

Creating and Sustaining Competitive Advantage

- Why some firms create far more returns than others?
- Industry-level effects account for 10-20% variation in profits
- Stable within-industry effects account for 30-45%
- Balance – effects that fluctuate from year to year
- How?
 - Configure to do some thing unique & valuable
 - Finding an integrated choices of activities, that distinguish a firm from it's competitors

- Creating vs. Sustaining competitive advantage
- Links to industry analysis
 - Successful companies often exploit attractive industry features & neutralise unattractive features better
 - Industry conditions per se can lead to superior profits
 - Particular challenge for industry leaders
- Analysis and creativity
 - From cold analysis to entrepreneurial creativity and insight .

The Logic of Value Creation and Distribution

- The Harnischfeger (Portal cranes) example
 - Each crane replaced a fleet of forklifts costing - \$ 1 m.
 - Savings in operating costs - \$ 6.5 m.
 - Cost of production & installation - \$ 2.5 m.
 - So a large gap between customer benefit (\$1+\$6.5) and cost (\$2.5 m.)
 - But Harnischfeger didn't make much money .

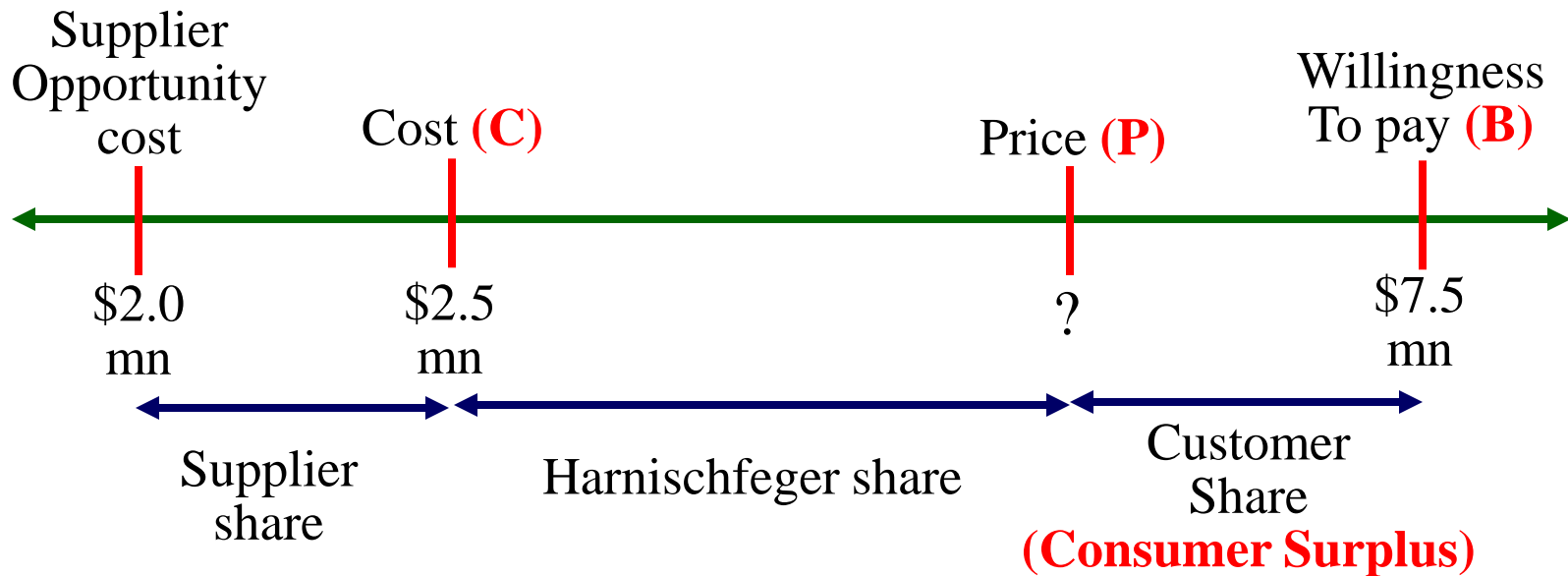
Customer's Willingness to Pay (CWP) and Supplier's Opportunity Cost (SOC)

- CWP
 - The maximum amount of money that a customer would be willing to part with in order to obtain the product or service
 - \$7.5 million for the portal crane
- SOC
 - Smallest amount that a supplier will accept for the services and resources required to produce a good or service
 - Some amount below \$2.5 million, say \$2 million.

Division of Value

Harnischfeger as the lone supplier

$$\text{Total Value created} = \text{CWP} - \text{SOC} = \$ 5.5 \text{ million}$$



Added Value

The maximum value
Created by all participants

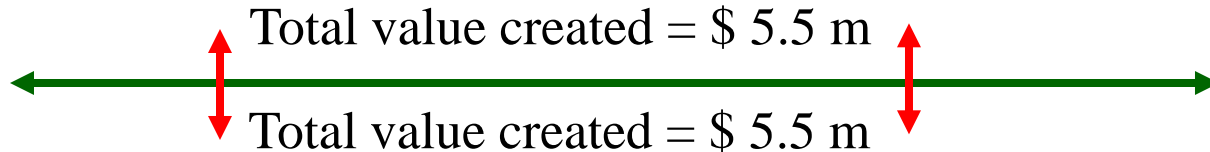
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The maximum value that
Can be created without the firm .

Added Value – Two Competitors

Supplier opportunity cost
Harnischfeger crane = \$ 2 m

Willingness to pay for
Harnischfeger crane = \$ 7.5 m



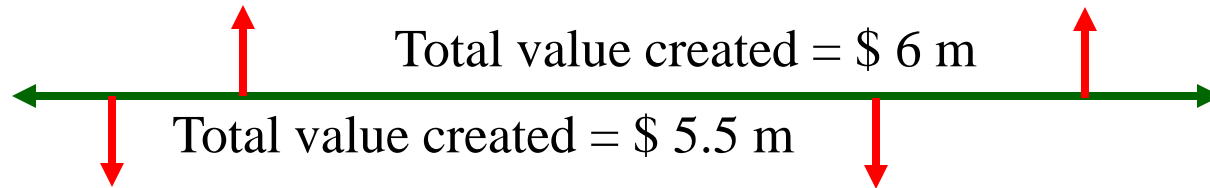
Harnischfeger
Added value
= \$ 0 mn.

Supplier opportunity cost
Kranco crane = \$ 2 m

Willingness to pay for
Kranco crane = \$ 7.5 m

Supplier opportunity cost
Harnischfeger crane = \$ 3 m

Willingness to pay for
Harnischfeger crane = \$ 9 m



Harnischfeger
Added value
= \$.5 mn.

Supplier opportunity cost
Kranco crane = \$ 2 m

Willingness to pay for
Kranco crane = \$ 7.5 m

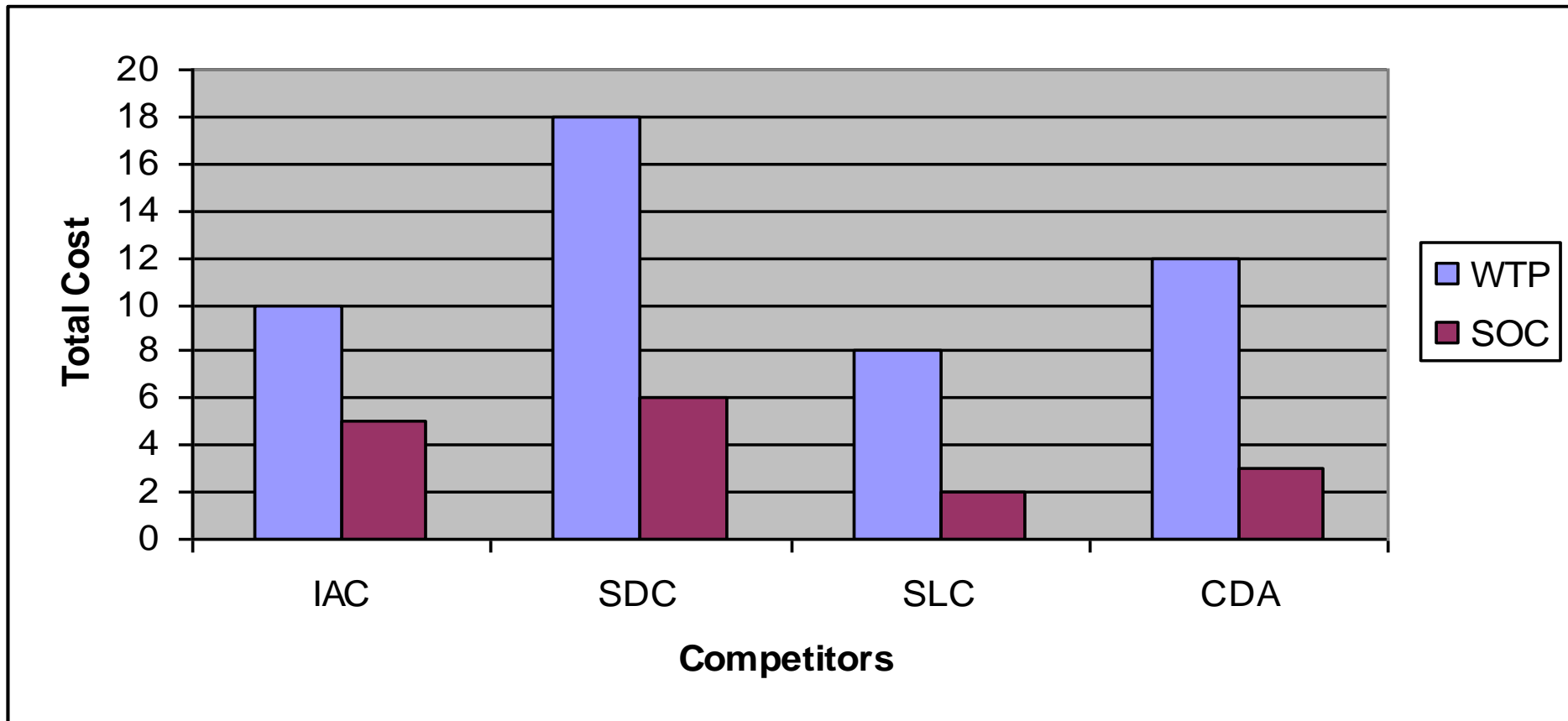
The Link to Competitive Advantage

- The larger the added value, the greater the profit potential – competitive advantage by positioning
- Larger wedge between CWP and SOC
- The network of suppliers, customers, and complementors is more productive with it than without it .

Activity Analysis of Cost and Willingness to Pay

- Raise willingness to pay a great deal with only slight increase in cost – **differentiation strategy**
- Reap large cost savings with only slight decrease in customer willingness to pay – **low-cost strategy**
- Superior products at lower cost – **best cost provider strategy**

Types of Competitive Advantage





The Five Generic Competitive Strategies

Type of Advantage Sought

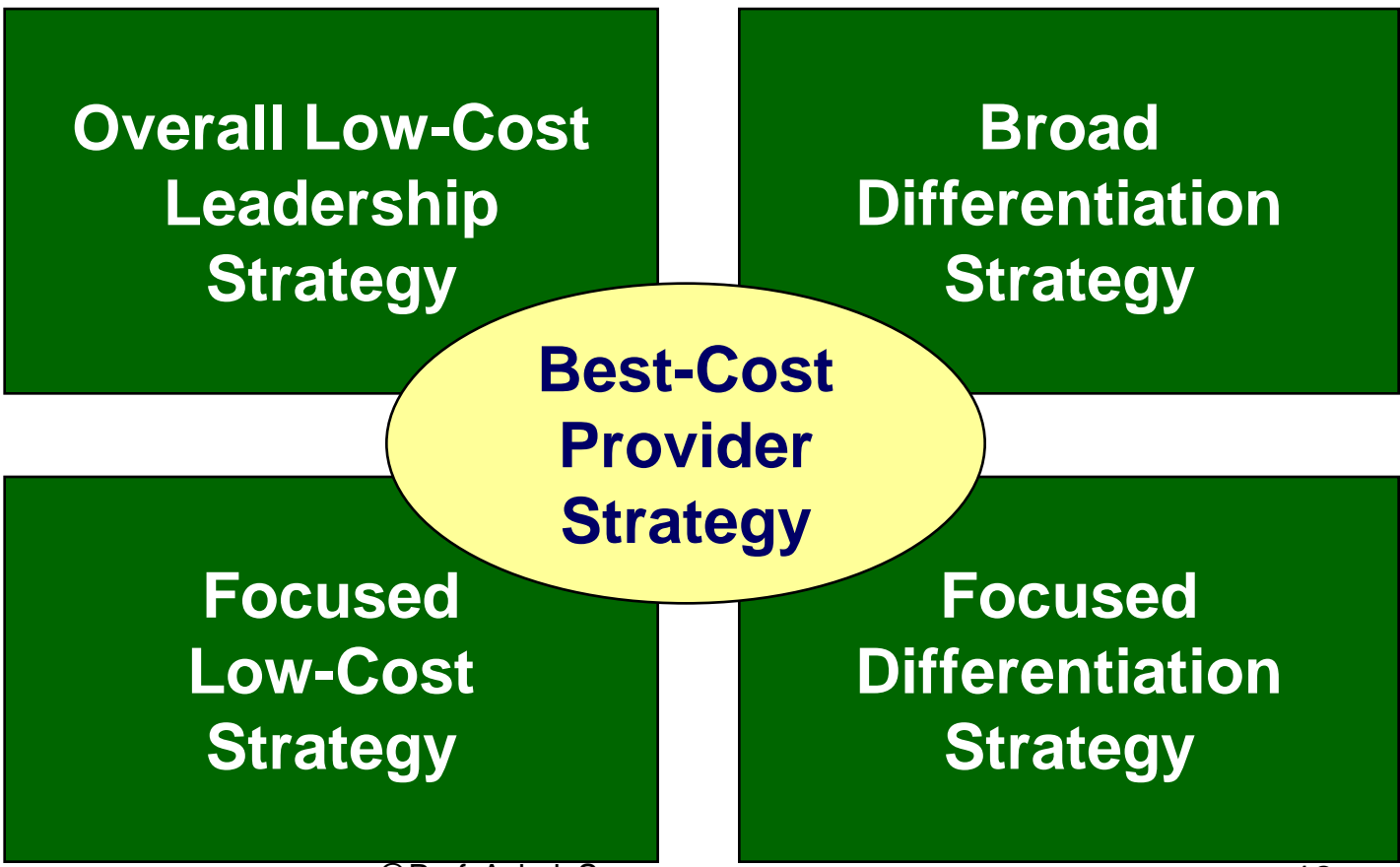
Lower Cost

Differentiation

Market Target

Broad Range of Buyers

Narrow Buyer Segment or Niche



Activity Analysis

- Understand why the firm does or does not have a competitive advantage
- Spot opportunities to increase a firm's competitive advantage
- Foresee future shifts in competitive advantage.

Activity Analysis: The 4 Steps

1. Catalogue activities (the value chain)
2. Use activities to analyse relative costs
3. Use activities to analyse relative willingness to pay
4. Explore options and make choices

Activity Analysis (Fig.6)

1. Catalogue Activities (The Value Chain)

- Primary activities
 - Inbound logistics
 - Operations
 - Outbound logistics
 - Marketing and sales
 - Service
- Support activities
 - Procurement
 - Technology development
 - Human resource
 - Firm's infrastructure

Identify major elements in the value chain

Calculate the cost associated with each

Understand the cost drivers

Estimate competitors cost based on the cost drivers .

SUPPORT ACTIVITIES

Organizational infrastructure

- Web-based, distributed financial and ERP systems
- Online learner relations (e.g., information dissemination . . .)

Human resource management

- Self-service personnel and benefits administration
- Web-based training
- Internet-based sharing and dissemination of organization information
- Electronic time and expense reporting

Technology development

- Collaborative course/program design across locations and among multiple value-system participants
- Knowledge directories accessible from all parts of the organization

Procurement

- Internet-enabled demand planning; real-time available/capable of promise and fulfillment
- Other linkage of purchase, inventory, and forecasting systems with suppliers
- Automated "requisition to pay" and "expense claim" systems
- Direct and indirect procurement via marketplaces, exchanges, and auctions

PRIMARY ACTIVITIES

Inbound logistics

- Learning Specific Hardware (LSH) (client/server, wireless peer-to-peer)
- Learning Management Systems (LMS)
- Learning Content Management Systems (LCMS)
- Knowledge Management (KM)
- Real-time integrated scheduling of reference materials
- Dissemination of real-time inbound inventory data
- Hiring of authors
- Authoring tools

Operations

- Course instructional design
- Content (learning objects, units, etc.)
- Courseware, study guide, and student manual development
- Writing
- Formatting
- Capture and edit
- Multimedia creation
- Graphic design
- Printing
- Integrated information exchange, scheduling, in-house course production, contract SMEs, and publishers

Outbound Logistics

- Real time transaction of orders
- Online registration
- Integrated portal
- Packaging and storage of courses
- Learner access to course (Web access or mail delivery)
- Integrated channel management (process control)
- Automated learner specific account and contract terms
- Real-time information available to advisors PR, and channels

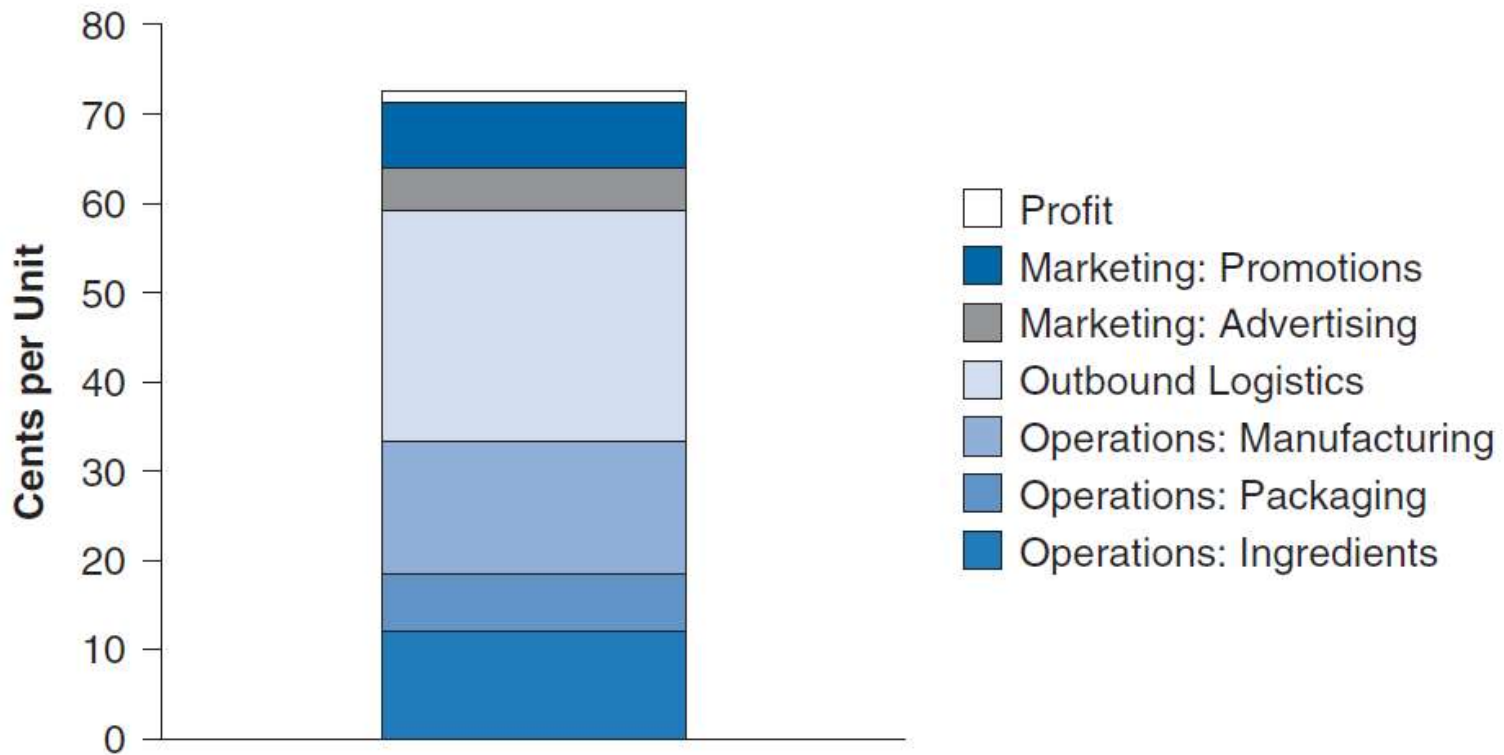
Delivery (sales), collaboration and marketing

- Live learning
- Virtual classroom
- Course delivery
- Threaded discussion
- Audio/video over IP
- Real time access to student information, calendar, fees, course availability
- Real-time learner feedback through Web surveys and promotion response tracking
- Branding
- Entering strategic partnership
- Shared communities

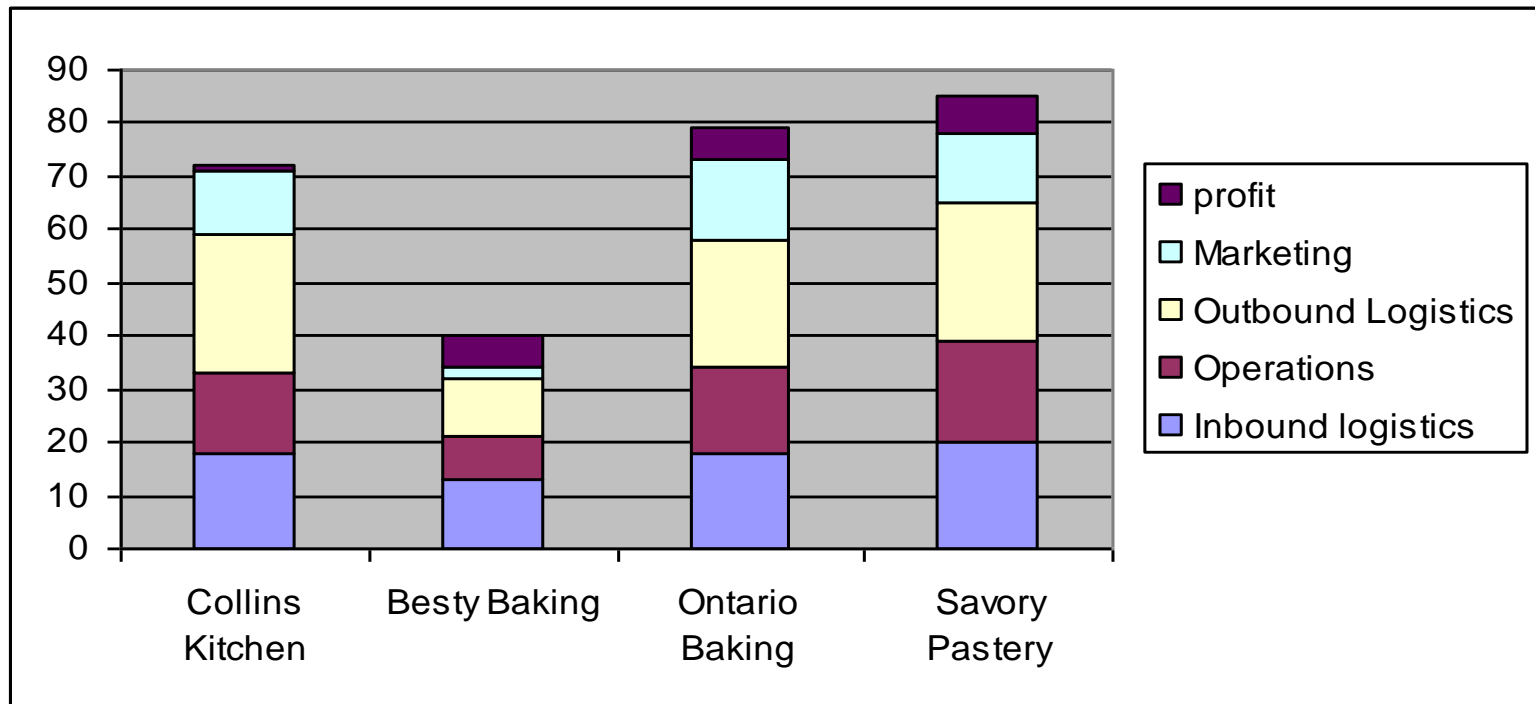
Service

- Online support of learners
- Coaching, mentoring
- Assessment and testing
- Technical and support services
- Learner self-service via Web sites and intelligent service request processing
- Real-time field service access to learner account/courses reviews, etc.
- Localization and globalization
- Tutor support
- Academic experts/marketing
- Counseling
- Granting awards

Collin's Cost Components



2. Relative Cost Analysis...



...Relative Cost Analysis...

General Points

- Focus on differences in individual activities, rather than just difference in total cost
 - Ontario, and Savory had similar total cost per unit, but had different cost structures, reflecting distinct competitive positions
- Effective cost analysis usually break out in greatest detail and pay the most attention to cost categories that
 - pick up on significant differences across competitors or strategic options
 - correspond to technically separable activities
 - are large enough to influence the overall cost position significantly

...Relative Cost Analysis

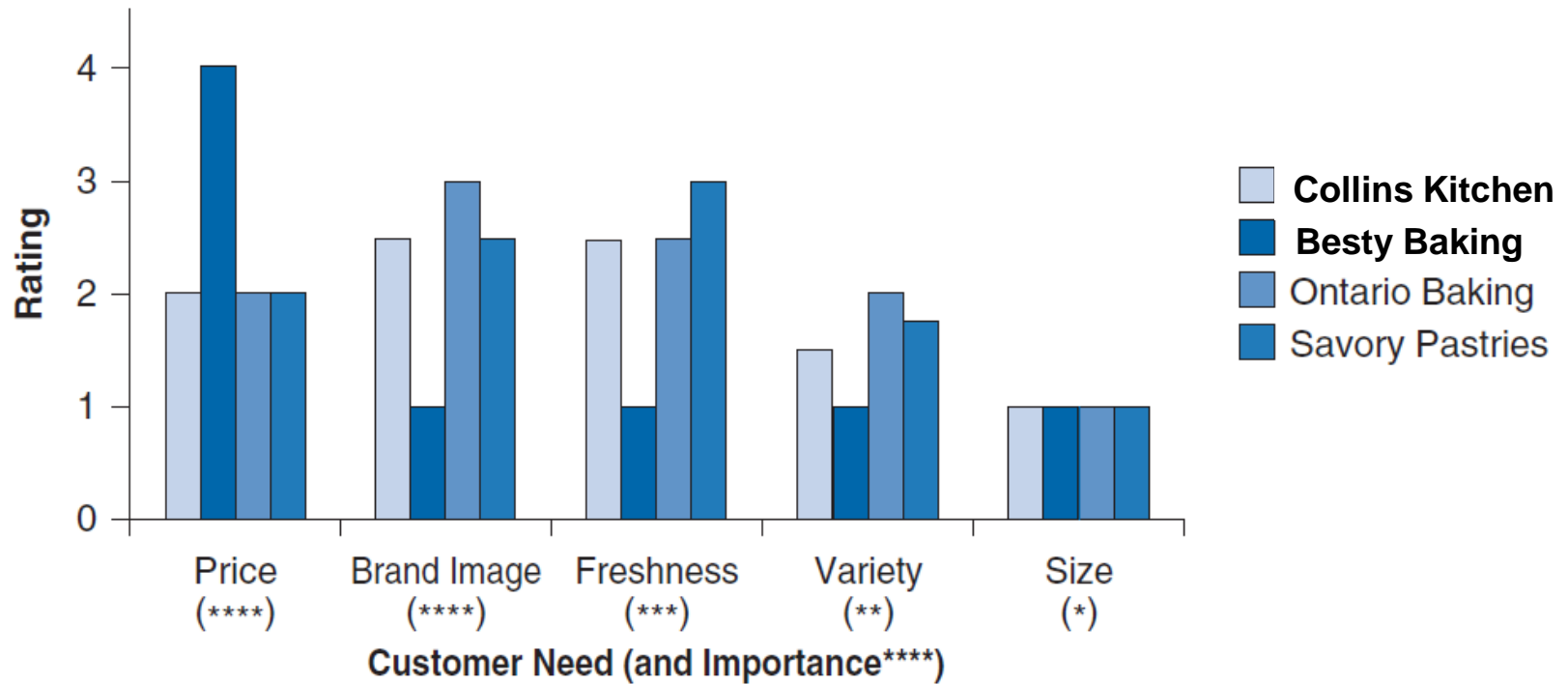
- Analyse cost drivers for activities which are associated with higher cost
 - Cost drives of outbound logistics in case of snack cake companies
- A particular cost driver becomes important if it is likely to vary across competitors or strategic options
 - Location and manufacturing cost for snack cakes
- Sensitive analysis owing to assumptions.

3. Analyse Relative Willingness to Pay

- Who is the Buyer
 - Stores executive, hungry child, the parent
- What the buyer want
 - Parent → price, brand image, freshness, product variety, numbers of servings per box
- How successful is the company and the competitors in fulfilling customer needs
- Relating the success in meeting the customer needs to value activities
 - Consider those customer needs that have great impact on customer choices
- Customer segmentation – mass customisation
- Analysis should serve to hone insight, not displacing it .

Use Activities to

3. Analyse Relative Willingness to Pay



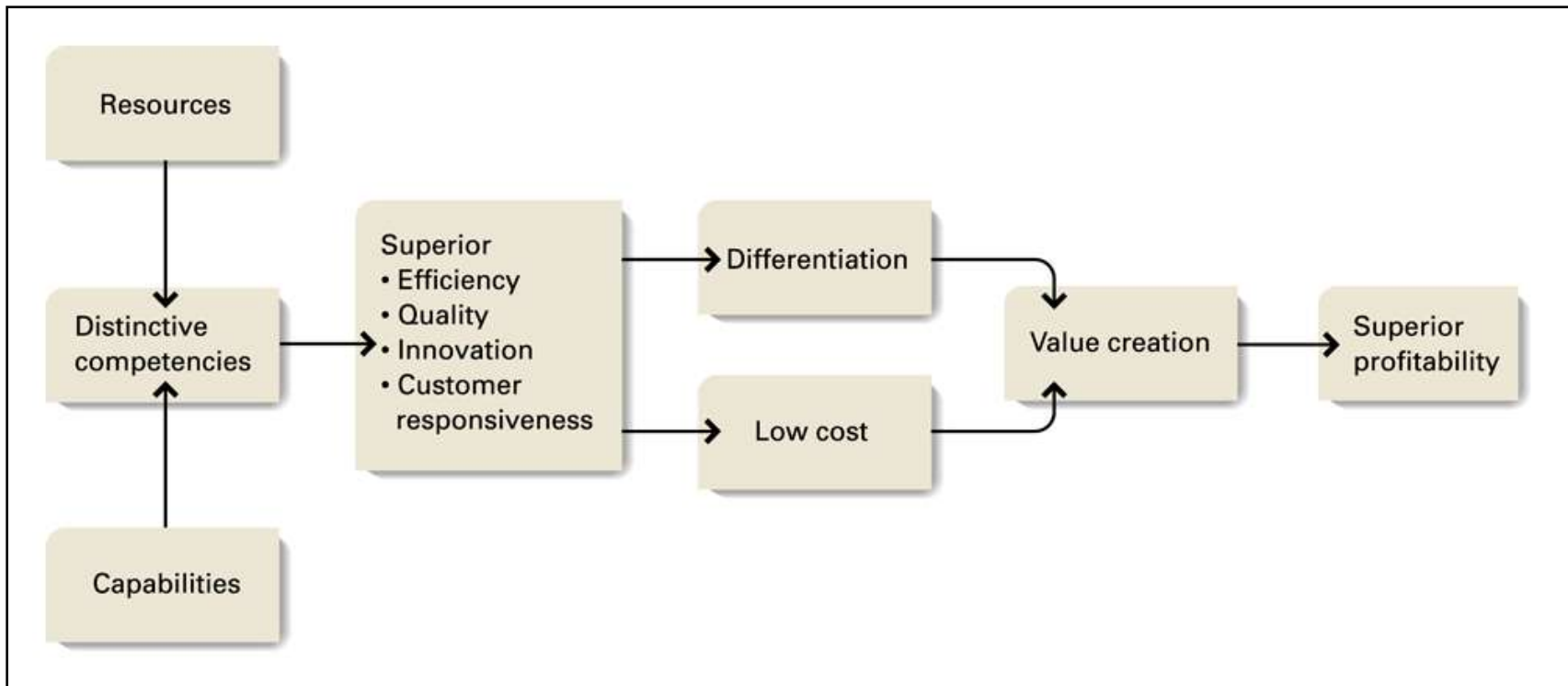
4. Explore Option and Make Choices Ways to widen the Wedge

- Distilling the essence of insight which drive the competitor
 - Besty Baking – Preservation as against fast delivery
- Consider competitor reaction
- Linkages with value chains of buyer/ supplier
- Attention to demanding users
- Capturing underserved .

The Whole Versus the Parts

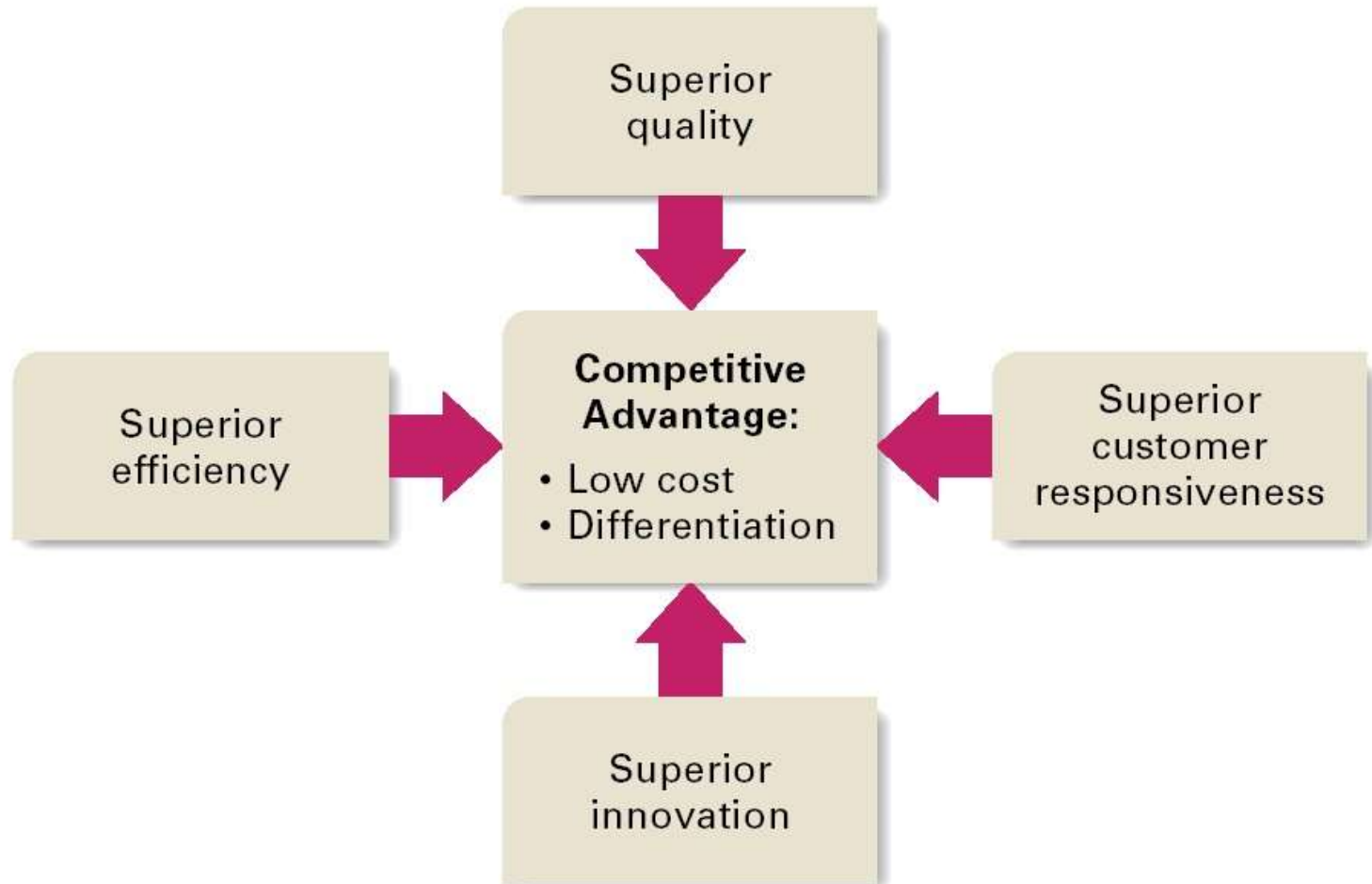
- Building a vision of the whole
- Creating one's own peak, rather than crowd onto a heavily populated peak .

Differentiation and Cost Structure: Roots of Competitive Advantage



Building Blocks of Competitive Advantage

Generic Distinctive Competency



- Measured by the quantity of inputs it takes to produce a given output:

$$\text{Efficiency} = \text{Outputs} / \text{Inputs}$$

- Productivity leads to greater efficiency and lower costs:
 - Employee productivity
 - Capital productivity

Superior efficiency helps a company attain a competitive advantage through a lower cost structure.

- ❖ **Quality products** are goods and services that are:
 - **Reliable *and***
 - **Differentiated by attributes that customers perceive to have higher value**
- ❖ **A perception of quality allows a firm to differentiate its products in the eyes of its customers.**

Superior quality = customer perception of greater value in a product's attributes
Form, features, performance, durability, reliability, style, design

Innovation is the act of creating new products or new processes

– Product innovation

- Creates products that customers perceive as more valuable *and*
- Increases the company's pricing options

– Process innovation

- Creates value by lowering production costs

Successful innovation can be a major source of competitive advantage – by giving a company something *unique*.

Customer Responsiveness

Identifying and satisfying customers' needs – *better than the competitors do.*

↳ Enhanced customer responsiveness:
Customer response time, design, service, after-sales service and support

Superior responsiveness to customers differentiates a company's products and services and leads to brand loyalty and premium pricing.

- Importance of positioning, not just competing in an attractive industry
- Competitive advantage derived from added value
- A firm can't claim any value unless it adds some value
- Added value – wedge between CWP and SOC... wider than competitors
- Difference in activities to widen the wedge
- ...also crafting a vision of an integrated whole.

- Functional – level strategy