3 chapter

Strategic Analysis

Quick Revision Notes

"Water shapes its course according to the nature of the ground over which it flows; the soldier works out his victory in relation to the foe that he is facing." - ***Sun Tzu, The Art of War***

6 Strategy Formulation – Corporate Strategy for Multiple Business Corporation

Corporate strategy deals with three key issues facing the corporation as a whole:

1. The **firm's overall orientation**toward growth, stability, or retrenchment (**directional strategy**)
2. The **industries or markets in which the firm competes**through its products and businessunits (**portfolio analysis**)
3. The manner in which management **coordinates activities and transfers resourcesand cultivatescapabilities** among product lines and business units (**parenting strategy**)

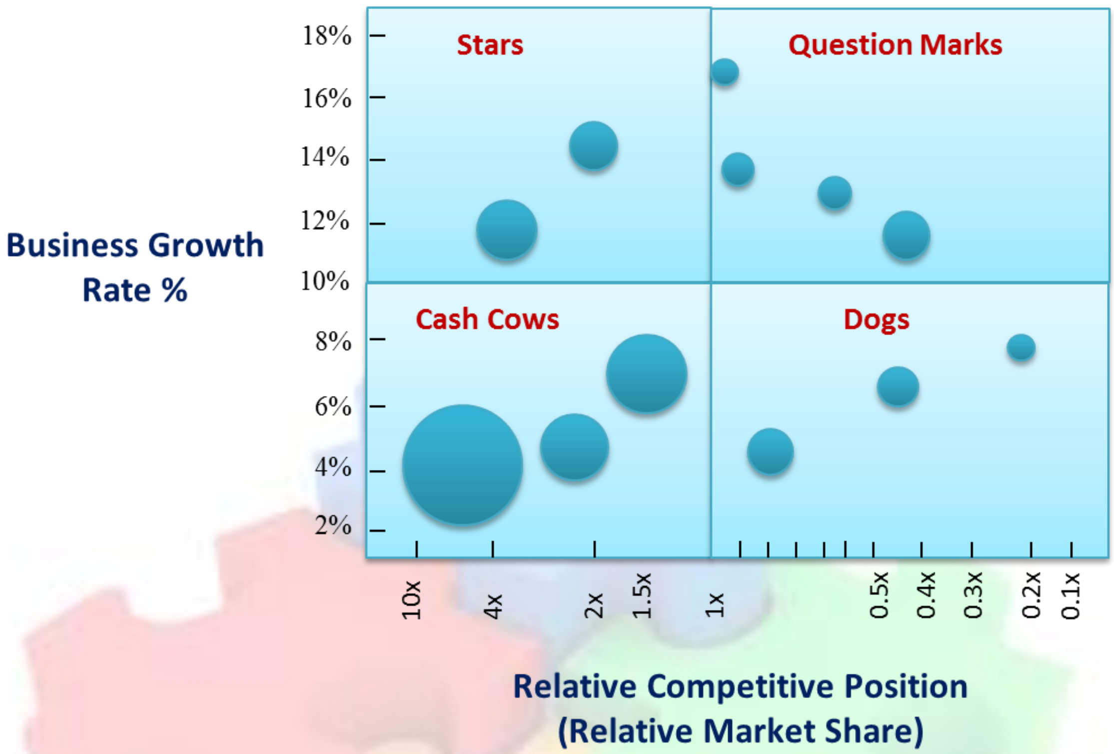
Here we'll cover Portfolio Analysis under Corporate Strategy Formulation stage.

Portfolio Analysis

- Business Portfolio - **a collection of businesses and products**that make up the company.
- Portfolio Analysis - involves **assessing the attractiveness of each business unit/product line**.
- On the basis of the results of Portfolio analysis companies **formulate corporate strategies**such as ExpansionStrategies, Retrenchment Strategies etc., so that corporate objectives are achieved in an optimal manner.
- Portfolio Analysis**can be done through a number of techniques** such as **BCG** growth-share matrix, **Ansoff's** product market growth matrix, **ADL** matrix, and **GE** Model.

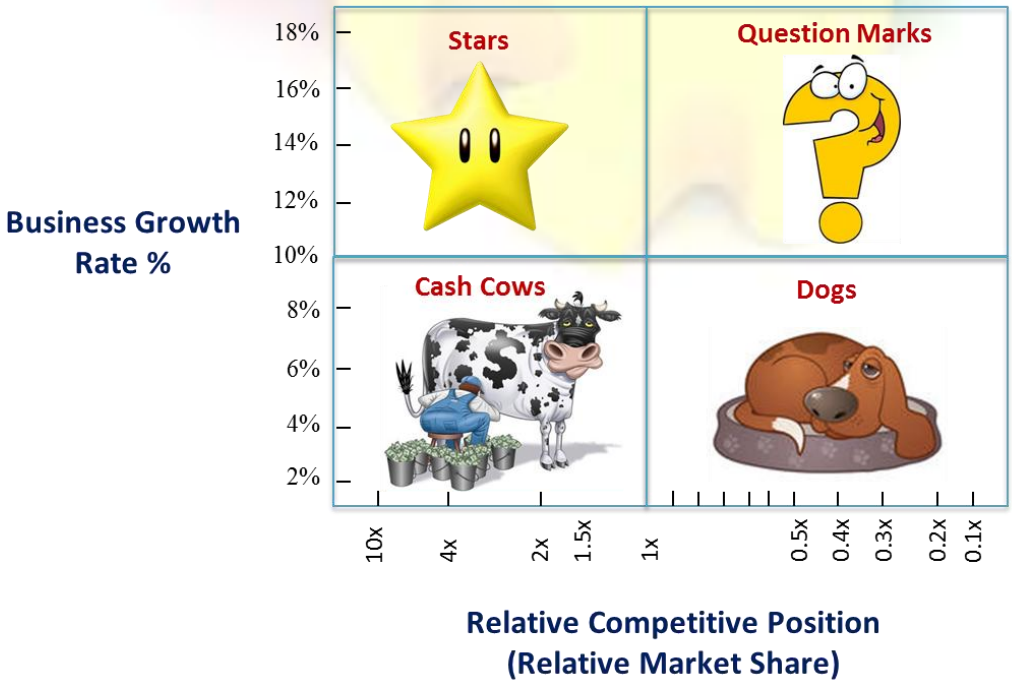
BCG Growth-Share Matrix

⇨ Each of the company'sdivisions/business unitsor products is plotted on the matrix according to both the **market growth rate**and division's or product's **relative competitive position**.



⇨ Each business unit or product is represented by a circle - the area of each circle is proportional to the total sales generated by that particular business unit or product.

Four Cells of BCG Growth-Share Matrix



1 **Question marks (High Growth-Low Market Share)** (sometimes called "problem children" or "wildcats") areproducts or businesses that compete in high growthmarkets but where the market share is relatively low.

2 **Stars (High Growth-High Market Share)** are **market leaders that are typically at the peak of their product life cycle**.
3 **Cash cows (Low Growth-High Market Share)** are characterised by high relative market share in low growth industries. They typically bring in far more money than is needed to maintain their marketshare.
4 **Dogs (Low Growth-Low Market Share)** have **low market share in slow growth markets and do not have the potential**(because they are in an unattractiveindustry) to bring in much cash.

Strategies to be adopted

Once the organizations have classified its products or SBUs, it must determine what role each will play in the future.

The **four strategies**that can be pursued are:

1. **Build:** **increase market share**, even by forgoing short-term earnings in favour of building a strong future with large market share.
2. **Hold:** **preserve market share**.
3. **Harvest:** **increase short-term cash flow**regardless of long-term effect.
4. **Divest:** **sell or liquidate the business**because resources can be better used elsewhere.

Ansoff's product market growth matrix

⇨ Productmarket growth matrix proposed by **Igor Ansoff.**

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Market Penetration: Market penetration refers to a growth strategy where the business focuses on **selling existing products into existing markets**.
Market Development: Market development refers to a growth strategy where the business seeks to **sell its existing products into new markets**.
Product Development: Product development refers to a growth strategy where business aims to **introducenew products into existing markets**.
Diversification: Diversification refers to a growth strategy where a business markets **new products in new markets**.

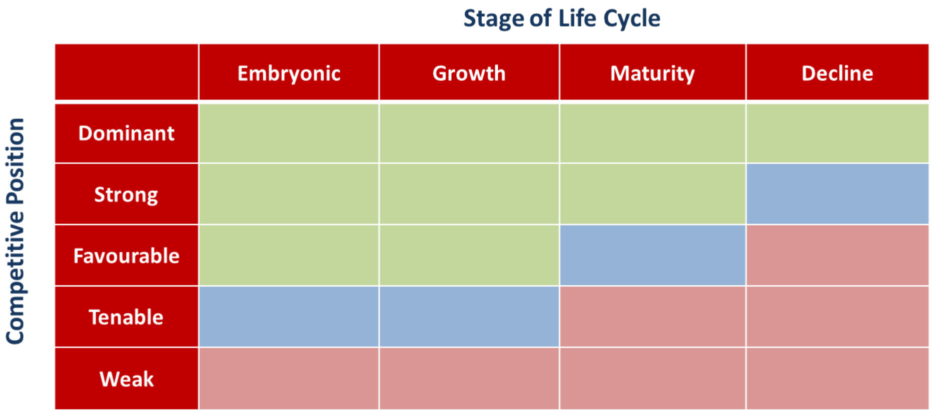
ADLMatrix

ADL matrix

⇨ ADL matrix is a portfolio analysis technique founded by **Arthur D. Little**that is **based on product life cycle**.

⇨ **Horizontal axis shows the stagesof development of product/business unit**.
  - This ranges from embryonic, growth, maturity andageing.

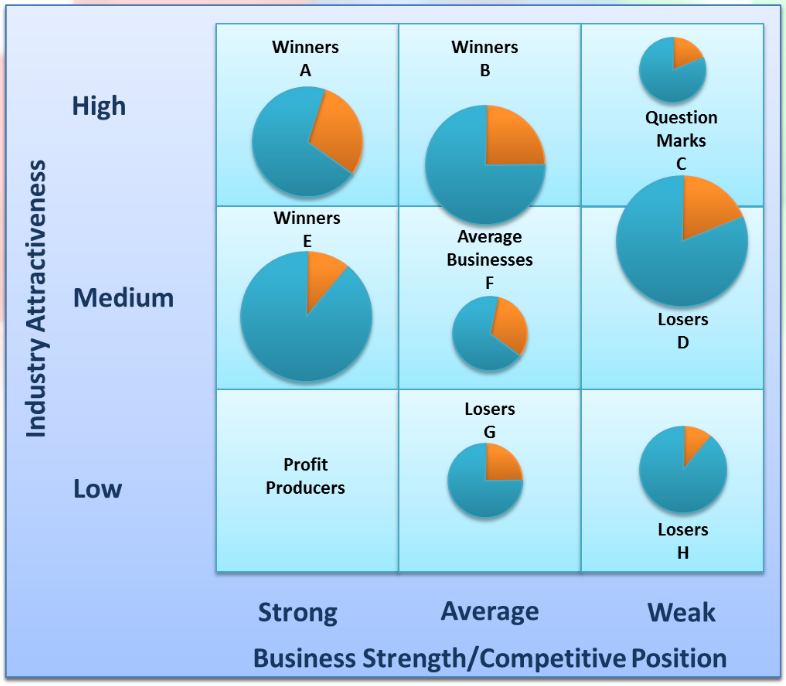
⇨ **Vertical axis shows the competitive position**.
  - This ranges from dominant, strong,favourable, tenable and weak.



- ✓ Green Cells - the position is quite good, and has several alternatives.
- ✓ Blue Cells - a selective strategy is required.
- ✓ Red Cells - the organisation need to prepare for exit or divest or liquidation.

The General Electric Model

⇨ GE Business Screenincludes **ninecells** based on long-term **industry attractiveness (the vertical axis)**and **internal business strength (the horizontal axis)**.



⇨ The **individual product lines or business units are plotted as circles**and identified by a letter

⇨ The **area of each circle is in proportion to the size of the industryin terms of sales**.

⇨ The **pie slices within the circles depict the market shares of the productlines or business units**.

The strategic implications of each cells in the GE matrix is shownin the following figure:

Industry Attractiveness \ Business Strength/Competitive Position	Strong	Average	Weak
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

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