

# Business Strategy

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**WEEK EIGHT**  
**LECTURER: N. QUARRIE**

# Objectives

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- By the end of this lesson you should be able to:
- 3.1: Analyze the appropriateness of alternative strategies relating to market entry, substantive growth, limited growth or retrenchment for a given organization



# Overview

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- Last week we spoke about a number of things concerning the presentation of a new strategy that is created. This week we particularly want to look at how to explore alternative strategies related to limited growth etc. This should be quite interesting.

# Appropriateness of alternative strategies relating to market entry

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- According to (Antell and Wallgren, 2016):
- There are a number of strategies that can be used when a company decides to enter a market.
- Before a business makes a decision about which market to enter, the following questions must be answered:
  - Which markets to enter?
  - When to enter these markets?
  - What is the scale of entry?
  - What is the best mode of entry?

# Which markets to enter?

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- In deciding which market to enter the firm must consider the impact that entering the potential market could have on its profits.
- The firm should consider the size of the market, the demand for the product, the competitiveness of the products etc

# When to enter these markets?

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(Hill, 2011):

This is where the decision is made about whether or not the firm wishes to enter the market early (before many competitor) or late.

There are a number of disadvantages and advantages of entering the market early.

## **Disadvantages:**

- Mistakes due to ignorance
- Costs of promoting
- Establishing a product – educating customers

# When to enter these markets?

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- (Hill, 2011):
- **Advantages**
- Ability to preempt rivals
- Capture demand by establishing strong brand name
- Build sales volume and ride down the experience curve with a cost advantage
- Create switching cost that tie customers into products

# What is the scale of entry?

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- The company needs to decide whether or not they will be supplying a lot of products in the initial stage.
- This will help to gauge the marketing strategy that will be used.



# Which is the best mode of entry?

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- (Hill, 2011)
- Direct or indirect?
- In direct exporting the company sells to a customer in another country. In contrast, indirect exporting usually means that the company sells to a buyer (importer or distributor) in the home country who in turn exports the product.

Source: (Stravcorp.com, 2016)

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# Market Entry Strategies

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- “Besides exporting, other market entry strategies include licensing, joint ventures, contract manufacture, ownership and participation in export processing zones or free trade zones.” (Fao.org, 2016)

# Licensing

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- (Fao.org, 2016) :
- Licensing within this context can be viewed as the situation wherein the main company gives another the permission to use its trademark, brand name etc.
- This could come in the form of franchising etc KFC.
- What are the pros and cons of this licensing?

# Joint Ventures

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According to Investopedia, 2016: “A business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task.”

- (Rahman, 2014):
- **Advantages**
  - Sharing of risk and ability to combine the local in-depth knowledge with partners.
  - Joint financial strength

# Joint Ventures

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- (Rahman, 2014):
- **Disadvantages**
  - Partners do not have full control of management.
  - May be impossible to recover capital if needs be.

# Free Zone

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- In this case the company would enter the market by employing persons to produce their products or employing persons as customer service representatives.
- Can you give an example of Free zone in Jamaica?

# Free Zone

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- (Rahman, 2014):
- **Advantages**
  - Creation of employment
  - Investments
  - Improved infrastructure
  - Etc
- **Disadvantages**
  - Mistreatment of employees
  - Low wages
  - Environmental degradation



# Strategic Alliance

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- (Investopedia, 2016): “An arrangement between two companies that have decided to share resources to undertake a specific, mutually beneficial project. A strategic alliance is less involved and less permanent than a joint venture, in which two companies typically pool resources to create a separate business entity.”

# Substantial Growth Strategies

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- (Rahman, 2014):
- Horizontal Integration: “The merger of companies at the same stage of production in the same or different industries.” [businessdictionary.com](http://businessdictionary.com)
- Vertical Integration: “merger of companies at different stages of production and/or distribution in the same industry.” [businessdictionary.com](http://businessdictionary.com)

# Substantial Growth Strategies

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- (Rahman, 2014) explains:
- Related diversification: “A process that takes place when a business expands its activities into product lines that are similar to those it currently offers. For example, a manufacturer of computers might begin making calculators as a form of related diversification of its existing business.” [businessdictionary.com](http://businessdictionary.com)
- Unrelated diversification: “Unrelated diversification is a form of diversification when the business adds new or unrelated product lines and penetrates new markets. For example, if the shoe producer enters the business of clothing manufacturing. In this case there is no direct connection with the company’s existing business - this diversification is classified as unrelated.” [Strategytrain.com](http://Strategytrain.com)

# Limited Growth and Retrenchment

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- Please read about limited growth and retrenchment: Page 13-14. Link: Rahman, R. (2014). *Bs 6afg*. [online] Slideshare.net. Available at: <http://www.slideshare.net/rajib09ku/bs-6> [Accessed 17 Feb. 2016].
- Ensure you read information available at the link given above as it could be used to create questions for tests.

# Review Questions

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1. What are some of the questions that must be answered when deciding to enter a market?
2. Discuss the strategies that can be used to enter a market
3. State and explain TWO substantive growth strategy.
4. State TWO limited growth and TWO retrenchment strategy for a given organization.

# Reference List/Additional Reading

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- 1. Antell, F. and Wallgren, C. (2016). *Foreign market entry The strategic decision of foreign market entry by service firms*. 1st ed. [ebook] pp.8, 16. Available at: <https://www.diva-portal.org/smash/get/diva2:530210/FULLTEXT01.pdf> [Accessed 17 Feb. 2016].
- 2. Fao.org, (2016). *Chapter 7: Market Entry Strategies*. [online] Available at: <http://www.fao.org/docrep/w5973e/w5973eob.htm> [Accessed 17 Feb. 2016].

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- 3. Hill, C. (2011). *Global Business Today*. 1st ed. [ebook] The McGraw-Hill Companies, Inc. Available at:  
[https://is.vsfs.cz/el/6410/zima2013/NA\\_IB/um/4205242/Entering\\_Foreign\\_Markets\\_vhbpzgic.pdf](https://is.vsfs.cz/el/6410/zima2013/NA_IB/um/4205242/Entering_Foreign_Markets_vhbpzgic.pdf) [Accessed 17 Feb. 2016].
- 4. Investopedia, (2016). *Investopedia - Educating the world about finance*. [online] Available at:  
<http://investopedia.com> [Accessed 17 Feb. 2016].

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- 5. Rahman, R. (2014). *Bs 6afg*. [online] Slideshare.net. Available at: <http://www.slideshare.net/rajib09ku/bs-6> [Accessed 17 Feb. 2016].
- 6. Stravcorp.com, (2016). *Market Entry Strategies in Malaysia*. [online] Available at: <http://www.stravcorp.com/articles/market-entry-strategy-in-malaysia.aspx> [Accessed 17 Feb. 2016].