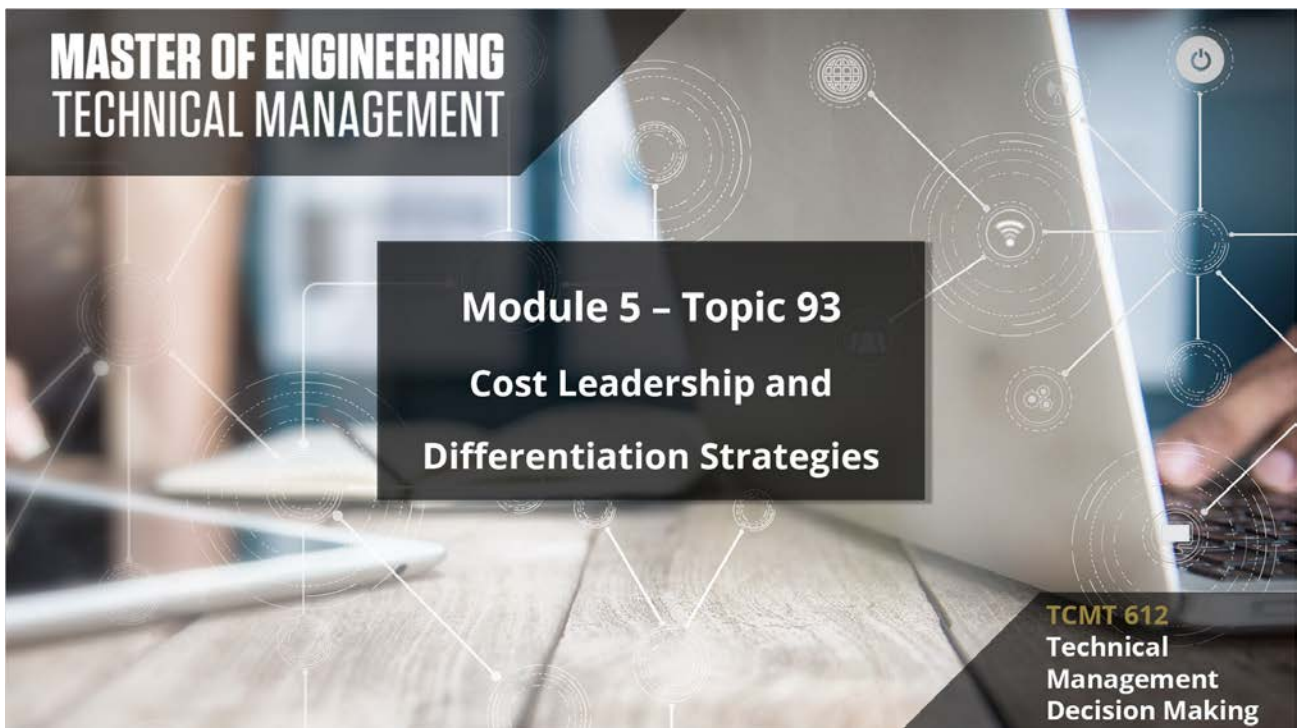


TCMT612_05M_093T_Cost-leadership-and-differentiation-strategies

1. Main

1.2 Topic title



Notes:

In this topic the professor expands on strategic positioning with a discussion on cost leadership and differentiation.

1.3 Cost leadership



Notes:

Cost leadership.

The definition of cost leadership is the lowest cost of operation in the industry.

It is often driven by company's efficiency, size, scale, scope, and incremental experience.

A cost leadership strategy aims to exploit scale of production, well-defined scope, and other economies.

Also a cost leadership strategy desires to produce highly standardized products.

The core competitive advantage of those companies following cost leadership strategy is their low cost structure and management efficiency.

A low-cost the company is able to manage the cost of its operations and compete

with other companies in the industry.

1.4 Automation



Recent trend of using advanced technology to achieve cost advantage.

Since 2006, auto industry has spent \$45 billion on building or expanding US factories, which incorporate advanced automation technologies to achieve cost advantage over traditional plants.

So, cost leadership does not mean to cut cost, to use low tech.

That also means that you use advanced technology to lower the cost, and this is the dominating trend in many industries.

CAR
CENTER FOR AUTOMOTIVE RESEARCH

Notes:

It is worthwhile to point out the recent trend of using advanced technology, particularly automation technology, to achieve cost advantage.

The Center for Automotive Research revealed that since 2006, auto industry has spent \$45 billion on building or expanding US factories, which incorporate advanced automation technologies to achieve cost advantage over traditional plants.

So, cost leadership does not mean to cut cost, to use low tech.

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1.5 Low-cost examples


Cost Leadership Strategy Examples



large scale, efficient supply chain to manage merchandise cost and operate expense



maximizing fly time, standardizing fleet



standardized operations, large scale, new automation technologies to control cost.

Notes:

Some examples of companies that follow cost leadership are, first, Walmart.

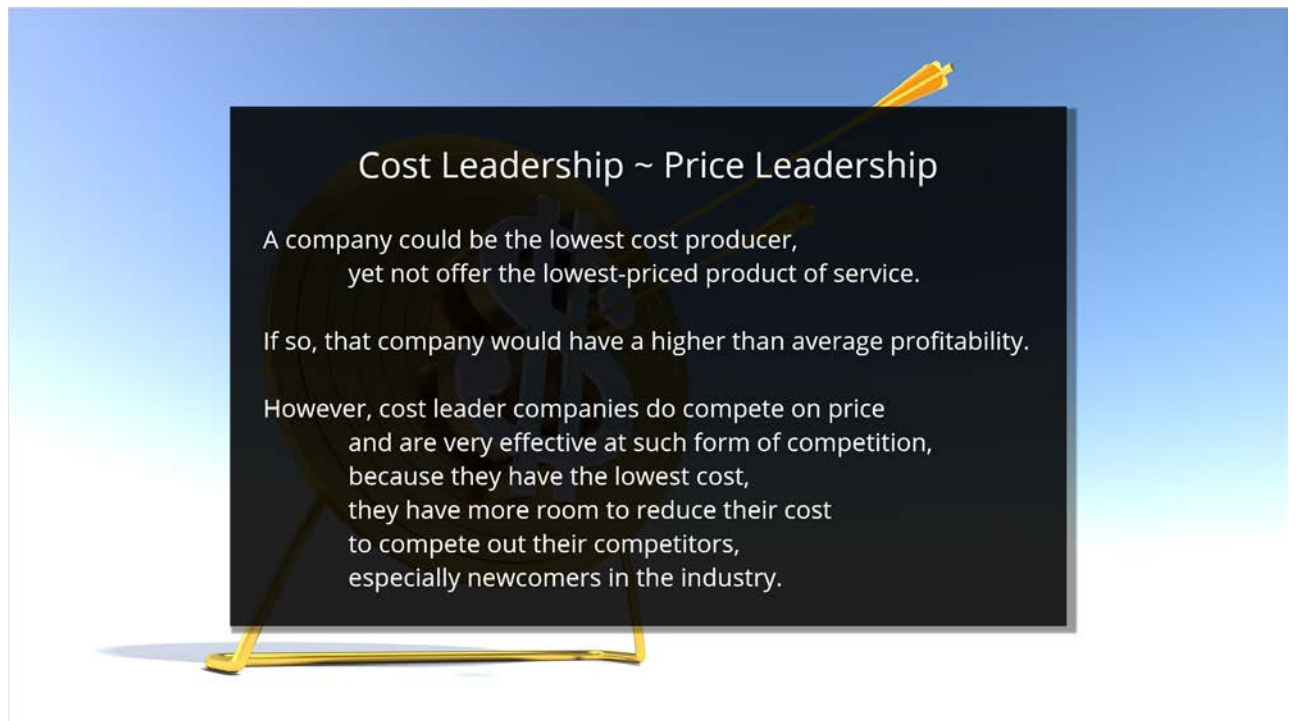
Walmart relies on large scale and efficient supply chain to manage merchandise cost and operate expense.

Southwest Airlines is another example.

Southwest Airlines achieves its cost advantage by maximizing fly time and standardizing its airplane fleet.

Ford Motor focuses on standardized operations, large scale, and recently, new automation technologies, to control cost.

1.6 Price leadership



Notes:

Cost leadership is different from price leadership.

A company could be the lowest cost producer, yet not offer the lowest-priced product or service.

If so, that company would have a higher than average profitability.

However, cost leader companies do compete on price and are very effective at such form of competition, because they have the lowest cost, they have more room to reduce their costs to compete out their competitors, especially newcomers in the industry.

1.7 Ford business strategy

Ford Motor's business strategy ~ cost leadership

"Creating Value" Roadmap



The graphic is a white rectangular box with a blue border. At the top is the Ford logo. Below it, in large blue letters, is 'ONE FORD'. Underneath that, in smaller blue letters, is 'ONE TEAM • ONE PLAN • ONE GOAL'. The box is divided into three sections: 'ONE TEAM' (highlighted with a yellow border), 'ONE PLAN', and 'ONE GOAL'. The 'ONE TEAM' section describes people working together as a lean, global enterprise for automotive leadership, measured by customer, employee, dealer, investor, supplier, union/council, and community satisfaction. The 'ONE PLAN' section lists four bullet points: aggressively restructure to operate profitably at the current demand and changing model mix; accelerate development of new products our customers want and value; finance our plan and improve our balance sheet; and work together effectively as one team. The 'ONE GOAL' section describes an exciting viable Ford delivering profitable growth for all.

The company's strategic vision focuses on

- (a) standardization,
- (b) financial performance.

Typical keywords:

- (a) lean operation,
- (b) standardization,
- (c) efficiency,
- (d) Six Sigma

Notes:

Ford Motor's business strategy is cost leadership.

Ford's strategy statement articulated in its "Creating Value Roadmap" presentation, is that people working together as a lean global enterprise for automotive leadership.

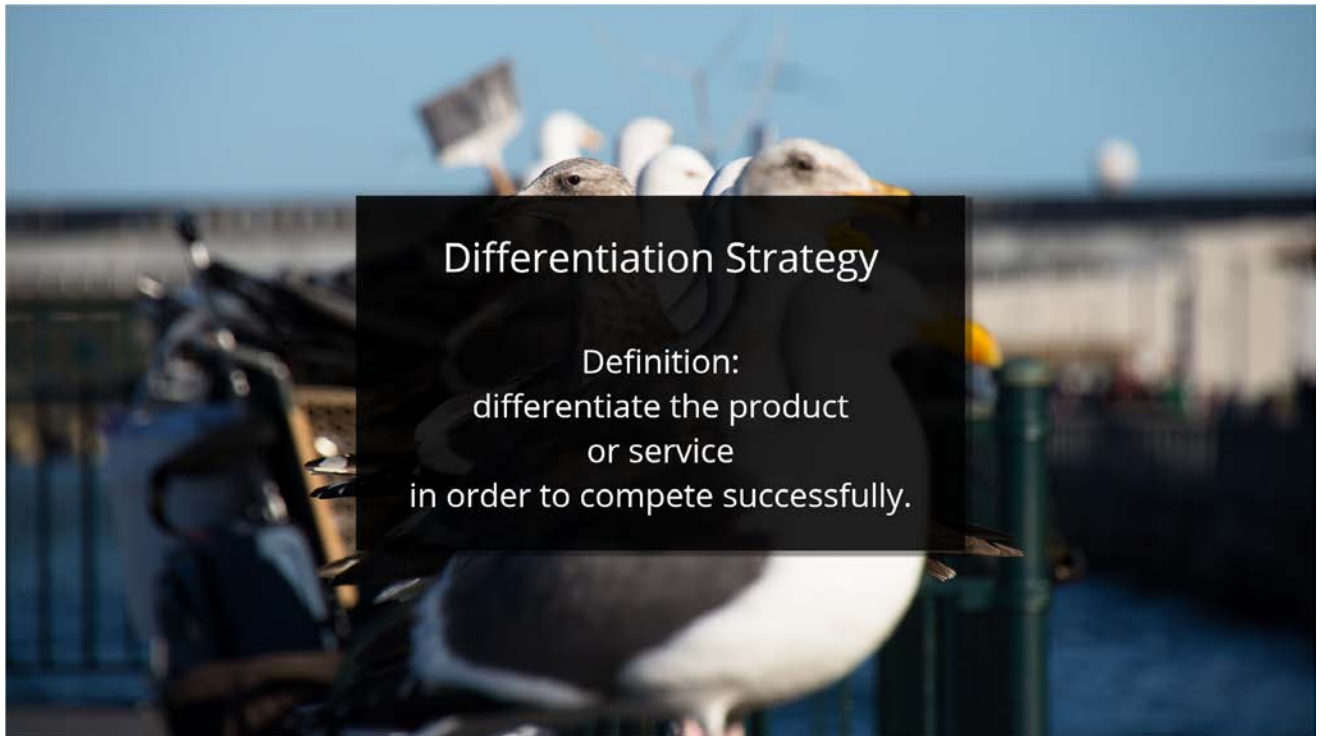
Automotive leadership is measured by the satisfaction of our customers, employees, investors, dealers, suppliers and communities.

The company's strategic vision focuses on standardization and financial performance.

Typical keywords associated with the cost leadership strategies are: lean operation, standardization, efficiency, Six Sigma.

All of those represent the company's tendency to lower cost.

1.8 Differentiation definition

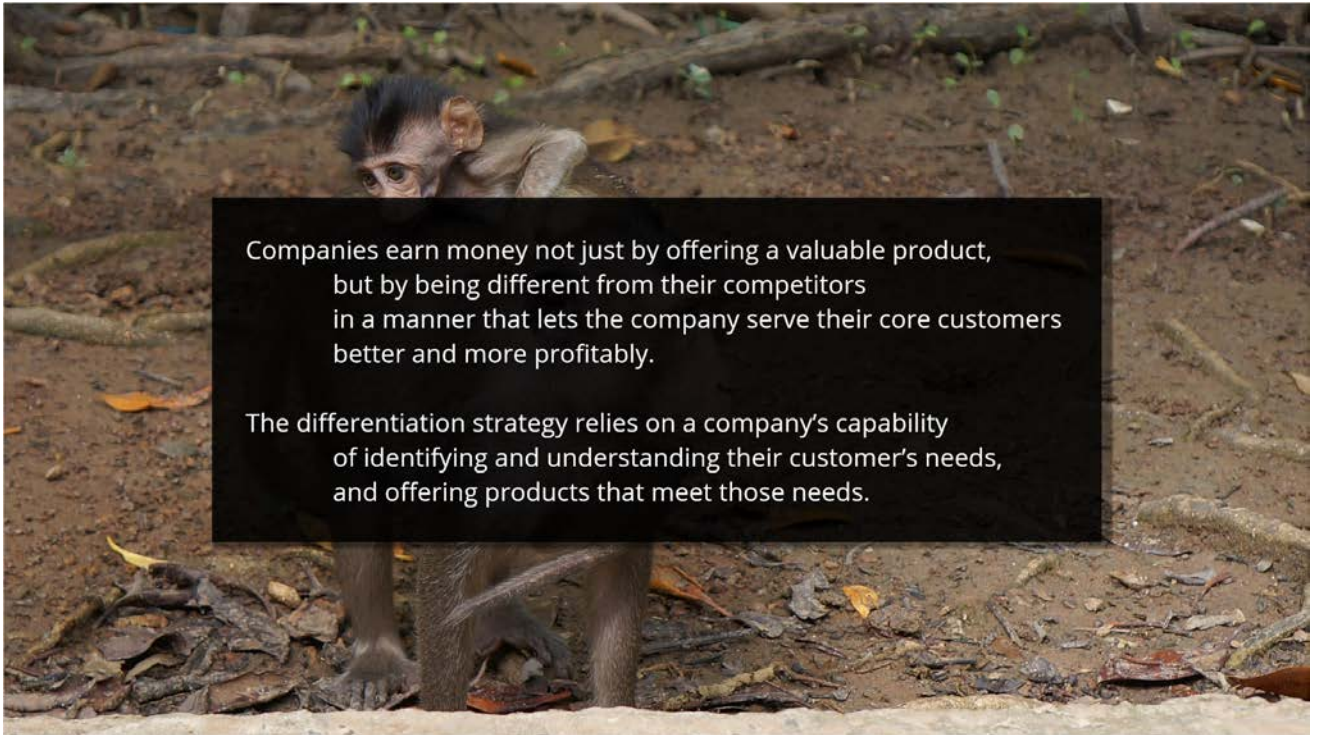


Notes:

Differentiation strategy.

The definition of differentiation is to differentiate the product or services in order to compete successfully.

1.9 Needs



Companies earn money not just by offering a valuable product, but by being different from their competitors in a manner that lets the company serve their core customers better and more profitably.

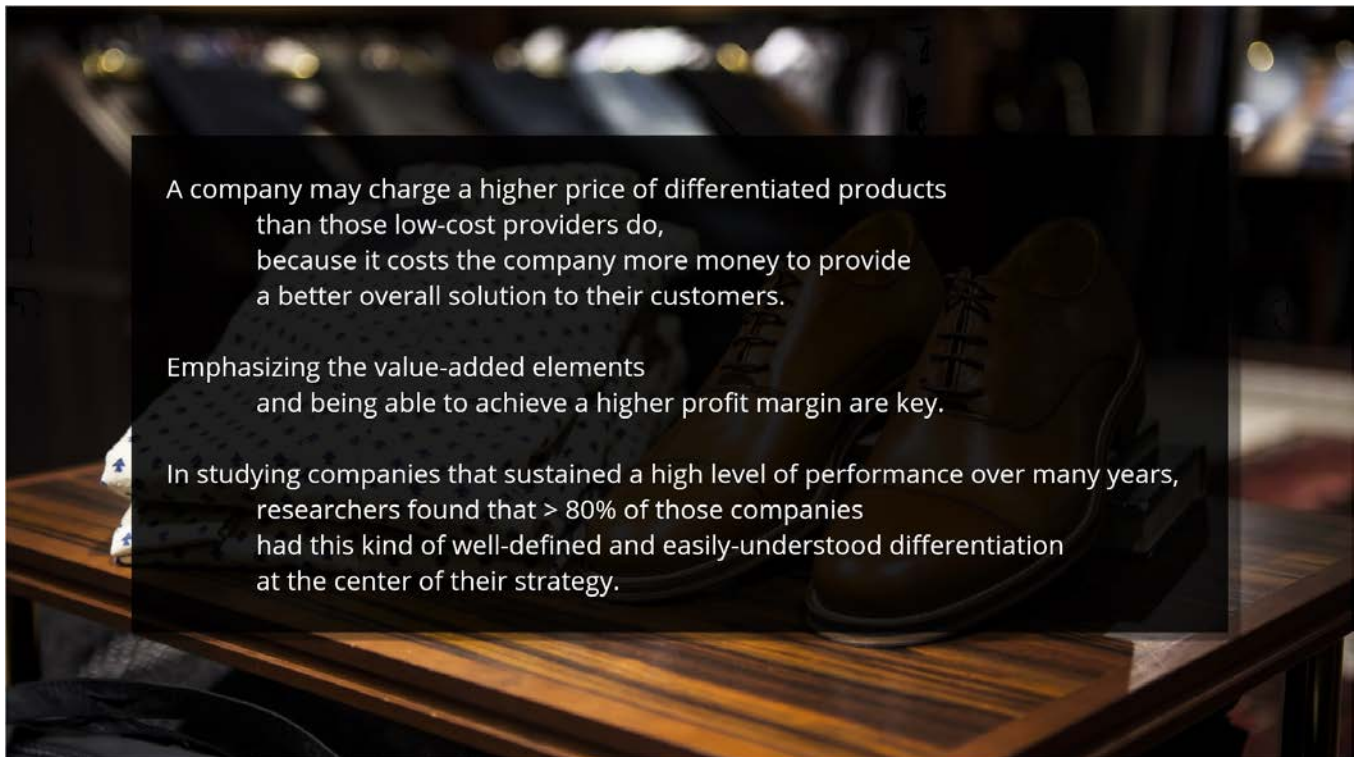
The differentiation strategy relies on a company's capability of identifying and understanding their customer's needs, and offering products that meet those needs.

Notes:

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The Differentiation strategy relies on a company's capability of identifying and understanding their customers' needs and offering products that meet those needs.

1.10 Value added elements



A company may charge a higher price of differentiated products than those low-cost providers do, because it costs the company more money to provide a better overall solution to their customers.

Emphasizing the value-added elements and being able to achieve a higher profit margin are key.

In studying companies that sustained a high level of performance over many years, researchers found that > 80% of those companies had this kind of well-defined and easily-understood differentiation at the center of their strategy.

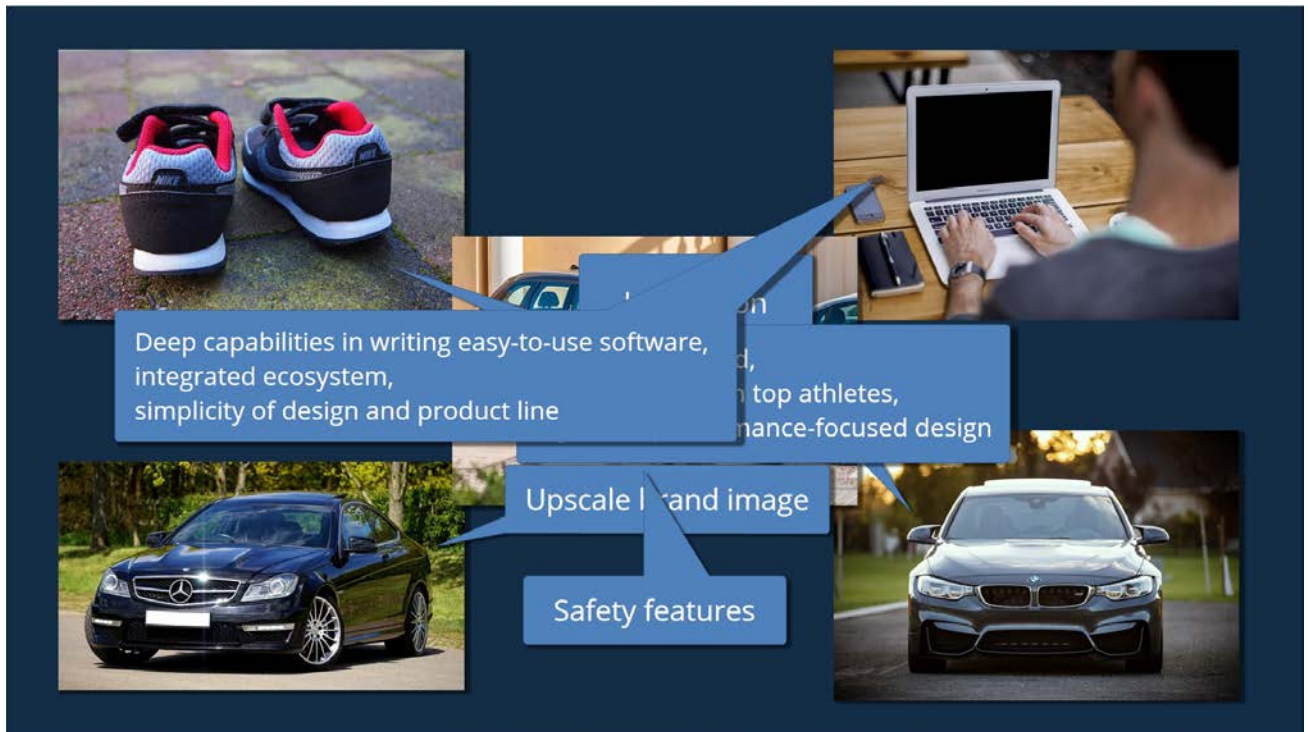
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1.11 Differentiation examples



Notes:

For example, Nike's differentiation resides in the power of Nike's brand, the company's relationships with top athletes, as well as a signature performance-focused design.

Apple's differentiation consists of deep capabilities in writing easy-to-use software, the integrated ecosystem, and a simplicity of design and product line.

Mercedes-Benz differentiation point is upscale brand image.

BMW focuses on innovation, while Volvo emphasizes its safety features. All of those companies have very defined that differentiation points that their customers recognize and want to pay a premium for those features.