

## Strategies in Action

*"If you don't invest for the long term,  
there is no short term."*

—George David—

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## Strategies in Action

Strategists should avoid:

- **Managing by extrapolation**
  - "If it ain't broke, don't fix it."

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## Strategies in Action

Strategists should avoid:

- **Managing by crisis:**
  - Reactive vs. proactive

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## Strategies in Action

Strategists should avoid:

- **Managing by subjectives:**
  - Mystery approach to decision making
    - Subordinates are left to figure out what is happening and why

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## Strategies in Action

Strategists should avoid:

- **Managing by hope:**
  - Good times are just around the corner

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## Strategies in Action

### Long-Term Objectives:

- *Results expected from pursuing certain strategies*
  - *Time frame — 2 to 5 years*

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## Strategies in Action

### Nature of Long-Term Objectives

- ✓ Quantitative
- ✓ Measurable
- ✓ Realistic
- ✓ Understandable
- ✓ Challenging
- ✓ Hierarchical
- ✓ Obtainable
- ✓ Congruent among organizational units

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## Strategies in Action

Objectives are associated with a time line and stated in terms:

- Growth in assets
- Growth in sales
- Profitability
- Market share
- Diversification
- Integration
- EPS
- Social responsibility

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## Strategies in Action

Objectives are the basis for:

- Designing jobs
- Organizing activities
- Providing direction
- Organizational synergy
- Standards for evaluation

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## Long-Term Objectives

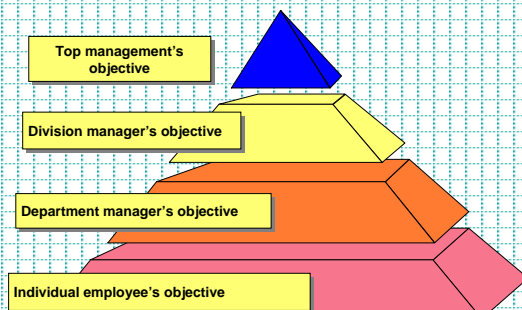
Long-term objectives are necessary –

- Corporate
- Divisional
- Functional levels

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## Hierarchy of Objectives



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## Strategies in Action

### Vertical Integration Strategies

- Forward integration
- Backward integration
- Horizontal integration

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## Strategies in Action

### Forward Integration

#### Defined

- Gaining ownership or increased control over distributors or retailers

#### Example

- General Motors is acquiring 10% of its dealers.

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## Strategies in Action

### Guidelines for Forward Integration

- ✓ Present distributors are expensive, unreliable, or incapable of meeting firm's needs
- ✓ Availability of quality distributors is limited
- ✓ When firm competes in an industry that is expected to grow markedly
- ✓ Advantages of stable production are high
- ✓ Present distributor have high profit margins

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## Strategies in Action

### Backward Integration

#### Defined

- Seeking ownership or increased control of a firm's suppliers

#### Example

- Motel 8 acquired a furniture manufacturer.

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## Strategies in Action

### Guidelines for Backward Integration

- ✓ When present suppliers are expensive, unreliable, or incapable of meeting needs
- ✓ Number of suppliers is small and number of competitors large
- ✓ High growth in industry sector
- ✓ Firm has both capital and human resources to manage new business
- ✓ Advantages of stable prices are important
- ✓ Present supplies have high profit margins

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## Strategies in Action

### Horizontal Integration

#### Defined

- Seeking ownership or increased control over competitors

#### Example

- Hilton recently acquired Promus.

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## Strategies in Action

### Guidelines for Horizontal Integration

- ✓ Firm can gain monopolistic characteristics without being challenged by government
- ✓ Competes in growing industry
- ✓ Increased economies of scale provide major competitive advantages
- ✓ Faltering due to lack of managerial expertise or need for particular resources

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## Strategies in Action

### Intensive Strategies

- Market penetration
- Market development
- Product development

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## Strategies in Action

### Market Penetration

#### Defined

- Seeking increased market share for present products or services in present markets through greater marketing efforts

#### Example

- Ameritrade, the on-line broker, tripled its annual advertising expenditures to \$200 million to convince people they can make their own investment decisions.

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## Strategies in Action

### Guidelines for Market Penetration

- ✓ Current markets not saturated
- ✓ Usage rate of present customers can be increased significantly
- ✓ Market shares of competitors declining while total industry sales increasing
- ✓ Increased economies of scale provide major competitive advantages

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## Strategies in Action

### Market Development

#### Defined

- Introducing present products or services into new geographic area

#### Example

- Britain's leading supplier of buses, Henlys PLC, acquires Blue Bird Corp. North America's leading school bus maker.

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## Strategies in Action

### Guidelines for Market Development

- ✓ New channels of distribution that are reliable, inexpensive, and good quality
- ✓ Firm is very successful at what it does
- ✓ Untapped or unsaturated markets
- ✓ Capital and human resources necessary to manage expanded operations
- ✓ Excess production capacity
- ✓ Basic industry rapidly becoming global

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## Strategies in Action

Product Development

Defined

- Seeking increased sales by improving present products or services or developing new ones

Example

- Apple developed the G4 chip that runs at 500 megahertz.

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## Strategies in Action

### Guidelines for Product Development

- ✓ Products in maturity stage of life cycle
- ✓ Competes in industry characterized by rapid technological developments
- ✓ Major competitors offer better-quality products at comparable prices
- ✓ Compete in high-growth industry
- ✓ Strong research and development capabilities

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## Strategies in Action

Diversification Strategies

- Concentric diversification
- Conglomerate diversification
- Horizontal diversification

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## Strategies in Action

Concentric Diversification

Defined

- Adding new, but related, products or services

Example

- National Westminster Bank PLC in Britain bought the leading British insurance company, Legal & General Group PLC.

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## Strategies in Action

### Guidelines for Concentric Diversification

- ✓ Competes in no- or slow-growth industry
- ✓ Adding new & related products increases sales of current products
- ✓ New & related products offered at competitive prices
- ✓ Current products are in decline stage of the product life cycle
- ✓ Strong management team

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## Strategies in Action

Conglomerate Diversification

Defined

- Adding new, unrelated products or services

Example

- H&R Block, the top tax preparation agency, said it will buy discount stock brokerage Olde Financial for \$850 million in cash.

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## Strategies in Action

### Guidelines for Conglomerate Diversification

- ✓ Declining annual sales and profits
- ✓ Capital and managerial talent to compete successfully in a new industry
- ✓ Financial synergy between the acquired and acquiring firms
- ✓ Exiting markets for present products are saturated

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## Strategies in Action

### Horizontal Diversification

#### Defined

- Adding new, unrelated products or services for present customers

#### Example

- The New York Yankees baseball team are merging with the New Jersey Nets basketball team.

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## Strategies in Action

### Guidelines for Horizontal Diversification

- ✓ Revenues from current products/services would increase significantly by adding the new unrelated products
- ✓ Highly competitive and/or no-growth industry w/low margins and returns
- ✓ Present distribution channels can be used to market new products to current customers
- ✓ New products have counter cyclical sales patterns compared to existing products

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## Strategies in Action

### Defensive Strategies

- Joint venture
- Retrenchment
- Divestiture
- Liquidation

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## Strategies in Action

### Joint Venture

#### Defined

- Two or more sponsoring firms forming a separate organization for cooperative purposes

#### Example

- Lucent Technologies and Philips Electronic NV formed Philips Consumer Communications to make and sell telephones.

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## Strategies in Action

### Guidelines for Joint Venture

- ✓ Combination of privately held and publicly held can be synergistically combined
- ✓ Domestic forms joint venture with foreign firm, can obtain local management to reduce certain risks
- ✓ Distinctive competencies of two or more firms are complementary
- ✓ Overwhelming resources and risks where project is potentially very profitable (e.g., Alaska pipeline)
- ✓ Two or more smaller firms have trouble competing with larger firm
- ✓ A need exists to introduce a new technology quickly

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## Strategies in Action

Retrenchment

**Defined**

- Regrouping through cost and asset reduction to reverse declining sales and profit

**Example**

- Singer, the sewing machine company, declared bankruptcy.

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## Strategies in Action

### Guidelines for Retrenchment

- ✓ Firm has failed to meet its objectives and goals consistently over time but has distinctive competencies
- ✓ Firm is one of the weaker competitors
- ✓ Inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.
- ✓ When an organization's strategic managers have failed
- ✓ Very quick growth to large organization where a major internal reorganization is needed.

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## Strategies in Action

Divestiture

**Defined**

- Selling a division or part of an organization

**Example**

- Harcourt General, the large US publisher, is selling its Neiman Marcus division.

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## Strategies in Action

### Guidelines for Divestiture

- ✓ When firm has pursued retrenchment but failed to attain needed improvements
- ✓ When a division needs more resources than the firm can provide
- ✓ When a division is responsible for the firm's overall poor performance
- ✓ When a division is a misfit with the organization
- ✓ When a large amount of cash is needed and cannot be obtained from other sources.

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## Strategies in Action

Liquidation

**Defined**

- Selling all of a company's assets, in parts, for their tangible worth

**Example**

- Ribol sold all its assets and ceased business.

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## Strategies in Action

### Guidelines for Liquidation

- ✓ When both retrenchment and divestiture have been pursued unsuccessfully
- ✓ If the only alternative is bankruptcy, liquidation is an orderly alternative
- ✓ When stockholders can minimize their losses by selling the firm's assets

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