David fred growth strategies

Business

Tab. 3-1: Growth strategies / growth potentials | Intensive growth | integrative growth | diversification growth | |- market penetration |- backward integration |- concentric diversification | |- market development |- forward integration |- horizontal diversification | |- product development |- horizontal integration | |

Source: Fred David: How do we choose among growth strategies? , Managerial Planning jan / feb. 19?? and P. Kotler: Marketing Management chap. 3 Fred R.

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He is currently working an a business policy text book entitled BUSINESS POLICY AND STRATEGY Source: MANAGERIAL PLANNING JANUARY / FEBRUARY How Do We Choose Among Alternative Growth Strategies? The choice among alternative growth strategies can be considered the most important decision in an organization.

In this article thirteen major strategies are examined along with specific environmental conditions that are particularly conducive to the success of each strategy. The author states that the guidelines provided in this article can benefit strategists in both large and small and profit and non-profit organizations

Introduction The purpose of this article is to provide an integrated framework for strategic planners that outlines the basic conditions under which various alternative strategies are most appropriate. The guidelines presented here are based on an integration of relevant strategic management articles and books. The guidelines can aid both small and large and profit and non-profit organizations in their efforts to choose optimal strategies. Thirteen major alternative company strategies are examined relative to specific environmental conditions that historically have been associated with that strategy's success.

In addition, a current example of each type of strategy is provided.

No organization has the financial or human resources to pursue all the alternative strategies that possibly could benefit the firm. Therefore, vital strategic decisions have to be made to eliminate some strategies and to allocate organizational resources among others. All strategic decisions involve some tradeoffs such as long range versus short range considerations, high risk versus low risk preferences, and profit maximization versus social responsibility.

Due to this inherent need for some subjectivity, some organizations unfortunately conclude that strategic decision. making is exclusively a subjective process. For instance, in some organizations, those individuals who have the most political clout simply get their way when it comes to strategic decisions.

In most cases, this degree of subjectivity in formulating strategy has resulted in a loss of competitive posture and profitability. The preponderance of both

small and large and profit and non-profit organizations now recognize the critical need for objectivity in strategic planning.

The Alternative Growth Strategies Forward Integration Gaining increased control over distributors is a particularly good strategy to pursue when the following conditions exist: • When the organization’s present distributors are especially expensive, unreliable, or incapable of meeting the firm’s distribution needs. • When the availability of quality distributors is so limited as to offer a competitive advantage to those firms in the industry that integrate forward. • When the organization competes in a strategically promising industry.

This is a factor because forward integration reduces an organization’s ability to be flexible should the industry sour. • When the organization has both the capital and human resources needed to manage the new business of distributing its own products. • When the advantages of stable production are; particularly high. This is a factor because an organization can increase the predictability of the demand for its output through forward integration. • When present distributors have high proli1 margins. Example: On June 27, 1983, Fort Howard Paper Co.

greed to buy Maryland Cup Corporation. This forward integration deal quickly gives Fort Howard marketing punch and sales servicing skills. In the short term, however, Maryland Cup will drag down Fort Howard’s industry leading 30% pre-tax profit margin and 21. 6% return on equity. Backward Integration Gaining increased control over suppliers is a particularly good strategy to pursue when the following conditions exist: • When the organization’s

present suppliers are especially expensive, or unreliable, or in- capable of meeting the firm’s raw material needs.

When the number of suppliers is few and the number of competitors is many in the given industry. • When the organization competes in a strategically promising industry. This again is a factor because backward integration also reduces an organization’s ability to be flexible should its basic industry falter. • When the organization has both the capital and human resources needed to manage the new business of supplying its own raw materials. • When the advantages of stable prices are particularly important.

This is a factor because an organization can stabilize the cost of raw materials and the associated price of its products through backward integration. • When present suppliers have high profit margins. • When the organization needs to acquire a needed resource quickly. Example: Holiday Inns integrated backward when it created a supplies division and began producing furniture and distributing items like cleaning supplies and food for its inns. Horizontal Integration

The acquisition of competitors is a particularly good strategy to pursue when the following conditions exist: • When the organization can gain monopolistic characteristics in a given area or region without being challenged by the federal government for “ tending substantially” to reduce competition. • When the organization competes in a strategically promising industry.

• When increased economies of scale provide major competitive advantages. • When the organization has both the capital and human talent needed to successfully manage an expanded organization. When present competitors

are faltering due to a lack of managerial expertise or particular resources which your organization has. Note that horizontal integration would not be appropriate if competitors are because the overall industry is faltering. Example: Barnett Banks of Florida is preparing itself for the expected invasion of out-of-state banks into the Florida market.

Already the state's biggest retail-oriented bank, Barnett launched a growth. by-acquisition strategy in early 1980, spending $170 million to buy 10 other Florida banks.

In February of 1983, Barnett clinched its biggest deal yet with the $47. 3 million purchase of Great American Banks Inc. Market Penetration A major effort to increase current market share through increased marketing expenditures is a particularly good strategy to pursue when the following conditions exist: • When current markets are not saturated with the industry's products.

• When the usage rate of present customers could be significantly increased.
• When the market shares of major competitors have been declining while total industry sales have been stable or increasing. When the correlation between dollar sales and dollar marketing expenditures has historically been high. • When increased economies of scale provide major competitive advantages. Example: Whirlpool Corporation, the No. 2 maker of major home appliances, is conducting a massive market penetration push in the U.

S. as indicated by its new computerized distribution system, customized kitchen packages to fit builders' specifications, a do-it-yourself repair kit for

all customers, a toll-free " Cool-Line" to answer customers' questions, and extensive expenditures to push the Whirlpool label.

Market Development Geographic expansion is a particularly good strategy to pursue when the following conditions exist: • When new channels of distribution are available that are reliable, inexpensive, and of good quality. • When the organization is highly effective and efficient at what it does. • When new untapped or unsaturated markets exist. • When the organization has the needed capital and human resources to manage expanded operations.

• When the organization has excess production capacity. Example: Family Dollar Stores based in Matthews.

N. C. , is a discount department store that has been ringing up record sales and earnings. There currently are 579 Family Dollar Stores, but the company plans to expand out of the South-eastern United States and to increase the number of stores to 1100 by 1988.

Product Development Substantial modification (improvement) of existing products is a particularly good strategy to pursue when the following conditions exist: • When the organization has successful products that are in the maturity stage of the product life cycle.

The idea here is to attract satisfied customers to try new products as a result of their positive experience with the organization's initial products or services. • When the organization competes in an industry that is especially technology-oriented. • When major competitors offer better quality products at comparable prices. • When the organization competes in an industry that

is strategically attractive. • When the organization has especially strong research and development capabilities.

Example: American Motors is moving fast to market a more fuel-efficient Jeep nd a hatchback version of the Alliance. Concentric Diversification Obtaining other businesses whose products and customers are related to the firm's current offerings is a particularly good strategy to pursue when the following conditions exist: • When the organization currently competes in an industry that has stabilized or begun to decline. • When acquisition candidates are available that could minimize potential threats lo the organization and/or allow the organization to capitalize on specific opportunities. When the organization is internally strong but externally weak from a strategic point of view. • When acquisition candidates are available whose seasonal sales levels counterbalance the organization's present peaks and val.

leys. • When there exist a great degree of marketing, management, and/or technological synergy between the acquired and acquiring firm. • When the organization's products are currently in the decline stage of product life cycle. Example: St. Paul Company, the Minnesota based properly casualty insurer, spent $84.

million in 1982 to acquire Seaboard Surely Company, a specialist in surely bonding. St. Paul also bought a reinsurance operation and several wholesale insurance businesses in 1982. Conglomerate Diversification Obtaining other businesses whose products and customers are unrelated to the organization's current offerings is a particularly good strategy to pursue

when the following conditions exist: • When the organization competes in a strategically unattractive industry. • When the organization has the capital and managerial talent needed to compete successfully in more than one industry.

When the organization has the opportunity to purchase same other unrelated business that represents an especially attractive investment opportunity. • When there exists financial synergy between the acquired and acquiring firm. Note that a principal difference between concentric and conglomerate acquisitions is that the former should be based on same commonality in markets, products, or technology whereas the latter should be based principally on profit considerations. • When the organization's available markets are saturated. • When possible antitrust action against an organization requires no further growth in a particular industry.

Example: Singer Company, the nation's largest sewing machine company, announced plans on May ID, 1983 to diversify heavily into aerospace operations and to ultimately make that the predominant area of business at Singer. Horizontal Diversification Obtaining other businesses whose products are unrelated, but whose customers are related, to the organization's current offerings is a particularly good strategy to pursue when the following conditions exist: • When sales pf the organization's current products would significantly increase through acquisition of the particular related products. When the organization competes in an industry characterized by fierce competition as indicated by low industry profit margins and returns. • When the organization's present channels of distribution can be used to market the new products. • When the new products have countercyclical sales patterns

compared to the organization's present products. Example: Owens-Illinois Inc.

now admits that its $1. 8 billion glass-container operation is facing a no growth future as the country shifts to plastic containers. Therefore, Owens-Illinois is pursuing diversification into high-technology plastic packaging, i. . the same customers but a different product.

Joint Venture Forming a temporary partnership or consortium for the purpose of capitalizing on some opportunity is a particularly good strategy to pursue when the following conditions exist: • When a privately owned organization is forming a joint venture with a publicly owned organization. • When a domestic organization is forming a joint venture with a foreign organization. This represents an excellent means for obtaining local management in a foreign country and for reducing the risks of expropriation and harassment by host country officials. When the distinctive competencies of two or more firms complement each other especially well. • When some project is potentially very profitable, but requires overwhelming resources and risks.

The Alaskan pipeline is an example. • When two or more smaller firms have trouble competing with a giant firm. • When there exists a need to introduce same new technology quickly- Example: In May of 1983, Montedison Group Company formed a joint venture with Hercules Inc. to produce polypropylene resin. The new venture will have a solid 16.

5% of world polypropylene capacity. We developed this new technology and we had to use it quickly to beat competitors," explains a top Montedison executive. Retrenchment Extensive cost cutting and asset reduction in an

effort to regroup and fortify an organization’s basic distinctive competence is a good strategy to pursue when the following conditions exist: • When the organization has a clear distinctive competence yet has failed to meet its objectives and goals consistently over time. • When the organization is one of the weakest competitors in a given industry. When the organization is plagued by inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.

• When the organization has failed to capitalize on external opportunities, minimize external threats, take advantage of internal strengths, and improve internal weaknesses over time. That is, when the organization’s strategic managers have failed and possibly been replaced by more competent individuals. • When the organization has grown so large so quickly that major internal reorganization is needed.

Example: When the market for mobile homes and recreational vehicles collapsed in the mid-1970s, Phillips Industries Inc. , formulated and implemented a retrenchment strategy.

By March 1981, Phillips had consolidated manufacturing operations, closed five plants, laid off 27% of the work force, and implemented a “ value analysis” system for cost-cutting. Divestiture To sell one or more major, components of the business is a particularly good strategy to pursue when the following conditions exist: • When the organization has pursued a retrenchment strategy and it fails. When a division needs more resources to be competitive than the organization can provide. • When a single division is responsible for an organization’s overall poor performance. • When a single

division is a misfit with the rest of the organization. This can result from radically different markets, customers, managers, employees, values, or needs • When a lot of cash is needed by the organization in a short period of time and this cash cannot be reasonably obtained from other sources.

When government antitrust action threatens the organization. Example: Ralston Purina Company is currently selling all those divisions which do not complement its basic business (animal feed, grocery products, and restaurant operations) or which do not contribute to company profitability. The company has recently sold its tuna-catching fleet, its mush- room-raising division, and its European-based pet food businesses. Liquidation

The sale of an entire organization by parts for their tangible asset value is a particularly good strategy to pursue when the following conditions exist: • When the organization has pursued both a retrenchment and a divestiture strategy and still remains unprofitable and greatly in debt. • When the organization's only alternative is bankruptcy.

Liquidation represents an orderly and planned system for obtaining the greatest possible cash for an organization's assets. • When the stockholders can minimize their losses through selling off the organization's assets.

Liquidation is a difficult decision for strategic managers because it liquidates their own jobs, their pride, their reputation, and their colleagues' jobs. Example: W. T. Grant, once 1100 stores strong with 75, 000 employees, went into bankruptcy and was forced to liquidate.

More recently, F. W. Woolworth Company was forced into liquidation. Both of these companies were in the discount retailing business. Conclusion This

author is hopeful that the guidelines provided in this article can benefit organizations in their efforts to formulate successful strategies.

However, organizational strategists should note that the above guidelines should not be used to replace rational strategic decision-making.

That is, strategy formulation must involve objectivity matching a particular organization's internal strengths' and weaknesses with its external opportunities and threats. Three objective techniques especially useful in this matching effort are the TOWS Analysis developed by Weihrich in 1982, SPACE Analysis developed by Rowe, Mason, and Dickel in 1982, and QSPM Analysis developed by David in 1983.

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