a scenario requires the following conditions to create differentiation-based competitive advantage:

a   If a typical buyer is willing to pay a notable premium price for product features that enhance the received benefit.
b   If a company contains a notable number of economies of scale and experiences which are already vastly exploited by existing participants.
c   If the product quality features in an industry can be evaluated based solely on the experience of using the product by the buyer.

Strategic activities analysis

Considering the fact that competitive advantage can be achieved in two ways (overall low costs and differentiation), a company identifies the so-called cost drivers and so-called value drivers. Cost drivers are associated with support activities (company infrastructure, human resource managements, technology development and supply), whereas value drivers are associated with primary activities (inbound logistics, production, outbound logistics, marketing, sales and services).

The essence of business strategy is to maximally utilise the value drivers and maximally reduce the cost drivers by an adequate value chain configuration or reconfiguration. Each value chain activity creates costs (raw material and materials) and spends assets (fixed and current). Activity-based costing(ABC) method can be used to distribute costs and assets throughout the value chain activities. The traditional accounting technique used earlier does not fit the bill for this type of analysis because it traces costs according to types, places and cost holders. In the process it, according to Marin Buble (2005), distributes direct costs on the holders and general costs are distributed following a pattern.

The application of a traditional accounting technique does not offer the possibility of tracking costs by activities. That is why activity based costing is applied. Each value chain activities creates cost so a value chain analysis seeks to determine the cost of each activity. A detailed analysis provides a cost comparison with key competitors or the industry average which can be used as a starting point to realise whether we are in front, behind or equal with competitors on one side and whether we are better, worse or equal with the industry average, on the other side. Consequently, it can be discussed whether certain cost entries are increasing or reducing.

A value chain is suitable for the company competitive advantage resource diagnosis and differences existing among competitors. Each basic and following activity need to be divided into less separate activities. The activities with the best demonstration of the real and potential competitive advantage of a company should be highlighted.

Each separated activity (irrespective of its aggregation degree) must have its own economy, a powerful real and potential influence on differentiation

and significantly contribute to total costs. After the documentation of the value chain, activities which are the key for customer satisfaction and market success need to be identified. Such activities must be placed in the spotlight during the analysis research. Three reasons play an essential role in this phase of value chain analysis (Pearce and Robinson, 2000).

First, the fundamental mission of a company should influence the selection of activities to be researched in detail. Hence, top management needs to focus all of its attention to achieving low costs. Second, the value chain nature and the relative importance of its activities are variable in some industries. Hence, top management needs to focus all of its attention to activities important for the company. Third, the relative importance of activity value can vary considering the company position in a broader value system. Consequently, top management must see the bigger picture of a value chain.

However, it is not enough just to identify activities, a step further needs to be taken to identify the activity within each of the two groups. Looking at the inner structure of the categories of primary activities and support activities, we can find three types of activities with different roles in creating competitive advantage. These activities include the following:

1   *Direct activities* – which directly create buyer value (e.g. assembling, promotion and similar).
2   *Indirect activities* – which indirectly offer the conduction of primary activities (e.g. administration, maintenance and similar).
3   *Quality insurance activities* – which ensure the quality of other activities (e.g. control, supervision and similar).

Each company has each of these three activities which can be found in primary and support activities. The essence of activity analysis is to identify the four groups of activities. *First, the activities that do not exist, but they are important for business strategy.* The aim is to introduce these activities. *Second, to identify activities which do not follow the mission.* The aim is to eliminate these activities. *Third, to analyse activities vital for business processes.* The aim is to keep these activities. *Fourth, to analyse activities which add value.* The aim is to enhance these activities. The essence of activity analysis is shown in Figure 5.10.

The value chain concept previously explained in detail is an ideal type of form associated with the condition in a company. A company often does not have all the stated and explained activities, so it has to create its own value chain. The necessity which is the starting point for creating a favourable company value chain is the analysis of the current state. Hence, it is necessary to revise whether there are sound reasons for conducting particular activities in a company – sourcing, or should particular activities be given to third parties – outsourcing. Most companies focus on their core competences outsourcing everything else following the motto: *Do what you*