CHAPTER 4

COMPETITIVE STRATEGY

COMPETITIVE STRATEGY

A **strategy** is a plan or road map of the actions that a firm or organization will take to achieve its mission and goals, but it is not static.

•A strategy is a response to opportunity.

•Long term planning is difficult due to the dynamic nature of the competitive market.

1. SWOT ANALYSIS

- Matches internal organizational strengths & weaknesses with external opportunities & threats

- **Internal Environment**
  - Strengths
  - Weaknesses
- **External Environment**
  - Opportunities
  - Threats

SWOT ANALYSIS

- Strengths are positive internal factors that a company can use to accomplish its mission. Weaknesses are potentially negative factors that could inhibit those efforts. This on-paper analysis allows the entrepreneur to have a better perspective of the overall venture, to establish a foundation to build on (strengths) and to meet and remove the challenges and obstacles standing in the way of success (weaknesses).
- Examples include: a committed workforce and quality products. Strengths
- Examples include: high rates of employee turnover and poor customer service. Weaknesses

- With the internal inventory complete, the firm now searches for external opportunities such as specific market niches that match up well with internal resources. The key to success is to take action and to stay a step ahead of the competition. External threats may come from competitors, government agencies, rising interest rates and so on. The firm must have a plan for shielding itself from those threats.
- Examples include: expanding global markets and changes in customer tastes. opportunities
- Examples include: expanding global markets and changes in customer tastes. threats

LUX SWOT ANALYSIS

Lux SWOT Analysis	
Lux Strengths	Below are the Strengths in the SWOT Analysis of Lux: 1. Strong market research (Door to door sampling – once in a year – Rural and Urban area) 2. Many variants (Almond oil, Orchid extracts, Milk cream, Fruit extracts, Saffron sandalwood oil and Honey) 3. Dynamically continuous innovations – New variants and innovative promotions (22 carat gold coin promotion – "Chance Hai") 4. Strong brand promotion but relatively lower prices – Winning combination 5. Lux soap brand is sold in over 100 countries

Lux Weaknesses	Here are the weaknesses in the Lux SWOT Analysis: 1.Mainly positioned as beauty soap targeted towards women, 2.Some variation like the sunscreen, international variant did not do well in the market 3.Not much popular in rural areas
Lux Opportunities	Following are the Opportunities in Lux SWOT Analysis: 1.Soap industry is growing by 10% in India 2.Liquid body wash is currently in growth stage – Lux should come out with more variants in this segment 3.Large market share – Strong hold over the market
Lux Threats	The threats in the SWOT Analysis of Lux are as mentioned: 1.High internal competition (Pears – Beauty segment) 2.New entrants in this segment 3.Maturity stage – threat of slipping down to decline stage – if constant reinvention is not carried out

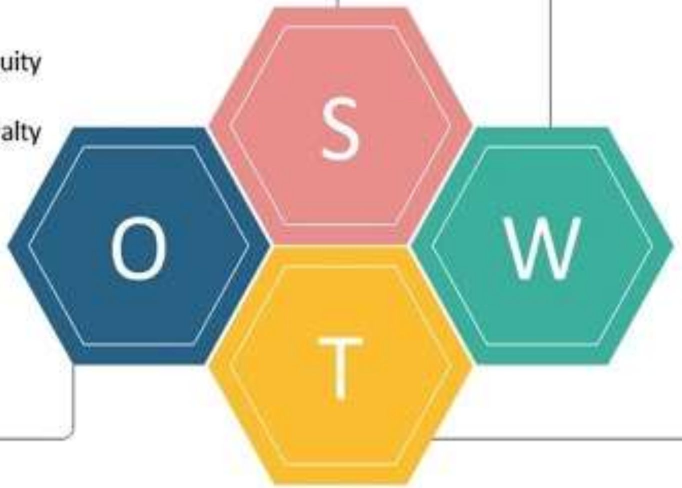
Coca Cola SWOT Analysis

STRENGTH

- Coca-Cola is the top-most beverage brand with a presence in 200 countries
- It bagged the highest brand equity award in 2011
- Coca-Cola enjoys customer loyalty

WEAKNESS

- PepsiCo aerated drinks are giving it tough fights over market share
- The company's soft drinks have high sugar content and other chemicals that have health concerns
- Unlike PepsiCo, the company has not yet initiated a food business



OPPORTUNITIES

- It can increase its reach in untapped countries to boost the Coca-Cola market and supply-chain improvement
- The company can popularise lesser-known products
- It can also start a full-fledged business for health drinks

THREATS

- People are interested in making healthy choices these days and so are avoiding aerated drinks
- To source, raw material is a significant concern
- The recent economic slowdown, inflation, and instability have affected its market share

ACHIEVING A SUSTAINABLE COMPETITIVE ADVANTAGE

- A company's *competitive strategy* defines, relative to its competitors, the set of customer needs that it seeks to satisfy through its products and services.
- The number of strategies from which *entrepreneurs* can choose is infinite. When all of the glitter is stripped away, however, three basic strategies remain. In his classic book, *Competitive Strategy,* Michael Porter defines three strategies: (1) Cost leadership, (2) Differentiation, and (3) Focus

2. PORTER'S GENERIC STRATEGIES

- Porter identified the three strategies to achieve a competitive advantage.
- **Cost leadership:** superior profits through lower costs. Focuses on gaining competitive advantage by having the lowest cost in the industry
- **Differentiation:** higher profits by adding value to the product areas which are of real significance for customers who in turn are willing to pay premium prices
- **Focus strategy:** concentrating on a limited part of the market

PORTER'S GENERIC STRATEGIES

Target scope	Advantage Low cost	Advantage Product uniqueness
Broad (industry wide)	Cost leadership strategy	Differentiation strategy
Narrow (market wide)	Focus strategy (low cost)	Focus strategy (differentiation)

1.COST LEADERSHIP

- This strategy concentrates on aiming to become the **lowest cost producer** in the industry through **economies of scale .**
- Economies of scale are **the advantages that can sometimes occur as a result of increasing the size of a business**. For example, a business might enjoy an economy of scale concerning its bulk purchasing. By buying a large number of products at once, it could negotiate a lower price per unit than its competitors.
- In this way the firm can compete on price with every other producers in the industry and earn higher unit profits
- Cost reduction provides the focus of the organisation’s strategy
- Competitive advantage is achieved by driving down costs
- For example, Imtiaz Super Market aims to provide high availability of a variety of products of reasonable quality at low prices. Most products sold at Imtiaz Super Market are commonplace (everything from home appliances to clothing) and can be purchased elsewhere. What Imtiaz Super Market provides is a low price and product availability.

SOURCES OF COST LEADERSHIP

- Size - economies of scale
- Greater labour efficiency and effectiveness
- Superior management
- Greater operating efficiency and effectiveness
- Low cost production
- Low cost labour
- Design for low cost production
- Use the latest technology to reduce costs and or enhance productivity
- Relocation to low cost site - For example, Nike has production facilities located in many Asian countries. Its facilities in China and Indonesia focus on cost and produce mass-market lower-priced shoes for Nike. In contrast, facilities in Korea and Taiwan focus on responsiveness and produce higher priced new designs. This differentiation allows Nike to satisfy a wide variety of demands in the most profitable manner.
- Favourable access to low cost sources of supply
- Reduction in waste

2. DIFFERENTIATION

- A differentiation strategy calls for the development of a product or service that offers attributes that are both unique and are valued by customers
- Customers perceive the product to be different and better than that of competitors
- As a result the value added by the uniqueness of the product may allow the firm to charge a premium price for it.
- For example, As the no of customers of Amazon.com increase day by day and it was getting hard to fulfill the orders quickly in the ware houses, so the management of amazon decided to make their warehouses fully automated. To reduce labor cost and fulfill the order quickly the amazon decided to make their warehouses fully automated by using **kiva** system in their warehouses.
- This **robotic system** cut down the time by 60-80% because the robots don't work in shifts nor they need brake nor they get paid hourly. So by applying kiva system in their warehouses amazon decrease the fulfillment time and increase the customer satisfaction.

2. DIFFERENTIATION

- Success in a differentiation strategy means
  - Gaining a competitive advantage by making their product different from competitors
  - Competing on the basis of value added to customers
  - Encouragement customers that the firm's product is superior to that offered by competitors
  - Customers being willing to pay a premium price to cover higher costs
- Differentiation can be based on product image or durability, after-sales, quality, additional features, after sales
- And it requires talent, research capability and strong marketing

- Examples:
  - BMW
  - Mercedes

SOURCES OF DIFFERENTIATION

- Creation of strong brand
- Superior performance
- High quality
- Additional features offered
- Innovation in packaging
- Speed of distribution
- Higher service levels
- Greater flexibility
- Delivery
- Quality of the materials

FOCUS STRATEGY

- In a focus strategy the firm concentrates on one (or at most a limited number of) segments of the market
- The principle behind this strategy is that the needs of the group can be served by focussing entirely on it.

Examples of niche markets include organic food, luxury cars, and eco-friendly products. For instance, a company specializing in organic food would tailor its marketing efforts to appeal to health-conscious customers who value natural, pesticide-free foods. By doing so, the company can differentiate itself from competitors and establish a loyal customer base.

REQUIREMENTS OF A FOCUS STRATEGY

A focus strategy requires…

- The identification of a suitable target customer group
- Identification of the specific needs of that group
- Confirmation that the market is sufficiently large to sustain the business
- Estimation of the extent of competition within the segment
- Production of products to meet the specific needs of that group
- A decision on whether to opt for cost leadership or differentiation within the segment

BENEFITS OF A FOCUS STRATEGY

- It involves lower investment in resources
- The firm benefits from specialisation
- It provides scope for greater knowledge of a segment of the market
- It makes entry to new markets easier and less costly
- Firms using a focus strategy often enjoy a high degree of customer loyalty

- Examples:
  - Mandi Express
  - Winter land

DEFINE THE FIRM’S CORE COMPETENCY

CASE STUDY

ALLIANCES

- Many businesses use competitive strategies to shape their business strategies but often ignore *cooperative* strategies.
- The value network is important to entrepreneurial ventures as they strive to accumulate the resources and capabilities required for success.
- A **partnership or alliance** is an association of two or more firms that agree to cooperate with one another to achieve mutually compatible goals that would be difficult for each to accomplish alone.
- Business is a complex mix of both competition and cooperation. A new venture possesses valuable novelty and innovation that will attract the attention of suppliers, customers, competitors, and complementors, acting as a value network, as shown in Figure 4.6.
- All the participants are connected and participate in this network of activity.

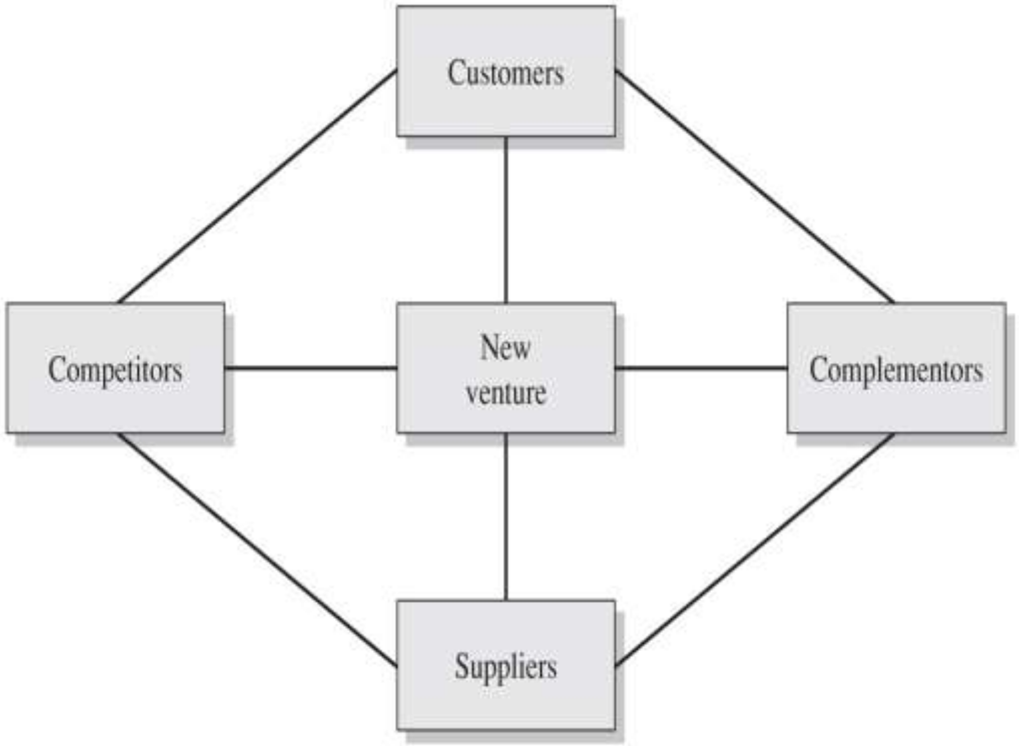
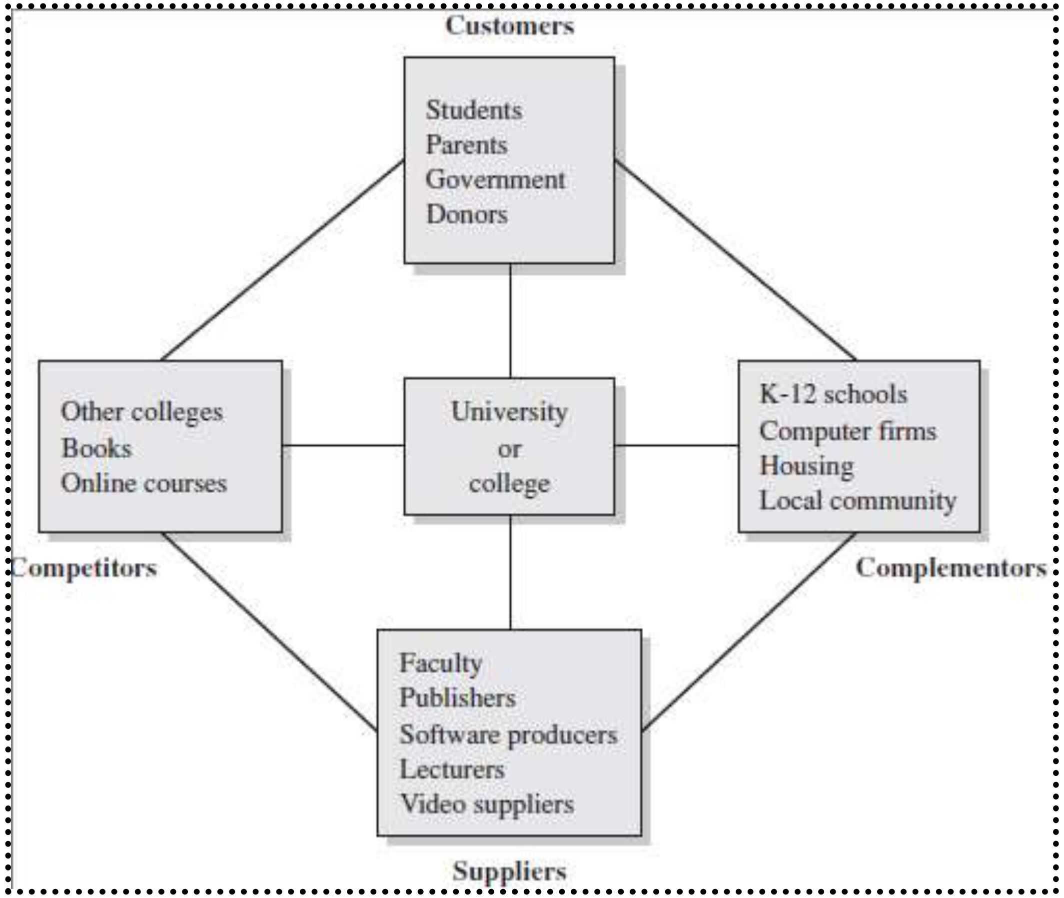


FIGURE 4.6 Value network.

THE VALUE NETWORK FOR A UNIVERSITY

- The complementors to a university include kindergarten through grade-12 schools, local housing, community activities, and computing systems.
- All the members of the value network are connected together in the higher education value network.
- The university, to succeed, must cooperate with its suppliers, customers, competitors, and complementors. Competitors can be seen as rivals but also will be, in many instances, collaborators.



THE SOCIALLY RESPONSIBLE FIRM

Social entrepreneur is a person or team that acts to form a new venture in response to an opportunity to deliver social benefits while satisfying environmental and economic values.

- **For Example -** Chief executive of ***Buksh Foundation***, Fiza Farhan is a social entrepreneur inspiring change. Buksh Foundation is a Pakistani microfinance institution, formed with the purpose to alleviate poverty woes. The foundation provides loans to the lower-income class and helps them set up small-scale businesses. Their aim is to improve overall living standards. However, the foundation also trains women to become energy entrepreneurs. Through this, they are able to bring in solar-generated electricity to rural areas.

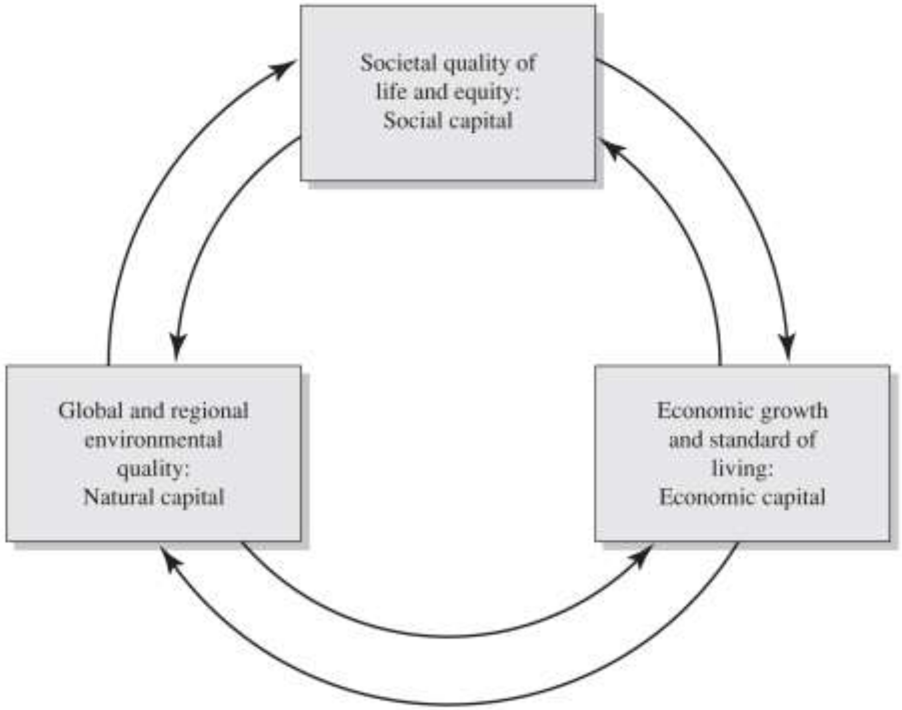


FIGURE 4.10 Three interrelated factors that determine the quality of life on our planet.

The sum of these factors as the **triple bottom line.**

- **The Socially Responsible Firm:** Any strategy adopted by a new venture firm inevitably affects the welfare of its stakeholders: customers, suppliers, and the community

THE SOCIALLY RESPONSIBLE FIRM

Nestlé Pakistan introduces paper straws across ready-to-drink products, eliminates 400 million plastic straws