Lecture 11

Corporate Strategy

The important issues involved in Corporate Strategy are:

❄ The company's orientation towards growth, stability or retrenchment. This is referred to as directional strategy.

❄ The markets in which the company competes through its products or business units. This is referred to as Portfolio strategy.

❄Activity co-ordination and transfer of resources for achieving capabilities among product lines and business units. This is referred to As parenting strategy.

Relative Cost advantage & Competitive Strategy

Examples	Modi Tyres	- Initially entered largest product segment i.e., truck with latest technology & lower prices (good value for money). Subsequently matched market leader's price and displaced him by capturing higher market share
	Hero Cycles	- Dropped irrelevant product attributes; subcontracted production of parts

Portfolio Analysis and Display Matrices

Portfolio Analysis - Corp. investments in different products or industries (SBUs)

Balancing - w.r.t. net cash flow

Stake of development

Risk

Display Matrices:

BCG Matrix

McKinsey Matrix

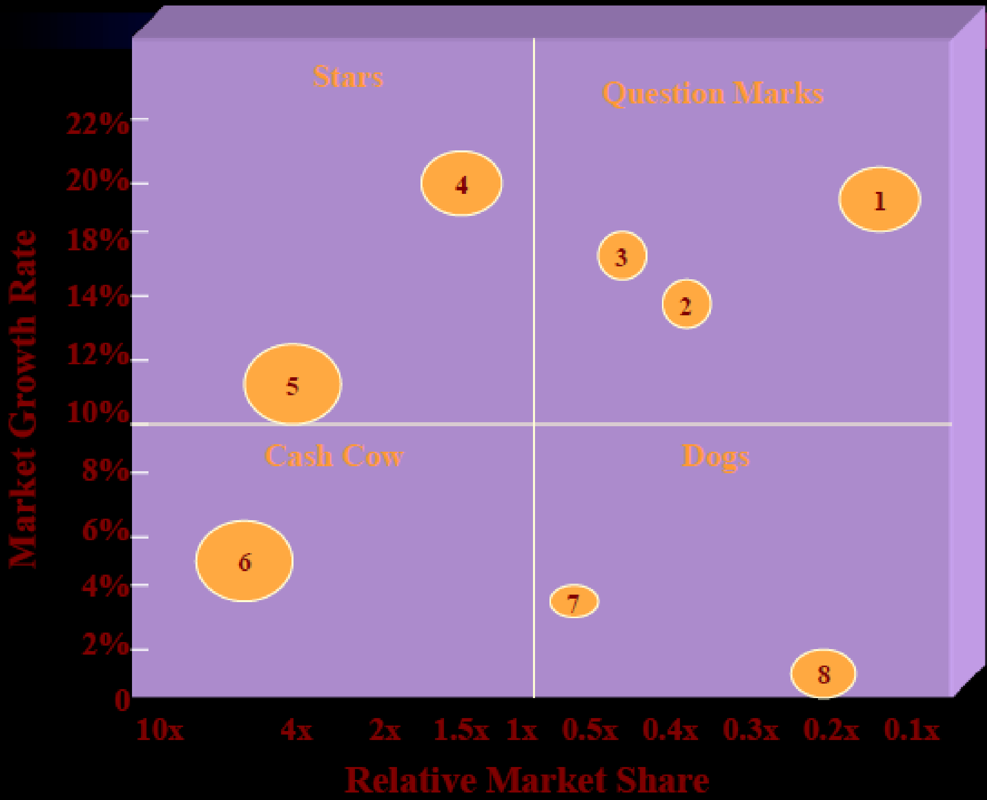
Strategic Planning Institute's Matrix (Profit impact of Market Strategy – PIMs)

Arthur D.Little Co's Matrix

Hofer's Product/Market evaluations Matrix

Lecture 12

The Boston Consulting Group's Growth-Share Matrix



SBU Objectives:

Build (For Question Marks)

Hold (for strong Cash Cows)

Harvest (for weak Cash Cows; can also be used with Question Marks and Dogs)

Divest (for Question Marks and Dogs which are a drag on company profits)

Strategic Planning

Planning: Viable fit between organization's objectives and its changing market opportunities

Key: investment portfolio, future profit potential, strategy

Source: B. Heldey, "Strategy and the Business Portfolio", *Long Range Planning*, February 1977, p.12

BCG Matrix (New)

- 2*2 Matrix
- Size of competitive advantage Vs. No. of approaches to competitive advantage.

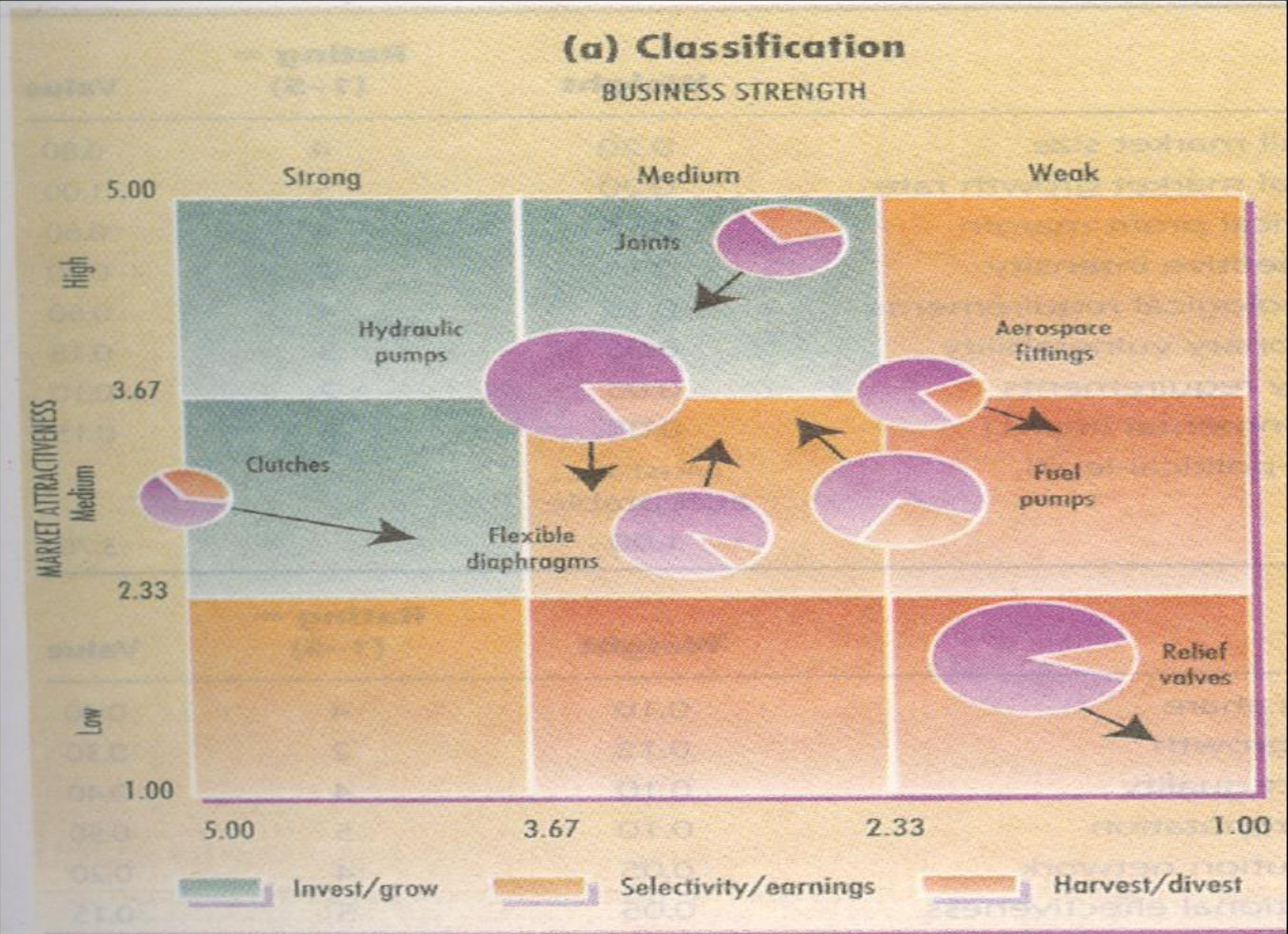
Size of the comp. Adv.

No. of approaches to achieve comp. Adv.			
	Fragmented	Specialization	**Many**
	Stalemate	Volume	**Few**

BCG Matrix (Contd.)

Fragmented	Specialization
✓Small and Regionalized. ✓Profitability not related to size. ✓Advantage gained by focus. ✓No premium on growth. ✓Ex. Specialty restaurants or designer labels.	✓Focused segments. ✓Steep learning curves. ✓Ex. Cray research in field of Super computers.
Stalemate	**Volume**
✓Where it is difficult to gain advantage. ✓CA often is the sheer sustaining power. ✓Ex. Kellogg's in India.	✓Where there are economies of scale and IRS operates. ✓Constrained by market segmentation and differentiation. ✓Ex. The car industry.

GE Matrix


(a) Classification
BUSINESS STRENGTH
Strong
Medium
Weak
5.00
3.67
2.33
1.00
MARKET ATTRACTIVENESS
High
Medium
Low
Joints
Hydraulic pumps
Aerospace fittings
Clutches
Fuel pumps
Flexible diaphragms
Relief valves
5.00
3.67
2.33
1.00
Invest/grow
Selectivity/earnings
Harvest/divest

MARKET ATTRACTIVENESS	Strong	Medium	Weak
High	**Protect Position** •Invest to grow at maximum digestible rate •Concentrate effort on maintaining strength	**Invest to build** •Challenge for leadership •Build selectively on strengths •Reinforce vulnerable areas	**Build selectively** •Specialize around limited strengths •Seek ways to overcome weaknesses •Withdraw if indications of sustainable growth are lacking
Medium	**Build Selectively** •Invest heavily in most attractive segments •Build up ability to counter competition •Emphasize profitability by raising productivity	**Selectivity/ manage for earnings** •Protect existing program •Concentrate investments in segments where profitability is good And risk is relatively low	**Limited expansion or harvest** •Look for ways to expand without high risk; otherwise, minimize investment and rationalize operations
Low	**Protect and refocus** •Manage for current earnings •Concentrate on attractive segments •Defend strengths	**Manage for earnings** •Protect position in most profitable segments •Upgrade product line •Minimize investment	**Divest** •Sell at time that will maximize cash value •Cut fixed costs and avoid investment meanwhile

BUSINESS STRENGTH

(b) Strategies

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MARKET ATTRACTIVENESS	Strong	Medium	Weak
High	**Protect Position** •Invest to grow at maximum digestible rate •Concentrate effort on maintaining strength	**Invest to build** •Challenge for leadership •Build selectively on strengths •Reinforce vulnerable areas	**Build selectively** •Specialize around limited strengths •Seek ways to overcome weaknesses •Withdraw if indications of sustainable growth are lacking
Medium	**Build Selectively** •Invest heavily in most attractive segments •Build up ability to counter competition •Emphasize profitability by raising productivity	**Selectivity/ manage for earnings** •Protect existing program •Concentrate investments in segments where profitability is good And risk is relatively low	**Limited expansion or harvest** •Look for ways to expand without high risk; otherwise, minimize investment and rationalize operations
Low	**Protect and refocus** •Manage for current earnings •Concentrate on attractive segments •Defend strengths	**Manage for earnings** •Protect position in most profitable segments •Upgrade product line •Minimize investment	**Divest** •Sell at time that will maximize cash value •Cut fixed costs and avoid investment meanwhile

BUSINESS STRENGTH

(b) Strategies

Table 2-2
Factors underlying market attractiveness and competitive position in GE Multifactor Portfolio Model: Hydraulic Pumps Market

		Weight	Rating (1-5)	Value
Market Attractiveness	Overall market size	0.20	4.00	0.80
	Annual market growth rate	0.20	5.00	1.00
	Historical profit margin	0.15	4.00	0.60
	Competitive intensity	0.15	2.00	0.30
	Technological requirements	0.15	4.00	0.60
	Inflationary vulnerability	0.05	3.00	0.15
	Energy requirements	0.05	2.00	0.10
	Environmental impact	0.05	3.00	0.15
	Social/political/legal	Must be acceptable		
		1.00		3.70
Competitive Position	Market share	0.10	4.00	0.40
	Share growth	0.15	2.00	0.30
	Product quality	0.10	4.00	0.40
	Brand reputation	0.10	5.00	0.50
	Distribution network	0.05	4.00	0.20
	Promotional effectiveness	0.05	3.00	0.15
	Productive effectiveness	0.05	3.00	0.15
	Productive efficiency	0.05	2.00	0.10
	Unit costs	0.15	3.00	0.45
	Material supplies	0.05	5.00	0.25
	R&D performance	0.10	3.00	0.30
	Managerial personnel	0.05	4.00	0.20
		1.00		3.40

Source: La Rue T. Hormer, Strategic Management, Englewood Cliffs, N.J.: Prentice Hall, 1982, p.310

McKinsey Matrix

Used for GE: Factors determining industry (Market) attractiveness

SBUs rated on a scale of 1-10

		Weightage (typical)
1.	Size of the market	10%
2.	Growth rate (sales)	15%
3.	Nature of Competition	15%
4.	Technology Requirements	10%
5.	Entry conditions & Social factors	10%
6.	Profitability	40%
		100%

Factors Determining Competitive Position

		Weightage	Rating (1-10)	Score
1.	Market Share	20%	7	1.4
2.	Growth rate	10%	7	0.7
3.	Location & Distribution	10%	5	0.5
4.	Mgt. Skills	15%	6	0.9
5.	Work force harmony	20%	7	1.4
6.	Technical excellence	20%	8	1.6
7.	Company image	5%	8	0.4
		100%		6.9

Shall Matrix : Similar to GE approach – identifies different strategies for each grid sector

PIMS Model: Profit impact of market strategy (PIMS) started at GE – used later by strategic planning institute – develops industry CH/C, bus avg. profitability using cross-sectional regrn. Of more than 2000 industries

Shell's Directional Policy Matrix

SECTORAL PROSPECTS				
	Attractive	Leader	Try Harder	Double or quit
	Average	Leader Growth	Custodial	Phased withdrawal
	Unattractive	Cash Generation	Phased Withdrawal	Disinvest
		Strong	Average	Weak

UNIT'S COMPETITIVE POSITION

Strategy	Business Prospects	Competitive Capability	Recommended Strategy
1. Leader	High	Strong	High priority with all necessary resources to hold high market position
2. Try Harder	High	Medium	Allocate more resources to move to leader position
3. Double or Quit	High	Weak	Pick products likely to be future high flyers for doubling and abandon others
4. Growth	Average	Avg. strong	May have some strong competition with no one company as leader. Allocate enough resources to grow with market
5. Custodial	Average	Average	May have many competitors, so maximise cash generation with minimal new resources
6. Phase withdrawal	Low	Average	Slowly withdraw to recover most of investment
7. Cash generation	Low	Strong	Spend little cash for further expansion, and use this as a cash source for faster growing businesses
8. Disinvest	Low	Weak	Assets should be liquidated as soon as possible and invested elsewhere.

End of Resource