

EXC3505 – STRATEGY

Week 5

Business Strategy

Before we start

Make sure you

- **have a group**
- **have chosen a case**
- **fill out your group details on google doc today**

If you still don't have a group, please

- **take a look at google sheet**
- **reach out to groups with relatively few members**

Before we start

CEO contact info for both Scaled Robotics and Norse Biotech are available

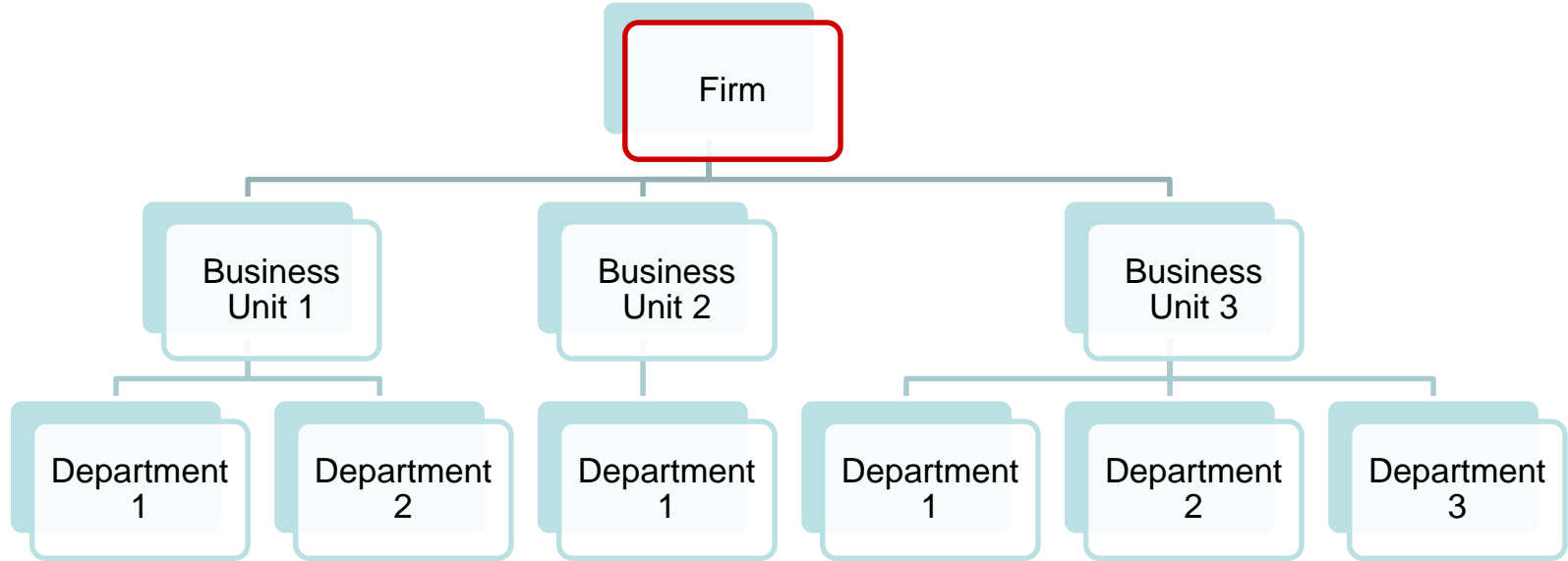
Please reach out to them directly for firm-specific questions

Please record analysis-related questions on google sheet

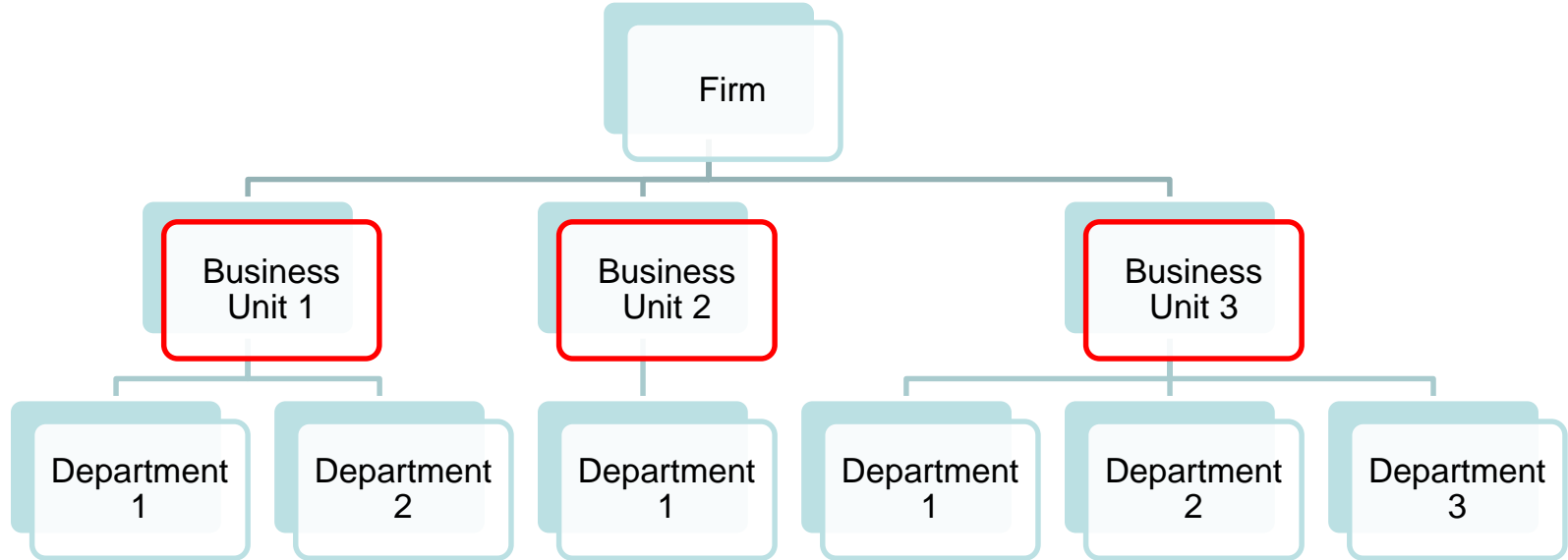
- You can also help answer questions on google sheet**

In-class case question discussions will start in Week 8

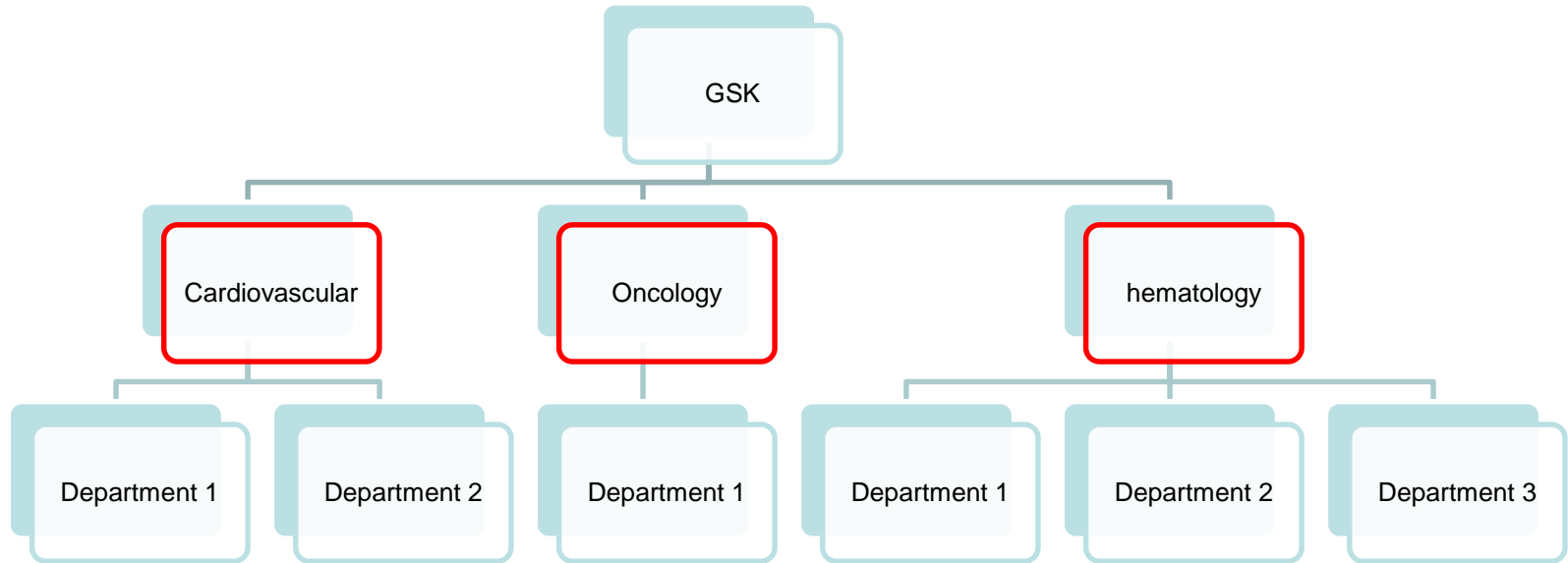
So far



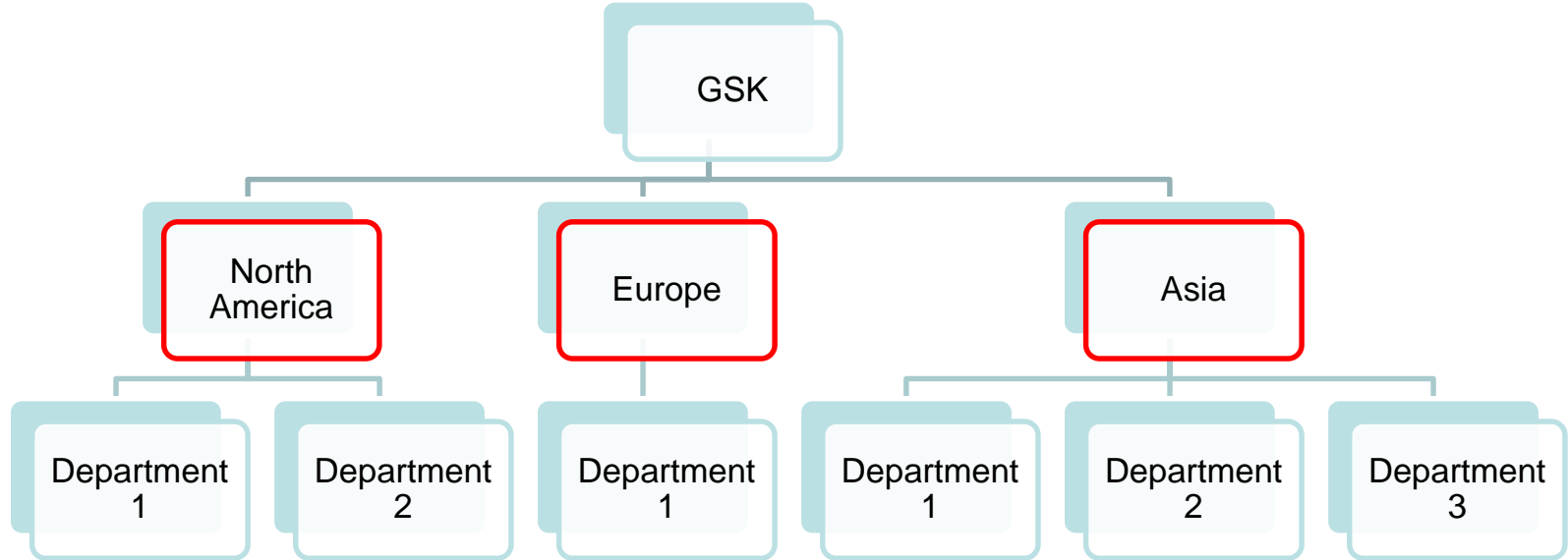
Today



Today



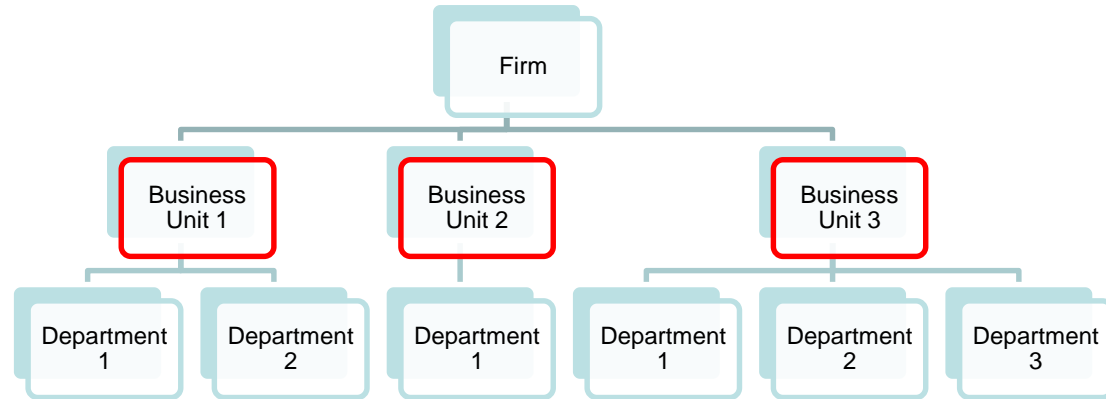
Today



Today

SBU

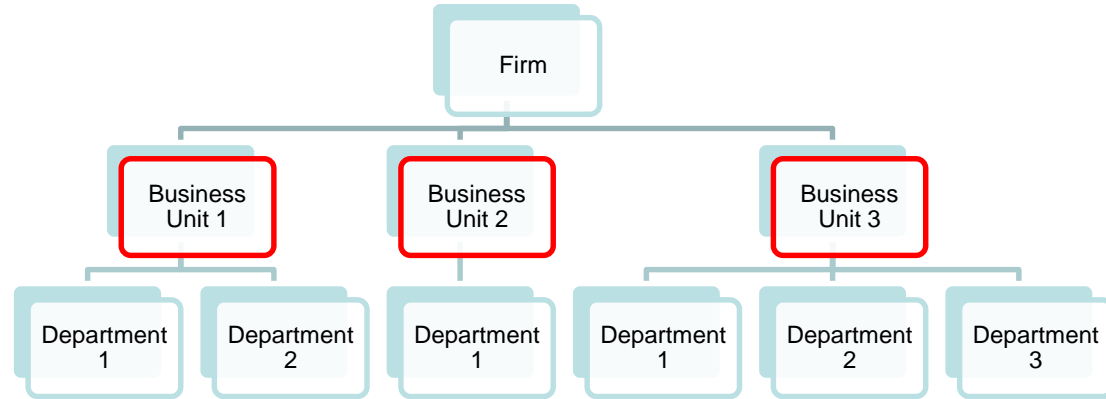
- Create profits in targeted market
- Complements other SBU(s) that create profits in targeted market



Today

SBU

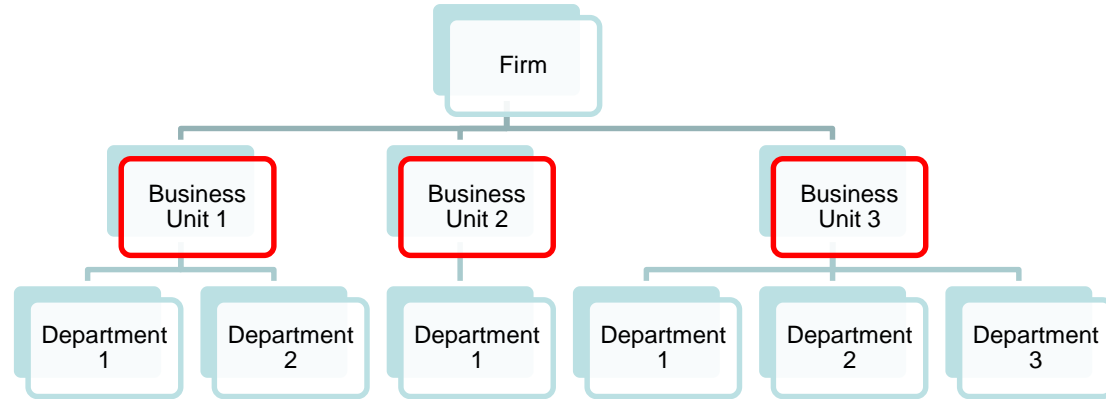
- Create profits in targeted market
- Complements other SBU(s) that create profits in targeted market



SBU Competitive Advantage

SBU competitive advantage:
create value for its users both
greater than the costs of
supplying them and superior
to that of rival SBUs

$$Value_{SBU} = Value_{customer} - Cost_{SBU}$$



Today's agenda

- **Max($Value_{SBU}$)**
- **Business strategy**
 - Traditional model
 - Cost leadership
 - Differentiation
 - Focus
 - Hybrid
 - Modern model
 - Business model innovation



Cost leadership

- Be the lowest-cost organization in a domain of activity
 - Lowest cost to produce clothings

Anyway to deliver cost leadership?

- Any example?



Cost leadership

- **Be the lowest-cost organization in a domain of activity**

Four ways to deliver cost leadership

- Input Costs
- Economies of Scale
- Experience
- Product/Process innovation

Cost leadership variables

Input Costs



Cost leadership variables

Economies of scale

$$\textit{Production cost per unit} = \textit{variable cost} + \frac{\textit{Fixed cost}}{\textit{Number of units produced}}$$

Industries with high fixed cost

- **Pharmaceutical**
- **Airline**

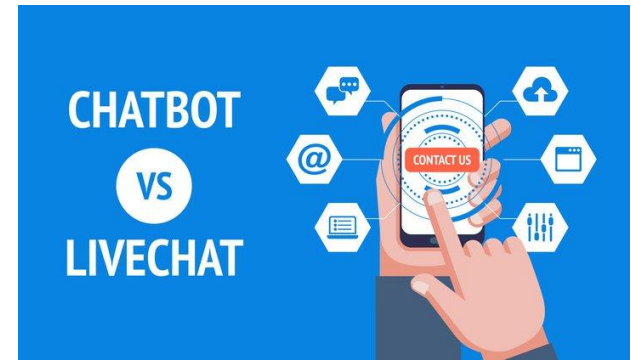
Cost leadership

Experience

- **Learning curve effect**
 - Things get better as you practice
- **Discovery of most efficient design/equipment**

Cost leadership

Product/process innovation



Cost leadership

Requirement 1

- **Costs should be lower than all competitors' costs**
 - Producer A and B
 - Both A and B ask price 100 for their products
 - A's cost is 90; B's cost is 80
 - A is vulnerable if B executes a price campaign

Cost leadership

Requirement 2

- **Focus on lowering costs should not ignore quality**
 - Minimum quality requirements

FY	GM, Ford, Chrysler^a	Nissan	Toyota
Relative Scale (U.S. = 1.0)			
1965	1.0	0.9	1.5
1970	1.0	1.9	2.4
1975	1.0	1.7	2.6
1979	1.0	2.0	2.7
1983 ^b	1.0	1.9	2.2
1985 ^c	1.0	1.9	2.2

Differentiation strategies

Differentiation: distinguish yourself from the competition

Differentiation strategies

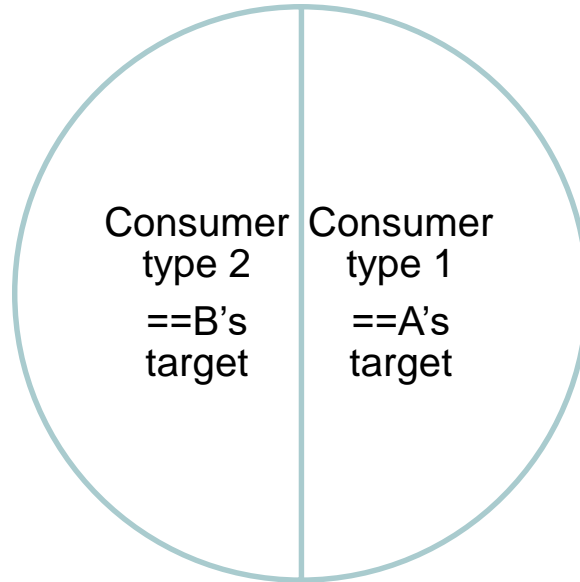
Differentiation: distinguish yourself from the competition

Intuition:

- Two sellers, A and B, offer exactly the same products. What will happen to their profits?

Differentiation strategies

Differentiation: distinguish yourself from the competition



Differentiation strategies

Differentiation by

- **Product/service attributes**

“\$500? Fully subsidized? With a plan? I said that is the most expensive phone in the world. And that doesn't appeal to business customers because it doesn't have a key board. Which makes it not a very good email machine”

---Steve Ballmer, 2005



Differentiation strategies

Differentiation by

- Product/service attributes



Differentiation strategies

Differentiation by

- Product/service attributes



Differentiation strategies

Differentiation by

- Customer relationship
- How many times you have heard the saying “make your client your friend?”

Differentiation strategies

Differentiation by

- Customer relationship
- How many times you have heard the saying “make your client your friend?”

Long term sales growth, for instance, isn't achieved by flogging products and services to potential clients, it's by consistently demonstrating the relationship building acts that get you there.

[\(https://salespop.net/sales-professionals/how-to-make-a-client-your-best-friend/\)](https://salespop.net/sales-professionals/how-to-make-a-client-your-best-friend/)

Differentiation strategies

Differentiation by

- Customer relationship

Mini case:

On Saturday afternoon, you receive an email from your client, asking for *urgent* help on analyzing one performance ratio. How will you react to this? And explain how likely your reaction will foster friendship.

Differentiation strategies

Differentiation by

- Customer relationship

Caution:

- Friendship-based friendship
- Business-based friendship

Differentiation strategies

Differentiation by

- Complements
- What is Amazon prime membership?
- What is it originally for?
- What are its benefits now?



Differentiation strategies

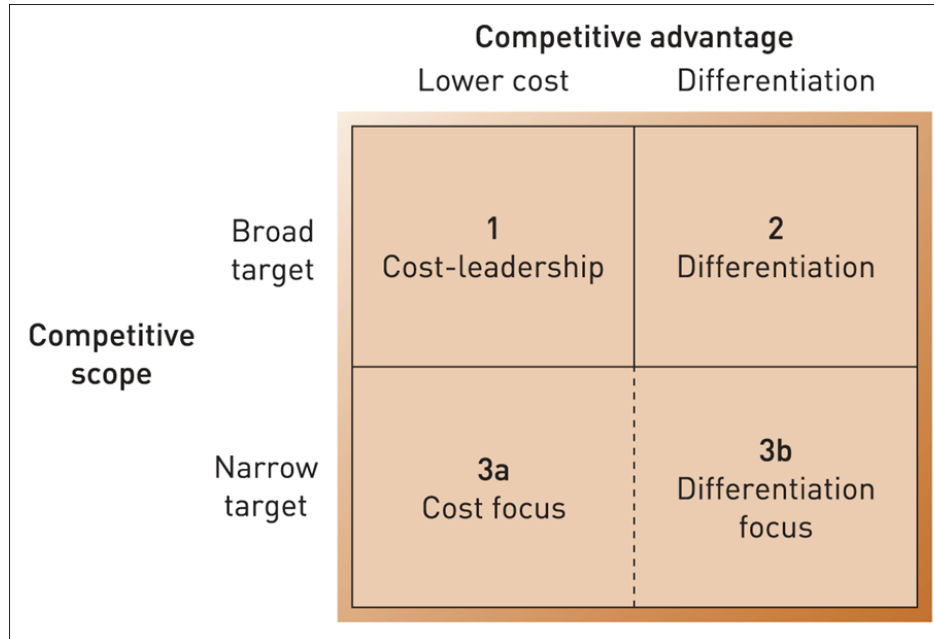
Differentiation by

- Complements
- **Amazon prime membership benefits**
 - Streaming benefits (TV, music)
 - Retail store benefits (Whole Foods)
 - Reading benefits (Prime reading)
 - etc



Focus strategies

- Targeting a narrow segment or domain of activity



Focus strategies

- Cost focuser
- What is Iceland?
- Why and how Iceland can achieve cost leadership in this narrow target market?



Focus strategies

- Differentiation focuser



Successful focus strategy

- Key is small number of segments you cover
- But it cannot be too small
 - Segments need to be economically viable



Hybrid Strategies

Combine 2 or 3 strategies below

- Cost leadership
- Differentiation
- Focus



Key for successful hybrid strategies

- **No negative spillover**
 - (Luxury and cost leadership by outsourcing?)

THE FASHION LAW

AN INDEPENDENT SOURCE FOR LAW, BUSINESS AND CULTURE

[ABOUT](#) [DAILY LINKS](#) [PARTNERSHIPS](#) [PRESS](#) [SEARCH](#)

Are Your "Made in China" Luxury Goods Just as Luxurious?

February 14, 2018 / TFL

Key for successful hybrid strategies

- **No negative spillover**
 - (Luxury and cost leadership by outsourcing?)

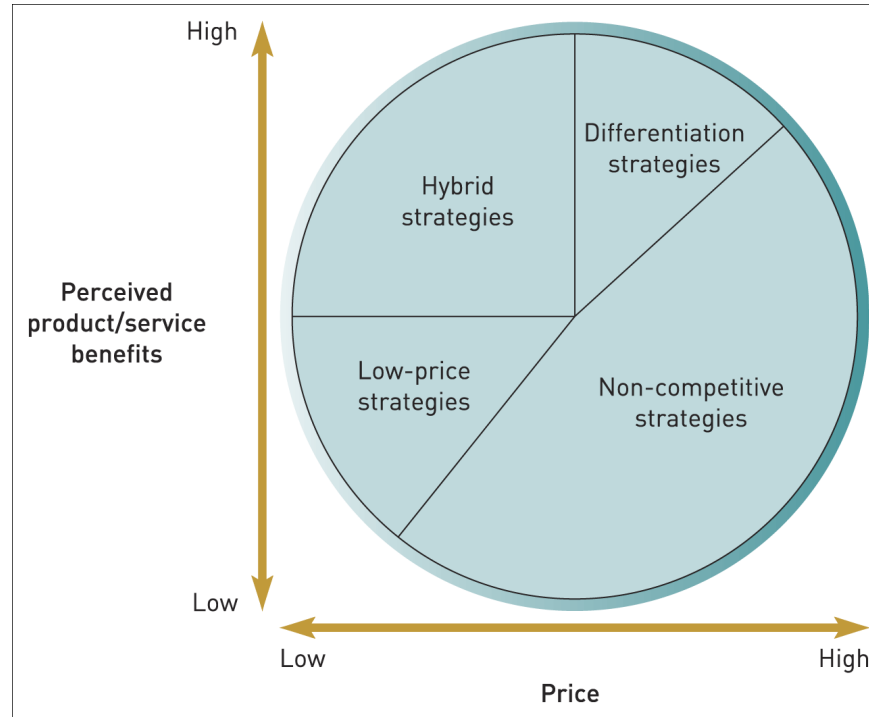


Key for successful hybrid strategies

- If driven by innovation

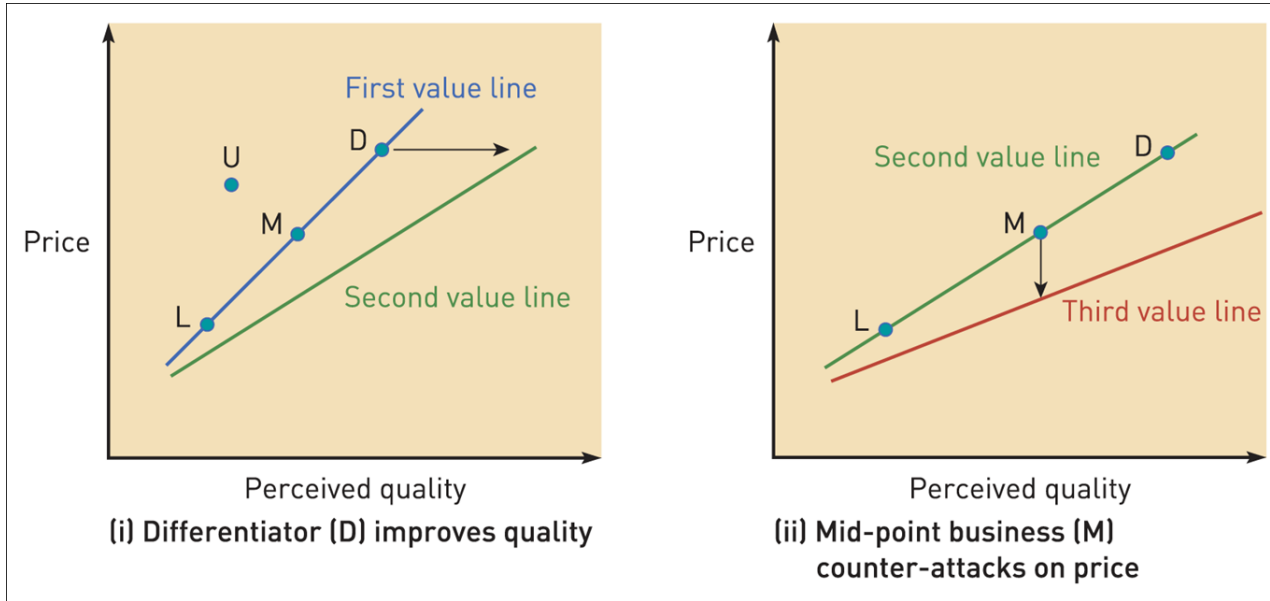


Strategy Clock



Interactive strategies

- SBU Strategies need to be chosen and adjusted with regard to competitors strategies



Game theory

Useful for understanding

- Market equilibrium
- Your dominant strategy



Game Theory

- **Prisoner's Delimma**
- **Nash equilibrium**
- **Can expand by**
 - Including more players
 - Allowing sequential decision making
 - Adding behavior probabilities
 -

		Player 2	
		confess	don't confess
Player 1	confess	$(-6, -6)$	$(0, -10)$
	don't confess	$(-10, 0)$	$(-1, -1)$

Game Theory

- A little excise
- What's the Nash Equilibrium here

		Firm 2	
		Go green	Not green
Firm 1	Go green	(800, 100)	(900, 200)
	Not green	(600, 600)	(600, 300)

Game Theory

- A little excise
- What's the Nash Equilibrium here

		Firm 2	
		Go green	Not green
Firm 1	Go green	(800, 100)	(900, 200)
	Not green	(600, 600)	(600, 300)

Business model innovation

Business model: an arrangement of activities that produces value, which is distributable among firms and customers

Business model innovation

3 typical business models

- Razor and blade



Business model innovation

3 typical business models

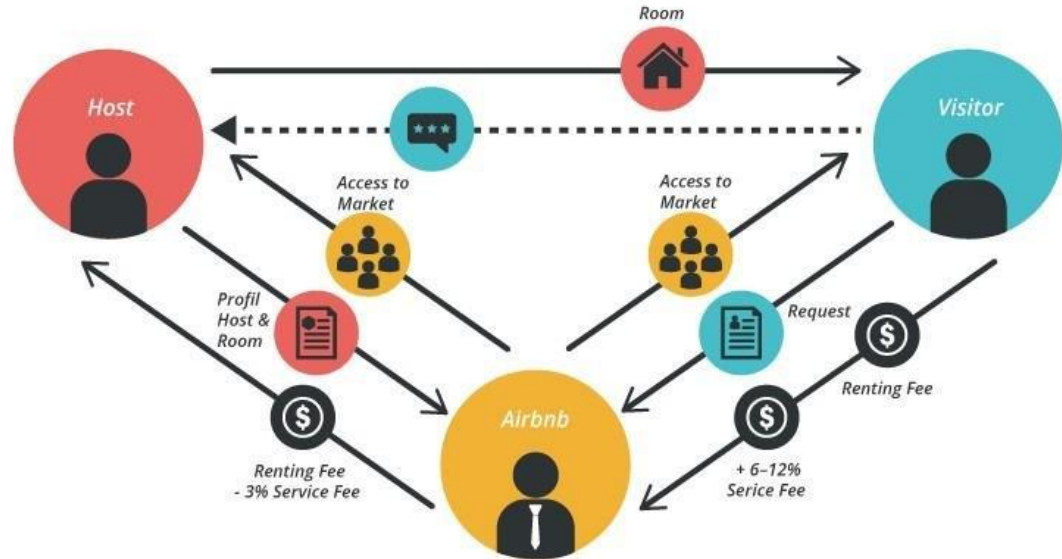
- Freemium



Business model innovation

3 typical business models

- Multi-sided platform



Business model innovation

3 typical business models

- Multi-sided platform



Any other platform you can think of?

Business model innovation

Some facts of platform as a business model

- **Unicorn start-ups tend to be platform-based**
 - Asset-light
- **Powerful to generate profits**



Main takeaways

- **Business strategy is tied to a strategic business unit (SBU), not corporate level**
 - But what about small firms (startups)?
- **Firms have a choice in terms of business strategies**
 - But these are influenced by rivals' actions → these need to be anticipated!

Week 6 and 7

Week 6

- Writing & critical thinking workshop with Binh Minh Thi Truong
- No preparation necessary

Week 7

- Lecture on Value Configurations with Binh Minh Thi Truong
- I will post two papers on Itslearning