MBCIII - 1 – Strategic Management

Unit III

Programme Educational Objectives

Our program will create graduates who:

1. *Will be recognized as a creative and an enterprising team leader.*
2. *Will be a flexible, adaptable and an ethical individual.*
3. *Will have a holistic approach to problem solving in the dynamic business environment.*

Logistics and Supply Chain Management
Course Outcomes

- CO1-Given the adverse business situation the student manager would be able to develop a strategy to sustain in the said business.
- CO2-Given the values of Critical Success Factors such as Sales, Market Share, ROI of an organization the student manager will be able to compare the same with market and compile the strengths & weakness chart for that organization.
- CO3-Given the vision document of an organization the student manager will be able to justify the role of the vision document in formulating the strategy for that organization.

- CO4-Given the business environment, the student manager will be able to construct the Porter's Five Forces model which is likely to guide formulation of a strategy in given business environment.

- CO5-Given a condition of competitive environment, the student manager will be able to suggest suitable growth Strategy for the firm.

- CO6-Given the reasons for an organization to go global, the student manager will be able to analyze various challenges likely to be faced by an organization while formulating global strategy.

1.Corporate Scope

(Resource: Article on Yes bank, Cases of Maruti-Suzuki, Unilever, Tata's)

- The business in which a firm wishes to operate.
- A firm can be a single business firm _ Where 90% of the revenue comes from a single line of business e.g. (Jet Airways) Or
- A Dominant Business Firm _ Where the majority of revenue (60-70%) comes from a single line of business _ Although the firm operates in more than one lines of businesses.
- (McDonalds-Chain of restaurants 65% and rest from real estate investments and franchise business)

1.Corporate Scope…Contd.

- Based on the Corporate Scope the corporation can,

1. Either expand the current scope (Reliance Industries Ltd.) or ,
2. Pause the current scope (Jet Airways) or
3. Contract the current scope. (Tata Group)

- Corporate scope acts as a trajectory of future growth for an organization.

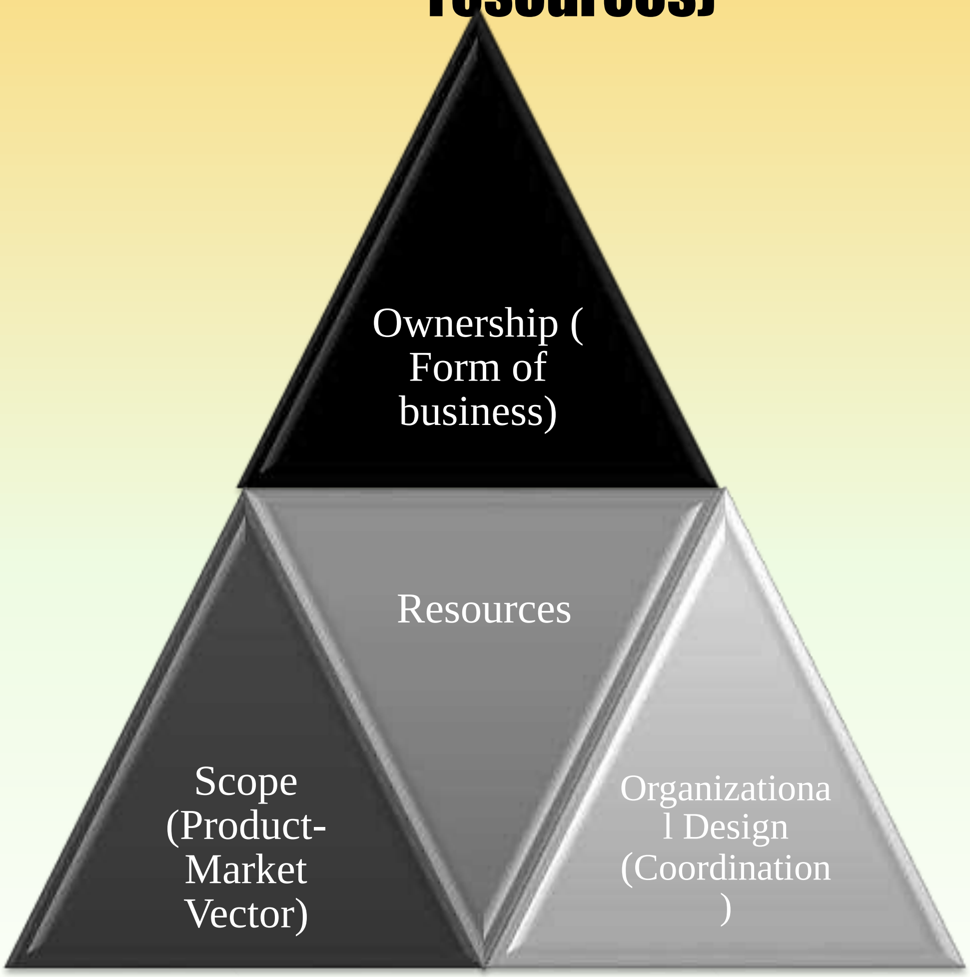
2.Corporate Strategy

- Alfred Chandler defines Corporate Strategy as “The futuristic Planning of the top management to enhance the ability of the firm to generate and capture (Retain) superior economic rents (Returns)”.

- Michael Porter defines Corporate Strategy as, ” Set of choices that a corporation makes to create value through configuration and co-ordination of multi market activities.”

Corporate Strategy Model

(Set of choices around scope, ownership & structure of the organization configured around organizational resources)



Growth Strategy
(Organic Growth & Inorganic Growth)

- Strategies those expand the scope and enhance Value Creation for the organization are termed as growth strategies.

Dimensions of growth

1. Concentration (Integration) –

- Vertical Concentration (Integration)
- Horizontal Concentration (Integration)

2. Diversification –

- Concentric
- Conglomerate

Concentration (Integration) Strategies

- The organization grows by integrating the business activity relating to its existing scope, either vertically or horizontally or both essentially in the same value chain.

- The concentration strategies should add value not only to the business unit but also to the corporate as a whole.

Types of Vertical Concentration (Integration)

1. Forward Concentration-

Here the firm integrates forward in the value chain and move closer to the consumers.

2. Backward Concentration –

Here the firm integrates backward in the value chain and move closer to the suppliers.

Horizontal Concentration (Integration)

- The firm integrates the related (similar) businesses but essentially at the same level of value chain.

Advantages of Horizontal Concentration

- In horizontal concentration, there is an either outward flow of value or inward flow of value i.e. the firm enters into the new markets or new products/technology enters the firm.

Disadvantages of Horizontal Concentration

- It increases the organization's fixed costs.
- It reduces the flexibility of allocation of funds.
- The organization is at increased business risk.

Diversification

- When a firm begins an altogether new business, which is in an altogether different value chain is diversification.
- Diversification facilitates entry of a firm in new product market.
- Diversification can be either related to the existing line of business or may be unrelated to the existing line of business.

Concentric Diversification

- When a firm diversifies into the similar or existing line of business, the diversification is termed as concentric diversification.
- Here the firm diversifies into the same category of products.
- It serves similar markets and uses same value chain.
- Example a toothpaste manufacturer diversifying into the business of manufacturing tooth brushes.

Conglomerate Diversification

- When a firm diversifies into an altogether different categories of business in called as unrelated or conglomerate diversification.
- Here the firm serves different markets.
- Firm uses a different value chain.
- It is a growth through acquisition or internal development of a business outside of it and is no way related to the firm's existing scope of business.

Mergers

- The boards of directors for two companies approve the combination and seek shareholders' approval.
- After the merger, the acquired company ceases to exist and becomes part of the acquiring company.
- For example, in 2007 a merger deal occurred between Digital Computers and Compaq whereby Compaq absorbed Digital Computers.

Mergers…Contd…

- A merger occurs when two separate entities (usually of comparable size) combine forces to create a new joint organization in which – theoretically – both are equal partners.
- For example, both Daimler-Benz and Chrysler ceased to exist when the two firms merged, and a new company, DaimlerChrysler, was created.

Mergers…Contd…

- Legally speaking, a merger requires two companies to consolidate into a new entity with a new ownership and Management Structure. An acquisition takes place when one company takes over all of the operational management decisions of another. The more common interpretive distinction rests on whether the transaction is friendly (merger) or hostile (acquisition).

Types of Mergers

1.Horizontal merger - Two companies that are in direct competition and share the same product lines and markets.(Arcellor-Mittal, Tata-Corus Mergers)

2.Vertical merger - A customer and company or a supplier and company. (Wockhardt Hospitals).

3.Congeneric mergers - Two businesses that serve the same consumer base in different ways, such as a TV manufacturer and a cable company or Facebook & WhatsApp)

Types of Mergers....Contd...

- Market-extension merger - Two companies that sell the same products in different markets.(BSNL-MTNL)

- Product-extension merger - Two companies selling different but related products in the same market.(ITC-Classmate, ICICI bank-Lombard Insurance, Axis bank-UTI Mutual Funds)

Acquisition

- In case of acquisition the acquiring company obtains the majority stake in the acquired firm, which does not change its name or legal structure.
- An example of this transaction is Manulife Financial Corporation's 2004 acquisition of John Hancock Financial Services, where both companies preserved their names and organizational structures.

Acquisition...Contd...

- An acquisition takes place when one company takes over all of the operational management decisions of another.

- The more common interpretive distinction rests on whether the transaction is friendly (merger)
or hostile (acquisition).

Reasons For M&A

- **Growth:**

  Many companies use M&A to grow in size and leap frog their rivals. While it can take years or decades to double the size of a company through organic growth, this can be achieved much more rapidly through mergers or acquisitions.

- **Preempted competition:**

  This is a very powerful motivation for mergers and acquisitions, and is the primary reason why M&A activity occurs in distinct cycles. The urge to snap up a company with an attractive portfolio of assets before a rival does so generally results in a feeding frenzy in hot markets.

Reasons For M&A

3.Domination:

Companies may go for M&A for achieving dominance in the market. But this may result into monopoly.

4. Achieving Economies of Scale

5. Acquiring new technologies

6. Reduction of work force

Joint Ventures

- A joint venture (JV) is a business arrangement in which two or more firms agree to pool their resources to form a new company for the purpose of accomplishing a specific task.

- This task can be a new project or any other business activity.

- In a joint venture (JV), each of the participants is responsible for profits, losses and costs associated with it.

Elements of design for a JV

- The number of parties involved.
- The scope in which the JV will operate (geography, product, technology).
- What and how much each party will contribute to the JV.
- The structure of the JV itself Initial contributions and ownership split of each party.
- The kind of arrangements to be made once the deal is complete.
- How the JV is controlled and managed.

Strategic Alliances

- A strategic alliance is an arrangement between two companies that have decided to share resources to undertake a specific, mutually beneficial project.
- A strategic alliance is less involved and less binding than a joint venture.

Difference between an SA & JV

- In joint ventures two companies typically pool resources to create a separate business entity.
- In a strategic alliance, each company maintains its autonomy while gaining a new opportunity

Purpose for Entering into Strategic Alliances

- Strategic alliances allow two organizations, individuals or other entities to work toward common or correlating goals.
- The idea is for all parties to benefit in the short term, long term or both.
- Strategic alliances allow involved organizations to pursue opportunities at a faster rate than if the organizations functioned alone

Contd…

- An alliance provides access to additional knowledge and resources owned by the other party.
- The Strategic Alliances provides more flexibility than joint ventures because the involved parties do not need to merge any assets or funds to proceed

Risks Associated With SA

- The differences in how the businesses operate can cause conflict among the two organizations.
- In the case of long-term strategic alliances, the involved parties may become mutually dependent.
- The risk can increase significantly if the dependence becomes one-sided because one party will gain an advantage.

Stability Strategy

- A stability strategy refers to a strategy by a company where the company stops the expenditure on expansion.
- Company does not venture into new markets or introduce new products.

Conditions for Stability Strategy

- Stability Strategy is generally adopted-
- when the external business environment pulls down the profitability of the firm in the core business.
- And internal incompetence of the firm to generate adequate response to resolve these threats.

Contd…

- When the company plans to consolidate its position in the industry in which company is operating.
- When the economy is in recession or there is a slowdown in the economy than companies want to have more cash in their balance sheet rather than investing that cash for expansion or other such expenses.

Contd...

- Due to very high debt create liquidity crunch for the company.
- When the company is operating in an industry which has reached maturity phase and there is no further scope for growth than also company adopts stability strategy.
- When the gains from expansion plans are less than the costs involved for such expansion than company follows the stability strategy.

Types of Stability Strategies_ 1.Pause or Proceed with Caution

- Some organizations pursue stability strategy for a temporary period of time until the particular environmental situation changes, especially if they have been growing too fast in the previous period.
- Stability strategies enable a company to consolidate its resources after prolonged rapid growth.

Types of Stability Strategies…
2. No Change Strategy

- No change strategy is a decision to do nothing new i.e. continue current operations and policies for the immediate future.
- If there are no significant opportunities or threats operating in the environment, or if there are no new competitors or threat of substitutes, the firm may decide not to do anything new and continue with the existing strategy.

Types of Stability Strategies…
3. Profit Strategy

- Profit strategy is an attempt to artificially maintain profits by reducing investments and short-term expenditures.
- It is thus usually the top management’s short term and often self serving response to the situation.
- The profit strategy is temporary in nature but if continued for long, it will lead to a serious deterioration in the company’s position.

Approaches to Stability Strategy_ 1.Harvesting

- Generating another independent businesses by dividing the existing business is harvesting.
- In harvesting company stops investing but still can generate cash.
- Harvesting Strategy means taking the advantage of firm’s dominant market share to generate cash for future business expansion.
- It is generally applied when a product enters into a maturity phase.
- This is usually associated, with cost cutting and price increases to generate extra cash.

1.Harvesting...Contd...

- At times market share may be sacrificed to earn profits and generate funds.
- Harvesting can be achieved by selective price increase and reducing costs.
- In this approach, selected products are milked rather than nourished and defended.

2.End Game Strategy

- An end game strategy is one that capitalizes on a situation in which old and obsolete product or technology is being replaced by a new one.
- Firms adopting this strategy decide to follow the same technology, at least partially, while transiting into new technological domains.
- Probably this creates after market for spare parts of obsolete technology which lasts for long.

Renewal Strategies_ 1.Retrenchment Strategy

- Retrenchment is a short-run renewal strategy designed to overcome organizational weaknesses that are contributing to deteriorating performance.
- To replenish and revitalize the organizational resources and capabilities so that the organization can regain its competitiveness.

1.Retrenchment Strategy..Contd..

- Firms often try a cost cutting or a small layoff-hoping that nothing more painful will be needed to turn the firm around.

- In the retrenchment strategy cash is generated via downsizing (contraction of size or divesting) some operations.

1.Retrenchment Strategy..Contd..

Retrenchment strategies call for two primary actions:

1. Cost cutting and
2. Restructuring.

1.Retrenchment Strategy..Contd..

- A cost cutting program should be preceded by careful thought and analysis.
- Some departments or projects may need additional funding, while others need modest cuts, and still others need drastic cuts or need to be eliminated altogether.
- Plan of cost cuttng should clearly specify how it will be applied across the organization and why is it being proposed.

1.Retrenchment Strategy..Contd..

- Restructuring involves an organization refocusing on its primary business.

- The three major variants of retrenchment strategy are -

A. Turnaround strategy,
B. Survival strategy and
C. Liquidation strategy.

Retrenchment Strategy
A. Turnaround (Restructuring) Strategy

- Turnaround is a strategy adopted by firms to arrest the decline in profits and revive their growth.
- A turnaround situation exists when a firm encounters multiple years of declining Financial performance subsequent to a period of prosperity.
- Turnaround situations are caused by combinations of external and internal factors.

Retrenchment Strategy
A . Turnaround Strategy

- The strategic causes of performance decline include
- increased competition,
- raw material shortages, and
- decreased profit margins,
- strikes and labor problems,
- excess plant capacity and
- depressed price levels

Retrenchment Strategy
A . Turnaround Strategy

- When the declines in sales or income margins are low then the severity of decline is low,
- while extremely high severity would be signaled by bankruptcy.

Process of Turnaround

1. Assessment of current problem.
2. Analysing the situation.
3. Implemention of action plans.
4. Business Restructuring
5. Returning to Normalcy.

Legal Requirements of Turnaround

As turnaround is to be applied to sick units only,

1.Declaration of a firm as a sick unit by SICA. (Accumulated losses should be > 50% of the highest net worth achieved during last five years.)

2. Then the firm is referred to BIFR.

3. BIFR then prepares the rehabilitation and turnaround scheme.

4.At times BIFR can recommend amalgamation or merger or closure of the case referred to them.

Liquidation

- Liquidation is the process of bringing a business to an end and distributing its assets to claimants.
- It is an event that usually occurs when a company is insolvent, meaning it cannot pay its obligations when they are due.
- As company operations end, the remaining assets are used to pay creditors and shareholders, based on the priority of their claims.

Distribution of assets under liquidation

- The most senior claims belong to secured creditors who have collateral on loans to the business.
- Next in line are unsecured creditors. These include bondholders, the government (if it is owed taxes) and employees (if they are owed unpaid wages or other obligations).
- Finally, shareholders receive any remaining assets, in the unlikely event that there are any. In such cases, investors in preferred stock have priority over holders of common stock.

Bankruptcy

- In Bankruptcy, the business debts still exist. The debt will remain until the statute of limitation has expired, and as there is no longer a debtor to pay what is owed, the debt must be written off by the creditor.

Business Level, Functional Level & Global Strategy

Unit IV

Functional Strategies

- The approach followed by the functional units of a business to achieve the objectives set by the corporate level by maximizing resource productivity is k/as functional strategy.
- This is possible through developing the distinctive competencies.
- Distinctive competencies are the core competence (Key Strengths) which are superior to competitors.

Distinctive Competencies... Contd.

Any distinctive competence must meet the following three criteria-

1. Customer Value – It must deliver the value which is above the perceived value.

2. Uniqueness – It must be unique and superior to competitors.

3. Extendability – It can be used to develop a new product or enter a new market.

Different Functional Strategies

1. Outsourcing –

- Means giving up (entering into a contract) the product or service by its producer to the outside agencies to manage.
- Firms outsource only those products/services which are not their distinctive competencies.
- By outsourcing, the companies can build on their core competencies but may lose on developing new core competencies.
- Example : Templeton has outsourced its Mutual Fund business to Infosys.

Contd..._2. Marketing Strategies

- Marketing Strategy deals with the target market & four P's of marketing.
- With right Marketing Strategy the firm can increase its market share for the existing products and develop a new product for existing market or develop a new product for a new market.

Contd…3_Financial Strategy

- Financial Strategy deals with the financial implications at the corporate level to decide the best financial course of action.
- This can provide the financial competence to an organization through procurement of low cost funds and flexibility in raising the capital.
- It helps in maximizing the financial value of the firm.
- The example of financial strategy is Leveraged Buy outs (LBO) i.e. acquiring a company by external debt and repaying the debt through operations of the acquired company.

Contd…4_ Operations Strategy

- Operations Strategy deals with the manufacturing process, technology such as flexible manufacturing & CAD/CAM to be used for manufacturing, place to manufacture, vertical integration, vendor relationship etc.

Contd…5_Human Resource Strategy

- The HR Strategy deals with the recruitment of skilled human resources and their training to participate into self managed work teams.

Global Strategy _ Drivers of International Business

1.Market Drivers-

- Consumer Needs
- Consumer Preferences
- Product Preferences
- Distribution Preferences

Global Strategy _ Drivers of International Business

2.Cost Drivers-

- Providing value to global operations through global scale of operations.

Global Strategy _ Drivers of International Business

3. Competitive Drivers-

- Actions and responses of the competitors.

Global Strategy _ Drivers of International Business

4.Government Drivers –

- Trade, Regulatory and Technology related decisions of the government in the international scenario.

Concept of Distance

- Distance in terms of Global Trade is nothing but the challenges which an organization is likely to face and the methodologies to overcome them. Generally there are four types of distances in global trade,

1.Cultural Distance

2.Administrative (Political) Distance

3.Geographic Distance

4.Economic Distance

Cultural Distance

- Differences in Languages
- Differences in ethnicities
- Different religions
- Different social norms

Administrative(Political) Distance

- Absence of colonial ties
- Absence of shared political association
- Political hostility
- Government policies
- Institutional weakness

Geographic Distance

- Physical Remoteness
- Lack of common border
- Lack of access through sea route
- Size of the country
- Weak communication links

Economic Distance

Differences in consumer income

Differences in cost & quality of,

1.Natural Resources

2.Financial Resources

3.Human Resources

4.Infrastructure

5.Intermediate inputs

6.Information or knowledge

Generic International Strategies

Strategy is all about the alignment and consistency of organizational resources and activities to achieve competitive advantage.

Global strategies depend on-

- Domestic business cycle
- Tapping the growing market for goods   services
- Protecting global market share
- Reducing costs through scope global scale

AAA Global Strategy Framework

These are the three generic approaches to global value creation. These are-

1. Adaptation
2. Aggregation
3. Arbitrage

Adaptation

Adaptation strategies tries to adapt to the needs of the international markets by altering its one or two components of the business model.

There are five categories of adaptation.

A.Variation B.Focus C.Externalization D.Design E.Innovation

Adaptation _ Variation

Involves alteration in product/services and business policies.

Example :Whirlpool has changed its model of washing machine and a washing machine with smaller washers to suit European markets.

Star TV Network has started developing & telecast its programs in practically all regional languages to suit Indian viewers needs.

Adaptation _ Focus

Here the organization focuses on alterations in a particular line of business and its value chain so as to make it suitable for local markets.

Example : Star TV Network had to change entire programming to adapt to the Indian news cast to satisfy the needs of the Indian audience.

Adaptation _ Externalization

- Achieving growth and sharing the responsibility through franchising and strategic alliances.
- Example: McDonalds achieves the growth through allocating franchise outlets in various countries.

Adaptation _ Design

- Alteration in product design to reduce the cost of the product so as to make the product acceptable to the local markets.
- Example : Nokia has introduced low priced cell phones to India (3310/3315) to get fast access and achieve quick success.

Adaptation _ Innovation

- Innovating through blend of technology and product/services.

- Example : Amazon, which is a superb blend of technology and services for e-commerce business. Which is win-win situation for suppliers as well as the buyers across the globe.

Aggregation

- A strategy which focuses on achievement of economies of scale or scope by creating global efficiencies that involve standardization of value proposition there by aggregating the development & production process together.
- Example: Aditya Birla group acquired Domsjo which had a cutting edge over speciality pulp making and bio-refining. Thereby Aditya Birla group got a control over inputs of Viscose Staple Fibres, which was a substitute for cotton or synthetic fibres.

Arbitrage

- A strategy that exploits the economic distances between the operating country and the parent country there by setting supply chain partners in the operating country.
- Example: Wal-Mart sells products worldwide which are sourced from China, there by earning profits out from the price differences.

Strategic Management In HUL

- Hindustan Unilever Ltd; A Multi Business Global Corporation.
- Till 1990, it was in the consolidation phase over its parent organization.
- After the globalization announced in 1990, HUL acted fast and started its drive for extensive expansion.
- This case study on HUL highlights the various routes HUL adopted in executing its Corporate Strategy in India.

Routes adopted by HUL to execute its Corporate Strategy India.

1.Takeovers/Acquisitions

2. Mergers

3.Strategic Alliances

4. Joint Ventures

Unilever in India_ Growth Trajectory

- Group turnover of HUL in India is Rs.32416 Cr.
- A growth of 25% over last year.
- Indian operation is a high priority area for Unilever.
- Indian operations contributes to over 22% to total Unilever's Turnover from the emerging markets.
- The Indian Operation of Unilever follows the parent business policy_ Soaps & Detergents, Food & Beverages, Personal Care Products & Speciality Chemicals.

HUL _ Competition Analysis

- HUL is market leader in Soaps & Detergents, Food & Beverages and Personal Care Product Categories.
- Faces stiff competition from P & G, Nirma and Henkel. ITC and Patanjali

HUL _ Strengths

- Market Leadership in three out of four categories
- Very strong Rural distribution Network
- Huge investments in rural infrastructure

HUL _ SBUs in India

1. Hindustan Lever Ltd. (HLL) for Soaps & Detergents business.

2. Brooke Bond Lipton India Ltd. for Food & Beverages business.

3. Pond's For Personal Care Products business

Stimuli for Unilever's New Corporate Strategy

1. Stagnation in the developed economies.

- In Europe & in North America, the Unilever has reached the maturity phase.
- Although the market share was increasing, the volume growth was not there_ incurred a huge losses.

2. India,China,Latin America, S-E Asia & Central Europe were the emerging economies.

Objectives assigned to Indian Operations

1. Massive expansion in three segments of UL
2. To gain Market Share by takeovers there by increase its competitive position.
3. Better balancing of the business
4. Big growth in F & B segment
5. Doubling the T/O every Four Years and doubling the profits every three years.
6. Merging of all SBUs into one mega company.
7. Unilever should have the majority share in its Indian Operations.

Corporate Strategy Adopted

1. Strategy for expansion of business.

2. Strategy for Re-Grouping and Integrating its group Companies.

3. Strategy for consolidation of ownership and control by the parent company by acquiring majority stake in its Indian Operations.

1. Strategy for Expansion of business

Expansion strategy has four fold orientation

- 1. Quick & Massive Growth in three segments
- 2. Better balance among the SBUs.
- 3.Strengthening their competitive position through acquisition of brands & takeovers
- 4. Preempting competition.

A. Quick Growth Strategies of HUL_ a.Takeovers

- Soaps & Detergents_HLL – TOMCO
- Food & Beverages_BBLIL – Kissan & Dimpy (UB Group) & Tomato Ketch Up (Pepsico)
- Personal Care Products_Pond's- Lakme(Tata), & brands of Helen Curtis (Shampoo,Hair Colours & dyes)

A.Quick Growth Strategies of HUL_
b. Strategic Alliances

- Kwality Ice-Cream with BBIL
- Dollops & Milk Food Brands of Ice-Creams from Cadbury's

A.Quick Growth Strategies of HUL_
c. Through Start Up Investor Route

- Multi crore investment in start ups from Frozen food, deserts and skin care & vegetable segments
- Fair & Lovely was the brand acquired by HUL via financing the start up route.

B.Integration Strategies of HUL_ Through Mergers

- Doom Dooma Tea Estates, Kothari General Foods (KGF), Kissan Merged with Brooke Bond.
- Brooke Bond Merged with Lipton Tea
- Tomco Merged with HLL
- Brooke Bond Lipton India Ltd.merged with HLL
- Quest International (QIL)- A speciality Perfumes Manufacturer merged with Pond's
- Fertilizers business sold off to Stepan.
- Pond's merged with HLL.

C.Strategies for consolidation of ownership by UL Plc

74 % stake in HLL

51 % stake in BBLIL & Pond’s

Critical Success Factors for UL's Growth

1.Meticulous Planning

2.Sticking to the business that were in line with group's core competence.

3. Mergers & Acquisition route was apt.

4.Quick response to the opportunities

Reference Books

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- Strategic Management, Planning and Implementation, Thompson and Thompson, Francis and Taylor London