MGMT3015

CORPORATE STRATEGY

Semester 1

2025

Week 5

Wednesday 19th March

Australian National University

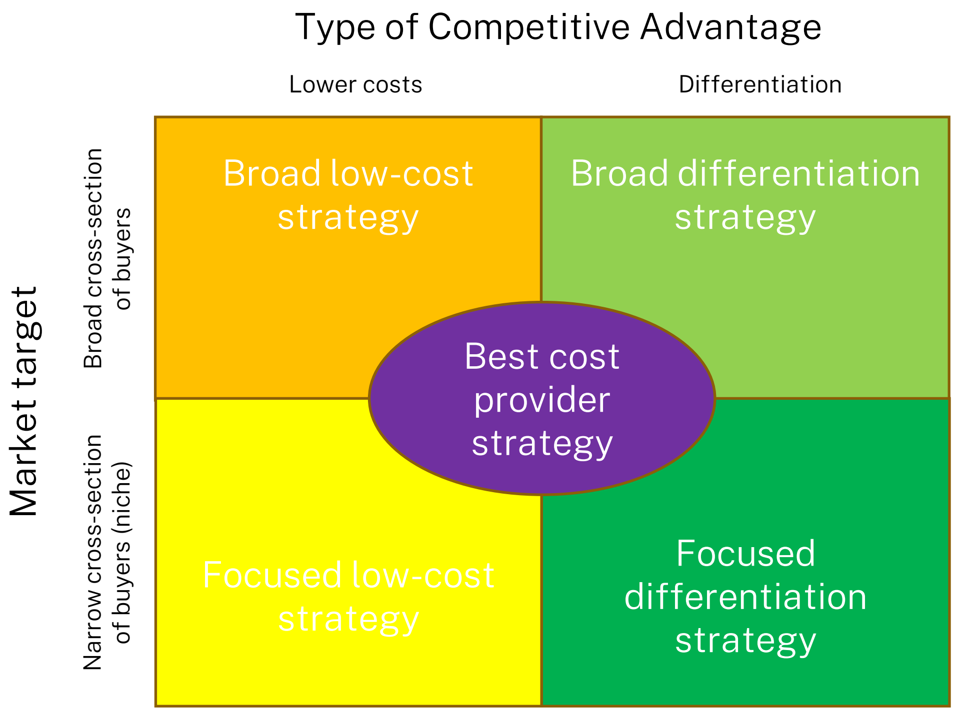
LECTURE 5

The Strategic Toolkit:

- Sources of Competitive Advantage
- Exploiting Competitive Advantage
- Generic Strategy Options

Generic Forms of Competitive Advantage

Porter 1980 adapted in Thompson et al 2025, pg. 127



Broad Low-Cost Strategies

Available (typically) when:

1. The organisation is able to perform value-chain (or ecosystem) activities more cost effectively than rivals
2. The organisation has a business model and/or value chain where cost-producing activities are minimised/eliminated/outsourced to lower cost providers.

Typical cost-drivers and opportunities to minimise costs are found in (Porter 1985 cited in Thompson et al 2023 p.128) include:

- Economies of scale
- Learning and experience
- Capacity utilization
- Supply chain efficiency
- Input costs
- Production technology and design
- Communication systems and information technology
- Bargaining power outsourcing or vertical integration
- Incentive systems and culture

Low-Cost Strategies

Work best when:

- ✓ Price competition is fierce
- ✓ Products and value propositions are commoditized (in the minds of customers) and readily available
- ✓ Buyers use the products in the same way (allowing scale)
- ✓ Switching costs for buyers are low

Cautions:

- Higher volumes don’t necessarily translate to higher profits
- Low price-based strategies are easy to copy
- You can destroy customer value

Selling direct and minimizing ‘middle-men’

Eliminating non-adding activities

Minimising materials-handling and shipping costs

Broad Differentiation Strategies

Enables the organisation to:

1. Command a premium price for its value proposition
2. Win volume and share based on features that segments care about
3. Gain brand loyalty.

Typical value-drivers and opportunities to gain differential advantage (Porter 1985 cited in Thompson et al 2023 p.138) include:

- Product features and performance
- Customer services
- R&D
- Technology and innovation
- Input quality
- Employee skill, training and experience
- Sales and marketing
- Quality control

Strategies to deliver superior Customer Value (Thompson et al 2025 p.138)

Develop products that lower customer life-time costs

Incorporate tangible and intangible attributes that customers value

Communicate value more effectively

Differentiation Strategies

Work best when:

- ✓ Buyer needs and uses are diverse
- ✓ Aspects for differentiation are multiple
- ✓ Few rivals are differentiating on customer value attributes
- ✓ Technological change and innovation are rapid and evolving

Cautions:

- Differentiation-based strategies may be easy to copy
- Customers may not appreciate or may become less attuned to the value
- It’s expensive and potential exists to over-engineer
- Features that customers are willing to pay for longer term are hard to find
- Prices needed may be too high

Niche (low-cost or differentiation) Strategies

Work best when:

- ✓ The niche is large enough and offers good potential
- ✓ Not many competitors especially powerful ones) are attracted to the niche and/or the niche would increase their costs or distract them
- ✓ Many niche opportunities exist (so there are opportunities for everyone)
- ✓ Few rivals have niche specific capabilities

Cautions:

- Outside competitors may be able to copy or negate the strategy
- Niche customers may migrate to the mainstream

Best-cost (low-cost and differentiation) Strategies

Work best when:

- ✓ There are a large number of value conscious buyers
- ✓ Differentiation is possible on things that drive buyer preference
- ✓ It is possible to gain cost advantages and produce differentiated features

Cautions:

- The trap of being ‘caught in the middle’ (attacked from above and below)

Distinguishing features of the 5 Generic Strategies Thompson et al 2025 p.149, Table 5.1

	Broad Low Cost	Broad Differentiation	Focused Low Cost	Focused Differentiation	Best-Cost
Strategic target	Broad market cross section	Broad market cross section	Narrow market niche with different preferences	Narrow market niche with different preferences	Broad of narrow segment of value conscious buyers
Basis of competitive strategy	Lower overall costs	Ability to offer a difference that affects preference	Lower overall costs	Ability to offer a difference that affects preference	Ability to offer a difference that affects preference at lower cost
Product Line	Good basic product	Many options emphasizing difference	Features targeting niche	Features targeting niche	Good features and quality
Production emphasis	Relentless cost reduction	Build features that customers prefer and will pay for	Relentless cost reduction	Small-scale or bespoke production	Appealing features and quality at attractive prices
Marketing emphasis	Low prices – good value	Great products at high(er) prices	Attractive features at budget prices	Matches niche expectations	Best value for the money
Keys to maintaining strategy	Strive to manage costs lower each year	Continuous value enhancement	Serve the niche at lowest overall cost	Serve the niche via superior value propositions	Continuous improvement and innovation and efficiency
Resources and capabilities required	Superior cost structures and expertise	Quality, design, intangibles and innovation	Superior cost structures and expertise	Meeting bespoke niche needs	Lower costs and differentiation capability

SWOT

	+	-
Internal	Strengths	Weaknesses
External	Opportunities	Threats

Ansoff (Growth Vector) Matrix - the only ways to really achieve product growth are to…

		Products	
		Existing	New
Markets or Customers	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

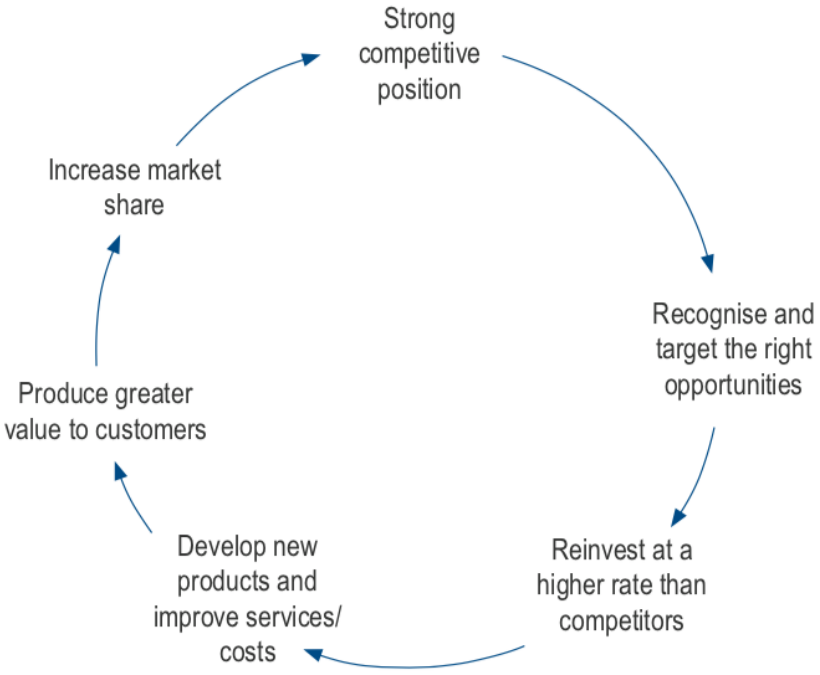
The Profitable Core

(Zook, Allen & Smith 2000, p.7; Zook & Allen 2011 p. 110)

The profitable core is the unique, and by definition, highly profitable combination of business assets, skills, products and relationships that distinguishes a company from its competitors and allows it to provide a unique value proposition to a segment of customers. The profitable core may be a distinct business, a subset of a business, or it may be composed of elements of several businesses. Over the long term, the profitable core is a company's primary engine of growth and value creation... The most successful companies have one or two clearly defined profitable cores and out-invest their competitors in that core, leveraging it for highly profitable growth.

The best way to grow is usually by replicating your strongest strategic advantage in new contexts. Companies typically expand in one or more of four ways: **They create or purchase new products and services, create or enter new customer segments, enter new geographic locations, or enter related lines of business.** A company can pursue each of these strategies in various ways—for example, adding new price points or finding new uses for a product or service that will appeal to new customers. The power of a repeatable model lies in the way it turns the sources of differentiation into routines, behaviors, and activity systems that everyone in the organization can understand and follow so that when a company sets out on a particular growth path, it knows how to maintain the differentiation that led to its initial success.

Growing the profitable core



Source: adapted from Zook, Allen and Smith 2000, p. 8.

Strategies to grow the profitable core

Zook and Allen (2003, pp. 67-69)

Our research yielded two major conclusions. One was that **most sustained, profitable growth comes when a company pushes out the boundaries of its core business into an adjacent space**. We identified six types of adjacencies, ranging from adjacent links in the value chain to adjacent customers to adjacent geographies.

The six adjacencies are:

1. expanding along the value chain (Market Penetration/Diversification)
2. growing new products and services (Product Development)
3. using new distribution channels (Market Penetration/Market Development)
4. entering new geographies (Market Development)
5. addressing new customer segments by modifying a proven product or technology (Market Development)
6. moving into the ‘white space’ with a new business built around a strong capability (Diversification).

Value Innovation: Blue Ocean Strategy (growing the market rather than fighting for share)

Kim & Mauborgne 2005 p. 12.

What consistently separated winners from losers in creating blue oceans was their approach to strategy. **The companies caught in the red ocean followed a conventional approach, racing to beat the competition by building a defensible position within the existing industry order. The creators of blue oceans, surprisingly, didn't use the competition as their benchmark. Instead they followed a different strategic logic that we call *value innovation*... We call it value innovation because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space.**

Value Innovation: Blue Ocean Strategy (growing the market rather than fighting for share) Kim & Mauborgne 2005

Blue ocean strategy seeks to create a new **strategic canvas** by critiquing existing industry business models. It asks some key questions.

- Which of the factors that the industry takes for granted should be eliminated?
- How do we remove factors from the strategy that the customers don't value, but the industry has long emphasised?
- Which factors should be reduced well below the industry's standard?
- How can we identify factors of existing products that are over-designed and reduce these, and offer more of the things that the customers want or need?
- Which factors should be raised well above the industry's standard?
- How can we address and resolve the compromises that have been made in the past that the customers resent?
- Which factors should be created that the industry has never offered?
- How do we look for new sources of value for customers that may result in new demand (things that will attract customers who have not participated much or at all)?

Offensive or Defensive Strategy

	The answers favour offensive action when …	The answers favour defensive action when …
How well do our strengths match the opportunities in the market?	There is a strong correlation between market opportunities and the organisation's strengths – particularly if these strengths are valuable, rare, difficult to imitate and supported by the organisation's policies and procedures.	There is a poor match between the organisation's current strengths and the market opportunities. The organisation's weaknesses are in areas that are critical success factors (CSFs) in the industry.
How well do our competitors' strengths match the opportunities in the market?	The opportunities in the market are only weakly correlated to the strengths and competencies of rivals.	The opportunities in the market are highly correlated to the strengths and core competencies of rivals, particularly if these competitor strengths are valuable, rare, difficult to imitate and supported by the organisation's policies and procedures.
Are we well placed to seize the opportunities and avoid the threats? Are competitors better placed?	The organisation is well placed, has high levels of strategic resource availability, management and technical skills, and intellectual property that provide sustainable competitive advantages that strongly correlate to the opportunities and threats. The organisation is at least as well placed as competitors and ideally, significantly better placed against critical success factors.	The organisation is poorly placed, or has poor strategic resource availability and its competitive advantages are only weakly correlated to industry-critical success factors. Competitors are much better placed.

Offensive or Defensive Strategy

	The answers favour offensive action when …	The answers favour defensive action when …
How vulnerable do our weaknesses make us to attack from competitors or organisations offering substitutes?	The organisation's weaknesses are not particularly accessible to competitor attacks, and are poorly correlated to competitor strengths and industry success factors.	Competitor strengths are strongly correlated to industry success factors and your organisation's weaknesses. The organisation is particularly vulnerable to attack in these areas.
Is competition in the industry changing? If so, how fast is it changing, and in what manner?	While it is always necessary to consider the possibility of 'surprise attack', new entrants or disruptive innovation, competition is relatively predictable and changes are on the basis of existing industry competitive forces.	Competition is highly unstable, new entrants are likely (and powerfully placed) and competition is moving to new forms; competitive forces are changing.

Offensive Strategy

Thompson et al 2025 pg. 156

1. Offering an equally good or better value proposition at a lower price.
2. Leapfrogging competitors by being first to market with next-generation value propositions.
3. Pursuing continuous product innovation to draw sales and market share away from less-innovative rivals.
4. Pursuing disruptive value proposition innovations to create new markets
5. Adopting and improving on the good ideas of other companies.
6. Using hit-and-run or guerrilla warfare tactics to grab market share from complacent or distracted rivals.
7. Launching a pre-emptive strike to secure an industry's limited resources or capture a rare opportunity.

Defensive Strategy

Defensive strategies aim to block the avenues open to challengers by undertaking strategic actions or tactics such as:

1. developing barriers to entry that raise the cost of attack or potentially negate the basis for any competitor attack
2. using innovation to introduce new value improvements in order to close any gaps that rivals may pursue
3. continuous improvement and lean strategies to improve the organisation's cost structure
4. developing exclusive or deeper relationships with key suppliers and strategic allies whose support will be important in combating competitor attacks
5. continuously developing or improving agile strategic resources (such as cash and other highly liquid financial resources, unique people-based resources and intangibles like knowledge and high-performing team relationships).

Concentrate or Diversify?

Zook, Allen & Smith 2003 pp.6-7.

Concentration:

In many companies, however, the profitable core is buried beneath layers of underperforming businesses. **Frequently the profitable core generates only a small portion of company revenues, yet provides the bulk of a company's profits. The most successful companies have one or two clearly defined profitable cores and out-invest their competitors in that core, leveraging it for highly profitable growth….**

A further probe into the most successful growth strategies reveals two key elements: the first is a strong, or even dominant, competitive position in a core business or segment that has been managed aggressively to gain consistent market share, year in and year out, against key competitors. The second is an investment programme that reinvests in the core at a rate that sustains competitive advantage. **To put it another way, winning companies often control the industry profit pool – even their competitors' profitability levels – and use that leverage to ensure that they invest at a higher rate than their competitors. Frequently, the result is even greater levels of market control and greater levels of competitive superiority –** allowing even more investment to build positions in the 'periphery' of the core business.

Concentrate or Diversify?

Diversification: Organisations may diversify:

- **broadly** (a number of business units in industries that appear to have little to do with each other – like Wesfarmers) OR
- **narrowly** (also called 'integration') where a number of businesses offer synergies or are associated with each other in some way (e.g. Qantas Group – Qantas international, Qantas domestic, Jetstar, Qantas Holidays, Qantas Freight, Express Ground Handling, Qantas Loyalty).

Organic Strategy

Advantages of organic strategies are that they:

✓offer maximum control over execution of the strategy

✓rely on the organisation's strategic resources, things that its strategic managers are typically good at managing

✓minimise cultural or decision-making problems that may arise with having to integrate and coordinate actions of multiple organisations.

❑The disadvantage is that the strategy can proceed only as fast or as far as available resources can accommodate. .

Merger & Acquisition (M&A)

Enable growth of the core or adjacencies through:

- ✓ faster increase in market size and power
- ✓ quickly entering markets
- ✓ rapid building of strategic competencies
- ✓ lower risks than organic growth
- ✓ quick increase in focus or diversification
- ✓ reduced competition.

Problems in successfully managing mergers and acquisitions:

- ❑ integration difficulties (bringing two cultures, sets of systems, procedures and practices together)
- ❑ opposition of government regulators concerned about the effect on market competition or loss of local control
- ❑ inadequate due diligence (overvalued or inheriting problems)
- ❑ the size/cost of funding
- ❑ poor synergies
- ❑ excessive diversification
- ❑ over-focusing on growth and size (a ‘big is beautiful’ fixation)
- ❑ organisations become too large, inefficient and slow-moving.

Cooperation/Collaboration Strategies

3 Basic Types:

1. joint venture (setting up a new entity jointly owned by two strategic partners)
2. equity strategic alliance (each partner takes equity in the other partner)
3. non-equity strategic alliance (an agreement to collaborate without investing equity).

Cooperation/Collaboration Strategies

Advantages:

- ✓ establish a stronger presence in markets than each could afford to do on their own
- ✓ share useful know-how or expertise that greatly aids each partner in competing against rivals for industry leadership
- ✓ pursue opportunities in new or unfamiliar geographic markets, distribution channels or roles in the value-chain markets
- ✓ share the cost of things like investments in innovation, thus lowering the costs and risks of failure to each of the parties in the alliance.

Cautions:

- ❑ Careful selection of partners/allies to ensure similar levels of commitment and shared value from the alliance.
- ❑ Managing conflicts of interests.
- ❑ Sufficient synergies in mission/purpose, corporate cultures, decision- making and management behaviours.
- ❑ A clear strategic focus for the alliance, with demonstrable outcomes.
- ❑ Investment of time/resources to manage changing roles and contributions and operational issues.

Outsourcing

Strategic advantages of outsourcing

- ✓ Improves the organisation’s ability to obtain high-quality and/or cheaper components or services via a competitive market.
- ✓ Improves innovation through interaction with ‘best-in-world’ suppliers.
- ✓ Enhances strategic flexibility to change structure and activities in the value chain.
- ✓ Allows the organisation to focus on those activities that it can perform better than outsiders.

Strategic disadvantages of outsourcing

- ❑ The organisation may lose control of core competencies and resources.
- ❑ The organisation may build suppliers into future competitors.
- ❑ The organisation may be exposed to forces affecting the supplier with little capacity to control or respond.
- ❑ Requires skills in managing complex relationships.

GE Matrix – Analysing strategic opportunities at an SBU (Strategic Business Unit) level

GE Matrix – Analysing the strategic opportunities – generic options

	Strong	Average	Weak
High	**Protect position** invest to grow at maximum digestible rate concentrate effort on maintaining strength	**Invest to build** challenge for leadership build selectively on strengths reinforce vulnerable areas	**Build selectively** specialise around limited strengths/ seek ways to overcome weaknesses withdraw if indications of sustainable growth are lacking
Medium	Build selectively invest heavily in most attractive markets build ability to counter competition emphasise profitability by raising productivity	**Selectivity/manage for earnings** protect existing programs concentrate investments in high profit/low risk segments	**Limit expansion or harvest** look for ways to expand without high risk; otherwise, minimise investment and rationalise operations
Low	**Protect and refocus** manage for current earnings concentrate on attractive markets defend strengths	**Manage for earnings** protect position in most profitable markets upgrade product line minimise investment	**Divest** sell at a time that will maximise cash value cut fixed costs and avoid investments meantime