

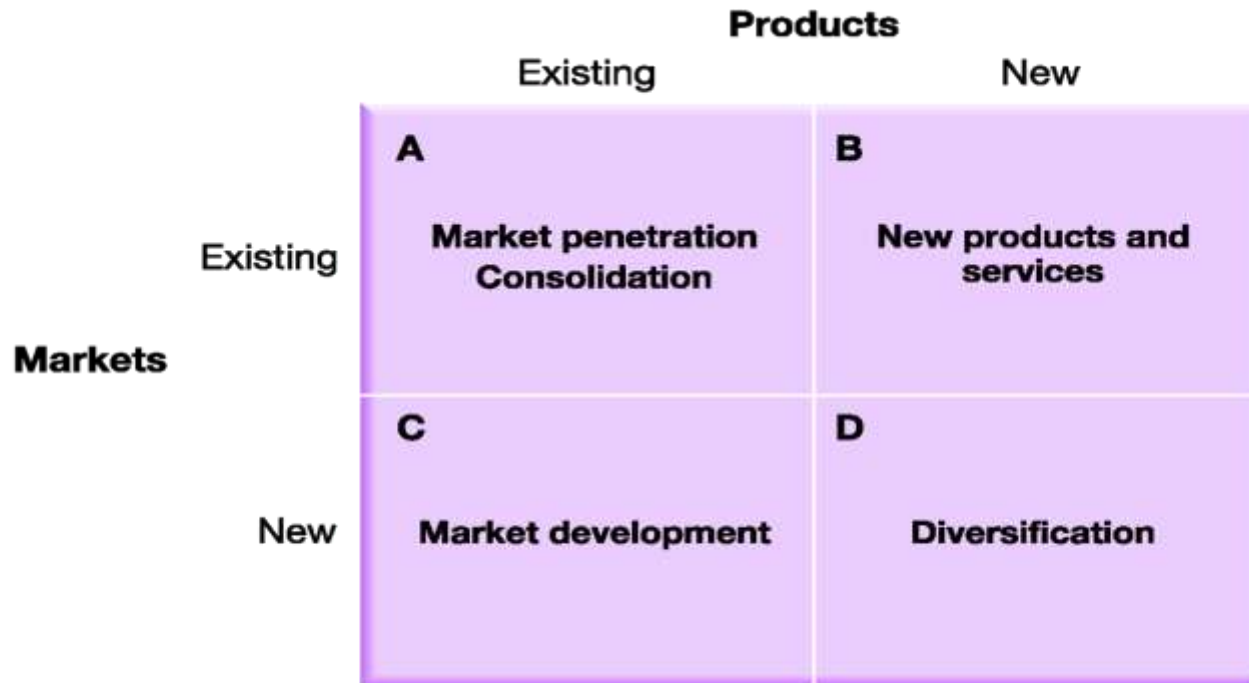


# Directions & Methods of Strategy Development

# Nature of Strategies

- Aggressive/Offensive Strategies
- Defensive Strategies

# Strategic Directions (Ansoff's Matrix)



Source: Adapted from H. Ansoff, *Corporate Strategy*, Penguin, 1988, Chapter 6. (The Ansoff matrix was later developed – see reference 1.)

# OFFENSIVE STRATEGIES

# Market Penetration

- When current markets are not saturated with your particular product or service.
- When the usage rate of present customers could be significantly increased.
- When the market shares of major competitors have been declining while total industry sales have been increasing
- When the correlation between dollar sales and dollar marketing expenditures has historically been high.
- When increased economies of scale provide major competitive advantages.

# Market Penetration Strategies



- ✓ Promotional campaigns in school.
- ✓ Advertising strategies: - focusing on kids.
- ✓ New product innovation according to the need of consumers:
  - Veg. Atta Noodles.
  - Dal Atta Noodles.
  - Cuppa Mania.
- ✓ Availability in different packages:
  - 50 gms.
  - 100 gms.
  - 200 gms.
  - family packs (400gms.).
- ✓ Conducting regular market research



# Examples of Market penetration

- Nike features famous athletes in print and television ads designed to take market share within the athletic shoes business from Adidas and other rivals.



# Product Development

- When an organization has successful products that are in the maturity stage of Product life cycle; the idea here is to attract satisfied customers to try new (improved) products as a result of their positive experience with the organization's present products or services.
- When an organization competes in an industry that is characterized by rapid technological developments.
- When major competitors offer better quality products at comparable prices
- When an organization competes in a high growth industry
- When an organization has especially strong R&D capabilities.

# Examples of Product Development

- In the 1940s, for example, Disney expanded its offerings within the film business by going beyond cartoons and creating movie featuring real actors.



# New-Product Development Process

## Marketing Strategy Development



For example :  
KFC test marketed its new kentucky grilled chicken product for three years before rolling it out widely. Says the chain's president, " we had to get it right "

# Market Development

- When new channels of distribution are available that are reliable, inexpensive, and of good quality
- When an organization is very successful at what it does.
- When new untapped or unsaturated markets exist.
- When an organization has the needed capital and human resources to manage expanded operations.
- When an organization has excess production capacity
- When an organization's basic industry is rapidly becoming global in scope.

# Examples of Market Development

- One way to reach a new market is to **enter a new retail channel.**

Starbucks has stepped beyond selling coffee beans only in its stores and now sells beans in grocery stores. This enables Starbucks to reach consumers that do not visit its coffeehouses.



# Related Diversification

- When an organization competes in a no-growth or slow growth industry
- When adding new, but related, product would significantly enhance the sales of current products.
- When new but related products could be offered at highly competitive prices.
- When new but related products have seasonal sales levels that counterbalance an organization's existing peaks and valleys.
- When an organizations products are currently in the decline stage of the product life cycle
- When an organization has a strong management team.

## Examples of Diversification strategies

- Avon's move to market jewellery through its door-to-door sales force involved marketing new products through existing channels of distribution.



# Examples of Related Diversification?

## Johnson and Johnson

- Engages in the research and development, manufacture, and sale of various **products in the health care field** worldwide
- 3 segments
  - Consumer segment
    - Products for baby care, skin care, oral care, wound care, and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products
  - Pharmaceutical segment
    - Products for anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, urology, and virology
  - Medical Devices and Diagnostics segment
    - Products for circulatory disease management, orthopaedic joint reconstruction and spinal care, wound care and women's health, minimally invasive surgical, blood glucose monitoring and insulin delivery, and diagnostic products, as well as disposable contact lenses

# Unrelated Diversification

- When an organization's basic industry is experiencing declining annual sales and profits.
- When an organization has the capital and managerial talent needed to compete successfully in a new industry.
- When the organization has the opportunity to purchase an unrelated business that is an attractive investment opportunity.
- When there exists financial synergy between the acquired and acquiring firm; RD is based on commonality between markets, products, technologies, and activities, whereas URD is based more on profit considerations or financial synergies.
- When existing market's for an organization's present products are saturated.
- When antitrust action could be charged against an organization that has historically concentrated on a single industry.

# 2010 Examples (cont'd)

<b>Related Diversification</b>	LINKdotNET, the Egypt based internet services powerhouse, acquired eight new related online businesses
<b>Unrelated Diversification</b>	UAE based Al-Futtaim Group operates more than 65 companies across sectors as diverse as commerce, industry, and services
<b>Retrenchment</b>	Nakheel, the property unit of Dubai World, cut several jobs in 2008 and 2010



# Forward integration

- When an organization's present distributors are especially expensive, or unreliable, or incapable of meeting the firm's distribution needs
- When the availability of quality distributors is so limited as to offer a competitive advantage to those firms that integrate forward.
- When an organization competes in an industry that is growing and is expected to continue to grow markedly; this is a factor because forward integration reduces an organization's ability to diversify if its basic industry flater.
- When an organization has both the capital and human resources needed to manage the new business of distributing its own products.
- When the advantages of stable production are particularly high; this is a consideration because an organization can increase the predictability of the demand for its output through forward integration.
- When present distributors or retailers have high profit margins; this situation suggests that a company could profitably distribute its own products and price them more competitively by integrating forward.

# Examples of Forward Integration

- Disney has pursued forward vertical integration by operating more than three hundred retail stores that sell merchandise based on Disney's characters and movies. This allows Disney to capture profits that would otherwise be enjoyed by another store.



# Backward Integration

- When an organization's present suppliers are especially expensive, or unreliable, or incapable of meeting the firm's needs for parts, components, assemblies, or raw materials.
- When the number of suppliers is few and number of competitors is many.
- When an organization competes in an industry that is growing rapidly; this is a factor because integrative-type strategies (forward, backward, and horizontal) reduce an organization's ability to diversify in a declining industry.
- When an organization has both the capital and human resources needed to manage the new business of supplying its own raw material.
- When the advantages of stable prices are particularly important; this is a factor because an organization can stabilize the cost of its raw materials and the associated price of its product through backward integration.
- When present suppliers have high profit margins, which suggest that the business of supplying products or services in the given industry is a worthwhile venture.
- When an organization needs to acquire a needed resource quickly.

# Examples of Backward Integration

- Ford Motor Company created subsidiaries that provided key inputs to vehicles such as rubber, glass, and metal. This approach ensured that Ford would not be hurt by suppliers holding out for higher prices or providing materials of inferior quality.



**Go Further**

# Horizontal Integration

- When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government for “tending substantially” to reduce competition.
- When an organization competes in a growing industry.
- When increased economies of scale provide major competitive advantages.
- When an organization has both the capital and human talent needed to successfully manage an expanded organization.
- When competitors are faltering due to a lack of managerial expertise or a need for particular resources that your organization possesses; note that horizontal integration would not be appropriate if competitors are doing poorly because overall industry sales are declining.

# 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).



# Examples of Stability strategies

Steel Authority of India has adopted stability strategy because of over capacity in steel sector. Instead it has concentrated on increasing operational efficiency of its various plants rather than going for expansion. Others industries are 'heavy commercial vehicle', 'coal industry'.



# DEFENSIVE STRATEGIES

# Retrenchment

- When an organization has a clearly distinctive competence, but has failed to meet its objectives and goals consistently over time.
- When an organization is one of the weaker competitors in a given industry.
- When an organization is plagued by inefficiency, low profitability, poor employee morale, and pressure from shareholders to improve performance.
- When an organization has failed to capitalize on external opportunities, minimize external threats, take advantage of internal strengths, and overcome internal weaknesses over time; that is, when the organization's strategic managers have failed (and possibly been replaced by more competent individuals).
- When an organization has grown so large so quickly that major internal reorganization is needed.

# Divestiture

- When an organization has pursued a retrenchment strategy and it failed to accomplish needed improvements.
- When a division needs more resources to be competitive than the company can provide.
- When a division is responsible for an organization's overall poor performance.
- When a division is a misfit with the rest of the organization; this can result from radically different markets, customers, managers, employees, value, or needs.
- When a large amount of cash is needed quickly and cannot be reasonably obtained from other sources.
- When government antitrust action threatens an organization.

# Liquidation

- When an organization has pursued both a retrenchment strategy and divestiture strategy but failed to achieve desired outcomes.
- When an organization's only alternative is bankruptcy; liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organization's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.
- When the stockholders of a firm can minimize their losses by selling the organization's assets.

# Methods of Strategy Development

- Internal Development
- Mergers/Acquisitions
- Alliances

# Conditions for Internal Development

- Availability of resources/competences
- Technically complex/sophisticated products
- Strategically important markets
- Financial situation
- Organization culture
- Nature of competition
- Macro Environment/country culture

# Conditions for M/A

- Lack of resources/competences
- Speed
- Strong position of incumbents
- Deregulation/rules/government incentives/
- Strategic motives (extension, consolidation, capabilities)
- Financial motives (financial efficiency, tax efficiency, asset stripping)
- Managerial motives (Personal ambition, bandwagon effect)

# Conditions/Motives for Strategic Alliances

- Scale Alliances
- Access Alliances
- Complementary Alliances (complementary core capabilities)
- Collusive Alliances (cartels)

# Types of Alliances

- Permanent
  - Joint Venture
  - Consortium
- Contractual
  - Subcontracting
  - Licensing
  - Franchising
- Temporary
  - Networks
  - Opportunistic Alliances