

Strategy at the Corporate Level

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Development Program for Managers

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Our Definition of Strategy

- ✱ Leveraging resources to satisfy customer value

while

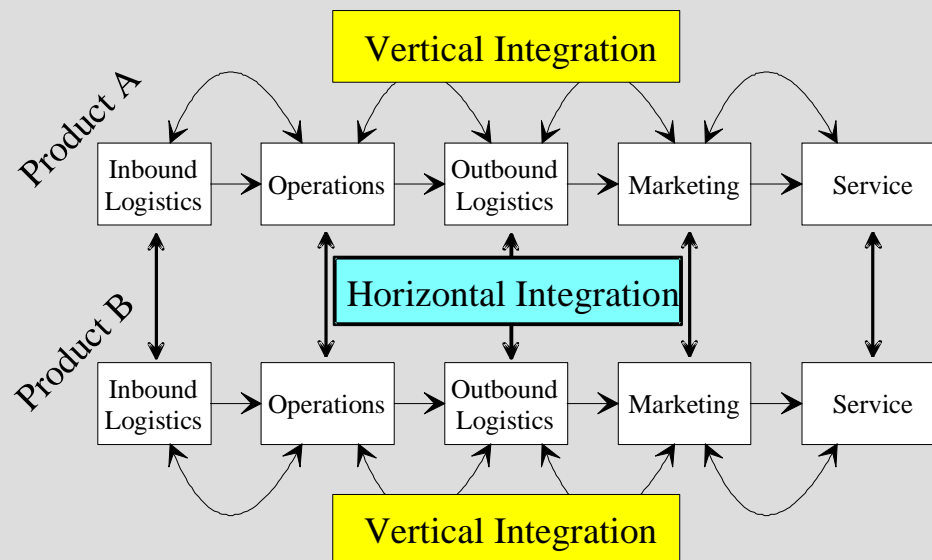
- ✱ Building resources for the future

- ✱ This requires:

- Understanding, protecting and building resources
- Understanding customer value
- Understanding how to convert resources to value

Diversification: Horizontal and Vertical

All firms can be viewed on horizontal and vertical dimensions

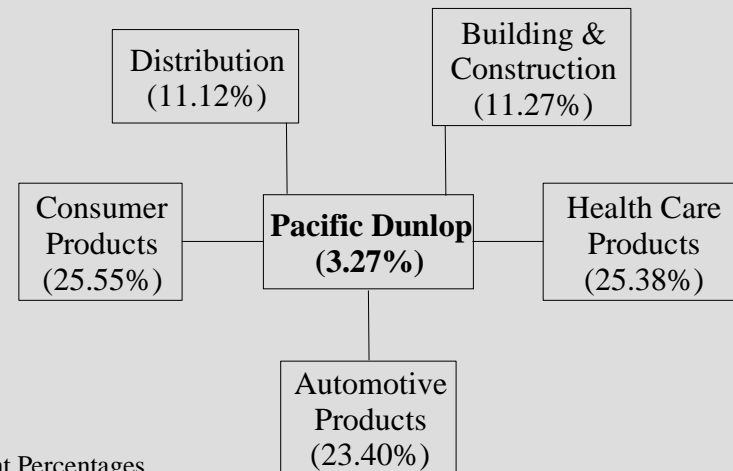
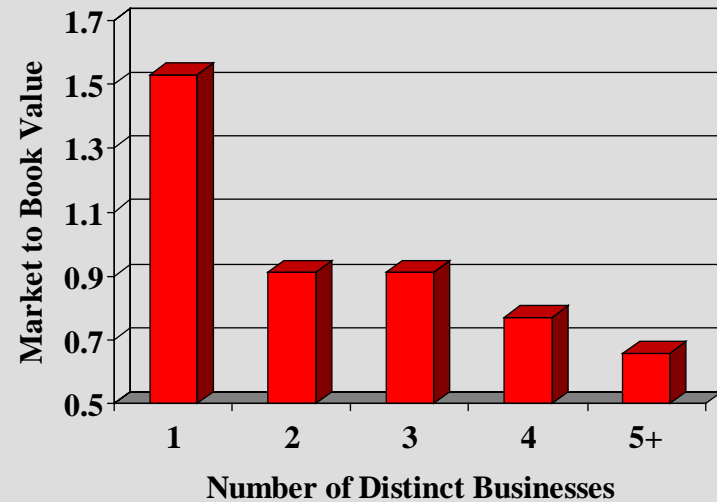


All firms must address the issue of the optimal vertical and horizontal mix of operations, products and services

When to Not to Diversify?

✱ Unrelated Diversification

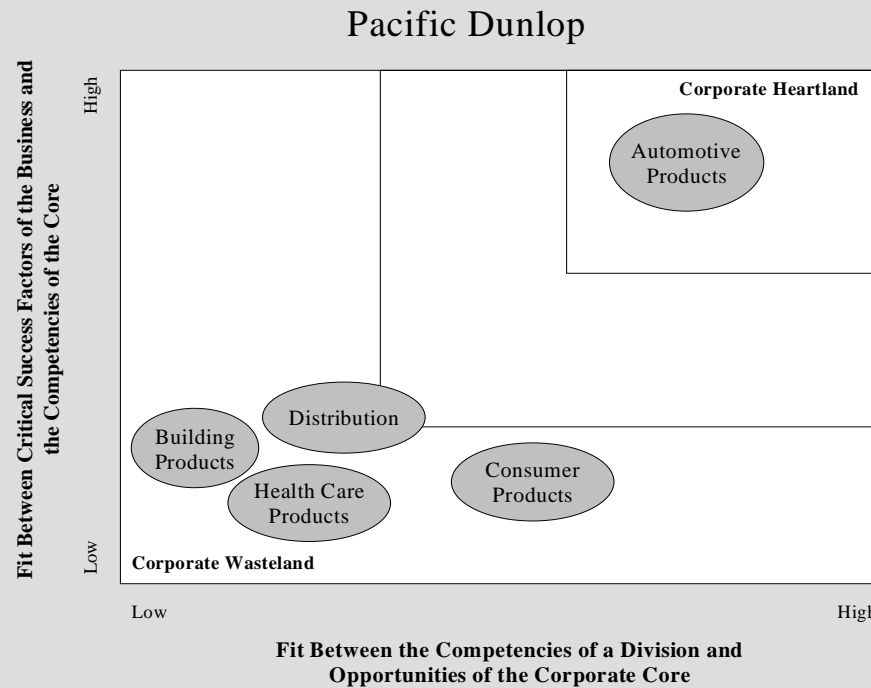
- "Pure" financial diversification (Pacific Dunlop)
 - ▶ Investment that can be done by investors should not be done by managers
- No potential linkages (or synergies) (Pacific Dunlop)
 - ▶ Managerial hubris leads many a company to believe that synergies lurk in every corner. They lurk in very few corners and never the obvious ones!
 - ▶ Perhaps the biggest such failure was in the case of Sony-Columbia Pictures-Columbia records



Employment Percentages
in Parentheses

Pacific Dunlop Decomposed

What does the corporate centre have to add to the business?



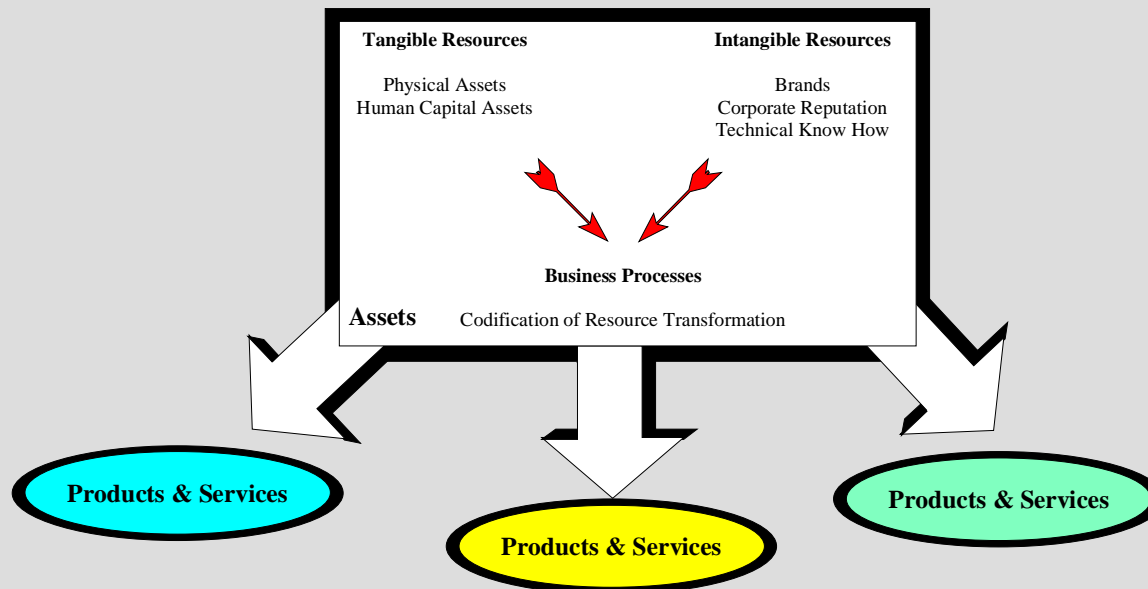
Source: Adapted from Campbell *et. al.* (1995) and Owen and Harrison (1995)

What does the business contribute back to the corporate centre?

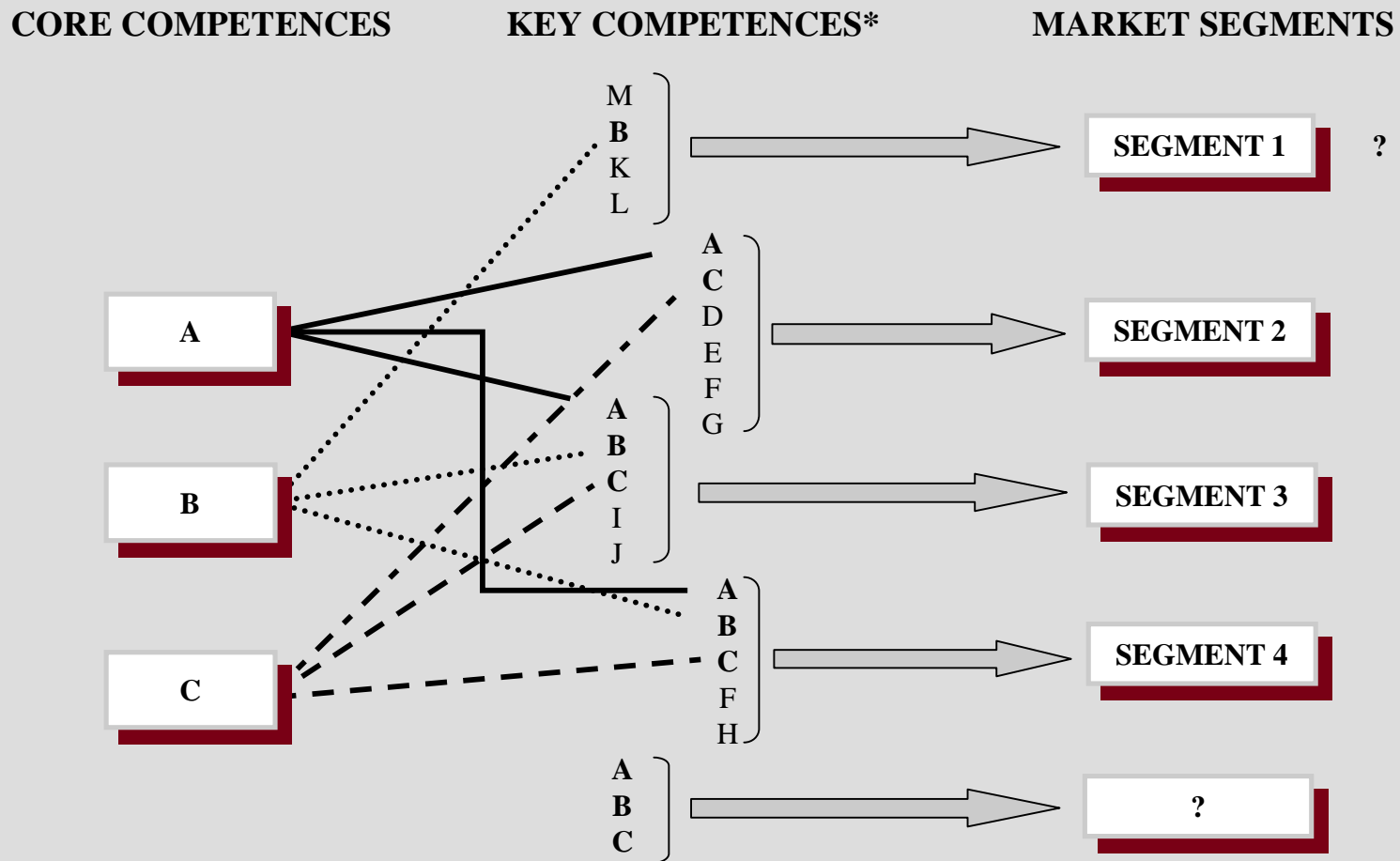
When and How to Diversify?

☼ Related Diversification

- Synergistic inter-relations between the SBUs
 - ▲ Production, Distribution, Marketing, etc.
 - ▲ Managerial Skills (Competencies and Resources)
- Satisfaction of multiple segments of the market off the same platform



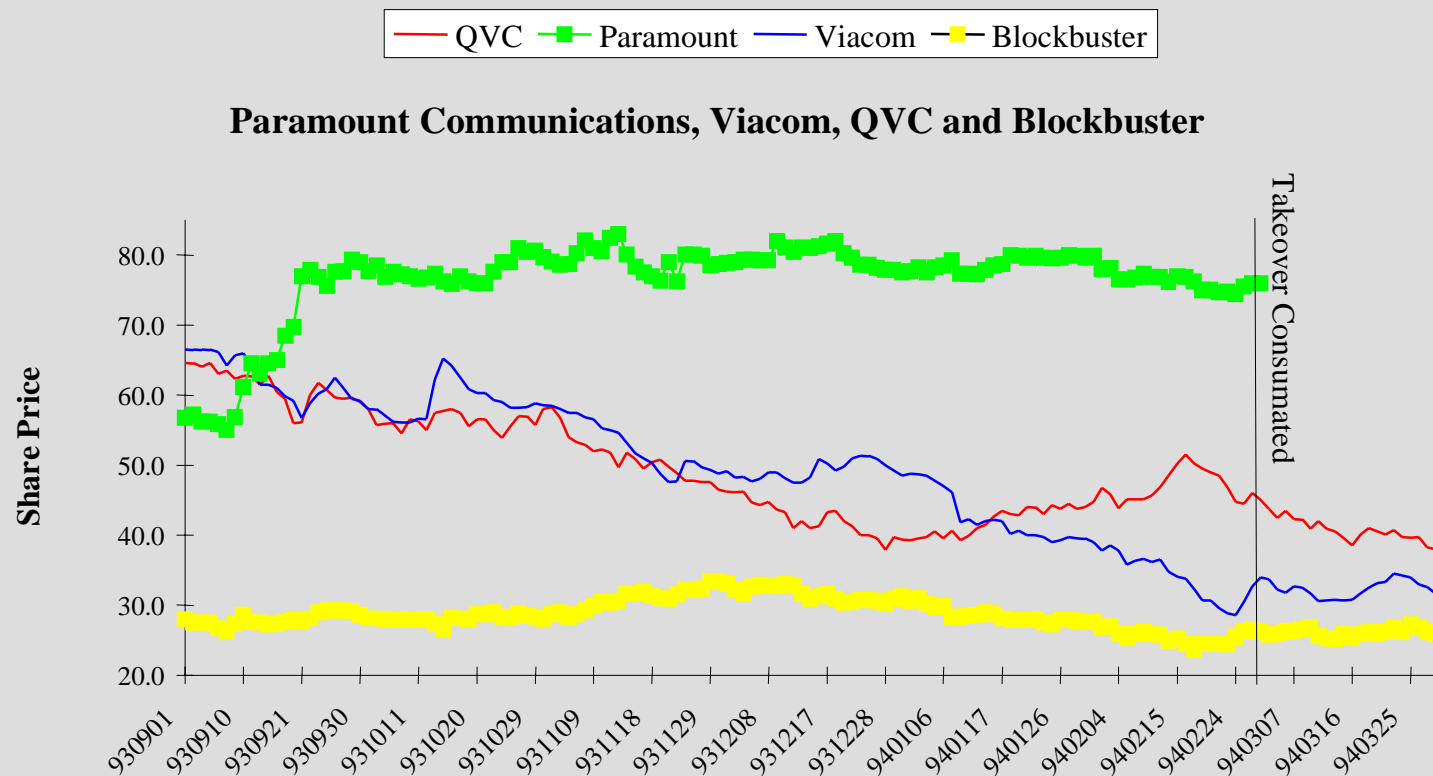
Using Competences to Determine Segment Strategy



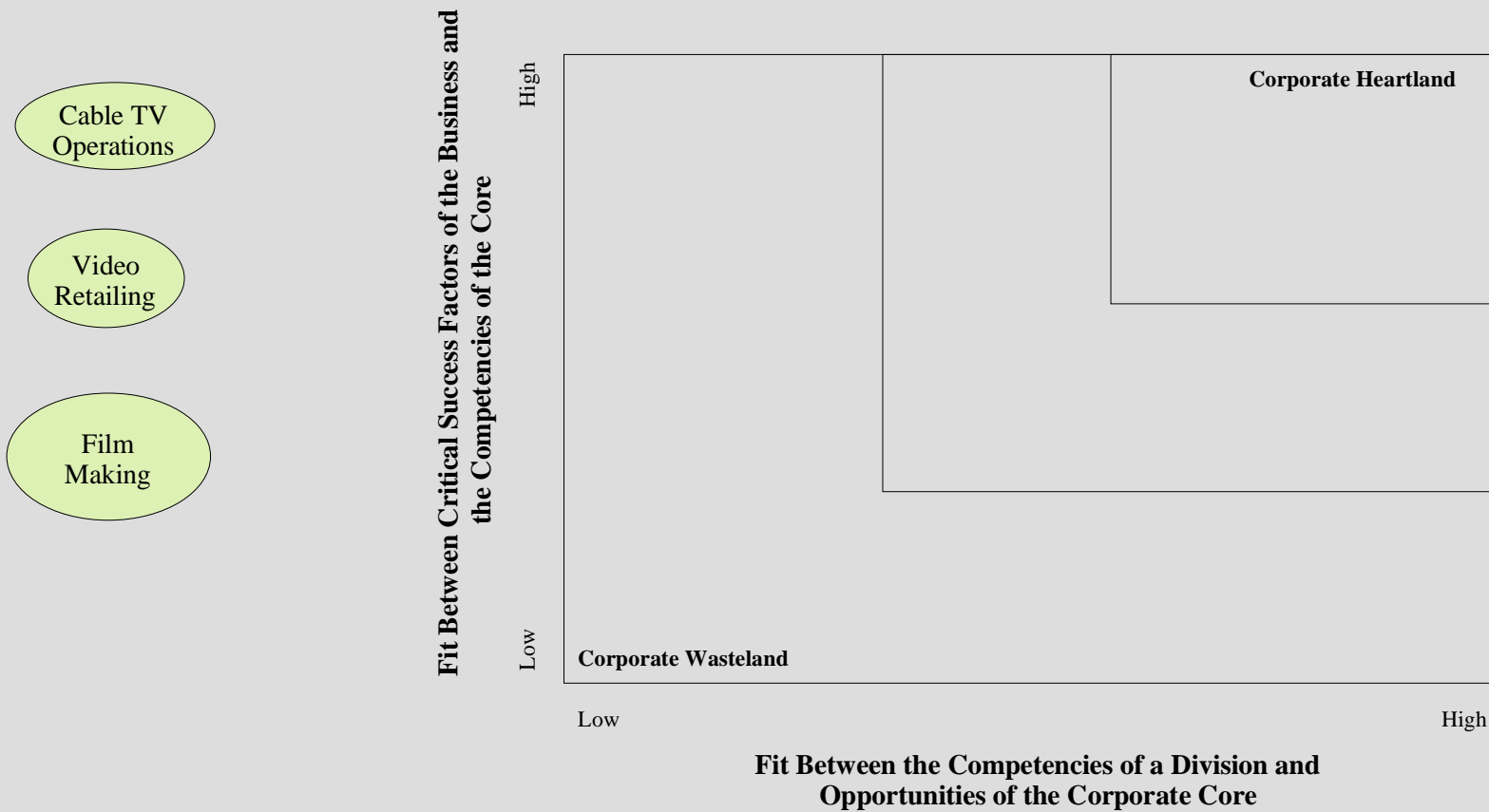
* COMPETENCES REQUIRED TO DELIVER VALUE AT LOW COST

Diversification: A Tale of Two Companies

- ✱ The Viacom-Blockbuster takeover of Paramount represented a failed attempt at synergy between movie making, video sales and cable television operations



Plot Viacom - Paramount on the Matrix

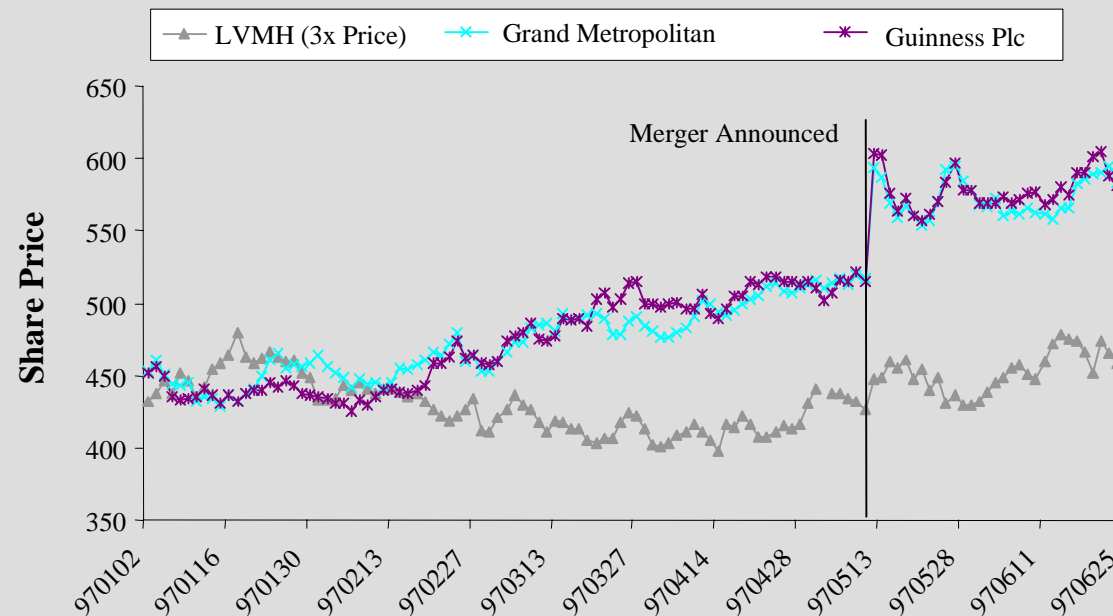


Source: Adapted from Campbell *et. al.* (1995) and Owen and Harrison (1995)

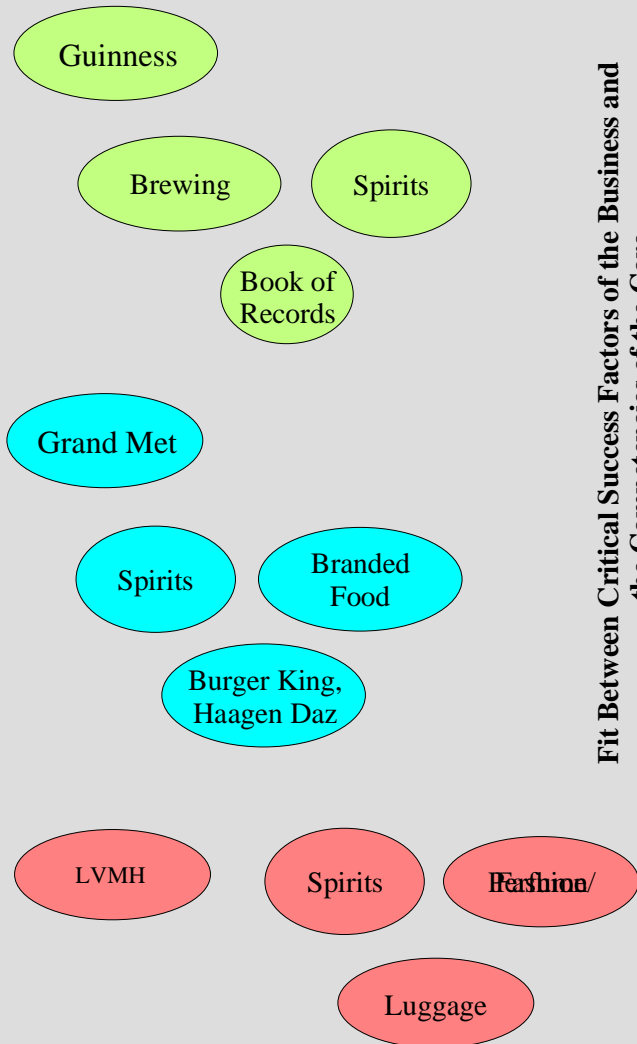
Diversification: A Tale of Two Companies

- ✿ Unlike the Viacom example, the Guinness-Grand Met merger appears to have some solid synergistic and strategic relationships (provided the company is ‘separated’)
 - Whether these relationships will be effectively managed to maximize value is, of course, always open to question.

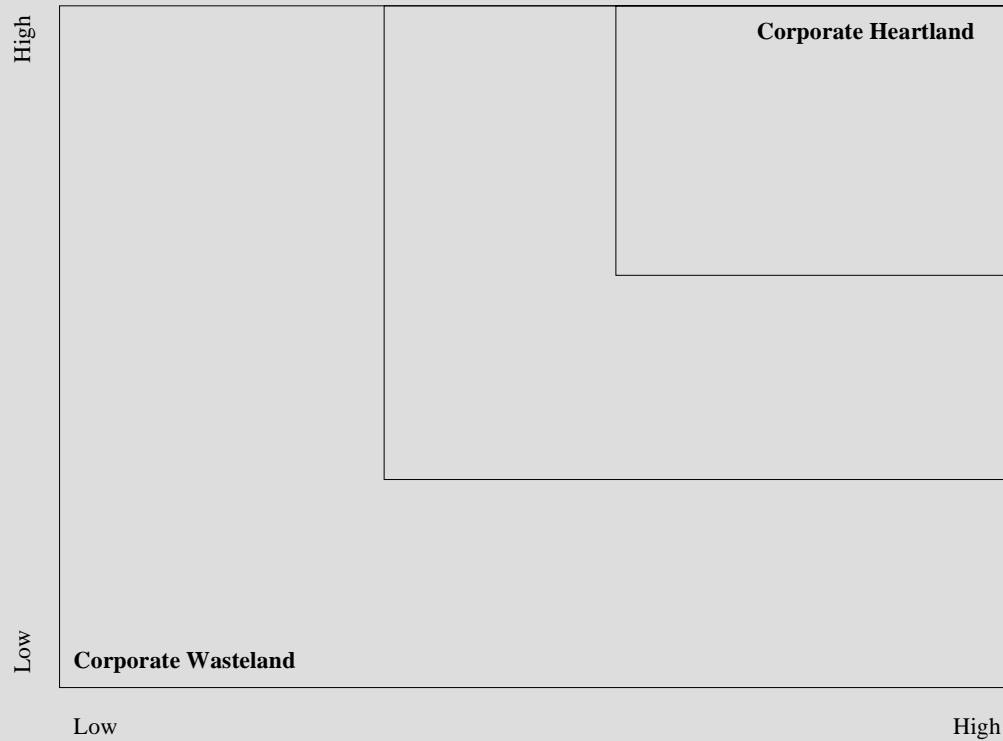
Guinness-Grand Met Merger (with LVMH Information)



Plot Guinness - Grand Met on the Matrix

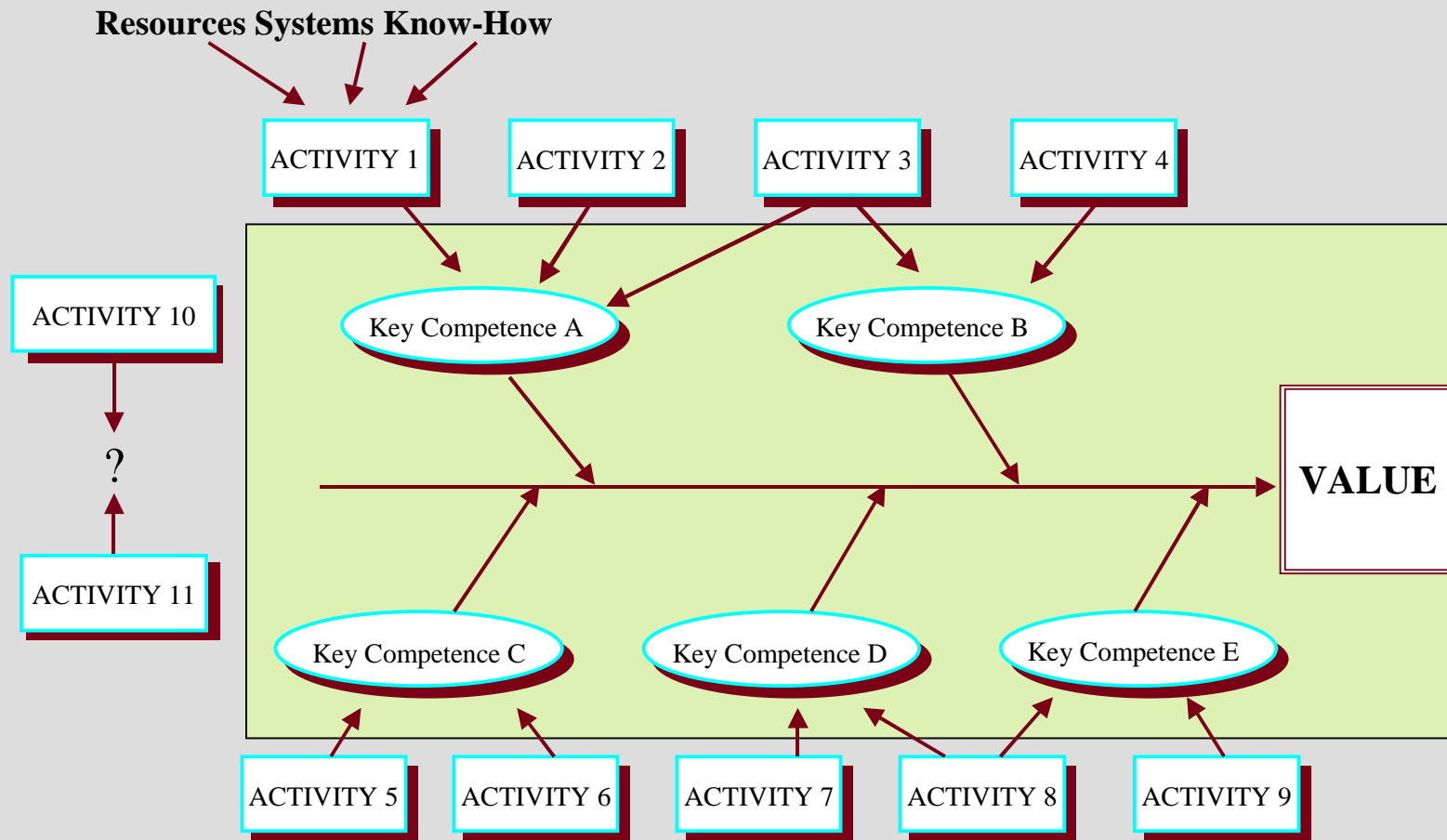


Fit Between Critical Success Factors of the Business and the Competencies of the Core



Fit Between the Competencies of a Division and Opportunities of the Corporate Core

Going From Process to Value



Summary

- ✿ Product, Process & Service mix is about exploiting the core interrelationships between resources and assets to services different markets and market segments
 - Few companies do it well
 - Those that do it well base it on more than distribution linkages, market access and market power

