Corporate advantage

Chapter 1

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Corporate strategy

- Corporate strategy refers to the strategy that multi-business corporations use to compete as a collection of multiple businesses.
- It differs from business strategy, because business strategy only involves a single business.
- The business type is defined by the business model

Corporate strategy

- The business model is the set of choices about products, customers, value chain activities (who/what/how).
- By contrast, we define the industry type distinguishing for cross-price elasticity between businesses.
- Thus, a single corporation can have multiple businesses operating in the same industry (sector). Sometimes, different industries can operate in same businesses.

Competive advantage

- A business strategy’s goal is to maximize the NPV of the business.
- A firm has a competive advantage when the difference between buyers’ Willingness To Pay and suppliers’ Willingness To Sell is greater than the one of competitors.
- There are two ways to achieve competitive advantage: raising the price of goods or lowering the costs of raw materials.

Corporate advantage

- Corporate advantage it is not just maximizing the NPV of each business.
- Corporate advantage is: when the collection of joint owned business is more valuable that the sum of the individual value of each single business.
- Thus, corporate advantage can be achieved differently then merely maximizing the NPV of each single business.

Corporate advantage

- Corporate advantage depends on a portfolio logic for what sometimes it is needed to give up to competitive advantage of a single business in favor of portfolio value.

Who is the competition?

- For business strategist the competition is anyone who can influence a business’ costs or revenues reversely (direct rivals; buyers; suppliers, potential entrants, substitues).
- For a coprorate strategist the competition is anyone who can assemble a similar portfolio of businesses.

Corporate advantage from portfolio assembly: the selection approach

- The discount rate of an investiment can be lowered through diversification.
- Thus, the selection approach means to lower the risk merely via selection of a good portfolio of businesses. It is the mimimum acceptable for the corporate strategist.

Corporate advantage from portfolio assembly: the synergy approach

- The corporate strategist ‘s target is the maximization of the NPV of the portfolio of businesses.
- Synergies are crucial for the corporate advantage, they serve the need to modify the cash flow and the discount rate of businesses through joint operations.

Corporate advantage as a goal

- Corporate advantage is difficult to measure.
- Roughly, we can say that is the performance of a multi-business corporation compared to the aggregate performance of the individual businesses if they had been operated in isolation (un-observable).
- Diversification can somewhat lower systematic risk when there are bankrupicy costs, cash flows of different businesses are not correlated and there is poor financial slack; in periods of financial downturn