Business Development From Start to Scale
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Week - 11
Strategies for Markets and Industries
Lecture - 54
Mature Industries and Declining Industries

Hi friends, welcome to the NPTEL course Business Development from Start to Scale. We are in week 11 with the theme of Strategies for Markets and Industries. In this lecture, the 54th in the series, we discussed the topic of Mature Industries and Declining Industries.

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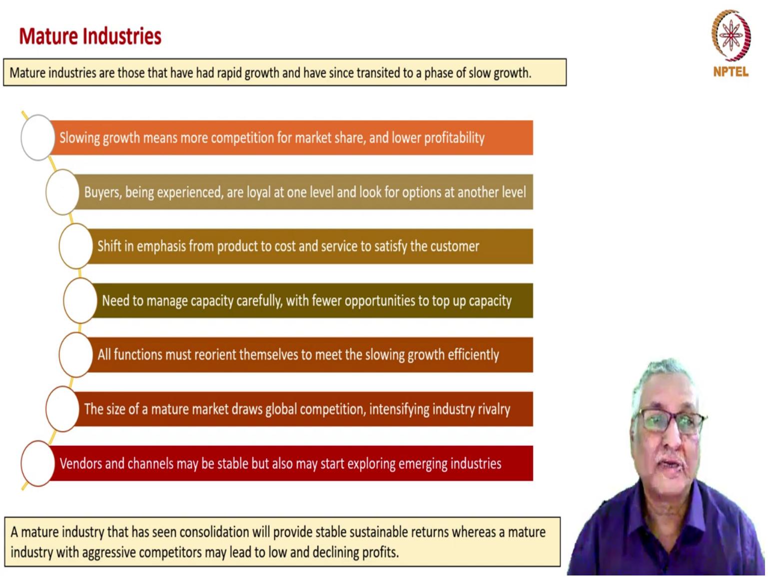

Mature industries are those that have had rapid growth and have since transited to a phase of slow growth. Slowing growth means more competition amongst the players in the industry for market share and lower profitability, therefore. Bias being experienced are loyal at one level, but also look for options at another level. Shift in emphasis from product to cost and service to satisfy the customer.

Need to manage capacity carefully with fewer opportunities to top up capacity with more demand. All functions must reorient themselves to meet the slowing growth efficiently. The size of a mature market draws global competition, intensifying industry rivalry. Vendors and channels may be stable, but also may start exploring emerging industries. This point needs attention.

The size of a mature market draws global competition, intensifying industry rivalry. It happens even nationally. When a market is developed by several small and medium players, a large behemoth may enter the market and try to occupy a large space, although it is a mature market.

When you see layers coming into the FMCG market in India, it could be due to the belief in the overall potential of the market because of the continued growth in population and continued increase in urbanization. But it could also be due to the fact that the market has been very well developed and the market exists as a matured market. Therefore, with a different mix of the marketing strategy and sales strategy, the company could look at entering the market and occupying a big place for itself.

The same applies from a global perspective as well. When a multinational corporation looks at a national market, the size matters a lot the multinational company will think that it has superior product, superior technology and superior marketing know-how. And the question for the multinational corporation therefore, is why not I enter this matured market in India which is looking for a change, which is looking for a choice?

So, mature industry does not mean that companies or the new entrants would not either expand or enter respectively. They may in fact, do so and that is the hallmark of mature industry; stable competition with occasional spikes in competition and therefore, more competition and jostling for market share and resultant lower profitability. A mature industry that has seen consolidation will provides sustainable stable returns whereas, a mature industry with aggressive competitors may lead to low and declining profits.

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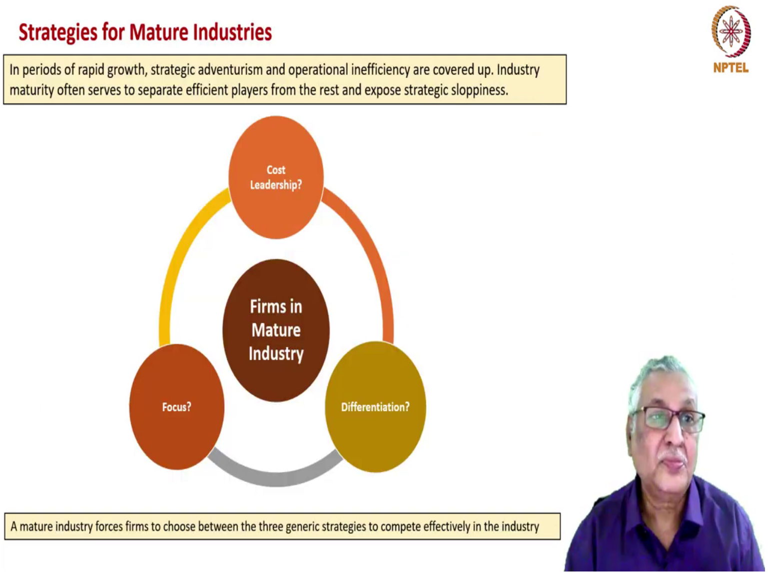

What are the strategies for mature industries? In periods of rapid growth, strategic adventurism and operational inefficiency are covered up. Industry maturity; however, serves to separate efficient players from the rest and expose strategic sloppiness. Firms in mature industry would have to follow one of the three strategies cost leadership focus or differentiation.

Firms in the industry have to choose between the three generic strategies to compete effectively in the industry. Trying to be everything for everyone may not help in the mature industry setup.

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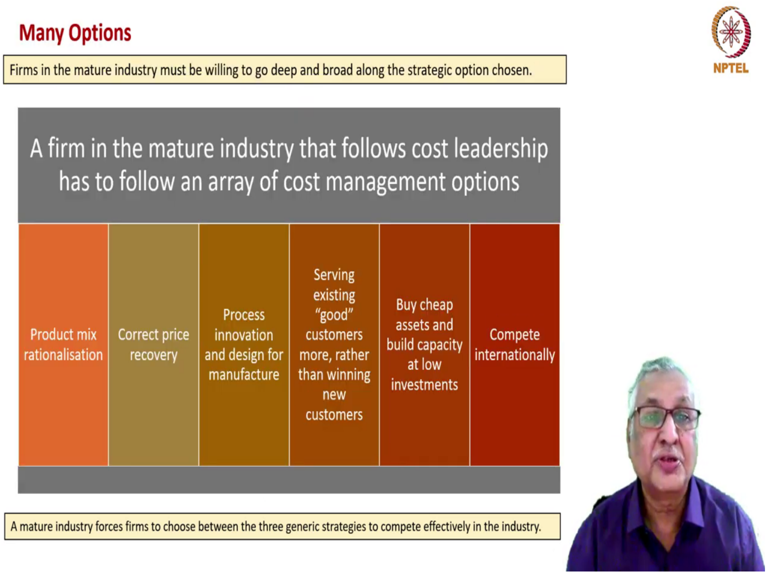

There are many options for firms in the mature industry. However, there must be willing to go deep and broad along this strategic option chosen. A firm in the mature industry that follows cost leadership has to follow an array of cost management options. Product mix rationalisation, correct price recovery, process innovation and design for manufacture.

Serving existing good customers more rather than winning new customers. Buy cheap assets and build capacity at low investments compete internationally that is getting to markets where you have not been present. A mature industry forces firms to choose between the three generic strategies to compete effectively in the industry.

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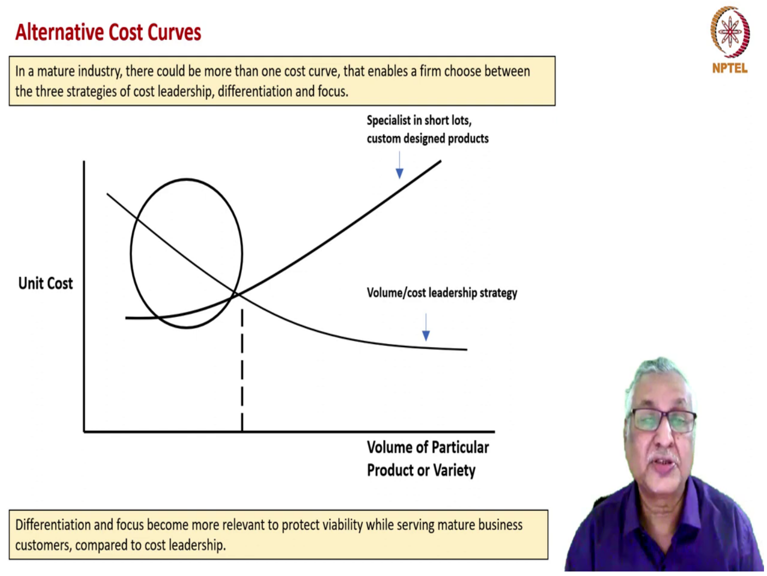

A mature industry has two types of cost curves, one that enables volume and costly leadership; one which is based on specialist and short-lots production. Let us plot the cost curves on the volume and unit cost parameters. If the volume increases, the mature firm can have a cost leadership strategy.

On the other hand, if the unit costs are going to go up and the volumes are not going to go proportionately, you got to look at short-lot custom design product approach where, even though the unit costs are high, you are going to have reasonable revenue and profit potential. Usually in mature industries, you tend to have volume cost leadership approach rather than specialist, short-lots, custom designed approach.

Because specialist short-lots custom designed approach would require some unique skills which are bordering on niche or differentiation strategy. The circle which you see wherein the two curves attempt to cross each other is the circle where the strategy has to be fine-tune which way one should go is the strategic dilemma that a mature firm would face at that point of time. Differentiation and focus become more relevant to protect viability while serving mature business customers compared to cost leadership.

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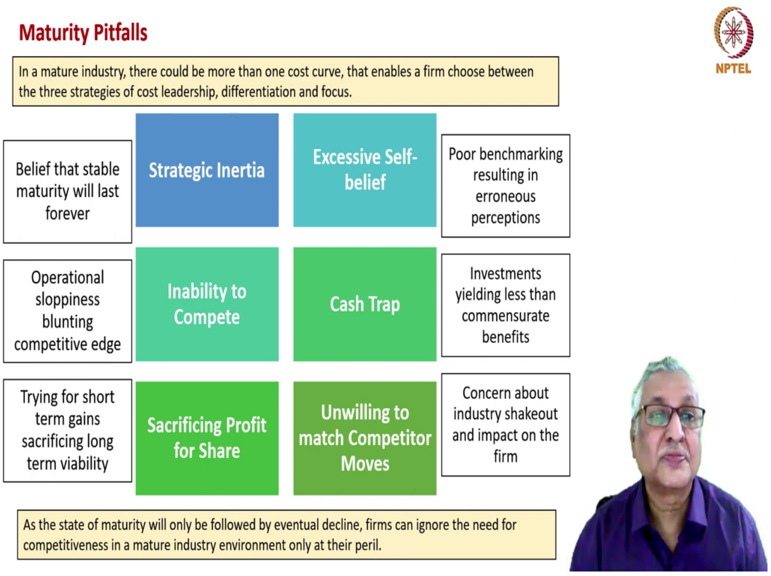

What are the maturity pitfalls? In a mature industry, there could be more than one cost curve as I said and that enables a firm choose between the three strategies of cost leadership differentiation and focus. But at the same time, companies in maturity are not likely to take quick decisions or agile decisions. They do not choose which strategy to be adopted and they do not consider which strategy would be the right one. They tend to procrastinate. What are the six reasons for that?

Fundamentally strategic inertia, firms in the mature industry believe that stable maturity will last forever. They have a positive view or an optimistic view or even callous view about how long the maturity would last and how late it would be before a new entrant with new technology can come in and this is called strategic inertia.

There could be excessive self-belief. The mature companies try to do poor benchmarking rather than sharp benchmarking. They believe that the competitors are no better than themselves. Therefore, it results in erroneous perceptions about the competition and they generally tend to ignore the start-up activities in the industry.

The third pitfall is the share inability to compete. Companies in the mature industry have already become large, bureaucratic and have enjoyed stable returns. Therefore, it breeds optimization sloppiness. It blunts the competitive edge. The result is the inability to compete. Mature firms also tend to have cash traps because they have investments that are not going to yield as much as they should have yielded in their past.

Therefore, they do not know how to deploy the cash. They would measure themselves against the past returns and do nothing about doing something for the future. Mature firms sacrifice profit for share. Mature firms believe that if they occupy a greater slice of the market, they would be protected against competition or any new changes. And in that process, they try for short term gains and they sacrifice long term viability.

Mature firms also, as I said, are so, self-obsessed that they would be unwilling to match competitor moves. And they are also worried that any moves to compete head on with other competitors in the mature industry could lead to a situation where everybody would lose. The industry shakeout could happen and the firm itself would be adversely impacted, will be the strategically reasoning.

As the state of maturity will only be followed by eventual decline. Firms can ignore the need for competitiveness in a mature industry only at that peril. That is, after the mature industry situation, the only other you can encounter is decline. The companies must be prepared for that and do something different to extend the maturity or rediscover themselves. Not doing anything is not an option at all. And if they ignore the risk of decline and the risk of exit, that would be only at their peril.

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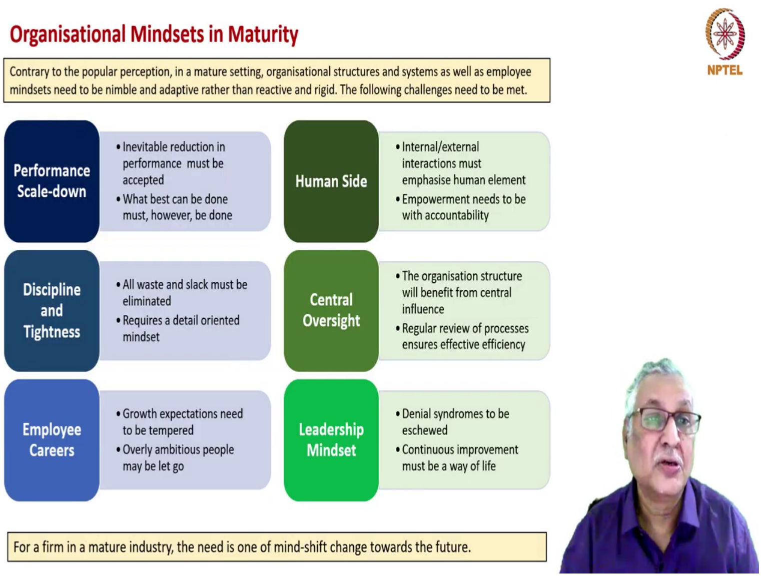

What are the organizational mindsets in maturity? Contrary to the popular perception in a mature setting, organizational structures and systems, as well as employee mindsets need to be nimble and adaptive rather than reactive and rigid. As I discussed earlier, the mindsets typically in a mature industry are reactive and rigid and that is the challenge to be overcome.

There are six challenges related to maturity mindsets. One, performance scale term - A mature firm cannot imagine that it would grow its share at it has grown in the growth stage. It has to accept below the past level of returns. Therefore, inevitable reduction in performance must be accepted.

However, what best can be done must be done. Second, there should be a mindset of discipline and tightness. All waste and slack must be eliminated and this requires a detail-oriented mindset. Third, employee careers have to be tempered. Growth expectations need to be tempered. One cannot keep doing the safe job for years over with continuous increases in remuneration and that is going to act against the health of the mature firm.

Instead, what the company should do is to discover more intricate and more effective ways of doing things, probably move with less. So, that employee careers are protected at the same time. Reasonable value is generated for the company. Overly ambitious people may have to find places other than the mature industry.

The human side of maturity has to be dealt with lot of empathy. Internal and external interactions must emphasize human element. Empowerment needs to be with lot of accountability. There should be central lower-site. The organization structure will benefit in a mature industry from central influence.

Regular review of processes ensures operational efficiency. The leadership mindset should be one of avoiding denial. Leadership should be aware of the maturity nature and the inevitable decline phase that could come in. So, denial syndromes must be assured. Continuous improvement must be a way of life. For a firm in a mature industry, the need is one of mind shift change towards the future.

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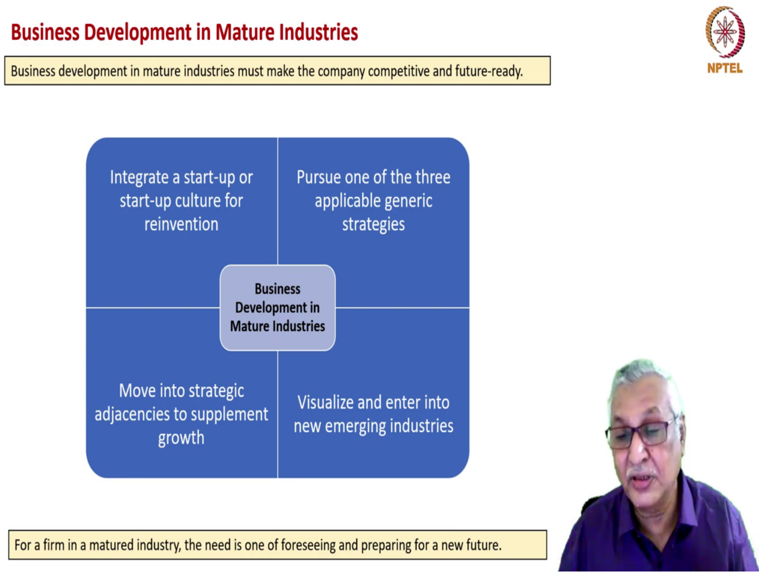

How do you do business development in mature industries? Business development in mature industries must make the company competitive and future ready. There are four ways in which you can undertake successful business development. In mature industry, you would be at the other end of the M in DA equation. And that could be the terminal decision to take. But before that, there could be a few other options that should be exercised by the strategist and the business development person.

First, you must learn to integrate a start-up culture in the company for reinvention of the business and reinvention of the operations. Better still, if you are able to integrate a start-up in your mainstream operations, you should do that. So, having a start-up within yourself with new technology, new approach or having a start-up culture for reinvention would be the ideal first step in making the mature firm become more agile, more nimble and more capable.

However, while doing so, you must ensure that the maturity mindset that exists in the company which I have alluded to earlier is modified. The mindset should be one of encouraging the start-up to find its true home in the mature setup. The second aspect is to pursue one of the three applicable generic strategies that is cost leadership, differentiation or focus. Mature industry means the customer is already exposed to a number of product features, number of product functionalities.

The customer is aware of various brands and products. The customer is also loyal for certain products and certain brands. Therefore, there is an opportunity for someone having superiority to get into the customer's mindset and become higher in terms of volume. Therefore, you should pursue one of the three applicable strategies that is be lower in price for the customer, provide greater value.

Therefore, be more differentiated for the customers. Therefore, provide greater value for the customer or create new niche segments within the mature industry. So, that your product presence is taken out of in a different way. And the third option is to get into strategic adjacencies to supplement growth.

If you are a company which is already into steel making and you are having a mature industry status, getting into value added products is something which is going to help you. If you are a company which is in the paints industry, getting into home decoration is a way of getting into strategic adjacencies. If you are a company which is good in polycarbonate and other plastic sheets, getting into development of canopies and pergolas could be a good strategic adjacencies.

Irrespective of the maturity of the industry, there could always be options where there would be new technology that could be helpful if you are willing to move into the strategic adjacency. The fourth option is to visualize and enter into new emerging industries.

That is you are making yourself future ready by taking on diversification or expansion into newer emerging industries and that could include industries, which will be in presence in the marketplace after tomorrow or industries which would be available for the marketplace only several years later.

But both strategies must be pursued by mature industry firms. So, that their future is secure. For a firm in the mature industry therefore, the need is one of foreseeing and preparing for a new future. That is going to be the requirement. Mature industry brings several advantages for a firm that has been through the journey from the introduction growth, competitive turbulence and finally, the maturity phase.

The company has got the scale, the company has got the scope, the company has got the talent, the company has seen multiple types of scenarios during the growth journey. Companies would have also faced the vicissitudes of business and economic cycles. With all that cumulative experience and with all that cumulative capability firms in the mature industry in fact, are better place to be able to extend their presence.

If you look at the companies which are for perpetuity in industry be it the IBM, be it the Britannia, be it the ITC you will find that they have these characteristics. They have constantly rediscovered themselves from time to time to be able to get into newer vistas and make sure that the presence is continued. IBM was a computer company, IBM was a hardware based company.

Then it moved into personal computers. Then it thought that personal computers is not too different from what it has been doing in terms of computing equipment. So, it decided to get into supercomputers at one level and also into IT based services at the other level. It also got into cloud and other areas.

So, IBM has made a shift towards other strategic adjacencies to be able to be ready for the future. ITC moved from cigarettes to a host of other areas, which are not necessarily adjacencies, but helped the company discover new emerging industries, hotels, hospitality, paper, paper board, information technology, fast moving consumer goods are all the areas where ITC moved it. And in some of those areas there was an underlying threat of strategic adjacencies.

Being a cigarette manufacturer it had tobacco fields and it understood agriculture and from that it has moved into food processing industry. And its touch with agriculture also helped the company move into papers and paper boards. There is a kind of common threat that ran through the bringing together of the emerging industries for ITC.

So, these kinds of opportunities always exist for mature firms and mature firms can extend their life continuously by getting into newer emerging industry. Even a behemoth like Reliance is not sitting quite on the mature oil and gas industry that it has as its foundation business. It has moved into retail, it has moved into telecommunications. Now, it is moving into new energy. So, business development is a continuous process.

Maturity should become the advantage rather than the overhang or disadvantage in terms of moving into newer areas. One thing is for sure when you are a mature firm with a strong balance sheet you have the ability to create new levels of equity induction and new levels of debt financing. You should be a skilled financial manager to be able to utilize this potential and start new growth journeys. That is the expectation for a business developer in a mature industry for a mature firm.

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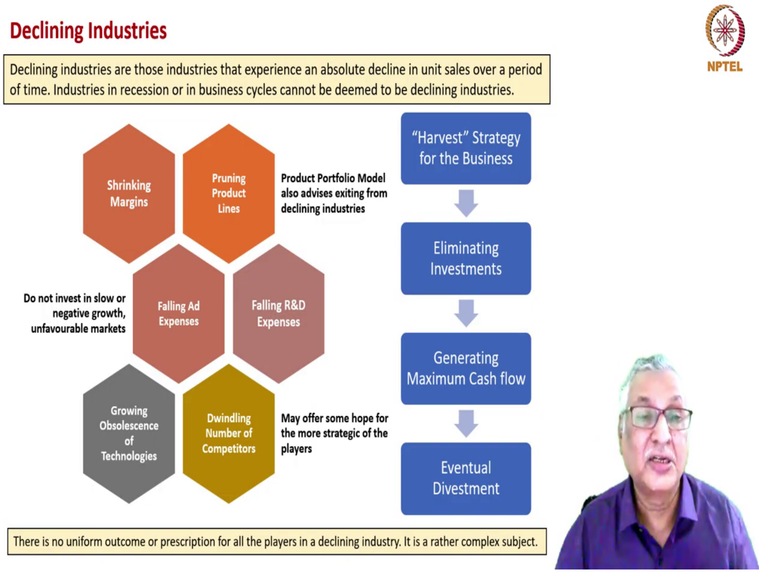

Let us look at declining industries. As I said decline comes after maturity. Declining industries are those industries that experience an absolute decline in unit sales over a period of time. Industries in recession or in business cycles cannot be deemed to be declining industries. When you have recession, when you have an adverse business cycle, the sales volume comes down. That does not mean that it is a declining industry because once the recession is over, the volume will go up.

Declining industries are those industries where there is a continuous decline in volume, profitability and there is no potential what isoever of the volume again picking up. So, what are the characteristics of declining industries? First shrinking margins - the per unit profitability keeps on going down and if you are having a portfolio of products in the same business, some of them will even be lost making.

Many of the products will be below the economic volumes. Many of the manufacturing lines will be operating well below the break-even points. These are all the characteristics of a declining industry and a declining firm in a declining industry. Therefore, what the declining industry based companies do is to prone the product lines.

Product portfolio model advisors exiting from declining industries and as a first step, companies try to get rid of unprofitable products and try to shore up their finances. Declining industries are also characterized by inability to market themselves anymore. They do not invest in slow or negative growth unfavourable markets.

If you have 8 or 10 markets on which you are focusing on, you would measure yourself on the relationship between expenditure and the revenue. If that is adverse, you would like to avoid those markets, avoid those product lines. Declining industries also are characterized by falling R and D expenses.

This is unfortunately paradoxical. Actually, declining industries are those which require technological rejuvenation or technological renewal for the industry to stand on its feet. However, ensuring that R and D expenses fall so, that there is greater profitability is a further recipe to failure of a declining company.

So, But these are the characteristics of a declining industry and a declining company. And it does not know how to fight the growing obsolescence of technologies. The only way you can fight the growing obsolescence of technologies is through having organic warranty or buying out products which are novel in technology.

Neither is done because the companies do not feel confident. One of the other advantages of declining industries which may give a temporary reprieve or a temporary misconception is the declining number of competitors. People tend to exit an industry which is declining.

This may offer some hope for the more strategic of the players or a player who has relatively deeper pocket in the declining industry. But that could not be or that may not be a permanent feature to be looked at with positivity. So, for a declining industry, what is the strategy you have? Typically, the half a strategy for the business you try to eliminate all redundant investments, unnecessary investments or investments on future where this uncertainty is very high.

The industries will be required to generate maximum possible cash flow to stay aloft. And in eventual divestment would be a matter of course, for companies which are in the declining industries. But there is no uniform outcome or prescription for all the players in a declining industry. It is a rather complex subject because decline is a relative term. If you, a company which has seen 20 percent growth may consider a 15 percent growth and a 10 percent growth as a decline.

But in an overall perspective, 10 to 15 percent growth could still be a good growth. Even a single digit growth could be a good growth. It all depends upon the nature of the product. How useful this product which I am manufacturing is going to be for the future. That is going to be the main determinant of the nature of decline being a hard fact of life for the industry.

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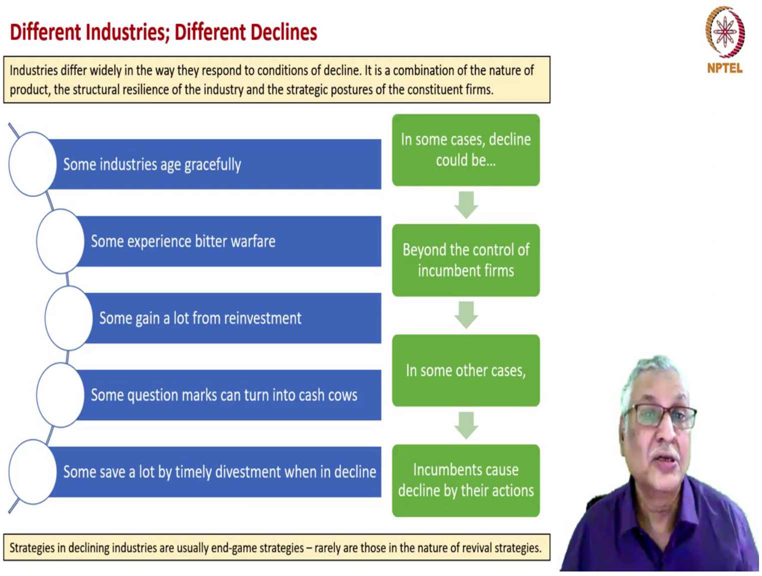

There are different industries. Similarly, there are different declines. Industries differ widely in the way they respond to conditions of decline. It is a combination of the nature of the product, the structural resilience of the industry and the strategic postures of the constituent firms.

An industry such as automobile will not be easily into decline because structurally the industry is very strong. The ecosystem is very well set and the product which serves the mobility need is required as long as humanity needs mobility, as long as the economy needs mobility. So, it is an essential industry of sorts.

Similarly, a product which meets the home making requirements such as edible oil is an industry which will continue to have its position because without oil, you cannot do modern day cooking. Therefore, it is an essential element of home making and having food to eat in the homes.

Therefore, you can say that industry has structural resilience and the product is an essential item. And within the industry, if the strategic postures of the constituent firms are varied that is some are aggressive, some are soft, some are cost conscious, some are quality conscious, the pace of decline and the inevitability of decline could vary.

Some industries age gracefully, a teleprinter industry based on telex has aged gracefully and it has moved into facsimile industry. The mainframe computer industry aged gracefully and moved into the personal computer and supercomputer eras gracefully. The server industry is still there, but it is aging gracefully into the cloud storage.

Some declining industries face bitter warfare. They try to shore up their position even when there is a decline. It could happen to companies, it could happen to the whole industries. Some gain a lot from reinvestment. Many industries could gain a lot from reinvestment. For example, we think that the land phone has seen its day and there is no need for a land phone at all.

But with the kind of developments that are happening, if you are able to bring in some of the mobile features, some of the Bluetooth features into the landline, at least within the envelope of a room or within a house, a landline may still communicate for the participants in the house and the advantage could be that the phone need not be carried by the individual.

So, reinvestment judiciously into new technologies could help even a declining industry look up. Some question marks can turn into cash cows because the perception of individuals, the perception of societies could change. There could be a time when someone thought that coconut oil is cholesterol producing and it may be discouraged except for reasons of tradition.

But on the other hand, new research may come into public knowledge which says that coconut oil is actually heart healthy. And what is seen as a stable, if not declining a mature industry could suddenly become a booming industry. These are the kinds of changes that could take place.

Some declining industries and declining companies could save a lot by timely divestment when in decline. There is no point waiting for the last endgame point to decide whether to divest or not. If you wish to divest, you must do it quite in advance. In some cases, decline could be beyond the control of incumbent firms. Decline could be sharp, swift and unanticipated. And in some other cases, incumbents cause decline by their actions.

The role of 2G CDMA technology in telecommunication industry has been good and notable in the early years of telecommunication evaluation in India. However, 2G CDMA technology became irrelevant when JSM technology came on the scene and when 3G and 4G came into the picture.

Now, trying to hold on to those technologies, dated technologies, vintage technologies is something which is beyond the control of incumbent firms in terms of fighting the decline or arresting the decline. In such cases, the shear force of technology as a global movement is going to make the industry decline.

Similarly, when the product becomes completely obsolete and gets replaced by another product such as an film based camera getting replaced by a digital camera, there is no hope at all there is no hope at all of incumbent firms having some control over pacing the decline. In some other cases, incumbents cause decline by their own actions. Incumbents in any particular industry have got normally quite capabilities.

Kodak, Eastman Kodak that is had lot of capability in terms of research into new camera models. The company was the first to develop a digital camera, but the company thought that it is of no use and film based camera would succeed and stay on for a long, long time. And that was a fatal mistake and caused the decline of the camera division. IBM thought poorly about the personal computer business.

One of the famous remarks attributed to a very senior leader of IBM is that I would be surprised if more than a few computers of this nature gets sold. But today or in the previous generation itself, we had had a revolution of personal computers. So, incumbents also can cause decline by their actions. At times, it could be an ostrich-like approach towards whatever is happening in the external environment.

Strategies in declining industries are usually end game strategies. Rarely are those in the nature of revival strategies. For every one revival that could happen in the declining industry, there would be 99 cases where the decline has led to a terminal exit. There is possibility for an industry which is in decline to have some products that would see rebirth at some point of time in future.

Example, radio; Radio - obviously, has lost its relevance through transistors and later with semiconductors and other consumer electronics devices. However, radio as a firm factor has the ability to reposition, reinvent itself and incorporate the best of the latest technologies. So, it comes back partially into life.

Nano may have failed as an internal combustion engine based automobile, but it has got all the potential to come back as an electric vehicle, as a light electric vehicle which is smart and cute for the young generation or for the elders. It may even extend itself through autonomous technologies.

So, what is under decline need not necessarily be permanently shut out of the entire industrial space with some wisdom, with some innovation they can even come back into life. But for every one such case, the companies which will go into terminal decline would be many, many more.

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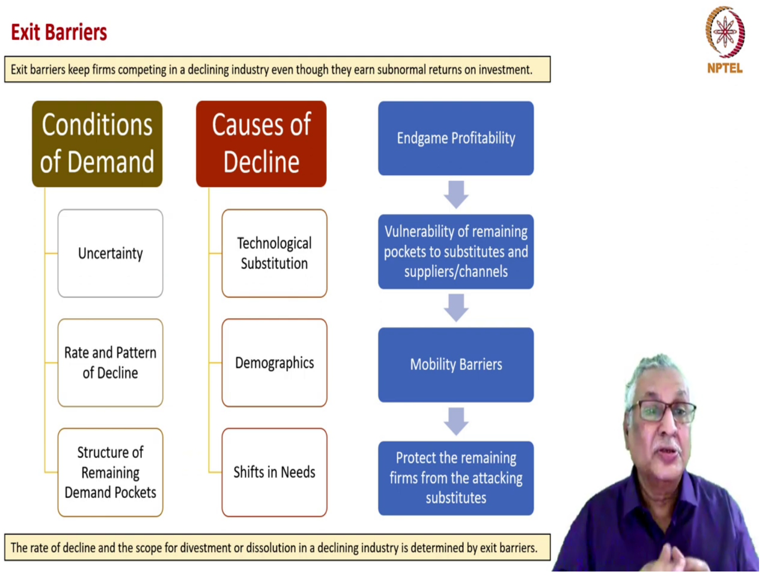

Exit barriers keep firms competing in a declining industry. That is even though companies perceive that they are in a declining industry. They do not move out, they stay on, they jostle for space, they compete against one another because they have these exit barriers. Even though they earn subnormal returns on investment, they do not know how to get out of the industry or they do not have the strategic will power, or strategic strength to move out.

Because if you want to move out of an industry, you got to take strong decisions of shutting down facilities, selling the facilities, understanding what to do with the cash that you come, how to explain to the stakeholders, these are all the issues that a strategic leader faces when faced with exit.

So, let us look at what are the conditions of demand and what are the causes of decline. The conditions of demand could be uncertainty. The condition of demand could be rate and pattern of decline and the structure of remaining demand pockets. When you are analyzing the need for exit, you have to look at all the three.

The uncertainty of the product line, the uncertainty of the demand for the product line and how steep and how sharp is the fall. And if some demand is still remaining, what is the structure of the remaining demand? Is it that somebody else who is in an informal sector undertake the demand and fulfill it or you need to be present to fulfill the demand?

And what are the causes of decline? Is it because of new technology coming in and sending out your technology? Is it because of the demographic needs, modifying themselves significannotly? Or is it because the consumer does not need the kind of product which you supplied earlier?

Today when certain products are associated with certain healthcare issues, there is a shift in consumer demand towards products which are good healthy choices and that could cause a decline in the industry. So, you got to look at end-game profitability, vulnerability of the remaining pockets to substitutes and suppliers and channels, the kind of mobility barriers that exist and finally, protect the remaining firms from the attacking substitutes. This is all is an industry play.

The rate of decline and the scope for divestment or dissolution in a declining industry is determined by exit barriers. Why would you sell anything in an exiting situation? You will sell not because somebody wants to come in and make a better sale when you yourself could not do a good sale in that industry.

Usually parts or pieces of your business or your facilities, your campuses become relevant for some buyer. So, you get partial value for whatever you have developed. But bankruptcy does not mean that you are in exit. For example, Urban Ladder was in difficult situation as a furniture company, a start-up. It got sold to Reliance through a fire sale mechanism.

That does not mean that Urban Ladder did not have the capability or potentiality for increasing its business. It just did not have the resources and the willpower. There were no exit barriers for that company. There were mobility barriers for the company to become a more profitable company and this furniture business is growing under Reliance Retail.

Therefore, exit has to be viewed separately from the strategic inability of a company to manage itself well. Bankruptcy does not mean an exit industry situation. Bankruptcy only means that the managers and founders who are unable to manage the company properly have to exit, not necessarily the company.

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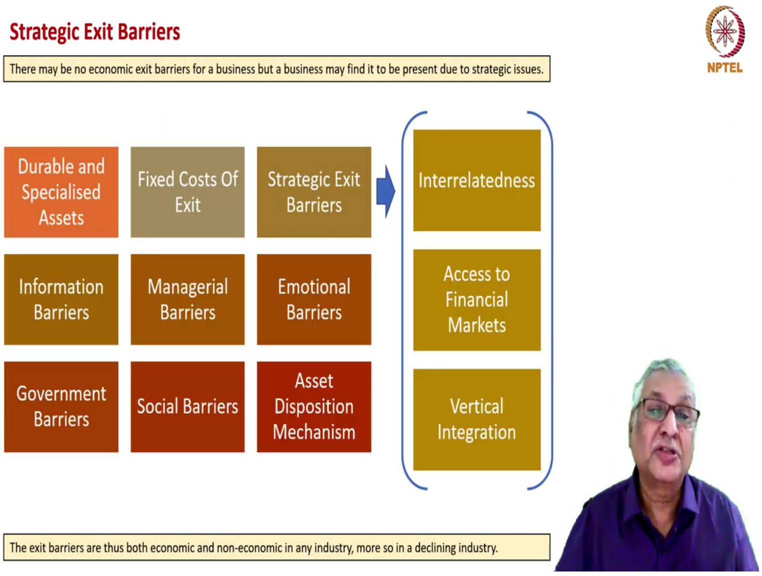

What are the strategic exit barriers? There may not be any economic exit barriers for a business. But a business may find it to be present due to strategic issues. Durable and specialised assets, you have assets which are useful only to you as a company, in which case there are no buyers for the company. So, you would try to use those assets as much as possible and turn to end whatever money you could have. If you had 1000 people, you would reduce the force to 100 people and still earn some returns out of those assets.

The second one is the fixed cost of exit. That is when you are exiting; you got to give separation money to every employee. You got to fulfil all statutory dues. You have to repay all the bank loans that you have taken. So, there is some fixed cost. So, the tendency will be to keep the machine running as much as possible. So, that you do not have to face the one time fixed cost of exit and that becomes even more applicable when you do not have a ready buyer to take the assets.

Then there are strategic exit barriers which are in terms of three aspects. One, interrelatedness - if you exit a business, you are going to be seen as a failed company. And if you are having a portfolio of businesses, although one business makes little sense and you need to exit, you will not exit because there is interrelatedness in all the businesses, particularly if one is providing a material input for the other business.

Second, your exit may have an impact on your credit rating or how banks view you. Your credit rating may improve under certain circumstances because you are removing the loss making arm of you. But, if the exit is due to your management of mismanagement, then the financial markets will look at you in a different way. So, that may affect the access to financial markets and you cannot exit if the whole business is in vertical integration mode.

So, you are having let say raw material mining, you are having materials manufacture, then component manufacture, then finally, the end product manufacture. You may not be able to easily exit the material mining sector because that is strategic for your entire value chain. As long as your end product is doing good, you require materials. You only need to buy a buyer. So, that the economics in the overall for your value chain are better.

So, those are the strategic exit barriers or exit considerations. There would be information barriers that is you think that the industry is exiting, but you are not aware of the newer things that are happening in the industry, newer things that are happening in the marketplace and you make a misguided decision. And that is what is called information barrier.

Then you have managerial barriers that is managers turn around and say that we can make this business profitable or managers misguide the leadership. In terms of the potential or there could be managers on the other side of the buying spectrum who could try to drive a very hard bargain.

So, these are all the barriers related to exiting from an industry. There could be emotional barriers. If you have built an industry through all the stages of growth and maturity and you come to the declining stage, you will have emotional barrier that will stop you from exiting. You will try to hold on as long as it is possible. Then there would be government barriers, not all governments encourage instant exits. They would like the companies to retain employment by trying out as much as possible.

So, there are seen and unseen regulatory barriers towards exit. Then there are social barriers. As a founder, as a promoter, you will be labelled as a failure within course. If you close down units or you sell the units, therefore, people tend to hold on as much as possible to running off a declining unit. Then there could be imperfect information related to asset disposition.

They may not be a well-developed platform to sell assets. In that case also, there would be an exit barrier. But today, with several asset reconstruction companies coming into play and with several bank banks also coming into play, let us hope that there would be a positive, open and transparent mechanism for disposition of assets.

So, that the assets will go into the right hands and those can be leveraged properly outside of the exit constraints which industries and managements could have. The exit barriers, therefore, are both economic and non-economic in any industry and more so, in a declining industry.

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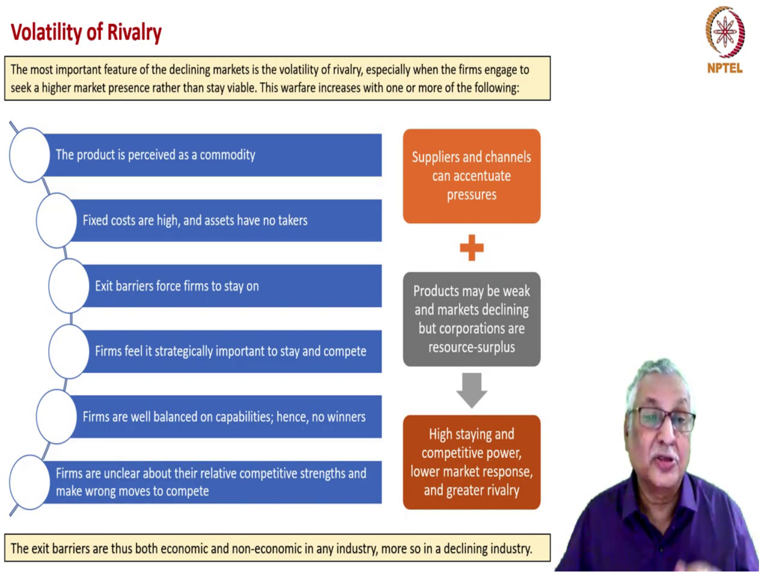

There is also going to be high rivalry in an declining industry. The most important feature of the declining markets is the volatility of rivalry, especially when the firms engage to seek a higher market presence rather than stay viable. This warfare increases with one or more of the following characteristics of a declining industry.

The product is perceived as a commodity, in which case there is always a consumer pressure, always a distribution pressure to reduce the prices or give more discounts. The Fixed costs are high and the assets have no takers. Therefore, you have to sweat the assets you have in whatever manner possible and keep getting whatever revenues and profits you could get.

Exit barriers force firms to stay on. All of the people have come into the industry hoping for big bucks. But the exit barriers after the intense competition ensure that they get locked in. It is some (Refer Time: 42:24). You enter, but you do not know how to move out of the industry.

Some firms feel it strategically important to stay and compete. Firms feel that technologies follow cycles. Firms feel that if I want to make good in one industry, I need to be present in another industry. Example, let say you are an company which is which has been in the travel business and you have set up a hotels business. And after some time, it emerges that the travel business has lot of competition and it can be easily outsourced to someone else.

Theoretically, therefore, for you, it is a declining industry. And if you are looking at this decision during the COVID time, it is even more declining industry. And therefore, you might decide from a strategic perspective or an operational perspective that you should exit the travel industry.

But you may feel that by having travel industry or travel travelling industry presence, you are able to expose your hotel to a larger number of firms. So, you feel that it makes sense to stay on in the travel business and compete and find out ways and means by which you will come out of the exit syndrome.

Firms are well-balanced on capabilities. When you have firms in an declining industry, there are well-balanced on capabilities. There will be no winners. When firms are unclear about their relative competitive strengths and make wrong moves to compete, then the rivalry in the declining industry will only go up.

Suppliers and channels can accentuate pressures. That is, vendors, when they ask for price increases, even when the volumes are coming down would only increase the pressure. Similarly, when dealers want higher margins because the lower volumes of sales is making them unviable, they are going to increase the pressure.

Products may be weak and markets may be declining. But corporations are resource surplus. That is, you have a holding company. Under the holding company, you have 2-3 companies, one of which has weak products. But the parent is in a position to sustain the losses.

Therefore, the parent company will keep providing certain resources to keep the wheel moving for the company. That will only increase the volatility of rivalry because one company is trying to exert itself. Other companies also will try to exert themselves and there will be higher rivalry.

Then generally, if big companies, companies which have seen better times get into an exit industry mode, they have naturally higher staying and competitive power. And because they have higher staying power, even in the face of lower market response, they will cause greater rivalry. Again, the exit barriers are both economic and non-economic in any industry and more so, in a declining industry.

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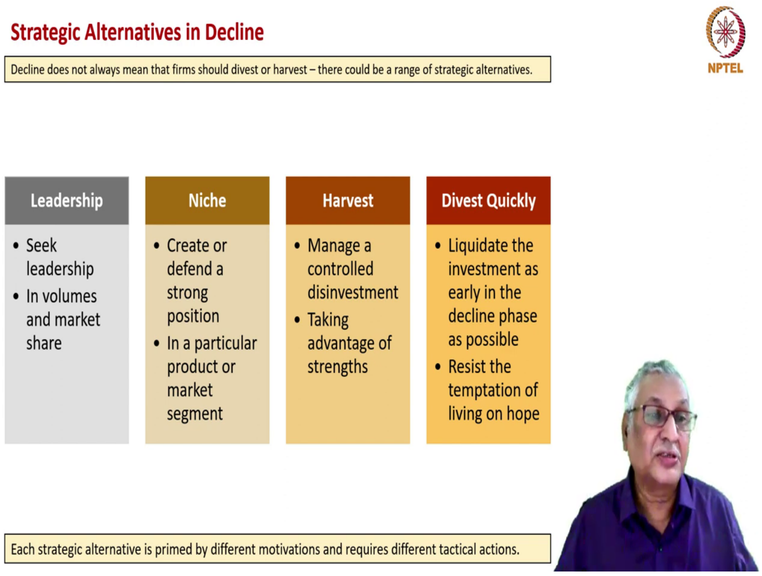

So, what are the strategic alternatives in decline? Decline does not always mean that firms should divest or harvest. There could be a range of strategic alternatives. One, leadership: Seek leadership in whatever be the declining nature of the industry. You try to do that in volumes and market share. We talked about having several strategies to improve yourself under tough industry situations.

You can create a niche, create or defend a strong position in a particular product or market segment despite the decline. You can do a control divestment. You do not get out of the industry in totality. You can take advantage of the strength and do it or divest quickly. Liquidate the investment as early in the decline phase as possible without waiting for the end game when you may not get anything for the assets you have and the business you have.

Fundamentally, you should resist on the temptation of living on hope. Whatever action you take in a declining industry, whether to stay on, whether to renew yourself or whether to exit partially or fully must be based on an analytical framework with clear clarity on the future direction of the products, markets and the business.

Each strategic alternative is; obviously, primed by different motivations and requires different tactical actions and the leaders who undertake these types of different actions in a declining industry would also be different kinds of leaders.

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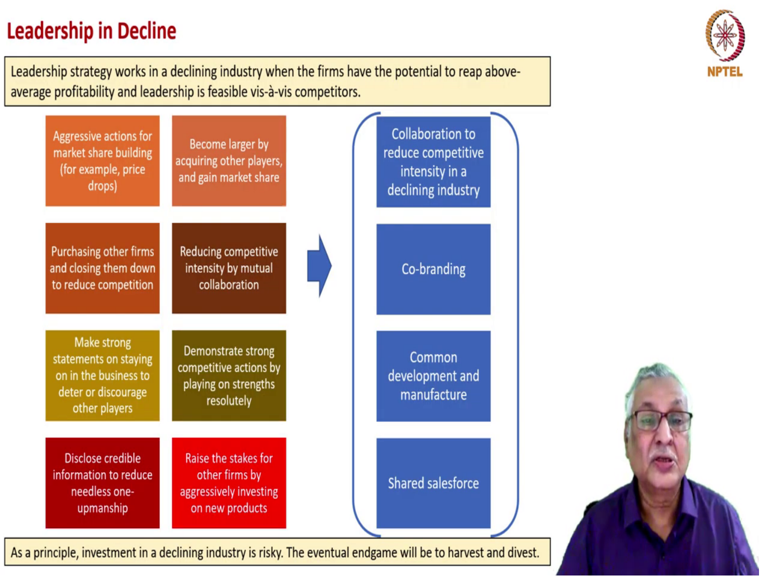

What is leadership in decline? Leadership strategy works in a declining industry when the firms have the potential to reap above average profitability and leadership is feasible vis-a-vis competitors. Leadership in decline tends to be a very peculiar alchemy of certain capabilities. Aggressive actions for market share ability, for example, price drops, you are already below the water. A few more inches below the water would not make any difference for you, but you may capture higher market share.

Second, become larger by acquiring other players and gain market share. As long as you have a story that makes sense, you can get financing. You may say that yes, I would acquire these 3-4 firms the declining industry and could turn the industry profitability by the singular action.

Purchasing other firms and closing them down to reduce competition, at times having too many players is the main issue rather than the product or the market being unviable. So, this excess competition has to be eliminated. Obviously, the ideal way is to consolidate. And once you consolidate, do not try to keep up those brands. Do not try to make those brands compete with you even under one holding. You try to drop off those brands and move into their space so, that you can have economies of scale and scope.

Then you reduce competitive intensity by mutual collaboration. Intense competition, unremitting price actions do not do any industry good. A declining industry is worse in that respect. Makes strong statements on staying on in the business to deter or discourage other players. As I said, rivalry could be there for several reasons.

Unfortunately, even in the declining industries, some people may enter for lack of proper information. You should make strong statements on staying on in business. So, that you do not encounter any more competition than you are having. And if somebody has to move, it is the other party rather than you out of the industry. Demonstrate strong competitive actions by playing on strengths resolutely. That is, you walk the talk.

Discloser credible information to reduce needless one-upmanship. While cartelization is bad, in the case of a declining industry, people should put all the chips on the table. When I say people leaders of different companies must put all the chips on the table, discuss as an industry, discuss with the government authorities as a combined body to understand what needs to be done to revive the industry. And if it is possible to do so, the government will certainly support.

Raise the stakes for other firms by aggressively investing on new products. That is, you are part of a declining industry, but you have decided to stay on in the related overall industry and for that you can keep making R and D investments. So, how do you reduce competitive intensity? You collaborate to reduce competitive intensity. You co-brand, you develop and manufacture with common facilities, you have shared sales force.

These are the ones which are useful in several other industrial settings as well. As a principal, investment in declining industry is risky. The eventual end game will be to harvest and divest. But how do you protect? How do you circumvent? Or how do you rejuvenate? Is a case-by-case choice and also a leadership mindset decision?

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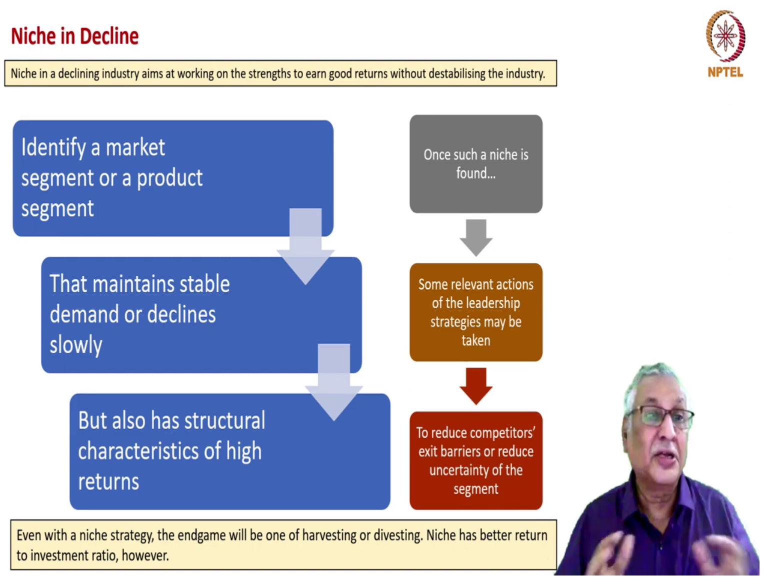

Can you have a niche in decline a niche in a declining industry? Aims at working on the strengths to earn good returns without destabilizing the industry for that, you should be able to identify a market segment or a product segment that maintains stable demand or declines slowly, but also has structural characteristics of high returns.

Let say you have issues in your overall hotel's division and if you have hotels which cattle from budget to luxury, you got to identify the right kind of market segment, which will continue to grow. You may have a good product market segment balance in one or two such product market combinations. You should pursue that with alacrity because it will have structural strengths and provide good returns.

Once such a niche is found, you got to take relevant actions from the leadership strategy point of view. You should reduce the exit barriers for the competitors or reduce the uncertainty of the segment by following some positive policies. However, if the industry is a declining industry, even with a niche strategy, you may have to do harvesting or divesting at point of time. It only postpones investment.

Therefore, the decision making is always tough in declining industries. Should I keep pumping good money after bad money or good money will overcome the negative effects of bad money and will produce a net positive result. So, these are the choices which come with wisdom and analysis. But in general, niche has better return to investment ratio in declining industry situation if you are able to position yourself appropriately.

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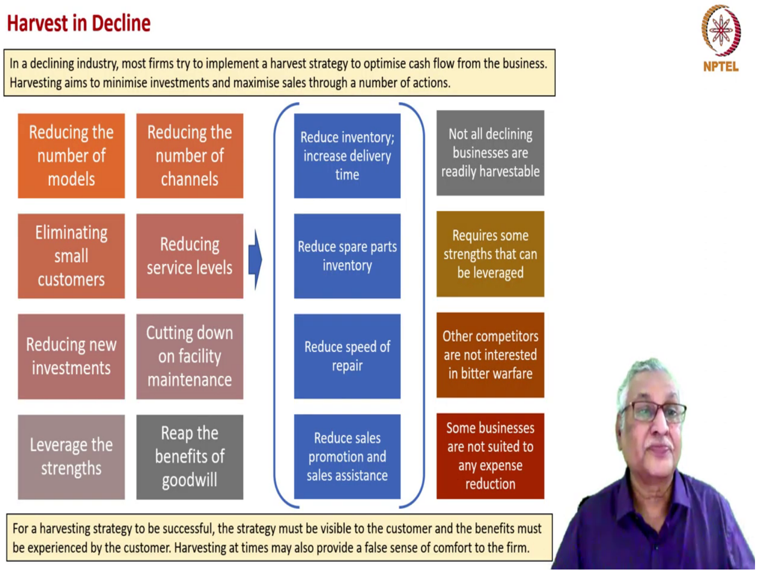

Should you do harvesting in declining, that is sell of the product completely. In a declining industry, that is the logical normal course. I also said that exit is inevitable in any industry. Harvesting aims to minimize investments and maximize sales through a number of actions. You reduce the number of models. You reduce the number of brands. You sell of some brands to others. You reduce the number of channels. If you are an omnichannel company, you try to make yourself available on fewer channels.

Eliminate channel inter-channel competition. Eliminate or avoid small customers. You focus only on key account management. You reduce the service levels. You have been supplying to a distributor within 12 hours of getting an order. You try to do it when you can aggregate the products and then supply. You reduce the new investments. You cut down on facility maintenance.

You leverage the strengths whatever you have as a company and reap the benefits of goodwill. That is brand based resurrection you can try to do. Admittedly some of these things will have also negative impact. That is, if you try to reduce the service level, you try to lump all the products for better logistics cost. You may be actually worsening in terms of the customer affection. They may say that this company is already declining, but does not care to serve me properly.

Therefore, your demand even may go down further. Similarly, if you do not take care of small customers, there could be a ripple effect and they may never return to you later. So, some of these things are in terms of reducing inventory, increasing delivery time, reducing spare parts inventory, reducing speed of repair, reducing sales promotion and sales assistance. Whatever you do by way of reduction must be compensated by means of effectiveness in how the organization meets that situation.

We must also keep in mind that not all declining businesses are going to be readily harvestable. Every business will require some basic residual strengths that can be leveraged. Other competitors should not be interested in bitter warfare. Then only any asset or any brand can be taken in the harvesting mode. And some businesses unfortunately are not suited to any expense reduction. That is, let us think of yourself as a showroom for Mercedes Benz.

You have to have certain capabilities as a showroom and certain processes as a showroom, service center for Mercedes Benz cars. Those cannot be eliminated. As long as you are in the business, you have to have those kinds of infrastructural and capability factors. And you have to therefore, decide whether I will be in this business or move. You cannot cost optimize those businesses and try to stay on.

For a harvesting strategy to be successful the strategy must be visible to the customer and the benefits must be experienced by the customer. Harvesting at times may also provide a false sense of comfort to the firm. It may keep the decline happening in perpetuity because you have 10 products, you are harvesting one product after another product.

Probably you are having yearly cash flow met because of that. And without knowing, you are losing all the 10 products over a period of time. On the other hand, if you take decisive action on the entire product portfolio, you may be getting better returns and also investing more wisely in something which caters to the future.

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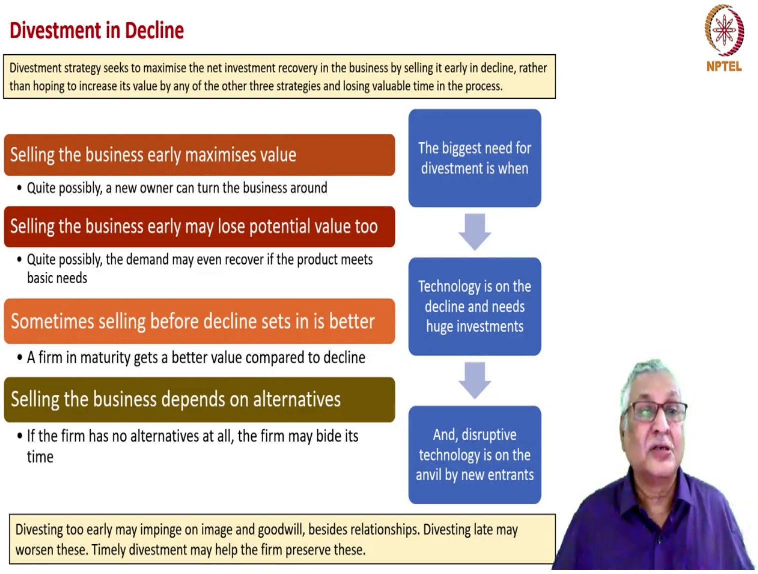

Now, let us look at divestment in decline. Divestment strategy seeks to maximize the net investment recovery in the business by selling it early in decline rather than hoping to increase its value by any of the other three strategies which I mentioned and losing valuable time in the process.

Selling the business early maximizes value quite possibly and new owner can turn the business around. Selling the business early may lose potential value too because of misinformation. Maybe you are making a wrong decision in which case when the demand recovers the product would have been meeting basic needs and you have lost that opportunity.

Sometimes selling before decline sets in is better. Many times promoters, founders, company want the maximum possible value whenever they feel that there is a decline. On the other hand, you must be wise enough to believe that you have to leave something on the table for someone who is buying a product or a business.

A firm in a maturity stage gets a better value when compared to what it would get when it moves to a decline stage. So, anticipating the likely decline and selling before the decline stage actually sets in could be the better proposition. Selling the business depends on alternatives.

If the firm has no alternatives at all, the firm has to bide its time until a useful opportunity or sensible opportunity. Time wise arises. The biggest need for divestment is when technology is on the decline and needs huge investments to revive and disruptive technologies on the cards and new entrants are coming in with the new technologies. Then the writing is clearly on the wall that you are going to be completely obsolete technologically and commercially.

Divesting too early may impinge on image and goodwill besides relationship. Divesting late may also worsen these things. Timely divestment may help the firm preserve this. Therefore, leadership task here is as important as the leadership task in a growth environment as well.

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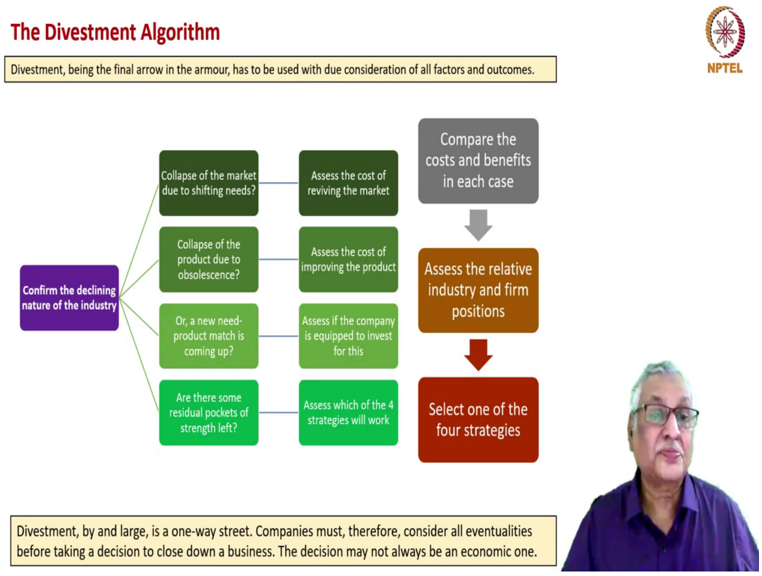

So, what is the divestment algorithm which you must have? Divestment is the final arrow in the armour. It has to be used with due consideration of all the factors and outcome. Here is the algorithm. First, confirm the declining nature of the industry. Answer the following four questions. Collapse of the market is due to shifting needs. If so, assess the cost of dividing the market.

Is the collapse of the product due to technological obsolesce, then assess the cost of improving the product. Or a new need product match is coming up. Assess in such a case if the company is equipped to invest for this. Or there are some residual pockets of strength left. Assess which of the most strategies will work.

When you do this assessment, compare the costs and benefits in each case. Assess in the relative industry and firm positions and select one of the four strategies. This divestment algorithm has been developed by me. And it is going to be a very useful algorithm for managers and leaders facing the divestment dilemma.

Divestment by end large is one way street. Companies must therefore, consider all eventualities before taking a decision to close down a business. But this decision may not always be an economic decision. That is something which is to be thought about clearly by leaders.

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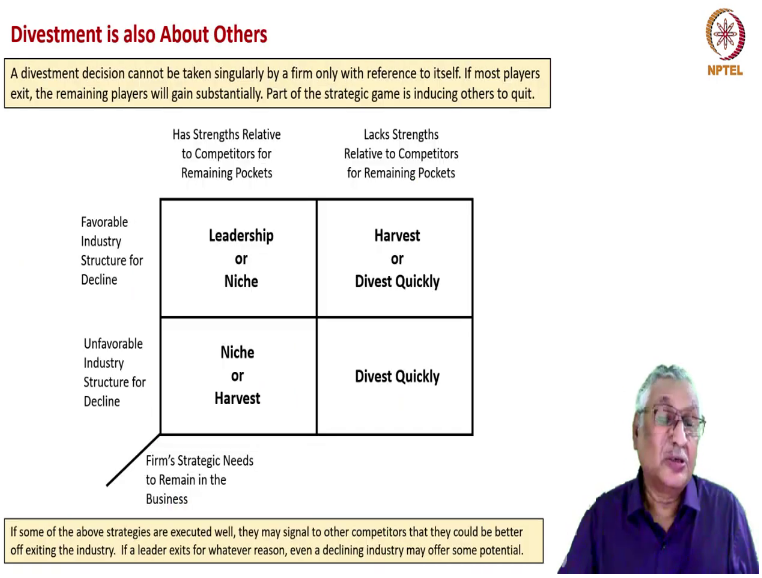

Divestment is also about others. A divestment decision cannot be taken singularly by a firm with reference to itself. It is like a stock market transaction or any other commercial transaction. You have times in the stock markets when there are only buyers and no sellers.

Similarly, there are times in the stock market when there are only sellers and no buyers, which means that two parties at the minimum are essential for a transaction to take place. Same applies itself to divestment. It is like a strategic game. Let us look at an industry structure for decline which has favourability supporting it. And another option is unfavourable nature of industry structure for decline.

Let us look at the strengths of the company relative to competitors which could be favourable in respect of certain pockets after the exit. And a good situation could be there where there are no strengths even with reference to the remaining pockets. If the favourable industry structure for decline exists and the company has strengths relative to competitors for the remaining pockets, you could pursue leadership or niche.

In all the other areas depending upon the relative favourability and unfavourability, you have to harvest or divest based on the situation. Only in one case probably you can have a niche position particularly if you have strong strengths in the remaining pockets. If some of these strategies are executed well, they were signal to other competitors that there could be better ways for them by moving out of the industry rather than staying in the industry.

If a leader exists for a whatever reason, even a declining industry may offer some potentials. Let us think of an industry where the concentration has been in terms of one player having 50 percent market share and all the others having let say 20 of them having miniscule market shares.

If the market leader decides to quit the market, it is actually a good sign for the rest of the people although the market and the industry have been on the decline. So, the parameters change from time to time, but the leadership choice is important.

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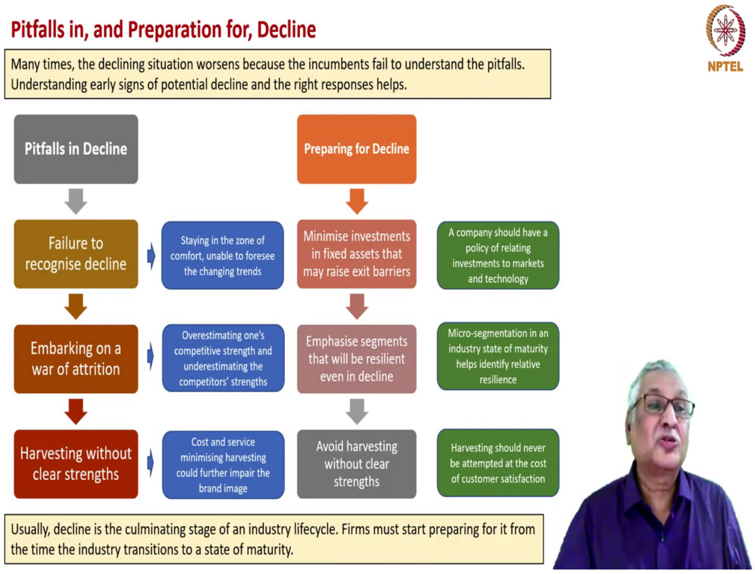

There are also several pitfalls in an preparation for decline. Many times the declining situation versus because the incumbents fail to understand the pitfalls. Understanding the early signs of potential decline and the right responses helps. Again, this is a paradigm I have developed especially for this course. The pitfalls in decline or failure to recognize the decline, embarking on a war of attrition and harvesting without clear strengths.

Failure to recognize decline happens when you stay in the zone of comfort unable to foresee the changing trends. You embark on a war of attrition when you overestimate your own competitive strength and underestimate the competitors strengths. You harvest without clear strengths when you have poor understanding of the harvesting situation.

Also, if you have misinformation, also if the cost and service minimizing harvesting could further impair the brand image. Instead of that, we should prepare for decline in a very smooth, seamless and well thought out manner. First of all, minimize investments in fixed assets that may raise exit barriers.

That is, you should not get caught in a situation because of the high fixed investments the companies are unable to move kind of syndrome. You emphasize segments that will be resilient even in decline. So, general purpose machinery will any day be better than special purpose machinery.

If there is an automobile company which has only machining centers, if the product line changes dramatically, the whole thing needs to be (Refer Time: 63:43) at a very high cost or even disposed of. On the other hand, if you have unit production machines, that is, you undertake a simple operation, then you have lot more flexibility to look at different types of product lines. So, you do those kinds of activities. There is emphasis segments that will be resilient even in decline.

Avoid harvesting without clear strengths. Therefore, to make it a holistic paradigm, a company should have a policy of relating investments to markets and technology on a regular basis. Micro segmentation in an industry state of maturity will help identify relative resilience. Harvesting should never be attempted at the cost of customer satisfaction because that will only deepen the crisis for the industry or the firm.

Usually, decline is the culminating stage of an industry lifecycle. Firms must start preparing for it from the time the industry transitions to a state of maturity. It is like succession planning. The moment a manager becomes leader; good companies try for succession planning for the leader himself or herself. That is how good corporations stay for perpetuity.

Similarly, when you enter a stage of maturity for your product and for your business, its signal is also a time for looking at potential decline and potential ways by which maturity can be extended with better profitability, better technological rejuvenation as much as possible in for the future.

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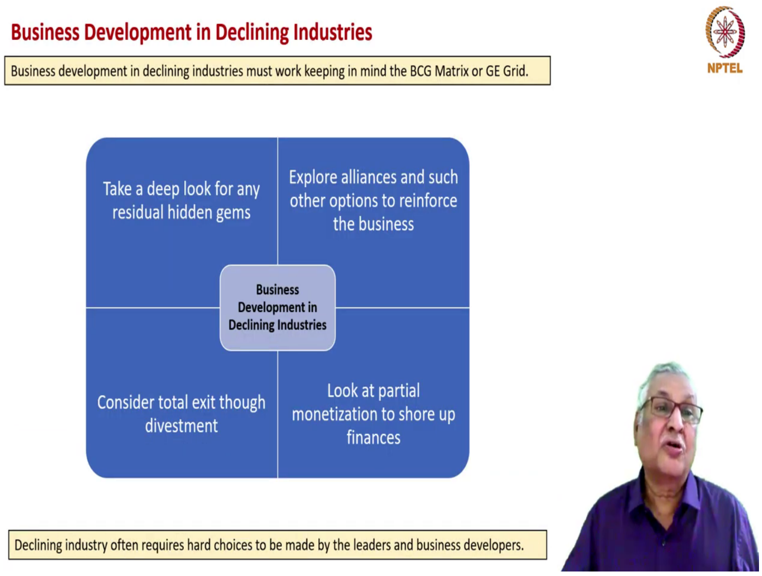

So, how can you do business development and declining industries? It must work keeping in mind the BCG matrix are the GE grid. Take a deep look for any residual hidden gems within the declining portfolio. Explore alliances and such other options to reinforce the business. Look at partial monetization to shore up finances and consider total exit to divestment when all the other three options do not work out.

Declining industry often requires hard choices to be made by the leaders and business developers and that brings out the strong willpower, capability, conceptual clarity, analytical acumen of the leaders and their ability to separate emotion from facts and objectivity also matters a lot. So, divestment or managing decline is a strategic challenge for business developers and strategies. So, with this we come to the end of this lecture.

Thank you for your attention. Hope to see you in the next lecture.