# NEW TRENDS IN BUSINESS

MODULE – I

CHAPTER - 3

# LPG

- Liberalization: It refers to laws and rules being relaxed by the government. It involves reducing the barriers to trade. Barriers in the form of tariffs and quotas are reduced in a phased manner to facilitate free movement of human, physical and financial resources.

- Globalization: Integration of an economy with the world economy.

    Borderless world

    World is considered as a huge market.

# Positive effect of Globalization on India

***1. Access to Technology:***

- Globalization has drastically, improved the access to technology. Internet facility has enabled India to gain access to knowledge and services from around the world. Use of Mobile telephone has revolution used communication with other countries.

***2. Growth of international trade:***

- Tariff barriers have been removed which has resulted in the growth of trade among nations. Global trade has been facilitated by GATT, WTO etc.

***3. Increase in production:***

- Globalization has resulted in increase in the production of a variety of goods. MNCs have established manufacturing plants all over the world.

***4. Employment opportunities:***

- Establishment of MNCs have resulted in the increase of employment opportunities.

***5. Free flow of foreign capital:***

- Globalization has encouraged free flow of capital which has improved the economy of developing countries to some extent. It has increased the capital formation.

# Negative effect of Globalization on India

***1. Inequalities within countries:***

- Globalisation has increased inequalities among the countries. Some of the policies of Globalization (liberalisation, WTO policies etc.) are more beneficial to developed countries.

***2. Financial Instability:***

- As a consequence of globalization there is free flow of foreign capital poured into developing countries. But the economy is subject to constant fluctuations. On account of variations in the flow of foreign capital.

***3. Impact on workers:***

- Globalization has opened up employment opportunities. But there is no job security for employees. The nature of work has created new pressures on workers. Workers are not permitted to organise trade unions.

***4. Impact on farmers:***

- Indian farmers are facing a lot of threat from global markets. They are facing a serious competition from powerful agricultural industries quite often cheaply produced agro products in developed countries are being dumped into India.

***5. Impact on Environment:***

- Globalization has led to 50% rise in the volume of world trade. Mass movement of goods across the world has resulted in gas emission. Some of the projects financed by World Bank are potentially devastating to ecological balance.

***6. Domination by MNCs:***

- MNCs are the driving force behind globalization. They are in a position to dictate powers. Multinational companies are emerging as growing corporate power. They are exploiting the cheap labour and natural resources of the host countries.

**7. Threat to national sovereignty:**

- Globalizations results in shift of economic power from independent countries to international organisations, like WTO United Nations etc. The sovereignty of the elected governments are naturally undermined, as the policies are formulated in favour of globalization.

# Privatisation - it refers to transfer of any government function to the private sector.

- **Advantages:**

- i. Efficiency
- ii. Absence of political interference
- iii. Quality service.
- iv. Systematic marketing
- v. Use of modern Technology
- vi. Accountability
- vii. Creation of competitive environment.
- viii. Innovations
- ix. Research and development
- x. Optimum utilisation of resources
- xi. Infra structure.

- **Disadvantages**

- i. Exploitation of labour.
- ii. Abuse of powers by executives.
- iii. Unequal distribution of wealth and income.
- iv. Lack of job security for employees.

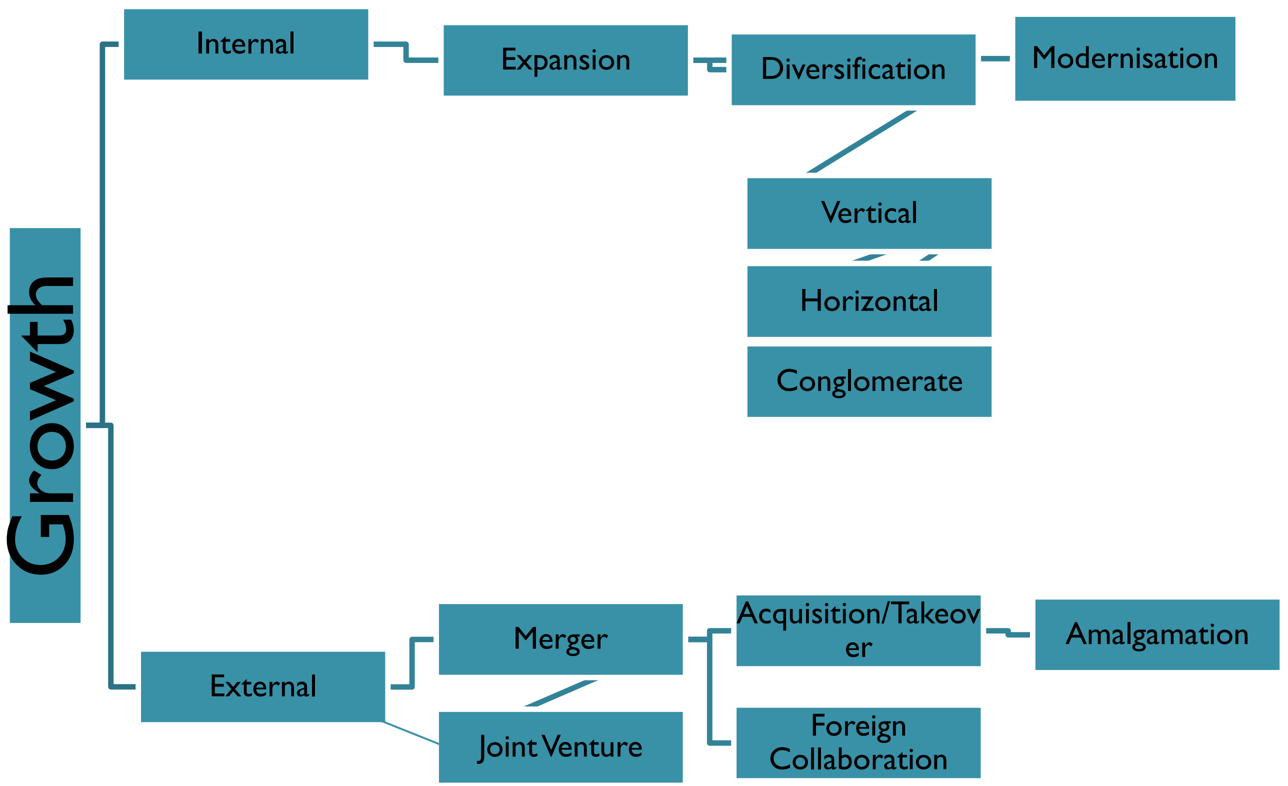
# Strategy alternatives in the changing scenario

- STABILITY STRATEGY
- GROWTH STRATEGY
- RETRENCHMENT STRATEGY
- COMBINATION STRATEGY

# I. STABILITY STRATEGY

- It means continuing the current activities of the firm without any significant change in direction
- A firm is said to be following stability strategy if it is satisfied with the same consumer groups and maintaining the same market share.
- No major changes are made in product line, markets or functions.

# 2. GROWTH STRATEGY



# A. Internal Growth Strategy

## i. Expansion:

a) Market Penetration- It involves selling more of its existing products to its existing customers by focusing intensely with the heavy advertising. Price cuts, alternative uses of brand, prove the superiority of brand over competitor's brand

b) Market Development – It involves selling the same products to new markets by attracting new users to its existing products.

c) Product Development- This strategy involves developing new products for existing markets or for new markets.

## ii. Modernization Strategy

- Growth in modernization strategy is implemented by upgrading technology to reduce cost of production, reduce wastages and to improve quality.
- The business replaces its old, worn-out and obsolete machines and equipment by modern machines and equipment.
- The strategy of modernization can be used only if the firm has adequate capital through accumulated savings or is able to raise capital from different sources.

# Diversification

Diversification is an act of an existing entity branching out into a new business opportunity or just expanding its existing operations. This corporate strategy enables the entity to enter into a new market segment which it does not already operate in.

## Why Do Companies Diversify?

- For growth in business operations.
- To ensure maximum utilization of the existing resources and capabilities.
- To escape from unattractive industry environments.

## Types

- Horizontal Diversification
- Vertical Diversification
- Concentric Diversification
- Conglomerate Diversification

## iii. Diversification Strategy

- Adding new products or new markets that are totally different from its existing line of business.
- Diversification allows to spread risk.
- Types:

a. Vertical – This involves extending the activities into areas which are complimentary to or somewhat connected to its existing activities. *Backward & Forward Integration*

***For example, if you have a company that does reconstruction of houses and offices and you start selling paints and other construction materials for use in this business.***

b) Horizontal – It involves addition of new products which are parallel or similar to existing product line. E.g seven small cement firms combined and formed Associated Cement Companies.

c) Concentric: It takes place when a firm diversifies into some business which is related with its present business in terms of marketing, technology or both. e.g. a bakery starts producing pastries or dough products.

d) Conglomerate – Addition of such products which are not connected to the existing line of products in any way.

   E.g TATA venturing into tea, salt, steel, software, jewelry, wrist watches, bags, housing

   ITC- Tobacco products, paper, packaging, hotels

# B. External Growth Strategy

- **Merger**- it is a combination of two or more businesses into one business, wherein all companies except one lose their identity
- **Acquisition/Takeover-** Takeovers and acquisitions are common occurrences in the business world. A takeover is a special form of acquisition that occurs when a company takes control of another company without the acquired firm's agreement. Takeovers that occur without permission are commonly called hostile takeovers. Acquisitions, also referred to as friendly takeovers, occur when the acquiring company has the permission of the target company's board of directors to purchase and take over the company.
- **Joint Venture - (JV**) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity.
- **Foreign Collaboration - Foreign collaboration** is an agreement or contract between two or more companies from different countries for mutual benefit.

# 3. Retrenchment Strategy

- A retrenchment strategy is followed when an organisation aims at a contraction of its activities through substantial reduction or the elimination of the scope of one or more of its businesses/activities in order to improve its overall performance.

# Types of retrenchment strategy

- Turnaround: It means converting a loss making unit back to profitable one. It is applicable to units that are heading towards industrial sickness and it is long term restructuring strategy to revive the business.

- Divestment: It involves the sale or liquidation of a portion of business, or a major division.

- Liquidation: It involves closing down a firm and selling its assets. It is considered as a last resort because it leads to serious consequences such as loss of employment for workers, termination of opportunities.

# 4. Combination Strategy

This involves the blending of the three strategies i.e. stability, expansion and retrenchment for its sub-units.

# Turnaround

## <u>The concept or meaning of turnaround strategy covers following points:</u>

- Turnaround strategy means to convert, change or transform a loss-making company into a profit-making company.
- It means to make the company profitable again.
- The main purpose of implementing a turnaround strategy is to turn the company from a negative point to a positive one.
- If a turnaround strategy is not applied to a sick company, it will close down.
- It is a remedy for curing <u>industrial</u> sickness.
- Turnaround is a restructuring strategy. Here, a loss-bearing company is transformed into a profit-earning company, by making systematic efforts.

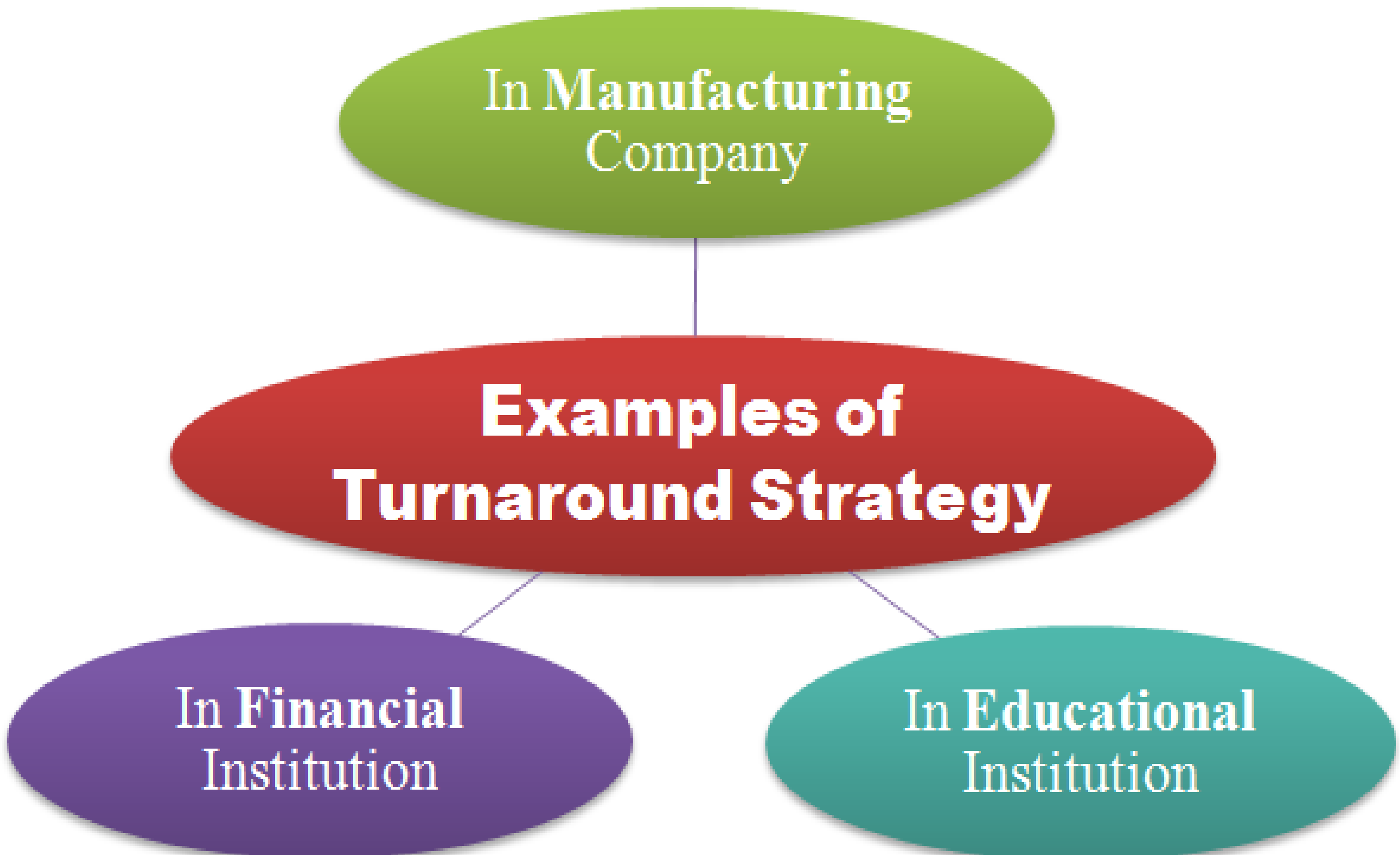
- It tries to remove all weaknesses to help a sick company once again become strong, stable and a profit-making institution.
- It tries to reverse the position from loss to profit, from declining sales to increasing sales, from weakness to strength, and from an instability to stability.
- It aids to reduce the brought forward losses of the loss-making company.
- It helps the sick company to stand once again in the market.
- It is a complete U-turn of a planned strategic economic transition.

# *Definition of* Turnaround Strategy

**In General Sense...**
*"to transform a loss making company into a profit making one."*

**In Business Sense...**
*"to deal with the issues of a loss making company."*

**In an Academic Sense...**
*"to solve the root cause failure of a loss-making company."*


In Manufacturing Company
Examples of Turnaround Strategy
In Financial Institution
In Educational Institution

# examples of turnaround strategy:

- Financial Institution, for example, some bank 'A' is suffering from losses due to non-performing assets (NPA).
- NPA is loan given but not yet recovered. This bank 'A' will follow turnaround strategy and try to recover its loans by appointing recovery agents.

- Manufacturing company say 'XYZ' is suffering from losses due to excess idle time taken by labour to complete their jobs.
- The manufacturing company 'XYZ' will follow turnaround strategy to reduce labour inactivity by installing modern machines (automation) to carry on the same work or job.

- Educational institution, for example, 'C' is suffering from losses due to non-registration of students in their courses.
- This institution 'C' will follow turnaround strategy to reduce losses by providing facilities like e-Registration, conducting online classes, etc. to attract students.

# There are three phase in turnaround management

1. Diagnosis of the problem faced by the company.

2. Choosing the appropriate turnaround strategy.

3. Implementation of the strategy.