Seminar 3 — Competition, Strategy and Structure

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Companion to the Day 3 lecture — Student sheet

Scope. Lecture material only: strategic orientations and the environmental scan; Porter's five forces and the three generic strategies; entry deterrence, switching costs and scale as barriers; global organizational structures (product, area, functional, matrix, transnational network); integration vs national responsiveness (Bartlett–Ghoshal) and Ghemawat's AAA; the diversification discount and the GVC "smile curve"; and measuring concentration (the HHI and defining the market with the SSNIP test).

Part 1. Multiple choice (10 questions)

Choose the single best answer.

1. Which is one of **Porter's five forces**?

(a) exchange-rate volatility
(b) threat of new entrants
(c) the firm's cost of capital
(d) corporate tax rate

2. Porter's three **generic strategies** are cost leadership, differentiation, and:

(a) diversification
(b) focus (niche)
(c) vertical integration
(d) globalization

3. An industry's **HHI** is computed by:

(a) summing the market shares
(b) summing the *squared* market shares
(c) averaging firm sizes
(d) counting the firms

4. The **SSNIP** (hypothetical-monopolist) test defines a market by asking whether a hypothetical monopolist could profitably impose a:

(a) large permanent price cut
(b) small but significant, non-transitory increase in price
(c) quality reduction only
(d) change in ownership

5. A firm that organises its worldwide operations into divisions each responsible for a **product line** across all countries uses a:
   (a) global area structure
   (b) global product structure
   (c) functional structure
   (d) matrix structure

6. Which condition most encourages an MNE to **decentralize** decisions to local units?
   (a) uniform global product standards
   (b) high competitive pressure demanding rapid local adaptation
   (c) a strong desire for central control
   (d) identical regulation everywhere

7. In the Bartlett–Ghoshal integration–responsiveness grid, the **transnational** solution seeks:
   (a) high integration and low responsiveness
   (b) low integration and high responsiveness
   (c) high global integration *and* high local responsiveness simultaneously
   (d) neither

8. The "**diversification discount**" is the empirical finding that, on average, diversified firms:
   (a) trade at a premium to focused peers
   (b) trade at a discount (lower q/value) than comparable focused firms
   (c) never fail
   (d) pay no tax

9. In the GVC "**smile curve**", the highest value-added activities sit at:
   (a) the middle (assembly/manufacturing)
   (b) the two ends (R&D/design and branding/marketing/after-sales)
   (c) logistics only
   (d) raw materials only

10. Which is a genuine **entry barrier** you can put a number on?
   (a) consumer taste
   (b) minimum efficient scale relative to market size
   (c) the weather
   (d) the firm's mission statement

Part 2. Discussion questions (10)

Short, open questions for the table; talking points follow each.

1. **Five forces in a fabless world.** In the semiconductor chain — IP/design (Arm), fabless designers (Nvidia), foundries (TSMC), equipment (ASML) — where does profit actually sit, and why?

2. **Three generic strategies.** Explain cost leadership, differentiation and focus, and what "stuck in the middle" means. Can a firm ever be both low-cost and differentiated?

3. **Entry deterrence via platforms and switching costs.** How do network effects, switching costs and scale act as entry barriers, and why can they make even a large, well-funded entrant fail?

4. **Integration vs responsiveness.** Explain the integration–responsiveness trade-off (Bartlett & Ghoshal) and give a product that sits at each corner.

5. **Diversification discount.** Unrelated diversification tends to destroy value in developed markets but adds it in emerging ones. Reconcile this.

6. **The smile curve.** Why is value concentrated at the ends of the value chain (R&D/design and brand/marketing) and thin in the middle (manufacturing)? What does this imply for development strategy?

7. **What the HHI misses.** The HHI is the standard concentration measure. What can it fail to capture about real competition?

8. **Choosing an organizational structure.** What are the main organizational structures an MNE can adopt, and which variables push a firm toward one rather than another?

9. **Ghemawat's AAA.** Explain Adaptation, Aggregation and Arbitrage. Why can a firm rarely maximise all three at once?

10. **Product differentiation and monopolistic competition.** How does differentiation let firms escape price competition, and when can differentiation actually destroy value?

Part 3. Analytical questions (5)

Structured, exam-style problems; some have several parts. Full model answers follow.

1. **HHI computation and a merger.** An industry has four firms with shares 40, 30, 20, 10. (i) Compute the HHI. (ii) The two largest merge; compute the new HHI and the change. (iii) State the shortcut for the change and what a competition authority would infer.

2. **Five forces on a fabless designer.** Assess the five forces facing a leading-edge fabless chip *designer* (e.g. a GPU firm), rating each and giving the overall verdict.

3. **Five variables and choosing a structure.** An MNE with several distinct product lines, selling worldwide, needs to reorganise. (i) Identify five variables it should examine when choosing an organizational structure and describe three of them. (ii) Recommend a structure and justify it.

4. **Market definition and the SSNIP test (with a calculation).** A competition authority must decide whether "premium coffee pods" is a relevant market. (i) State the hypothetical-monopolist (SSNIP) test. (ii) With a 5% price rise and a gross margin of 40%, compute the *critical loss*. (iii) If the firm predicts it would actually lose 8% of sales, is the candidate a market?

5. **Integration–responsiveness placement.** Place these four businesses on the I–R grid and name the appropriate strategy/structure for each: (a) commercial aircraft; (b) packaged breakfast foods; (c) mobile handsets; (d) cement. Justify each.

Part 4. Case studies

Case A — LVMH: organising luxury for the world

LVMH (Moët Hennessy Louis Vuitton) is the world's largest luxury group, a portfolio of **75+ "Maisons"** spanning wines & spirits, fashion & leather goods, perfumes & cosmetics, watches & jewellery, and selective retailing (Sephora, DFS). Each Maison keeps a strong, protected **creative identity** and autonomy over product and brand, while the group **centralises** finance, real estate, media buying, talent and, crucially, capital allocation — funding new Maisons, acquiring brands, and cross-subsidising young houses with the cash of mature ones. The luxury strategy is **differentiation and controlled scarcity**: premium pricing, selective distribution, heritage and heavy brand investment. The group is global but manages strong local demand differences (Asia has been the growth engine) and defends brand equity market by market.

Questions.

1. Describe LVMH's structure in the lecture's language. Global product, global area, matrix, or transnational network? Justify.

2. Which **generic strategy** does LVMH pursue, and how does controlled scarcity relate to pricing power and the five forces?

3. Apply the **diversification-discount** debate to LVMH. One reason the conglomerate *adds* value; one reason it might *destroy* value.

Case B — The global beer industry: decline and consolidation at once

Global beer volumes have been flat-to-declining since around 2010, yet the industry produced one of the largest deals in consumer history: **AB InBev's $100bn+ acquisition of SABMiller**. Growth is regional — Latin America (roughly a sixth of the world market) expanded while North America stalled — and prices vary enormously (well under $2 a beer in some markets, $11+ in others), with the cheapest markets often growing fastest. Regulators forced divestitures as a condition of the merger (for example, SABMiller's US MillerCoors stake and some overseas holdings). A 2018 twist: US aluminium tariffs raised can costs even though about 98% of cans were produced domestically — because the *aluminium input* to those cans was imported.

Questions.

1. The AB InBev–SABMiller merger sharply raised concentration. Explain why regulators forced divestitures using the **change** in the HHI, not just its level — and why the relevant market is often national.

2. Growth is regional and cheap markets grow fastest. Where does the merged firm's value lie, and which of Ghemawat's **AAA** strategies dominates the deal logic?

3. The 2018 aluminium-tariff twist raised can costs despite domestic can production. Use the GVC/input logic to explain, and say what it shows about supplier power and trade policy in the five forces.

Note. Case adapted from Collinson, Narula, Qamar & Rugman, *International Business*, 9th ed. (Pearson, 2024) and the instructor's seminar handouts; items follow the Warwick Summer School written-exam format. Set `\answerstrue` for the answer key.