

COMPETITIVE CONCEPTS

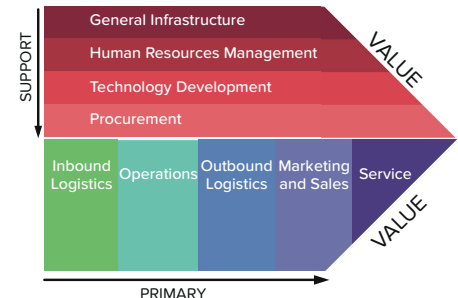
Value Chain Analysis

Value chain: A sequence of strategically relevant activities performed to deliver a valuable product or service to market.

Primary activities: Value chain activities focusing on product creation, sales and transfer to buyer, and after-sale service.

Support activities: Facilitate primary activities. They focus on how the firm is structured and run, the technology the firm uses, and how talent is hired and trained.

Value chain analysis: Maps out the primary and support activities across a company.



Vertical Integration

Corporate-level strategies: Theories of how to gain a competitive advantage by deciding what industries to compete in and how to operate in multiple businesses at once.

Vertical integration: The number of activities in the value chain that are accomplished within a firm. The higher the number, the more vertically integrated the firm is.

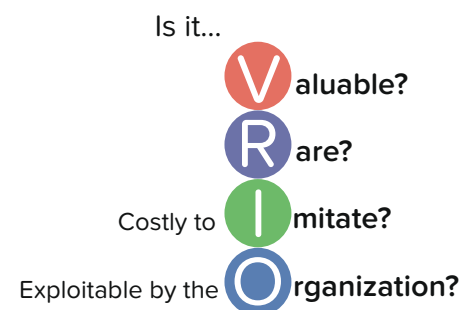
The value of vertical integration depends on three factors:

1. **Opportunism** happens when a firm is exploited by another in an exchange. Since the threat of opportunism increases when a firm needs a specific transaction, vertical integration decreases the threat.
2. Integration should only be pursued if a firm already has VRIO resources in that area.
3. Integration decreases a firm's flexibility, so it should be pursued when it's certain that the investment will pay off.

Outsourcing, or dis-integrating, can be valuable for commodity tasks that would require a significant investment of resources.

Backward integration: When a firm begins to carry out additional activities that are associated with the supplier end of the value chain.

Forward integration: When a firm carries out more activities at the customer end of the value chain.



Diversification

A **diversification** strategy is centered on developing a product or entering a new market different from its core business.

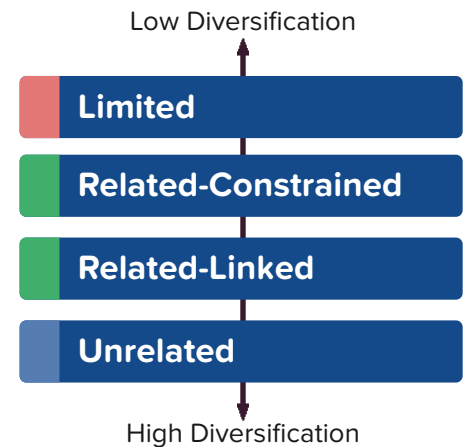
Corporate synergy: When the sum of a firm's parts performs better than each part individually.

For diversification to be economically valuable, there must be **economies of scope** among the firm's multiple businesses, which involve lowering average costs by producing more types of products.

Operational economies of scope: Exist when there are shared activities or core competencies between linked businesses.

Core competencies: The harmonization of knowledge, production skills, and technology streams across a firm.

Diversification allows firms to use revenue from one business to invest in others, creating an internal capital market where the company can essentially loan money to itself. This generates **financial economies of scope**.



Four categories of diversification:

Type	Level of Diversification	Description
Limited	low	70-100% revenue from single business
Related-Constrained	moderate	Products and services are highly linked
Related-Linked	moderate	Few or disparate links between businesses
Unrelated	high	No linkages between businesses

Strategic Alliances

When two or more independent entities develop, manufacture, or sell offerings together, they're entering a strategic alliance. There are three categories of **strategic alliances**:

1. **Nonequity alliances:** Firms working together make a contractual agreement, but they do not take equity in each other's companies. There are three primary forms:

Licensing agreements: One firm allows the other to use its brand reputation or intellectual property to sell products.

Supply agreements: One firm agrees to supply the other.

Distribution agreements: One firm agrees to distribute the other's products.

2. **Equity alliances:** Firms supplement their contracts with equity holdings.

Strategic alliances can create a friendly environment that's conducive to tacit collusion, where firms signal to each other indirectly that they're willing to cooperate to reduce competition.

3. **Joint ventures:** Collaborating firms establish a legally independent company, in which they both invest and share profits.

Mergers and Acquisitions

Acquisition: When one firm, usually larger, purchases some or all of another firm's assets.

Bidding firm: The firm doing the acquiring.

Target firm: The firm being acquired.

Friendly acquisitions: Occur when the target firm's management wants the firm to be acquired.

Unfriendly acquisitions (a.k.a. hostile **takeovers**): Accomplished without the cooperation of the target firm's management.

Tender offer: When a bidding firm announces publicly that it's willing to buy the target firm's shares for more than the current market price. Current shareholders will then sell their shares to the bidding firm, giving it a controlling or majority share.

Merger: When two firms of a similar size combine their assets.

A common system for categorizing the relatedness of firms comes from the **Federal Trade Commission (FTC)**, which monitors consumer protection and anticompetitive business practices.

Competitive parity: When a firm has the same economic value as its rivals.

Free cash flow: Cash left over after ongoing business operations have been funded.