



Discovering Management  
**Introduction to Competitive Strategy**

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## COMPETITION AND STRATEGY

# What is competitive strategy?

## Corporate level

Corporate strategy: Company with multiple businesses

## Business level

**Competitive strategy:** Compete in one business

Competitive strategy is the set of integrated choices that define how a firm will achieve sustainably superior performance in the face of competition.

## Functional level

Innovation strategy, Operations strategy, Marketing strategy,...

### Key questions in competitive strategy:

- Why do some firms financially outperform their competitors?
- How can a firm successfully survive in the short and long term?
- Where does the sustainable success of a company come from?

## INTRODUCTION TO COMPETITIVE STRATEGY

### Learning objectives

**After this session on competitive strategy, you will be able to:**

- Describe the foundational ideas in competitive strategy
- Identify the main structural features of an industry to determine an industry's attractiveness
- Distinguish between the primary sources of a firm's competitive advantage
- Understand the importance of the value proposition and the value chain for a firm's competitive strategy



## INTRODUCTION TO COMPETITIVE STRATEGY

### Content



#### **Competition and strategy**

1. Industry Structure
2. Competitive advantage



#### **Creating a successful strategy**

1. Value proposition and value chain
2. Strategic management

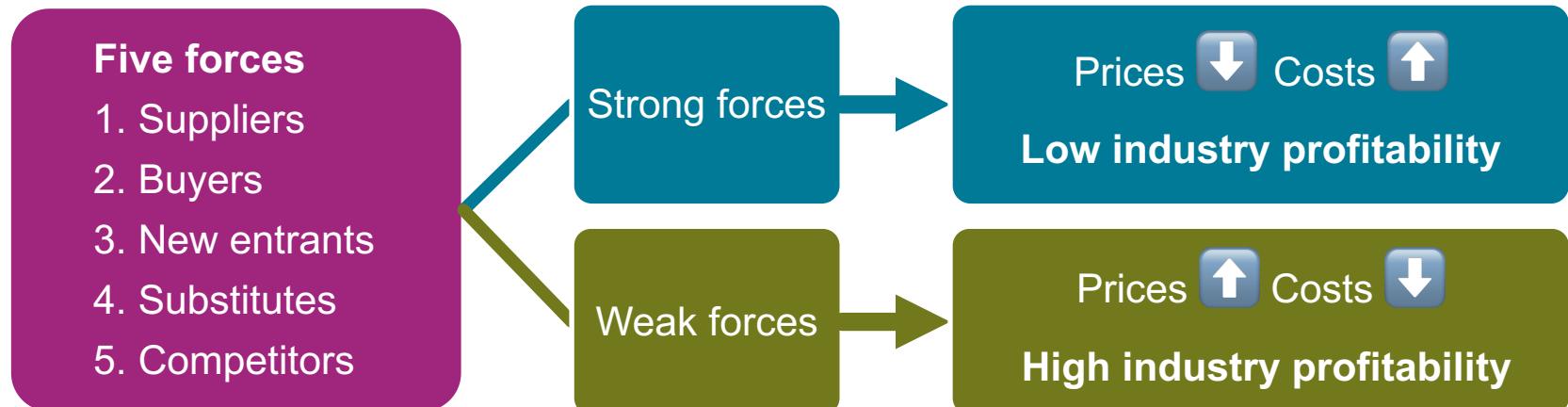
## COMPETITION AND STRATEGY – 1. INDUSTRY STRUCTURE

## Industry Structure: Fundamentals

Every industry is different, but the underlying drivers of profitability are the same in every industry.

Analyzing the Five Forces can help companies anticipate shifts in competition, shape how industry structure evolves, and find better strategic positions within the industry.

### Five Forces: Determinants of Industry Structure and Profitability



## COMPETITION AND STRATEGY – 1. INDUSTRY STRUCTURE

## Five Forces Industry Analysis

Framework for understanding the competitive forces in an industry and how value is divided among industry actors.

Assesses an industry's attractiveness: **Average prices, costs and profitability**. Enter, exit, or invest in an industry?



## COMPETITION AND STRATEGY – 1. INDUSTRY STRUCTURE

## Five Forces: Bargaining power of suppliers and buyers

### Bargaining power of suppliers:

Ability to influence price and delivery conditions of the input

#### Suppliers have strong bargaining power when:

- they are large and concentrated
- there are no alternative inputs
- they can threaten to produce the end product themselves
- it is difficult or time-consuming to switch to other supplier (high switching costs)

### Bargaining power of buyers:

Ability to influence price and delivery conditions of the product/service

#### Buyers have strong bargaining power when:

- they purchase large amounts relative to total sales of firm
- they can threaten to produce the product themselves
- product is undifferentiated
- price more important than quality
- they have low switching costs

## COMPETITION AND STRATEGY – 1. INDUSTRY STRUCTURE

## Five Forces: Threat of entrants and substitutes

### Threat of new entrants:

Potential firms entering the industry as competitors

### Threat of substitute products or services:

Products from another category that meet the same need in a different way

#### The threat of new entrants depends on:

- the size of barriers to entry: economies of scale, cost of building brand awareness, accessing distribution channels, government restrictions
- the capabilities of potential entrants (well established in other regions vs. new ventures)
- customer loyalty

#### The threat of substitute products or services depends on:

- Switching costs for buyer
- Attractiveness of substitute: Quality of substitute, price of substitute

## COMPETITION AND STRATEGY – 1. INDUSTRY STRUCTURE

## Five Forces: Rivalry and limitations of the framework

### Rivalry among existing competitors

Price competition

Advertising

New product  
introductions

Increased customer  
service

#### Rivalry is high if:

- many competitors, equal in size and power
- slow growth
- perishable products (food, hotel rooms,...)
- high exit barriers: (e.g., investments in specialized assets)
- high fixed costs and low marginal costs
- rivals highly committed to business

### LIMITATIONS of Five Forces Industry Analysis

Additional drivers of industry profitability besides 5 forces:

- Technology
- Government regulation
- Cooperation
- Changes over time

## INTRODUCTION TO COMPETITIVE STRATEGY

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1. Industry Structure
2. Competitive advantage



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## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

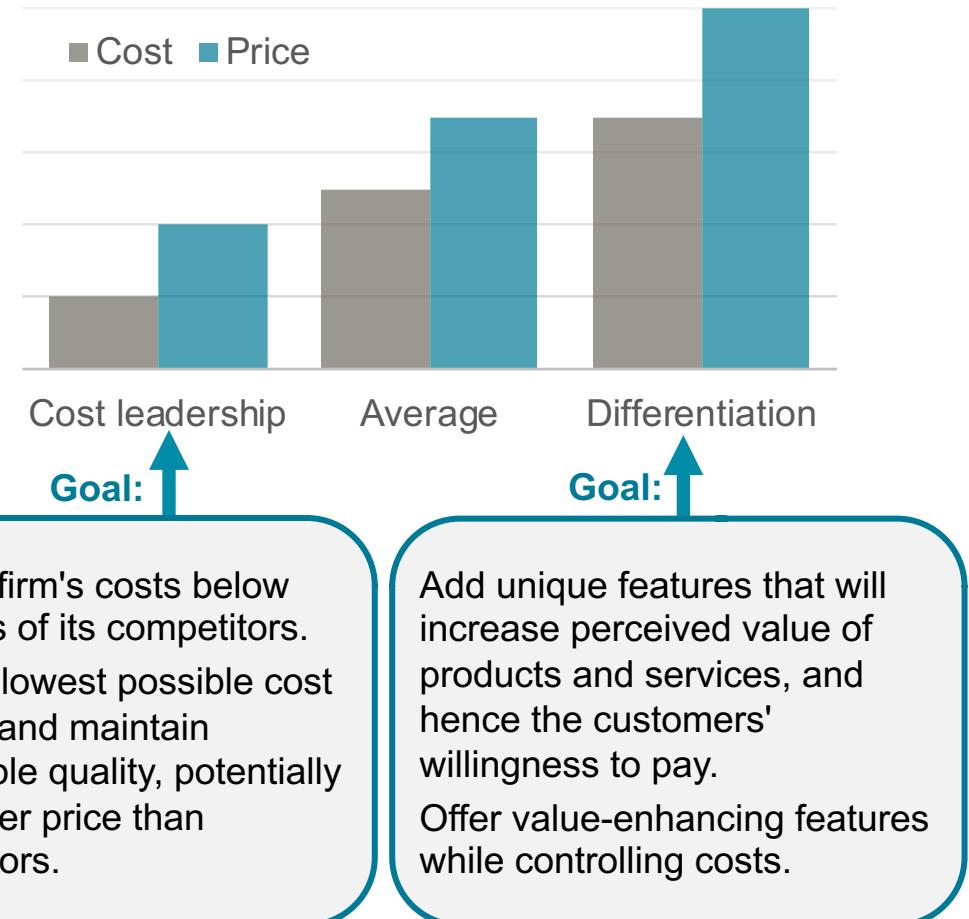
## Competitive advantage: Definition and drivers

### Competitive advantage

A firm's ability to create a large gap between the cost to produce the offering and the buyers' willingness to pay for the offering.

### Drivers of competitive advantage

To create a competitive advantage, a firm must **perform activities more effectively or distinctively** than its industry rivals: Have a great offering or great process to produce and deliver the offering.



Reduce firm's costs below the costs of its competitors. Achieve lowest possible cost position and maintain acceptable quality, potentially offer lower price than competitors.

Add unique features that will increase perceived value of products and services, and hence the customers' willingness to pay. Offer value-enhancing features while controlling costs.

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Strategic positioning: Competitive advantage and scope

Managers need to make decisions on two dimensions to strategically position their firm:

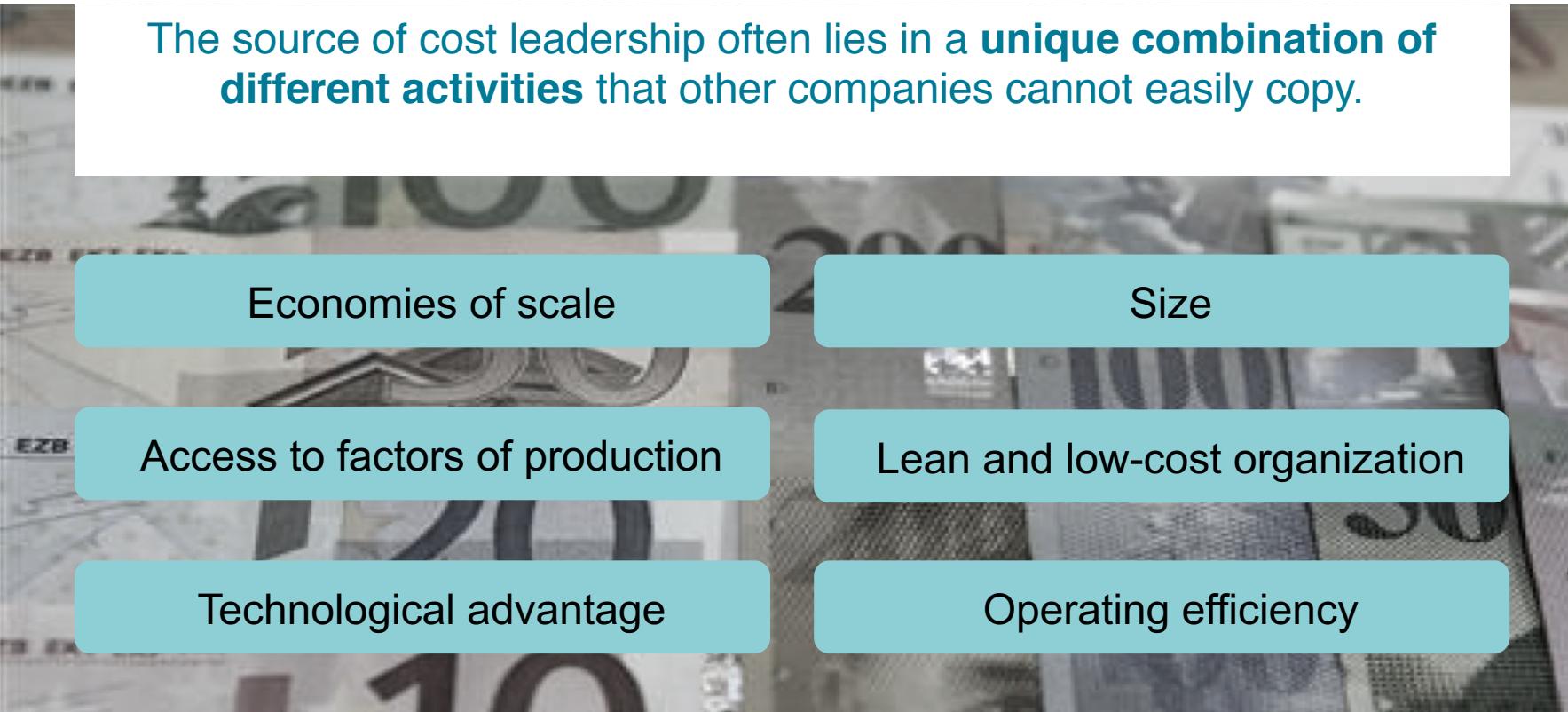
- 1. Competitive scope:** which industry and product categories to compete in, broad market or narrow niche.
- 2. Competitive advantage:** situating a firm relative to its competitors and compete on cost or differentiation.

Competitive advantage		
Broad competitive scope	Cost leadership	Differentiation
Narrow competitive scope	Cost focus	Differentiation focus

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Sources of cost leadership as competitive advantage

The source of cost leadership often lies in a **unique combination of different activities** that other companies cannot easily copy.

A background image showing several US dollar bills, with visible denominations of \$100 and \$200, suggesting themes of money, finance, and economics.

Economies of scale

Size

Access to factors of production

Lean and low-cost organization

Technological advantage

Operating efficiency

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Economies of scale

### Economies of scale

- ❖ The cost advantages obtained due to size or scale of operation
- ❖ The decline in costs per unit as production volume increases and fixed costs are spread out over more units.
- ❖ As a company produces more of a good, it tends to get more efficient at the production and supporting processes.

### Economies of scale can result from

- Spreading of fixed costs
- R&D
- Efficient use of inventories
- Increased productivity: specialization and division of labour

### Relation to firm size

When there are economies of scale in functions such as manufacturing, marketing, sales, or administration, larger firms have a cost advantage over smaller firms up to a certain point.

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Preferential access to factors of production

A firm may have differential access to similar **factors of production** at lower costs than competitors. Factors of production cover a range of inputs used by the firm in doing business:

- ❖ Raw materials
- ❖ Land
- ❖ Labor
- ❖ Capital
- ❖ Data



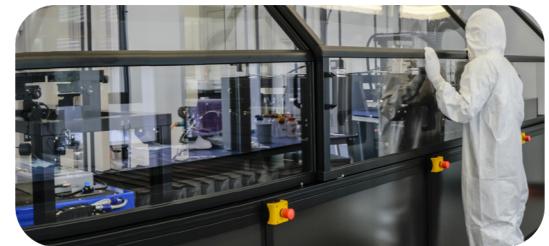
A firm with a **high production volume** may use its market share to obtain **discounts** on factors of production.

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Technological advantage

- ❖ **Technological advantages** in production can be independent of economies of scale. They ensue from investment in own research and development of technology or the purchase and superior exploitation of technology.
- ❖ Typically, this results from specific proprietary **manufacturing technologies**, technological innovation protected by trade secret or patent, independent of firm size.

Examples: Ford's assembly line, Intel



## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Sources of differentiation as competitive advantage

### Differentiation

- ❖ The firm attempts to gain competitive advantage by enhancing the perceived value of its own products and services relative to that of the firm's competitors.
- ❖ Product differentiation always hinges on the customers' perception of the firm's product or service.



### Sources of differentiation

- Product features and innovation
- Links between functions
- Timing
- Location and presence
- Product mix
- Links with other firms
- Brand reputation

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Product features and innovation

### Product or service features

- Quality
- Design
- Color
- Style
- Trademarks
- Patented features

What makes a product/service better than another product/service in the eyes of the customer?

The product characteristics match the preferences of certain customers.

**ALESSI**



## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Brand reputation

**Consistent pattern of firm behavior**

- Reputation with customers
- Reputation with suppliers
- Brand name
- *Perceptions* of product quality, durability and reliability



- One of the most influential sources of product differentiation is a firm's reputation (Klein & Leffer, 1981).
- The firm and product related reputation may remain relatively stable despite a gradual reduction of quality.
- „Optimal reputation cheating“ describes a level of reputation where the firm can reduce product quality without damaging that level of reputation.
- Economists have predicted that under some circumstances, performing at a lower level than what customers expect, can maximize the firm's economic performance (Klein & Leffler, 1981).
- In practice, optimal reputation cheating can have disastrous consequences for the firm.

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Product mix

- The mix of products or services offered by a firm can be a source of product differentiation.
- In particular, this holds when products and services are **technologically linked** or when a single set of customers buys several of the firm's products and services.



## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

### Links between functions

Differentiate a product by linking different functions and making it more complex in features and delivery

- Sales with after sales service
- Sales with distribution
- Sales with financing
- Product development with sales or financing



## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Links with other firms

- A firm can collude with other firms in offering a mix of products and services.
- This is similar to "links between functions", but includes the functions, products, and services of other firms as well.
- Online platforms and ecosystems

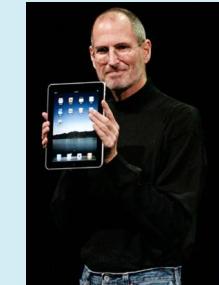


**Miles & More**  
 Lufthansa

## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

## Timing

A **first mover** **introduces** certain product or service for the first time. It invests heavily on R&D and advertising



A **second mover** **responds** to the first mover's competitive actions, typically through imitation of product features



A **late mover** responds after considerable time has elapsed after the first mover's action and the second mover's response



## COMPETITION AND STRATEGY – 2. COMPETITIVE ADVANTAGE

### Location and presence

The firm can be located close to:

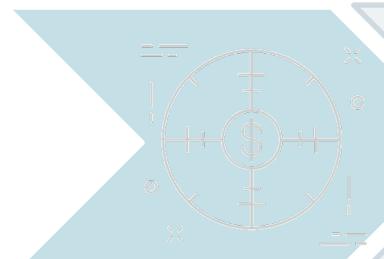
- Suppliers
- Distributors and retailers
- Customers
- Presence online

Physical location and virtual presence can be a source of product differentiation for a firm.



## INTRODUCTION TO COMPETITIVE STRATEGY

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2. Competitive advantage

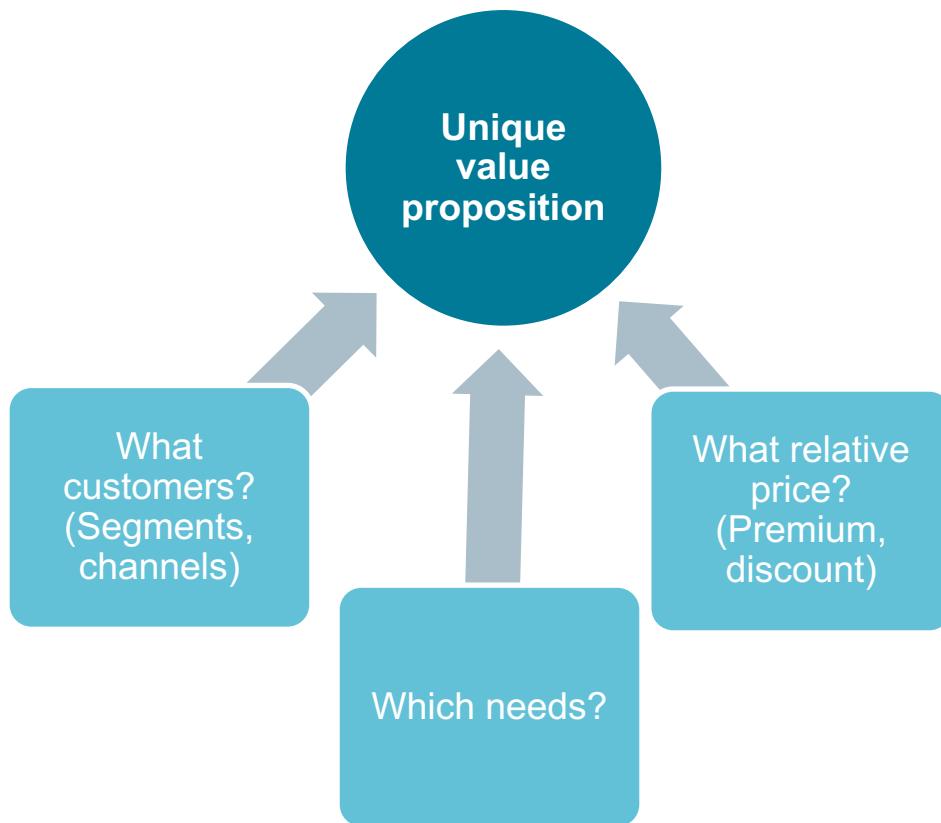


#### Creating a successful strategy

1. Value proposition and value chain
2. Strategic management

## CREATING A SUCCESSFUL STRATEGY – 1. VALUE PROPOSITION AND VALUE CHAIN

# The value proposition: The outward looking element of competitive strategy



## VALUE PROPOSITION

- A value proposition defines the kind of value a company will create for its customers.
- Must be unique compared to other competitors' value propositions.

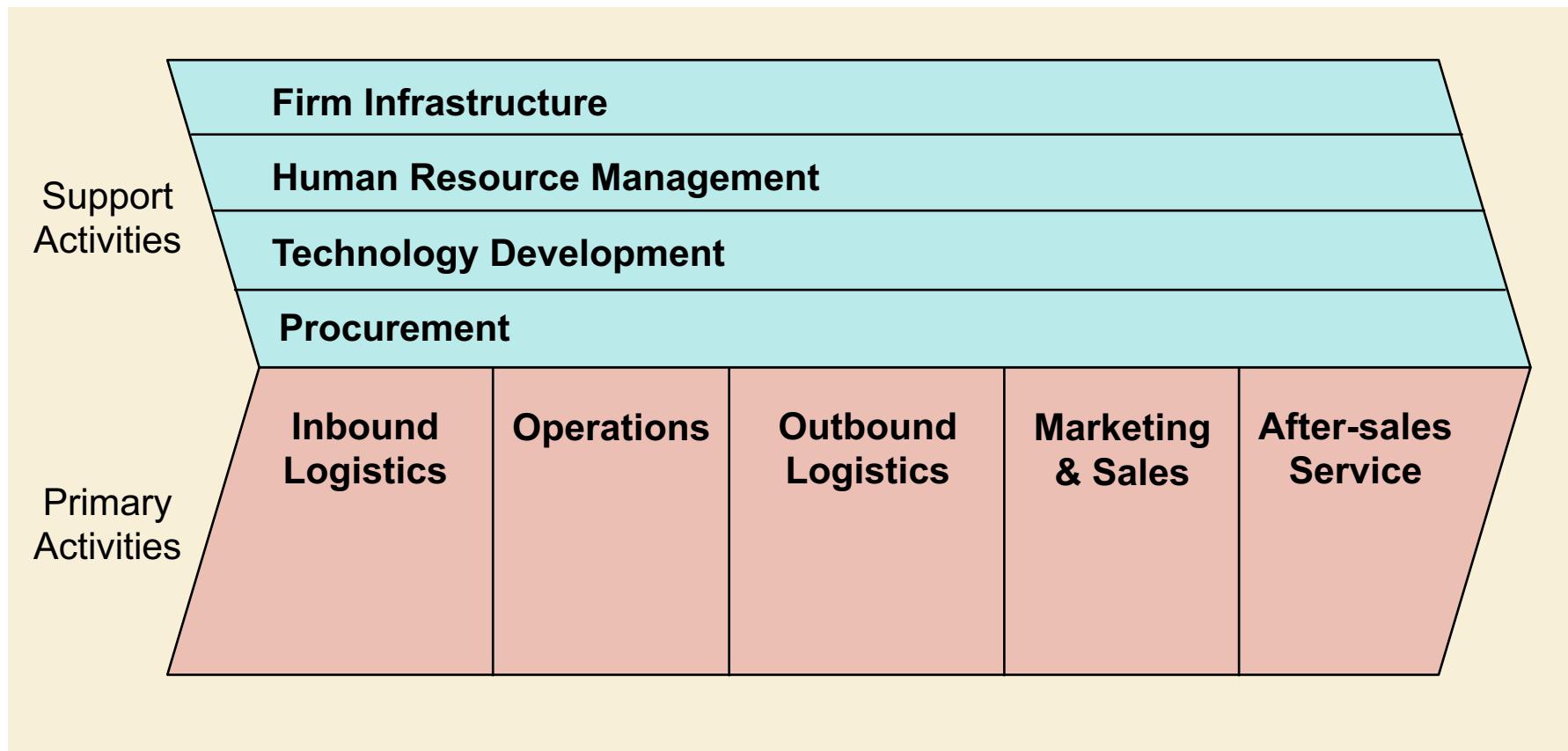
## LINK VALUE - OFFERING

- In many cases „**which needs?**“ is **the primary decision** that leads to the other two decisions on „what customer?“ and „what price?“.
- Often the unique ability to serve that need arises from the **specific features of a product or service**.
- Typically, value propositions based on needs appeal to a mix of customers.

## CREATING A SUCCESSFUL STRATEGY – 1. VALUE PROPOSITION AND VALUE CHAIN

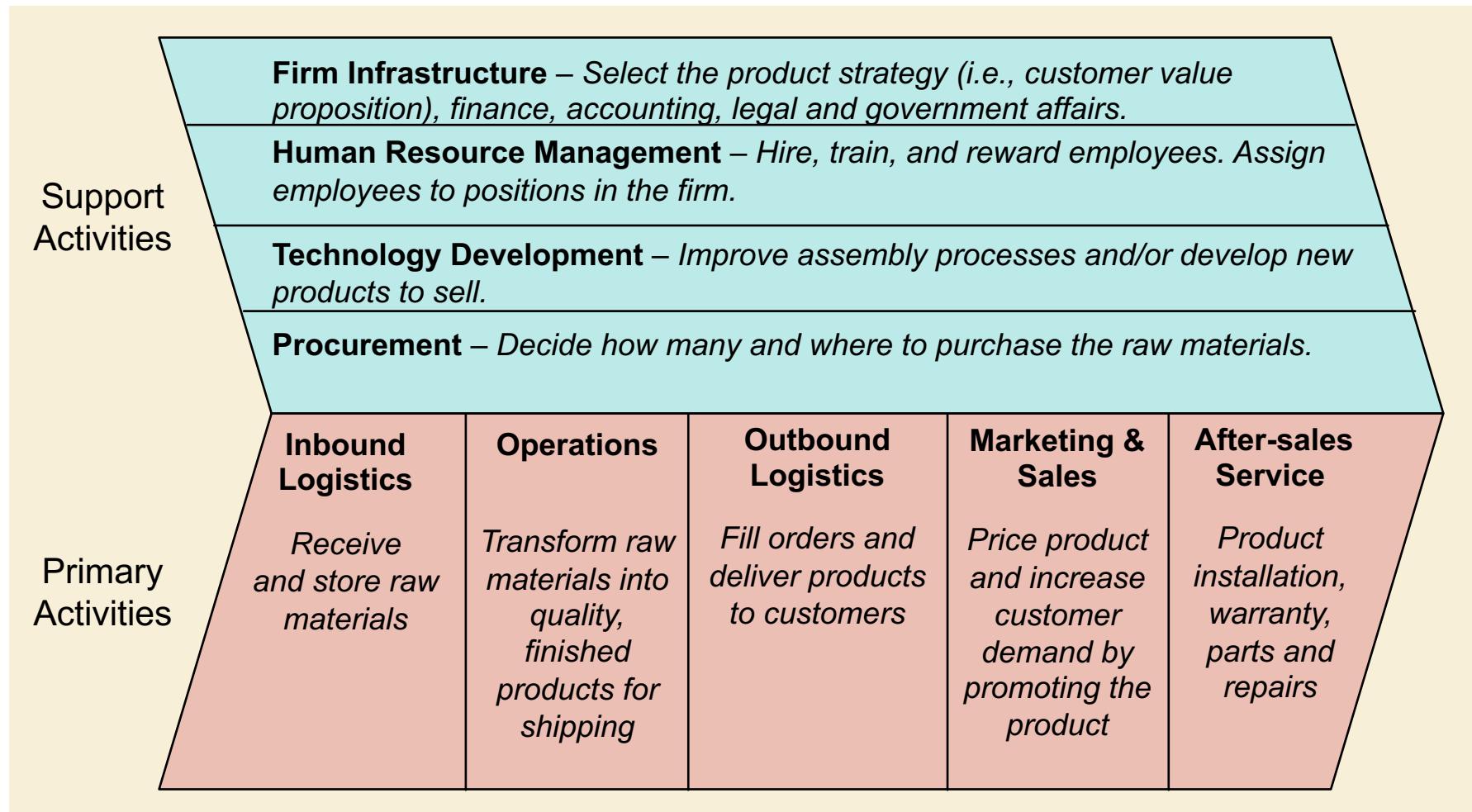
# The value chain: The inward looking element of competitive strategy

The **value chain** is the sequence of all activities involved in value creation and cost generation. It is tailored to a firm's unique value proposition.



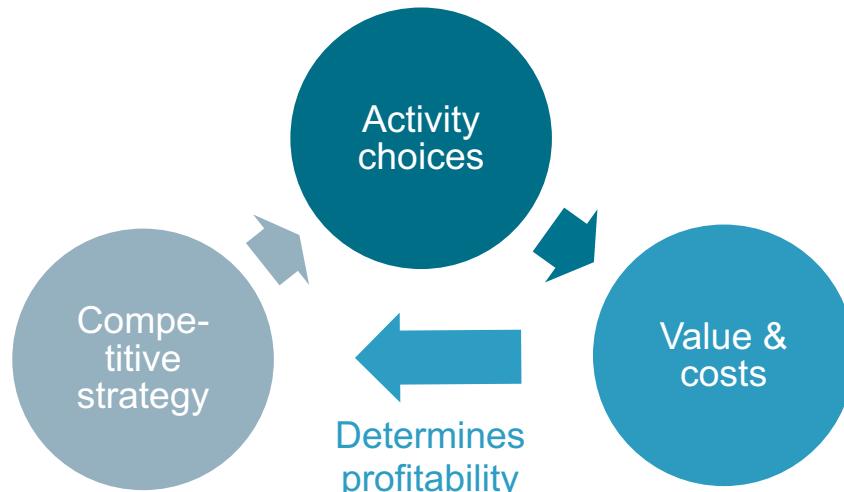
# CREATING A SUCCESSFUL STRATEGY – 1. VALUE PROPOSITION AND VALUE CHAIN

## Primary and support activities in a manufacturing firm



## CREATING A SUCCESSFUL STRATEGY – 1. VALUE PROPOSITION AND VALUE CHAIN

### Activity choices across the value chain



Activity choices provide a line of sight to a firm's profitability: the amount of value created by the firm's activities drives revenues, and the costs incurred by the activities drives its expenses.

Tailoring the value chain to the value proposition:

#### 1 DISTINCTIVE VALUE CHAIN

- Choosing how the company will operate differently to deliver its value proposition
- Making clear trade-offs: Choosing what not to do when activities are not compatible

#### 2 FIT ACROSS VALUE CHAIN

- Integrating activity choices across the value chain to fit together and reinforce each other
- When activities mutually reinforce each other, competitors can't easily imitate them.

## CREATING A SUCCESSFUL STRATEGY – 1. VALUE PROPOSITION AND VALUE CHAIN

## Value chain analysis: Creating an activity map

### Challenges for managers:

- It is difficult for managers to make trade-offs between activities and to coherently coordinate a set of activity choices.

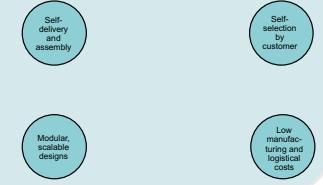
### Benefits of value chain analysis:

- Identify new ways to improve or strengthen the fit between activities that produce and deliver the offering.
- Find new activities or enhancements to make the competitive strategy more sustainable

### ANALYSIS STEPS

1

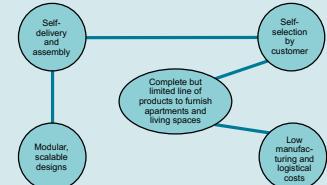
Identify key activities in the value chain that are most responsible for creating customer value or that generate significant cost.



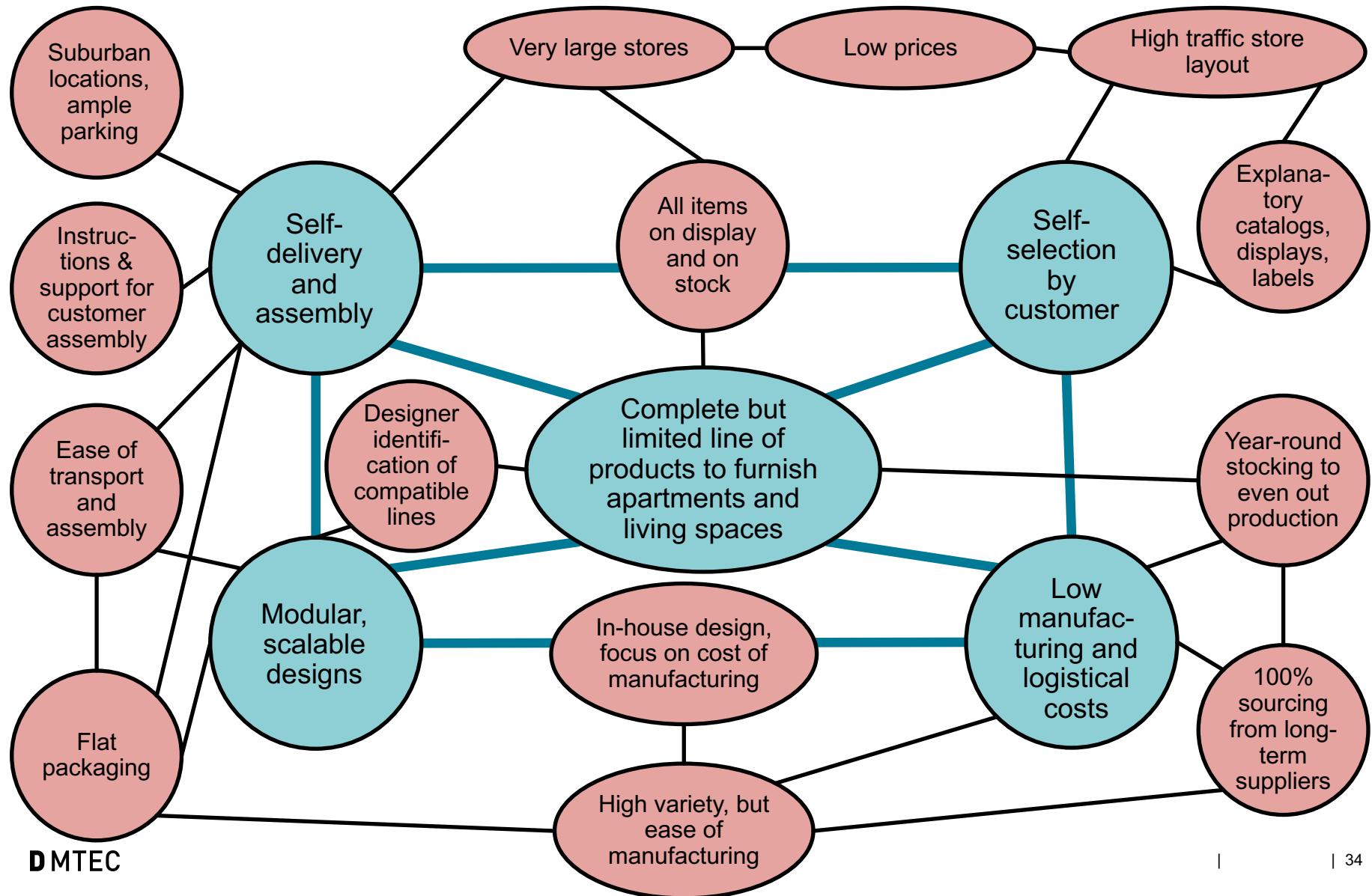
2

Identify where there is fit between the key activities: where two activities affect each other, draw lines.

A dense map indicates a strong fit of activities and hence a strong competitive advantage.



# Activity map IKEA



# CREATING A SUCCESSFUL STRATEGY

## IKEA's competitive strategy



**IKEA's Vision:** “Create a better everyday life for the many people.”

### Target customer and value proposition

- Design conscious customer with limited budget, and smaller living spaces
- Provide good design and function at a low price

### What's unique: Choices and trade-offs

- Modular and inhouse design
- Minimal services
- Huge stores, all styles displayed
- Instant fulfillment through large on-site inventories

### Economic logic

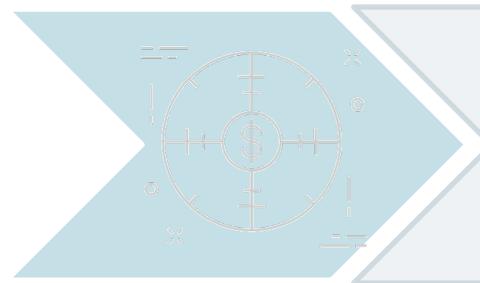
- How does IKEA make a profit?
- Use economies of scale across global, regional and individual store scale
- Create efficiencies from replication

### Continuity of strategic direction

- Organic expansion of stores
- Sales through own stores
- Long-term suppliers
- Control over product design

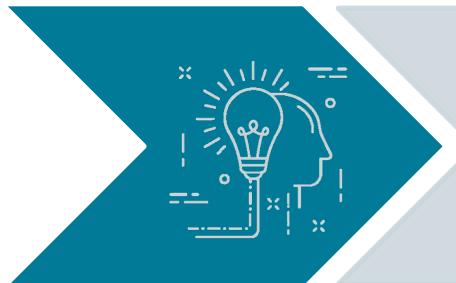
## INTRODUCTION TO COMPETITIVE STRATEGY

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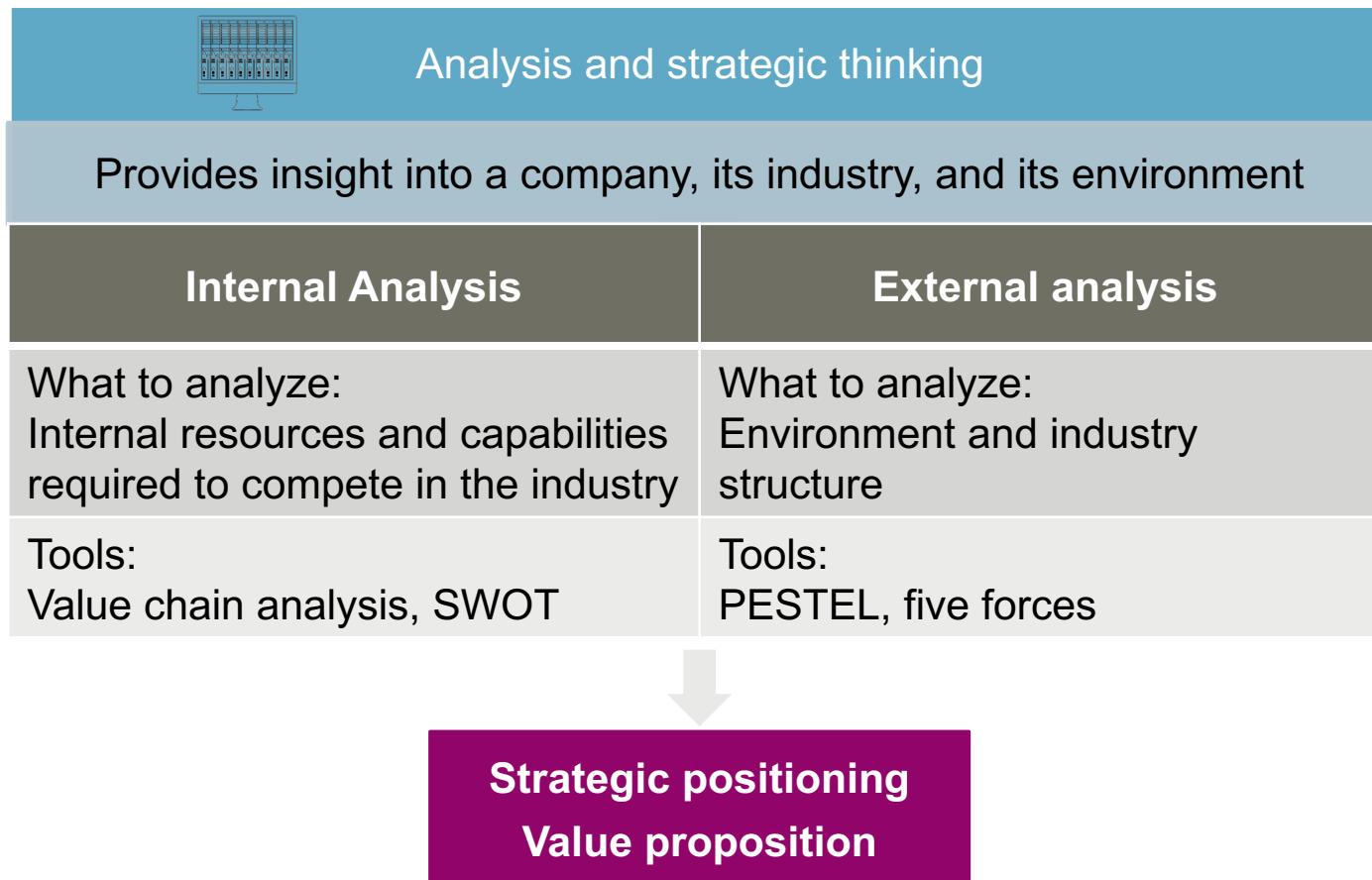
## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

### Strategic management: Fundamentals



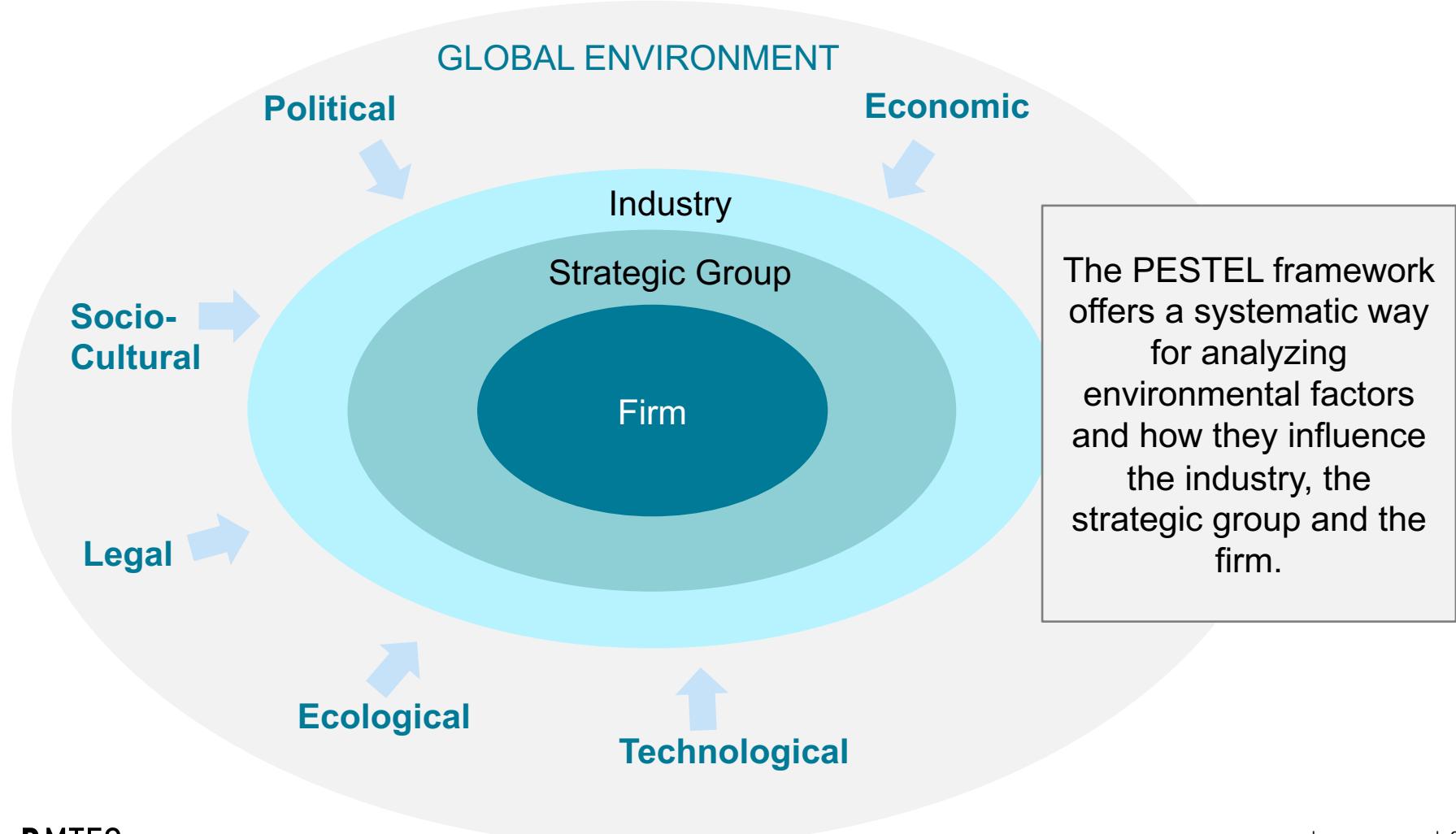
## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

### Internal and external analysis



## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

## Tool for external analysis: PESTEL Environment analysis



## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

## PESTEL Environment analysis: Forces

The results of the PESTEL analysis bring out conflicts and trade-offs among the environmental forces.

 <b>Political</b> <ul style="list-style-type: none"><li>• Political stability</li><li>• Laws</li><li>• Policies (government, taxes, IPR, labor)</li><li>• Security, corruption</li></ul>	 <b>Economic</b> <ul style="list-style-type: none"><li>• Economic growth</li><li>• Interest rate</li><li>• Unemployment rate</li><li>• Exchange rate and currency stability</li></ul>	 <b>Technological</b> <ul style="list-style-type: none"><li>• IT Infrastructure</li><li>• Innovation</li><li>• Maturity of equipment</li><li>• Research &amp; development</li></ul>
 <b>Sociocultural</b> <ul style="list-style-type: none"><li>• Culture, values</li><li>• Demographic trends (age, growth rate)</li><li>• Education</li></ul>	 <b>Ecological</b> <ul style="list-style-type: none"><li>• Conservation</li><li>• Climate change</li><li>• Pollution</li></ul>	 <b>Legal</b> <ul style="list-style-type: none"><li>• Court system</li><li>• Legislation</li><li>• International treaties</li></ul>

## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

## Tool for internal analysis: Reviewing a firms' competitive position with a SWOT analysis

A **SWOT analysis** explores key relationships between environment and firm resources and capabilities compared to competitors.

**Synthesis after analysis:**  
Generate strategic options for different combinations of internal and external factors.

	HELPFUL	HARMFUL
INTERNAL	Strengths	Weaknesses
E.g., financial, manufacturing, technology, IP, brand, infrastructural, relations		
EXTERNAL	Opportunities	Threats
E.g., environment, industry, competitors		

## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

### Strategy formulation

#### Strategy formulation

Step in the strategy process of weighing alternatives, developing a **set of goals and expectations against which performance can be measured**.

The output is a **set of choices** that position a firm in an industry:

- Where do we compete?
- How do we compete?
- How do we obtain returns?



#### Traditional closed form

- ❖ Strategy is the responsibility of the CEO and the top management team.
- ❖ Strategy is secret and not shared with employees or anybody outside the firm.

#### Open strategy forms

- ❖ Involvement of employees
- ❖ Involvement of external stakeholders: Customers, partnering firms, online communities, experts
- ❖ Communication of strategy to employees and external groups.

## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

## Strategy execution: Communicating the strategy to stakeholders

### Strategy statement and communication

- 1 Clear definition what makes the firm distinctive and its competitive advantage.
- 2 **Understanding the strategy throughout the organization:** Every employee can understand how their daily activities can contribute to success.
- 3 Communicated to external stakeholders such as investors, suppliers, customers, the public; including value proposition.

### The role of leaders in communicating strategy

- 1 Strategy involves not only senior management, but everyone in a firm. Benefits are greatest if **communicated widely** in the firm.
- 2 How to communicate: find a **simple** and vivid way to describe firm's unique position, **repeat** often.
- 3 Help employees to translate the strategy into implications for their own work.

## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

# Approaches and responses to change

## Strategy execution

- Part of the process concerned with **carrying out the strategy** - turning the integrated set of choices into action and to the test.
- Continuous alignment of tasks, structures, processes, capabilities and culture.
- Innovation and growth ensure success.

## Approaches to execution

- **Not one framework** for executing a strategy: Case studies and examples are essential tools for exploring this subject.
- The dynamic shifts in customer needs, technologies, and competitors' strategies require organizations to experiment continually with new business models, customer value propositions, and technologies, and hence adapt their strategy execution.
- But: frequent shifts in direction are costly and confuse the customer and the organization. The job of management is to keep the value proposition constant, but continuously improve how to realize it.

## CREATING A SUCCESSFUL STRATEGY – 2. STRATEGIC MANAGEMENT

### What factors can erode a firm's competitive advantage?

New technologies

Deregulation

Innovation

Environmental concerns

Shifts in customer needs

Globalization



Pressure for radical rethinking of  
competitive advantage



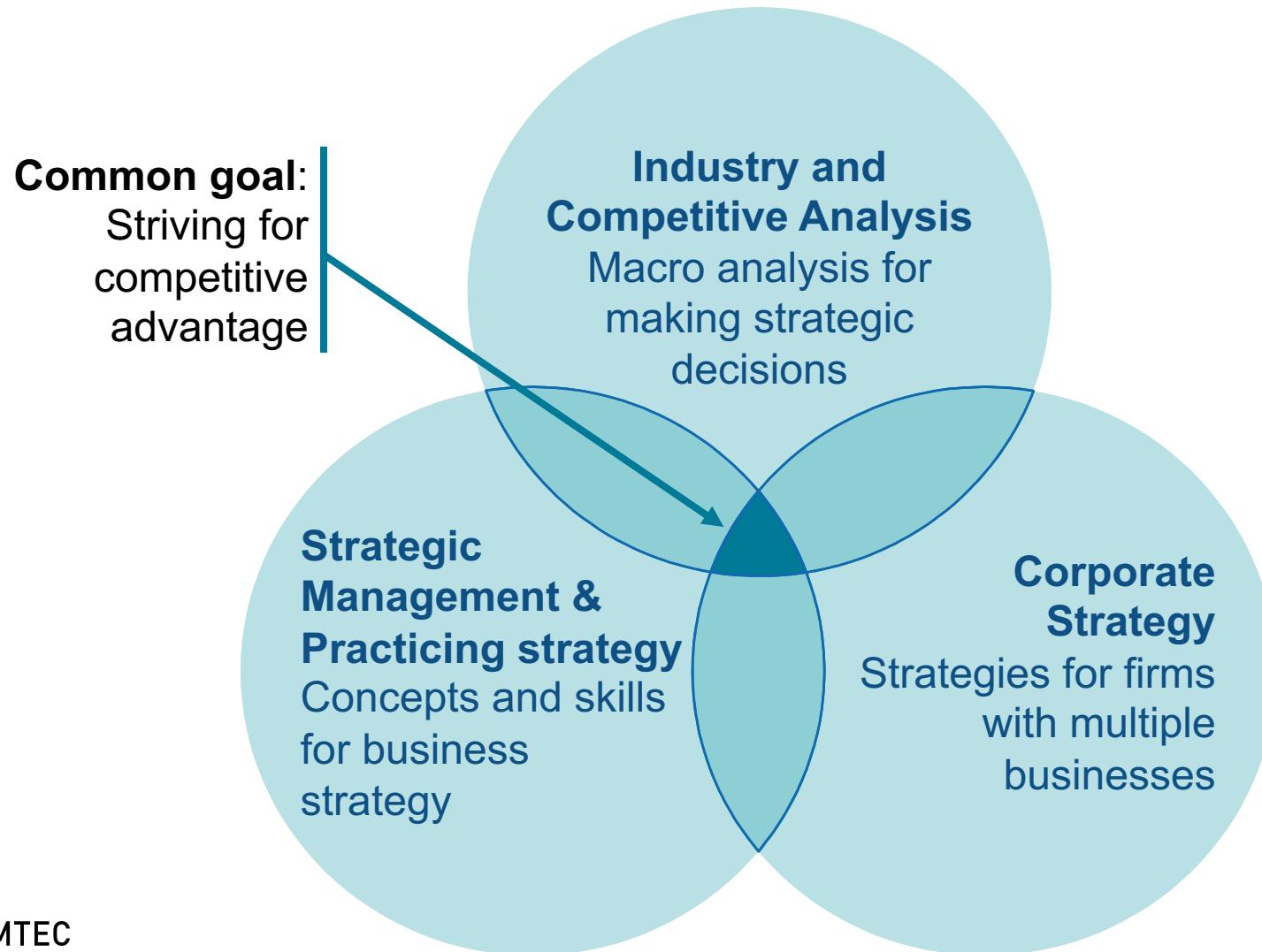


## Tesla's strategy in the automotive industry

- Founded in 2003
- American automaker and energy storage company.
- Mission: „*to accelerate the world's transition to sustainable energy*“

- ❖ What are potential sources of Tesla's competitive advantage?
- ❖ What are the challenges to Tesla's competitive strategy?

## Strategy courses offered by the Chair of Strategic Management and Innovation (MTEC MAS and M.Sc. programmes)



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