Grand or Business Strategies

Strategy Analysis and Choice is a process that reconciles strategic actions, market opportunities, corporate strengths and resources, values of managers, and legal requirements and social responsibilities to select a "best" mission, strategic thrust, and set of strategic actions.

"Grand strategies, often called master or business strategies provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. Grand strategies indicate the time period over which long-range objectives are to be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides a firm's major actions. Business managers can use tools and techniques such as Grand Strategy Selection Matrix or Grand Strategy Cluster or Matched-pair Analysis to design means that will be used to achieve long-term objectives.

The Model for Grand Strategy Cluster is shown in Figure 1. The technique is based on the idea that the situation of a business is defined in terms of the growth rate of the general market and the firm's competitive position in that market. When these factors are considered simultaneously, a business can be broadly categorized in one of four quadrants: (I) strong competitive position in a rapidly growing market, (II) weak position in a rapidly growing market, (III) weak position in a slow-growth market, or (IV) strong position in a slow-growth market. Each of these quadrants suggests a set of promising possibilities for the selection of a grand strategy.

Figure 1
Grand or Business Strategies

Model of Grand Strategy Cluster

Rapid market growth
- Concentrated growth (increasing market share in existing markets)
- Market Development (selling present products or services in new markets)
- Product development (substantial modification of existing products or developing new products for currently served markets and customers)
- Horizontal Integration (acquiring firms in current markets or in new markets to eliminate competitors and provide the acquiring firm with access to new markets)
- Divestiture
- Liquidation

Weak Competitive positioning
- Concentrated diversification (cost reduction and asset reduction to improve profitability)
- Conglomerate diversification
- Divestiture (selling a major component of a firm or the entire firm)
- Liquidation (selling parts of a firm or the entire firm at auction or to a private buyer for its tangible asset value)

Strong Competitive positioning
- Concentric diversification (creating complementary synergies)
- Concentric diversification (acquiring a portfolio of businesses based on financial performance criteria)
- Joint Venture

Slow market growth

The Model for Grand Strategy Selection Matrix is shown in Figure 2. The basic idea underlying the matrix is that two variables are of central concern in the selection process: (1) the principal purpose of the grand strategy and (2) the choice of an internal or external emphasis for growth or profitability.

Figure 2
The principal *Grand Strategies* are:

1. A **concentrated growth strategy** involves focusing on increasing market share in existing markets. This strategy is also sometimes called a concentration or market dominance strategy. In a stable environment where demand is growing, concentrated growth is a low risk strategy. Concentration may involve increasing the rate of use of a product by current customers; attracting competitor's customers; and/or attracting nonusers/ new customers.

**Example:**

A. With headquarters in Columbus, Ohio, Chemlawn is the North American leader in professional lawn care. Like others in the lawn-care industry, Chemlawn is experiencing a steadily declining customer base. Market analysis shows that the decline is fueled by negative environmental publicity, perceptions of poor customer service, and concern about the price versus the value of the company’s services, given the wide array of do-it-yourself alternatives. Chemlawn’s approach to increasing market share hinges on addressing quality, price, and value issues;
discontinuing products that the public or environmental authorities perceive as unsafe; and improving the quality of its workforce.

2. **A market development strategy** involves selling present products or services in new markets. Managers take actions like targeting promotions, opening sales offices and creating alliances to operationalize a market development strategy.

   **Example:**

   A. Kmart pursued market development with its recent emphasis on increasing market share among Hispanics

   B. Du Pont used market development when it found a new application for Kevlar, an organic material that police, security, and military personnel had used primarily for bulletproofing. Kevlar now is being used to refit and maintain wooden-hulled boats, since it is lighter and stronger than glass fibers and has 11 times the strength of steel.

3. **A product development strategy** focuses on substantial modification of existing products developing new products for currently served markets and customers. The focus is often on products/services related to current offering. Sometimes quality variations or new models or sizes of products are developed. As part of a product development strategy, a company may emphasize getting a product to market quickly, developing a product that can be sold at the lowest cost, or developing a product that has the highest level of product performance, or developing a product with high levels of product quality and reliability. In some situations, product development is constrained by a development budget.

   **Example:**

   A. Pepsi changed its strategy on beverage products by creating new products to follow the industry movement away from mass branding. This new movement was designed to attract a younger, hipper customer segment. Pepsi’s new products include a version of Mountain Dew, called Code Red, and new Pepsi brands, called Pepsi Twist and Pepsi Blue

   B. Gerber’s recent introduction included 52 items that ranged from feeding accessories to toys and children’s wear.
Grand or Business Strategies

4. A vertical integration is a grand strategy that involves acquiring firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehousers for finished products). The transaction may involve stock purchase, buying assets, or stock swap. Backward vertical integration involves acquiring a firm at an earlier stage of the value chain. Forward integration involves acquiring a firm at a later stage in the value chain.

Example:

A. Amoco emerged as North America’s leader in natural gas reserves and products as a result of its acquisition of Dome Petroleum. This backward integration by Amoco was made in support of its downstream businesses in refining and in gas stations, whose profits made the acquisition possible.

5. A Concentric diversification is one type of strategic thrust. Concentric diversification focuses on creating a portfolio of related businesses. The portfolio is usually developed by acquisition rather than by internal new business creation. Product-market synergies are a major issue in creating the portfolio of related strategic business units (SBUs).

Example:

A. Head Ski initially sought to diversify into summer sporting goods and clothing to offset the seasonality of its “snow” business.

6. A conglomerate diversification involves acquiring a portfolio of businesses based on financial performance criteria. Product-market synergies are not an issue.

Example:

A. ITT, Textron, American Brands, Litton, U.S. Industries, Fuqua, and I. C. Industries seek is financial synergy. For example, they may seek a balance in their portfolios between current businesses with cyclical sales and acquired businesses with countercyclical sales, between highcash/low-opportunity and low-cash/high-opportunity businesses, or between debt-free and highly leveraged businesses.

7. A horizontal integration strategies focus on acquiring firms in current markets or in new markets. Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets. A horizontal integration strategy can support a concentrated growth or a market development strategy.
Grand or Business Strategies

Example:

A. Warner-Lambert’s acquisition of Parke Davis, which reduced competition in the ethical drugs field for Chilcott Laboratories, a firm that Warner-Lambert previously had acquired.

B. long-range acquisition pattern of White Consolidated Industries, which expanded in the refrigerator and freezer market through a grand strategy of horizontal integration, by acquiring Kelvinator Appliance, the Refrigerator Products Division of Bendix Westinghouse Automotive Air Brake, and Frigidaire Appliance from General Motors.

C. Nike’s acquisition in the dress shoes business

D. N. V. Homes’s purchase of Ryan Homes

8. A **divestiture** is a strategic action that involves selling a major component of a firm or the entire firm. The entity is sold as an ongoing business.

Example:

A. Sara Lee Corp. (SLE) provides a good example. It sells everything from Wonderbras and Kiwi shoe polish to Endust furniture polish and Chock full o’Nuts coffee. The company used a conglomerate diversification strategy to build Sara Lee into a huge portfolio of disparate brands. A new president, C. Steven McMillan, faced stagnant revenues and earnings. So he consolidated, streamlined, and focused the company on its core categories—food, underwear, and household products. He divested 15 businesses, including Coach leather goods, which together equaled over 20 percent of the company’s revenue, and laid off 13,200 employees, nearly 10 percent of the workforce.

9. A **liquidation** involves selling parts of a firm or the entire firm at auction or to a private buyer for its tangible asset value. The intent is not to operate an ongoing business. Contrast this strategic action with divestiture.

Example:

A. Columbia Corporation, a $130 million diversified firm, liquidated its assets for more cash per share than the market value of its stock.
9. A turnaround strategy is used when firms are struggling financially. The strategy usually involves cost reduction and asset reduction. Managers reduce costs by reducing staff, leasing rather than buying equipment, reducing marketing expenditures or R&D. Assets are also often sold to free up cash for new initiatives. In some cases assets are sold and then leased back by the company from the purchaser of the asset. Once costs are reduced and assets have been sold to generate cash a positive growth or diversification strategy must be implemented to complete the turnaround.

Example:

A. Decreasing the workforce through employee attrition, leasing rather than purchasing equipment, extending the life of machinery, eliminating elaborate promotional activities, laying off employees, dropping items from a production line, and discontinuing low-margin customers

B. Sale of land, buildings, and equipment not essential to the basic activity of the firm and the elimination of “perks,” such as the company airplane and executives’ cars

10. A innovation strategy involves the creation of a new device or process based upon study, research and experimentation. An innovation strategy involves new processes, business ideas, and more basic R&D than is usually associated with a product development strategy. In a business setting, innovation may involve creation of new products and/or services. Innovation is usually paired with other strategies as a supporting or complementary strategy. firms find it profitable to make innovation their grand strategy. They seek to reap the initially high profits associated with customer acceptance of a new or greatly improved product. Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, they search for other original or novel ideas.

Example:

A. Intel, a leader in the semiconductor industry, pursues expansion through a strategic emphasis on innovation. With headquarters in California, the company is a designer and manufacturer of semiconductor components and related computers, of microcomputer systems, and of software. Its Pentium microprocessor gives a desktop computer the capability of a mainframe.

B. Polaroid, which heavily promotes each of its new cameras until competitors are able to match its technological innovation; by this time, Polaroid normally is prepared to introduce a dramatically new or improved product. For example, it
introduced consumers in quick succession to the Swinger, the SX-70, the One Step, and the Sun Camera 660.

11. A **Joint Ventures** involves creating complementary synergies. Occasionally two or more capable firms lack a necessary component for success in a particular competitive environment. For example, no single petroleum firm controlled sufficient resources to construct the Alaskan pipeline. Nor was any single firm capable of processing and marketing all of the oil that would flow through the pipeline. The solution was a set of *joint ventures*, which are commercial companies (children) created and operated for the benefit of the co-owners (parents). These cooperative arrangements provided both the funds needed to build the pipeline and the processing and marketing capacities needed to profitably handle the oil flow.

**Example:**

A. Diamond-Star Motors is the result of a joint venture between a U.S. company, Chrysler Corporation, and Japan’s Mitsubishi Motors corporation. Located in Normal, Illinois, Diamond-Star was launched because it offered Chrysler and Mitsubishi a chance to expand on their long-standing relationship in which subcompact cars (as well as Mitsubishi engines and other automotive parts) are imported to the United States and sold under the Dodge and Plymouth names.

B. Bethlehem Steel acquired an interest in a Brazilian mining venture to secure a raw material source.

**Reference:**


**Cite this as:**