**Session 06 BUSA 7800 - Strategic Management Chapter 06**

Learning Outcomes

At the end of this session you should be able to:

* 1. Define corporate strategy, related and unrelated diversification.
  2. Relate how economies of scope, sharing activities and market power impact on related diversification initiatives.
  3. Compare the benefits and the risks of vertical integration.

**Chapter 6 - Corporate-Level Strategy**

**I. Introduction to Diversification and Corporate Strategy**

What does corporate strategy focus on?

* 1. Answering the questions:

What is included as diversification initiatives?

* 1. *Mergers and acquisitions, strategic alliances, joint ventures or internal development*

What is the idea behind synergy?

What is the difference between related and unrelated diversification?

**II. Related Diversification: Economies of Scope and Revenue Enhancement**

How does related diversification enjoy economies of scope?

**A. Leveraging Core Competencies**

What are core competencies a reflection of?

What are the three criteria that a core competence must meet to create value and provide synergy among your firm's businesses?

1. The core competence must enhance competitive advantages(s) by creating superior customer value.
2. Different businesses in the corporation must be similar in at least one important way related to the core competence.
3. The core competence must be difficult for competitors to imitate or find substitutes for.

**B. Sharing Activities**

What are some examples of sharing activities across business units?

*i. Deriving Cost Savings through Sharing Activities*

Where do cost savings come from in sharing activities?

*ii. Enhancing Revenue and Differentiation through Sharing Activities*

How can sharing activities enhance revenue?

How can sharing activities enhance differentiation?

**C. Market Power**

How is market power impacted when a firm acquires a related business?

What was the idea behind Pepsi's related diversification into fast-food?

How did Pepsi's related diversification into fast food backfire?

What is one regulatory limit on related diversification?

**D. Vertical Integration**

What is vertical integration?

*i. Benefits and Risks of Vertical Integration*

What are several benefits of vertical integration?

* *Secure a source of raw materials or key inputs or distribution channels*
* *Access to new business opportunities and new forms of technologies*
* *Improved coordination of activities across the value chain*

What are the major risks involved with vertical integration?

* *More costs associated with putting together facilities and equipment*
* *Loss of flexibility since so many resources are invested in a specific area and it's more difficult to redeploy elsewhere*
* *The capacity of your facilities may not match demand*
* *More administration costs associated with managing a more complex set of activities*

What are the four key questions that need to be considered before a firm decides to go ahead with vertical integration?

1. Is the value provided by present suppliers and distributors satisfactory?
2. Are there activities in the industry value chain presently being outsourced or performed independently by others that are a future source of profits?
3. Is there relative stability in the demand for the firm's products?
4. Is there a source of core competence in the activity that is considered for outsourcing or vertical integration?

*ii. Analysing Vertical Integration: The Transaction Cost Perspective*

What costs are included as transaction costs?

* *Search costs*
* *Negotiating costs*
* *Contract costs*
* *Monitoring costs*
* *Enforcement costs*

What is the hold-up problem?

What are some solutions to the hold-up problem?

Why does vertical integration give rise to administration costs?

What is the rule for choosing a market transaction over vertical integration?

**Next Session:**

Chapter 6 – Corporate – Level Strategy (Cont’d)

Chapter 7 – International Strategy