

M5L11. Cost Leadership and Differentiation Strategies

Slide #1



The slide cover is divided into two main sections. The left section is a dark grey rectangle containing the Texas A&M University Engineering logo at the top, followed by the title 'Cost Leadership and Differentiation Strategies' in white, the name 'Dr. Xiaomin Yang', and the course information 'TCMT 612 | Technical Management Decision Making' in yellow and white. At the bottom of this section is a red banner with the text 'MASTERS OF ENGINEERING TECHNICAL MANAGEMENT'. The right section is a light grey image showing a person from behind, looking at a large digital display. The display features a complex network diagram and several hexagonal icons containing bar charts, line graphs, and network symbols.

In this topic, we will expand on strategic positioning with a discussion on cost leadership and differentiation.

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Cost Leadership Strategy

Definition:
Lowest cost of operation in the industry.

It is often driven by company's

- (a) efficiency,
- (b) size,
- (c) scale,
- (d) scope,
- (e) incremental experience.

Aims to exploit

- (a) scale of production,
- (b) well-defined scope,
- (c) other economies,
- (d) produce highly standardized products.

Core competitive advantage: (a) low cost structure, (b) management efficiency.
Able to (a) manage the cost of its operations,
(b) compete with other companies in the industry

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

It is often driven by a 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.

At low cost, the company is able to manage the cost of its operations and compete with other companies in the industry.

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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

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 dollars on building or expanding U.S. 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 a dominating trend in many industries.

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Cost Leadership Strategy Examples



The slide features three images with callout boxes explaining their cost leadership strategies:

- Walmart:** A photograph of a Walmart store exterior. Callout box: "large scale, efficient supply chain to manage merchandise cost and operate expense".
- Southwest Airlines:** A photograph of a Southwest Airlines aircraft on a tarmac. Callout box: "maximizing fly time, standardizing fleet".
- Ford:** A close-up of the Ford logo on a car grille. Callout box: "standardized operations, large scale, new automation technologies to control cost."

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

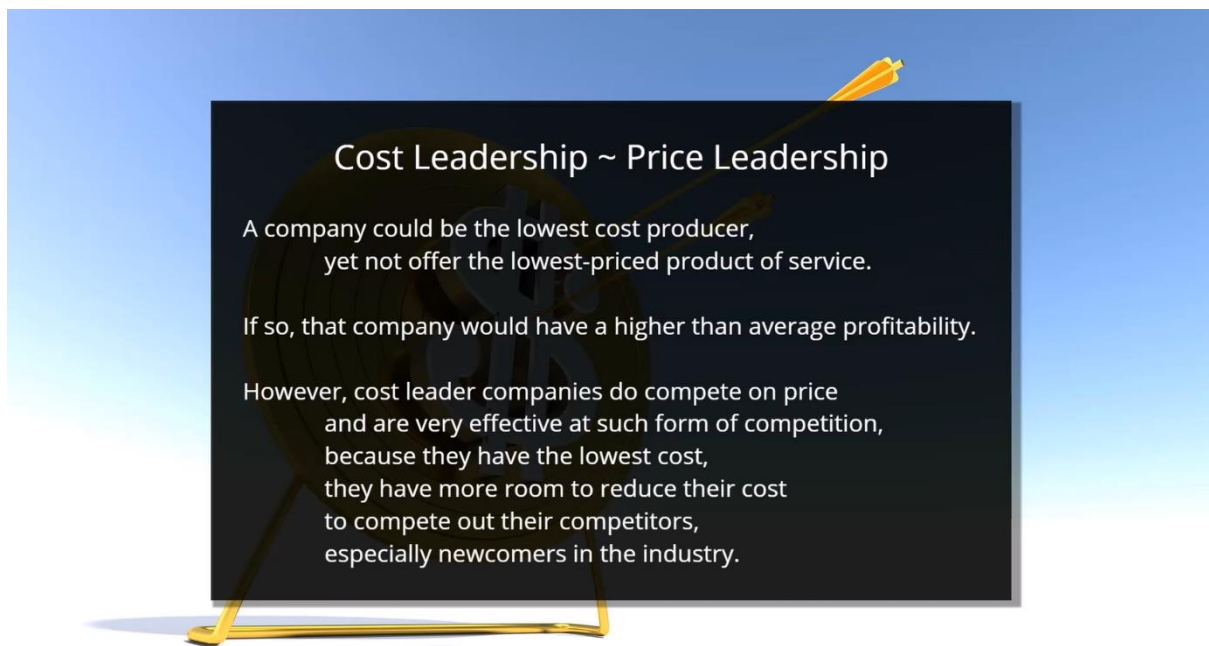
Walmart relies on large scale and efficient supply chain to manage merchandise costs and operate expense.

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.

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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.

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Ford Motor's business strategy ~ cost leadership

"Creating Value" Roadmap



The company's strategic vision focuses on
(a) standardization,
(b) financial performance.

Typical keywords:
(a) lean operation,
(b) standardization,
(c) efficiency,
(d) Six Sigma

Ford Motor's business strategy is cost leadership.

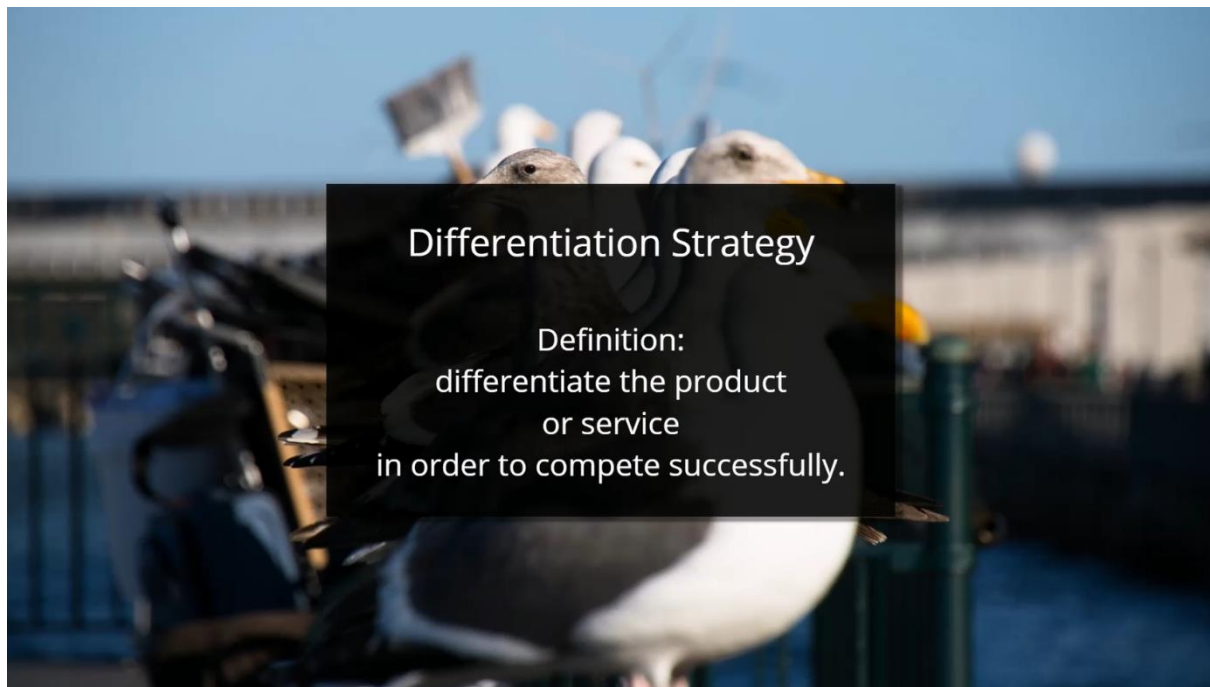
Ford's strategy statement, articulated in its Creating Value Roadmap presentation, is that people working together as a lean global enterprise for automotive leadership.

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

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

Typical key words associated with the cost leadership strategies are lean operation, standardization, efficiency, six sigma. All of those represent the company's tendency to lower cost.

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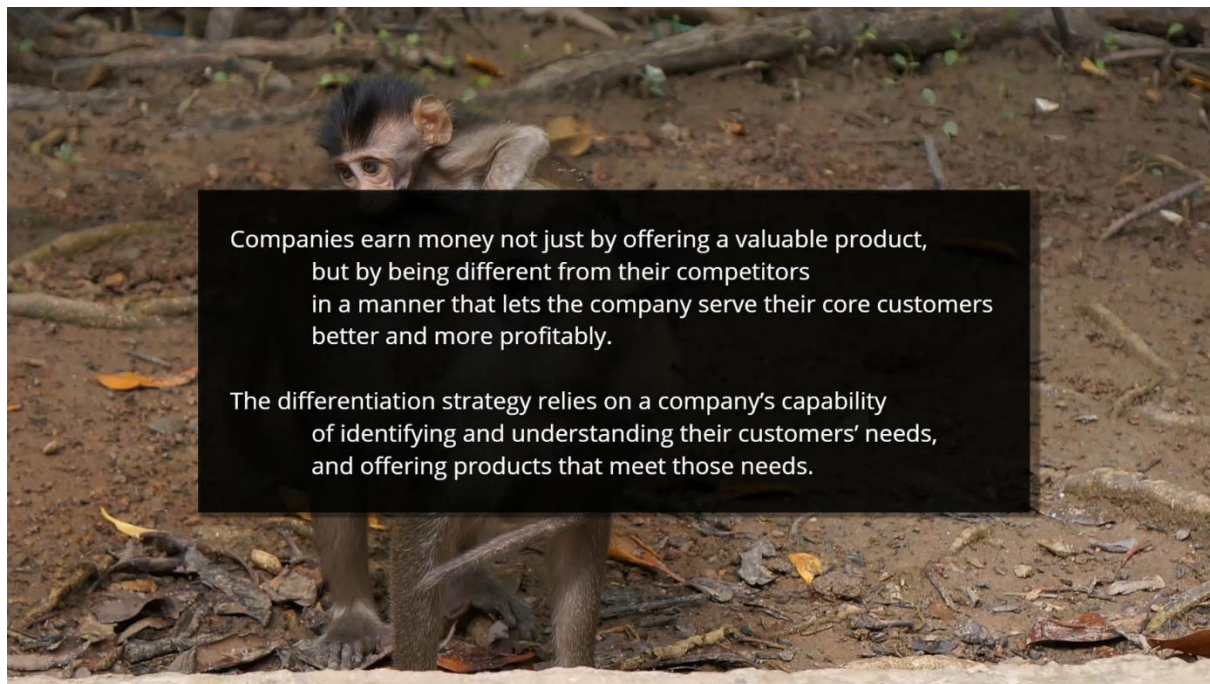
Differentiation Strategy

Definition:
differentiate the product
or service
in order to compete successfully.

Differentiation strategy.

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

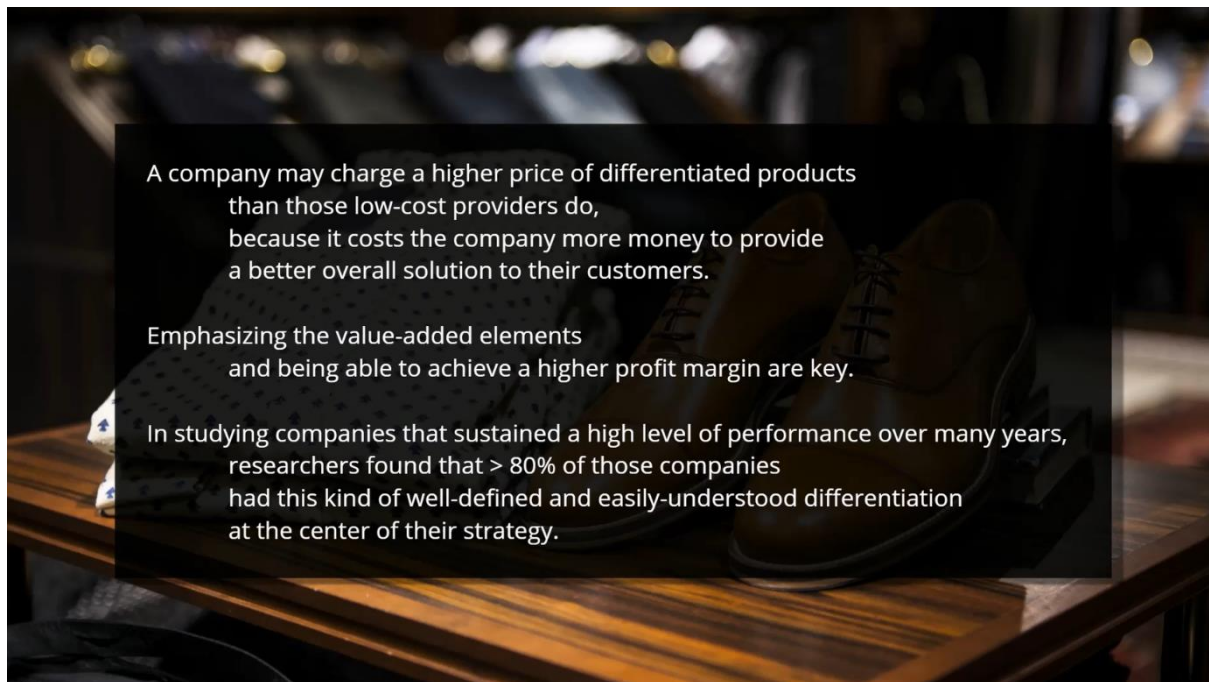
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Companies earn money, not just by offering a valuable product, but by being different from their competitors in a manner that lets the company serve their core customers better and more profitably.

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

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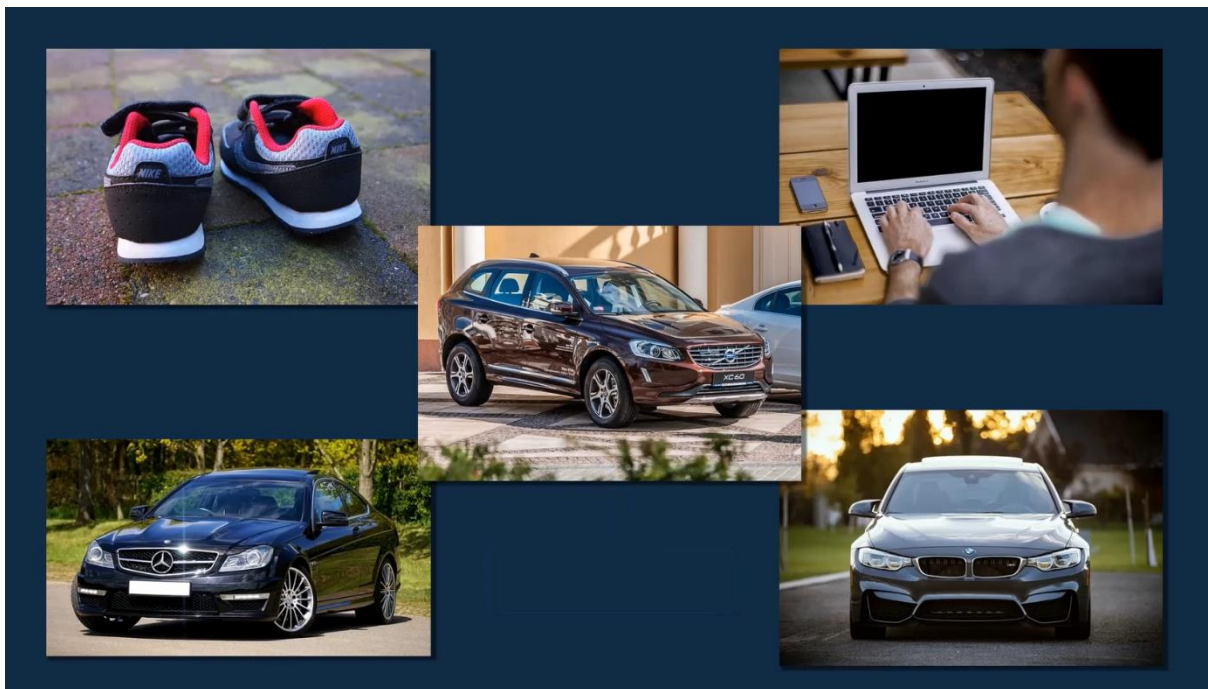


A company may charge a higher price of differentiated products than those low-cost providers do because it costs the company more money to provide a better overall solution to their customers.

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

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

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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 product 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's differentiation point is upscale brand image.

BMW focuses on innovation while Volvo emphasizes its safety features.

All those companies have very defined differentiation points that their customers recognize and want to pay a premium for those features.