SUMMARY OF SELECTED GENERIC STRATEGIES

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12. MARKET PENETRATION

Increase market share by manipulating marketing mix (lower price, product line breadth, increased product and sales service, increased advertising).

Probable Consequences : (1) Lowered profit margins. (2) Short-term sales growth with an orientation towards increasing market share. (3) Increased fixed assets due to increased capacity requirements. (4) Lowered unit cost in long run.

Requires : (1) Increased marketing and selling expense. (2) Increased working capital. (3) Increased capital investment if increased capacity is required. (4) Willingness to forego (or sacrifice) short-term earnings in hope of longer-term success.

Risk : High

Note : The thrust of this strategy is to take share from an existing competitor in an existing market. This strategy precludes the selection of 21 SAME PRODUCTS/SAME MARKETS for the same products although the SAME PRODUCTS/SAME MARKETS strategy is calculated for comparison. This strategy can be used in addition to 21 SAME PRODUCTS/ SAME MARKETS when the two strategies are for different products.

21. SAME PRODUCTS/SAME MARKETS

Execute those tactics necessary to maintain overall market share with the same product line in the same markets.

Probable Consequences : (1) Sales volume increases at growth rate of market segments served. (2) Stable profit margins near term but declining longer term. (3) Increased cash throw off over time. (4) Lowered unit costs if plant and distribution systems are not already loaded.

Requires : Capital for new capacity when required.

Risk : Low Initially, higher with time.

Note : This is the ongoing base case strategy that would support any existing business. Note that when generic strategy 12 MARKET PENETRATION is used for similar products, this strategy is not used as it becomes a base case built into the cost/analysis of generic strategy 12.

17. PRODUCTION RATIONALIZATION

Increase standardization of designs, components, and manufacturing processes and/or concentrating facilities and/or subcontracting out elements of production.

Probable Consequences : Lowered production costs. (2) Improved profit margin after initial displacement. (3) Improved working capital. (4) No impact on sales.

Requires : (1) Some capital investment. (2) Increased distribution costs. (3) Increased manufacturing costs.

Risk : Low

Note : Sales are not reduced by this strategy. If sales are reduced, then in fact a Market, Product Line, or Distribution Rationalization strategy is being carried out.

22. TECHNOLOGICAL EFFICIENCY

Improve operating efficiency through technological improvements in physical plant, equipment or processes.

Probable Consequences : (1) Decreased variable costs and increased fixed costs -- an overall reduction. (2) Possible considerably increased profits. (3) Little effect on sales volume.

Requires : Capital investment

Risk : Low to moderate, depending on the extent to which the particular technology is proven.

Note : The ongoing operation of any business requires a certain amount of support of the nature indicated by this strategy. If in fact, the support is continuing effort and is not time-limited, consideration should be given to incorporation of the support costs into specific strategies supporting 12 SAME PRODUCTS/SAME MARKETS generic strategy. Use of strategy 22 signals the mounting of a major technological, high-profile, time limited effort, otherwise the work would appear as a program step under a specific strategy for another generic strategy. The use of strategy 22 suggests a rationalization flavor i.e. existing capacity that is currently operative is being <u>replaced</u> with new capacity that improves overall efficiency.

11. "LITTLE JEWEL" (RETRENCHMENT)

Strip down a business to the currently most profitable piece (possibly reinvest in the operation retained).

Probable Consequences : (1) Decreased sales volume in the short run. (2) May produce underutilized capacity. (3) Increased ROA if assets are close to being fully depreciated. (4) Decreased variable unit costs.

Risk : Low

Note : The implication is that we know what the LITTLE JEWEL is, and strip direct to it, rather than going through market rationalization, production rationalization, etc.