MANG 3023 Effective Business Performance Assignment

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1 The Strategy Clock

Bowman's Strategy Clock (Bowman and Faulkner, 1997) is a way of conceptualizing competitive strategy, in order that a company might gain competitive advantage over others in the market (Johnson et al., 2008). Porter (2008b) suggests three generic strategic approaches that may gain a competitive advantage; overall cost leadership, differentiation and focus. The strategy clock, seen in Figure 1, takes porter's ideas and displays them alongside price and perceived benefit.

When launching a new product or service, the placement on the strategy clock must be well conceived in order to promote effective business performance. Some businesses attempt to gain competitive advantage through cost leadership (Porter, 2008b), using strategies such as no frills or low cost (Bowman and Faulkner, 1997). No frills or low cost strategies are often employed by supermarkets when selling own brand products (Johnson et al., 2008), or by on-line retailers selling music downloads. The nature of these products make it very difficult to discern benefits between brands, making price critical to the consumer. The main challenge facing businesses such as EasyJet, Asda, and Primark, is how to reduce costs in ways competitors cannot match, so that effective business performance can be achieved.

At the other end of the scale are differentiation and focus strategies (Bowman and Faulkner, 1997), aiming to achieve competitive advantage by offering a better product at a slightly higher margin. Effort must be made to convince consumers that the product or service being offered is superior, especially in focused cases such as the high-performance car market (Stainton, 2012), or the performance microprocessor market. These strategies can be open to imitation (Johnson et al., 2008). For example, in the organic juice market, it is not uncommon to see own brand versions very similar to branded products. By building a brand and reputation, imitation can have less of an effect. Apple has a mystery and quality no other mobile phone manufacturer can imitate, and despite strong competition in the smart-phone market, Apple is still able to charge a premium.

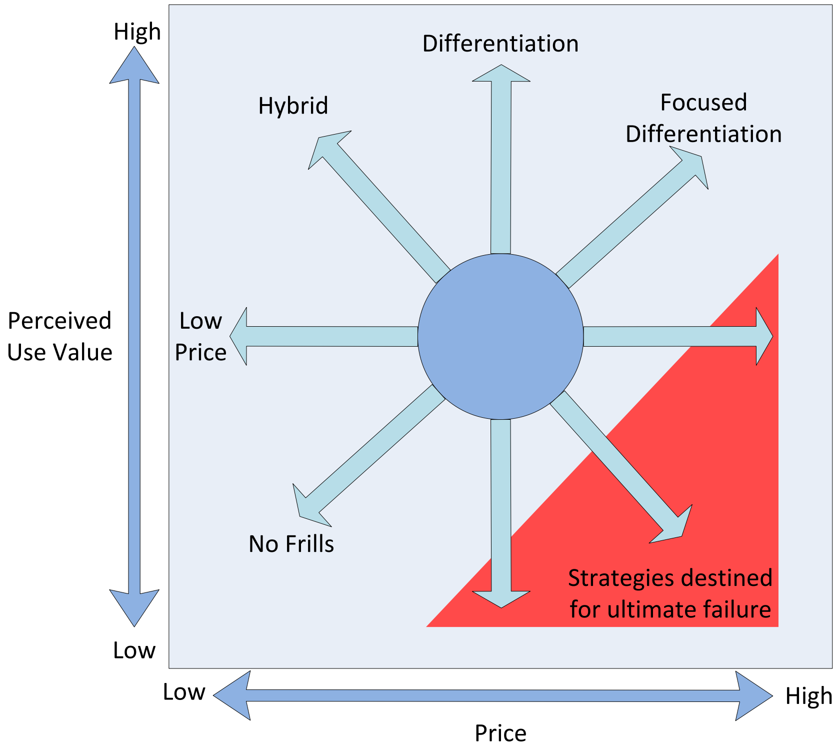

Figure 1: Bowman's Strategy Clock (Redrawn from Bowman and Faulkner (1997) with modifications from Johnson et al. (2008) and Stainton (2012))

The strategy chosen, whether price based, differentiation or a hybrid, will determine the success of a business. Poor placement on the strategy clock could result in disaster for a business. However, if these factors are carefully considered, then effective business performance can be achieved.

The strategy clock is explained in context in Appendix A, exploring the tablet computing market.

2 The Value Chain

Every business is formed of a collection of activities that "design, produce, market, deliver and support (Porter, 2008a)" a product or service. Conceived by Porter (2008a), the value chain is a systematic way of examining the activities a business performs, identifying the areas critical to creating value (Johnson et al., 2008). By optimising the value chain, businesses can deliver value to customers at a profit, achieving effective business performance (Stainton, 2012).

Value chain activities form the building blocks of efficient business performance. Two categories of activity exist, primary activities and support activities (Chelsom et al., 2005). Primary activities are directly connected to the delivery of a product or service (Johnson et al., 2008), and can be further divided into five generic categories (Porter, 2008a). Support activities improve the efficiency or effectiveness of the primary activities (Chelsom et al., 2005).

The value chain is an important tool for managers. By considering business activities in terms of value, critical clusters of activities can be identified (Johnson et al., 2008). For example, Amazon is a company ubiquitous with on-line retail and is renowned for quick delivery. Outgoing logistics is a

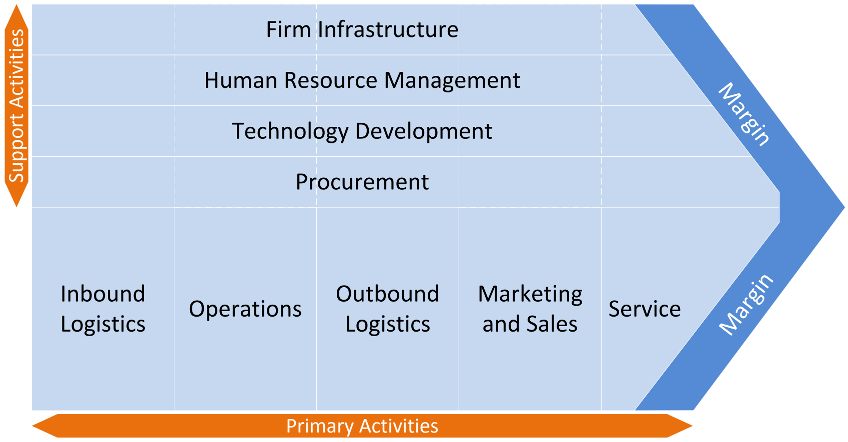

Figure 2: The Value Chain (Redrawn from Porter (2008a), Johnson et al. (2008) and Stainton (2012))

critical activity for the company, but this is supported by the technological innovations that enable efficient processing. A value chain analysis enables managers to focus investment on value critical activities to increase efficiency.

Porter (2008a) notes that the value chain for two companies providing the same product or service can be very different. Waitrose supermarkets are recognized for quality and service, regularly winning best supermarket in the *Which?* supermarkets surveys (Waitrose, 2013). The activities in the Waitrose value chain have been identified in Figure 4. Value critical activities include service and procurement. Focusing on these activities adds value to the business by providing the best supermarket experience, attracting customers who are willing to pay a premium.

Figure 3: The Value Chain for a Waitrose Supermarket

Both Waitrose and Morrisons compete in the supermarket industry, however the value chain for Morrisons embodies a very different approach. Marketing is a value critical activity for Morrisons. Value is added to the business by offering lower priced goods to customers. A far-reaching marketing campaign is important to inform customers of the deals and offers available.

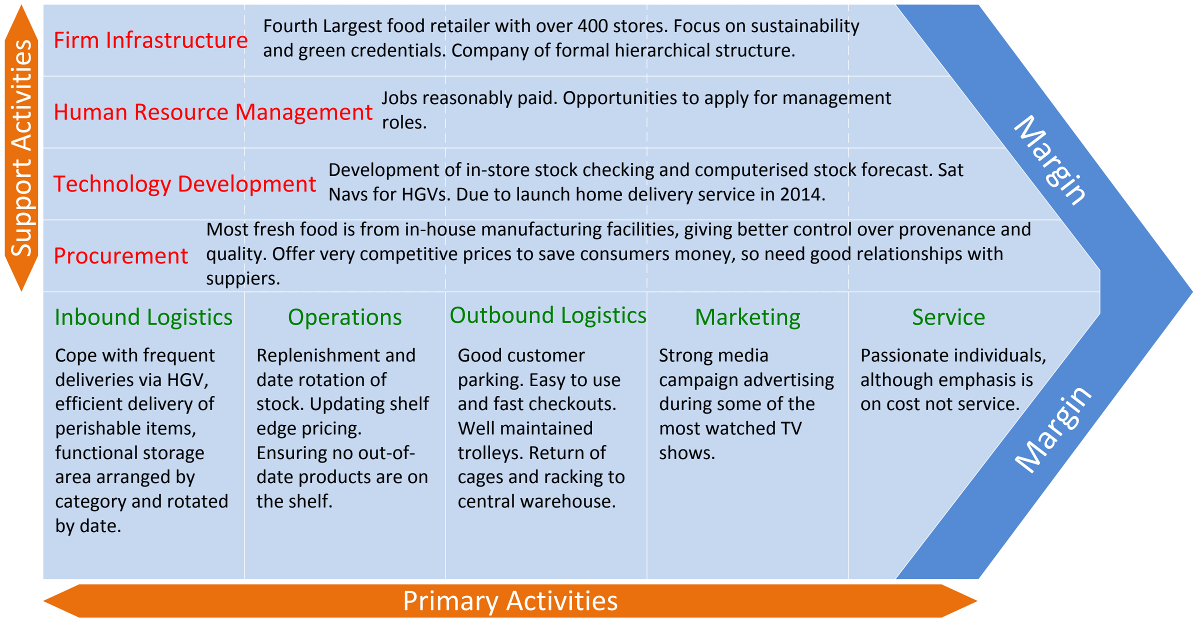

Figure 4: The Value Chain for a Morrisons Supermarket

While there is no formally correct strategy choice, differences between value chains are a key source of competitive advantage. Value chain analysis remains a key informant of management decisions that promote effective business performance.

3 Porter's Five Forces of Competition

Porter (1979) suggested that there are five forces that influence the nature and degree of competition within a certain industry. It is the balance of these forces that determine the attractiveness of an industry (Johnson et al., 2008). The weaker the forces in a particular industry, the better the scope for effective performance (Porter, 1979). The forces are identified in Figure 5.

The threat of new entrants is particularly prevalent in profitable industries, and depends on the extent of barriers to entry (Chelsom et al., 2005). The microprocessor manufacturing industry has high barriers to entry. The capital investment required to build chip fabrication facilities, and the technical knowledge-base needed to design cutting-edge products, mean that the threat of new entrants is reasonably low. This has resulted in a duopoly of companies with a combined market share of 98.6% (Semmler, 2010). This is further discussed in Appendix B.

In evaluating the bargaining power of suppliers, labour and finance sources are considered alongside suppliers of raw materials and equipment (Johnson et al., 2008). The development of the supermarket industry shows how supplier power can change. In the past, consumers bought their food from local

Figure 5: Porter's Five Forces (Redrawn from Porter (1979))

shops and fragmented chains (Ellickson, 2011). Suppliers of branded food products had a large amount of power over these smaller food outlets. The evolution of the supermarket consolidated the industry into just a few very large companies. The average supermarket now stocks 45,000 products (Ellickson, 2011), leaving even the most recognised brands with very little power over the big supermarket chainsm reversing the state of affairs.

The supermarket industry can also be considered from a suppliers perspective. The customers of food brands, such as Nestle and Kraft, are supermarket chains, not the public consumer (Johnson et al., 2008). The customers bargaining power has increased from very little to very strong following the evolution of supermarket chains (Ellickson, 2011).

It is a fatal mistake to solely consider horizontal competition within an industry (Johnson et al., 2008). An effective manager will also consider the threat posed by substitute products. This type of consideration is required to avoid business disasters, such as the demise of music retail store HMV. The CD has been substituted for the MP3, and HMV could not compete in the online download market.

The industry itself is a source of threat. The wider competitive forces impinge on the rivalry between businesses in the industry (Johnson et al., 2008). The more rivalry there is between companies, the worse it is for companies within that industry.

An awareness of porter's five forces is vital for a manager in any industry. A five forces analysis can shape the strategic position of a company by appraising investment opportunities in different industries, and by considering how to how to exploit opportunities and mitigate against competitive threats.

4 Conclusions

The strategy clock, value chain and five forces analysis provide a foundation for understanding how to improve the strategic position of a business. Effective business performance can be achieved by considering each concept in context, and reforming competitive strategy as identified.

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Appendices

A Bowman's Strategy Clock for the Tablet Computing Market

The strategy clock is best explained in context. Since the launch of the Apple iPad in 2010 (Apple, 2010), there has been an explosion in the tablet computing market. The iPad sold over 1 million units in less than one month of release (Goldman, 2010), and sales of tablets are widely expected to overtake conventional PC sales by 2017 (Gartner, 2013) (IDC, 2013). As the market has matured, a range of competitors have developed offering different levels of quality and value.

Figure 6 shows seven devices placed on the strategy clock. These represent the different competitive strategies employed by different manufacturers. Apple started the tablet revolution and are often viewed as market leaders, 56.4% of tablets shipped in 2011 ran Apple's iOS operating system (IDC, 2013). The cost is a premium, ranging from £399 to £639 for the newest full size iPad (Apple, 2013). However, sales figures reveal that the perceived benefits of Apple's unique design and interface is worth the premium price. Apple must continue to innovate and provide a premium products in order to maintain such a level of focused differentiation, especially when competitors are catching up in terms of quality and features.

A competitor in the wrong area of the strategy clock is Microsoft. Analysts predict that sales of tablets running Windows RT and Windows 8 will remain low (IDC, 2013). Despite dominating the PC market for many years, Microsoft lacks the style and mystery of the Apple brand. The customers' perceived benefits of the Microsoft Surface tablet is not high enough to warrant a £399 (Microsoft, 2013) price tag.This price directly competes with the iPad. Microsoft have attempted to increase the perceived benefit to customers by providing one integrated environment across many platforms, from Xbox to Windows 8 PCs to Windows phones. When implemented correctly, having many devices interlinked by the same familiar environment provides huge user benefits. However, currently the price point is too high to gain market share, resulting in a strategy destined for ultimate failure.

An area of high growth is the small screen, low cost tablet market. One in every two tablets shipped in Q1 2013 had a screen size smaller than 8 inches (IDC, 2013). No frills manufacturers are often unknown eastern brands. Fully functioning android tablets can be found online for as little as £40 (DX, 2013), or a tenth of the price of an iPad. Despite offering significantly curtailed performance, consumers are attracted to the rock-bottom price.

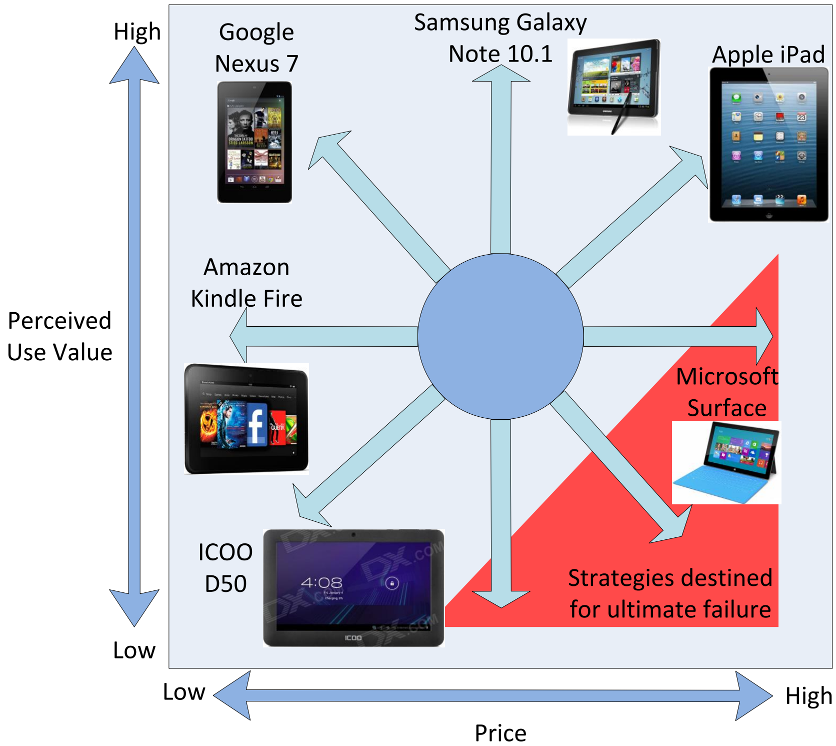

Figure 6: Bowman's Strategy Clock for the Tablet Market (Pictures copyright of respective owners)

Other low price competitors include Amazon with the Kindle Fire. Amazon have taken an interesting approach to gain a competitive advantage. They do not make a profit on the tablet itself. Instead once the tablet has been purchased, they make profit on digital items purchased such as magazine subscriptions, films and apps (McCue, 2012; Yarrow, 2012). Amazon are a large and experienced company. They have the capacity to be a cost leader (Porter, 2008b) by exploiting scale of production and relying on forged relationships. By offering a quality product from a recognized, trusted retailer is a strategy for success, especially when the long term profit potential from digital content is considered.

Other competitors take a hybrid approach. The Google Nexus 7 is available in the UK for a middle-of-the-range £159 (Google, 2013). The Nexus 7 received a good reception, outselling the iPad in some parts of the world (Crowthers, 2013). Google own the Android operating system which many other tablets use. In addition, Google is widely known for it's web presence. These factors combined with a competitive app store lead the Nexus 7 to a hybrid strategy. There is some level of differentiation from competitors using the Google branding, but the main focus is performance on a budget.

Samsung directly compete with Apple to produce both smart phones and tablets. Many Samsung devices run a customized version of the Android operating system, providing the user a refined experience and defining the Samsung brand. This combined with sleek design means that Samsung are able to charge more for their tablets than other competitors. This type of differentiation is not achieved to the extent of Apple, who achieve a focused differentiation. However, this strategy is likely to attract consumers who want to emulate the sleek design of Apple, but with a slightly lower price tag and greater flexibility.

The tablet market remains an exciting market for both consumers and investors. As the touchscreen revolution gains ever more momentum, the competitive strategies employed by manufacturers become increasingly important for business success.

B A Five Forces Analysis of Intel

Intel is a business that is synonymous with computing. The Intel 4004 processor was the first commercially available microprocessor. Introduced in 1971, the Intel 4004 spawned a new era in computing technology that has ultimately led to the $300billion global semiconductor industry that effects every area of modern life. Intel continues to dominate the microprocessor market, with a 2012 net revenue of $53.3billion (Intel, 2013).

The microprocessor industry is notoriously stagnant. A duopoly of companies dominate 98.6% of the market (Semmler, 2010). Intel holds a market share of 81.7% with it's closest rival AMD holding only 16.9% market share. These circumstances strongly favour Intel. Being by far the largest company within the industry means Intel holds bargaining power over both suppliers and customers alike.

The threat of new entrants to the industry is very low. The microprocessor has been in production for over 40 years, and yet the market remains dominated by the initiating company. If entry to the industry was simple, then it would be expected that there would be a multitude of competitors. Intel have developed an impressive manufacturing supply chain, with sixteen factories, eleven fabrication facilities and five test factories scattered over seven countries (Intel, 2012). These represent a considerable capital investment that make the market prohibitive to new entrants.

The microprocessor industry is often discussed in the context of Moore's Law, a self fulfilling law fueling technological development in the sector. Since there are only two main competitors in the market, it is often the case that companies compete against their own old models (Semmler, 2010). This is achieved by lowering prices of older models in order to differentiate from new models.

From a wider perspective, the threat of substitution of the PC as a whole is very real (IDC, 2013). Intel dominates the PC microprocessor market, but holds very little influence in the emerging tablet and smart phone market. In 2011, 90% of smart-phones were powered by an ARM microprocessor (Forbes, 2012). It is wise that Intel have entered this emerging market, and although market share is low at the moment, Intel have the supply chain and knowledge to become a major competitor to the likes of ARM.

Overall, Intel is a company in a very strong competitive position. It is likely that Intel will remain dominant in the PC microprocessor market. However, as consumers move from traditional computing toward a mobile future, Intel must take steps to diversify. Despite having little influence in the mobile market at the moment, it is likely that Intel will make a significant steps to enter the market in the near future.