

1. Vertical Integration: This type of strategy can be a good one if the company has a strong competitive position in a growing, attractive industry. A company can grow by taking over functions earlier in the value chain that were previously provided by suppliers or other organizations ("backward integration"). This strategy can have advantages, e.g., in cost, stability and quality of components, and making operations more difficult for competitors. However, it also reduces flexibility, raises exit barriers for the company to leave that industry, and prevents the company from seeking the best and latest components from suppliers competing for their business.

A company also can grow by taking over functions forward in the value chain previously provided by final manufacturers, distributors, or retailers ("forward integration"). This strategy provides more control over such things as final products/services and distribution, but may involve new critical success factors that the parent company may not be able to master and deliver. For example, being a world-class manufacturer does not make a company an effective retailer.

Some writers claim that backward integration is usually more profitable than forward integration, although this does not have general support. In any case, many companies have moved toward less vertical integration (especially backward, but also forward) during the last decade or so, replacing significant amounts of previous vertical integration with outsourcing and various forms of strategic alliances.

2. Horizontal Growth: This strategy alternative category involves expanding the company's existing products into other locations and/or market segments, or increasing the range of products/services offered to current markets, or a combination of both. It amounts to expanding sideways at the point(s) in the value chain that the company is currently engaged in. One of the primary advantages of this alternative is being able to choose from a fairly continuous range of choices, from modest extensions of present products/markets to major expansions -- each with corresponding amounts of cost and risk.



3. Related Diversification (aka Concentric Diversification): In this alternative, a company expands into a related industry, one having synergy with the company's existing lines of business, creating a situation in which the existing and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities, and government access. This is often an appropriate

GAUTAM SINGH, HOSPITALITY TRAINER, www.educatererindia.com, info.gautam94@gmail.com
corporate strategy when a company has a strong competitive position and distinctive competencies, but its existing industry is not very attractive.

4. Unrelated Diversification (aka Conglomerate Diversification): This fourth major category of corporate strategy alternatives for growth involves diversifying into a line of business unrelated to the current ones. The reasons to consider this alternative are primarily seeking more attractive opportunities for growth in which to invest available funds (in contrast to rather unattractive opportunities in existing industries), risk reduction, and/or preparing to exit an existing line of business (for example, one in the decline stage of the product life cycle). Further, this may be an appropriate strategy when, not only the present industry is unattractive, but the company lacks outstanding competencies that it could transfer to related products or industries. However, because it is difficult to manage and excel in unrelated business units, it can be difficult to realize the hoped-for value added.

Mergers, Acquisitions, and Strategic Alliances: Each of the four growth strategy categories just discussed can be carried out internally or externally, through mergers, acquisitions, and/or strategic alliances. Of course, there also can be a mixture of internal and external actions.

Various forms of strategic alliances, mergers, and acquisitions have emerged and are used extensively in many industries today. They are used particularly to bridge resource and technology gaps, and to obtain expertise and market positions more quickly than could be done through internal development. They are particularly necessary and potentially useful when a company wishes to enter a new industry, new markets, and/or new parts of the world.

Despite their extensive use, a large share of alliances, mergers, and acquisitions fall far short of expected benefits or are outright failures. For example, one study published in *Business Week* in 1999 found that 61 percent of alliances were either outright failures or "limping along." Research on mergers and acquisitions includes a Mercer Management Consulting study of all mergers from 1990 to 1996 which found that nearly half "destroyed" shareholder value; an A. T. Kearney study of 115 multibillion-dollar, global mergers between 1993 and 1996 where 58 percent failed to create "substantial returns for shareholders" in the form of dividends and stock price appreciation; and a Price-Waterhouse-Coopers study of 97 acquisitions over \$500 million from 1994 to 1997 in which two-thirds of the buyer's stocks dropped on announcement of the transaction and a third of these were still lagging a year later.

Many reasons for the problematic record have been cited, including paying too much, unrealistic expectations, inadequate due diligence, and conflicting corporate cultures; however, the most powerful contributor to success or failure is inadequate attention to the merger integration process. Although the lawyers and investment bankers may consider a deal done when the papers are signed and they receive their fees, this should be merely an incident in a multi-year process of integration that began before the signing and continues far beyond.

Stability Strategies

There are a number of circumstances in which the most appropriate growth stance for a company is stability, rather than growth. Often, this may be used for a relatively short period, after which further growth is planned. Such circumstances usually involve a reasonable successful company, combined with circumstances that either permit a period of comfortable coasting or suggest a pause or caution. Three alternatives are outlined below, in which the actual strategy actions are similar, but differing primarily in the circumstances motivating the choice of a stability strategy and in the intentions for future strategic actions.

1. Pause and Then Proceed: This stability strategy alternative (essentially a timeout) may be appropriate in either of two situations: (a) the need for an opportunity to rest, digest, and consolidate after growth or some turbulent events - before continuing a growth strategy, or (b) an uncertain or hostile environment in which it is prudent to stay in a "holding pattern" until there is change in or more clarity about the future in the environment.

2. No Change: This alternative could be a cop-out, representing indecision or timidity in making a choice for change. Alternatively, it may be a comfortable, even long-term strategy in a mature, rather stable environment, e.g., a small business in a small town with few competitors.

3. Grab Profits While You Can: This is a non-recommended strategy to try to mask a deteriorating situation by artificially supporting profits or their appearance, or otherwise trying to act as though the problems will go away. It is an unstable, temporary strategy in a worsening situation, usually chosen either to try to delay letting stakeholders know how bad things are or to extract personal gain before things collapse. Recent terrible examples in the USA are Enron and WorldCom.

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