Industry Life Cycle

Name

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Introduction

The choice of a given strategy in the firm or for a company is often determined by the existing market forces, its organizational structure, changes in the market, and the preferred mode of operation (Dess et al., 2021). As such, two concepts feature pre-eminently in global firm decisions, these being vertical integration and diversification. Vertical integration is based on a company controlling all the stages of the value chain and, hence, having a centralized approach to the management of its global operations. On the other hand, the diversification model is a concept of allowing business units to operate independently and to develop new products as they deem appropriate. As such, the two concepts differ based on the core strategic considerations of the firm as to whether it has an efficient capacity to operate independently or whether it prefers its operations to be centered on a given product. Other co-dependent variables include whether the company desires to have a unification model, coordination operating model, or replication model (Dess et al., 2021). This paper discusses the reasons for vertical integration and diversification strategies in lieu of the motives of each strategy and how diversification can create a competitive advantage.

Vertical Integration

Vertical integration is based on the concept of advancing the organizational unification and minimization of any diversion from the existing model of operation (Dess et al., 2021). It is a centralized model of operation whereby any action within the value chain is based on the thorough evaluation of the core management team. Often, companies that use vertical integration are big global corporations that have harnessed the Porter Diamond competitive advantage resulting from a single country or firm operations located in a given nation and industry and have used the arising benefits to run their global operations. The concept of vertical integration is more profound in the companies that have attained first-entrant competitive advantage and have harnessed the largest market share – and consequently have attained a global recognition or brand identity (Craig, 2015; Dess et al., 2021). This is often a result of the use of a differentiation strategy, which makes the product ubiquitous in its identity and the concept of its development and usage to suit its global market needs. Examples of these firms include the core leaders in the software tech industry, these being Google, Apple, Microsoft, and Amazon (Craig, 2015).

Notably, these companies have attained a global reputation, and their value chain system is based on harnessing their core competencies, such as their human resource capabilities and innovation models (Dess et al., 2021). They have a unification strategy that considers that every input within the value chain to be a product of the dedicated efforts of a given team that sets the strategy used across all the global operations. This accounts for why certain companies often have one core marketing strategy that is replicated worldwide and thereby managed by the headquarters. An appropriate example of this is Apple's marketing strategy of product day reveal.

Arguably, vertical integration is a conservative model of operation whereby the business considers the need to control the standards of its quality approach and its supply chain processes. The concept is more pronounced in companies that have attained their global penetration through distinguished unique advantages arising from the Porter Diamond competitive advantages (de Bruin, 2020). For instance, automotive brands such as Suzuki, Honda, and Toyota, having attained a competitive advantage inherently arising from Japanese firms and industry competitiveness, have permeated the global marketplace (de Bruin, 2020; de Bruin, 2018). Therefore, the value and brand reputation arise from a central place and are therefore utilized and harnessed in a manner that makes use of industry-based factors. Therefore, even in the value chain concept, vertical integration is likely to exercise a replication model to attain market penetration.

Diversification Strategies

On the other hand, the concept of diversification, which is less constraining, is based on the market entry-specific considerations attained from conducting market research of the given country or market and, therefore, adjusting the product development needs to the given market (Dess et al., 2021). This often leads to market segmentation or targeting strategies that advance certain advantages based on analysis of the unique factors within a given market. The diversification strategy considers the different markets and their unique capabilities when making product decisions. In lieu of this, the company is less likely to use a replication strategy of what worked in another market as each new market is analyzed based on its core demographics, such as the purchasing power of customers, the availability of substitutes, and culture-specific customer behavior.

The core strategy that is inherent in the diversification strategies is the differentiation strategy, which considers the unique branding of each new product. The differentiation strategy is appropriate for meeting new market demands in an already developed industry. It is useful in creating a market segment that is either underserved or that desires to have an option. In order to make use of a given potential, the firms opting to attain sufficient differentiation are able to optimize the economies of scope, which is the consideration of developing products that complement similar products developed by the firm (Dess et al., 2021; Şekerli & Akçetin, 2018). This is notable in companies that have been market leaders and have diversified their product scope to include related products. An example is Google, now Alphabet, which, despite developing a search engine – Google, developed related products and acquired related products such as YouTube to complement its product scope (George, 2014; Şekerli & Akçetin, 2018).

The significance of diversification is to provide a company with a wider portfolio of investments, which are geared at making the company entrench its position in the marketplace (Dess et al., 2021). As such, some diversification strategies that multinational companies have used to remain at the top of the industry include mergers and acquisitions (Craig, 2015; Dess et al., 2021). The concept of mergers and acquisitions is used to entrench overall market share or, at times, diversification outside the industry. The ideal case for the use of mergers and acquisitions outside the market is General Electric, GE, which has, over the years, diversified its capital investment portfolio to a range of industries from transportation, aviation, oil and gas, healthcare, and other sectors (Craig, 2015). This approach has made the company remain relevant and offer value to its shareholders by increasing its capital base and making it the 26th largest firm in the US (Craig, 2015). This is proof that the diversification model is a core strategy for companies that are keen on sustainably adding value to their shareholders and are likely to have exhausted the scope of innovations that can be made within a single industry. In addition, it is a move that is geared at diversifying risks and is a corporate strategy that assures long-term investment sustainability.

Diversification is useful in the model of innovating with speed and allowing the company to make use of new technologies – and hence gain a competitive advantage. Notably, companies that embrace diversification are aware of the rise of new technologies and market disruptions that go beyond the scope of their primary area of focus (Craig, 2015). The diversification model, in this case, embraces more decentralization, with each business unit operating independently to develop new products. This concept is useful in fast-paced industries where unit-based innovations are more prevalent and likely to lead to market disruption.

References

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