**Strategic Management – The Competitive Edge**
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**Lecture 27**
**Display Matrices**

So, we were looking at the different display matrices in the last class. We were looking at the parenting strategies and when should you do this corporate parenting? This is given on page number 142 and 143 of my book.

This is a model for planning review process. If you see some judgments are made, where should you do what? The portfolio fit matrix shown in figure 8.11 in the book can help form a judgment on the corporate business units fit in the whole corporation. The Matrix emphasizes the fit of the business with the parent, it is composed of 2 dimensions, the positive contribution the parent can make and the parents negative effects.

Different combinations of these dimensions create 5 different positions, each having an implication for corporate strategy. So, these 5 positions are shown in this figure, it is Heartland, edge of Heartland, ballast, value trap, and alien territory. Businesses in the top right corner of the matrix are the heart of the corporate future, so these Heartland businesses present opportunities for improvement by the parent and the parent understands the critical success factors well; therefore, this should have priority for all corporate activities.

So, the first topmost here on the right on this right hand side which you are getting this, you are getting the edge of Heartland and this edge of heartland, the parent may not have all the characteristics needed by the unit or may not understand the unit's critical success factors, in such circumstances, the parent needs to know when to interfere in the business units, activities and strategies, and at other times should remain away from this decision making process.

Ballast business units refer to units that have been with the company for a long time, and have been successful, these units fit well with the corporation. Since there is always a danger that environmental changes can move a ballast unit to alien territory, corporate decision makers should divest this business unit as soon as they get a price exceeding the value of future cash flows, kindly note this. So, given an opportunity you must get out of these types of units.

Businesses in Alien territory have very little opportunity to be improved by the parent. A misfit exists between parenting characteristics and units critical value. Generally, these business units are small, and are often remnants of past diversification it may be better to divest these units. Units in a value trap businesses fit well with parental opportunity, but are a misfit with parents understanding of critical success factors.

So, parent is not able to understand the critical success factors for these units thus there is a good chance the parent making a big mistake. So, value trap is similar to the doom loop which we discussed earlier. So, you get caught in the loop getting out of that is a real task, a real challenge in the whole process.

This book also presents to you 2 more matrices which you can refer on page number 140 and 141, this is called the Hofer's product market evolution matrix. This where businesses are plotted in terms of the product/ market evolution and competitive position, the circles show the relative sizes of the industry and the shaded portion depicts the market share. Businesses in the development or the growth stage has the potential to become stars. If the market share is large in these businesses, additional resources must be invested to develop their competitive position. If the market share is low, a strategy to improve should be developed.

Suppose, the industry is relatively small and market share is small despite high growth rate, it may be advisable to divest and redeploy the resources in more competitive businesses. Businesses in shakeout/ maturity stages can be cash cows kindly note that. Then these may require some investments to maintain a higher market share. Businesses in the decline stage with a low market share or in the category of dogs should be considered for divestment or liquidation. This is Hofer's product market evolution matrix.

So, this is there is one more matrix which is given on page 141, this is referred to as international portfolio analysis. So, it can be applied in international markets for strategic planning. So, shown in figure 8.10 in the book, makes use of countries attractiveness which comprises market size, market growth rate, extent and type of government regulation, economic and political factors, similar to the McKinsey matrix if you really see. Makes use of products competitive strength which consists of market share, product fit, contribution margin and market support.

But, there is a audio call caveat given by Porter on use of this matrix, he says it may not be advisable to use portfolio analysis on a country by country basis. According to him in a global industry, managing international activities like a portfolio will undermine the possibility of achieving competitive advantage kindly note that. In a global industry, a firm must in some way integrate activities on a worldwide basis to capture the linkage among countries. So, these are 2 other matrices which are given in the book which you can refer.

And 8.16 section in this book on page number 143 also gives you some idea of what is the use of portfolio analysis and display matrices. If you see they can help top management to evaluate each of the business unit and set objectives and allocate resources; I am just reading it out from this book, they can stimulate use of external data to supplement management judgment, this helps in solving the issues of cash flow availability for expansion and growth of business.

It is always good for a company to keep its reserves at a high, the best example for this is could be Infosys only- a very high reserve position; does not have to bother about mobilizing resources in case it wants to go in for an M&A, that is Merger or Acquisition of a company within India or abroad; it has done so many M&As,using these reserves, in foreign countries, especially in the European Union and US.

The graphic depiction of the business unit facilitates communication. Some of the limitations can be product market segments cannot be accurately defined because of practicalities, some opportunities may be missed, difficult to clearly make out what makes an industry attractive or where exactly the product fits in the PLC.

What comes out of all this is criticality of the product lifecycle with reference to the product and also with reference to the portfolio. So, you must find out about each product or product line where it is with respect to the PLC; if it is in the growth stage, yes, support it, if it is in a mature stage do not put too much of investment, if it is declining, there is there is no point in investing in such products or portfolios, you have to make use of your decision making abilities to come out sometimes hunch also will help you, this is called a market hunch you may gather through market intelligence or through your experience of so many years in the same industry all this will help strategic manager to make these types of judgments.

So, if you really look at the Indian context, the liberalisation has led to the easing of restrictive controls, this presents a reasonably good domestic market for exploitation. A systematic approach by the top management will be a critical factor for the businesses in the years to come. The use of display matrices facilitates systematic analysis to develop competitive strategy for corporate growth, this is what is given in the book and well laid out actually.

So, if you come back to the slides, there is one this thing which is important, this slide presents to you an important aspect with respect to productivity of declining businesses. Suppose a business is declining, it is very easy okay this business is not profitable, not making profits, so close this business.

The best example which I can think of in the Indian scenario is none other than the Ambassador car. So, in came so many models starting from Maruti Suzuki first came Maruti 800, followed it up with so many models; now you have so many models of Maruti Suzuki in the Indian market.

Now, it was a question of sheer survival for Ambassador, it was not presenting or it was not having the same looks as that of a Maruti car of the 80's, that is Maruti car all said and done, in spite of question marks over its safety considerations. It was presenting an elegant picture; Maruti Swift again small but quite elegant.

With reference to Ambassador what was happening from the safety side it was a very good car in the Indian context, it could go through the rough terrains of the Indian roads with ease and even a roadside mechanic could repair this car if required. But the consumer preference was changing very rapidly towards Maruti in the 80's as soon as it got introduced.

So initial trials, the younger generation in the 80's also got hitched on to this Maruti band wagon. At one point of time Maruti was not just the market leader, it was garnering more than 70 percent of the Indian automobile share market, it was such a huge percentage.

Given that type of a scenario, this sheer survival made ambassador to remodel or rework; Hindustan motors who are the manufacturers of this car, they started reworking, so that the Ambassador which came out after rework in the Hindustan motors manufacturing unit really competed on an even keel with respect to its looks with Maruti. In addition, it offered all the safety features and the other characteristics ambassador was known to have.

This refurbished car of Ambassador did survive in the market for several years in spite of Maruti Suzuki ruling the roads. So, Maruti cars were ruling the roads but still these refurbished Ambassador cars were good to look at presenting a luxurious look. Most of the government officers still preferred to have the Ambassador car, the result is till nearly the mid 90's, this refurbished Ambassador car was the in thing at least with respect to the government; then it could not sustain the onslaught by different models from many auto manufacturers

So, what is the type of strategy that Ambassador adopted at that point of time, this is referred to as end game strategies in our strategic parlance. So, these end game strategies enhance the productivity of declining businesses till they collapse absolutely. So, this is what happened to Ambassador; the decline phase according to Harrigan and Porter becomes volatile because uncertain demands due to change in technology preferences, rising uncertainty. Then the problem of exit barriers, strategic considerations, management resistance and the disposition of assets. So, this is in fact, the problem faced by many public sector units as well,like HMT.

So, sheer survival made HMT maybe about a decade or a decade and a half back to dispose of many of its fixed assets, even with all that, it could not stop the declining of HMT business units. So, in fact, if you really see the last straw has been struck both with respect to perhaps HMT watches; is now more or less a thing of the past; now even the HMT lathes also having serious problems of existence. So, this is what can happen when companies desperately seek end game strategies that is how to really enhance the productivity, faced with this type of situations.

Some additional points is industrial development. If you look at India, not at the same level as that of Japan or the US, in fact, if you really see the present Indian prime minister is in Japan to woo industrial investment in India from the Japanese industrial folk. So, huge domestic potential market still untapped.

So, managers will and systematic approach with top management support can help make use of these matrices for developing competitive strength and corporate growth. So, this is a scenario with respect to the Indian scene and it will be helpful if the companies adopt the display matrices to the advantage of the units.

If you really see we looked at the end game strategies, the end game strategies with respect to the strategic options, which I just gave you is represented in this particular slide under four blocks, the four blocks are given under leadership, niche, harvest and divest which we discussed with respect to this Ambassador car in the Indian context, these are four strategic options. So, has competitive strengths for remaining demand pockets, favorable industry structure for decline, unfavorable industry structure for decline, then lacks competitive strength for remaining demand pockets.

After all these were attempted by Ambassador for several years, , Hindustan Motor Corporation came to the final point that it is better to close down.

We stop here. In the next session we will take up some aspects given by Porter on what is called the National diamond, with respect to countries. Thank you.