Indholdsfortegnelse

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Efficiency-based reasons for diversification

1. Scope economies

The most direct ways in which production of both products A and B may lead to economies of scope

- Economies of scale in an input
- Economies of scale in distribution
- Leveraging (løfte) core competencies
- Leveraging (løfte) a brand name or reputation

- Economies of scale & scope may be available if markets are related:

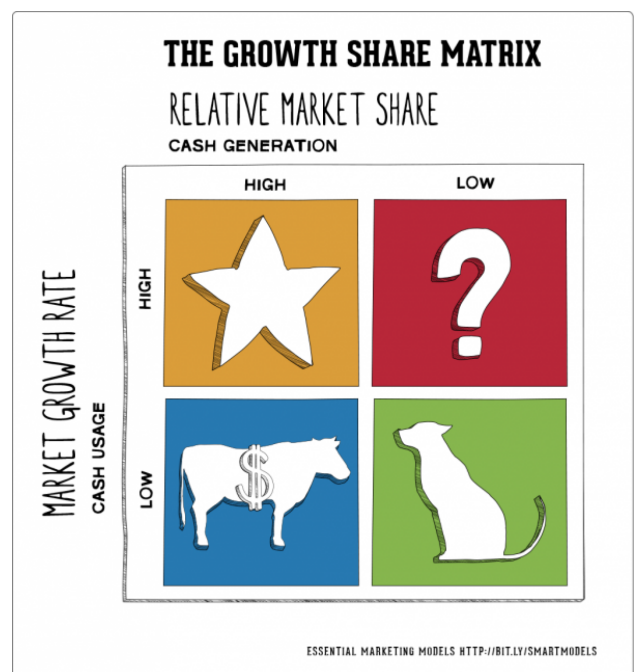
Two businesses are related if they share technological characteristics, production characteristics and/or distribution channels

Resource Based View

Specific resources of the firm are not fully utilized in its current product markets. Applying them in their product markets creates economies of scope

2. Internal Capital Markets

- In a diversified firm, some units generate surplus funds that can be channeled to units that need the funds (internal capital market)
- The key question: Is it reasonable to expect that profitable projects will **not be financed by external sources**?



Hvis en afdeling kører rigtig godt og skaber stort overskud, hvor skal overskuddet gå hen? Skal afdelingen bruge dem på sig selv og effektivisere sig selv, skal de gå til de andre afdelinger og gøre dem bedre, eller skal der oprettes en ny afdeling på et nyt marked
Brug af internal capitap market: Set pengene I **spørgsmåltegn og stjernen**,

Governance

The way that a city, company, etc., is controlled by the people who run it

Golden rules of diversification

Diversification should be based on a core set of resources and a view towards integration of the old and the new businesses.

- To be worthwhile, diversification should have a sound basis in economies of scope and efficiencies related to transactions costs.
- Integration of the old and new businesses is strictly necessary to realize synergy effects.

II. physical asset specificity
  - Physical assets may have to be designed specifically for the particular transaction
    - Molds for glass container production custom made for a particular user
    - A refinery designed to process a particular grade of bauxite ore

III. human asset specificity
  - Some of the employees of the firms engaged in the transaction may have to acquire relationship-specific skills, know-how and information
    - Clerical workers acquire the skills to use a particular enterprise resource planning software
    - Salespersons possess detailed knowledge of customer firm's internal organization

IV. dedicated assets
  - Some investments are made to satisfy a single buyer, without whose business the investment will not be profitable.
    - Ports investing in assets to meet the special needs of some customers
    - A defense contractor's investment in manufacturing facility for making certain advanced weapon systems

Investments in specific assets

- Before investment: Many potential partners
- After investment: **Bilateral dependency**, small number bargaining situation
- Investment causes **fundamental transformation** in the relationship

Hold-up problem

- With relation-specific assets, **quasi rents** become available to one party and there is incentive for a holdup
- Potential for holdups lead to underinvestment in these assets, investment in safeguards, and reduced trust

Quasi-Rent

Income one earns on a sunk cost. A quasi-rent occurs when one makes an investment and pays for it, and then earns income from it without needing to make further investment. In order to be considered quasi-rent, the income must exceed the opportunity cost of the investment.

Opportunity Cost

The difference in return between an investment one makes and another that one chose not to make. This may occur in securities trading or in other decisions. For example, if a person has $10,000 to invest and must choose between Stock A and Stock B, the opportunity cost is the difference in their returns. If that person invested $10,000 in Stock A and received a 5% return while Stock B makes a 7% return, the opportunity cost is 2%. One way of conceptualizing opportunity cost is as the amount of money one could have made by making a different

Reasoning:

- War of attrition: Set prices so low that everybody sells at a loss
- This will drive small competitors off the market (those with less capital)
- And it will discourage future entry (reputation)

Risk:

- Very costly, requires deep pockets
- Anti-trust legislation
- Requires excess capacity
- Less effective in a growing market

Predatory pricing occurs when a large incumbent sets a low price to drive smaller rivals from the market. The purpose of predatory pricing is twofold: to drive out current rivals and to make future rivals think twice about entry. The second purpose is reminiscent of the goal of limit pricing. Predatory pricing causes rivals to rethink the potential for post-entry profits, while the predatory incumbent expects that whatever losses it incurs while driving competitors from the market can be made up later through future monopoly profits.

Strategic Bundling

An incumbent firm that dominates one market can use its power to block entry into related markets through a practice known as strategic bundling. Bundling occurs when a combination of goods or services are sold at a price that is less than what it would cost to buy the same items separately

Examples abound:

- McDonald's Happy Meals bundle sandwiches, French fries, and soft drinks.
- Vacation packages bundle transportation and lodging.
- Netflix bundles DVD rentals with Internet streaming.

Judo economics

Describes a strategy when starting a company in a sector dominated by a large competitor.
One of the major aspects of judo is to use the size of the opponent against him or herself. As a business strategy, it is designed to give smaller companies an advantage by using the perceived advantages of a larger competitor - namely size - against the competitor..
Judo business strategy as to anticipate and take advantage of changes in the market through new product offerings. The judo business strategy consists of three components: Movement (using the smaller size to act quickly and neutralize a larger competitor's advantages), balance (to absorb and counter the competitor's moves) and leverage (using the competitor's strengths against it).
https://www.investopedia.com/terms/j/judo-business-strategy.asp

Performing a Value Net analysis

1. Identify ***players***
   - Which firms decrease the value of your product for the consumer?
   - Which firms increase the value of your product for the consumer?
2. Estimate ***added*** value
   - How much value would the network loose if you left?
   - Who in the network stand to loose if you left?
3. Manipulate the ***rules***
   - What rules affect your business?
   - How can they be changed?
4. **Tactically** manage the *perceptions* of other players
   - Brand management?
   - Reputation amongst competitors and customers?
5. Choose the ***scope*** of the game
   - What relations to focus on?
   - How large a game to play?

RECOMMENDATIONS FOR VALUE CREATION

- **P**layers
- **A**dded value
- **R**ules
- **T**actics
- **S**cope