LECTURE NOTES

ON

CORPORATE STRATEGY

MODULE-III

BY:

DR. AMITABH NANDA

Strategic alternatives or Grand strategies

Stability Strategy

Stability strategy is otherwise known as status quo or pause strategy.As the name implies, a stability business strategy seeks to maintain operations, market size and position. This strategy is characteristic of small risk-averse firms or firms operating in a very precarious market that is comfortable with its current position. These strategies are generally broken into:

- **No Change Strategies** – A firm makes no considerable changes to its objectives or operations.. The firm makes a conscious decision to maintain its current strategic objectives.
- **Profit Strategies** – A profit strategy endorses any action necessary to maintain or improve profitability. This may include cutting costs (operational efficiency, outsourcing), selling assets, raising prices, increasing output (sales), or offsetting losses with profits from another business unit.
- **Caution Strategies** – This strategy requires a firm to wait and continue to assess the market before employing any particular strategy. It is basically reconnaissance before strategic action is taken. This is a temporary strategy employed for a limited time while deciding on a formal strategy to pursue.

Expansion Strategy

An expansion strategy is synonymous with a growth strategy. A firm seeks to achieve faster growth, compete, achieve higher profits, grow a brand, capitalize on economies of scale, have greater impact, or occupy a larger market share. This may entail acquiring more market share through traditional competitive strategies, entering new markets, targeting new market segments, offering new produce or services, expanding or improving current operations. Below are common expansion strategies:

- **Expansion through Concentration** – This involves focusing resource allocation and operational efficiency on one or a select group of business units or core business functions. Concentration might include: penetrating an existing market with an existing value proposition; developing a new market by attracting new customers to an existing value proposition; developing a new value proposition to introduce in the existing market.
- **Expansion through Diversification** – This strategy involves diversifying the value offering of the company in one of two methods: 1) Concentric Diversification entails developing a new value proposition that are related to existing value propositions; or 2) Conglomerate Diversification entail entering into new markets (either with an existing value proposition or by combining with another industry competitor). This strategy generally reduces specific industry risks, such as an economic downturn. The profits of one value offering might offset losses in another business unit during difficult times.

1. Concentric diversification: involves getting into a related business. For example, a detergent manufacturer may get into soap business (Nirma Chemicals), a scooter manufacturer may enter the field of motor cycles (Bajaj Auto), and a truck manufacturer may go in for passenger cars (Tata Motors).

2. Conglomerate diversification: means that a firm gets into a new business which is unrelated to its existing business. For example, ITC Limited, traditionally a cigarette manufacturer, entered the

field of hotels, Bharat Vijay Mills, a textile manufacturer, diversified into synthetic tanks, and Escorts, a tractor company, set up a dry dock.

Expansion through Integration – Integration involves the consolidation of operational units anywhere along the value chain to create greater efficiency and produce economies of scale. Unlike other strategies, it does not involve making changes to existing markets or targeting new customer groups. There are two primary types of integration: 1) Vertical integration involves consolidation up or down the value chain. Forward vertical integration involves consolidating closer to the point at which value is delivered to the consumer. Backward vertical integration involves consolidating closer to the genesis of value (such as the point of manufacturing). Horizontal integration involves consolidating operations at the same point in the value chain. This consolidation may be between business units or by acquiring or combining with a competitors. (**Details of integration is discussed below in the next portion)**

- **Expansion through Cooperation** – This strategy entails working closely with a competitor (while potentially still competing against them in the market). Working together may take the form of consolidation of business units (mergers or acquisitions), strategic alliance (affinity group or association), or joint venture (loose partnership-like alliance generally used to undertake a project or enter into foreign markets).
- **Expansion through Internationalization** – This method involves creating new markets for a value offering by looking outside of the immediate nation.

<u>Retrenchment Strategy</u>

- A redemption strategy seeks to restructure, sell or otherwise divest a business unit. The purpose is to reduce costs, streamline operations, or stabilize cash flow. The three primary types of retrenchment strategy are: **Turnaround Strategy** – This is a restructuring strategy. It calls for realigning operations to be more cost efficient or profitable. It often comes in response to an ineffective strategy causing harm to the company.
- **Divestment** – This means reducing operations or completing divesting (getting rid of) a business unity. Generally, the operational unit will be losing money or not fit with the company's core operational objectives. Some the drivers of this strategy are negative cash flows, sustained losses, poor business integration, better alternative use of assets, the value proposition is becoming obsolete, rising costs, or small (non-growing) market share. The firm may now allocate resources to a more profitable or appropriately aligned business unit. Generally, a divestment comes after a turnaround strategy has proved ineffective.
- **Liquidation** – A liquidation strategy is similar to a divestment. It focuses on selling specific assets or shutting down business units. Unlike divestment, which seeks to streamline operations and focus resource allocation, liquidation sees a business unit as a loss or failure. Scenarios leading to a liquidation strategy include: extensive losses, lack of profitability, failure of a current strategy, obsolete assets, or technology, ineffective processes, obsolete value proposition, poor management, or lack of integration of the business unit.

Combination Strategy

A combination strategy employs any simultaneous combination of other master strategies. It includes use by a firm of a different strategy in individual business units or by use of multiple strategies in a single business unit at the same or different times. This is most popular in large, complex organizations (various industries and business units

Integration strategy:

Vertical integration is a competitive strategy by which a company takes complete control over one or more stages in the production or distribution of a product. A company opts for vertical integration to ensure full control over the supply of the raw materials to manufacture its products. It may also employ vertical integration to take over the reins of distribution of its products.

A classic example is that of the Carnegie Steel Company, which not only bought iron mines to ensure the supply of the raw material but also took over railroads to strengthen the distribution of the final product. The strategy helped Carnegie produce cheaper steel, and empowered it in the marketplace.

Horizontal integration is another competitive strategy that companies use. An academic definition is that horizontal integration is the acquisition of business activities that are at the same level of the value chain in similar or different industries.

In simpler terms, horizontal integration is the acquisition of a related business: a fast-food restaurant chain merging with a similar business in another country to gain a foothold in foreign markets.

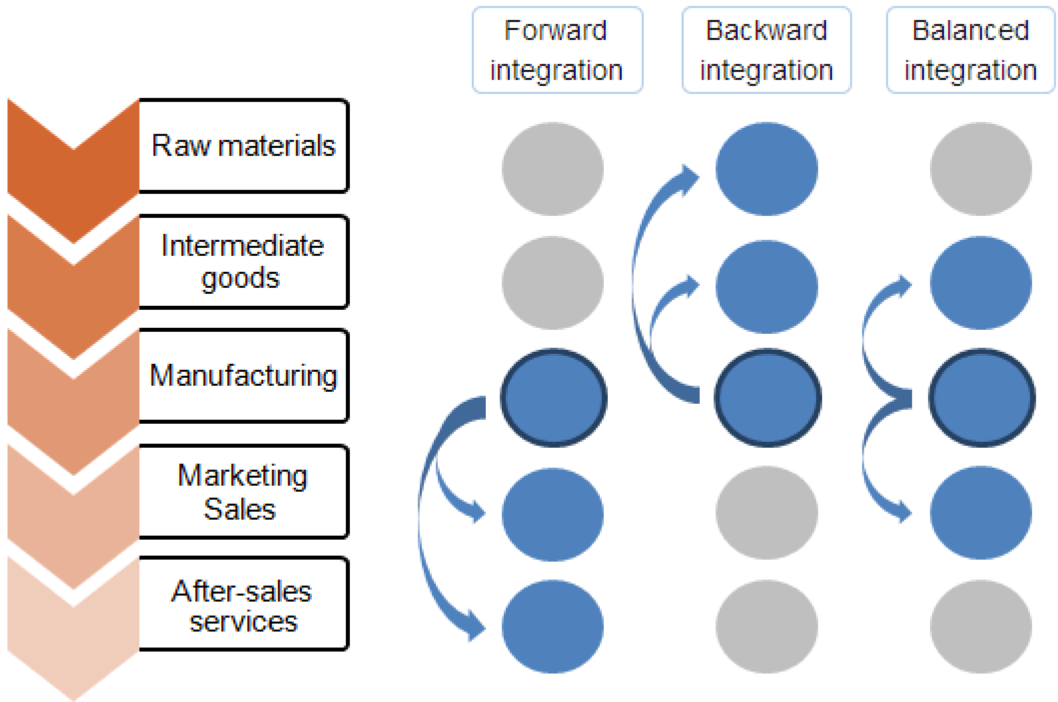
Types of vertical integration strategies

As we have seen, vertical integration integrates a company with the units supplying raw materials to it (backward integration), or with the distribution channels that carry its products to the end-consumers (forward integration).

For example, a supermarket may acquire control of farms to ensure supply of fresh vegetables (backward integration) or may buy vehicles to smoothen the distribution of its products (forward integration).

A car manufacturer may acquire tyre and electrical-component factories (backward integration) or open its own showrooms to sell its vehicle models or provide after-sales service (forward integration).

There is a third type of vertical integration, called balanced integration, which is a judicious mix of backward and forward integration strategies.



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When is vertical integration attractive for a business?

Several factors affect the decision-making that goes into backward and forward integration. A company may go in for these strategies in the following scenarios:

- The current suppliers of the company's raw materials or components, or the distributors of its end products, are unreliable
- The prices of raw materials are unstable or the distributors charge high fees
- The suppliers or distributors earn big margins
- The company has the resources to manage the new business that is currently being taken care of by the suppliers or distributors
- The industry is expected to grow significantly

Horizontal integration, as we have seen, is a company's acquisition of a similar or a competitive business—it may acquire, but it may also merge with or takeover, another company to strengthen itself—to grow in size or capacity, to achieve economies of scale or product uniqueness, to reduce competition and risks, to increase markets, or to enter new markets.

Quick examples of horizontal expansion are Standard Oil's acquisition of about 40 other refineries and the acquisition of Arcelor by Mittal Steel and that of Compaq by HP.

STRATEGIC ALLIANCES:

Strategic Alliances:

A strategic alliance can be defined as an agreement between two or more companies to achieve common business goals by sharing their strengths and resources. However, the parties involved in a strategic alliance remain independent in their business operations.

It is common for companies to come together to work for a mutually beneficial project. The agreement of working together is referred to as a strategic alliance. Companies involved in the strategic alliance share their resources for the same purpose.

Many times, a strategic alliance is confused with joint venture by people. However, there are many differences between a strategic alliance and joint venture.

One basic difference between a joint venture and strategic alliance is that in joint venture all the companies involved set up a separate legal entity with new identity whereas in strategic alliance companies involved in the agreement work as a separate individual entity.

Common Reasons for the Strategic Alliances:

1) Slow Cycle of the business

When the business cycle is slow in nature owing to the various external and internal factors, the company's competitive advantage is relatively shielded for a relatively long time period. Even the company doesn't come up with the new and latest offerings for the target market.

In this case, Strategic Alliances can be formed to explore the new and restricted markets and gain stability in the market by sharing and competencies through the alliance.

2) Standard Cycle of the Business

During the standard cycle of the business, the company launches the new line of products every few years and in regular intervals but may or may not be able to maintain its leading and top as a market leader.

In this case scenario, Strategic Alliances as formulated to gain higher market share, gain access to the complementary resources, generate economies of scale, beat other competitive companies, and pool resources for the projects that require a large number of funds and capital investments.

3) Fast Cycle of the Business

In the fast cycle of the business, the company needs to come up with an offer the new range of products on a constant and continuous basis to survive in the market. The company's competitive advantages are not protected.

Types of Strategic alliance

There are four types of strategic alliance. Let us learn about them one by one.

#1. Procompetitive Alliance:

This type of strategic alliance works based on low interaction and low conflicts. In this type of strategic alliance, companies involved in the alliance have minimal involvement, and they don't merge their capital.

An example of a procompetitive strategic alliance can be seen in businesses between the distributors or suppliers and manufacturers.

These companies work with each other without merging their capital in the business. This type of strategic alliance takes advantage of vertical integration.

#2. Noncompetitive Alliance:

This type of strategic alliance results in high interaction and low conflicts. This type of strategic alliance takes place among the companies which are part of the same industry but does not consider themselves direct competitors.

This is because the operations of these companies are quite distinctive from one another. This type of alliance takes place between companies whose businesses are same but operate in different geographical areas.

#3. Competitive Alliance:

This type of strategic alliance works on the principle of high interaction and high conflicts. Companies which are direct competitors of each other come together to form a competitive strategic alliance.

Being direct competitors to each other, and because of the high interaction, there is a high risk of conflicts between the companies involved.

This type of strategic alliance takes place between the companies dealing in the same industry but in different countries. Usually, companies get in a competitive alliance with the local companies to establish their business in a new country.

#4. Precompetitive Alliance:

This type of strategic alliance results in low interaction and high conflicts. This type of strategic alliance is common between two companies from two completely industries.

Precompetitive alliance takes place when two companies work together to develop a new product or to develop new technology.

The best example to explain precompetitive strategic alliance is the alliance between an advertising company and a company using its services to develop its products.

Examples of strategic alliances:

1. **Strategic Alliance between Spotify and Uber:**

2. **Apple Pay and Master Card**

3. **Google and Luxottica:**

Advantages of a strategic alliance

1. Speed up the entry into a new market:

2. Enhance sales:

3. Learn new skills and technology:

4. Divided fixed costs and resources:

5. Innovative products and services:

6. Enhanced distribution channels:

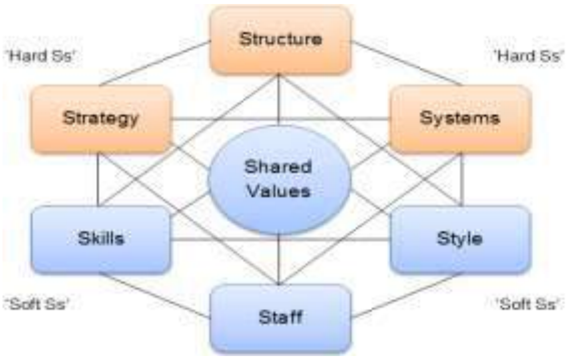
7. Easy to get into the international market:

8. Builds the image of the brand:

MCKINSEY 7S FRAMEWORK

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

Below you can find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.



Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results.

Structure represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.

Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.

Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.

The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organization.

BUSINESS PORTFOLIO MANAGEMENT:

Portfolio analysis is an analysis of the corporation as a portfolio of different business with the objective of managing it for returns on its resources. The business may be in the forms of organizational units, such as different subsidiaries or divisions of a parent company or Strategic Business Units (SBUs).

Thus, portfolio analysis looks at the corporate investments in different products or industries under the common corporate jurisdiction. The corporate manager analyses the future implications of their present resource allocations and continuously evaluates which operations or products to expand or add, and which ones to be curtailed or disposed off, so that the overall portfolio balance is maintained or improved. The focus is on the present as well as the future.

The activities of a company and its effectiveness in the market place also depends on what the other competing companies are doing. Therefore, the portfolio analysis takes into consideration such aspects as the company's competitive strengths, resource allocation pattern and the industry characteristics.

Portfolio analysis is primarily concerned with the balancing of the company's investments in different products or industries and is useful for highly diversified multi-product companies operating in a limited market. The different subsidiaries or strategic business units have to be balanced with respect to the three basic aspects of running the business:

1. Net Cash Flow
2. State of Development
3. Risk

Portfolio analysis is one of the methods to assist managers in evaluating the strategy. Let us now discuss different types of Business Portfolio Analyses widely applicable.

1. BCG Matrix
2. GE 9 cell matrix

BCG Matrix

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it's portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

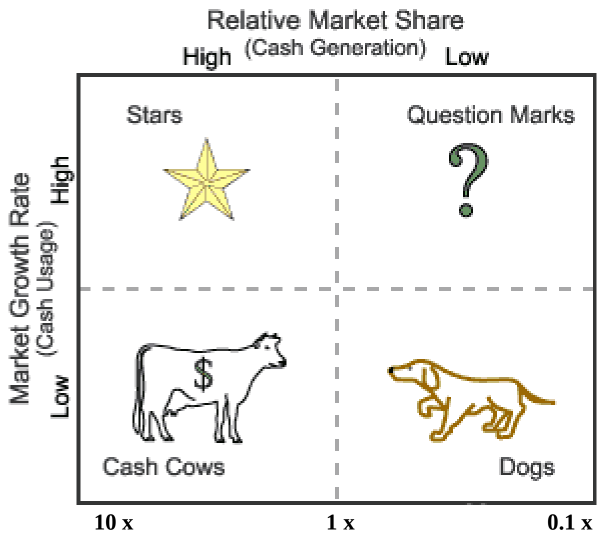
Relative Market Share = SBU Sales this year leading competitors sales this year.

Market Growth Rate = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU's are in same industry, the average growth rate of the industry is used. While, if all the SBU's are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.



1. **Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.
2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.
3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.
4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

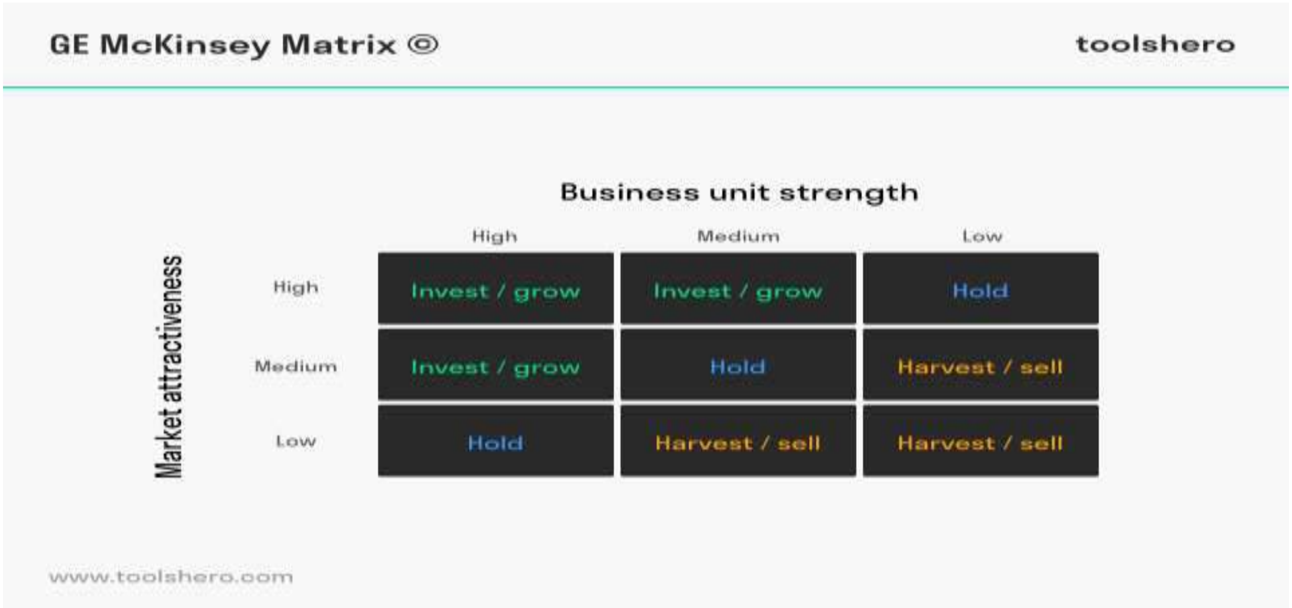
GE 9 cell Matrix:

The GE McKinsey Matrix has also many points in common with the **MABA analysis**. **MABA** is an acronym that stands for **Market, Attractiveness, Business position** and **Assessment**.

The GE McKinsey Matrix also compares product groups with respect to market attractiveness and competitive power. Another name for this type of analysis is **Portfolio analysis**. The portfolios of businesses consist of all combinations of products and/ or services that are offered to the market/ target groups. Originally, this Matrix made an analysis of the composition of the portfolio of GE business units. Later, this matrix proved to be very useful in other companies as well.

The GE McKinsey Matrix comprises two axes. The attractiveness of the market is represented on the y-axis and the competitiveness and competence of the business unit are plotted on the x-axis. Both axes are divided into three categories (high, medium, low) thus creating nine cells. The business unit is placed within the matrix using circles. The size of the circle represents the volume of the turnover.

The percentage of the market share is entered in the circle. An arrow represents the future course for the business unit.



GE Matrix factors

It is possible to determine in advance whether a market is attractive enough to enter.

This can be done by using the following factors:

- Market size
- Historical and expected market growth rate
- Price development
- Threats and opportunities (component of SWOT Analysis)
- Technological developments
- Degree of competitive advantage

Other factors are used to determine competitiveness:

- Value of core competences
- Available assets
- Brand recognition and brand strength
- Quality and distribution
- Access to internal and external finance resources

GE Matrix vs BCG Matrix

The GE McKinsey Matrix bears a strong resemblance to the BCG Matrix.

However, there are some differences:

1. The GE McKinsey Matrix does not only consider growth, it mainly considers market attractiveness.
2. In addition to market share the GE McKinsey Matrix also considers the strength of a business unit.
3. Instead of the four cells that are created in the BCG Matrix, the GE McKinsey Matrix creates nine cells.

Application of the GE McKinsey Matrix

Three different strategies can be distinguished and adopted using the GE McKinsey Matrix:

Invest/ grow

Growth is facilitated by expanding the market or making investments.

Hold

By making careful investments, the current market is consolidated.

Harvest / sell

No extra investments but mainly focusing on maximizing returns. By assigning a weight to each factor, the GE McKinsey Matrix can be used more effectively. Based on these weights, the scores for competitiveness and market attractiveness can be calculated more accurately for each business unit.

How to set up a GE McKinsey Matrix

This analysis is characterized by seven steps that must be followed:

1. Define the **Product Market Combinations (PMC's)**. Who are the customers of an organization and what are its products and/or services?
2. Define the aspects that determine the attractiveness of the market. Certain weight factors can be assigned to certain aspects. Market attractiveness is a critical factor that has to be considered carefully.
3. Define the aspects that determine the competitive power of the organizations.
4. Assign scores to the different PMC's. Have this done by several people within and outside of the organization. This will ensure a fair representation.
5. Calculate the final scores. By comparing the final scores for market attractiveness and competitive power with the maximum score, it is possible to determine their position on the matrix.
6. Draw the matrix and plot market attractiveness on the x-axis and competitive power on the y-axis. The higher the volume in turnover of a PMC, the larger the circle.
7. Evaluate and discuss. The matrix can serve as the basis for a discussion about strategic decisions

STRATEGIC EVALUATION AND CONTROL:

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in todays dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps-

1. **Fixing benchmark of performance (Establishment of set standards)**
2. **Measurement of actual performance**
3. **Comparing actual performance with expected or set parameters.**
4. **Analyzing Variance**
5. **Taking Corrective (strategic control)**

The purpose of strategic control is to identify whether the organization should continue with its present strategy or modify it is the light of changed circumstances. Operational control should assist the organization to be both efficient and effective, and in this way help the chosen strategy to work successfully. Four types of strategic control are there:

Type # **1. Premise Control:**

Every strategy is founded on certain assumptions relating to environmental and organisational forces. Certainly some of these forces or factors are very sharp and any change in them is sure to affect the strategy to a great extent. Hence, premise control is a must to identify the key postulations and keep track of any change in them in order to assess their impact on strategy and, therefore, its implementation.

For example, these presumption may relate to changing government policies, market competition. Change in composition due to sudden killing virus or widespread war conditions or natural calamities and organisational factors such as improvising production technology, VRS scheme to get high tech employees, market innovation strategies.

Here, premise control serves to test continuously these assumptions to determine whether they are still valid or not. This facilitates the strategists to take necessary corrective action at the right time than just pulling on with the strategy based on vitiated or invalid postulations.

The responsibility for premise control is generally assigned to the corporate planning department that identifies the key assumptions and keep a regular check on their validity.

Type # 2. Implementation Control:

In order to implement a chosen strategy, there is need for preparing quite good number of plans, programs and projects. Again resources are allocated for implementing these plans, programs and projects. The purpose of implementation control is to evaluate as to whether these plans, programs and projects are actually guiding the organisation towards its pre-determined goals or not.

In case it is felt, at any time, the commitment of resources to a plan, program or project is not yielding the fruits as expected, there is need for matching revision. That is implementation control is nothing but rethinking or strategic rethinking to avoid wastes of all kinds. One way of using implementation control may to identify and monitor the strategic beat points or throb points such as an assessment of marketing success of a new product after pretesting or checking the feasibility of a diversification programme after preliminary attempts at seeking technological collaboration.

In the first case, the company is to evaluate whether the new product launch will really benefit or it should be forgone in favour of another programme. In second case, implementation control helps to ascertain whether a diversification move is going to succeed or not.

Another tool of implementation control is the milestone reviews through which critical points in strategy implementation are identified in terms of events, major resource allocation, or even time.

This is almost similar to identification of events and activities in programme evaluation review technique (PERT)/critical path method (CPM) networks. Once the milestones are identified, a comprehensive review of implementation is made to reassess its continued relevance to attain the objectives.

Type # 3. Strategic Surveillance:

If premise and implementation strategic controls are more specific by nature, strategic surveillance, is more generalised and overriding control which is designed to monitor a broad range of events both inside and outside the organisation which are likely to threaten the very course of a firm's strategy.

Such strategic surveillance can be done through a broad- based, general monitoring based on selected information sources to uncover events that are likely to affect the strategy of an organisation.

Type # 4. Special Alert Control:

This special alert control is based on a trigger mechanism for a rapid response and immediate reassessment of a given strategy in the light of a sudden and unexpected event. Special alert control can be exercised via the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams.

The instances of such sudden and unexpected events can be say, sudden fall of government at centre or even state, terrorist attacks, industrial disaster or any natural calamity of earthquake, floods, fire and so on.

Mergers and acquisitions:

Merger Definition-

The process of merger involves combining of two companies as a single company. In merger, both the companies mutually agree to merge themselves.

The process of merger is generally adopted for business growth and it is done on a permanent basis. Generally, merger takes place between two companies. However, more than two companies can also participate in the process.

There are two important concepts in merger-

Acquiring company-It is a single existing company which purchases the majority of equity shares of another company

Acquired company- It surrenders its majority of equity shares to the acquiring company.

Types of Mergers-

There are various types and forms of mergers. Some of them are listed below-

- ***Horizontal merger***

Merger of two companies that are in direct competition. Such companies share the same product lines and markets.

- ***Vertical merger***

Merger of a customer and company or a supplier and company.

Example- Merger of a cone supplier with an ice cream maker.

- ***Market-extension merger***

This includes the merger of two companies that sell the same products in different markets.

- ***Product-extensionor concentric merger***

This is the merger of two companies selling different but related products in the same market.

- ***Conglomeration***

This is the merger of two companies that have no common business areas.

Some examples of well-known Mergers are-

1. British Salt (UK) merged with TATA Chemicals (India)
2. Zain Telecommunications (Africa) and Bharti Airtel (India)
3. ICICI bank (India) and Bank of Rajasthan (india)

Acquisition Definition / Acquisition meaning –

In the process of acquisition, one company buys majority of the company ownership stakes of the target company in order to obtain control over the same.

Acquisitions often form a vital part of a company's growth strategy. For such firms, it is more beneficial to take over an existing firm's operations rather than expanding its own operations.

Acquisitions can be both, friendly or hostile. In Friendly acquisitions, the target firm offers its agreement to get acquired. Whereas in hostile acquisitions the target firm does not give any agreement, thus the acquiring firm purchases a large stakes of the target company in order to have a majority stake in it.

M&A Hostile Defense Strategies-

- Shareholder rights plan (poison pill)
- White Knight bidder
- Management Buyout (MBO)
- Stagger board
- Delay annual shareholder's meeting
- Trigger acceleration of debt repayment
- Litigation

The step-by-step process of a M&A deal is as follows:

1. Company and buyer analysis –

During this process it is important to consider potential synergies, restructuring needs, risks involved, Capital structure etc.

2. Analysis of pricing mechanism-

The various issues that need to be considered here are Cash or equity, various Pricing mechanisms, Terms and conditions etc.

3. Share data analysis-

At this stage it is important to determine if the company is listed or not listed, who were the minority shareholder, determine the status of share certificate.

4. Management presentation and meeting-
Here the buyer and the sellers, all meet the management.

5. Letter of intent-
The issues to consider at this stage are the letter of intent, confidentiality agreement.

6. Process of due diligence-

This includes review of public registers, Annual reports and financial statements.

7. Approval-
Issues that are important here are Preparation of applications and filings.

8. Signing-
The share transfer certificate plays an important role here.

9. Approval-
Here the Submission of applications and filings to Competition Authority and to Financial Supervisory Authority has to be done for approval.

10. Closing-
Closing memorandum, purchase price payments are the important steps at this stage of the process.

Concept of Synergy/ Synergy Meaning

Synergy is the concept that stresses upon the fact that the value of the two companies together will be more than that of the individual companies.

By merging, the companies hope to yield from the following factors:

- **Staff reductions**

Mergers may lead to losing jobs. Thus the money is saved from reducing the number of staff members from various departments.

- **Economies of scale**

Yes the size of the business matters. Mergers also lead into improved purchasing power to buy equipment or other office supplies.

- **Acquiring new technology**

To stay competitive, companies need to stay on top of technological development process. By buying smaller companies with unique technologies, a big company can maintain its competitive edge.

- **Improved market reach and industry visibility**

Companies can reach new markets and grow revenues and earnings. A merge may expand marketing and distribution, giving the two companies new sales opportunities.

Sources of Synergy

- Revenue enhance
- Marketing gains
- Strategic benefits
- Market or monopoly power
- Cost reduction
- Economies of scale
- Economies of vertical integration
- Complementary resources
- Elimination of inefficient management
- Tax Gains
- Net operating losses
- Unused debt capacity
- Surplus fund
- The cost of capital

Importance of Valuation in M&A

Investors of a company which has the intention to take over another one must determine if the purchase will be beneficial to them. Hence they must ask themselves the question that – "How much the company being acquired is really worth?"

The answer to this is valuation of the company. There are many ways of company Valuation. The most common method is to look for comparable peer companies in an industry. But the deal makers employ a variety of other methods and tools for assessment.

Motive behind M&A/ Objectives of M&A

1. Economy of scale
2. Economy of scope
3. Cross-selling
4. Synergy
5. Taxation
6. Diversification
7. Transfer of resources
8. Vertical integration