Chapter 4

STRATEGIC CHOICES

Introduction- Strategies are formulated at different levels of an organization. Strategy formulation involves well thought of decision making and cover actions dealing with the objective of the firm, shareholders and allocation of resources and coordination of strategies of various business units for optimal performance. Top management of the organization makes strategic decisions, which pan down for delegation at middle management level and finally the functional level managers execute the same with their teams.

Strategic choices

Businesses follow different types of strategies to enter the market, to stay relevant and grow in the market. A large number of strategies with different nomenclatures have been employed by different businesses and also suggested by different authors on strategy. For instance, William F Glueck
and Lawrence R Jauch discussed four generic strategies including stability, growth, retrenchment and combination. These strategies have also been called Grand Strategies/Directional Strategies by many other authors. Michael E. Porter suggested competitive strategies including Cost Leadership, Differentiation, Focus Cost Leadership and Focus Differentiation which could be used by the corporates for their different business units. Besides these, we come across functional strategies in the literature on Strategic Management and Business Policy. Functional Strategies are meant for strategic management of distinct functions such as Marketing, Financial, Human Resource, Logistics, Production etc.

Different types of strategies on the basis of their classification

Basis of Classification	Types
Level of the organisation	• Corporate Level • Business Level • Functional Level
Stages of Business Life Cycle	• Entry/Introduction Stage - Market Penetration Strategy • Growth Stage - Growth/Expansion Strategy • Maturity Stage - Stability Strategy • Decline Stage - Retrenchment/ Turnaround Strategy
Competition oriented	• Competitive Strategies - Cost Leadership, Differentiation, Focus • Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance

Above are the various types of strategies available for an organisation to adopt. The organisation adopts either of these depending upon their needs and requirements. For instance, a start-up or a new enterprise might follow either a competitive strategy i.e., entering the market where a number of rivals are already operating, or a collaborative strategy, i.e., enter into a joint venture with an established company

Business conglomerates having multiple product folios formulate strategies at different levels, viz., corporate, business unit and functional. Corporate level strategies are meant to provide 'direction' to the company. Business level strategies are formulated for each product/process division known as strategic business unit. While for implementation of the corporate and business strategies, functional strategies are formulated in business areas like production/operations, marketing, finance, human resources etc.

Before proceeding further, let us discuss the basic features of all the types of corporate strategies to get the bird's eye view. The basic features of the corporate strategies are as follows:

Basic Features of Corporate Strategies

Strategy	Basic Feature

Stability	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
Expansion	Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
Retrenchment	The firm retrenches some of the activities in some business (es), or) or drops the business as such through sell-out or liquidation.
Combination	The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of the firm.

Stability Strategy

One of the important goals of a business enterprise is stability strategy is to stabilise- it may be opted to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

A stability strategy is pursued by a firm when:

❖ It continues to serve in the same or similar markets and deals in same or similar products and services.

❖ This strategy is typical for those firms whose product have reached the maturity stage of product life cycle or those who have a sufficient market share but need to retain that. They have to remain updated and have to pace with the dynamic and volatile business world to preserve their market share.

Characteristics of Stability Strategy

❖ A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.

❖ The endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.

- Stability strategy does not involve a redefinition of the business of the corporation.
- It is a safe strategy that maintains status quo.
- It does not warrant much of fresh investments.
- The risk involved in this strategy is less.

Major Reasons for Stability Strategy

- A product has reached the maturity stage of the product life cycle.
- The staff feels comfortable with the status quo as it involves less changes and less risks.
- It is opted when the environment in which an organisation is operating is relatively stable.

Why don't Startups aim for stability?
A startup is an entrepreneurial venture in the early stages of ideation and development, generally created for solving real-life problems through technology. For it, most important factors are speed and agility, because of it being in a nascent stage of operations. Stability on the other hand I more meaningful strategy when the size of operations is expanded to full capacity and business is at a mature stage. Thereby, we rarely see startups aiming for stability.

Growth/Expansion Strategy

Growth/Expansion strategy is implemented by redefining the business by enlarging the scope of business and substantially increasing investment in the business. It is a strategy that can be equated with dynamism, vigour, promise and success. It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

Characteristics of Growth/Expansion Strategy

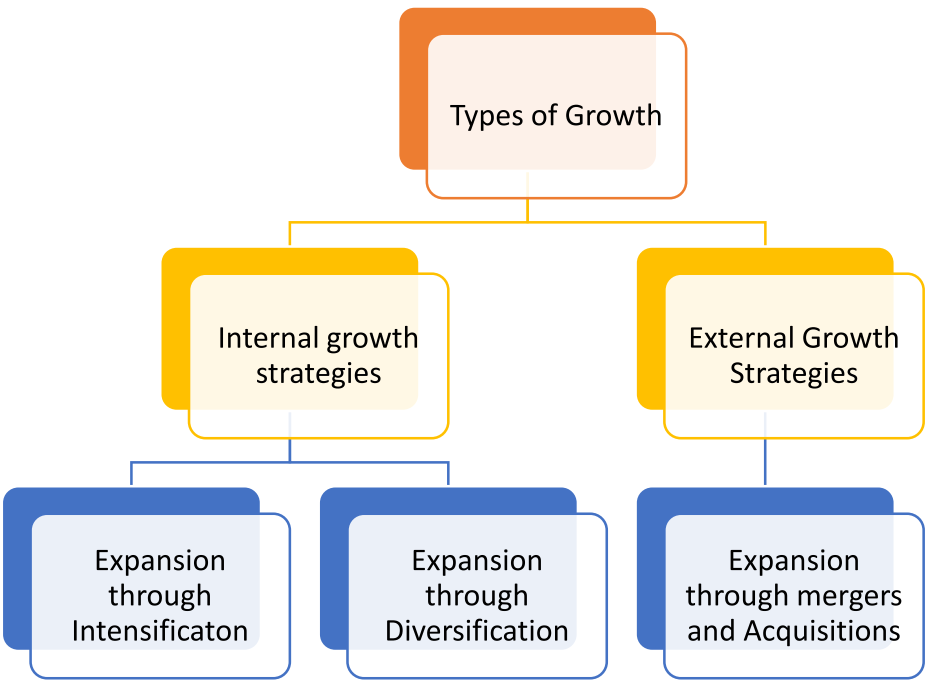
- Expansion strategy involves a redefinition of the business of the corporation.

- Expansion strategy is the opposite of stability strategy. While in stability strategy, rewards are limited, in expansion strategy they are very high. In the matter of risks, too, the two are the opposites of each other.
- Expansion strategy leads to business growth. A firm with a mammoth growth ambition can meet its objective only through the expansion strategy.

Major Reasons for Growth/Expansion Strategy

- It may become imperative when environment demands increase in pace of activity.
- Strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth-oriented.
- Expansion may lead to greater control over the market vis-a-vis competitors.

Types of Growth/ Expansion Strategy



The growth strategies can be classified into two main types:

a) Internal growth strategies
b) External growth strategies

a) Internal growth strategies

Internal growth strategies can be further divided into:

I. Expansion through Intensification
II. Expansion through Diversification

I. Expansion or growth through Intensification

Expansion or growth through intensification means that the organisation tries to grow internally by intensifying its operations either by market penetration or market development or by product development. It tries to cash on its internal capabilities and internal resources. The firm can intensify by adopting any of the following strategies:

i. **Market Penetration:** Highly common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of its existing product in the existing market.

ii. **Market Development:** It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.

iii. **Product Development:** Product development involves substantial modification of e00000xisting products or creation of new but related items that can be marketed to current customers through establish channels.

Product-Market Expansion Grid

Market Penetration • **Increase market share.** • **Increase product usage.** • **Increase the frequency used.** • **Increase the quantity used.** • **Find new application for current users.**	**Product Development** • **Add product features, product refinement.** • **Develop a new-generation product.** • **Develop new product for the same market.**
Market Development • **Expand geographically Target new segments.**	Diversification involving new products and new markets • **Related / Unrelated.**

II. Expansion or Growth through Diversification

When a firm tries to grow and expand by diversifying into various products or fields, it is called growth by diversification. This is also an internal growth strategy. Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship using their internal resources. They feel that diversification offers greater prospects of growth and profitability than intensification.

Growth through Diversification

Diversification is defined as an entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. When an established firm introduces a new product, which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as conglomerate diversification.

Based on the nature and extent of their relationship to existing businesses, diversification can be classified into two broad categories:

i. Concentric diversification: diversification into related business to benefit from synergistic gains
ii. Conglomerate diversification: diversification into unrelated business to explore more opportunities beyond existing areas of expertise
iii. Expansion through Innovation

Diversification endeavours can be related or unrelated to existing businesses of the firm.

i. **Concentric Diversification:** Concentric diversification takes place when the products are related. In this diversification, the new business that is it diversifies into is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. For example, a company producing clothes ventures into the manufacturing of shoes.

Concentric diversification is generally understood in two directions, vertical and horizontal integration;

a) **Vertically Integrated Diversification:** In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

   Forward and Backward Integration: Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.

b) **Horizontal Integrated Diversification:** A firm gets horizontally diversified by integrating through acquisition of one or more similar businesses operating at the same stage of the production-marketing chain.

DIVERSIFICATION

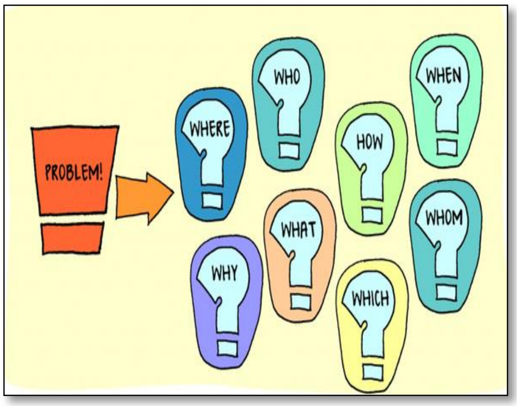
ii. **Conglomerate Diversification:** In conglomerate diversification, no linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. For example, A cement manufacturer diversifies into the manufacture of steel and rubber products.

Related vs. Unrelated Diversification

RELATED DIVERSIFICATION	UNRELATED DIVERSIFICATION
• Exchange or share assets or competencies by exploiting. • Brand name. • Marketing skills. • Sales and distribution capacity • Manufacturing skills. • R&D and new product capability. • Economies of scale.	• Investment in new product portfolios. • Employment of new technologies. • Focus on multiple products. • Reduce risk by operating in multiple product markets. • Defend against takeover bids. • Provide executive interest.

Is it really worth expanding so much to diversify a business into unrelated products?
Despite of its complexity, conglomerate diversification (diversification into unrelated business) financially makes a lot of sense. It creates access a new pool of customers, thereby expanding its customer base. It allows access to markets and cross-selling new products, leading to increased revenues. Further, it eases the management of losses in a business; profits in one business can be used to keep the loss making business afloat within the same organisation.

iii. **Innovation:** Innovation drives up gradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction.



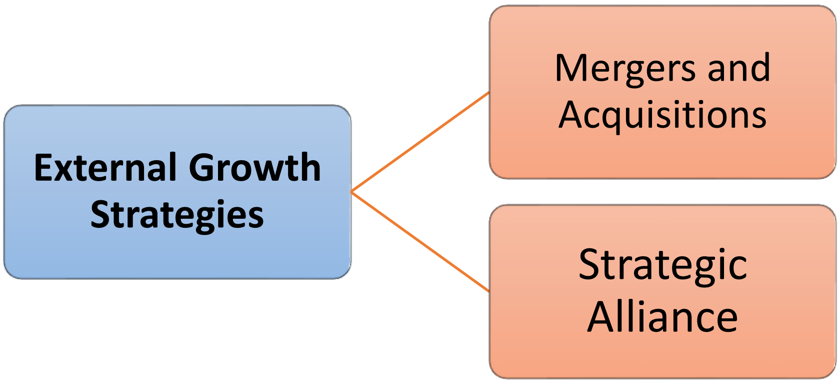
- **Helps to solve complex problems:** A business strives to find opportunities in existing problems of the society, and it does so though planned innovation in areas of expertise. For example, the pressing problem of environmental damage is being tackled heads on by shifting to renewable sources of energy like solar, wind, sea waves, etc.

- **Increases Productivity:** Innovation leads to simplification and in most cases automation of existing tasks. Productivity is defined as a measure of final output from a task or a process, and companies are willing to spend millions on increasing their productivity, Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organisation as a whole. For example, MS Excel, every finance professional uses this software to simplify and automate their manual tasks.

- **Gives Competitive Advantage:** Being ahead of competition is a need, and businesses spend majority of their strategic time building solutions to achieve this advantage. An interesting concept about innovation is - the faster a business innovates, the farther it goes from its competitor's reach.

b) External Growth Strategies

When the organization instead of growing internally thinks of diversifying by making alliances with external organisations, it is called external growth diversification. It can be classified in two ways:



I. Expansion through Mergers and Acquisitions

Acquisition or merger with an existing concern is an instant means of achieving the expansion. It is na attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. Some organizations prefer to grow through mergers. Merger is a process when two or more companies come together to expand their business operations.
When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, the stronger one overpowers the weaker one.

Types of Mergers

The following are the types of mergers and are quite similar to the types of diversification.

a) Horizontal Merger

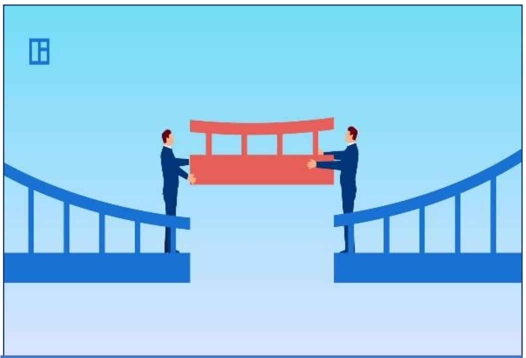
Horizontal merger is a combination of firms engaged in the same industry. It is a merger with a direct competitor. The

principal objective behind this type of merger is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on. **For example,** formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.

b) Vertical Merger

It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels. **For example,** backward integration and forward integration.

c) Co-generic Merger

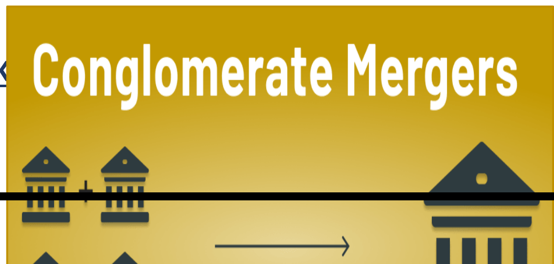


Co-generic Merger

In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger includes the extension of the product line or acquiring components that are required in the daily operations. For example, an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchen appliances.

d) Conglomerate Merger

Conglomerate mergers are the combination of



organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology.

II. Expansion through Strategic Alliance

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows:

1) **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Strategic partners may provide a good or service that complements thereby creating a synergy.

2) **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.

3) **Strategic:** Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills.

4) **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry.

Disadvantages of Strategic Alliance

Strategic alliances do come with some disadvantages and risks. The major disadvantage is sharing. Strategic alliances require sharing of resources and profits, and also sharing knowledge and skills that otherwise organisations may not like to share. Sharing knowledge and skills can be problematic if they involve trade secrets. Agreements can be executed to protect trade secrets, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them. Strategic alliances may also create potential competition when an ally becomes an opponent in future when it decides to separate out.

Strategic exits

Strategic Exits are followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy.

I. Turnaround Strategy

Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.

There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:

- Persistent negative cash flow from business(es)
- Uncompetitive products or services
- Declining market share
- Deterioration in physical facilities
- Over-staffing, high turnover of employees, and low morale
- Mismanagement

Action Plan for Turnaround

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for turnaround would involve the following stages:

- Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

- Stage Two –Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources.

- Stage Three –Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products.

- Stage Four –Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive.

❖ Stage Five –Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

The important elements of turnaround strategy are as follows:

- Changes in the top management
- Initial credibility-building actions
- Neutralising external pressures
- Identifying quick payoff activities
- Quick cost reductions
- Revenue generation
- Asset liquidation for generating cash
- Better internal coordination

II. Divestment Strategy

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A divestment strategy may be adopted due to various reasons:

- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- Severity of competition and the inability of a firm to cope with it may cause it to divest.

Characteristics of Divestment Strategy

- This strategy involves divestment of some of the activities in a given business of the firm or sell-out of some of the businesses as such.
- Divestment is to be viewed as an integral part of corporate strategy without any stigma attached.

Major Reasons for Retrenchment/Turnaround Strategy

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- The management feels that business could be made viable by divesting some of the activities or liquidation of unprofitable activities.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.

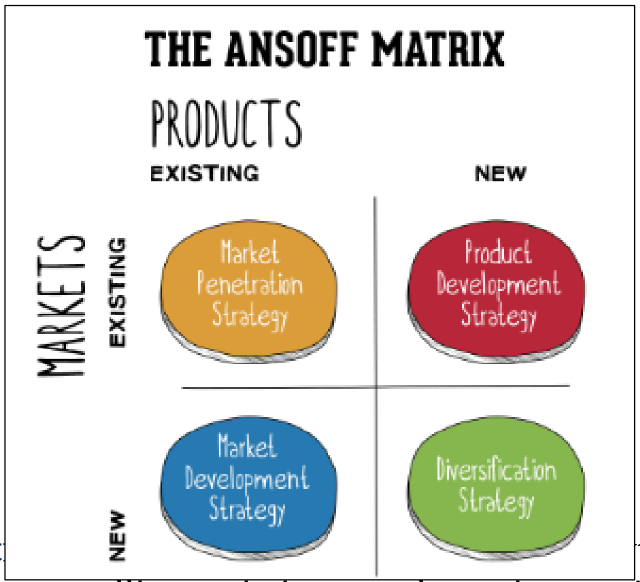
Strategic Options

Strategic options need to be carved out from existing products and innovations that are happening in the industry. There are a set of models that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. Primarily used for competitive analysis and corporate strategic planning in multi-product and multi business firms. They may also be used in less-diversified firms, if these consist of a main business and other minor complementary interests.

In order to design the business portfolio, the management must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses management may develop growth strategies for adding new products or businesses to the firm's portfolio.

Ansoff's Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying growth opportunities for the company.



- **Market Penetrat** … th strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling.

- **Market Development:** Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products. For example, Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.

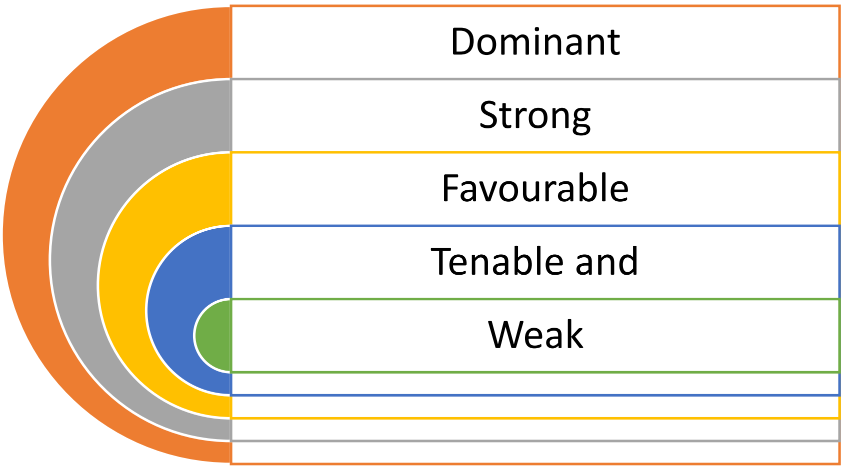
- **Product Development:** Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. For example, Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.

- **Diversification:** Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

ADL Matrix

The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle. The approach forms a two-dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions:



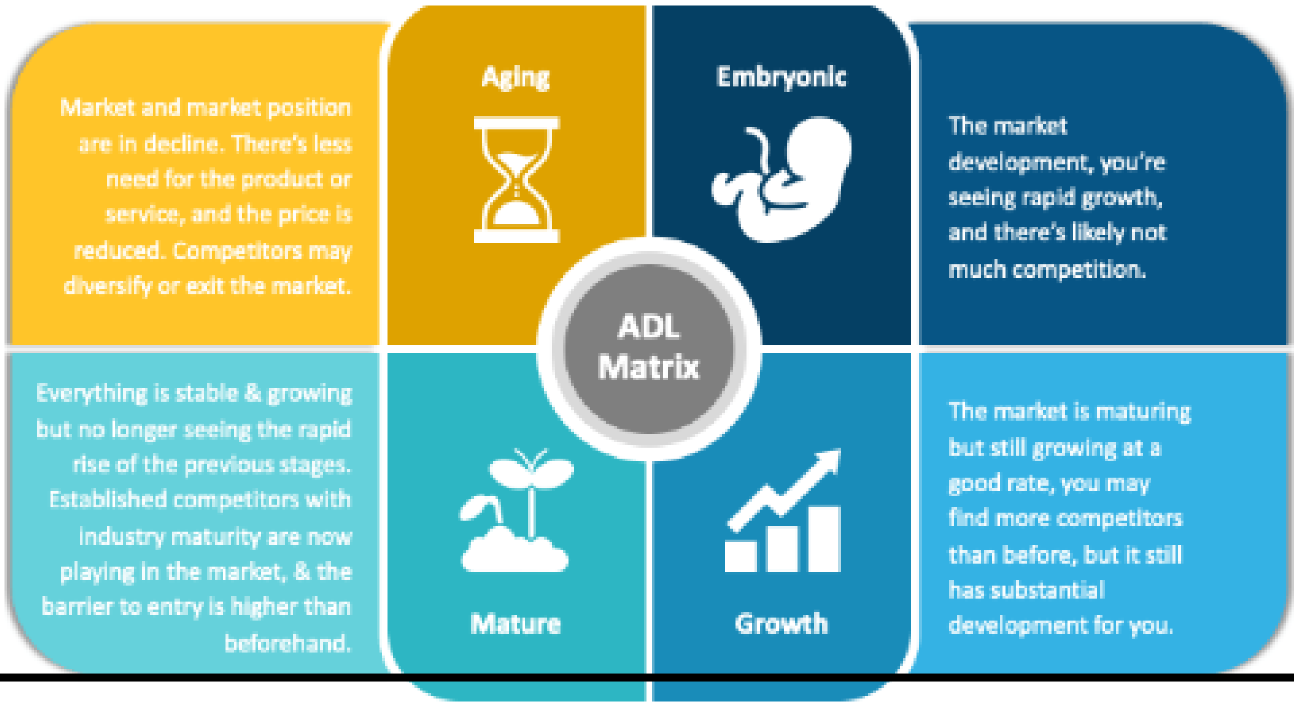


Figure: Arthur D. Little Strategic Condition Matrix

The competitive position of a firm is based on an assessment of the following criteria:

- **Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

- **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.
- **Favourable:** This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

- **Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

- **Weak:** The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

Boston Consulting Group (BCG) Growth-share Matrix

The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company strength in the market.

Using the matrix, organisations can identify four different types of products or SBU as follows:

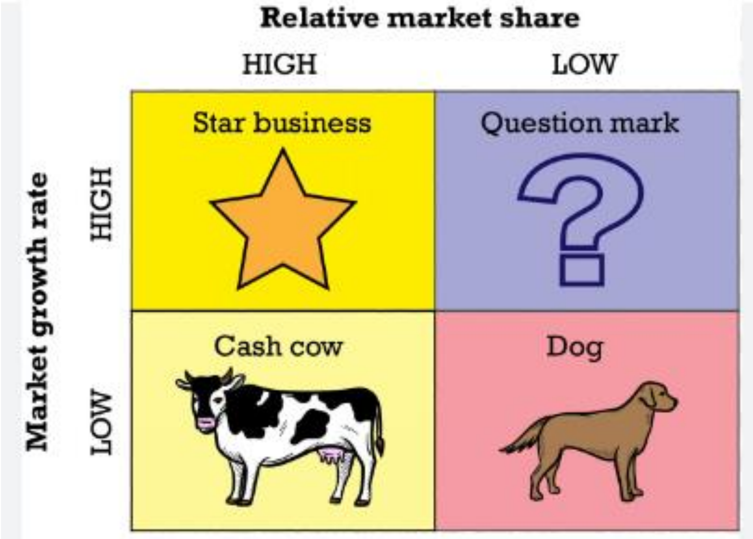


Figure: BCG Growth – Share Matrix

- Stars are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.

- Cash Cows are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

- Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps.

- Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation

BCG Matrix: Post Identification Strategies

After a firm, has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

1) **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
2) **Hold:** Here the objective is to preserve market share.
3) **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.
4) **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

Is BCG Matrix really helpful?

The growth-share matrix has done much to help strategic planning; however, there are some problems and limitations with the technique. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly

Identify if the following is a Star or a Cash Cow?
SO Pharma Ltd. developed a new age medicine which cures cough in 3 hours with an investment of INR 80 crores in R&D. They named it "COUFIX". Coufix needs a lot of marketing spend to create awareness amongst the public and also needs funds to get licenses from the regulators. Interestingly, Coufix has gained 60% market share within 6 months of launch and been profitable since day 1. Is Coufix, a cash cow or a star for SO Pharma Ltd.?
It is a Star. Stars are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion. Just one parameter of market share cannot define the status of an SBU, it should be categorised basis the inherent characteristics, and hence Coufix has more representation as a Star.

General Electric Matrix ["Stop – Light" Strategy Model]

This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey and Company). This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model. The strategic planning approach in this model has been inspired from traffic control lights.

Understanding the GE Matrix

The vertical axis indicates market attractiveness, and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- Size of the market.
- Market growth rate.
- Industry profitability.
- Competitive intensity.
- Availability of Technology.

Business strength is measured by considering the typical drivers like:

- Market share.
- Market share growth rate.
- Profit margin.
- Distribution efficiency.
- Brand image etc.

If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.

This model is similar to the BCG growth-share matrix. However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.