# Applied Strategic Management

Life Cycle Approach



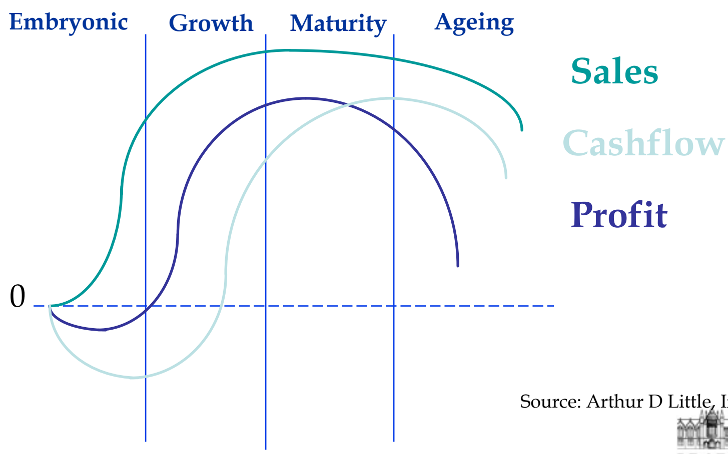


# Life-cycle Approaches to Strategy Formulation

Products and industry sales volumes, and industry profits are assumed to follow a 4-stage cycle:

- Introduction
- Growth
- Maturity
- Decline.

## Sales, cashflow and profits over the industry life-cycle




Source: Arthur D Little, Inc



## Introduction stage

- **Strategies emphasise a buyer focus, build on advertising and increased purchase frequency, high prices, product design, short production runs with high costs.**
- **This stage is characterised by few competitors, is high risk with low margins.**

# Growth stage

- Buyer group widens, products differentiated by technical and performance characteristics, quality improvements, efficiencies in production and marketing with high advertising expenditure to create brand awareness, with mass distribution channels.
- This stage is characterised by many competitors entering the market, mergers, casualties, higher profits and falling prices.



# Maturity stage

- Focus on process efficiency, reduction in marketing and distribution costs, more product differentiation and market segmentation. Quality high, product standardised. Creative marketing to extend life-cycle, packaging important, mass production, long production runs, some over capacity.
- This stage is characterised by price competition, shake-outs, cyclicality, lower prices and margins.

# Decline stage

- Sophisticated buyers, little product differentiation, variable product quality. Cost control by cutting advertising and marketing efforts, specialising channels, simplifying production lines, relying on mass production, reducing differentiation and cutting R&D expenses.
- This stage is characterised by substantial over capacity therefore more exits and fewer competitors, falling prices and lower margins.





## Corporate Portfolio:

### Product Life Cycle & Corporate Strategy

| Stage in the PLC | Key Competitive Characteristics | Means of Entry | Ease of Entry |
|---|---|---|---|
| Development | Fragmented - many suppliers<br>No Brand Loyalty<br>Poor Quality - High Risk<br>Changing Production Techniques | Me - too<br>Moderately Competitive Product | Very Easy |
| Growth | High Prices - high profits as volume growth<br>Cash required for growth.<br>Undercapacity<br>Mergers and Failures.<br>Recession Resistant<br>High Advertising | Focus on Quality and Reliability<br>Establish Brand Loyalty<br>Acquisition | Fairly Easy |
| Maturity | Some overcapacity Lower (relative) prices and profitability FEW LARGE competitors<br>Product standardisation Service important<br>Advertising less important<br>Poor climate for acquisitions<br>Susceptible to recession | Attack a segment<br>Become lowest cost producer<br>Acquisition but only at the right price<br>Seek significant competitive advantage | Difficult |
| Decline | Significant overcapacity price wars and lower profitability Move to commodity like products, little or no differentiation Very susceptible to a recession | D O N ' T unless you can fundamentally change the industry | Very Difficult |

## Strategic alternatives for declining businesses

- Divestment
- Harvest
- Leadership
- Niche





## Leadership Strategy

- A company with some market-share leadership will try to become one of the few companies remaining in a declining industry.
- Once a company attains this position, depending on the subsequent pattern of industry sales, it usually switches to holding position or controlled harvest strategy.

## Achieving a leadership position

- Ensure that other companies rapidly retire from the industry
- Reduce competitors' exit barriers
- Develop and disclose credible market information.
- Raise the stakes.



## Niche Strategy

To identify a segment of the declining industry that will either maintain stable demand or decay slowly and that has structural characteristics allowing high returns.

# Niche Strategy

**A company then moves pre-emptively to gain a strong position in this segment while disinvesting from other segments.**

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# Harvest Strategy

In the harvest strategy, management seeks to get the most  cash flow it can from the business. with a controlled disinvestment intent

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# To increase cash flow, the management:

- eliminates or severely curtails new investment
- cuts maintenance of facilities, and
- reduces advertising and research while
- reaping the benefits of past goodwill.

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# Other common harvest tactics include:

- reducing the product differentiation,
- cutting the number of distribution channels,
- eliminating small customers, and
- eroding service in terms of delivery time (thus reducing inventory) speed of repair, or sales assistance.

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## Quick divestment

**Executives employing this strategy assume that the company can recover more of its investment from the business by selling it in the early stages of the decline.**

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## Choosing a strategy for decline

**With an understanding of the characteristics that shape competition in a declining industry and the different strategies they might use, managers can now ask them-selves what their position should be:**

- Can the structure of the industry support a hospitable, potentially profitable, decline phase
- What are the exit barriers that each significant competitor faces? Who will exit quickly and who will remain?

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# Choosing a strategy for decline

- Do your company's strengths fit the remaining pockets of demand?
- What are your competitors' strengths in these pockets? How can their exit barriers be overcome?

**In selecting a strategy, managers need to match the remaining opportunities in the industry with their companies' position.**

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# Strategies for declining businesses

| | Has competitive strengths for remaining pockets | Lacks competitive strengths for remaining pockets |
|---|---|---|
| Favourable industry structure for decline | Leader-Ship or niche | Harvest or divest quickly |
| Unfavourable industry structure for decline | Niche or harvest | Divest quickly |

Source: Porter

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## Predicting and influencing exit barriers

A timely exit from the industry can be thwarted by the existence of barriers which can become insurmountable for some businesses and strongly influence the extent of competition in the decline stage.

## Exit barriers

- **Accounting loss treatments**
  - Poor performance undermines confidence in management's capabilities
  - Valuation induces firms to prolong presence in industry
- **Strategic exit barrier**
  - Quality image, shared customers, shared physical facilities or other shared strategic facilities
  - Centrepiece of related strategies impinging on corporate image
  - Customers may be cut off, could harm firm in other businesses
- **Specialised assets**
- **Managerial exit barriers**
  - Emotional (prestige) investment on brands
  - Turf battles (interdepartmental transfers)
- **Costs of exit**
  - Labour settlements
  - Dismantling costs
- **Social barriers**
  - Effect on local economy
  - Effect on unemployment rate
  - Conservation issues

# Lowering indigenous exit barriers

- **Accounting:** Create reserves to offset the cost of write-off losses on disposal where allowed
- **Technological:** Trade-off highly specialised plant and equipment for more flexible assets that can take other raw materials and produce related products
- **Financial:** Lease, don't buy.
- **Multinational:** Plan to move assets abroad on a scheduled basis, forcing 'jump-off' points of re-evaluation to fund new assets
- **Planning:** Routinely evaluate whether to exit from a business when it falls below a prescribed level. Unlock declining businesses from others.

# Lowering competitor's exit barriers

- Acquire their physical plant or assets
- Offer to service and supply replacement parts to their customers
- If a supplier appears eager to help a competitor, offer to purchase more from that supplier
- Alert regulatory agencies of competitors' transgressions, particularly in pollution control
- Start a price war providing strengths exit, e.g. if you face price insensitivity
- Go public in plea for their exit