# Introduction to Management

University of  Cassino and Southern Lazio
A.A. 2020/2021
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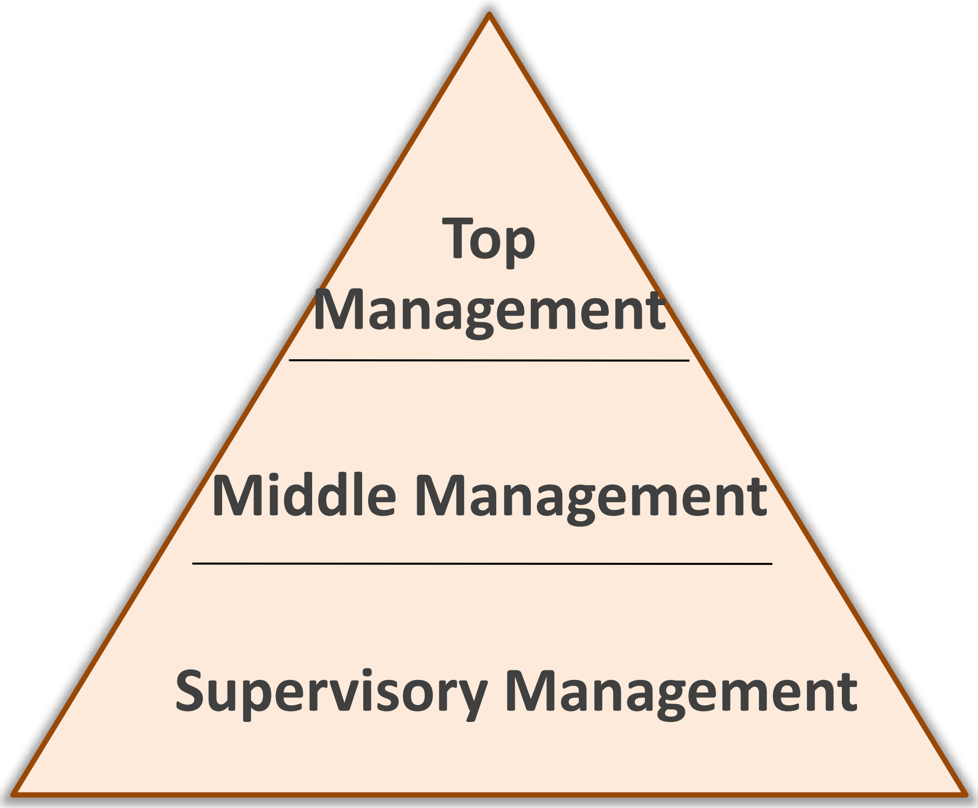
## Strategic Management

# Levels of Management



# Top Management

- Establishes the goal/objectives of the business
- Sets the direction the company will follow
- Not involved in the day-to-day problems
- Chairperson of the company’s board of directors, CEO, COO, senior vice presidents

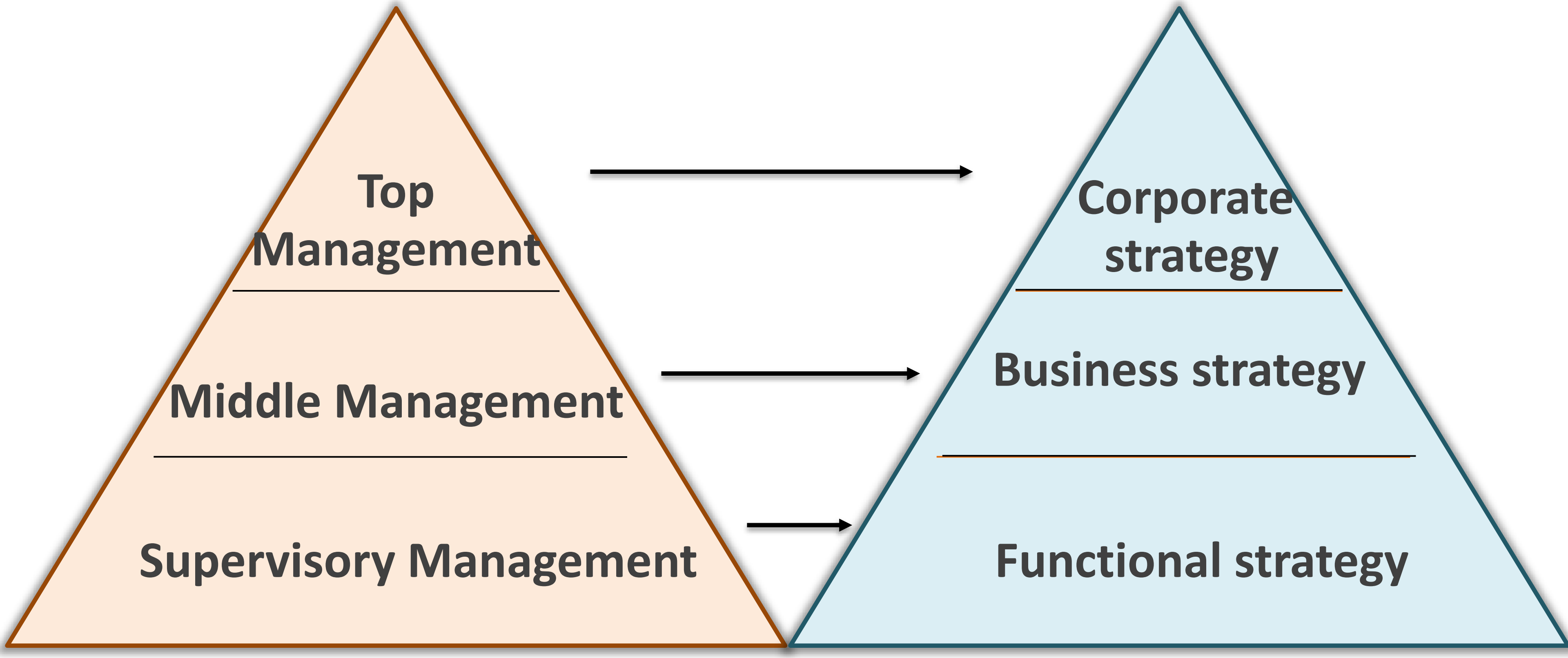
# Middle Management

- Responsible for meeting the goals that top management sets
- Sets goals for specific areas of the business
- Decides how to use the company’s resources
- Decides which employees in each area must do to meet goals
- Department heads, district sales managers

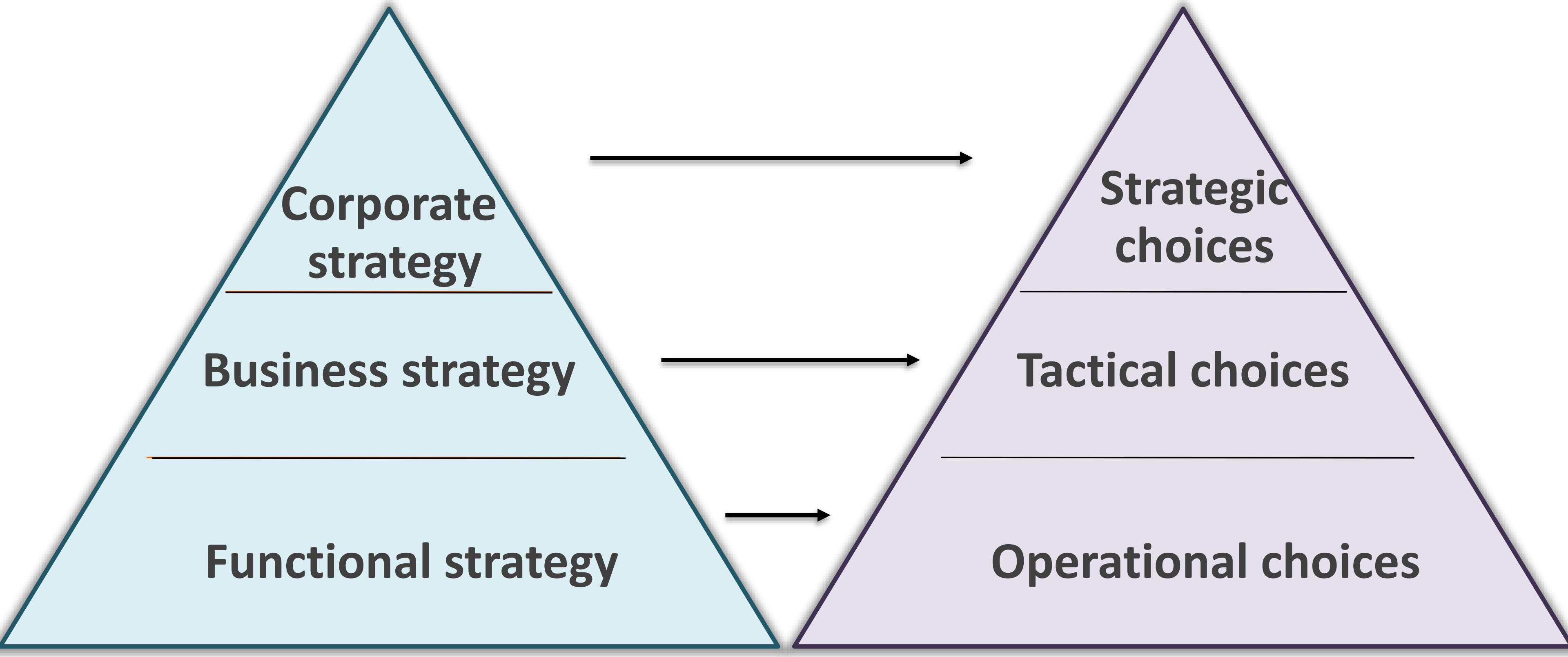
# Supervisory Management

- Make sure the day-to-day operations of the business run smoothly
- Responsible for the people who physically produce the company's products or services
- Forepersons, crew leaders, store managers

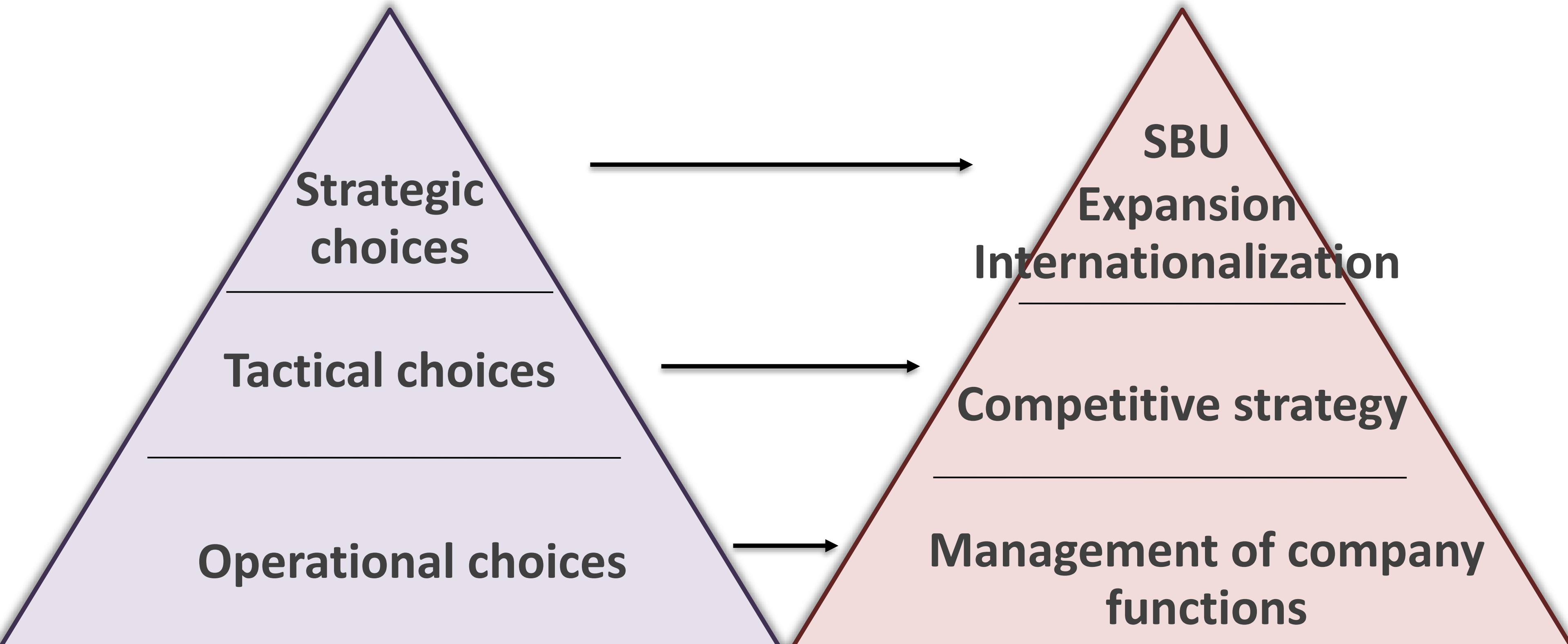
# Levels of Business strategy



# Levels of business choices



# Examples of business choices



# Strategic attitude of Top Management

**Waiting attitude**: It consists in waiting for evolutionary phenomena to occur in the environment to promote, afterwards, the appropriate adaptations to management.

**Anticipatory attitude**: It consists in a constant effort to forecast environmental changes, in order to be able to implement, in an early and timely manner, the necessary changes in management behaviours.

**Proactive attitude**: it consists in the promotion of actions aimed at influencing the environment in the direction most favorable to the prospects for company development.

# Types of Corporate Strategy

The corporate strategy of a company depends on its situation.

If the company is in good shape it will be able to aim for growth

If the company is in crisis, it will be concerned above all to survive.

If the company is in a stable position, that is neither in crisis nor in surplus, it needs to keep the positions occupied.

The result is three types of corporate strategy:

1. dimensional growth;
2. recovery;
3. reinforcement.

# Dimensional development

The dimensional growth consists in increasing the size of the firm. The size of a firm is determined by its turnover and its number of employees. According to the European direction we can distinguish between micro, small, medium and large enterprises.

| | Employees | Turnover |
|---|---|---|
| **Micro enterprises** | <10 | <3 Million |
| **Small enterprises** | 10-49 | 3-10 Million |
| **Medium enterprises** | 50-249 | 11-50 Million |
| **Large enterprises** | >250 | >51 Million |

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# Corporate strategy

# Dimensional growth advantages

It allows to increase the gap between costs and revenues, and therefore profit, by acting on both variables. It allows you to reduce costs for example through economies of scale, and to increase revenues by expanding sales.

This strategy allows the company to be more competitive and have greater bargaining power towards suppliers, distributors and public institutions. A company that has many employees, for example, has power over the government; if it is in difficulty or in crisis, the government usually helps it in order to not lose the many job positions and increase unemployment.

# Dimensional growth
# Advantages

Larger companies can exploit what are called the learning curve and the experience curve, i.e. the more the production volume increases, the more the production efficiency level increases and, therefore, the cost for unit of product decreases (this is the learning curve). When the advantage of the learning curve is added to that of economies of scale, and the positive effects extend not only to production but also to other business functions (marketing, administration, etc.), we can talk about an experience curve.

The growth in size contributes to the entrepreneur's social success, increasing his/her prestige and power as a growing company is linked to good entrepreneurial skills. In other words, the entrepreneur able to grow his/her own company is considered a good entrepreneur by the public opinion.

# Dimensional growth
# Optimal size

In the life of companies the expansion process is always gradual, no business born large. The birth of a business generally takes place on a dimensional basis that allows groped start-up in the market and, subsequently, to pursue the aim of enlargement towards the optimal size.

The optimal size is defined by the assessment of the advantages and disadvantages associated with the expansion for which an attempt is made to find a balance. The advantages relate above all to the structure of costs and revenues. Increased sales volumes increase revenues while eventual economies of scale, learning curve and experience reduce costs.

# Dimensional growth
# Disadvantages

The disadvantages derive above all from the greater rigidity that the larger firms have, for which they can adapt more difficultly to the changes in the external environment; from the difficulties in maintaining the necessary degree of control on the management; from the greater visibility of the enterprise in the market that could recall attacks by competitors and possible diseconomies of scale, that is the increase in costs per unit of production when production volumes increase.

# Economies and diseconomies of scale

The company's growth can involve economies of scale or diseconomies of scale. It depends on the cost structure. The increase in the volume of production determines economies of scale when for the production of a good the fixed costs are greater than the variable ones, on the contrary, when for the production of a good, for example services, most of the costs are variable, increasing the production volume could increase the unit cost of the product creating diseconomies of scale.

# Factors for dimensional expansion

Internal factors:

- excess of production and distribution capacity that can lead the company to better exploit the available resources by seeking new market opportunities, expanding the range of products, etc.
- excess of managerial capacity, that is, a management capable of handling new activities.

External factors:

- rapid market growth,
- increased demand for goods,
- the liberalization of international trade,
- the failure of a competitor,
- the emergence of new markets in other countries, etc.

# Alternatives of dimensional growth

Dimensional growth can take place in various ways. The main alternatives are a concentration of activities or the diversification of the activities managed.

In the first case, it is an expansion in existing business that aims to make the most of the resources, skills and experience already possessed by the company (vertical integration).

In the second case, diversification into new businesses aims at enhancing the interrelationships between old and new business units (related diversification) or aims to reduce risk by entering completely new business units that are not related to the existing ones (conglomerate diversification).

# Expansion in existing businesses

It can be achieved through:

- changes in the size of the product-market or through geographical expansion, that is maintaining the same products in the existing markets for example by increasing the number of countries or by acquiring new clients in the same market.

- vertical integration that is, expansion in the production chain. Vertical integration can be Backward when the company acquires the phases before production (i.e. supply) or forward when the company integrates the phases after production (i.e. distribution).

# Diversification into new business

It can be achieved through the related diversification or conglomerate (not related) diversification. We can distinguish among them because in the first case the company, in order to enter new business, can use the same product and process technology, supply, raw materials, components, distribution, marketing, services…In the second case no, all is different.

# Dimensional growth strategies for sectors

One-sector development, that is realized through the strategies of horizontal integration and vertical integration.

Multiple-sector development that is realized through the strategies of diversification (related and conglomerate).

# Horizontal vs. Vertical Integration: An Overview

Horizontal and vertical integrations are strategies used by businesses in the same industry or production process. In the horizontal integration, a company takes over another that operates at the same level of the value chain in an industry (competitor). A vertical integration, on the other hand, involves the acquisition of business operations within the same production vertical (supplier or distributor).

# Horizontal Integration

When a company wishes to grow through horizontal integration, its aim is to acquire a similar company in the same industry.

Companies may choose to undergo horizontal integration in order to increase their size, diversify product or service offerings, achieve economies of scale, or reduce competition. They may also wish to gain access to new customers or markets, including overseas. For example, a department store may choose to merge with a similar one in another country to start operations overseas.

The result of horizontal integration, when successful, is the ability to produce more revenues. In addition to this, a newly merged company can cut down on costs by sharing technology, marketing, research and development (R&D), production, and distribution.

# Some examples of horizontal integration

AstraZeneca's 2015 acquisition of ZS Pharma

Facebook's 2012 acquisition of Instagram

Disney's 2006 acquisition of Pixar

# Problems of horizontal integration

Even though a horizontal integration may make sense from a business standpoint, there are downsides to horizontal integration for the market, especially when they succeed. By merging two companies that operate in the same supply chain together, it can cut down on competition, thereby reducing the choices available to consumers. This may lead to a monopoly, where one company plays a dominant force, controlling the availability, prices, and supply of products and services.

In order to prevent monopolies, horizontal integrations are subject to anti-trust laws. These laws are in place to protect consumers from a merged entity if it has too much influence and a high market concentration.

# Vertical Integration

A company that undergoes vertical integration acquires a company that operates in the production process of the same industry. Some of the reasons why companies choose to integrate vertically include strengthening their supply chain, reducing production costs, capturing upstream or downstream profits, or accessing new distribution channels. To do this, one company acquires another that is either before or after it in the supply chain process.

Vertical integration occurs when a company assumes control over several of the production steps involved in the creation of its product or service in a particular market. In other words, vertical integration involves purchasing a part of the production or sales process that was previously outsourced to have it done in-house. Typically, a company's supply chain or sales process begins with the purchase of raw materials from a supplier and ends with selling the final product to the customer.

# Vertical Integration

Companies can integrate by purchasing their suppliers to reduce the costs of manufacturing. Companies can also invest in the retail or sales end of the process by opening physical locations as well as service centers for the after-sales process. Controlling the distribution process is another common vertical integration strategy, meaning companies control the warehousing and delivery of their products.

# Vertical Integration

This strategy is important for many companies for several reasons: to increase profits from the newly acquired operations by selling the products directly to consumers: to guarantee efficiencies in the production process; to cut down on delays in delivery and transportation.

Vertical integration benefits companies by allowing them to control the process, reduce costs, and improve efficiencies. However, vertical integration has its disadvantages, including the significant amounts of capital investment required.

# Types of Vertical Integration

There are various strategies that companies use to control multiple segments of the supply chain. Two of the most common methods of vertical integration include backward and forward integration.

**Backward integration** is when a company expands backward on the production path into manufacturing, meaning a retailer buys the manufacturer of its products. An example of backward integration might be Amazon.com Inc. (AMZN), which expanded from an online retailer that sold books to becoming a book publisher. Amazon also owns warehouses and parts of its distribution channel.

**Forward integration** is a strategy that companies use to expand by purchasing and controlling the direct distribution or supply of a company's products. A clothing manufacturer that opens its own retail locations to sell its product is an example of forward integration. Forward integration helps companies cut out the middleman by removing distributors that would typically be paid to sell a company's products—reducing their overall profitability.

# Some examples of vertical integration

Netflix is a prime example of vertical integration whereby the company started as a DVD rental company supplying films and TV contents. The company's executive managers realized they could generate more revenue by shifting to original content creation. Today, Netflix uses its distribution model to promote its original contents alongside films from major studios.

Ikea's 2015 purchase of forests in Romania to supply its own raw materials

# Vertical integration Advantages

Decreasing transportation costs and reducing delivery turnaround times

Reducing supply disruptions from suppliers that might fall into financial hardship

Increasing competitiveness by getting products to consumers directly and quickly

Lowering costs through economies of scale, which is lowering the per-unit cost by buying large quantities of raw materials or streamlining the manufacturing process

Improving sales and profitability by creating and selling its own brand

# Vertical integration Disadvantages

Companies might get too large and mismanage the overall process

Outsourcing to suppliers and vendors might be more efficient if their expertise is superior

Costs of vertical integration such as purchasing a supplier can be quite significant

Increased amounts of debt if borrowing is needed for capital expenditures

# The case of Apple

An example of vertical integration is the technology giant, Apple Inc. (AAPL), which has retail locations to sell its products as well as manufacturing facilities around the globe. Apple manufactures its custom A-series chips for its iPhones and iPads. It also manufactures its custom touch ID fingerprint sensor. Apple opened up a laboratory in Taiwan for developing LCD and OLED screen technologies in 2015. It also paid $18.2 million for a 70,000-square-foot manufacturing facility in North San Jose in 2015. These investments, among others, allow Apple to move along the supply chain in backward integration, giving it flexibility and freedom in its manufacturing capabilities.

# The case of Apple

However, the company still has suppliers that include Analog Devices, which provides the touchscreen controllers for iPhones. Also, Jabil Circuit supplies phone casings for Apple from its manufacturing facilities in China.

The company has also integrated forward as much as backward. The Apple retail model, one where the company's products are almost exclusively sold at company-owned locations, excluding Best Buy and other carefully selected retailers, allows the business to control its distribution and sale to the end consumer.

# What Is a Merger?

A merger is an agreement that unites two existing companies into a new company. There are several types of mergers and also several reasons why companies complete mergers. Mergers and acquisitions are commonly done to expand a company's reach, expand into new segments, or gain market share. All of these are done to increase shareholder value. Often, during a merger, companies have a no-shop clause to prevent purchases or mergers by additional companies.

# How a Merger Works

A merger is the voluntary fusion of two companies on broadly equal terms into a new legal entity. The firms that agree to merge are roughly equal in terms of size, customers, scale of operations, etc. For this reason, the term "merger of equals" is sometimes used. Acquisitions, unlike mergers, are generally not voluntary and involve one company actively purchasing another.

# Types of Mergers

**Conglomerate**

This is a merger between two or more companies engaged in unrelated business activities. The firms may operate in different industries or in different geographical regions. A pure conglomerate involves two firms that have nothing in common. A mixed conglomerate, on the other hand, takes place between organizations that, while operating in unrelated business activities, are actually trying to gain product or market extensions through the merger.

Companies with no overlapping factors will only merge if it makes sense from a shareholder wealth perspective, that is, if the companies can create synergy. A conglomerate merger was formed when The Walt Disney Company merged with the American Broadcasting Company (ABC) in 1995.

# Types of Mergers

**Congeneric**

A congeneric merger is also known as a Product Extension merger. In this type, it is a combining of two or more companies that operate in the same market or sector with overlapping factors, such as technology, marketing, production processes, and research and development (R&D). A product extension merger is achieved when a new product line from one company is added to an existing product line of the other company. When two companies become one under a product extension, they are able to gain access to a larger group of consumers and, thus, a larger market share. An example of a congeneric merger is Citigroup's 1998 union with Travelers Insurance, two companies with complementing products.

# Types of Mergers

**Market Extension**

This type of merger occurs between companies that sell the same products but compete in different markets. Companies that engage in a market extension merger seek to gain access to a bigger market and, thus, a bigger client base. To extend their markets, Eagle Bancshares and RBC Centura merged in 2002.

**Horizontal**

A horizontal merger occurs between companies operating in the same industry. The merger is typically part of consolidation between two or more competitors offering the same products or services. Such mergers are common in industries with fewer firms, and the goal is to create a larger business with greater market share and economies of scale since competition among fewer companies tends to be higher. The 1998 merger of Daimler-Benz and Chrysler is considered a horizontal merger.

# Types of Mergers

**Vertical**

When two companies that produce parts or services for a product merger the union is referred to as a vertical merger. A vertical merger occurs when two companies operating at different levels within the same industry's supply chain combine their operations. Such mergers are done to increase synergies achieved through the cost reduction which results from merging with one or more supply companies. One of the most well-known examples of a vertical merger took place in 2000 when internet provider America Online (AOL) combined with media conglomerate Time Warner.