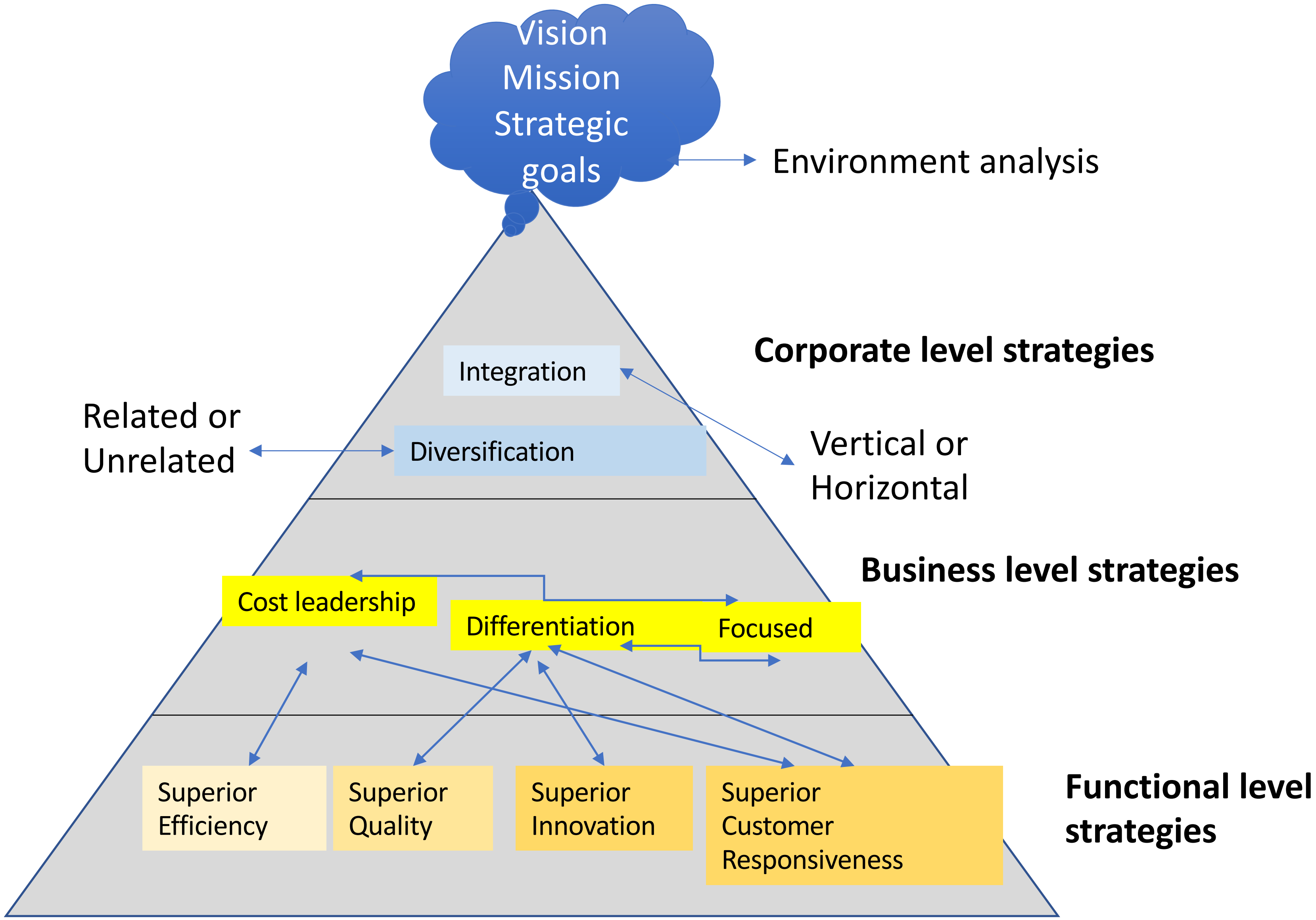
Corporate level strategies: diversification and integration


Vision
Mission
Strategic
goals
Environment analysis
Corporate level strategies
Integration
Vertical or
Horizontal
Related or
Unrelated
Diversification
Business level strategies
Cost leadership
Differentiation
Focused
Functional level
strategies
Superior
Efficiency
Superior
Quality
Superior
Innovation
Superior
Customer
Responsiveness

Corporate level strategies

There are 2 generic strategies at the company level:

Diversification

Related diversification

Unrelated diversification

Integration

Strategic partnerhip as alternative of integration

Vertical integration

Horizontal integration

Types of diversification

- **Related diversification**
  - **Entry into** a new business activity **in a different industry** that is related to a company's existing business activity, or activities, by commonalities between one or more components of each activity's value chain
- **Unrelated diversification**
  - Entry into industries that have no obvious connection to any of a company's value chain activities in its present industry or industries

What are diversification meanings in cybersecurity?

THE INNOVATION OF DIVERSITY IN CYBERSECURITY

Dr. Jessica Barker
Last Updated: Tuesday July 14, 2020

The cybersecurity profession has a diversity problem – here's what we can do to fix it.

The Urgent Need For Cybersecurity To Diversify

Adi Gaskell Contributor
Careers

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Diversity vs diversification of business?

“ This means opening the door to talent that the industry has traditionally ignored. By doing so, you don’t just increase the diversity of the industry in terms of ethnicity or gender, but also diversity of talent and thought. It is encouraging to see green shoots already appearing in this respect, with initiatives like Women in Tech really championing gender diversity, but we must build on this”.

https://www.teiss.co.uk/why-the-cybersecurity-industry-must-diversify-if-it-wants-people-to-listen/

Corporate Strategies overview

- **Diversification**
  - The process of adding new businesses to the company that are distinct from its established operations/industries
- **Approaches for diversification**
  - *Internal new venturing*
    - Starting a new business from scratch
  - *Acquisitions*
  - *Joint ventures (Mergers)*
- **Restructuring**
  - *Reducing the scope of diversified operations by exiting from business areas*

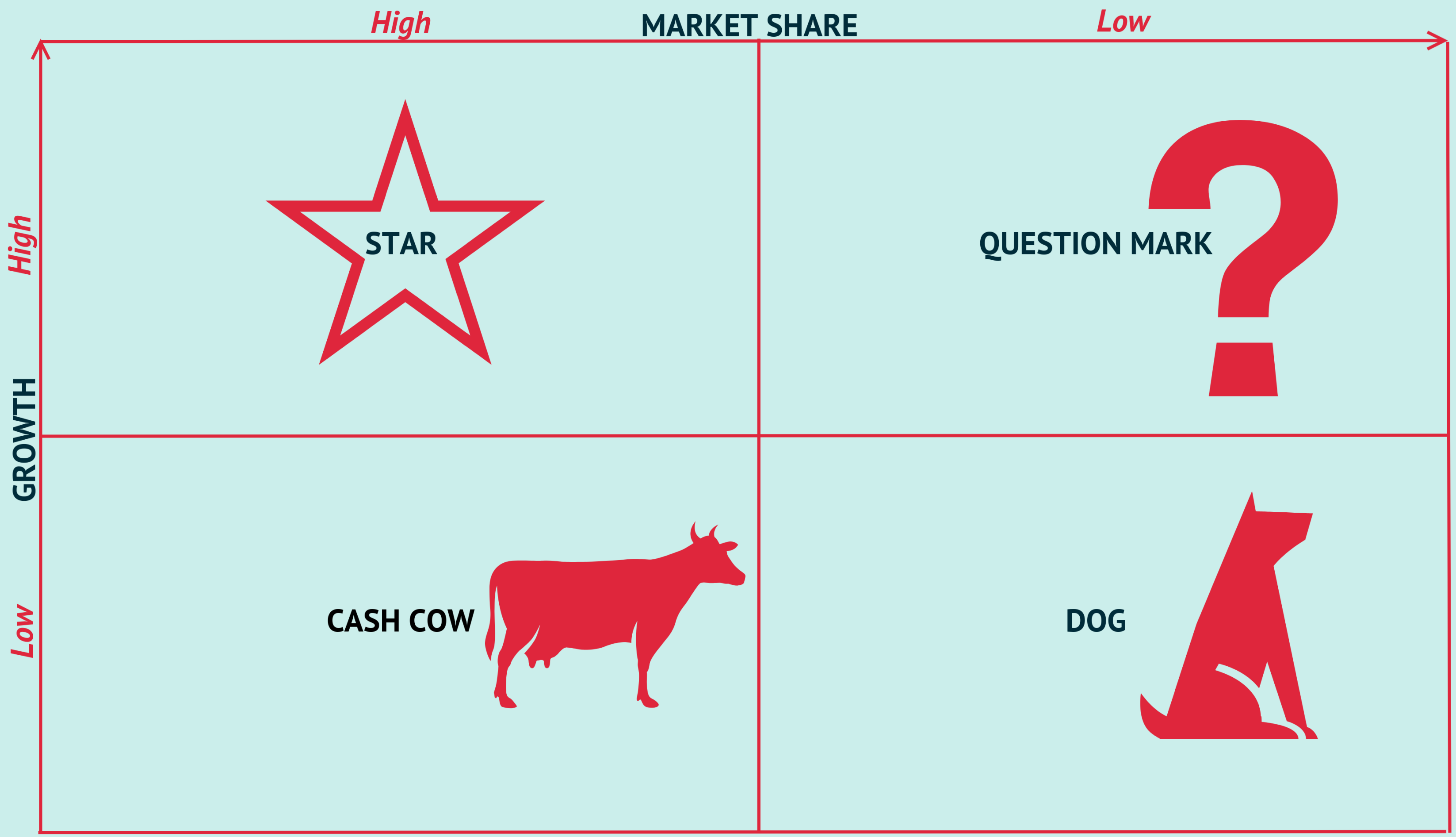
Virgin money
Virgin LIMITED EDITION
Virgin BRIDE
unite
Virgin LIMO
HEALTHMILES
Virgin games
Virgin BINGO
Virgin wines
Virgin RADIO
virgin express
casino
Virgin Megastore Outlets
velocity
Virgin CLASSICS
Virgin one
COFFEE
HOLIDAYS
green fund
fuels
connect
Virgin vie at home
Healthcare
Virgin vines
DIGITAL
LIMOBIKE
DIGITAL
america
the voucher
pulse
VIRGINMEGA
HEALTH BANK
nigeria cargo
Virgin Festival
charter
The Smarter Way to Charter
Virgin blue
Virgin spa
flyingclub
Virgin Cola
17
atlantic
mobile
EARTH CHALLENGE
Balloon Flights
MEGASTORE
mobile
Virgin soft drinks
one account
Credit Card
Virgin trains
Virgin COMICS
DRINKS
Virgin RECORDS
Virgin ENERGY SHOT
digital
Virgin Music Channel
direct
media
ACTIVE
poker
MEGASTORE
Online Print Order Center
life care
Experience Days
Express
travelstore
Limobike
Health Bank

A Company as a Portfolio of Distinctive Competencies

- Think about the company as ***a portfolio of distinctive competencies*** rather than a portfolio of products;
- Consider how those competencies might be leveraged to create opportunities in new industries;
- Existing vs. desired **new competencies;** Existing industries in which a company competes vs. new industries

BCG Matrix In A Nutshell

In the 1970s, Bruce D. Henderson, founder of the Boston Consulting Group, came up with The Product Portfolio (aka BCG Matrix, or Growth-share Matrix), which would look at a successful business product portfolio based on potential growth and market shares. It divided products into four main categories: cash cows, pets (dogs), question marks, and stars.



FourWeekMBA

Advantages of staying in a single industry

- Focusing on resources and capabilities on competing successfully in one industry

- Focusing on what the company knows, what kind of capabilities has and does the best

Cybersecurity Market with COVID-19 Impact Analysis by Component (Software, Hardware, and Services), Software (IAM, Encryption, APT, Firewall), Security Type, Deployment Mode, Organization Size, Vertical, and Region - Global Forecast to 2026

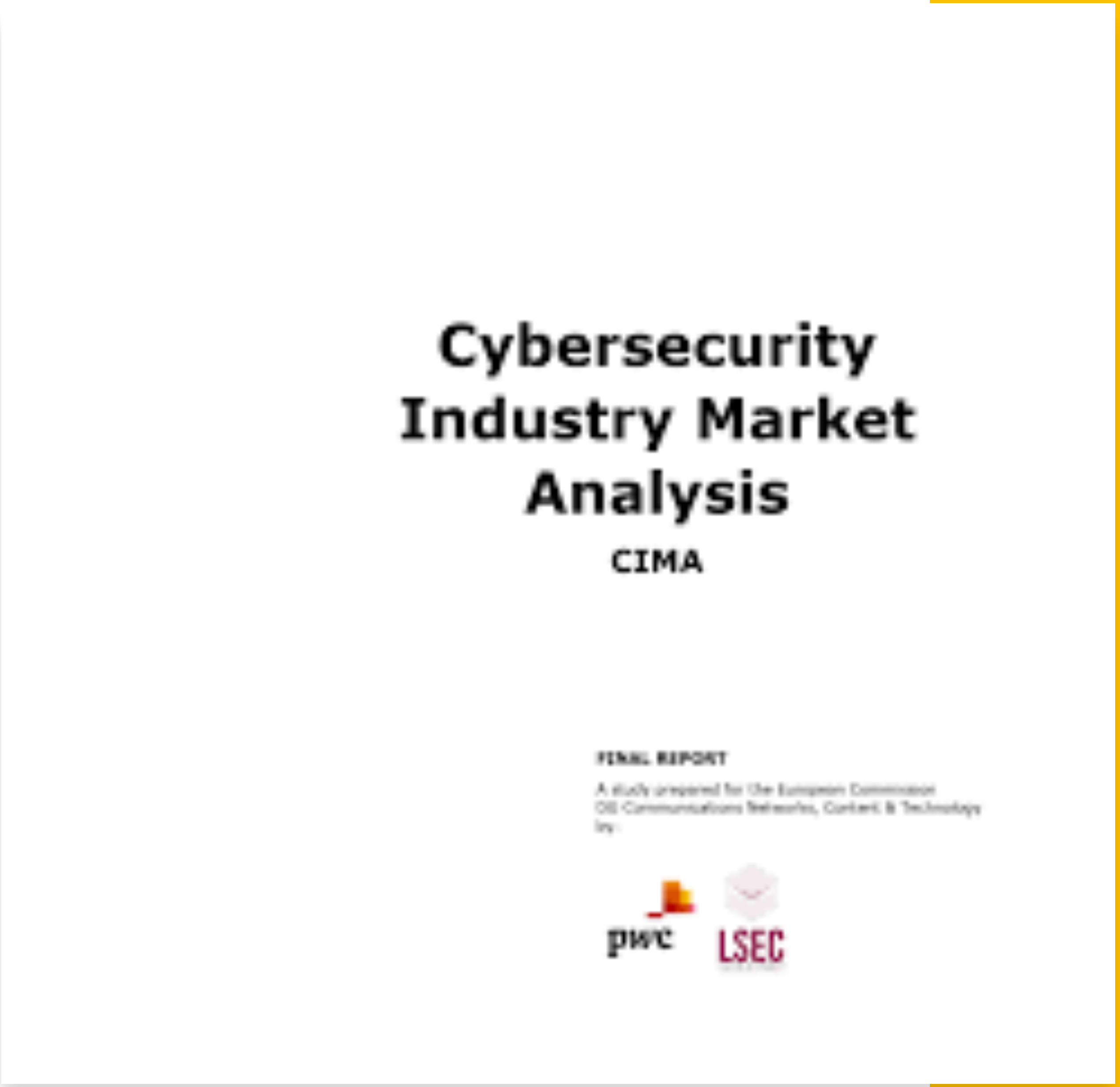
ID: 5357413 | Report | June 2021 | Region: Global | 421 Pages | Markets and Markets

The Worldwide Cybersecurity Industry

- is expected to Reach **$345.4 Billion by 2026** at a CAGR of 9.7% from 2021. ...
- the market's growth can be attributed to the increasing awareness and rising investments in cybersecurity infrastructure across global organizations operating across verticals

Disadvantages of being in a single industry

- Danger of the industry declining
- Missing the opportunity to realize full potential of existing resources and capabilities
- Resting on “former laurels” and not continually learning


Cybersecurity Industry Market Analysis

CIMA

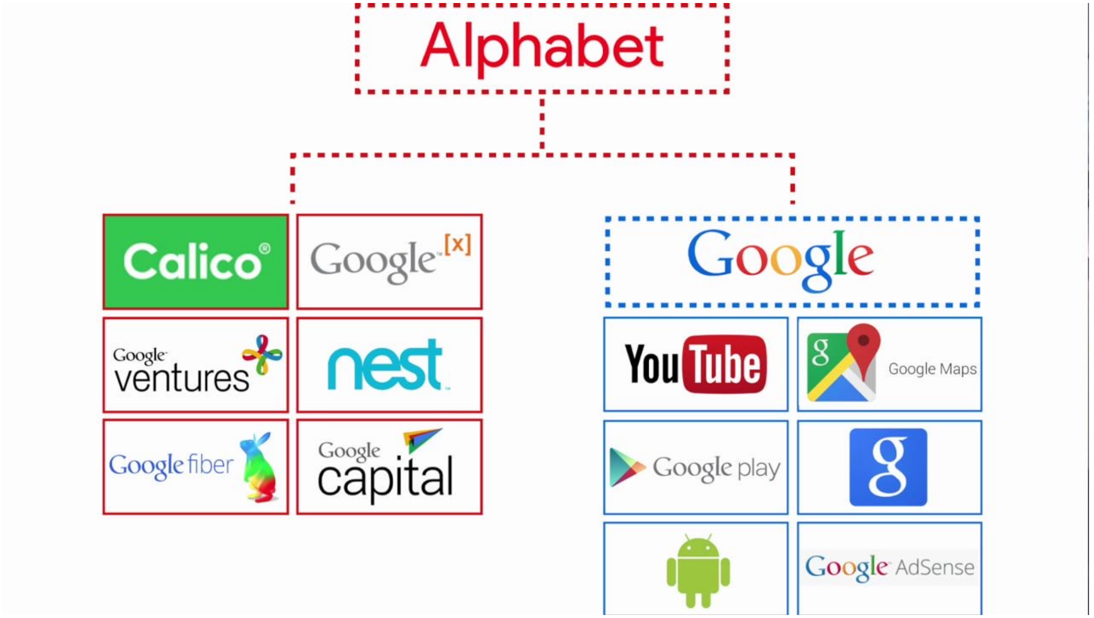
FINAL REPORT

Restructuring

- Reducing the scope of the company by exiting business areas
- Why restructure?
  - Diversification discount: investors see highly diversified companies as less attractive
    - Complexity and lack of transparency in financial statements
    - Too much diversification or for the wrong reasons
  - Response to failed acquisitions
  - Innovations have diminished the advantages of vertical integration or diversification

Google reorganization

- In 2015, Google announced a reorganization and the creation of its Alphabet holding company to solidify its lead as one of the world's most successful tech innovators and expand into new industries. The reorganization named a new CEO and also provided Google's two cofounders more time to focus on exploring new business opportunities.
- Since reorganizing, Google has continued its growth trajectory.



After two years of operating under the new structure, the company announced some of the positive outcomes of its reorganization, including:

- The separation of its traditional business from speculative ventures has offered greater transparency for investors.
- Each business unit has its own CEO and greater autonomy in day-to-day operations.
- Alphabet's speculative "moonshot" business units have controlled spending and are working toward becoming profitable.
- The company's leadership team has become more diverse, with more women on its senior executive team (six out of 13) than any other tech company in the Fortune 100.

Source: https://pingboard.com/blog/real-world-examples-of-company-reorgs-done-right/

Restructuring approaches

- Exit:
  - Divestment
    - **Spin - off**
    - **Selling to another company**
    - **Management buyout (MBO**)
  - Harvest
  - Liquidation

The MBO process

Feasibility

- Analyse opportunity
- Assessment of viability
- Initial funding views

Agree a deal

- Negotiate deal with vendor
- Draft & sign Heads of Agreement

Funding

- Prepare Business Plan
- Prepare projections
- Prepare presentation
- Approach funders
- Comparison of funding offers
- Negotiation of terms with funders
- Select preferred funder(s)

Completion

- Due diligence
- Legal process
- Working capital
- Tax planning
- Covenants
- Management of funders
- Management of other advisors

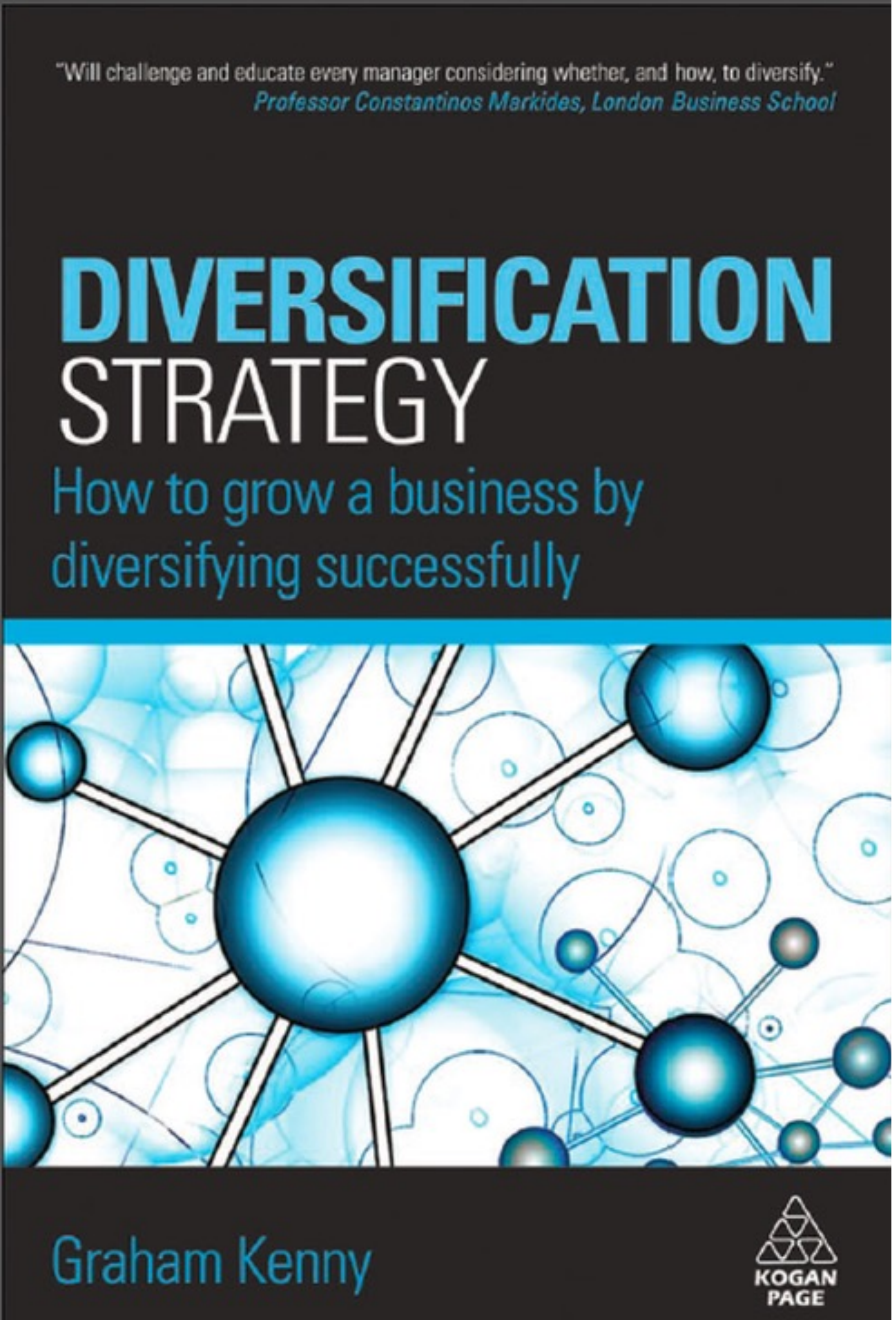
- **Champagne!!!**

Post deal

- The hard work begins
- Cash management
- Covenants
- Completion accounts
- Conditions subsequent

Bureaucratic Costs and Diversification Strategy

- The costs increases that arise in large, complex organizations due to managerial inefficiencies
- Number of businesses in a company's portfolio
  - Information overload
- Coordination among businesses
  - Inability to identify the unique profit contribution of a business unit that shares resources with another unit



The Limits of Diversification

- Related diversification is only marginally more profitable than unrelated diversification
- Extensive diversification tends to depress rather than improve profitability

Entry Approach: Joint Ventures—Constraints

- Requires the sharing of profits if the new business succeeds
- Venture partners must share control
- Conflicts on how to run the joint venture can cause failure
- Runs the risk of giving critical know-how away to joint venture partner

Acquisitions approach: advantages

- To achieve diversification when the company lacks important competencies
- To move quickly
- Perceived as less risky than internal new ventures
- When the new industry is well established, and enterprises enjoy protection from barriers to entry

Acquisitions approach: disadvantages

- ***Difficulty with post acquisition integration***
- Overestimating value benefits
- The costs of acquisitions
- Inadequate pre acquisition screening
- Timing
- Capabilities to integrate

Guidelines for Successful Acquisition

- Target identification and pre acquisition screening
- Bidding approach
    - Hostile vs. Friendly takeover
- Efficient and Effective Integration
- Learning from experience

<) FORESCOUT

THE ROLE OF CYBERSECURITY IN MERGERS AND ACQUISITIONS DILIGENCE

A research study to better understand the cybersecurity risks companies face while acquiring another company.

https://www.forescout.com/company/resources/cybersecurity-in-merger-and-acquisition-report/

CURRENT CYBER RISK LANDSCAPE IN M&A

Cyber issues are prevalent and can put a deal into jeopardy:

53%

Fifty three percent of respondents report that their organization has encountered a critical cybersecurity issue or incident during an M&A deal that put the deal in jeopardy.

US	UK	FR	DE	AUS	SG	IN
47%	52%	61%	56%	40%	50%	63%

ASSET ASSESSMENT & INVENTORY

Internal IT teams may lack the skills to conduct cybersecurity assessments:

37%

Among ITDMs, only 37% strongly agree that their IT team has the skills necessary to conduct a cybersecurity assessment for acquisition.

US	UK	FR	DE	AUS	SG	IN
49%	30%	36%	28%	31%	31%	54%

Results when asked: What are the most important factors when your company performs its due diligence on M&A targets? (listed in order of importance).

1. Financial statements
2. History of cybersecurity incidents
3. Competitive positioning
4. Outstanding litigation
5. Customer satisfaction scores
6. Cyber risk scores

KEY FINDINGS

- **Cybersecurity issues are prevalent and can put a deal into jeopardy:** Over half of respondents (53%) report their organization has encountered a critical cybersecurity issue or incident during an M&A deal that put the deal into jeopardy.
- **Organizations are placing more focus on a target's cybersecurity posture than they did previously:** Eighty-one percent of ITDMs and BDMs agree that they are putting more of a focus on a target's cybersecurity posture than in the past, highlighting that cyber is a top priority for both IT and business decision makers.
- **An undisclosed data breach is a deal breaker for most companies:** Seventy-three percent of respondents agreed that a company with an undisclosed data breach is an immediate deal breaker in their company's M&A strategy.
- **Decision makers sometimes feel they don't get enough time to perform a cyber evaluation:** Only 36% of respondents strongly agree that their IT team is given time to review the company's cybersecurity standards, processes and protocols before their company acquires another company.
- **Internal IT teams may lack the skills to conduct cybersecurity assessments:** Among ITDMs, only 37% strongly agree that their IT team has the skills necessary to conduct a cybersecurity assessment for an acquisition.
- **Organizations allocate third party resources to their cybersecurity assessments:** Nearly all respondents (97%) reported that their organizations spend money on outside contractors for IT audits or cybersecurity risk assessments.
- **Connected devices and human error put organizations at risk:** When asked what makes organizations most at risk during the information and technology process, two answers stood out: human error and configuration weakness (51%) and connected devices (50%).
- **Devices often get overlooked and missed during integration:** Over half (53%) of ITDMs say they find unaccounted for devices after completing the integration of a new acquisition.
- **Failure to address cyber risk can lead to major acquisition regrets:** Nearly two-thirds of respondents (65%) said their companies experienced regrets in making an M&A deal due to cybersecurity concerns.

Corporate level strategies

Microsoft to buy LinkedIn for $26.2 Billion

Before The M&A transaction: CyberSecurity Assessments being incorporated into the disclosure schedule.

During The Integration Phase: The acquirer and the target company must continually be assessed during the M&A process as any company going through a transition becomes a target for hackers.

After Integration

1

Basic Cyber Review

* Takes three weeks

* Performed remotely

* Starts less than 10K

* Documentation reviewed

Learn More

2

Standard Assessment

*** Takes four Weeks**

*** Performed Onsite**

*** Includes interviews**

*** Performed on third party**

Learn More

3

Comprehensive Assessment

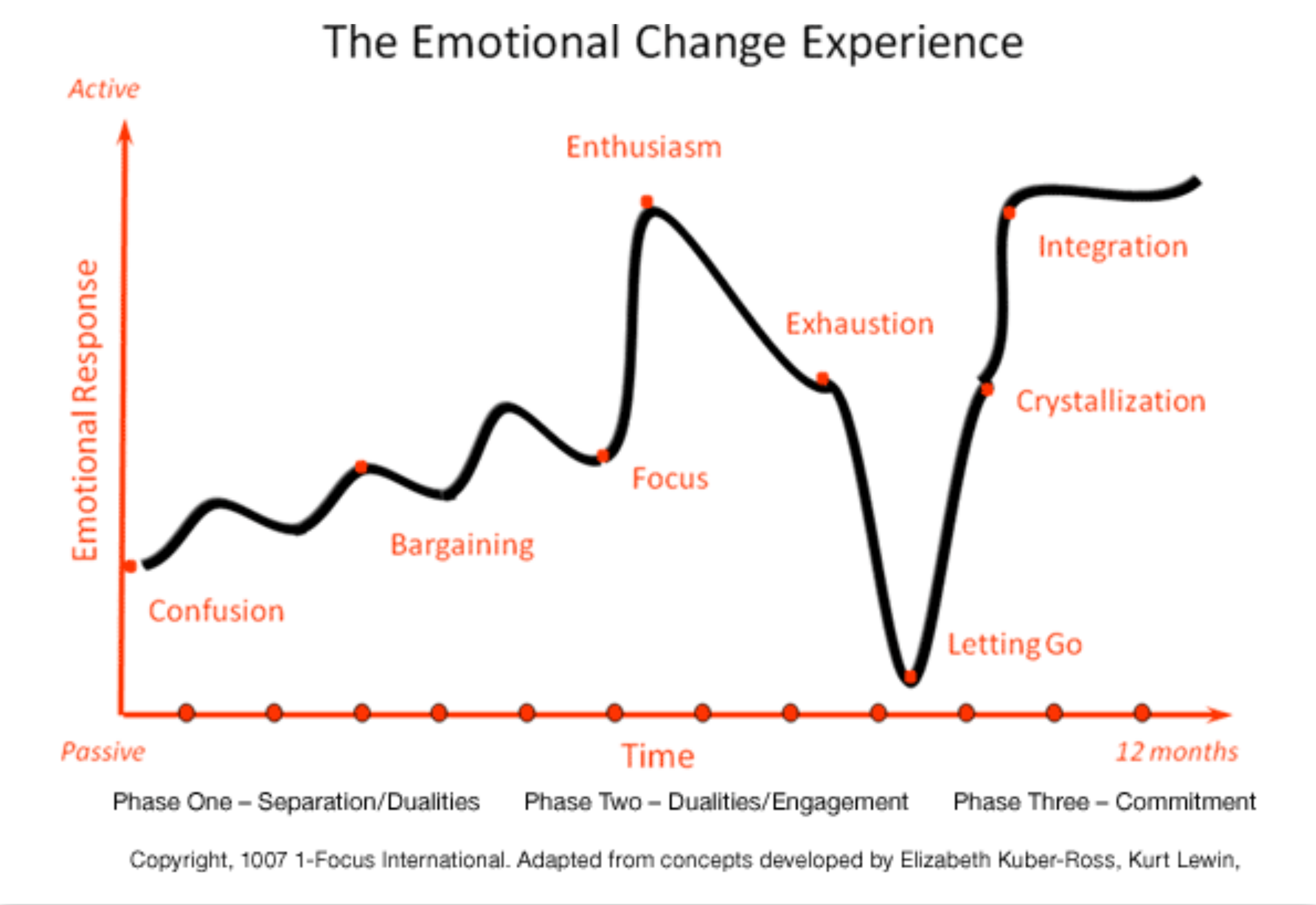
* Takes five weeks

* Performed onsite

* On-network

* Dollar quantified results

Learn More



Emotional experience of employees in case of merger (Hill and Weiner (2008)

Integration strategy: an overview

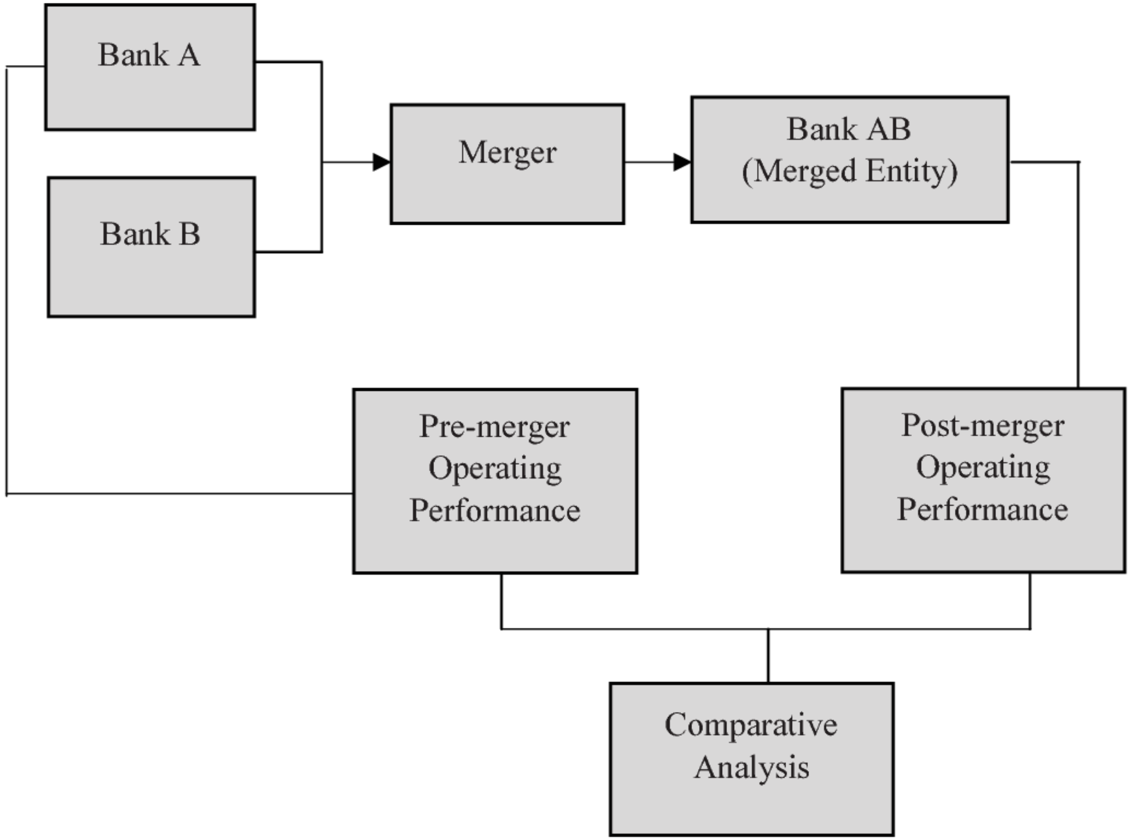
- **Horizontal integration**
  - The process of acquiring or merging with industry competitors
    - Acquisition and merger
- **Vertical integration**
  - Expanding operations backward into an industry that produces inputs for the company or forward into an industry that distributes the company's products
- **Strategic outsourcing**
  - Letting some value creation activities within a business be performed by an independent entity

What is horizontal integration?

- It is the process of acquiring or merging with competitors, leading to industry consolidation;
- Horizontal integration is a type of corporate level strategy where a company acquires (takes over) or merge with another company in the same industry value chain.

Horizontal integration: commercial banks

Diagrammatically



What are the benefits of Horizontal Integration

- Reducing costs
- Increasing value
  - Product bundling
  - Cross selling
- Managing industry rivalry
- Increasing bargaining power
  - Market power

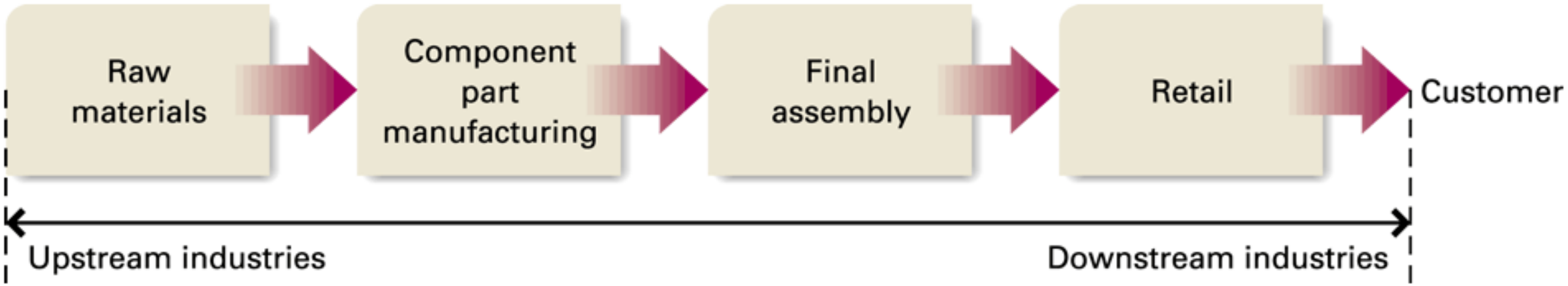
Drawbacks and Limits of Horizontal Integration

- Majority of mergers and acquisitions *do not* create value;
- Mergers and acquisitions often fail to produce the anticipated gains ;
- Implementing a horizontal integration strategy is not easy as well;

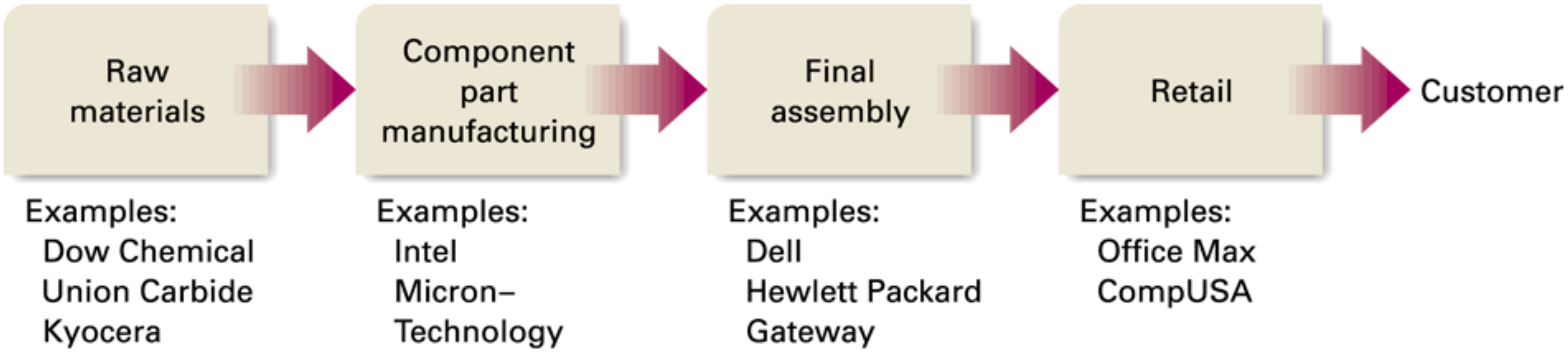
What is Vertical integration?

- Describes a company's control over several or all of the production and/or distribution steps involved in the creation of its product or service

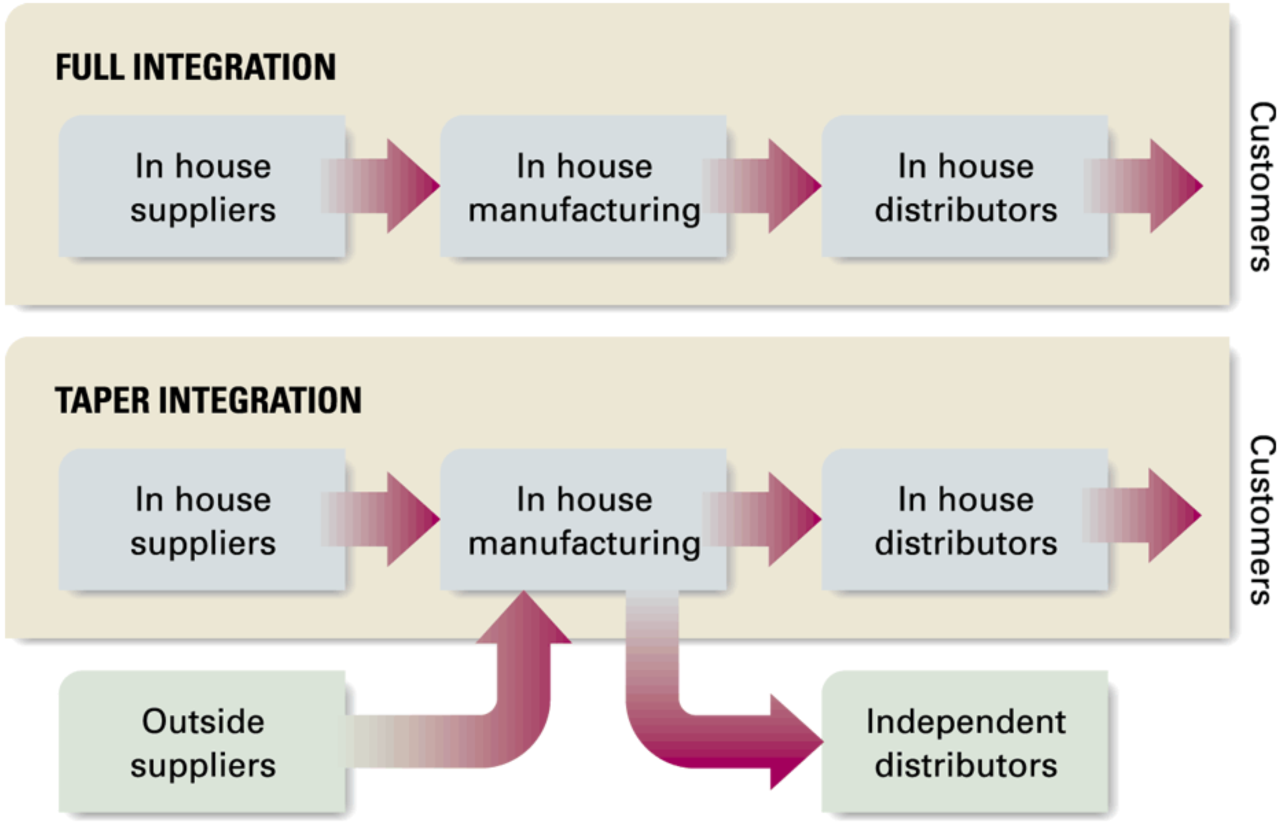
Vertical Integration: Stages in the Raw Material to Consumer Value Chain



The Raw Material to Consumer Value Chain in the Personal Computer Industry



Full and Taper Integration



Increasing Profitability Through Vertical Integration

- Building barriers to entry
- Facilitating investments in specialized assets
- Protecting product quality
- Improved scheduling

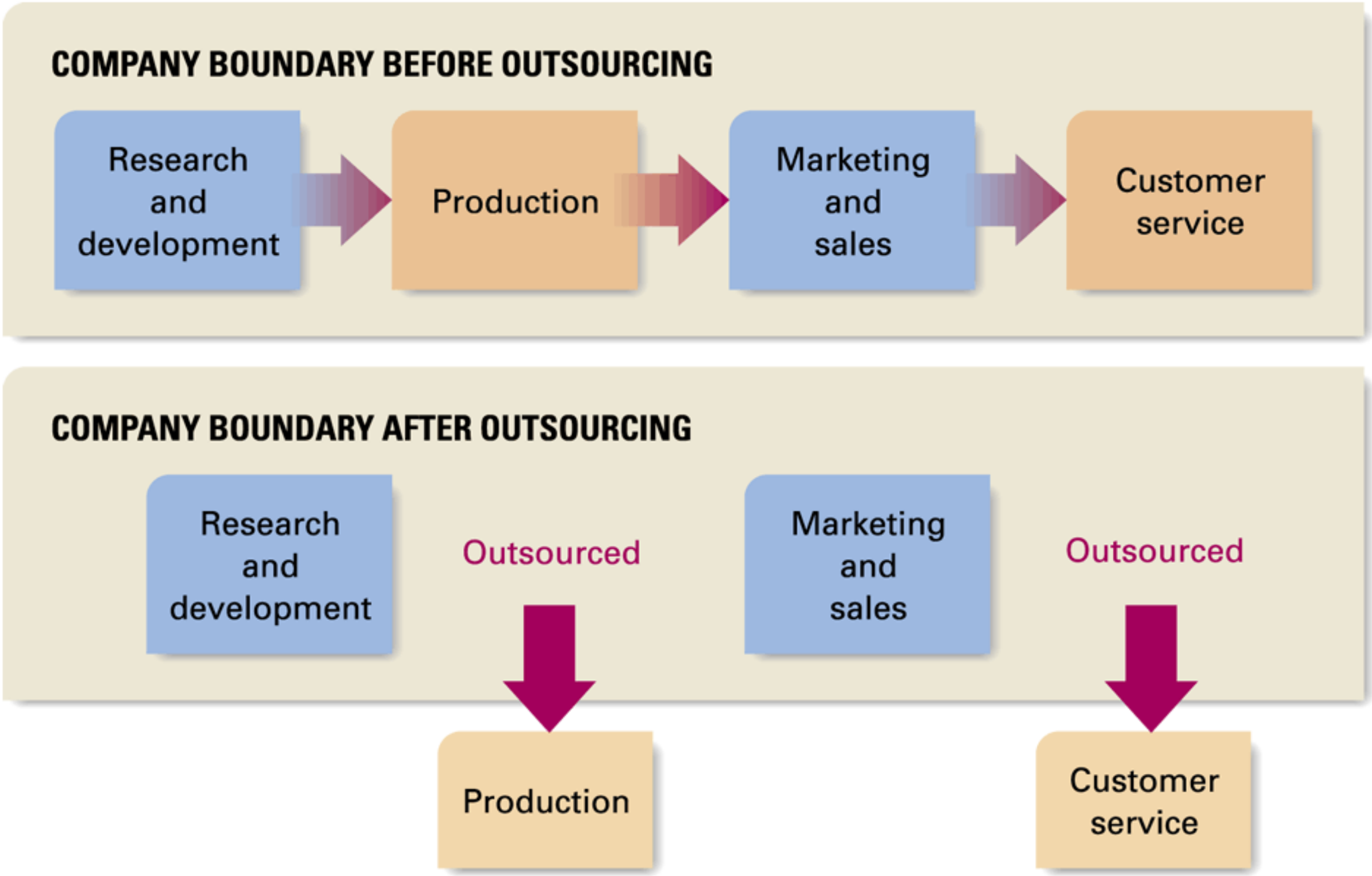
Arguments Against Vertical Integration

- **Cost disadvantages**
  - Company-owned suppliers that have higher costs than external suppliers
- **Rapid technological change**
  - Tying a company to an obsolescent technology
- **Demand unpredictability**
  - Difficulty of achieving close coordination among vertically integrated activities
- **Bureaucratic costs**

Alternatives to Vertical Integration: Cooperative Relationships

- Short-term contracts and competitive bidding
- Strategic alliances and long-term contracting
- Building long-term cooperative relationships
  - Hostage taking
  - Credible commitments
  - Maintaining market discipline
    - Parallel sourcing policy

Strategic Outsourcing of Primary Value Creation Functions



Benefits of Outsourcing

- **Reducing costs**
  - The specialist company is less than what it would cost to perform the activity internally
- **Differentiation**
  - The quality of the activity performed by the specialist is greater than if the activity were performed by the company
- **Focus**
  - Distractions are removed; the company can focus attention and resources on activities important for value creation and competitive advantage

Identifying and Managing the Risks of Outsourcing

- **Holdup**
  - The company can become too dependent on the provider of the outsourced activity so that the provider can raise prices
- **Scheduling of activities**
  - Loss of control can result in distorted signals in the supply chain
- **Loss of information**
  - Contact with the customer may be lost

Mergers & Acquisitions (M&A) in Latvia

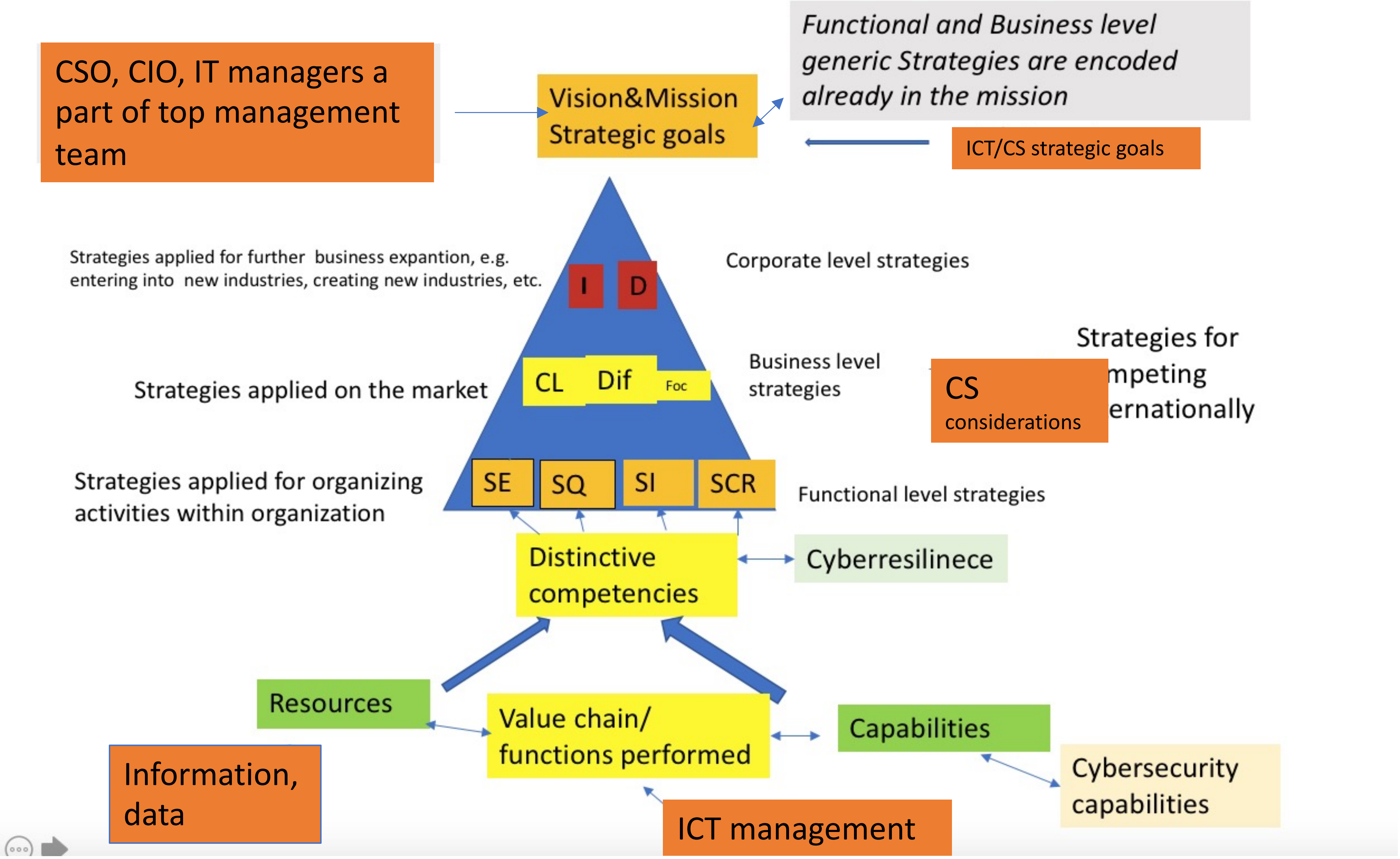
- The Competition Council of Latvia examines submitted notifications regarding agreements between market participants and takes decisions in respect of them.
- It also restricts market concentration by taking decisions in relation to mergers of market participants.
- Why mergers must be monitored by state?

The market participants are entitled to submit to the Competition Council a short-form merger notification, if one of the following conditions exists:

- none of the participants in the merger operates in a single concrete market or in a market that is vertically related

or

- combined market share of the market participants involved in the merger does not exceed 15 per cent.
- merger of market participants for which a notification had to be given, but has not been given, is illegal.



CSO, CIO, IT managers a part of top management team
Vision&Mission
Strategic goals
Functional and Business level generic Strategies are encoded already in the mission
ICT/CS strategic goals
Strategies applied for further business expantion, e.g. entering into new industries, creating new industries, etc.
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Strategies applied for organizing activities within organization
SE
SQ
SI
SCR
Functional level strategies
Distinctive competencies
Cyberresilinece
Resources
Value chain/ functions performed
Capabilities
Information, data
Cybersecurity capabilities
ICT management

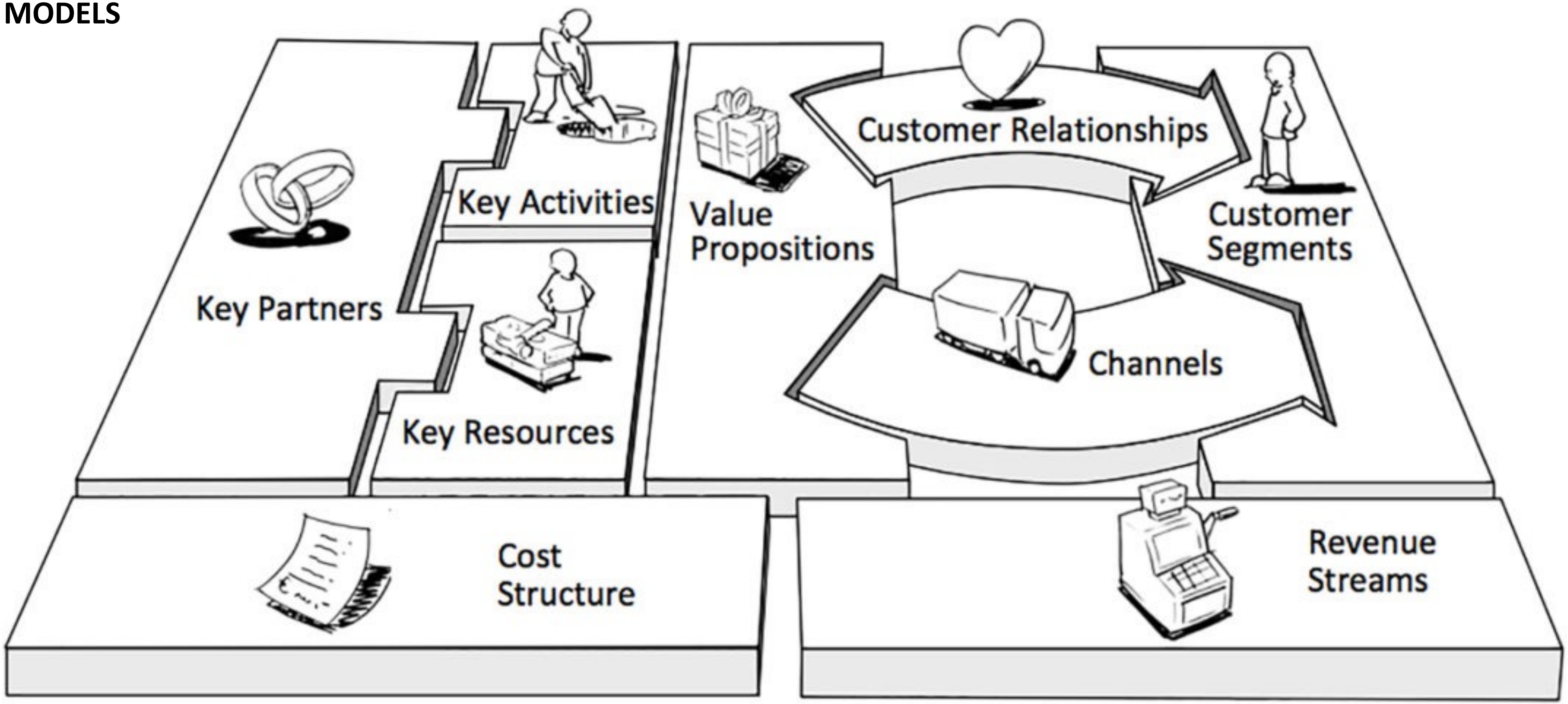
4. Implementing strategies

- 20 % of success depends on strategy selection
- 80% from its succesfull implementation;

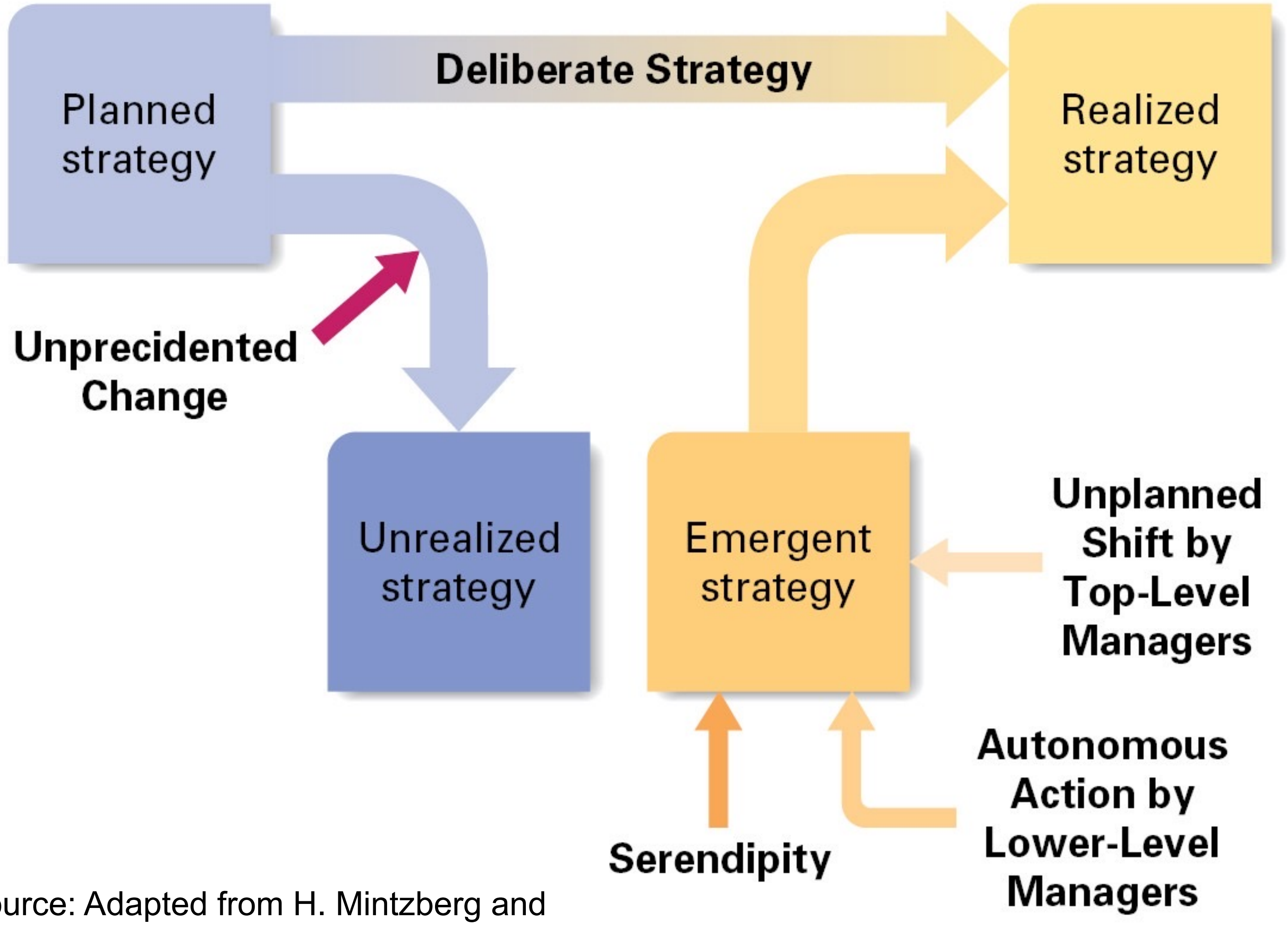
Question to the group:

1. What could go wrong during implementation stage?
2. What managers can do to avoid failures?

IMPLEMENTATION OF STRATEGIES: BUSINESS MODELS



Planned, Deliberate, Emergent and Realized Strategies



Source: Adapted from H. Mintzberg and A. McGugh.

5. Drivers impacting business success

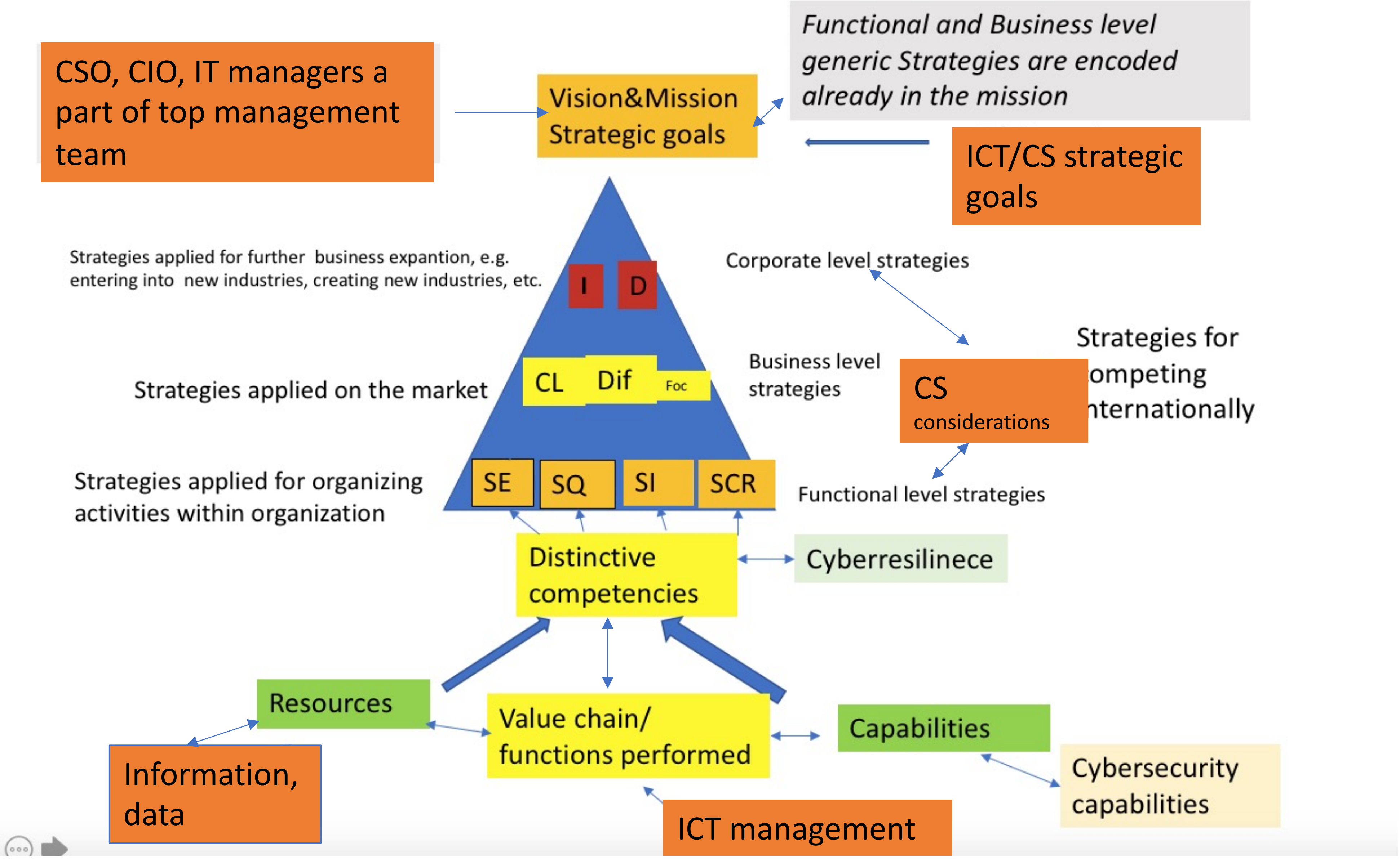
- Leadership
- HR capabilities
- Flexibility
- Understanding business
- Environment research

- Value proposition
- Value delivery channels
- Customer relationship management
- Resources
- Key activities
- Strategic partnerships

SOURCES OF SUSTAINABLE COMPETITIVE ADVANTAGE

Why Companies Fail

- **Inertia**
  - Companies find it difficult to change their strategies and structures
- **Prior strategic commitments**
  - Limit a company's ability to imitate and cause competitive disadvantage
- **The Icarus paradox**
  - A company can become so specialized based on past success that it loses sight of market realities
  - Craftsmen, builders, pioneers, salesmen
  - Others?



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The Famished Road by Ben Okri (1991)

«From a certain point of view, the universe seems to be composed of paradoxes. But everything resolves. That is the function of contradiction.

I don't understand.

When you can see everything from every imaginable point of view, you might begin to understand. Can you do that? No.»