

Case Studies on
GROWTH STRATEGIES - VOLUME II

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Case Title	Page No.
Biocon: The Indian Biotech Star	1
Carlson Wagonlit Travel: The Growth Strategies	11
Chinadotcom after the dotcom bust	19
Dangdang: Amazon.com of China?	35
Expedia: The Changing Business Model	43
Growth Strategies of Best Buy	55
Growth Strategies of e.Biscom	71
Growth Strategies of Salesforce.com	85
HDFC's Business Model	93
Imagi International Holdings Ltd (HK): The Growth Dilemmas	103
J&J – Growth Strategies in the 21st century	115
Kodak: Betting on Digital Imaging	129
Matrix Laboratories – Road to Success	153
Nicholas Piramal India – Survival Strategies for International Patent Law Regime	167
Pacific Andes International (Holdings) Limited - Growth Strategies	195
PayPal's Growth Strategies	207
The Royal Bank of Scotland's Growth Strategies	219
Toyota's Expansion Strategies in Europe	231
Woolworths' Growth Strategies	245

AN OVERVIEW

“Change is inevitable. Growth is intentional.”

-Anonymous

Growth of a company is imperative. Companies that conduct business in expanding industries must grow in order to survive. Every company must adopt a strategy to improve its competitive position by deciding its orientation towards growth by asking the following three questions:

- Should we expand, cut back, or continue our operations unchanged?
- Should we concentrate our activities within our current industry or should we diversify in other industries?
- If we want to grow and expand nationally as well as globally, should we do so through internal development or external acquisitions, mergers or strategic alliances?

Companies are forever bound by the type of product or service that they provide, and they are constantly competing amongst each other for market share, consumer acceptance, as well as technological leadership in their respective businesses. These competitive and consumer forces determine the status of the company's growth as a whole. Companies that fail to adapt to these changing market conditions may end up losing their market share and the competitive advantages to their competitors. Growth entails increase in the sales revenue, increase in market share and other financial and non-financial benefits. A growing economy, burgeoning markets, customers seeking new ways of satisfaction, and emerging technologies offer ample opportunities for companies to expand. With the passage of time, companies will pass through various stages of the business life cycle. Companies must figure out at what stage of growth their company is in along the growth curve and what they need to do in order to reach the next level.

In the initial period of growth, companies face the challenge of market acceptance. During this stage the business is experiencing moderate sales growth and the focus is on matching the business opportunity with their skills and experience. Gradually, by establishing a strong customer base and market presence along with a consistent and conservative cash flow, the growth of a company is consolidated. Thus, the company achieves a track record of sustained profitability and ample resources for growth. Gradually in this phase of growth, the primary goal of a company is maximizing the return on investment (ROI). As such, the prospects of these companies also appear bright with continued sales and earnings growth in ensuing years.

Growth Dilemma

At this stage of growth, the companies face a dilemma in choosing the direction of growth, whether sustained growth or unlimited corporate growth. Once the company decides the way to grow, they need to choose from the available set of options. In formulating one or more growth strategies, the company needs to determine whether the focus will be on internal growth, external growth or a combination of both. The most widely pursued growth strategies are classified into organic (internal growth) and inorganic (external growth) strategies. Each company adopts a specific strategy based on the goals it plans to achieve and the size of the company.

Organic Growth Strategies

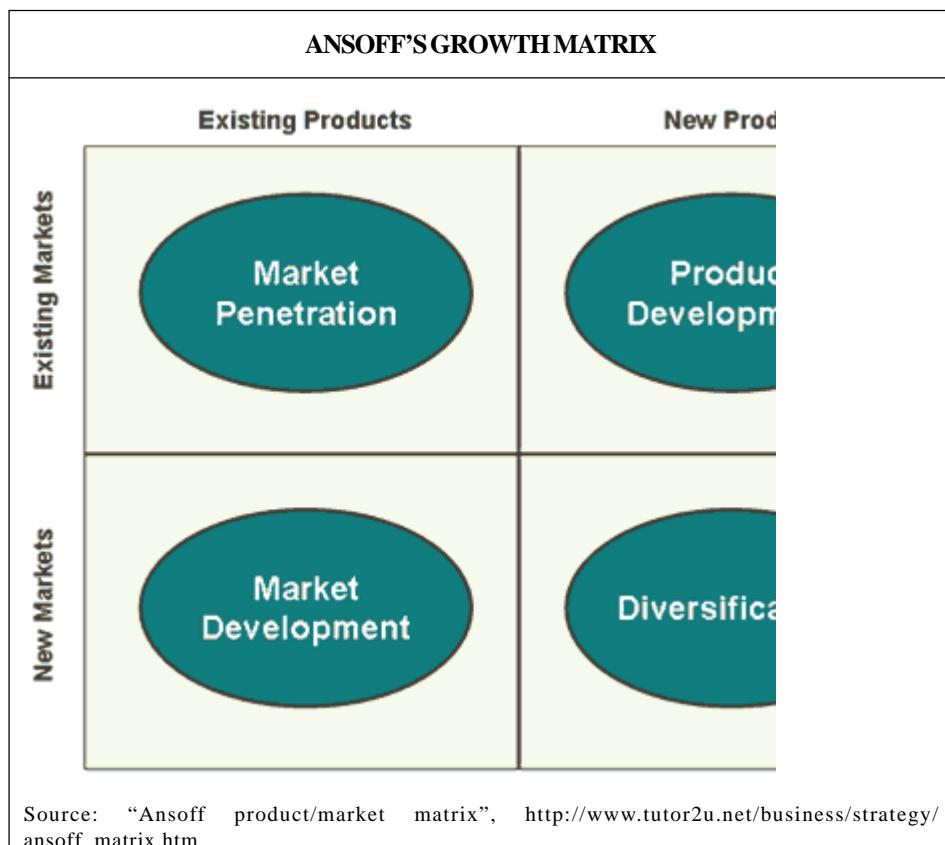
Organic growth is the most reliable and sustainable way for a company's growth. These internal **growth strategies** tend to rely on factors such as hiring more employees, growing the customer base, opening new company-owned locations or developing new products through internal research and development. The implementation of an organic growth strategy is going to vary with the individual characteristics of each firm, its culture, and its position in the marketplace.

There are numerous ways to stimulate organic growth, encompassing a broad array of restructuring tactics:

- Initiatives that enhance productivity or increase market share (revenue-based), or those that reduce expense or improve efficiency (cost-based), building a strong organization along the way,
- Actions to improve decision-making or operational efficiencies,
- Steps to reduce operating costs,
- Cost-cutting programs such as downsizing, discarding products or business units owing to poor performance, space consolidations, etc.,
- Implementing efficiency-enhancing programs such as systems upgrades, reorganizing business units, relocations, etc.,
- Preparation for expansion into new markets or product lines.

In organic growth, companies concentrate on their core businesses. This can be demonstrated by using **Ansoff's Growth Matrix**. It is a tool that helps businesses decide their product and market growth strategy. The matrix enables marketers to consider ways for business growth via existing and/or new products, in existing and/or new markets – there are four possible product/market combinations. This matrix helps companies decide what course of action should be taken, given their current performance.

The matrix consists of four strategies which is shown in the following figure :



Market Penetration

A market penetration strategy means that the company will aim to sell its existing products within markets that it already serves but in greater numbers. This will entail a greater effort in sales and marketing to achieve higher sale of product, hence aiming for a greater market share. This could also be achieved by improving the product quality by productivity gains leading to cost reductions.

Product Development

A product development strategy entails developing new products for sale in existing markets. In most companies this is a process, which will be ongoing as no company can last for long selling only its current range of products. Taking this route enables the company to utilise its existing knowledge and skills to develop new products for a market that it understands. Although there is some risk in any new product development, it is far less than developing products for new markets. Marketing in general, and knowledge of the market in particular are key skill requirements for this strategy.

Market Development

Market development occurs when a company attempts to sell its existing products in new markets. The new markets could be geographically based either locally or internationally, or alternatively the new market could be a new market segment. The advantage for the company following this strategy is that it does not need to invest in new product development and the main expenditure will be incurred in the area of marketing and sales, hence reducing the risk associated with new product development.

Diversification

Diversification is said to occur when a company decides to sell newly developed products within a new market. This strategy involves a good deal of risk for the company, as it moves away from the products and customers, which it has served until this point. This strategy is undertaken only when there is a dramatic decline in the sales or maybe advent of new technologies opening up completely new markets, which provides the company a big opportunity.

Diversification can be classified into two main groups – Related and unrelated diversification.

Related diversification involves developing new products to sell in new markets but within the same industry or broad area as before. The goal of such diversification is to achieve strategic fit. Though this involves a new product line and new customers, it is still within the industry and the company's existing knowledge and skills will still be of value.

Unrelated diversification occurs when a company decides to enter a new business area as well as developing new products and finding new customers. This is a high risk strategy, as the company will have only a limited amount of knowledge about the new area. However, in order to overcome this drawback, companies enter into new markets by acquiring an existing company in that industry.

Inorganic Growth Strategies

Companies tend to focus on external (inorganic) growth when they decides to expand outside of their current operations and buy access to new products or markets. **Mergers** are one common form of external growth. Mergers occur when two or more firms combine operations to form one corporation, perhaps with a new name. One goal of a merger is to achieve management synergy by creating a stronger management team. **Acquisitions**, a second form of external growth, occur when the purchased corporation loses its identity. The acquiring company absorbs it. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. Acquisitions usually occur when a larger firm purchases a smaller company. The companies may also grow externally by entering into **Strategic Alliances**, which are agreements between firms in which each commits resources to achieve a common set of objectives.

This book includes nineteen cases written on companies from different industries. It introduces the reader to different growth strategies these companies adopted in expanding their businesses. The companies may not use a single growth strategy but use a combination of growth strategies depending on their goals. The following table gives the list of cases in this book and the respective growth strategies the company has adopted.

If a company seeks to grow through **market penetration**, it sells its existing products line in the same markets, thus securing dominance of growth markets. The cases *Growth Strategies of e.Biscom*, *Paypal's Growth Strategies*, *Growth Strategies of Salesforce.com*, *Biocon: The Indian Biotech Star*, *Dangdang.com*, *Woolworth's Growth Strategies*, *Growth Strategies of Best Buy*, *Matrix Laboratories: Road to Success* describes how these companies posted growth by means of concentrating on a particular product or market.

The case of *Growth Strategies of e.Biscom* provides the reader an understanding about the challenges the company faced for posting growth and its success in improving its core products viz., telecommunications, Internet and online media in the existing products while improving its market share.

Paypal's Growth Strategies is another example of organic growth, which explains how Paypal revolutionized the financial services through its on-line person-to-person (P2P) money transfer service. The case highlights Paypal's growth strategies of market penetration based on the concept of 'viral marketing' thereby increasing its customer base and sales as well.

The case *Growth strategies of Salesforce.com* explains the growth of this company which emerged as a market leader in customer relationship management (CRM) by offering services to businesses of all sizes and industries globally while exploring its pioneering business model and aggressive growth strategies.

Biocon: The Indian Biotech Star explains the organic growth of the company through innovation and explains as to how a cutting edge innovation coupled with focused approach enabled the company to reach great heights.

The case of *Dangdang.com* discusses how despite hurdles, the company has witnessed growth as a leading online book retailer in the Chinese electronic retailing business, with better services and at the same time restructured a mature market by overcoming its competitors.

The case of *Woolworth's Growth Strategies* elaborates the transformation of the company from 'being a company that was system driven' to a 'company that others try to emulate'. It also highlights the expansion strategies of Woolworth, as to how the company focused on its customer needs and improved its market share making it the leading food retailer of Australia. Similarly in the case of *Growth Strategies of Best Buy*, the company focused on the 'Concept Stores' and the initiatives that improved its performance and differentiated the company from its main competitor.

While a few companies post growth by retaining the existing products in the same markets, others seek expansion by selling their existing products in new markets. Cases like *Pacific Andes International Limited: Growth Strategies*, *Matrix Laboratories: Road to Success* and *Toyota's Expansion Strategies in Europe* explains the **market development** strategies that these companies adopted.

In the case *Pacific Andes International Limited: Growth Strategies*, the company achieved considerable growth in seafood and vegetable business within a short span expanding into other countries. It also increased its global market share and gained a sustainable competitive advantage through synergy. The case explains as to how Pacific Andes amidst crisis like ban on the import of its food products surged forward successfully.

The concept of market development is explained in the case of *Matrix Laboratories: Road to Success* where the company despite expanding its operations into other countries focused on the Indian Pharma Industry, thereby moving up the value chain.

Similarly, the case of *Toyota's Expansion Strategies in Europe*, the company expanded its presence in the European car market. The case discusses the success of Toyota in localizing its strategies in tune with the needs of the European car market. It also analyzes the growth strategies of Toyota in Europe in the wake of currency fluctuations and the new needs of the market.

In order to appeal the existing markets, companies develop new products to improve their core competencies. The cases on *Expedia: The Changing Business Model*, and *Chinadotcom after the dotcom bust*, elucidates these companies' **product development** strategy.

The case of *Expedia: The Changing Business Model* describes how Expedia shifted its business model from 'commission model' to 'merchant model' and concentrated on its core business as an on-line travel agent. The other case Chinadotcom after the dotcom bust also discusses the product development where the company repositioned itself and evolved towards a broader base of higher margin products and services in the existing markets.

A company may pursue a **diversification** strategy to explore the opportunities in related industries and expanding into similar business avenues. In a related diversification, the company adds related products and markets to its businesses. They enter into joint ventures, or strategic partnerships to gain advantages of operating synergies.

The case of *Nicholas Piramal India: Survival Strategies for International Patent Law Regime* is a good example of the organic growth of the company while diversifying into new markets with new products. The case explains the strategies adopted by Nicholas Piramal to stay competitive in the Indian Pharma industry and its expansion.

In the case of *Kodak: Betting on Digital Imaging*, the company underwent a radical transformation due to the convergence of traditional photography with the consumer electronics industry. It also explains as to how Kodak expanded into digital business in order to gain a competitive edge in the digital camera market through its products. The case focuses on the strategies that its CEO adopted for introducing new concepts of expansion.

In **unrelated diversification**, companies diversify into unrelated businesses where there is satisfactory growth and potential earnings. In the case *Imagi International Holdings (HK): Growth Dilemmas*, Boto, a manufacturer of artificial Christmas trees, sold its business to Imagi International. The company had to face challenges, as it was new to this industry. The case explains the challenges faced by the company while diversifying from sale of Christmas trees to an unrelated animation industry.

Seeking access to new markets, companies tend to grow **inorganically** either through mergers and acquisitions or by entering into alliances with other companies. *J&J: Growth Strategies in the 21st Century*, *Pacific Andes International Limited: Growth Strategies*, *HDFC's Business Model*, *The Royal Bank of Scotland's Growth Strategies*, and *Carlson Wagonlit Travel: The Growth Strategies* explains inorganic growth strategies of these companies.

A similar strategy was adopted in the case of *J&J: Growth Strategies in the 21st Century* where Johnson & Johnson focused on the pharmaceuticals and medical devices segment apart from baby products. The company went for cost-cutting and spent more on R&D instead of acquiring other companies. The case explains how J&J grew rapidly by enhancing its product portfolio through mergers and acquisitions.

HDFC's Business Model also is an example of inorganic growth. In order to improve the synergies of universal banking through cross-selling its products, HDFC positioned itself as a group of companies with each company offering specific products to specific set of customers. It enables the reader to understand the strategies of HDFC in merging itself with small subsidiaries into a strong single entity.

The case *The Royal Bank of Scotland's Growth Strategies* focuses on the realization of 'inorganic growth' besides 'organic growth' to create global presence. The case discusses the company's need to diversify, innovate, and how acquisitions could reap benefit.

Similarly in the case, *Carlson Wagonlit Travel: The Growth Strategies*, where the company specialized in travel management, focuses on managing business travel for corporate clients worldwide. It also discusses the aggressive growth strategies adopted by the company based on acquisitions and joint ventures that turned it into the second largest travel agency in the world.

This book provides the reader an insight into the growth strategies of various companies and how these companies attempt to sustain their profitability in the midst of competition and challenges.