

6: Common Types of Strategies

Many strategies fall readily into one of a small number of common types. A type is not a strategy, because a type is not a workable plan. For a plan to be workable, the plan must specify who is to act and when the action is to occur. When a strategy fits into a type, however, the strategy may be immediately assessed as better or worse because of its type.

6.1: Liquidation

A liquidation strategy, whereby the entire firm is offered for sale, is a case of strategic failure. Liquidation is an admission of defeat rather than a practical strategy. Firms do not need strategic managers to liquidate themselves. They need lawyers.

6.2: Continuous Improvement

Continuous improvement is philosophy, not strategy. It implies continuing to do what has been done, with efforts made towards small improvements in process and product from time to time. The philosophy can suffice for successful firms in stable environments. That is, in the absence of a decision to change directions, employees of well-managed firms look for ways to improve the work they do. They are usually aware of ways to improve the work by spending more money. The challenge of strategic management is to find ways to improve the work while spending less money, or spending the least amount of money. Meeting that challenge, however, requires a strategy.

6.3: Divestiture

Divestiture, when a firm sells part of itself but remains viable, is practical only when facts show that a buyer will pay an attractive price for the part of the firm that is divested. Absent a buyer, divestiture is hope, not strategy.

6.4: Partnership

Partnership, where a firm joint ventures or contracts with another, is similar to divestiture in that it requires the cooperation of another firm. If the facts do not show that another firm is a willing, able, and ready partner, partnering also is hope, not strategy.

6.5: Acquisition and Integration

Acquiring a supplier (backward integration), a customer (forward integration), a competitor (horizontal integration), or an unrelated business (conglomeration) requires a target firm and the ability to pay a premium price, usually 15% or more, for the acquisition. Unlike products, which may be more useful to the buyer than to the seller, firms are moneymaking entities for which the value of the monetary stream they deliver is generally the same for both parties. The seller bought into the firm because the seller viewed the firm positively, as the interested buyer does. The seller will only sell when the seller is offered payment distinctly more than the monetary stream that the seller expects with continued ownership. This is why the thought that a firm can be acquired without paying a substantial premium is fantasy, and why a strategy of acquisition is usually not practical.

6.6: Research

Research is a gamble. Unless the facts show that the gamble is likely to pay off, gambling with the firm's resources is not what top managers are paid to do.

6.7: Retrenchment

Retrenchment is cutting expenditures. The strategy is practical if the facts show that the savings would exceed the possible loss of revenue.

6.8: Organic Growth

Organic growth refers to growth in revenue attributable to regular business operations, which does not include acquisitions and mergers. This kind of growth can arise from four types of strategies, as illustrated by the Ansoff (1957) matrix of Figure 6.1.

New Market	Market Development	Diversification
	Market Penetration	Product Development
Existing Market		
	Existing Product	New Product

Figure 6.1: Ansoff Matrix of Organic Growth

6.8.1: Market Penetration

Market penetration is lowering prices or raising promotional expenditures or both, with the objective of increasing sales volume. The strategy raises the firm's breakeven point, undermining the firm's financial position. The strategy must be justified by its coherence with the mission of the firm and vision of its leaders.

6.8.2: Market Development

Market development is introducing an existing product to a new market. The method by which the product will be made available must be clear, together with the costs of building and maintaining the supply chain of product to market.

6.8.3: Product Development

Product development is either modifying a product to make it more appealing to customers, or developing a new product. The strategy can result in expanding customer choice. If so, the cost of managing stock to assure availability whenever a customer places an order increases. The increased cost is difficult to estimate, so it tends to be overlooked. The compelling justification for the strategy is that the strategy identifies, using a method such as a product-position matrix, the key attributes of the product that is to be developed, together with price, cost, and profit estimates based on reasoning that is sound.

6.8.4: Diversification

Diversification is introducing a modified or new product to a new market. The strategy involves both market development and product development, which makes it especially difficult to execute successfully.

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