

APPLICATION OF ADL MATRIX IN DEVELOPED INDUSTRIAL COMPANIES

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Abstract: By implementing business portfolio strategies in decision making process, companies can strengthen their position and improve possibility to control long-term development. ADL Matrix formulates strategy by analyzing company's competitive position and industry maturity. It is a good diagnostic instrument of strategic analysis. Its creation process is matched with structured analytical process that helps in making strategic decisions in the company.

Key words: ADL Matrix, portfolio management, strategy, competitiveness, life cycle model.

1. INTRODUCTION

Past decades showed that competition increases with the increase of the number and location of customers and suppliers, diversification of production patterns and with technology advance. Business success depends significantly on the formulation and implementation of sustainable strategies. Most significant problem today in developed industrial companies is global recession and loss of customers.

Business strategy, in its broadest meaning, provides the answer to the question of determining proper long-term goals of the company. Strategic planning, from the basic concept analyzes current and expected future situation, determine directions and resources that will achieve the global future, which may be called the vision of the company (Wehrich, 1998).

Strategic planning is an extremely complex process, which requires a systematic approach to identifying factors outside and inside the organization, and their comparison with the possibilities of a company in the market. The aim of the strategy is to reduce the level of surprise, to improve predictions and thus improve the ability of those who are at the top of the organization and control its long-term development (Buble, 1997).

The aim of this paper is to explore possibilities to improve market position of developed industrial systems by implementation of ADL Matrix method in decision making process especially in times of rapid product changes, reduced product development time, high industrial competition.

2. ADL MATRIX

Arthur D. Little, Inc. (ADL), one of the best-known consulting firms, has developed in the late 1970s a structured methodology for consideration of strategies which are dependent on the life cycle of the industry. The model of the industry life cycle, shown in Fig. 1., represents an industry with stages of birth, growth, maturity and decline. Life cycle of different industries has different length. In modern, highly technological industries it is possible to analyze, shape and control strategy by use of industrial life time cycle.

The ADL portfolio management approach uses the dimensions of environmental assessment and business strength assessment. Its application is particularly suited to smaller industrial companies and for strategic business units of large corporations (Arthur D. Little Inc., 1980).

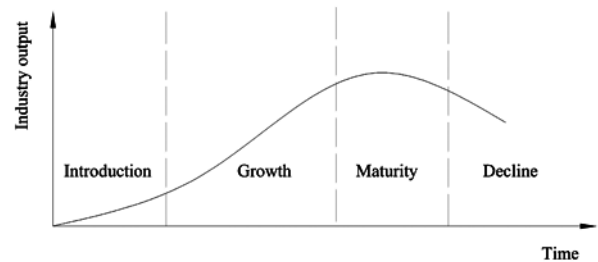


Fig. 1. Industry life cycle model

ADL Matrix analysis helps to better understand the company's portfolio, particularly if used along with other matrices. The ADL Matrix has two main dimensions - competitive position and industry maturity.

2.1. Competitive position

Company's competitive position is determined by strategic actions and competitor's strategies. Quality and strength of competitive position are indicators of company's strength. ADL Matrix categorizes every segment of company (Strategic Business Unit, SBU) according to its position which can be dominant, strong, favorable, tenable or weak.

2.2. Industry maturity

Industry maturity could almost be renamed into 'industry life cycle'. Of course not only industries should be considered here but also segments. There are four categories of industry maturity: embryonic, growth, mature and aging. Positioning into one of four categories is very sophisticated procedure and depends on many factors.

Creation of ADL Matrix is done step by step strictly following defined and consistent methodology. Four steps have to be followed (Patel/Younger, 1978):

1. Determining the SBUs of the company (strategic segmentation done by clearly defined procedures)
2. Identifying phases of industrial maturity for each SBU (this should be done for each business in all SBUs)
3. Determine SBUs competitive position (company's competitiveness in specific, narrow defined industry)
4. Plotting sizes and positions of SBUs on ADL Matrix

2.3. Plotting ADL Matrix

The position of SBU is represented by circle size proportionate to the size of the industry where they belong. On the matrix can be seen relatively relations between the size of all the industries in which the company is active. Company's market share is shown with slices. ADL Matrix with business sizes is shown in Fig. 2.

Analyst and experts must constantly review phases determination in the life cycle of the industry for each strategic center company is part of. In ADL Matrix competitive industries should be analyzed and compared in specific industry by use of Porter's industrial model structures (Porter, 1980).

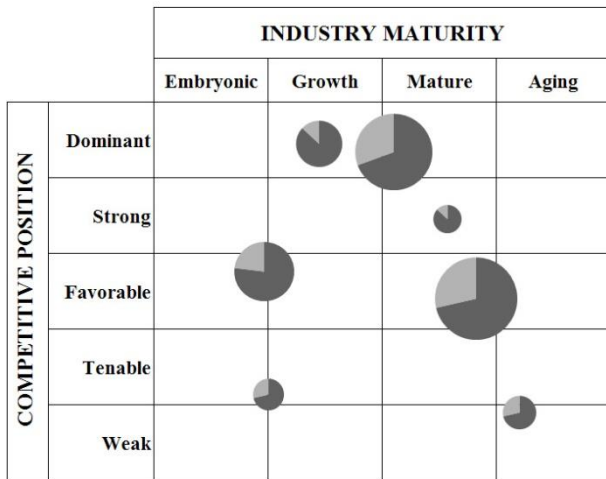


Fig. 2. ADL Matrix with the business size

Comparisons should be very narrow and must include both comparison of business units and comparable products. Strategies for each Industry Maturity and Competitive position are shown in Tab. 1 (Hax, 1991). Company's analytics and management personnel should be very careful but also intuitive when choosing right strategic movement.

Developed industrial companies with strong profit portfolio have ADL Matrix similar to one showed in Fig. 3. It can be seen that most products / industries with biggest shares are in area of growth or in mature stage meaning that these companies can make significant profit and revenues.

3. ADVANTAGES AND DISADVANTAGES OF ADL MATRIX

ADL Matrix displays the distribution of sector enterprises through various phases of industry life cycle. Concept of industry life cycle stage, as an important category is partially included in the other two known matrices BCG matrix and the GE matrix. However, the ADL Matrix pointed out the central place as a key variable in the process of strategic management. During the designing process, analyst and company managers should take into consideration all possible strategies.

COMPETITIVE POSITION	INDUSTRY MATURITY			
	Embryonic	Growth	Mature	Aging
Dominant	<ul style="list-style-type: none"> Aggressive push for market share Invest faster than market share dictates 	<ul style="list-style-type: none"> Maintain position and market share Invest to sustain growth 	<ul style="list-style-type: none"> Maintain position, grow market share Reinvest as necessary 	<ul style="list-style-type: none"> Maintain position Reinvest as necessary
Strong	<ul style="list-style-type: none"> Aggressive push for market share Improve competitive advantage Invest faster than market share dictates 	<ul style="list-style-type: none"> Aggressive push for market share Improve competitive advantage Invest 	<ul style="list-style-type: none"> Maintain position, grow market share as the industry grows Reinvest as necessary 	<ul style="list-style-type: none"> Maintain industry position Cut expenses to maximize profit Minimum reinvestment
Favorable	<ul style="list-style-type: none"> Moderate to aggressive push for market share Improve competitive advantage Invest selectively 	<ul style="list-style-type: none"> Improve competitive advantage and market share Selectively invest 	<ul style="list-style-type: none"> Develop a niche Minimum or selective reinvestment 	<ul style="list-style-type: none"> Cut expenses to maximize profit or withdraw Get out of current investment
Tenable	<ul style="list-style-type: none"> Look for ways to improve industry position Invest very selectively 	<ul style="list-style-type: none"> Develop a niche and maintain it Invest selectively 	<ul style="list-style-type: none"> Develop a niche or plan a withdrawal. Selective reinvestment 	<ul style="list-style-type: none"> Phased withdrawal or abandon market Divest
Weak	<ul style="list-style-type: none"> If benefits doesn't outweigh costs get out of market Invest or divest 	<ul style="list-style-type: none"> Improve position, or get out of the market Invest or divest 	<ul style="list-style-type: none"> Improve position or plan withdrawal Selectively invest or divest 	<ul style="list-style-type: none"> Abandon market Divest

Tab 1. ADL Matrix with the strategies for each combination.

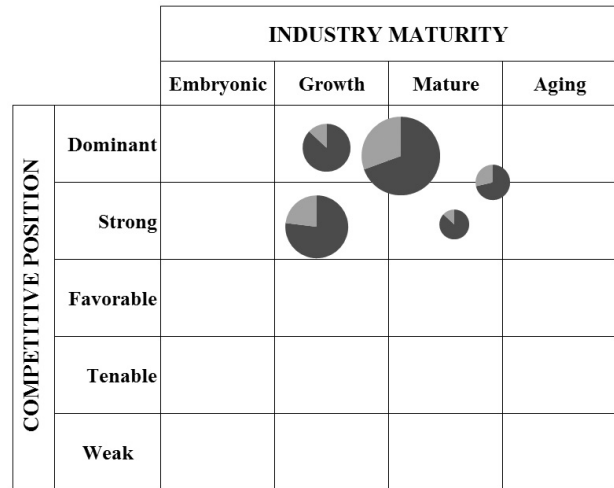


Fig. 3. ADL Matrix of developed industrial companies

ADL Matrix provides access and possibility to shape the process of designing future portfolio for taking strategic actions to achieve the target portfolio and / or balance existing one.

Main disadvantage of ADL portfolio matrix can be noticed in its incompleteness. Industrial evolution isn't sufficient factor that can determine uncontrolled influences on decision-making companies. Many authors find questionable concept of industry life cycle as strategic dimension.

ADL portfolio matrix is a good diagnostic instrument of strategic analysis. Its creation process is matched with a comprehensive and structured analytical process that helps in making strategic decisions in the company.

4. CONCLUSION

As a result of latest development in global market such as constantly increasing number of competitors, increasing prices of raw materials and labor and particularly global economic recession, proven portfolio management methods are becoming more important than ever.

With uncertain future many companies are looking for a possibility to reduce costs, be more competitive and essentially – to survive. ADL Matrix as a powerful technique increases business decision creativity and reduces uncertainty in decision making process.

5. ACKNOWLEDGEMENT

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