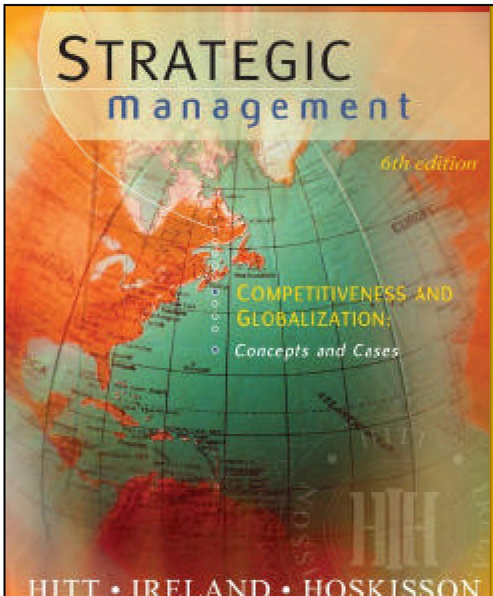
Slide 1



Chapter 6

Corporate-Level Strategy

PowerPoint slides by:
R. Dennis Middlemist
Colorado State University

Slide 2

The Role of Diversification

- Diversification strategies play a major role in the behavior of large firms
- Product diversification concerns:
  - The scope of the industries and markets in which the firm competes
  - How managers buy, create and sell different businesses to match skills and strengths with opportunities presented to the firm

Slide 3

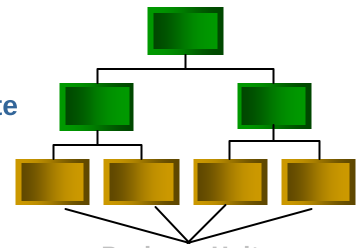
Two Strategy Levels

- Business-level Strategy (Competitive)
  - Each business unit in a diversified firm chooses a business-level strategy as its means of competing in individual product markets
- Corporate-level Strategy (Companywide)
  - Specifies actions taken by the firm to gain a competitive advantage by selecting and managing a group of different businesses competing in several industries and product markets

Slide 4

Corporate-Level Strategy: Key Questions

- **Corporate-level Strategy's Value**
  - **The degree to which the businesses in the portfolio are worth more under the management of the company than they would be under other ownership**
  - **What businesses should the firm be in?**
  - **How should the corporate office manage the group (portfolio) of businesses?**



 6–4

Slide 5

Balancing Financial Resources: Portfolio Techniques

BCG Growth-Share Matrix

Industry Attractiveness-Business Strength Matrix

Life Cycle-Competitive Strength Matrix

 6–5

Slide 6

BCG Growth-Share Matrix

Cash Use (Growth Rate)	Cash Generation (Market Share): High	Cash Generation (Market Share): Low
High	Star	Problem Child
Low	Cash Cow	Dog

Description of Dimensions

Market Share: Sales relative to those of other competitors in market (dividing point is usually selected to have only 2-3 largest competitors in any market fall into high market share region)

Growth Rate: Industry growth rate in constant dollars (dividing point is typically GNP's growth rate)

 6–6

Slide 7

Factors Considered in Constructing an Industry Attractiveness-Business Strength Matrix

Industry Attractiveness Factors

Nature of Competitive Rivalry	Bargaining Power of Suppliers/Customers	Threat of Substitutes/ New Entrants
• Number of competitors • Size of competitors • Strength of competitors' corporate parents • Price wars • Competition on multiple dimensions	• Relative size of typical players • Numbers of each • Importance of purchases from or dales to • Ability to vertically integrate	• Technological maturity/stability • Diversity of the market • Barriers to entry • Flexibility of distribution system

Slide 8

Factors Considered in Constructing an Industry Attractiveness-Business Strength Matrix (continued)

Industry Attractiveness Factors

Economic Factors	Financial Norms	Sociopolitical Considerations
• Sales volatility • Cyclicality of demand • Market growth • Capital intensity	• Average profitability • Typical leverage • Credit practices	• Government regulation • Community support • Ethical standards

Slide 9

Factors Considered in Constructing an Industry Attractiveness-Business Strength Matrix (continued)

Business Strength Factors

Cost Position	Level of Differentiation	Response Time
• Economies of scale • Manufacturing costs • Overhead • Scrap/waste/rework • Experience effects • Labor rates • Proprietary processes	• Promotion effectiveness • Product quality • Company image • Patented products • Brand awareness	• Manufacturing flexibility • Time needed to introduce new products • Delivery times • Organizational flexibility

Slide 10

Factors Considered in Constructing an Industry Attractiveness-Business Strength Matrix (concluded)

Business Strength Factors

Financial Strength	Human Assets	Public Approval
• Solvency • Liquidity • Break-even point • Cash flows • Profitability • Growth in revenues	• Turnover • Skill level • Relative wage/salary • Morale • Managerial commitment • Unionization	• Goodwill • Reputation • Image

Slide 11

Industry Attractiveness-Business Strength Matrix

Industry Attractiveness

Business Strength	High	Medium	Low
High	Invest	Selective Growth	Grow or Let Go
Medium	Selective Growth	Grow or Let Go	Harvest
Low	Grow or Let Go	Harvest	Divest

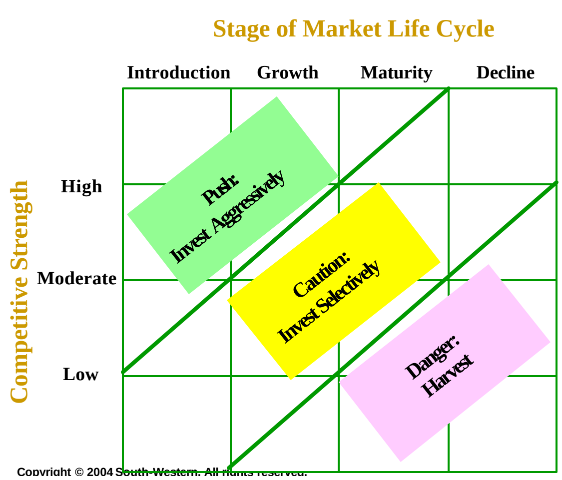
Description of Dimensions

Industry Attractiveness: Subjective assessment based on broadest possible range of external opportunities and threats beyond control of management

Business Strength: Subject assessment of how strong a competitive advantage is created by a broad range of a firm's internal strengths and weaknesses

Slide 12

Market Life Cycle-Competitive Strength Matrix



Description of Dimensions

Stage of Market Life Cycle: See page 184

Competitive Strength: Overall subjective rating, based on wide range of factors regarding likelihood of gaining and maintaining a competitive advantage

Slide 13

Contributions of Portfolio Approaches

- Convey large amounts of information about diverse businesses and corporate plans in a simplified format
- Illuminate similarities and differences among businesses, conveying the logic behind corporate strategies for each business
- Simplify priorities for sharing corporate resources across diverse businesses
- Provide a simple prescription of what should be accomplished - a balanced portfolio of businesses

Slide 14

Limitations of Portfolio Approaches

- Does not address how value is created across business units
- Accurate measurement for matrix classification not as easy as matrices implied
- Underlying assumption about relationship between market share and profits varies across different industries and market segments
- Limited strategic options viewed as basic strategic missions
- Portrays notion that firms need to be self-sufficient in capital
- Fails to compare competitive advantage a business receives from being owned by a particular company with costs of owning it

Slide 15

Types of Corporate & Grand Strategies

Concentrated Growth	Conglomerate Diversification
Market Development	Turnaround
Product Development	Divestiture
Innovation	Liquidation
Horizontal Integration	Bankruptcy
Vertical Integration	Joint Ventures
Concentric Diversification	Strategic Alliances

Consortia

Slide 16

Characteristics of a Concentrated Growth Strategy

- **Involves *focusing resources* on the profitable growth of a single product, in a single market, with a single dominant technology**
- ***Rationale* - Firm develops and exploits its expertise in a delimited competitive arena**
- ***Determinants* of competitive market *success***
  - **Ability to assess market needs**
  - **Knowledge of buyer behavior**
  - **Customer price sensitivity**
  - **Effectiveness of promotion**

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Conditions Favoring a Concentrated Growth Strategy

- **Firm's industry is resistant to major technological advancements**
- **Firm's targeted markets are not product saturated**
- **Firm's markets are sufficiently distinctive to dissuade competitors in adjacent markets from entering firm's segment**
- **Firm's inputs are stable in price and quantity and available in amounts and at times needed**
- **Firm's industry is stable**
- **Firm's competitive advantages are based on efficient production or distribution channels**
- **Success of market generalists**

Slide 18

Strategies of Market and Product Development

- **Market development**
  - **Consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by**
    - **Adding channels of distribution or**
    - **Changing content of advertising or promotion**
- **Product development**
  - **Involves substantial modification of existing products or creation of new but related products**
  - **Based on penetrating existing markets by**
    - **Incorporating product modifications into existing items or**
    - **Developing new products connected to existing products**

Slide 19

Specific Options for Selected Grand Strategies

Concentration: Increasing use of present products in present markets

1. Increasing present customers' rate of use:
   a. Increasing size of purchase
   b. Increasing rate of product obsolescence
   c. Advertising other uses
   d. Giving price incentives for increased use
2. Attracting competitors' customers
   a. Establishing sharper brand differentiation
   b. Increasing promotional effort
   c. Initiating price cuts
3. Attracting nonusers to buy the product
   a. Inducing trial use through sampling, price incentives, and so on
   b. Pricing up or down
   c. Advertising new uses

Slide 20

Specific Options for Selected Grand Strategies (continued)

Market Development: Selling present products in new markets

1. Opening additional geographic markets
   a. Regional expansion
   b. National expansion
   c. International expansion
2. Attracting other market segments
   a. Developing product versions to appeal to other segments
   b. Entering other channels of distribution
   c. Advertising in other media

Slide 21

Specific Options for Selected Grand Strategies (concluded)

Product Development: Developing new products for present markets

1. Developing new product features
   a. Adapt (to other ideas, developments)
   b. Modify (change color, motion, sound, odor, form, shape)
   c. Magnify (stronger, longer, thicker, extra value)
   d. Minify (smaller, shorter, ligher
   e. Substitute (other ingredients, process, power)
   f. Rearrange (other patterns, layout, sequence, components)
   g. Reverse (inside out)
   h. Combine (blend, alloy, assortment, ensemble; combine units, purposes, appeals, ideas)
2. Developing quality variations
3. Developing additional models and sizes (product proliferation)

Slide 22

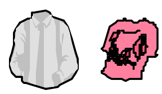
Strategies of Horizontal and Vertical Integration

- **Horizontal integration**
  - **Based on *growth via acquisition* of one or more similar firms operating at the same stage of the production-marketing chain**
  - **Involves eliminating competitors, providing acquiring firm with access to new markets**
- **Vertical integration**
  - **Involves acquiring firms**
    - **To supply acquiring firm with inputs - *backward* integration or**
    - **Are customers for firm's outputs - *forward* integration**

Slide 23

Vertical and Horizontal Integrations

Textile producer	↔	**Textile producer**
↕		↕
Shirt manufacturer	↔	**Shirt manufacturer**
↕		↕
Clothing store	↔	**Clothing store**



↕ **Acquisitions or mergers of suppliers or customer businesses are *vertical integrations***

↔ **Acquisitions or mergers of competing businesses are *horizontal integrations***

Slide 24

Motivations Related to Diversification Strategies

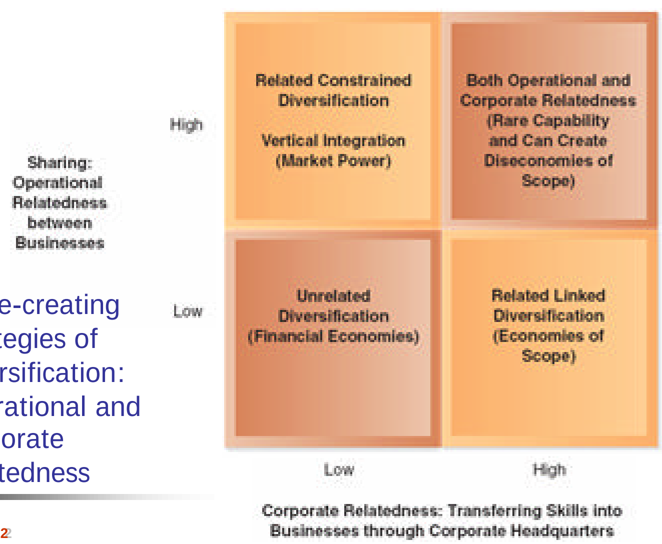
- **Increase firm's stock value**
- **Increase growth rate of firm**
- **Investment is better use of funds than using them for internal growth**
- **Improve stability of earnings and sales**
- **Balance or fill out product line**
- **Diversify product line**
- **Acquire a needed resource quickly**
- **Achieve tax savings**
- **Increase efficiency and profitability**

Slide 25

Diversification Strategies

- **Concentric diversification**
  - **Involves acquisition of businesses** *related* **to acquiring firm in terms of technology, markets, or products**
- **Conglomerate diversification**
  - **Involves acquisition of a business because it represents a promising** *investment opportunity*
  - **Primary motivation is profit pattern of venture**
- **Difference between the approaches**
  - **Concentric diversification emphasizes** *commonality* **whereas conglomerate diversification emphasizes** *profits* **for each individual unit**

Slide 26



Value-creating Strategies of Diversification: Operational and Corporate Relatedness

Figure 6.2

Slide 27

Related Diversification

- **Firm creates value by building upon or extending its:**
  - **Resources**
  - **Capabilities**
  - **Core competencies**
- **Economies of scope**
  - **Cost savings that occur when a firm transfers capabilities and competencies developed in one of its businesses to another of its businesses**

Slide 28

The Curvilinear Relationship between Diversification and Performance

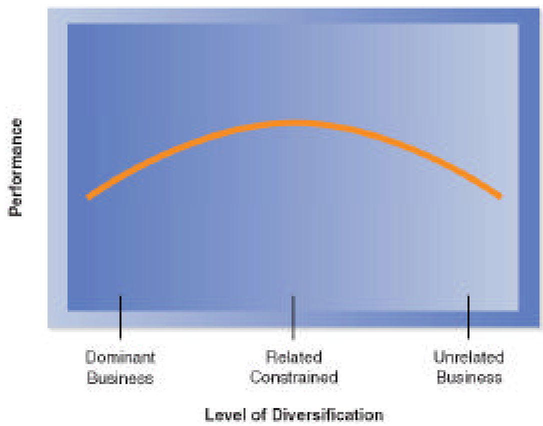


Figure 6.3

Slide 29

Resources and Diversification

- **A firm must have both:**
  - **Incentives to diversify**
  - **Resources required to create value through diversification**
    - **Cash**
    - **Tangible resources (e.g., plant and equipment)**
- **Value creation is determined more by appropriate use of resources than by incentives to diversify**

Slide 30

Summary Model of the Relationship between Firm Performance and Diversification

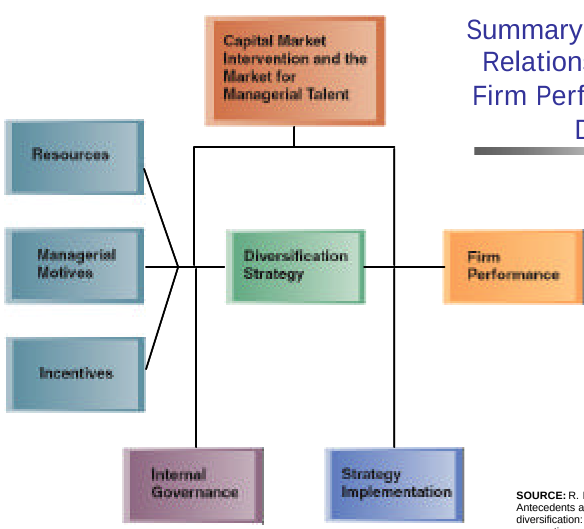


Figure 6.4

SOURCE: R. E. Hoskisson & M. A. Hitt 1990, Antecedents and performance outcomes of diversification: A review and critique of theoretical perspectives, *Journal of Management,* 16: 498.