MATCHING STRATEGY TO INDUSTRY AND COMPANY SITUATIONS

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Before making a strategic choice managers of a company should tailor strategies to the unique situations prevailing in the industry and the company itself. Such tailoring or matching would help managers customize the company's strategy. Matching strategy to industry-specific situations and company-specific situations also provides insights about strategic choice – which strategy options are well suited (or better suited) to certain industry conditions and which are better suited to company situations. Managers finally custom-tailor the chosen strategic approach to fit the industry situations and company's capabilities. In this unit we examine the issue of strategy-matching to industry situations first and then we explore how strategy can be matched to company situations.

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Lesson-1: Matching Strategy to Industry Situations-I: Emerging and Maturing Industries

Learning Objectives:

After studying this lesson, you should be able to:

- Understand the types of industry environment.
- Define emerging industry and develop appropriate strategies for competing in an emerging industry.
- Explain the concept of maturing industry and determine what types of strategies would be suitable for operating business successfully in the maturing industry.

Industry Situations: An Introduction

The best strategy always wins. A firm does the same thing in the marketplace as what the army do in the battle-field. The marketplace is similar to the war-field for a business organization. Doing business in a competitive market is just like a war in the battlefield. If the army commander fails to formulate and implement war-strategy most suitable to the particular situations in the battlefield, the army is doomed to defeat. Similarly, if the managers of a company are unable to develop strategy appropriate to market situations, they will survive simply to lament for their failures. That is why, after identification of generic strategies, managers need to develop suitable strategies reflecting the company's particular circumstances. In the previous two units we have examined strategies commonly undertaken by various firms. This unit examines the issue of matching strategies in different industry situations/industry environment. Simply speaking, this unit will provide the readers with insights about customization of a company's strategy on the basis of prevailing conditions in the industry. The discussion in this unit will equip the readers to answer the following two questions:

- What basic type of industry environment does the company operate in?
- What strategic options are usually best suited to this generic type of environment?

Types of Industry Situations

Every company operates its business in an industry. An industry consists of all units producing similar products and competing for the same buyers. Industry has been defined by Thompson and Strickland as "a group of firms whose products have so many of the same attributes that they compete for the same buyers."

An industry may be viewed, based on its nature, as:

1. Emerging Industry
2. Maturing Industry
3. Declining/Stagnant Industry
4. Fragmented Industry

These are the industry situations. From the very name it appears that industry situations widely differ. Every situation has its own unique character. We now examine each of them to appreciate each of their implications for strategy-making.

Emerging Industry and Strategies: Introduction

It is very challenging to operate business firms in an emerging industry. Before we proceed toward identifying the strategic challenges in an emerging industry, let us define it. And, then we would explore the strategy-making challenges in the emerging industry, to be followed by identification of possible strategies to pursue in emerging industry for success.

Emerging Industry Defined

An emerging industry is an industry which is at its early stage of development.

An emerging industry is an industry which is at its early stage of development. In fact, it is an 'infant industry.' An emerging industry is characterized by a few number of competitors, high growth potential, uncertainty of demand, dominance of proprietary technology, wide differences in product quality, low entry barriers, difficulty in having ample supply of raw materials, and so on. In Bangladesh, examples of emerging industry include software, broadband Internet, electronic banking, distance education, CD-based book publications, flower farming, fruits processing, and 'spirulina' (a herbal medicinal food product invented by BCSIR).

Strategy-Making Challenges in Emerging Industry

Michael Porter has pointed out several strategy-making challenges that manager's face while competing in emerging industries. These are as follows:

1. Doubts exist about the functioning, growth and size of the market. Managers cannot make useful projections of sales and profits due lack of historical data. Thus, they mostly depend on guesswork.
2. Proprietary technology dominates the industry. The owners of the technology usually do not allow others to use it. Success mostly depends on patents and unique technical expertise.
3. Uncertainty prevails regarding the product attributes that may win customer acceptance. Uniformity is difficult to find in product quality and product performance. Therefore, competition in the industry centers around each company's strategic approach to technology, product design and marketing.
4. Entry into the emerging industry is relatively easy. As a result, resourceful and opportunity-seeking companies may enter into the industry if there is a high growth prospect.
5. In an emerging industry all buyers are first-time users of products. Therefore, the marketing managers must try to induce initial purchase.

6. In an emerging industry the products are first-generation products (absolutely new). Thus, many potential customers defer their purchase until the quality improves.
7. Because of its immature stage, the emerging industry most often fails to attract the suppliers of raw materials to gear up their production. This creates hurdles in getting regular and adequate supply of raw materials.

Possible Strategies to Pursue in Emerging Industries

Several strategic options are available to the entrepreneurs in the emerging industry:

1. Low-cost strategy is viable to discourage potential competitors to enter into the industry. Even company can use price-cuts to attract the price-sensitive buyers.
2. Differentiation strategies may be adopted based on technological or product superiority.
3. A company may adopt cooperative strategy (strategic alliance) through forming partnership with key suppliers of materials and components.
4. A company may form strategic alliance with other companies having technological expertise to outcompete strong competitors.
5. Acquisition strategy may be followed to acquire special skills or capabilities so that the company can weaken the competitors based on technological superiority.
6. A company may enter into a joint venture agreement (if there are financial constraints) to cover greater geographical areas or pursue new customer groups.

Maturing Industry and Strategies: Introduction

Managers should be able to understand the meaning and nature of a maturing industry. A knowledge about the maturing industry would help them identify the fundamental changes that have occurred in the market environment that would, in turn, facilitate them to adopt appropriate strategic options in such an industry. Keeping this background in view, following issues concerning a maturing industry would be covered in this section:

- Meaning and nature of maturing industry
- Market maturity and fundamental changes in the maturing industry's competitive environment
- Strategic options in a maturing industry

Meaning and Nature of Maturing Industry

As an industry grows rapidly, it reaches a point where further growth slackens significantly. The growth in the industry is halted due to saturation in the market demand. When an industry is in such a situation, *A maturing industry is an industry that is moving from rapid growth to significan-tly lower growth.*

it is called a maturing industry. According to Thompson and Strickland, a maturing industry is an industry that is moving from rapid growth to significantly lower growth. According to their views, in a maturing industry at least three issues become dominant:

(i) nearly all potential buyers are already users of the industry's products;

(ii) market demand consists mainly of *replacement sales* to existing users; and

(iii) growth in the industry depends on the industry's ability to attract new buyers and motivate existing buyers to increase their use of products.

Market Maturity and Fundamental Changes in the Maturing Industry's Competitive environment

A number of fundamental changes occur in a maturing industry's competitive environment due to market maturity. Michael Porter identified these changes as follows:[1]

1. Growth in buyer demand slows down. This generates head-to-head competition for market share
2. Buyers become more sophisticated**.** They start hard bargaining on repeat purchases.
3. Competition produces greater emphasis on cost and service. All competitors try to reduce costs and improve services to customers.
4. The industry experiences a slowdown in capacity expansion because of slow growth.
5. It becomes difficult for the producers to create new product innovations and eventually they may not be able to sustain buyer excitement.
6. International competition increases because growth-minded companies try to find out ways to enter into foreign markets.
7. Industry profitability falls temporarily or permanently. This happens due to slower growth, increased competition, and occasional periods of overcapacity.
8. Competition becomes very stiff. As a result of this, competitors feel the urge to go for merger or acquisitions rather than going for competition against each other. The resultant outcome is that the weak and inefficient firms are driven out of the industry.

Strategic Options in a Maturing Industry

A firm operating in a maturing industry needs to adopt appropriate strategic moves to survive in the industry. Before it explores possible strategic moves, it must understand the dynamics of the industry environment. The maturing-industry dynamics include such elements as head-to-head competition among the competitors, strong bargaining by customers on product prices and attributes, a need for best combination of price and service, problem in capacity expansion, a hard struggle for further product innovation, increased international competition, falling profitability and industry consolidation due to merger and acquisition. Keeping all these in view, a firm in a maturing industry may adopt any of the following strategic moves to strengthen its competitive position:[2]

A firm in a maturing industry may adopt strategic moves to strengthen its competitive position.

1. **Pruning the product line:** A firm hardly has competitive advantage in all areas of activities and in everything. Thus, it is not a business-wisdom to continue with such products in which the firm does not enjoy competitive advantage. This necessitates pruning (eliminating) unprofitable or very-less-profitable product-items from the product line. Pruning marginal products results in cost savings. It also allows management give more concentration on the profitable products.

2. **Greater emphasis on value chain innovation:** In the industry-value-chain the major parties involved are suppliers, producers, and distributors. Tripartite collaboration among these parties can produce excellent business results. In order to streamline the various value chain activities, they can collaborate on the use of Internet technology. Their collaboration on the implementation of cost-saving innovations can also lead to improving market competitiveness. Overall, streamlining the industry-value-chain can have positive impact on costs, product and service quality capability to produce customized product versions and production cycle.

3. **Cost reduction:** A firm may pursue a strategy of reducing costs in all activities of the firm. Driving down unit costs of products is an ‘absolute must’ in a maturing industry. Costs can be reduced through procuring raw materials and components at a cheaper price, eliminating low-value activities from the firm’s value chain, reorganizing/ reengineering business processes within the firm, dropping some of the intermediaries from the marketing channel, better supply chain management, using computerized systems instead of manual systems whenever feasible and so on.

4. **Strengthening resource base and competitive capabilities:** Obviously, a mature market is full of stiffening competitive pressures. In order to combat these pressures, a firm needs to build new capabilities as well as strengthen its resource base. The firm can do it by adding new competencies making the competencies harder to initiate (by rivals), and making the firm’s core competencies more adaptable to customers’ requirements.

5. **Increasing sales to existing customers:** In a mature market it is difficult to increase the number of customers who are already customers of competing brands. So, strategy should be geared towards retaining the present customers and persuading them to increase their purchases. It is better for a firm to increase the average sales per existing customer than trying to ‘snatch away’ customers of the competitors. For example, a restaurant may increase its average sales to its customers by adding CD/VCD

Corner, cybercafe, mobile prepaid card counter, and even a book corner.

6. **Acquisition strategy:** If available, a firm in a mature market can acquire weak firms (usually managerially poor) to expand market share. Acquisition may also provide a firm greater opportunities for greater economies of scale in production and marketing.

7. **Multinational strategy:** A successful firm may opt for entering into foreign markets if the domestic market matures. However, before deciding for going international, a firm must look for those international markets where there is a potential for growth in the future. As examples, Indian companies have a scope to expand into such emerging markets as Bangladesh, Nepal, Sri Lanka, Malaysia, Myanmar and Mauritius. Bangladeshi companies can expand into Nepal, Bhutan and the Middle-East countries and in some African countries. Even though the US market for soft drink in mature, Coca-Cola has remained a growth company by upping its efforts to penetrate foreign markets where soft-drink sales are expanding rapidly.[3]

Review Questions

1. What are the different types of industry environment or situations? Describe their main features briefly.
2. What do you mean by an emerging industry? Discuss the strategy-making challenges in the emerging industry?
3. What are the possible strategies that a company may pursue in an emerging industry?
4. Discuss the meaning and nature of a maturing industry.
5. What are the fundamental changes that occur in a maturing industry's competitive environment due to market maturity?
6. Discuss the strategic options for a manufacturing company in a maturing industry.

Application Discussion Questions

1. Find out an emerging industry in our country and then study its notable market conditions. Explain why you think that it is an emerging industry.
2. Study the market situations for different consumer goods industry in our country. Make a list of the maturing industries based on your information.

Lesson-2: Matching Strategy to Industry Situations-II: Declining and Fragmented Industries

Learning Objectives:

After studying this lesson, you should be able to:

- Clarify the concept of declining industry.
- Explain the situations that prevail in a declining industry.
- Develop strategic options in a declining industry.
- Define fragmented industry and discuss the possible strategic options in the fragmented industry.

Introduction

Out of four types of industry situations, we have discussed about first two types of situations in the previous lesson such as emerging industry and maturing industry situations. The other two situations will be dealt with in this lesson. These two industry situations are (a) declining industry situation and (b) fragmented industry situation.

Declining Industry and Strategies

Meaning of Declining Industry

In declining industry, the demand continues to go down.

An industry is said to be a declining industry where demand for products of the industry grows more slowly than the economy-wide average. In declining industry, the demand continues to go down. Examples of declining industry in Bangladesh include pottery industry, jute industry, textiles industry and silk industry.

Situations That Prevail in a Declining Industry

In a declining industry growth in demand and profitability goes down continuously.

In a declining industry growth in demand and profitability goes down continuously. There are many reasons for continuous declining tendency in the demand for products. Major reasons are changes in the tastes and preferences of customers, emergence of sophisticated technology in the industry that has ushered in new uses of products, or customers have become tired of using the same types of products for a long period of time, or substitute products have entered into the market with high success. Profitability goes down mainly due to slackened demand for products and very high competition among the producers.

Strategic Options in a Declining Industry

In a declining industry several strategic options are available to the managers. We discuss them below:

Harvesting Strategy:

A firm in a declining industry may choose to employ harvesting strategy to earn maximum possible amount of cash from the business. This strategy involves sacrificing market position in return for bigger near-term cash flows or current profitability. When a firm adopts harvesting strategy, it cuts down the budget substantially, reinvestment is rarely made, new equipments are not purchased rather old ones are used as long as possible, and priority is given on the extensive use of existing facilities of the firm. To obtain greater cash flows, advertising expenses are cut down, quality is reduced carefully and less-essential customer services are curtailed.

- **Divestiture Strategy:**

Another strategic option to a firm in a declining industry is to sell it out. The firm may divest or sell off a portion of its assets like equipment, land, stock of materials, etc. the cash proceeds can be used for improving the core business. Or, the firm may dispose off the business entirely.

- **Niche or Focus Strategy:**

Any industry, whether emerging or maturing or declining, may have several niches (small segment of a market which remains generally unserved or inadequately served by competitors.). A firm in declining industry can look for niche markets where it can operate business profitably. Some of these niche markets may be growing in spite of stagnation in the industry as a whole.

- **Differentiation Strategy:**

A firm can place more emphasis on differentiation of products based on quality improvement and innovation. Differentiation can rejuvenate demand through alluring customers to the firm's products. Innovation-based differentiation is also helpful for a firm in a stagnant/declining industry to survive easy imitation by the competitors.

- **Low-Cost Strategy:**

A firm may also follow low-cost strategy by driving costs down. If the costs can be reduced on a continuous basis in an innovative way, it can help the firm improve the firm's profit margin and return-on-investment. Cost reductions may take form of dropping less-essential business-activities, outsourcing some functions to outside companies who are able to perform those activities cheaply but in a better way, redesigning internal business processes, consolidating unutilized production facilities, closing down high-cost retail outlets, and pruning marginal products.[4]

Fragmented Industry and Strategies

A fragmented industry is related to an industry environment quite different from the other three types of industry environment. Thus, it cannot be included in the 'industry life cycle' that includes emerging, maturing and declining industry environments. Because of its uniqueness, we will discuss in this lesson about the meaning of fragmented industry including its situational factors and then discussions will be devoted to the possible strategic options in a fragmented industry.

Fragmented Industry Defined

A fragmented industry is one where the industrial or service units remain scattered all over the country or over a particular geographical region and none of the units has a substantial market share. As Thompson and Strickland observed: "A number of industries are populated by hundreds, even thousands, of small land medium-sized companies, many privately held and none with a substantial share of total industry sales." The notable features of a fragmented industry include:

(i) Absence of market leaders;

(ii) None of the units has king-sized market share;

(iii) No single unit has widespread buyer recognition.

Examples of fragmented industry are many. Let us cite some of them – health clinics, restaurants, hotels, automobile repairing, furniture-making, garments, computer software development, boutiques, pottery, real estate, etc.

Possible Strategic Options in a Fragmented Industry

The type of strategic options that a firm can employ would vary depending on the extent of competition.

The type of strategic options that a firm can employ would vary depending on the extent of competition. Before finalizing on the options, a firm should take into consideration the basic characteristic features of fragmented industry such as low-entry barriers, competition from substitutes, weak bargaining power of firms due to their relatively small size, and the like. Such an industry environment may call for niche strategy rather than mass-market strategy. Differentiation strategy may also be suitable for firms. We can summarize the strategy options of a firm in a fragmented industry as follows:

❖ **Focus/market niche strategy:**

For a firm in a fragmented industry niche strategy to operate business in a well-defined small segment of a big market may be better suited. This is expected to offer better competitive advantage.

Product-category-based niche strategy enables a firm to specialize by product type.

A firm may either focus on one product category or it may focus on specific types of customers. Product-category-based niche strategy enables a firm to specialize by product type. Thus, it can concentrate on the production or distribution of specific product. When a firm adopts a niche strategy based on customer type, the firm can specifically cater to the needs of specific types of customers who want products with unique need-satisfying features. For example, a software firm may specialize on the development of only Accounting Information Systems or Retail Software. 5M InfoTech Limited is a firm of this type. It specializes on the production of hospital/clinic management and hotel management. Similarly, a hotel may focus on only foreign tourists or low-cost-lover customers.

❖ **Focusing on Limited Geographical Area:**

A firm may concentrate its operation within a particular geographical area. Supermarkets, convenience stores, or repair shops often undertake this strategy.

❖ **Low-Cost Strategy:**

Many supermarkets and local stationery/grocery stores adopt low-cost strategy very successfully. They charge low prices for their products and thus are ale to attract customers. This strategy is better suited when price competition is high.

❖ **Operating Standardized Outlets:**

Some firms in a fragmented industry follow the strategy of operating standardized outlets in different locations. However, these outlets (or operational shops/stores/sales centers) must be operated very efficiently. This strategy is successfully pursued by two international giant fast-food chains - Pizza Hut and Kentucky Fried Chicken (KFC).

Review Questions

1. Define a declining industry. What are the distinctive situations that prevail in a declining industry?
2. Discuss the strategic options that you can undertake in your company.
3. What do you mean by a fragmented industry? What are the notable features of fragmented industry?
4. If your business is being operated in a fragmented industry, what strategies would you adopt for your survival?

Application Discussion Questions

1. In Bangladesh, jute industry is said to be a declining industry. Why? Give your arguments.
2. Based on the knowledge that you have gained from this lesson, identify ten business-units that can be classified as operating units of fragmented industry.

Lesson-3: Matching Strategy to Company Situations

Learning Objectives:

After studying this lesson, you should be able to:

- Learn why and how strategy needs be matched to the situations prevailing in the company.
- Define an industry or market leader
- Identify the strategic options for the industry leaders.
- Understand the meaning of runner-up companies and the strategic approaches for the runner-up companies.
- Formulate appropriate strategies for the companies which are competitively weak or plagued by crisis conditions.

Introduction

Matching of strategy to industry situations and company situations helps managers customize its strategy.

We have discussed how companies need to match strategy to industry situations. This lesson examines how strategy has to be matched to a company's own strengths, weaknesses, opportunities, threats, competitive capabilities and market position. Matching of strategy to industry situations and company situations helps managers customize its strategy. We will look at a manager's strategy-making task when the company is the industry leader, or it is a runner-up company, or it is a weak company.

Matching Strategy When a Company is an Industry Leader/Market Leader

Industry leaders are those firms which enjoy larger market share than the average industry players. Some firms in an industry are simply leaders because they are stronger than average competitors but they cannot dominate the industry. Some firms are dominant leaders because of their dominating competitive positions in the industry. In our country, a few strong leaders are:

Products	Name of Industry Leaders
Mineral water	Partex Group
Spices	Square
Electric cables	Eastern Cables Ltd. And BRB
Mobile phone	Grameen Phone and BanglaLink
Tissue paper	Bashundhara
Islamic banking	Islami Bank Bangladesh Limited
Large-scale retailing	Agora
Leasing business	IDLC

Some global industry leaders are Coca-Cola (in soft drink), Gillette (in razor blades), Microsoft (in computer software), Sony (in television set), Toyota (in motor car), P&G (in detergent powder), JVC (in video camera), and Fuji (in camera film).

Strategy Options for Industry Leaders

The main strategic intent of the industry leaders is focused on defending the existing market position as well as steadily strengthening the position. In order to retain the leadership position in the industry, the leaders might follow several strategic approaches.[5]

(a) **Offensive Strategy:** A leader can follow offensive strategy to stay a step ahead in the market. Offensive strategists are always proactive. They undertake competitive action earlier than the competitors. Thus, they force the competitors to become reactive. Offensive strategies usually include such actions as:

Offensive strategists are always proactive.

i. Relentless pursuit of continuous improvement of products;
ii. Continuous innovation for introducing new or better products;
iii. Adding unique features in the products;
iv. Improving customer service;
v. Reducing operating costs;
vi. Devising ways to attract the customers or runner-up firms;
vii. Undertaking initiatives to expand overall demand in the industry through producing new families of products, discovering new uses of products, attracting new users and promoting more frequent use.

(b) **Defensive Strategy:** Defensive strategy is suitable in situations where a company wishes to make most profit out of its present market position. Such a strategy requires enough capital to spend for strategic actions in order to protect the company's ability to compete in the market. The major objectives of defensive strategy include protecting the present market share, strengthening the market position and protecting the company's existing competitive advantages.

Defensive strategy is suitable in situations where a company wishes to make most profit out of its present market position.

Defensive strategy entails a number of defensive actions:

a) Increasing expenditures for marketing promotion and better customer service to outcompete the competitors.

b) Introducing more product versions (e.g., toothpaste may have three versions: family size, small size and mini-pack).

c) Adding customized services that have personal touch of the provider.

d) Charging reasonable prices.

e) Making product quality attractive to customers.

f) Adding new production capacity ahead of competitors to discourage than from entering into market with additional capacity.

g) Making enough investments for technology development.

h) Building a strong relationship in the supply chain (especially with suppliers and dealers/distributors).

(c) **Muscle-flexing Strategy:** An industry leader may undertake a strategy of muscling smaller competitors and customers to bolster its own competitive position. Dominant market leaders may adopt the following approaches:

i. Respond to price cuts of small competitors very quickly.

ii. Undertake aggressive marketing campaigns to halt competitors' moves to expand market share.

iii. Offer better facilities to big customers (large-quantity buyers).

iv. Dissuade distributors/dealers from selling competitors' products.

v. Employ the successful executives of the competing companies by offering attractive benefits.

vi. Create pressure on present big customers not to use the products of the competitors (Microsoft Corporation did so with its major customers like IBM and Gateway). Microsoft asked these two companies not to use competitors' products on their PCs.

vii. Offer special discounts to certain customers (or grant preferred treatment) if they use only the company's products (not the products of rivals).

However, the market leaders need to be highly ethical in using the above tactics. If they use bullying tactics to routinely pressure customers, crush competitors and throttle competition, they will simply alienate customers and arouse adverse public opinion**.**

Matching Strategy in Runner–up Companies

The position of runner-up firms is next to the market leaders in the marketplace.

The position of runner-up firms is next to the market leaders in the marketplace. Some of these firms are up-and-coming market-challengers. Some are market-nichers. And, some are perennial runners-up. The market- challengers use offensive strategies to expand market share. The market-nichers or market-focusers concentrate their operations in limited market segments. The perennial runners-up are usually satisfied with the trend-setting moves of the market leaders and follow them without any challenge.

The possible strategic approaches for the runner-up firms are as follows:

(a) **Offensive Strategy:** This strategy is useful to a market-challenger runner-up firm. The firm wishing to build a competitive advantage may adopt offensive strategy through:

a. Innovating products;

b. Building a good brand image;

c. Introducing better products ahead of the competitors;

d. Forming strategic alliances with the key intermediaries;

e. Establishing a long-term business relationship with the marketers of complimentary products; and

f. Devising ways to reduce costs.

(b) Growth Strategy: Another viable strategy for a market-challenger is to follow the strategy of growing through acquiring other similar firms. This helps expand the market share.

(c) Market-Niche Strategy or Focus Strategy: A runner-up firm may look for a vacant-niche market. The niche market that has been bypassed or neglected by the market leaders is suitable for the runner-up firms. However, in order to be viable, the niche should have enough member of customers to be profitable, reasonable growth potential, difficult for large firms to serve (for this or that reason), and appropriate to the resources of the firm.

(d) Specialist Focus Strategy: A runner-up firm can employ specialist focus strategy to build competitive advantage through leadership in a specific area or product or technology. For example, a firm may concentrate on producing only glass sheets for window. Another form may specialize in 'transparent ball pen'.

(e) Content-Follower Strategy: The firms that follow the paths of market leaders are content-followers. They simply imitate what the leaders do. They don't challenge the leaders rather follow them. They don't imitate any trend-setting moves. They react and respond to the leaders' actions. They are defensive, never offensive. In Dhaka city, the homemade bread marketers are generally content-followers**.**

(f) Distinctive Image Strategy: Runner-up firms may opt for such strategies that would make them distinctive in the market. They can be distinctive for lower price, high quality with good price, extraordinary customer service, unusually creative advertising, etc.

Matching Strategy in Weak Firms

The firms that are competitively weak or plagued by crisis conditions may follow any of the following strategies:

Before formulating turnaround strategy managers need to identify the causes of poor performance of the company.

(a) Turnaround Strategy: Weak firms may launch an offensive turnaround strategy (based on low cost or unique differentiation) to improve their market position. Before formulating this strategy, managers need to identify the causes of poor performance of the company. There can be a wide array of causes such as high costs, resources constraints, inefficiency and ineffectiveness of managers/employees, debt-burden, weak economy of the country, Inappropriately implemented strategies in the past or natural disaster. After proper identification of the causes, if it appears that the company is worth rescuing, then the company can go for turnaround strategy to get the business out of crisis. Actions may include; revising existing strategy, devising ways for cost reduction, or selling some assets for cash to save the remaining part of the business. Some crisis-ridden companies may require a combination of these efforts.

(b) Defensive Strategy: Some weak companies use 'fortify and defend' strategy to protect their current market positions. The objectives of this strategy are to keep the sales volume at current level, maintain the present market share, sustain the existing profitability and protect the current competitive position.

(c) Liquidation Strategy: When turnaround or defensive strategy is not pragmatic or due to reasons beyond the control of the management, it is better to go for closing the business and liquidate the assets. Such a strategy is the last resort when hopeless situations prevail in the company.

(d) End-Game Strategy: Weak companies also can employ end-game strategies. Such strategies entail undertaking actions to maximize short-term cash flows and gradually to exit the market. An end-game strategy is suitable under certain situation:

Review Questions

1. Make a list of the possible strategies that are suitable for a market leader company. Explain their use in the real-world situations.
2. What kind of companies can be called runner-up companies? What strategies are suitable for such companies?
3. If a company is plagued by crisis conditions, what strategic options are open to it? Give your answer with examples.

Application Discussion Questions

1. Bashundhara is the market leader in the production and marketing of tissue paper. What have made it the market leader?
2. In the tissue industry which of the companies are the runner-up? Why do you think so? Explain.

Lesson-4: Commandments for Formulating Winning Strategies and Strategic Action Plan

Learning Objectives:

After studying this lesson, you should be able to:

- Suggest guiding principles for strategy formulation in a single-business company.
- Prepare strategic action plan for a company on the basis of your knowledge gained from the study of all the previous lessons.

Introduction

On the basis of your understanding of the issues discussed in the previous lessons, you should now be able formulate successful strategies for your business firms. In this lesson we would first give you some guidelines that you may follow for crafting successful business strategies. Then we would provide a sample format for designing strategic action plan.

Ten Commandments for Formulating Winning Business Strategies

The strategy-makers/strategists should follow a number of good strategy-making principles.

Formulating a winning strategy is not an easy task. If not carefully crafted, strategies may turn out to be highly disastrous. That is why, the strategy-makers/strategists should follow a number of good strategy-making principles. Thompson and Strickland suggested 10 principles (they call them commandments) based on the lessons learned from the strategic successes and mistakes of companies.[6] These principles or commandments serve as useful guides for developing sound strategies. A brief description is given below of these commandments.

1. Placing top priority on long-term competitive advantage: If strategy can strengthen a company's long-term competitiveness, it would protect the company's long-term profitability.
2. Being proactive: A company needs to be proactive and prompt in responding to changes in market conditions and other dynamic issues strategy should be geared to meeting 'unmet' customer need, providing better products as per wishes of customers, adopting latest technology, etc. they should also be prompt in dealing with the new initiatives of competitors.
3. Investing in creating a sustainable competitive advantage: A company may need to adopt aggressive offensive strategy to create competitive advantage as well as aggressive defensive strategy to protect it.
4. Avoiding an overly ambitious strategic plan: Such a plan overtaxes the company's resources and capabilities.
5. Adopting strategy capable of yielding good results in the worst of times: A company's strategy works well if it is formulated after considering the anticipated unfavorable market situations.
6. Carefully taking into cognizance the reactions and commitment of competitors: Strategy-makers must not underestimate the

competitors. In response to a company's strategy, the competitors may launch tough programs if their interests are threatened.

7. Focusing on competitors' weaknesses: A strategy-maker, to craft a successful strategy, should attack the weaknesses of competitors rather than strengths. If attacked, resourceful competitors might retaliate very strongly, through price-cuts or other measures.
8. Pursuing differentiation strategy meaningfully: A company should adopt a differentiation strategy only when it can create a meaningful gap in product features. Customers may reject differentiation strategy if the differences are negligible.
9. Avoiding a strategy of middle course: Middle-course strategy (or we can say, compromise strategy) does not usually work well. It often fails to create competitive advantage. Compromise strategy may lead to 'average costs, average differentiation, an average image and reputation, and little prospect of industry leadership.'
10. Adopting low-cost strategy when cost advantage is prominent: A company should not opt for cutting down prices unless it can establish a sustainable cost advantage.

Strategic Action Plan for a Single-Business Enterprise

On the basis of our knowledge that we have gained from the previous chapters, we should now be able to develop a strategic action plan for a company. A comprehensive strategic action plan should ideally contain such items as company's vision and mission strategic objectives, financial objectives, business strategy (i.e., enterprise strategy), functional strategies for various organizational functions, and possible actions to improve the predominance of the company.

Figure 7.1 presents a suggested format for strategic action plan for a single-business enterprise. It may be noted that strategic action plans for a diversified company having several lines of business are much more complicated.

#	Items	#	Items
1 2 3 3A 3B 4	**Company Vision** **Company Mission** **Company Objectives:** ***Strategic Objectives:*** ❖ Long-Term objectives ❖ Short-Term Objectives **Financial Objectives:** ❖ Long-Term objectives ❖ Short-Term Objectives **Overall Business Strategies**	5 6	**Functional Strategies:** ❖ Marketing ❖ Production ❖ Human Resources ❖ Finance ❖ Research & Development ❖ Others **Recommended Actions to Improve Performance:** ❖ Long-Term Actions ❖ Immediate Actions

Figure 7.1: Format of a Strategic Action Plan for a Manufacturing Company

Thus far we have discussed about strategy formulation in the context of a single-business enterprise. The next Part addresses the issue of strategy formulation in diversified companies.

Review Questions

1. Thompson and Strickland have suggested ten commandments that serve as useful guides for developing sound strategies. Explain these commandments briefly.
2. Prepare a strategic action plan for a single-business company.

Application Discussion Questions

1. The owner of a local dairy firm has approached you and requested you to help him in the preparation of a strategic action plan for firm. How would you help him keeping in view the onslaught of 'bird flu' in the neighboring countries.

NOTES

1. Michael Porter, *Competitive Strategy* (New York: Free Press, 1980), pp. 238-40.
2. On the basis of his research results, Porter suggested seven possible strategic options that a firm may consider to stay competitive in a maturing industry. Ibid, pp. 241-46.
3. Thomson and Strickland, op cit., p. 258.
4. For details, see R. G. Hammerers and S.B. Silk, "How to Compete in Stagnant industries," Harvard Business Review, vol. 57, No. 5 (September-October 1979), p. 161-165.
5. Thompson and Strickland, op.cit. pp. 265-67.