Universiteit Antwerpen
Faculteit Bedrijfswetenschappen
en Economie

Competitive advantage & Value creation

2024-2025

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Assistent: Nathalie Verboven en Magali Jaspers

Structure of the course

Agreements	Slides
Concept: What is strategy?	Slides/lecture materials + H2 course
Concept: Competitive advantage and value creation	***Slides/lecture materials + H3 course***
Technique: External analysis	Slides/lecture materials + H4 course
Technique: Internal analysis and core competencies	Slides/lecture materials + H5 course
Strategic choice: Growth and portfolio strategy	Slides/lecture materials + H7 course
Organization & follow-up: Sustainability	Slides/lecture materials
Organization & follow-up: Culture	Slides/lecture materials + H8 course

Today's class

- What is value-created?
    - Components of value-created
- What is superior value?
- Value creation and competitive advantage
- Types of competitive advantage
- Competitive advantages in a hypercompetitive market
- Case: Metro

Today’s class

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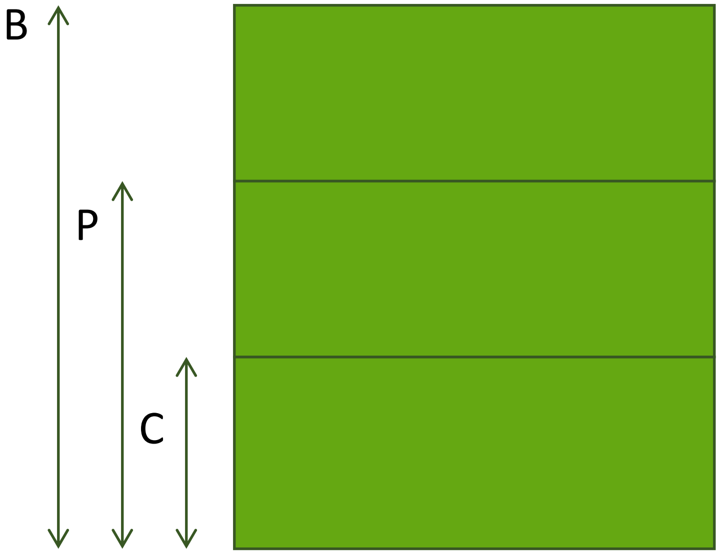
Exercise

- Imagine: a raw material is transformed into a finished product (only 1 step required in the industrial chain)

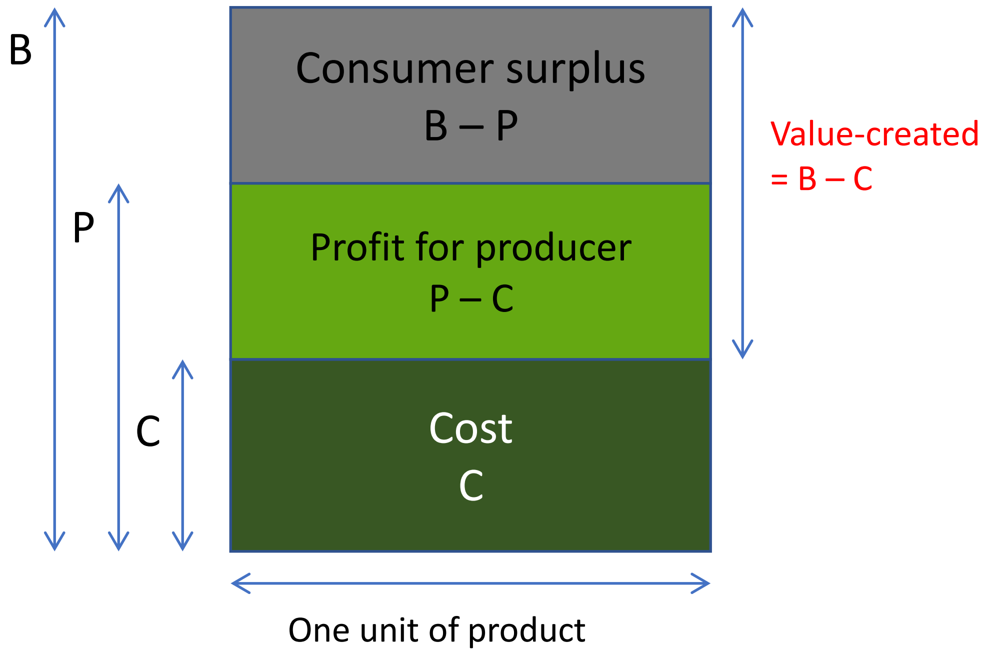
- Indicate in the figure:
  - **Profit for the producer**
  - **Consumer surplus** -> how would you define this, and where would you place it (in which block)?
  - **Value created** by the producer



C = Cost to convert the raw material into a finished product
P = Price paid by the consumer
B = Perceived value (by the customer)

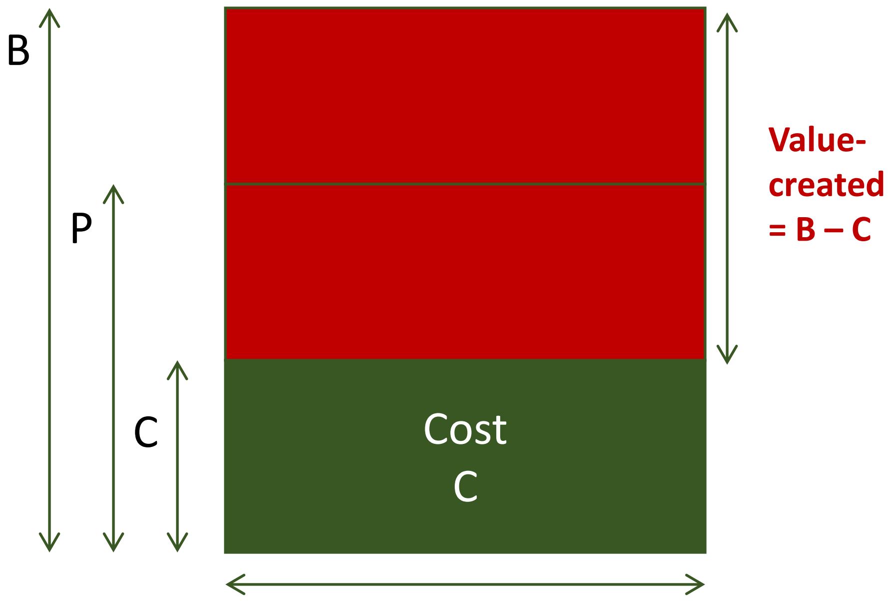
What is value-created? Components of value-created

- Consumer surplus -> how would you define this, and where would you place it (in which block)?
- Profit for the producer
- Value created by the producer



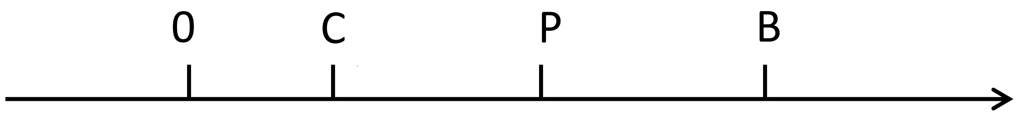
What is value-created? Components of value-created

- Cost C = value that is "sacrificed" to convert raw inputs into finished products
- Price P = price consumers pay for the finished good
- Perceived benefit B = value consumers derive from the finished good (often called: "value")
- Value-created = B – C (B and C are expressed per unit of the final product)



- Profit for the producer
- Consumer surplus -> how would you define this, and where would you place it (in which block)?
- Value created by the producer

Goal: C < P < B



What is superior value?

- Superior customer value IF:
  - Real advantages product/service > expected advantages
  - Advantages own product/service > advantages product/service competitors

Comparison: customer expectations

	Own value < or = than value competitors	Own value > than value competitors
Perceived value > than expected value	**A**	**D**
Perceived value = than expected value	**B**	**E**
Perceived value < than expected value	**C**	**F**

Comparison: competitors

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Perceived value < than expected value	**C**	**F**

Superior value creation

Comparison: competitors

Break out: Carrefour

- 10’ brainstorm. Appoint timekeeper
- Carrefour, Delhaize, Colruyt, Carrefour
- Situation
  - After initiation hypermarkets: Market share Carrefour’s hypermarkets dropped in Belgium from appr. 40% to appr. 25%
  - Delhaize: Significant restructuring in 2023, ‘image’ stays rather stable
  - Colruyt + Liddle + Aldi => increase from appr. 25% to appr. 40%
  - Newcomers! AH, Jumbo
  - Belgium is one of the only countries where Carrefour’s market share decreased significantly
- Questions
  - How does Carrefour position itself in the market?

    1) Think about its portfolio

    2) Brainstorm about the image Delhaize, Colruyt and Carrefour have

    3) How important is price in the retail market?

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Class Discussion

Example: Carrefour

- Carrefour → old "GB"
- French supermarket chain

- **1. In its portfolio**:
    - Hypermarkets
    - Supermarkets
    - Small, local stores

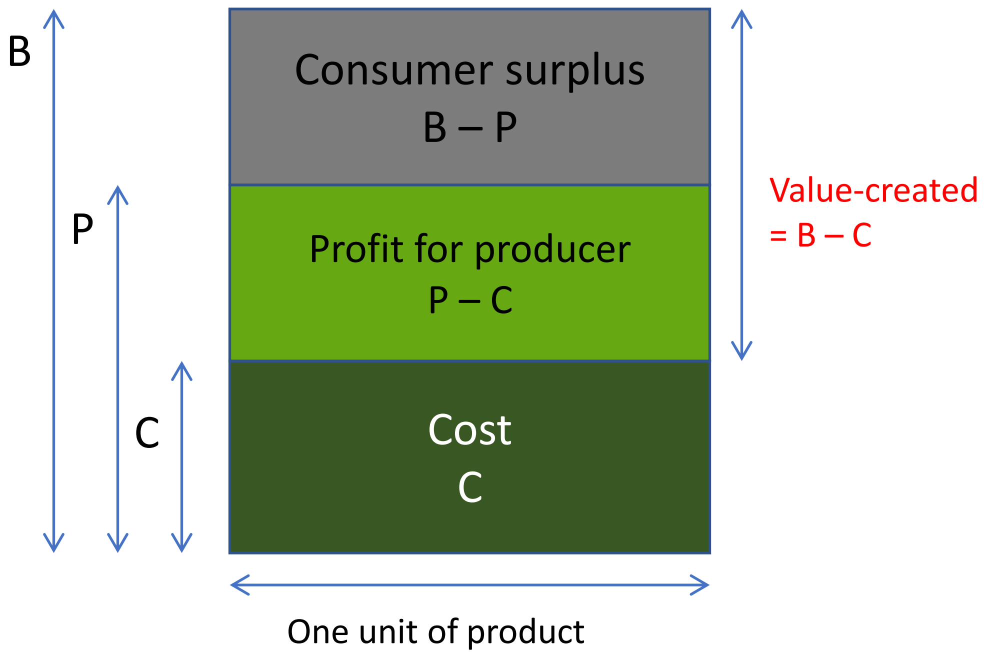
Example: Carrefour

- **2. Image**
  - Delhaize
    - Quality, lots of choice, good locations, not cheap
  - Colruyt
    - Friendly staff, clean, attractive prices
  - Carrefour
    - Study showed:
      - Image, especially for the hypermarkets: “a bit messy”, “prices are relatively too high”, “sometimes products are out of stock”, “too big”, …
    - Hypermarkets are not adapted to customer expectations (“stuck in the 1970s?”)
      - Too big, too time consuming (enormous parking, …)
        - Customers want to “shop quickly”
      - “Parents do not take their children anymore to spend time in the hypermarket”
      - Too much choice

Example: Carrefour

- **3. How important is price in the retail market?**
  - Is price that important?
    - Yes, if decreasing purchasing power
    - But this is temporary AND not that important for all products!
      - Efficiency for basic products vs. quality and choice for high-end food products

→ Impact on the importance of a low cost for the producer (C), producer profit (P-C), created value (B-C), and consumer surplus (B-P)



Example: Carrefour

- "Drive"
  - Customer value creation? How?
  - Superior customer value creation? How?

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Time for a Break

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Value creation and competitive advantage

What is a competitive advantage?

- *When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit*

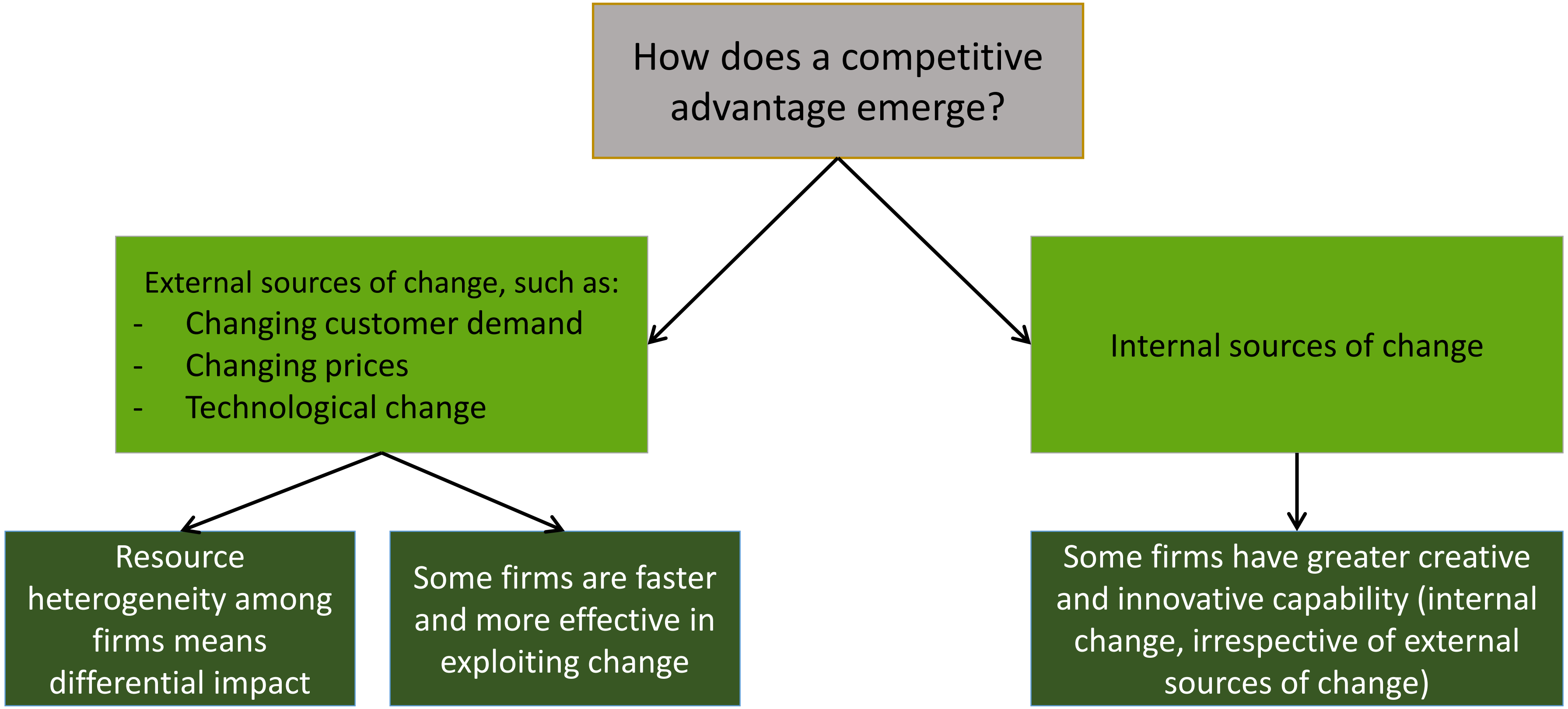
- *Critical note*
  - Competitive advantage = superior profitability?
    - Then, why use the concept "competitive advantage"?
  - Firms may forgo *current* profit in favor of investments, to be able to attain a competitive advantage in the future!

This brings us to the question:

What are the **origins** of a competitive advantage?

Value creation and competitive advantage

The emergence of a competitive advantage:



Value creation and competitive advantage

External sources of change, such as:
- Changing customer demand
- Changing prices
- Technological change

Resource heterogeneity among firms means differential impact

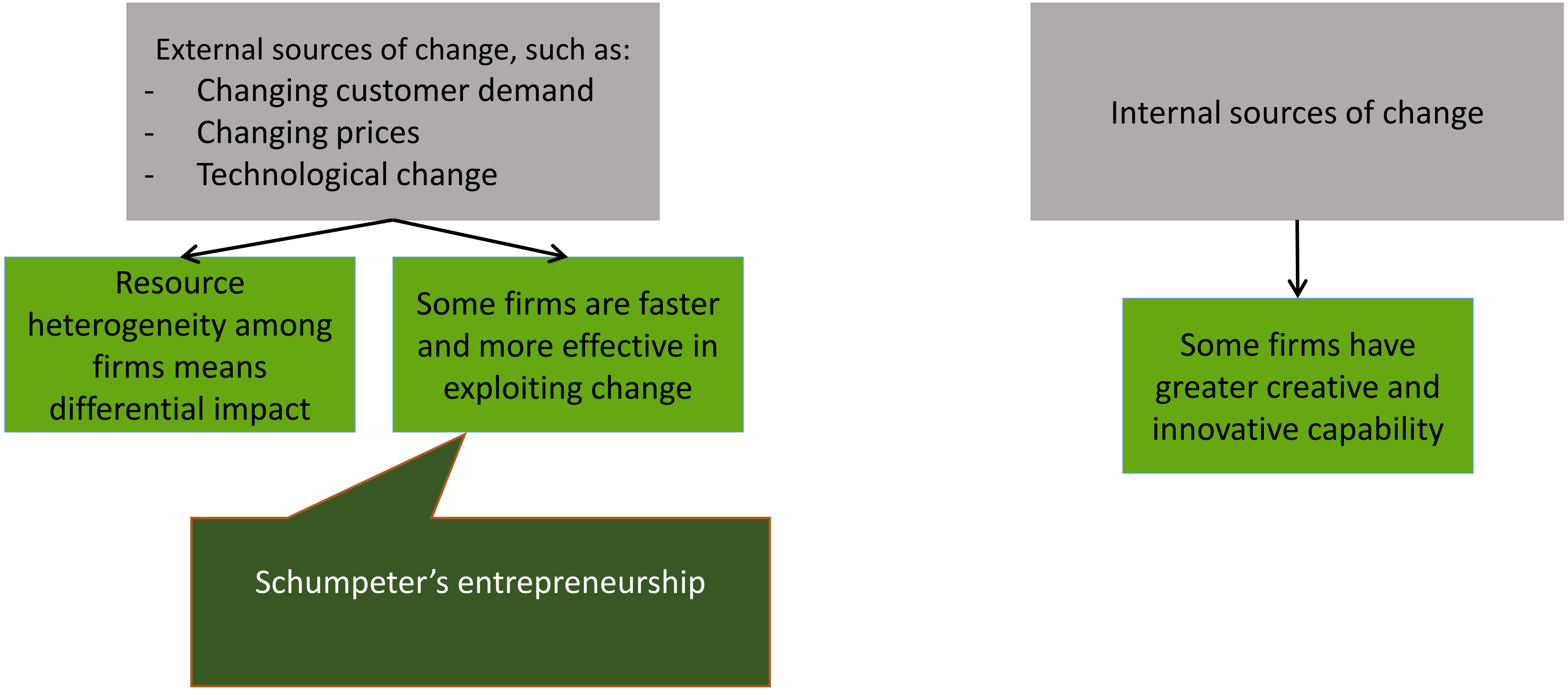
Some firms are faster and more effective in exploiting change

Internal sources of change

Some firms have greater creative and innovative capability

Example:
- World tobacco industry is fairly stable; and the leading companies have similar resources & capabilities. Competitive advantages tend to be small
- Toy industry experiences often unpredictable shifts in consumer preferences and technology. Profitability differences are wide and variable

Value creation and competitive advantage



Value creation and competitive advantage

- Schumpeter argues
  - Capitalism is an evolutionary process
    - Quiet periods
    - Shocks & discontinuities
    - = old sources of advantage are destroyed and replaced by new ones

    → As such: creative destruction

- Implications
  - Static efficiency is less important than dynamic efficiency
    - Static efficiency = the optimal allocation of a society's resources at a given point in time
    - Dynamic efficiency = the achievement of long-term growth and technological improvement
  - NOT fully utilizing your possibilities (resources) may give you the opportunity to quickly react on the opportunities emerging from shocks & discontinuities

Value creation and competitive advantage

Implications (cont.)

- The process of creative destruction should always be used when evaluating business strategy and market outcomes
  - **Schumpeter argues that only evaluating price competition is insufficient**
  - He argues that price competition is just a tactical maneuver, **it is the competition for new products, new technologies, new sources of organization, … that defines how good a company performs!**

Important: competitive advantages always erode over time & responsiveness is key!! (see next classes: what is a sustained competitive advantage)

Value creation and competitive advantage

Responsiveness involves

1. The **<u>ability</u> to anticipate changes** in the external environment
2. **<u>Speed</u>**, requirements:

- Need for information
  - Through, for example, direct relationships with customers, suppliers, competitors, …
- Short cycle time
  - Allows the company to act rapidly upon emerging market developments (e.g., Zara)

Value creation and competitive advantage

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Strategic innovation = new approaches to doing business, including new business models

Examples
- New industries => the creation of a new market (e.g., Xerox created the plain-paper copier industry)
- New customer segments for existing products (e.g., IBM launched the home market for computers)
- New sources of competitive advantage (e.g., Dell created an integrated system for ordering, assembling and distributing PCs)

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Types of competitive advantage

	Unique selling proposition/ effectiveness	Low cost/ efficiency
Total industry	Differentiation strategy	Cost leadership
Niche	Focus differentiation (Specialization)	Focus cost leadership

Stuck in the middle

The strategy is intertwined with the whole company system (structure/ processes/ culture/…) !!!!!

Break out

- 10-15’ brainstorm. Appoint timekeeper
- Questions:
  - What are the main considerations for the following types of competitive advantage?
  - In other words, how should the organization structure itself, where should they pay extra attention, what resources/competencies are necessary, etc...
    - Cost Leadership
    - Differentiation

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Class Discussion

Basis of cost leadership

Key elements
▪ Economies of scale ▪ Design for easy manufacturing ▪ Control on overhead cost (limited R&D) ▪ Process innovation   ▪ Standardization, JIT, … ▪ Outsourcing

Resources/competences
▪ Acces to capital ▪ Process engineering skills ▪ Tight cost control ▪ Job specialisation (efficiency increases) ▪ Quantative targets and goals

SHEIN

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Basis of differentiation strategy

Key elements

▪ Emphasis on
  ▪ Branding
  ▪ Quality
  ▪ Design
  ▪ Service
  ▪ New product development

Resources/competences
▪ Marketing skills ▪ Product engineering skills ▪ Creativity ▪ R&D ▪ Cross functional coordination

CHANEL

Dangers

Cost leadership	Differentiation
▪ Cost benefit fades away (imitation, rises in material prices) ▪ Changing technology ▪ Clients prefer differentiation ▪ Focused players can cut under your prices	▪ Imitation ▪ Clients do not attach value on your differentiation ▪ Focused players can add more value

CHANGING THE CORPORATE STRATEGY IS VERY DIFFICULT ON THE SHORT/MIDDLE TERM !!!

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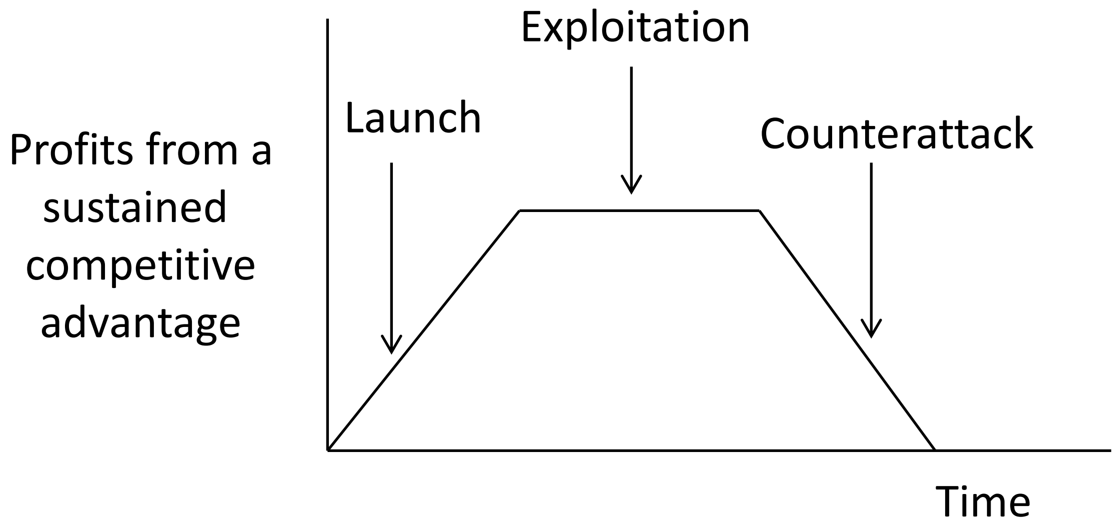
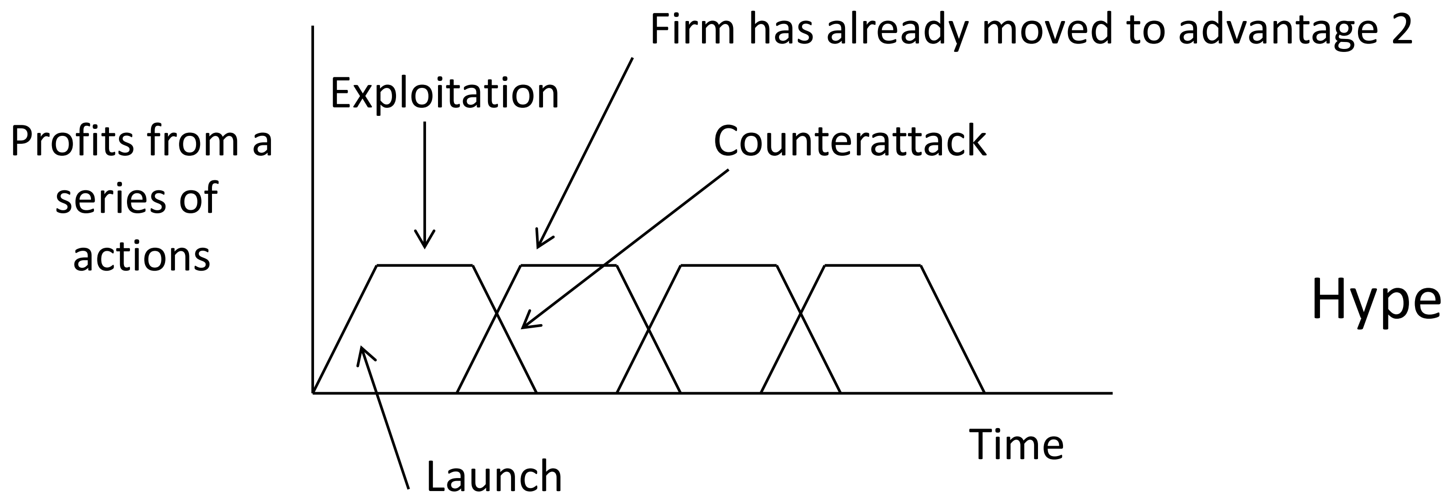
Alternative typology for hypercompetitive markets

- D'Aveni
  - Do NOT focus on one type of competitive advantage (either cost, or differentiation advantage)!
  - Reason?

Strategic Competitive Advantages in Hypercompetitive markets



Traditional View



Hypercompetition

Hypercompetition

In hypercompetitive markets

- Do not try to attain a long-term advantage

Rather

- Try to achieve a sequence of temporary advantages that keep the firm one step ahead of the rest of the industry
- Example
    - Gillette
    - Sensor razor
    - Superior version of Sensor
    - Sensor for women
    - …

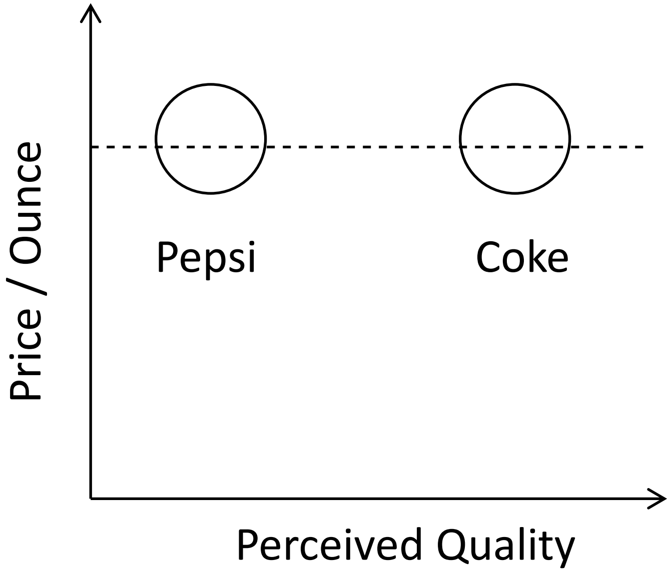
Hypercompetition

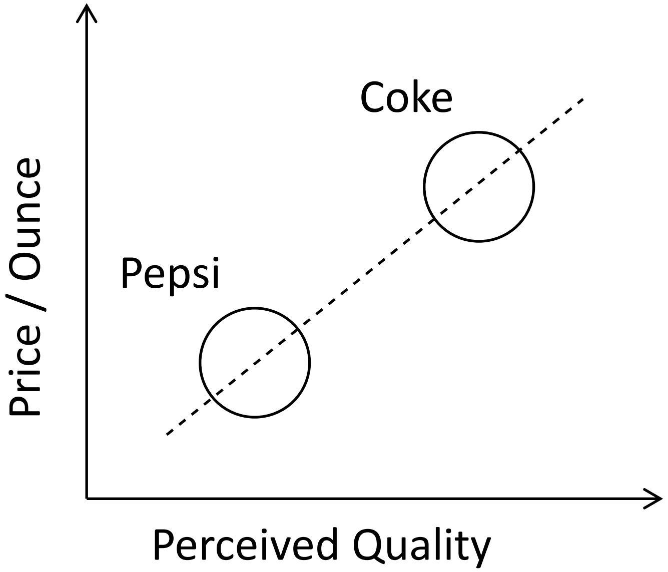
4 arenas of competition

1. Cost & Quality (C-Q)
2. Timing and Know-how (T-K)
3. Strongholds (S)
4. Deep pockets (D)

Hypercompetition – “Cost & Quality” instead of “Cost OR Quality”

- Coke: 1886; Pepsi: 1893
- 1933: Pepsi struggling to stave off bankruptcy. Dropped price of its 10c, 12 oz. bottle to 5c, making it a better value
- Ad jingle “twice as much for a nickel” => offer twice as much for the same price



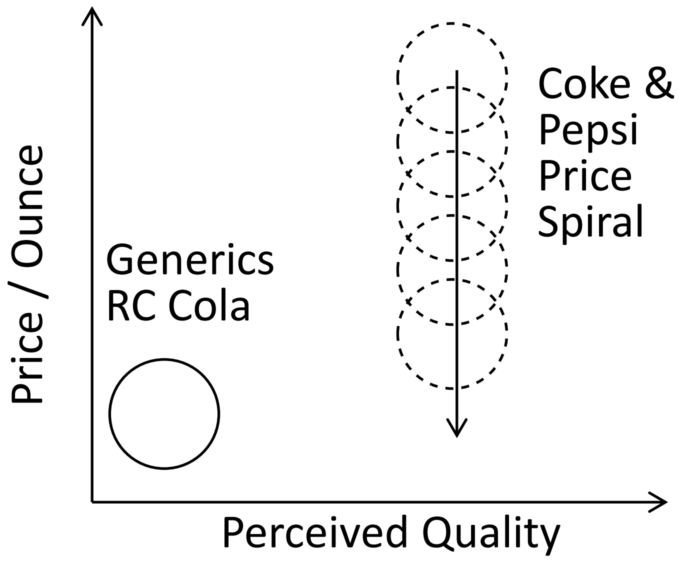


“Cost & Quality” instead of “Cost OR Quality”

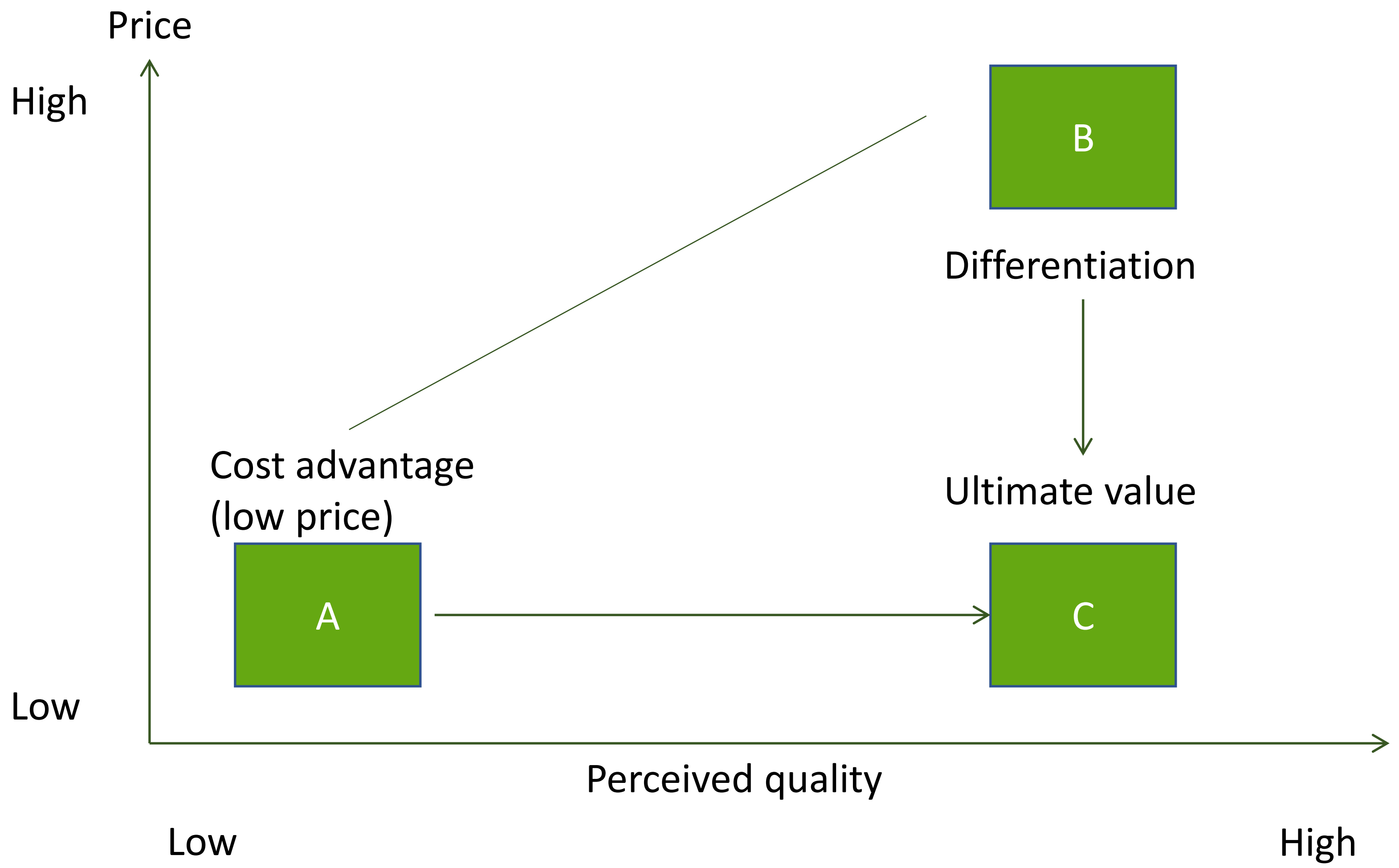
- Pepsi keeps price advantage through 60s and 70s, when Pepsi charged its bottlers 20% less for its concentrate
- With rising ingredient costs, Pepsi could no longer offer twice as much for the same price. So, it raised price to Coke’s level giving it a war chest to fuel an aggressive ad campaign
- **Battle shifted from Price to Quality**

Coke vs. Pepsi, Contd...

- Perceived quality caught up. Deeper pocketed and lower cost Coke initiated a price war in selective markets where Pepsi was weak in the 70s. Pepsi responded with its discounts and by the end of the 80s, 50% of food store sales were on discount
- Other companies moved into the lower left quadrant of the market. But the two major players forced price down to “ultimate value.”
- To break price spiral, attempts to **move to next arena** via niches in caffeine and sugar substitutes
- **Forced into: High quality AND low price!**



“Cost & Quality” instead of “Cost OR Quality”



Hypercompetition – “Know-how and Timing”

- Example: shifting know-how in pharmaceutical industry

Skill	Effect	Firms
Direct selling to physicians (1950s)	Effective marketing to gatekeepers in economic transactions	Pfizer; created effective differentiation of products among gatekeepers
“Blockbuster” marketing (early-mid 80s)	Single product focus (the “blockbuster” drug), focus of promotion of this product, narrow product line	Glaxo; new way to sell, gave blockbuster potential to chemically indifferent drugs
Specialized selling	Specialized salesforce for different therapeutic classes	Merck; specially trained and focused units in cardio, hospitals, etc.
Handling regulatory requirements	Expanding time available for patent for economic profits	Merck; specialized in regulatory affairs

Hypercompetition – “Strongholds”

- Microsoft was able to attain a “monopoly” status in the market at the starting dates, and was able to keep this status for a long time

- Example: Microsoft
  - Software market
  - Netscape versus Microsoft

  - How did Microsoft attain a monopoly status at that time?

Hypercompetition – “Deep pockets”

- Advantages
  - Outmaneuver competitors
  - Short-term losses do not automatically result in business failure

  - Cass Business School: “Our research indicates that group-affiliated firms have a clear competitive edge over other companies. We found the rate of new firms entering the market dropped when cash-rich corporate groups were present. This suggests that **stand-alone businesses are discouraged from entering potential markets by the deep-pockets of their rivals**.”

  - Where?
    - In particular in markets where it is **harder to raise external capital**!! R&D intensive sectors!

  - “**Active internal capital markets** may give companies a significant competitive advantage, especially at times when external capital is more costly. Having access to a group’s deep pockets enables them to take action in ways their stand-alone competitors cannot.”

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Break out

- 30’ brainstorm. Briefly summarize the case. Appoint timekeeper

Questions:

1. How did Metro **strategically position itself** in the newspaper industry? What was so special about their approach?
2. What is Metro’s **competitive advantage**? Thanks to **which resources/skills** and product offering **characteristics were they able to create customer value**?
3. During strategy formulation: did Metro apply an **outside-in or an inside-out view**? Both? Explain.
4. How has the competitive position from Metro **changed over time**? Are they able to create ***superior* customer value**?
5. What **could Metro’s strategy be for the future**?

1. Industry structure – strategic position

- Metro created a NEW market segment in the newspaper industry
- Metro TRANSFORMED the newspaper business! It changed the rules of the game!
- They defined and marketed a new type of demand: a newspaper for “modern” people
- Thus: they found a new NICHE (scope = niche), providing a unique channel to their customers (competitive advantage)

2. Competitive advantage - Customer value creation

Metro’s business system allows it to distinguish itself from its competitors

- Resource base
    - Metro has relational resources, it has relationships with its publishers via its activities in the TV and media industry. Metro also has relations with printing and distribution businesses (outsourcing), and news/photo providers (buys news/photos)
    - Competences. Attitude: “being a pioneer”
- Customer value creation
    - Functional advantage = read short, easy to understand news
    - Operational advantage = quality: although for example thoroughness is lower, it does meet the standards from its target audience
    - Financial advantage = yes, it’s free

    - And very important! Distribution = entirely different distribution channel!
- THUS: Business model
    - Distribution system, free (income through advertisers), types of news, outsourcing, buy news/photos

3. Outside-in versus Inside-out

- Inside-out
  - Relied on prior experience in the media industry, and the concomitant capabilities it has developed over time
  - Relied on relationships for outsourcing
- Outside-in
  - Identified a niche segment wherein competition was non-existent!

4. Competitive position over time - Superior customer value creation

- Competitive scope = niche player
- Competitive advantage = specific product (short news, from "high enough" quality) AND specific distribution channel AND its is free
- But
  - Very easy for competitors to copy => (almost) no entry barriers
  - Surprise effect decreased
  - Use the name "Metro" (licensing problem)
  - Stock prices decreased

5. Future?

- Geographic growth?
- Segment growth?
- Cooperate with (future) competitors?
- Diversification? (new products?)

Next class…

Please do not forget to read the case
“Tahitian Black Pearls”!

See BB