CHAPTER 3. STRATEGY FORMULATION

Strategic alternatives evolve and revolve around the question of whether a company must continue or change the business which it is currently doing or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector……

According to GLUECK, there are four grand strategic alternatives which are *stability, expansion, retrenchment* and any *combination* of these three. These strategic alternatives are termed as *grand strategies* or *basic strategies* or *generic strategies.*

GRAND STRATEGIES OF GLUECK

1. *Stability strategy*
It involves incremental improvement in functional performance in terms of customer groups in order to remain successful in business.
E.g. A photocopier machine company provides better after sales service to its existing customer groups to improve its company and product image and increase sales of accessories and consumables.

2. *Expansion strategy*
When a company substantially broadens the scope of its customer groups in order to improve its performance either singly or jointly with another firm. E.g. A printing firm changes from the traditional letter press printing to desktop publishing in order to increase its production and efficiency.

3. *Retrenchment strategy*
When a company substantially reduces the scope of its customer groups in order to improve its performance either singly or jointly.
E.g. A corporate hospital decides to focus only on specialty treatment and realize higher revenues by reducing its commitment to general cases which are typically less profitable to deal with.

4. *Combination strategy*
When a company adopts a mixture of stability, expansion and retrenchment either at the same time in its different business or at different times in the same business with the aim of improving its performance.
E.g. a paint company continues to offer decorative paints to provide a wider variety to its customers (stability) and expands its product range to include industrial and automotive paints (expansion) simultaneously it decides to close down the division which undertakes large scale painting jobs (retrenchment).

COMBINATION STRATEGIES

Horizontal integration

In order to eliminate or reduce competition some companies acquire one or more competitors which is known as horizontal integration.

E.g. a) Hindustan lever acquires Tata oil mills company "TOMCO"

b) Jet airways acquires SAHARA AIR

c) VIP acquires ARISTOCRAT LUGGAGE.

Backward integration

Some companies acquire / purchase business that supplies them with raw materials or inputs.

E.g. a) A restaurant purchasing a bakery

b) A detergent manufacturer taking up the manufacturer of LAB which is a raw material for the manufacture of detergents. This is being done by NIRMA.

Forward integration

When a company involves taking up of activities that will bring the company nearer to the ultimate customer.

E.g. a) The manufacturer of the raw material (LAB) for detergents takes up the manufacture of the finished products.

b) A hotel acquiring a chain of travel agents.

Market penetration

Market penetration strategy strives to increase the sale of the current products in the current market. Company follows the methods given below.

a) Increase sales to the current customers. E.g. If customers of tooth paste who brush once a day now, habituate to brush twice a day, the sale of the product to the current customers would almost double.
b) Pull customers from the competitor's products. E.g. a) if the customers switch from the competitors brands to the company's brand while maintaining its existing customers intact there will be an increase in the company's sales. b) a television company offering additional guarantee for two years

c) Convert non users into users

If there is a significant no of non users of a product who could be made users of the product, that provides a potential opportunity or increasing the sales. E.g. In India there are a large no of people in the rural areas who do not use tooth paste these people could be encouraged to start using the product. Babool toothpaste mainly targeted the first time users of toothpaste.

Market development strategy

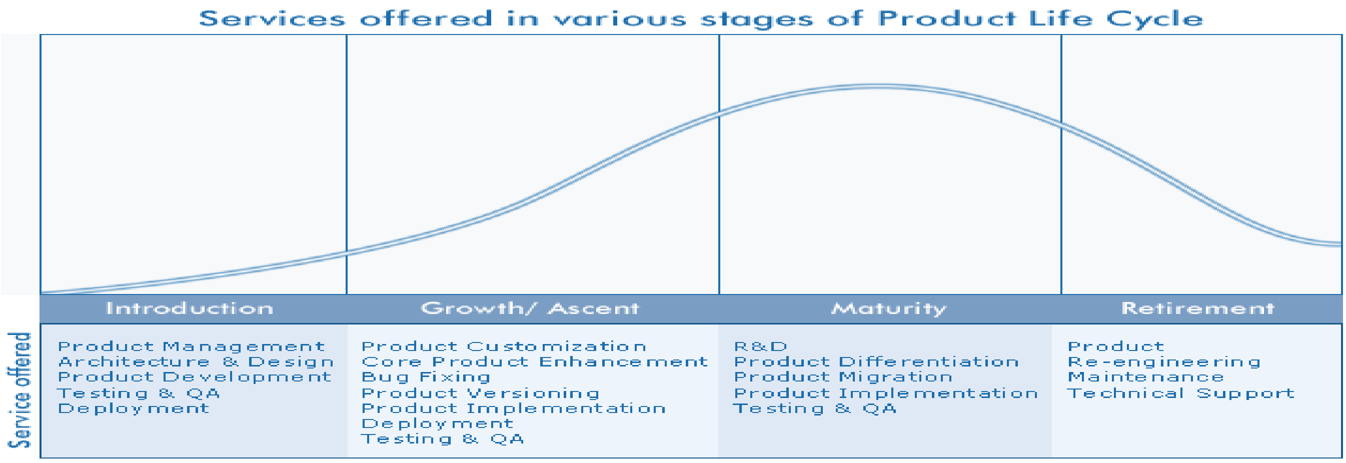
A company broadening the market for a product by entering into anew geographical areas i.e., Regional Expansion, Natural Expansion and Industrial Expansion. Some companies add new channels of distribution and there by expanding the consumer reach of the product.

E.g. Hindustan Lever has entered new geographical markets, added new channels of distribution and also entered new market segments.

Product development strategy

A company may be able to increase its current business by product improvement or introducing products with new features.

E.g. Japan Company SONY keeps up the sale of their consumer goods through continuous feature improvements.



concentric diversifiction

When a company takes up an activity in such a manner that it is related to its existing business then it is called concentric diversification

E.g. Rain coat manufacturer makes other rubber based products like water proof shoes. Rubber gloves and selling the same through the same retail outlets.

Conglomerate diversification

When a company adopts a strategy by taking up those activities which are unrelated to its existing business then it's called as conglomerate diversification.

E.g. ITC a cigarette company diversifying into a hotel industry.

Horizontal diversification

When a company introduces a new product which is technologically unrelated to the current product line but which has appeal to its current customers then it's called horizontal diversification.

E.g. Camlin which is famous for stationary products has come out with stitching and fabric painting materials.

Joint venture

When two or more independent firms mutually decide to participate in a business in a venture contribute to total equity capital and establish a new organization. It's known as a joint venture.

E.g. a) Haldia petrochemicals (West Bengal govt and R.P. Goenka group)

b) Nagarjuna fertilizers (AP GOVT & Nagarjuna group)

Divestiture

When a company sells or divests itself of a business or a part of a business because of lose, less target rate of return urgency to mobilize funds, managerial problems etc it takes up the divestiture strategy.

Liquidation

When an entire company is sold or dissolves of loss or other problems like the case of divestiture then it is called as liquidation.

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