
UNIT 9 GROWTH STRATEGIES-I

Objectives

The objectives of this unit are to:

- 1 acquaint you with the concept of corporate strategy;
- 1 familiarize you with the various generic corporate strategies;
- 1 explain the nature, scope and approaches to implementation of stability and growth strategies; and
- 1 finally discuss the rationale for adopting these strategies.

Structure

- 9.1 Introduction
- 9.2 Nature and Scope of Corporate Strategies
- 9.3 Nature of Stability Strategy
- 9.4 Expansion Strategies
- 9.5 Expansion through Intensification
- 9.6 Expansion through Integration
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9.1 INTRODUCTION

Strategic management deals with the issues, concepts, theories approaches and action choices related to an organization's interaction with the external environment. Strategy, in general, refers to how a given objective will be achieved. Strategy, therefore, is mainly concerned with the relationships between ends and means, that is, between the results we seek and the resources at our disposal. For the most part, strategy is concerned with deploying the resources at your disposal whereas tactics is concerned with employing them. Together, strategy and tactics bridge the gap between ends and means.

Some organizations are groups of different business and functional units, each of them must be having its own set of goals, which may not necessarily be same as the goals of the corporate headquarters looking after the interests of the entire organization. Since the goals are different and the means to achieve them are different, strategies are likely to be different. This understanding has led to the hierarchical division of strategy at two levels: a **business-level (competitive) strategy and a company-wide strategy (corporate strategy)** (Porter, 1987). In addition to these strategies, many authors also mention functional strategies, practiced by the functional units of a business unit, as another level of strategy.

Corporate Strategies: These are concerned with the broad, long-term questions of "what businesses are we in, and what do we want to do with these businesses?" The corporate strategy sets the overall direction the organization will follow. It matters

whether a firm is engaged in one or several businesses. This will influence the overall strategic direction, what corporate strategy is followed, and how that strategy is implemented and managed. Corporate strategies vary from drastic retrenchment through aggressive growth. Top management need to carefully assess the environment before choosing the fundamental strategies the organization will use to achieve the corporate objectives.

Competitive Strategies: Those decisions that determine how the firm will compete in a specific business or industry. This involves deciding how the company will compete within each line of business or strategic business unit (SBU). Competitive strategies include being a low-cost leader, differentiator, or focuser. Formulating a specific competitive strategy requires understanding the competitive forces that determine how intense the competitive forces are and how best to compete.

Functional Strategies: Also called operational strategies, are the short-term (less than one year), goal-directed decisions and actions of the organization's various functional departments. These are more localized and shorter-horizon strategies and deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity. Functional strategies identify the basic courses of action that each functional department in a strategic business unit will pursue to contribute to the attainment of its goals.

In a nutshell, corporate-level strategy identifies the portfolio of businesses that in total will comprise the corporation and the ways in which these businesses will relate. The competitive strategy identifies how to build and strengthen the business's long-term competitive position in the marketplace while the functional strategies identify the basic courses of action that each department will pursue to contribute to the attainment of its goals.

Activity 1

Explain the various corporate, competitive and functional strategies followed by a firm of your choice. What is the impact of these strategies on the firm's performance?

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Corporate Strategy

Corporate strategy is essentially a blueprint for the growth of the firm. The corporate strategy sets the overall direction for the organization to follow. It also spells out the extent, pace and timing of the firm's growth. Corporate strategy is mainly concerned with the choice of businesses, products and markets. The competitive and functional strategies of the firm are formulated to synchronize with the corporate strategy to enable it to reach its desired objectives. Defined formally, a corporate-level strategy is an action taken to gain a competitive advantage through the selection and management of a mix of businesses competing in several industries or product markets. Corporate strategies are normally expected to help the firm earn above-average returns and create value for the shareholders (Markides, 1997). Corporate strategy addresses the issues of a multi-business enterprise as a whole. Corporate strategy addresses issues relating to the intent, scope and nature of the enterprise and in particular has to provide answers to the following questions:

- 1 What should be the nature and values of the enterprise in the broadest sense? What are the aims in terms of creating value for stakeholders?

- 1 What kind of businesses should we be in? What should be the scope of activity in the future so what should we divest and what should we seek to add?
- 1 What structure, systems and processes will be necessary to link the various businesses to each other and to the corporate centre?
- 1 How can the corporate centre add value to make the whole worth more than the sum of the parts?

A primary approach to corporate level strategy is diversification, which requires the top-level executives to craft a multibusiness strategy. In fact, one reason for the use of a diversification strategy is that managers of diversified firms possess unique management skills that can be used to develop multibusiness strategies and enhance a firm's competitiveness (Collins and Montgomery, 1998). Most corporate level strategies have three major components:

- a) **Growth or directional strategy**, outlines the growth objectives ranging from drastic retrenchment through stability to varying degrees of growth and methods and approaches to accomplish these objectives.
- b) Corporations are responsible for creating value through their businesses. They do so by using a **portfolio strategy** to manage their portfolio of businesses, ensure that the businesses are successful over the long-term, develop business units, and ensure that each business is compatible with others in the portfolio. Portfolio strategy plans the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. Portfolio strategy is an important component of corporate strategy in a multibusiness corporation. The top management views its product lines and business unit as a portfolio of investments from which it expects a profitable return. A key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the company should be in. This may involve decisions to increase or decrease the breadth of diversification by closing out some lines of business, adding others, and changing emphasis among the portfolio of businesses. A portfolio strategy is concerned not only about choice of business portfolio, but also about portfolio of geographical markets for acquisition of inputs, locating various value chain activities and selling of outputs. In short, a portfolio strategy facilitates efficient allocation of corporate resources, links the businesses and geographically dispersed activities and builds synergy leading to corporate or parenting advantage.
- c) **Corporate parenting strategy**, which tries to capture valuable cross-business strategic fits in a portfolio of business and turn them into competitive advantages, especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers. In other words, it decides how we allocate resources and manage capabilities and activities across the portfolio — where do we put special emphasis, and how much do we integrate our various lines of business. Corporate parenting views the corporation in terms of resources and capabilities that can be used to build business units value as well as generate synergies across business units. Corporate parenting generates corporate strategy by focusing on the core competencies of the parent corporation and on the value create from the relationship between the parent and its businesses. To achieve corporate parenting advantage a corporation needs to do at least the following.
 - 1 Better choice of business to compete.
 - 1 Superior acquisition and development of corporate resources.
 - 1 Effective deployment, monitoring and controlling of corporate resources.
 - 1 Sharing and transferring of resources from one business to other leading to synergy.

9.2 NATURE AND SCOPE OF CORPORATE STRATEGIES

Growth is essential for an organization. Organizations go through an inevitable progression from growth through maturity, revival, and eventually decline. The broad corporate strategy alternatives, sometimes referred to as grand strategies, are: stability/consolidation, expansion/growth, divestment/retrenchment and combination strategies. During the organizational life cycle, managements choose between growth, stability, or retrenchment strategies to overcome deteriorating trends in performance.

Just as every product or business unit must follow a business strategy to improve its competitive position, every corporation must decide its orientation towards growth by asking the following three questions:

- 1 Should we expand, cut back, or continue our operations unchanged?
- 1 Should we concentrate our activities within our current industry or should we diversify into other industries?
- 1 If we want to grow and expand nationally and/or globally, should we do so through internal development or through external acquisitions, mergers, or strategic alliances?

At the core of corporate strategy must be a clear logic of how the corporate objectives, will be achieved. Most of the strategic choices of successful corporations have a central economic logic that serves as the fulcrum for profit creation. Some of the major economic reasons for choosing a particular type corporate strategy are:

- a) Exploiting operational economies and financial economies of scope.
- b) Uncertainty avoidance and efficiency.
- c) Possession of management skills that help create corporate advantage.
- d) Overcoming the inefficiency in factor markets and
- e) Long term profit potential of a business.

The non-economic reasons for the choice of corporate strategy elements include

- a) dominant view of the top management,
- b) employee incentives to diversify (maximizing management compensation),
- c) desire for more power and management control,
- d) ethical considerations and
- e) corporate social responsibility.

There are four types of generic corporate strategies. They are:

- 1 **Stability strategies:** make no change to the company's current activities
- 1 **Growth strategies:** expand the company's activities
- 1 **Retrenchment strategies:** reduce the company's level of activities
- 1 **Combination strategies:** a combination of above strategies

Each one of the above strategies has a specific objective. For instance, a concentration strategy seeks to increase the growth of a single product line while a diversification strategy seeks to alter a firm's strategic track by adding new product lines.

A stability strategy is utilized by a firm to achieve steady, but slow improvements in growth while a retrenchment strategy (which includes harvesting, turnaround, divestiture, or liquidation strategies) is used to reverse poor-organizational performance. Once a strategic direction has been identified, it then becomes necessary for management to examine business and functional level strategies of the firm to make sure that all units are moving towards the achievement of the company-wide corporate strategy.

Stability Strategy

Stability strategy is a strategy in which the organization retains its present strategy at the corporate level and continues focusing on its present products and markets. The firm stays with its current business and product markets; maintains the existing level of effort; and is satisfied with incremental growth. It does not seek to invest in new factories and capital assets, gain market share, or invade new geographical territories. Organizations choose this strategy when the industry in which it operates or the state of the economy is in turmoil or when the industry faces slow or no growth prospects. They also choose this strategy when they go through a period of rapid expansion and need to consolidate their operations before going for another bout of expansion.

Growth Strategy

Firms choose expansion strategy when their perceptions of resource availability and past financial performance are both high. The most common growth strategies are diversification at the corporate level and concentration at the business level. Reliance Industry, a vertically integrated company covering the complete textile value chain has been repositioning itself to be a diversified conglomerate by entering into a range of business such as power generation and distribution, insurance, telecommunication, and information and communication technology services. Diversification is defined as the entry of a firm into new lines of activity, through internal or external modes. The primary reason a firm pursues increased diversification are value creation through economies of scale and scope, or market dominance. In some cases firms choose diversification because of government policy, performance problems and uncertainty about future cash flow. In one sense, diversification is a risk management tool, in that its successful use reduces a firm's vulnerability to the consequences of competing in a single market or industry. Risk plays a very vital role in selecting a strategy and hence, continuous evaluation of risk is linked with a firm's ability to achieve strategic advantage (Simons, 1999). Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification is accomplished through external modes through acquisitions and joint ventures. Concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets.

Retrenchment Strategy

Many firms experience deteriorating financial performance resulting from market erosion and wrong decisions by management. Managers respond by selecting corporate strategies that redirect their attempt to turnaround the company by improving their firm's competitive position or divest or wind up the business if a turnaround is not possible. Turnaround strategy is a form of retrenchment strategy, which focuses on operational improvement when the state of decline is not severe. Other possible corporate level strategic responses to decline include growth and stability.

Combination Strategy

The three generic strategies can be used in combination; they can be sequenced, for instance growth followed by stability, or pursued simultaneously in different parts of the business unit. Combination Strategy is designed to mix growth, retrenchment, and stability strategies and apply them across a corporation's business units. A firm

adopting the combination strategy may apply the combination either simultaneously (across the different businesses) or sequentially. For instance, Tata Iron & Steel Company (TISCO) had first consolidated its position in the core steel business, then divested some of its non-core businesses. Reliance Industries, while consolidating its position in the existing businesses such as textile and petrochemicals, aggressively entered new areas such as Information Technology.

Activity 2

Search the website for information on Reliance Group, Tata group and Aditya Birla group of companies. Compare the business models and briefly explain the type of corporate strategies that these corporates are following.

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9.3 NATURE OF STABILITY STRATEGY

A firm following stability strategy maintains its current business and product portfolios; maintains the existing level of effort; and is satisfied with incremental growth. It focuses on fine-tuning its business operations and improving functional efficiencies through better deployment of resources. In other words, a firm is said to follow stability/ consolidation strategy if:

- 1 It decides to serve the same markets with the same products;
- 1 It continues to pursue the same objectives with a strategic thrust on incremental improvement of functional performances; and
- 1 It concentrates its resources in a narrow product-market sphere for developing a meaningful competitive advantage.

Adopting a stability strategy does not mean that a firm lacks concern for business growth. It only means that their growth targets are modest and that they wish to maintain a status quo. Since products, markets and functions remain unchanged, stability strategy is basically a defensive strategy. A stability strategy is ideal in stable business environments where an organization can devote its efforts to improving its efficiency while not being threatened with external change. In some cases, organizations are constrained by regulations or the expectations of key stakeholders and hence they have no option except to follow stability strategy.

Generally large firms with a sizeable portfolio of businesses do not usually depend on the stability strategy as a main route, though they may use it under certain special circumstances. They normally use it in combination with the other generic strategies, adopting stability for some businesses while pursuing expansion for the others.

However, small firms find this a very useful approach since they can reduce their risk and defend their positions by adopting this strategy. Niche players also prefer this strategy for the same reasons.

Conditions Favouring Stability Strategy

Stability strategy does entail changing the way the business is run, however, the range of products offered and the markets served remain unchanged or narrowly focused. Hence, the stability strategy is perceived as a non-growth strategy. As a matter of fact, stability strategy does provide room for growth, though to a limited extent, in the existing product-market area to achieve current business objectives. Implementing

stability strategy does not imply stagnation since the basic thrust is on maintaining the current level of performance with incremental growth in ensuing periods. An organization's strategists might choose stability when:

- 1 The industry or the economy is in turmoil or the environment is volatile. Uncertain conditions might convince strategists to be conservative until they became more certain.
- 1 Environmental turbulence is minimal and the firm does not foresee any major threat to itself and the industry concerned as a whole.
- 1 The organization just finished a period of rapid growth and needs to consolidate its gains before pursuing more growth.
- 1 The firm's growth ambitions are very modest and it is content with incremental growth
- 1 The industry is in a mature stage with few or no growth prospects and the firm is currently in a comfortable position in the industry

Rationale for Using Stability Strategy

There are a number of circumstances in which the most appropriate growth stance for a company is stability rather than growth. Stability strategy is normally followed for a brief period to consolidate the gains of its expansion and needs a breathing spell before embarking on the next round of expansion. Organizations need to 'cool off' for a while after an aggressive phase of expansion and must stabilize for a while or they will become inefficient and unmanageable. India Cements went through a rapid expansion by acquiring other cement companies before stabilizing and consolidating its operations. Videocon and BPL had first diversified into new businesses and then started consolidating once faced with stiff competition.

Managers pursue stability strategy when they feel that the enterprise has been performing well and wish to maintain the same trend in subsequent years. They would prefer to adopt the existing product-market posture and avoid departing from it. Sometimes, the management is content with the status quo because the company enjoys a distinct competitive advantage and hence does not perceive an immediate threat.

Stability strategy is also adopted in a number of organizations because the management is not interested in taking risks by venturing into unknown terrain. In fact they do not consider any other option as long as the pursuit of existing business activity produces the desired results. Conservative managers believe product development, market development or new ways of doing business entail great risk and therefore, avoid taking decisions, which can endanger the company. A number of managers also pursue consolidation strategy involuntarily. In fact, they do not react to environmental changes and avoid drastic changes in the current strategy unless warranted by extraordinary circumstances.

Sometimes environmental forces compel an organization to follow the strategy of status quo. This is particularly true for bigger organizations, which have acquired dominant market share. Such organizations are usually not permitted by the government to expand because it may lead to monopolistic and restrictive trade practices detrimental to public interest.

Approaches to Stability Strategy

There are various approaches to developing stability/consolidation strategy. The Management has to select the one that best suits the corporate objective. Some of these approaches are discussed below. In all these approaches, the fundamental course of action remains the same, but the circumstances in which the firms choose various options differ.

Holding Strategy: This alternative may be appropriate in two situations: (a) the need for an opportunity to rest, digest, and consolidate after growth or some turbulent events - before continuing a growth strategy, or (b) an uncertain or hostile environment in which it is prudent to stay in a “holding pattern” until there is change in or more clarity about the future in the environment. With a holding strategy the company continues at its present rate of development. The aim is to retain current market share. Although growth is not pursued as such, this will occur if the size of the market grows. The current level of resource input and managerial effort will not be increased, which means that the functional strategies will continue at previous levels. This approach suits a firm, which does not have requisite resources to pursue increased growth for a longer period of time. At times, environmental changes prohibit a continuation in growth.

Stable Growth: This alternative essentially involves avoiding change, representing indecision or timidity in making a choice for change. Alternatively, it may be a comfortable, even long-term strategy in a mature, rather stable environment, e.g., a small business in a small town with few competitors. It simply means that the firm’s strategy does not include any bold initiatives. It will just seek to do what it already does, but a little better. In this approach, the firm concentrates on one product or service line. It grows slowly but surely, increasingly its market penetration by steadily adding new products or services and carefully expanding its market.

Harvesting Strategy: Where a firm has the dominant market share, it may seek to take advantage of this position and generate cash for future business expansion. This is termed as harvesting strategy and is usually associated, with cost cutting and price increases to generate extra profits. This approach is most suitable to a firm whose main objective is to generate cash. Even market share may be sacrificed to earn profits and generate funds. A number of ways can be used to accomplish the objective of making profits and generating funds. Some of these are selective price increases and reducing costs without reducing price. In this approach, selected products are milked rather than nourished and defended. Hindustan Lever’s Lifebuoy soap is an example in point. It yielded large profits under careful management

Profit or Endgame Strategy: A profit strategy is one that capitalizes on a situation in which old and obsolete product or technology is being replaced by a new one. This type of strategy does not require new investment, so it is not a growth strategy. Firms adopting this strategy decide to follow the same technology, at least partially, while transiting into new technological domains. Strategists in these firms reason that the huge number of product based on older technologies on the market would create an aftermarket for spare parts that would last for years. Sylvania, RCA, and GE are among the firms that followed this strategy. They decided to stay in the vacuum tube market until the “end of the game.” As with most business decisions, timing is critical. All competitors eventually must shelve the old assets at some point of time and move to the new product or technology. The critical question is, “Can we make more money by using these assets or by selling them?” The answer to that question changes as time passes.

Activity 3

Identify Indian companies following stability strategy. Also identify the type of stability strategy followed by these firms.

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9.4 EXPANSION STRATEGIES

Every enterprise seeks growth as its long-term goal to avoid annihilation in a relentless and ruthless competitive environment. Growth offers ample opportunities to everyone in the organization and is crucial for the survival of the enterprise. However, this is possible only when fundamental conditions of expansion have been met.

Expansion strategies are designed to allow enterprises to maintain their competitive position in rapidly growing national and international markets. Hence to successfully compete, survive and flourish, an enterprise has to pursue an expansion strategy.

Expansion strategy is an important strategic option, which enterprises follow to fulfill their long-term growth objectives. They pursue it to gain significant growth as opposed to incremental growth envisaged in stability strategy. Expansion strategy is adopted to accelerate the rate of growth of sales, profits and market share faster by entering new markets, acquiring new resources, developing new technologies and creating new managerial capabilities.

Expansion strategy provides a blueprint for business enterprises to achieve their long-term growth objectives. It allows them to maintain their competitive advantage even in the advanced stages of product and market evolution. Growth offers economies of scale and scope to an organization, which reduce operating costs and improve earnings. Apart from these advantages the organization gains a greater control over the immediate environment because of its size. This influence is crucial for survival in mature markets where competitors aggressively defend their market shares.

Conditions for Opting for Expansion Strategy

Firms opt for expansion strategy under the following circumstances:

- 1 When the firm has lofty growth objectives and desires fast and continuous growth in assets, income and profits. Expansion through diversification would be especially useful to firms that are eager to achieve large and rapid growth since it involves exploiting new opportunities outside the domain of current operations.
- 1 When enormous new opportunities are emerging in the environment and the firm is ready and willing to expand its business scope
- 1 Firms find expansion irresistible since sheer size translates into superior clout.
- 1 When a firm is a leader in its industry and wants to protect its dominant position.
- 1 Expansion strategy is opted in volatile situations. Substantive growth would act as a cushion in such conditions.
- 1 When the firm has surplus resources, it may find it sensible to grow by leveraging on its strengths and resources.
- 1 When the environment, especially the regulatory scenario, blocks the growth of the firm in its existing businesses, it may resort to diversification to meet its growth objectives.
- 1 When the firm enjoys synergy that ensues by tapping certain opportunities in the environment, it opts for expansion strategies. Economies of scale and scope and competitive advantage may accrue through such synergistic operations. Over the last decade, in response to economic liberalisation, some companies in India expanded the scale of existing businesses as well as diversified into many new businesses.

Growth of a business enterprise entails realignment of its strategies in product – market environment. This is achieved through the basic growth approaches of intensive expansion, integration (horizontal and vertical integration), diversification and international operations. Firms following intensification strategy concentrate on

their primary line of business and look for ways to meet their growth objectives by increasing their size of operations in this primary business. A company may expand externally by integrating with other companies. An organization expands its operations by moving into a different industry by pursuing diversification strategies. An organization can grow by “going international”, i.e., by crossing domestic borders by employing any of the expansion strategies discussed so far.

9.5 EXPANSION THROUGH INTENSIFICATION

Intensification involves expansion within the existing line of business. Intensive expansion strategy involves safeguarding the present position and expanding in the current product-market space to achieve growth targets. Such an approach is very useful for enterprises that have not fully exploited the opportunities existing in their current products-market domain. A firm selecting an intensification strategy, concentrates on its primary line of business and looks for ways to meet its growth objectives by increasing its size of operations in its primary business. Intensive expansion of a firm can be accomplished in three ways, namely, market penetration, market development and product development first suggested in Ansoff’s model.

Intensification strategy is followed when adequate growth opportunities exist in the firm’s current products-market space. However, while going in for internal expansion, the management should consider the following factors.

- 1 While there are a number of expansion options, the one with the highest net present value should be the first choice.
- 1 Competitive behaviour should be predicted in order to determine how and when the competitors would respond to the firm’s actions. The firm must also assess its strengths and weaknesses against its competitors to ascertain its competitive advantages.
- 1 The conditions prevailing in the environment should be carefully examined to determine the demand for the product and the price customers are willing to pay.
- 1 The firm must have adequate financial, technological and managerial capabilities to expand the way it chooses.
- 1 Technological, social and demographic trends should be carefully monitored before implementing product or market development strategies. This is very crucial, especially, in a volatile business environment.

Ansoff’s Product-Market Expansion Grid

The product/market grid first presented by Igor Ansoff (1968), shown in exhibit 1, has proven to be very useful in discovering growth opportunities. This grid best illustrates the various intensification options available to a firm. The product/market grid has two dimensions, namely, products and markets. Combinations of these two dimensions result in four growth strategies. According to Ansoff’s Grid, three distinct strategies are possible for achieving growth through the intensification route. These are:

- 1 **Market Penetration:** The firm seeks to achieve growth with existing products in their current market segments, aiming to increase its markets share.
- 1 **Market Development:** The firm seeks growth by targeting its existing products to new market segments.
- 1 **Product Development:** The firm develops new products targeted to its existing market segments.
- 1 **Diversification:** The firm grows by diversifying into new businesses by developing new products for new markets.

Exhibit 1: Ansoff's Grid

Growth Strategies-I

Markets/Products	Current Markets	New Markets
Current Products	Market Penetration	Market Development
New Products	Product Development	Diversification

Market Penetration

When a firm believes that there exist ample opportunities by aggressively exploiting its current products and current markets, it pursues market penetration approach. Market penetration involves achieving growth through existing products in existing markets and a firm can achieve this by:

- 1 Motivating the existing customers to buy its product more frequently and in larger quantities. Market penetration strategy generally focuses on changing the infrequent users of the firm's products or services to frequent users and frequent users to heavy users. Typical schemes used for this purpose are volume discounts, bonus cards, price promotion, heavy advertising, regular publicity, wider distribution and obviously through retention of customers by means of an effective customer relationship management.
- 1 Increasing its efforts to attract its competitors' customers. For this purpose, the firm must develop significant competitive advantages. Attractive product design, high product quality, attractive prices, stronger advertising, and wider distribution can assist an enterprise in gaining lead over its competitors. All these require heavy investment, which only firms with substantial resources, can afford. Firms less endowed may search for niche segments. Many small manufacturers, for instance, survive by seeking out and cultivating profitable niches in the market. They may also grow by developing highly specialized and unique skills to cater to a small segment of exclusive customers with special requirements.
- 1 Targeting new customers in its current markets. Price concessions, better customer service, increasing publicity and other techniques can be useful in this effort.

In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. While following market penetration strategy, the firm continues to operate in the same markets offering the same products. Growth is achieved by increasing its market share with existing products. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Unless there is an intrinsic growth in its current market, this strategy necessarily entails snatching business away from competitors. The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. Another advantage of this strategy is that it does not require additional investment for developing new products.

Market Development Strategy

Market Development strategy tries to achieve growth by introducing existing products in new markets. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment or when new markets offer better growth prospects compared to the existing ones. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. This is because managers do not normally possess

sound knowledge of new markets, which may result in inaccurate market assessment and wrong marketing decisions.

In market development approach, a firm seeks to increase its sales by taking its product into new markets. The two possible methods of implementing market development strategy are, (a) the firm can move its present product into new geographical areas. This is done by increasing its sales force, appointing new channel partners, sales agents or manufacturing representatives and by franchising its operation; or (b) the firm can expand sales by attracting new market segments. Making minor modifications in the existing products that appeal to new segments can do the trick.

Product Development Strategy

Expansion through product development involves development of new or improved products for its current markets. The firm remains in its present markets but develops new products for these markets. Growth will accrue if the new products yield additional sales and market share. This strategy is likely to succeed for products that have low brand loyalty and/or short product life cycles. A Product development strategy may also be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Although the firm operates in familiar markets, product development strategy carries more risk than simply attempting to increase market share since there are inherent risks normally associated with new product development.

The three possible ways of implementing the product development strategy are:

- 1 The company can expand sales through developing new products.
- 1 The company can create different or improved versions of the current products.
- 1 The company can make necessary changes in its existing products to suit the different likes and dislikes of the customers.

Combination Strategy

Combination strategy combines the intensification strategy variants i.e., market penetration, market development and product development to grow. In the market development and market penetration strategy, the firm continues with its current product portfolio, while the product development strategy involves developing new or improved products, which will satisfy the current markets.

Activity 4

Search for information about Hindustan Lever Limited and explain which of the above intensification strategies is it currently following. Why is the company following these strategies? Discuss.

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9.6 EXPANSION THROUGH INTEGRATION

In contrast to the intensive growth, integration strategy involves expanding externally by combining with other firms. Combination involves association and integration among different firms and is essentially driven by need for survival and also for growth by building synergies. Combination of firms may take the merger or consolidation route. Merger implies a combination of two or more concerns into one final entity. The merged concerns go out of existence and their assets and liabilities are taken over by the acquiring company. A consolidation is a combination of two or more business units to form an entirely new company. All the original business entities cease to exist after the combination. Since mergers and consolidations involve the combination of two or more companies into a single company, the term merger is commonly used to refer to both forms of external growth. As is the case in all the strategies, acquisition is a choice a firm has made regarding how it intends to compete (Markides, 1999). Firms use integration to (1) increase market share, (2) avoid the costs of developing new products internally and bringing them to the market, (4) reduce the risk of entering new business, (5) speed up the process of entering the market, (6) become more diversified and (7) quite possibly to reduce the intensity of competition by taking over the competitor's business. The costs of integration include reduced flexibility as the organization is locked into specific products and technology, financial costs of acquiring another company and difficulties in integrating various operations. There are many forms of integration, but the two major ones are vertical and horizontal integration.

i) **Vertical Integration:** Vertical integration refers to the integration of firms involved in different stages of the supply chain. Thus, a vertically integrated firm has units operating in different stages of supply chain starting from raw material to delivery of final product to the end customer. An organization tries to gain control of its inputs (called backwards integration) or its outputs (called forward integration) or both. Vertical integration may take the form of backward or forward integration or both. The concept of vertical integration can be visualized using the value chain. Consider a firm whose products are made via an assembly process. Such a firm may consider backward integrating into intermediate manufacturing or forward integrating into distribution. Backward integration sometimes is referred to as upstream integration and forward integration as downstream integration. For instance, Nirma undertook backward integration by setting up plant to manufacture soda ash and linear alkyl benzene, both important inputs for detergents and washing soaps, to strengthen its hold in the lower-end detergents market. Forward integration refers to moving closer to the ultimate customer by increasing control over distribution activities. For example, a personal computer assembler could own a chain of retail stores from which it sells its machines (forward integration). Many firms in India such as DCM, Mafatlal and National Textile Corporation have set up their own retail distribution systems to have better control over their distribution activities.

Some companies expand vertically backwards and forward. Reliance Petrochemicals grew by leveraging backward and forward integration: it began with manufacturing of textiles and fibres, moved to polymers and other intermediates then went into the manufacture of fibres, then to petrochemicals and oil refining. In power, Reliance Energy wants to do the same thing and the catchphrase that for this vertical integration is 'from well-head to wall-socket'. Reliance Energy's strategy is to straddle the entire value chain in the power business. It plans to generate power by using the group's production of gas, transmit and distribute it to the domestic and industrial consumers, reaping the returns of not just generating power using its own gas but selling what it generates not as a bulk supplier but to the end user.

In essence, a firm seeks to grow through vertical integration by taking control of the business operations at various stages of the supply chain to gain advantage over its rivals. The record of vertical integration is mixed and hence, decisions should be taken after a comprehensive and careful consideration of all aspects of this form of integration. In most cases the initial investments may be very high and exiting an arrangement that does not prove beneficial may be hard. Vertical integration also requires an organization to develop additional product market and technology capabilities, which it may not currently possess.

Factors conducive for vertical integration include (1) taxes and regulations on market transactions, (2) obstacles to the formulation and monitoring of contracts, (3) similarity between the vertically-related activities, (4) sufficient large production quantities so that the firm can benefit from economies of scale and (5) reluctance of other firms to make investments specific to the transaction. Vertical integration may not yield the desired benefit if, (1) the quantity required from a supplier is much less than the minimum efficient scale for producing the product. (2) the product is widely available commodity and its production cost decreases significantly as cumulative quantity increases, (3) the core competencies between the activities are very different, (4) the vertically adjacent activities are in very different types of industries (For example, manufacturing is very different from retailing.) and (5) the addition of the new activity places the firm in competition with another player with which it needs to cooperate. The firm then may be viewed as a competitor rather than a partner.

Firms integrate vertically to (1) reduce transportation costs if common ownership results in closer geographic proximity, (2) improve supply chain coordination, (3) capture upstream or downstream profit margins, (4) increase entry barriers to potential competitors, for example, if the firm can gain sole access to scarce resource, (5) gain access to downstream distribution channels that otherwise would be inaccessible, (6) facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest and (7) facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest.

The downside risks of an integration strategy to a company include (1) difficulty of effectively integrating the firms involved, (2) incorrect evaluation of target firm's value, (3) overestimating the potential for synergy between the companies involved, (4) creating a combination too large to control, (5) the huge financial burden that acquisition entails, (6) capacity balancing issues. (For instance, the firm may need to build excess upstream capacity to ensure that its downstream operations have sufficient supply under all demand conditions), (7) potentially higher costs due to low efficiencies resulting from lack of supplier competition, (8) decreased flexibility due to previous upstream or downstream investments, (however, that flexibility to coordinate vertically –related activities may increase.), (9) decreased ability of increase product variety if significant in-house development is required, and (10) developing new core competencies may compromise existing competencies.

There are alternatives to vertical integration that may provide some of the same benefits with fewer drawbacks. The following are a few of these alternatives for relationships between vertically related organizations.

- 1 Long-term explicit contracts
- 1 Franchise agreements
- 1 Joint ventures
- 1 Co-location of facilities
- 1 Implicit contracts (relying on firm's reputation)

Figure 9.1 shows the backward and forward integration followed by an illustration:

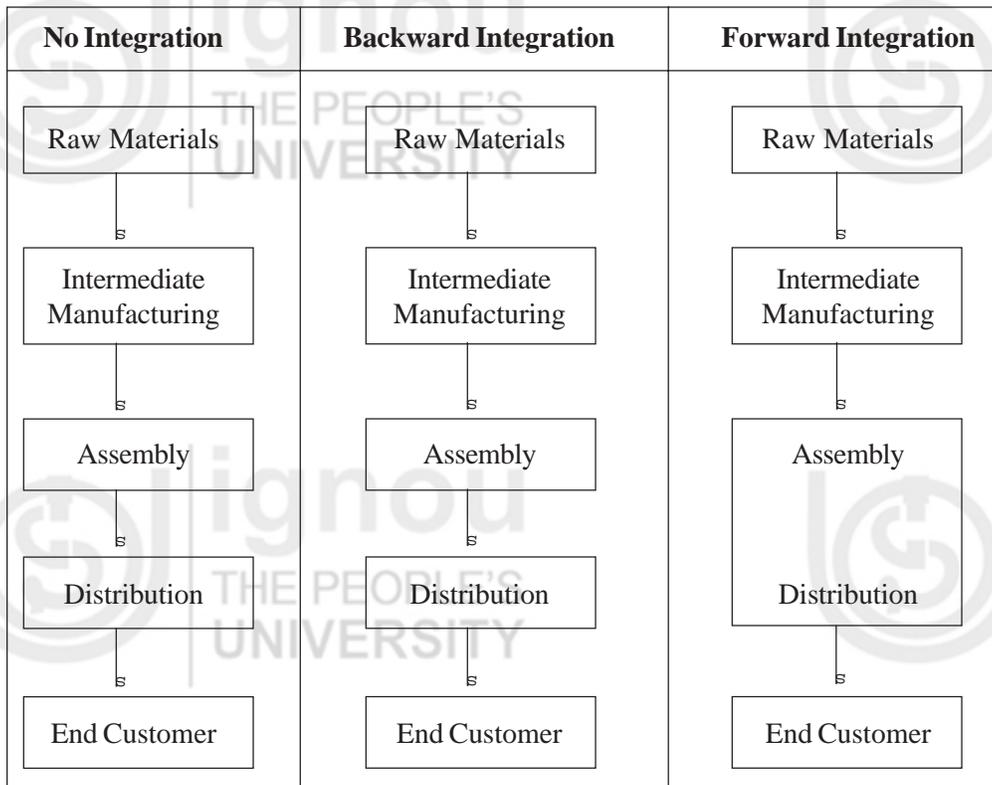


Figure 9.1: Backward and Forward Integration

Illustration: Digital Giants to Accelerate Vertical Integration

Samsung Electronics and LG Electronics plan to streamline production lines in cooperation with their affiliates to reduce factors of uncertainty in the procurement of components. The two South Korean giants seek to manufacture top-of-the-line products like cell phones and digital TVs in a self-sufficient fashion. LG Group will invest 30 trillion won by 2010 to develop certain electronic components that include system integrated chips, plasma displays and camera modules. Samsung Electronics already retains a strong portfolio, comprising Samsung Corning (display-specific glass), Samsung SDI (displays) and Samsung Electro-Mechanics (camera modules), and aims to further hone its push for vertical integration.

So-called vertical integration refers to the degree to which a company owns or controls its upstream suppliers, subcontractors or affiliates and its downstream buyers. The advantage of the strategy is the expansion of core competencies by reducing risks in the supply of components as well as the slashing of transportation costs. Some experts have said vertical integration is vital to the improvement of these two giant digital firms' competitiveness despite criticism that such expansion would increase the entry barriers for industry newcomers.

Source: Korean Times

ii) **Horizontal Combination / Integration:** The acquisition of additional business in the same line of business or at the same level of the value chain (combining with competitors) is referred to as horizontal integration. Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. A firm may diversify by growing horizontally into unrelated business. Integration of oil companies, Exxon and Mobil, is an example of horizontal integration. Aditya Birla Group's acquisition of L&T Cements from Reliance to increase its market dominance is an example of

horizontal integration. This sort of integration is sought to reduce intensity of competition and also to build synergies.

Benefits of Horizontal Integration

The following are some benefits of horizontal integration:

- 1 Economies of scale-achieved by selling more of the same product, for example, by geographic expansion.
- 1 Economies of scope – achieved by sharing resources common to different products. Commonly referred to as ‘synergies’.
- 1 Increased bargaining power over suppliers and downstream channel members.
- 1 Reduction in the cost of global operations made possible by operating plants in foreign markets.
- 1 Synergy achieved by using the same brand name to promote multiple products.

Hazards of Horizontal Integration

Horizontal integration by acquisition of a competitor will increase a firm’s market share. However, if the industry concentration increases significantly then anti-trust issues may arise. Aside from legal issues, another concern is whether the anticipated economic gains will materialize. Before expanding the scope of the firm through horizontal integration, management should be sure that the imagined benefits are real. Many blunders have been made by firms that broadened their horizontal scope to achieve synergies that did not exist, for example, computer hardware manufacturers who entered the software business on the premise that there were synergies between hardware and software. However, a connection between two products does not necessarily imply realizable economies of scope. Finally, even when the potential benefits of horizontal integration exist, they do not materialize spontaneously. There must be an explicit horizontal strategy in place. Such strategies generally do not arise from the bottom –up, but rather, must be formulated by corporate management.

9.7 INTERNATIONAL EXPANSION

An organization can “go international” by crossing domestic borders as it employs any of the strategies discussed above. International expansion involves establishing significant market interests and operations outside a company’s home country. Foreign markets provide additional sales opportunities for a firm that may be constrained by the relatively small size of its domestic market and also reduces the firm’s dependence on a single national market. Firms expand globally to seek opportunity to earn a return on large investments such as plant and capital equipment or research and development, or enhance market share and achieve scale economies, and also to enjoy advantages of locations. Other motives for international expansion include extending the product life cycle, securing key resources and using low-cost labour. However, to mold their firms into truly global companies, managers must develop global mind-sets. Traditional means of operating with little cultural diversity and without global competition are no longer effective firms (Kedia and Mukherji, 1999).

International expansion is fraught with various risks such as, political risks (e.g. instability of host nations) and economic risks (e.g. fluctuations in the value of the country’s currency). International expansions increases coordination and distribution costs, and managing a global enterprise entails problems of overcoming trade barriers, logistics costs, cultural diversity, etc.

There are several methods for going international. Each method of entering an overseas market has its own advantages and disadvantages that must be carefully assessed. Different international entry modes involve a tradeoff between level of risk and the amount of foreign control the organization's managers are willing to allow. It is common for a firm to begin with exporting, progress to licensing, then to franchising finally leading to direct investment. As the firm achieves success at each stage, it moves to the next. If it experiences problems at any of these stages, it may not progress further. If adverse conditions prevail or if operations do not yield the desired returns in a reasonable time period, the firm may withdraw from the foreign market. The decision to enter a foreign market can have a significant impact on a firm.

Expansion into foreign markets can be achieved through:

- 1 Exporting
- 1 Licensing
- 1 Joint Venture
- 1 Direct Investment

Exporting: Exporting is marketing of domestically produced goods in a foreign country and is a traditional and well-established method of entering foreign markets. It does not entail new investment since exporting does not require separate production facilities in the target country. Most of the costs incurred for exporting products are marketing expenses.

Licensing: Licensing permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possible for technical assistance. Licensing has the potential to provide a very large ROI since this mode of foreign entry also does not require additional investments. However, since the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

Joint Venture: There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Joint ventures are favoured when:

- 1 The partners' strategic goals converge while their competitive goals diverge;
- 1 The partners' size, market power, and resources are small compared to the industry leaders; and
- 1 Partners' are able to learn from one another while limiting access to their own proprietary skills.

The critical issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions. Potential problems include, conflict over asymmetric investments, mistrust over proprietary knowledge, performance ambiguity – how to share the profits and losses, lack of parent firm support, cultural conflicts, and finally, when and how when to terminate the relationship.

Joint ventures have conflicting pressures to cooperate and compete:

- 1 Strategic imperative; the partners want to maximize the advantage gained for the joint venture, but they also want to maximize their own competitive position.
- 1 The joint venture attempts to develop shared resources, but each firm wants to develop and protect its own proprietary resources.
- 1 The joint venture is controlled through negotiations and coordination processes, while each firm would like to have hierarchical control.

Direct Investment: Direct investment is the ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct investment may be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high degree of commitment and substantial resources. Exhibit 2 compares different International Market Entry Modes.

Exhibit 2: Comparison of International Market Entry Modes

<i>Mode</i>	<i>Conditions Favoring this Mode</i>	<i>Advantages</i>	<i>Disadvantages</i>
Exporting	<ul style="list-style-type: none"> 1 Limited sales potential in target country; little product adaptation required 1 High target country; production costs 1 Liberal import policies 1 High political risk 	<ul style="list-style-type: none"> 1 Minimizes risk and investment 1 Speed of entry 1 Maximizes scale; uses existing facilities 	<ul style="list-style-type: none"> 1 Trade barriers & tariffs add to costs 1 Transport costs 1 Limits access to local market information 1 Company viewed as an outsider
Licensing	<ul style="list-style-type: none"> 1 Import and investment barriers 1 Legal protection possible in target environment 1 Low sales potential in target country 1 Large cultural distance 1 Licensee lacks ability to become a competitor 	<ul style="list-style-type: none"> 1 Minimizes risk and investment 1 Speed of entry 1 Able to circumvent trade barriers 1 High ROI 	<ul style="list-style-type: none"> 1 Lack of control over use of assets 1 Licensee may become competitor 1 Knowledge leakages 1 License period is limited
Joint Ventures	<ul style="list-style-type: none"> 1 Import barriers 1 Large cultural distance 1 Assets cannot be fairly priced 1 High sales potential 1 Some political risk 1 Government restrictions on foreign ownership 1 Local company can provide skills, resources, distribution network, brand name etc. 	<ul style="list-style-type: none"> 1 Overcomes ownership restrictions and cultural distance 1 Combines resources of 2 companies 1 Potential for learning 1 Viewed as insider 1 Less investment required 	<ul style="list-style-type: none"> 1 Difficult to manage 1 Dilution of control 1 Greater risk than exporting & licensing 1 Knowledge spillovers 1 Partner may become a competitor
Direct Investment	<ul style="list-style-type: none"> 1 Import barriers 1 Small cultural distance 1 Assets cannot be fairly priced 1 High sales potential 1 Low political risk 	<ul style="list-style-type: none"> 1 Greater knowledge of local market 1 Can better apply specialised skills 1 Minimise knowledge spillover 1 Can be viewed as an insider 	<ul style="list-style-type: none"> 1 Higher risk than other modes 1 Requires more resources and commitment 1 May be difficult to manage the local resources.

There are three major strategy options for going international:

Multidomestic: The organization decentralizes operational decisions and activities to each country in which it is operating and customizes its products and services to each market. For years, U.S. auto manufacturers maintained decentralized overseas units that produced cars adapted to different countries and regions. General Motors produced Opel in Germany and Vauxhall in Great Britain while Chrysler produced the Simca in France and Ford offered a Canadian Ford.

Global: The organization offers standardized products and uses integrated operations. Example: Ford is treating its Contour as a car for all world markets—one that can be produced and sold in any industrialized nation.

Transnational: The organization seeks the best of both the multidomestic and global strategies by globally integrating operations while tailoring products and services to the local market. In other words a company ‘thinks globally but acts locally’. Many authors refer to this concept as ‘Glocalization’. Global electronic communications and connectivity can help integrate operations while flexible manufacturing enables firms to produce multiple versions of products from the same assembly line, tailoring them to different markets. This gives more choice in locating facilities to take advantage of cheaper labor or to get the best of other factors of production

Managing Global Supply Chains to Enhance Competitiveness

Logistics capabilities (the movement of supplies and goods) make or mar global operations. Global operations involve highly coordinated international flow of goods, information, cash, and work processes. Setting up a global supply chain to support producing and selling products in many countries at the right cost and service levels is a very difficult task. However the benefits of managing this difficult task has many benefits, which include rationalization of global operations by setting up right number of factories and distribution centers and integration of far-flung operations under a unified command to better manage inventory and order filling activities. Optimizing global supply chain operations can cut the delivery times and costs drastically and improve global competitiveness. Smart supply chain planning may result in locating facilities where they make the most logistical sense, while saving on taxes. This is better than simply locating where labor is cheapest, but where taxes and other cost may not be most favourable (*Refer case study in Appendix 1*).

9.8 SUMMARY

Strategy refers to how a given objective will be achieved. Therefore, strategy is concerned with the relationships between ends and means, that is, between the results we seek and the resources at our disposal. There are three levels of strategy, namely, corporate strategies, competitive strategies and functional strategies. Corporate strategies are concerned with the broad, long-term questions of “what businesses are we in, and what do we want to do with these businesses?” It sets the overall direction the organization will follow. On the other hand, competitive strategies determine how the firm will compete in a specific business or industry. This involves deciding how the company will compete within each line of business. Functional strategies, also referred to as operational strategies, are the short-term (less than one year), goal-directed decisions and actions of the organization’s various functional departments.

There are various approaches to developing stability strategy. They are holding strategy, stable growth, harvesting strategy, profit or endgame strategy. Growth of business enterprises implies realignment of its business operations to different product –market environments. This is achieved through the basic growth approaches of intensive expansion, integration (horizontal and vertical integration), diversification and international operations. All these aspects have been covered in this unit.

9.9 KEY WORDS

Corporate Strategies: Corporate strategy is essentially a blueprint for the growth of the firm.

Competitive Strategies: Strategies that determine how the firm will compete in a specific business or industry.

Combination Strategy: Combination strategy may include combination of two alternatives i.e., market penetration and market development or combination of all the three alternatives.

Diversification: the firm grows by diversifying into new businesses by developing new products for new markets.

Expansion Strategies: Growth or expansion strategy is the most important strategic option, which firms pursue to gain significant growth as opposed to incremental growth envisaged in stable strategy.

Functional Strategies: Also called operational strategies, these are the short-term, goal-directed decisions and actions of the organization's various functional departments.

Generic Corporate Strategies: The four variants of corporate strategy, namely, stability strategy, growth/expansion strategy, retrenchment/divestment strategy and combination strategy are called generic corporate strategies or grand strategies.

Harvesting Strategy: The firm has a dominant market share, which it wants to leverage to generate cash for future business expansion.

Integration Strategy: The combination or association with other companies to expand externally is termed as integration strategy.

Intensification Strategy: Intensive expansion strategy involves safeguarding its present position and expanding in the firm's current product-market space to achieve growth targets.

International Expansion: Global expansion involves establishing significant market interests and operations outside a company's home country.

Product Development: The firm develops new products targeted to its existing market segments.

Stability Strategy: Strategy, which aims to retain present strategy of the firm at the corporate level by focusing on its present products and markets.

Strategy: Strategy refers to how a firm plans to achieve a given objective.

9.10 SELF-ASSESSMENT QUESTIONS

- 1) What is corporate level strategy? Why is it important for a diversified firm?
- 2) What are the various reasons that firms choose to move from either a single- or a dominant-business position to a more diversified position?
- 3) What do you mean by stability strategy? Does this strategy mean that a firm stands still? Explain.
- 4) Under what circumstances do firms pursue stability strategy? What are the different approaches to stability strategy?
- 5) What resources and incentives encourage a firm to pursue expansion strategies? What are the main problems that affect a firm's efforts to use an expansion strategy?

- 6) Given the advantages of international expansion, why do some firms choose not to expand internationally?
- 7) What is the example of a political risk in expanding operations into Africa or Middle East?

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Case Study

Ranbaxy – A Company with a Global Vision

The late Dr. Parvinder Singh was one of the first Indian entrepreneurs to develop a global vision. He expanded Ranbaxy's operations to more than 40 countries. The company is today a net forex earner, with exports to over 40 countries. It has JVs/subsidiaries in 14 countries, marketing offices in six other countries and a licensing arrangement in Indonesia.

Ranbaxy's exports, mainly antibiotics, have grown at a compounded average growth rate of around 28 per cent over the last five years. Although the bulk of exports are in comparatively low-value bulk drugs, the proportion of formulations is expected to rise significantly in the next few years. Cifran, for instance, has already proved to be a leading product in China and Russia. Ranbaxy has acquired pharma companies in New Jersey and Ireland to increase its penetration in the USA and UK markets. Up until 1990-91 Ranbaxy was not known for its research. During that year the company made headlines with the success of the complicated synthesis of an antibiotic drug, Cefaclor. US drug major Eli Lilly, impressed by Ranbaxy's ability to resynthesise the molecule, decided to enter into two joint ventures (JVs) with Ranbaxy. These JVs opened the door for its overseas expansion.

The company classified the global markets into three categories-advanced, emerging, and developing based on growth prospects for generic drugs. This led to focusing attention on the emerging markets such as China, Ukraine and CIS with growth rates much larger than those in advanced and developing markets. Ranbaxy's international operations have helped the company to cut cost of production by half in some of the key bulk drugs—6APA, 7ADCA, fluoroquinolones and cephalexin. Because of international operations in 40 odd countries, capacities are higher, which reduces unit cost of production. The lower cost of production also helps domestic operations. With 19 per cent growth in domestic sales in 1997-98, the company has not neglected the Indian operations. With international operations on the verge of giving decent returns the company is keen to shore up its market share in the domestic market.

Obviously, shareholders have been handsomely rewarded. The growth rate in the price of the scrip has been very impressive in the past few years. The company today enjoys a unique position of having a balanced mix of finance, marketing and R&D strengths to start earning higher returns on all its assets.