The market activated corporate strategy framework

What is a strategy. Basic instruments.

Strategy is the overall long-term plan of the company that takes into consideration available resources, challenging environment, market requirements and expectations of all the companys stakeholders. It takes into account direction, in which the organization is going, the markets, in which the company is operating, competitive or absolute advantage, all available resources, environment (external and internal factors), the fulfilment of stakeholder's needs and wants.

Most organizations have several levels of strategies:

Corporate strategies – cover the overall purpose of business, is usually long-term (more than 5 years). Corporate strategies are crucial in a way that they highlight the way for an organization that will be followed for a long time and may require huge budget costs. Sometimes stated as a " mission statement".

Operational strategies – cover the operations of the business on a scope of 3-5 years. Translate strategic goals into clearly stated objectives, representing the bridge between corporate and tactical strategies.

Functional strategies – focuses on everyday routine work that will enable the organization to reach its major goal. (less than one year)

Well-organized strategies that are being implemented are a part of strategic management, the art of making " strategic decisions" – decisions that formulate company's vision, mission, plans for development and research,

and the direction, in which the company is going. Strategic management consists of three components:

Strategic Analysis

Analysis is crucial for every activity. Not every time there can be sufficient tools for its accomplishment. But in the process of Strategic Analysis several tools can be used: PEST Analysis Scenario, Planning Five Forces Analysis, Market Segmentation, Directional Policy Matrix, Competitor Analysis, Critical Success Factor Analysis, SWOT Analysis.

Strategic Choice

Involves the choice of different alternatives, to align them with the desired outcome, evaluating and finally, selecting the final strategy that will satisfy all the stakeholders.

Strategy Implementation

The last and the most difficult part. Implementation should be carefully evaluated and controlled on every single step.[1]

But how are the strategies usually created?

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The strategy starts with 6 basic questions: who, what, when, where, why, and how.

Basically, when the Vision specifies what the organization is going to do (be the high-value provider), where the organization is going to do it (in North

America, Europe, and Australasia), and implicitly answers the why (because buyers do not have a high value choice) and

the Execution Plan specifies who (engineering, marketing, sales) will be doing what (designing a new product, launching the campaign, visiting key retailers), when (this quarter, next quarter, next year), and how they will be doing it (utilizing an expert design firm’s services, capitalizing on new media, holding in-person displays) then the strategy can lead to required goals.

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For this semester paper, the important is the research step, as it consists of all the attempts of the organization to learn more about the opportunities, environment, strengths, etc.

And this is where organization uses different available now tools, to ensure the correctness of the information that it has and to know, where the market is going, the stakeholder’s preferences, etc.

Where is the organization now? (MACS (Market-Activated Corporate Strategy Framework) Where is the market likely going? (Scenario Planning) Can the market be redefined? (Blue Ocean Strategy Framework) How will the market reactions change to a change in strategy? (Porter’s Five Force Analysis) How will IT help with execution? (McKinsey 7-S Strategy Framework) Can the execution plan be leaned? (Value Stream Mapping)[4]

But none of these are general purpose frameworks that can be used ubiquitously. Porter’s five forces only indicate whether or not a strategy has a chance of succeeding, not how to go about formulating it. Strategy

mapping is very performance and metric centred, which is useless for entirely new initiatives. Value stream mapping is highly customized to (lean) manufacturing. The Blue Ocean Strategy doesn't apply if creating an entirely new market isn't feasible. The MACS framework is based heavily on financial planning, which may not be feasible early on in the strategy formulation process. The 7-S Strategy framework has been highly customized for IT and Scenario Planning and helps in the identification of scenarios that need to be addressed, but provides little in the way of resolutions.[5]

Nevertheless, these business toold help to find the correct direction within the project and are used uring the analysis.

I would like to depict the essentials of MACS development, it's basic idea and an exa, ple of how it can be used in business.

MACS Development

Market Activated Corporate Strategy framework was developed in the late 1980s. But it wasn't developed at once. There were several predecessors to this framework.

Once of the first can be the BCG Growth-Share Matrix. This matrix represents the market growth rate and the relative market share, and according to the level, the business units were divided into 4 categories.

It was used very often before, but over the time more comprehensive tools were designed, to eliminate the weaknesses of BCG Matrix, like the fact that is takes into consideration only two factors, avoiding many many others that have a huge impact on profitability.

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BCG Matrix also assumes the independence of each business unit, therefore it leads to underestimation of the interconnection that often exists (as “ Dogs”, for example, sometimes help in gaining competitive advantage)

Another predecessor is the old nine-box matrix, developed by McKinsey. It covers industry attractiveness and compatitive strength of the business unit, and has three levels: high, medium and low.

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McKinsey’s nine-box strategy matrix, was very popular in the 1970s, taking into a consideration the attractiveness of a given industry along one axis and the competitive position of a particular business unit in that industry along the other. Thus, the matrix could reduce the value-creation potential of a company’s many business units to a single, digestible chart.

However, the nine-box matrix applied only to product markets: those in which companies sell goods and services to customers. Because a comprehensive strategy must also help a parent company win in the market for corporate control – where business units themselves are bought, sold, spun off, and taken private – a analytical tool called the market-activated corporate strategy (MACS) framework was developed.[8]

MACS

MACS (Market Activated Corporate Strategy framework): MACS represents much of McKinsey’s most recent thinking in strategy and finance, it is a

framework that offers a systematic approach for the multibusiness corporation to prioritize its investments among its business units.[9]

How should a corporation decide whether to buy, sell, or keep a business unit? In the late 1980s, McKinsey developed its market-activated corporate strategy (MACS) framework, which answered that question in a surprising way. The obvious considerations-the attractiveness of the industry in which the unit competes and its competitiveness within that industry-are both relevant, but the acid test is which company can extract the greatest value from the business. If the present owner should be that company, it probably ought to keep even a mediocre or poorly performing unit.[10]

A company should make sure that it is the best possible owner of each of its business units-not simply hold on to units that are strong in themselves.

The key insight of MACS is that a corporation’s ability to extract value from a business unit relative to other potential owners should determine whether the corporation ought to hold onto the unit in question.

In the MACS matrix, the axes from the old nine-box framework measuring the industry’s attractiveness and the business unit’s ability to compete have been collapsed into a single horizontal axis, representing a business unit’s potential for creating value as a stand-alone enterprise. The vertical axis in MACS represents a parent company’s ability, relative to other potential owners, to extract value from a business unit. And it is this second measure that makes MACS unique.[11]

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Managers can use MACS just as they used the nine-box tool, by representing each business unit as a bubble whose radius is proportional to the sales, the funds employed, or the value added by that unit. The resulting chart can be used to plan acquisitions or divestitures and to identify the sorts of institutional skill-building efforts that the parent corporation should be engaged in.

The horizontal dimension: Business unit’s potential of creating value as a stand-alone enterprise

The horizontal dimension of a MACS matrix shows a business unit’s potential value as an optimally managed stand-alone enterprise. This measures the optimal value of a business, sometimes it can be qualitative. When more precise information is needed, the manager can use the net present value of the business unit and then compare it with other units (factors like sales, value added, or funds employed can be also included).

The vertical dimension: Parent Company’s ability to extract value from the business unit

The vertical axis of the MACS matrix measures a corporation’s relative ability to extract value from each business unit in its portfolio. If the parent company can extract the most value from the business unit than could be done by anyone else, this company is the owner that can really create the most value from the assets and these business units should be kept.

There are several qualification for the company that can highlight its ability to the the owner of the business:

The parent corporation may be able to envision the future shape of the industry-and therefore to buy, sell, and manipulate assets in a way that anticipates a new equilibrium.

It may excel at internal control: cutting costs, squeezing suppliers.

It may have other businesses that can share resources with the new unit or transfer intermediate products or services to and from it.

There may be financial or technical factors that determine, to one extent or other, the natural owner of a business unit. These can include taxation, owners' incentives, imperfect information, and differing valuation techniques.[13]

General Electric Example

Once a company's business units have been located on the MACS matrix, the chart can be used to plan preliminary strategies for each of them. The main principle guiding this process should be the primary one behind MACS itself: the decision about whether a unit ought to be part of a company's portfolio hangs more on that company's relative ability to extract value from the unit than on its intrinsic value viewed in isolation.

The matrix itself can suggest some powerful strategic prescriptions-for example:

Divest structurally attractive businesses if they are worth more to someone else.

Retain structurally mediocre (or even poor) businesses if you can coax more value out of them than other owners could.

Give top priority to business units that lie toward the far left of the matrix- either by developing them internally if you are their natural owner or by selling them as soon as possible if someone else is

Consider improving a business unit and selling it to its natural owner if you are well equipped to increase the value of the business unit through internal improvements but not in the best position to run it once it is in top shape. [14]

As an example we can take the General Electric Company with its various business units.

Size of the bubbles is proportionate to sales, funds, people employed. GE has 7 major business units:

GE Capital (7)

GE Technology Infrastructure (2)

GE Energy (5)

GE Home & Business Solutions (4)

GE Healthcare (3)

NBCUniversal (1)

Taking the approximate measure of the business units and using the MACS Matrix, we can see the following picture:

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Analysing the Matrix, we can see, what business units appear in which corner of the table, and then we can analyse the possibility of creating the separate companies from the business units, that we can not properly operate, like unit 1 and 3 in this case.

If we look at units 7, 5, 4, 2 we can see that parent company can extract value from these business units better that from business units 1, 3. So, the manager, after analysis other factors can come to the idea of selling these businesses or turning them into separate companies.

Conclusion

The market changes rapidly. Every day the environments are changing. Every day should a good manager monitor it and analyse the market.

There os a selection of tools that can be used. PEST Analysis Scenario, Planning Five Forces Analysis, Market Segmentation, Directional Policy Matrix, Competitor Analysis, Critical Success Factor Analysis, SWOT Analysis, MACS.

All of them support each other, highlighting different important areas that should be checked during the analysis process.

In this paper we discussed the MACS – a really useful tool, if a manager wants to analyse the business units of the organization. It combines the best practices (BCG Matrix and 9-box Matrix) to ensure the most possible output from this analysis.

Of course, the MACS matrix is just a snapshot. The manager's objective is to find the combination of corporate capabilities and business units that provides the best overall scope for creating value with the usage of all available tools for analysis, including the MACS.

If the parent company is best suited to extract value from a unit, it often makes no sense to sell, even if that unit doesn't compete in a particularly profitable industry. Conversely, if a parent company determines that it is not the best possible owner of a business unit, the parent maximizes value by selling it to the most appropriate owner, even if the unit happens to be in a business that is fundamentally attractive. In short, the " market-activated corporate strategy framework" prompts managers to view their portfolios with an investor's value-maximizing eye.[16]

But even taking into consideration these factors, MACS is still useful and helps in company's assessment and planning process. In combination with other tools, MACS represent a reliable combination of data, required by company's management.