

Cheat sheet module 4 - Corporate strategy

Coase and Williamson

- **Transaction costs** = **search, bargaining, enforcement costs**. Market expensive: organise internally.
- Limit to size: overhead and errors. Coase: optimal balance internal/external. = first diversification driver.
- **Williamson: opportunism** with (1) few alternatives, (2) complex and changeable, (3) **asset specificity**.
- **Vertical integration: backward** (suppliers), **forward** (buyers). Otherwise **outsourcing**.

Ansoff matrix

Direction	What	Watch out
Market penetration	existing product, existing market	retaliation, legal, economic constraints
Product development	new product, existing market	new resources, capabilities, project management
Market development	existing product, new users or geography	new market
Diversification	new product, new market (zone D)	unrelated (conglomerate); zones B and C = related

Examples: Huizenga (**industry roll-up**), Apple, Catawiki, DSM.

Diversification drivers

Value-creating (4)

1. **Economies of scope** (tangible, intangible).
2. **Stretching corporate management capabilities**, limit = **dominant logic** (Prahalad and Bettis).
3. **Superior internal processes: internal capital market** (miniature capital market).
4. **Market power: mutual forbearance**, cross-subsidise, cheaper borrowing, bulk, large customer.

Value-destroying (3): market decline, spreading risk, **managerial ambition**. Lecturer: not always value-destroying

("potentially").

Corporate parent

- Core question: what is the value of the head office?
- Adding value: envisioning, synergies, coaching, central services, intervening.
- Destroying value: management costs, bureaucracy, obscuring.
- **Parenting advantage** or **market for corporate control**.

Role	Office	Emphasis
Portfolio manager	small	investing, intervening
Synergy manager	large	cooperation
Parental developer	large	own capabilities, downward

Parenting-fit matrix (Campbell)

Fit with **opportunities** (horizontal) against misfit with **KSFs** (= critical success factors; vertical).

- **Heartland**: fit, no misfit.
- **Edge of heartland**: partial.
- **Ballast**: no fit, no misfit.
- **Alien territory**: no fit, misfit: divest.
- **Value trap**: fit, misfit on KSFs. Looks wonderful.

BCG matrix

Star, question mark, cash cow, dog. Criteria: balance, attractiveness, fit. Four problems: high/low, internal financing, motivation, ignored commercial linkages.

Chipotle and McDonald's

1998 investment, 90 percent in 2005, failed franchises, McSplit. Parental developer, fit but misfit on KSFs: value trap, divest.

Exam

- No lecturer signal found; question 4 form: Coase, Ansoff, constraint, driver.
- Link to the book, English terms.