MODULE 3

Retrenchment Strategy

Definition: The **Retrenchment Strategy** is adopted when an organization aims at reducing its one or more business operations with the view to cut expenses and reach to a more stable financial position.

The firm can either restructure its business operations or discontinue it, so as to revitalize its financial position. There are three types of Retrenchment Strategies:

1. Turnaround
2. Divestment
3. Liquidation

To further comprehend the meaning of Retrenchment Strategy, go through the following examples in terms of customer groups, customer functions and technology alternatives.

1. The book publication house may pull out of the customer sales through market intermediaries and may focus on the direct institutional sales. This may be done to slash the sales force and increase the marketing efficiency.
2. The hotel may focus on the room facilities which is more profitable and may shut down the less profitable services given in the banquet halls during occasions.

3. The institute may offer a distance learning programme for a particular subject, despite teaching the students in the classrooms. This may be done to cut the expenses or to use the facility more efficiently, for some other purpose.

In all the above examples, the firms have made the significant changes either in their customer groups, functions and technology/process, with the intention to cut the expenses and maintain their financial stability.

Types and Classification of Retrenchment Strategies

Retrenchment strategy is a corporate level strategy that aims to reduce the size or diversity of organizational operations. At times, it also becomes a means to ensure an organization's financial stability. This is done by reducing the expenditure. A retrenchment strategy is a design to fortify an organization's basic distinctive competence.

a.Turnaround:

The term 'turnaround' refers to the measures which reverse the negative trends in the performance indicators of the company. It refers to the management measures which turn a sick company back to a healthy one or those measures which reverse the deteriorating trends of performance indicators such as falling market share, falling sales, decreasing profitability, increase in costs, worsening debt equity ratio, getting negative cash flow, severe working capital problems etc. The strategies adopted to come out of crisis vary from case to case and from company to company.

Generally, the turnaround strategy emphasizes on improving internal efficiency and a failing company can be nursed back to health through any of the following or combination of efforts:

- **(a) Reducing costs may involve**
- (b) **Increasing revenue through**
- (c) **Reducing investment in assets**
- (d) **Revision of strategy which may involve**

b.**Divestment** is a form of retrenchment strategy used by businesses when they downsize the scope of their business activities. Divestment usually involves eliminating a portion of a business. Firms may elect to sell, close, or spin-off a strategic business unit, major operating division, or product line. This move often is the final decision to eliminate unrelated, unprofitable, or unmanageable operations.

Decisions to divest may be made for a number of reasons:

MARKET SHARE TOO SMALL.

Firms may divest when their market share is too small for them to be competitive or when the market is too small to provide the expected rates of return.

AVAILABILITY OF BETTER ALTERNATIVES.

Firms may also decide to divest because they see better investment opportunities. Organizations have limited resources. They are often able to divert resources from a marginally profitable line of business to one where the same resources can be used to achieve a greater rate of return.

NEED FOR INCREASED INVESTMENT.

Firms sometimes reach a point where continuing to maintain an operation is going to require large investments in equipment, advertising, research and development, and so forth to remain viable. Rather than invest the monetary and management resources, firms may elect to divest that portion of the business.

LACK OF STRATEGIC FIT.

A common reason for divesting is that the acquired business is not consistent with the image and strategies of the firm. This can be the result of acquiring a diversified business. It may also result from decisions to restructure and refocus the existing business.

LEGAL PRESSURES TO DIVEST.

Firms may be forced to divest operations to avoid penalties for restraint of trade. Service Corporation Inc., a large funeral home chain acquired so many of its competitors in some areas that it created a regional monopoly. The Federal Trade Commission required the firm to divest some of its operations to avoid charges of restraint of trade.

c. Liquidation:

A business may go into decline when losses are made over several years. The losses are setoff against past profits retained in the business (reserves), but clearly the situation cannot continue for very long. In such case liquidation may be imminent.
In case of technological obsolescence, lack of market for the company's products, financial losses, cash shortages, lack of managerial skills, the owners may decide to liquidate the business to stop further aggravation of losses. With a strategic motive also, a business unit may be liquidated. This strategic option is exercised in a situation where the firm finds the business as unattractive to revive the firm.
Liquidation involves the selling of the entire operation. Selling all of a company's assets,

in parts, for their tangible worth is called ‘liquidation’. In liquidation, the owner’s interests are better served than in an inevitable bankruptcy.

Combination Strategy

Definition: The **Combination Strategy** means making the use of other grand strategies (stability, expansion or retrenchment) simultaneously. Simply, the combination of any grand strategy used by an organization in different businesses at the same time or in the same business at different times with an aim to improve its efficiency is called as a combination strategy.

Such strategy is followed when an organization is large and complex and consists of several businesses that lie in different industries, serving different purposes. Go through the following example to have a better understanding of the combination strategy:

* A baby diaper manufacturing company augments its offering of diapers for the babies to have a wide range of its products **(Stability)** and at the same time, it also manufactures the diapers for old age people, thereby covering the other market segment **(Expansion).** In order to focus more on the diapers division, the company plans to shut down its baby wipes division and allocate its resources to the most profitable division **(Retrenchment).**

In the above example, the company is following all the three grand strategies with the objective of improving its performance. The strategist has to be very careful while selecting the combination strategy because it includes the scrutiny of the environment and the challenges each business operation faces. The Combination strategy can be followed either simultaneously or in the sequence.

What Is Business-Level Strategy?

Michael Porter, a professor at Harvard Business School, is widely regarded as the Father of Corporate Strategy. According to Porter, there are three types of business-level strategy any organization can pursue to gain an advantage over its competitors. These are cost leadership, differentiation and focus.

At a high level, each strategy is defined as follows:

- **Cost Leadership**
  Organizations that pursue cost leadership gain a competitive advantage by reducing operating costs to a level below the industry average. Business owners then pass these savings on to their customers with low-priced merchandise or services or maintain average pricing to increase their profit margin.
- **Differentiation**
  Companies that leverage a differentiation business-level strategy win market

share and defend higher pricing by offering a unique product or service features that are valued by their customers.

- **Focus**
  Focus strategies involve achieving cost leadership or differentiation within niche markets in ways broadly-focused players can not.

STRATEGY IN THE GLOBAL ENVIRONMENT;

Globalization was the buzzword of the 1990s, and in the twenty first century, there is no evidence that globalization will diminish. Essentially, globalization refers to growth of trade and investment, accompanied by the growth in international businesses, and the integration of economies around the world. According to Punnett (2004) the globalization concept is based on a number of relatively simple premises:

- Technological developments have increased the ease and speed of international communication and travel.
- Increased communication and travel have made the world smaller.
- A smaller world means that people are more aware of events outside of their home country, and are more likely to travel to other countries.
- Increased awareness and travel result in a better understanding of foreign opportunities.
- A better understanding of opportunities leads to increases in international trade and investment, and the number of businesses operating across national borders.
- These increases mean that the economies around the world are more closely integrated.

Managers must be conscious that markets, supplies, investors, locations, partners, and competitors can be anywhere in the world. Successful businesses will take advantage of opportunities wherever they are and will be prepared for downfalls. Successful managers, in this environment, need to understand the similarities and differences across national boundaries, in order to utilize the opportunities and deal with the potential downfalls.

The globalization of business is easy to recognize in the spread of many brands and services throughout the world. For example, Japanese electronics and automobiles are common in Asia, Europe, and North America, while U.S. automobiles, entertainment, and financial services are also common in Asia, Europe, and North America. Moreover, companies have become transnational or multinational-that is, they are based in one country but have operations in others. For example, Japan-based automaker Honda operates the largest single factory in the United States, while U.S. based Coca-Cola operates plants in other countries including France and Belgium—with about 80 percent of that company's profits come from overseas sales.

During the early1990s, there were reasons to feel that globalization was working. The economic success of Singapore, the rapid economic growth in the Asian Tigers (as the

Asian countries that grew rapidly were called), the industrializing of countries, such as Brazil and Mexico, and a variety of other positive economic events around the world suggested that the results of globalization were indeed good for development in poorer countries, as well as in richer ones. During the 1990s, the United States experienced one of its most sustained periods of growth as well, and there was much talk of a "new economy", based on globalization, which was immune to economic shocks and recession.

Unfortunately, this rapid growth was not without consequences. The Seattle meetings of the World Trade Organization turned into a fiasco, with anti-globalization groups demonstrating against globalization on all fronts—from animal rights to environmental concerns, poverty alleviation, and jobs for Americans. The anti-globalization forces have not coalesced into a coherent whole because they represent such diverse and often contradictory views. The vehemence of their protests, however, make it clear that globalization is not a panacea for the world's problems. In addition, the Asian Tigers suffered major economic setbacks in the late 1990s. In 2002, Argentina's economy, which had been one of the stars of the 1990s, crashed, when the country could no longer maintain its currency at par with the U.S. dollar.

Further problems occurred in the Triad economies. Japan, Europe, and the United States, often referred to as the Triad, dominated international trade and investment for much of the second half of the twentieth century. The Japanese economy went into a severe period of recession and deflation in the late 1990s, and in 2001 both the European and the U.S. economies took a downward turn as well. In turn, the rest of the world was negatively affected by the economic situation in the Triad. The terrorist attacks in the United States in September, 2001, exacerbated this already negative economic situation.

In developing appropriate global strategies, managers need to take the benefits and drawbacks of globalization into account. A global strategy must be in the context of events around the globe, as well as those at home.

International strategy is the continuous and comprehensive management technique designed to help companies operate and compete effectively across national boundaries. While companies' top managers typically develop global strategies, they rely on all levels of management in order to implement these strategies successfully. The methods companies use to accomplish the goals of these strategies take a host of forms. For example, some companies form partnerships with companies in other countries, others acquire companies in other countries, others still develop products, services, and marketing campaigns designed to

Table 1

Differences Between Domestic and International Strategy

Factors	Domestic Conditions	Global Conditions
Culture	Homogeneous	Heterogeneous
Currency	Uniform	Different currencies and exchange rates
Economy	Stable and uniform	May be variable and unpredictable
Government	Stable	May be unstable
Labor	Skilled workers available	Skilled workers may be hard to find
Language	Generally a single language	Different languages and dialects
Marketing	Many media, few restrictions	May be fewer media and more restrictions
Transport	Several competitive modes	May be inadequate

Source: World Bank

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appeal to customers in other countries. Some rudimentary aspects of international strategies mirror domestic strategies in that companies must determine what products or services to sell, where and how to sell them, where and how they will produce or provide them, and how they will compete with other companies in the industry in accordance with company goals.

The development of international strategies entails attention to other details that seldom, if ever, come into play in the domestic market. These other areas of concern stem from cultural, geographic, and political differences. Consequently, while a company only has to develop a strategy taking into account known governmental regulations, one language (generally), and one currency in a domestic market, it must consider and plan for different levels and kinds of governmental regulation, multiple currencies, and several languages in the global market.

The most recent wave of globalization by U.S. companies began in the 1980s, as

companies began to realize that concentrating on the domestic market alone would lead to stagnant sales and profits and that emerging markets offered many opportunities for growth. Part of the motivation for this globalization stemmed from the lost market share in the 1970s to multinational companies from other countries, especially those from Japan. Initially, these U.S. companies tried to emulate their Japanese counterparts by implementing Japanese-style management structures and quality circles. After adapting these practices to meet the needs of U.S. companies and recapturing market share, these companies began to move into new markets to spur growth, enable the acquisition of resources (often at a cost advantage), and gain competitive advantage by achieving greater economies of scale.

The globalization of U.S. companies has not been without concerns and detractors. Exporting U.S. jobs, exploiting child labor, and contributing to poverty have all been charges laid at the doors of U.S. companies. These charges have been accompanied by demonstrations and consumer boycotts.

Nor have U.S. companies been the only ones affected. Companies in the rest of the developed world have globalized along with U.S. companies, and they have also faced the sometimes negative consequences.Interestingly, in the late twentieth and early twenty-first century, there has also been a growth in international companies from developing and transitional countries, and this trend can be expected to continue and increase. Exports and investment from the People's Republic of China are a notable example, but companies from Southeast Asia, India, South Africa, and Latin America, to name some countries and regions, are making themselves known around the world.

What is corporate strategy;

Corporate Strategy takes a portfolio approach to strategic decision making by looking across all of a firm's businesses to determine how to create the most value. In order to develop a corporate strategy, firms must look at how the various business they own fit together, how they impact each other, and how the parent company is structured in order to optimize human capital, processes, and governance. Corporate Strategy builds on top of business strategy, which is concerned with the strategic decision making for an individual business.

What are the Components of Corporate Strategy?

There are several important components of corporate strategy that leaders of organizations focus on. The main tasks of corporate strategy are:

1. Allocation of resources
2. Organizational design
3. Portfolio management
4. Strategic tradeoffs

What Is Vertical Integration?

Vertical integration is a strategy whereby a company owns or controls its suppliers, distributors, or retail locations to control its value or supply chain. Vertical integration benefits companies by allowing them to control the process, reduce costs, and improve

efficiencies. However, vertical integration has its disadvantages, including the significant amounts of capital investment required.

Netflix is a prime example of vertical integration whereby the company started as a DVD rental company supplying film and TV content. The company's executive management realized they could generate more revenue by shifting to original content creation. Today, Netflix uses its distribution model to promote their original content alongside films from major studios.

What are Strategic Alliances?

Strategic alliances are agreements between two or more independent companies to cooperate in the manufacturing, development, or sale of products and services or other business objectives.

Mergers and acquisitions

M&A for short, involves the process of combining two companies into one. The goal of combining two or more businesses is to try and achieve synergy – where the whole (new company) is greater than the sum of its parts (the former two separate entities).

Mergers occur when two companies join forces. Such transactions typically happen between two businesses that are about the same size and which recognize advantages the other offers in terms of increasing sales, efficiencies, and capabilities. The terms of the merger are often fairly friendly and mutually agreed to and the two companies become equal partners in the new venture.

Acquisitions occur when one company buys another company and folds it into its operations. Sometimes the purchase is friendly and sometimes it is hostile, depending on whether the company being acquired believes it is better off as an operating unit of a larger venture.

The end result of both processes is the same, but the relationship between the two companies differs based on whether a merger or acquisition occurred.

Benefits of Combining Forces

Some of the benefits of M&A deals have to do with efficiencies and others have to do with capabilities, such as:

- Improved economies of scale. By being able to purchase raw materials in greater quantities, for example, costs can be reduced.
- Increased market share. Assuming the two companies are in the same industry, bringing their resources together may result in larger market share.
- Increased distribution capabilities. By expanding geographically, companies may be able to add to their distribution network or expand its geographic service area.
- Reduced labor costs. Eliminating staffing redundancies can help reduce costs.
- Improved labor talent. Expanding the labor pool from which the new, larger company can draw can aid in growth and development.
- Enhanced financial resources. The financial wherewithal of two companies is generally greater than one alone, making new investments possible.

Potential Drawbacks

Although mergers and acquisitions are expensive undertakings, there are potential rewards. And there are disadvantages, or reasons not to purchase an acquisition, including:

- Large expenses associated with buying a company, especially if it does not want to be acquired. (If an investor has a controlling interest in another company, however, it may not have a choice regarding whether it is acquired.)
- Higher legal costs, which can be exorbitant if a company does not want to be acquired.
- The opportunity cost of having to forego other deals in order to focus on bringing two companies together.
- The possibility of a negative reaction to a merger or acquisition, which drives the company's stock price lower.

M&A is a growth strategy corporations often use to quickly increase its size, service area, talent pool, customer base, and resources in one fell swoop. The process is costly, however, so the businesses need to be sure the advantage to be gained is substantial.

BCG matrix (or growth-share matrix) is a corporate planning tool, which is used to portray firm's brand portfolio or SBUs on a quadrant along relative market share axis (horizontal axis) and speed of market growth (vertical axis) axis.

Growth-share matrixis a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.

BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share). These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested

Relative market share. One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate's market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share. **Market growth rate.** High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

There are four quadrants into which firms brands are classified:

Dogs. Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested.
Strategic choices: Retrenchment, divestiture, liquidation

Cash cows. Cash cows are the most profitable brands and should be "milked" to provide as much cash as possible. The cash gained from "cows" should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations.
Strategic choices: Product development, diversification, divestiture, retrenchment

Stars. Stars operate in high growth industries and maintain high market share. Stars are

both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog.
Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

Question marks. Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not.
Strategic choices: Market penetration, market development, product development, divestiture

G.E NINE CELL MATRIX:

GE nine-box matrix is a strategy tool that offers a systematic approach for the multi business enterprises to prioritize their investments among the various business units. It is a framework that evaluates business portfolio and provides further strategic implications.
Each business is appraised in terms of two major dimensions – Market Attractiveness and Business Strength. If one of these factors is missing, then the business will not produce desired results. Neither a strong company operating in an unattractive market, nor a weak company operating in an attractive market will do very wellThe vertical axis denotes:Industry attractiveness indicates how hard or easy it will be for a company to compete in the market and earn profits. The more profitable the industry is the more attractive it becomes. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

- Long run growth rate
- Industry size
- Industry profitability: entry barriers, exit barriers, supplier power, buyer power, threat of substitutes and available complements (use Porter's Five Forces analysis to determine this)
- Industry structure (use Structure-Conduct-Performance framework to determine this)
- Product life cycle changes
- Changes in demand
- Trend of prices
- Macro environment factors (use PEST or PESTEL for this)
- Seasonality
- Availability of labor

- Market segmentation

  Horizontal axis represent: Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not.
- Total market share
- Market share growth compared to rivals
- Brand strength (use brand value for this)
- Profitability of the company
- Customer loyalty
- VRIO resources or capabilities (use VRIO framework to determine this)
- Your business unit strength in meeting industry's critical success factors (use Competitive Profile Matrix to determine this)
- Strength of a value chain (use Value Chain Analysis and Benchmarking to determine this)
- Level of product differentiation
- Production flexibility
- Green zone
  Suggests you to 'go ahead', to grow and build, pushing you through expansion strategies. Businesses in the green zone attract major investment.
- Yellow zone
  Cautions you to 'wait and see' indicating hold and maintain type of strategies aimed at stability.
- Red zone
  Indicates that you have to adopt turnover strategies of divestment and liquidation or rebuilding approach.

Advantages

· ***Helps to prioritize the limited resources in order to achieve the best returns.***
· ***The performance of products or business units becomes evident.***
· ***It's more sophisticated business portfolio framework than the BCG matrix.***
· ***Determines the strategic steps the company needs to adopt to improve the performance of its business portfolio.***

Disadvantages

· ***Needs a consultant or an expert to determine industry's attractiveness and business unit strength as accurately as possible.***
· ***It is expensive to conduct.***
· ***It doesn't take into account the harmony that could exist between two or more business units.***

What Is a Balanced Scorecard?

A balanced scorecard is a strategic management performance metric used to identify and improve various internal business functions and their resulting external outcomes. Balanced scorecards are used to measure and provide feedback to organizations. Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information and use it to make better decisions for the organization.

Characteristics of the Balanced Scorecard Model

Information is collected and analyzed from four aspects of a business:

1. **Learning and growth** are analyzed through the investigation of training and knowledge resources. This first leg handles how well information is captured and how effectively employees use the information to convert it to a competitive advantage over the industry.
2. **Business processes** are evaluated by investigating how well products are manufactured. Operational management is analyzed to track any gaps, delays, bottlenecks, shortages, or waste.
3. **Customer perspectives** are collected to gauge customer satisfaction with quality, price, and availability of products or services. Customers provide feedback about their satisfaction with current products.
4. **Financial data,** such as sales, expenditures, and income are used to understand financial performance. These financial metrics may include dollar amounts, financial ratios, budget variances, or income targets.

These four legs encompass the vision and strategy of an organization and require active management to analyze the data collected. The balanced scorecard is thus often referred to as a management tool rather than a measurement tool.