stage of the production – marketing chain.
2. This can be achieved by:
 - a) Taking over Competitor's Products,
 - b) Production of Complementary Products,
 - c) Sale of By-Products,
 - d) Entering into Repairs and Servicing of products.



Nirma manufactures about 90% of the required raw materials to manufacture its detergent powder on its own.

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Note: In the above diagram, Dotted lines indicate Horizontal Diversification.

SIMILAR QUESTIONS:

1. What is diversification? Distinguish between vertically integrated diversification and horizontally integrated diversification. (RTP N14)
 - A. Refer meaning in above question + same as above (no need to write 2(i,ii) sub points)
2. Differentiate clearly between forward and backward integration. (J 09 - 2M)
 - A. Refer Fast Track Material.
3. What are forward and backward integration? (M07 - 2M)
 - A. Refer 2(i,ii) points in the above answer
4. What is backward integration? (N14 - 1M)
 - A. Refer 2(i) point in the above answer.

Q.No.13. What are the Reasons for Adopting Related and Unrelated Diversification Strategies? (B)

PURPOSES / REASONS FOR

1. Related Diversification	2. Unrelated Diversification
<p>a. To exchange or share assets or competencies, by exploiting-</p> <ul style="list-style-type: none"> • Brand Name, • Marketing Skills, • Sales and Distribution Capacity, • Manufacturing Skills, • R&D, and • New Product Capacity, <p>b. To achieve economies of scale.</p>	<p>a. To manage and allocate cash flows.</p> <p>b. To obtain high ROI.</p> <p>c. To enhance market power.</p> <p>d. To re-focus a firm's, objectives and operations.</p> <p>e. To reduce risk by operating in multiple product markets.</p> <p>f. To obtain tax benefits.</p> <p>g. To ensure better utilization of the liquid assets.</p>

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Q.No.14. Write short notes on “Concentric Diversification” and “Conglomerate Diversification Strategies”. (A)
(PM, RTP - N11, M07 - 2M, N 11 – 3M)

CONCENTRIC DIVERSIFICATION:

- a) Concentric diversification also comes under related diversification.
- b) 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.
- c) Even in concentric diversification, there are will be synergy benefits with the current operations.
- d) Concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. In vertically integrated diversification, the new product falls within the firm's current process-product chain. But in concentric diversification, the new product is connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.

CONGLOMERATE DIVERSIFICATION:

- a) When an organization adopts a strategy which requires taking up activities which are unrelated to the existing businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification.
- b) Conglomerate diversification has no common thread at all with the firm's present position. In process/technology/function, there is no connection between the new products and the existing ones. It is a totally unrelated diversification.
- c) For example, the businesses of Godrej are diversified into furniture, soaps, oils, insecticides and so on.

SIMILAR QUESTIONS:

1. What is meant by concentric diversification? (PM)
A. Refer above concentric diversification point.
2. Explain conglomerate diversification. (PM)
A. Refer above conglomerate diversification point.
3. An established firm introduces a new product which has no affinity with its present product line and is meant for new customers. Identify and explain the diversification followed by the firm.
A. 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. + write about conglomerate diversification as given above.
4. Distinguish between concentric diversification and conglomerate diversification.
A. Refer Fast Track Material. (N11 – 3M, N13 – 4M)

Q.No.15. Explain the concept of Expansion through Mergers and Acquisitions? (A)
(PM, RTP- M12, N14 - 3M)

1. Introduction:

- In order to achieve quick growth, many organizations use strategies such as mergers and acquisitions.
- It is an instant means of achieving the expansion. It is an attractive method, as it saves the time, risks and skills involved in analysing internal growth opportunities, seizing them and building up the necessary resource base required to achieve growth.
- This also helps in deploying surplus funds.

2. **Meaning:** In simple words, Mergers and acquisitions 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 is completely different in both the cases.

MERGER:

- It is considered to be a process when two or more organizations join together to expand their business operations.
- In a merger, two organisations combine to increase their strength and financial gains alongwith breaking the trade barriers.
- In this case case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity.
- Some organisations prefer to grow through mergers.

ACQUISITION:

- When one organization takes over the other organization and controls all its business operations, it is known as acquisition.
- In this process of acquisition, one financially strong organization takes over the weaker one.
- Acquisitions often happens during recession in economy or during declining profit margins.
- In this process, financially stronger and bigger organisation establishes its power. The combined operations then run under the name of the powerful entity.

3. **PURPOSE OF ADOPTING THIS STRATEGY:**

- To meet the basic business urge to grow.
- To achieve synergy benefit, which results from integrated physical facilities, technical and managerial skills, distribution channels, general administration, etc.



Lakshmi Nivas Mittal built a big steel empire through his acquisition / takeover Strategy.

SIMILAR QUESTIONS:

- Write short note on expansion through acquisitions and mergers. (PM)
- Refer the above answer, no need to write 3rd point.
- What do you understand by merger and acquisitions?
 - Refer 1st & 3rd points in the above answer.
- Many organizations in order to achieve quick growth use strategies such as mergers and acquisitions. Explain. Discuss various types of mergers.
 - Refer 1st & 2nd points in the above answer + write types of mergers as given in the next question.

Q.No.16. Discuss how mergers and acquisitions are used for business growth. What are the various types of mergers? (A) (PM, RTP N14) (For Student Self Study)

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

TYPES OF MERGERS:

- Horizontal merger:** Horizontal mergers are combinations of firms engaged in the same industry. It is a merger with a direct competitor. For example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.
- 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. 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.

- c) **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. For example, an organization manufacturing refrigerators can diversify by merging with another organization having business in kitchen appliances.
- d) **Conglomerate merger:** Conglomerate mergers are the combination of organizations that are unrelated to each other. There will be no common factors between the organizations in production, marketing, research and development and technology.

SIMILAR QUESTIONS:

1. Write short note on conglomerate merger? (M15 - 3M)
- A. Refer conglomerate merger point in above question.

Q.No.17. Write about Retrenchment Strategy (A)**(PM, M08 - 2M)****1. MEANING:**

- a) Retrenchment strategy implies substantial reduction in the scope of organization's activity.
- b) Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal or hopeless.
- c) The nature, extent and timing of retrenchment are carefully decided by the management, depending upon each situation.
- d) *Retrenchment grand strategy is followed when an organization wants to substantially reduce the scope of its activity.*
- e) *Retrenchment Strategy constitutes re-definition of the business of the Firm.*

2. WAYS OF RETRENCHMENT:

- a) Cutting back on capital and revenue expenditure, e.g. R&D projects, advertising, executives perks, etc.
- b) Reduction in inventory levels, production volumes, manpower, dividend rates, etc.
- c) Withdrawal of some products / product versions, winding up some branch offices, etc.
- d) Disposal / Sale of manufacturing facilities and product divisions,
- e) Retirement either from the production or the marketing stage.
- f) Offering itself for take-over by another more viable enterprise.
- g) Seeking liquidation or winding up (corporate death).



Retrenchment means a reduction in the size / scope of the firm's business.

3. **TYPES:** Retrenchment may be done either – (a) Internally (i.e. Turnaround) or (b) Externally (i.e. Divestment or Liquidation).

**SIMILAR QUESTIONS:**

1. What is meant by retrenchment strategy? (PM, M 08 - 2M)
- A. Refer meaning in the above answer.

Q.No.18. What are the Reasons for Adopting Retrenchment Strategy? (B)**RETRENCHMENT STRATEGY IS ADOPTED IN ANY OF THE FOLLOWING SITUATIONS:**

1. Management no longer wishes to remain in business either partly or wholly due to continuous losses and unavailability.

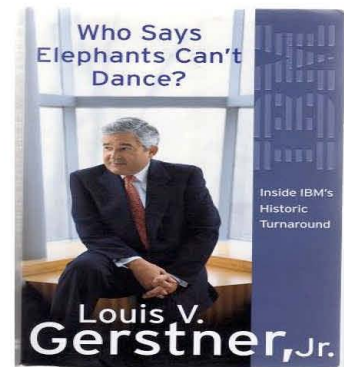
2. Unmanageable Threats from environment, due to intense competition, reduced margins, etc.
3. To ensure stability by reallocation of resources from unprofitable to profitable businesses.
4. Obsolescence of Product/Process
5. Industry Overcapacity.
6. Failure of Strategy.

SIMILAR QUESTIONS:

1. Why Retrenchment Strategy has to be adopted?
- A. Same as above

Q.No.19. Write about Turnaround Strategy? (A)**(PM, RTP- M14, M08 - 5M, M10 - 2M)****1. MEANING:**

- a) 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.
- b) Turnaround is needed when an enterprise's performance deteriorates so much that it needs a radical change of direction in strategy, in structure and culture as well.
- c) It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult.
- d) The overall goal of turnaround strategy is to return an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow.
- e) It is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level.
- f) To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support and overcome internal constraints and unfavorable industry characteristics.



Louie Gerstner, the former CEO of IBM successfully turned around IBM from losses to profits in the early 1990's.

2. **INDICATORS / DANGER SIGNS:** There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are:
 - a) Persistent Negative Cash Flows
 - b) Negative Profits,
 - c) Declining Market share value,
 - d) Deterioration in Physical Facilities,
 - e) Over manning, High Turnover of Employees & Low Morale,
 - f) Uncompetitive products or services, and
 - g) Mismanagement.
3. **ACTION PLAN:** To make it successful, we need to focus on short and long term financing needs as well as on strategic issues. This plan should include:
 - a) Analysis of product, market, production processes, competition, and market segment positioning.
 - b) Clear thinking about the market place & production logic.
 - c) Implementation of plans by target-setting, feedback, and remedial action.

4. ELEMENTS THAT CONTRIBUTE TURNAROUND ARE / PROCEDURE:

<ul style="list-style-type: none"> • Changes in the Top Management, • Initial Credibility-building actions, • Neutralizing external pressures, • Initial control • Identifying Quick-payoff Activities, 	<ul style="list-style-type: none"> • Quick Cost Reduction • Revenue generation • Asset Liquidation for generating cash, • Mobilization or strengthening of the organisation • Better internal coordination
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SIMILAR QUESTIONS:

- Write short notes on reasons to adopt Turnaround Strategies. (N16 - 3M)
 - Refer 2nd point in above answer
- Contraction and consolidation are basic to turnaround strategy. Discuss.
 - Refer meaning in the above answer.
- What is the need for Turnaround Strategy? (PM, M10 - 2M)
 - Refer meaning in the above answer.
- Explain why some organizations adopt turnaround strategy?
 - Refer 'meaning' in the above answer.

Q.No.20. What is a Divestment Strategy? Explain why/when is it adopted? (A) (PM, N 12 - 3M)

1. MEANING:

- Divestment Strategy involves the sale or liquidation of portion of business, or a major division, profit centre or SBU.
- Divestment is usually a part of rehabilitation or restructuring plan.
- Sometimes the option of a turnaround may even be ignored if divestment is the only answer.

2. WHY DIVESTMENT STRATEGY? Divestment Strategy may be adopted due to any of the following reasons

- When a turnaround has been attempted but has proved to be unsuccessful.
- 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.
- Severity of competition and the inability of the firm to cope with it.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- A better alternative may be available for investment.

Q.No.21. Write short notes on Liquidation Strategy? (A)

(RTP - M14)

MEANING:

- Liquidation Strategy involves closing down a firm and selling off all its assets and paying off its liabilities.
- It is considered to be the most extreme and unattractive retrenchment strategy.



- c) 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.
- d) Many small-scale units, proprietorship firms and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India.
- e) *The company management, government, banks and financial institutions, trade unions, suppliers, creditors and other agencies are extremely reluctant to take a decision, or ask, for liquidation.*
- f) Selling assets for implementing a liquidation strategy is also difficult as it is difficult to find buyers. Moreover, the firm cannot expect adequate compensation.
- g) Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", then it is a good option. *For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.*
- h) *When liquidation is evident, an abandonment plan is desirable. Planned liquidation will reap maximum benefits for the firm and its shareholders.*
- i) *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.*

SIMILAR QUESTIONS:

1. Liquidation is the last resort option for a business organization. Explain.
A. Same as above.

(RTP - M14)

Q.No.22. Meaning of Combination Strategy & Reasons for adopting it. (A)

(PM)

1. MEANING:

- a) Combination Strategies refer to a mix of different strategies like stability; expansion, diversification or retrenchment to suit particular situations that an enterprise is facing.
- b) Stability, Expansion and Retrenchment alternatives are not mutually exclusive. Hence, a combination thereof can be adopted. An enterprise may seek stability in R&D area of activity, expansion in some product lines and retrenchment in the less profitable products. Retrenchment of ailing products followed by stability and capped by expansion in some situations is also possible.

2. REASONS: Some reasons for adopting Combination Strategy are

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

SIMILAR QUESTIONS:

1. Explain the meaning of the combination strategies?
A. Refer 1st point in above answer.

APPLICATION ORIENTED QUESTIONS**Q.No.23. What are the various bases on which an existing firm can diversify strategically? (B) (PM)**

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

- a) Vertically integrated diversification

- b) Horizontally integrated diversification
- c) Concentric diversification
- d) Conglomerate diversification

Q.No.24. What are Acquisitions? Discuss with examples of two companies? (B) (PM)

1. **Meaning:** Refer Theory questions discussed above.
2. **Reasons:** Refer Theory questions discussed above.
3. **Examples:**
 - a) Tata's acquisition of Anglo Dutch steelmaker Corus
 - b) Tata's acquisition of British Jaguar Land Rover
 - c) Mittal Steel's takeover of Arcelor
 - d) HPCL's acquisition of Kenya Petroleum Refinery Ltd.
 - e) HINDALCO's acquisition Canada based Novelis.

**Q.No.25. Which Grand strategy alternative is followed during recession? (C)
(PM, RTP - M12, M10 - 2M)**

1. Stability strategy is advisable option for the organisations facing recession.
2. During recession, businesses face reduced demand for their products even at low prices. Funds become scarce, expenditure on expansion is stopped, profits decline and businesses try to minimise the costs. They work hard to maintain the existing market share, so that company survives the recessionary period.

**Q.No.26. Explain the meaning of the following strategies and also give suitable examples: (i) Forward integration (ii) Backward integration (iii) Horizontal integration (iv) Conglomerate diversification (v) Divestment (vi) Liquidation (vii) Concentric diversification. (C)
(PM, N 10 - 7M)**

Strategy	Meaning	Example
Forward Integration	Gaining ownership or increased control over the next level the value chain (Manufacturing or intermediaries)	Reliance Industries (owning refineries) diversified into petrol pumps.
Backward Integration	Gaining ownership or increased control over the previous level in the value chain (Manufacturing or suppliers)	An automobile manufactures diversifying into tyre production.
Horizontal Integration	Seeking ownership or increased control of a firm's competitors	ICICI Bank taking over Bank of Rajasthan
Conglomerate Diversification	Adding new, unrelated products or services	Yash Birla Group (auto & engineering) decides to enter wellness, solar power and schools.
Divestment	Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.	Godrej Group's withdrawal from the JV with Sara Lee from Africa

Liquidation	Liquidation strategy is an extreme strategy as it involves closing down a firm and selling its assets. It is considered as the last resort when all other options fail.	Those companies whose products are no more in demand sell all their assets.
Concentric Diversification	In concentric diversification, the new business are added that are linked to the existing businesses through process, technology or marketing.	Kotak Mahindra Bank gets into insurance and asset management businesses.

Q.No.27. What is meant by backward integration? Name any two backward integration strategies that hospitals may pursue. (B) (PM)

1. **Meaning:** Refer Theory questions discussed above.
2. In case of hospitals there can be number of businesses that can be entered. Following are indicative list of backward integration strategies that hospitals may pursue:
 - a) Drugs and pharmaceuticals- specific drugs can be manufactured or traded.
 - b) Business of gases required in hospitals- oxygen
 - c) Pathology labs/ diagnostic services. This can be created in- house if not available already. Alternatively, a chain can be started.
 - d) Blood banks
 - e) Ambulance services.

Q.No.28. A bakery starts producing pastries and other similar products. What type of diversification strategy if being followed by it and why? (B) (PM, N 15 - 3M)

1. A bakery normally is a small organization that produces and sells flour-based food baked in an oven. Typically, a bakery produces breads, cakes, cookies, pastries, pies, etc.
2. A bakery which is not producing pastries earlier, starts producing them and other similar products. Is said to be following concentric diversification which is basically related diversification.
3. In this form of diversification, the new business is linked to the existing businesses through existing systems such as processes, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. The most common reasons for pursuing a concentric diversification are that opportunities in existing line of business are available.

Q.No.29. Identify with reasons the type of growth strategies followed in the following cases.

- i) A leading producer of confectionary products advertising the new uses of its product 'Chokoo Mix' aggressively.
- ii) A company in publishing industry deciding to revise college text books.
- iii) A renowned company in textile industry starting to manufacture PFY and PSF, critical raw materials for textiles.
- iv) A business giant in auto manufacturing enters into edible oils, hotels, financial services and dairy businesses. (B) (N 15 - 4M, PM)

- i) The organisation has adopted market penetration strategy (intensification) through advertising the new uses of its product 'chokoo mix' aggressively. Here the organisation seeks significant growth – within the current business by selling existing products in the existing markets without changing the product in a major way.

- ii) The company has adopted product development strategy (intensification) by deciding to revise college text books. The company is already in publishing industry and must be having appropriate competencies in dealer network and acceptance amongst the student community. Revising the college text books (new product) would enable it to expand in the college text books segment (existing market).
- iii) The company has adopted backward integration strategy (vertically integrated diversification) by starting to manufacture PFY and PSF, critical raw materials for textiles. This strategy, apart from overall growth of the organisation, ensures uninterrupted supply of critical raw materials for the present business of the firm. It will also enable the organization to retain the margins in dealing with the raw materials which otherwise would have gone to its suppliers.
- iv) The business giant in auto manufacturing has adopted conglomerate diversification strategy by entering into edible oils, hotels, financial services and dairy businesses. In conglomerate diversification a business enters into new businesses that may have little or no linkages with existing business. The organisation has mammoth growth ambition.

Q.No.30. Identify the type of generic strategy used in the following examples.

- i) Dell Computer has decided to rely exclusively on direct marketing.
- ii) "Our basic strategy was to charge a price so low that microcomputer makers couldn't do the software internally for that cheaply".
- iii) 'NDTV', a TV channel has identified a profitable audience niche in the electronic media and exploited that niche through the addition of new channels like NDTV 'Profit' and 'Image'.
(C) (M 10, PM)

- i) **DIFFERENTIATION:** Dell Computers is differentiating on product delivery. Computer market is highly competitive and the products are very similar.
- ii) **COST LEADERSHIP:** Keeping the prices low so that microcomputer makers acquire the software rather than developing themselves is a case of cost leadership.
- iii) **FOCUS:** NDTV has identified a profitable area (audience niche) and is focusing on it.

Q.No.31. The management of a sick company manufacturing various electrical home appliances seeks your advice for an appropriate retrenchment strategy. What will be your advice and why? (B) (PM, M 15 - 7M)

1. **INTRODUCTION:** A sick company has huge accumulated losses that have eroded its net worth. The electric home appliance company may analyse its various products to take decisions on their individual viability. Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. The nature, extent and timing of retrenchment are matters carefully decided by management, depending upon each contingency.
2. **MEANING OF RETRENCHMENT:** Refer Theory questions discussed above.
3. **REASONS:** Refer Theory questions discussed above.
4. **TYPES OF RETRENCHMENT:** Retrenchment strategy is of the following types:
 - a) **Turnaround strategy:** Refer Theory questions discussed above.
 - b) **Divestment Strategy:** Refer Theory questions discussed above.
 - c) **Liquidation Strategy:** Refer Theory questions discussed above.
5. **SELECTION OF AN APPROPRIATE RETRENCHMENT STRATEGY:** The management of a Sick company manufacturing various electrical home appliances be explained about the each of the above three options of retrenchment strategy with their pros and cons. But the appropriate advice with respect to a particular option of retrenchment strategy will depend on the specific circumstances of each electrical home appliances and management goals of the company.

ACADEMIC INTEREST QUESTIONS

Q.No.32. Explain the concept of Strategic Intent (C)

(RTP- M15, N16)

1. MEANING:

- A company exhibits strategic intent when it vigourously pursues an ambitious strategic objective and
- Concentrates on allocation of all resources and take competitive actions on achieving that objective.
- Strategic Intent is also known as BHAG (Big Hairy Audacious Goal) of a company.

2. A company's strategic intent can be "to become the dominant company in the industry" by:

- Delivering the best customer service in the industry or the world.*
- Introducing new technology into products that can change the way people work and live*
- Unseating the existing industry leader.*
- The strategic intent of Canon was to beat Xerox in photocopying equipment.

Q. No.33. What are the situations under which the three generic strategies can be used? (C)

(For Students Self - Study)

SITUATIONS UNDER WHICH THESE GENERIC STRATEGIES CAN BE USED ARE:

- COST LEADERSHIP:** When the market is price sensitive and much room is not left for differentiation. Cost leadership is a better option when buyers do not care much about differences between the brands.
- DIFFERENTIATION:** This strategy is suitable when the customers are attracted to specific attribute(s) of the products. It is directed towards creating separate market with a product with different attribute(s). The strategy is useful in a perfectly competitive market where all the products look similar.
- FOCUS:** Smaller firms may compete on a focus basis. When the customers have distinctive preferences or requirements and the rival firms are not attempting to specialise in the same target segment.

SIMILAR QUESTIONS:

- Michael E. Porter has suggested three generic strategies. Briefly Explain them. What is the basic objective to follow a generic Strategy? In what situations can the three strategies be used?

A. Refer 3rd question + above question (RTP M16)

- According to Michael Porter, strategies allow organizations to gain competitive advantages from different bases. Explain these bases as mentioned by Porter. (M13 – 3M)

A. Refer 3rd question + write above answer.

Q.No.34. Compare & Contrast between Vertical, Horizontal, Concentric and Conglomerate Diversification Strategies (C)

Type	Vertical	Horizontal	Concentric	Conglomerate
1. New Businesses	Intermediary/ support services become new businesses.	Similar business at same stage of production - marketing chain.	New businesses/ products connected to existing facilities and products.	Completely new areas of activity/ businesses.

2. Nature of Diversification	Related	Related	Related	Unrelated
3. Linkage to the Existing Business	Vertical	Horizontal	Loop-like linkage to one or more products.	No linkages with existing product-process chain.



Wipro (started in 1945) was initially a vegetable oil manufacturing company, producing Sunflower Vanaspati oil & Soaps. During 1970's & 1980's, the company shifted its focus and began to look into business opportunities in IT and Computing Industry, which is entirely an unrelated diversification.

TEST YOUR KNOWLEDGE

1. "A CA student's exam preparation strategy should be both pro-active and reactive", Elaborate.
2. When can we say that a CA student's overall performance is satisfactory?
3. Explain why is cost-leadership strategy very effective in a country like India?
4. Can a company that follows cost-leadership Strategy make its customers loyal to its products/services? Substantiate your answer with proper reasoning
5. List out the various companies that are successfully following differentiation strategy?
6. Is differentiation strategy apt for an educational institution? Explain by using some examples if you say 'yes'.
7. What are 'No-frills' airlines? List out the various no-frills airline companies operating in India.
8. Will it be ok for Rolex, if it introduces watches in the economy range of Rs700 – Rs2000 under the same brand name?
9. Why did a majority of Indian firms follow stability strategy prior to liberalization?
10. Explain the backward integrated diversification strategy pursued by Reliance in its various businesses.
11. Explain both forward and backward integrated diversification strategies from the point of view of a CA educational Institution
12. Rama Naidu, a leading Film Producer in telugu film industry owns studios, produces, distributes and exhibits movies. Identify the strategy being adopted by him?
13. What could be the reasons behind ITC'S diversification from its cigarettes business to many unrelated business like hotels, paperboards, FMCGS, apparel etc.
14. A news paper company acquires a distribution truck company. What type of diversification strategy is this?
15. A luggage firm acquires another luggage company. What type of strategy is this?
16. List out the various potential areas/fields which a CA educational institution can diversify into?
17. Had you been the Managing Director of Subhiksha Retailing, what mistakes would you have avoided in managing the company successfully?

THE END