

BUS359

Contemporary Strategic Analysis

Lecture 6: Forms of Competitive Advantage

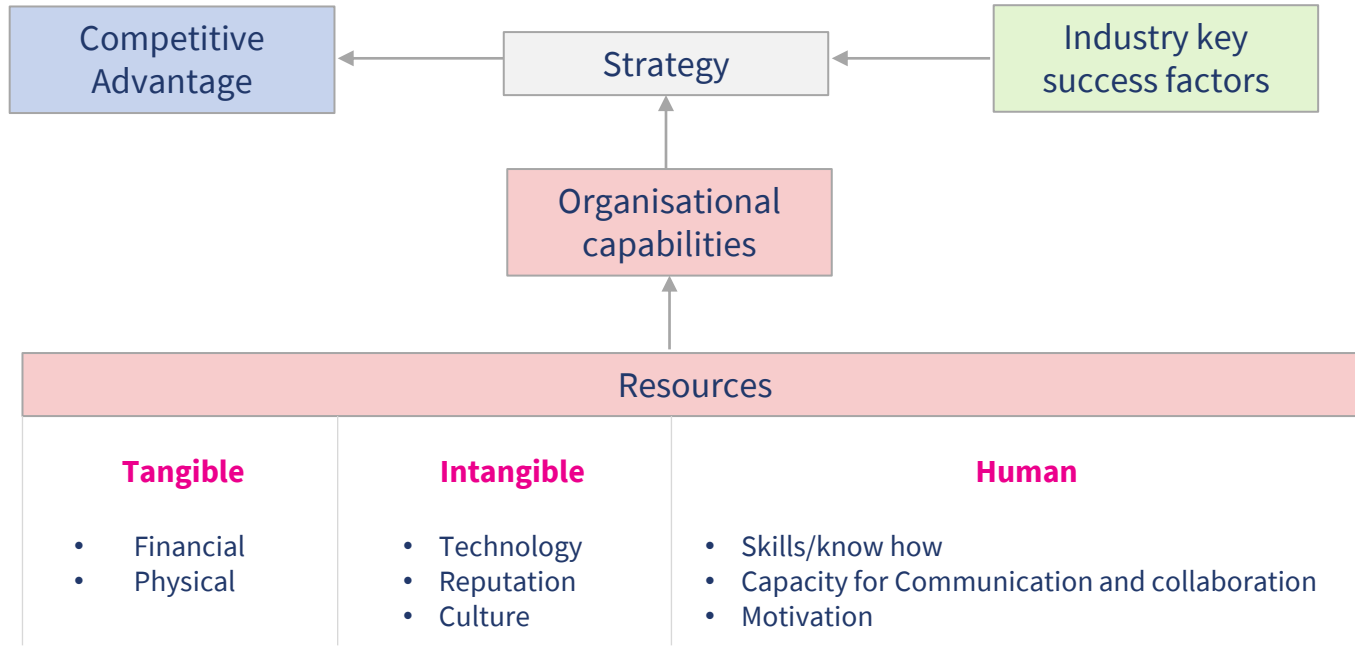
Toan L.D. Huynh
T.Huynh@qmul.ac.uk

Recap: Resources and Capabilities

Think-pair-share (5 minutes):

- What is the resources-based view?
- What are the different categories of resources, & can you think of examples in each?
- What is a core competency? (*Think resources and organisational capabilities*)
- What does the VRIO framework stand for?

What have we learnt so far?



Outline

- What is competitive advantage?
- Porter's generic strategies

What is competitive advantage?

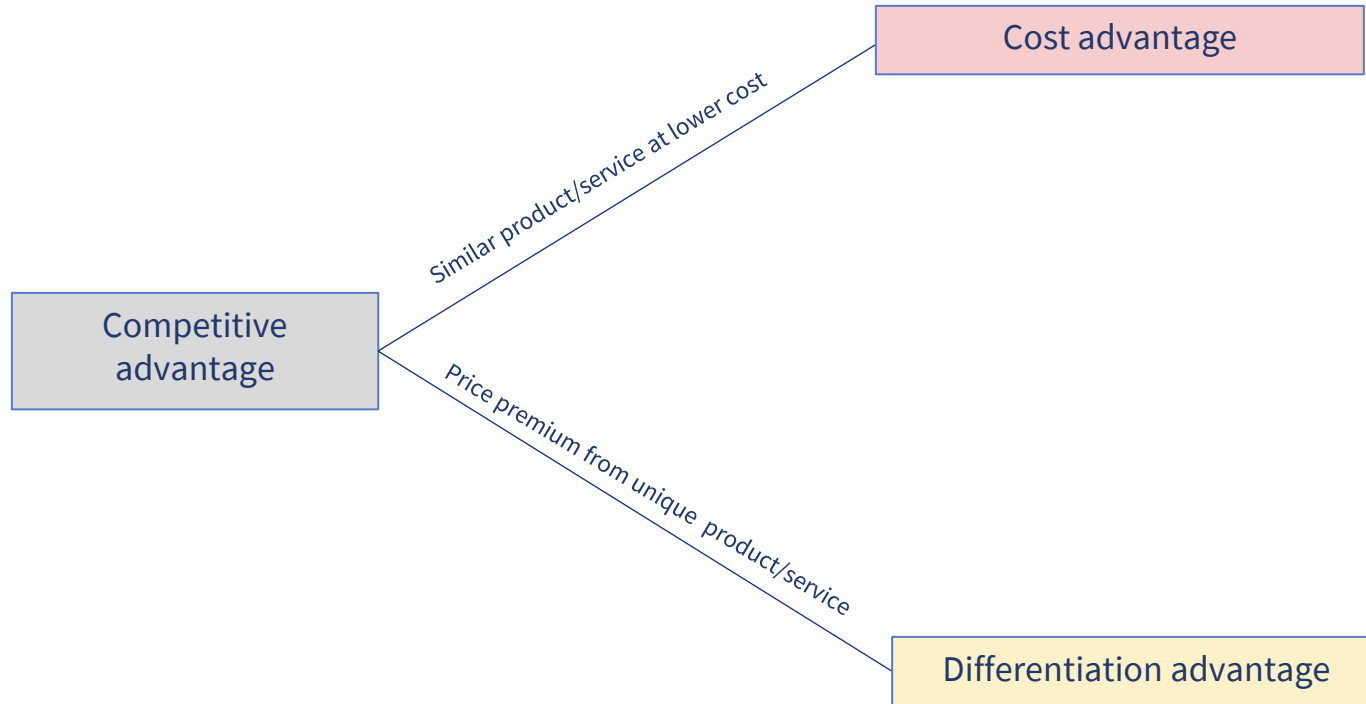
- A competitive advantage is what makes an organisation's products or **services superior than its competitors'** in **the eyes of customers**.
- Every organisation has a competitive advantage – if not they would cease to exist.

Note: Each of us has our own individual competitive advantage

Class activity (1 minute): Individually reflect on what your strengths and weaknesses are (e.g., organised, time management, communication, problem-solving, decision-making).

Class activity: Kahoot.

Forms of competitive advantage



Porter's generic strategies

- At business level
- Not firm or industry dependent

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

Cost leadership

About minimising the cost to the organisation of delivering products or services

- **Reduce internal cost**

Increasing efficiency or **reducing operation and production costs** allows a company to offer product/service at lower rate than competitors.

= higher profit margin

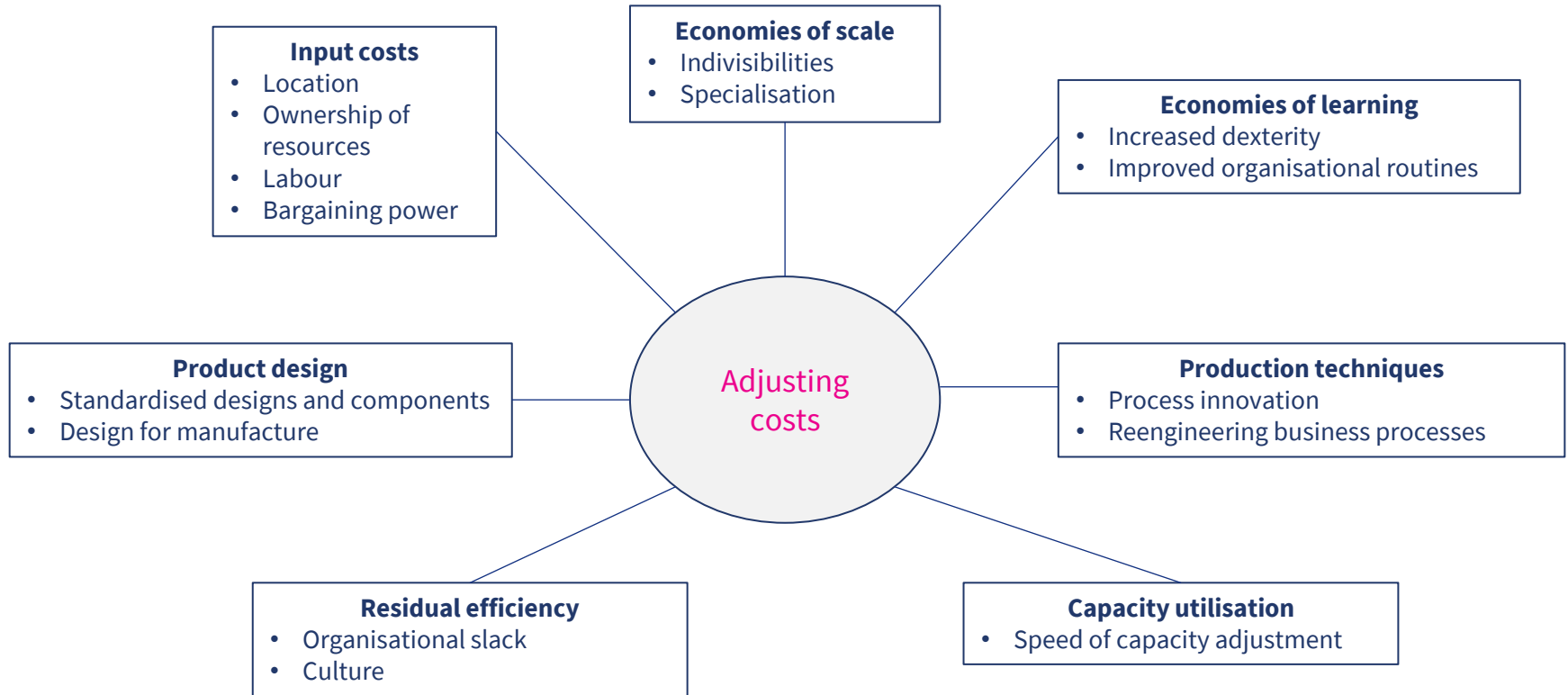
- **Lower cost to buy**

Increase market share with lower prices without changing internal processes

= bigger market share

Question: What are the advantages and disadvantages of a cost leadership strategy?

Drivers of cost leadership



Using the value chain to analyse cost leadership

Stages of analysis:

1. Disaggregate the firm into separate activities
2. Estimate the activity's cost contribution to total product/service costs
3. Identify cost drivers for each activity
4. Identify linkages between activities
5. Identify opportunities for cost reduction

Class activity (3 minutes): What are the cost savings in Wal-Mart's primary & secondary activities?

Cost savings in the value chain

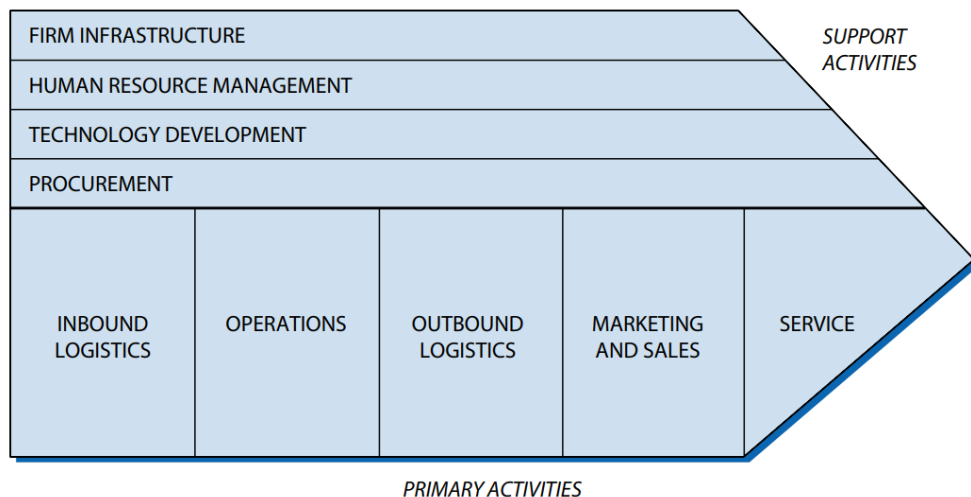
Primary activities:

- Inbound logistics: superior handling of raw materials
- Operations: mechanisation & automation to reduce labour
- Outbound logistics: efficient order sizes
- Marketing & sales: timing
- Service: installed correctly to reduce recalls

Support activities:

- Firm infrastructure: reduce overheads
- HRM: effective training programs to improve efficiency
- Technology development: coordination between functions
- Procurement: monitor performance & re-evaluate

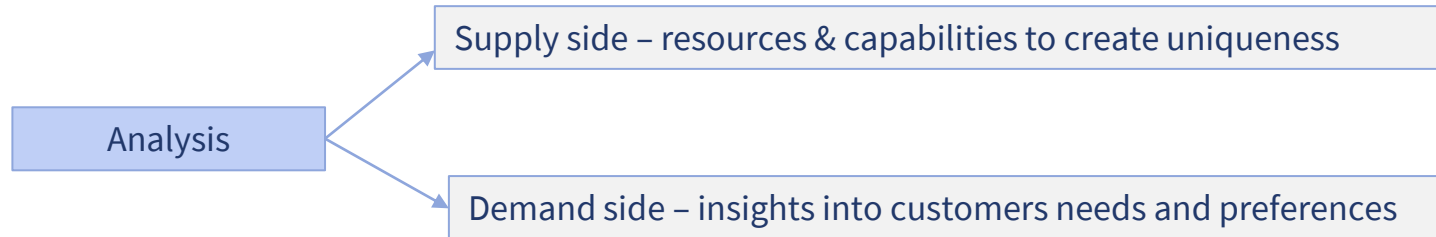
Figure. Porter's value chain



(Source: Contemporary strategy analysis 10e, Robert M. Grant, Figure 5.4. Porter's value chain, Page 117)

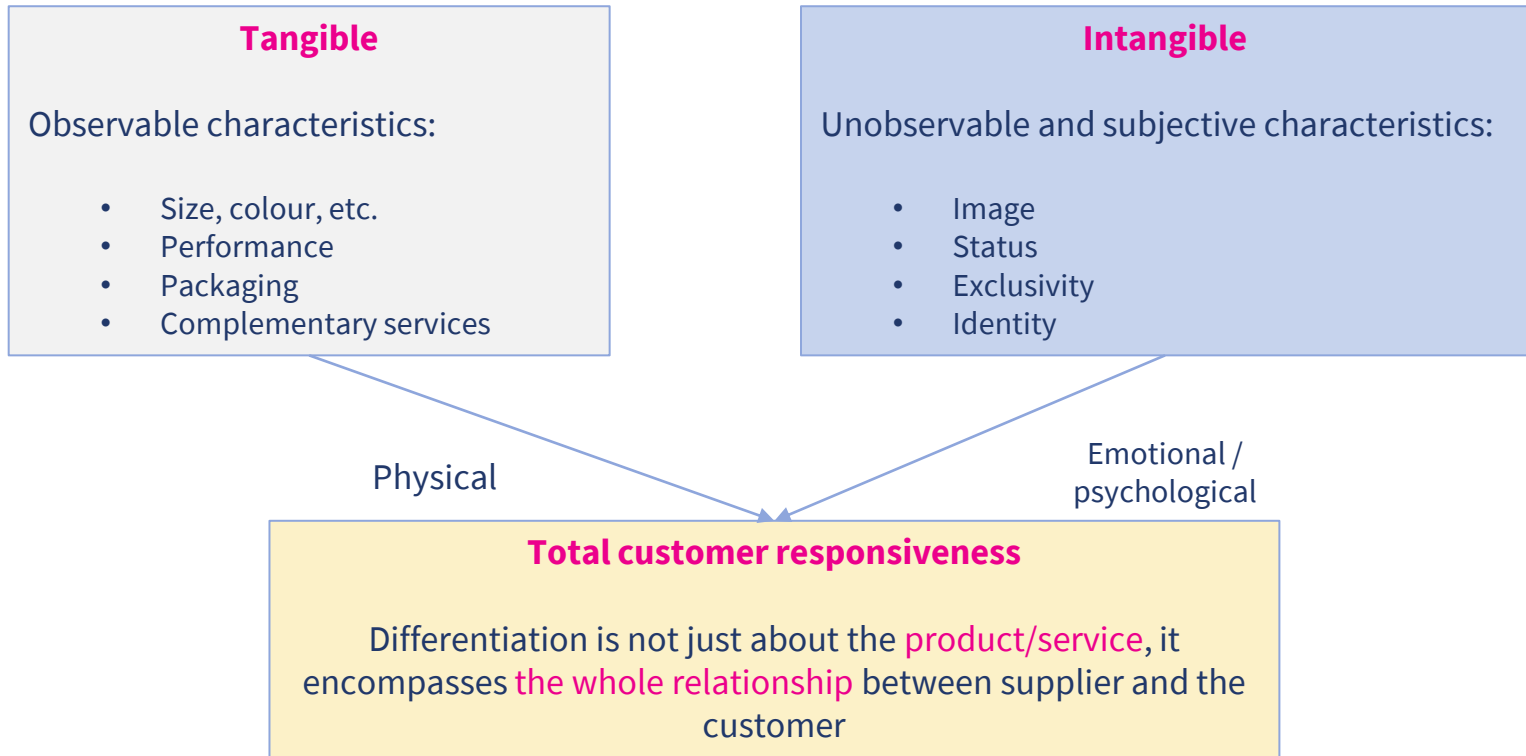
Differentiation

- About providing a product or service which offers unique attributes/features that are valued by the customer beyond lowering the price.
- Allows an organisation to attach a price premium that exceeds the cost of providing the differentiation.
- To use, an organisation must understand:
 - What are its interactions with the customer?
 - How can these interactions be enhanced or changed in order to deliver additional value to the customer?

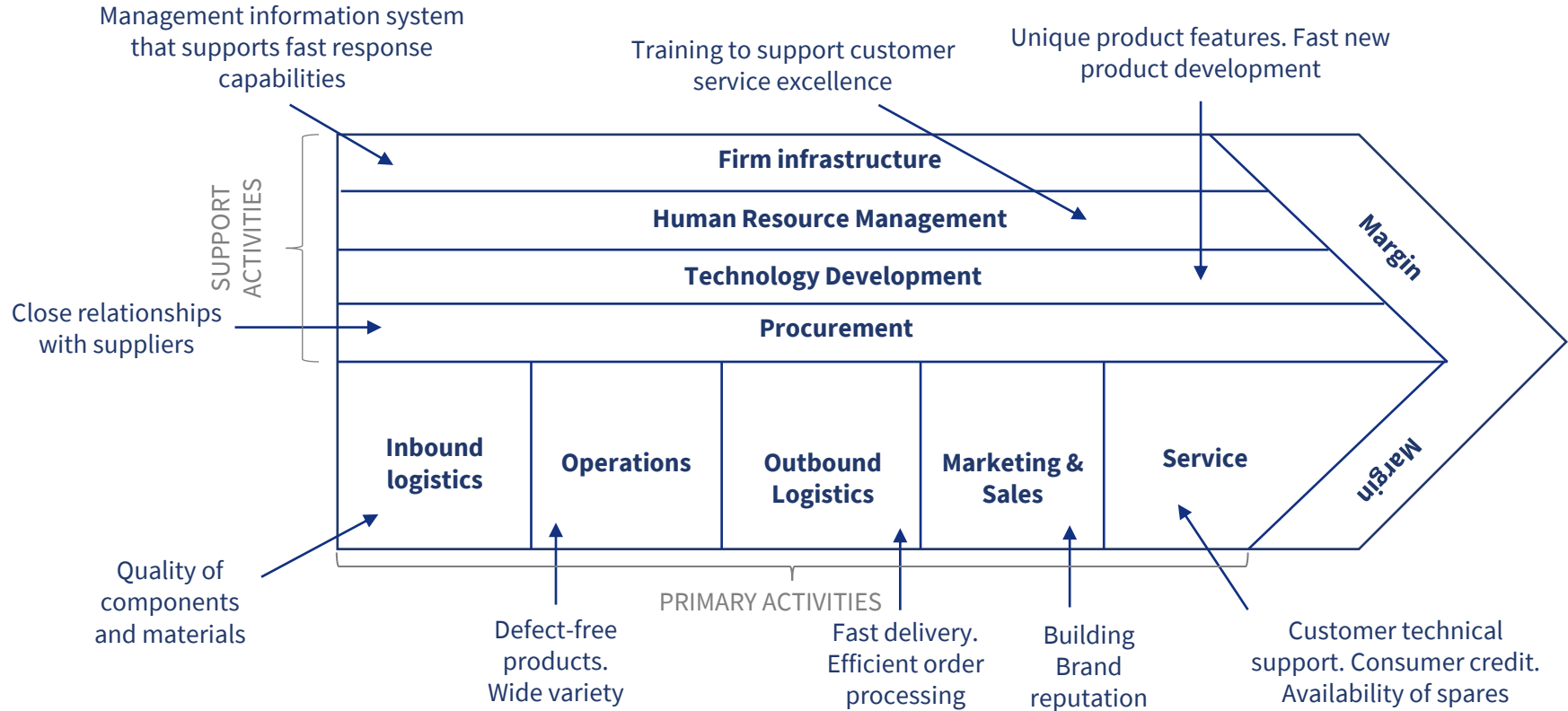


Question: What are the advantages and disadvantages of a differentiation strategy?

The nature of differentiation



Using the value chain to analyse differentiation



Class activity (3 minutes): What are the differentiations in Apple Inc's primary and secondary activities?

Using the value chain to analyse differentiation

- Concentration on niche markets (little competition, '*focused market*') and adding 'something extra'
 - Cost focus – target a niche market and offer the lowest possible price
 - Differentiation Focus – target a niche market and product or service has unique attributes.
- **Which?**

Understand the dynamics of the market and unique needs of customers within it.

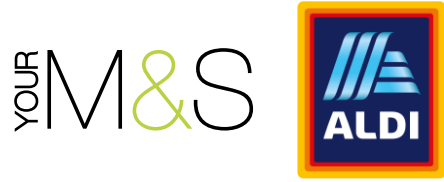
Question: What are the advantages and disadvantages of a focus strategy?

Advantages and disadvantages

	Advantages	Disadvantages
Cost leadership	<ul style="list-style-type: none">▪ Cost advantages over competitors▪ Power over suppliers▪ Create barriers to entry	<ul style="list-style-type: none">▪ Competitors may achieve lower cost▪ Competitors' imitation of cost leader's approach▪ Losing sight of changing customer's needs▪ More vulnerable to external forces (e.g., exchange rate)
Differentiation	<ul style="list-style-type: none">▪ Less vulnerable to external factors	<ul style="list-style-type: none">▪ The company's long term ability to maintain its perceived uniqueness in customer's eyes
Focus strategy	<ul style="list-style-type: none">• Likely to develop differentiated product qualities successfully	<ul style="list-style-type: none">▪ Smaller production, higher cost▪ Changing customer taste, cannot move▪ Easily to new niches▪ Is vulnerable to attacks from broader differentiator

Class activity (5 minutes): Think-pair-share

- What is the source of competitive advantage for these companies?



COMPETITIVE SCOPE

Industry-wide

Single segment

SOURCE OF COMPETITIVE ADVANTAGE

Low cost

Differentiation

COST LEADERSHIP

No frills products or services

DIFFERENTIATION

Creating uniquely desirable products or services

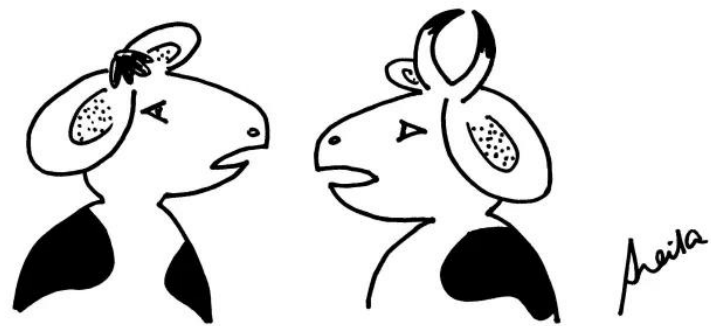
FOCUS

Offered a specialised product or service in a niche market

Criticism – inflexible, hybrid strategy instead?

Pet Hate #159 – Inflexible thinkers

Don't be so inflexi-bull! The grass isn't always greener on the other side.



(c) Sheila Hollingworth www.cartoonsbysheila.com

Summary and next week

- **Recap:**
 - What is competitive advantage?
 - Porter's generic strategies
- **Forthcoming:** Reading week.
- **Lecture 7:** Competitive advantage & competitive process
 - The emergence of competitive advantage
 - Blue ocean strategy
 - Sustaining competitive advantage
 - The BCG matrix
- Seminar session 6: Please read the case at home





Queen Mary

University of London