

Corporate Srtategy

- Corporate Strategy is primarily about the choice of direction for the firm as a whole.
- This is true whether the firm is a small, one-product company or a large multi business company.
- Even though each product line/ business unit has it's own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the market place the Corporation must coordinate these activities to succeed as a family.

The main concerns of Corporate Level Strategy are

- To identify the businesses in which a Company should participate
- The value creation activities it should perform in those businesses
- And the best means for expanding or contracting in different businesses including mergers, acquisitions and spin-offs.

- Corporate Strategy deals with three key issues
- The firm's overall orientation towards growth, stability or retrenchment (Directional Strategy)
- The Industries or Markets in which the firm competes through its products and Business Units (Portfolio Strategy)
- The manner in which management coordinates activities, transfer resources and cultivates capabilities among product lines and business units.(Parenting Strategy)

Directional Strategy

- Directional Strategies include the following
- Growth Strategies
- Stability Strategies
- Retrenchment Strategies

Growth Strategies

- Growth is a very attractive strategy for two key reasons
- Growth at times hides the flaws in a Company, which would otherwise be seen in a stable or declining market
- A growing firm offers more opportunities for advancement, promotion and interesting jobs.

Example 1 - Growth of Tesco

- Market penetration
 - Increase in its share of the grocery business at the expense of Sainsbury's and Asda
- Market development
 - Movement into the convenience store market
 - Expansion abroad
- Product development
 - Expansion into petrol sales
 - Development of financial services
- Diversification
 - Today Tesco is so all embracing that diversification would have to involve something entirely outside Tesco's current range of activities and sold in foreign markets or to business customers

- The two basic growth strategies are
- Concentration on the Current Product lines in one Industry, and
- Diversification into other product lines in other Industries

Concentration

- The two basic concentration strategies are
- Vertical Growth, and
- Horizontal Growth

Vertical integration

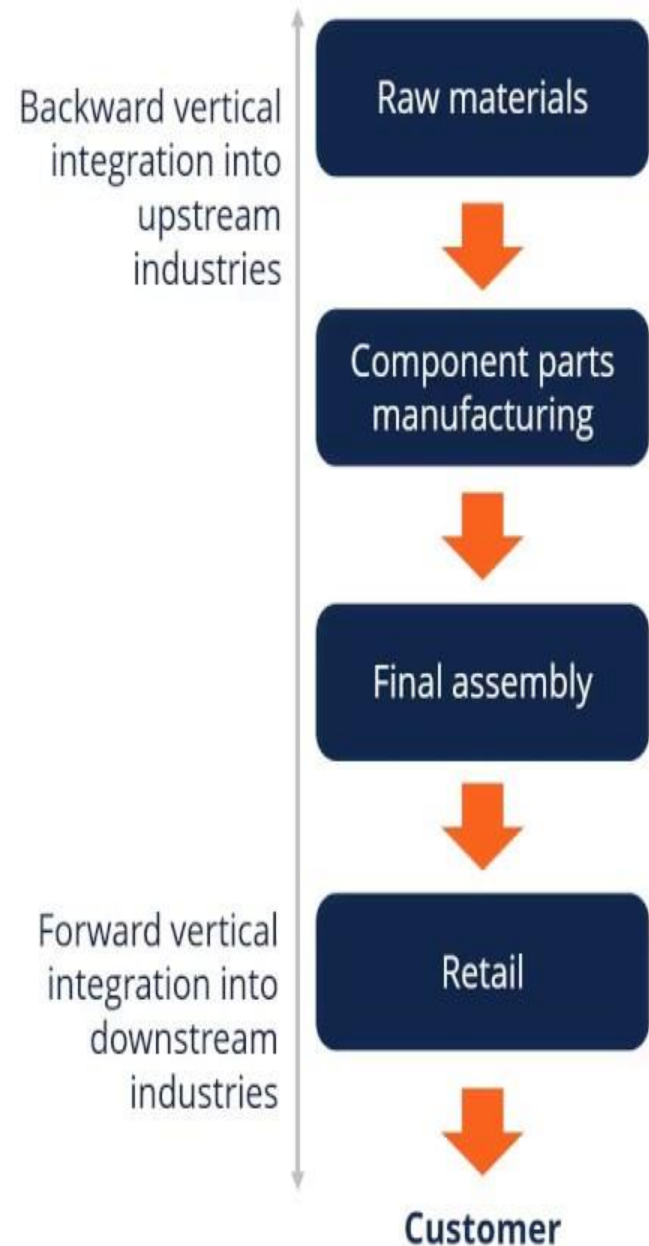
Vertical integration is the process of a company expanding its operations either:



Backward into an industry that produces inputs for the company's products (**backward vertical integration**)



Forward into an industry that uses, distributes, or sells the company's products (**forward vertical integration**)



Example of Horizontal Integration

- One example of horizontal integration is what happened between the infamous Daimler Benz and Chrysler merger (car developing, manufacturing and retailing).



- Vertical Growth can be achieved by taking over a function previously provided by a supplier or distributor.

Vertical Integration can be

- Full Integration
- Taper Integration
- Quasi Integration
- Long-term Contract

- In case of Taper Integration a firm produces less than half of its requirement and buys rest from outside suppliers.
- In case of quasi integration a company purchases most of its requirements from outside suppliers that are under its partial control. For example by purchasing 20% of shares of Focus System, Motorola guaranteed its access to the technology of Focus

- Horizontal Growth results in horizontal integration which may range from full to partial ownership to long-term contracts. For example KLM, a dutch airline, purchased a controlling stake in Northwest Airlines to obtain access to American and Asian Markets.

Diversification Strategies

- Two basic diversification strategies are:
- Concentric Diversification
- Conglomerate Diversification

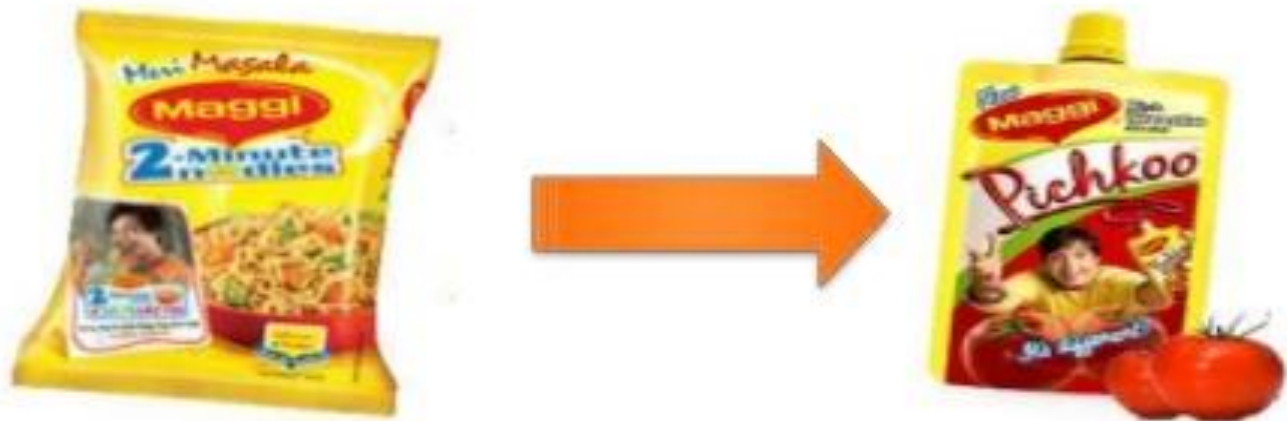
- Concentric Diversification – In this case a firm diversifies into a related Industry
- By focusing on the characteristics that have given the company its distinctive competence the company uses those very strengths as its means of diversification

Technology-related concentric diversification

- When a new type of product or service is provided with the help of related technology.

Example:

- The addition of tomato ketchup and sauce to the existing "**Maggi**" brand processed items of Food Specialties Ltd. is an example of **Technology-related concentric diversification**

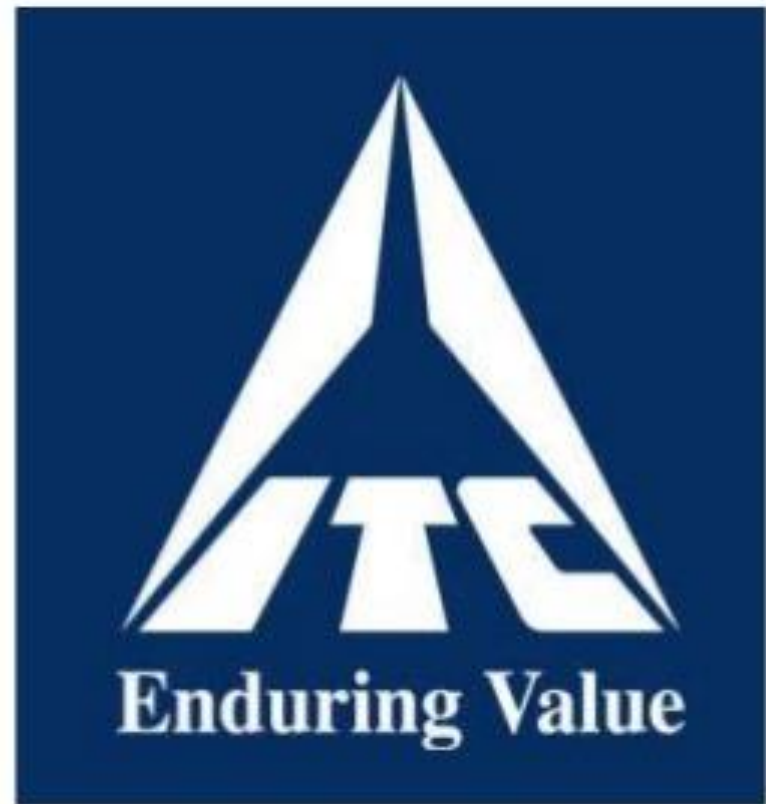


Conglomerate Diversification

- When Management realizes that current industry is unattractive the most likely strategy is conglomerate diversification ,i.e.diversifying into an industry unrelated to the current one.

Examples of Conglomerate Diversification

- Example of Indian company which have adopted apart of growth and expansion through conglomerate diversification the classic examples is of ITC, a cigarette company diversifying into the hotel industry.



International Entry Options

- Exporting
- Licensing
- Franchising
- Joint Ventures
- Acquisitions
- Green-Field Development
- Production Sharing
- Turn-Key Operations
- BOT Concept
- Management Contracts

Exporting

- It is the process of shipping goods produced in the company's home country to other countries for marketing.

Licensing

- Under Licensing agreement, the licensing firm grants rights to another firm to produce and/or sell a product. The licensee pays compensation to the licensing firm in return for technical expertise. This is an useful strategy if the trademark or brand name is well-known but the Company do not have sufficient funds to finance its activities.

Franchising

- Under Franchising agreement the franchiser grants rights to another company to open a retail store using the franchiser's name and operating system. In exchange the franchisee pays the franchiser a percentage of its sales as a royalty.

Joint Venture

- Joint Venture enables a Company to combine resources and expertise needed to develop new products or technologies.
- It enables a Company to enter a Country that restricts foreign ownership.

Acquisition

- It implies purchasing a Company operating in the same area.
- Synergistic benefits can result if the Company acquires a Firm with strong complementary product lines or a strong distribution network.

Green-Field Development

- If a Company don't want to purchase another Company's problems then it could opt for Greenfield Development
- In this case the Company builds its own manufacturing plant and distribution system.

Production Sharing

- It means the process of combining the higher labour skills and technology available in the developed countries with the lower cost labour available in developing countries.

Turnkey Operations

- These are contracts for the construction of operating facilities in exchange for a fee.
- The facilities are transferred to the host country or firm when they are complete.
- MNCs performing turnkey operations transfer some of their equipments
- E.g.Fiat built an auto plant in Russia to produce an older model of Fiat under Russian brand name.

BOT Concept

- Build
- Operate
- Transfer

Management Contracts

- Management Contracts allow a firm to assist another firm for a specified fee and a period of time.
- These are common when a country's Govt takes over a foreign company's holding in its country
- The contracts allow the foreign firm to earn till the locals are trained.

Stability Strategy

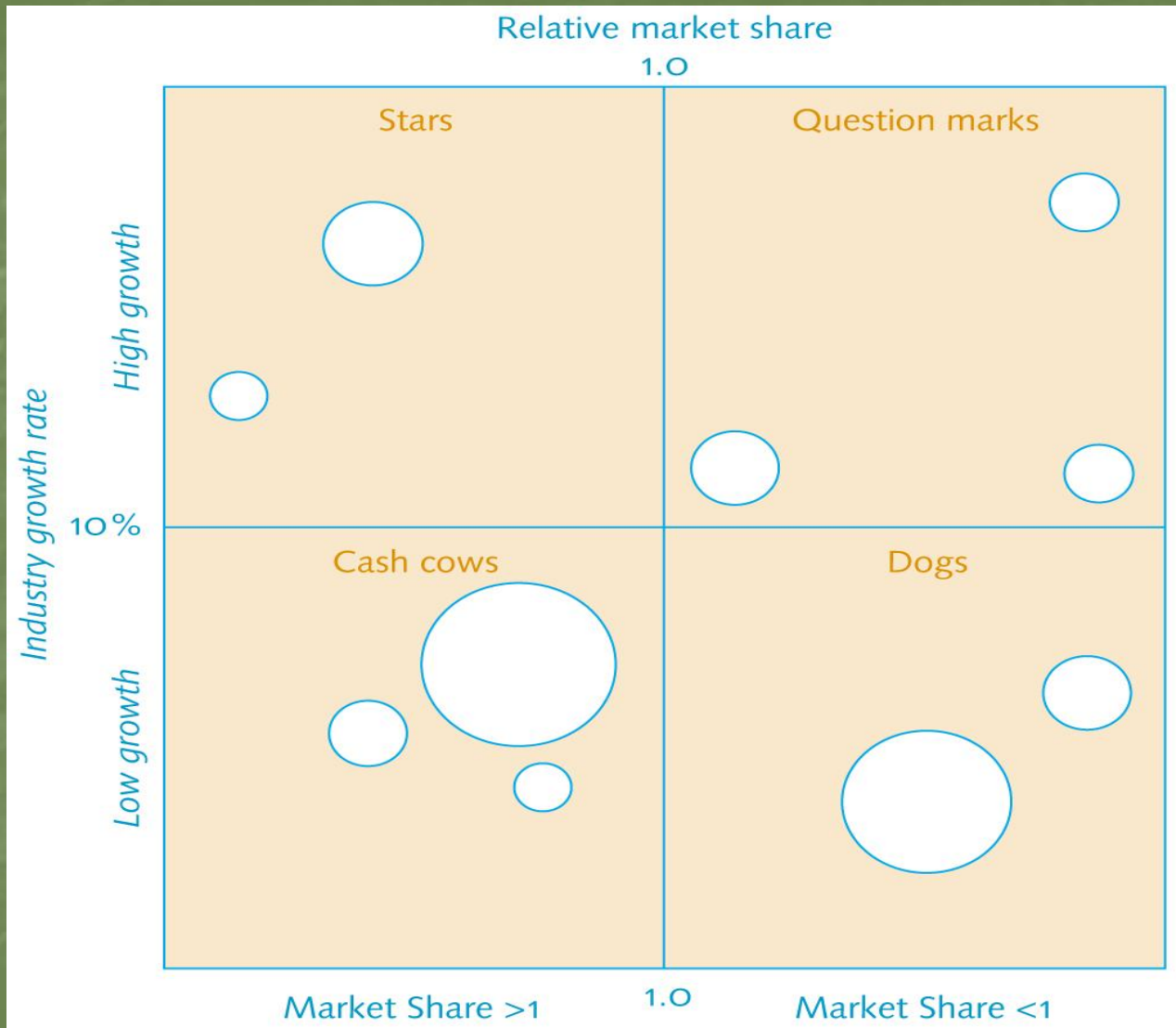
- Pause/Proceed with Caution Strategy
- No Change Strategy
- Profit Strategy

Retrenchment

- Turnaround Strategy
- 1. Contraction
- 2. Consolidation
- Captive Company Strategy
- Sell-Out/Divestment Strategy
- Bankruptcy/Liquidation Strategy

Portfolio Analysis

- In Portfolio Analysis, top Management views its product lines and business units as a series of investments from which it expects a profitable return.
- Two of the most popular approaches are the BCG Growth-Share Matrix and GE Business Screen



Advantage of Portfolio Analysis

- It encourages top management to evaluate each of the Company's business and to set objectives and allocate resources for each.
- The graphic depiction facilitates communication
- It raises the issue of cash flow availability for expansion and growth

Limitations

- It is not always easy to define product/market segment.
- It is not always clear what makes an Industry attractive.