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# REVIEW

AEM 260I – Strategy  
Prof. Marcel Preuss  
Spring 2024

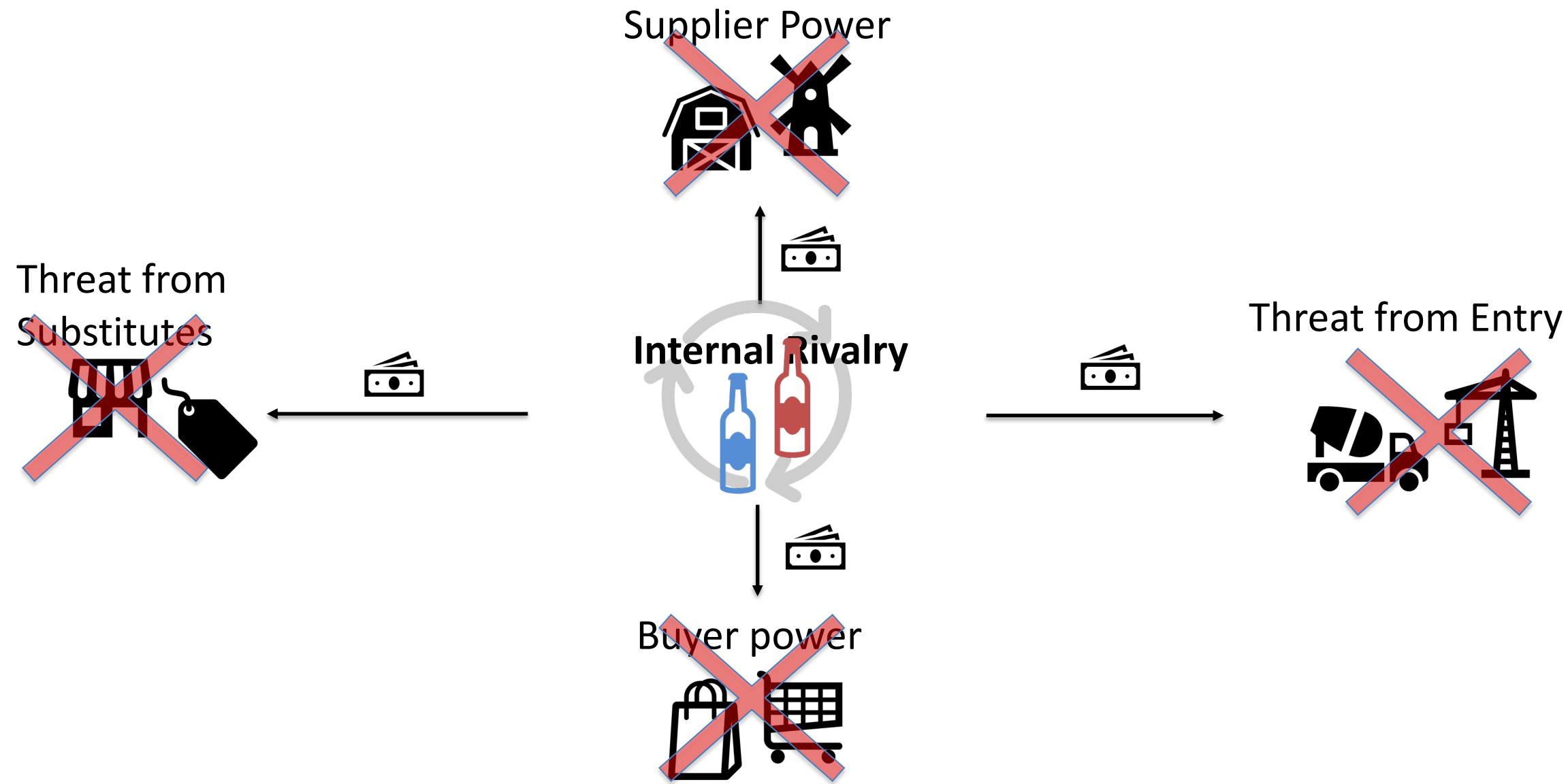


# 5 Forces Review



- ❑ Consider each of the forces and their key determinants:
  - Rivalry/industry competition: who are the players in this industry? How differentiated are they?
  - Substitutes: what are other industries that provide substitute products? How good/close are these substitutes?
  - Buyers: who are the buyers? How price sensitive are they? Are there switching costs?
  - Suppliers: who are the suppliers? How powerful/protected are they? I
  - Entrants: how hard is it to enter this market? Why?
- ❑ Outline which forces are strongest and weakest, which could be reshaped, and which you expect might change soon.

# Cola Wars Review



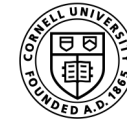
# PEST Review



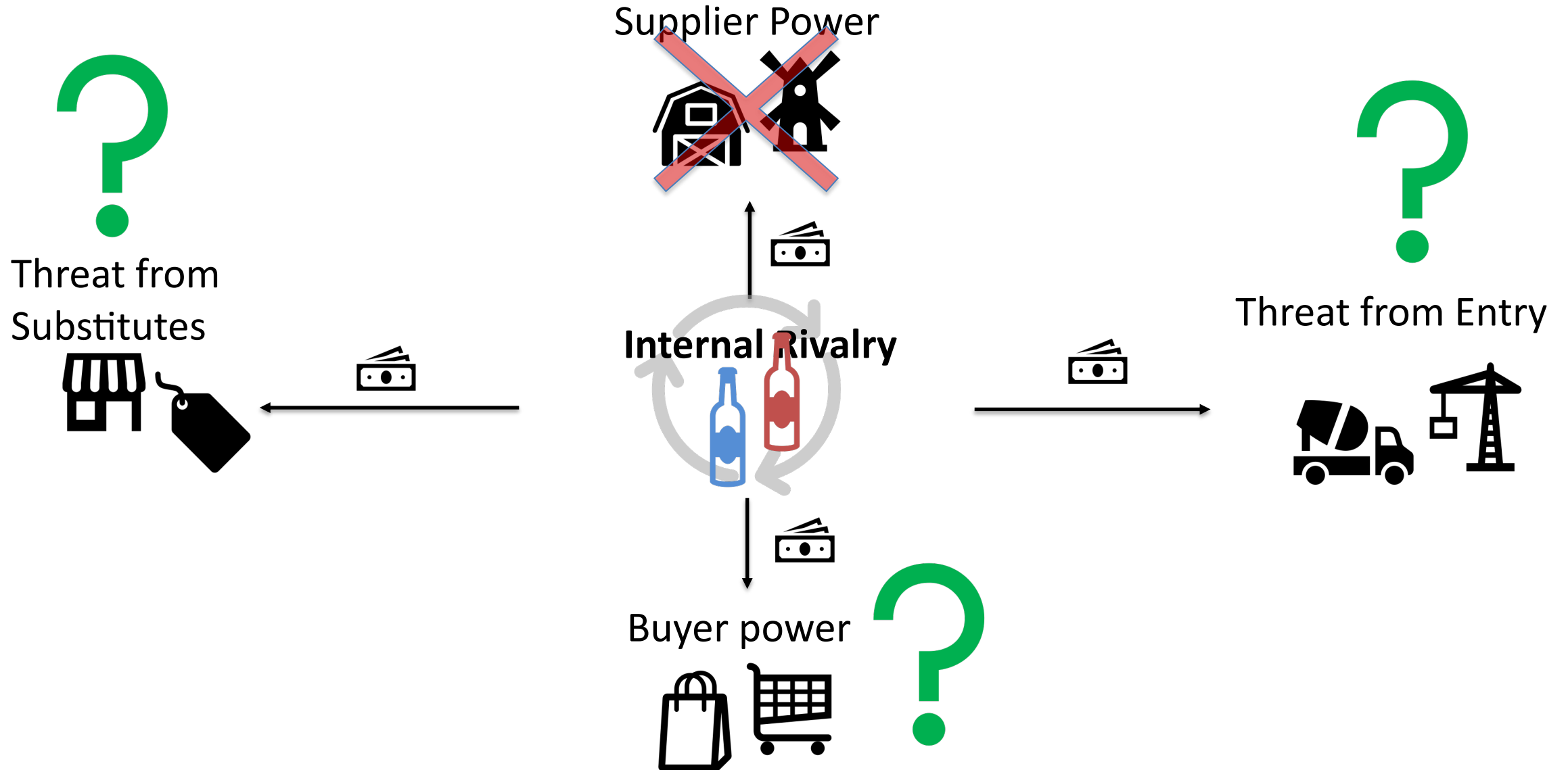
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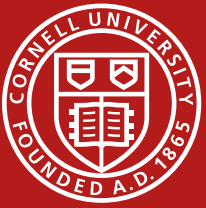
- ❑ To understand an industry, think beyond the basics
  - Consider larger trends and forces
- ❑ PEST (Politics, economy, society, technology) is meant as a “catch all” to force a big-picture view
- ❑ Helps to understand an industry’s structural environment
- ❑ Some simple examples
  - Politics: Trade pacts, net neutrality, electric car incentives
  - Economics: Interest rates, inflation, growth, demographics
  - Society: Concerns over inequality or sustainability
  - Technology: Autonomous vehicles, AI

# Trends affecting the Softdrink Industry



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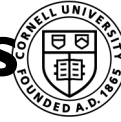
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# Strategic Positioning

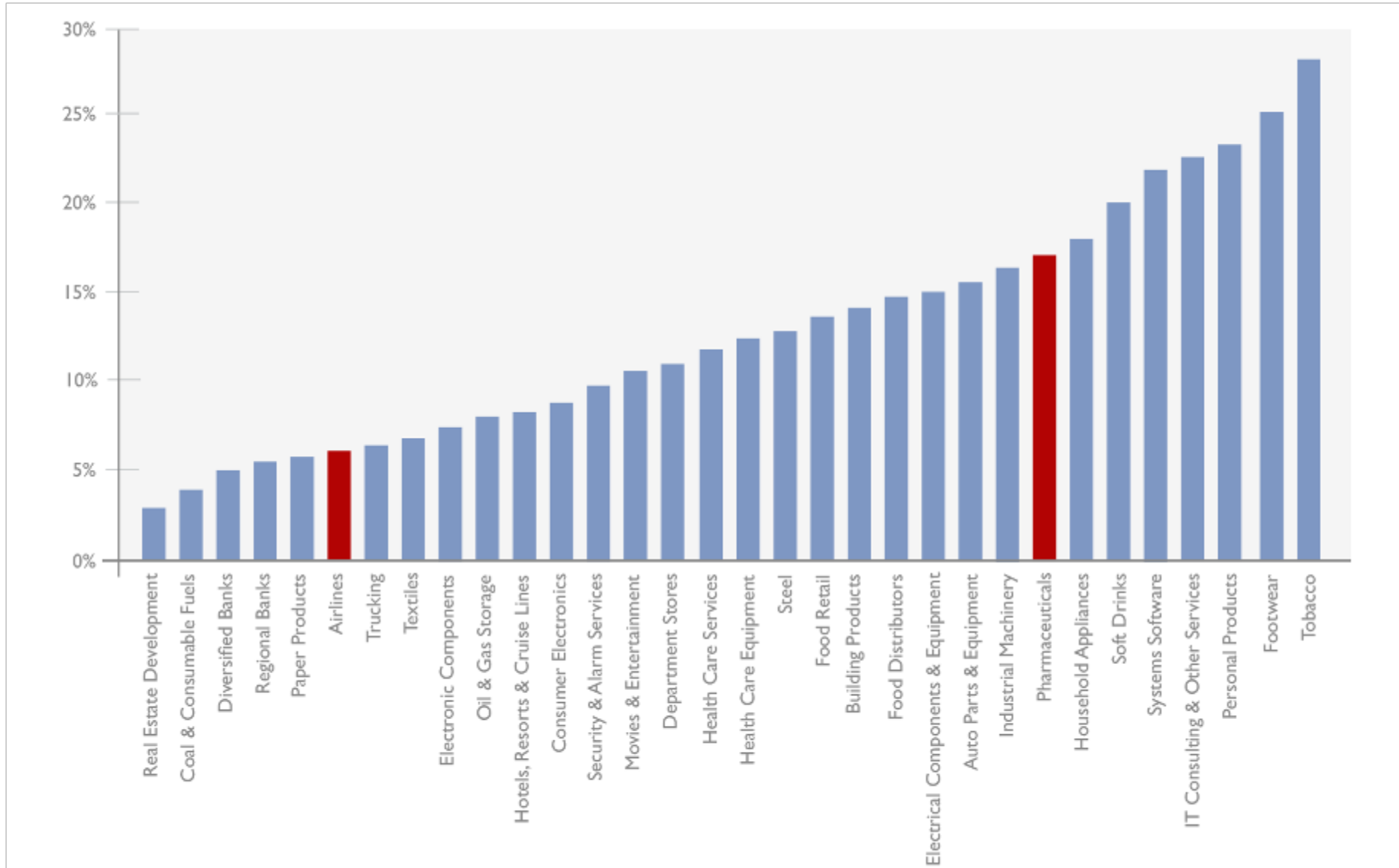
MGMT 5090 – Strategy  
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Spring 2024



# Return on Invested Capital across Industries



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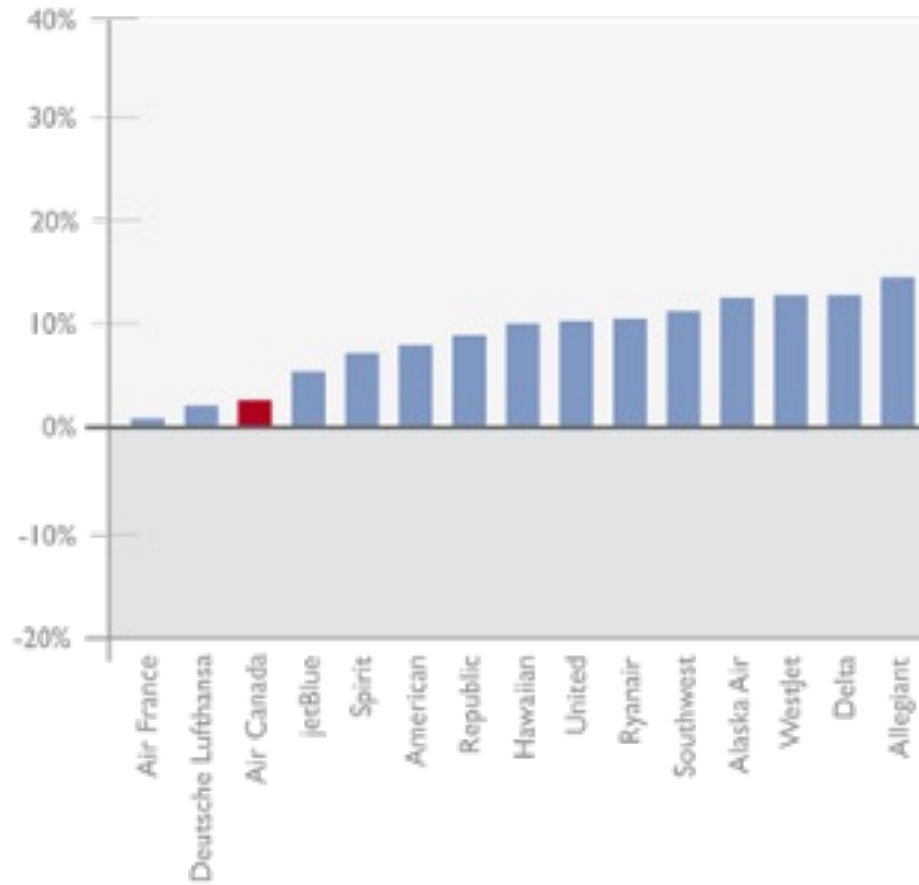


# Return on Invested Capital across Firms

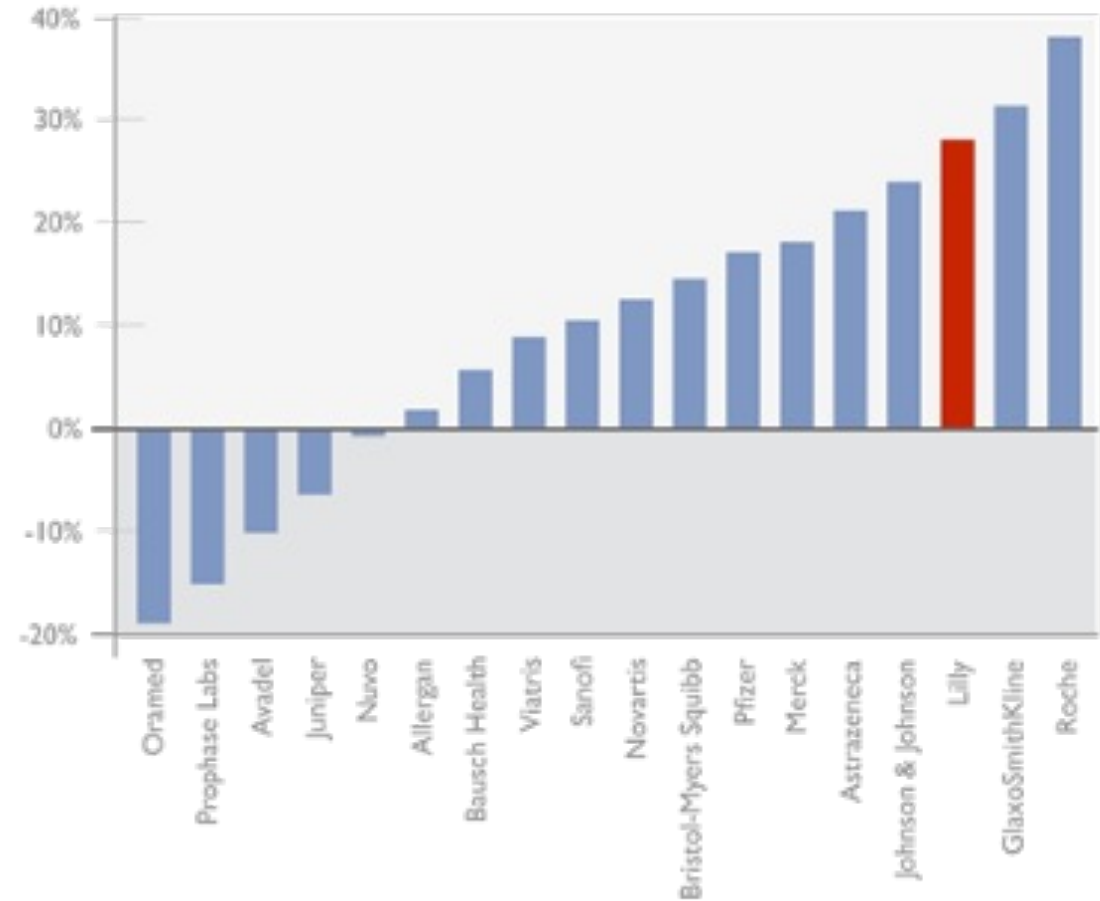


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## Airline Industry



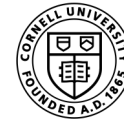
## Pharmaceutical Industry





# A Strategy Meta-Framework

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☐ Industry Profit Potential

☒ Precise Positioning

☐ Structuring for Success



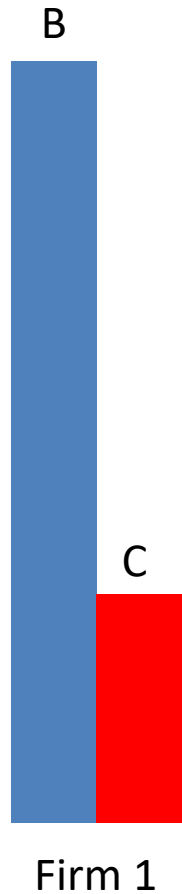
An introduction to

# **I. VALUE CREATION AND COMPETITIVE ADVANTAGE**

# Value Creation



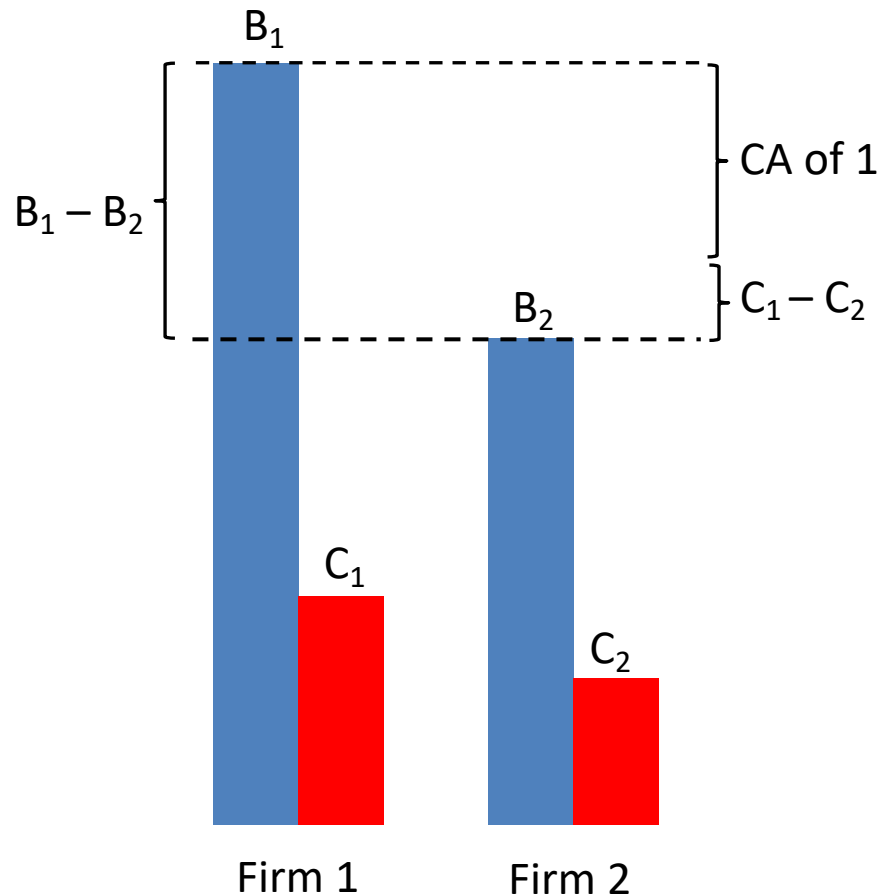
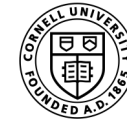
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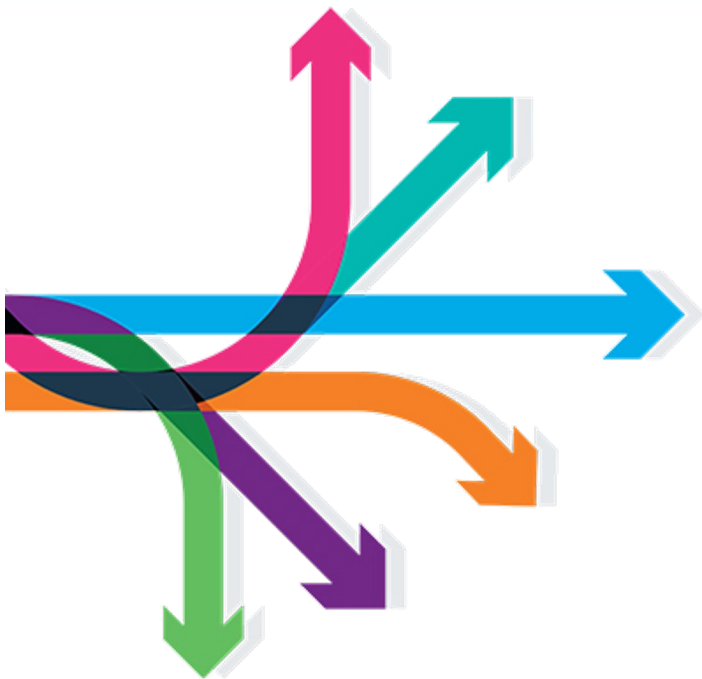
$$\begin{aligned}\text{Value Created} &= \\ &= B - C \\ &= B - P + P - C \\ &= (B - P) + (P - C) \\ &= \text{Consumer Surplus} + \text{Producer Surplus}\end{aligned}$$

□ Examples of value creation?

# Competitive Advantage



- ❑ Value creation is not sufficient for economic profits. Why?
- ❑ *Competitive Advantage* = ability to generate a level of  $(B - C)$  that exceeds that of any competitor
- ❑ Firms' profitability stems directly from their competitive advantage.
- ❑ How can multiple firms in the same industry enjoy a competitive advantage?
  - Competitive advantage depends on the buyer segment as well



Understanding the different

## **2. ROUTES TO COMPETITIVE ADVANTAGE**

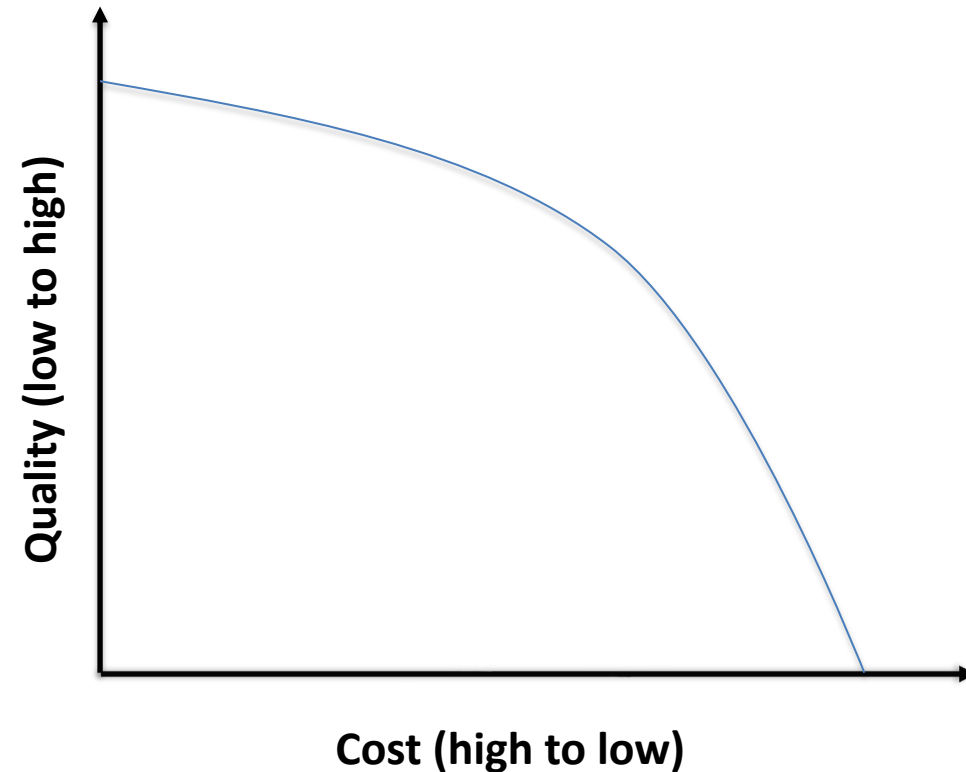
OR HOW TO BE UNIQUE

# Cost – Quality Frontier



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- ❑ All firms must trade-off cost and quality
- ❑ Ideal position depends on resources, competitors' locations, environment, etc.
- ❑ A firm that is inefficient / does not have a CA lies in the interior of the curve



# Generic Strategies



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## ☐ Cost Leadership

- Products are produced at lower cost per unit than competitors' products. sold to broad customer base

## ☐ Benefit Leadership

- Firm's products have enhanced attributes and are capable of commanding a price premium relative to competitors
- Also called Vertical Differentiation

## ☐ Focus Strategy

- The firm offers a narrow set of product varieties or serves a narrow set of customers (or does both)
- Focus can be exploited to cut costs or to deliver extra benefit
- Also called Horizontal Differentiation

Broad Scope

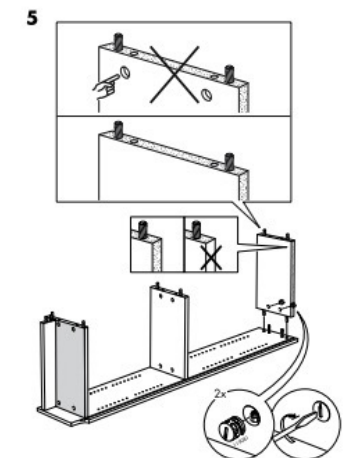
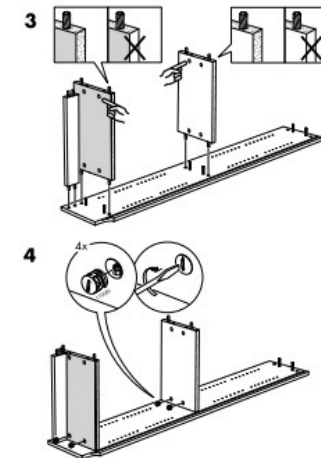
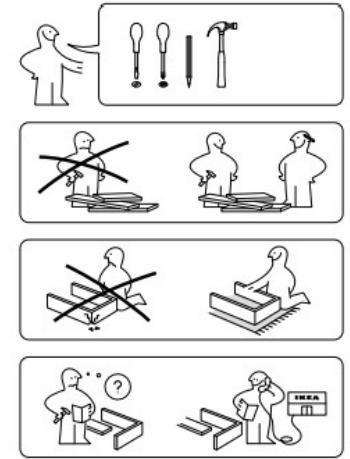
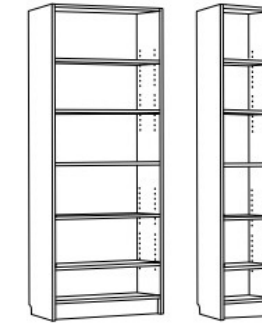
Narrow Scope

# Ikea's Strategy



- ❑ Targets young furniture buyers who want style at low cost
- ❑ Tailored set of activities:
  - Self-service model, incl. pick-up and delivery
  - Ready-to assemble furniture
  - Limited varieties
  - Extended opening hours, child care

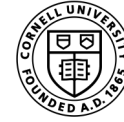
## BILLY





# Take-aways

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- ❑ Competitive advantage requires understanding of industry overall
  - It is the incremental value created relative to the whole industry
- ❑ No profits without a competitive advantage
- ❑ Multiple firms in the same industry can have a competitive advantage
  - Some buyers care more about quality, others more about price (= possibility of vertical differentiation)
  - Some buyers have special needs that a broad competitor does not serve well (= possibility of horizontal differentiation)
  - Decide which buyers and needs to serve, which products to offer, and which activities to perform to serve these buyers/ needs best