CHAPTER TWO

STRATEGIES IN ACTION

2.1 Types of strategies

Alternative strategies that an enterprise could pursue can be categorized in to thirteen actions: forward integration, backward integration, horizontal integration, market penetration, market development, product development, concentric diversification, conglomerate diversification, horizontal diversification, joint venture, retrenchment, divesture, liquidation, and a combination strategy.

I. INTEGRATION STRATEGIES

a) ***Forward Integration***: involves gaining ownership or increased control over distributers or retailers. An effective means of implementing forward integration is franchising. Business can expand rapidly by franchising because costs and opportunities are spread among many individuals. E.g. Coca-cola continues to purchase domestic and foreign bottlers.
b) ***Backward Integration:*** Both manufacturers and retailers purchase needed materials from suppliers. *Backward integration* is a strategy of seeking ownership or increased control of a firm's supplier. This strategy is can be especially appropriate when a firm's current suppliers are unreliable, too costly, or cannot meet the firm's standard.
c) ***Horizontal Integration:*** refers to a strategy of seeking ownership of or increased control over a firm's competitors. Mergers, acquisition, and takeovers among competitors allow for increased economies of scale and enhanced transfer of resources and competencies. Horizontal integration has become the most favored growth strategy in many industries

II. INTENSIVE STRATEGIES

These types of strategies require intensive efforts to improve a firm's competitive position with existing products.

a) ***Market Penetration:*** this strategy seeks to increase market share for present products or service in present market through grater marketing efforts. It includes increasing the number of sales persons, increasing advertising expenditures, offering extensive sales promotions, or increasing publicity efforts.

b) ***Market Development:*** involves introducing present products or services in to new geographic areas. In many industries such as airlines, it is going to be hard to maintain a competitive edge by staying close to home.

c) ***Product development:*** is a strategy that seeks increased sales by improving or modifying present products or services. It usually entails large research and development expenditures.

III. DIVERSIFICATION STRATEGIES

There are three general types of diversification strategies: concentric, horizontal, and conglomerate. However diversification strategies are becoming less and less popular as organizations are finding it more and more difficult to manage diverse business activities.

a) ***Concentric Diversification***: adding new, but related, products or service is widely called concentric diversification. E.g. entry of Bell Corporation, a telephone company, in to video programming business.

b) ***Horizontal diversification:*** adding new, unrelated products or service for present customers is called horizontal diversification. This strategy is not as risky as conglomerate diversification, because a firm should already be familiar with its present customers.

c) ***Conglomerate Diversification:*** Adding new, unrelated products or services is called conglomerate diversification. Some firms pursue this strategy based on an expectation of profits from breaking up acquired firms and selling divisions piecemeal. It is based on a stand that there is some kind of anti-synergy, the whole being worth less that the parts.

IV. DEFENSIVE STRATEGIES

a) ***Joint Venture****:* is a popular strategy that occurs when two or more companies form a temporary partnership or consortium for the purpose of capitalizing on some opportunity. This strategy can be considered defensive only because the firm is not undertaking the project alone. Joint venture and cooperative arrangements are being used increasingly because they allow companies to improve communications and networking, to globalize operations and to minimize risk.

b) ***Retrenchment**:* occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. It is sometimes called turnaround or reorganizational strategy, retrenchment is designed to fortify an organization's basic distinctive competencies. This strategy entail selling off land and buildings to raise needed cash, pruning product line, closing marginal business, closing obsolete factories, reducing number of employees, and instituting expense control systems.

c) ***Divestiture:*** selling a division or part of an organization is called divestiture. It is used to raise capital for further strategic acquisitions or investments. It can be part of an overall retrenchment strategy to rid an organization of business that are unprofitable, that require too much capital, or that do not fit well with the firm's other activities.

d) ***Liquidation:*** selling all of a company's assets, in parts, for their tangible worthies called liquidation. Liquidation is recognition of defeat and consequently can be emotionally difficult strategy.

e) ***Combination:*** many organizations pursue a combination of two or more strategies simultaneously, but this strategy can be exceptionally risky if carried too far. No organization can afford to pursue all the strategies that might benefit the firm. Organizations cannot do too many things well because resources and talents get spread thin and competitors gain advantage. In large diversified companies, a combination strategy is commonly employed when different divisions pursue different strategies.

2.2 Guidelines for pursuing strategies

The guideline for pursuing strategies reveals situations, conditions, and guideline for when various alternative strategies are appropriate to pursue. For example, a market development strategy is generally most appropriate when new channels of distribution are available that are reliable, inexpensive, and of good quality.

Forward Integration	Backward integration
• When present distributors are expensive, unreliable, or incapable • When quality distributors are limited in number • When the industry is growing and is expected to grow rapidly • When the organization has both the capital and human resources needed • When the advantage of stable production • When present distributors or retailers have high profit margins	• When present suppliers are especially expensive, or unreliable, or incapable of meeting firm's need • When the organization competes in rapidly growing industry • When the organization has both the capital and human resources needed • When advantage of stable prices are particularly important • When present suppliers have high profit margins • When an organization needs to acquire a needed resource quickly
Horizontal integration	**Market Penetration**
• When an organization can gain monopolistic characteristics in particular area • Growing industry • When increased economies of scale provide major competitive advantage. • When an organization has both the capital and human talent • When competitors lack managerial expertise or a need for particular resources that your organization possesses	• When current markets are not saturated • Usage rate of customers could significantly increase • When the market share of competitors have been declining • When increases economies of scale provide major competitive advantage
Market Development	**Product development**
• When new channels of distribution are available • When new untapped or unsaturated market exist • When an organization has needed capital and human resource • When an organization has excess production capacity • When the industry is rapidly becoming global in scope	• When an organization has successful products that are in maturity stage • When the industry is characterized by rapid technological change • When competitors offer better quality products • High growth industry • When an organization has strong research and development capabilities

Concentric Diversification	Conglomerate Diversification
• Slow/no growth industry • When new, but related, product would enhance the sales of current product • When new, but related, product could be offered at a competitive price • When the organization's products are in declining stage	• When the industry is experiencing declining annual sales • When the organization has capital and managerial talent • When there exists financial synergy b/n the acquired and the acquiring firm • When existing markets are saturated
Horizontal Diversification	**Joint Venture**
• When revenue derived from current would increase by adding new unrelated products • Highly competitive and/or a no-growth strategy • When present channels of distribution can be used to market new product to current customers	• When two or more smaller firms have trouble competing with a large firm • when project require overwhelming resources and risks • When there is a need to introduce a new technology quickly • When distinctive competencies of two or more firms complement each other • When the unique advantage of being privately and publicly held can be synergistically combined in a joint venture
Retrenchment	**Divestiture**
• When an organization failed to meet its objectives and goals consistently overtime • When the organization is one of the weaker competitors • When there is inefficiency, low profitability, poor employee morale etc. • When an organization failed to capitalize opportunities, minimize threats, take advantage of strengths, and overcome weaknesses.	• When retrenchment strategy is pursued and then failed • When a division need more resources to be competitive • When gov't antitrust action threatens an organization • When large amount of cash is needed quickly • When a division is a misfit with the rest of an organization • When a division is responsible for an overall organization performance
Liquidation	
• When neither retrenchment nor divestiture strategy has been successful • When an organization's only strategy is bankruptcy • When stockholders can minimize their loss by selling the organization's asset.	•

2.3 Michael Porter's generic strategies

According to porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter calls these bases generic strategies.

- *Cost leadership* emphasizes producing standardized products at very low per-unit cost for consumers who are price sensitive.
- *Differentiation* is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.
- *Focus* means producing products and services that fulfill the needs of small groups of consumers.

Porter strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis; whereas smaller firms often compete on a focus basis. Porter stresses the need for strategists to perform cost-benefit analysis to evaluate "sharing opportunities" among firm's business units. He also stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage.

COST LEADERSHIP STRATEGIES

The aim of this strategy is to operate the business in highly cost effective manner and open up a sustainable cost advantage over rivals. Successful low-cost leaders are exceptionally good at finding ways to drive costs out of their business. A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. It is appealing to a broad spectrum of customers based on being the overall low cost provider of a product or service. A number of cost elements affect the relative attractiveness of generic strategies includes economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, linkage with suppliers and distributors, the potential for sharing costs and knowledge, labor costs, tax rates, energy costs, and shipping costs.

Striving to be low cost leader is effective when the market is comprised of many price-sensitive buyers, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to under price competitors and thereby gains market share and sales, driving some competitors out of the market.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide span of control, reward linked to cost containment, and broad employee participation in cost control efforts. The Some risks of pursuing cost leadership are:-

- ✓ Competitors may imitate the strategy
- ✓ Technological breakthrough may make the strategy ineffective
- ✓ Buyer may swing to other differentiation feature besides price

DIFFERENTIATION STRATEGIES

The essence of a differentiation strategy is to be unique in ways that are valuable to customers and that can be sustained. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. A differentiation strategy should be pursued only after careful study of buyers' needs and preferences. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customers loyalty since customers may become strongly attached to the differentiation features. Features include superior service, spare parts availability, engineering design, product performance, useful life, or ease of use. Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D (Research and Development) and marketing functions and substantial amenities to attract scientists and creative people. Some of the risks of this strategy are;

- ✓ Unique product may not valued by customer to justify the higher price
- ✓ Competitors may develop ways to quickly copy the differentiating feature

FOCUS STRATEGY

This strategy focuses on concentrating attention on a narrow piece of the total market. A successful focus strategy depends upon an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Midsize and large firms can effectively pursue focus based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms follow a differentiated strategy. This strategy is effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. A focus strategy may concentrate on a particular group of customers, geographic markets, or product line segments in order to serve a well defined narrow market. *A focuser's basis for competitive advantage is either (1) lower costs than competitors in serving the market niche or (2) an ability to offer niche members something they perceive is better*. This strategy is effective when;

- *The target market niche is big enough to be profitable*
- *The niche has good growth potential*
- *The niche is not crucial to the success of competitors*
- *The focusing firm has the capabilities and resources to serve the niche*
- *The focuser can defend itself against challengers*

The risk of this strategy includes;

- ✓ Numerous competitors recognize the successful focus strategy and copy the strategy
- ✓ Consumer preferences drift toward attributes desired by the market as a whole.

BEST COST PROVIDER STRATEGY

This strategy aims at giving customers more value for the money. It combines a strategic emphasis on low cost with a strategic emphasis on more than minimally acceptable quality, service, features, and performance. The idea is to create superior value by meeting or exceeding buyers' expectation on key quality-service-features-performance attributes and by beating their expectation on price. The aim is to become the low cost provider of a product or service with good excellent attributes, then use the cost advantage to underpriced brands with comparable attributes. The most powerful competitive approach a company can pursue is to strive relentlessly to become a lower-and-lower cost producer of a higher-and-higher-caliber product, aiming at eventually becoming the industry’s absolute low cost provider and, simultaneously, the producer of the industry’s overall best product.

THE VALUE CHAIN

According to porter, the business of a firm can best be described as a value chain in which total revenues minus total cost of all activities undertaken to develop and market a product or service yields value. All firms in a given industry have a similar value chain, which includes activities such as obtaining raw materials, designing products, building manufacturing facilities, developing cooperative agreements, and providing customer service. Firms should strive to understand not only their own value chain operations, but also their competitors’, suppliers’, and distributors’ value chain.