TYPES OF STRATEGIES

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DIRECTIONAL STRATEGIES

Growth
- Concentration
- Vertical Growth
- Horizontal Growth
- Diversification
- Concentric
- Conglomerate

Stability
- Cautiously proceed
- Maintain
- Profit

Retrenchment
- Turnaround
- Divest/Sale
- Liquidation
STRATEGIC ALTERNATIVES

Generic or grand or basic strategies

• **Stability** - better after sales service, modernize plant, bulk discount, Improve performance to sustain

• **Expansion** - Change in customer group, function, technology

• **Retrenchment** - Withdrawal - Customer group, function, technology (unprofitable)

• Combination

• E.g. Wide variety of services to customers (stability)
  - New products in product range (expansion)
STRATEGIC ALTERNATIVES

Michael Porter - Three type of generic strategies
- Overall cost leadership strategy
- Differentiation strategy
- Focus on niche market
DIMENSIONS OF GRAND/Generic Strategies

I. Internal/External
   - Independent of any other entity
   - Association with other entity

II. Related/Unrelated
   - To existing customer groups, existing customer function, technologies
III. Horizontal/Vertical
- Serving additional customer groups
- Consolidating backward/forward

IV. Active/Passive
Active - offensive strategy
Passive - Defensive strategy

4 grand strategies × 4 dimensions × 2 types of each dimension × 3 dimensions of each business definition = 96 Mixed strategies
MODERNIZATION STRATEGIES

Developing new technology strategy i.e. technological upgradation as a strategy
- Increased production, lower cost, improve efficiency and productivity
- Extensively used by Indian organization - stability - prior to expansion & diversification

If pace of modernization is low - internal stability strategy, high - internal expansion strategy

Merge with another company - for modern - external expansion strategy
DIVERSIFICATION AND INTEGRATION STRATEGIES

1. Vertical Integration
   - make new products to serve its own needs
   - backward/forward integration

2. Horizontal Integration
   - Same product - more customer group
   - merger similar companies

Spartek Ceramics takeover of Neyveli Ceramics
DIVERSIFICATION AND INTEGRATION STRATEGIES

3. Concentric diversification
   - Marketing & technology related - rain coat manufacturer - rubber based items - gloves, shoes
   - Technology related - leasing company - hire purchase
   - Marketing related - Unrelated technology (cosmetic & sewing machines - women)

4. Conglomerate diversification
   - Unrelated to customer groups, function, technology
   ITC - Cigarette & Hotel
   TTK group - Chemicals, hosiery, contraceptives
MERGER, TAKEOVER AND JOINT VENTURE STRATEGIES

Diversification & Integration
Merger (Amalgamation)
A acquires B - B merged with A
A & B → C - Consolidated

- Horizontal
- Concentric
  - Vertical
  - Conglomerate
JOINT VENTURE

• 2 firms in one industry
• 2 firms across different industries
• Indian & foreign firm in India
• Indian & foreign firm in foreign country
• Indian & foreign firm in third country

Last two types are on increase now
TURNAROUND STRATEGIES

Reversing a negative trend
Retrenchment - internal/external - improve internal efficiency - Divestment/liquidation

**Danger signs:**
• Persistent negative cash flows
• Negative profits
• Declining market share
• Deterioration in physical facilities
• High turnover, low morale, Mismanagement
• Uncompetitive products, sick company
MANAGING TURNAROUND

- Existing team - support external consultant - if C.E - credibility - rare
- Existing team - withdraws temporarily - turnaround specialist - employed
- Replace existing team / C.E

Approaches:
- Surgical
- Human approach
ACTION PLAN FOR TURNOVER

• Analysis of product, market, production process, competition, market segment positioning
• Clear thinking - market place & production logic
• Implementation of plans - target - setting, feedback, remedial action
DIVESTMENT

Divestment
- (divestiture or cutback) - sale of or liquidation of a portion of business
- SBU or profit center

1. Spinning it off - financially and managerially independent company with stake

2. Sell a unit outright

Kelvinator India - spin-off - Avanti scooters - high production cost
LIQUIDATION

• Rarely - large companies liquidate
• Buyers rare for purchase of assets
• Court, voluntary, subject to supervision of court
Combination strategies - popular
Criteria for strategic choice

• Does strategy exploit the opportunities present in the environment?
• Is it consistent with the resources of the firm, its competitive advantage & core competence?
• Is the chosen level of risk feasible?
• Is it appropriate to the values & aspirations of the firm?
• Gap Analysis

• Consider the Selection factor.
  -- Criteria for evaluation alternatives.
• Evaluate strategic alternatives.
• Make choice
Factors affecting strategic choice

- Nature of environment – stable?
- Firm’s internal realities
- Ambition of CEO / owners
- Company culture
- Firm’s capacity to execute the strategy
- Resource allocation
Strategy Implementation

• Evolve a systematic procedure to implement the strategy chosen
  – Procedural implementation plan
  – Proper resource allocation plan
  – Structural implementation plan
  – Functional implementation plan
  – Behavioural implementation plan

• Evaluate and control through strategic and operational control measures

• Success of a strategy is very much dependent on how the strategy is executed