

EXC3505 – Strategy

Week 8 Corporate Strategy

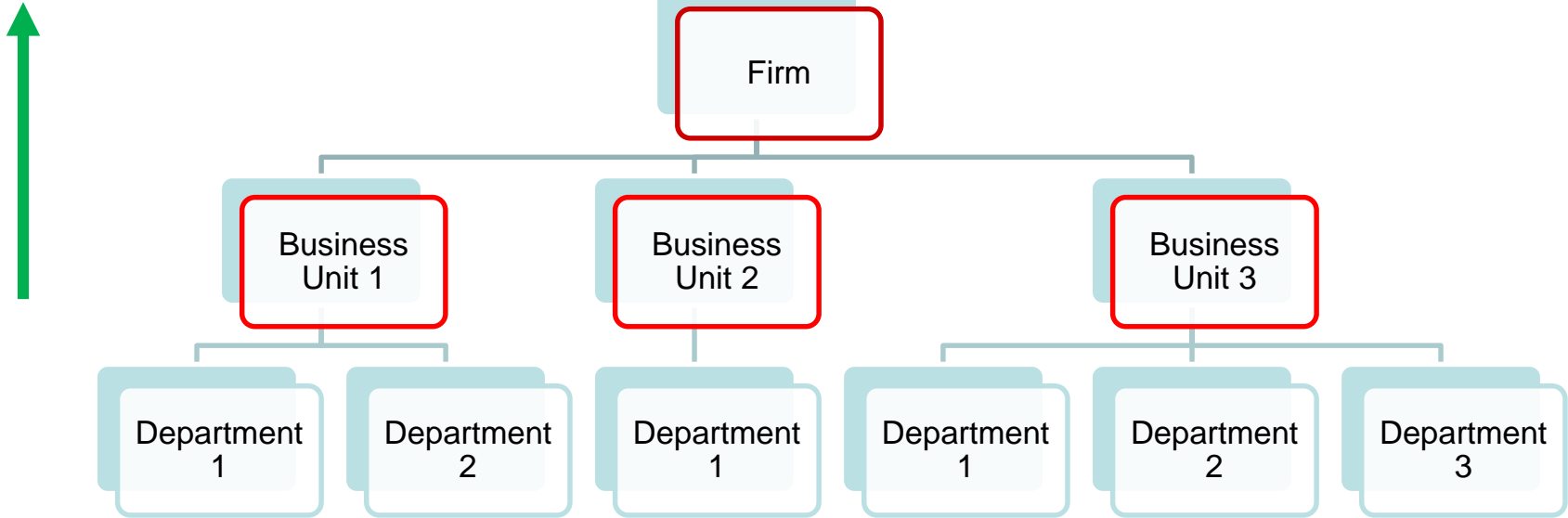
Term paper and video

Term paper: please see term paper guideline on Itslearning

Video: please see info outlined in the last 10 slides

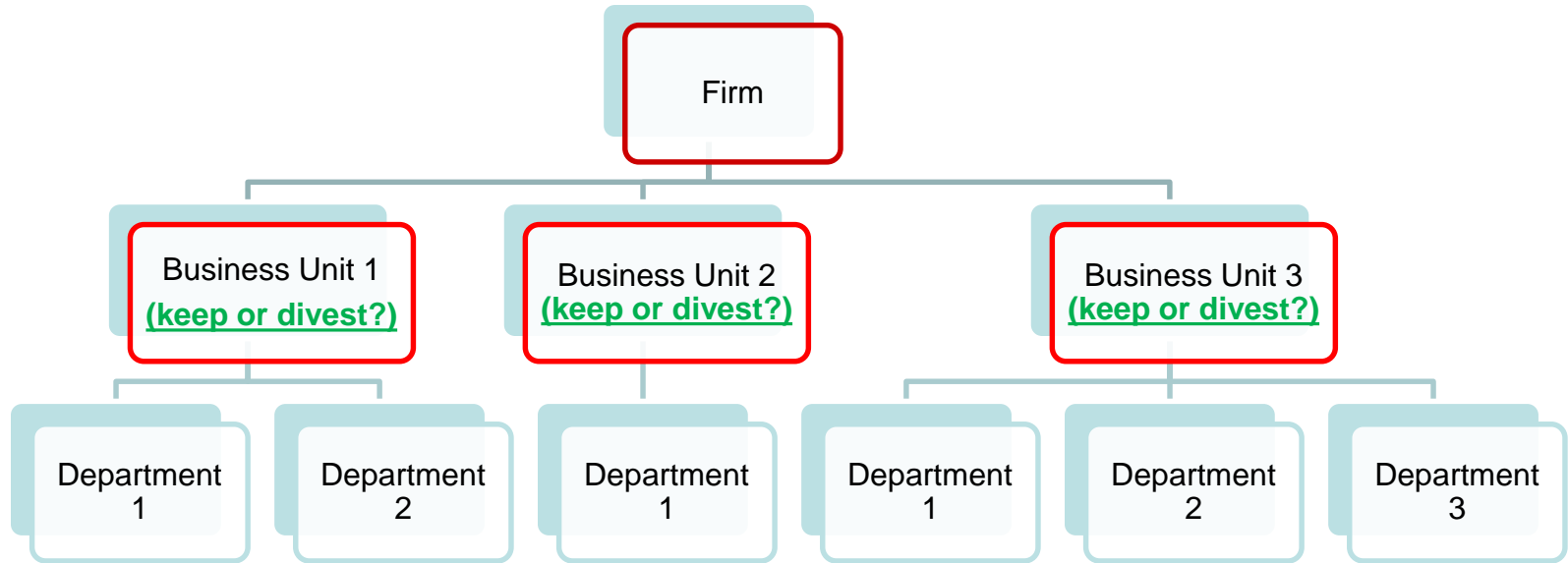
- Max 10 minutes
- Hand-in via memory sticks
 - Let me know if you need help with memory sticks

So far, performance optimization



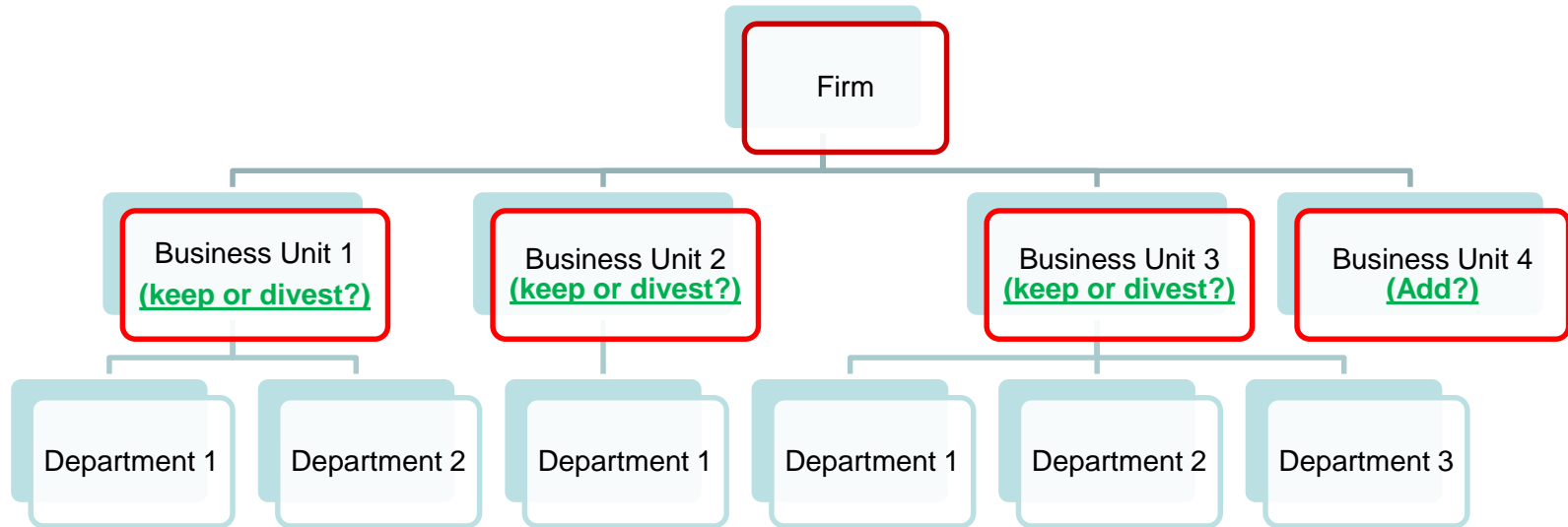
Today, corporate strategy

Corporate portfolio management



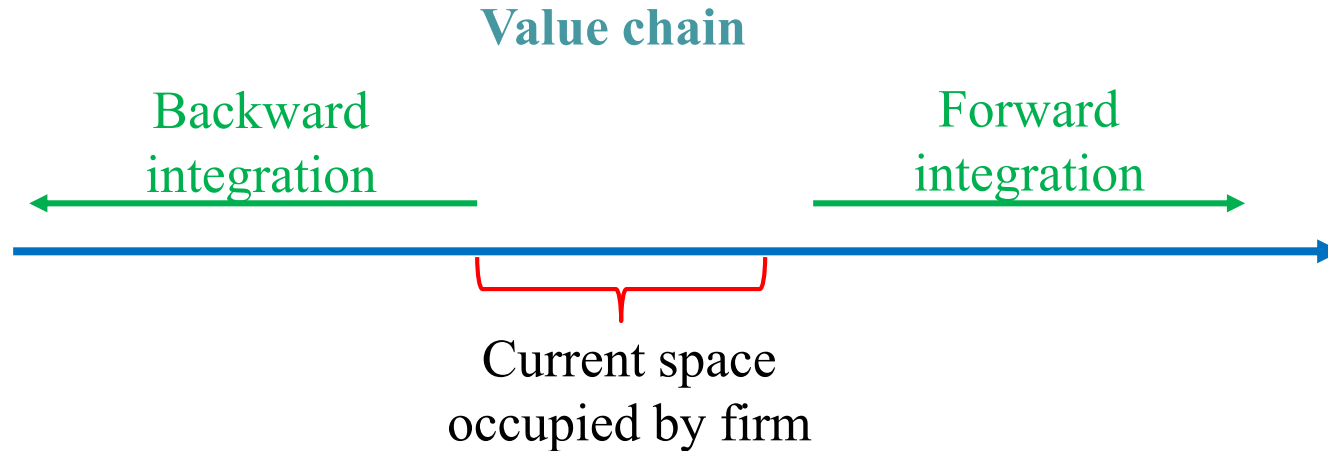
Today, corporate strategy

Corporate portfolio management

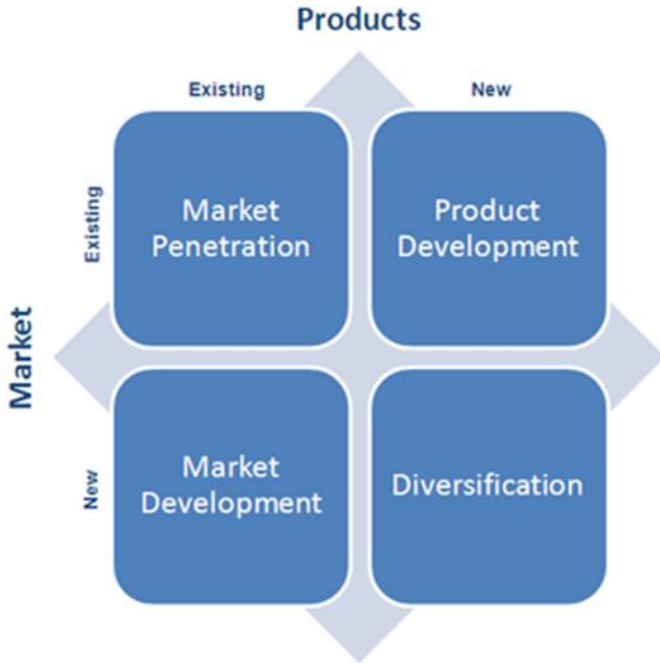


Today, corporate strategy

Corporate strategy is related to Transaction Cost Economics (TCE)



Today, corporate Strategy



Corporate scope

- **Product**
- **Market**

Existing

Product : aluminum

Market : beverage packaging

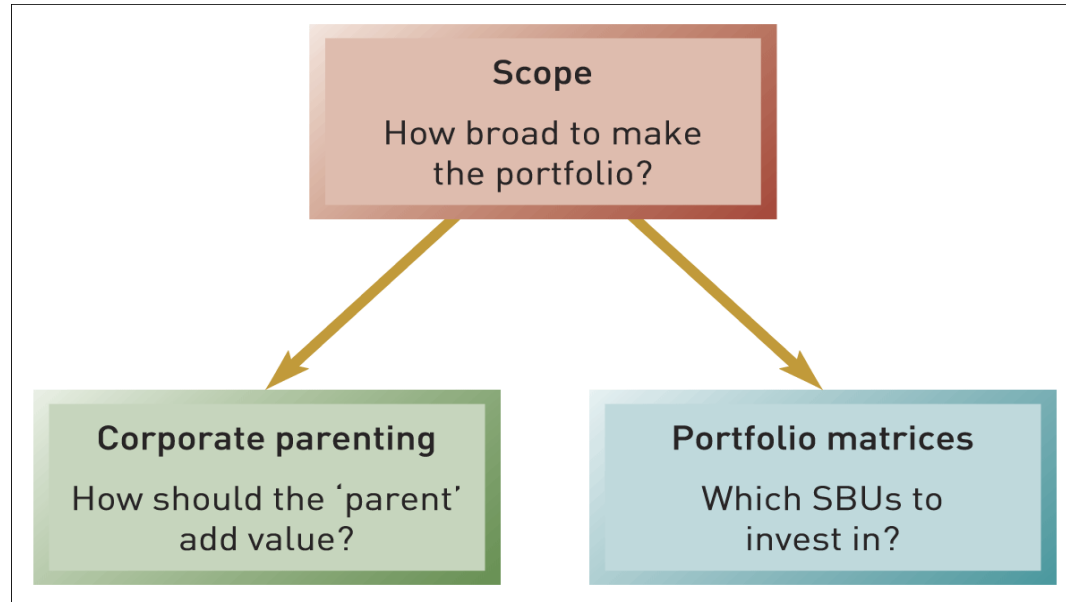
New

Product: (food-grade) plastics

Market: aircraft construction

Today, corporate Strategy

Corporate portfolio management



Corporate Strategy Directions



1. Market penetration

Increasing share of current markets with the current product range



Existing

Product : aluminum

Market : beverage packaging

New

Product: (food-grade) plastics

Market: aircraft construction

1. Market penetration

Increasing share of current markets
with the current product range

- Pepsi's new generation campaign
- <https://www.youtube.com/watch?v=po0jY4WvC1c>

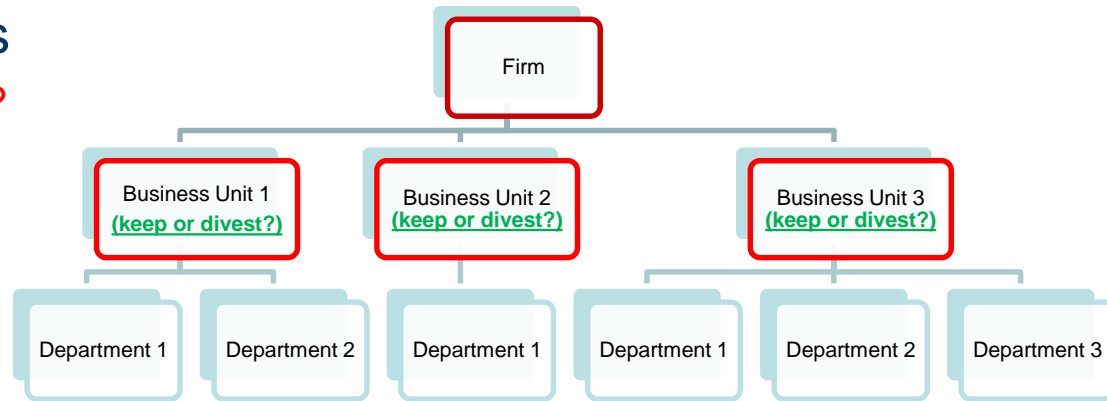


1. Market penetration

Increasing share of current markets with the current product range

Concerns:

- Retaliation from competitors
 - How to address this concern?
- Legal constraints
- Economic constraints
 - Retrenchment

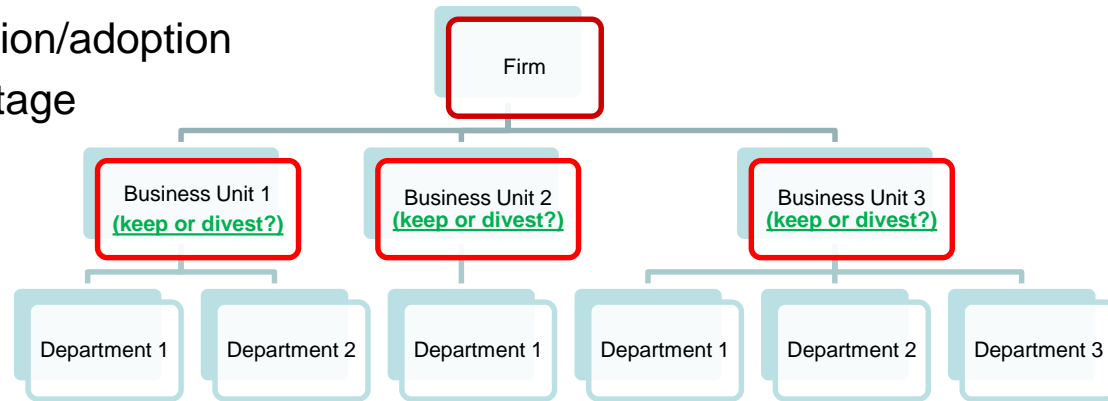


1. Market penetration

Increasing share of current markets with the current product range

Concerns:

- Retaliation from competitors
 - Quick & lasting product diffusion/adoption
 - Your competitive advantage
 - Switching cost
 - Acquire your competitor
- Legal constraints
- Economic constraints
 - Retrenchment



2. Product Development

Delivering modified or new products (or services) to existing markets

- Target the same customers
- Sell them more

Any examples you can think of?

iOs Devices



iPod Touch



iPhone



iPad

www.TheBookDesigner.com

2. Product Development

Delivering modified or new products (or services) to existing markets



2. Product Development

Delivering modified or new products (or services) to existing markets

- Target the same customers
- Sell them more

Any difficulties?

iOs Devices



iPod Touch



iPhone



iPad

www.TheBookDesigner.com

2. Product Development

Delivering modified or new products (or services) to existing markets

Issues:

- **Project management risk**
 - Whether will be successful
 - When will finish
 - What new capabilities will be needed
 - ...



3. Market Development

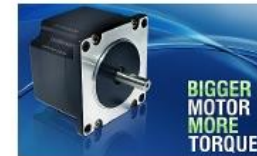
Offering existing products to new markets

- New users



Features (Mica)

- Fully enclosed laser machine cabinet on casters provides convenience and safety
- Flying optic motion with kevlar belts for fast laser engraving, cutting, and marking
- Windows Print driver works from any Windows based design software enabling choosing engraving like a printer! Simplified user popup allows quick laser settings.
- Integrated exhaust removes smoke and fumes providing a safe and clean environment.
- Bell Super-Stepper™ motors with oversized power provide most accurate placement.
- Red Pointer facilitates job positioning
- Your choice of cutting tables at time of purchase with no extra charge.
- Warranty: 2 year warranty



3. Market Development

Offering existing products to
new markets

- New users



3. Market Development

Offering existing products to
new markets

- New users

Any difficulties?



3. Market Development

Offering existing products to
new markets

- New geographies



3. Market Development

Offering existing products to
new markets

- New geographies



3. Market Development

Offering existing products to
new markets

- New geographies

Issues:

- Requires new capabilities
- Coordination across geographies



4. Diversification

Offering new products in new markets

- **Related Diversification:**

- Expanding into products or services with relationships to the existing business

- **Unrelated (Conglomerate) diversification:**

- Expanding into products or services with no relationships to existing businesses

4. Diversification

Related Diversification:

- New products or services with relationships to the existing business



4. Diversification

Unrelated (Conglomerate) diversification:

- New products or services with no relationships to existing businesses
- Virgin Records → Virgin Atlantic



4. Diversification

Offering new products in new markets

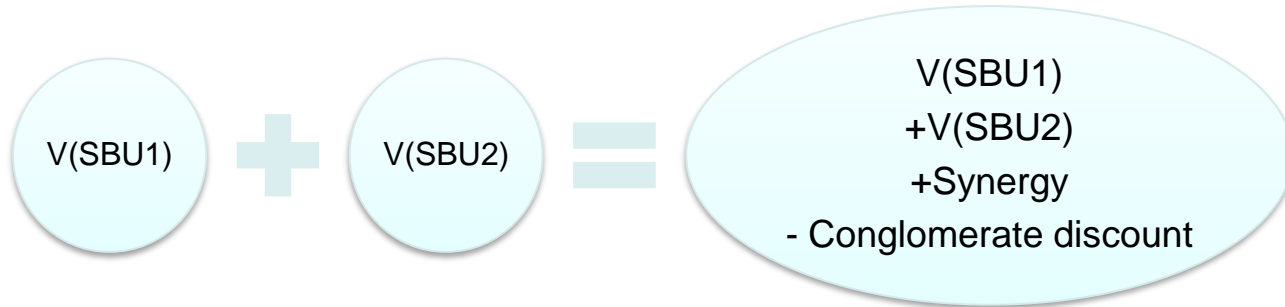
- **Unrelated (Conglomerate) diversification**
 - How do you like unrelated diversification?

4. Diversification

Offering new products in new markets

- **Unrelated (Conglomerate) diversification**

- Conglomerate discount
- Virgin records was sold shortly after establishing Virgin Atlantic!



Corporate Strategies: An Exercise



Corporate Strategies: An Exercise



Corporate Strategies: An Exercise



Corporate Strategies: An Exercise



Corporate Strategies: An Exercise



Existing

Market

New

Existing

Market Penetration



Market Development



Product

Product Development



Related
Diversification



Unrelated
Diversification

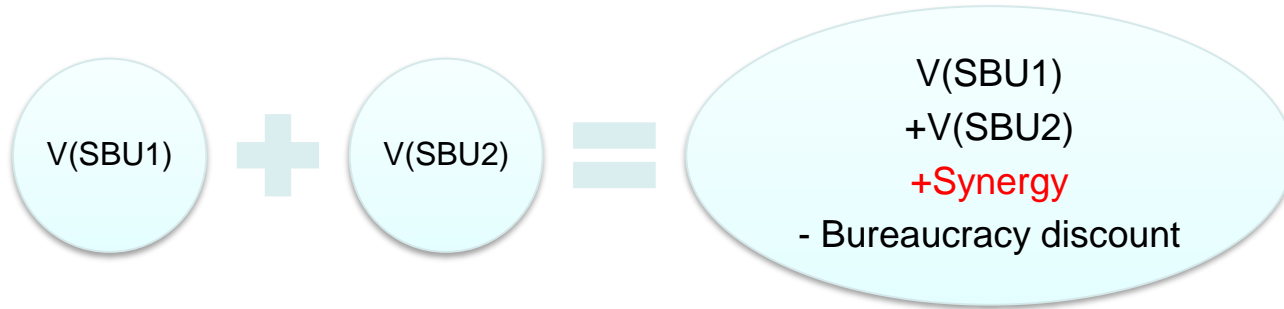


New

Why would firms diversify?



- Synergy: $1+1>2$



Why would firms diversify?



Exploiting economies of scope

- Efficiency gains by applying firms' resources or competences to new market or services

Any examples you have in mind?





Why would firms diversify?

Exploiting economies of scope

- Efficiency gains by applying firms' resources or competences to new market or services

Example

- Airline club membership
 - Economies of scope
 - Economies of scale
 - Why?



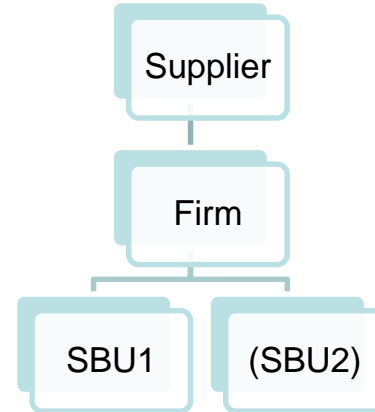
Why would firms diversify?

Exploiting superior internal processes

- Especially likely to occur in developing countries
- External market failures

Increasing market power

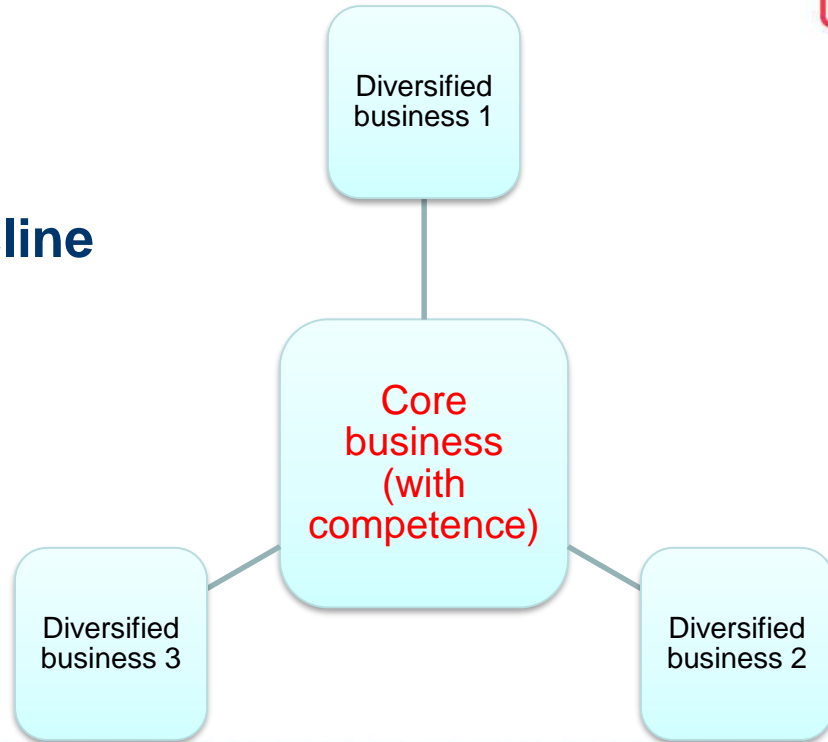
- Mutual forbearance
- Possibility of subsidies across SBUs
- Etc.



Why would firms diversify?



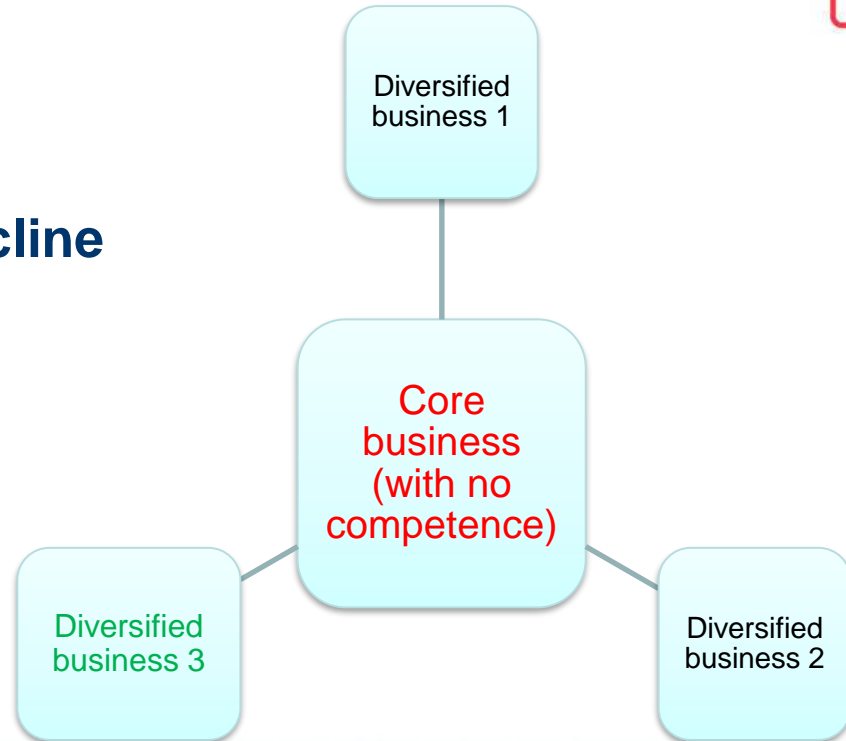
- Responding to market decline



Why would firms diversify?



- Responding to market decline



BAD



Why would firms diversify?

Spreading risk (*works great in Finance!*)

- Systematic risk: risks that affect all firms
 - Economic recession; trade war
- Non-systematic risk: firm-specific risks
 - Too much rain is bad for sunscreen producers
 - Too much rain is good for umbrella producers
- Firm portfolio includes *uncorrelated* assets could diversify away non-systematic risk
 - Sunscreen+umbrella
 - Sunscreen+ice cream



Harry Markowitz
Nobel Prize in Economics
(1990)

BAD



Why would firms diversify?

Spreading risk

- Stems from Finance
- *Works great in Finance*
 - No asset managers can beat the market!
- Does not work in Management
 - Neglects management issues!



Harry Markowitz
Nobel Prize in Economics
(1990)

BAD



Why would firms diversify?

Managerial ambition

- China's LeEco
- Online streaming service
- Electric cars
- Video games
- Smart phones
- Smart TV
- ...

NIKKEI ASIAN REVIEW

Editor's Picks Business ▾ Asia300 Politics Economy Opinion Life & Arts

COMPANIES

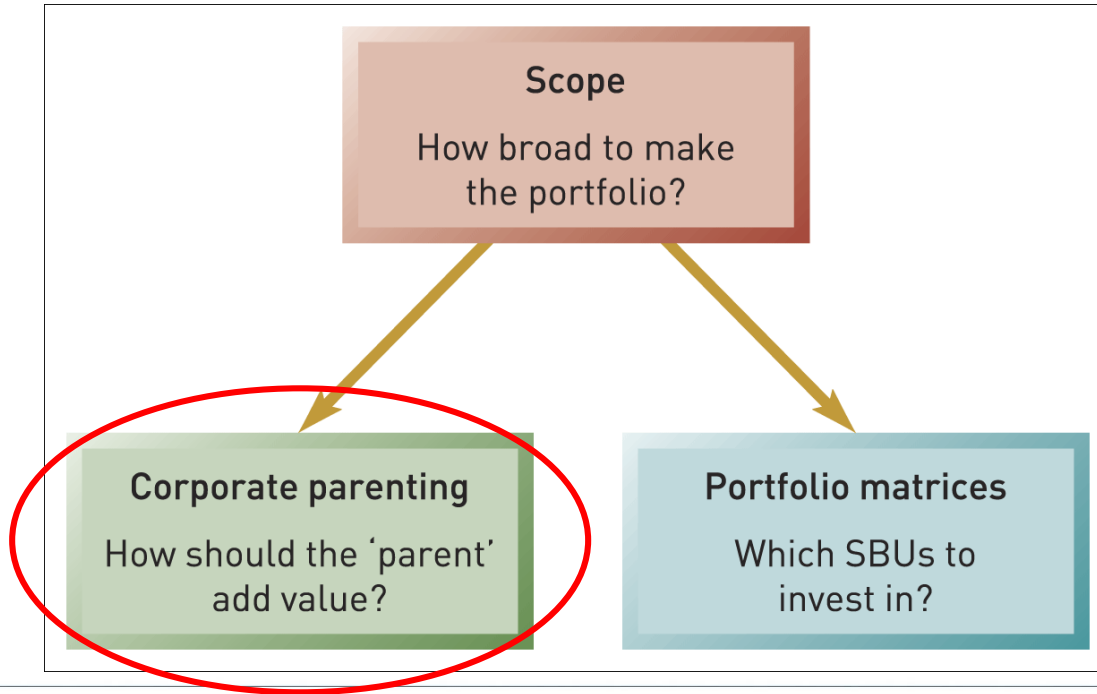
Online streaming service Leshi struggles to turn itself around

Once-hot Chinese company logs nearly \$300m net loss as diversification backfires

DAISUKE HARASHIMA, Nikkei staff writer
MARCH 28, 2019 14:43 JST



Corporate Strategy



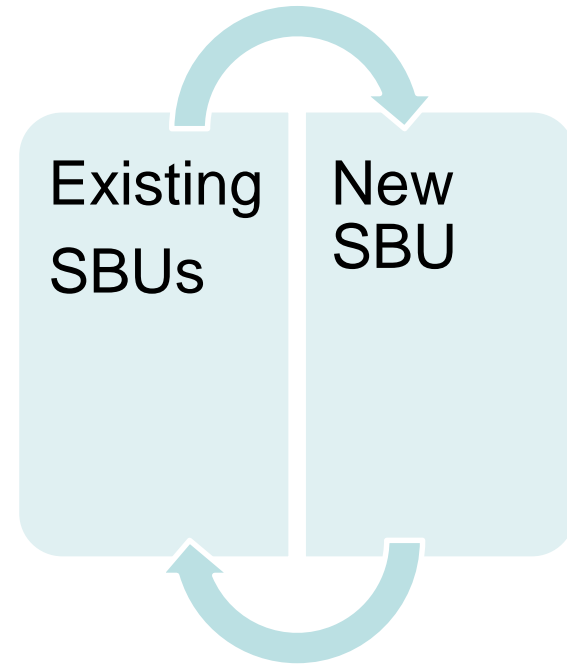
How can corporate parents add value?

Envisioning

- To SBU managers
- To stakeholders

Facilitating synergies

- Incentives, rewards, processes etc. to overcome self-interested SBU managers



How can corporate parents add value?

Coaching

- Offer corporate-wide courses
- Sponsor MBA opportunities
- Learn from doing

How can corporate parents add value?

Intervening

- Monitor each SBU
- Make orders to SBU managers to do certain jobs

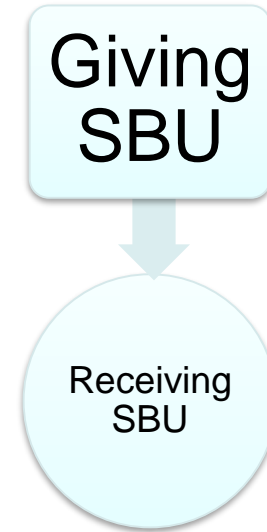
How can corporate parents add value?

Providing central services and resources

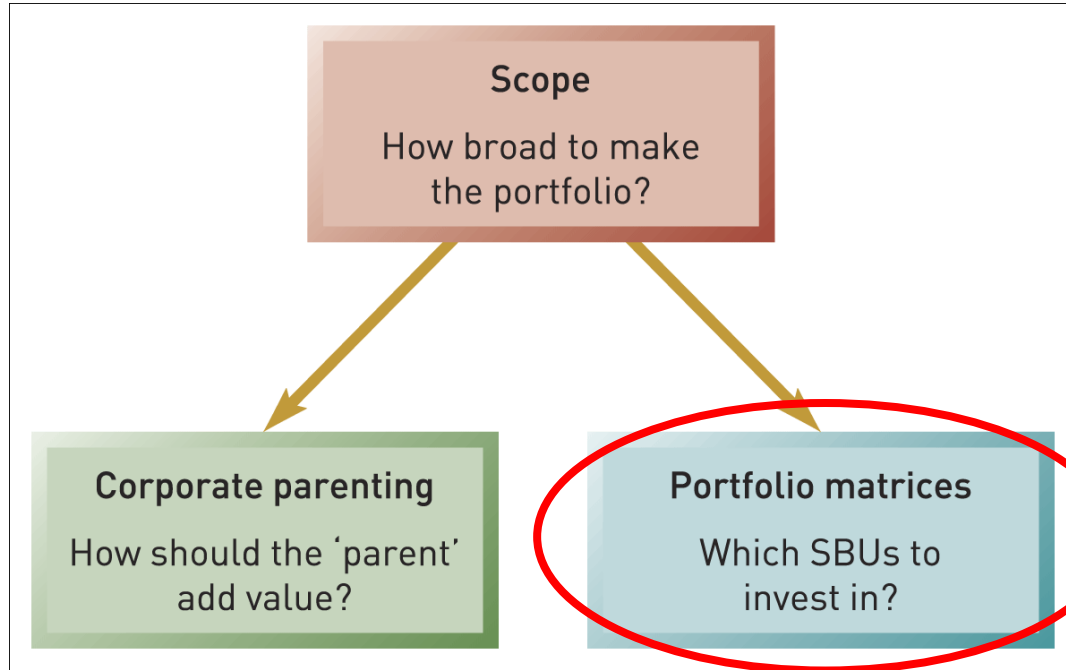
- **A question about how independent each SBUs are**
- **Centralized service may imply economies of scale**
 - Purchasing inputs/service
 - Negotiating with governments
 - Human resource management
 - Branding

Issues with corporate parents

- **Integration costs**
- **Illusory synergies**
- **Obscuring performance**
 - Cross-subsidies

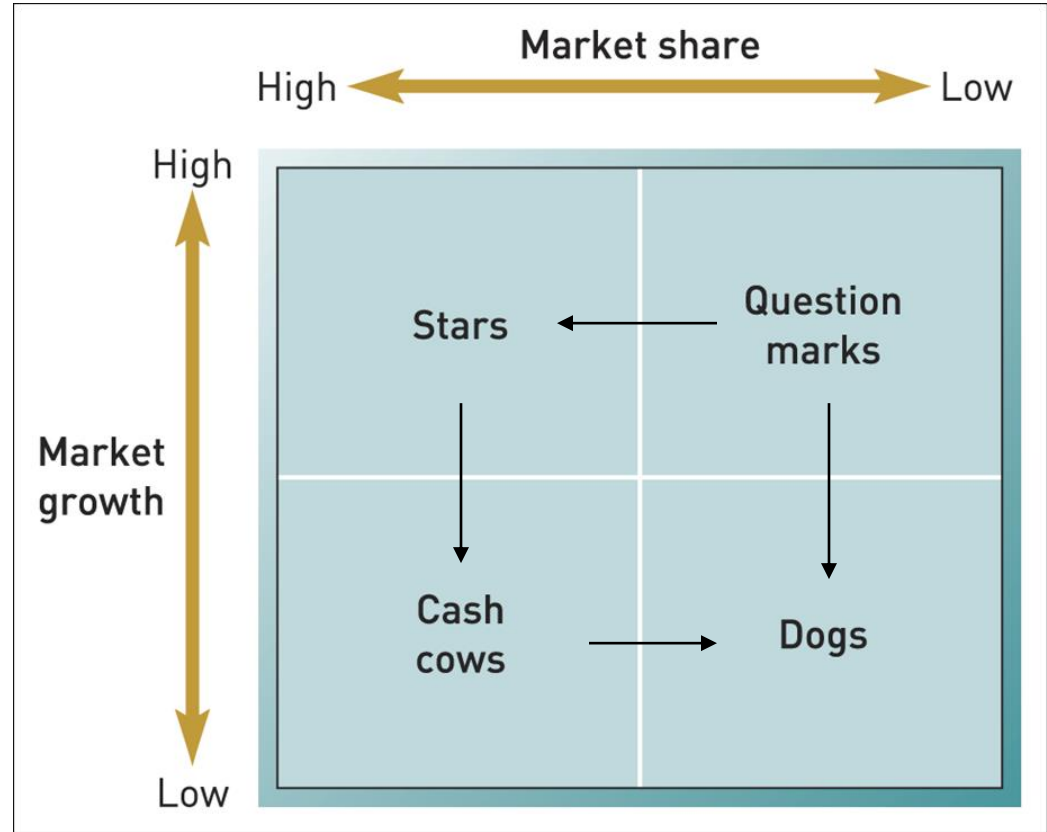


Corporate Strategy



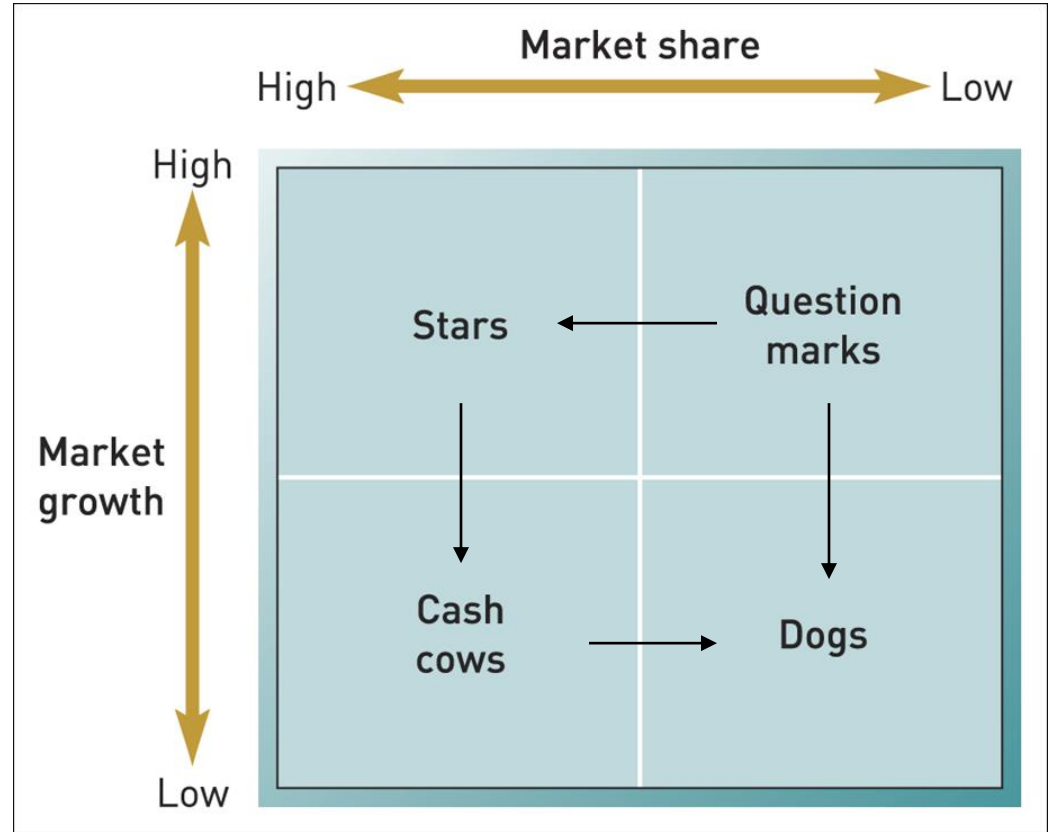
BCG Matrix

To what degree should a firm be involved in a business unit



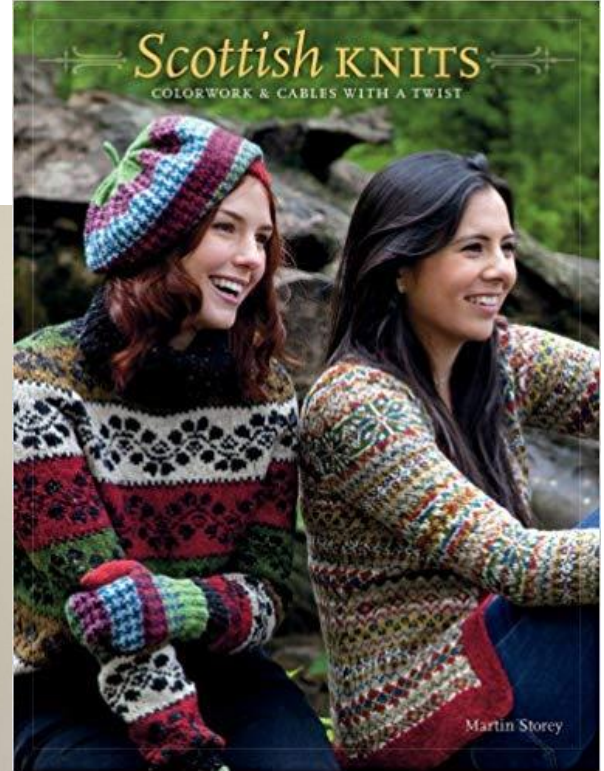
BCG Matrix

Is Bitcoin a dog in terms of being a financial tool?



BCG Matrix

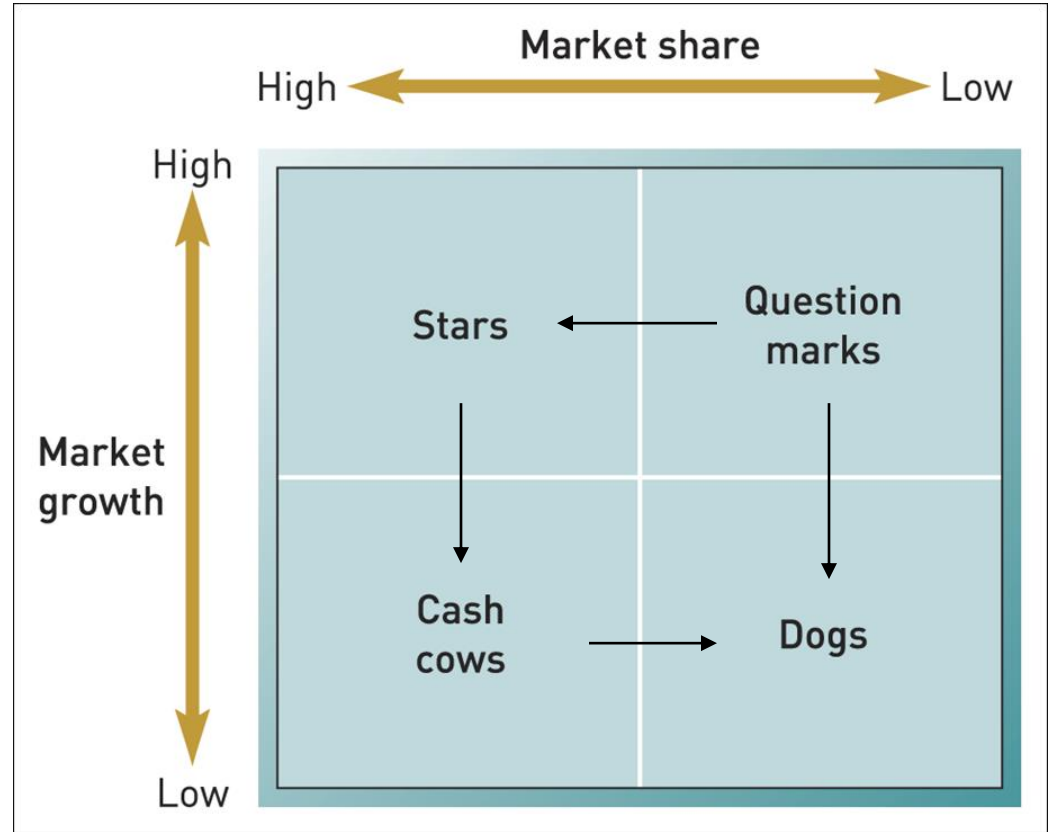
- **Definitional vagueness**
 - How do you define “market”
 - *Market share?*
 - *Market growth?*



BCG Matrix

Is it always a good idea
to divest dogs?

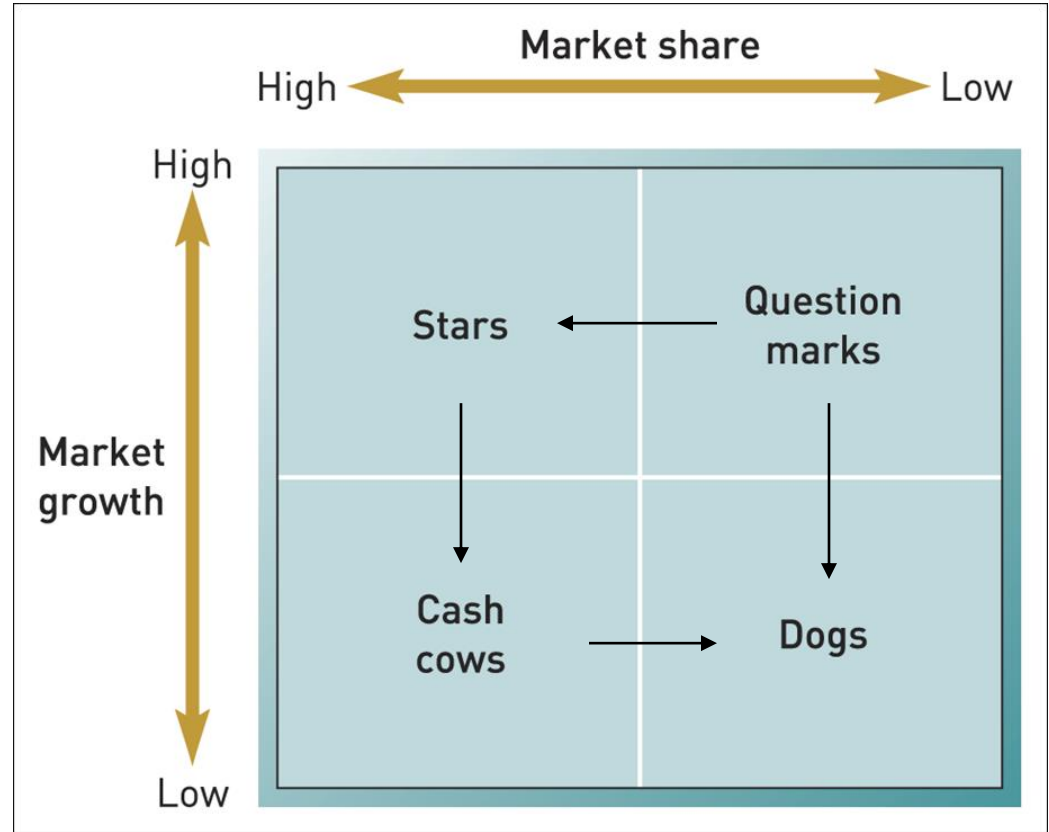
Why or why not?



BCG Matrix

Is it always a good idea
to keep cash cows?

Why or why not?



Main takeaways

- **Corporate strategy concerns the scope of the firm**
 - What activities (business units) should we be involved in?
- **Direction of integration depends on the goals of the firm and current market position**
- **Parents can both create and destroy value**
 - Ties into strategic capabilities!
- **Important to consider the overall portfolio of the firm**

Project

- Case questions

Video submission

You will have to create a video that should be included in the PDF version of the executive summary (term paper) for which the deadline is the same as the executive summary.

- Video should be max 10 minutes
- This will count for 40% of your grade – the term paper counts for 60%
- Hand-in via memory sticks
 - Let me know if you need help with memory sticks
- There will be no oral exams for this course this semester

Why a video?

- **Greater flexibility (you don't have to stick around for the actual presentation)**
- **The ability to redo/retake the video**
- **Easier to share your findings with the companies**

How to make a video



Video submission

- **Create a short video (max. 10 minutes) outlining your recommendations to the company**
- **Focus should be on the solution**
 - What is the solution?
 - Why this solution?
 - How will this solve the firm's problem?



How to present my findings in a video?

- Film using your phone: presentation, interview, etc.
- Powerpoint with voice over
- Animation

Don't worry about the technicalities, usually less is more!

Powerpoint with voice over

- **Powerpoint has features that allow you to record voice overs**
 - <https://support.office.com/en-us/article/record-a-slide-show-with-narration-and-slide-timings-0b9502c6-5f6c-40ae-b1e7-e47d8741161c>

How will my video be evaluated?

- **Focus will be on the solution**
 - Is the solution clear?
 - Have the students explained clearly
 - How the solution solves the strategic problem?
 - Why this solution was chosen?
 - How the company can implement this solution?
- **The technical quality of the video is not important, but the clarity of your presentation is**

Video-editing

- On a Mac: you can use iMovie
- On Windows:
 - <https://www.howtogeek.com/355524/how-to-use-windows-10s-hidden-video-editor/>

How to deal with limited information?

Finding information

Try to find as much information as possible

- Primary data available? Use this first
 - Company information, interviews, surveys
- Secondary data → try to be clever!
 - E.g. compare your firm to similar firms
 - Look for industry/consumer reports in Norway/similar countries
- Try to think about the limitations of your data
 - Reliable? Representative? Recent?
 - Demonstrate that you are aware of issues of your data sources
 - i.e. don't say 'because it's an app we assumed they have the same business model as Pokemon Go/Google Maps/Whatsapp'

Finding information

- **Make a list of all information you would need in an ideal situation**
 - What do you know right now?
 - What do you need? Where would you be able to get it?
 - What are you unlikely to get?
- **For information you can't find → make assumptions & state these clearly**
 - 'We assume the company has not started selling their product yet'
 - 'Because we were unable to get access to the company's finances, we rely on average startup capital for Oslo startups that we obtained from source X'
 - Why are these reasonable assumptions? Can you use academic literature to support this?