Chapter 22

Corporate Restructuring: A Strategic Perspective

Chapter Objectives

On completion of this chapter, you will be able to understand:

- The strategic perspective of restructuring
- Formulation of vision, mission and strategy
- Different levels of strategy in a hierarchy
  - Corporate level
  - Business level
  - Functional/Departmental Level
- Strategic Planning Process
  - Elements to be considered for strategy formulation
  - Implementation of strategy
- Strategy–structure relationship
- Strategic management of corporate restructuring
- Industry life cycle
- Strategic approaches to corporate restructuring
  - SWOT analysis
  - BCG growth–share matrix
  - Porter's five forces model
  - Porter's generic strategies

Corporate restructuring has been fuelled by variety of forces such as global competition, regulatory changes, technological breakthroughs, managerial innovations, transformation and formerly centrally planned socialistic economies and expansion of international trade. It has led to dramatic improvement in corporate performance. Restructuring of a company involves an activity to make the organization more balanced, profitable and enable the company to achieve its objectives in a more simplified manner than previously. It may include the organizational restructuring such as merger, amalgamation, takeover, joint venture, divestment, expansion and so on or financial reorganization such as buy-back of shares, issue of sweat equity shares, redemption of shares, issues of convertible debenture/preference shares, issue of bonus shares, issue of deep discount bonds and so on. However, corporate restructurings fail if they are not in conformance with the strategic objectives. For case in point, Jet Airways enthusiastically overvalued Air Sahara, and later wanted discount on the original price (20 to 25%).

This is typically a case of overvaluing a company whose business model was not robust. This is due to the absence of strategic planning, nothing else.

The strategic plans are in the form of long-term specific objectives and strategies. In order to put strategies in operations, managers have to formulate operational or tactical plans in the form of various standing plans such as policy, procedures, rules, methods and single-use plans such as projects, budgets and standards. Under this backdrop, it seems quite essential to understand the term strategy and its various aspects. But prior to that, an understanding of the business vision and mission statement of a company, which identifies major strategic business unit, is discussed.

22.1 Vision

Ambition, expressed as strategic intention, should lead to an end; otherwise they would just be castles in the air. That end is the vision of an organization or an individual. It is what the firm or a person would ultimately like to become. For instance, some of you would like to become a general manager of a large, diversified multinational corporation, say within 15 years, or may be even earlier. A firm thinks like that too.

Observe what Tata Steel and BHEL says about their vision:

1. Tata Steel's vision in the new millennium: 'Tata Steel enters the new millennium with the confidence of learning, knowledge-based and happy organisation. We will establish ourselves as a supplier of choice by delighting our customers with our service and our products. In the coming decade, we will become the most cost competitive steel plant and so serve the community and the nation.'
2. BHEL vision 2001: 'A world-class, innovative, and profitable engineering enterprise providing total business solutions mission. To be the leading Indian engineering enterprise providing quality products, systems and services in the fields of energy, transportation, industry infrastructure and other potential areas.'

A vision, therefore, articulates the position that a firm would like to attain in the distant future. Seen from this perspective, the vision encapsulates the basic strategic intent. Vision is a theme which gives a focused view of a company. It is a unifying statement and a vital challenge to all different units of an organization that may be busy pursuing their independent objectives. It consists of a sense of achievable ideals and is a fountain of inspiration for performing the daily activities. It motivates people of an organization to behave in a way which would be compatible with the corporate ethics and values.

22.1.1 The Benefits of Having a Vision

Parikh and Neubauer (1993) point out the several benefits accruing to an organization having a clear vision. Here is what they say:

1. Good visions are inspiring and exciting.
2. Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
3. Good visions help in the creation of a common identity and a shared sense of purpose.

4. Good visions are competitive, original and unique. They make sense in the market place as they are practical.
5. Good visions foster risk taking and experimentation.
6. Good visions foster long-term thinking.
7. Good visions represent integrity; they are truly genuine.
8. Good visions can be used for the benefit of people.

22.1.2 Purpose of a Vision Statement

Vision of a company is rather a permanent statement articulated by the CEO of the company who may be a managing director, president, chairman or someone of higher authority. The purpose of a vision statement is to:

1. communicate with the people of the organization and to those who are in some way connected or concerned with the organization about its very existence in terms of corporate purpose, business scope and the competitive leadership;
2. cast a framework that would lead to development of interrelationships between firm and stakeholders namely employees, shareholders, suppliers, customers and various communities that may be directly or indirectly involved with the firm and
3. define broad objective regarding performance of the firm and its growth in various fields vital to the firm.

22.2 Mission

While the essence of vision is a forward-looking view of what an organization wishes to become, mission is what an organization is and why it exists. Several years ago, Peter F. Drucker (1999) raised important philosophical questions related to business:

1. What is our business?
2. What will it be?
3. What should it be?

Though simply worded, these three questions are in reality the most fundamental questions that any organization can put to itself. The answers are based on the analysis of the underlying needs of the society that any organization serves to fulfil. The satisfaction of that need is the business of the organization.

22.2.1 Understanding Mission

Organizations relate their existence to satisfying a particular need of the society. They do this in terms of their mission. Mission is a statement, which defines the role that an organization plays in a society. It refers to the particular needs of that society, for instance, its information needs. A book publisher and a magazine editor are both engaged in satisfying the information needs of the society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and an unbiased manner. Both have different objectives but an identical mission.

22.2.2 Definitions

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organization.

1. Thompson (1997) defines mission as the 'essential purpose of the organisation, concerning particularly why it is in existence, the nature of the businesses it is in, and the customers it seeks to serve and satisfy.'
2. Hunger and Wheelen (1999) say that mission is the 'purpose or reason for the organization's existence.'

Now there is not much difference of opinion about the definition of mission. Yet, you find instances of organizations confusing mission with vision or objectives. In strategic management literature, mission occupies a definite place as a part of strategic goal.

22.2.3 How are Mission Statements Formulated?

Most organizations derive their mission statements from a particular set of tasks they are called upon to perform in the light of their individual, national or global priorities. Several public sector organizations, set up in India during the 1950s and 1960s owe their existence to the vision of Jawaharlal Nehru, the first prime minister, who enunciated and tirelessly worked for the national aim of building a strong and self-reliant India by laying the foundations of many of our basic infrastructural industries. Mission statements, whether derived from set priorities or not, could be formulated either formally or informally.

Usually, entrepreneurs lay down the corporate philosophy which an organization follows in its strategic and operational activities. Such a philosophy may not be consciously and formally stated but may gradually evolve due to the entrepreneur's actions. Generally, an entrepreneur has a perception of the type of organization that he wants his company to be. Mission statements could be formulated on the basis of vision that an entrepreneur decides on in the initial stages of an organization's growth.

22.2.4 A Few Illustrations of Mission Statements

A few examples of mission statements are listed further. To learn about how these were formulated refer to the previous exhibit.

i. Eicher Consultancy: 'To make India an economic power in the lifetime, about 10 to 15 years, of its founding senior managers'
ii. HCL: 'To be a world class competitor'
iii. Marico Industries: 'The three P's of Marico: People, Products and Profits'
iv. Ranbaxy Laboratories: 'To become a research based international pharmaceutical company'
v. Unit Trust of India: 'To keep the common man in sharper focus; to encourage and investment habits among them....'

22.2.5 Components of a Mission Statement

In their 1996 article entitled ‘Building Your Company’s Vision’, James Collins and Jerry Porras provided a framework for understanding business vision and articulating it in a mission statement. The mission statement communicates the firm’s core ideology and visionary goals, generally consisting of the following three components:

1. Core values to which the firm is committed
2. Core purpose of the firm
3. Visionary goals which the firm will pursue to fulfil its mission

These three components can be described as follows:

1. Core Values
A firm’s core values and purpose constitute its core ideology, which remain relatively constant. They are independent of industry structure and the product life cycle. These reflect the deeply held values of the organization and are independent of the current industry environment and management fashion. The core ideology is not created in a mission statement; rather, the mission statement is simply an expression of what already exists. The specific phrasing of the ideology may change with the times, but the underlying ideology remains constant.

One way to determine, whether a value is a core or otherwise, is to ask whether it would continue to be supported if circumstances changes. If the answer is that it would be kept supported, then it is core value. Another way to determine which values are core is to imagine the firm moving into a totally different industry. The values that would be carried with it into the new industry are the core values of the firm. Core values will not change even if the industry in which the company operates changes. If the industry changes such that the core values are not appreciated, then the firm should seek new markets where its core values are viewed as an asset. For example, if innovation is a core value but then 10 years down the road innovation is no longer valued by the current customers, rather than change its values the firm should seek new markets where innovation is advantageous.

The following are a few examples of values that some firms have chosen to be in their core:

i. Excellent customer service
ii. Pioneering technology
iii. Creativity
iv. Integrity
v. Social responsibility

2. Core Purpose
The core purpose is the reason for which the firm exists. This core purpose is expressed in a carefully formulated mission statement. Like the core values, the core purpose is relatively unchanging and for many firms endures for decades or even centuries. This purpose sets the firm apart from other firms in its industry and sets the direction in which the firm will proceed. The core purpose is an idealistic reason for being. While firms exist to earn a profit, the profit motive should not be highlighted in the mission statement, since it provides little direction to the firm’s employees. What is more important is how the firm will earn its profit since the ‘how’ is what defines the firm. Initial attempts at stating a core purpose often result in too specific of a statement that focuses on a product or service.

To isolate the core purpose, it is useful to ask ‘why’ in response to first-pass, product-oriented mission statements. For example, if a market research firm initially states that its purpose is to provide market research data to its customers, asking ‘why’ leads to the fact that the data is to help customers better understand their markets. Continuing to ask 'why' may lead to the revelation that the firm's core purpose is to assist its clients in reaching their objectives by helping them to better understand their markets.

As a matter of fact, the core purpose and values of the firm are not selected—rather they are discovered. The stated ideology should not be a goal or aspiration but rather, it should portray the firm as it really is. Any attempt to state a value that is not already held by the firm's employees is likely to not be taken seriously.

3. Visionary Goals

The visionary goals are the lofty objectives that the firm's management decides to pursue. This vision describes some milestone that the firm will reach in the future and may require a decade or more to achieve. In contrast to the core ideology that the firm discovers, visionary goals are selected. These visionary goals are for long term and more challenging than strategic or tactical goals. There may be only a 50% chance of realizing the vision, but the firm must believe that it can do so. Collins and Porras describe these lofty objectives as 'big, hairy, and audacious goals'. These goals should be challenging enough so that people nearly gasp when they learn of them and realize the effort that will be required to reach them.

Most visionary goals fall into one of the following categories:

i. Target: Quantitative or qualitative goals such as a sales target such as Ford's goal to 'democratize the automobile'.
ii. Common enemy: It centred on overtaking a specific firm, such as the 1950's goal of Philip Morris to displace RJR.
iii. Role model: To become like another firm in a different industry or market. For example, a cycling accessories firm might strive to become 'the Nike of the cycling industry'.
iv. Internal transformation: Especially appropriate for very large corporations. For example, GE set the goal of becoming number one or number two in every market it serves.

	Mission	*Vision*
Answers	Why?	What?
Definition	Statement	Snapshot
Length	Short	Long
Purpose	Informs	Inspires
Activity	Doing	Seeing
Source	Head	Heart
Order	First	Second
Effect	Clarifies	Challenges

While visionary goals may require significant stretching to achieve, many visionary companies have succeeded in reaching them. Once such a goal is reached, it needs to be replaced; otherwise, it is unlikely that the organization will continue to be successful. For example, Ford succeeded in placing the automobile within the reach of everyday people, but did not replace this goal with a better one as a result General Motors overtook Ford in the 1930s.

22.3 Strategy

After discussing about vision and mission, now we get nearer to talk about the nucleus part of this chapter: strategy and its relation with corporate restructuring activities.

22.3.1 General Conception of Strategy

Originally, the term strategy has been derived from Greek word 'strategos' which means general. The word strategy, therefore, means the art of general. When the term strategy is used in military sense, it refers to the actions that can be taken in the light of action taken by the opposite party. In the military, it often refers to manoeuvering troops into position before the enemy is actually engaged. In this sense, strategy refers to the deployment of troops. Once the enemy has been engaged, attention shifts to tactics. Here, the employment of troops is central.

According to the *Oxford Dictionary*, 'military strategy is the art of so moving or disposing the instruments of warfare (troops, ships, aircrafts, missiles, etc.) as to impose upon the enemy the place, time and conditions for fighting by oneself.'

22.3.2 Management Concept of Strategy

The term 'strategy' has entered into the management literature comparatively much later than its use in military science. Game theorists have used strategy in the same sense in which the term policy was used earlier. Therefore, the concept of strategy and various actions involved are quite confusing and sometimes, even contrasting. At first, the term strategy was used in management in terms of military science to mean what a manager does to offset actual or potential actions of competitors. The term is still being used in the same sense though by few only.

In management, the concept of strategy is mostly taken in a slightly different form rather than in military form; it is taken more broadly. However, even in this form, various experts of the field do not agree about the precise scope of strategy, rather the term was taken in a very comprehensive way. For example:

1. Alfred D. Chandler (1962), who made a comprehensive analysis of the interrelationship among the environment, strategy and organization structure, has defined the term strategy as follows:

   > Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals.

   It is pertinent to note here that Chandler has made reference to three basic aspects of strategic process which are as follows:

   i. Determination of basic long-term goals
   ii. Adoption of course of actions to achieve these goals
   iii. Allocation of necessary resources for carrying out these goals.

2. Similar views have been held by Andrews (1987) at Harvard Business School who has made considerable contributions in the development of strategic management. He defined strategy as follows:

   > Strategy is the pattern of objectives, purpose or goals and major policies and plans for achieving these goals, stated in such a way, so as to define what business the company is in or is to be and the kind of company it is or is to be.

   These two definitions of strategy are quite comprehensive and include objective setting as part of strategy.
3. As against this, Stanford Research Institute, USA takes a different view when it states that:

   > Strategy is a way in which the firm, reacting to its environment, deploys its principal resources and marshals its main efforts in pursuit of its purpose.

4. Almost similar view is held by Glueck (1976) who defines strategy as follows:

   > A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved.

The above two approaches of defining strategy, particularly in terms of the actions included in strategy, are different. This difference is likely to continue unless we arrive at universally acceptable concept of strategy. For the purpose of this text, strategy is defined as follows:

> Strategy is the course of action through which an organization relates itself with environment so as to achieve its objectives.

22.3.3 Features of Strategy

The salient features of strategy include:

1. Strategy has been borrowed from the military and adapted for business use. In truth, very little adaptation is required.
2. Strategy is about means. It is about the attainment of ends, not their specification. The specification of ends is a matter of stating those future conditions and circumstances towards which effort is to be devoted until such time as those ends are obtained.
3. Strategy relates the firm to its environment, particularly the external environment in all actions whether objective setting, or actions and resources required for its achievement.
4. Strategy is the right combination of factors both external and internal. In relating an organization to its environment, the management must also consider the internal factors too, particularly its strengths and weaknesses, to take various courses of action.
5. Strategy is relative combination of actions. The combination is to meet a particular condition, to solve certain problems or to attain a desirable objective. It may take any form; for every situation varies and, therefore, requires a somewhat different approach.
6. Strategy may even involve contradictory action. Since strategic action depends on environmental variables, a manager may take an action today and revise or reverse his steps tomorrow depending on the situations.
7. Strategy is forward looking. It has orientation towards the future. Strategic action is required in a new situation. Nothing new requiring solutions can exist in the past, and so strategy is relevant only to the future.
8. Strategy is concerned with how to achieve aims, not with what those aims are or ought to be, or how they are established. If strategy has any meaning at all, it is only in relation to some aim or end in view.

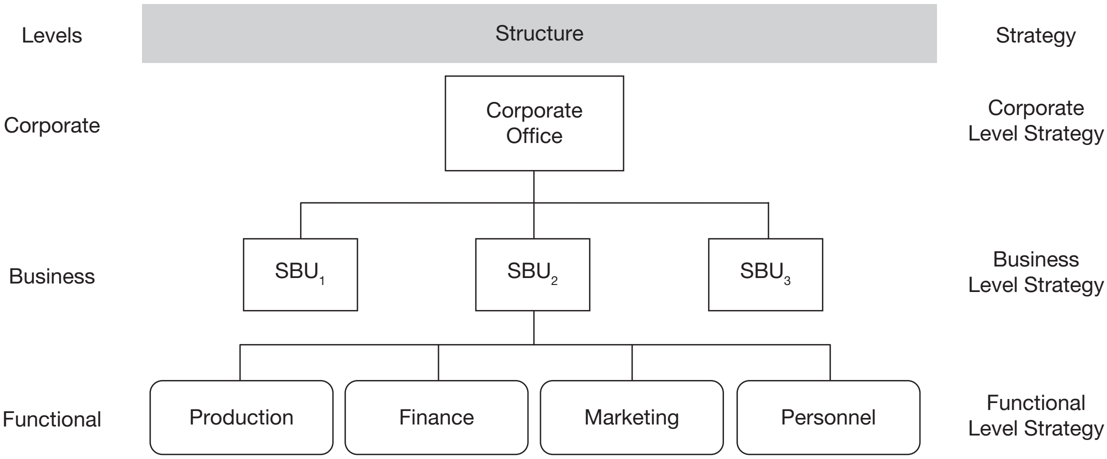
22.3.4 Hierarchical Levels of Strategy

Strategy may operate at different levels of an organization, such as:

1. Corporate level
2. Business level
3. Functional level

These three types of strategy are depicted in Figure 22.1 and discussed subsequently.

Figure 22.1 Levels of Strategy



1. Corporate Level Strategy

Corporate level strategy occupies the highest level of strategic decision-making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and co-ordination of various SBUs for optimal performance. Such decisions are made by top management of the organization. The nature of strategic decisions tends to be value-oriented, conceptual and less concrete than decisions at the business or functional level.

Corporate level strategy is fundamentally concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses. More or less, it is concerned with:

i. Reach: defining the issues that are corporate responsibilities. These might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved and the way in which businesses will be integrated and managed.
ii. Competitive contact: defining where the corporation competition is to be localized. Take the case of insurance: In mid-1990s in the United States, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products. The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level, through its subsidiary, Paul Revere. Textron divested itself of The Paul Revere Corporation in 1997.
iii. Managing activities and business interrelationships: corporate strategy seeks to develop synergies by sharing and co-ordinating staff and other resources across business units, investing financial resources across business units and using business units to complement other corporate business activities.
iv. Management practices: corporations decide how business units are to be governed—through direct corporate intervention (centralization) or through more or less autonomous government (decentralization), which relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

2. Business Level Strategy

At the business level, the strategy formulation phase deals with:

i. Positioning the business against rivals.
ii. Anticipating changes in demand and technologies and adjusting the strategy to accommodate them.
iii. Influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Business level strategy is applicable in those organizations which have different businesses and each business is treated as an SBU. The fundamental concept in an SBU is to identify the discrete independent product or market segments served by an organization. Since each product or market segment has a distinct environment, an SBU is created for each such segment. For example, Reliance Industries Limited operates in textile fabrics: yarns, fibres and a variety of petrochemical products. For each product group, the nature of market in terms of customers, competition and marketing channel differ. Therefore, it requires different strategies for its different product groups. Thus, where SBU concept is applied, each SBU sets its own strategies to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and co-ordination between them for making optimal contribution to the achievement of corporate-level objectives. Such strategies operate within the overall strategies of the organization. The corporate level strategy sets the long-term objectives of the firm and the broad constraints and policies within which an SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBU's operations by the resources the corporate level assigns to it.

Corporate Level Versus Business Level Strategy

There is a difference between corporate level and business level strategies. For example, Andrews says that in an organisation of any size or diversity, corporate strategy usually applies to the whole enterprise; while business strategy defines the choice of product or service and market of individual business within the firm. In other words, business strategy relates to the 'how' and corporate strategy to the 'what'. Corporate strategy defines the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.

Again corporate strategy is not the sum total of business strategies of the corporation, but it deals with different subject matter. While the corporation is concerned with and has impact on business strategy, the former is concerned with the shape and balancing of growth and renewal rather than in market execution.

3. Functional Level Strategy

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and co-ordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

Below the functional level strategy, there may be operation level strategies as each function may be divided into several sub-functions. For example, marketing strategy, a functional strategy, can be subdivided into promotion, sales, distribution, pricing strategies with each sub-function strategy contributing to functional strategy.

Strategies at all the three levels are interlinked in which a higher level strategy generates a lower level strategy and a lower level strategy contributes to the achievement of the objectives of higher level strategy.

22.4 Strategic Planning Process: Formulation and Implementation of Strategy

In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. The firm must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress and make adjustments as necessary to stay on track.

The process of strategic planning consists of the following steps:

1. Mission and objectives
2. Environmental scanning
3. Strategy formulation
4. Strategy implementation
5. Evaluation and control

Formulation of strategies is a creative and analytical process. It is a process because particular functions are performed in a sequence over the period of time. The process involves a number of activities and their analysis to arrive at a decision. Though there may not be unanimity over these activities particularly in the context of organizational variability, a complete process of strategy formulation and implementation can be understood.

22.5 Elements to be Considered for Strategy Formulation

The various elements of strategy formulation are organizational mission and objectives, environmental analysis, corporate analysis, identification of alternatives and choice of alternative. Up to this stage the formulation is complete. However, implementation is closely related with formulation because it will provide feedback for adjusting strategy. A brief discussion of each element will be helpful to understand the problems involved in each.

1. *Organizational mission and objectives:* Organizational mission and objectives are the starting point of strategy formulation. As discussed earlier, mission is the fundamental unique purpose of an organization that sets it apart from other organizations and objective is the end result which an organization strives to achieve. These together provide the direction for other aspects of the process.
2. *Environmental analysis:* The second aspect of the process is the environmental analysis. Since the basic objective of strategies is to integrate the organization with its environment, it must know the kind of environment in which it has to work. This can

be known by environmental analysis. The process of environmental analysis includes collection of relevant information from the environment, interpreting its impact on the future organizational working and determining what opportunities and threats—positive and negative aspects—are offered by the environment. The environmental information can be collected from various sources such as various publications, verbal information from various people, spying and forecasting. The process of environmental analysis works better if it is undertaken on a continuous basis and is made an intrinsic part of the strategy formulation.

3. *Corporate analysis:* While environmental analysis is the analysis of external factors, corporate analysis takes into account the internal factors. These together are known as SWOT analysis. It is not merely enough to locate what opportunities and threats are offered by the environment but equally important is the analysis of how the organization can take the advantages of these opportunities and overcome threats. Corporate analysis discloses the strengths and weaknesses of the organization and points out the areas in which business can be undertaken. Corporate analysis is performed by identifying the factors which are critical for the success of the present or future business of the organization and then evaluating these factors whether they are contributing in positive way or in negative way. A positive contribution is strength and a negative contribution is a weakness.
4. *Identification of alternatives:* Environmental analysis and corporate analysis taken together will specify the various alternatives for strategy. Usually, this process will bring large number of alternatives. For example, if an organization is strong in financial resources, these can be used in many ways, taking several projects. However, all the ways or projects cannot be selected. Therefore, some criteria should be set up to evaluate each alternative. Normally, the criteria are set in the light of organizational mission and objectives.
5. *Choice of strategy:* The identification and evaluation of various alternatives will narrow down the range of strategies which can seriously be considered for choice. Deciding the acceptable alternative among the several which fits with the organizational objectives is known as choice. Normally at this stage, personal values and expectations of the decision-maker play an important role in the strategy because he will decide the course of action depending on his own likings and dislikings. This happens because in one way the organizational objectives reflect the personal philosophy of the individuals particularly at the top management level.
6. *Implementation:* After the strategy has been chosen, it is put to implementation, that is, it is put into action. Choice of strategy is mostly analytical and conceptual while implementation is operational or putting into action. Various factors which are necessary for implementation are design of suitable organization structure, developing and motivating people to take up work, designing effective control and information system, allocation of resources and so on. When these are undertaken, these may produce results which can be compared in the light of objectives set and control process comes into operation. If the results and objectives differ, a further analysis is required to find out the reasons for the gap and taking suitable actions to overcome the problems because of which the gap exists. This may also require a change in strategy if there is a problem because of the formulation inadequacy. This puts back the managers at the starting point of the strategy formulation.

22.6 Implementation of Strategy

Once the creative and analytical aspects of strategy formulation have been settled, the managerial priority is converting the strategy into operationally effective action. Indeed a strategy is never complete, even as formulation until it gains a commitment of the organization's resources and becomes embodied in organizational activities. Therefore, to bring the result, the strategy should be put to action because the choice of even the soundest strategy will not affect organizational activities and achievement of its objectives. Therefore, effective implementation of strategy is a must for the organization.

22.6.1 Factors to be Considered for Strategy Implementation

Implementation of strategy is the process through which a chosen strategy is put into action. It involves the design and management of systems to achieve the best integration of people, structure, processes and resources in achieving the organizational objectives. Judging from this definition, it can be observed that the scope of managerial activities is associated with strategy implementation. This is because the entire management process is geared up according to the needs of the strategy. In particular, following factors are important in strategy implementation.

1. *Institutionalization of strategy:* The first basic action that is required for putting a strategy into operation is its institutionalization. Since strategy does not become either acceptable or effective by virtue of being well designed and clearly announced, the successful implementation of strategy requires that the strategy framer acts as its promoter and defender. Often strategy choice becomes a personal choice of the strategist because of his personality variables become an influential factor in strategy formulation. Thus, it becomes a personal strategy of the strategist. Therefore, there is an urgent need for the institutionalization of strategy because without it, the strategy is subject to being undermined. Therefore, it is the role of the strategist to present the strategy to the members of the organization in a way that appeals to them and brings their support. This will put organizational people to feel that it is their own strategy rather than the strategy imposed on them. Such a feeling creates commitment so essential for making strategy successful.
2. *Setting proper organizational climate:* Setting organizational climate relevant for strategy implementation is important for making strategy to work. Organizational climate refers to the characteristics of internal environment which conditions the co-operation, the development of the individuals, the extent of commitment and dedication of people in the organization and the efficiency with which the purpose is translated into results. Organizations whose strategy is implemented in a conducive climate are more effective than those which are not. People are the instruments in implementing a particular strategy and organizational climate is basically a people-oriented attempt.
3. *Developing appropriate operating plans:* Operating plans are the action plans, operational programmes and decisions that take place in various parts of the organization. If they are made to reflect desired strategic results, they contribute to the achievement of the organizational objectives by focusing attention on those factors which are important. For example, in budgeting, more resources will be allocated on those factors which are critical to the success of the organization as spelled out during the strategy formulation process. There are various ways of making sure that operating plans contribute. If every manager understands strategy, he/she can certainly review the programme recommendations of staff advisers and line subordinates to see that they are consistent with the requirements of the strategy. Major programmes can be reviewed by appropriate committees to see if they contribute positively. This lends an atmosphere of formality to the programme decisions and their influences on strategy may become clear.

4. *Developing appropriate organization structure:* Organization structure is the pattern in which the various parts of the organization are interrelated or interconnected. It prescribes relationships among various positions and activities. For implementing strategy, the organization structure should be designed according to the needs of the strategy. The relationship between strategy and structure can be thought of in terms of utilizing structure for strategy implementation because structure is a means to an end, that is, to provide facilities for implementing strategy. Therefore both should be integrated. In the absence of such integration, outcome may be confusion, misdirection and splintered effort within the organization. There can be various ways of designing an organization structure. However, the major issues involved in designing the structure to fit the strategy involve the answers of following questions:

   i. What should be the different units of the organization?
   ii. What components should join together and what components should be kept apart?
   iii. What is the appropriate placement and relationship of different units?

5. *Periodic review of strategy:* There should be periodic review of strategy to find out whether the given strategy is relevant. This is required because even the carefully developed strategies might cease to be suitable if events change, knowledge becomes clearer or it appears that the environment will not be as originally thought. Thus, strategies should be reviewed from time to time. What should be the frequency for such a review is not universal but major strategies should be reviewed at least once in a year. In fact, this is done by most of the organizations who believe in relating themselves with the environment.

22.7 Strategy–Structure Relationship

There is a close relationship between an organization's strategy and its structure. The structure is a means to implement a particular strategy and therefore, the good structure is one which best fits with the strategy. The understanding of this relationship is important so that in implementing the strategy, the organization structure is designed according to the needs of the strategy. Without co-ordination between strategy and structure, the most likely outcomes are confusion misdirection, and splintered efforts within the organization.

If the present organization structure does not adequately fit the need of chosen strategy in the light of its strategy structure fit and strategic principles of organizing, then the top management should look for reorganization. Many companies have reorganized their structures recently because of the change in their strategies due to the following factors:

1. Rapid growth leading to problems of manageable size and communication
2. Excessive diversification of product lines
3. Increasing competition and environmental changes
4. Changes in managerial styles particularly from centralized family decisions to decentralized decision-making
5. Change in organizational climate and managerial commitments
6. Unsatisfactory work performance because of structural conflicts.

If the change is required, it should be total package of articulated and efficient structure, effective back-up systems and motivated people dimensions. Initially, the process restructuring was responsible for line management, usually the chief executive. It was, therefore, a highly intuitive process largely inspired by management's desire to solve certain existing problems, make key personnel changes or take up the fad of the time. However, the trend has a channel. Now most of the large organizations have either organization development department or either the organizations take the help of external consultants because the emphasis is on planned change. Since the organization is a complex system of mutually dependent parts, it is logical that organizational change involves an alteration or modification of one or more parts of the system.

Thus, what is needed is an operational scheme of organization of parts so that the focus and the direction of the change sought may be clearly identified for any given situation and the extended and interactive effects of a change in anyone part of the system or on the other parts may be anticipated and traced. Thus, structural reorganization should be in the context of other interactive sub-systems of the organization, namely technology, behavioural, technical and procedural, goals and values and managerial. Therefore, mere restructuring of organizational relationships is not sufficient but an integrated approach is required.

22.8 Strategic Management of Corporate Restructuring

Any company wishing to embark upon a corporate restructuring programme needs to have clearly defined objectives and an established strategy for pursuing them. Restructuring made on a random or speculative basis are rarely likely to be successful. The various steps in strategic management of corporate restructuring deals are explained further.

Strategic Fit

The first step of the model is to check whether the restructuring fits in to the vision and strategy of both/all the parties involved. For example, A typical merger is one where two (or more) parties come together and form a new entity. Neither is taking over or acquiring the other. Even where company A takes over part or whole of company B, the result is a merger. In either case, that is, whether coming together, or whether there is a sale and purchase, it is desirable that the top managements of both A and B have evolved their own respective perspective visions and come to the considered conclusion that a merger is the best strategy. For A, takeover may be a useful strategy for entry into a new product, territory or segment; or a means for faster growth, in addition to internal, organic expansion; or access to resources like capacity, talent, technology, brands or funds. For B, selling out may be a good strategy to divest an unrelated business, focus on core businesses and release resources for such concentration.

Strategic Search

Once the, in-principle, decision is made to seek a merger the next step is to institute a reasonably thorough search for the right candidate(s):

1. The strategic planning cells, if any, at the group level may be the champion for such search. In the event of an unrelated diversification, for related diversification or expansion planning all of the concerned member company of the group may spearhead the search.

2. Where necessary, discrete, confidential, external consultancy assistance may be taken.
3. In addition to the proactive search, be also open to unexpected, sudden offers and opportunities; but evaluate them on the same strategic criteria. The aim is to achieve optimal, rather than just satisfactory results.

Evaluation and Choice

A good search should have scanned and thrown up a reasonable number of alternatives. They need to be evaluated on the basis of some key criteria, so as to arrive at the final choice. The following are some of the important criteria:

1. How far will the merger candidate contribute to the corporate objectives of profitability/shareholder value, growth/market share, image and long run vitality?
2. To what extent will it add to the core competence and competitive edge?
3. To what degree will it add to the resource base, as well as help improve the generation, mobilization and utilization of physical, financial, human, knowledge and other important tangible and intangible resources?

The Right Price

The above evaluation, hopefully, will throw up a shortlist of about three or more candidates. Which one is eventually chosen will depend on a combination of its merits and the price at which it can be settled.

Value to the Acquirer

The negotiations will need to start from the value of the proposition to the party taking the initiative for the transaction:

1. In case it is an acquisition, the acquirer will need to forecast the possible enhanced revenue streams, profits and earnings per share.
2. The price will also be influenced by significant assets in the balance sheet as well as undervalued physical or intangible assets.
3. It is also worth seeing whether the merger will improve the quality of earnings, and, hence, the price earnings ratio and the market capitalization.

Value to the Acquiree

The eventual price will naturally, be also influenced by the value to the seller or the responding second party to the merger:

1. If he is a seller, he will usually try and get the maximum price for it. He can leave it to the acquirer to worry about the strategic fit.
2. If he is to be a partner in the merged entity, he will need to assess the value of staying alone, and the value of merging. The difference is an approximate measure of the value of the merger to him.

3. He will also need to take into account the undervalued assets, as well as the contingent liabilities to both.

Harmonizing the Exchange

The right price will need to be negotiated around these two sets of values:

1. In case of a co-operative and agreed merger, it is better to arrive at a win-win valuation and share exchange, which is fair to both sets of shareholders.
2. In case of an acquisition based on income potential, one needs to be more careful in allowing for economic and competitive uncertainties.
3. In case of attractive assets, it may be possible to pay closer to the market value.

22.9 Industry Life Cycle

Industries have life cycles and the transition from one stage to the next can have considerable strategic implications for incumbent firms. Restructuring companies and other companies bringing about change in an industry have a vital role to play in the process of industry transition and restructuring. Their participation in the process, however, is not always as successful as it might be. Too often the restructuring companies and other firms acting as change catalysts themselves eventually fail to survive. An understanding of the industry life cycle and the insight required to take best advantage of situations encountered before, during and after industry transition are key ingredients of successful restructuring moves. An understanding of industry life cycle requires informed research and information as its basis.

Like other living creatures, industry also has its circle of life. The industry life cycle imitates the human life cycle. The stages of industry life cycle include fragmentation, shake-out, maturity and decline (Kotler 2003). These stages are described further.

22.9.1 Fragmentation Stage

Fragmentation is the first stage of the new industry. This is the stage when the new industry develops the business. At this stage, the new industry normally arises when an entrepreneur overcomes the twin problems of innovation and invention, and works out how to bring the new products or services into the market. For example, air travel services of major airlines in Europe were sold to the target market at a high price. Therefore, the majority of airlines' customers in Europe were those people with high incomes who could afford premium prices for faster travel. In 1985, Ryanair made a huge change in the European airline industry. Ryanair was the first airline to engage low-cost airlines in Europe. At that time, Ryanair's services were perceived as the innovation of the European airline industry. Ryanair tickets are half the price of British Airways. Some of its sales promotions were as low as £0.01. This made people think that air travel was not just made for the rich, but everybody. Ryanair overcame the twin problems of innovation and invention in the airline industry by inventing air travel services that could serve passengers with tight budgets and those who just wanted to reach their destination without breaking their bank savings. Ryanair achieved this goal by eliminating unnecessary services offered by traditional airlines. It does not offer free meals, uses paper-free air tickets, gets rid of mile collecting scheme, utilizes secondary airports and offers frequent flights. These techniques help Ryanair to save time and costs spent in airline business operation.

22.9.2 Shake-out

Shake-out is the second stage of the industry life cycle. It is the stage at which a new industry emerges. During the shake-out stage, competitors start to realize business opportunities in the emerging industry. The value of the industry also quickly rises. For example, many people die and suffer because of cigarettes every year. Thus, the UK government decided to launch a campaign to encourage people to quit smoking. Nicorette, one of the leading companies is producing several nicotine products to help people quit smoking. Some of its well-known products include Nicorette patches, Nicolette gums and Nicorette lozenges. Smokers began to see an easy way to quit smoking. The new industry started to attract brand recognition and brand awareness among its target market during the shake-out stage. Nicorette's products began to gain popularity among those who wanted to quit smoking or those who wanted to reduce their daily cigarette consumption.

During this period, another company realized the opportunity in this market and decided to enter it by launching nicotine product ranges, including Nic Lite gum and patches. It recently went beyond the UK boarder after the UK government introduced non-smoking policy in public places, including pubs and nightclubs. This business threat created a new business opportunity in the industry for Nic Lite to launch a new nicotine-related product called Nic Time (ABC News 2006). Nic Time is a whole new way for smokers to 'get a cigarette'—an eight-ounce bottle contains a lemon-flavoured drink laced with nicotine, the same amount of nicotine as two cigarettes. Nic Lite was first available at Los Angeles airports for smokers who got uneasy on flights, but now the nicotine soft drinks are available in some convenience stores.

22.9.3 Maturity

Maturity is the third stage in the industry life cycle. Maturity is a stage at which the efficiencies of the dominant business model give these organizations a competitive advantage over competition. The competition in the industry is rather aggressive because there are many competitors and product substitutes. Price, competition and cooperation take on a complex form. Some companies may shift some of the production overseas in order to gain competitive advantage. For example, Toyota is one of the world's leading multinational companies, selling automobiles to customers worldwide. The export and import taxes mean that its cars lose competitiveness to the local competitors, especially in the European automobile industry. As a result, Toyota decided to open a factory in the United Kingdom in order to produce cars and sell them to customers in the European market. The Haute Couture fashion industry is another good example. There are many Western-branded fashion labels that manufacture their products overseas by co-operating with overseas partners, or they could seek foreign suppliers who specialize in particular materials or items. For instance, Nike has factories in China and Thailand as both countries have cheap labour costs and cheap quality materials, particularly rubber and fabric. However, their overseas partners are not allowed to sell shoes produced for Adidas and Nike. The items have to be shipped back to the United States, and then will be exported to countries worldwide, including China and Thailand.

22.9.4 Decline

Decline is the final stage of the industry life cycle. Decline is a stage during which a war of slow destruction between businesses may develop and those with heavy bureaucracies may fail. In addition, the demand in the market may be fully satisfied or suppliers may be running out. In the stage of decline, some companies may leave the industry if there is no demand for the products or services they provide, or they may develop new products or services that meet the demand in the market. In such cases, this will create a new industry. For example, at the beginning of the communication industry, pagers were used as the main communication method among people working in the same organization, such as doctors and nurses. Then, the cutting edge of the communication industry emerged in the form of the mobile phone. The communication process of pagers could not be accomplished without telephones. To send a message to another pager, the user had to phone the call-centre staff that would type and send the message to another pager. On the other hand, people who use mobile phones can make a phone call and send messages to other mobiles without going through call-centre staff.

In recent years, the features of mobile phones have been developing rapidly and continually. Now people can use mobiles to send multimedia messages, take pictures, check e-mail, surf the internet, read news and listen to music. As mobile phone feature development has reached saturation, thus the new innovation of mobile phone technology has incorporated the use of computers. The launch of personal digital assistants (PDAs) is a good example of the decline stage of the mobile phone industry as the features of most mobiles are similar. PDAs are handheld computers that were originally designed as a personal organizer but it becomes much more multifaceted in recent years. PDAs are known as pocket computers or palmtop computers. They have many uses for both mobile phones and computers such as computer games, global positioning system, video recording, typewriting and wireless wide-area network.

From the Practice

The embryonic stage of the home improvement industry started in the United States during the colonial period. The home improvement industry was composed mainly of hardware stores. During this time most hardware stores had a 'Mom and Pop's' store image. Twenty-five years ago, Home Depot transformed the home improvement industry by providing warehouse merchandising, contractor pricing and knowledgeable service.

During the growth stage of an industry different companies are entering the market because there is low competition. Rivalry tends to be relatively low because there is a high demand for the product. During this stage, companies such as Home Club, Builders Emporium, ACE and OSH were entering the market.

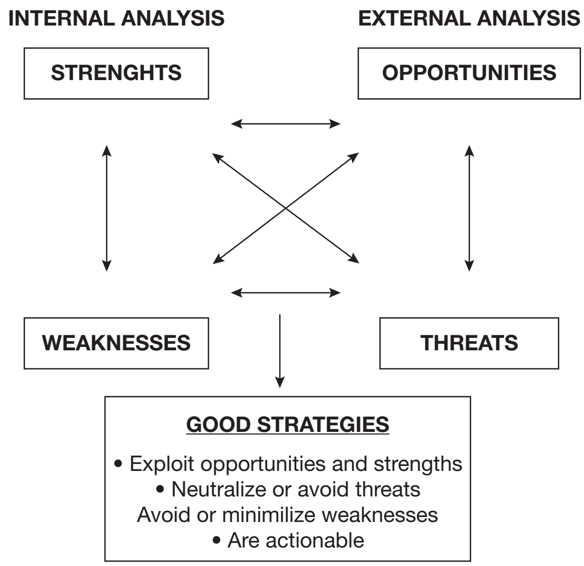
Currently, the home improvement industry is in the shake-out stage. At this phase, demand increases slowly and competition by price or product characteristics becomes intense. Companies such as Home Depot and Lowe's that are in a strong position have the resources to attract customers from companies in a weak position. For example, Builders Emporium went out of business and Homebase merged with Home Club but eventually lost the battle.

Currently, Lowe's is still trying to expand their business by opening 123 new stores in metropolitan cities (Annual Report 2001). Also, they acquire Eagle Hardware & Garden Store, which has helped accelerate their growth. Lowe's with their expansion are trying to gain market share in the industry.

Home Depot is also trying to open new stores. They acquire Your Other Warehouse, which is a specialty plumbing fixtures company that supports the store in the special order plumbing and accessories area. Home Depot has gone global acquiring Del Norte home improvement chain to position themselves in the home improvement market in Mexico. They also have stores in Canada and Puerto Rico. Home Depot is trying to maintain their market share.

22.10. Strategic Approaches to Corporate Restructuring

22.10.1 SWOT Analysis



SWOT analysis is an important part of strategic self-planning process. It scans the external and internal environment of a business. The internal factors can be classified as strengths (S) or weaknesses (W) and external factors can be classified as opportunities (O) and threats (T). The purpose of this analysis is to gather, analyze and evaluate information and identify strategic options that an organization or individual is facing at a given point of time. Carrying out an analysis using the SWOT framework helps to focus activities into areas where one is strong and where the greatest opportunities lie. This knowledge is then used to develop a plan of action. The technique is credited to Albert Humphrey, who led a research project at Stanford University in the 1960s and 1970s using data from Fortune 500 companies.

In a SWOT analysis, you identify strengths, weaknesses, market opportunities for your company and threats to your business. Strengths are the attributes of the organization which are helpful in achieving the objective. Weaknesses are the attributes which are the hindrances in achieving the objective. Opportunities are the external conditions which are helpful in achieving the objective. And last, threats are the external conditions which could do damage to the business' performance.

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOTs. First, the decision-makers have to determine whether the objective is attainable, given the SWOTs. If the objective is not attainable, then a different objective must be selected and the process repeated.

Internal and External Factors

The aim of any SWOT analysis is to identify the key internal and external factors that are important for achieving the objective. It groups key pieces of information into two main categories:

1. Internal factors: the strengths and weaknesses internal to the organization.
2. External factors: the opportunities and threats presented by the external environment.

The internal factors may be viewed as strengths or weaknesses depending upon their impact on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses for another objective. The factors may include all of the 4P's; as well as personnel, finance, manufacturing capabilities and so on. The external factors may include macroeconomic matters, technological change, legislation and sociocultural changes, as well as changes in the marketplace or competitive position. The results are often presented in the form of a matrix.

The wizardry of SWOT is the matching of specific internal and external factors, which creates a strategic matrix and which makes sense. It is essential to note that the internal factors are within the control of organization, such as operations, finance, marketing and other areas. On the contrary, the external factors are out of the organization's control, such as political and economic factors, technology, competition and other areas. The four combinations are called the maxi-maxi (strengths/opportunities), maxi-mini (strengths/threats), mini-maxi weaknesses/opportunities) and mini-mini (weaknesses/threats). Weihrich (1982) describes the four combinations as follows:

i. Maxi-maxi (S/O): This combination shows the organization's strengths and opportunities. In essence, an organization should strive to maximize its strengths to capitalize on new opportunities.
ii. Maxi-mini (S/T): This combination shows the organization's strengths in consideration of threats, for example, from competitors. In essence, an organization should strive to use its strengths to parry or minimize threats.
iii. Mini-maxi (W/O): This combination shows the organization's weaknesses in tandem with opportunities. It is an exertion to conquer the organization's weaknesses by making the most of any new opportunities.
iv. Mini-mini (W/T): This combination shows the organization's weaknesses by comparison with the current external threats. This is most definitely defensive strategy to minimize an organization's internal weaknesses and avoid external threats.

SWOT helps a company to be itself for better and for worse. Companies are inherently insular and inward looking SWOTs are a means by which a company can better understand what it does very well and where its shortcomings are. It will help the company to size up the competitive landscape and get some insight into the vagaries of the marketplace.

SWOT analysis has been a framework of choice among many managers for a long time because of its simplicity and its portrayal of the essence of sound strategy formulation—matching a firm's opportunities and threats with its strengths and weaknesses. Central to making SWOT analysis effective is accurate internal analysis—the identification of specific strengths and weaknesses around which a sound strategy can be built.

Follow the strategy/SWOT matrix example as illustrated further and try to fill it as per the legends given based on any hypothetical example. It will give you some idea on how the analysis may be used practically.

Strategy/SWOT Matrix Template

Strengths (S)	List strengths	**Opportunities (O)**	List opportunities
Weaknesses (W)	List weaknesses	**Threats (T)**	List threats

		Strengths—S	**Weaknesses—W**
SO Strategies	Use strengths to take advantage of opportunities	1 Strong financial resources	1 Declining membership
WO Strategies	Overcome weaknesses by taking advantage of opportunities	2	2
ST Strategies	Use strengths to reduce threats	3	3
WT Strategies	Minimize weaknesses and reduce threats		

Opportunities—O	SO Strategies	WO Strategies
1 Pending legislation will increase activity for those in the associations market 2 3	1 Fund a task force to identify potential opportunities as a result of legislative changes. 2 3	1 Improve member products and services and invest in a marketing plan. 2 3
Threats—T	**ST Strategies**	**WT Strategies**
1 Former members are starting specialized associations. 2 3	1 Develop and deliver specialized services on a segmented basis as required. 2 3	1 Partner, compete or absorb the specialized associations. 2 3

22.10.2 BCG Growth–Share Matrix

No strategic management text appears to be complete without the inclusion of the Boston Consulting Group (BCG) growth–share matrix. When used effectively, this model provides guidance for resource allocation and despite its inherent weaknesses is probably one of the most widely used management instrument as far as portfolio management is concerned. For instant, each SBU of large companies require different strategies to compete effectively and efficiently. It is not a question of one–strategy-fits-all SBUs since the likelihood for each of them experiencing the same market growth rate, industry threats and leverage is very slim. This is where the BCG model comes into play as a management analytical tool. The ensuing examines the underpinnings of the model, for what it is used, how to use it and why it is used.

What is the BCG Growth–Share Matrix?

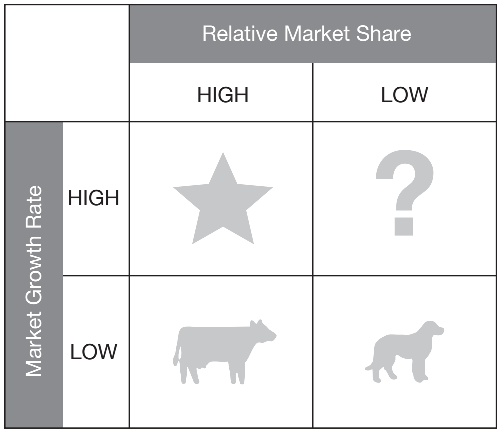
To begin with, BCG is the acronym for Boston Consulting Group—a general management consulting firm highly respected in business strategy consulting. BCG growth–share matrix (Figure 22.2) happens to be one of many of BCG's strategic concepts the organization developed in the late 1970s, and is being taught at leading business schools and executive education programmes around the world. It is a management tool that serves four distinct purposes (Kotler 2003; McDonald 2003): it can be used to classify product portfolio in four business types based on four graphic labels including Stars, Cash Cows, Question Marks and Dogs; it can be used to determine what priorities should be given in the product portfolio of a company; to classify an organization's product portfolio according to their cash usage and generation and offers management available strategies to tackle various product lines.

Consider companies such as Apple Computer, General Electric, Unilever, Siemens, Centrica and many more, engaging in diversified product lines. The BCG model therefore becomes an invaluable analytical tool to evaluate an organization's diversified product lines as further discussed in the ensuing sections.

22.10.2.2. What are the Main Aspects of the BCG Growth–Share Matrix?

The BCG growth–share matrix is based on two dimensional variables: relative market share and market growth. They often are the pointers to healthiness of a business (Kotler 2003; McDonald 2003). In other words, products with greater market share or within a fast growing market are expected to wield relatively greater profit margins. The reverse is also true. Let's look at the following components of the model.

Figure 22.2 BCG Matrix



1. Relative Market Share
According to the proponents of the BCG, it captures the relative market share of a business unit or product. But that is not all. It allows the analyzed business unit be pitted against its competitors. As emphasized earlier, this is due to the sometime correlation between relative market share and the product's cash generation. This phenomenon is often likened to the experience curve paradigm when an organization enjoys lower costs and improved efficiency from conducting business operations overtime. The basic principle of this postulation is that the more an organization performs a task often; it tends to develop new ways in performing those tasks better which results in lower operating cost. What this suggests is that the experience curve effect requires the market share to be increased so that costs can be driven down in the long run and at the same time a company with a dominant market share will inevitably have a cost advantage over competitor companies because they have the greater share of the market. Hence, market share is correlated with experience. A case in point is Apple Computer's flagship product called the iPod, which occupies a dominant 73% share in the portable music player market (Cantrell 2006). Analysts believe it is the impetus for Apple's financial rebirth that 40% of Apple's sales is attributed to the iPod product line (Cantrell 2006). Similarly, Dell's PC line shares the same market dominance theory as the iPod. The PC manufacture giant occupies a worldwide market share of 18.1%, which is commensurate to its large market revenue above its competitors. For example, Table 22.1 shows that the relative market share of Ocean Spray premium non-carbonated beverage is 14.7/40.5 = 0.36 and Sony's market share in the music industry is 16/27 = 0.59, and the new Hilton–Promus hotel company's market share is 290,000/528,896 = 0.55.

2. Market Growth
Market growth axis correlates with the product life cycle paradigm and predicates the cash requirement a product needs relative to the growth of that market. A fast growing market is generally considered attractive, and pulls a lot of organization's resources in an effort to increase gains. A case in point is the technological market widely considered by experts as a

Table 22.1 Relative Market Share

A. Market Share of Premium Non-carbonated Beverages

Brand	***Market Share (%)***	***% Changes Compared to Previous Year***
Snapple	40.5	3.7 96
Ocean Spray	14.7	–2.9
Arizona	13.7	–2.3
Lipton	10.8	–1.3
SoBe	9.3	6.9
Mistic	5.0	– 3.2
Nestea	4.7	–0.9
Nantucket Nectars	1.4	–0.1

B. Market Share of the World's Largest Music Companies

Company	***Market Share (%)***	***Market Share in Previous Year***
Universal Music Group	27	23%
Time Warner Music	17	22
Sony	16	NA
Bertelsmann BMG	14	12
EMI	10	NA
Independents	17	NA

C. Market Share of the World's Largest Hotel Companies

Company	***No. of Rooms***
Cendant	528,896
Bass	461,434
Marriott	328,300
Choice	305,171
Best Western	301,899
Accor	291,770
Hilton–Promus	290,000

Source: Adapted from: Paul Georgis, 'Market Share for Premium Non-carbonated Beverages', *USA Today* (August 3, 1999): 2B. Also, Keith Alexander, 'Music Sales Hitting Sour Note', *USA Today* (August 25, 1999): 2B. Also, Chris Woodyard, 'Hilton to Buy Promus in $3B Deal', *USA Today*, (October 12, 1999): 2B.

fast growing market, and tends to attract a lot of competition. Therefore, a product life cycle and its associated market play a key role in decision-making.

The BCG matrix provides a framework for allocating resources among different business units and allows one to compare many business units at a glance.

Star: a business unit that has a high market share in a high market growth rate. Stars are leaders in high growth markets. They tend to/should generate large amounts of cash but also use a lot of cash because of growth market conditions. For example, Apple Computer has a large share in the rapidly growing market for portable digital music players (Cantrell 2006).

Cash Cow: These business units are said to have high profitability, and require low investment for the fact that they are market leaders in a low-growth market. This viewpoint is captured by the founders themselves thus:

> The cash cows fund their own growth. They pay the corporate dividend. They pay the corporate overhead. They pay the corporate interest charges. They supply the funds for R&D. They supply the investment resource for other products. They justify the debt capacity for the whole company. Protect them. (Henderson 1976)

According to experts (Drummond and Ensor 2004; Kotler 2003; McDonald 2003), surplus cash from cash cow products should be channelled into stars and questions in order to create the future cash cows.

Question Mark/Problem Child: a business unit that has a small market share in a high growth market. These business units require resources to grow market share, but whether they will succeed and become stars is unknown.

Dog: a business unit that has a small market share in a mature industry. A dog may not require substantial cash, but it ties up capital that could better be deployed elsewhere. Unless a dog has some other strategic purpose, it should be liquidated if there is little prospect for it to gain market share.

However, the approach has received some negative criticism for the following reasons:

i. The link may be expensive.
ii. The approach may overemphasize high growth, since it ignores the potential of declining markets.
iii. The model considers market growth rate to be a given. In practice the firm may be able to grow the market.

BCG Growth–Share Matrix and Product Life Cycle (PLC)

The BCG matrix method is based on the PLC theory that can be used to determine priorities, which should be given in the product portfolio of a business unit. To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. It has two dimensions: market share and market growth. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows, the better it is for the company.

Placing products in the BCG matrix results in four categories in a portfolio of a company:

1. Stars (=high growth, high market share)
   - use large amounts of cash and are leaders in the business so they should also generate large amounts of cash.
   - frequently roughly in balance on net cash flow. However if needed any attempt should be made to hold share, because the rewards will be a cash cow if market share is kept.
2. Cash Cows (=low growth, high market share)
   - profits and cash generation should be high, and because of the low growth, investments needed should be low. Keep profits high.
   - foundation of a company

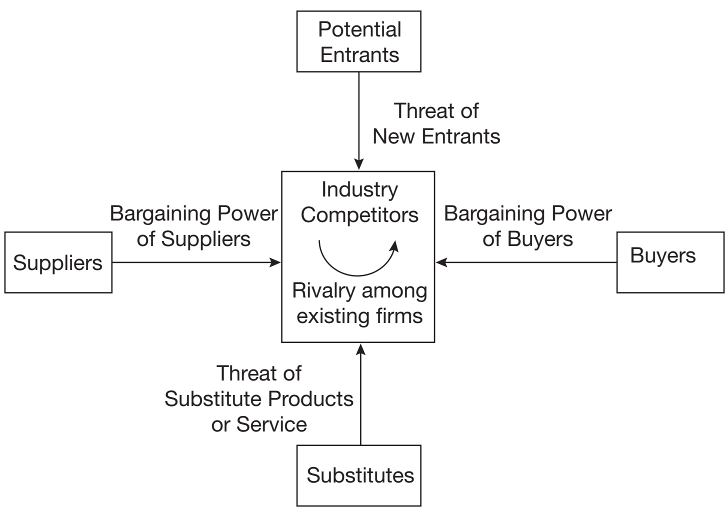
3. Dogs (=low growth, low market share)
   - avoid and minimize the number of dogs in a company.
   - beware of expensive 'turn around plans'.
   - deliver cash, otherwise liquidate
4. Question Marks (= high growth, low market share)
   - have the worst cash characteristics of all, because high demands and low returns due to low market share.
   - if nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.
   - either invest heavily or sell off or invest nothing and generate whatever cash it can. Increase market share or deliver cash.

22.10.3 Porter's Five Forces Model

A corporate strategy should meet the opportunities and threats in the organization's external environment. Especially, competitive strategy should base on and understanding of industry structures and the way they change. The model of the five competitive forces (Figure 22.3) was developed by Michael E. Porter in his book *Competitive Strategy: Techniques for Analyzing Industries and Competitors* in 1980. Since that time it has become an important tool for analyzing an organization's industry structure in strategic processes.

Porter's model is based on the insight that Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization. Porter's model supports analysis of the driving forces in an industry. Based on the information derived from the five forces analysis, management can decide how to influence or to exploit particular characteristics of their industry.

Figure 22.3 Five Forces Model



The five competitive forces include the following:

1. The rivalry between existing sellers in the market.
2. The power exerted by the customers in the market.
3. The impact of the suppliers on the sellers.
4. The potential threat of new sellers entering the market.
5. The threat of substitute products becoming available in the market.

The five competitive forces are typically described as follows:

1. Force 1: The Degree of Rivalry

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences. Economists measure rivalry by indicators of industry concentration. The concentration ratio (CR) is one such measure, which indicates the percentage of market share held by a firm. A high CR represents that the industry is concentrated with only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly). On the other hand, a low CR indicates that the industry is characterized by many rivals, none of which has a significant market share. These fragmented markets are said to be competitive. If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of a leading firm or informal compliance with a generally understood code of conduct. Explicit collusion generally is illegal and not an option; in low rivalry industries, competitive moves must be constrained informally. However, a maverick firm seeking a competitive advantage can displace the otherwise disciplined market. When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cut-throat, intense, moderate or weak, based on the firms' aggressiveness in attempting to gain an advantage.

The intensity of rivalry is influenced by the following industry characteristics:

i. A larger number of firms increase rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.
ii. Slow market growth causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
iii. High fixed costs result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
iv. High storage costs or highly perishable products cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
v. Low switching costs increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.
vi. A low level of product differentiation is associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.
vii. Strategic stakes are high when a firm is losing market position or has potential for great gains. This intensifies rivalry.
viii. High exit barriers place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the

venture is not profitable. A common exit barrier is asset specificity. When the plant and equipment required for manufacturing a product is highly specialized, these assets cannot easily be sold to other buyers in another industry. Litton Industries' acquisition of Ingalls Shipbuilding facilities illustrates this concept. Litton was successful in the 1960s with its contracts to build navy ships. But when the Vietnam War ended, defence spending declined and Litton saw a sudden decline in its earnings. As the firm restructured, divesting from the shipbuilding plant was not feasible since such a large and highly specialized investment could not be sold easily, and Litton was forced to stay in a declining shipbuilding market.

ix. A diversity of rivals with different cultures, histories and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Rivalry is volatile and can be intense. The hospital industry, for example, is populated by hospitals that historically are community or charitable institutions, by hospitals that are associated with religious organizations or universities, and by hospitals that are for-profit enterprises. This mix of philosophies about mission has lead occasionally to fierce local struggles by hospitals over who will get expensive diagnostic and therapeutic services. At other times, local hospitals are highly cooperative with one another on issues such as community disaster planning.

x. Industry Shake-out: A growing market and the potential for high profits induce new firms to enter a market and incumbent firms to increase production. A point is reached where the industry becomes crowded with competitors, and demand cannot support the new entrants and the resulting increased supply. The industry may become crowded if its growth rate slows and the market becomes saturated, creating a situation of excess capacity with too many goods chasing too few buyers. A shakeout ensues, with intense competition, price wars, and company failures. BCG founder Bruce Henderson generalized this observation as the rule of three and four: a stable market will not have more than three significant competitors, and the largest competitor will have no more than four times the market share of the smallest. If this rule is true, it implies that:

- If there is a larger number of competitors, a shake-out is inevitable
- Surviving rivals will have to grow faster than the market
- Eventual losers will have a negative cash flow if they attempt to grow
- All except the two largest rivals will be losers
- The definition of what constitutes the 'market' is strategically important.

Whatever the merits of this rule for stable markets, it is clear that market stability and changes in supply and demand affect rivalry. Cyclical demand tends to create cut-throat competition. This is true in the disposable diaper industry in which demand fluctuates with birth rates, and in the greeting card industry in which there are more predictable business cycles. In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

i. Changing prices: raising or lowering prices to gain a temporary advantage.

ii. Improving product differentiation: improving features, implementing innovations in the manufacturing process and in the product itself.

iii. Creatively using channels of distribution: using vertical integration or using a distribution channel that is novel to the industry. For example, with high-end jewellery stores reluctant to carry its watches, Timex moved into drugstores and other non-traditional outlets and cornered the low to mid-price watch market.

iv. Exploiting relationships with suppliers: for example, from the 1950s to the 1970s Sears, Roebuck and Co. dominated the retail household appliance market. Sears set high quality standards and required suppliers to meet its demands for product specifications and price.

2. Force 2: Bargaining Power of Customers

While companies competing in an industry seek to maximize their return on invested capital (and earn above average returns), customers are interested in purchasing products at the lowest possible price (the price at which sellers will earn the lowest acceptable return). To reduce cost or maximize value, customers bargain for higher quality or greater levels of service at the lowest possible price by encouraging competition among companies in the industry. Their bargaining power is likely to be high when:

i. They buy large volumes, there is a concentration of buyers
ii. The supplying industry comprises a large number of small operators
iii. The supplying industry operates with high fixed costs
iv. The product is undifferentiated and can be replaced by substitutes
v. Switching to an alternative product is relatively simple and is not related to high costs
vi. Customers are price sensitive
vii. Customers could produce the product themselves
viii. The product is not of strategical importance for the customer
ix. The customer knows about the production costs of the product
x. There is the possibility for the customer integrating backwards

3. Force 3: Bargaining Power of Suppliers

A producing industry requires raw materials, labour, components and other supplies. These requirement leads to buyer–supplier relationships between the industry and the firms, that provide it the raw materials used to create products.

The bargaining power of the suppliers depends on suppliers' economic bargaining power relative to companies competing in the industry. Suppliers are powerful when company profitability is reduced by suppliers' actions. Suppliers can exert their power by raising prices or by restricting the quantity and/or quality of goods available for sale.

Suppliers are powerful relative to companies competing in the industry when:

i. The market is dominated by a few large suppliers rather than a fragmented source of supply
ii. There are no substitutes for the particular input
iii. The suppliers' customers are fragmented, so their bargaining power is low
iv. The switching costs from one supplier to another are high
v. There is the possibility of the supplier integrating forwards in order to obtain higher prices and margins
vi. Suppliers' goods are critical to buyers' marketplace success

In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization.

4. Force 4: The Threat of Substitutes

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products—as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

The competition caused by a 'threat of substitute' comes from products outside the industry. The price of aluminium beverage cans is constrained by the price of glass bottles, steel cans and plastic containers. These containers are substitutes, yet they are not rivals in the aluminium can industry. To the manufacturer of automobile tires, tire re-treads are a substitute. Today, new tires are not so expensive that car owners give much consideration to re-treading old tires. But in the trucking industry new tires are expensive and tires must be replaced often. In the truck tire market, re-treading remains a viable substitute industry. In the disposable diaper industry, cloth diapers are a substitute and their prices constrain the price of disposables. While the treat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes. Consider the substitutability of different types of TV transmission: local station transmission to home TV antennas via the airways versus transmission via cable, satellite, and telephone lines. The new technologies available and the changing structure of the entertainment media are contributing to competition among these substitute means of connecting the home to entertainment. Except in remote areas it is unlikely that cable TV could compete with free TV from an aerial without the greater diversity of entertainment that it affords the customer.

5. Force 5: The Threat of New Entrants

It is not only the incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market.

The threat of new entries will depend on the extent to which there are barriers to entry. There are seven factors that represent potentially significant entry barriers that can emerge as an industry evolves or might be explicitly 'erected' by current participants in the industry to protect profitability by deterring new competitors from entry. These are typically:

i. Organizational (Internal) Economies of Scale: The most cost efficient level of production is termed minimum efficient scale (MES). This is the point at which unit costs for production are at minimum, that is, the most cost efficient level of production. If MES for firms in an industry is known, then we can determine the amount of market share necessary for low-cost entry or cost parity with rivals. For example, in long distance communications roughly 10% of the market is necessary for MES. If sales for a long distance operator fail to reach 10% of the market, the firm is not competitive.

   The existence of such an economy of scale creates a barrier to entry. The greater the difference between industry MES and entry unit costs, the greater the barrier to entry. So industries with high MES deter entry of small start-up businesses. To operate at less than MES there must be a consideration that permits the firm to sell at a premium price such as product differentiation or local monopoly.

ii. Product Differentiation: Customers may perceive that products offered by existing companies in the industry are unique as a result of service offered, effective advertising campaigns or being first to offer a product or service to the market. If customers perceive a product or service as unique, they generally are loyal to that brand. Thus, new entrants may be required to spend a great deal of money over a long period of time to overcome customer loyalty to existing products. For example, Titan's offering of quartz watches in a market, which was dominated by National Measurement Institute (NMI), enabled it to become the dominant player in a short span of time.

While new entrants may be able to overcome perceived uniqueness and brand loyalty, the costs generally will be high because the new entrants will need to offer lower prices, add additional features or allocate significant funds to a major advertising and promotion campaign. In the short run, new entrants that try to overcome uniqueness and brand loyalty may suffer lower profits or may be forced to operate at a loss.

iii. Capital Requirements: Companies choosing to enter any industry must commit resources for facilities, to purchase inventory, to pay salaries and so on. While entry may seem attractive (because there are no apparent barriers to entry), a potential new entrant may not have sufficient capital to enter the industry. For example, entry into the 'petrochemical industry' is characterized by huge capital investments.

iv. Switching Costs: These are the one-time costs, which customers will incur when buying from a different supplier. These can include such explicit costs as retraining of employees or retooling of equipment as well as the psychological cost of changing relationships. Incumbent companies in the industry generally try to establish switching costs to offset new entrants that try to win customers with substantially lower prices or an improved (or, to some extent, different) product. For example, switching costs have to be borne by companies for switching from Microsoft Windows to other operating systems creating entry barriers in the market for operating systems.

v. Access to Distribution Channels: As existing companies in an industry generally have developed effective channels for distributing products, these same channels may not be available to new companies entering an industry. Thus, access (or lack thereof) may serve as an effective barrier to entry. This may be particularly true for consumer non-durable goods because of the limited amount of shelf (or selling) space available in retail stores. In the case of some durable goods or industrial products, to overcome the barrier, new entrants must again incur costs in excess of those paid by existing companies, either through lower prices or price breaks, costly promotion campaigns or advertising allowances. New entrants may have to incur significant costs to establish a proprietary distribution channel. As in the case of product differentiation or uniqueness barriers, new entrants may suffer lower profits or operate at a loss as they battle to gain access to distribution channels.

vi. Cost Disadvantages Independent of Scale: Existing companies in an industry often are able to achieve cost advantages that cannot be duplicated by new entrants (other than those related to economies of scale and access to distribution channels) without incurring any cost. These include proprietary process (or product) technology, more favourable access to or control of raw materials, the best locations or favourable government subsidies. For example, Vesuvius Industries has a unique refractory product finding application in steel industry, which cannot be made by other companies because the product technology is proprietary. Another example could be of pharmaceuticals where new products discovered are under patent protection for a period of time. Potential entrants must find ways to overcome these disadvantages to be able to effectively compete in the industry. This may mean successfully adapting technologies from other industries and/or non-competing products for use in the target industry, developing new sources of raw materials, making product (or service) enhancements to overcome location related disadvantages or selling at a lower price to attract customers.

vii. Government Policy: Governments (at all levels) are able to control entry into an industry through licensing and permit requirements. For example, at the company level, entry into the banking industry is regulated at the central levels, while liquor sales are regulated at the state and local levels. On the other end is the monopolistic nature (on a market by market basis) of the public utility industry including local telephone service, water, electric power and so on. Even if a company concludes that it can successfully overcome all of the entry barriers, it still must take into account or anticipate reactions that might be expected from existing companies.

Limitations of Porter's Five Force Model

Porter's model of five competitive forces has been subject of much criticism. Its main weakness results from the historical context in which it was developed. In the early 1980s, cyclical growth characterized the global economy. Thus, primary corporate objectives consisted of profitability and survival. A major prerequisite for achieving these objectives has been the optimization of strategy in relation to the external environment. At that time, development in most industries has been fairly stable and predictable, compared with today's dynamics.

In general, the meaningfulness of this model is reduced by the following factors:

1. In the economic sense, the model assumes a classic perfect market. The more an industry is regulated, the less meaningful insights the model can deliver.
2. The model is best applicable for analysis of simple market structures. A comprehensive description and analysis of all five forces gets very difficult in complex industries with multiple interrelations, product groups, by-products and segments. A too narrow focus on particular segments of such industries, however, bears the risk of missing important elements.
3. The model assumes relatively static market structures. This is hardly the case in today's dynamic markets. Technological breakthroughs and dynamic market entrants from start-ups or other industries may completely change business models, entry barriers and relationships along the supply chain within a short time.

In conclusion it can be said that a company must seek to understand the nature of its competitive environment if it is to be successful in achieving its objectives and in establishing appropriate strategies. If a company fully understands the nature of the Porter's five forces, and particularly appreciates which one is the most important, it will be in a stronger position to defend itself against any threats and to influence the forces with its strategy. The situation is fluid, and the nature and relative power of the forces will change. Consequently, the need to monitor and stay aware is continuous.

Some issues during the implementation of these five forces are crucially important for organizations to build long-term business strategy and sustaining competitive advantages rather than simply list the forces. Successful use of the Porter model analysis includes identifying the sources of competition, the strength and likelihood of that competition existing and strategic recommendations for the action a company should take in order to develop barriers to competition.

22.10.4. Porter's Generic Strategies

Basically, strategy is about two things: deciding where you want your business to go, and deciding how to get there. A more complete definition is based on competitive advantage, the object of most corporate strategy:

> Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from

Figure 22.4 Generic Strategies

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

> offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation. (Porter 1985)

Figure 22.4 defines the choices of 'generic strategy' a firm can follow. A firm's relative position within an industry is given by its choice of competitive advantage (cost leadership vs differentiation) and its choice of competitive scope. Competitive scope distinguishes between firms targeting broad industry segments and firms focusing on a narrow segment. Generic strategies are useful because they characterize strategic positions at the simplest and broadest level. Porter maintains that achieving competitive advantage requires a firm to make a choice about the type and scope of its competitive advantage. There are different risks inherent in each generic strategy, but being 'all things to all people' is a sure recipe for mediocrity—getting 'stuck in the middle'.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent.

1. Cost Leadership Strategy

This generic strategy calls for being the low-cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market. Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership. Firms that succeed in cost leadership often have the following internal strengths:

i. Access to the capital which is required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.
ii. Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
iii. High level of expertise in manufacturing process engineering.
iv. Efficient distribution channels.

Each generic strategy has its risks, including the low-cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

2. Differentiation Strategy
A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily. Firms that succeed in a differentiation strategy often have the following internal strengths:

i. Access to leading scientific research.
ii. Highly skilled and creative product development team.
iii. Strong sales team with the ability to successfully communicate the perceived strengths of the product.
iv. Corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

3. Focus Strategy
The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist. Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well. Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

Multiple Choice Questions

1. Which one of the following is a forward-looking view of what an organization wishes to become?
   a. Mission
   b. Vision
   c. Strategy
   d. Goal
2. What are the usual components of a mission statement?
   a. Core purposes
   b. Core values
   c. Visionary goals
   d. All
3. ________ is course of action through which an organization relates itself with environment so as to achieve its objectives.
   a. Mission
   b. Vision
   c. Strategy
   d. Goal
4. Strategy related to various SBU falls under which of the following level of strategy?
   a. Corporate level
   b. Business level
   c. Functional level
   d. None
5. Marketing strategy falls under the category of
   a. Corporate level
   b. Business level
   c. Functional level
   d. None
6. Which one of the following strategy falls at the lowest level of strategy as per the hierarchy of strategy?
   a. Operational level
   b. Corporate level
   c. Business level
   d. Functional level
7. Which one of the following is the final stage of product life cycle?
   a. Fragmentation
   b. Shake-out
   c. Decline
   d. Maturity
8. In SWOT analysis, maxi-maxi refers to
   a. Strengths and opportunities
   b. Strengths and threats
   c. Weaknesses and threats
   d. Weaknesses and opportunities
9. As per BCG Matrix, low growth and high market share refers to
   a. Stars
   b. Cash cows
   c. Questions marks
   d. Dogs
10. A company strives to offer least costly product in a wider market. Which positioning strategy does the company follow?
    a. Cost leadership
    b. Differentiation focus
    c. Differentiation
    d. Cost focus

Review Questions

1. Define the term ‘strategy’. List and explain the salient features of strategy in the context of merger and acquisition.
2. What do you understand by ‘vision statement’? Provide a suitable example.
3. List the benefits of a vision statement.
4. List and explain the components of a mission statement.

5. Discuss the various hierarchical levels of strategy and bring out its importance for corporate restructuring deals.
6. What are the various elements to be considered for strategy formulation?
7. Briefly elaborate the various steps in the strategic planning process.
8. Write a critical note on strategic management of corporate restructuring.
9. Describe the different levels at which strategy operates. How are the strategies which operate at different levels integrated?
10. Explain the various stages of industry life cycle.
11. What are the various strategic approaches to corporate restructuring?
12. Write short notes on:
    a) BCG growth–share matrix
    b) Porter's generic strategies
13. Briefly explain Porter's five forces model and its relevance in corporate restructuring.
14. Apply the strategic management model to your own case. Follow the process and identify the different elements such as your vision and mission, career objectives, self-appraisal, the opportunities and threats operating in the job market, the career advancement strategies that you may choose and how you could implement these strategies and evaluate your performance. Describe your thought process systematically according to the different phases of strategic management.

Case in Action

Aditya Birla Group—A Case in Strategy

Introduction

In 2008, the Aditya Birla Group (ABG) was a US$ 28 billion corporation. It employed 100,000 people belonging to 25 nationalities and over 50% of its revenues were attributed to its overseas operations in countries such as the United States, the United Kingdom, China, Germany, Hungary and Brazil, among others. The group's product portfolio comprised of aluminium (Hindalco–Indal), copper (Birla Copper), fertilizers (Indo Gulf Fertilizers Ltd), textiles and cement (Grasim Industries Ltd), insulators (Birla NGK Insulators Pvt. Ltd), Viscose Filament Yarn (Indian Rayon and Industries Ltd), carbon black (Birla Carbon), insurance (Birla Sun Life Insurance Company Ltd), telecommunications (Idea Cellular Ltd) and BPO (Minacs Worldwide Ltd).

In 2007, the group acquired Novelis Inc., the Atlanta (U.S.)-based aluminium producer to become one of the largest rolled-aluminium products manufacturers in the world. The group had also acquired a majority stake in Indal from Alcan of Canada in the year 2000, and this had positioned it in the value-addition chain of the business, from metal to downstream products. Birla Copper enjoyed a good market share in the country and the acquisition of mines in Australia in the year 2003 elevated it to an integrated copper producer. Indo Gulf Fertilisers possessed a brand that commanded strong cash flows and a leadership position in the fertilizer industry. The group had entered into a 50:50 joint venture with NGK Corporation of Japan for its insulators division in 2002. This was expected to provide ABG access to the latest technology in product and manufacturing for the insulators division and also to open up the path to global markets.

In 2006, the group purchased the equity holding of NGK and made the venture its subsidiary. The Group's company, Birla Sun Life, offered insurance and mutual fund products in the Indian market. In 2006, the group acquired Minacs Worldwide, a BPO company, and acquired Tata's stake in Idea

Cellular. In 2007, the group acquired Trinethra, a chain of retail stores. The group's strategy towards the business portfolio was to exit from those areas of business where they had a minor presence or where losses were being incurred and to consolidate and build upon operations where competencies and business strengths existed. For instance, the group's textiles division Grasim had consolidated its operations by closing down operations at its pulp and fibre plants located at Mavoor and had sold the loss-making fabric operations at Gwalior in 2002. The group also divested itself of its stake in Mangalore Refinery and Petrochemicals Ltd to the leading Indian oil company ONGC in 2002.

Analysts felt that the group's ability to grow had stemmed largely from the emphasis placed on building meritocracy in the group. Under the leadership of Kumar Mangalam Birla (Birla), several initiatives were taken with the focus on learning and relearning, performance management and organizational renewal. Birla also instituted steps to retire aged managers and replaced them with young managers who came in with fresh and 'out of the box' ideas. The group instituted Gyanodaya, the group's learning centre, to facilitate transfer of best practices across the group companies. The training methodology comprised classroom teaching and e-learning initiatives and the training calendar was accessible to the group employees through the group-wide intranet. The group also put in place 'The Organizational Health Survey' aimed at tracking the satisfaction levels of the group's managers. The survey was seen as a gauge of the happiness at work index in the group. The implementation of these initiatives resulted in the group becoming one of the preferred employers in Asia. Towards performance management, the group had instituted the Aditya Birla Sun awards to recognize the successes of the group companies. This resulted in information sharing and encouraged healthy competition among these companies.

Source: http://www.icmrindia.org/Short Case Studies/Business Strategy/CLBS106.htm

Questions for Discussion

1. Critically analyze the growth strategy adopted by the ABG. What are your views on the business portfolio adopted by the group?
2. Analyze the initiatives taken by the group on the personnel and culture front under the leadership of Kumar Mangalam Birla.

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Answer Key to Multiple Choice Questions

1. b	2. d	3. c	4. b	5. c	6. a	7. c	8. a	9. b	10. a