

BUS359

Contemporary Strategic Analysis

Lecture 10: Corporate Strategy

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Recap:

Innovation and business models

Think-pair-share (5 minutes):

- What is a '*business model*'?

A business model describes the rationale of how an organization creates, delivers, and captures value

- What is '*strategic entrepreneurship*'?

Strategy (Forming competitive advantage) + Entrepreneurship (Identifying new opportunities in the market)

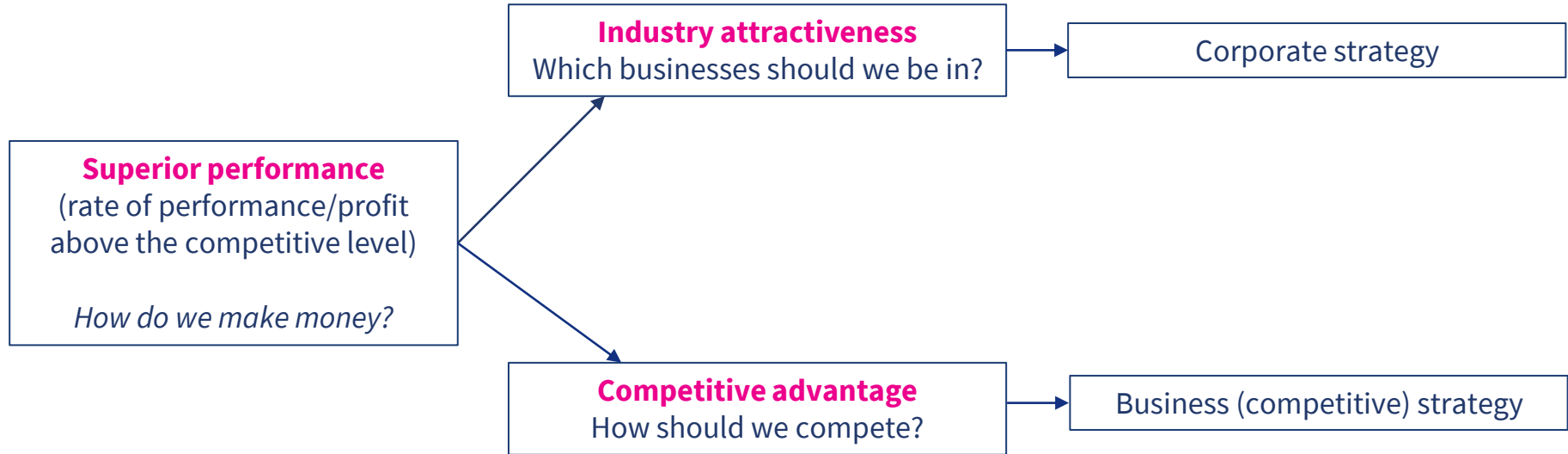
- What is innovation? What are the three key aspects an organization should consider when making 'innovate-vs-imitate' decision?

Outcome → innovation; Capacity for profit capture; Your resources; Pace of change in the industry/market

Outline

- Ansoff's matrix
- Diversification
- Internationalisation

Sources of superior performance (profitability)



Ansoff's product/market growth matrix

		Products	
		Existing	New
Markets	Existing	A Market penetration Consolidation	B Product development
	New	C Market development	D Diversification

Vertical scope: Vertical integration

- **Vertical integration** is a firm's ownership & control of multiple vertical stages in the supply of a product.
 - I.e., when a company owns or controls its suppliers, distributors, or retail locations to control its value or supply chain.
- **Types:**
 - **Backward integration** – where the firm takes over ownership and control of producing its own inputs. (e.g., Amazon becoming a book publisher, owning its warehousing)
 - **Forward integration** – where the firm takes over ownership and control of its own customers/distributors. (e.g., Sweaty Betty own retail locations to sell its products)

Horizontal scope: Horizontal integration

- Horizontal integration refers to the acquisition of companies that belong to the same part of the value chain.

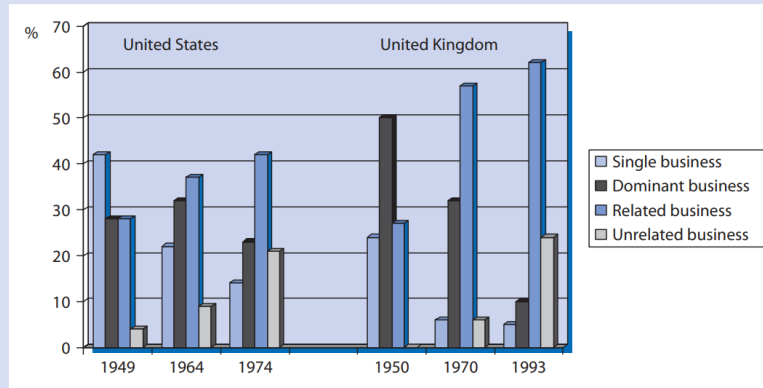


Disney's acquisition of 21st Century Fox was finalized in March 2019. The goal was to increase Disney's content and entertainment options, expand internationally, and grow its direct-to-consumer offerings, including ESPN+, Disney+, and the two company's combined ownership stake in Hulu. The deal also included Twentieth Century Fox, Fox Searchlight Pictures, Fox 2000 Pictures, Fox Family and Fox Animation, Twentieth Century Fox Television, FX Productions and Fox21, FX Networks, National Geographic Partners, Fox Networks Group International, Star India, and Fox's interests in Hulu, Tata Sky and Endemol Shine Group.

Diversification

- **Related:** entering similar or complementary markets.
- **Unrelated:** entering markets that are not included to the existing value chains.

FIGURE 13.1 Diversification strategies of large US and UK companies during the late 20th century



Sources: R. P. Rumelt, "Diversification strategy and profitability," *Strategic Management Journal* 3 (1982): 359-70; R. Whittington, M. Mayer, and F. Curto, "Chandlerism in Post-war Europe: Strategic and Structural Change in France, Germany and the UK, 1950-1993," *Industrial and Corporate Change* 8 (1999): 519-50; D. Channon, *The Strategy and Structure of British Enterprise* (Cambridge: Harvard University Press, 1973).

LVMH



Internationalisation decisions

▪ Locating production:

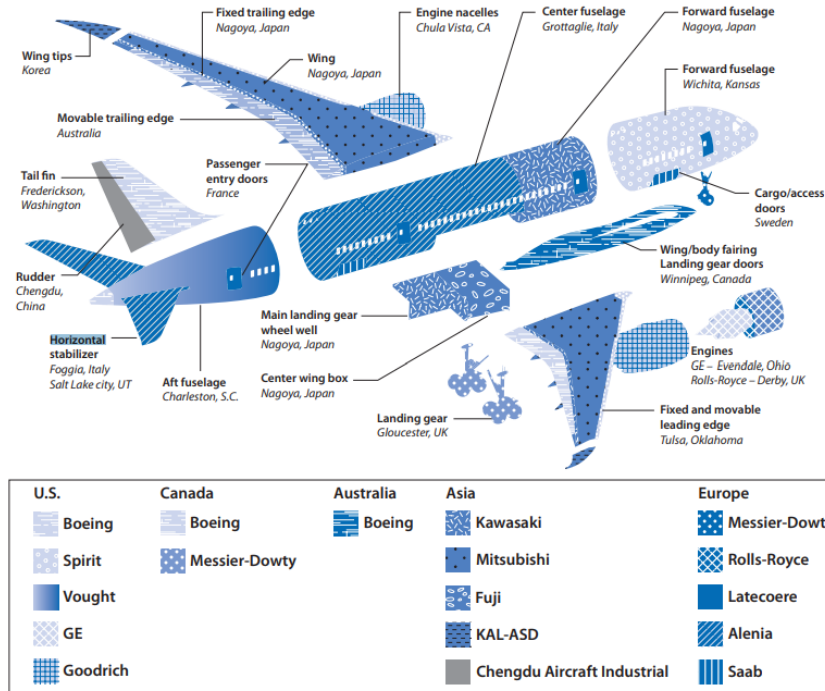
- Geographical location – country-based resources (e.g., cost of labour) & transferability of firm-based resources and capabilities.
- Type of value chain activity – some activities such as research & capital for component production are better placed in USA or Japan, whereas assembly is suited to South East Asia.

▪ Entering a foreign market

- Is the firm's competitive advantage based on firm-specific or country specific resources?
- Is the product tradable?
- Does the firm possess the full range of resources and capabilities needed for success in the overseas market?
- Can the firm directly appropriate the returns to its resources?
- What transaction costs are involved?

Internationalisation decisions

FIGURE 12.4 The globally dispersed production of the Boeing 787 Dreamliner



Source: Boeing Images, © 2015 Boeing Inc. Reprinted with permission.

TABLE 12.4 Where does the iPhone4 come from?

Item	Supplier	Location
Design and operating system	Apple	US
Flash memory	Samsung Electronics	S. Korea
DRAM memory	Samsung Electronics	S. Korea
	Micron Technology	US
Application processor	Murata	Japan/Taiwan
Baseband	Infineon	Taiwan
	Skyworks	US
	TriQuint	
Power management	Dialog Semiconductor	Taiwan
Audio	Texas Instruments	US
Touchscreen control	Cirrus Logic	US
Accel and gyroscope	STMicroelectronics	Italy
E-compass	AKM Semiconductor	Japan
Assembly	Foxconn	China

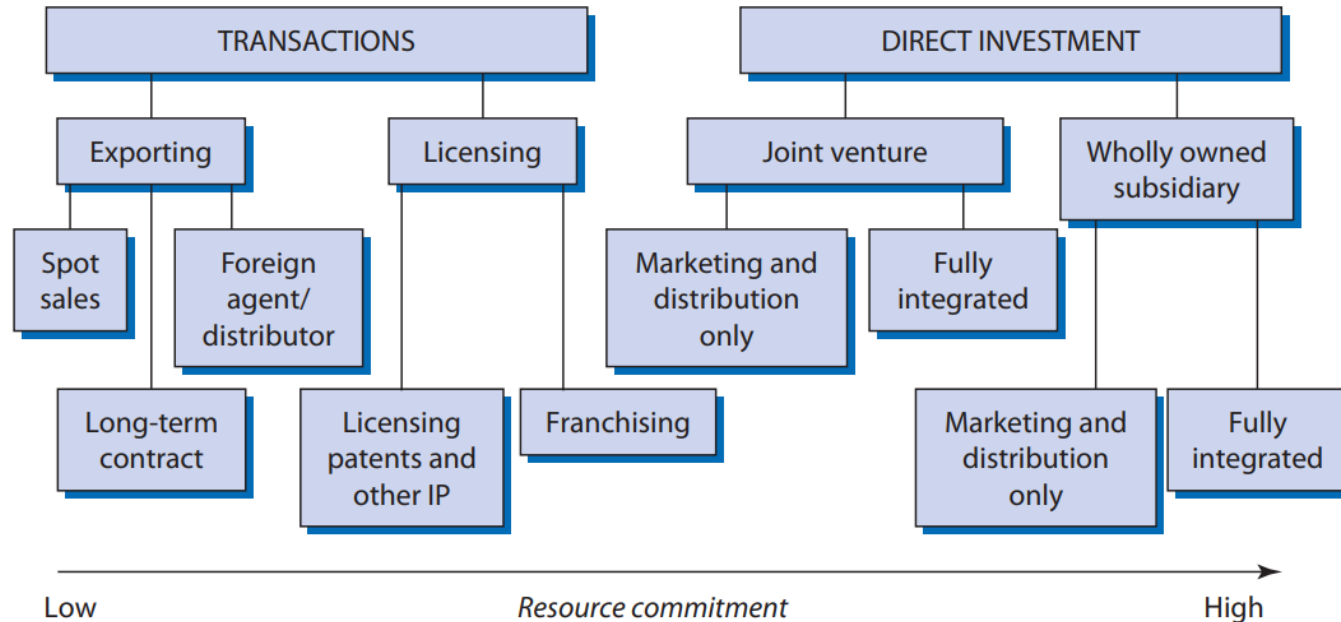
Source: "Slicing an Apple," *Economist* (August 10, 2011), <http://www.economist.com/node/21525685>.

Modes of internationalisation

- Exporting
- Licensing
- Franchising
- Contract manufacturing
- Direct investment

Modes of internationalisation

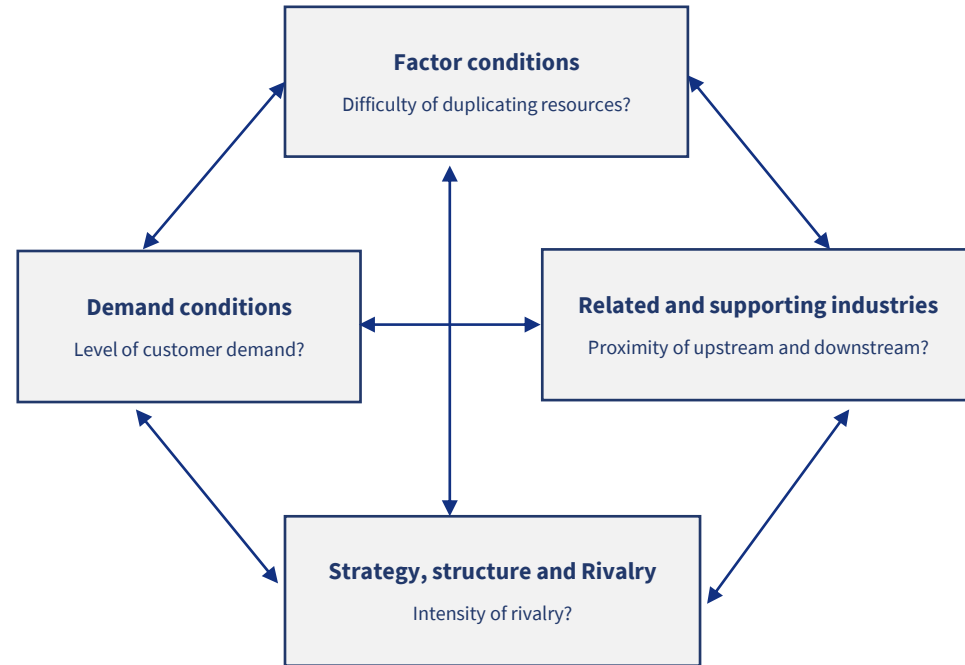
FIGURE 12.6 Alternative modes of overseas market entry



The role of the national environment on competitive advantage

When competing firms are based in different countries, competitive advantage depends not just on their internal resources and capabilities but on the availability of resources within those countries:

- Comparative advantage – availability of resources within a country and the use of these.
(e.g., Bangladesh's labour-intensive production of textiles goods)
- Porter's National Diamond – four factors determine whether firms from a particular country can establish a competitive advantage)



Summary and next week

- **Recap:**

- Ansoff's matrix.
- Diversification.
- Internationalisation.

- **Forthcoming:**

- Lecture 11: Wrap-up.



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