LINKING

COMPETITIVE ADVANTAGE

WITH

STRATEGIC ADVANTAGE

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LINKING COMPETITIVE ADVANTAGE WITH STRATEGIC ADVANTAGE

1. Strategic advantages are found in the very *structure of a situation*, not in the detail. Strategic advantages have substances... more than minor differences in costs or product performance.

2. Strategic advantages are *sustainable* for a long period of time... i.e.. longer than the industry's design/manufacturer/market cycle. Sufficiently long enough for the firm to enjoy its benefits in terms of the time necessary to recoup its investment.
COMMENTS ON PORTER'S GENERIC STRATEGIES

1. DIFFERENTIATION STRATEGY:
   Avoid head-to-head competition by providing *unique benefits* to the marketplace.

2. OVERALL COST LEADERSHIP:
   Mitigate the effects of competition through its *low-cost production* position.
3. **FOCUS STRATEGY:**

The *strategic target* is as important as the strategic tool. The firm has a strategic choice about how much of the market it will choose to serve. It depends on the

(a) resources available to the firm;

(b) nature and strength of competitors;

and

(c) the relative attractiveness of the whole market versus its various segment.

Such a strategy (whether low-cost or differentiated) aimed at one part of the market is the focus strategy.
Generic strategies and sustainability:

1. The *structural difference* in the type of assets deployed, people, location, R&D chosen to provide the *different value* provides one source of sustainability - reduction of imitatibility. E.g.: Wal-Mart or a K-Mart as discounters are structurally different from a Macy's, Bloomies, or Nordstrom.

2. Choice of broad markets versus selected (narrow) markets is made on the basis of the structural advantage gained. E.g.. *Advertising Age* is insulated from competition from the *Wall Street Journal* or *Business Week*. It has a larger number of reporters who are ad specialists providing indepth coverage of the ad field that cannot be matched by the latter two.

3. Firms using cost focus strategies must similarly gain structural based lower cost
by focusing on the segment that its more broadly aimed competitors cannot duplicate.
OVERALL COST LEADERSHIP

When a low-cost producer has a parity product it will receive prices equal to its competitors but realize higher profits because of its lower cost structure.

How to achieve low-cost producer status:

1. Process technology:
   Superior method of manufacturing

2. Product design:
   a) deliver basic, highest-value benefits via a no-frill approach;

   b) designing products and product lines to optimize product performance and production costs.
3. **Changing the value chain:**
The value chain is the sum of the individual activities the firm performs as it designs, produces, markets, and distributes its products. Typically, each industry has its way of doing business. By breaking with tradition, a firm can gain substantial advantages over competitors.

E.g.: Fed Express: uses company planes and trucks owned vs scheduled airlines; accepts only small packages vs any size shipment; and using central sorting hub before destination.

4. **Low-cost inputs:**
Efficient low-cost purchasing system and lower-cost substitute inputs. No-frill airlines. Non-union labor.
5. **Location advantage:**
   Proximity to low-cost labor or raw material sources reduce transportation costs. Off-shore production facilities.

6. **Scale economies:**
   Economies of scale lower production and overhead costs in many industries.

7. **Experience curve:**
   Costs are a function of the cumulative experience a firm has in producing a product. Not available to new entrant.
Dangers associated with low-cost strategies:

1. **Technological change:**
   Techno change in production or product techno can negate the cost advantage.

   E.g.: Chip & IC producers: Being the lowest cost producer of one generation of chip is no guarantee the firm will be the low-cost producer of the next. The race to become low-cost producer begins anew with each chip design.

2. **Changes in consumer demand:**
   Insufficient attention to changes in consumer wants and preferences in the pursuit of low-cost production is fatal.
3. **Structural changes in major input costs:**
The high oil prices during the oil embargo allowed firms with access to low-cost feedstocks displaced purely chemical firms with cost advantages derived from efficient production methods.
DIFFERENTIATION

Provides a sustainable advantage because it delivers unique benefits valued by the market. Firm removes itself from head-to-head competition. Firm also positions itself to meeting the needs that are widely valued by buyers and which it has a competitive advantage in supplying.

Achieving Differentiation:
The point of differentiation must be substantive, not cosmetic. The firm must be perceived as offering more value to the customer than its competitors' standard offerings. And it must not be easily copied. A genuine sustainable advantage.
**Value:** Two components for customers:
A differentiated product can either

(1) lower the buyer's costs to perform a desired function, or

(2) provide superior benefits
A truly differentiated offering allows the customer to do both.
How to achieve product differentiation: i.e., how to provide superior value

1. Provide *new functional capabilities* not previously possible
   E.g., create new techno - Ed Land/Polaroid

2. Provide a *major improvement* in product performance
   Savin vs Xerox: improved product quality and performance and mfg costs

3. Tailor or fine-tune a product so it *more closely satisfies customers' needs*
   A more market driven approach:
   But differentiation must be *widely valued across an industry*
   E.g.: Caterpillar: more models, durability, best spare parts inventory system, largest and best managed dealer network and field service capability
They may be made possible by new or improved technology directed

a) at either the product itself, or

b) at its production process, or

c) by changes in the value chain
Dangers associated with a Differentiation Strategy:

1. **Commoditization of the offering:**
   A competitor will simplify and standardize the product, and by using high-volume mfg techniques achieve a low-cost advantage. This is a threat innovative firms with high R&D costs face in "me-too" imitator producers.

2. **A more differentiated product:**
   Real Russian Stolichnaya displaced Smirnoff, a long established upper end US vodka. Laptop producers are in the race to market the smallest, lightest portable with the longest batteries, brightest screen, largest resident memory and fastest processor.
3. **Imitation:**
Stolichaya's upper end image was imitated and bested by Absolut (Swedish) and Finlandia (Finland) in the sophisticated end.

4. **Creative segmentation:**
Highly focused segmentation approach gains over broadly based product.
FOCUS

1. Strategic advantage is as much a function of the target as it is of the firm's capabilities. Key: focus on a particular application or a segment that gives it a sustainable competitive edge against its more broadly focused competitors.

2. Whatever the advantage is (cost based or differentiation based) the important point is that there is a substantial difference between the target segment and other segments in the industry in either their needs or in the costs to serve them.

Segment boundaries define the advantage.
Commodity-like products:
Segment boundary is the cost difference in serving different customers... that can be found in the production, operations, distribution or marketing costs.

E.g.. Discount stock brokers:
Segment does not value personal service & other support services
Cost structure of DSBs much lower than full-service SBs which cannot match

Differentiation focus:
based on tailoring concept
Basis of segmentation: the combination of the features built into the product and their cost/price ratio.
The segmentation of markets for differentiated products rests on the relationship between the cost features to the producers and the value of the features to the customers.
E.g.: Tandem Computers: large mainframes with redundancy/fail-safe systems for use in running a network of automated teller machines.
Dangers associated with a Focus Strategy

1. The advantages of size regain potency:
   Advantages reversed by immense resources of competitor who can pursue programs focuser cannot afford... esp. in R&D. Also the price/value ratio is no longer favorable to the focuser.

2. Competitors can out-focus the initial focuser
IMPORTANCE OF THE TARGET MARKET

Why choosing the correct target market (where to compete) is as important in devising strategy as how to compete:

1. **Not all targets are equally attractive:** Attributes of attractive markets:
   a. some barriers to entry exist but in which competitors are not locked in forever.
   b. customers have little bargaining power; item's functional performance is critical to them; they have few alternatives
   c. competition is not intense; few producers; fast growth customer demand and market.
2. **Market size is important:**
The size of opportunities differ: Small mkts attract fewer competitors; allow early entrants to shape the market to fit their own distinctive competencies; small markets offer a better opportunity as a growth vehicle than large markets.

Since strategy the attempt to maximize the return from a given set of resources, the issue is for the strategist to *find the largest target capable of being captured and held, given the resources available.*
3. **The choice of market is more complex than broad market or segment**

a. small firms should not attempt to capture large pieces of territory; resources needed to defend against larger competitors is enormous.

b. large firms attacking small targets are not using their full potential ... mistake of underutilization of resources.