**Theme:** 1.

**Reading:** The Enduring Logic Of Industrial Success

**Author:** A. D. Chandler.

**The Logic**

Basis: Economics.

-Economies of scale and scope.

-Lower A.C by increasing scale.

-Similar products/inputs/half-finished goods to sell.

*\*Cost advantages can only be maximised when flows of inputs and outputs are maximised.*

**Three-Pronged Investment**

1. Production → Scale/Scope.

2. Lower/Middle Management → Manage flows: Sales/Distribution Network.

3. Top Management → Monitor operations.

Plan for future.

Allocate resources.

***\*First movers/Competition***

\* Firms that make the three-pronged investment first gain significant market dominance which is very difficult for competitors to regain despite comparative advantages.

***Examples:***

Chemicals: Perkin (UK) vs. Bayer (GER)

Bayer won because: -Invested first: Leverkusen plant. 20,000 customers.

*\* Despite Perkin having comparative advantages of coal and nearby textile industries to supply.*

Computers: I.B.M: -Invested heavily and gained market control.

Other Electronics firms: -Diversified too much to focus on computer production.

Japanese firms: -Made semiconductors and sold them, cost advantages plus extra revenue.

**Problems With Size**

-Diversification into unrelated industries without appropriate experience or existing structures.

E.g. In 1960’s poor diversification occurred.

Causes: -Build-up of pressure: Wars, Depression, Wall Street Crash.

-American complacency before the European/Japanese challenge.

**Diversification**

-1960’s style diversification occurred increasingly.

-Corporate offices separated from divisions.

-Mergers/Acquisitions boom led to buying/selling of corporations on the stock exchange.

**Restructuring**

-Facilitated by Acquisition phase.

-Chemical Industries: -Focused on high added-value products.

-Economies of scope.