Crafting Competitive Advantage

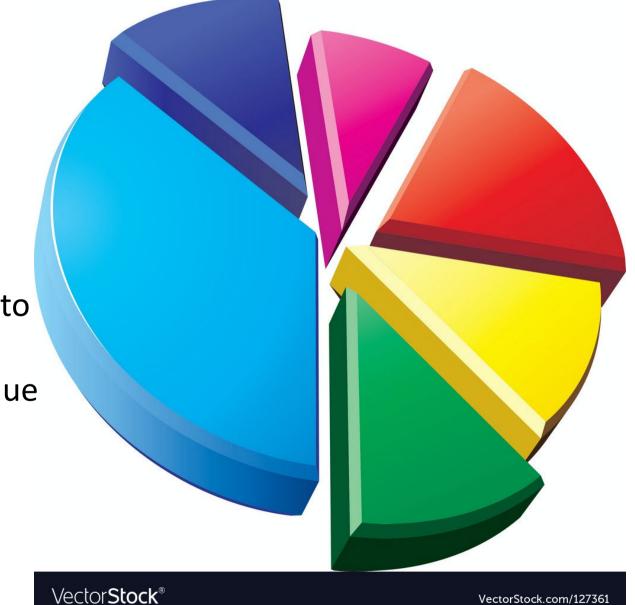
Business Strategy

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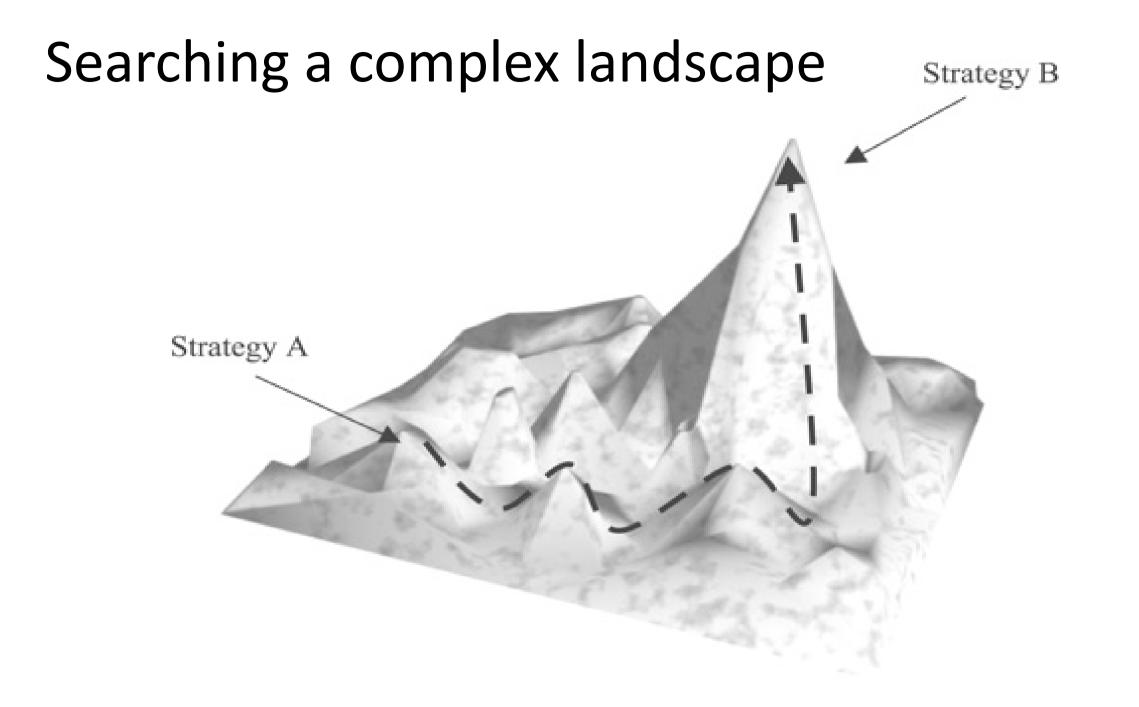
The Entrepreneur's Task

Create value through collaboration with other actors and assets

Position yourself to capture some portion of the value created



Your strategy is the core guidance provided to direct your and others' efforts to create and capture value.



Occupying/defending a valuable position



Competitive Advantage and Value Creation

- To create an advantage a firm must configure itself to do something both valuable and unique
- Test: were the firm to disappear, could a competitor, supplier, or customer replace it perfectly?

Value Creation

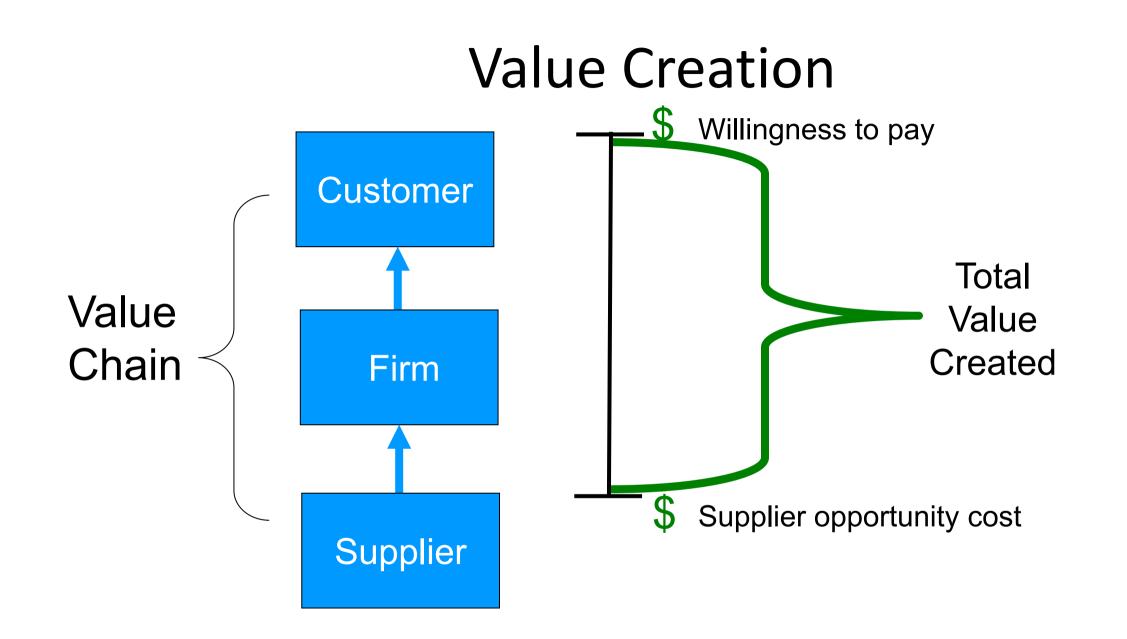




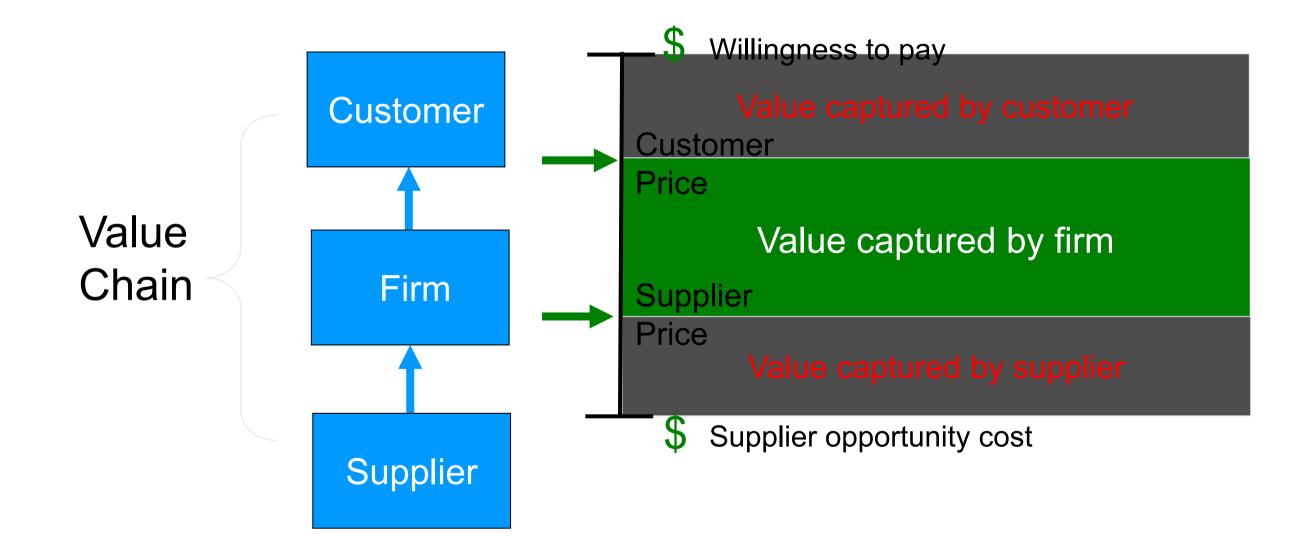
Set of fork lifts: \$1 million Operating costs: \$6.5 million



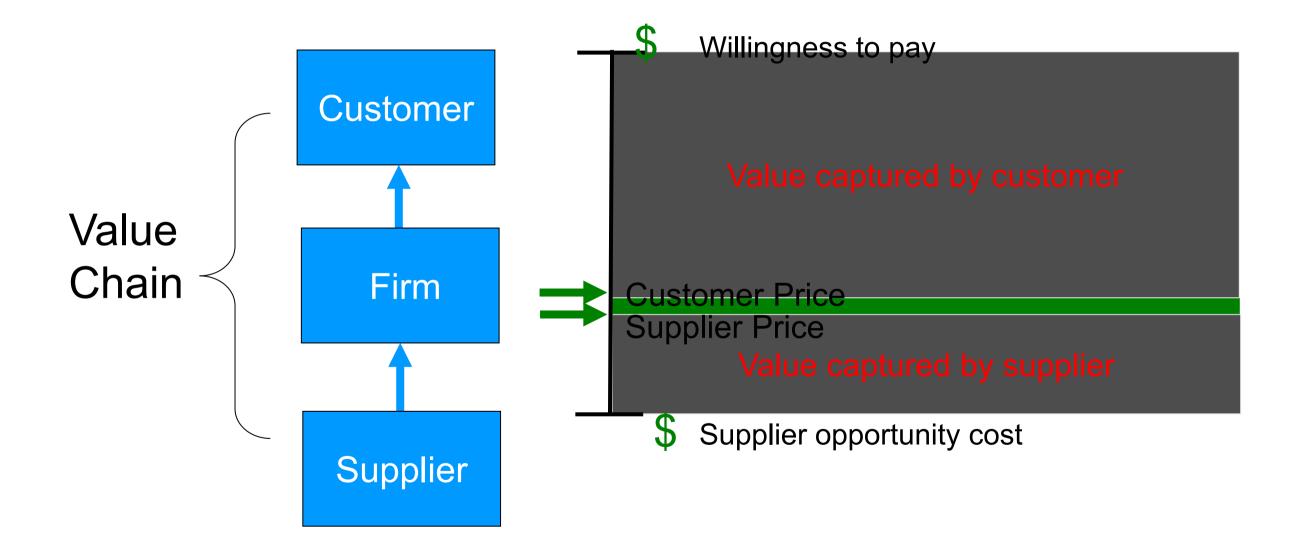
Cost of inputs: \$2.5 million



Value Capture



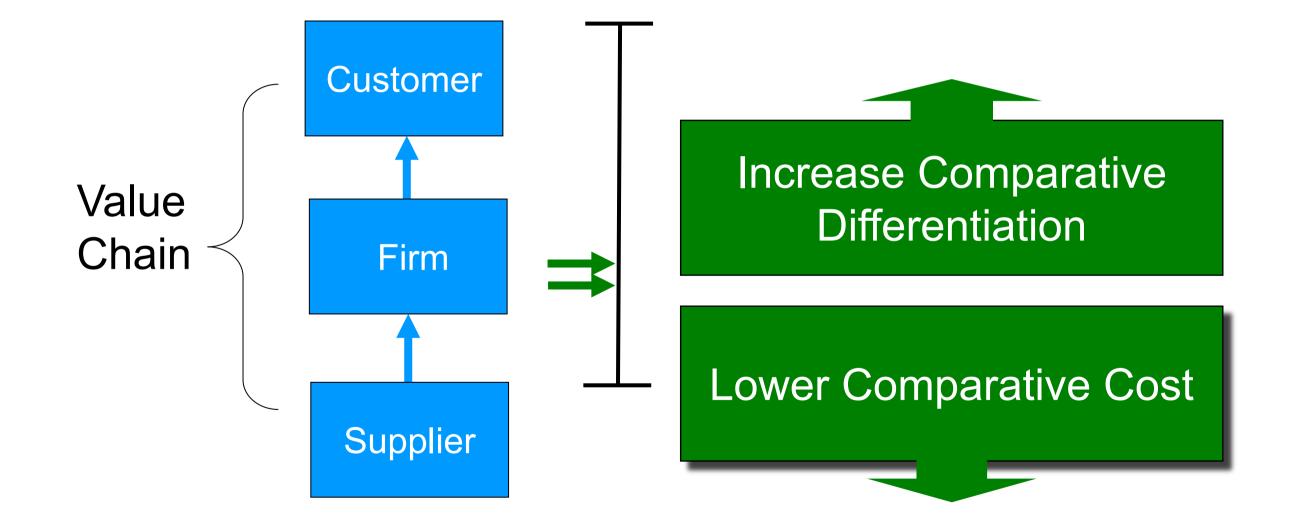
Value Capture with Imitator



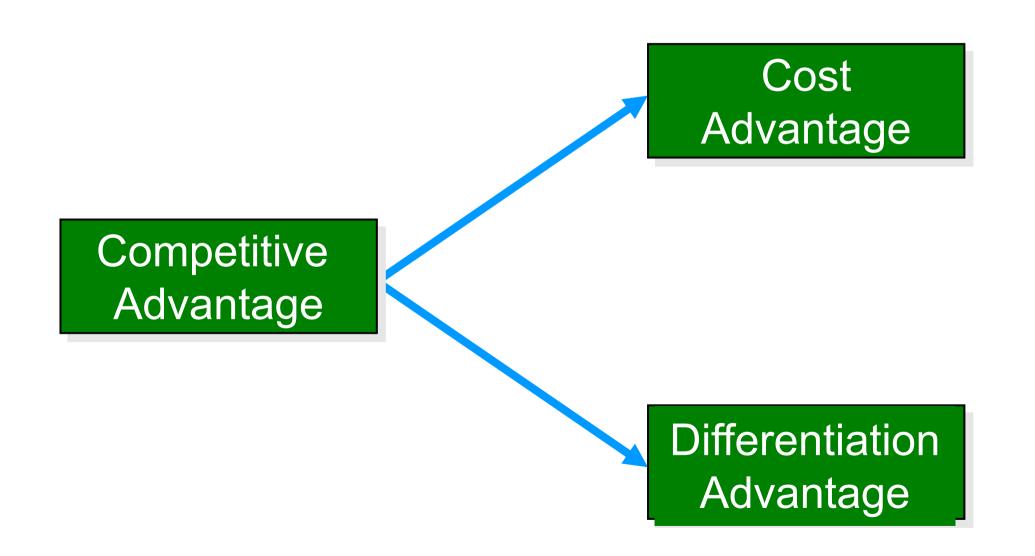
Value Creation

- A firm creates value when it is unique in some valuable way, when the network of suppliers, customers, and complementors within which it operates is more productive with it than without it and that it is not easily replaced.
 - Rivkin and Ghemawat

Types of Competitive Advantage



Cost-Leadership/Differentiation



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Cost vs. Differentiation: Differing Organizations

Cost Advantage Differentiation Advantage

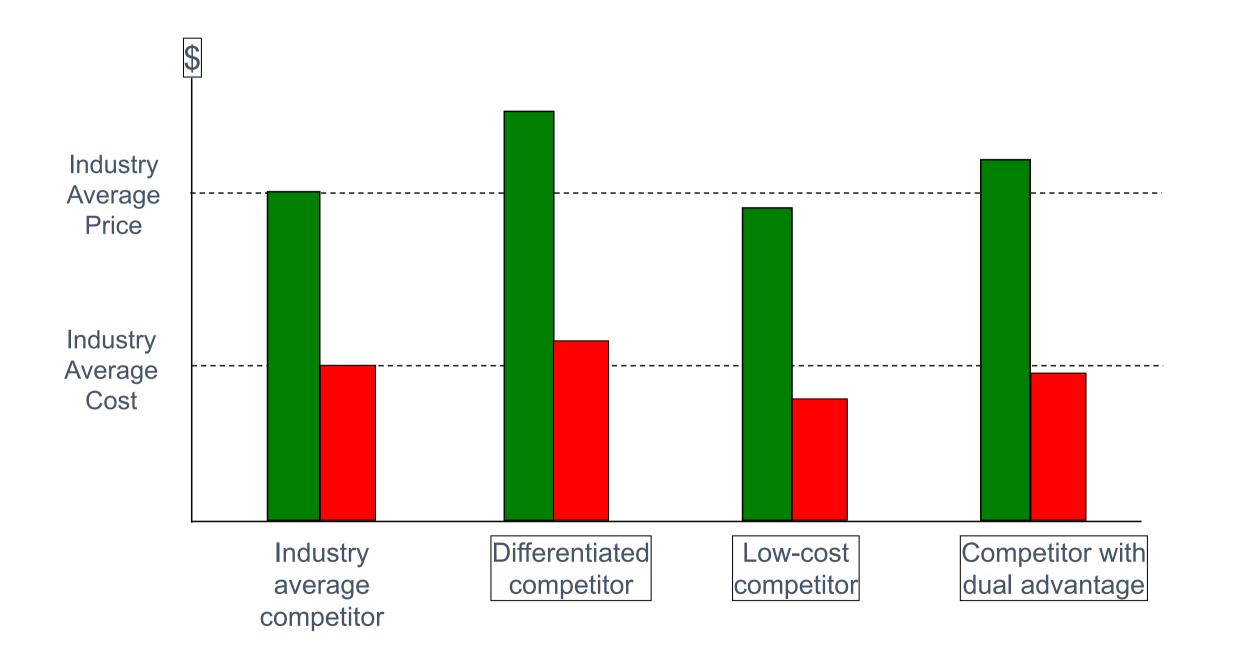
Elements of Strategy:

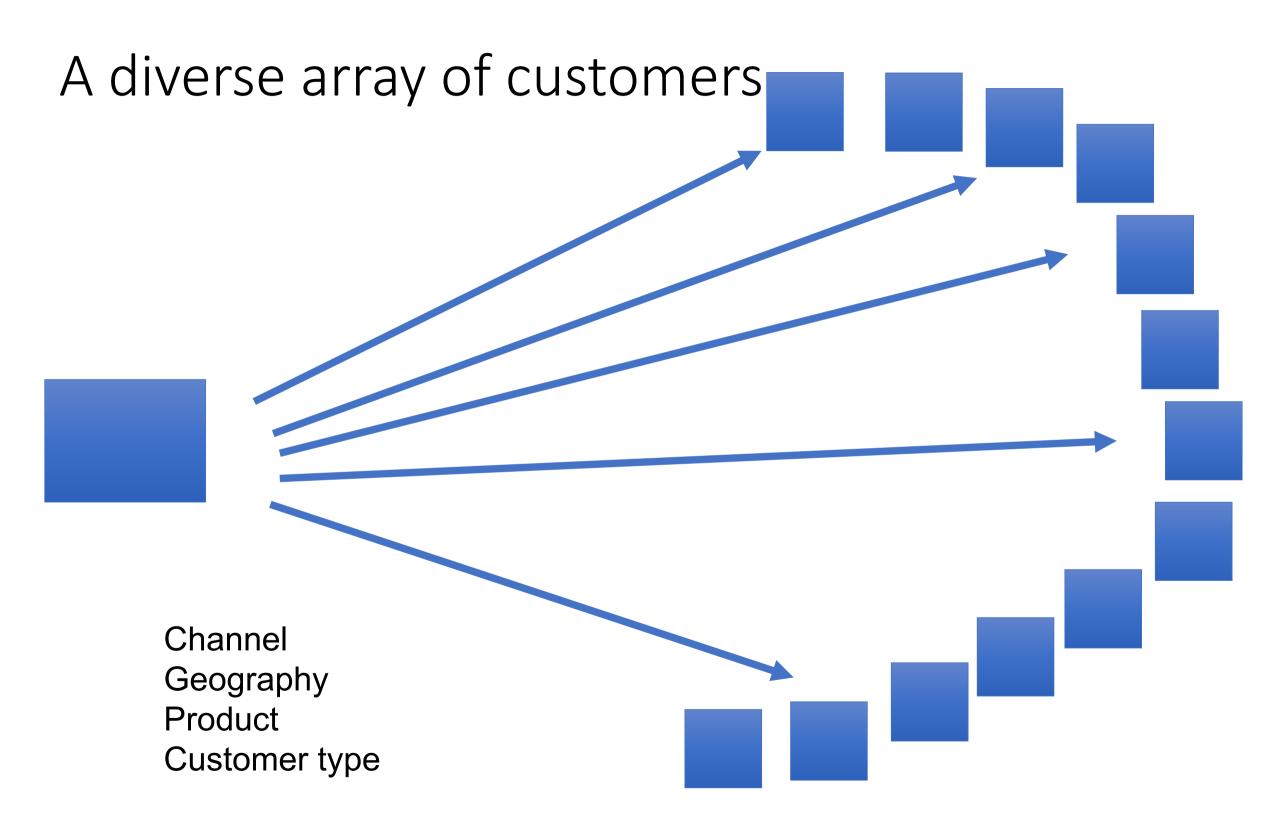
scale, learning, process design, control branding, service, features, quality, reliability

Resources and Capabilities:

process eng., cost control, quantitative incentives, negotiation, etc. marketing, product design, qualitative meas. and incentives, creativity, etc.

Cost vs. Differentiation?





Porter's Generic Strategies

		Source of Competitive Advantage Cost Leader Differentiation				
Competitive Scope	Broad Segment	Cost Leadership	Differentiation			
	Narrow Segment	Fo	C U S			

Cost-Leadership Strategy

- Deliver an acceptable product or service at the lowest possible cost.
- Manage key cost drivers.
- Open a significant and sustainable cost gap over all competitors.
 - However, cost leaders must maintain parity or proximity in satisfying buyer needs.
- Cost leadership often requires trade-offs with differentiation.

Differentiation Strategy

- Select one or more needs that are valued by buyer.
- Selectively add costs if necessary to meet these needs.
- Successful differentiation must extract premium prices.
- Differentiation leads to above-average profitability provided the firm maintains cost parity or proximity to competitors.

Focus Strategy

- Exploits the same fundamental types of competitive advantage.
- Selects narrow target segment(s) with unusual needs:
 - Channel
 - Geography
 - Product
 - Customer type
- Focus is desirable where activities required to service some customers are different from the activities required to service other customers.

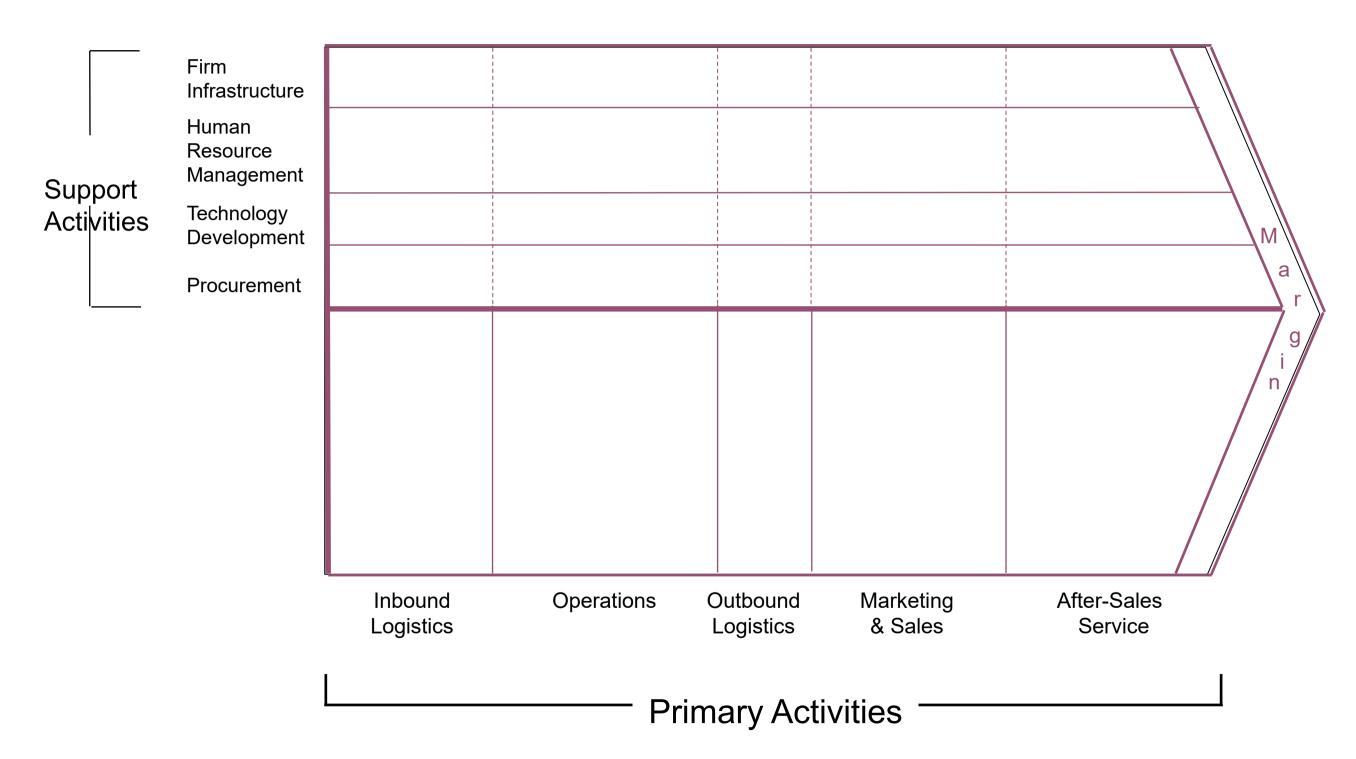
Evaluating Strategy: Four Step Process

- 1. Catalog and understand activities in the value chain
- 2. Identify cost drivers by activity; define relative costs
- Identify drivers of willingness to pay (dimensions of differentiation)
- 4. Explore complementarities, configure activities, choose positioning

STEP ONE

- Define the key activities in your value chain.
- Describe your approach to performing each.

1. Catalog Activities (The Value Chain)



1. Catalog Activities (The Value Chain)

	Firm Infrastructure	collect		ots of managen	nent visits • Fun wor	y meetings rking environment	
Support Activities	Human Resource Management	 Associates, not employees Not unionized Store manager autonomy Decentralized training in DC Promotion from within Associate compensation tied to company Shrink incentive plan 					
	Technology Development	 POS Satellite system Store performance tracking Neal-time market research UPC 				M	
	Procurement	 Hard-nosed negotiating Centralized buying No-frills meeting rooms Partnerships with some vendors Planning packets 					
		 Frequent replenishment Automated DCs, cross docking, pick-to-light EDI Hub and spoke system 	 Big stores in small towns = local monopolies, low renta costs Pricing that reflects local monopoly Concentric expansion Brand-name merchandise Private labels Little space for inventory Suggestion program Store within a store 		 Traiting: tailoring merchandise to locale EDLP Low prices Store manager latitude on pricing Little advertising Merchandise meeting 	• Easy returns	g i n
		Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	After-Sales Service	3
Source: Pankaj	Ghemawat	Primary Activities					

STEP TWO

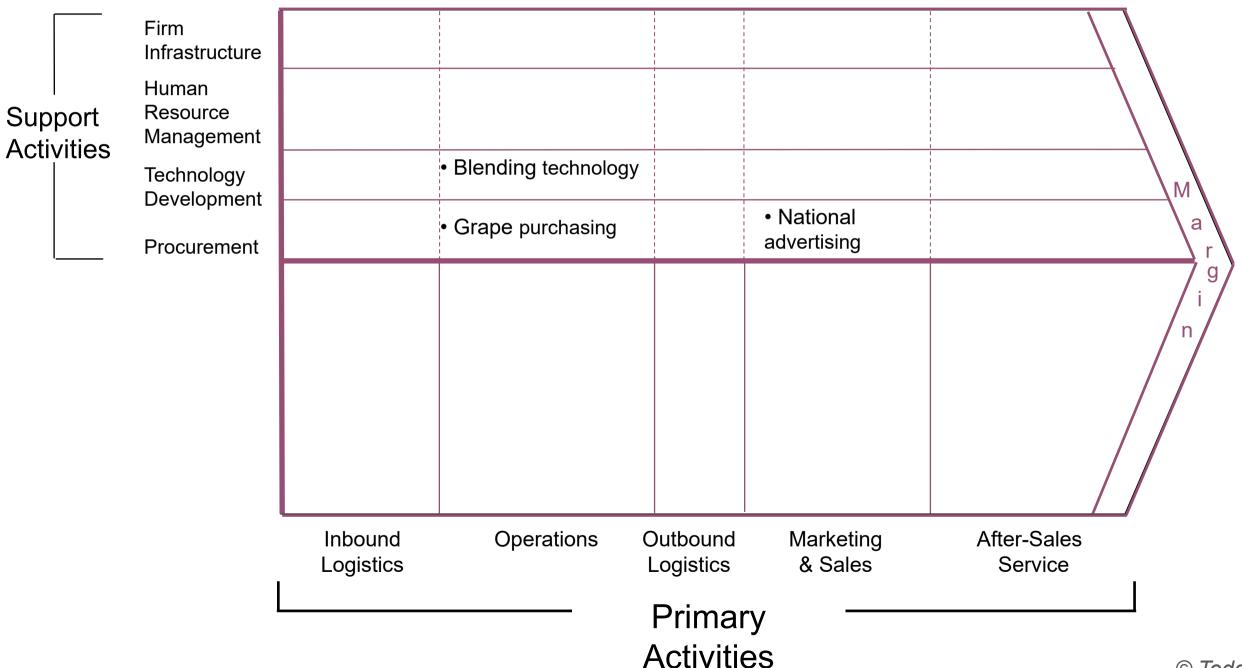
- By activity, identify key drivers of cost advantage
- What strategies or activity choices would lead to your firm possessing a cost advantage relative to competitors?

2. Identify Cost Drivers for Each Activity; Analyze Relative Costs

- Scale
- Learning
- Pattern of capacity utilization
- Interrelationships with suppliers

- Technology
- Integration
- Timing
- Location
- Institutional factors

Successful Cost Leadership Strategy: Gallo Wines



STEP THREE

- By activity, identify opportunities for customer value creation.
- Draw customer's value chain or identify what creates value for your customer.
- For what features, attributes, services is the customer willing to pay a premium?

3. Analyze Relative Willingness to Pay

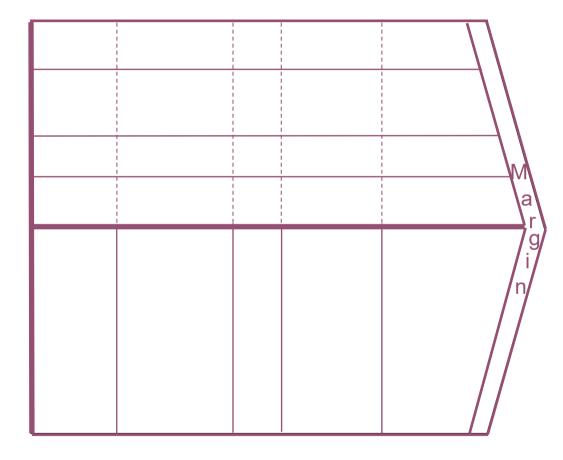
- quality
- reliability
- consistency
- speed
- durability
- safety
- accessories
- availability
- location

- pre-sales service
- speed of delivery
- ability to upgrade
- after-sales service
- brand name
- credit

Successful Differentiation: Stouffer's Frozen Foods

Support Activities	Firm Infrastructure Human Resource Management Technology Development Procurement	 Innovative menus Sauce technology High quality inputs 					M a r
			High quality, consistent packaging	Brokers	Highest advertising levels Advertising content		g i n
		Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service	
	l	Primary Activities					

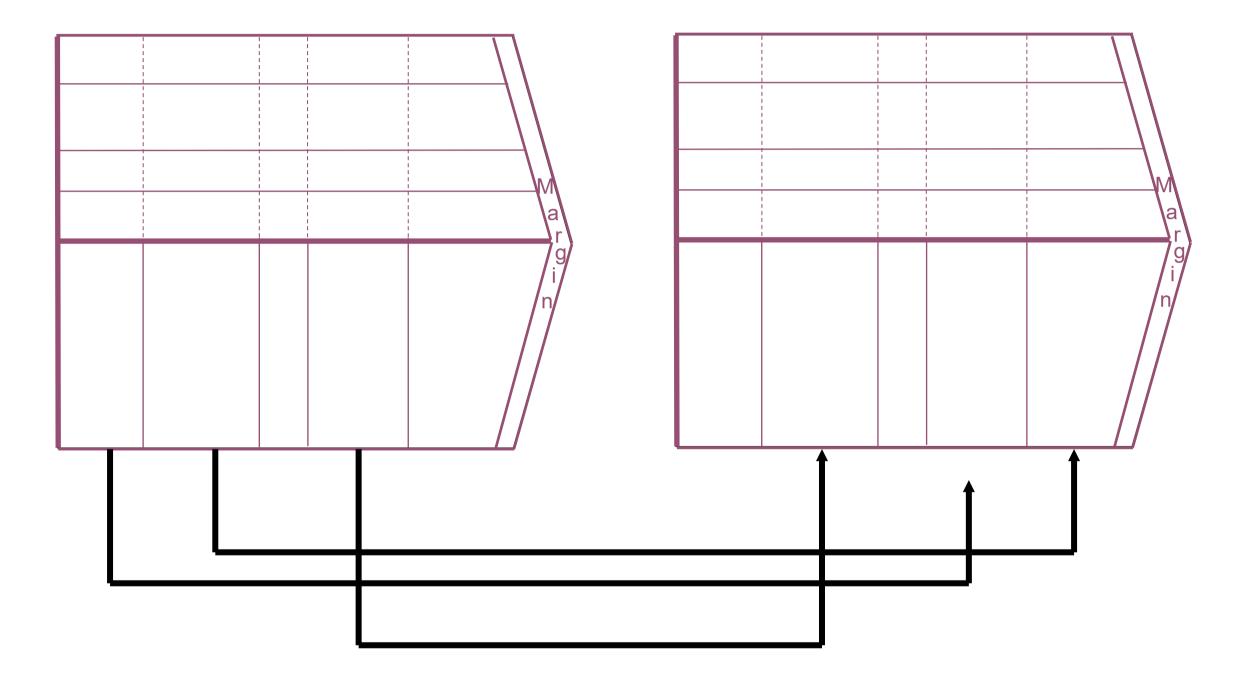
Adding Value: Business to Consumer

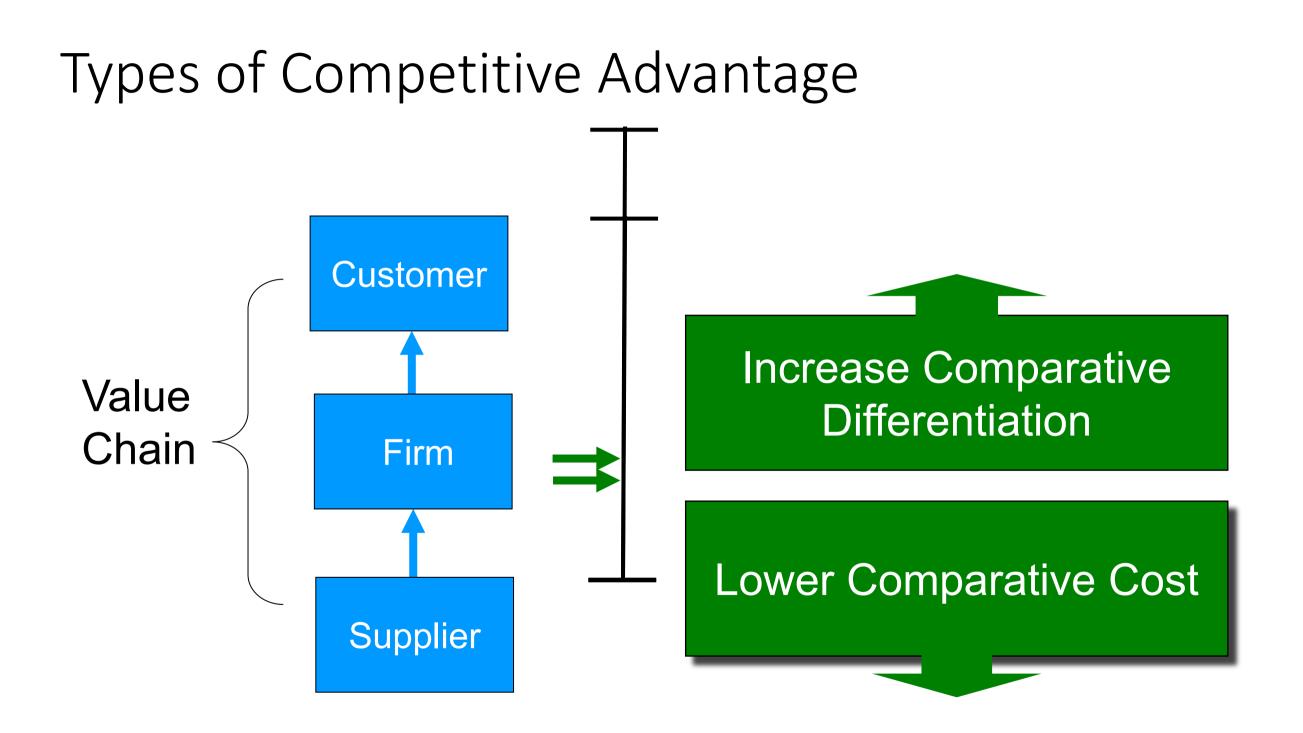


- Safety
- Quality
- Customer Service
- Reliability
- Ease of use
- Ergonomics



Adding Value: Business to Business

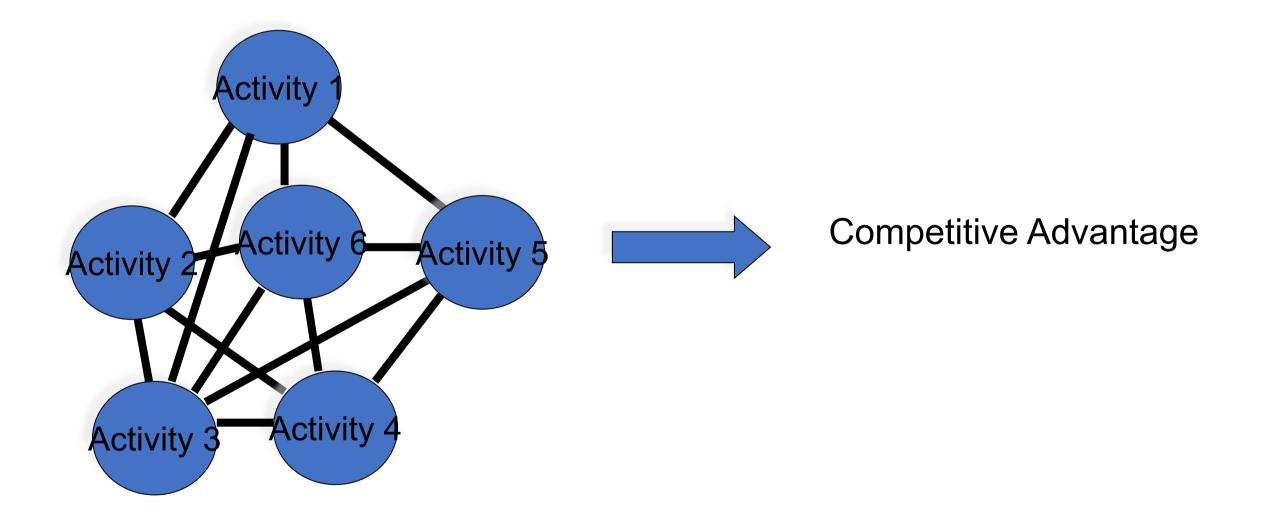




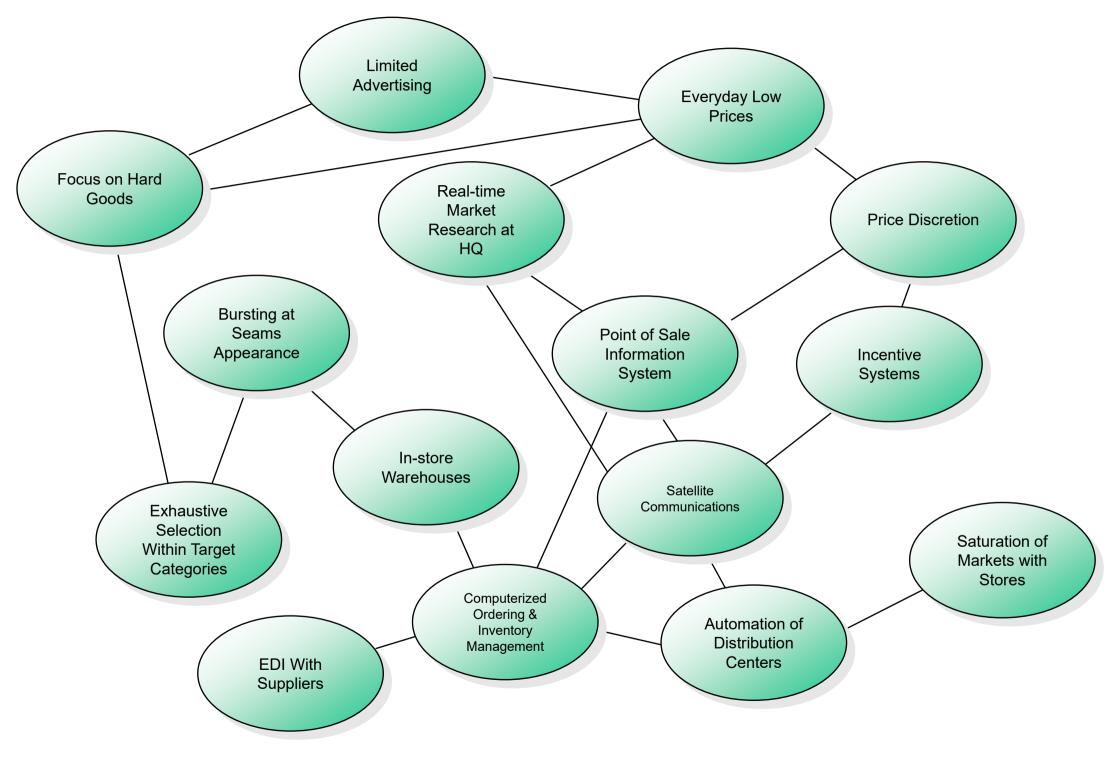
STEP FOUR

- Explore alternative bundles of activity choices
 - Are these unique and difficult to imitate?
 - Are they complementary?
 - Will they achieve a sustainable and valuable market position?
 - Do these choices leverage capabilities?
 - Do they respond to challenges in industry structure?

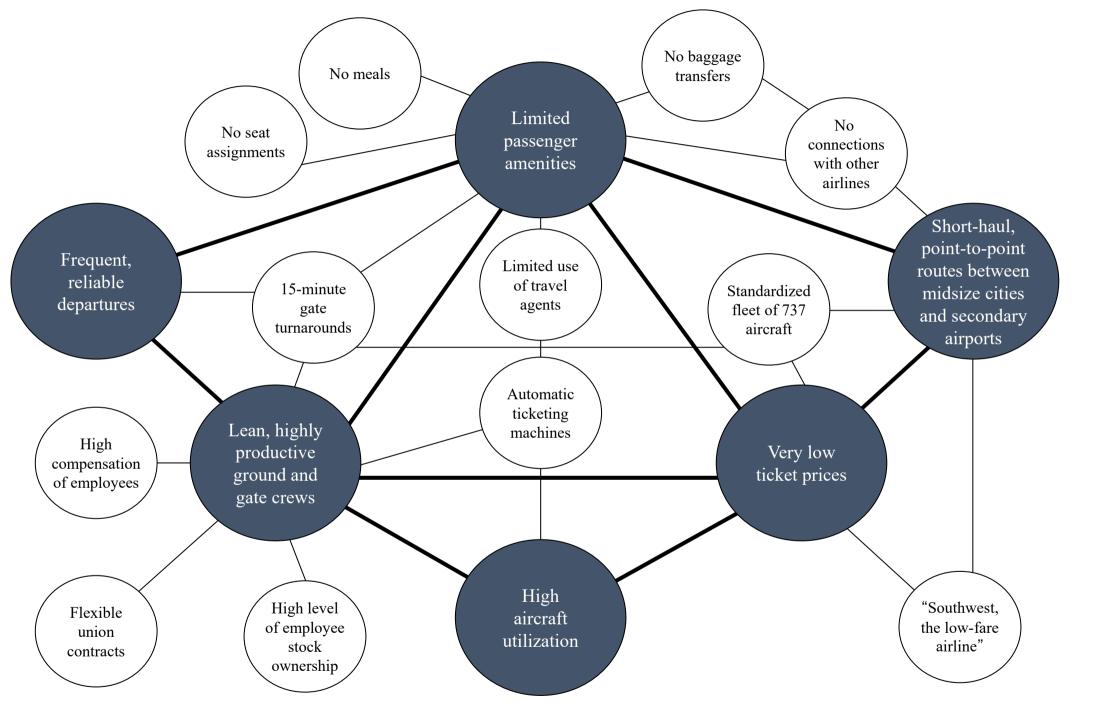
Business Strategy



Wal*Mart's Activities

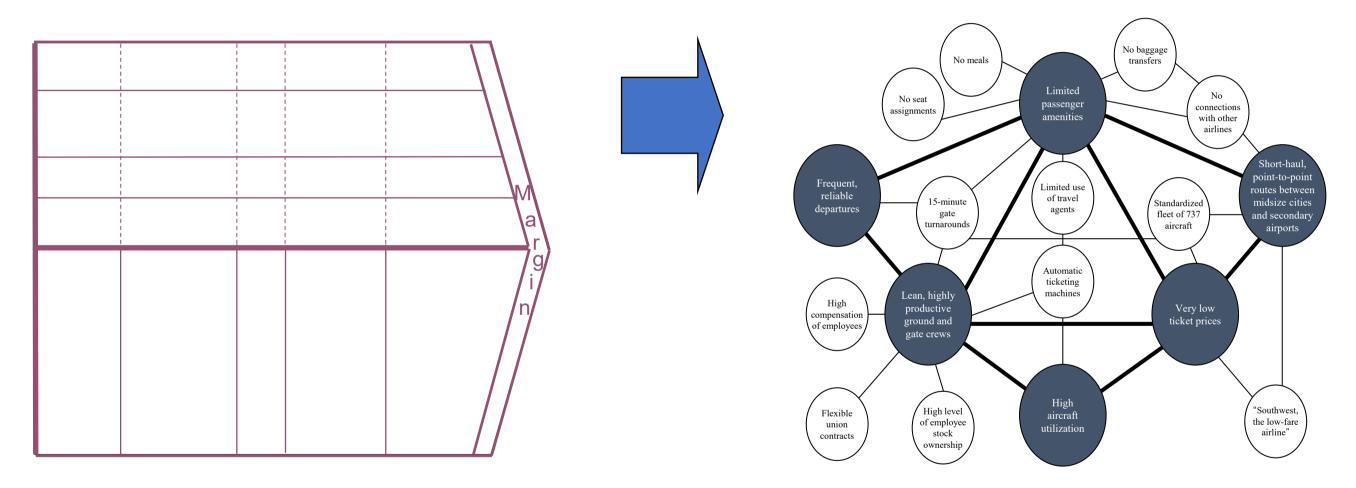


Southwest Airlines' Activity System

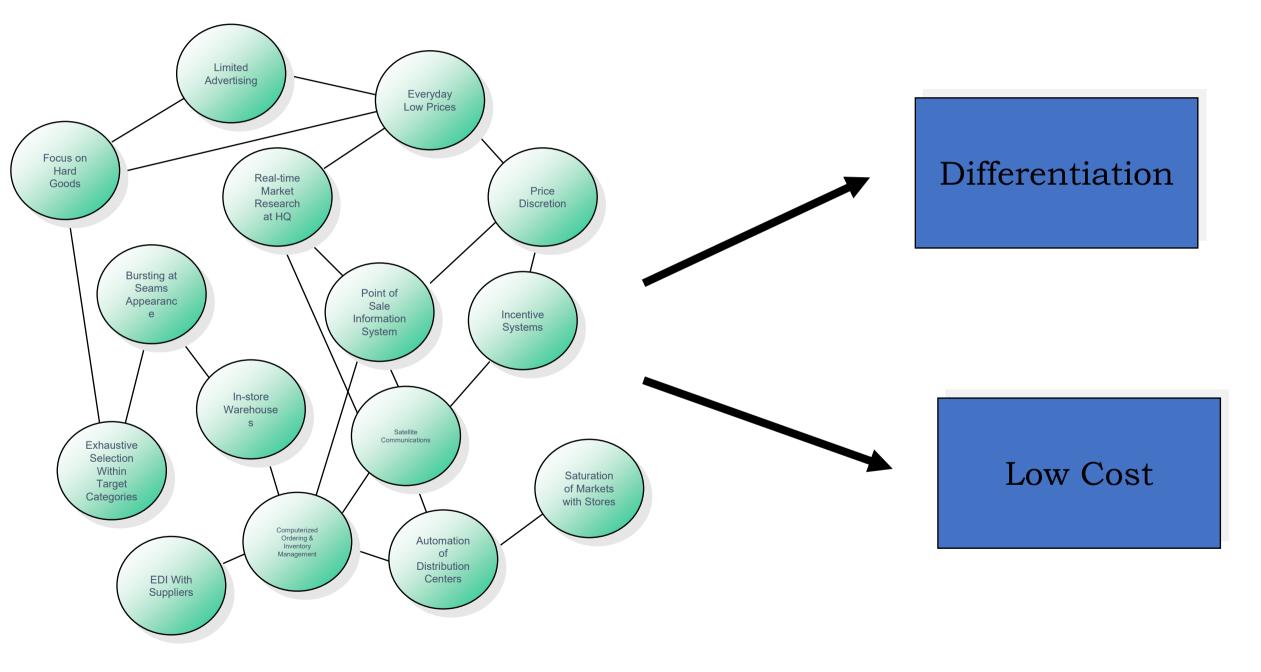


Source: Michael E. Porter "What is Strategy" Harvard Business Review, Nov-Dec 1966

Mapping Complementarities among Activity Choices



Choosing a Strategy: Choosing a complementary set of activities that yield a valuable and sustainable position



Focus Strategy

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 - product
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Types of Competitive Advantage

FOCUS

Increase Comparative Differentiation

Lower Comparative Cost



- Off airport & suburban locations
- Local customers who need temporary cars (for repairs, etc.)
- 6 month longer lease
- Minimal advertising
- Adage: "there are two types of rental car companies: those that lose money and Enterprise"

Key Takeaways

- 1. Your business model should generate sustainable unique value that thereby delivers competitive advantage
- 2. Understand whether you are fundamentally seeking a cost or differentiation advantage
- 3. Ensure that activities are configured to focus on the advantage you seek
- 4. Uniqueness (sustainable unique) is the central driver of your capacity to create and capture value