GENERIC COMPANY STRATEGIES AND THEIR IMPLICATIONS

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Abstract: The paper approaches the problems of the diversified companies strategies correlated with their investment implications.
In the first part methods of analysis of the strategies of the most famous diversified companies and namely: the Boston Consulting Group (BCG) matrix, General Electric (GE) matrix and Arthur D. Little (ADL) matrix, are briefly exhibited.
The central part of the paper includes a detailed analysis of the key investment aspects that are presumed by the strategies established based on the 3 analyzed models.
Whereas the internal and external conditions differ from one company to the other and also they change in time, the process of wording the strategy of a company is in continuous development.

Keywords: BCG matrix, GE matrix, ADL matrix, investment implications, strategies

Introduction

Wording the strategy of a company consists of choosing among the multiple possible development direction alternatives of the company, of a variant to correspond to the specific conditions of the company, in order to achieve the strategic objectives.

Depending on the size of the company, the managerial level at which the strategy is worded, there are different reasons, methods, and various models of elaborating the strategy of a company.

1. Technique of Analyzing the Strategy of the Diversified Companies

The most known methods of evaluation of the strategy of a company with diversified business are those based on a bidimensional graphic representation of a matrix, of the portfolio of business of the company. The matrix is built using two relevant variables from the strategic viewpoint. The relevant variables considered most frequently are the growth rate of the field of activity, the market share, and the attractiveness on long term of the field , the competitive strengths, the stage of evolution of the product/market. Due to their simplicity, the bidimensional matrices methods of the portfolio are a practical and important tool in evaluating the strategy of the portfolio.

Among the most frequently used models are Boston Consulting - Group (BCG)model, General Electric (GE) model and Arthur D. Little (ADL) model.

1.1. Boston Consulting - Group (BCG) Matrix

The most frequently used model[1], was elaborated by the managerial consulting group Boston-Consulting- Group, and consists of a matrix formed by four quadrants. The matrix is formed using on the y-coordinate the growth rate of the field and on the x-coordinate relative market share. Each business within the portfolio is represented by a circle within the matrix, the size of the circle being directly proportional with the weigh of the turnover of the unit in the total figure of the corporation turnover.

As concerns the growth rate of the field, the matrix shows a center line which separates the „high" quadrant of the „low" quadrant. In the „high" quadrant those turnovers are located that have a faster increase rhythm than the global rhythm of the economy and in the „low" quadrant those businesses are placed which have a lower rhythm of increase than the rhythm of the economy as a whole.

As concerns the variable in the x-coordinate „relative market share" this is defined as the ratio between the market share of the business analyzed and the market share of the largest competitor company in the field. And this variable divides the matrix in two columns „high" and „low', the separating line being stable at the value 1. Under these conditions, the circles in the two left vertical quadrants represent the strong businesses, unlike those of the two right quadrants, which represent the businesses that go bad.

1.2. General Electric (GE) Matrix

This model has been elaborated in cooperation with the consulting office McKinsey and Comp. It defines a matrix of the portfolio with nine cells, having on the x-coordinate the competitive position of the business and on the y-coordinate the attractiveness on long term of the field. The variable „attractiveness of the field" is defined by a series of factors such as: market size, market growth rate, projected profitability of the field, competitive intensity, the technological and capital needs, opportunities and threats of the environment.

The second variable, the competitive position is also determined by a series of factors and namely: the relative market share, the capability of the company to defeat and overrun the competitors as concerns costs and quality of products, quality of management, marketing and distribution network, efficiency of the production technology. Considering the two variables determined thus, each business is then positioned in a matrix, as a circle proportional with the size of the business, inside which the circular sector proportional with the market share of the business is represented..

1.3. Arthur D.Little (ADL) Matrix

The strategic consulting group Arthur D. Little proposes a model of strategic analysis structured on matrix, similar with the models showed previously and that positions various activities of the company based on the following two variables:

- Degree of maturity of the field of activity of the company
- Competitive position of the company in the field of activity .

Considering the first criterion, the field of activity of a company may pass by four phases, and namely: starting, growth, maturity and decline. The identification of the phase

[1] Bruce D.Henderson " The Experience Curve .The Growth Share Matrix of the Product Portfolio", Boston 1973

where the field of activity is existing, based on an analysis of the strategic, financial and organizing characteristics of the activities.

The financial needs for investments of the companies are more accentuated in the starting and growth phase, while from the competitive viewpoint, where this is dominant, powerful or favorable company may self finance, which is not happening in the most unfavorable cases of the competitive position (especially in a marginal position). As consequence in these cases the risks of activity are high.In case of the other types of activities existing at the maturity or in decline, the investment efforts are lower and hence the financial needs also. The same thing may be said about the risk the activity is confronted. .

The competitive position is the one that dictates the intensity and the amplitude of the investment effort that follow to be made. Thus, the dominant and powerful position involves an intense strategy on all the segments of the market, unlike the activities on lower or marginal position that will involve market shares (niche) only.

2. Implications of the investment decision the portfolio strategy

A strategic problem which is especially important is represented by the decisions of investments in various business components of the portfolio. These decisions have a key role because they foreshadow practically the evolvement of each business, as well as of the portfolio as a whole.

The investment recommendations in case of the analyzed businesses by the prism of the Boston Consulting Group model targets the businesses in each quadrant of the matrix.

Thus, for the „question mark " businesses , the needs of liquidity for investments are high due to the fast increase, as well as of the development of products, while they generate too little liquidity. The strategy at the corporation level will decide in case of each business, if it worth to invest the capital of the corporation to support the needs of such a business.

In case of businesses that are framing in „stars" quadrant, the recommended strategy consists of a substantial investment, in order to satisfy the surface, production dedicated buildings and the working capital extension needs of these companies. There is also a trend so that they alone to generate the funds needed to the development due to their high competitive function.

From this viewpoint, the „star" type businesses are divided in two categories and namely: those which generate enough liquidity to satisfy the investment needs or the second category, that needs infusions of investments from the corporation in order to be able to provide fast increase and high performance. Hence, certain „star" businesses succeed to not appeal to the mother company for investment needs, while the young "stars" need often infusions of liquidity from the mother corportion, additionally to those they are able to generate themselves.

The third categories of businesses, "milk cow" type, generate liquidities over the investment and growth needs. Although they are not so attractive from the growth viewpoint, they are extremely useful for the corporation because they generate liquidities for new acquisition achievements.

They are those which facilitate investments in young „stars" and in „question marks". It is necessary that they preserve the position on the market in order to be able to provide funds for the investments in the other businesses. In case they do not produce enough, these businesses may be liquidated.

As concerns the last category of business in the quadrant „dogs", they cannot even generate enough liquidity to keep a satisfying position on the market. Due their low competitiveness it is recommended for the corporation to give up to these businesses.

This model does not always offer the solution for optimizing investments; thus to invest in a „star" is not mandatory more profitable than to invest in a business in the quadrant „cow milk". The model also does not offer answers to the question- a „question mark" business – is potential winner or may become a"dog" type business?

A company, may make also strategic mistakes of the kind of over investing in a certain „milk cow" type buasiness, or of under investing in a „question mark" tyope business so that this instead of developing towards „star" transforms into a „dog" type business. Another error as concerns the strategic investments could consists in investing small amounts towards „question marks" instead of concentrate substantial investments on the most promising „question marks" in order to increase the chances to transform them in „stars'.

The most important contribution of Boston Consulting Group model consists of underlining the role of investments characteristics of the various business types of the portfolio and upon the method where financial resources may be allotted to one or another of the portfolio businesses in order to optimize the competitiveness of the entire corporation and in order to optimize its strategic position on long term.

In the context of this model, a good strategy consists of using liquidities in excess generated by the „milk cow" business category in order to finance the increase of the market share of the young „stars' incapable of their own financing to become „stars". If this strategy has success and they manage to self finance, as their market matures, they become „milk cow" category businesses.

This is the success trajectory of a business, but there are non desired trajectories of the businesses. One of these is the one when the position of a „star" degenerates in time towards a „question mark" business, and further in a „dog" type business or another case when a business in „milk cow" quadrant looses the leader position of the market arriving to the point of becoming „dog" type business. .

In the case of the second model showed, General Electric, the strategic implications are directly correlated with the importance of the investments. Thus, the businesses in the area of growth of the matrix benefit of priorities in fund allotment for investment. The second area, of keeping the existing businesses is characterized by average priorities of fund allotment for investments. For the third area, the strategic recommendations consist of renouncing and liquidation of the businesses in this area.

In fact, in General Electric model, each type of business may enter in one of the following 5 categories :

a) Businesses with high potential of increase that represent first priority for the investments
b) Companies with stable basis that receive constant reinvestment to keep their position
c) Companies with support role which receive investment funds periodically
d) Companies with potential which receive reduced investment funds

e) Companies which receive substantial investments in the field of research and development.

From these reasons, we can draw the conclusion that the main accent of this methods falls on the way of draining the resources of the corporation towards those businesses that combine a high attractiveness with a powerful competitive position.

Generally, the determination of the way where the resources of the corporation may be used to reinforce the competitive position of each business is an action that takes place, especially, when the company includes businesses existing in a competitive disadvantageous position and when improvements are needed in certain key fields. It is also important that the strategy wording considers the correlation of the global strategy with the businesses strategy. One of the methods of correlation of these strategies consists in achieving a correspondence between the resources and corporation competencies and the key success factors of the fields they carry on their activity. The more accentuated is this connection the more substantial are the resources and the capabilities of the corporation, the more successful is the strategy.

If we analyze the investment strategy form the perspective of Arthur D. Little model, we will find out that many of the conclusions detached with the help of the other models are coincident. Thus, for the starting activities or being under development important investment are needed. For activities characterized by a good competitive position a so called ”natural development” is recommended that presumes mobilizing all the financial resources for investment purposes, in order to allow these activities that show potential in the competitive context existing to develop. For the activities with dominant position or with powerful position this is not needed, because they can achieve the need for investments from own resources.

The “selective development” as concerns the investment resources allotted, recommends to achieve a selection of activities between the existing activities, considering the perspective of reaching a good position and then a higher profitability.

For the mature activities or for the activities in decline, the financial resources needed to the investment effort , rise, practically no problem. But, for the activities with low yield or where the competitive position of the company is low, the abandon is preferable.

Conclusions

1. Among the most frequent models of analysis the diversified companies strategy Boston Consulting - Group (BCG) model, General Electric (GE) model and Arthur D. Little (ADL) model are enumerated.

2. The most known method of evaluation of the strategy of a diversified business company are those based on a graphic bidimensional representation of the company business portfolio matrix . 3. The matrix is built using two relevant variables. The relevant variables considered the most frequently are the growth rate of the field of activity, the market share, the attractiveness of long term of the field, the competitive strengths, the stage of evolution of the product/market .

4.If we analyze the investment strategy from the perspective of the 3 analyzed models, one can find out that many of the conclusions detached with the 3 models are coinciding.

5. For the starting activities or existing under development important investments are needed..

6. For the activities characterized by a good competitive position mobilizing all financial resources for investment purposes is recommended in order to allow those activities that show potential in the existing competitive context to develop.

7.For the activities with dominant or strong position no investments are needed, because they can achieve the need of funds for investment form own resources.

8.For the mature activities or in decline, the financial resources needed to the investment effort, practically, no problems are risen.

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