CORPORATE LEVEL STRATEGIES

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CORPORATE STRATEGY

It 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.

Its used by larger corporations.

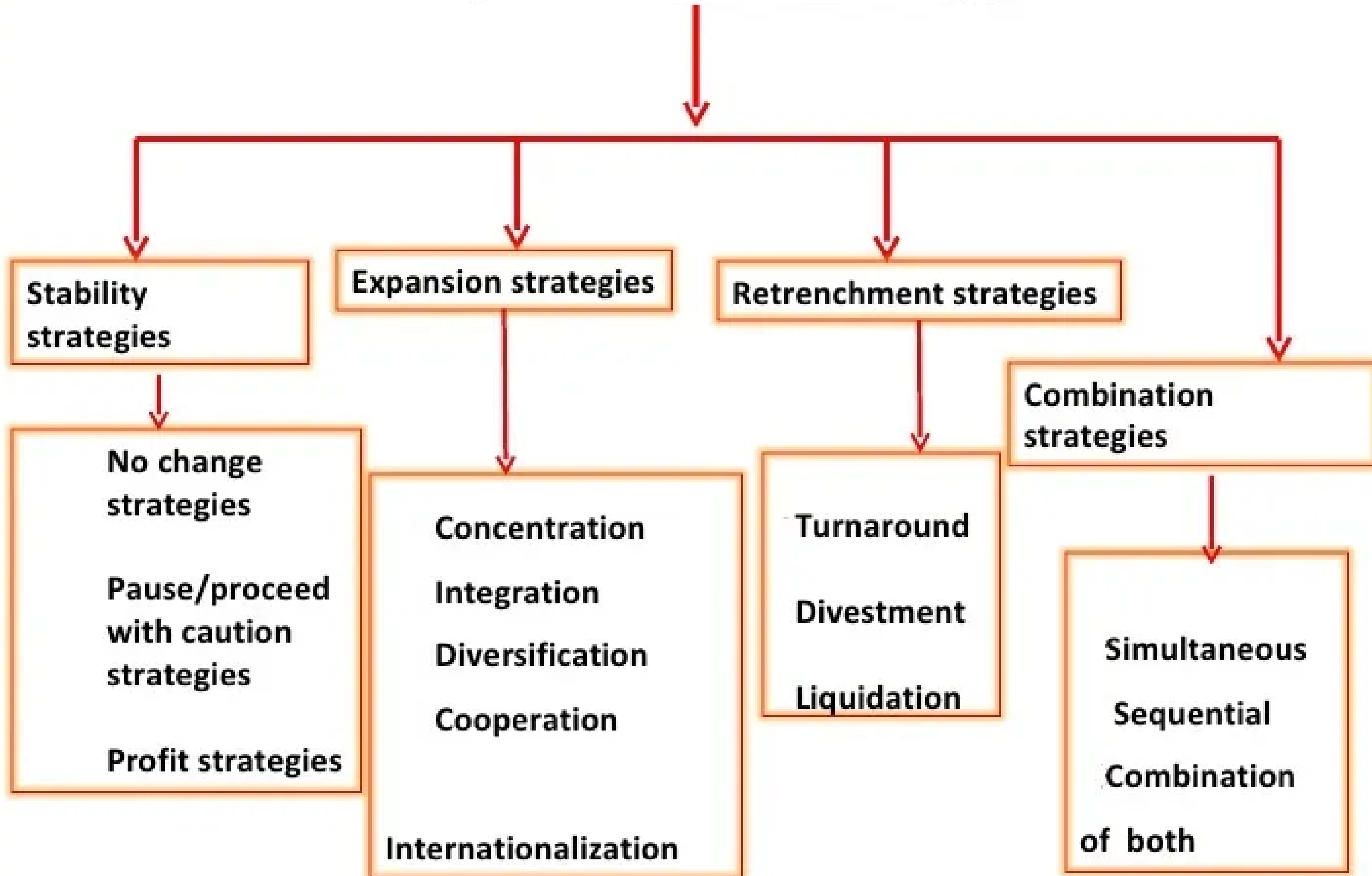
Grand strategy

The Grand Strategies are the corporate level strategies designed to identify the firm's choice with respect to the direction it follows to accomplish its set objectives. Simply, it involves the decision of choosing the long term plans from the set of available alternatives. The Grand Strategies are also called as Master Strategies or Corporate Strategies.

There are three directional strategies

- Moving the organisation ahead: GROWTH OR EXPANSION STRATEGY
- Keeping the organisation where it is: STABILITY STRATEGY
- Allowing the organisation to fallback: RETRENCHMENT STRATEGY

GRAND STRATEGY



Stability strategy

The Stability Strategy is adopted when the organization attempts to maintain its current position and focuses only on the incremental improvement by merely changing one or more of its business operations in the perspective of customer groups, customer functions and technology alternatives, either individually or collectively.

This strategy is characteristic of small risk-averse firms or firms operating in a very precarious market (small or medium enterprises) that is comfortable with its current position.

- NO CHANGE STRATEGY
- PROFIT STRATEGY
- PAUSE/PROCEED WITH CAUTION STRATEGY

Stability Strategy

- Also referred to as the Defensive Approach.
- Basic principle is “Maintain the present course”.
- It can be implemented when the co. is comfortably satisfied with its current performance and there is no significant environment threat i.e it offers scope for safe business.
- Some top level managements are reluctant to change, take risks and hence adopt Stability strategy.

NO CHANGE STRATEGY

A conscious decision to do nothing new that is to continue with the present business definition.

Taking no decision is sometimes a decision too.

A firm makes no considerable changes to its objectives or operations. The firm examines the internal and external factors affecting the firm in its current operating and market environment. The firm makes a conscious decision to maintain its current strategic objectives.

This serves the firms well until it is time to wake up in the face of emerging threats in environment.

PROFIT STRATEGY

The Profit Strategy is followed when an organization aims to maintain the profit by whatever means possible. Due to lower profitability, the firm may cut costs, reduce investments, raise prices, increase productivity or adopt any methods to overcome the temporary difficulties.

The profit strategy can be followed when the problems are temporary or short-lived and will go away with time. The problems could be the economic recession or inflation, industry downturn, worst market conditions, competitive pressure, government policies and the like.

If the problem persists for long, then profit strategy would only deteriorate the firm's overall financial position.

PAUSE/ PROCEED WITH CAUTION STRATEGY

The Pause/Proceed with Caution Strategy is a stability strategy followed when an organization wait and look at the market conditions before launching the full-fledged grand strategy. Also, the firm that has intensely followed the expansion strategy would wait till the time the new strategies seeps down the organizational levels and look at the changes in the organizational structure before taking the next step.

Pause/Proceed with Caution strategy is also a temporary strategy followed by the firms.

Pause/Proceed with caution strategy is a deliberate action taken by the firm to postpone the strategic action till the best opportunity knocks at the door. Thus, waiting for the right strategy for the right time.

EXPANSION/ GROWTH STRATEGIES

A firm seeks to achieve faster growth, compete, achieve higher profits, grow a brand, capitalize on economies of scale, have greater impact, or occupy a larger market share. This may entail acquiring more market share through traditional competitive strategies, entering new markets, targeting new market segments, offering new produce or services, expanding or improving current operations.

The Expansion Strategy is adopted by an organization when it attempts to achieve a high growth as compared to its past achievements.

Integration
Diversification
Cooperation
Concentration
Expansion
Strategy
Internationalization

EXPANSION THROUGH CONCENTRATION

The Expansion through Concentration is the first level form of Expansion Grand strategy that involves the investment of resources in the product line, catering to the needs of the identified market with the help of proven and tested technology.

The strategy followed when an organization coincides its resources into one or more of its businesses in the context of customer needs, functions and technology alternatives, either individually or collectively, is called as expansion through concentration.

EXPANSION THROUGH CONCENTRATION

- It involves attaining expansion by combining the resources in one or more area of the enterprise's business.
- It also involves investment of larger resources in a product line for an identified market, with the help of a proven technology.
- The various means for expansion through concentration are:
  - Market Penetration
    - Implies selling more products in the same market
  - Market Development
    - Involves identifying the new markets for selling the existing products
  - Product Development
    - Involve selling new products in the existing markets

Concentration strategies

Existing Product, Existing Market	Existing Product, New Market	New Product, Existing Market

Concentration strategy

- or intensive strategy, focus on effecting the growth of a single product or service or small number of closely related products or services.

	Current Products	New Products
Current Markets	Market Penetration	Product Development
New Markets	Market development	(Diversification)

LIMITATIONS OF CONCENTRATION STRATEGY

- limited customer base, diminishing demand, and limited diversification in the business.
- Purely depends on an industry.
- Products, obsolescence, emergence of new technology are threat to concentrated firm
- create organisational inertia due to doing too much of a known thing
- Cash flow problems

Expansion through integration

The Expansion through Integration
means combining one or more present operation of the business with no change in the customer groups.

- Widen the scope of business definition
- Serving Same set of customers

This combination can be done through a value chain.

The value chain comprises of interlinked activities performed by an organization right from the procurement of raw materials to the marketing of finished goods. Thus, a firm may move up or down the value chain to focus more comprehensively on the needs of the existing customers.

TRANSACTION COST ECONOMICS

A branch of study on economics of transactions and their costs helps to explain the situation where integration strategies could work

A make or buy decision can be taken when firms wish to negotiate with suppliers or buyers

Integration

Vertical

Horizontal

Forward

Backward

VERTICAL INTEGRATION

FORWARD INTEGRATION

- When an organization moves close to the ultimate customers, i.e. facilitate the sale of the finished goods is said to have made a forward integration.
- Example, the manufacturing firm open up its retail outlet.

BACKWARD INTEGRATION

- if the organization retreats to the source of raw materials, is said to have made a backward integration.
- Example, the shoe company manufactures its own raw material such as leather through its subsidiary firm.

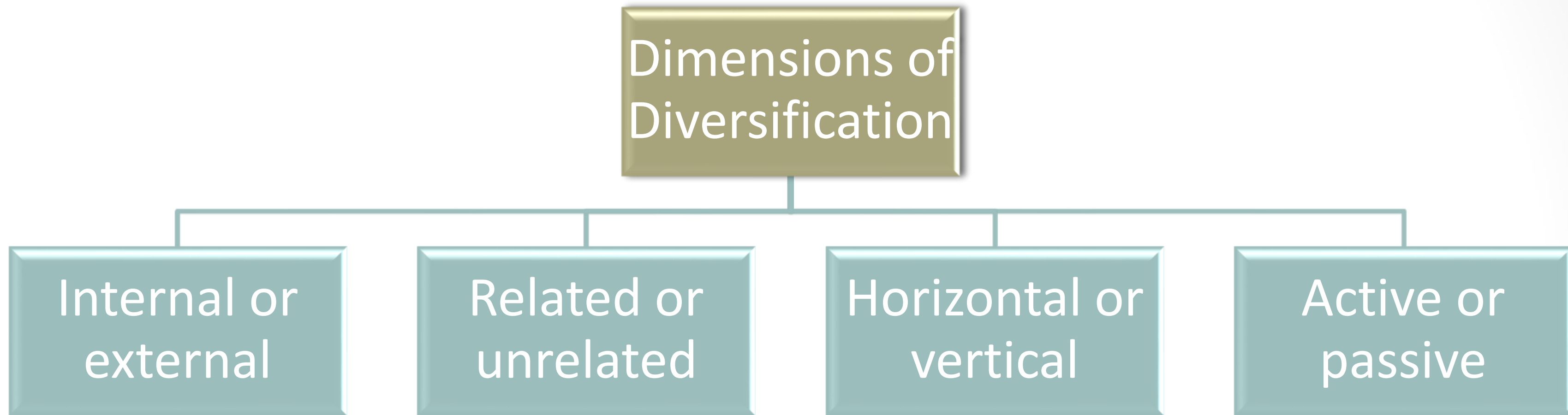
PARTIAL VERTICAL INTEGRATION

- TAPER INTEGRATION: Firm to make a part of their own requirements and to buy the rest from outsiders
- QUASY INTEGRATION: purchase most of their requirements from other firms in which they have an ownership stake

HORIZONTAL INTEGRATION

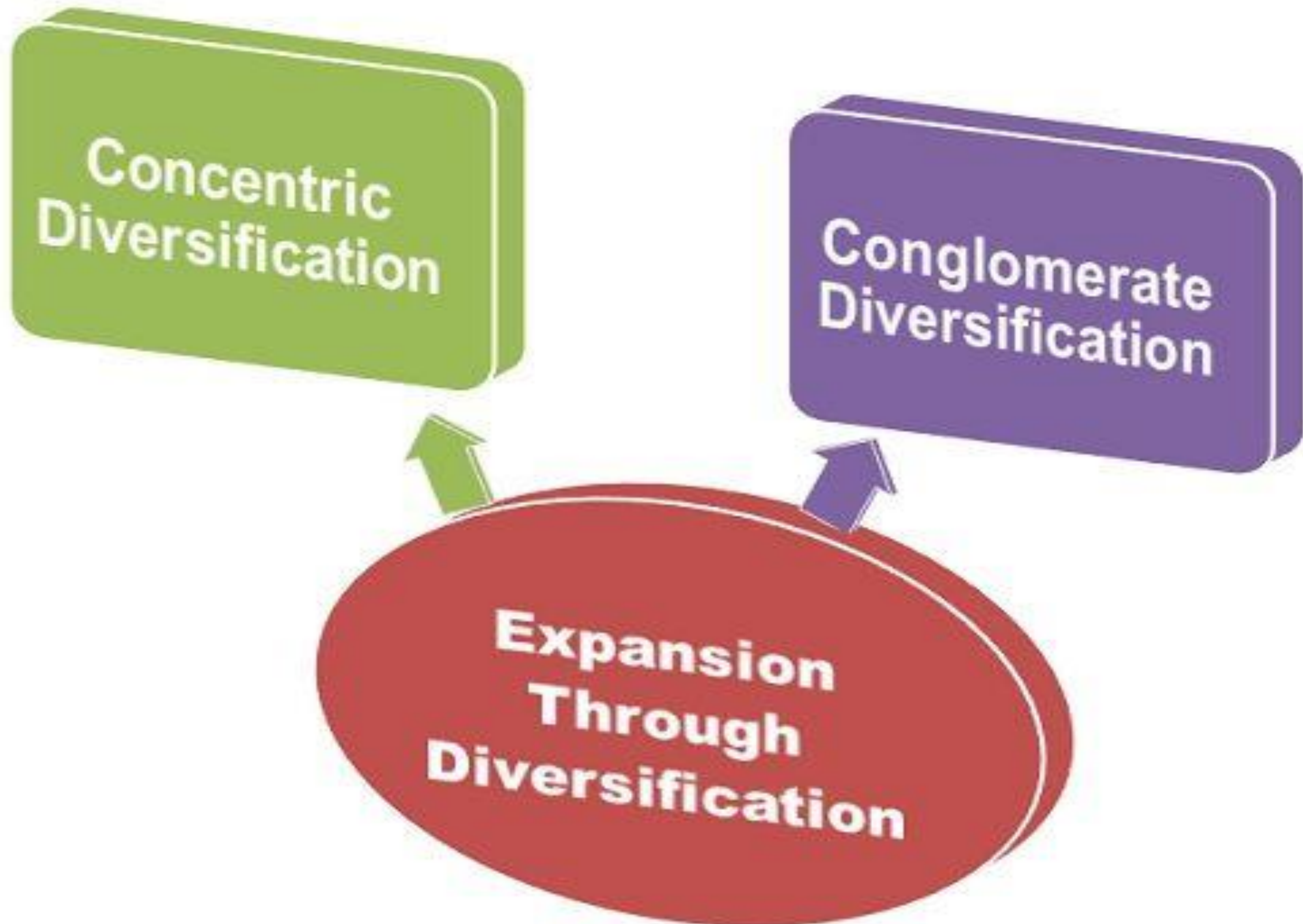
A firm is said to have made a horizontal integration when it takes over the same kind of product with similar marketing and production levels. Example, the pharmaceutical company takes over its rival pharmaceutical company.

EXPANSION THROUGH DIVERSIFICATION



It involves a substantial changes in the business definition – singly or jointly - in terms of customer functions, customer groups or alternative technologies

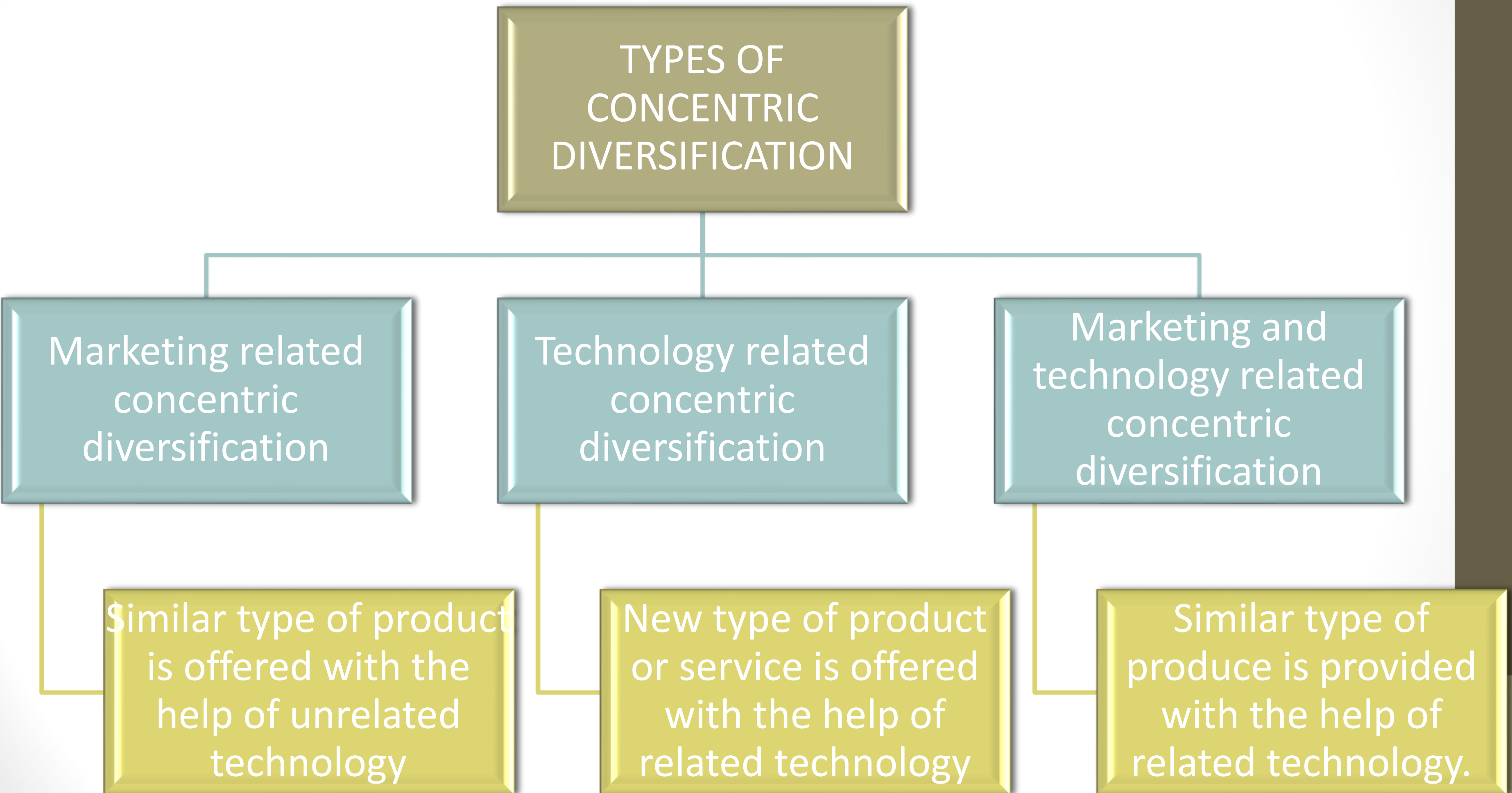
Types of diversification



Concentric diversification

when an organisation takes up an activity in such a manner that it is related to the existing business definition of one or more of a firms businesses , either in terms of customer groups, customer functions, or alternative technologies, then it is concentric diversification.

Concentric diversification



Conglomerate diversification

When an organization expands itself into different areas, whether related or unrelated to its core business is called as a conglomerate diversification. Simply, conglomerate diversification is when the firm acquires or develops the product and services that may or may not be related to the existing range of product and services.

The firm follows this type of diversification through a merger or takeover or if the company wants to expand to cover the distinct market segments.

Reason for diversification

- To minimise risk
- To capitalize organisational strength or to minimise weakness
- Only way out if growth in existing businesses is blocked due to environmental factors
- Synergy benefits
- Better management and allocation of cashflow
- Higher return on investments

Expansion through cooperation: cooperation strategy

The **Expansion through Cooperation** is a strategy followed when an organization enters into a mutual agreement with the competitor to carry out the business operations and compete with one another at the same time, with the objective to expand the market potential.

Expansion through cooperation: cooperation strategy

Merger

Merger: The merger is the combination of two or more firms wherein one acquires the assets and liabilities of the other in the exchange of cash or shares, or both the organizations get dissolved, and a new organization came into the existence. The firm that acquires another is said to have made an acquisition, whereas, for the other firm that gets acquired, it is a merger.

Types of Merger

Horizontal merger: Combination of two or more organisations in the same business. Eg: A footwear company merged with another footwear company.

Vertical merger: a combination of two or more organisations not necessarily in the same business, which create complementary either in terms of supply of materials, or marketing goods or services. Eg: footwear company combines with leather company.

Concentric merger: A combination of two or more company related to each other either in terms of customer functions, customer groups or alternative technology. For Complimentary products. Eg: footwear company combines with socks making company

Conglomerate merger: A combination of two or more organisations unrelated to each other in terms of customer functions, customer groups or alternative technology. Eg: footwear company combines with Pharmaceutical firm

Why buyer wishes to merge

- To increase share value
- To increase growth rate
- Improve stability in earning and sales
- To diversify product line
- To reduce competition
- To acquire needed resources quickly
- To avail tax concession
- To get synergy benefits

Why seller wishes to merge

- To increase share value and investment
- To increase growth rate
- To acquire needed resources to stabilize operation
- To benefit from tax legislation
- To deal with top management succession problem

Issues in merger

Takeover strategy

Takeover strategy is the other method of expansion through cooperation. In this, one firm acquires the other in such a way, that it becomes responsible for all the acquired firm's operations.

Types of take over

- **Friendly Takeover:** Both the companies agree for a takeover and feels it is beneficial for both.
- **Hostile takeover:** a firm try to take on the operations of the other firm forcefully either known or unknown to the target firm.

Reason for takeover

Joint venture

Under the joint venture, both the firms agree to combine and carry out the business operations jointly. The joint venture is generally done, to capitalize the strengths of both the firms. The joint ventures are usually temporary; that lasts till the particular task is accomplished.

Two or more companies form a temporary partnership (Consortium) for a specified purpose.

Types of joint venture

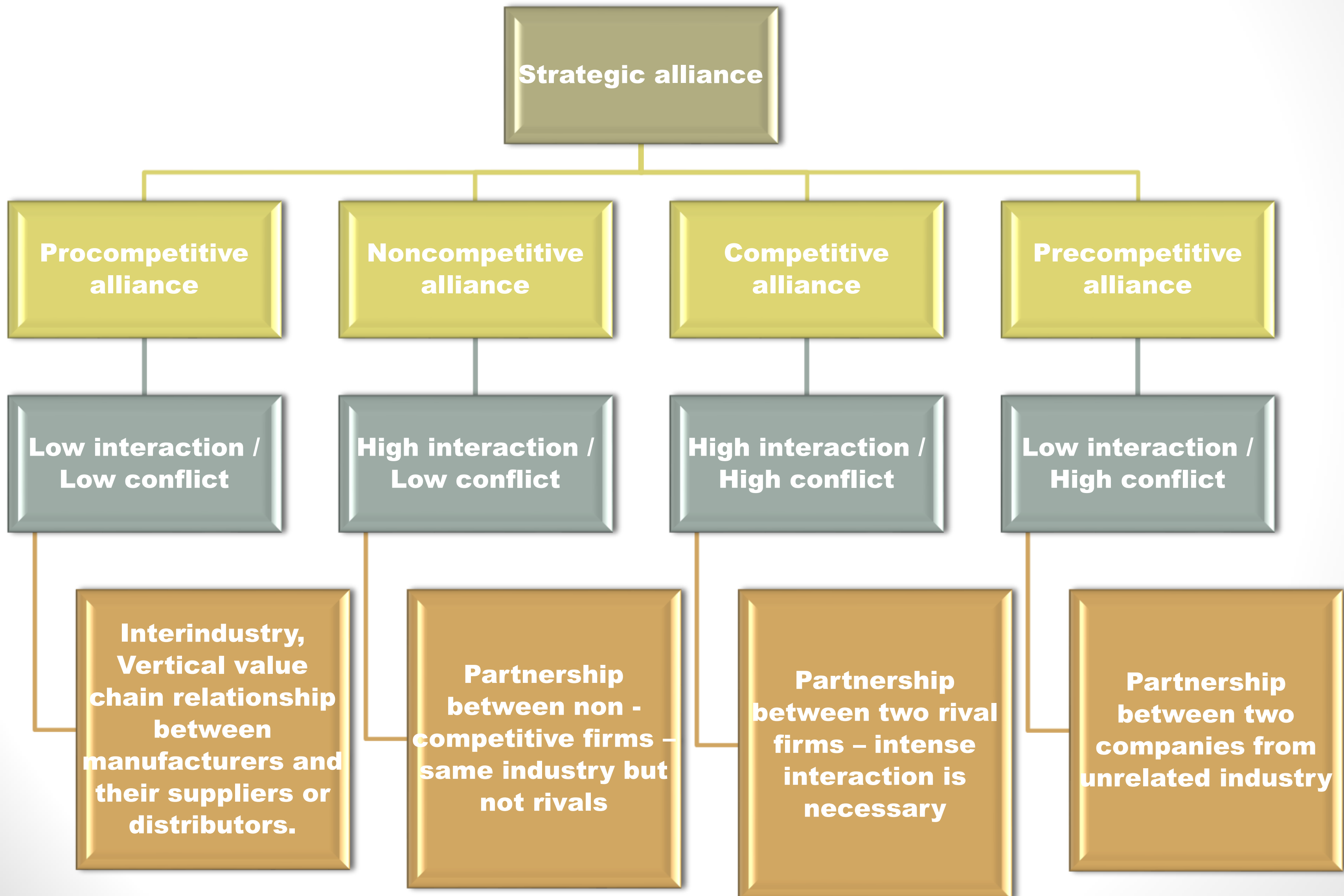
- Between two firms in one industry
- Between two firms across different industries
- Between an Indian firm and a foreign company in India
- Between an Indian firm and a foreign company in that foreign country
- Between an Indian firm and a foreign company in a third country

Strategic alliance

Under this strategy of expansion through cooperation, the firms unite or combine to perform a set of business operations, but function independently and pursue the individualized goals.

The strategic alliance is formed to capitalize on the expertise in technology or manpower of either of the firm.

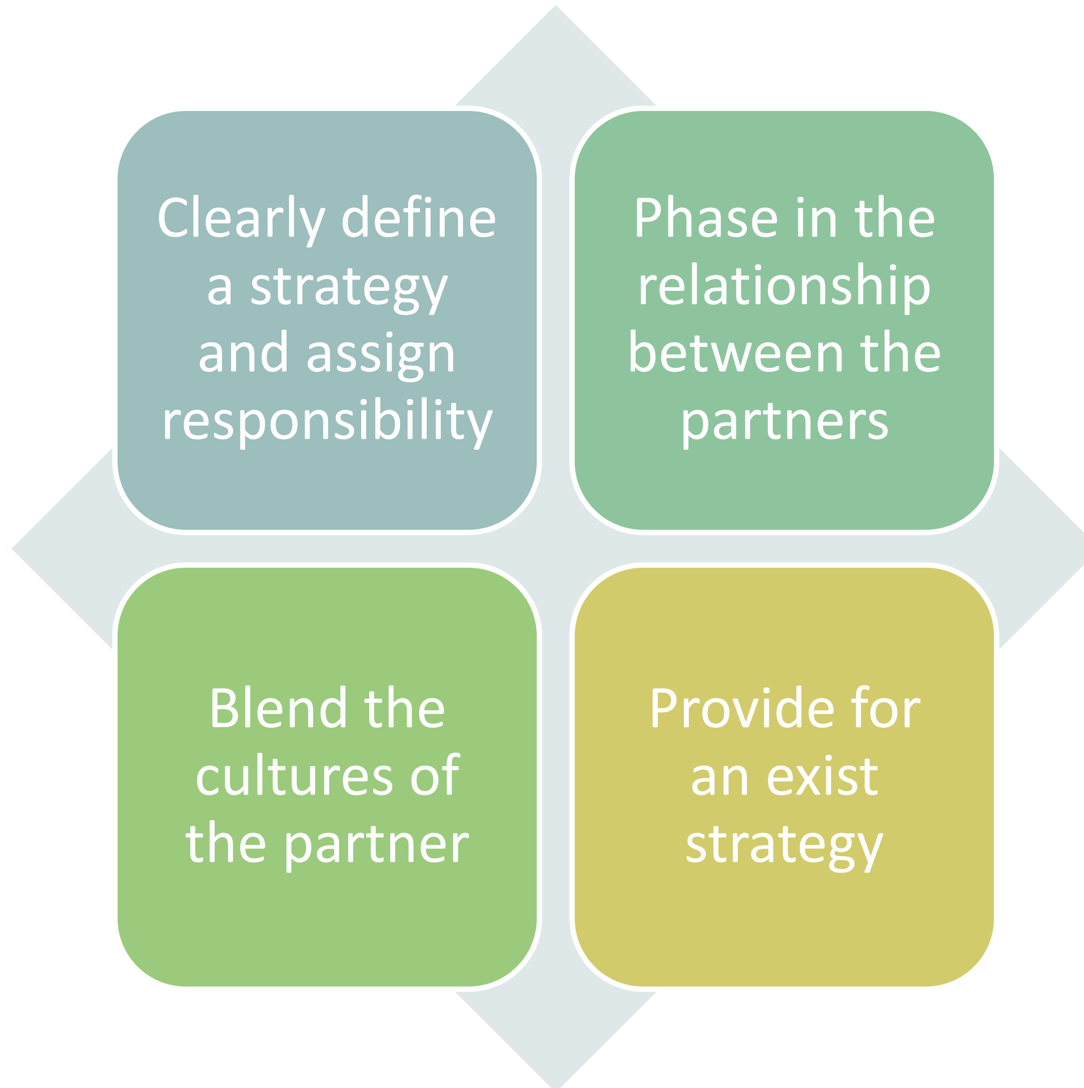
Types of strategic alliance



Reasons for strategic alliance

- Entering new market
- Reducing manufacturing cost
- Developing and diffusing technology

Principles to manage strategic alliance



Limitations of strategic alliance

- Lack of trust and commitment
- Perceived misunderstandings among partners
- Conflicting goals and interests
- Inadequate preparation for entering into a partnership
- Hasty implementation of plans
- Focusing on controlling rather than to get mutual benefits
- Unsustainable if environment is dynamic

International strategy

Extending their product and services to the foreign market where it is not available

If available, are expensive and not of the required quality