*Strategic Management*, 9e: Chapter 9 study guide

Benefits of a corporate-level strategy

Benefits internal to the group

 *Economies of scope*: for a close-related diversified group, it is possible that there may be economies of scope within the group.[[1]](#endnote-1)

**Definition:** Economies of scope are cost savings developed by a group when it shares activities or transfers capabilities and competencies from one part of a group to another.

For example, two different companies might share a common sales team or share similar technologies.

 *Core competencies*: for close-related and distant-related groups, it may be possible to transfer core competencies between companies internally within the group.

 *Shared activities*: for distant-related groups, it may be possible to share activities. For example, companies might share purchasing activities because they have similar raw materials or distribution activities because they have similar customers. Such activity occurs regularly in many consumer product companies like Unilever where sugar and supermarkets apply, respectively. Equally, they might share knowledge-based activities: perhaps about patents or about special skills that are in short supply.

Benefits external to the group

**Definition:** Vertical integration occurs when a company produces its own inputs (backward integration) or when a company owns the outlets through which it sells its products (forward integration).

 *Vertical integration*: This may deliver cost savings through not having to pay distributors, or market power through direct access to customers.[[2]](#endnote-2) A company like the natural cosmetics retail shop chain Body Shop produces many of its products and then sells them in its own stores. This means that it has more control over its special product range and can respond quickly to market trends without having to negotiate with other retailers to stock its products. The Dell Company is another example of a company that has taken control of the outlets through which it sells its computers – the telephone and the internet.

 *Market power*: some co-operation between close-related diversified firms in a group may have external benefits in terms of increased negotiating power with customers or lower costs about distribution. Market power exists when a company has lower costs or a superior competitive position because of such co-operation.[[3]](#endnote-3)

 *Competitor blocking*: another result of market power may be to support the blocking of competitive activity through the ability to offer a wider range of products from within a closely related diversified group. This may have the effect of blocking competitors from offering such products or, more likely, being able to offer even lower costs.

Financial benefits – often apply even for an unrelated diversification[[4]](#endnote-4)

 *Lower cost of capital*: the central headquarters may be able to use its greater negotiating power to obtain finance for individual companies than they would obtain independently of the group.

 *Business restructuring*: the central HQ may be able to facilitate and finance essential restructuring of a business in the face of competitive pressure beyond the resources of an individual company.

 *Efficient capital allocation*: central HQ should allocate finance across the group more efficiently because of its central viewpoint of the needs and returns of individual companies.

1. Williamson, O E (1975) Op. cit. [↑](#endnote-ref-1)
2. Williamson, O E (1996) ‘Economics and organization: a primer’, California Management Review, Vol 38, No 2, pp131–146. [↑](#endnote-ref-2)
3. Shepherd, W G (1986) ‘On the core concepts of industrial economics’, in de Jong, H W and Shepherd, W G (eds) Mainstreams in Industrial Organization, Kluwer, Boston, MA. [↑](#endnote-ref-3)
4. Williamson, O E (1975) Op. cit. [↑](#endnote-ref-4)