Corporate-Level Strategy:
Creating Value through Diversification

A review and examination of Ann Taylor case

Making diversification work means finding answers to...

1. What businesses should a corporation compete in?
2. How should these businesses be managed to jointly create more value than if they were freestanding units?

Making Diversification Work

- Diversification initiatives must create value for shareholders through the development of ... synergy
Synergy can be developed in...

- Related businesses (along horizontal relationships)
  - Sharing tangible resources
  - Sharing intangible resources

- Unrelated businesses (along hierarchical relationships)
  - Value creation derives from corporate office
  - Leveraging support activities

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Creating Value

**Related Diversification: Economies of Scope**

**Leveraging core competencies**
- 3M leverages its competencies in adhesives technologies to many industries, including automotive, construction, and telecommunications

**Sharing activities**
- McKesson, a large distribution company, sells many product lines, such as pharmaceuticals and liquor, through its superwarehouses

**Internal development**
- New products to old markets
- Old products to new markets
- New products to new markets

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Creating Value

**Related Diversification: Market Power**

**Pooled negotiating power**
- The Times Mirror Company increases its power over customers by providing "one-stop shopping" for advertisers to reach customers through multiple media—television and newspapers—in several huge markets such as New York and Chicago

**Vertical integration**
- Shaw industries, a giant carpet manufacturer, increases its control over raw materials by producing much of its own polypropylene fiber, a key input to its manufacturing process
Vertical Integration: Seeking after Benefits while trying to avoid Risks

**Benefits**
- A secure source of raw materials or distribution channels.
- Protection of and control over valuable assets.
- Access to new business opportunities.
- Simplified procurement and administrative procedures.

**Risks**
- Costs and expenses associated with increased overhead and capital expenditures.
- Loss of flexibility resulting from large investments.
- Problems associated with unbalanced capacities along the value chain.
- Additional administrative costs associated with managing a more complex set of activities.

Creating Value

**Unrelated Diversification: Parenting, Restructuring, and Financial Synergies**

- Corporate restructuring and parenting
  - The corporate office of Cooper Industries adds value to its acquired businesses by performing such activities as auditing their manufacturing operations, improving their accounting activities, and centralizing union negotiations.
- Portfolio management
  - Novartis, formerly Ciba-Geigy, uses portfolio management to improve many key activities, including resource allocation and reward and evaluation systems.

Unrelated Diversification: Financial Synergies and Parenting

- Most benefits from unrelated diversification are gained from vertical (hierarchical) relationships
  - Parenting and restructuring of businesses
  - Allocate resources to optimize
    - Profitability
    - Cash flow
    - Growth
  - Appropriate human resources practices
  - Financial controls
Corporate Parenting & Restructuring

- Corporate Parenting
  - Parenting—creating value within business units can depend on...
    - Experience of the corporate office
    - Support of the corporate office
- Corporate Restructuring
  - Involves the expertise to find poorly performing firms...
    - With unrealized potential
    - On threshold of significant positive change

Portfolio Management

Key
- Each circle represents one of the firm’s business units
- Size of circle represents the relative size of the business unit in terms of revenue

Tactics to achieve Diversification

- Acquisitions or mergers
- Pooling resources of outside companies with a firm’s own resource base in...
  - Joint ventures, or
  - Strategic alliances
- Internal development of...
  - New products (product proliferation)
  - New markets (seeking out new markets)
  - New technology
What competitive strategies do the units of Ann Taylor have in place?

How well are they working?

Using a resource-based view of the firm, identify the operating units’ most important three resource & capability strengths and weaknesses

What corporate strategies can you find evidence of in the Ann Taylor case?