thebusinessprofessor.com

Master Business Strategies | TheBusinessProfessor

9-11 minutes

Strategies used to make decisions regarding the allocation of resources or pursuing an operational strategy are often categorized as stability strategies, expansion (growth) strategies, retrenchment strategies, or combination strategies. Each is dealt with below.

Stability Strategy

As the name implies, a stability business strategy seeks to maintain operations and market size and position. This strategy is characteristic of small risk-averse firms or firms operating in a very precarious market that is comfortable with its current position. These strategies are generally broken into:

- **No Change Strategies** – A firm makes no considerable changes to its objectives or operations. The firm examines the internal and external factors affecting the firm in its current operating and market environment. The firm makes a conscious decision to maintain its current strategic objectives. This is most common in low competition environments, with no major or market-shifting occurrences, and the firms competitive position is stable. For example, firms operating in niche markets commonly choose a niche (cost or differentiation) strategy and maintain that strategy until internal or external factors necessitate a change.

- **Profit Strategies** – A profit strategy endorses any action necessary to maintain or improve profitability. This may include cutting costs (operational efficiency, outsourcing), selling assets, raising prices, increasing output (sales), or offsetting losses with profits from another business unit. This strategy is common with firms that are profitable but are facing temporary pressures that are threatening their profitability, such as competition, market conditions, recession, inflation, cost escalations, etc. If these pressures become long-term, a profit strategy risks harming the firm by reducing competitiveness (particularly if the firm competes on cost or price). If a firm's value offering or resources are becoming obsolete, the profit strategy may provide temporary profits before the business unit is dissolved or otherwise disposed of. In any event, the strategy generally does not involve the investment of new resources. Profitability is maintained with present levels or less resources.
- **Caution Strategies** – This strategy requires a firm to wait and continue to assess the market before employing any particular strategy. It is basically reconnaissance before strategic action is taken. This is a temporary strategy employed for a limited time while deciding on a formal strategy to pursue. It avoids making any significant investment of resources and discontinues any strategy formula pursued until the firm has a full understanding of the market and the effect of former strategies. This strategy is common among manufacturing companies evaluating the launch of new products.

Expansion Strategy

An expansion strategy is synonymous with a growth strategy. A firm seeks to achieve faster growth, compete, achieve higher profits, grow a brand, capitalize on economies of scale, have greater impact, or occupy a larger market share. This may entail acquiring more market share through traditional competitive strategies, entering new markets, targeting new market segments, offering new produce or services, expanding or improving current operations. Below are common expansion strategies:

- **Expansion through Concentration** – This involves focusing resource allocation and operational efficiency on one or a select group of business units or core business functions. Concentration might include: penetrating an existing market with an existing value proposition; developing a new market by attracting new customers to an existing value proposition; developing a new value proposition to introduce in the existing market. The benefits of expansion through concentration is that it allows the firm to focus on areas where it already has operations and a level of competency. It is comfortable to avoid major changes in operations while employing existing knowledge. This type of strategy can be risky from the stand point of putting too many eggs in one basket. Changes in the market (price fluctuations, customer sentiment, new value propositions, etc.) may cause the strategy to be unsuccessful.
- **Expansion through Diversification** – This strategy involves diversifying the value offering of the company in one of two methods: 1) Concentric Diversification entails developing a new value proposition that are related to existing value propositions; or 2) Conglomerate Diversification entail entering into new markets (either with an existing value proposition or by combining with another industry competitor). This strategy generally reduces specific industry risks, such as an economic downturn. The profits of one value offering might offset losses in another business unit

during difficult times.

- **Expansion through Integration** – Integration involves the consolidation of operational units anywhere along the value chain to create greater efficiency and produce economies of scale. Unlike other strategies, it does not involve making changes to existing markets or targeting new customer groups. There are two primary types of integration: 1) Vertical integration involves consolidation up or down the value chain. Forward vertical integration involves consolidating closer to the point at which value is delivered to the consumer. Backward vertical integration involves consolidating closer to the genesis of value (such as the point of manufacturing). Horizontal integration involves consolidating operations at the same point in the value chain. This consolidation may be between business units or by acquiring or combining with a competitors. See our separate discussion of Horizontal and Vertical integration for greater detail.
- **Expansion through Cooperation** – This strategy entails working closely with a competitor (while potentially still competing against them in the market). Working with the competitor provides both companies an advantage that trumps any advantage (or disadvantage caused to the competitor) from not working together. Working together will generally provide operational efficiency to one or both competitors or expand the market potential for one or both competitors. Working together may take the form of consolidation of business units (mergers or acquisitions), strategic alliance (affinity group or association), or joint venture (loose partnership-like alliance generally used to undertake a project or enter into foreign markets).
- **Expansion through Internationalization** – This method involves

creating new markets for a value offering by looking outside of the immediate nation. Generally, this option is preferable when there is little room for expansion in domestic markets. Internationalization can be carried out through the following strategic approaches: 1) International Strategy – focusing on offering a value proposition in a foreign country without modification of differentiation; 2) Multi-domestic Strategy – involves modifying or differentiating a product to make it attractive or suitable to foreign markets; 3) Global Strategy – focuses on delivering the standardized value proposition in countries where there is a low cost structure for delivery; 4) Transnational Strategy – employs both a global and multi-domestic strategy by modifying or differentiating a product in foreign markets where there is a low cost structure that results in profits from delivering the value proposition.

Retrenchment Strategy

A redemption strategy seeks to restructure, sell or otherwise divest a business unit. The purpose is to reduce costs, streamline operations, or stabilize cash flow. The three primary types of retrenchment strategy are:

- **Turnaround Strategy** – This is a restructuring strategy. It calls for realigning operations to be more cost efficient or profitable. It often comes in response to an ineffective strategy causing harm to the company.
- **Divestment** – This means reducing operations or completing divesting (getting rid of) a business unity. Generally, the operational unit will be losing money or not fit with the company's core operational objectives. Some the drivers of this strategy are negative cash flows, sustained losses, poor business integration,

better alternative use of assets, the value proposition is becoming obsolete, rising costs, or small (non-growing) market share. The firm may now allocate resources to a more profitable or appropriately aligned business unit. Generally, a divestment comes after a turnaround strategy has proved ineffective.

- **Liquidation** – A liquidation strategy is similar to a divestment. It focuses on selling specific assets or shutting down business units. Unlike divestment, which seeks to streamline operations and focus resource allocation, liquidation sees a business unit as a loss or failure. Scenarios leading to a liquidation strategy include: extensive losses, lack of profitability, failure of a current strategy, obsolete assets, or technology, ineffective processes, obsolete value proposition, poor management, or lack of integration of the business unit.

Combination Strategy

A combination strategy employ any simultaneous combination of other master strategies. It includes use by a firm of a different strategy in individual business units or by use of multiple strategies in a single business unit at the same or different times. This is most popular in large, complex organizations (various industries and business units).