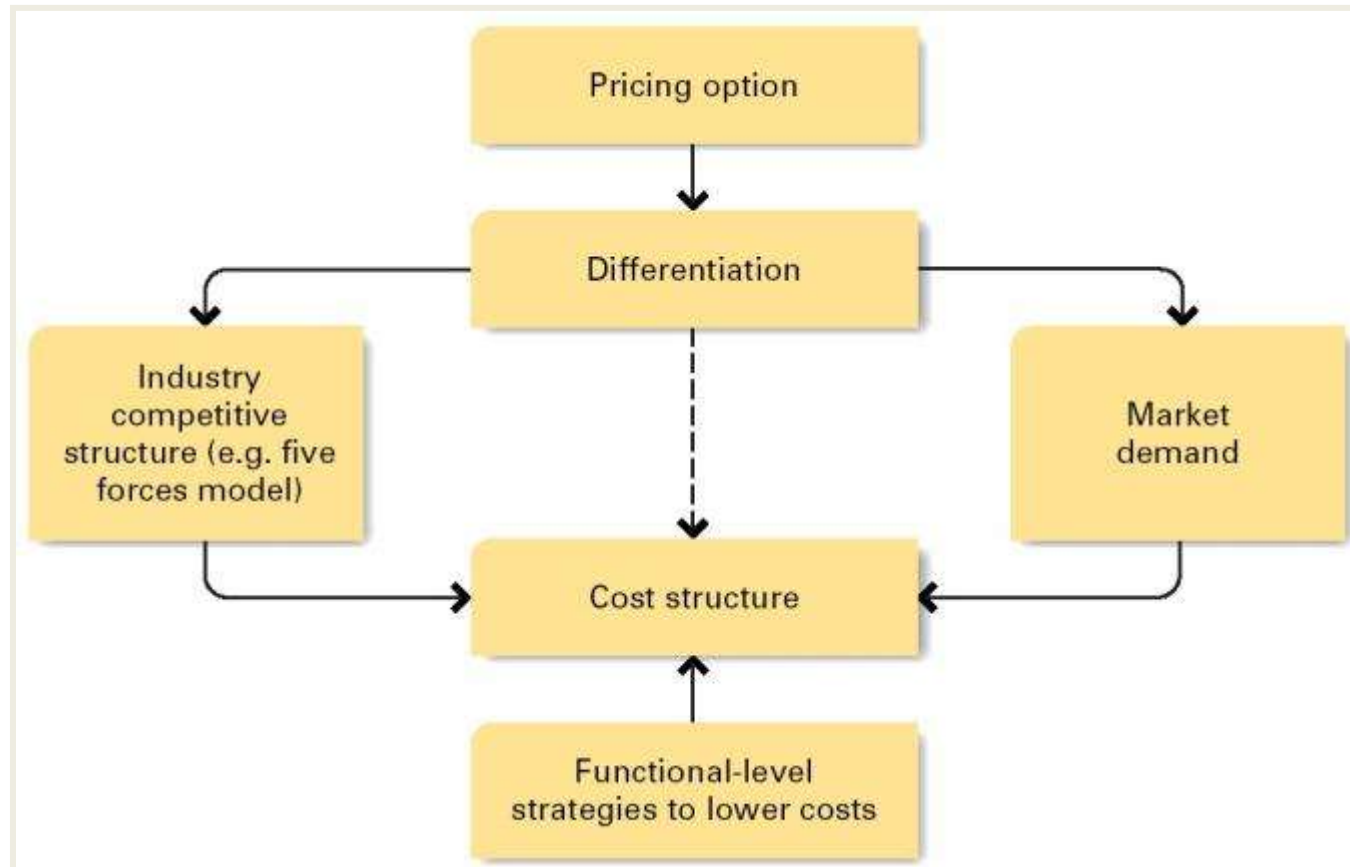


- Competitive Positioning at the Business Level
- Value Creation Frontier
- Value Map
- Porter's Generic Strategies
- The Strategic Logic of Cost Leadership
- Steps in Strategic Cost Analysis

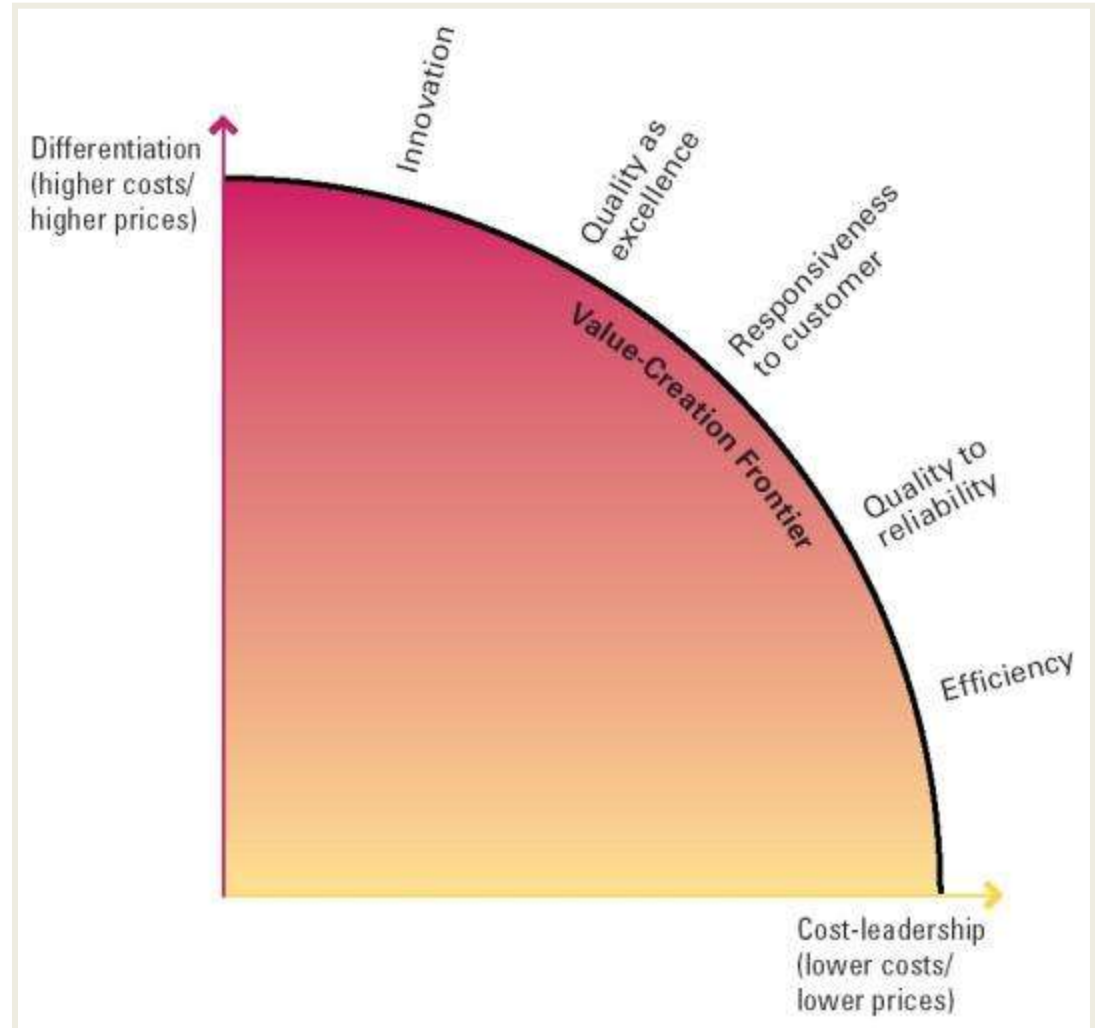
Competitive Positioning at the Business Level



Competitive Positioning and the Value Creation Frontier

Value Creation Frontier represents the maximum value the products of different companies inside an industry can give customers at any one time by using different business models.

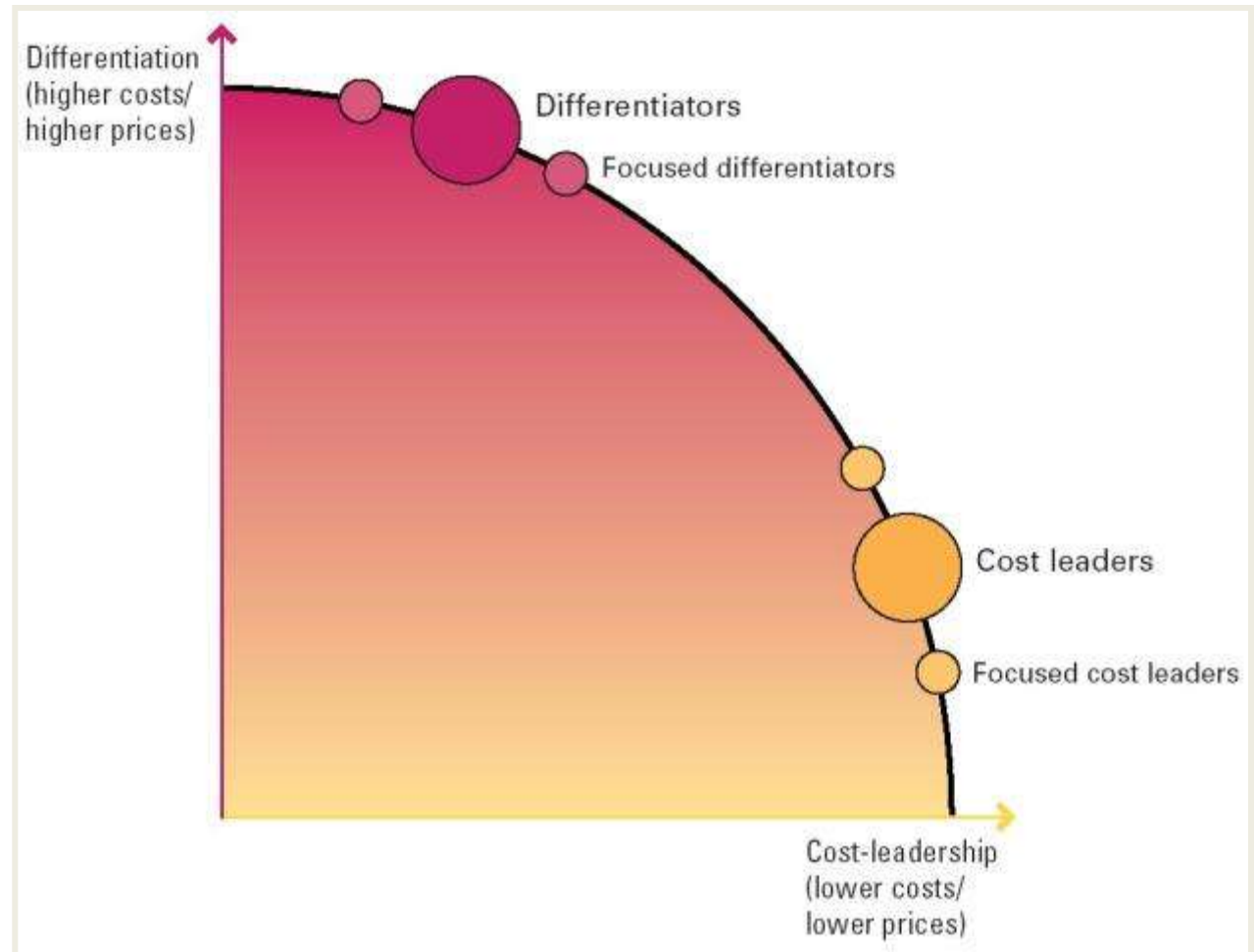
Companies on the value creation frontier have the most successful strategy in a particular industry.

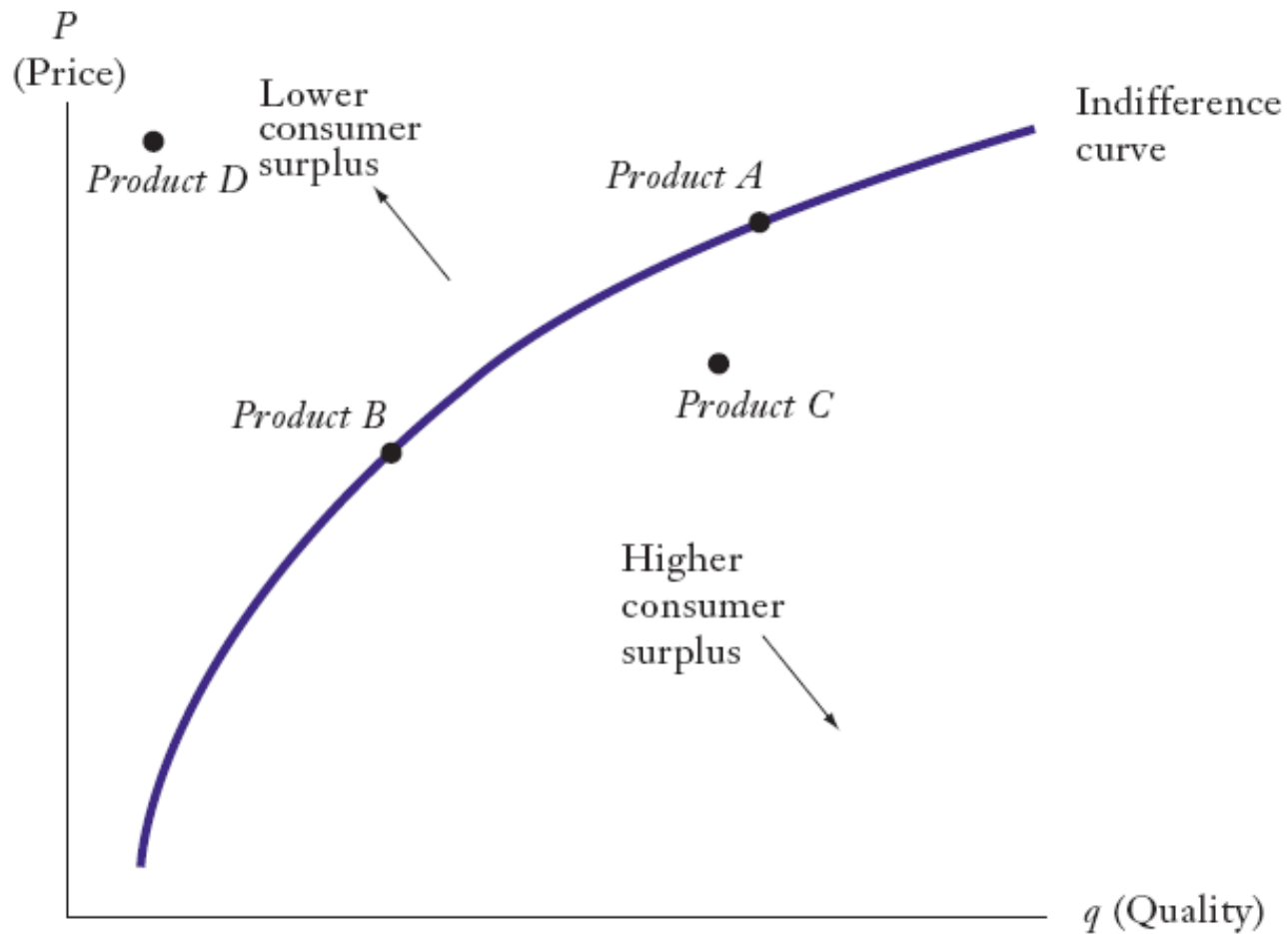


Generic Business Models and the Value Creation Frontier

Four Principal Generic Strategies

1. **Cost Leadership**
2. ***Focused* Cost Leadership**
3. **Differentiation**
4. ***Focused* Differentiation**



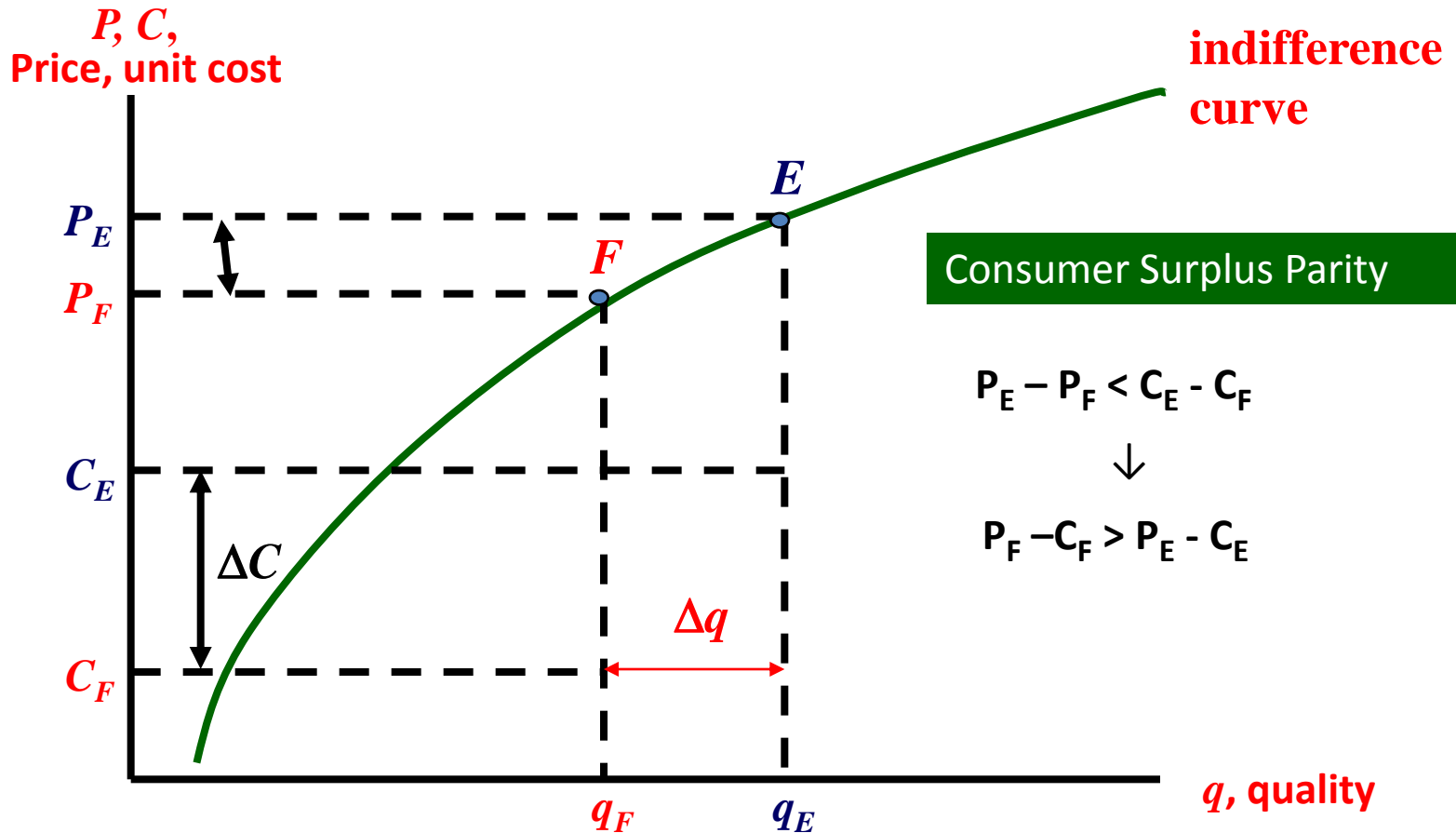


The Five Generic Competitive Strategies

Type of Advantage Sought



The Strategic Logic of Cost Leadership



Conditions Suitable for Seeking a Cost Advantage

- When the nature of the product does not allow benefit enhancement
- When consumers relatively price sensitive and
- When the product is a search good rather than an experience good

The Strategic Logic of Cost Leadership

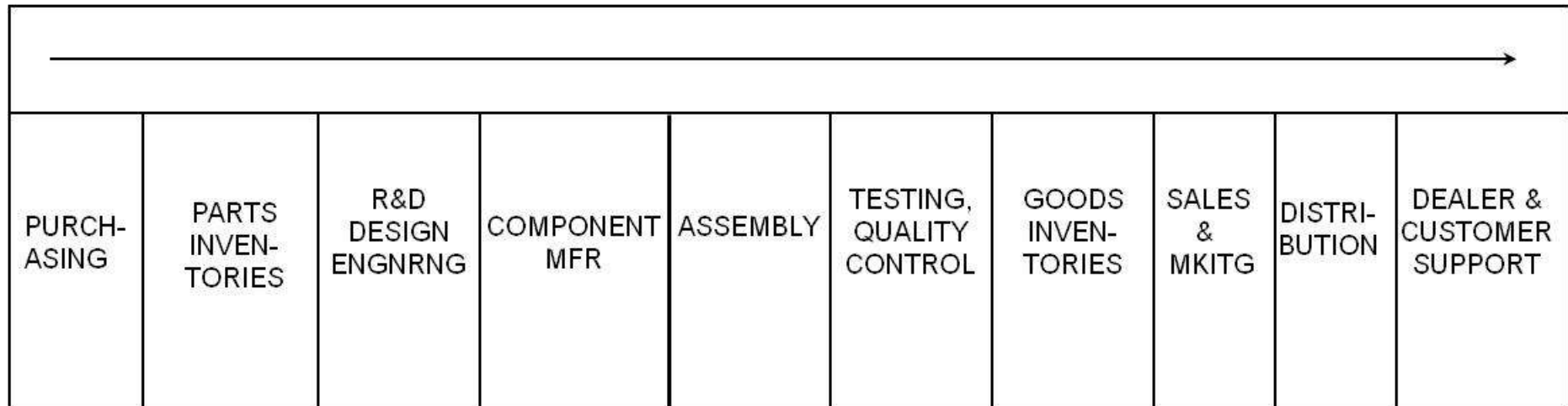
- Price its product below the rivals and sell more or
- Match rivals' price and achieve better price-cost margins
- Offering the same benefits as the competitors do (differentiation parity)
- Offering a slightly lower benefit (differentiation proximity) or
- Offering a qualitatively different product.

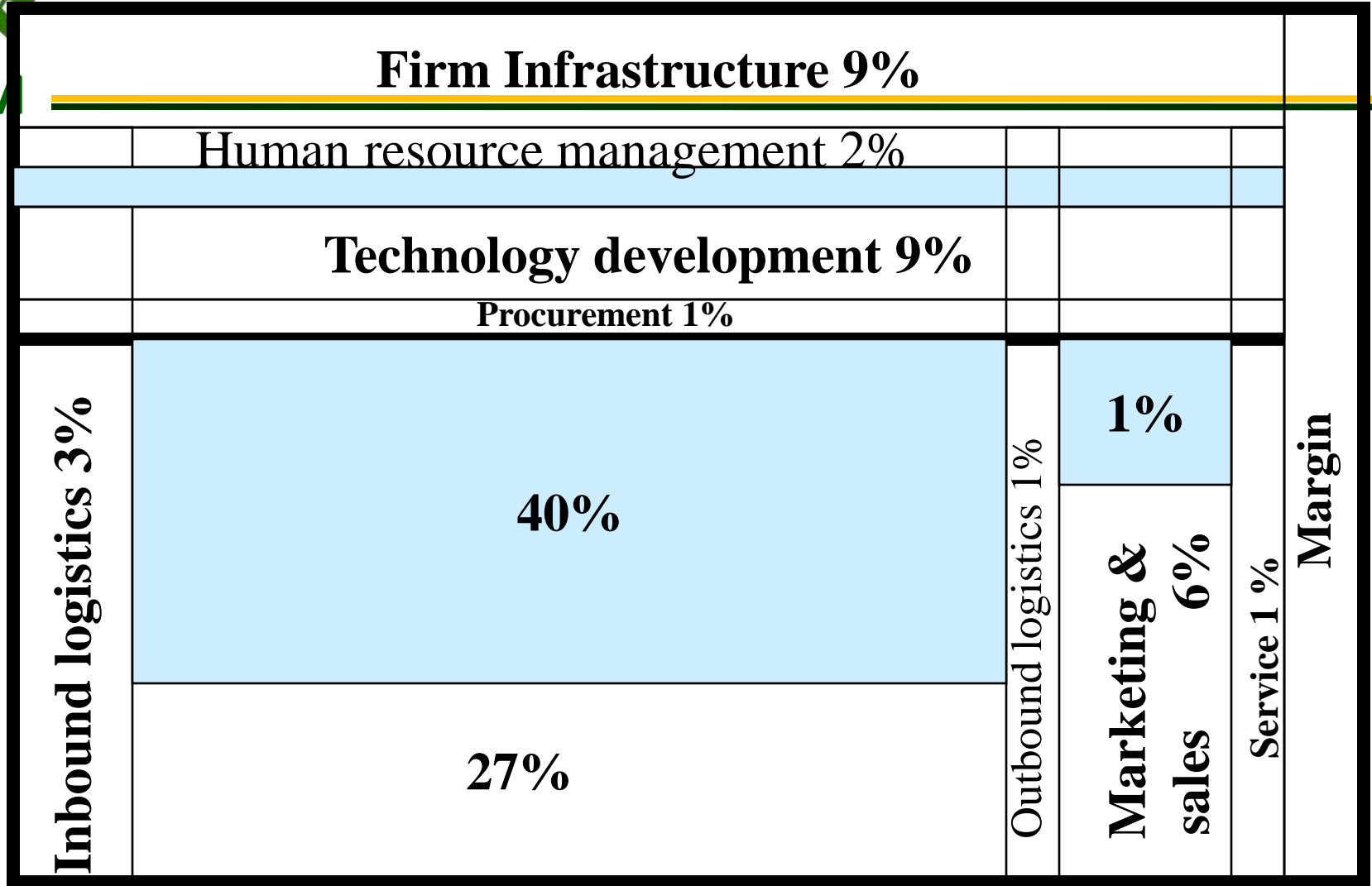
Steps in Strategic Cost Analysis

1. Identify value chain and assign costs & assets to it
2. Diagnose the cost drivers of each value activity & how they interact with each other
3. Identify linkages
4. Identify competitors' value chains, and determine the relative cost of competitors & the source of cost difference
5. Develop a strategy to lower cost position thru controlling cost drivers or reconfiguring value chain
6. Protect differentiation parity/ proximity
7. Test the cost reduction strategy for sustainability

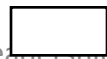


Stage 1. Identify The Principal Activities The Case Of Automobile Manufacture

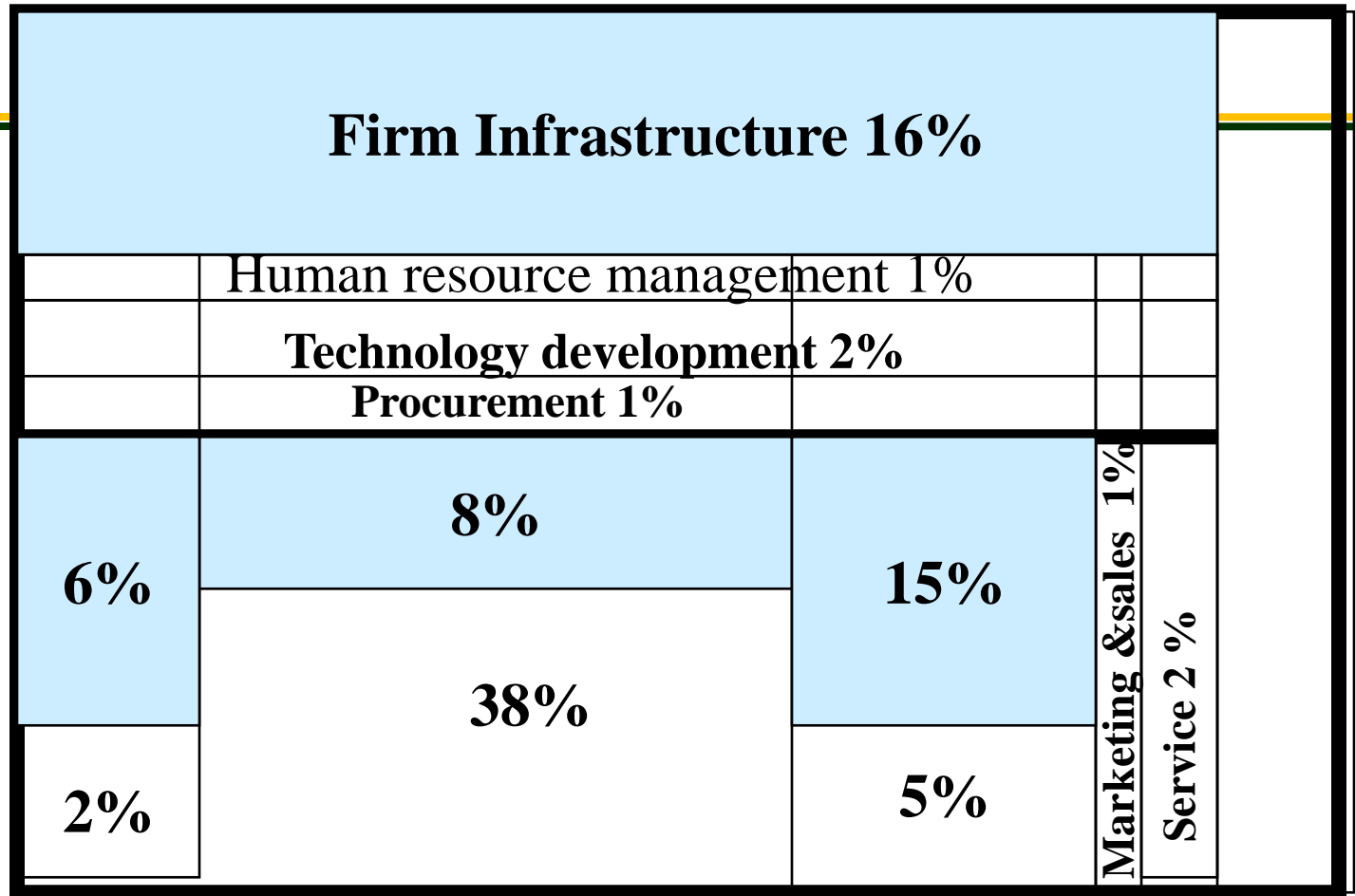




Purchased operating input



Human resource costs



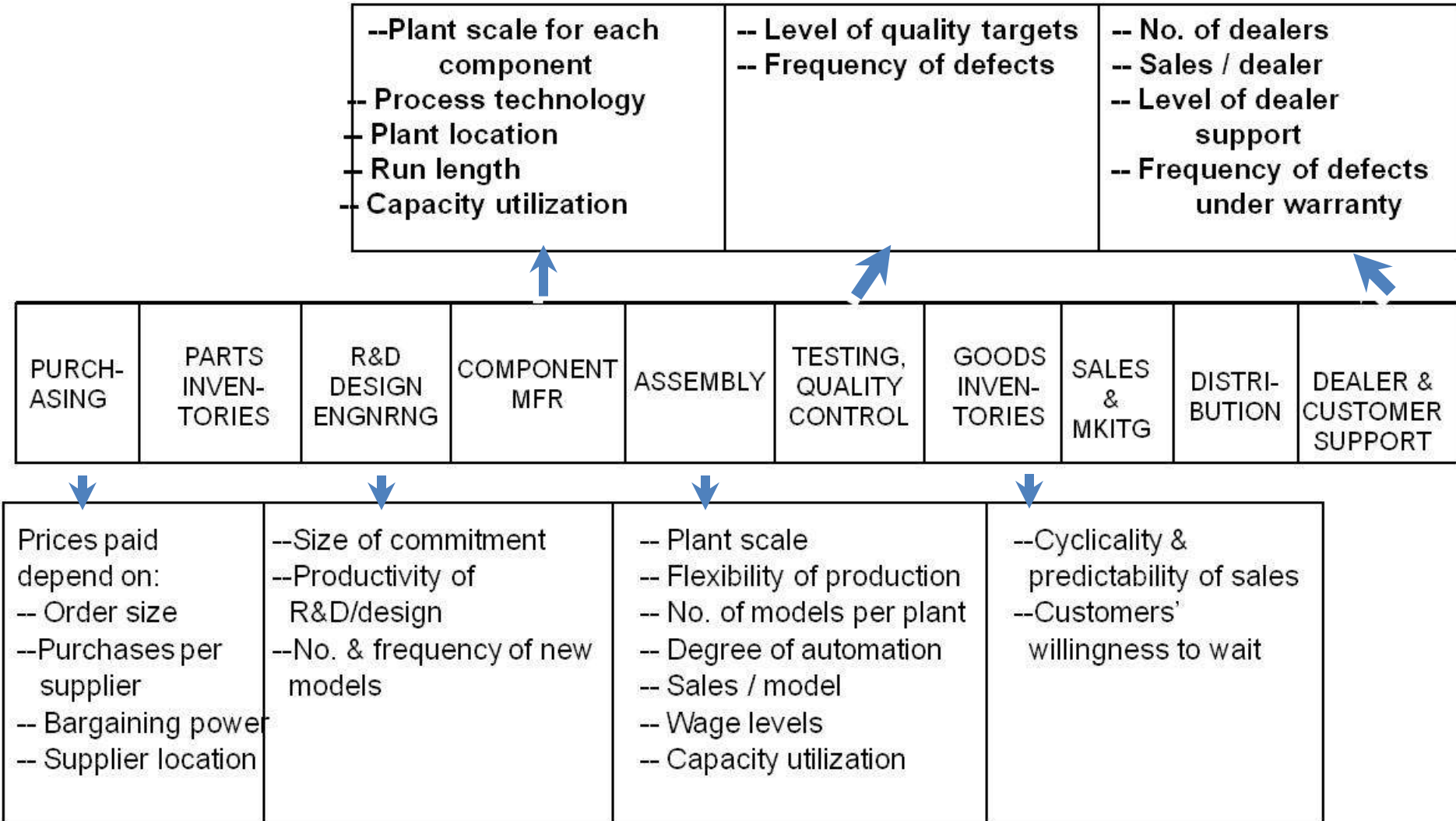
Inbound Logistics 8%

Operations 46%

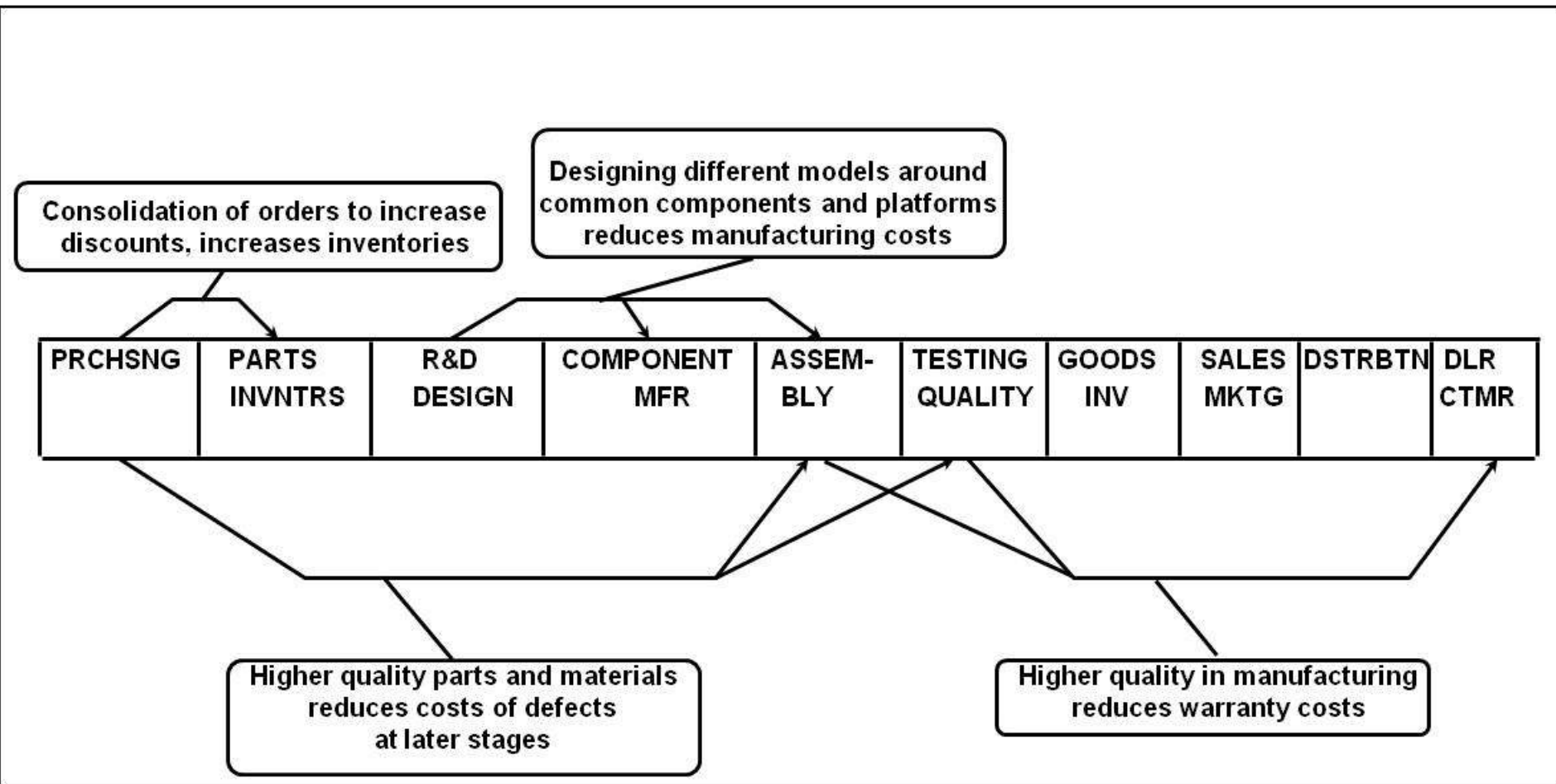
Fixed assets 38%

Outbound Logistics 20%

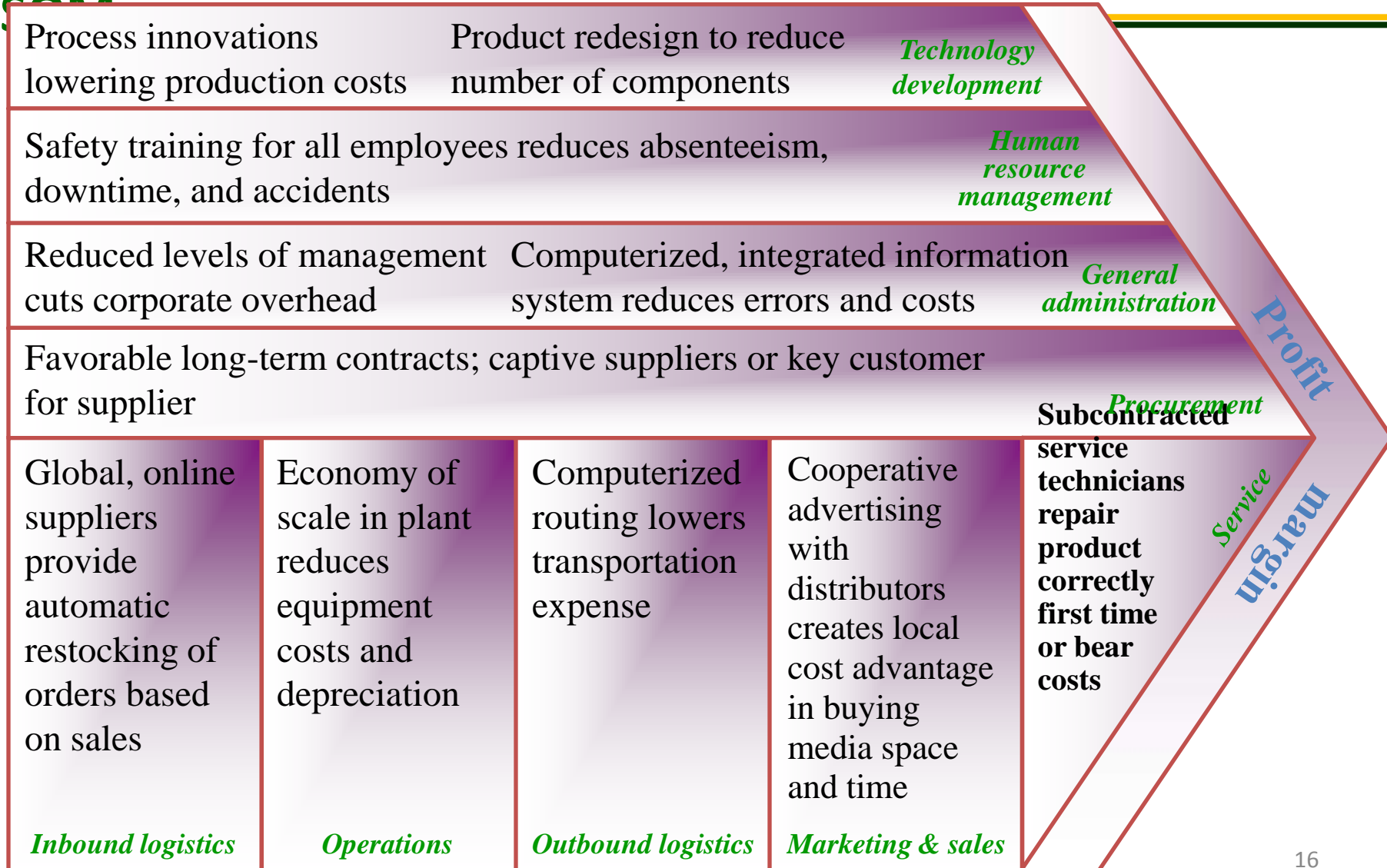
Diagnose the cost drivers of each value activity & how they interact with each other



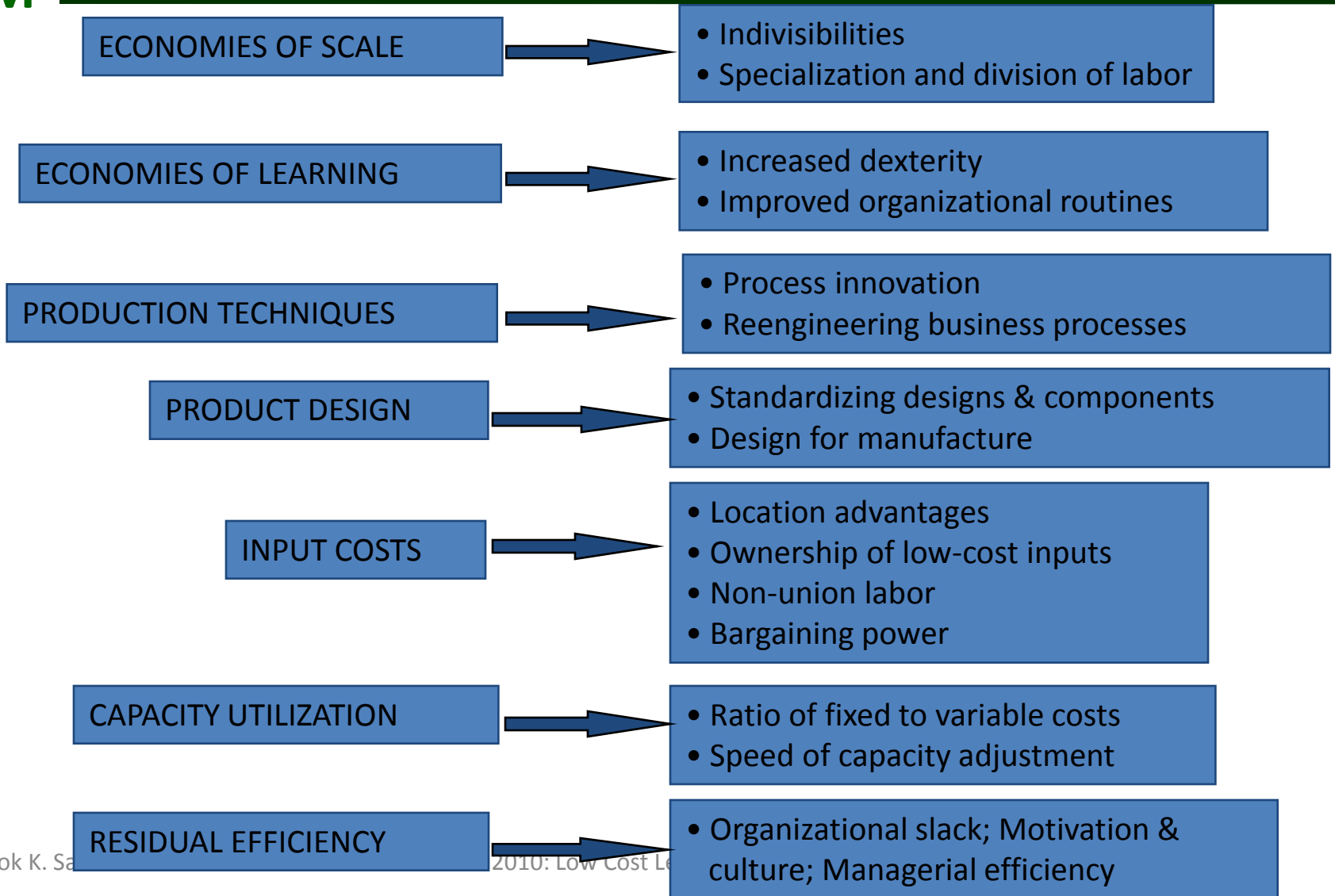
Identify linkages



Identify competitors' value chains, and determine the relative cost of competitors & the source of cost difference



Develop a strategy to lower cost position thru controlling cost drivers



Develop a strategy to lower cost position thru reconfiguring value chain...

- A different production process
- Difference in automation
- Direct sales instead of indirect sales
- A new distribution channels
- A new raw material
- Major differences in forward or backward vertical integration
- Shifting the location of facilities relative to suppliers and customers
- New advertising media

Develop a strategy to lower cost position thru reconfiguring value chain...

- **Reasons for cost advantage**
 - Presents the opportunity to fundamentally reconfigure a firm's cost, compared to settling for incremental improvements.
 - Eg. No-frills airlines (50% less cost) versus Trunk Airlines
 - Altering the basis of competition in a way that favors a firm's strength.
 - Eg. Carbo-thermic Reduction process versus. Alumina route by Japanese firms to produce metal from Bauxite

Develop a strategy to lower cost position thru reconfiguring value chain...

To identify new value chain

- How can the activity be performed differently or even eliminated?
- How can a group of linked activities be recorded or regrouped
- How might coalitions with other firms lower or eliminate costs



Protect differentiation parity/ proximity

Test the cost reduction strategy for sustainability

- Better positioned than **RIVAL COMPETITORS** to compete offensively on basis of price
- Low-cost provides some protection from bargaining leverage of powerful **BUYERS**
- Low-cost provides some protection from bargaining leverage of powerful **SUPPLIERS**
- Low-cost provider's pricing power acts as a significant barrier for **POTENTIAL ENTRANTS**
- Low cost puts a company in position to use low price as a defense against **SUBSTITUTES**