# Strategic Management – II Semester

By

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# LONG TERM OBJECTIVES FOR GRAND STRATEGIES

- TO ACHIEVE LONG-TERM PROSPERITY, STRATEGIC PLANNERS COMMONLY ESTABLISH LONG-TERM OBJECTIVES IN SEVEN AREAS

1. Profitability:

- The ability of any firms to operate in the long-run depends on attaining an acceptable level of profits. Strategically managed firms characteristically have a profit objective, usually expressed in earnings per share or return on equity

# 2 Productivity

- Objectives may be set for reducing defective items, customer complaints leading to litigation, or overtime. Achieving such objectives increases profitability if unit output is maintained.

# 3 Competitive Position

- One measure for corporate success is relative dominance in the market place. Larger firms commonly establish an objective in terms of competitive position, often using total sales or market share measures of their competitive position.

# 4 Employee Development

- Employees value and education and training, in part because they lead to increased compensation and job security. Providing such opportunities often increases productivity and decreases turnover. Therefore, strategic decision-makers frequently include an employee development objective in their long-range plans.

# 5 Employee Relations

- Strategic managers believe that productivity is linked to employee loyalty and to appreciation of managers' interest in employee welfare. They therefore, set objectives to improve employee relations.

# 6 Technological Leadership

- Firms must decide whether to lead or follow in the market place. Either approach can be successful, but each requires a different strategic posture. Therefore many firms state an objective with regard to technological leadership.

# 7 Public Responsibility

- Managers recognize their responsibilities to their customers and to the society at large. They work not only to develop reputations for fairly priced products and services but also to establish themselves as responsible corporate citizens.

# Qualities of Long-Term Objectives

1. Acceptable
2. Flexible
3. Measurable
4. Motivating
5. Suitable
6. Understandable
7. Achievable

# Meaning

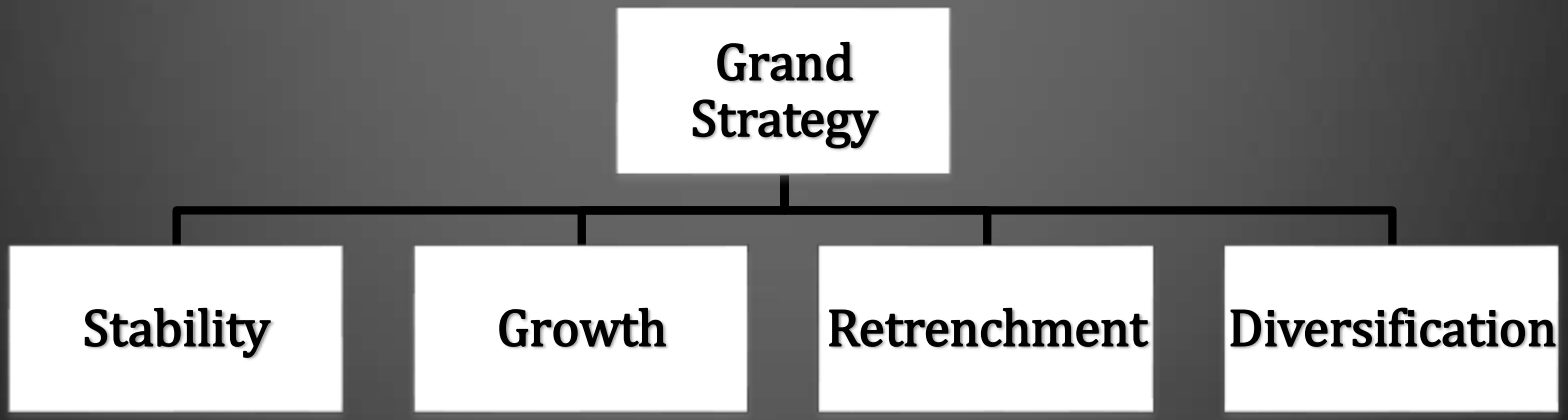
## GRAND STRATEGIES




- Grand strategies are the decisions or choices of long term plans from available alternatives.
- Grand strategies also called as Master or Corporate Strategy.
- It is based on analysis of internal and external environment.
- This direct the organization towards achievement of overall long term objectives (strategic intent).
- They involve Expansion, Quality Improvement, Market Development, Innovation, Liquidation, etc.
- Usually they are selected by top level managers such as directors, executives etc.

# Classification of Grand Strategy

- It is classified into following:-
  - Stability Strategy
  - Growth Strategy or Expansion
  - Retrenchment Strategy
  - Diversification Strategy



# Stability Strategy



# Stability Strategy

- A strategy is stability strategy that a firm pursues when:

  i. it continues to serve the customers in the same product or service, market and functional sectors as defined in its business definition

  ii. Its main strategic decisions focus on incremental improvement of functional performance.

  Lawrence R Jauch & William F Glueck

- It also attempts to maintain its status-quo with existing levels of efforts and it is satisfied with only incremental growth/improvement by marginally changing the business and concentrates its resources where it has or can develop rapidly a meaningful competitive advantages in the narrowest possible product market scope.

- Absence of significant change
- i.e. continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's return-on investment.

# Features of Stable Strategy

- Status Quo Orientation
- Incremental Improvements
- NO Redefinition of Business
- Fairly a Quite Modest Strategy.

# When do organization follow

- It is common for most of the organizations to follow this strategy at some point of time in their life cycle.
- When a firm serves defined market and its segments to fulfills its mission.
- When a firm can relate itself with the environment and environmental factors do not show any appreciable change. This is possible for most of the firms in a short run, but for a few in long runs.
- When organization continues to pursue the same objectives by adjusting to the same level of achievement about the same percentage. Thus stability does not mean absence of growth but the growth is limited within specified limits and there is no substantial addition of facilities.

# Cont….

- When there is scope for incremental improvement in the same line of business to take the fullest advantage of situation.
- E.g. when a company has technological or other break through it continues to be in the same business until it has competitive advantage. Thus when a company is pioneer in a new business, it reaps the benefit of initiation. Then when competition increases and profitability reduces, it may go for other strategy.

- When a firm looks for functional improvement and there by efficiency and economy of operations so as to gain competitive advantage, it follows this strategy.

# Why do organization follow

- When management perception about performance in the present business is satisfactory, they tend to follow stability strategy because they are not always sure of a set of factors attributing to success. Thus they decide to continue the same business.
- This strategy involves low risk unless there is a major change in the environment. So it provides safe business. Therefore it is preferred by risk avoiding managers.
- “Slow or resistant to change” organizations follow this strategy. As they become larger and more successful, they develop such tendency & prefer stability.
- Organization’s past history may be full of changes, so to reap the advantages of such past, stability is preferred for some time, usually after growth strategy.

# Cont….

- A firm having strategic advantage in the present business & market does not opt. for other strategy and prefers stability.
- A company lacking in sufficient resources to effect major changes in business have to opt. for stability.
- The environmental factors such as govt. norms, prohibition & restriction of certain products & process, licensing etc. prevent other strategies & a firm has to adopt stability strategy.
- A firm may have a product or group of products which is not prestigious to it, its market share as well as contribution to total sales is very small and its market is declining. So before retrenching such product, the firm wants to generate as much profit as possible, even by scarifying its market share, and follows stability strategy

# Alternatives of stability strategy.

Incremental growth strategy

- It is one in which a firm sets its objectives/achievement levels based on past accomplishment adjusted for inflation. It may be average achievement level of industry or even low. It is followed when environmental factors are more or less stable.
  - The organization is doing well or perceives as doing well in its present form.
  - It being a less risky and the organization does not go for higher risk.
  - The organization is change resistant and prefers change only in extraordinary times.
  - It is easier to pursue as it does not disturb the organizational routines.

# Cont….

Profit strategy / End game strategy / Harvesting strategy

- It is one in which organization or its SBU aims at generating profit/cash, sometimes at the cost of market share also because
  - the product is not prestigious,
  - its market share & also contribution to total sales are very small.
  - The product is in stable or declining market
  - Here, company wants to encase as much profit as possible before retrenchment.

# Cont….

Sustainable growth strategy

- It is one in which a firm tries to maintain its existence in unfavorable critical conditions like constraints on finance resources, raw material resources etc., govt. policy, cheaper imports, competitor by big and capable competitors etc.

Stability as a pause/breathing spell/proceed with caution strategy

- It is one in which organization has followed growth strategy aggressively in recent past and want a pause on growth to consolidate its position by allowing structured changes to take place and the system to adopt to new strategies thereby it wants to take full advantage of future growth opportunities and strong present factors. Thus this strategy becomes intermediate choice between past & future, for some time.

Pause strategy

- It is “breathing spell strategy” .

Objective:

- To make the present factors of production more productive to assure future rapid growth.

# Growth Strategy



# Growth Strategy

- **Growth Strategies are** means by which an organization plans to achieve the increased level of objective that is much higher than its past achievement level.

- Organizations may select a growth strategy
  - to increase their profits, sales or market share.
  - to reduce cost of production per unit.
  - increase in performance objectives.

- A growth strategy is one that an enterprise pursues when it increases its level of objectives upward in significant increment, much higher than an exploration of its past achievement level. The most frequent increase indicating a growth strategy is to raise the market share and or sales objectives upwards significantly- *Prof. William F Glueck*

# Features of Expansion Strategy:

- It is the Mark of Exponential growth
- It involves Redefinition of the business
- It is highly Versatile Strategy
- The Tow Routes to Expansion
- It is Generic Strategy.

# Reasons for following

- In the long run, growth is necessary for the very survival of the organizations. The organization that does not grow may be pushed out of the business because
  - Of the new entrants in the field
  - Higher wages, higher costs of other inputs, and lower level of efficiency because of certain obsolescence in plant and machinery.
- Growth offers many economies because of large-scale operations.
  - Per unit cost of production can be very low
  - The economies of increasing scale enhance degrees of specialization.
  - With more people available to do the different kinds of work
    - Greater penetration can be made

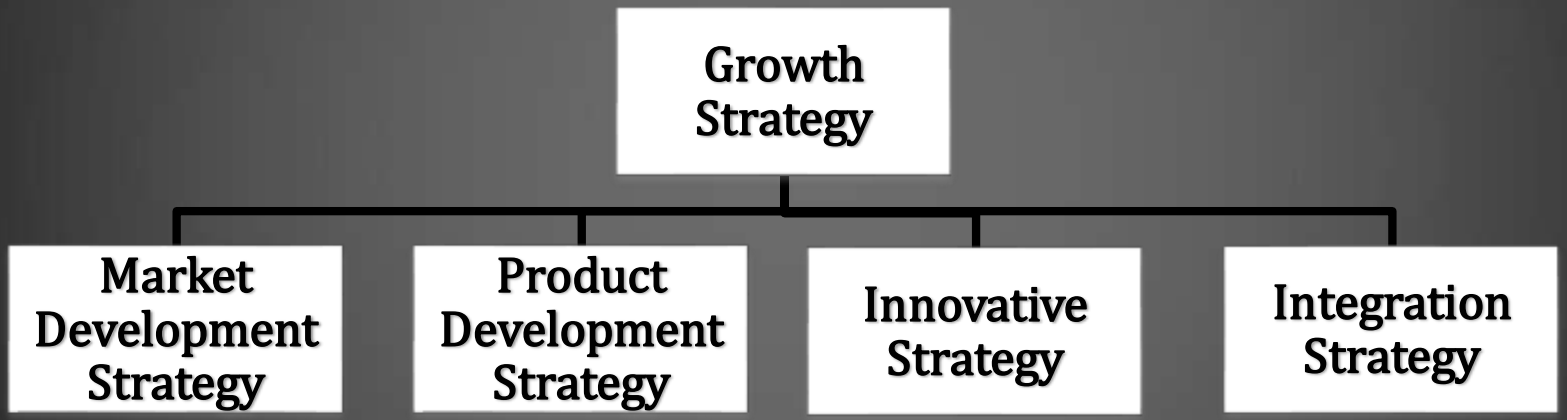
  These eventually lead to certain competitive advantage to the organization concerned.

# Cont….

- Growth strategy is taken up because of managerial motivation to do so. Managers with high degree of achievement and recognition always prefer to grow. The needs on the part of managers push them to think as to how they can achieve their need satisfaction. The answer lies in the continuous growth of the organization or the group of organizations as a whole.
- There are certain intangible advantages of growth. These may be in the form of
  - Increased prestige of the organization
  - Satisfaction to employees and
  - Social benefits
  - Preferred by investors

  Growing companies have high level of prestige in the corporate world.

# Variants of Growth Strategy:



# Market Development Strategy:

- It is attempt to increase the sales by developing new markets by expanding geographical markets or by attracting another market segments .
- Geographical markets can be expanded by extending different supply-chains.
- Another way- to create markets by aggressive advertising of the existing products.
- Some young companies have entered straightly into rural market knowing fully well that there is nothing in urban markets except competing with giants..

# Product Development Strategy:

- It involves the modification of the existing products or creation of new products in related items which are marketed to current and potential consumer through the established supply chains.
- Cos which have been in the line for long, they have to modify their products or come out with new products in the same line to continue their successful showmanship still over a long period.

Ex-

- non-durables- Britannia & Parle Cos- varieties of biscuits as salty, sweet & sour, chocolate, cream etc
- Durables- Textile units like Arvind, Reliance, Mayoor, Raymond's have come with new concepts like dress materials, shirting's, suiting's, sarees, and so on like wrinkle free, iron free,




# Innovative Strategy:

- It is one which is to do with creating new product life cycle thus, making the existing similar products obsolete.
- Purpose - to create new products,new ways of marketing which enhances the consumer satisfaction.
- In India, Reliance Group spends around 4% of its sales revenue on R& D
  - Ranbaxy, Dr.Reddy lab, Glaxo, Novartis spend 26.35% of their sales revenue

# Integration Strategy:

- It is one of the ways to share the benefits of synergist effects.
- Any integration is taking place to grow financially strong, have the benefits of R&D , economies of prodn, marketing.
- Integration or combination is an attempt to bring under one management the resources of two or more firms.
- Integration may be horizontal or vertical.

## Horizontal Integration:

- It is possible when two competing units come together..
- i.e., it is possible when two or more firms engaged in similar activities think of joining hands for their betterment.

Ex-

- Brooke bond and Lipton joining together
- TOMCO taken over by HLL
- Universal Luggage {Aristocrat} taken over by Blowpast (VIP).
- Rohit Mills a sick unit taken over by Arvind Textiles in 1996.
- Nirma Ltd. Merged with Nilnita Chemicals in 1996 under the name Nirma Ltd.

Advantages:

- Killing of competition
- Taking tax advantage by accepting sick unit
- Better utilization of resources because of fuller utilization of capacity resulting in quality improvement

## Vertical Integration:

- It takes place when a firm accepts either earlier activities or the later activities then what it is engaged in the series of activities that start converting raw-materials till the handing over of the end products to the class of consumers.
- It represents a decision by an organization to utilize internal transactions rather than market transactions to accomplish its objectives.
- A firm starts undertaking & contributing activities, in addition to present activities, along the line of value addition stages from raw material stage to production and ultimately distribution of goods to customers, so as to gain ownership or increased control and thereby expand the business.

# Cont….

**Forward Integration:**

- The expansion of a biz products and /or services to related areas in order to more directly fulfill the customer's needs.
- Activities are expanded to include control of the direct distribution of its products.

Ex 1-

- When a farmer sells his crops at the local market rather than to a distribution center.

Ex 2-

- Vimal Textiles have their own showrooms in all cities.

## Backward Integration-

- It is moving lower on the production process or moving to earlier stages of manufacture to get inputs at the lowest price quality remaining at highest level and quantity fairly high.

Ex

- Polyester cloth manufacturers go in to polyester yarn manufacturing…

# Diversification Strategy



## Diversification Strategy

- Diversification is to divert into new lines, markets than harping on the existing lines and markets.
- It calls for expanding the activities to different product lines and markets without abandoning the existing product lines and markets.
- It is the wise strategy of putting the eggs into different baskets to increase the overall profit and profitability.
- It is the process of entry into a business which is new to an organization.
- Ex: Dalmia bharat enterprises ltd acquired the Adhunik cement and Calcom ltd.

# When Should a Firm Diversify?

- It is faced with *diminishing growth prospects* in *present business*
- It has opportunities to *expand* into industries whose *technologies and products complement* its present business
- It can *leverage existing competencies and capabilities* by expanding into businesses where these resource strengths are key success factors
- It can *reduce costs* by diversifying into closely related businesses
- It has a *powerful brand name* it can transfer to products of other businesses to increase sales and profits of these businesses



- Diversified organizations can be classified into following
  - Concentric Diversification (Related diversification)
    - Market-wise
    - Technology –wise
    - Both
  - Conglomerate Diversification (Unrelated diversification)

- **Related or Concentric Diversification –** expansion of product line and markets by making use of existing facilities and distribution network.
- The concentric diversification is a type of diversification strategy which involves either

A. introduction of new products or services to serve similar customers in similar markets

Or

B. introduction of new products or services using technologies similar to the present product or service line

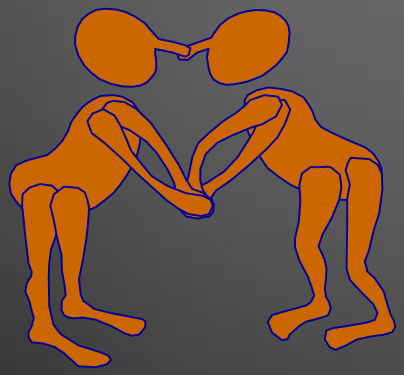
Ex- Eureka Forbes , both vacuum cleaner and water purifier have become successful lines.

- **Unrelated or Conglomerate Diversification-** is the expansion of product line beyond the present industry into products and markets having no common features with any of the existing one.
- It means addition of dissimilar products or services to the existing line of business.

# Related vs. Unrelated Diversification

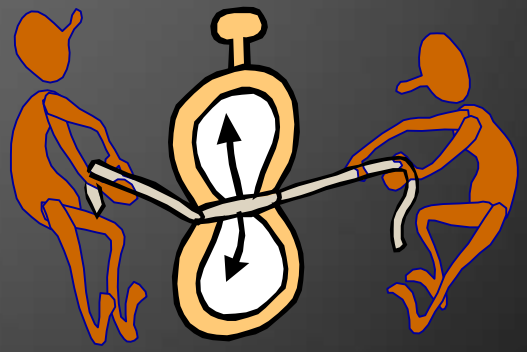
## *Related Diversification*

Involves diversifying into businesses whose value chains possess competitively valuable "strategic fits" with value chain(s) of firm's present business(es)



## *Unrelated Diversification*

Involves diversifying into businesses with no competitively valuable value chain match-ups or strategic fits with firm's present business(es)



# Retrenchment Strategy



- A retrenchment strategy is a business strategy where a company reduces its operations or workforce to cut costs and improve financial stability.
- Turnaround, Divestment, liquidation.
- Corporate restructuring is the process of reorganizing a company's management, finances and operations to improve the efficiency and effectiveness of the company.
- A turnaround strategy is a plan implemented by a struggling company to reverse declining performance and return to profitability. It involves a series of actions aimed at addressing the root causes of the business's problems and revitalizing operations.
- Divestment refers to the strategic act of a company or organization selling, liquidating, or disposing of its assets, business units, subsidiaries, or investments.
- Liquidation entails the closing of a business through the sale of all its assets. The strategy is often used when a business cannot be sold through any of the other methods, usually due to dependence on a specific employee/owner of the company or overall poor strategy/performance.

- **Retrenchment Strategy** is the strategic option which entrails reduction of any existing product or service line along with the level of objectives set below the past achievement.
- A Retrenchment strategy is one when the firms decides to improve its performance in reaching its objectives by:

i. Focusing on functional improvement- reduction in costs

ii. Reducing the number of functions it performs by becoming a captive company

iii. Reducing the number of the products & markets it serves upto and including liquidation of the business

Philosophy- "Slow down and catch your breather: we are to do better"

# Retrenchment Strategy

- It is a defensive strategy in which a firm having declining performance decides to improve its performance through contraction in this activities i.e. reducing the scope of its business by total or partial withdrawal from present business.
  - focusing on functional improvement with special emphasis on cost reduction or
  - reducing the number of functions it performs, by being a captive firm or
  - reducing the no. of products, markets, customer functions etc. or
  - liquidation of business (as a last alternative) or
  - combinations of above.

# Why Retrenchment Strategy?

- Poor Performance
- Threat to Survival
- Redeployment of Resources
- Insufficiency of Resources
- Getting Improved Managerial Efficiency

# Reasons for adopting

- When the organization is not doing well and perceives that it may not do better in future too in a particular line of business it is advisable to delete that line of business. After deletion, the organization can concentrate in other areas, where it has some advantages.

- If the organization is not meeting its objectives even after following other alternative strategies it may go for retrenchment strategy. Also when the management is under pressure to improve the performance, this strategy can be pursued as a last resort.

# Turnaround Strategy

- Involves those strategic actions which an organization takes to compete in the same business in turnaround situations.
- Turnaround situation may be improvement in organizational lower performance caused by downward trend that is not controllable by present actions of the mgmt.
- Downward trend is caused by environmental and internal factors such as lower price realization for outputs, lower profits margins, raw-material supply problems as to quality , quantity, tune and other cost increase , strikes and lockouts . Increased competition, recession managerial laxity.
- All these contribute to lower level org performance, & the firm is not able to achieve its preset objectives. This calls for Turnaround strategy.

# Contd.,

- It is also known as cutback strategy “hold the present business and cut the costs”
- It is one in which a company tries to recover from its declining state by improving internal efficiency.
- Turnaround actions may include:
  - Change in the product mix
  - Selling of assets which are not useful for long time or in future also to generate cash.
  - Closing down plants & divisions which are not rewarding.
  - Replacement of obsolete machinery
  - Focus on specific products and customers and improved marketing, etc.

# Contd…

- Turnaround Strategy is aimed at giving a grinding halt to the present declining trend in performance and improving the long run efficiency of operations.

It focuses on:

- cost reduction- cutting down excessive discretionary expenses, layoff and retrenchment of personnel etc
- Revenue increases- improving sales promotion without increasing the expenditure, better collection of receivable, inventory control
- Reduction of assets along with reduction of products or services- selling off obsolete and excessive plant facilities and other assets

# Alternatives of Retrenchment Strategy

Divestment Strategy

- It is quite opposite to expansion strategy because it involves selling off or liquidation of part of SBUs by the corporate office.
- It is a strategy of shedding business units or product division or segments of business operations to redeploy the resources so released for other more promising purposes.

Common forms of divestment are:

- Selling of business segment or a product division to another company
- Giving up control over a unit of business to the holding or subsidiary company

# Why Divestment Strategy?

- To better utilize the Resource Available
- To Write off the Acquisition Hidden Losses
- To Turn Promises into Performance
- Firm's Individual Size- a Mismatch
- To Streamline the Product Port-folio
- To Simplify the Range of Enterprise Activities
- To Manage Financial crisis

# Alternatives of Retrenchment Strategy

## Liquidation Strategy

- It is one in which a firm closes down & sells its entire business at a fair price on the basis of tangible assets, management good will & also intangible assets and invests the realization somewhere else or distributes among debtors and members when
  - Business can't be revived and its retaining value is less than its selling.
  - Business is in peak form (value, but future is quite uncertain, having no direction,
  - Business has accumulated losses and some other organization offers higher price to get tax benefits,
  - Liquidation value is more than discounted present value of future flow of income etc.

# Alternatives of Retrenchment Strategy

Harvest Strategy or Asset Reduction Strategy

- Is a strategy whereby the firm reduces its assets to minimum, even sacrificing the future profits for the purpose of generating enough hand cash.
- It is already stated that a firm has to choose between liquidity and profitability.
- It is because a reduction in one will lead to increase in another.
- *Higher the degree of liquidity , lower will be the degree of profitability.*
- At the starting stage, the mgmt eliminates the new investment , cuts back research & development expenditure, reduces maintenance expenditure while encashing the benefits of past good will.

# Restructuring



- Restructuring is a significant rearrangement of a firms assets and liabilities.
- A corporate restructuring may include discontinuing a line of business, divesting a product line, closing several plants or making extensive employee cutbacks/layoffs.
- Corporate Restructuring is when a company consolidates its debts, significantly change the size and slope of its operations and take other measures to reduce the strain of continuing operations.

# Characteristics of Restructuring:

- Change in organization structure.
- Change in ownership.
- Change in financial structure.
- Change in portfolio structure.
- Debt restructuring.

# TYPES OF RESTRUCTURING

- Merger/amalgamation
- Acquisition
- Joint venture
- Leveraged buy out
- Master limited partnership
- Take over
- Consolidation
- Divestiture
- Management buy out
- Esop
- Holding company
- Pyramiding

# Reasons for restructuring

- Globalization
- Liberalization
- Economy of scale
- Take over sick companies
- Reduction of cost of capital
- Competition
- Privatization
- Supply chain management
- Development in IT

# McKinney's Port-folio Model

- This multi-factor Port-folio Planning Matrix {MPPM} is known by alternative names such as : “Stop-light” Strategy Model, ‘GE” Model, or “GE Nine-Cell Planning End” or “Business Planning Matrix”.

# McKinney's Port-folio Model

- MPMM divides the company into SBU's and each SBU is assessed along two dimensions. These two dimensions comprise of more factors for analysis.

**Two dimensions are:**

- Industry Attractiveness concerned with SBU
- Company's business strengths or Positions


INDUSTRY ATTRACTIVENESS
High
Medium
Low
High
Medium High
Medium
Medium High
Medium
Medium Low
Medium
Medium Low
Low
Strong
Medium
Weak
BUSINESS STRENGTH
10/27/2006
GE - Product Portfolio Matrix
©2006 Franteractive
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# Assessment of Industry Attractiveness:

- Industry attractiveness is the product of several factors such as the size of the market for the products of a particular industry, rate of growth and the extent of profitability.
- This GE screening Grid takes into account several variables in addition to the size and growth rate in assessing industry attractiveness.
- These include the characteristics of market locations, industry trends and structure, key competitors making available the product market, and the environmental influences such as shifts is population and changes in age groups affect the attractions of the marker over the time.

# Steps involved in Assessing:

- **Set the criteria-** set the criteria that determine the attractiveness of industry. These identified factors may be industry size, growth, capital intensity, technological stability, intensity of competitions, cyclicality and so on.
- **Assigning weightage:** each identified factor is to be assigned due weightage as per the relative importance.

# Steps involved in Assessing:

- **Rating of each factor:** the concerned industrial factor is rated usually 1 to 5. Instead, it can be 1 to 10 point range.

*High rating means high attractiveness and leading to potential opportunity &*

*Low rating means unattractiveness and brings in its trial the threat.*

- **Arriving at weighted Score:** the final weighted score is nothing but the multiplication of each weight by industrial factor score in the industry and adding all industrial factors of weighted score.

# Assessment of the Business Strength:

- The company's business strength is the product of several factors such as the company's market share, its growth rate, its brand image, its corporate image and so on.
- Here market share can be used as a measure as to how a company is doing in a given product market. There is some evidence that the market position indicates business strength.
- The multiple factor measure of business strength used by GE Screening Grid evaluates several aspects of business strength that includes technical, managerial, marketing, financial capabilities-sales position in the product market, profitability, margins and other factors.

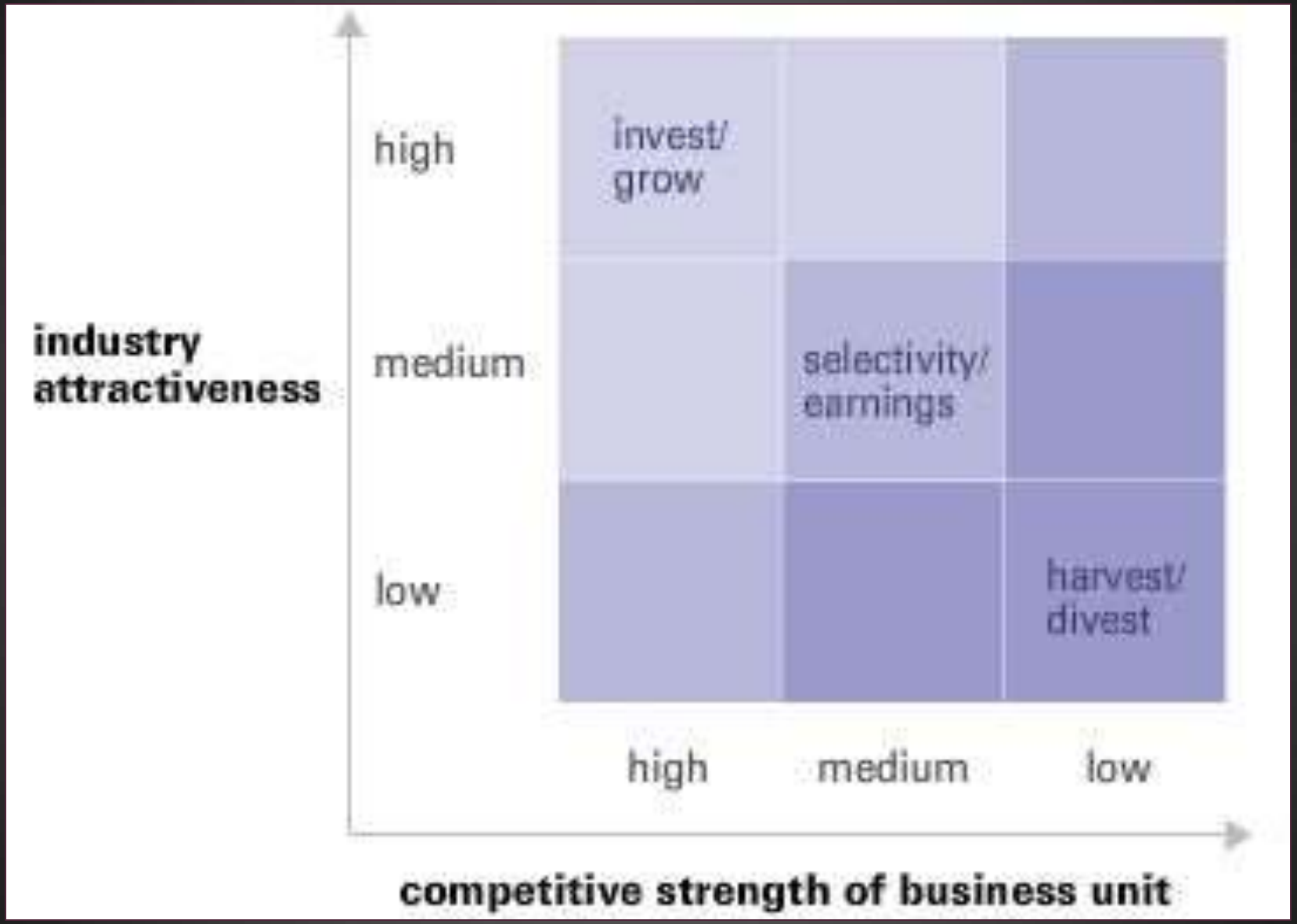
# Steps involved in assessing business Strength:

- Identification of Key Success factors
- Assigning of Weight
- Assigning industrial Factor Rate
- Arriving at Total Score

- After assessing the two parameters, Mc Kinsey Matrix is designed.
- On its vertical dimension industry attractiveness is plotted and on the horizontal dimension its business strength. The matrix has nine cells and within each cell each SBU is located with each circle.
- The position of the centre of each circle is determined by the score that the SBU attains on the two dimensions.
- The size of each circle is proportionate to the size of industry in which the SBU operates.

- For measuring the size, total sales are used.
- The shaded area of circle indicates SBU's market share in its industry.
- Of the total nine cells of the matrix, three are identified as **WINNER** based on medium to good competitive position as well as industry attractiveness.
- The other three are identified as **LOSERS** as they have least industry attractiveness and competitive position.

- One cell contains **QUESTION MARK** which has uncertain but potentially promising future for its poor competitive position in an attractive industry. It can be a winner with adequate maturity failing which it will be a loser.
- In one cell one is identified as a **PROFIT PRODUCER** because, it has businesses with strong competitive position in a low attractive industry.
- One cell contains **AVERAGE BUSINESS** which have neither great strength nor weakness.


industry attractiveness
high
medium
low
invest/ grow
selectivity/ earnings
harvest/ divest
high
medium
low
competitive strength of business unit

# The Essence of Mc Kinsey Port-folio Model is

- *Winners* and *Promising Winners* should be consolidated *by investment of additional finance.*
- *Losers* should be divested *or liquidated*
- *Question Marks* should be nurtured on the selective basis to convert *them into winners*
- *Profit Producers* should use their competitive position to generate cash which should be invested *in winners or question marks*
- *Average business* should be either *turned into winner or divested* in case they are not likely to offer their best in *long-term returns.*

# BCG Matrix










# BCG Matrix
# Boston Consulting Group Matrix

Developed by Bruce Henderson (in 1970's)

It is a chart that had been created to help corporations with analyzing their business units or product lines.

Helps to evaluate company's position in terms of its range of products.

Helps to make decision regarding which product/service to be kept, which it should let it go and in which it should invest in further.

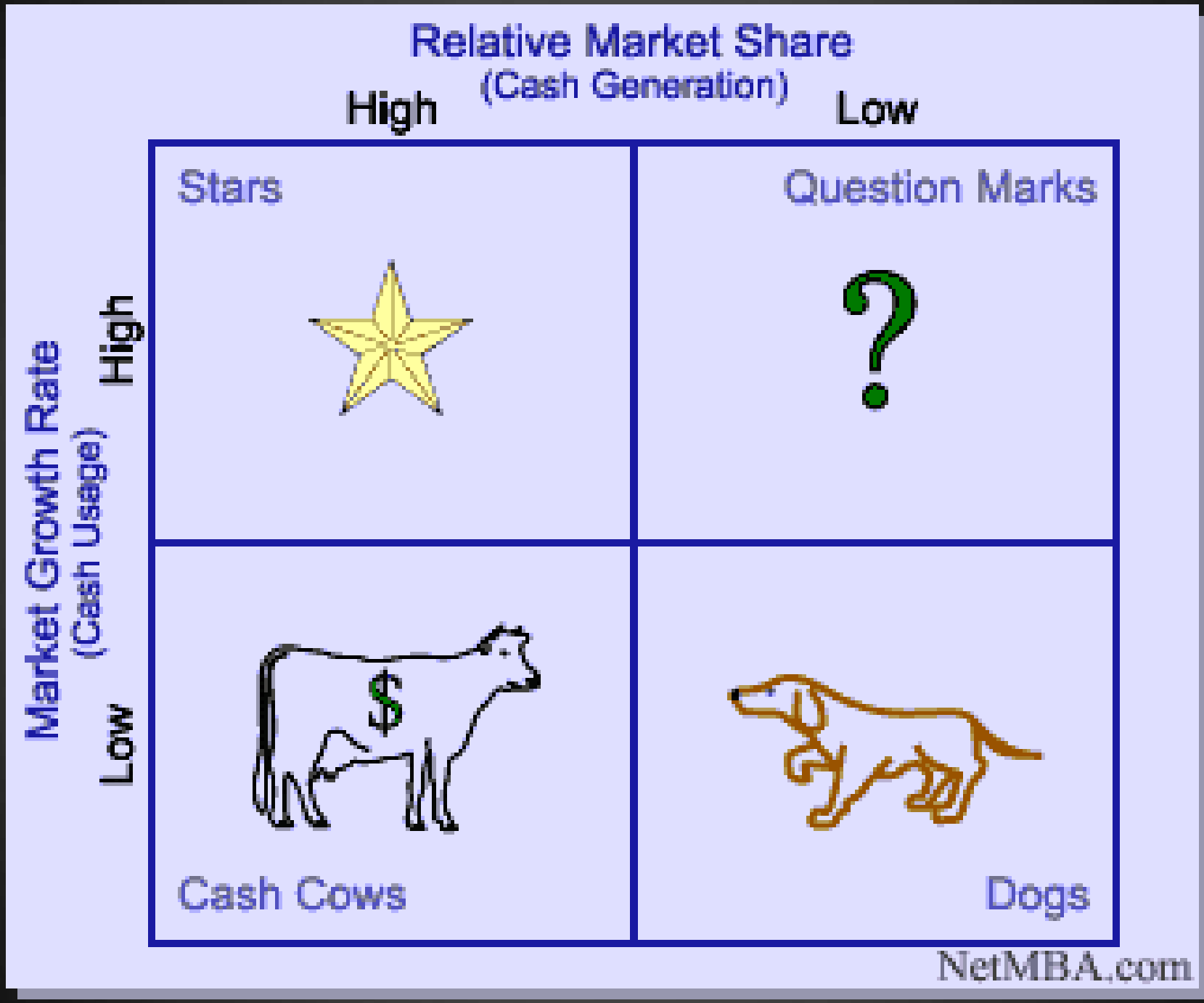
# STEPS INVOLVED IN BCG MODEL

- Dividing a company into SBU's:

Relative Market Share

Industry Growth Rate

Comparing SBU with Industry


Relative Market Share
(Cash Generation)
High
Low
Market Growth Rate
(Cash Usage)
High
Low
Stars
Question Marks
Cash Cows
Dogs
$
NetMBA.com

# QUESTION MARKS:



High market growth rate

Low market share

Low cash generation than cash consumption.

Analyze carefully the market situation

Investment into high growth potential market.

Critical decision making for managers.

# Stars



High market growth rate

High market share

Huge cash generation

Huge cash consumption

Huge investment in growing market

Becomes cash cows when market growth rate declines

# Cash Cows



Low market growth rate

High market share

Huge cash generation than consumption

Low prospects for future growth-so no new investment in this category.

Investment into STARS and QUESTION MARKS.

# Dog



Low market growth rate

Low market share

Neither large cash generation nor consumption.

Also known as CASH TRAPS.

Dogs should be sold off or liquidated.

# Developing strategies with respect to each SBU:

- BUILD
- HOLD
- INVEST
- DIVEST

# MERITS AND DEMERITS

MERITS:

- Systematic Analysis
- Summary of Information
- Optimum Resource Allocation
- Maximization of shareholders wealth
- It sets Performance levels

DEMERITS:

- Problem of division of company
- Difficulty of Allocation of Cash
- Misleading Pointers
- Inaccuracy of simple models