Strategic Management-The Competitive Edge
Professor R. Srinivasan
Department of Management Studies
Indian Institute of science, Bengaluru
Lecture – 3
Different Types of Strategies

We look at strategies with respect to growth. I have given these growth strategies under six heads.

1. Hold relative position in high growth product/market area. What could be an example for this? There are a number of examples which you can think of. A very common example, is the detergent market. One of the well-known companies which is operating in detergent market is the Hindustan Lever. It has come out with many wonderful products. Surf Excel Matic for the washing machines front load or the top load. First, it used to come in the form of powders, now, it is coming in the form of liquid also. It is also there is one more attachment which is coming in the form of giving shining to your clothes, having a different tag name altogether. So, in the all these high growth product or market area, Hindustan Lever is the leader; what does the company aim to - to keep its leadership position. It would not like to get displaced.

2. Not only does it want to keep its leadership position, it would always be continuously looking at increasing its market share in the high growth market. Why you are looking at increasing your market share in the high growth markets, because that is the way the profits are going to get substantially higher.

3. Suppose the market has become mature- there are a number of players who are manufacturing the same product, which is happening right now. So, if you do not want to use Surf Excel Matic, there are so many other alternatives like Arial. Henko,etc. These different market players are also taking away some share of this high growth market. So, when the market becomes mature increase of market share is quite a challenge. So, you should be able to convert some non-users of the product into users of your product.We will be discussing it in more detail when we go along. This is one of the ways a company seeks to grow in this type of a competitive market.

4.The fourth one is to hold strong relative position in mature market. Use excess cash flow funds to effect penetration with the existing product line- multinational market. What does it mean? You are asking the company to go beyond the borders of your country, become international.This is what is happening especially with respect to IT companies. If you look at the IT majors like Infosys, Wipro or TCS, most of these companies are satisfying, most of the multinational market needs. So, you find that so many projects which are handled by these companies are catering to the needs of different countries, especially the United States and the European Union.

5.The fifth one is as in fourth with respect to new product/ markets domestically. Suppose, you find that the product that you are developing has been very successful in the international market.You may like to offer that in the domestic markets also. This is what many companies did with respect to banking software. So, if you look at the banking software, these companies initially developed the banking software for clients outside the country. When it was found to be extremely successful, they tried it for the domestic markets also. And in the domestic markets also, they have become highly successful now.

6. The sixth one is hold strong relative position in diversified product line domestically, and use excess cash flow, funds capability and other resources to diversify markets.

We will look at diversification in more detail as we go along. Just to state that do not look at markets in a single compartment, you try to look at markets in a broader canvas. So, we look at diversification from the angles of horizontal diversification, or concentric diversification or conglomerate diversification depending on what is the most attractive for the company.

The second strategy which we look at is the dependency reduction strategy. The dependency reduction strategy is also considered in six examples;

maintaining alternatives- this is applicable even to sports also like a cricket match. Suppose, there is a One Day International of 50 overs. Suppose, the opposite side is thrashing your bowlers- what is the type of strategy that you would adopt? Suppose, you find that your bowlers are very effective in containing the opposite side- then, what is the type of strategy that you would like to adopt? Similarly, with respect to organizations also, suppose the markets are highly responsive to the products that are put out- then, company likes to hold on to the markets. Suppose, the market demands are changing/ are likely to change, then getting market intelligence can help in changing strategy.

Market intelligence helps to maintain alternatives. When market intelligence is done effectively, it also helps in building a positive image about the company. So, this is a second example of dependency reduction strategy. Positive image in a market, then you can be more or less sure that customers will come. So, take for example, a food chain like MTR has a very high positive image; result all its food products, especially the mixes which are in high demand. In spite of so many players coming out with the same types of mixes. The company has been able to create this positive image which is helping them.

Direct confrontation is the third dependency reduction strategy. Suppose, you are a player who is not a leader, but who would like to take on the leader that is your number 2 or 3 in the market. You would like to move to number 2 or number 1 slot. How do you do that? You can adopt direct confrontation. What do you mean by this direct confrontation? That is you look at what are the weak points of the leader in the market, address those weak points and hope that the market will take note of it, and you will be able to improve your market share.

The fourth one is contracting, that is to reduce uncertainties. So, in any business, any organization would not like to wind up its business. Soon, it would like to see that it is able to sustain for a long time. So, in order to do this, an organization should be looking at the type of uncertainties which it may have to face. Uncertainties always come with respect to markets. When you are looking at markets and this strategy, you have to look at both of them in combination. So, you have to look at the strategy, you have to look at the market- for which market, which strategy are you adopting.

The fifth one is called co-optation. Co-optation involves representatives of other organizations into policymaking positions to achieve certainty of future. This is what most of the IT companies in India and also outside are doing. So, they are bringing into their top management persons from different market areas, that is from different geographical areas. They are working as representatives on the board of these companies. They may be directors on the board with specific role.The role of these is to help the company, increase its marketshare if it is already having. If not having, penetrate that particular geographic market. So, in order to do this, you find that in many of the major IT companies you have representatives from the different countries, in country markets in which they are operating. Sometimes these are are influential people who can influence the market policies also with respect to their country risks.

The sixth one is Coalitions. Coalitions are formed to achieve common goals like opposing a common enemy.Sometimes you may find that you are a small player in the market, and there are so many bigger players in the market. And the size of your company by itself cannot pose a challenge to this. So, you may like to either merge, or get into some types of a joint venture, or get into different types of coalitions to achieve these common goals. So, this is even happening with respect to multiplex markets in India. You have so many multiplexes merging. This brings you to mergers and joint ventures, which we will discuss in more detail when we go along.

So, these are the two types of strategies which we have discussed, growth strategy and the dependency reduction strategy, with six examples. There is also vertical integration strategies-can be backward i.e. take control of the supply line. This is being practiced by many companies in India now, an example is Reliance . Second is,forward integration-take control of the forward line that is distribution line. When you take control of both backward and forward lines, then the entire linkages, this is called the supply chain linkages are under the control of the company- but there is a risk that is involved. Suppose, you had outsourced these to different companies, instead of having it under your own control, there is a risk of loss of flexibility.So, if you look at the present-day IT companies, everything is outsourced-pay roll, transport, catering ,etc

The company concentrates only on providing services with respect to IT. Many of these which are essential for running the organization, but which can be profitably outsourced -that is, you are not using your manpower. It will also help so many of these other companies to come, and fulfill this need with respect to this major company. So, any IT major in the country, you will have so many of these different companies helping them out with respect to all these services.

There is another type of strategy called generic strategy. This generic strategy was given by Michael Porter. It comes under three heads, overall cost leadership, differentiation and focus. To explain this overall cost leadership, I give you the example of the 90s, that is in the United States, where many low-cost airlines were operating. One was Delta Airlines, then in came a new entrant Southwest Airlines which started penetrating into the Delta Airlines market.

When it started penetrating into the Delta Airlines market, Delta Airlines started introspecting. They came out with a cost leadership strategy given in my book on Strategic Management, exhibit 1.1 which I am reading now.

Delta Airlines initiated an aggressive cost cutting program in April-94 called Leadership 7.5. In order to become profitable in a highly competitive industry, because of deregulation new competitors like Southwest Airlines were able to introduce low cost strategies to offer extremely cheap fares, and minimal surveys to gain market share. Resulting in half filled flights for full service companies like Delta Airlines. Delta Airlines had not turned a profit since 1990 and chose to institute a turnaround strategy, a type of retrenchment corporate strategy to achieve an objective of reducing annual expenses by 2.1 billion dollars, by June-97 and make a profit.

To fulfill this strategy for the company which had long prided itself in lifetime employment, high pay, lush flight services, and routes to every destination, the leadership 7.5 program, attempted to reduce the amount of money spent on each airplane seat from 9.6 cents in 94 to 7.5 cents in 97 per flight mile. So, if you look at it, the company was to come to the last para. It reduced so many of the heads, it was able to do this successfully. Before the leadership 7.5 program, the cost per seat was 9.76, by the end of 95, it was 8.4 cents, by the end of 97, the company had in fact achieved this 7.5 cents.

So, this is this overall cost leadership. Then, the second head which Porter describes is, how do you differentiate your product from the competitors product? This is brought out again by this exhibit on page number 11 in my Strategic Management book, with an example- Iomega Corporation- triggering event. What is this triggering event? I omega corporation was a successful manufacturer of computer storage devices. Its most popular line of products is the zip drive. A book sized portable storage device that uses a kind of floppy disk with a capacity of 100 megabytes, equal to about 70 standard floppy disks, earning 8.5 million dollars on 322, 26.2 million-dollar sales in 95.

The company's stock price escalated from 5 dollar per share in 95 to 112 dollars, after adjustment for a stock split in April 1996. So, look at the type of increment or the type of tremendous change that has happened in the per share of the company. Until Kim Edwards took over as Iomega CEO in 93, the company had been an unglamorous provider of Niche Computer Storage Products. Soon after he joined the company, Edwards asked his team to name some potential markets for the company's products. After a long pause, one person said the Air Force really likes our Bernoulli box, though Edwards knew this is not good.

The Bernoulli box was a powerful storage device. But, it was so expensive and specialized that only a few buyers such as the military had any use for it. I realized the company had no clue that there was a mass market out there waiting for a fun product, commented Edwards. Soon Iomega’s engineers developed a series of products to appeal to this market, the zip drive, the detailed tape backup system, and the jazz removable hard drive, which holds 1 gigabyte of data ten times as much as the zip. This is a type of differentiation and the type of focus, which this company has been able to bring into the market.

More on these mergers and joint ventures, we will look at when we go along. We stop here, we continue in the next class. Thank you.