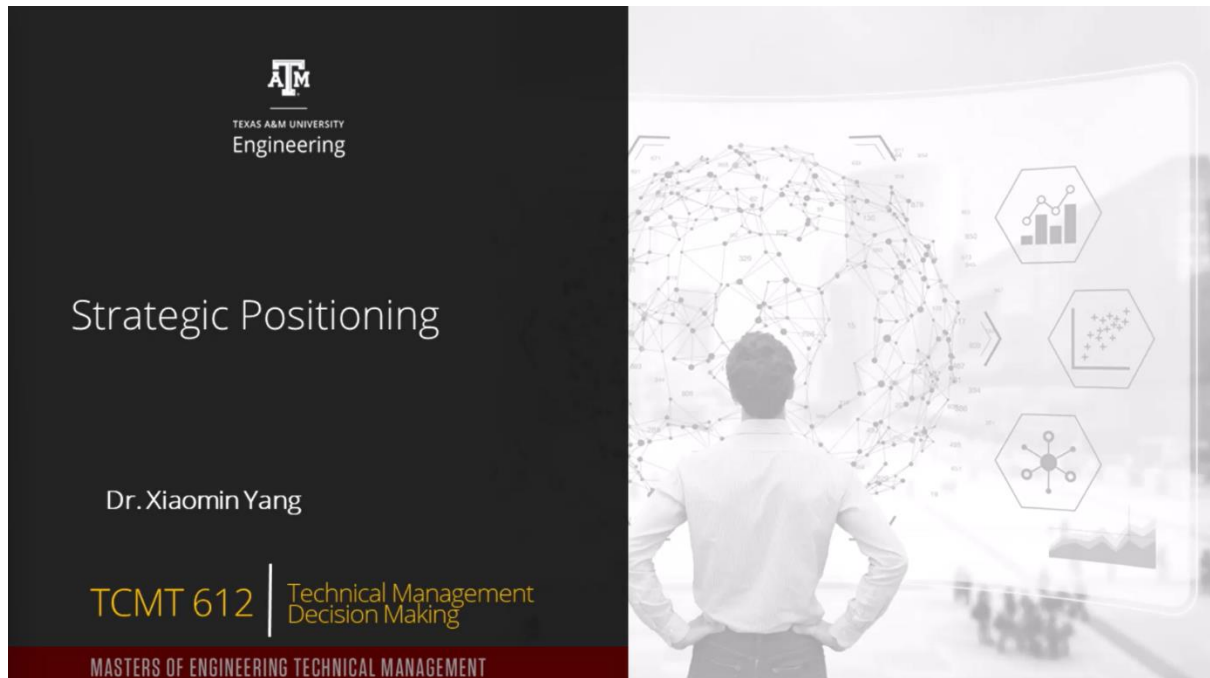


M5L10. Strategic Positioning

Slide #1



Strategy defines the lenses through which all company decisions are assessed.

Slide #2



Competitive Advantage ~ Economic Value

A firm can achieve competitive advantage only if it can create more economic value than its competitors and also keep the profit.

Driven by more demanding customers, global competition, and the slow-growth economies and industries, successful organizations make consistent decisions to achieve sustainable competitive advantage, and create value for their customers.

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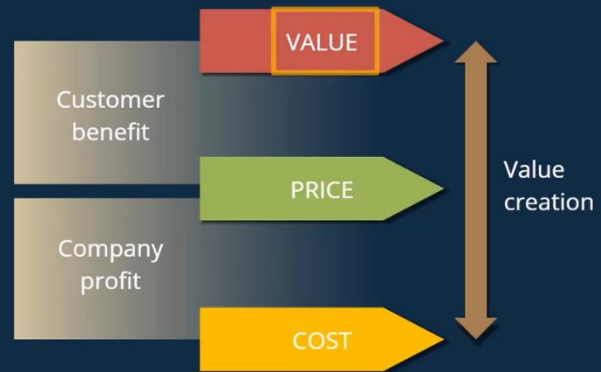
Slide #3

- (A) Cost position
 - (B) Benefit position
- relative to its competitors.

There are 2 broad approaches to strategic positioning in order to achieve competitive advantage.

A company's strategic position is simply a company's choice of competitive advantage:

- (1) cost leadership
- (2) differentiation



A firm's ability to create value depends on its cost position as well as its benefit position relative to its competitors.

There are two broad approaches to strategic positioning in order to achieve competitive advantage.

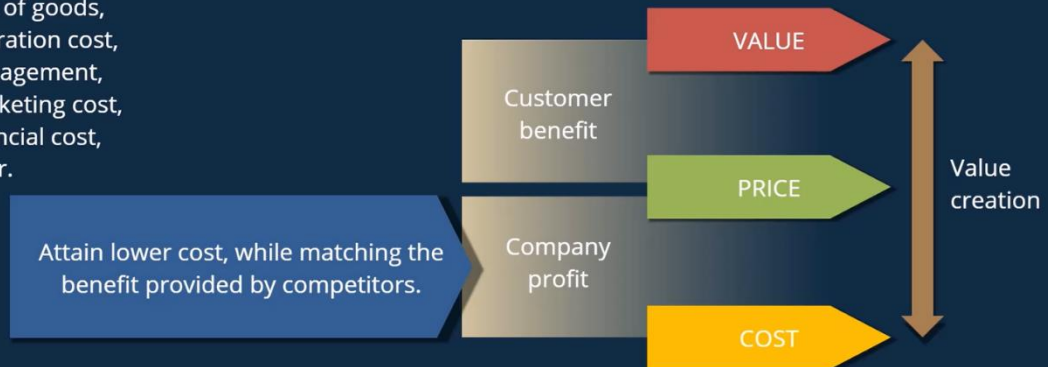
A company's strategic position is simply a company's choice of competitive advantage, either cost leadership or differentiation.

Slide #4

Cost Leadership Strategy

Cost ~ every cost item on the company's income statement:

- (a) cost of goods,
- (b) operation cost,
- (c) management,
- (d) marketing cost,
- (e) financial cost,
- (f) other.



Companies that follow the cost of leadership strategy, actively seek opportunities to optimize its business to improve efficiency.

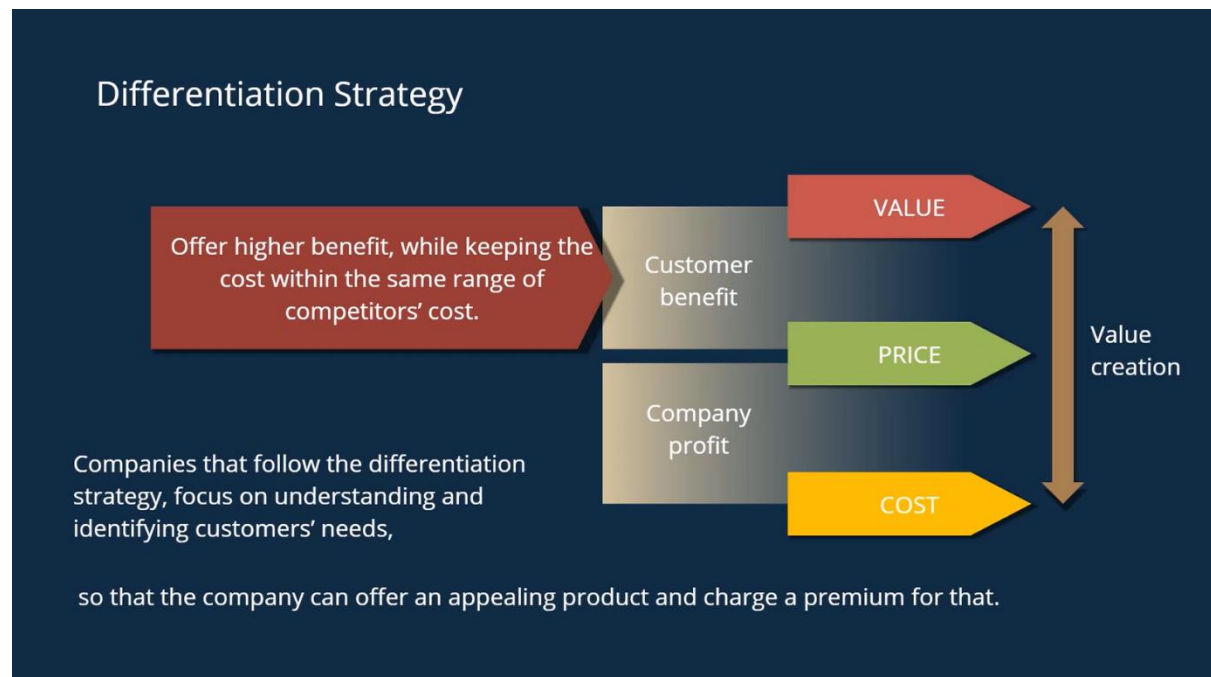
First, attain a lower cost while matching the benefit provided by competitors.

This provides the company our cost advantage.

The cost includes every cost item on the company's income statement, such as a cost of goods, operation cost, management, and marketing cost, financial cost, and so on.

Companies that follow the cost of leadership strategy actively seek opportunities to optimize its business, to improve efficiency.

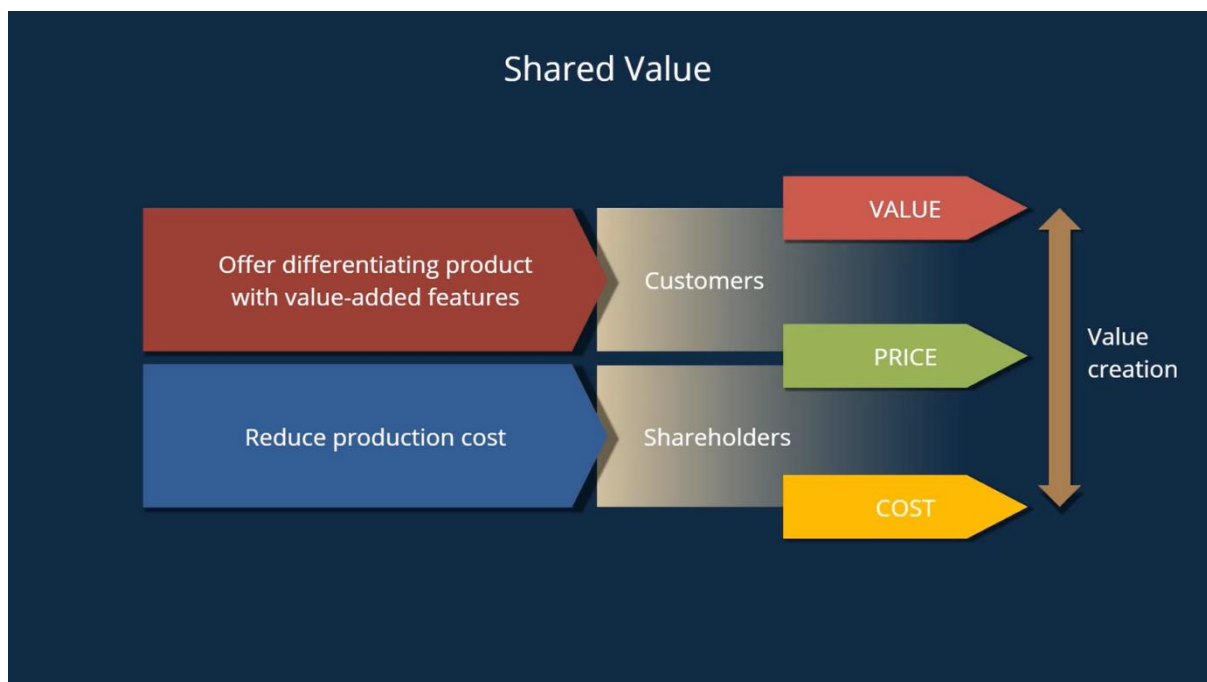
Slide #5



The second strategy is to offer a higher benefit while keeping the cost within the same range of competitor's cost.

Companies that follow the differentiation strategy focus on understanding and identifying customers' needs so that the company can offer an appealing product and charge premium for that.

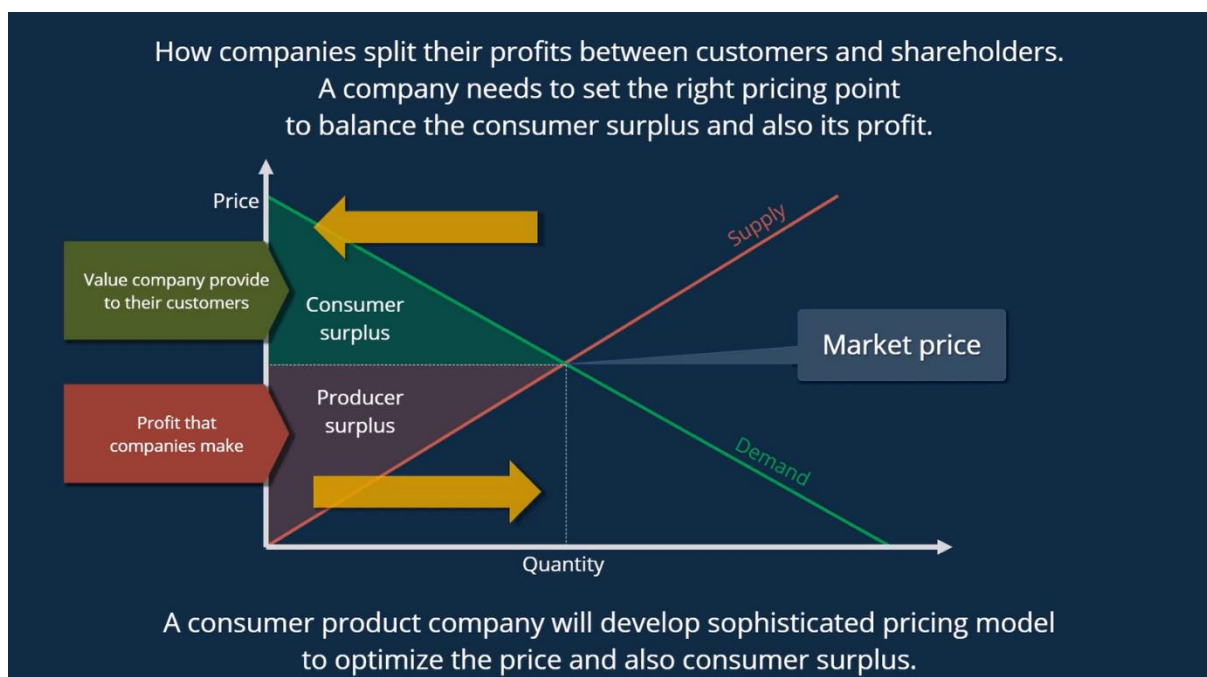
Slide #6



A company creates value from either offering differentiation products with value added features or reducing production costs.

The created value is shared between the company shareholders and its customers.

Slide #7



I am using these supply and demand curves to explain how companies split the profits between customers and their shareholders.

Also, I want to explain how the decision may affect the company's profitability in the long run.

The green area is called consumer surplus.

That is the difference between the maximum that the customer is willing to pay for a product and the price that a company charges.

If a company charges lower price than what consumers want to pay, consumers benefit from the difference.

The red area is the difference between the company's price and the cost.

That is the profit that the company is going to keep.

The colored areas between the demand and supply curves represent the total value that a product creates in a competitive market.

So this chart basically shows how companies split their value with their customers and with their shareholders.

The green area represents the value the company provided to their customers.

The red area represents the profit that companies make.

A company needs to set the right pricing point to balance the consumer surplus and its profit.

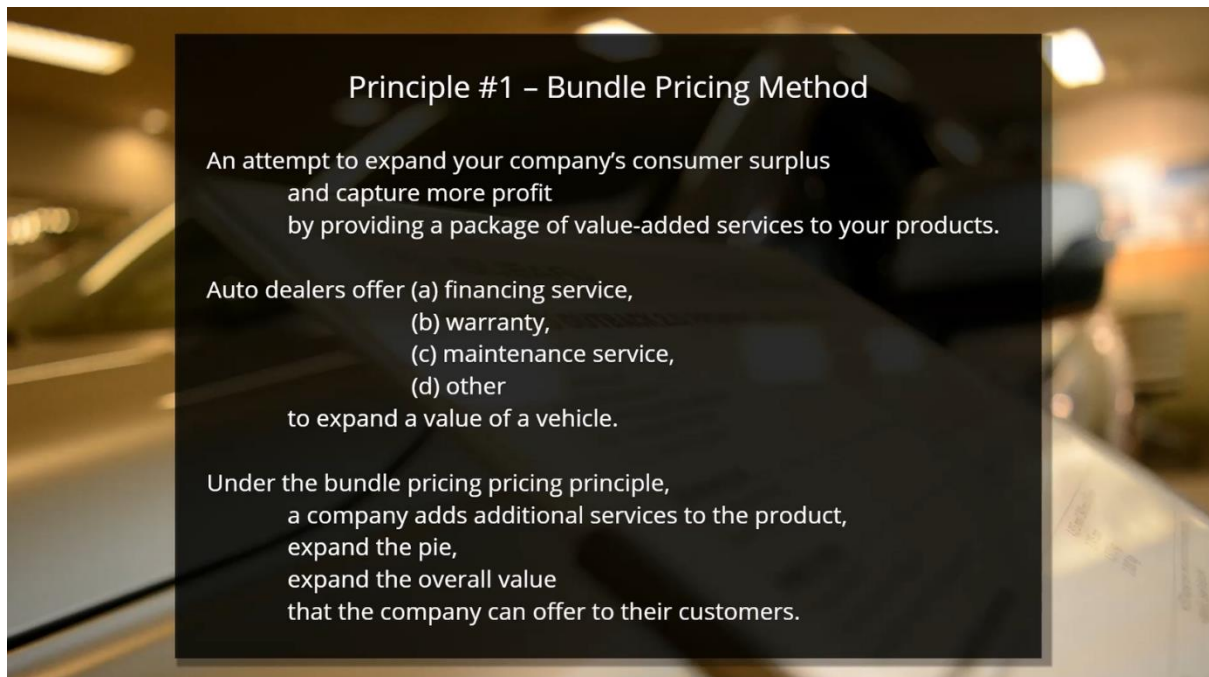
Higher price will decrease demand.

Lower price will increase the demand and lead to higher consumer surplus, but will also lower a company's profit margin.

A consumer product company will develop a sophisticated pricing model to optimize the price and consumer surplus.

There are two principles that a company may consider when determining the pricing strategy.

Slide #8



Principle #1 – Bundle Pricing Method

An attempt to expand your company's consumer surplus and capture more profit by providing a package of value-added services to your products.

Auto dealers offer (a) financing service,
(b) warranty,
(c) maintenance service,
(d) other
to expand a value of a vehicle.

Under the bundle pricing principle,
a company adds additional services to the product,
expand the pie,
expand the overall value
that the company can offer to their customers.

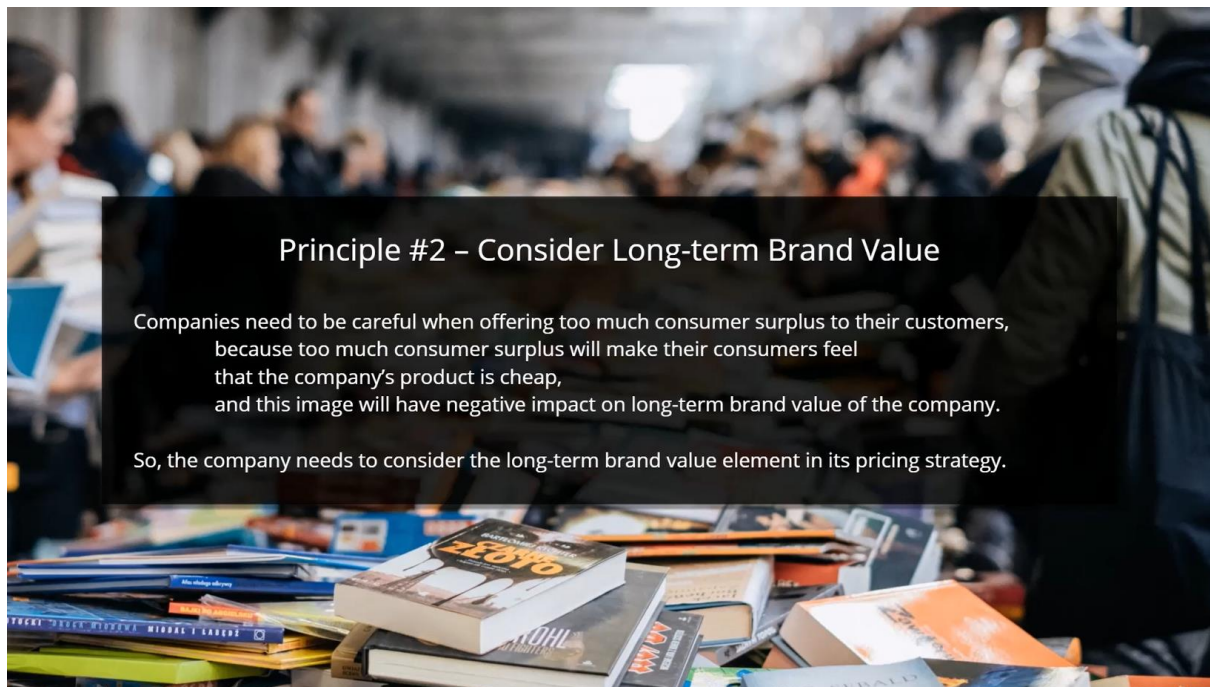
First is to use the bundle pricing method.

Bundle price is an attempt to expand your company's consumer surplus and capture more profit by providing a package of value-added services to your products.

For example, auto dealers can offer financing service, warranty, maintenance service, and so on to expand the value of a vehicle.

So, under the bundle pricing principle, a company adds additional services to the product, expanding the pie and overall value that the company can offer to their customers.

Slide #9



However, companies need to be careful when offering too much consumer surplus to their customers.

Too much consumer surplus will make their consumers feel that the company's product is cheap and this image will have a negative impact on the long-term brand value of the company.

So the company needs to consider the long term brand value element in its pricing strategy.