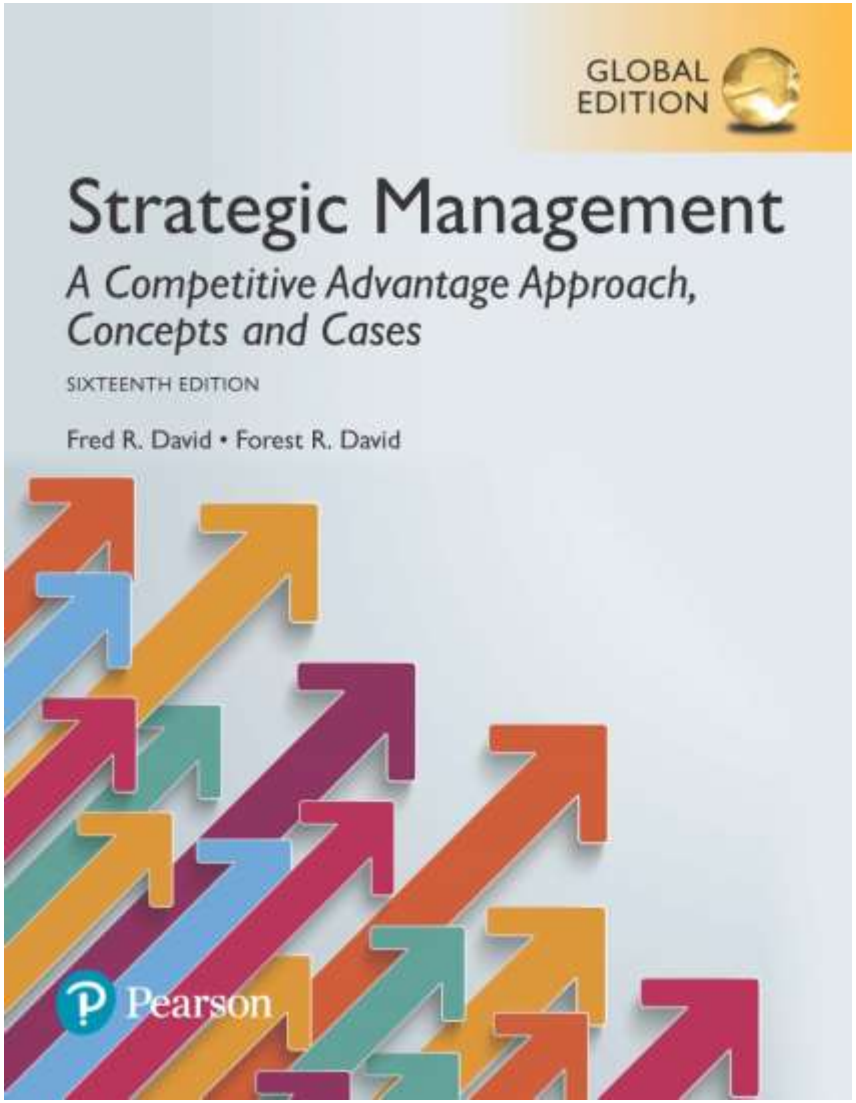


Types of Strategies

Chapter Four

Learning Objectives

1. Identify and discuss eight characteristics of objectives and ten benefits of having clear objectives.
2. Define and give an example of eleven types of strategies.
3. Identify and discuss the three types of “Integration Strategies.”
4. Give specific guidelines when market penetration, market development, and product development are especially effective strategies.
5. Explain when diversification is an effective business strategy.

Learning Objectives (cont.)

6. List guidelines for when retrenchment, divestiture, and liquidation are especially effective strategies.
7. Identify and discuss Porter's five generic strategies.
8. Compare (a) cooperation among competitors, (b) joint venture and partnering, and (c) merger/acquisition as key means for achieving strategies.
9. Discuss tactics to facilitate strategies, such as (a) being a first mover, (b) outsourcing, and (c) reshoring.
10. Explain how strategic planning differs in for-profit, not-for-profit, and small firms.

Long-Term Objectives

- The results expected from pursuing certain strategies
- 2-to-5 year timeframe

Varying Performance Measures by Organizational Level

TABLE 4-1 Varying Performance Measures by Organizational Level

Organizational Level	Basis for Annual Bonus or Merit Pay
Corporate	75% based on long-term objectives
	25% based on annual objectives
Division	50% based on long-term objectives
	50% based on annual objectives
Function	25% based on long-term objectives
	75% based on annual objectives

The Desired Characteristics of Objectives

TABLE 4-2 **The Desired Characteristics of Objectives**

1. Quantitative
2. Measurable
3. Realistic
4. Understandable
5. Challenging
6. Hierarchical
7. Obtainable
8. Congruent across departments

The Nature of Long-Term Objectives

- **Objectives**
  - provide direction
  - allow synergy
  - assist in evaluation
  - establish priorities
  - reduce uncertainty
  - minimize conflicts
  - stimulate exertion
  - aid in both the allocation of resources and the design of jobs

Financial versus Strategic Objectives

- **Financial objectives** include growth in revenues, growth in earnings, higher dividends, larger profit margins, greater return on investment, higher earnings per share, a rising stock price, improved cash flow, and so on.
- **Strategic objectives** include a larger market share, quicker on-time delivery than rivals, shorter design-to-market times than rivals, lower costs than rivals, higher product quality than rivals, wider geographic coverage than rivals, achieving technological leadership, consistently getting new or improved products to market ahead of rivals, and so on.

Not Managing by Objectives

- Managing by Extrapolation
- Managing by Crisis
- Managing by Subjectives
- Managing by Hope

A Comprehensive Strategic-Management Model

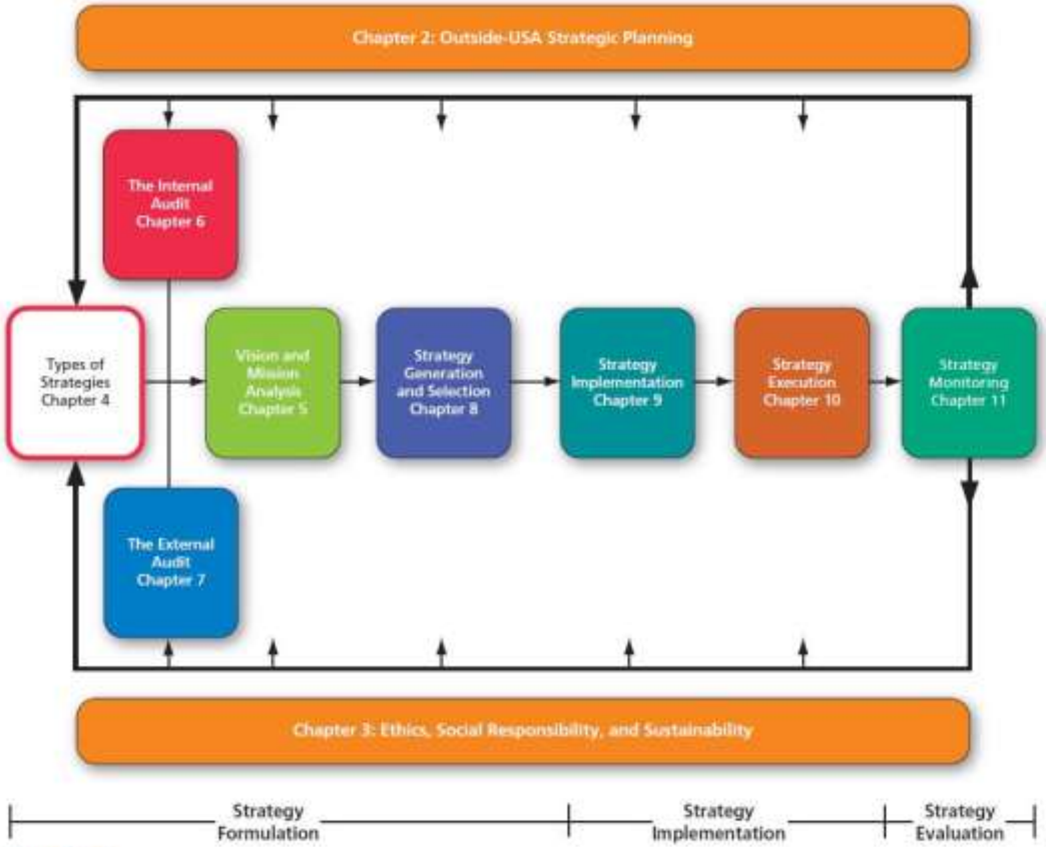


FIGURE 4-1

A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40. © Fred R. David.

Types of Strategies

- Most organizations simultaneously pursue a combination of two or more strategies, but a *combination strategy* can be exceptionally risky if carried too far.
- No organization can afford to pursue all the strategies that might benefit the firm.
- Difficult decisions must be made and priorities must be established.

Alternative Strategies Defined and Exemplified

TABLE 4-4 Alternative Strategies Defined and Recent Examples Given

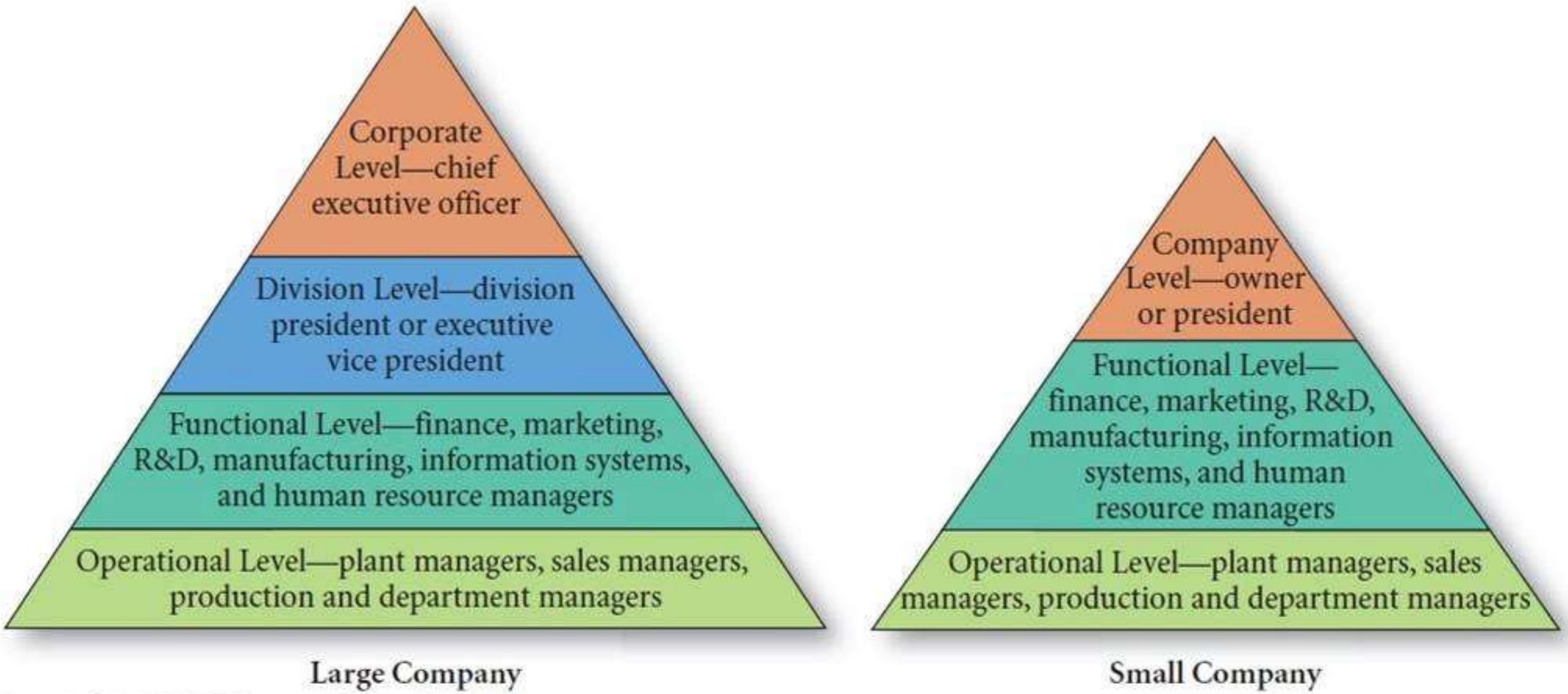
Strategy	Definition	Example
Forward Integration	Gaining ownership or increased control over distributors or retailers	Amazon began rapid delivery services in some U.S. cities.
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Starbucks purchased a coffee farm.
Horizontal Integration	Seeking ownership or increased control over competitors	BB&T acquired Susquehanna Bancshares.
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Under Armour signed tennis champion Andy Murray to a 4-year, $23 million marketing deal.
Market Development	Introducing present products or services into new geographic area	Gap opened its first five stores in China.
Product Development	Seeking increased sales by improving present products or services or developing new ones	Amazon just began offering its own line of baby diapers and wipes.

Alternative Strategies Defined and Exemplified

TABLE 4-4 Alternative Strategies Defined and Recent Examples Given

Strategy	Definition	Example
Related Diversification	Adding new but related products or services	Facebook acquired the text-messaging firm WhatsApp for $19 billion.
Unrelated Diversification	Adding new, unrelated products or services	Kroger and Whole Foods Market are cooking meals, becoming restaurants.
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	Staples closed 250 stores and reduced by 50% the size of other stores.
Divestiture	Selling a division or part of an organization	Sears Holdings divested its Land's End division to Sears' shareholders.
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	The Trump Taj Mahal in Atlantic City, New Jersey, faces liquidation.

Levels of Strategies with Persons Most Responsible



Integration Strategies

- **Forward Integration**
  - involves gaining ownership or increased control over distributors or retailers
- **Backward Integration**
  - strategy of seeking ownership or increased control of a firm's suppliers
- **Horizontal Integration**
  - a strategy of seeking ownership of or increased control over a firm's competitors

Forward Integration Guidelines

- When an organization's present distributors are especially expensive
- When the availability of quality distributors is so limited as to offer a competitive advantage
- When an organization competes in an industry that is growing
- When an organization has both capital and human resources to manage distributing their own products
- When the advantages of stable production are particularly high
- When present distributors or retailers have high profit margins

Backward Integration Guidelines

- When an organization's present suppliers are especially expensive or unreliable
- When the number of suppliers is small and the number of competitors is large
- When the organization competes in a growing industry
- When an organization has both capital and human resources
- When the advantages of stable prices are particularly important
- When present suppliers have high profit margins
- When an organization needs to quickly acquire a needed resource

Horizontal Integration Guidelines

- When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government
- When an organization competes in a growing industry
- When increased economies of scale provide major competitive advantages
- When an organization has both the capital and human talent needed
- When competitors are faltering due to a lack of managerial expertise

Intensive Strategies

- **Market Penetration Strategy**
  - seeks to increase market share for present products or services in present markets through greater marketing efforts
- **Market Development**
  - involves introducing present products or services into new geographic areas
- **Product Development Strategy**
  - seeks increased sales by improving or modifying present products or services

Market Penetration Guidelines

- When current markets are not saturated with a particular product or service
- When the usage rate of present customers could be increased significantly
- When the market shares of major competitors have been declining while total industry sales have been increasing
- When the correlation between dollar sales and dollar marketing expenditures historically has been high
- When increased economies of scale provide major competitive advantages

Market Development Guidelines

- When new channels of distribution are available that are reliable, inexpensive, and of good quality
- When an organization is very successful at what it does
- When new untapped or unsaturated markets exist
- When an organization has the needed capital and human resources to manage expanded operations
- When an organization has excess production capacity
- When an organization's basic industry is rapidly becoming global in scope

Product Development Guidelines

- When an organization has successful products that are in the maturity stage of the product life cycle
- When an organization competes in an industry characterized by rapid technological developments
- When major competitors offer better-quality products at comparable prices
- When an organization competes in a high-growth industry
- When an organization has strong research and development capabilities

Diversification Strategies

- **Related Diversification**
  - value chains possess competitively valuable cross-business strategic fits
- **Unrelated Diversification**
  - value chains are so dissimilar that no competitively valuable cross-business relationships exist

Synergies of Related Diversification

- Transferring competitively valuable expertise, technological know-how, or other capabilities from one business to another
- Combining the related activities of separate businesses into a single operation to achieve lower costs
- Exploiting common use of a known brand name
- Using cross-business collaboration to create strengths

Related Diversification Guidelines

- When an organization competes in a no-growth or a slow-growth industry
- When adding new, but related, products would significantly enhance the sales of current products
- When new, but related, products could be offered at highly competitive prices
- When new, but related, products have seasonal sales levels that counterbalance an organization’s existing peaks and valleys
- When an organization’s products are currently in the declining stage of the product’s life cycle
- When an organization has a strong management team

Unrelated Diversification Guidelines

- When revenues derived from an organization's current products would increase significantly by adding the new, unrelated products
- When an organization competes in a highly competitive or a no-growth industry, as indicated by low industry profit margins and returns
- When an organization's present channels of distribution can be used to market the new products to current customers
- When the new products have countercyclical sales patterns compared to present products
- When an organization's basic industry is experiencing declining annual sales and profits

Unrelated Diversification Guidelines (cont.)

- When an organization has the capital and managerial talent needed to compete successfully in a new industry
- When an organization has the opportunity to purchase an unrelated business that is an attractive investment opportunity
- When there exists financial synergy
- When existing markets for an organization's present products are saturated
- When antitrust action could be charged against an organization that historically has concentrated on a single industry

Defensive Strategies

- **Retrenchment**
  - Regroups through cost and asset reduction to reverse declining sales and profits
- **Divestiture**
  - Selling a division or part of an organization
  - Often used to raise capital for further strategic acquisitions or investments
- **Liquidation**
  - Selling all of a company's assets, in parts, for their tangible worth

Defensive Strategies

- **Retrenchment**
  - occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits
  - also called a turnaround or reorganizational strategy
  - designed to fortify an organization's basic distinctive competence

Retrenchment Guidelines

- When an organization has a distinctive competence but has failed consistently to meet its goals
- When an organization is one of the weaker competitors in a given industry
- When an organization is plagued by inefficiency, low profitability, and poor employee morale
- When an organization fails to capitalize on external opportunities and minimize external threats
- When an organization has grown so large so quickly that major internal reorganization is needed

Divestiture Guidelines

- When an organization has pursued a retrenchment strategy and failed to accomplish improvements
- When a division needs more resources to be competitive than the company can provide
- When a division is responsible for an organization's overall poor performance
- When a division is a misfit with the rest of an organization
- When a large amount of cash is needed quickly
- When government antitrust action threatens a firm

Defensive Strategies

- **Liquidation**
  - selling all of a company's assets, in parts, for their tangible worth
  - can be an emotionally difficult strategy

Liquidation Guidelines

- When an organization has pursued both a retrenchment strategy and a divestiture strategy, and neither has been successful
- When an organization's only alternative is bankruptcy
- When the stockholders of a firm can minimize their losses by selling the organization's assets

Porter's Five Generic Strategies

Type 1: Cost Leadership—Low Cost
Type 2: Cost Leadership—Best Value
Type 3: Differentiation
Type 4: Focus—Low Cost
Type 5: Focus—Best Value

GENERIC STRATEGIES

SIZE OF MARKET	Cost Leadership	Differentiation	Focus
Large	Type 1 Type 2	Type 3	—
Small	—	Type 3	Type 4 Type 5

Michael Porter's Five Generic Strategies

Cost Leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive

- **Type 1**
  - *low-cost* strategy that offers products or services to a wide range of customers at the lowest price available on the market
- **Type 2**
  - *best-value* strategy that offers products or services to a wide range of customers at the best price-value available on the market

Michael Porter's Five Generic Strategies

- **Type 3**
  - **Differentiation** is a strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive

Michael Porter's Five Generic Strategies

- **Type 4**
  - *low-cost focus* strategy that offers products or services to a niche group of customers at the lowest price available on the market
- **Type 5**
  - *best-value focus* strategy that offers products or services to a small range of customers at the best price-value available on the market

Means for Achieving Strategies

- Cooperation Among Competitors
- Joint Venture/Partnering
- Merger/Acquisition
- Private-Equity Acquisitions
- First Mover Advantages
- Outsourcing/Reshoring

Key Reasons Why Many Mergers and Acquisitions Fail

- Integration difficulties
- Inadequate evaluation of target
- Large or extraordinary debt
- Inability to achieve synergy
- Too much diversification
- Managers overly focused on acquisitions
- Too large an acquisition
- Difficult to integrate different organizational cultures
- Reduced employee morale due to layoffs and relocations

Potential Benefits of Merging With or Acquiring Another Firm

1. To provide improved capacity utilization
2. To make better use of the existing sales force
3. To reduce managerial staff
4. To gain economies of scale
5. To smooth out seasonal trends in sales
6. To gain access to new suppliers, distributors, customers, products, and creditors
7. To gain new technology
8. To gain market share
9. To enter global markets
10. To gain pricing power
11. To reduce tax obligations

Benefits of a Firm Being the First Mover

TABLE 4-7 Benefits of a Firm Being the First Mover

1. Secure access and commitments to rare resources
2. Gain new knowledge of critical success factors and issues
3. Gain market share and position in the best locations
4. Establish and secure long-term relationships with customers, suppliers, distributors, and investors
5. Gain customer loyalty and commitments