Strategic Management

Resources and Competitive Position

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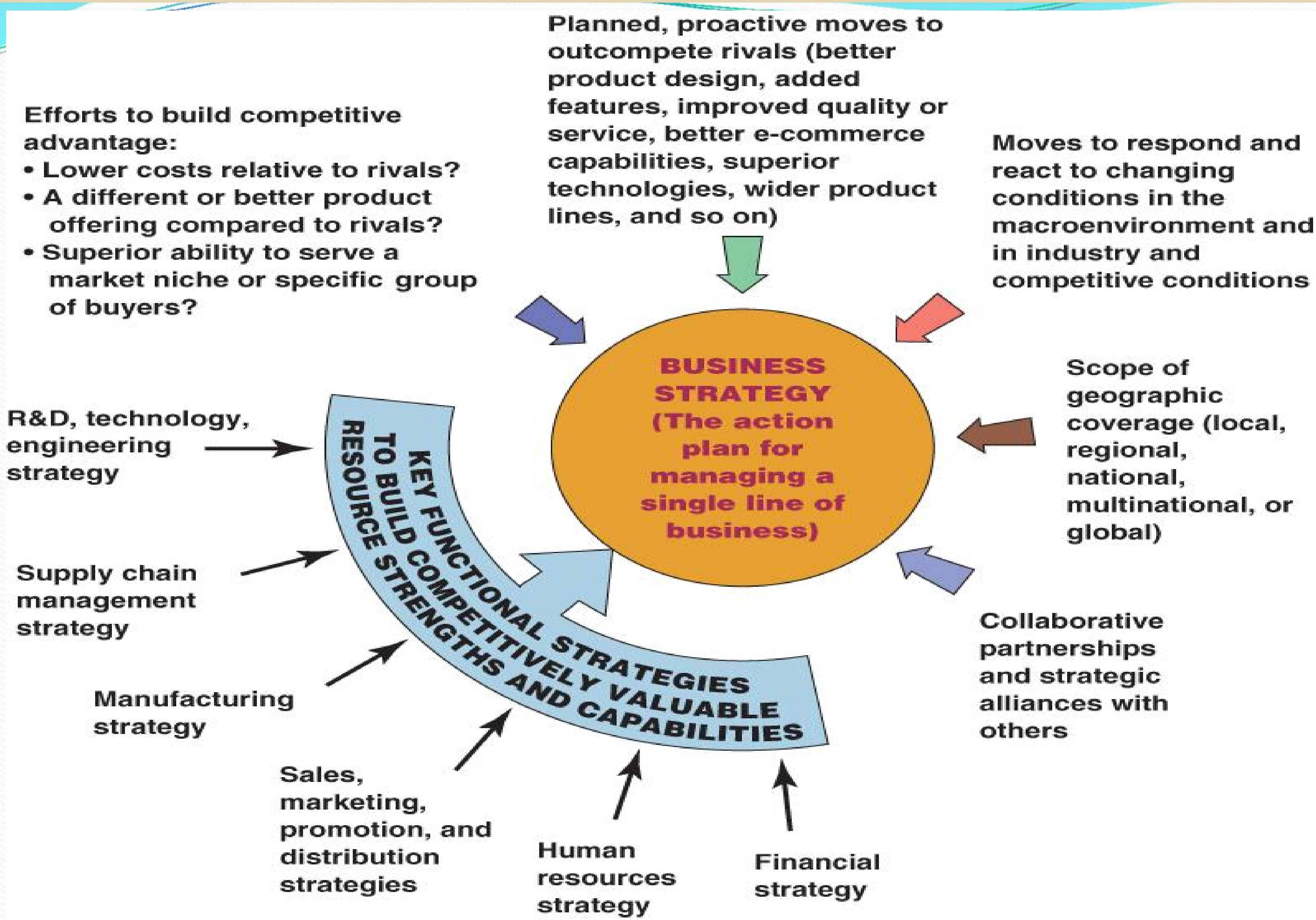
Benefits of "Strategic Thinking" and a "Strategic Approach" to a Company

"Without a strategy the organization is like a ship without a rudder, going around in circles."

"Strategy without theory is frivolous, strategy without execution is wishful thinking."

HELPS A COMPANY PREPARE FOR THE FUTURE!

Identifying Components of a Single-Business Company's Strategy



Resource-Based Strategy

- Companies with competitively valuable resource strengths and competencies often deploy these capabilities to
  - Boost the competitive power of their overall strategy
  - Bolster their position in the marketplace
- Resource-based strategies
  - Attempt to exploit company resources to offer value to customers in ways rival cannot match
  - Can focus on eroding the competitive potency of a rival by developing different resources that effectively substitute for the strengths of the rival

Resource Weaknesses and Competitive Deficiencies

- A ***weakness*** is something a firm lacks, does poorly, or a condition placing it at a disadvantage
- ***Resource weaknesses*** relate to
  - Inferior or unproven skills, expertise, or intellectual capital
  - Lack of important physical, organizational, or intangible assets
  - Missing capabilities in key areas

Market Opportunities

- Opportunities ***most relevant*** to a company are those offering
  - ***Good match*** with its financial and organizational resource capabilities
  - ***Best prospects*** for ***profitable long-term growth***
  - ***Potential*** for ***competitive advantage***

External Threats

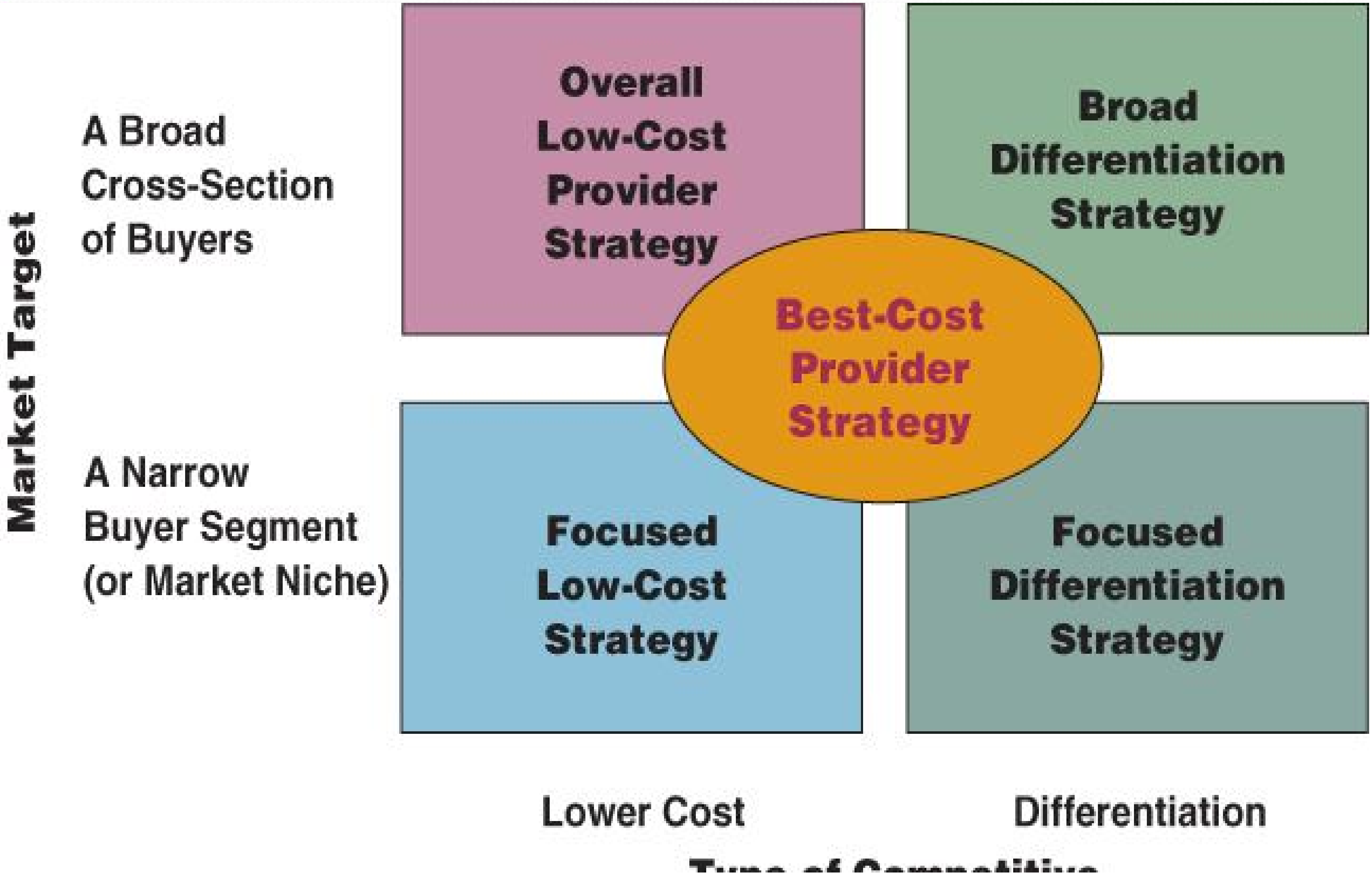
Some possibilities:

- Emergence of cheaper/better technologies
- Introduction of better products by rivals
- Entry of lower-cost foreign competitors
- Onerous regulations
- Rise in interest rates
- Potential of a hostile takeover
- Unfavorable demographic shifts
- Adverse shifts in foreign exchange rates
- Political upheaval and/or burdensome government policies

Role of SWOT Analysis in Crafting a Better Strategy

- **S W O T** analysis ***involves more than just developing the 4 lists*** of strengths, weaknesses, opportunities, and threats
- The most important part of **S W O T** analysis is
  - ***Using the 4 lists to draw conclusions about a company's overall situation***
  - ***Acting on the conclusions*** to
    - Better match a company's strategy to its resource strengths and market opportunities
    - Correct the important weaknesses
    - Defend against external threats

The Five Generic Competitive Strategies.



Low-Cost Provider Strategies

- Make achievement of ***meaningful lower costs*** than rivals the ***theme*** of firm's strategy
- Include ***features and services*** in product offering that buyers consider ***essential***
- Find approaches to ***achieve a cost advantage*** in ways ***difficult*** for rivals to ***copy or match***

Low-cost leadership means *low overall costs,* not just low manufacturing or production costs!

Translating a Low-Cost Advantage into Higher Profits: Two Options

Option 1: Use lower-cost edge to under-price competitors and attract price-sensitive buyers in enough numbers to increase total profits

Option 2: Maintain present price, be content with present market share, and use lower-cost edge to earn a higher profit margin on each unit sold, thereby increasing total profits

Approaches to Securing a Cost Advantage

Approach 1

Do a better job than rivals of performing value chain activities efficiently and cost effectively

Approach 2

Revamp value chain to bypass cost-producing activities that add little value from the buyer's perspective

Approach 1: Controlling the Cost Drivers

- Capture scale economies; avoid scale diseconomies
- Capture learning and experience curve effects
- Control percentage of capacity utilization
- Pursue efforts to boost sales and spread costs such as R&D and advertising over more units
- Improve supply chain efficiency
- Substitute use of low-cost for high-cost raw materials
- Use online systems and sophisticated software to achieve operating efficiencies
- Adopt labor-saving operating methods
- Use bargaining power to gain concessions from suppliers
- Compare vertical integration vs. outsourcing

Approach 2: Revamping the Value Chain

- Use direct-to-end-user sales/marketing methods
- Make greater use of online technology applications
- Streamline operations by eliminating low-value-added or unnecessary work steps
- Relocate facilities closer to suppliers or customers
- Offer basic, no-frills product/service
- Offer a limited product/service

Keys to Success in Achieving Low-Cost Leadership

- **Scrutinize each cost-creating activity, identifying cost drivers**
- **Use knowledge about cost drivers to manage costs of each activity down year after year**
- **Find ways to restructure value chain to eliminate nonessential work steps and low-value activities**
- **Work diligently to create cost-conscious corporate cultures**
  - **Feature broad employee participation in continuous cost-improvement efforts and limited perks for executives**
  - **Strive to operate with exceptionally small corporate staffs**
- **Aggressively pursue investments in resources and capabilities that promise to drive costs out of the business**

Best Time For Low-Cost Strategy

- Price competition is vigorous
- Product is standardized or readily available from many suppliers
- There are few ways to achieve differentiation that have value to buyers
- Most buyers use product in same ways
- Buyers incur low switching costs
- Buyers are large and have significant bargaining power
- Industry newcomers use introductory low prices to attract buyers and build customer base

Pitfalls of Low-Cost Strategies

- Being overly aggressive in cutting price
- Low cost methods are easily imitated by rivals
- Becoming too fixated on reducing costs and ignoring
  - Buyer interest in additional features
  - Declining buyer sensitivity to price
  - Changes in how the product is used
- Technological breakthroughs open up cost reductions for rivals

Differentiation Strategies

Objective

- Incorporate ***differentiating features*** that cause ***buyers*** to ***prefer firm's product*** or service over brands of rivals

Keys to Success

- Find ways to differentiate that ***create value for buyers*** and are ***not easily matched or cheaply copied*** by rivals
- Keeping the cost of achieving differentiation below the higher price that can be charged

Benefits of Successful Differentiation

A product / service with unique, appealing attributes allows a firm to

- **Command a** ***premium price and/or***
- ***Increase unit sales*** **and/or**
- ***Build*** **brand** ***loyalty***

= ***Competitive Advantage***

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Sustaining Differentiation: Keys to Competitive Advantage

- Most ***appealing approaches*** to differentiation are those
  - ***Hardest for rivals to match or imitate***
  - ***Buyers will find most appealing***
- ***Best choices*** to ***gain*** a longer-lasting, more profitable ***competitive edge***
  - New product innovation
  - Technical superiority
  - Product quality and reliability
  - Comprehensive customer service
  - Unique competitive capabilities

Value Chain : Differentiation Opportunities

- Purchasing and procurement activities
- Product R&D and product design activities
- Production process / technology-related activities
- Manufacturing / production activities
- Distribution-related activities
- Marketing, sales, and customer service activities

Activities, Costs, & Margins of Suppliers → Internally Performed Activities, Costs, & Margins → Activities, Costs, & Margins of Forward Channel Allies → Buyer/User Value Chains

Differentiation-Based Advantage

Approach 1

Incorporate product features/attributes that ***lower buyer's overall costs*** of using product

Approach 2

Incorporate features that ***raise performance a buyer gets*** out of the product

Approach 3

Incorporate features that ***enhance buyer satisfaction*** in non-economic or intangible ways

Approach 4

Outcompete rivals via ***superior capabilities***

Best Time for Differentiation Strategy

- There are many ways to differentiate a product that have value and please customers
- Buyer needs and uses are diverse
- Few rivals are following a similar differentiation approach
- Technological change and product innovation are fast-paced

Disadvantages of Differentiation Strategies

- Appealing product features are easily copied by rivals
- Buyers see little value in unique attributes of product
- Overspending on efforts to differentiate the product offering, thus eroding profitability
- Over-differentiating such that product features exceed buyers' needs
- Charging a price premium buyers perceive is too high
- Not striving to open up meaningful gaps in quality, service, or performance features vis-à-vis rivals' products

Best-Cost Provider Strategies

- ***Combine*** a ***strategic emphasis*** on ***low-cost*** with a strategic emphasis on ***differentiation***
  - Make an upscale product at a lower cost
  - Give customers more value for the money

Objectives

- Deliver superior value by meeting or exceeding buyer expectations on product attributes and beating their price expectations
- Be the low-cost provider of a product with good-to-excellent product attributes, then use cost advantage to underprice comparable brands

Competitive Strength of a Best-Cost Provider Strategy

- *Competitive advantage* is based on the capability to include upscale attributes at a lower cost than rivals' comparable products
- To achieve *competitive advantage,* a company must be able to
  - Incorporate attractive features at a lower cost than rivals
  - Manufacture a good-to-excellent quality product at a lower cost than rivals
  - Develop a product that delivers good-to-excellent performance at a lower cost than rivals
  - Provide attractive customer service at a lower cost than rivals

When Is a Best-Cost Provider Strategy Appealing?

- When buyer diversity makes product differentiation the norm
- When many buyers are also sensitive to price and value

Risk of a Best-Cost Provider Strategy

- A ***best-cost provider*** may get ***squeezed*** between strategies of firms using ***low-cost*** and ***differentiation*** strategies
  - ***Low-cost leaders*** may be able to ***siphon customers*** away with a ***lower price***
  - ***High-end differentiators*** may be able to ***steal customers*** away with ***better product attributes***

Focus / Niche Strategies

- Involve concentrated attention on a narrow piece of the total market

Objective

Serve niche buyers better than rivals

Keys to Success

- Choose a market niche where buyers have distinctive preferences, special requirements, or unique needs
- Develop unique capabilities to serve needs of target buyer segment

Focus / Niche Strategies and Competitive Advantage

Approach 1

- Achieve lower costs than rivals in serving a well-defined buyer segment

Focused low-cost strategy

Approach 2

- Offer a product appealing to unique preferences of a well-defined buyer segment

Focused differentiation strategy

What Makes a Niche Attractive for Focusing?

- Big enough to be profitable and offers good growth potential
- Not crucial to success of industry leaders
- Costly or difficult for multi-segment competitors to meet specialized needs of niche members
- Focuser has resources and capabilities to effectively serve an attractive niche
- Few other rivals are specializing in same niche
- Focuser can defend against challengers via superior ability to serve niche members

Risks of a Focus Strategy

- Competitors with broad product lines having wide appeal find effective ways to match a focuser's capabilities in serving niche
- Niche buyers' preferences shift towards product attributes desired by majority of buyers – niche becomes part of overall market
- Segment becomes so attractive it becomes crowded with rivals, causing segment profits to be splintered

Deciding Which Generic Competitive Strategy to Use

- Each positions a company differently in its market and competitive environment
- Each establishes a central theme for how a company will endeavor to outcompete rivals
- Each creates some boundaries for maneuvering as market circumstances unfold
- Each points to different ways of experimenting with the basics of the strategy
- Each entails differences in product line, production emphasis, marketing emphasis, and means to sustain the strategy

The *big risk* – Mixing and matching pieces of the generic strategies to create a mixed bag or *"stuck in the middle"* strategy! This *rarely produces* a *sustainable competitive advantage* or a *distinctive competitive position !*

Ends of Discussion