

Retrenchment Strategies

If the Company's competitiveness is no longer a success factor and some of its product lines are not rewarding from the Company's point of view then it may pursue retrenchment strategy. Corporates face this kind of situation from time to time when there is overcapacity in the market or when there is a change in process or technology due to which the company's products lose shines in the market place. Thus, in order to shelve out the outdated product line and in order to minimize the loss the Management may follow one of several retrenchment strategies ranging from turnaround strategy to Captive Company Strategy to selling out, bankruptcy or liquidation.

Turnaround Strategy: Through turnaround Strategy the Company tries to improve the operational efficiency of the firm. This strategy can be adopted in such cases where the management is of the view that the problems faced by the business organization is not critical and can be eliminated by following the operational and financial prudence. Turnaround strategy can be adopted through contraction and consolidation. Through Contraction the firm tries to make a reduction in overall cost and tries to reduce the scale of operations wherever it is required. On the other hand, in Consolidation the firm reduces costs and overheads in a planned manner. For example, all the costs to be incurred are to be justified and wherever necessary the method of zero-base budgeting is adopted to reduce unnecessary overhead and to make functional activities cost-justified.

Captive Company Strategy: In Captive Company Strategy a weaker company facing a low market demand position for its products gives up its independence to a stronger company through a guarantee in the form of a long-term contract for supplying products to the stronger Company. Through this contract the stronger company provides the surety to the weaker company to purchase a majority of its production. For example, to become the sole supplier of an auto part to General Motors, Simpson Industries agreed to let a special team from GM to inspect its engine parts facilities and accounts and interview its employees. In return nearly 80% of the Company's production was sold to GM through long-term Contracts.

Sell-Out/Divestment Strategy: If a Company is facing losses constantly and don't see the viability of being turned around and is neither successful in pursuing the Captive company strategy then its options become limited. In that case Sell-out strategy could prove to be a better option. By pursuing the Sell-Out strategy, the Management can bargain for a better price for its shareholders. Further it can also be beneficial from the point of view of the company's employees as they can have their jobs intact by when another firm takes over the Company. On the other hand, if the promoters of a business group have multiple business lines and it chooses to sell off a part of their business with low growth potential then it is called as Divestment.

Bankruptcy/Liquidation Strategy: When a Company finds that it has no business in hand and neither it has any chance that it will revive at some date in future it looks for various ways to redeem itself. However if no other retrenchment strategy like turnaround strategy, captive company strategy or divestment strategy is applicable to the company because of all round negativity surrounding the company then the firm may pursue bankruptcy or liquidation strategy as it becomes the only strategy to be exercised in such circumstances. Bankruptcy involves giving up the Management of the Firm to the Courts in return for some settlement of the Corporation's obligations. On the other hand, in case of Liquidation the assets of the company are sold to clear the liabilities of the firm and the balance amount available if any is distributed among the shareholders in proportion to the shares held by them.