

Understanding the difference between business strategy and corporate strategy

The purpose of this video is to briefly explain the difference between business and corporate strategy. At the highest level we think of a business as a unit that provides a product or service in a particular market and we think of a corporation as a family of businesses - i.e. a set of units under a single corporate umbrella.

For business strategy we analyze one specific unit with four key questions: (1) where do we compete? (2) What unique value do we offer to customers? (3) How do we deliver that value and (4) how do we sustain our ability to deliver that value?

JDawgs – A case study

So, for example, JDawgs is a favorite local restaurant close to the campus of Brigham Young University, founded by a former BYU student who had the idea to place a simple hot dog stand close to campus with high quality dogs and a special sauce. JDawgs competes in the fast food space within walking distance of BYU's campus. Customers choose JDawgs over other fast food options due to its convenience, connection to BYU, quality and taste. JDawgs delivers this value through a unique history with a BYU student founder, intellectual property in its special sauce, a unique brand and relationships with high quality vendors. This is a simple business, a single unit that targets a single market with a simple set of products and clearly defined unique value.

In contrast, corporate strategy considers the set of businesses we have in our corporation and how they may (or may not) work together. Let's imagine a corporation [JCorp] that owned JDawgs along with a hot dog manufacturer [JMan] and an event planning company [JPlan].

The hot dog manufacturer is likely a supplier of the JDawgs restaurant. You can see that this is a different business by looking at who the buyers are for these two businesses. End consumers buy from JDawgs when they are hungry, but restaurants and retail outlets buy from a hot dog manufacturer when they need hot dogs to sell to hungry customers. End consumers want hot tasty food right now from a brand they trust, while restaurants and retail outlets want high quality hot dogs that they can store safely and easily until needed for resale. One business focuses on food preparation for consumers, and the other focuses on food logistics and storage. These businesses are related because they both deal with hot dogs, but since they have fundamentally different customers with fundamentally different needs we see that they are different business units. The hot dog manufacturer, for example, might choose to sell dogs to many restaurants and retail outlets even though the same corporation owns both businesses. The fact that the manufacturer is a supplier to JDawgs makes this a form of vertical integration, meaning a company owns more than one stage in a product's value chain.

The event planning company also targets a very different customer than JDawgs. It helps individuals and organizations plan large events. One part of those events may be catering food. If the events are casual get-togethers or tailgating parties before sports events, then JDawgs might be an ideal food vendor. If the events are formal such as weddings or awards ceremonies, then event planners may prefer more formal sit down meal services that JDawgs cannot provide. In this case, again, these two different businesses have two very different sets of customers, even though they are part of the same corporate family. We would think of these two as being somewhat unrelated businesses in a diversified corporate portfolio.

It should be clear that these three businesses need very different business strategies in order to serve very different customers who demand different unique value in different external environments. Understanding this is important because we would perform business strategy audits for each of these businesses separately. And, from a corporate strategy perspective we would explore questions like: what resources do we share across these businesses and what resources do we NOT share? How, if at all, do these units work together? Do we want each business to maximize its own performance, or do we want them to work together as a team to maximize overall corporate performance, even if it means one or more of these businesses will be less effective than it could be?

Now, let's make this a bit more complicated. What if JDawgs opened JBurgers, a hamburger joint. JBurgers likely targets hungry end consumers just like JDawgs. JDawgs and JBurgers might even consider sharing serving space, kitchen space, and/or employees. They may be able to leverage many resources and capabilities in JDawgs for JBurgers and vice versa. Are these different businesses with different strategies, or are they the same business with two different product lines?

While we are not aware of any clear lines that we can draw to say definitively whether these are or are not the same businesses, we think the answer depends on the extent of resource sharing between the two businesses. If we share 100% of our resources, then these are almost certainly the same business. If we share 0% of our resources, then these are almost certainly different businesses. As we lean towards 100% sharing, we likely have a single strategy. As we lean towards 0% sharing, we likely have completely different strategies for each business. When we are in the middle things get a bit messy. Maybe 50% of our strategy is shared across units, and the other 50% is customized to our specific unit. Or maybe there is a different ideal configuration. Managing these different configurations is the realm of corporate strategy.

One important takeaway is that it is critical to understand how many businesses you are in and how those businesses relate to each other in order to figure out how many strategies you need, and how much of your strategy to share across business units.