UNIT 7: CORPORATE LEVEL STRATEGIES- I

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7.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the different level of strategies
- learn the ways in which company can expand its business
- describe the different strategies company may opt for diversification

7.2 INTRODUCTION

In this unit we are going to discuss Corporate Level Strategies like Expansion Strategies, Stability Strategies, Retrenchment Strategies, Combination Strategies, Concentration strategies, Integration strategies, Horizontal Integration and Vertical Integration. We will also get some idea on the concept of diversification strategies and need for Diversification Strategies.

7.3 CORPORATE LEVEL STRATEGIES

Environmental analysis and organizational appraisal leads to strategy formulation. There are wide variety of strategies and its selection depends on how organization is able to appraise its strength and weaknesses and relates it's to the external opportunities and threats.

Corporate level strategies mainly deal with allocation of resources and transferring resources from one business to other. Such decisions are taken in such a way that organizational objectives are achieved. These strategies give overall guidance to run the business. It describes a company's overall direction in terms of its general attitude towards growth and the management of its variety of businesses and product lines. An analysis based on business definition shall provide a set of strategic alternatives that can be adopted by the firm. According to Glueck, there are four strategic alternatives i.e. expansion, stability, retrenchment and combination.These alternatives can be classified as:

Classification of Corporate Strategy

A. Strategy for Change

i. Restructuring

ii. Turnaround

a. Surgical

b. Non-surgical

iii. Divestment

iv. Liquidation

B. Stability Strategy

i. Generic / Portfolio Strategies

ii. Strategy for Follower

iii. Strategy for Leader

iv. Concentration

v. Simulation

C. Expansion Strategy

i. Penetration

ii. Diversification

a. Merger

b. Takeover

c. Joint Venture

d. Strategic Alliance

iii. Integration

a. Vertical

b. Horizontal

7.3.1 Expansion Strategies

Expansion is one of the best ways to achieve the desired growth. The scope of the business can be expanded by increasing customer base or by using alternative technologies to enhance the performance. Expansion strategy is also known as growth or intensification strategies.

E.g. Fair and Lovely initially concentrated on female gender but now it also attracts male gender by introducing cream for this gender. (Fair and Handsome) (Increasing customer base)

Banks now gives more importance to expand its retail business base by providing personalized service.

The basic reasons for adopting expansion strategies are :

a. Change in the environmental factors

b. To gain the economy of large scale operations and experience curve

c. The strategists expectations

7.3.2 Stability Strategies

Stability doesn't means 'static'. This strategy is adopted by the firm when they expect incremental improvements of its performance. This strategy aims at stability by causing the companies to marginally improve its performance. The major intention is to sustaining moderate growth in line with the existing trends. Under this strategy company will concentrate on those areas or product where they are more comfortable and create competitive advantage for itself. This strategy implies that organization will remain in the same or similar business.

Stability strategy implies that an organization will continue in the same or similar business. Firms using stability strategy try to hold on the their current position in the market. The firms concentrate on the same products and the same products. This strategy is adopted by those firms who are satisfied with their present performance and position. The firms try to improve functional efficiency through better allocation of resources.

The major feature of stability strategy are:

- There is no major change in the product, market or services.
- The intention is to maintain the present level of performance and it also ensure that the rate of improvement achieved in the past is also maintained.
- It tries to maintain its competitive advantage in consistent with present resources and as per the market requirements.

Under stability strategy company doesnot go for major internal changes or restructuring. Companies need to regularly review their competence and react timely to market developments.

The firms using this strategy concentrate on the current products and markets. This strategy is followed by those firms which are satisfied with their present market position. For example, If the firm is getting 10% growth in sales in Nashik market, it may be satisfied with the same. Here the intention of the firm is to achieve moderate growth and profits.

Stability strategy is:

a. comparatively less risky and involves minimal changes and people may feel comfortable with the things as they are.

b. when expansion is treated as threatening firms adopts for stability.

c. there is no much changes in the environmental factors.

d. after rapid expansion firm may sought to consolidation.

e.g. A company provides special service to its valued institutional buyers in order to induce them to remain with the company.

Reasons for adopting Stability Strategy:The following are some of the reasons for adoption of stability stratgey:

1. Management may be satisfied with the present level of performance and they are interested to continue with the same.
2. The firms may be satisfied with the current level of profit.
3. Firms resorting to stability strategy may not require additional resources for product and market development. The reason behind this is firm concentrate on current markets with current products.
4. The changes in the environmental factors are less and infrequent.
5. When a firm serves a well-defined market or market segment in a stable environment.

7.3.3 Retrenchment Strategies

When the organization intends to contracts its activities, it may adopt retrenchment as a strategy. Company will come out of one or more of its business by reduction in customer groups or alternative technologies. This strategy involves dropping some of the activities in a particular business or totally getting out of some business. The firm may drop some of its functions, products or markets. Retrenchment strategy is followed when the corporate sustainability

reduces the scope of either its customer groups, customer functions or alternate technologies singly or jointly- in order to improve its performance. Eg. Ruby Hall Hospital of Pune decides to pull out from all types of surgeries and to concentrate only on cardiac surgeries. Retrenchment strategy is adopted because the management no longer wishes to remain in business, change in the environment is threatening and stability can be generated by reallocation of resources from unprofitable to profitable businesses.

The retrenchment strategy may be adopted in different forms like Turnaround, Divestment and Liquidation.

Reasons for adopting retrenchment strategy:This strategy is adopted because of the following reasons:

- There is drastic change in the environmental factors and firms feel such change as threat.
- Management wishes of not to remain in the existing business as the business becomes unviable.
- Firm is not able to generate enough amount of returns.
- The firm may like to get out of certain business which are not profitable.
- The firm may like to concentrate on its core products.
- Some of the products might have become obsolete and there is no sense of continuing the same product.

Retrenchment involves total or partial withdrawal from a customer group, customer function or technology from one or more of its businesses. Retrenchment is an attempt to 'trim the fat' and results in a 'slimmer'.

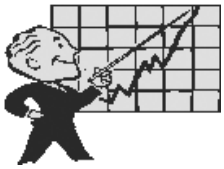
7.3.4 Combination Strategies

Combination strategy is mixture of stability, expansion and retrenchment strategy. Depending upon the situations, strategist uses combination and mixture of either of the strategy. Combination strategy is reply for that to fight with the situations of challenges. Combination strategy is adopted because the organization is large and faces

complex environment. Corporate is comprise of different businesses each of which lies in a different industry requiring different responses. It may adopt a stability strategy in case of few businesses or products or growth strategy in case of other products. Eg. Asian Paints who initially started with manufacturing household paints enter into offering industrial paints (growth); simultaneously it decide to close done jobbing painting work (retrenchment).

Combination as strategic choice is chosen when:

- Business Environment becomes more complex
- When the firms involves in different business which requires different responses.



CHECK YOUR PROGRESS

Q1: What is corporate level strategy?

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Q2: List any two reasons for adopting Stability Strategy.

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7.3.5 Concentration strategies

Concentration is simple expansion strategy. Firm allocates its available resources in such a way that it results in expansion in the form of customer needs, customer functions or alternative technologies. This strategy is also called as 'stick to the knitting' strategies. The firms tend to rely on doing what they know they are best at doing.

Resources are invested after careful investigation of the market. The Ansoff Product Matrix uses three types of concentration strategies.

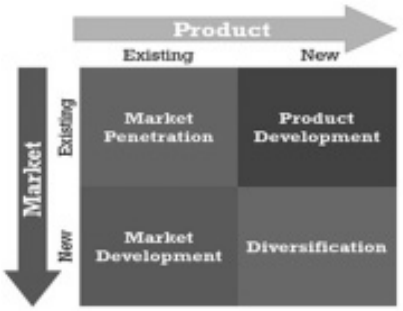


Fig 7.1 Ansoff Matrix-The Grid

The above matrix best illustrate various intensification alternatives before the firm. It show how the success of the firm relies on its existing and potential market and products. The product and market are two dimensions of the grid, which when combined, gives birth to four growth strategies i.e. Market Penetration, Market Development, Product Development and Diversification.

1. **Market Penetration**: It involves selling more product in the same market. It focuses more on existing market with existing product. The intention is to increase the market share for the present product. It is a growth strategy in which firm seeks to sell existing product into existing market, with the aim of increasing overall market share. The firm tries to discover new customers within the established market, without much changes in the products. This strategy demands **huge expense on advertising and personal selling**. It focuses more on aggressive promotional campaign, backed by a pricing strategy that attracts more and more customers. E.g. Aviation industry.

2. **Market Development**: The second quadrant in the Ansoff Matrix is market development. It involves selling the same product to the new users. Firm may adopt a strategy of selling the same product to the different segment of customers with different pricing strategy. Selling the same product is the thrust idea in the market development strategy. E.g. Johnson & Johnson. The strategy is adopted by the firms when they decide to sell their existing product in the new markets.

It is a growth strategy. Here firms identifies and develop new markets for its current products. This strategy is more risky compared to market penetration strategy as the company is entering to a new market, of which managers do not have sound knowledge. Firm may reach to the new market in two ways:

- The company pushes its product to new geographical market by increasing sales force, sales agents.

- Firm may bring in minor change in the product like new packaging or product dimensions to attract new customers.

Product Development: Product Development involves selling new product to the existing market. It is strategy in which firm intends to grow by introducing a new product in the established market. In the existing market wide **range of products are offered by the company**, for further growth and expansion. This enables the firm to expand its market in the form of additional sales and increased market share. For innovating new products firm spends huge amount of fund on R & D of a different product or may acquires rights to manufacture someone else's product, in order to appeal the present market and to be leader in the market.

Diversification: Diversification, as the name suggest, it is a business strategy in which the company enters the new market with new product. In this strategy, the company either start a new business of its own or acquires a business. The acquire business may not be necessarily related to the existing product and market. Diversification may in related or unrelated field. Company enters into that business where they may not be having that much experience hence it is the riskiest growth strategy as it neither depends on firm's successful product nor its position in the market. The environmental forces may give an opportunity to the firm to create a competitive

position in the new market. Company tries to adjust its product offering as the change in the market condition.

Advantages of Concentration Strategies:

- It involves minimal organizational changes hence less risky.
- It helps the firm to develop competitive advantage

The situations are known hence manager face less problems.

7.4 INTEGRATION STRATEGIES

Integration means combining activities related to the present activity of the firm. Integration is an expansion strategy as it results into widening of the business operations. It widens the scope and function of the business. Normally such kind of integration is found in case of many petrochemicals, hydrocarbons, textiles or steel industries. These firms deal with products having a value chain extending from basic raw materials to the ultimate consumer. Firm try to move up or down in this value chain process and try to integrates its activities adjacent to their present activities.

Forward, backward and horizontal integration can be used as a strategy for growth. Many factors are considered before adopting this strategy. From the economics perspective transaction cost is considered. The decision of 'make or buy' largely depends on the cost savings. There are some factors to be considered before integration like :

- Improvement in supply chain management
- Can have better control over the material supply
- Diversifying product portfolio
- Direct access to customers.

Companies have gained benefits through both backward and forward integrators. Hewlet-Packard lost vital time in supplying workstations to the market because a key supplier of chips delayed deliver by six months. On the contrary IBM with integrated sources was on time, and therefore enjoyed competitive advantage.

7.4.1 Horizontal Integration

In concentration strategy as discussed earlier focuses on the existing businesses or products. The firm doesn't move beyond its boundaries. But when a firm moves beyond its boundaries it is operating in, it goes over to the adoption of horizontal integration. When a particular firm takes up the same type of products, it is said to follow a strategy of horizontal integration. According to Business dictionary horizontal integration involves the merger of companies of at the same stage of production in the same or different industries. When the products are similar it is merger of competitors. Horizontal integration is a company's acquisition of a similar or a competitive business. It may do so by acquiring or merging or with takeover. The purpose is to strengthen itself to grow in size or capacity and to gain the benefit of economies of scale or product uniqueness. It also helps to reduce competition and risks, to increase markets, or to enter new markets easily. For example :

1. Standard Oil's acquisition of about 40 other refineries
2. Acquisition of Arcelor by Mittal Steel and that of Compaq by HP.

Horizontal Integration is advisable when:

- There is growth in a particular industry.
- A company has strategic advantage over the rivals.
- Company may get the benefit of economies of large scale operations.

Benefits of Horizontal Integration:

The following are the benefits of Horizontal Integration-

- Economies of scale: With the integration the size of the firm becomes bigger and company can achieve a higher production at a lower cost.

- Increased differentiation: The company will be able to offer more product features to customers or they may innovate the new product or service in the market.
- Easy entry in the new markets: Merger or acquisition leads to easy entry without any hassle. If the merger is with an organisation abroad, the new company will have an additional foreign market along with local market. It strengthening its capacity.

Limitations of Horizontal Integration:

The following are the disadvantages of Horizontal Integration-

- The firm should be able to handle the increased operations. If it fails to do so it may lose the image in the market.
- Each country has its own rules and regulations which need to be understood before taking such decisions of integration.
- When company becomes bigger, it may be rigid and may not accept the change holistically. This may prove dangerous in long run.

Horizontal integration is quite similar to merger and acquisitions. They are one of the means of integrating horizontally. In terms of value chain terminology, a horizontal integration keeps the organization at the same level. This means that if the company was manufacturing equipments and it adopts the horizontal integration strategy, it becomes a bigger equipments manufacturer.

In February 2017, Telecom major Bharti Airtel acquired Telenor (India) Communications Private Limited. After the acquisition, Airtel owns and manages Telenor's spectrum, operations, licenses including its employees and customer base of 44 million.

7.4.2 Vertical Integration

When the firms engaged at different level of value chain come together, then it is called as vertical integration. The organization starts making a new product to serve its own needs. Any activity which involves supply of inputs (raw material) or serving customer for output (marketing) is vertical integration. The integration may be backward

or forward integration. Backward is coming closer to the supplier side and forward means going closer towards the customers. Many textile industries are adopting vertical integration strategy.

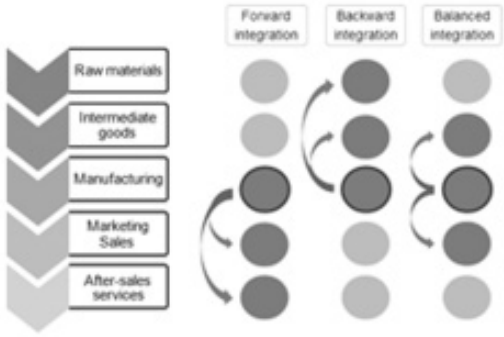


Fig 7.2 Vertical Integration

In this form of combination the company tries to merge with other where there are some links with the existing business line. In order enjoy dominance in the market a single entity governs the production and distribution of a product or service. Eg. Reliance Fresh. A supermarket may acquire control of farms to ensure supply of fresh vegetable in the market. It is backward integration. The said supermarket may also buy its own vehicle for speedy deliver of the products to the customer (forward integration). Balanced integration is mix of backward and forward integration. With the integration the company may get the advantageous reduced cost or eliminate markup at every stage which makes it competitive in the market.

Advantages of Vertical Integration:

Vertical integration is more beneficial when:

- Firms feels that the current suppliers in the value chain are not reliable.
- The profit margin of the suppliers or intermediaries is on higher side.
- There is no stability in the price charged by the suppliers.

- Company has enough resource capability to manage the value chain.
- Freeing up assets for more productive use.

Limitations of Vertical integration:

- Increased cost of coordination due to multiple value chain.
- Loss of strategic flexibility owing to dependence on outsiders
- Lack of information and feedback from suppliers and distributors.



CHECK YOUR PROGRESS

Q3: What is concentration strategy?

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Q4: List any three limitations of vertical integration

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7.5 DIVERSIFICATION STRATEGIES

Diversification involves a substantial change in business definition in terms of customer functions or alternative technologies of one or more of a firm's businesses. According to Ansoff Matrix when new product is developed for new market it is diversification. The diversification relates to either new product or market or both. Diversification involves company entering into new product which may be related or not at all related with the present business. When company involves in unrelated business it requires unique management expertise, which includes different end customers or should be able to provide different services. The major advantage of diversification is that it buffers a company from dramatic fluctuations in any one sector.

Diversification is the success of expanding the business activities into new areas. Diversification serves to create additional value for the actual owners of the company – the shareholders.

Diversification is possible through the route of merger or acquisitions. The major challenge before the diversified company is the need to maintain a strong strategic focus to produce better returns to the investors. E.g. A car manufacturer may enter into manufacturing of machinery or a Ice cream making company entering into soap products.

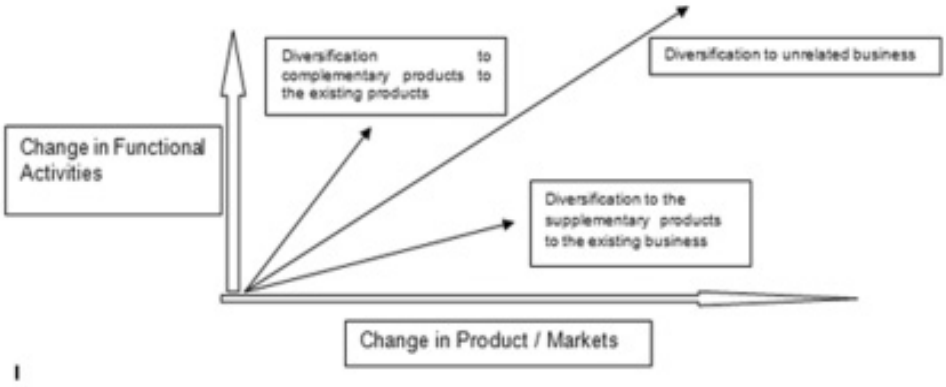


Fig 7.3 Diversification Strategy

Diversification as a strategy may generate growth in number of ways. Product development and market development are two different methods to diversify. Diversification can also take place through both new products and new markets.

Diversification is one of the grand strategies, which basically is a growth strategy. Basically diversification involves a substantial change the business definition in terms of product range, customers or alternative technologies. Diversification strategies have been adopted a number of business groups and individual companies both in the public and private sectors.

This strategy involves growth through the acquisition of firms in other industries or lines of business as explained below.

1. Organizations in slow-growth industries may purchase firms in faster-growing industries to increase their overall growth rate.

2. Organizations with excess cash often find investment in another industry (particularly a fast-growing one) a profitable strategy.
3. Organizations may diversify in order to spread their risks across several industries.
4. The acquiring organization may have management talent, financial and technical resources, or marketing skills that it can apply to a weak firm in another industry in the hope of making it highly profitable.

The following are the types of diversification strategies

7.5.1 Concentric Diversification

When an organization takes up an activity which is closely related to the existing business then it is termed as concentric diversification. A process that takes place when a business expands its activities into product line that are similar to what company is offering at present. The activity may be related to the existing customer function, customer group or in terms of technologies. If the new business is related to the original business in terms of these any of the three aspects it is termed as concentric diversification or related diversification. The diversification may be of following types :

a. Marketing-related concentric diversification: It is possible when a company offers similar kind of product with the help of unrelated technologies. Eg. Johnson and Johnson engages in the research and development, manufacture, and sale of various products in the health care field worldwide into Consumer Segment Products for baby care, skin care, oral care, wound care, and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. It uses same channel of distribution or sold through a chain of retail shop.

b. Technology Related Concentric Diversification: Here company provides new type of product or service with the help of related technology. Bank offering Loan for Housing Loan and purchase

of equipment on hire purchase system or starts consumer financing for purchase of durable to individual customer.

Companies should normally decide to go for related / concentric diversification because this is more like an extension of the present business. Existing brand image, manufacturing and marketing skills, distribution network can be used. Even a joint venture can exploit the existing skills and strengths of two companies to promote growth. A ***Joint Venture*** between Coca-Cola and Nestle for the canned business successfully combined Coke's distribution strength and the product knowledge and name of Nestle.



Joint Venture : A venture by partnership designed to share risk or expertise

Related or conentric diversification is an attractive corporate strategy as it offers more benefits. Larsen & Toubro the largest private sector company in the engineering and construction industry in India is the best example of diversification strategy. There is evidence to suggest that related diversification performs better than unrelated ones.

Related or concentric diversification when the acquired firm has production technology, products, channels of distribution, and /or markets similar to those of the firm purchasing it, the strategy is called concentric diversification. This strategy is useful when the organization can acquire greater efficiency or market impact through the use of shared resources.

A case of related or concentric diversification is Mahindra & Mahindra selling Cars, Tractors and two wheelers.

7.5.2 Conglomerate Diversification

When an organization adopts a strategy which is unrelated to the existing business definition of any of its businesses either in terms of their customer groups, customer functions or alternative technologies, it is called as conglomerate or unrelated diversification. When the business introduce new or unrelated product lines and enters into new market, it is termed as conglomerate diversification.

E.g. Shoe producer enters into the Clothing business. In this case there is no direct connection to the existing business. The unrelated diversification is based on the concept that any new business or company, which can be acquired under favorable financial conditions and has the potential for high revenues, is suitable for diversification. Unrelated diversification is a completely new field which would bring comparatively higher revenues compared to the related diversification on the basis of similar products, services, markets or complementing strategies. A good example of this kind of diversification is that during recent years of growth many companies entered the construction market despite their significantly different field of main business activity. Sometimes the unrelated diversification is based on the available expertise and experience of the human resources that can be utilized in completely unrelated fields. For example, if the owner of a Garment trading company is competent in the field of computer design, they can open an internet store to sell goods and also expand activity by adding web page design services etc.

Offering a new product manufactured through an unfamiliar technology for a new set of customers involves considerable risk. In formulating unrelated diversification strategies, strategists act as portfolio managers. They always look for undervalued companies that might be acquired at low price and can be quickly turned into profit making and can be sold at profit. Almost all private sector business groups are majority diversified entities. The Aditya Brila Group is in a variety of unrelated business such as aluminium, carbon black, cement, chemicals, copper and so on. ITC have diversified into the Hotel Industry.

The unrelated diversification can be in the following ways:

- Using the existing basic competences of the company and expanding from existing markets into new ones and starting new lines of production.

- Penetrating completely new markets. For example a car dealer may start offering financial services by developing a car leasing scheme and selling cars through leasing.
- Developing new competences to use new market opportunities.

Thus, conglomerate diversification involves diversifying into businesses with No strategic fit, No meaningful value chain relationships, No unifying strategic theme. The Approach is to venture into any business which company thinks they can make a profit in. Firms pursuing unrelated diversification are often referred to as conglomerates. For example: W. R. Grace involved in Chemicals, Coal Mining, Oil and Gas Extraction, Food Manufacturing, Paper Products, Health Services

A Case Study: When almost 20 years ago one of the largest Bulgarian state-owned companies for manufacturing of disk drives collapsed, 10 engineers left and started their own business. Specialized in the field of telecommunication software, they made a successful start by subcontracting a number of projects for the regional office of the Bulgarian Telecommunication Company (BTC).

A couple of years later, because of BTC restructuring, the number of projects for subcontracting greatly decreased. The owners undertook market research, analysed the external environment and the company *resources* and expertise and identified another niche ; manufacturing different types of poultry-farming incubators.

After working for a long time for the agricultural sector, the company became familiar with it and diversified again its activities by starting dairy production. Although today the company is better known as one of the producers of high quality dairy products, it still implements telecommunication software projects and manufactures poultry incubators.(source: http://st.merig.eu)

The major factors responsible for related / concentric diversification and unrelated / conglomerate diversification are as below:

Related / concentric diversification	Unrelated / conglomerate diversification
Strong brand image	High profitability or ROI
Economies of scale	First mover price advantage
Strength of R & D	Multiple products / markets for risk diffusion
Distribution network	Defence against takeover

Expansion or diversification, related or unrelated (concentrate or conglomerate), into new products or business may be internal or external. In US external diversification is common feature of corporate strategy. In countries like India such diversification is taking place. Expansion or diversification which involves another company as a part of the expansion or diversification programme can be carried out in four ways i.e. Strategic Alliance, Joint Venture (JV), Takeover / Acquisition or through Merger.

7.5.3 Need for Diversification Strategies

Diversification involves introduction of completely new product into new market. This strategy requires a lot of investment and lot of human resource capability. But in the long run, diversification strategy is one of the best growth strategies. Following are the major advantages of diversification strategy:

- Diversification strategies are helpful in minimizing risk by spreading it over several businesses.
- Company will able to introducing more variety and options of products in hand to capture the new market. With more product variety, it can increase customer base which in turn will increase profitability of the organization.
- **More markets are tapped which increases overall turnover of the firm.** Although penetrating the markets involve a lot

of cost and expenditure, once penetrated, the new market will bring regular profits, which is the goal of any business oriented company. Thus, the diversification strategy is a good market penetration strategy.

- **Companies gain more technological capability : Company spend huge amount of money on** R&D expenditure, which helps the company to develop technological capabilities. R&D will bring technological advancement which in turn leads to introduction of new and better products in the market.

- **Economies of scale: With the diversification, with the same fixed cost company will able to generate** more output. Firm uses same factory to manufacture more number of products, naturally with advantage of economies of scale.

- **Cross selling** becomes more possible with the diversification strategy. Through diversification company can introduce older products in the new market or introduce the new products in older and more mature market. An example in this case is LG which gives a large variety of products to end consumers and hence cross sells its own products.

- **Brand Equity: With the more variety of brand and presence in the more market company will be able to generate brand equity.** This results in long term benefits for the brand. E.g. Samsung smart phones have created a tremendous boost for the Samsung brand, which has resulted in all of its products receiving a positive vibe because its Samsung.

In this competitive market, business which does not keep adding new customers is bound to fail in the long run. At the same time, a company which does not expand at the right time is bound to lose a lot of its customers and market share. This strategy helps the company to expand in the right direction and manages risk for the

company. Thus, Diversification strategy is very beneficial for the company in the long run.

7.5.4 Risk of Diversification

Diversification if not done in proper manner may prove to be risky. The risk arises due to the following conditions:

1. Unrelated diversification is a very complex strategy, not only to formulate but also to implement. It requires high level of managerial skill, competencies and financial strength.

2. Diversification increases the administrative costs of managing, integrating and controlling wide portfolio businesses.

3. It demands wide variety of skills.

4. Diversification will not always give the positive results. Many companies get attracted with the benefits of diversification but in practice are not able to reap the benefits of synergies and strategic advantage.



LET US KNOW

Hewlett-Packard started out in high-tech measurement machines that require a lot of engineering design and implementation capabilities. When the PC revolution occurred, HP realized that desktop printers were a natural extension of those capabilities—and printers became a hugely successful business for the company. But other adjacencies, such as enterprise computer services, have not been as successful because HP's capabilities were ill matched to their requirements.



CHECK YOUR PROGRESS

Q5: What is concentric diversification?

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Q6: What is conglomerate diversification?

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7.6 SUCCESSFUL DIVERSIFICATION STORIES

General Electric is one of the greatest diversified company. It began as an 1892 merger between two electric companies is now an international, multi-billion-dollar company and the world's 26th largest firm in the United States. GE successfully branched out into a wide variety of industries including power and water, transportation, oil and gas, aviation, healthcare, and more. In short: GE is a world-class diversifier.

The most well-known American diversified companies are 3M, Sara Lee and Motorola. European diversified companies include Siemens and Bayer; diversified Asian companies include Hitachi, Toshiba, and Sanyo Electric.

Examples of companies that have diversified into related business concentric diversification

GILLETTE:

- Blades and razors
- Toiletries (Right Guard, Foamy, Dry Idea, Soft & Dry , White Rain)
- Oral-B toothbrushes
- Braun shavers, coffeemakers, alarm clocks, mixers, hair dryers, and electric toothbrushes

JOHNSON & JOHNSON

- Baby products (powder, shampoo, oil, lotion)
- Band-Aids and other first-aid products
- Women's health and personal care products (Stay free, Carefree, Sure & Natural)
- Neutrogena and Aveeno skin care products
- Nonprescription drugs (Tylenol, Motrin, pepcid AC, Mylanta, Monistat)
- Prescription drugs
- Prosthetic and other medical devices
- Surgical and hospital products
- Accuvue contact lenses

Examples of companies that have diversified into unrelated business.

THE WALT DISNEY COMPANY

- Theme parks
- Disney Cruise Line
- Resort properties
- Move, video, and theatrical productions (for both children and adults)
- Television broadcasting (ABC, Disney Channel, Toon Disney, Classic Sports, Network, EPSN and EPSN2, E!, Lifetime, and A&E networks)
- Radio broadcasting (Disney Radio)
- Musical recordings and sales of animation art

THE TVS GROUP

- Auto & auto parts
- Coach body building
- Transport
- Fasteners
- Brake linings & clutch facings

- A citation systems for commercial vehicles
- Hire purchase
- Wheel structure & parts
- Foundation brakes
- Two wheelers
- Automobile electrical parts
- Tyres & tubes.



7.7 LET US SUM UP

In this unit we discussed the following:

- Corporate level strategies mainly deal with allocation of resources and transferring resources from one business to other.
- There are four strategic alternatives i.e. expansion, stability, retrenchment and combination.
- Expansion is one of the best ways to achieve the desire growth. The scope of the business can be expanded by increasing customer base or by using alternative technologies to enhance the performance. Expansion strategy is also known as growth or intensification strategies.
- Stability strategy implies that an organization will continue in the same or similar business. Firms using stability strategy try to hold on the their current position in the market. The firms concentrate on the same products and the same products. This strategy is adopted by those firms who are satisfied with their present performance and position.
- When the organization intends to contracts its activities, it may adopt retrenchment as a strategy. Company will come out of one or more of its business by reduction in customer groups or alternative

technologies. This strategy involves dropping some of the activities in a particular business or totally getting out of some business.

- Combination strategy is mixture of stability, expansion and retrenchment strategy.
- Concentration is simple expansion strategy. Firm allocates its available resources in such a way that it results in expansion in the form of customer needs, customer functions or alternative technologies. This strategy is also called as 'stick to the knitting' strategies.
- Integration is an expansion strategy as it results into widening of the business operations. There are two types of integration strategy: horizontal integration and vertical integration
- Diversification involves a substantial change in business definition in terms of customer functions or alternative technologies of one or more of a firm's businesses.



7.8 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P();Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



7.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Corporate level strategies mainly deal with allocation of resources and transferring resources from one business to other.

Ans to Q2: Reasons for adopting Stability Strategy:

a. Management may be satisfied with the present level of performance and they are interested to continue with the same.

b. The firms may be satisfied with the current level of profit.

Ans to Q3: Concentration is simple expansion strategy. Firm allocates its available resources in such a way that it results in expansion in the form of customer needs, customer functions or alternative technologies. This strategy is also called as 'stick to the knitting' strategies. The firms tend to rely on doing what they know they are best at doing.

Ans to Q4: Limitations of Vertical Integration are :

- Increased cost of coordination (multiple value chain)
- Loss of strategic flexibility owing to dependence on outsiders
- Lack of information and feedback from suppliers and distributors.

Ans to Q5: When an organization takes up an activity which is closely related to the existing business then it is termed as concentric diversification.

Ans to Q6: When an organization adopts a strategy which is unrelated to the existing business definition of any of its businesses either in terms of their customer groups, customer functions

or alternative technologies, it is called as conglomerate or unrelated diversification.



7.10 MODEL QUESTIONS

1. What is Corporate level strategies
2. Write a note on expansion and stability strategies
3. What is a retrenchment strategy? Why this strategy is adopted.
4. Describe concentration strategies. Outline the advantages of concentration strategies
5. What is Horizontal Integration
6. Discuss the benefits and limitations of horizontal strategies.
7. Define diversification strategies.
8. Write short note on :
   a. Concentric diversification
   b. Conglomerate diversification

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