

Value Creation In Strategic Planning

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Value creation is considered the primary function of a business. Creating value for the customers helps in selling products and services, while in terms of shareholders, it helps in an increase of stock prices, the future availability of investment capital and other financial resources (Chemmanur, Loutskina & Tian, 2014). In financial terms, increasing value in a company happens when the revenue is higher than the expenses of the company. The traditional ways of creating value and accessing organizational performance are no longer productive in the modern world economy. Value creation in today's world is represented by innovation, ideas, people, and brand attributes (Chemmanur, Loutskina & Tian, 2014).

The company being discussed here is Sears, which is an American chain of department stores. The company was founded in 1892 by Richard Warren Sears and Alvah Curtis Roebuck. It first started off as a mail ordering company and later, in 1925, began opening retail stores in different cities of the USA. Sears also has its own brands related to assists, clothing, men's and women's wear, electronics, bicycles, and many more. Value creation has always been a core function of Sears. As the company is serving the USA only and wants to expand its business internationally, it is important to consider what value can be added to its products, which benefits the company and the customers at the same time. Sears has a lot of its own brands in the market, which are available at the Sears outlet as well as the other outlets. So, if the business expands globally, it will give the management leverage to lower the cost of their brands because of the potential products they have in the product line (Dutta & Folta, 2016). Because the company has a huge product range, it can also add value for the customers as the choice of products influences the consumer.

International Level

Referring to the international level, Sears might face a lot of pressure in terms of local response to the company and the costs associated with it. Sears is a department store chain, and this industry has a lot of competitors who produce the best customer service for their company. These competitors might include Walmart and Carrefour. The pressure in this industry can be placed at a higher rank because serving the customers with the best service might not be easy when going international (Hong & Li, 2017). The cost pressure of the company in the department store industry is influenced by the number of customer interactions in the stores and the range of products being offered by the company (Hong & Li, 2017). The costs of Sears are usually higher in the USA, but for example, if the company is looking to enter the UK as a new market, it will help if Sears look into the local companies and their product costs. If the competitors are making their products with a low-cost strategy, then Sears should also consider doing low-cost at the stathenLocal response of the customers, which is usually influenced by customer service and the type of products being offered. When a customer

plans to make a purchase, they often compare the product with other companies' products (Boulay et al., 2016).

The response from the customers to a new department store outlet might be positive because,, in this industry, customers always want a new brand name with a lower cost and price (Boulay et al., 2016). The department store industry is diverse and competitive, and so is the response from the customers towards the companies in it. If Sears chooses to start a business on a global level, the customer response might be positive if Sears start off with low prices and better service to maintain their position in the industry.

Foreign Market

As Sears has chosen to expand its operation on a global level and start business internationally, the company should consider entering the UK as a foreign market. The reason for choosing the UK is because, like the USA, the UK has a strong base, like a large population and an increased number of tourists. According to the surveys in 2015, the results responded that there was an 87% positive response from customers to the new stores opened in London and affiliated areas (Li, Qian & Yao, 2015). Sears should enter the UK market as a new foreign market, in the same industry as it is serving the USA customers. In an international business, when a company decides to expand its business in any foreign market, it identifies the entry modes which are best tailored it identifies they (Li, Qian & Yao, 2015).

There exist three different types of entry modes: export mode, intermediate mode, and hierarchical mode. In export mode, there is low control over the costs, customers, and risks, but there is more flexibility in terms of purchasing goods and exports for the company (Li, Qian & Yao, 2015). If a company chooses export mode for a new market, the ownership remains with the parent company. In the intermediate mode, there is shared risk and control, as the ownership is split between the parent company and the third party. The intermediate mode mostly involves franchising, licencing, and joint ventures with local authorities (Li, Qian & Yao, 2015). In a hierarchical mode, there is hIn control, there is less flexibility, and there is ionization. This mode is also known as investment mode, where the parent company has full control over the business but in a new market (Li, Qian & Yao, 2015). The hierarchical mode includes mergers and acquisitions, where the parent company merges with the local companies to improve their business.

As for Sears, the best mode of entry into the UK market will be the intermediate mode, where they will use their parent company name to give out franchises to the local interested participants. It will be beneficial for the company, as the international business cannot be run smoothly by the parent company due to increased market and risks of the market.

Horizontal Integration Strategy

Horizontal integration is the strategy acquired by companies for additional business processes that are equal to the value chain of the company in the same or different industries (Barrella & Watson, 2016). The best possible ways of horizontal integration can be internal expansion, where the company gathers investment plans for operating profits, and external expansion, where the company tends to move into mergers and acquisitions. As the different departments and companies are involved together at the same level of production, horizontal integration allows them to use the resources collectively at an equal level (Barrella & Watson, 2016). Sears used horizontal integration in the form of a merger with Kmart in March 2005. Kmart is also a big box department store chain serving customers in the USA. In 2005, Sears and Kmart merged together to perform business more effectively. The reasons behind this merger were more than a plan only.

The Sears CEO Eddie Lampert found that the company had more costs in a year than sales, which affected the overall growth of the company. Kmart, at that time, was selling more brands of their own, and its customer service was also considered to be top-ranked years the years 2000-2004, Sears started to purchase more of the Kmart located running a business effectively in the areas, with the name Sears Grand. So, in March 2005, the board of directors sat down to share their interests, and the company merged with the name Sears Holding Corporation. Now, the company is serving as a merger of two companies, Kmart and Sears. The strength of this merger was that both companies had their own brands in the market, and it turned out to be beneficial for both companies in terms of customer service, sales, and operations (Barrella & Watson, 2016).

Vertical Integration Strategy

Vertical integration is a strategy when a company expands its business operations into different production paths, both inside and outside the business entity (Argyres & Mostafa, 2016). In vertical integration, a business might own its suppliers or distributors for the core purpose of the integration. It helps the companies to decrease their costs and improve their business efficiencies by reducing their transportation costs and decreasing their overall manufacturing time constraint (Argyres & Mostafa, 2016). In some cases, it is best for the company to depend on the expertise of their vendors' economies of scale instead of being involved in vertical integration. Vertical integration in a company occurs when it assumes control over distribution or production processes that are included in the creation of products or services (Argyres & Mostafa, 2016).

There are two types of vertical integration: backward integration and forward integration. Backward vertical integration occurs when the company controls the subsidiaries that produce the inputs or materials used in the production of the products/services. When a company has control over its subsidiaries, it can create a stable supply of inputs, and can make sure a consistent quality in the final product (Barrella & Watson, 2016). Some examples can be taken from Ford, who integrated with the

glass companies in the 1920s to minimise the production of car windows to produce a perfect car. Forward integration is when a company has control over its distribution and retail centres (Argyres & Mostafa, 2016). It helps in product selling and increases sales. When a company is observing forward vertical integration, its production is not outsourced, and its retail outlets are more concerned with growing.

Looking into Sears, the company has been manufacturing its own products instead of getting a final product from the suppliers or other companies. It makes them less backward and vertically integrated, and it can be considered a positive aspect because there is always a risk of getting a whole new product in the manufacturing phase. As far as forward vertical integration is concerned, Sears has opened its own outlets in different areas of the USA, and unlike other department stores, it does not place its brands in third-party stores. The company is also less forward and vertically integrated.

Increasing Vertical Integration

A company can benefit a lot from vertical integration if it is implemented perfectly within the company. The foremost purpose of vertical integration is sometimes to increase profits by accessing the potential of their departments and products (Argyres & Mostafa, 2016). Sears, being the 23rd largest department store chain in the USA, has a lot to offer customers and can make profits from vertical integration. At present, Sears is manufacturing its own brands by getting raw materials from suppliers and wholesalers. They have the potential to maintain their brand even though they get a finished product from the market. For example, Sears produce bicycles for kids, and they make each item included in the creation of bicycles on their own.

Instead of making tyres on their own, they can get them from the available market. It will directly increase the profit of the company, as the costs of producing the bicycles will be reduced. Sears also have the potential and resources to give their brand name to third-party retailers. The company has built its name, and it will help increase profits if the company moves to give its brands and products to third-party retailers instead of just putting them in its own retail outlets (Argyres & Mostafa, 2016).

Outsourcing

Outsourcing is the technique used by companies to give any third-party company the opportunity to produce or manufacture a product/service for the core benefit of the company (Schniederjans, Schniederjans & Schniederjans, 2015). It is considered a cost-effective and profitable strategy. Companies might outsource their sections of business to any third party because the company might not have expertise in that area (Schniederjans, Schniederjans & Schniederjans, 2015). As discussed before, Sears manufactures its products in-house and is not involved in outsourcing. The company should consider outsourcing its production of brands (in some sections) to third-party companies in

order to focus on the core areas of the company. Considering production from outsourcing can help Sears establish a good customer base because the company will have time to focus on core areas, such as customer service. It can also increase profits, and the costs of production will be decreased by outsourcing the manufacturing department. However, being an outsource company will not benefit as Sears is a department store chain, and producing some extra within the production phase will only increase its cost (Schniederjans, Schniederjans & Schniederjans, 2015).

Long-Term Cooperative Relationships

Being an old department store chain, Sears has a large long-term supplier base. One world technologies and Techtronic industries are their basic suppliers, who provide the basic electronic equipment used in their products. But, these relations have been wickered in recent years. Sears had contracts with these suppliers, but One World Technologies threatened the company by saying that they would take legal action against Sears as a result of changing suppliers' terms, which cannot be changed within an agreed contract (Peterson, n.d.). However, One World Technologies is forced to file a lawsuit against Sears with the intention of embarrassing Sears in the media and urging Sears to finish the contract. Eddie Lampert said in response that the company has nothing to fear, as they are following the legal laws and standards.

In this case, Sears had started to build a bad relationship with the suppliers, although the mistake in the situation was from One World Technologies (Peterson, n.d.). Building long-term relationships with the suppliers is essential, and it adds value to the company because a good-running company always has positive relations with the intermediaries involved in the business. If a supplier is satisfied by the company, it will directly benefit the customer as they will be getting the best quality product. Stronger supplier relationships also increase the supplier base, and there is a long-term benefit to relying on the suppliers from the company.

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