19 Key strategic issues

A Industries and their players

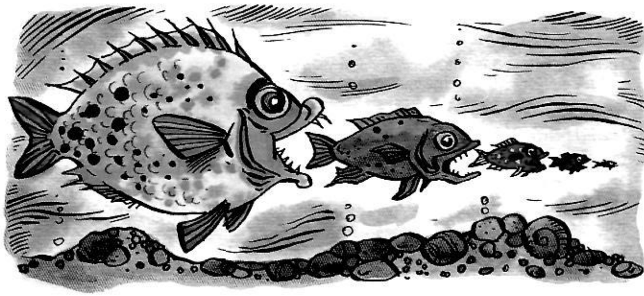
In some industries, like steel or tyres, there are few companies: these industries are **concentrated**. Other industries are **fragmented**: for example there are millions of restaurants worldwide, and even the largest chain, McDonalds, only has a **market share** of less than one per cent in terms of all restaurant meals served worldwide.

Some industries have **low entry barriers** – anyone with a small amount of capital can open a restaurant.

If an industry has low entry barriers and is **attractive** because of its high potential **profitability**, there will always be new **entrants**. This was the case for Internet service providers at the turn of the century with a lot of companies offering this service.

Other industries, like steel, require massive investment in equipment, know-how, etc. – these are **high entry barriers** and new entrants to the industry are rare.

B Mergers and acquisitions (M&A)



Some companies are very **acquisitive**, buying competitors in their industry or companies in other industries in a series of **acquisitions** or **takeovers**, which it may refer to as **strategic acquisitions**. Or a company may merge or combine as an equal with another company of similar size.

A company may also buy its suppliers and customer companies in a process of **vertical integration**.

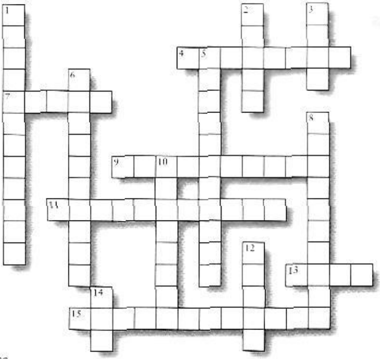
The result of this may be an **unwieldy conglomerate**, a holding company with a large number of **subsidiaries**, which may not be easy to manage profitably as a group.

C Make or buy?

Recent strategic thinking holds that conglomerates are not good. Many conglomerates have **disposed of** or **divested** their **non-core businesses**, selling them off in order to **concentrate on** their **core business**. This is related to the **make or buy decision**, where companies decide whether to produce particular components or perform particular functions **in-house** or to buy them in from an outside supplier. (See Unit 4)

Note: The nouns relating to 'dispose' and 'divest' are '**disposal**' and '**divestment**'. They can be both countable and uncountable nouns. (Compare "divestment" with "investment".)

19.1 Complete the crossword with appropriate forms of expressions from A, B and C opposite.



Across

7 and 4 Things that make it difficult to get into an industry. (5,8)

9 When a company sells a business activity. (10)

11 See 10 down.

13 If an industry is difficult to get into, entry barriers are .... (4)

15 A large group of different businesses. (12)

Down

1 A large industry with not many companies is .... (12)

2 When two companies join as equal partners, they .... (5)

3 A company's most important business activity: its .... business. (4)

5 A company that buys a lot of other companies is .... (11)

6 A large industry with lots of small competitors is .... (10)

8 A profitable industry that companies want to get into is .... (10)

10 and 11 across When a company buys its suppliers or customers (8, 11)

12 In a fragmented industry, each competitor only has a small market ....(5)

14 If an industry is easy to get into, entry barriers are ....(3)

19.2 An executive in a consumer goods company is talking. Complete what she says with expressions from A and B opposite. (There are two possibilities for one of the gaps.)

'We make a wide range of consumer goods. Over the years we have made a number of (1) .... , buying companies that fit in with our long-term plan of being the number one consumer goods company in Europe. These (2) .... mean that we now own a large number of (3) .... , each with its own brands. We have become an (4) .... , and all this is very difficult to manage. So we are now reducing the number of brands from 300 to 100, and getting each unit of the company to concentrate on our long-term goal, which is increased (5) .... and therefore better results for our shareholders. And our increased power will certainly dissuade new (6) .... from coming into the industry, so our position will be further strengthened.'

Over to you

Think of a recent merger or takeover. What benefits were claimed for it at the time? Have they materialized?