Wholly owned subsidiary advantages

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A wholly owned subsidiary offers three advantages. First, when a company's competitive advantage is based on its technological superiority, a wholly owned subsidiary makes sense, since it reduces the company's risk of losing control over this critical aspect. For this reason, many high-tech companies prefer wholly owned subsidiaries to joint ventures or licensing arrangements. Second, a wholly owned subsidiary gives a company the kind of tight control over operations required for global coordination to take profits from one country to support competitive strategy in another.

Finally, a wholly owned subsidiary may be the best choice if a company has to realize location advantages and experience-curve effects. RECOMMENDATION AND IMPLEMENTATION As the industry traverses in different phases, the intense competition during this stage leads to a shake-out phase. As consolidation takes place, the industry enters a stable phase characterized by a small number of large companies. And though the stable industry may have some medium and small enterprises, the large companies dictate the competition because they can influence the overallenvironment.

In fact, these are the companies that developed the most successful generic strategies in the industry. The transition to stable environment is nearly always a critical period for companies in an industry. It is a period during which fundamental changes often take place in companies' competitive environment, requiring difficult strategic responses. Many firms have trouble perceiving these environmental changes clearly; even when they do, responding to them may require changes in strategy that firms may shy away from.

A shift to a more stable or mature industry environment can often bring about a number of important changes in an industry's competitive environment. • With companies unable to maintain past growth rates merely by holding market share, they turn their attention to attacking the shares of the others. This may lead to outbreaks of price, service, and promotional warfare. • The product is no longer new and buyers are more knowledgeable and experienced, having already purchased the product, sometimes repeatedly. The buyers' focus shifts from deciding whether to purchase the product at all to making choices among brands.

As a result of slower growth, more knowledgeable buyers, and usually greater technological maturity, competition tends to become more costly and service oriented, • As the industry adjusts to slower growth, the rate of capacity addition in the industry slows down. Firms need to monitor competitors' capacity additions and closely time its capacity additions with precision. This is rarely done and overshooting of industry capacity relative to demand is, therefore, common. (Hamel, G,(1989) Collaborate with your Competitors and Win)

• As a result of technological maturity, often accompanied by product standardization and increasing emphasis on costs, transition to stable environment is often marked by the emergence of significant international competition. International rivals have different cost structures and differentgoalscompared to domestic firms. • Slowing growth, more sophisticated buyers, more emphasis on market share, and the uncertainties and difficulties of the required changes usually mean that industry profits fall in the short run from the previous levels.

Some firms may be more affected than others, the smaller firms generally the most. Falling profits reduce cash flow during a period when they are needed the most. Rapid growth in the dynamic stage tends to hide errors and allow most companies in the industry to survive and even to prosper financially. Experimentation is high, and a wide variety of strategies can coexist. Carelessness and negligence are, however, generally exposed by stable industry. Maturity may force companies to meet head-on the need to choose among the various strategies available.

STRATEGIES IN A STABLE INDUSTRY ENVIRONMENT In a stable industry environment, strategic group of industries follow similar generic strategies. Companies follow the same strategies as their rivals because any change during this phase is likely to stimulate a competitive response from their rivals. In fact, the main issue that firms need to contend in a stable industry environment is to adopt a strategy that simultaneously allows the firms to protect its competitive advantage while preserving industry profitability.

In other words, in stable industry environment, competitive strategy hinges on how large companies collectively try to reduce the strength of the five forces of industry competition to preserve both individual and industry profitability. Firms can generally use three strategies to prevent rivals from entering an industry. They are product proliferation, price cutting and excess capacity. Product Proliferation Most companies produce a range of products instead just one product. This is done to target different segments with different products.

Sometimes, companies expand their product range to fill market niches, which creates an entry barrier for potential entrants sine they will now find it

harder to break into an industry in which all the gaps or niches are filled. This strategy of plugging market niches is product proliferation. Rationalizing the Product Mix Although a broad product line and frequent introduction of new varieties and options may often be necessary and desirable, cost competition and fights for market share are too demanding sometimes to follow a product proliferation strategy.

As a result, pruning of unprofitable items from the line and focusing attention on items that have some distinctive advantage liketechnology, cost, image, etc. is more desirable. (http://www. state. gov/) Process Innovation The importance of process innovations usually increases in stable and mature industry environment, as does the advantage of designing the product and its delivery system to facilitate lower-cost manufacturing. The success of the Japanese industry in industries such as electronics, automobiles, etc. is attributed to this strategy. Price Cutting

In some situations, price cutting can be used as a strategy to deter entry of other companies, thereby, protecting the profit margins of the incumbents in the industry. For instance, XYZ can charge a high price for the product initially to seize short term profits and then cut prices aggressively to build market share and deter new entrants at the same time. The current players in the industry can thus send a signal to the potential entrants that if they enter the industry, the incumbent players will use their competitive advantage to drive down prices to a level which will make it unviable for new entrants to compete at that level.

Excess Capacity A third strategy that firms use to discourage entry of potential rivals involves maintaining excess capacity, that is, producing

products much more in excess of the demand. The incumbent companies may intentionally develop excess capacity to warn potential new entrants that if they enter the industry, existing firms will strike back by increasing the output and putting a downward pressure on prices until the entry would become unprofitable. Buying Cheap Assets Sometimes assets can be acquired very cheaply as a result of the distress sale of assets by companies unable to make successful transition to stable environment.

A strategy of acquiring distressed companies or buying liquidated assets can improve margins and create a low-cost position if the rate of technological change is not too great. Competing Internationally A firm may break out of the stifling stable environment by competing internationally where the industry is more favorably structured. Sometimes equipment that is obsolete in the home market can be used quite effectively in international markets, significantly lowering the costs of entry there. Or industry structure may be a great deal more favorable internationally, with less sophisticated and powerful buyers, fewer competitors, etc.

The shortcomings of this strategy are the usual risks involved in international competition. Apart from discouraging new entrants, firms also use strategies to manage their competitive interdependence and decrease rivalry. Several options are available to companies to manage rivalry within the industry. Product differentiation is one such option. It allows a firm to compete for market share by offering different products or by using different marketing techniques. The four competitive strategies based on product differentiation are based on different combinations of product and market segments. Market Penetration

When a company expands market share in its existing product markets, it is said to follow market penetration strategy. This strategy involves heavy advertising to promote and create product differentiation. In a stable and mature industry the major objective of promotion is to influence consumers' choice for the company's brands and products. A company can thus increase its market share by attracting customers. Product Development This strategy involves creation of new or improved products to replace existing ones. Product development strategy is vital for maintaining product differentiation and building market share.

Market Development Market development strategy involves finding new market segments for a company's products. A firm following this strategy will try to capitalize on its brand reputation in one market segment by looking for new market segments in which to compete. (Porter, M. E. , (1980). Marketing Management Planning, Implementation and Control) Product Proliferation This strategy is used to manage rivalry within an industry and to deter entry. Product proliferation strategy essentially involves having a product in each market segment or niche and compete face-to-face with rivals for the customers.