

Study on the Retrenchment Strategy of Diversified Enterprises: A Case of Shanxi Ruimei Changlong Biotechnology Co., Ltd.

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Abstract

With the intensification of changes in the internal and external environments in which Chinese enterprises operate in recent years, diversified enterprises are facing the impact of competition from multiple industries at the same time, making it difficult for them to continue to maintain their competitive advantages in diversified industries. In this context, strategic tightening and focusing resources on developing core businesses are necessary options to bring into play the market advantages of diversified enterprises. Taking Shanxi Ruimei Changlong Biotechnology Co., Ltd. as an example, this paper points out that the objectives of a diversified enterprise are not clear enough, its core business is not developed enough and its diversified business is not highly relevant. To address these problems, this paper proposes that the enterprise needs to implement a retrenchment strategy: firstly, to clarify its goals and optimize its enterprise strategy; Secondly, to upgrade its technology and focus on its core development; And finally, to divest its non-core businesses and improve their relevance. Moreover, the paper also proposes a series of measures to ensure the implementation of the retrenchment strategy, including human resources, organizational guarantee, technology and financial security. This paper proposes that “diversified” enterprises should implement a retrenchment strategy to solve their current problems and provides a reference for enterprises caught in the dilemma of diversification strategy.

Keywords

Diversification, Refocusing, Strategic adjustment, Retrenchment strategy.

1. Introduction

In recent years, as the industry has become increasingly refined and the market has become increasingly competitive, decision-makers have had to return the main body of the business to its most competitive core business. “Refocusing” has gradually become a strategic choice that “diversified” enterprises have to face to solve their development dilemma. Shanxi Ruimei Changlong Biotechnology Co., Ltd. (hereinafter referred to as “Ruimei Bio”) is an enterprise mainly engaged in the research, development, production and sale of products of earthworms. At present, its diversified business model of integrated agro-industrial circular economy involves a long chain and many industries, the benefits of industrial products are often greater than agricultural products, and there is a phenomenon of “industry compensating agriculture” [1], which invariably limits the development process of industrial “coreization and specialization”. Also, diversified enterprises can compete in multiple industries at the same time, but often because of the mismatch between the scale or capacity of agriculture and industry, there are constraints on each other. Therefore, diversified enterprises are strategically downsizing and focusing their resources on the core business of the enterprise, which has become an effective means to solve the current strategic dilemma.

Retrenchment strategy refers to the retreat and contraction of an enterprise from its basic level and strategic business areas, and a business strategy that deviates significantly from its starting strategy [2]. Its purpose is to respond to the current unfavorable situation, aiming at optimizing the enterprise and devoting resources to its core business, preserving its strength in order to develop, and is a strategy of retreating in order to advance. There have been numerous research studies on retrenchment strategy. The retrenchment theory emerged from the global downturn in diversification, and in particular from a review and consideration of excessive and irrelevant diversification. To a certain extent, diversification spreads the level of capital of an enterprise and significantly depletes the "strength" of the enterprise, resulting in a loss of resources that is much higher than the benefits achieved by the enterprise [3]. In this case, tightening business units can significantly reduce the management and coordination costs of enterprises and increase the flexibility of management [4]. It has been shown that divesting non-performing assets and businesses is a better option in terms of management and enterprise operations [5]. The tightening of business segments that are less relevant and contribute little value to the main business is conducive to further enhancing the competitiveness of the core business and is an excellent way for enterprises to get out of trouble and solve their financial burden [6]. Research has focused on the feasibility of a diversified economy, but there is a lack of research on the problems that arise in the operation of such a diversified economy, what adjustments should be made and what strategies should be adopted. Further discussion is needed on the basis of specific cases.

Based on this, this paper fully examines the current situation of the development of Ruimei Bio, discusses the retrenchment strategic adjustment that the enterprise needs to make at this stage, and puts forward the corresponding strategic implementation guarantee measures to help the enterprise change its previous concept, focus on its core business, improve its competitive ability, provide a reference for the next development of the enterprise, and provide ideas for other enterprises caught in the dilemma of diversification.

2. Problems in the Diversification of Ruimei Bio

2.1. Lack of clarity of corporate objectives

Since the establishment of Ruimei Bio in 2017, the goal of the enterprise has been to create profits based on the earthworm industry; With the bullishness of the whole industry, the enterprise has taken it as its goal to build the most complete industrial chain in the earthworm industry at a later stage, gradually developing upstream and downstream businesses, expanding the business segments and using the enterprise's resources for diversified development. The change of enterprise objectives in the short term has not sufficiently assessed the environment in which the enterprise is located, resulting in a large number of funds being taken up by the projects invested in diversification in recent years, but not bringing corresponding benefits to the enterprise, and blind diversification investments have instead brought expansion risks to the enterprise, causing greater financial pressure and deviating the diversification strategy from the development expectations of the enterprise.

2.2. Underdeveloped core business of the enterprise

Diversification should be based on a certain level and scale of the core business, building on the core strengths of the enterprise for value diffusion so that one's previous strengths can be continued in the new environment. The initial construction of Ruimei Bio gained a high level of recognition in the market and grew rapidly. With this good momentum, the shareholders of the enterprise have agreed to expand the earthworm industry chain, shouting the slogan "small earthworms, big industry" and preparing to reap the dividends from the upstream and downstream of earthworm breeding and earthworm fertilizer. The development of diversified

business operations at a time when the industry had not yet gained a firm foothold and the market had not yet formed a scale, which invariably dispersed the relevant resources of the enterprise, and in the face of the ever-technological and refined market competition, the enterprise lost the opportunity to continue to pull away from the industry in terms of R&D and production technology. At the same time, with the intensification of market competition in recent years, various enterprises are speeding up the upgrading of equipment, upgrading the transformation of science and technology, the development of products towards refinement, and the continuous launch of new products. However, apart from packaging updates, Ruimei Bio has not launched a new range of products to meet consumers' increasingly diverse needs. Since then, the development process of the main business on which Ruimei Bio was founded was interrupted, coupled with the rise of other enterprises in the same industry, gradually lost market competitiveness, and the enterprise gradually declined.

2.3. Diversified businesses are not very relevant

The core of Ruimei Bio is production and marketing, and it has expanded its own farming in order to control the quality at source. To make the most of the value of the production by-products, organic fertilizer and agro-tourism have been added, creating a theoretically sound portfolio of industrial chains. In fact, with the current volume of the market, it is far from reaching economies of scale. Ruimei Park is linked to two production and sales enterprises by the earthworm bait. Dairy products and earthworm products belong to different industry sectors, and although the overall scale has been greatly enhanced after the merger, the two enterprises do not have a great correlation in either the production or sales businesses, and synergy effectiveness is difficult to achieve. The development of the organic fertilizer and agricultural planting segments, the direction of segments is completely incompatible with the development of the enterprise, which is a completely new industry for the enterprise and is not related to the production and development of the enterprise, which is excessive diversification. This blind expansion, which occurred during the formative years of Ruimei Bio, took up a lot of the enterprise's resources and to a certain extent sunk its opportunities for growth.

3. Retrenchment Strategy of Ruimei Bio

In the face of the above-mentioned problems in diversification, it is necessary and urgent for Ruimei Bio to implement a retrenchment strategy. This can be done in the following ways:

3.1. Defining enterprise objectives and optimizing corporate strategy

The current diversification strategy of Ruimei Bio has, to a certain extent, restricted the further development of the enterprise. Strategic downsizing is an important direction for the optimization of the current enterprise strategy and an important prerequisite for achieving the enterprise's objectives. On the one hand, in its future development, Ruimei Bio should gradually "refocusing" development, avoiding the capital occupation of ineffective diversification of investment, so that the enterprise goal is in line with the overall interests of the enterprise and development needs, as well as in line with the external environment and future development trends. On the other hand, as a sample of an integrated agro-industrial circular economy, Ruimei Bio has the industrial advantage brought by a complete industrial chain, and the curtailment of part of the business will inevitably frustrate the industrial chain. In order to avoid such risks, it is necessary to seek outsourcing of key business segments and find stable, high-quality strategic suppliers as strategic partners to replace the businesses divested during the implementation of the retrenchment strategy and to ensure the continued stability of production and operation of the enterprise.

3.2. Upgrading technology to focus on core development

The retrenchment strategy requires the enterprise to focus on the development of its core business and make it a unique competitive advantage. To this end, Ruimei Bio needs to upgrade its technology and optimize its products to promote the development of its core business. On the one hand, Ruimei Bio needs to optimize its own products and, first, upgrade its processes. Strengthen cooperation with renowned enterprises and probiotic research institutes to enhance the technology of process proportioning to add taste and nutritional value to dairy products. Next, perform an equipment upgrade. For the processing of the earthworm, we do process verification with related mechanical processing manufacturers, discuss and verify the practicality of the equipment, with a view to updating more advanced and convenient equipment. At the same time, the process is optimized to further improve product quality, increase production capacity, reduce costs and increase efficiency. Finally, accelerate the upgrading and iteration of products. Ruimei Bio should start with the positioning of the market consumer groups, develop the corresponding categories of products for different health claims, and ensure that it is the quality of raw materials and the safety of the process, to ensure green and easy to consume. On the other hand, Ruimei Bio has to strengthen its sales network. First, we should pay attention to the power of the platform to transform upstream and downstream partnerships into product users and promoters. Second, strengthen the training system, develop a training service system specifically to serve the market, strengthen the training and learning of the dealers, sales staff and service personnel, enhance their identification with the enterprise and professional understanding of the product, develop sales capacity, help to incubate the market and reduce the loss of dealers. Third, expand online promotion. Further discover and link sales platforms. Make full use of online platforms for publicity, improve the construction of corporate websites and promote the enterprise as much as possible.

3.3. Divest non-core businesses to enhance business relevance

The implementation of Ruimei Bio's retrenchment strategy required the divestment of non-core businesses. In the whole industrial chain of Rumei Bio, due to the mismatch between the breeding department business and the downstream business, raw materials will be overproduced when the end sales market is weakened. At the same time, the high cost and difficulty of preserving and storing fresh milk and fresh earthworms can cause increased waste of production materials and a shortage of fresh milk and earthworms when market sales are enhanced. Autonomous farming is found not to reduce raw material costs after costing due to unstable capacity demand. Even when feed prices go up, it can cause the cost of the product to be higher than if it were purchased from outside. A comprehensive assessment shows that the agricultural cultivation and breeding segments are high-cost and low-value businesses and should be divested from the business chain to improve the business segment fit and enhance synergistic efficiency. Specifically, Ruimei Bio can divest non-core businesses that are not strategic business segments and important sources of profit in the long term, do not have competitive advantages in the market, do not have long-term development space, and focus on developing core businesses.

4. Safeguards for the Implementation of Ruimei's Retrenchment Strategy

4.1. Building a talent team and optimizing human security

Develop a talent plan according to the development needs of the enterprise, so that the management echelon and research echelon of the enterprise can maintain a sufficient talent advantage. First, establish a talent training system and optimize the structure of talents. Promote management talents to actively further their studies, increase the opportunities for scientific and technical talents to go to other enterprises for exchanges and participate in

industry technical discussions, and implement technical competitions within enterprises. To train a group of teams with both theoretical and practical excellence. Second, improve the treatment of talent. Improve the working and living conditions of the talent team, strengthen communication with them, and solve their working and living needs. Provide a vision platform for outstanding talents and enhance employees' sense of belonging and identity. Finally, improve the performance assessment system and strengthen the talent constraint and incentive mechanisms. Establish a talent assessment mechanism to increase performance incentives for talent. For innovative technology upgrades, solve enterprise problems of technical personnel, give the enterprise honorary title, and increase the amount of reward.

4.2. Optimize organizational structure and form organizational guarantee

With the implementation of the retrenchment strategy, the divestiture of business segments will certainly cause changes in the organizational structure. For the smooth implementation of the strategy, the organizational structure must be flattened to make the management simple and effective. First of all, from the structure to reduce the complicated vertical management system, streamline the departmental hierarchy, business departments directly involved in the specific operation of the company, and functional departments with support; Secondly, strengthen the parallel communication mechanisms of relevant business departments to fully realize horizontal communication quickly and effectively, and reduce layers of approval to improve operational efficiency; Finally, reach consensus on goals. Through training, communication and coordination, the employees can form a common will, and then achieve the same mind and behavior to realize the strategic transformation.

4.3. Accelerate technology enhancement, and strengthen the security of science and technology

The power of science and technology is often able to establish a moat for enterprises to compete in the market and is the first productivity of enterprise development. At present, Ruimei Bio has certain production technology advantages. On this basis, Ruimei Bio should further improve the industrial level and optimize the production process. On the one hand, the enterprise should further increase investment in scientific research, and related production equipment manufacturers and universities and colleges laboratory cooperation, the formation of more scientific research results to improve the core competitiveness of products. Ruimei Bio needs to keep up with market demand, seize market opportunities, create new products that meet market demand, and accelerate the pace of product updates to make the company go better and further. All departments of the park should plan ahead, with precise policies and full services to speed up the pace of technology upgrades for enterprises. On the other hand, build a platform for industry-university-research, and enterprises cooperate extensively with universities and research institutes to jointly build an innovation system for enterprises, universities and research institutes. Form a new pattern of mutual promotion and common development, and strive to achieve a win-win situation for both industry and academia. At the same time, increase the cultivation of core technologies with independent intellectual property rights, do a good job in the declaration of relevant intellectual property rights, if necessary, to purchase the core patents required for the development of enterprises, so that enterprises have more independent intellectual property rights of core technologies and products, and enhance the soft power of science and technology enterprise.

4.4. Reasonable allocation of funds and improved financial security

After the new retrenchment strategy of Ruimei Bio was formulated, the old business was divested, freeing up a significant portion of the capital to be returned to the core business. First, use the funds to enhance process research, development and equipment renewal to develop new product lines and meet market expansion needs. Second, the funds will be used to enhance

the strength of science and technology and the construction of human resources. They will be invested in scientific research funds to carry out projects with universities, colleges and research institutes, so that enterprises have more independent intellectual property rights of core technologies and products to increase the competitiveness of the enterprise. Finally, increase marketing, expand market channels, and give dealers more business support. At the same time, optimizing the prepayment and settlement cycle of goods, shifting from independent breeding of raw materials to purchasing from outside, and more flexible use of funds. Strengthen the market payback mechanism, shorten the payback cycle, provide more generous market support to dealers who remit money in a timely manner, ensure the sufficient capital flow of the enterprise, and increase the capital investment in corporate publicity and marketing.

5. Conclusion

The vigorous development of the market economy has promoted the development of diversified business operations. With the intensification of domestic and international industry competition, all industries are constantly undergoing the "baptism of fire". And diversified enterprises, with many industries and long fronts, often face greater competitive risks and pressures. Enterprises such as Ruimei Bio are expanding in the market advancement and facing the problems of lack of clarity of corporate goals, insufficient development of core business and lack of relevance of diversified business in the fiercely competitive market environment, which should also be a common dilemma faced by diversified enterprises. In this regard, this paper proposes the implementation of a retrenchment strategy to solve the current dilemma faced by Ruimei Bio. Firstly, defining enterprise objectives and optimizing corporate strategy; secondly, upgrading technology to focus on core development; finally, divesting non-core businesses to enhance business relevance. In addition, this paper also proposes a series of guarantee measures for the implementation of the retrenchment strategy, which is helpful to help enterprises tide over the difficulties and build up strength for future development. First, build a team of talents to optimize human security; second, optimize the organizational structure to form organizational security; third, accelerate technological upgrading to strengthen scientific and technological security; fourth, allocate funds reasonably to improve financial security.

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