Corporate Strategy

Idea In Short

For most businesses, success is not a random occurrence, but rather a series of right decisions taken at the right instances. Meticulous planning, preparation, and execution determines success for most organizations. All this starts with defining the right strategy. Corporate strategy is hierarchically the highest strategic plan of the organization, which defines the overall goals and directions.

Corporate level strategy is the top of the strategy pyramid and helps answer the questions – What? & Why? - the raison d'être of your business.

Why is corporate strategy important?

Corporate strategy defines the destination towards which a business should move. That decision shapes all the strategies and activities in every other part of that business. A firm's management must consider how to gain a competitive advantage in business areas the firm operates in. Furthermore, it also determines the businesses they should be in in the first place. Corporate strategy is usually only necessary when a company operates in two or more business areas. If the company is organized as different business units that operate in different business areas (e.g. General Electric, Siemens), then these different business units require different strategies. The managers and leaders of such organisations should ensure that these strategies are consistently aligned with the overall corporate strategy. Hence, most multinational enterprises (MNE's) or conglomerates usually have corporate strategy departments. Such specialized departments are not so often in small-medium enterprises (SME's) and start-ups. Typically, major investment & divestment decisions are made at this level by top management. Mergers and Acquisitions (M&A) is also an important part of corporate strategy. Corporate strategy helps determine the optimal set of businesses and how they should be integrated into a corporate portfolio.

Types of Corporate Strategy

growth strategy

These strategies help grow a business in a given way. Growth strategies might include entering new markets, increasing or diversifying existing ones, or using forward or backward integration to take advantage of economies of scale.

Stability strategy

These strategies help consolidate an organization's current position, with an eye towards creating a strategic environment which will provide greater flexibility for the future employment of growth or retrenchment strategies. Stability strategies are more conservative strategies, focused on preserving profit, reducing costs and investigating future strategic possibilities.

Retrenchment strategies

These strategies help architect the appropriate response to unprofitable or damaging elements of a business or organisation. These might include the elimination or sale of unprofitable assets or product lines (divestiture).

Case – Amazon Prime

If you look at Amazon's portfolio, you'd observe that Amazon is not only a dominant e-commerce player, but is also making movies and TV shows through its own studio. Why does it make sense for an e-commerce player, an online retailer to compete with Hollywood? Walmart & Macy's doesn't make movies, so why does it make sense for Amazon to make movies? Once you dig into it, you'll discover that the purpose of these services is to keep and grow the Prime customers. Two-day free shipping is fine. However, if I ask you to pay $99 or $119 for two-day free shipping, you might start calculating the number of packages you expect to receive next year and whether the Prime membership worth it or not. But, once you add some shows and movies that can only be found on Amazon, you can't do this math. Because Prime customers are more loyal, buy 3 - 4 times more than the non-Prime customers, and less price sensitive. Hence, it makes absolute sense for Amazon to manage a portfolio of businesses to deliver more customer value. Furthermore, by connecting products and customers through the marketplace, Amazon achieves network effects. The more buyers Amazon attracts, the more sellers want to sell through Amazon. The more sellers it has, the more buyers it gets because the buyers can find all the items at a single location. This becomes a flywheel effect, which raises the entry barriers for new players to complete with Amazon.

Case – Amazon's acquisition strategy

Amazon has a structured approach to acquiring companies as opposed to growing businesses organically. Amazon's goal is to be:

> to be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices.

Amazon's acquisition strategy clearly reflects this goal. Though there are many other prominent acquisitions, Amazon's acquiring Whole Foods is, in my opinion, among the brilliant corporate strategies of all time.

Kiva Systems

Some acquisitions are areas where the acquisition can actually benefit and accelerate Amazon's vision. So for example, the acquisition of Kiva Systems was to improve the efficiency and effectiveness of the systems it already had in place in its warehouses. Logistics and warehouse are key areas of Amazon's business. Amazon saw that Kiva was already ahead of the curve in technology. So, the Kiva acquisition was obvious because that fit in Amazon's existing business.

Whole Foods

Whole Foods acquisition is different story. As a dominant online player, Amazon acquired Whole Foods - an offline retail store. The acquisition was at 27% premium. On the surface, it may appear that it doesn't make sense for an online retailer commerce to acquire offline channels. However, for Amazon, the acquisition was not so much about Whole Foods, but rather about the food business, per se. Amazon had been trying to enter the food and online food delivery business for a long period of time without much success. The Whole Foods acquisition was another attempt to try and enter that particular business segment. Though food is a low margin business, Amazon's logic makes perfect sense. Part of that logic is that food is something that you buy every week. And Amazon can convince you to buy grocery online from Amazon, then it is creating a habit for you to come onto Amazon at least once every week. Once you are on Amazon, you may end up purchasing other high-margin products on Amazon. On the other hand, if you are buying electronics, you may not come to Amazon every day. So, this is a habit creation activity. Even though food may not be a very high margin activity, by creating a habit, just like Prime, Amazon creates loyal customers that think of nothing else but Amazon for their daily needs. Therefore, as a loyal Amazon customer, you end up buying other things, which indirectly increases Amazon's share of your wallet.

Summary

Corporate strategy is a long-term, clearly defined vision of the direction of a company or organization. It helps determine the overall value of the organization, sets strategic goals and motivates workers to achieve them. It sets out a basic plan for what is to be achieved and when. Ultimately, the benefits of well defined corporate strategy for an organization increase as the organization scales. While it may well be possible for a small or even medium sized businesses to get by without investing time in developing corporate strategy. But as the needs of an organization grow and evolve, it becomes increasingly necessary to attack the strategic planning process in a manner which reflects the complexity of that organization.