JRE410: Markets & Competitive Strategy (Lecture Notes)

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1 Lecture 01 – External (Industry) Analysis

1.1 What is Strategy?

- Company strategy consists of:
  - Competitive moves and businesses used to run companies
  - Intended to deliver competitive advantage & superior performance
- Three big questions:
  1. Where are we now?
  2. Where do we want to go?
  3. How will we get there?
- Changes in industry and immediate competitive environment and general economic development
- Usually performance measured in profits – but could be measured in other ways
- Usually companies have more value when they have economies of scale

1.1.1 Some Definitions

- **Competitive advantage** – gap between price that buyers will pay and costs it incurs, this gap wider than what other companies have
- **Sustainable economic advantage** – when a companies' economic advantage is not easily matched by its competitors
  - Consumer (persistent) preference
  - Ongoing innovation
  - Differentiation-based advantage
  - Cost-based advantage
  - Focus on narrow market niche
- Firm environments could also change
  - Changed regulations
  - New technological possibilities
  - Customer preference change
  - Competitors' moves
- Strategy formulation is cyclical – start w/ current strategy and explore ways to improve

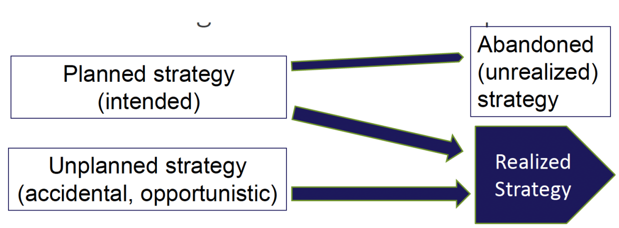


Figure 1: Realized vs Unrealized Strategy

1.1.2 Three Elements of Business Model

1. A compelling value proposition for the customer
    - Product/service is preferred to rivals
2. Favourable economics
3. Superior execution
    - Companies' delivery of value is better than competition

1.2 External Analysis

- What are dominant industry economic traits?
    - Buyers
    - Products
    - Rivals
    - Costs

1.2.1 The Five Forces Model

1. Threat of substitutes
2. Rivalry among existing sellers
3. Power of buyers
4. Power of suppliers
5. Threat of new entrants

- "Who is where?" depends on where YOU are in the value chain
- When the 5 forces are low – industry average profits are high and it's considered an attractive industry
- When the 5 forces are high – industry average profits are low and it's not considered an attractive industry

1.2.2 Power of Buyers

- Buyers large in number, can demand concessions
- Cost to switch substitutes is low, or demand is weak
- Buyers are well-informed on products, prices, costs, etc.
- Buyers threaten to integrate backward

1.2.3 Power of Suppliers

- When companies pay more for things, suppliers have higher power
- Buyers incur higher switching costs
- Fewer suppliers and supplies are short
- Products are seen as differential
- Some suppliers threaten to integrate forward

1.2.4 Power of Substitutes

- Close substitutes can reduce the value of what is sold
- Lowers the price that buyers will pay
- End users have low switching costs

1.2.5 Threat of Entry

- Entrants could take away from incumbents' market share
- Incumbents unwilling or unable to challenge newcomers
- Entry barriers are low
- Could it sometimes make sense to work w/ a firm that wants to enter industries you're in

1.2.6 Rivalry Among Competitors

- Buyer demand is weak, sellers have excess capacity
- Sellers are increasing in number or take actions to increase sales and market value

1.2.7 Common 5-Fores Analysis Pitfalls

1. Using firm and not industry as the level of analysis
2. Giving equal weight to all forces, some may dominate
3. Failing to define the industry clearly
4. Thinking that "attractive" – new entrants want to enter
5. Ignoring the full range of substitutes

1.2.8 What Market Positions Do Rivals Occupy?

- A Strategic Group Map describes the competitive positioning of competitors
- Pressures may cause profit of differential strategic groups to vary
- Need to know competitors well, could depend on many things
  - Executive leadership styles
  - Past patterns of marketing and product launches
  - Incentives/ability to pull off a new move
  - Expand geographically/product offerings

1.2.9 Key Success Factors

- What do all companies in this industry have to do to be successful?
- Three questions to ask:
  1. How to buyers choose b/w brands?
  2. What resources are needed to compete?
  3. What shortcomings would put a company at a loss?
- With everything discussed, we can determine if an industry outlook looks good wrt prospects for profitability for a firm

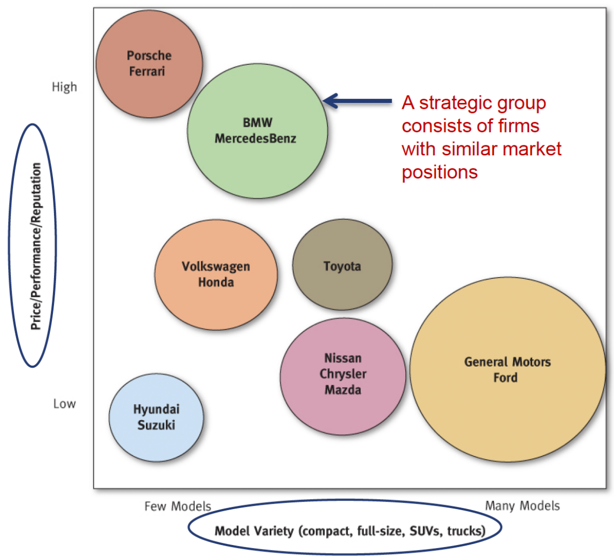


Figure 2: Strategic Group Map

2 Lecture 02 – Internal (Company) Analysis

2.1 Internal Analysis

2.1.1 How Well is the Company's Strategy Working?

- Is the company achieving its strategic and financial goals?
- Is it an above-average industry performer?
- Some performance indicators:
  - Trends in sales, earnings, stock price, etc.
  - Company's overall financial strength
  - Growth in customer base
  - Company image and reputation
  - Operational indicators (fulfill time, defect rate)

2.1.2 Resources & Capabilities (R&Cs)

- Exploit you're R&Cs in a manner that offers value to customers in ways rivals can't match
- Brand, expertise, patents, alliances, etc.
- Competitive resources meet the VRIN criteria:
  - Valuable
  - In-imitable (hard to copy)
  - Rare
  - Non-substitutable (hard to beat)

2.1.3 Competitively Important Competencies

- Core competencies – one or two things that it does best
- Distinctive competencies – the things that it does better than its competitors

2.1.4 Common Types of R&Cs

- Specialized expertise or capability
- Valuable physical assets
- Valuable human resources and organizational assets
- Intangible assets and alliances or cooperative ventures

2.2 SWOT Analysis

- Capitalize on companies' strengths
- Bypass or mitigate companies' weaknesses
- Capture the best opportunities
- Defend against threats

2.2.1 Are Companies' Prices and Costs Competitive?

- Two main analytical tools –
  - Value-chain analysis
  - Benchmarking

2.2.2 Value Chain-Internal

- Supply chain management → operations → distribution → sales & marketing → service → profit margin
- R&D, technology, system development, general admin, human resources management
- Identifies the primary activities and costs that create customer value and the related support activities it performs
- Considers firm's value within the whole chain

2.2.3 Horizontal vs Vertical Integration

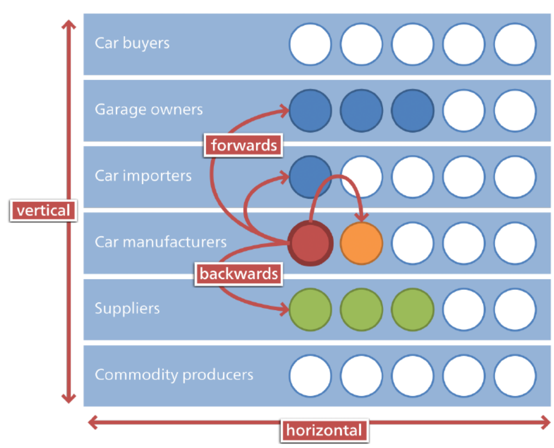


Figure 3: Vertical and Horizontal Integration

2.2.4 Benchmarking

- Compares the company's worth with the other firms in the industry
- Also compares value to buyers (willingness to pay)

2.2.5 KSF Analysis

1. Identify industry's key success factors
2. Weigh the importance of each (should sum to 1)
3. Score each firm on each KSF

2.3 Takeaways

- Firms generate revenue when they create value, suppliers, and customers are better off b/c of the firm
- Amount of value created is difference b/w the price buyers pay and the costs associated w/ making and selling it
- Firms are characterized by R&Cs, VRIN resources, and distinctive competitive advantage
- Firm activities affect their competitiveness through costs and buyers' willingness to pay
- Company strengths allow opportunities to be realized and threats to be reduced
- Relative strength w/ which companies perform the industry KSFs suggest possible areas of strategic focus

3 Lecture 03 – Competitive Strategies

3.1 What is a Competitive Strategy?

- Management's game plan for competing successfully and gaining a competitive edge over rivals
- Customer-focussed rather than product-focussed
- Reflects the company's positioning in market relative to its rivals
- Unlikely to be one best strategy in a given strategy

3.1.1 How to Provide Superior Value

- A superior product/service worth paying for
- Good product/service at a lower price
- Target a niche with unique customers that you can serve better
- Attractive mix of price and product

3.1.2 Generic Competitive Strategies

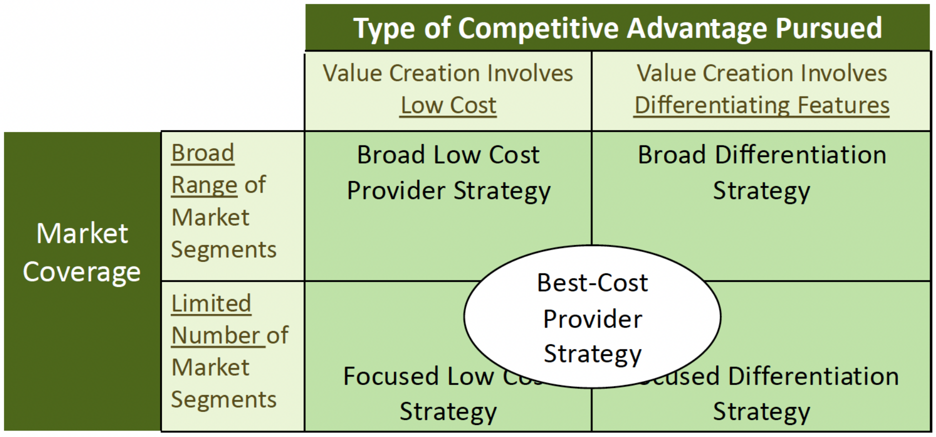


Figure 4: Competitive Strategies

3.2 Differentiation Strategies

- Features that raise performance a buyer gets out of the product
- Features that enhance buyer satisfaction in non-economic ways
- Features that lower buyers' overall costs of buying
- Benefits:
  - Command a premium price
  - Increase unit sales
  - Gain buyer loyalty to a brand

3.2.1 Differentiated Strategy is Hard to Maintain

- 3 ways its hard:
  1. Costs too much to continue to differentiate successfully
  2. Rivals can imitate or get close enough
  3. Buyers may see little value in differentiated features

3.2.2 Translating Low Cost Into Profit Performance

- Option 1: Use lower-cost edge to under-price competitors and increase their market share
- Option 2: Maintain current price w/ present market share and use lower-cost edge to earn a higher profit margin
- Approaches to achieving low costs
  - Perform essential value chain activities more effectively
  - Revamp firm's overall value chain to eliminate/bypass some cost-activities

3.3 Low-Cost Strategies

3.3.1 When Does Low-Cost Strategy Work?

- Buyers are price-sensitive
- Buyers don't see much distinction between offerings of different companies on features they have
- Buyers have low loyalty to one seller and low costs to switch companies
- When buyers' power is high and they are price-makers
- When there are economies of scale or scope
- Newcomers use low prices to attract buyers

3.3.2 Low-Cost Strategy is Hard to Maintain

- Prices need to be high enough to be profitable
- Competitors can imitate cost-cutting measures
- Companies cut costs in ways that makes it hard to meet industry KSFs
- Focussed/niche strategies develop carefully designed products or services to appeal to a group of narrow, well-defined buyers

3.4 Focussed Strategies

3.4.1 When is a Focussed Strategy Viable?

- Industry has many niches/segments
- Industry leaders aren't interested or able to service the niche market
- When niche is sufficiently large and growing to be profitable
- Niche is stable and buyers don't flock to mainstream
- Firm has R&Cs to service the niche effectively

3.4.2 Hazards of a Focussed Strategy

- Competitors find ways to match focusser's capabilities in niche
- Niche buyers preference shift towards product attributes desired by mainstream buyers
- Segments become attractive so that is becomes crowded w/ rivals, causing profits to be segmented

3.5 Best-Cost Strategies

- Superior value chain configuration that eliminates/minimizes activities that do not add value
- Unmatched efficiency in managing essential value chain activities
- Resource strengths and core competencies that allow differentiating attributes to be incorporated at low cost

3.5.1 Perils of Best-Cost Strategy

- End up with middle-of-the-pack industry rankings and provide for average performance
- Average cost structure
- Minimal product differentiation compared to peers
- Average image and reputation
- Limited prospect of industry leadership

4 Lecture 04 – Competitive Dynamics

- Three types of change:
  - Evolution among the industry life cycle
  - Discontinuous technological change
  - Change stemming from competitors' actions

4.0.1 Evolution Along Industry Life Cycle

Introduction $\longrightarrow$ Growth $\longrightarrow$ Maturity $\longrightarrow$ Decline

4.0.2 Disruptive Technology

- Radical innovation – disruptive for buyers and producers
- Niche market and technological uncertainty
- May have to be unprofitable than established products in mainstream products

4.0.3 Change From Competitors' Action

- Individual firms make moves which change competition
  - Indigo and Chapters merge
  - Ryanair adds low-cost positioning to the airline industry
  - Google acquires Android and enters the phone industry
  - Dell changes the value chain for computer purchases

4.1 Changing Strategies

4.1.1 Advantages of Being the First Mover

- Create a technological edge that leaves others scrambling
- Pre-empt the access of later arrivals to scarce resources
- Build a customer base that's loyal or finds it costly to switch

4.1.2 Disadvantages of the First Mover

- Pioneers' products can often be flawed
- Fast followers can leapfrog pioneers' products
- Fast followers may have stronger marketing and distribution capabilities
- Pioneers can have steep learning costs
- Pioneers can have step market education costs
- Early buyers can be different than later buyers

		Pace of Market Change	
		Slow	**Fast**
Pace of Tech Change	**Slow**	*Stable* (e.g. vacuum cleaner) 1st mover adv ***likely*** because it's hard to differentiate from pioneer	*Market Leads* (e.g. Personal music player) 1st mover advs ***possible*** from large-scale mktg, distn & prodn to address changing market
	Fast	*Technology Leads* (e.g. Digital camera) 1st mover adv ***difficult***; need strong R&D/$$$$	*Dynamic* (e.g. Netscape web browser) 1st mover adv ***unlikely*** Strong R&D+ mktg/dist/prod

Figure 5: Pace of Market and Tech Change

- Offensive moves – aggressive moves to gain competitive advantage from rivals
- Defensive moves – protective moves to lower risk of attack and weaken the impact of an attack

4.1.3 Offensive Moves

- Re-conceive the product/service so it's a new category
- Reconfiguring the value chain
- Changing when and where you compete
- Rescaling the industry

4.1.4 Defensive Moves

- Buys the competitor
- Strengthening so you're playing on multiple fields
- Add a new product/service so you can compete
- Shape the industry rules
- Lock out the competition

4.1.5 Strategic Alliances

- Cooperative arrangements where companies join forces to achieve common goals
- Allow companies to compensate for resource deficiencies
- Usually involves sharing resources, shared knowledge, shared risk, etc.
- When alliances are important, companies develop expertise in developing them
- 2007 Harvard Business Review – 60-70% of all alliances fail
- Reasons for failure:
  - Partners' objectives and priorities start to diverge
  - Partners can't work well together
  - Partners start to compete
  - Initial purpose becomes obsolete due to change
- Dangers of alliances:
  - De-skilling
  - You grow dependent on your partner

4.1.6 Mergers and Acquisitions

- Both involve combining the operations of 2 companies
- Merger – Two companies are combined into a newly created company often with a new name
  - Toronto-Dominion Bank merged with Canada Trust and became with TD Canada Trust
- Acquisition – One company absorbs the operations of the other company
  - Yahoo buys Tumblr for $1.1B
- M&A objectives:
  - Efficiency
  - To expand geographic overage
  - To fill a gap in your product line
  - To gain access to new technology
  - To bring together different R&Cs in converging industries
- 83% of all M&As fail to produce any benefit
  - Difficult to integrate the operations
  - Savings less than anticipated

4.2 Vertical Integration

- Extending a firm's activities along the value chain
  - Backward integration – extends the value chain closer to supply
  - Forward integration – extends the value chain closed to consumers

4.2.1 Advantages of Vertical Integration

- Forward integration – greater differentiation stemming from better access to users and better market visibility
- Backward integration – greater profitability b/c you're not paying another company for components

4.2.2 Risks of Vertical Integration

- May be more inefficient due to increased administration
- Units may not achieve economies of the same scale
- May result in less flexibility in developing new products/services
- May require costly development of new R&Cs

4.2.3 Outsourcing

- Contract out an activity to be performed outside the company
- Enables the company to call on best expertise w/o actually having to have them in-house
- If the activity is the source of competitive advantage, it should not be considered to be outsourced

5 Lecture 05 – Customers & Customer Value

5.0.1 Example of a Very Successful Program

- In 1991, launched a coop program in which they convinced manufacturers to place the "Intel Inside" logo unit in advertising and other marketing material
- "Intel Inside" became the first trademark in the electrical component industry
- Consumers were uncertain about quality & reliability of microprocessors and Intel found a way of taking away the mystery of the product, gaining the confidence of the end consumer
  - Intel's first step into the 'B2C' marketing, all previous focus was on 'B2B'

5.0.2 What is Marketing (Textbook Definition)

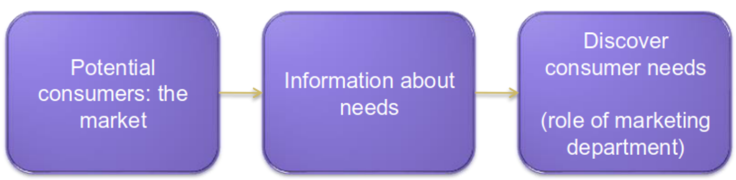
- Activity for creating, communicating, delivering, and exchanging offerings that benefit the organization, its stakeholders, and society at large
- Requirements for marketing to occur:
  - Two or more parties with unsatisfied needs
  - Desire of ability to satisfy these needs
  - A way for the parties to communicate
  - Something to exchange

5.0.3 What is Marketing? (Easy-to-Remember Definition)

- Marketing is about managing profitable customer relationships
  - Attracting new customers
  - Retaining and growing customers
- Could be focussed on business customers (B2B) or consumer customers (B2C)
- Products, services, experiences, even people can be marketed
- Buyer might be different than the end consumer
- Social marketing – designed to influence behaviour of individuals in which society benefits

5.1 Marketing Process

5.1.1 1. Identify Market Needs and Wants



5.1.2 2. Segment, Target, and Position (STP)

- Segmentation and targeting
  - Describe customer heterogeneity
  - Choose which customers to serve
- Positioning:
  - Identify key benefits of offering and points of different w/ points
  - Product positioning over company positioning

5.1.3 3. Developing Marketing Program

- Product (features, brand name, packaging, service, warranty)
- Place (outlets, channels, coverage, transportation)
- Price (list price, rates, discounts, payment period)
- Promotion (advertising, sales promotion, merchandising, personal selling, publicity)

5.1.4 4. Build Profitable Customer Relationships

- Basic relationships versus full partnerships
- Frequency marketing program
  - Reward customers who buy frequently or in volume
  - Encourage consumers to increase the amount spent

5.1.5 5. Manage the Product Portfolio

- Many companies have multiple products – should they keep them all?

5.1.6 Why Study Consumer Behaviour?

- Essence of marketing – satisfying needs and wants of consumer better than competitors
- Value is ONLY what is perceived by the consumer

5.1.7 Consumer Purchase Decision Process

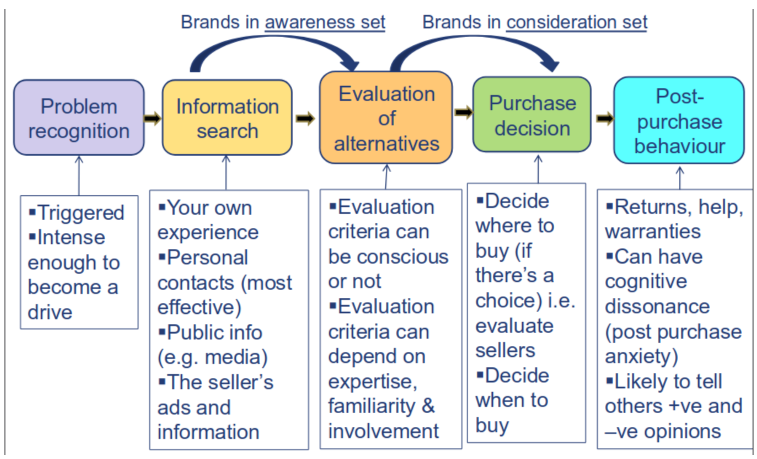


Figure 6: Consumer Purchase Decision Process

5.1.8 Positioning Yourself With Consumers

- Market leaders – encourage habitual purchase, keep quality high, using frequent ads
- Challengers – encourage variety seeking, encourage trial, "try something new" style of ads and endorsement

5.1.9 Influences of Consumer Purchase Decision

- Psychological influences
- Socio-cultural influences
- Situational influences
- Marketing-mix influences

6 Lecture 06 – Market Segmentation, Targeting, & Positioning

6.0.1 Target Marketing Process

- Segmentation – dividing the market into distinct groups based on some attribute they share
- Targeting – choosing which of these groups to market to
- Positioning – creating a clear, distinct, desirable position in the target customer's mind

6.1 Linking Customer to Marketing Program

1. Group Potential Buyers Into Segments

- Geographic, demographic, psychographic, and behavioural
  - Geographic – segments are based on where consumers live
  - Demographic – segments are based on consumer characteristics like
  - Psychographic – segments consumers by life style or personality
  - Behavioural – segments consumers by when, why, and how they buy or use the product
- How do organizational buyers differ?
  - Demand for your product is derived from demand for buyers' products
  - They are motivated to develop your offerings and R&Cs as well
- Common to have:
  - A few dominant consumers
  - Provide competitive bids
  - Long-term relationships

2. Group Products to be Sold Into Categories

3. Develop Market/Product Grid and Estimate Size of Markets

4. Select Target Markets

- Expected financial performance
  - Segment size and growth
  - Purchasing power of segments
  - Can be served profitably
- Competitive position – you are competitive in the segment now and over time
- Accessibility – segment can be reached and served at a reasonable price

5. Take Marketing Actions to Reach Target Markets

6.2 Product Positioning

- Place that product/service in consumers' minds, on attributed relative to competitive product
- Head-to-head positioning – compare directly w/ rivals
- Differentiation positioning – stress unique aspects compared to rivals

6.2.1 Repositioning

- Changing how consumers view an offering relative to the competition
- Usually much harder than initial positioning
- Huge advertising costs, consumers may be confused
- 4 main reasons to reposition
  - Reacting to the competition
  - Reaching a new market
  - Catching a rising trend
  - Changing the value added
    * Trading up – adding value or quality
    * Trading down – reducing features, or decrease quality or value