Horizontal integration and conglomerate diversification marketing essay

1: Define and distinguish between the following pairs of grand strategies:

Horizontal integration is a grand strategy based on growth the acquisition of similar firms operating at the same stage of the production-marketing chain. (Pearce, p. 218) Vertical integration is the grand strategy based on the acquisition of firms that supply the acquiring firm with inputs or new customers for its outputs. (Pearce, p. 220) Horizontal integration acquires more entities within the same level of the supply chain where vertical integration acquires entities up and down the supply chain to control the entire production and distribution process from raw materials to final consumer.

Conglomerate diversification is the grand strategy that involves the acquisition of a business because it presents the most promising investment opportunity available. (Pearce, p. 221) Concentric diversification involves the acquisition of a second business that benefits from access to the first firm’s core competencies. (Pearce, 221) Concentric diversification seeks synergies between its acquisitions where conglomerate diversification does not. Newell Rubbermaid is an example of a large conglomerate that has begun to look for more concentric diversifications in the last 10 years – divesting businesses that are not good fits for the overall portfolio.

Product development is the growth strategy that involves the substantial modification of existing products that can be marketed to current customers. (Pearce, p. 216) Innovation is a grand strategy that seeks to reap the premium margins associated with creation and customer acceptance of a new product or service. (Pearce, p. 216) Innovation is truly difficult to make profitable. It requires a significant amount of research, time, and financial resources. Many more companies practice product development and use the term innovation.

Joint venture is a grand strategy in which companies create a co-owned business that operates for their mutual benefit. (Pearce, p. 230) Strategic alliances are contractual partnerships where the companies involved do not take an equity position in one another. (Pearce, p. 232) Strategic alliances can be between companies with similar customer bases that can benefit from each others resources – such as a distribution network. Joint ventures are much more complicated and longer term. Each entity has rights and ownership into one common business. This is much more common when US firms begin to do business in countries like China and Mexico.

2: What are three ways a firm can incorporate the advantage of speed in its business?

Speed to market, or rapid response to customer requests has become a major source of competitive advantage in the global market. We live and work in an environment where everyone wants everything now. The customer has an unmet need and does not want to wait for your firm to provide a product that meets their need. This can be an important market strategy if the firm in question can quickly adjust products or processes to meet the customers needs fast.

First, customer responsiveness. All customers have dealt with frustrations related to delays or slow service. The same holds true from business to business. Quick response with useful solutions, information, and products can become the basis of a competitive advantage – especially if the firm can consistently deliver faster than the competition.

Second, product development cycles. There are automotive companies that have worked to streamline product development taking a new product from concept to production within less than 9 months. Today's marketplace thrives on newness, and products may only last for a year or two from launch to grave. Being efficient at product development is a key strategy.

Third, speed in delivery or distribution. Firms that can get you what you need, when you need it (even when its tomorrow) will have a competitive advantage. A key example of this is the Batesville Casket Company. Funeral homes across the country do not stock all designs and styles of caskets, yet they can meet with a client at 5pm on one day and have their exact custom order delivered before noon the next day anywhere in the country. This is done through an intricate network of distribution centers that stock one of everything. When one item is pulled from the distribution center, manufacturing begins to make the replacement.

3: How does market focus help a business create competitive advantage? What risks accompany such a posture?

Market focus allows some businesses to compete on the basis of low cost, differentiation, and rapid response against much larger businesses with greater resources. Focus lets a business learn its target customer in greater detail and develop personal relationships that will differentiate the smaller firm or make it more valuable to the target customer.

Market focus may also be an advantage because it will reduce the number of competitors in a market. For example, if your firm sells and delivers floral bouquets, you may compete with large global firms like 1800Flowers or FTD. By focusing on the needs of the local market that the large firms have ignored, your firm may be able to gain an advantage over the larger firms.

The risk of market focus is that you attract major competitors that have waited for your business to prove the market. They let you be the guinea pig, and now that the market seems to be agreeable, they will swoop in and begin taking customers and market share. Your firm may also risk being bought out or taken over by a larger firm that wants to expand and fill out its portfolio. The greatest risk is assuming that it is focus alone, and not some combination of price, differentiation, or rapid response that is creating the businesses success.

4: When would multi-industry companies find the portfolio approach to strategic analysis and choice useful?

Portfolio approaches provide several contributions to strategic analysis by corporate managers. First, they allow for the transfer of competitive advantage of professional management across a broad array of businesses. They help convey large amounts of information about diverse business units and corporate plans in a simplified format. They illuminate similarities and differences between business units and help convey the logic of corporate strategies for each business with a common vocabulary. The portfolio approach simplifies priorities for sharing corporate resources across diverse business units that generated and used those resources. They provide a simple prescription that gives corporate managers a sense of what they should accomplish and a way to control and allocate resources between them. (Pearce, p. 283)

Multi-industry companies would find this approach useful when it is not clear which business provides the greatest revenue or generates the largest market share or financial gains for the company. The portfolio approach is a systematic way to compare common criteria across all businesses in the portfolio.

Case Study Exercises:

1: How would you describe VW's new advertising strategy?

Volkswagen's new advertising strategy is to regain American interest in the Volkswagen brand. Volkswagen held strong market position in the 1970's based on the success of the VW Beetle and Transporter. Sales were strong until the introduction of the VW Rabbit in the US in the early 1980's. The Rabbit was popular but known to catch fire or have other mechanical problems, giving the Rabbit and VW a reputation for poor quality.

After severely declining sales in the 1990's, Volkswagen hired Crispin Porter and Bogusky to completely rebrand the Volkswagen in 2006. Crispin had a strong history of creating memorable marketing and advertising campaigns that turned around several major US brands like Burger King and MINI. Crispin started the strategy by defining the new target market, and determining what the perception was in the 18-30 yr old male audience. Crispin Porter and Bogusky used a strong web based campaign to attract the target audience, and added enough edge and controversy to get people of all demographics talking about Volkswagen.

The strategy of using the web and a German dominatrix type blonde named Helga that the user could interact with on the GTI website, gained in popularity but offended and alienated woman who were also VW customers. Many believed the campaign degraded or looked over women as a target market. The strategy worked for a short period of time but was unable to overcome the mixed product message that Volkswagen was sending with offerings ranging from expensive luxury cars to econo-friendly hatchbacks. Now, four years later, VW Americas is still struggling to improve sales and gain market share.

2: What appear to be DHL's most important competitive advantages? Are they best suited to a mature industry or a growth industry? Which way would you characterize the U. S. parcel market and the global parcel market?

DHL's most important competitive advantages are its global presence, strong parent company financial support, and willingness to have face to face relationships with its customers. DHL holds a commanding 40% market share in Europe and Asia, but struggles to gain over a 7% market share in the US. This is primarily because the competition, FedEx and UPS, have spent decades and billions of dollars building delivery networks and infrastructures and huge economies of scale. DHL wants to become the next FedEx or UPS in the United States in order to further strengthen their overall global footprint. In order for DHL to continue to be successful in the future, they have to be successful in the US. DHL has a strong global delivery system but lacks in US domestic delivery. This became most evident in November 2008 when DHL ceased all US domestic shipping operations.

The US parcel market is a mature market because over the past 40 years the market has developed a structure and market leaders that are serving the needs of nearly all customer groups. This market saturation and duration do not leave a lot of room for a new start up to gain any ground. The US geographic is much more spread out than DHL is use to dealing with in Europe. This dynamic adds complexity and requires a larger structure to manage.

DHL is much better suited to a growth industry than a mature industry. A growth industry has the opportunity for many competitors to develop the market at the same rate without one being at a disadvantage over any others. DHL has a strength in developing relationship with customers that works well in a growth market, where relationships are key to expanding the market.

3: What does eBay’s corporate or multi-business strategy for the twenty-first century appear to be?

Ebay’s corporate business strategy is to be a company that provides services for all the kinds of activities that people perform on the internet: trade, communicate, shop, search, and entertain. (Pearce, p. 299) Investors, however, are struggling to see Ebay as more than an online auction site. Over the past 5 years, Ebay has purchased what seems to be a hodge podge of companies with little common connection. PayPal seemed to be a logical fit, as a means to facilitate buyers and sellers on the Ebay auction site. But, Skype and others seem to be farther stretches for the investment community to understand. If you look at ebay as a company that is in business to facilitate trade then the acquisitions make more sense. Time will tell if the online auction giant can gain the trust of the investment world and change their mind about who Ebay is and what it does.

Strategic Management Plan:

1: Using one (or a combination) of the 15 grand strategies outlined in the text, write long-term objectives for your selected company that exhibit the seven qualities of long-term objectives: Acceptable Flexible Measurable Motivating Suitable Understandable Achievable.

In order to increase value creation for shareholders, Cooper Tire and Rubber Company will improve global cost structure and increase targeted profitable growth.

Global Cost Structure

Sourcing and LCC Manufacturing

- 35 – 45 % of Manufacturing in LCC

- Meet Demand

- Lower Global Cost Structure

- Reduce Complexity

Short Term Goals

- Ramp Up CKT 6 million tires (China)

- Expand at CCT +2 million tires (China)

- Offtake agreement with Mexico

- Offtake agreements at other locations

Long Term Goals

- Analyze expansion of existing LCC facilities

- Identify and evaluate potential JV partners

- Analyze Greenfield options in LCC

Manufacturing Cost Reductions

- 10 – 15 % reduction in addressable cost base

- Continue with high quality manufacturing

Programs to achieve

- Process efficiency improvements

- Complexity reduction and management

- Automation

- Distribution

Targeted Profitable Growth

- Total Company = 6 to 7% CAGR

- Global Net Sales =

– > $3. 6 billion

– > 60. 9 million units

Programs to achieve

– North America – Channel Alignment

-Grow in all Channels, Growth not equal in all channels

-Continue Support of Independent Dealers

-Align organization and strategy to each channels needs

– Asia – Grow TBR and PCR

Truck and Bus Radial (TBR)

- Focus TBR on Tier 2 and 3 Products

- Continue to develop retail sales

- Focused growth in fleet sales

Passenger Car Radial (PCR)

- Build in areas with greatest car parks (east coast)

- Shift production used for export sales to domestic

- Elevate the brand

- Continue to develop retail sales

– Europe – Focused Growth

Targeted approach with resources geared toward priorities

Existing Cooper Strengths PLUS

Brand focus

Highly focused sales by product segment

Greater channel focus

2: In 2 pages or less, describe the grand business strategy or strategies that you will select to seek sustained competitive advantage. Why did you select this strategy or strategies?

Cooper Tire & Rubber Company has chosen to use new product development and joint venture as grand strategies to seek competitive advantage in the global replacement tire industry.

Product Development is used to prolong the product lifecycle or build on the reputation of the brand. Cooper Tire plans to do strengthen this as a strategy by adding resources and enhancing regional technology centers in Asia and Europe. Additional organization of resources into continuous product and process improvement teams through the use of LEAN and Six Sigma techniques will aid the product development process. Cooper must also modify the research structure to improve research knowledge base. Advanced Technology and “ Shelf Technology” combined with computer modeling and simulation will help with a focused development effort leading to fewer iterations and faster product development. Cooper can also utilize external resources by leveraging vendors and academic institutions to provide innovations and technological advancements in tire construction and materials. By applying a stage gate process, Cooper will enhance decision making process, and align it with global goals.

Joint Ventures occur when two or more capable firms lack a necessary component for success in a particular competitive environment. Cooper Tire has a strong market share in the US and looks to continually expand into new global markets. Cooper Tire has two active joint ventures in China. Cooper's joint venture allows them easier entry into the Chinese domestic market while creating a supply in a low cost country. The Chinese replacement tire market is increasing at a 17% year over year rate, which is a great expansion opportunity for Cooper. As Cooper uses the joint ventures for the production of tires, they are also focusing on building retail distribution in areas with greatest car park (along Eastern coast). These strategies will help to expand the Cooper business and global market share.