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

Mergers, Acquisitions, and Takeovers: What are the Differences?

- **Merger**
  - A strategy through which two firms agree to integrate their operations on a relatively co-equal basis

- **Acquisition**
  - A strategy through which one firm buys a controlling, or 100% interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio

- **Takeover**
  - A special type of acquisition when the target firm did not solicit the acquiring firm’s bid for outright ownership
Reasons for Acquisitions and Problems in Achieving Success

Adapted from Figure 7.1

Adapted from Figure 7.1

Slides 4 to 6

Acquisitions: Increased Market Power

- **Factors increasing market power**
  - When there is the ability to sell goods or services above competitive levels
  - When costs of primary or support activities are below those of competitors
  - When a firm’s size, resources and capabilities gives it a superior ability to compete

- **Acquisitions intended to increase market power are subject to:**
  - Regulatory review
  - Analysis by financial markets

Acquisitions: Increased Market Power (cont’d)

- **Market power is increased by:**
  - Horizontal acquisitions
  - Vertical acquisitions
  - Related acquisitions
    - Concentric diversification

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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

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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*

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Acquisitions: Overcoming Entry Barriers

- Factors associated with the market or with the firms currently operating in it that increase the expense and difficulty faced by new ventures trying to enter that market
  - Economies of scale
  - Differentiated products

- Cross-Border Acquisitions
Acquisitions: Cost of New-Product Development and Increased Speed to Market

- **Internal development of new products is often perceived as high-risk activity**
  - Acquisitions allow a firm to gain access to new and current products that are new to the firm
  - Returns are more predictable because of the acquired firms’ experience with the products

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Acquisitions: Lower Risk Compared to Developing New Products

- An acquisition’s outcomes can be estimated more easily and accurately than the outcomes of an internal product development process
- Managers may view acquisitions as lowering risk

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Reasons for Acquisitions and Problems in Achieving Success

- Too large
- Managers overly focused on acquisitions
- Too much diversification
- Inadequate evaluation of target
- Large or extraordinary debt
- Inability to achieve synergy
- Integration difficulties

Adapted from Figure 7.1

Adapted from Figure 7.1
Restructuring

• A strategy through which a firm changes its set of businesses or financial structure
  ➢ Failure of an acquisition strategy often precedes a restructuring strategy
  ➢ Restructuring may occur because of changes in the external or internal environments

• Restructuring strategies:
  ➢ Downsizing
  ➢ Downscoping
  ➢ Leveraged buyouts

Types of Restructuring: Downsizing

• A reduction in the number of a firm’s employees and sometimes in the number of its operating units
  ➢ May or may not change the composition of businesses in the company’s portfolio

• Typical reasons for downsizing:
  ➢ Expectation of improved profitability from cost reductions
  ➢ Desire or necessity for more efficient operations
Types of Restructuring: Downscoping

- A divestiture, spin-off or other means of eliminating businesses unrelated to a firm’s core businesses
- A set of actions that causes a firm to strategically refocus on its core businesses
  - May be accompanied by downsizing, but not eliminating key employees from its primary businesses
  - Firm can be more effectively managed by the top management team

Divestiture and Liquidation Strategies

- Divestiture strategy
  - Involves selling a firm or a major component of a firm
  - Reasons for divestiture
    - Partial mismatches between acquired firm and parent firm
    - Corporate financial needs
    - Government antitrust action

- Liquidation strategy
  - Involves selling parts of a firm, usually for its tangible asset value and not as a going concern

The Strategy of Bankruptcy

- Two approaches
  - Liquidation - Involves complete distribution of a firm’s assets to creditors, most of whom receive a small fraction of amount owed
  - Reorganization - Involves creditors temporarily freezing their claims while a firm reorganizes and rebuilds its operations more profitably

- Advantage of a reorganization bankruptcy
  - Proactive option offering maximum repayment of a firm’s debt in the future if a recovery strategy is successful
Restructuring: Leveraged Buyouts

- A restructuring strategy whereby a party buys all of a firm’s assets in order to take the firm private
  - Significant amounts of debt are usually incurred to finance the buyout
- Can correct for managerial mistakes
  - Managers making decisions that serve their own interests rather than those of shareholders
- Can facilitate entrepreneurial efforts and strategic growth

Restructuring and Outcomes

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Short-Term Outcomes</th>
<th>Long-Term Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downsize</td>
<td>Reduced labor costs</td>
<td>Loss of human capital</td>
</tr>
<tr>
<td>Downscope</td>
<td>Reduced debt costs</td>
<td>Lower performance</td>
</tr>
<tr>
<td>Leveraged buyout</td>
<td>Emphasis on strategic controls</td>
<td>Higher performance</td>
</tr>
<tr>
<td></td>
<td>High debt costs</td>
<td>Higher risk</td>
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A Model of the Turnaround Process
Grand Strategy Selection Matrix

Overcome weaknesses

Internal (redirected resources within the firm)
- Turnaround or retrenchment
- Divestiture
- Liquidation

II

III

External (acquisition or merger for resource capability)
- Vertical integration
- Conglomerate diversification

I

IV

Maximize strengths

Concentrated growth
- Market development
- Product development
- Innovation

Horizontal integration
- Concentric diversification
- Joint venture

Model of Grand Strategy Clusters

Rapid market growth
1. Concentrated growth
2. Vertical integration
3. Concentric diversification

Strong competitive position
1. Concentric diversification
2. Conglomerate diversification
3. Joint venture

Weak competitive position
1. Turnaround or retrenchment
2. Concentric diversification
3. Conglomerate diversification
4. Divestiture
5. Liquidation

Slow market growth