

Retrenchment Strategies

Turnaround: This strategy, dealing with a company in serious trouble, attempts to resuscitate or revive the company through a combination of contraction (general, major cutbacks in size and costs) and consolidation (creating and stabilizing a smaller, leaner company). Although difficult, when done very effectively it can succeed in both retaining enough key employees and revitalizing the company.

Captive Company Strategy: This strategy involves giving up independence in exchange for some security by becoming another company's sole supplier, distributor, or a dependent subsidiary.

Sell Out / Divestment: If a company in a weak position is unable or unlikely to succeed with a turnaround or captive company strategy, it has few choices other than to try to find a buyer and sell itself (or divest, if part of a diversified corporation).

Liquidation: When a company has been unsuccessful in or has none of the previous three strategic alternatives available, the only remaining alternative is liquidation, often involving a bankruptcy. There is a modest advantage of a voluntary liquidation over bankruptcy in that the board and top management make the decisions rather than turning them over to a court, which often ignores stockholders' interests.



What Should Be Our Portfolio Strategy?

This second component of corporate level strategy is concerned with making decisions about the portfolio of lines of business (LOB's) or strategic business units (SBU's), not the company's portfolio of individual products.

Portfolio matrix models can be useful in reexamining a company's present portfolio. The purpose of all portfolio matrix models is to help a company understand and consider changes in its portfolio of businesses, and also to think about allocation of resources among the different business elements. The two primary models are the BCG Growth-Share Matrix and the GE Business Screen (Porter, 1980, has a good summary of these). These models consider and display on a two-dimensional graph each major SBU in terms of some measure of its industry attractiveness and its relative competitive strength

The *BCG Growth-Share Matrix model* considers two relatively simple variables: growth rate of the industry as an indication of industry attractiveness, and relative market share as an indication of its relative competitive strength. The *GE Business Screen*, also associated with McKinsey, considers two composite variables, which can be customized by the user, for (a) industry attractiveness (e.g. one could include industry size and growth rate, profitability, pricing practices, favored treatment in government dealings, etc.) and (b) competitive strength (e.g., market share, technological position, profitability, size, etc.)

The best test of the business portfolio's overall attractiveness is whether the combined growth and profitability of the businesses in the portfolio will allow the company to attain its performance objectives. Related to this overall criterion are such questions as:

- * Does the portfolio contain enough businesses in attractive industries?
- * Does it contain too many marginal businesses or question marks?
- * Is the proportion of mature/declining businesses so great that growth will be sluggish?
- * Are there some businesses that are not really needed or should be divested?
- * Does the company have its share of industry leaders, or is it burdened with too many businesses in modest competitive positions?
- * Is the portfolio of SBU's and its relative risk/growth potential consistent with the strategic goals?
- * Do the core businesses generate dependable profits and/or cash flow?
- * Are there enough cash-producing businesses to finance those needing cash
- * Is the portfolio overly vulnerable to seasonal or recessionary influences?
- * Does the portfolio put the corporation in good position for the future?

It is important to consider diversification vs. concentration while working on portfolio strategy, i.e., how broad or narrow should be the scope of the company. It is not always desirable to have a broad scope. Single-business strategies can be very successful (e.g., early strategies of McDonald's, Coca-Cola, and BIC Pen). Some of the advantages of a narrow scope of business are: (a) less ambiguity about who we are and what we do; (b) concentrates the efforts of the total organization, rather than stretching them across many lines of business; (c) through extensive hands-on experience, the company is more likely to develop distinctive competence; and (d) focuses on long-term profits. However, having a single business puts "all the eggs in one basket," which is dangerous when the industry and/or technology may change. Diversification becomes more important when market growth rate slows. Building stable shareholder value is the ultimate justification for diversifying -- or any strategy.

What Should Be Our Parenting Strategy?

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This third component of corporate level strategy, relevant for a multi-business company (it is moot for a single-business company), is concerned with how to allocate resources and manage capabilities and activities across the portfolio of businesses. It includes evaluating and making decisions on the following:

- * Priorities in allocating resources (which business units will be stressed)
- * What are critical success factors in each business unit, and how can the company do well on them
- * Coordination of activities (e.g., horizontal strategies) and transfer of capabilities among business units
- * How much integration of business units is desirable.

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