Chapter 6
Corporate-Level Strategy

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

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
**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?

**Balancing Financial Resources: Portfolio Techniques**

- **BCG Growth-Share Matrix**
- **Industry Attractiveness-Business Strength Matrix**
- **Life Cycle-Competitive Strength Matrix**

**BCG Growth-Share Matrix**

<table>
<thead>
<tr>
<th>Cash Generation (Market Share)</th>
<th>Description of Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Cash Use (Growth Rate)</td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Star</td>
<td>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)</td>
</tr>
<tr>
<td>Problem Child</td>
<td>Growth Rate: Industry growth rate in constant dollars (dividing point is typically GNP’s growth rate)</td>
</tr>
<tr>
<td>Cash Cow</td>
<td></td>
</tr>
<tr>
<td>Dog</td>
<td></td>
</tr>
</tbody>
</table>

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## Factors Considered in Constructing an Industry Attractiveness-Business Strength Matrix

### Industry Attractiveness Factors

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

### Industry Attractiveness Factors (continued)

<table>
<thead>
<tr>
<th>Economic Factors</th>
<th>Financial Norms</th>
<th>Sociopolitical Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volatility</td>
<td>Average profitability</td>
<td>Government regulation</td>
</tr>
<tr>
<td>Cyclicality of demand</td>
<td>Typical leverage</td>
<td>Community support</td>
</tr>
<tr>
<td>Market growth</td>
<td>Credit practices</td>
<td>Ethical standards</td>
</tr>
<tr>
<td>Capital intensity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Business Strength Factors

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

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

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

Industry Attractiveness-Business Strength Matrix

<table>
<thead>
<tr>
<th>Industry Attractiveness</th>
<th>Description of Dimensions</th>
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<tbody>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Invest</td>
<td>Subjective assessment</td>
</tr>
<tr>
<td>Selective Growth</td>
<td>based on broadest</td>
</tr>
<tr>
<td>Grow or Let Go</td>
<td>possible range of</td>
</tr>
<tr>
<td></td>
<td>external opportunities</td>
</tr>
<tr>
<td></td>
<td>and threats beyond</td>
</tr>
<tr>
<td></td>
<td>control of management</td>
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</tbody>
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Business Strength Factors

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<th>Description of Dimensions</th>
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<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Invest</td>
<td>Competitive advantage</td>
</tr>
<tr>
<td>Selective Growth</td>
<td>created by a firm’s</td>
</tr>
<tr>
<td>Grow or Let Go</td>
<td>internal strengths and</td>
</tr>
<tr>
<td>Harvest</td>
<td>weaknesses</td>
</tr>
</tbody>
</table>

Market Life Cycle-Competitive Strength Matrix

<table>
<thead>
<tr>
<th>Stage of Market Life Cycle</th>
<th>Description of Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>Low</td>
</tr>
<tr>
<td>Growth</td>
<td>Moderate</td>
</tr>
<tr>
<td>Maturity</td>
<td>High</td>
</tr>
<tr>
<td>Decline</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Competitive Strength</th>
<th>Description of Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Dull</td>
</tr>
<tr>
<td>Invest</td>
<td>Competitive advantage</td>
</tr>
<tr>
<td>Moderate</td>
<td>Cadet</td>
</tr>
<tr>
<td>Low</td>
<td>Danger</td>
</tr>
<tr>
<td>Harvest</td>
<td></td>
</tr>
</tbody>
</table>
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

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

Types of Corporate & Grand Strategies

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

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

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
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

## 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

## 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, lighter)
   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)
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*

Vertical and Horizontal Integrations

- **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
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

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**Figure 6.2**

Value-creating Strategies of Diversification: Operational and Corporate Relatedness

- Related Constrained Diversification
- Both Operational and Corporate Relatedness (Rare Capability and Can Create Diseconomies of Scope)
- Unrelated Diversification (Financial Economies)
- Related Linked Diversification (Economies of Scope)

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**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
The Curvilinear Relationship between Diversification and Performance

![Graph showing the curvilinear relationship between diversification and performance.](image)

**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**

**Summary Model of the Relationship between Firm Performance and Diversification**

![Summary model diagram](image)