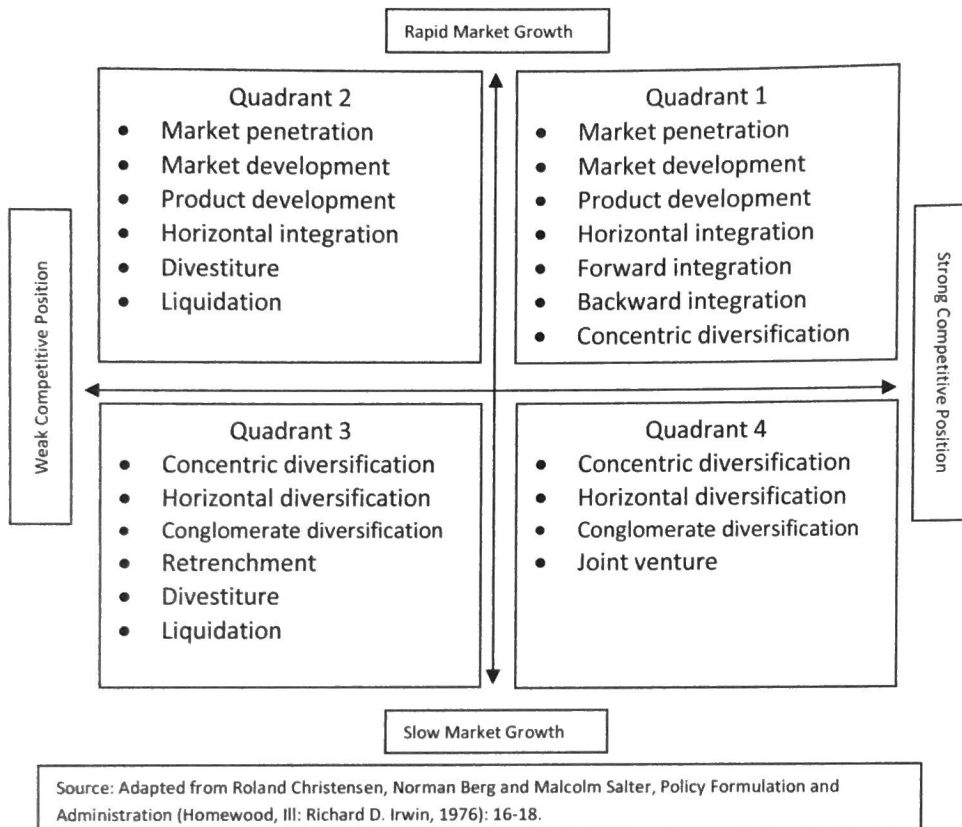


The following three chapters take the information gathered in the external and internal analysis and uses that information to determine a broad strategic direction for the business. This is called a directional indicator because it suggests a strategic direction for the business but does not provide a specific strategy. The specifics will come in later chapters.

GSM Matrix:

Grand strategies are overarching long term strategies that set the direction for a company. The Grand Strategy Matrix (GSM) is intended to assist a strategist in deciding which grand strategies are most appropriate. The GSM is a four-block matrix and considers a company's competitive position in the market as well as the growth rate of the market. Both of these factors are similar to the concepts used in the BCG matrix and the GE matrix.

Any company can be positioned in one of the GSM's four strategy quadrants. A firm's individual divisions can also be placed in the matrix. To complete a Grand Strategy Matrix, the analyst identifies whether the company is in a weak competitive position or a strong competitive position. Next, the analyst identifies whether the company competes in a market that has rapid growth or slow growth. The intersection of the two positions places the company in one of four quadrants. Each quadrant lists the appropriate strategies in order of preference for a company in that position.



Definitions:

- **Market development**- Introducing new or existing products into new areas.
- **Product development**- Improvement or modification of products for increased sales.
- **Market penetration**- Increased share for present products by increased effort.
- **Forward integration**- Ownership or increased control over distributors or retailers.
- **Backward integration**- Ownership or increased control over suppliers.
- **Horizontal integration**- Ownership or increased control over Competitors.
- **Concentric diversification**- New products or markets related to existing offerings.

- **Conglomerate diversification**- New products or markets unrelated to existing offerings.
- **Joint venture**- When two or more firms join & create a third co-owned firm.
- **Horizontal diversification**- Divestment of horizontally integrated business units.
- **Retrenchment**- Organization regroups using cost and asset reduction techniques
- **Divestiture**- Selling a product line, division, or business unit.
- **Liquidation**- Selling all of the company assets.

Companies in quadrant 1 of the GSM are in a great strategic position because they have a strong competitive position in a rapidly growing market. These companies should leverage their existing competitive advantages and focus on their current products and markets. This suggests strategies such as market penetration, market development, and product development. If a company in this quadrant has extra cash on hand, then integration strategies such as backward, forward, or horizontal integration may be appropriate. If the company is heavily dependent on a single product, limited customer base, or in some other way is narrowed in scope, concentric diversification may be appropriate.

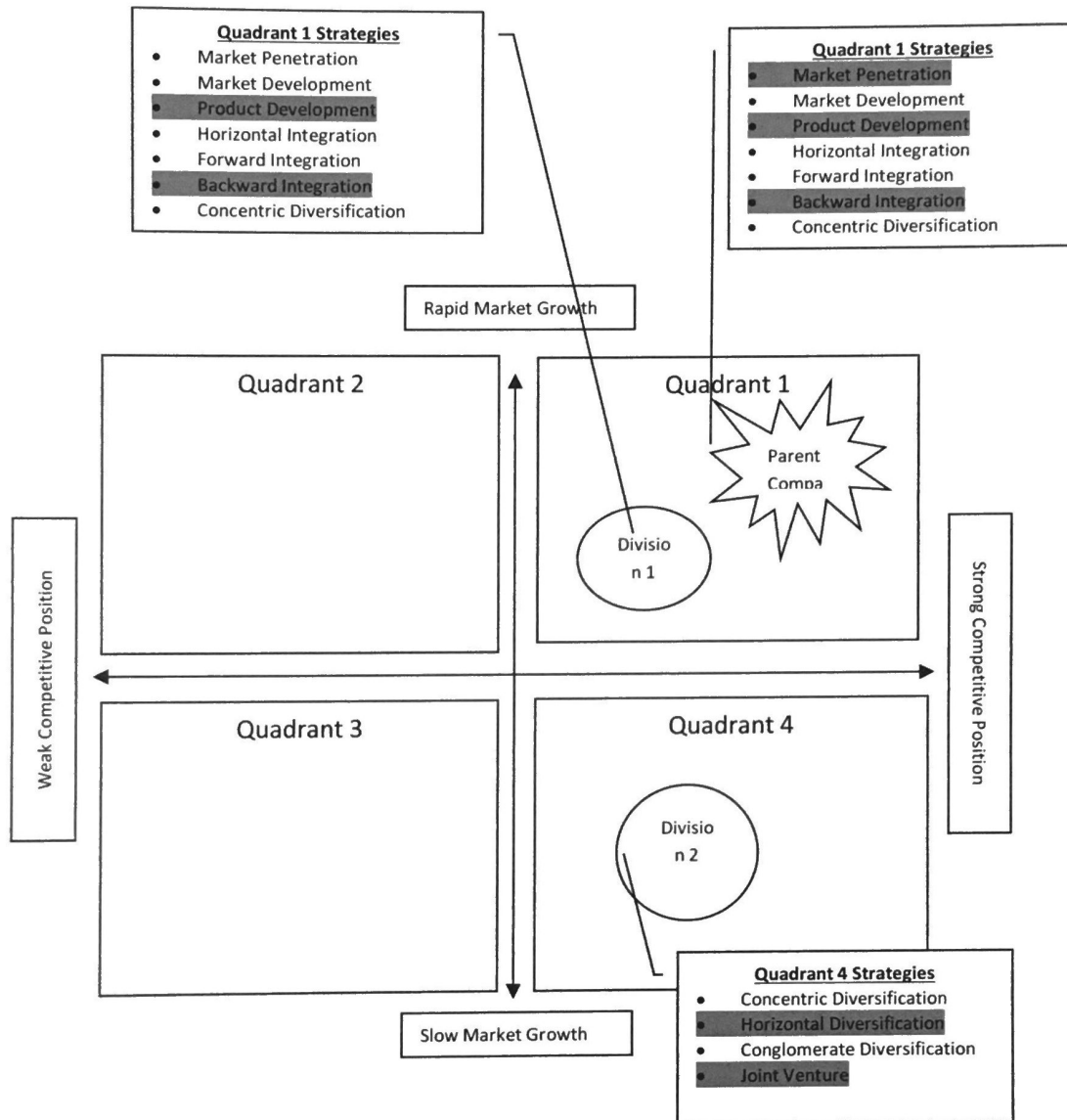
Companies in quadrant 2 of the GSM are in a weak competitive position in a growing market. They need to reevaluate their existing strategies to determine why that is. Because these companies are in a rapidly growing market they need to employ intensive strategies such as market penetration, market development, and product development. If the company does not have a tangible competitive advantage, they may try to gain efficiency and scales of economy through horizontal integration. If the strategist believes that a significant competitive advantage cannot be developed and horizontal integration is not an option, the company may choose to sell off the business and use the proceeds from the sale to reinvest in other businesses that may produce a greater return on investment. If a buyer is not available and the company is a cash drain on the parent company, liquidation may be a last resort strategy. In this case, the company is shut down and its assets are sold to pay the debts. Obviously, this is not an attractive strategy but it could save a parent company from further losses.

Companies in quadrant 3 have a weak competitive position in a slow growth market. These companies have to take quick action to ensure a turnaround and avoid the possibility of being driven out of business. Retrenchment tactics such as cost reductions and sale of assets can conserve cash. Alternatively,

diversification strategies designed to reposition the business into different areas may be appropriate. These strategies may include horizontal diversification and conglomerate diversification. If all else fails, the company may be sold off or liquidated.

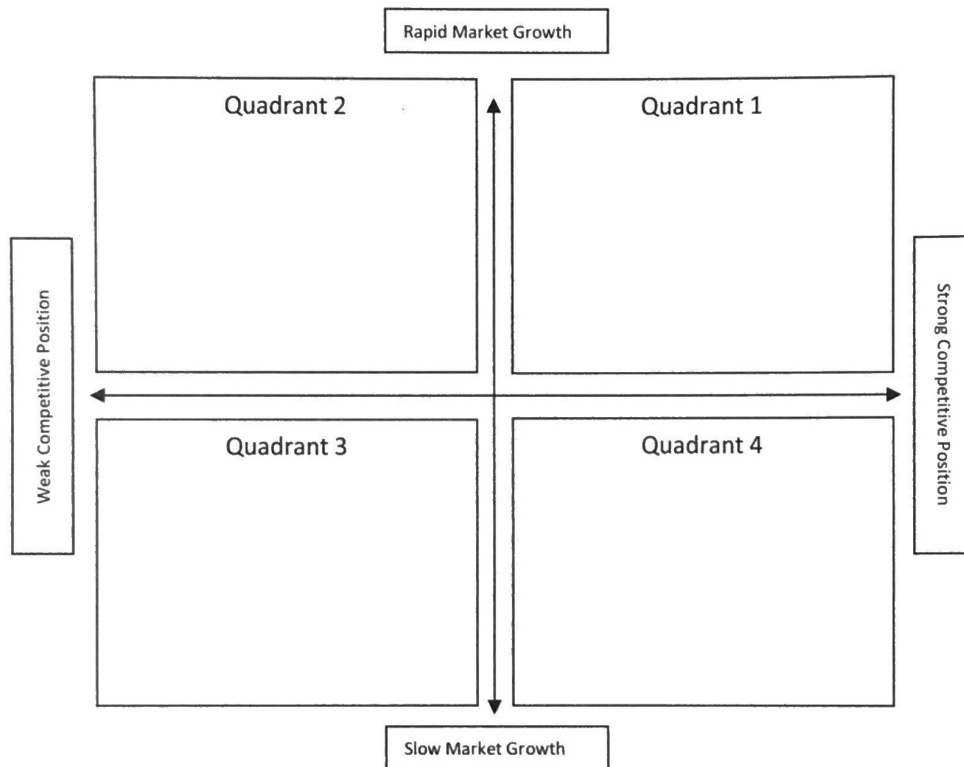
Companies in quadrant 4 have a strong competitive position but are in a slow growth market. Because of their strength and cash flow, these companies have the ability to reallocate assets into more attractive markets or grow their dominance of the current market. This can be achieved through concentric diversification, horizontal diversification, or conglomerate diversification. Additionally, by combining their market dominance with another company they can gain further leverage in the market. To do this, these companies often pursue a strategic joint venture.

Example: Widget Incorporated



Example of one company with two divisions, implied strategic approaches, and selected strategic approaches highlighted.

Grand Strategy Matrix for (company name):



Explanation:

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*

Which strategies are appropriate, which are not, and why?

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