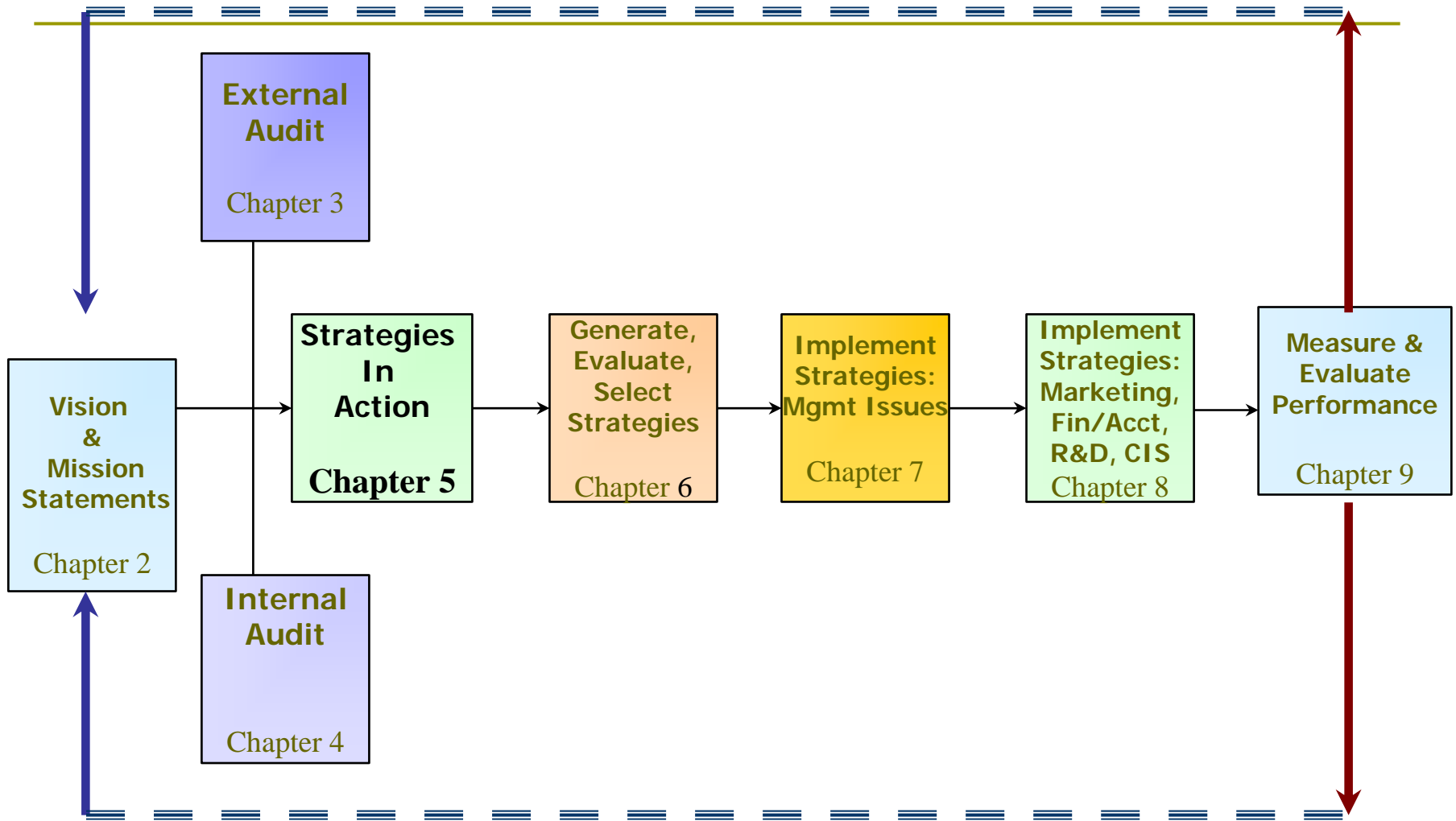




Chapter 5:

Strategies in Action

Comprehensive Strategic Management Model



Strategies in Action

“Planning. Doing things today to make us better tomorrow. Because the future belongs to those who make the hard decisions today.”

—Eaton Corporation—

Strategies in Action

*“If you don’t invest for the long term,
there is no short term.”*

—George David—

Strategies in Action

“Innovate or evaporate. Particularly in technology-driven businesses, nothing quite recedes like success.”

—Bill Saporito—

Strategies in Action

Long-Term Objectives:

- *Results expected from pursuing certain strategies*
 - *Time frame — 2 to 5 years*

Strategies in Action

Nature of Long-Term Objectives

- ✓ Quantitative
- ✓ Measurable
- ✓ Realistic
- ✓ Understandable
- ✓ Challenging
- ✓ Hierarchical
- ✓ Obtainable
- ✓ Congruent among organizational units

Strategies in Action

Nature of Long-Term Objectives (Cont'd)

Objectives are associated with a time line and stated in terms:

- Growth in assets
- Growth in sales
- Profitability
- Market share
- Diversification
- Integration
- EPS
- Social responsibility

Strategies in Action

Nature of Long-Term Objectives (Cont'd)

Objectives are the basis for:

- Designing jobs
- Organizing activities
- Providing direction
- Organizational synergy
- Standards for evaluation

Strategies in Action

Nature of Long-Term Objectives (Cont'd)

Strategists should avoid:

- **Managing by extrapolation**
 - "If it ain't broke, don't fix it."

Strategies in Action

Nature of Long-Term Objectives (Cont'd)

Strategists should avoid:

- **Managing by crisis:**
 - Reactive vs. proactive

Strategies in Action

Nature of Long-Term Objectives (Cont'd)

Strategists should avoid:

- **Managing by subjectives:**
 - Mystery approach to decision making
 - Subordinates are left to figure out what is happening and why

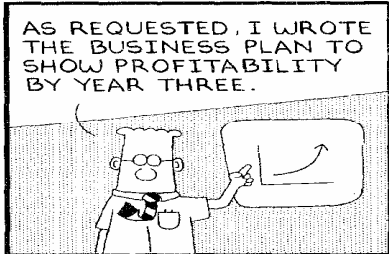
Strategies in Action

Nature of Long-Term Objectives (Cont'd)

Strategists should avoid:

- **Managing by hope:**
 - Good times are just around the corner

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Strategies in Action

Vertical Integration Strategies

- Forward integration
- Backward integration
- Horizontal integration

Strategies in Action

Forward Integration

Defined

- Gaining ownership or increased control over distributors or retailers

Example

- General Motors is acquiring 10% of its dealers.

Strategies in Action

Guidelines for Forward Integration

- ✓ Present distributors are expensive, unreliable, or incapable of meeting firm's needs
- ✓ Availability of quality distributors is limited
- ✓ When firm competes in an industry that is expected to grow markedly
- ✓ Advantages of stable production are high
- ✓ Present distributor have high profit margins

Strategies in Action

Backward Integration

Defined

- Seeking ownership or increased control of a firm's suppliers



Example

- Motel 8 acquired a furniture manufacturer.

Strategies in Action

Guidelines for Backward Integration

- ✓ When present suppliers are expensive, unreliable, or incapable of meeting needs
- ✓ Number of suppliers is small and number of competitors large
- ✓ High growth in industry sector
- ✓ Firm has both capital and human resources to manage new business
- ✓ Advantages of stable prices are important
- ✓ Present supplies have high profit margins

Strategies in Action

Horizontal Integration

Defined

- Seeking ownership or increased control over competitors



Example

- Hilton recently acquired Promus.

Strategies in Action

Guidelines for Horizontal Integration

- ✓ Firm can gain monopolistic characteristics without being challenged by federal government
- ✓ Competes in growing industry
- ✓ Increased economies of scale provide major competitive advantages
- ✓ Faltering due to lack of managerial expertise or need for particular resources

Strategies in Action

Intensive Strategies

- Market penetration
- Market development
- Product development

Strategies in Action

Market Penetration

Defined

- Seeking increased market share for present products or services in present markets through greater marketing efforts

Example

- Ameritrade, the on-line broker, tripled its annual advertising expenditures to \$200 million to convince people they can make their own investment decisions.

Strategies in Action

Guidelines for Market Penetration

- ✓ Current markets not saturated
- ✓ Usage rate of present customers can be increased significantly
- ✓ Market shares of competitors declining while total industry sales increasing
- ✓ Increased economies of scale provide major competitive advantages

Strategies in Action

Market Development

Defined

- Introducing present products or services into new geographic area

Example

- Britain's leading supplier of buses, Henlys PLC, acquires Blue Bird Corp. North America's leading school bus maker.

Strategies in Action

Guidelines for Market Development

- ✓ New channels of distribution that are reliable, inexpensive, and good quality
- ✓ Firm is very successful at what it does
- ✓ Untapped or unsaturated markets
- ✓ Capital and human resources necessary to manage expanded operations
- ✓ Excess production capacity
- ✓ Basic industry rapidly becoming global

Strategies in Action

Product Development

Defined

- Seeking increased sales by improving present products or services or developing new ones

Example

- Apple developed the G4 chip that runs at 500 megahertz.

Strategies in Action

Guidelines for Product Development

- ✓ Products in maturity stage of life cycle
- ✓ Competes in industry characterized by rapid technological developments
- ✓ Major competitors offer better-quality products at comparable prices
- ✓ Compete in high-growth industry
- ✓ Strong research and development capabilities

Strategies in Action

Diversification Strategies

- Concentric diversification
- Conglomerate diversification
- Horizontal diversification

Strategies in Action

Concentric Diversification

Defined

- Adding new, but related, products or services

Example

- National Westminster Bank PLC in Britain bought the leading British insurance company, Legal & General Group PLC.

Strategies in Action

Guidelines for Concentric Diversification

- ✓ Competes in no- or slow-growth industry
- ✓ Adding new & related products increases sales of current products
- ✓ New & related products offered at competitive prices
- ✓ Current products are in decline stage of the product life cycle
- ✓ Strong management team

Strategies in Action

Conglomerate Diversification

Defined

- Adding new, unrelated products or services

Example

- H&R Block, the top tax preparation agency, said it will buy discount stock brokerage Olde Financial for \$850 million in cash.

Strategies in Action

Guidelines for Conglomerate Diversification

- ✓ Declining annual sales and profits
- ✓ Capital and managerial talent to compete successfully in a new industry
- ✓ Financial synergy between the acquired and acquiring firms
- ✓ Exiting markets for present products are saturated

Strategies in Action

Horizontal Diversification

Defined

- Adding new, unrelated products or services for present customers

Example

- The New York Yankees baseball team are merging with the New Jersey Nets basketball team.

Strategies in Action

Guidelines for Horizontal Diversification

- ✓ Revenues from current products/services would increase significantly by adding the new unrelated products
- ✓ Highly competitive and/or no-growth industry w/low margins and returns
- ✓ Present distribution channels can be used to market new products to current customers
- ✓ New products have counter cyclical sales patterns compared to existing products

Strategies in Action

Defensive Strategies

- Joint venture
- Retrenchment
- Divestiture
- Liquidation

Strategies in Action

Joint Venture

Defined

- Two or more sponsoring firms forming a separate organization for cooperative purposes

Example

- Lucent Technologies and Philips Electronic NV formed Philips Consumer Communications to make and sell telephones.

Strategies in Action

Guidelines for Joint Venture

- ✓ Combination of privately held and publicly held can be synergistically combined
- ✓ Domestic forms joint venture with foreign firm, can obtain local management to reduce certain risks
- ✓ Distinctive competencies of two or more firms are complementary
- ✓ Overwhelming resources and risks where project is potentially very profitable (e.g., Alaska pipeline)
- ✓ Two or more smaller firms have trouble competing with larger firm
- ✓ A need exists to introduce a new technology quickly

Strategies in Action

Retrenchment

Defined

- Regrouping through cost and asset reduction to reverse declining sales and profit

Example

- Singer, the sewing machine company, declared bankruptcy.

Strategies in Action

Guidelines for Retrenchment

- ✓ Firm has failed to meet its objectives and goals consistently over time but has distinctive competencies
- ✓ Firm is one of the weaker competitors
- ✓ Inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.
- ✓ When an organization's strategic managers have failed
- ✓ Very quick growth to large organization where a major internal reorganization is needed.

Strategies in Action

Divestiture

Defined

- Selling a division or part of an organization

Example

- Harcourt General, the large US publisher, is selling its Neiman Marcus division.

Strategies in Action

Guidelines for Divestiture

- ✓ When firm has pursued retrenchment but failed to attain needed improvements
- ✓ When a division needs more resources than the firm can provide
- ✓ When a division is responsible for the firm's overall poor performance
- ✓ When a division is a misfit with the organization
- ✓ When a large amount of cash is needed and cannot be obtained from other sources.

Strategies in Action

Liquidation

Defined

- Selling all of a company's assets, in parts, for their tangible worth

Example

- Ribol sold all its assets and ceased business.

Strategies in Action

Guidelines for Liquidation

- ✓ When both retrenchment and divestiture have been pursued unsuccessfully
- ✓ If the only alternative is bankruptcy, liquidation is an orderly alternative
- ✓ When stockholders can minimize their losses by selling the firm's assets

Michael Porter's Generic Strategies

Cost Leadership Strategies

Differentiation Strategies

Focus Strategies