

**BUS359**

# **Contemporary Strategic Analysis**

Lecture 7: Competitive advantage and Competitive Process

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# Recap: Forms of Competitive Advantage

## Think-pair-share (5 minutes):

- What is meant by the term 'competitive advantage'?
- What are Porter's generic strategies? Explain

# Recap: Forms of Competitive Advantage

- What is meant by the term ‘competitive advantage’?
  - A competitive advantage is what makes an organisation’s products or services superior than its competitors’ in the eyes of customers.
- What are Porter’s generic strategies? Explain

		SOURCE OF COMPETITIVE ADVANTAGE	
		Low cost	Differentiation
COMPETITIVE SCOPE	Industry-wide	<b>COST LEADERSHIP</b> No frills products or services	<b>DIFFERENTIATION</b> Creating uniquely desirable products or services
	Single segment	<b>FOCUS</b> Offered a specialised product or service in a niche market	

# Outline

- The emergence of competitive advantage
- Sustaining competitive advantage
- Blue ocean strategy
- The BCG matrix

# Establishing competitive advantage



## Example: Newspapers

- Benefit – Knowledge and quality, not price
- Target market – Older generations who may be uncomfortable with online news and businesses
- Competition – Internet-based news providers and free newspapers

# The emergence of competitive advantage

How does competitive advantage emerge?

## External sources of change

- Changing customer demand
- Changing process of inputs
- Technological change



Resource heterogeneity among firms creates winners and losers

Some firms are faster and more effective in exploiting change

ZARA

Responsiveness

## Internal sources of change

NETFLIX

Some firms have greater creative and innovative capability

Strategic Innovation

# The emergence of competitive advantage

- How quickly this occurs depends on competitors ability to imitate or innovate.
- When firms successful imitate they:

Identified the competitive advantage of a rival

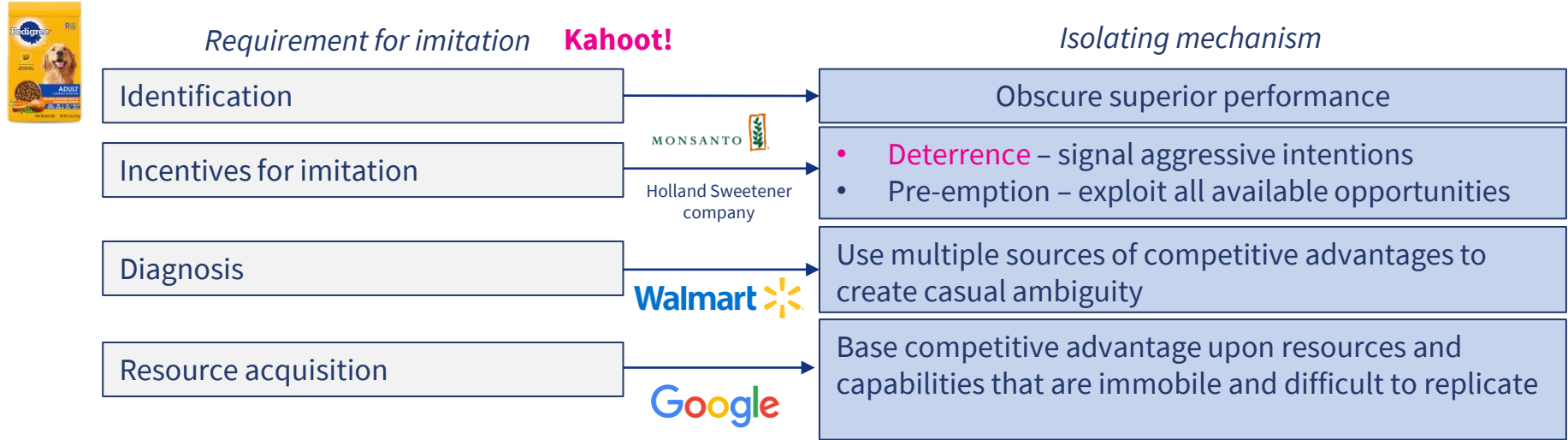
Were incentivised to imitate

Diagnosed the sources of a rival's competitive advantage

Acquired the resources & capabilities necessary for imitation

# Sustaining competitive advantage

- Barriers to imitation – isolating mechanisms that prevent the erosion of superior performance

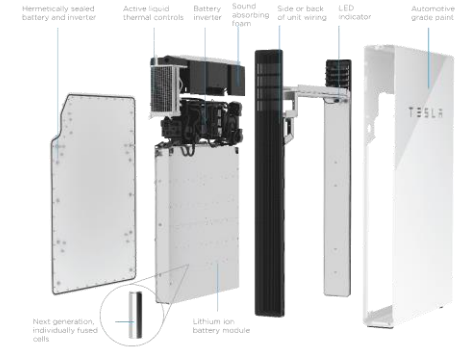




# The quest for uncontested market space: Blue ocean strategy (Kim & Mauborgne, 2004; 2005)

- Why compete in “*red oceans*” that are highly competitive and rival focused?
- Create your own ‘*uncontested market space*’ – “Blue oceans”
- Competition becomes irrelevant
- Value innovation – customer value is combined with innovation
  - Value without innovation = companies remain in existing paradigms
  - Innovation without value = technology-driven, going beyond what customers are willing to accept and pay
- Change strategic focus from *competitors* to *alternatives*, and from *customers* to *non-customers*.

Tesla's Powerwall battery

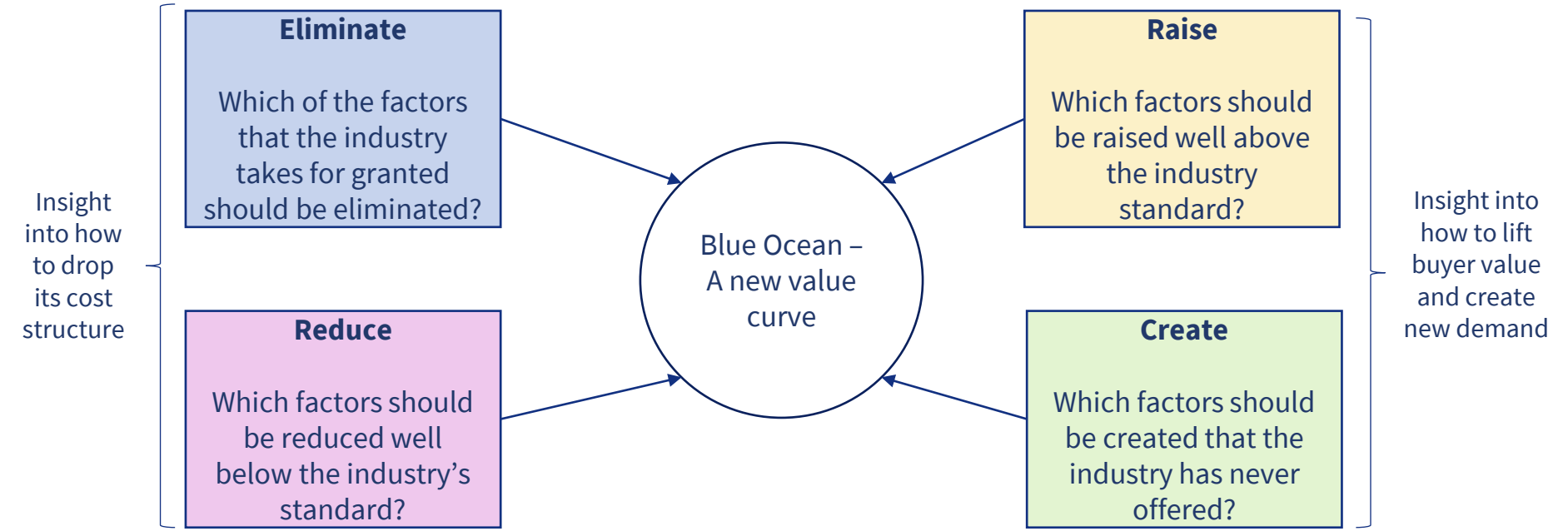


# Red oceans strategy versus blue oceans strategy

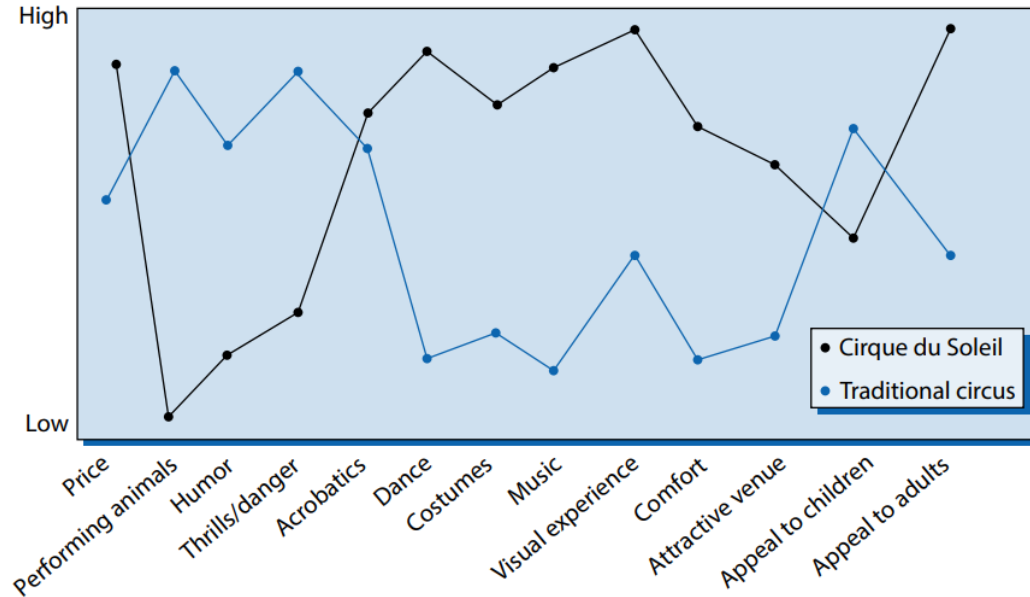
Red oceans	Blue oceans
Compete in <b>existing</b> market space	Create <b>uncontested</b> market space
<b>Beat</b> the competition	Make the competition <b>irrelevant</b>
Exploit <b>existing</b> demand	Create and capture <b>new</b> demand
<b>Make</b> the value-cost trade off	<b>Break</b> the value-cost trade off
Align the whole system of a firm's activities with its <b>strategic choice of low cost or differentiation</b>	Align the whole system of a firm's activities in <b>pursuit of low cost and differentiation</b>



# Four actions framework



# Strategy canvas (Framework for developing blue ocean strategies)



- **Raise:** What factors should be raised well above the industry's standard?
- **Eliminate:** Which factors that the industry has long competed on should be eliminated?
- **Reduce:** Which factors should be reduced well below the industry's standard?
- **Create:** Which factors should be created that the industry has never offered?

The strategy canvas: Value lines for Cirque du Soleil and the traditional circus

**Source:** Based upon W. C. Kim and R. Mauborgne, Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant (Boston: Harvard Business School Press, 2005).

# Characteristics of an effective blue ocean strategy

- **Focus** – the company does not diffuse its efforts across all key factors of competition.
- **Divergence** – from competitors (the normal strategic profiles).
- **Compelling tagline** – clear and simple to customers.

# Blue ocean shifts – addressing human barriers

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Mindset



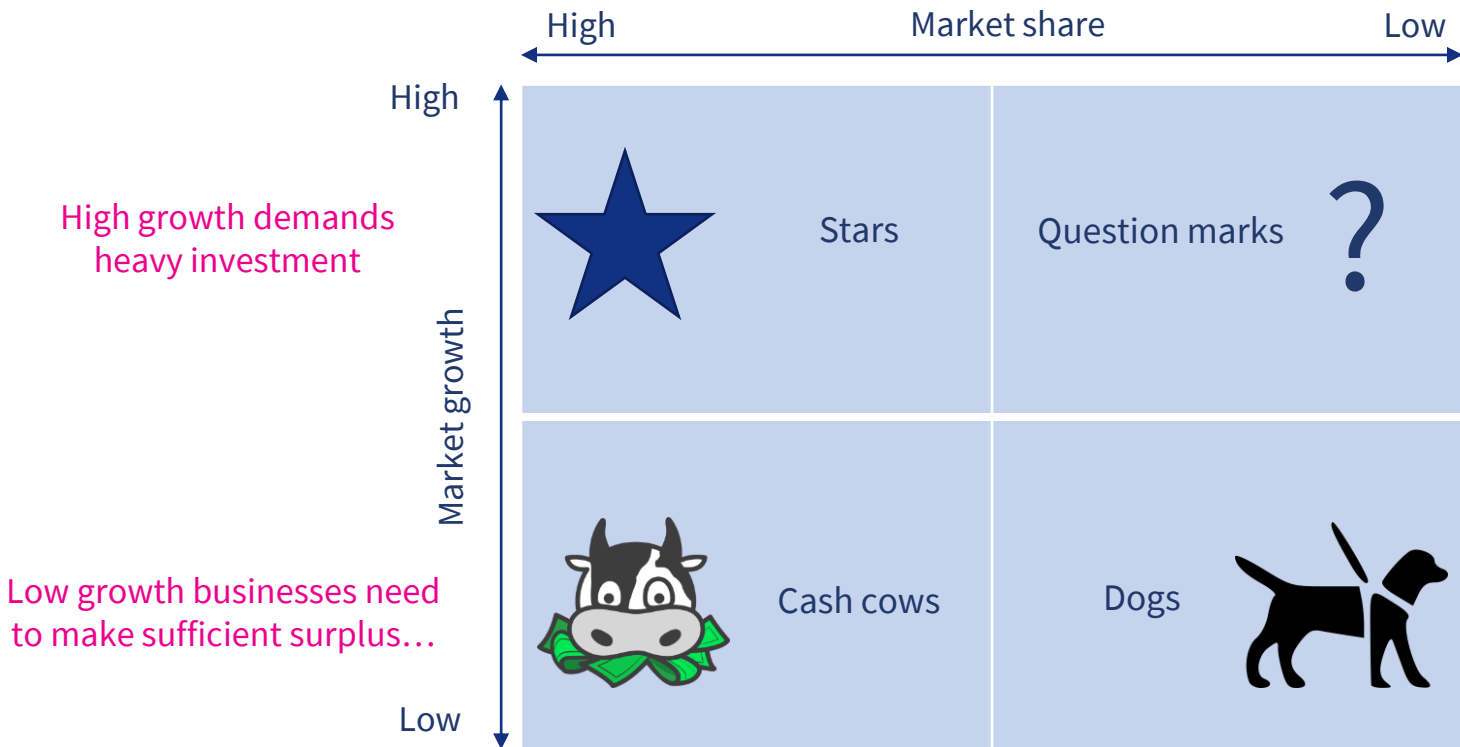
Tools



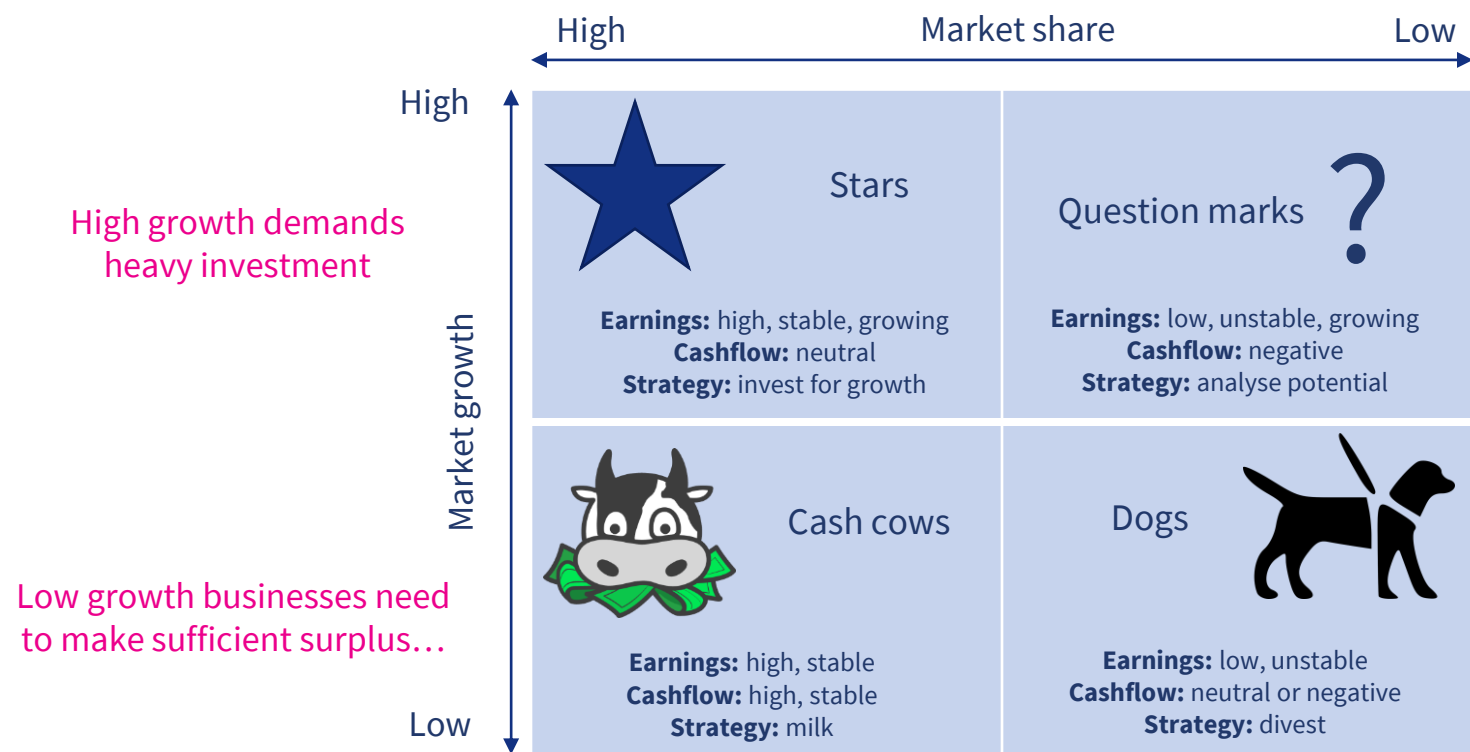
Human-ness

Kim & Mauborgne. Blue Ocean Shift: Beyond Competing – Proven Steps to Inspire Confidence and Seize New Growth

# BCG Matrix (Portfolio analysis)



# BCG Matrix (Portfolio analysis)





# BCG Matrix: Key points

- Like SWOT Analysis, it is a useful aid to strategy formation which can highlight important strategic issues, but it only provides **one piece of the jigsaw**.
- It is particularly revealing in how current success can mask future dangers.
- Market share is a relative (not absolute) concept.
- The key balance in the portfolio will be between the '*cash cows*' and the '*question marks*'.
- '*Dogs*' and '*Stars*' tend to be minor winners or losers.

# Summary & next week

## Recap:

- The emergence of competitive advantage
- Sustaining competitive advantage
- Blue ocean strategy

## Forthcoming:

- **Lecture 8:** Industry evolution & strategic change
  - Industry life cycle
  - Organisational inertia & adaptation
  - Managing strategic change

## Seminar session 7:

- Mihi case – Each group will meet me during seminar for discussion.
- Discussion questions, refer to the QMplus module page



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