

# **Crafting Competitive Advantage**

Business Strategy

# The Entrepreneur's Task

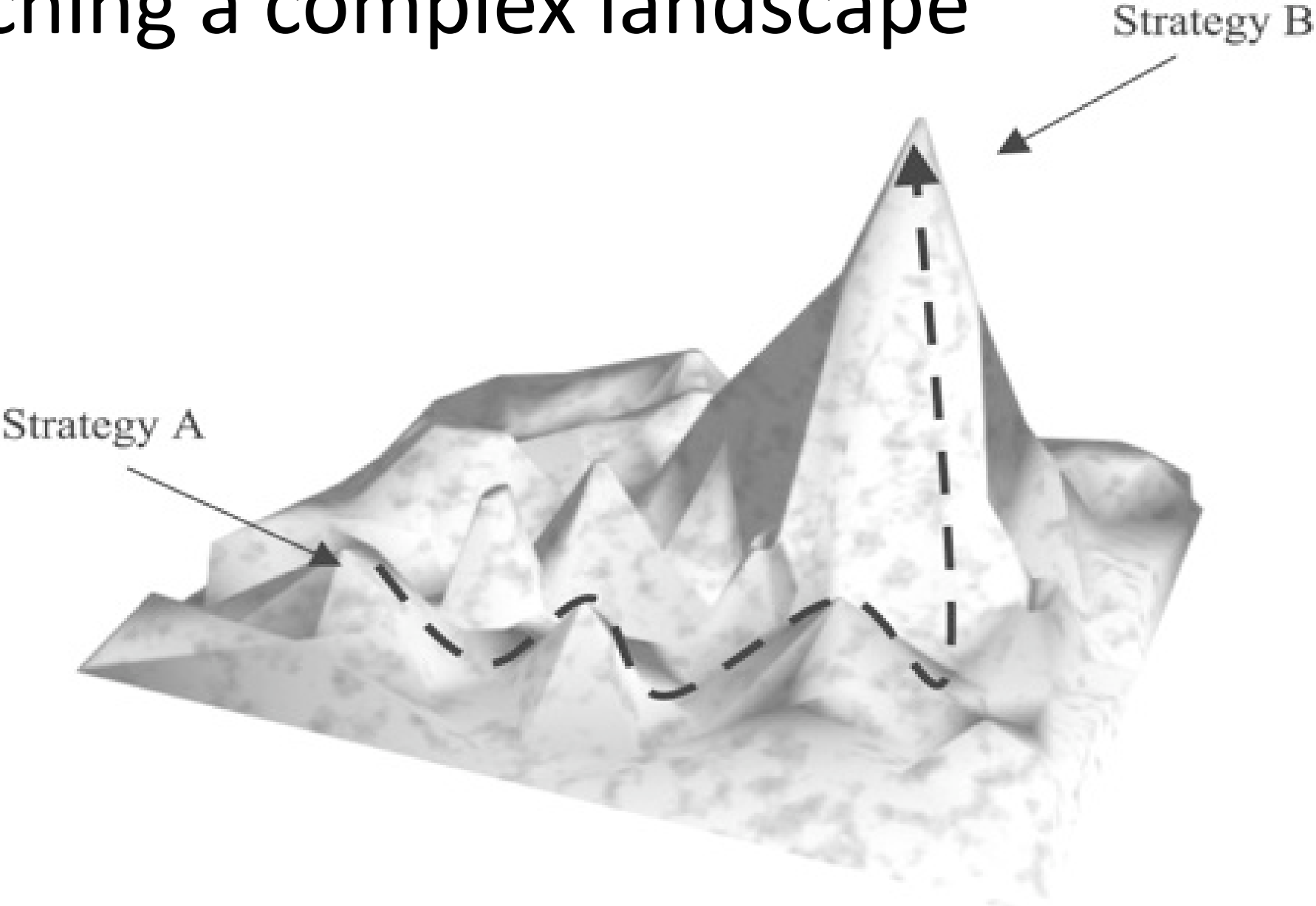
Create value through collaboration with other actors and assets

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.

# Searching a complex landscape



# 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

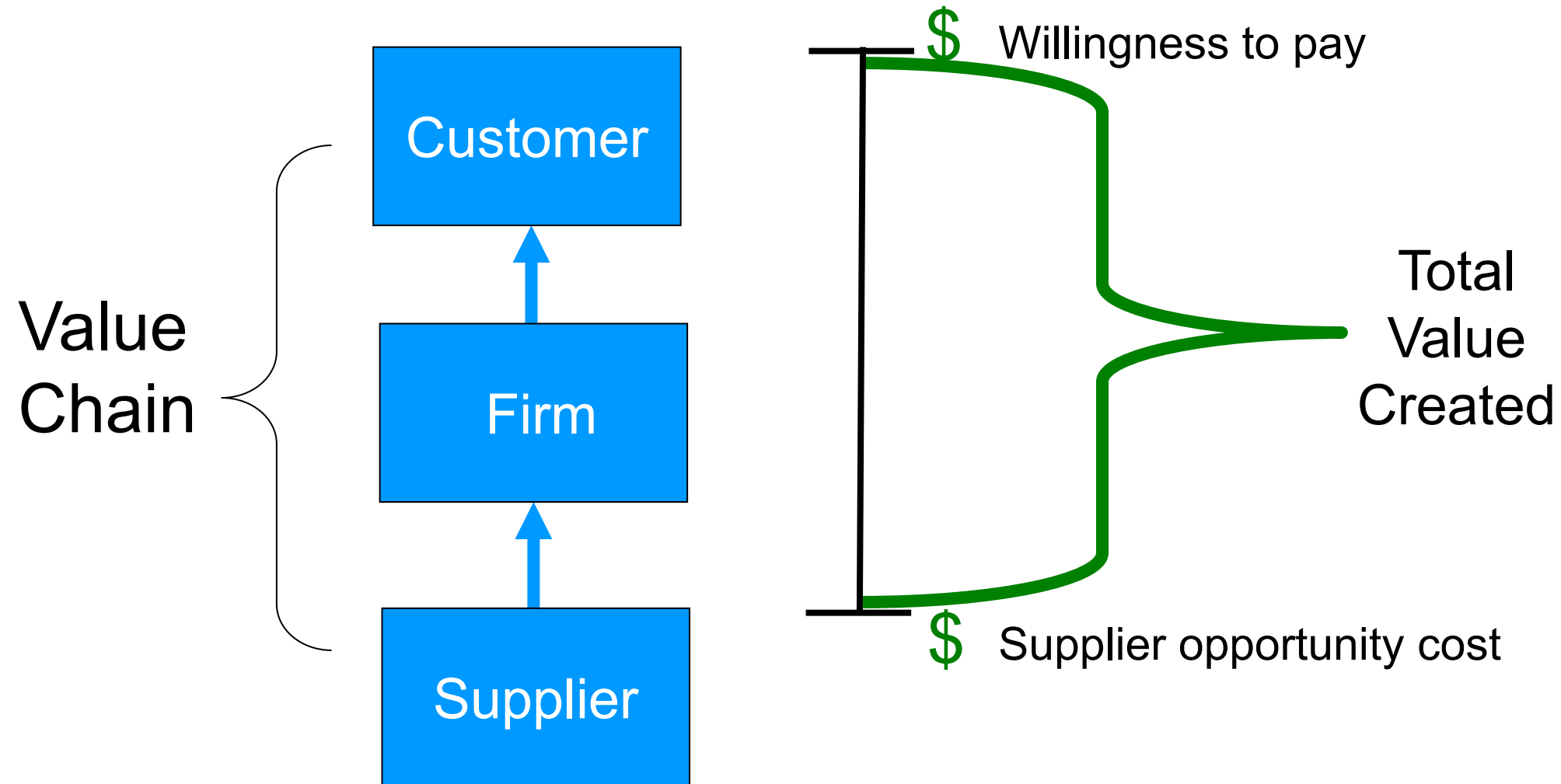


Set of fork lifts: \$1 million  
Operating costs: \$6.5 million

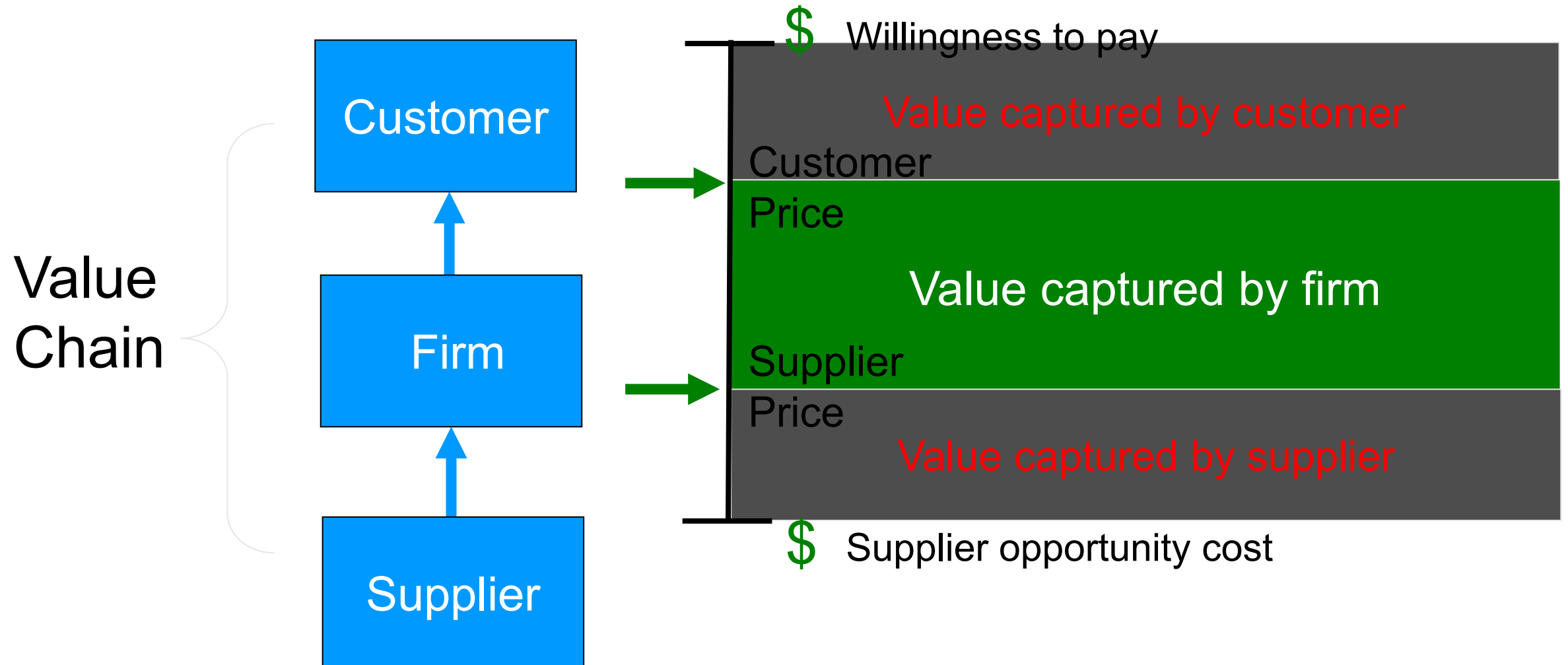


Cost of inputs: \$2.5 million

# Value Creation

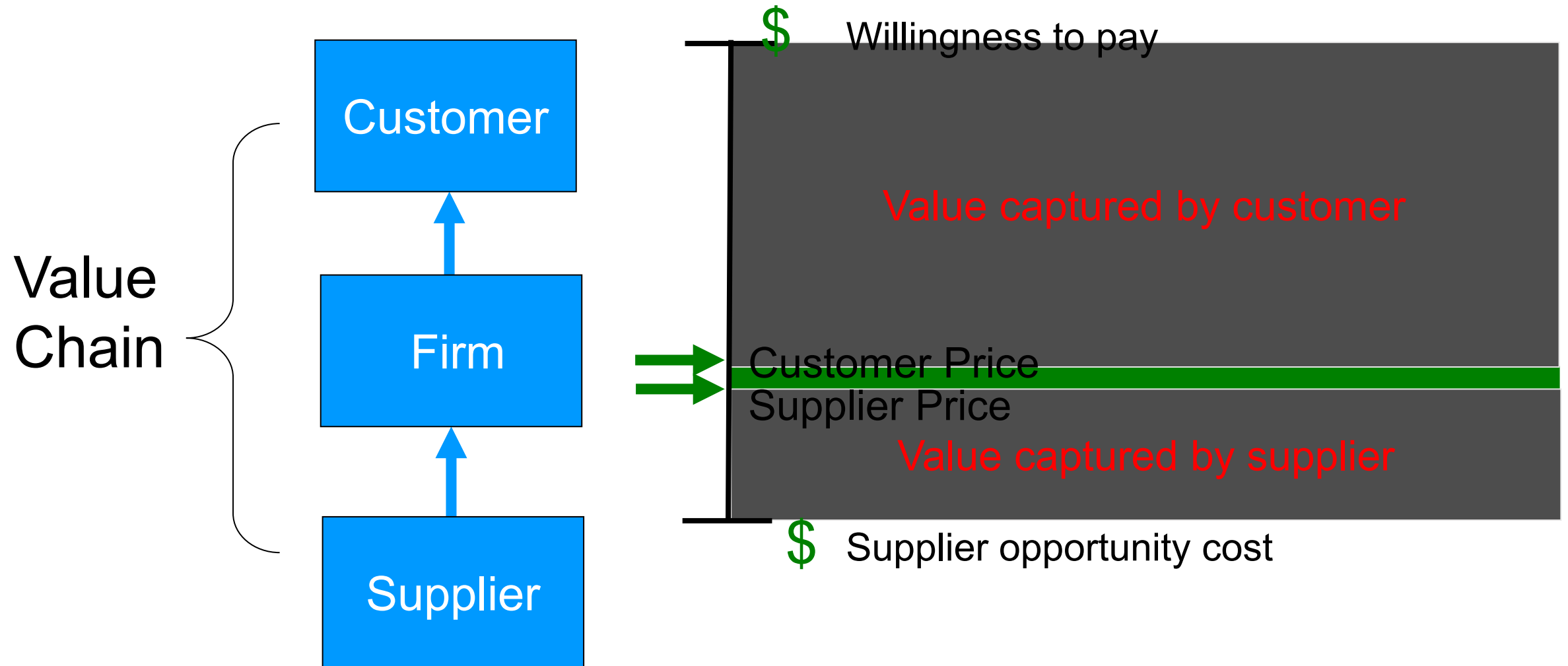


# Value Capture





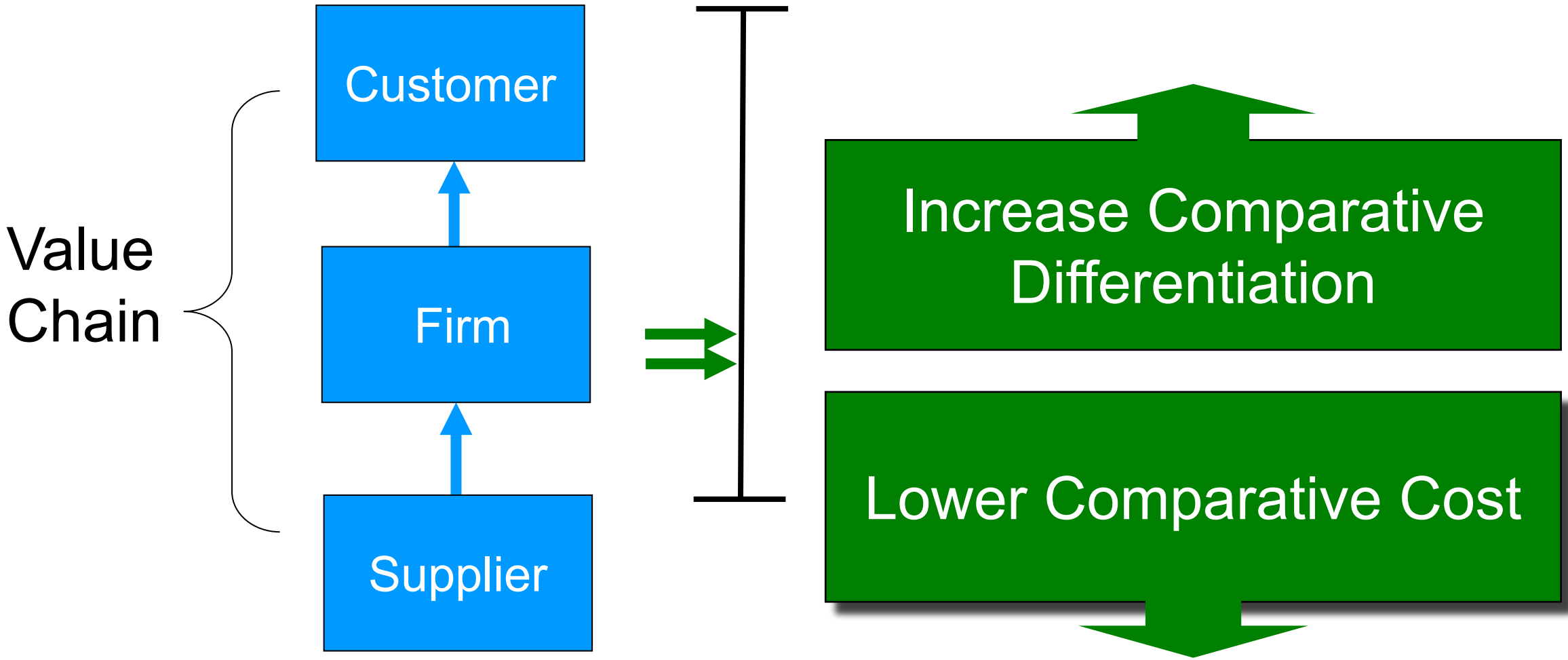
# Value Capture with Imitator



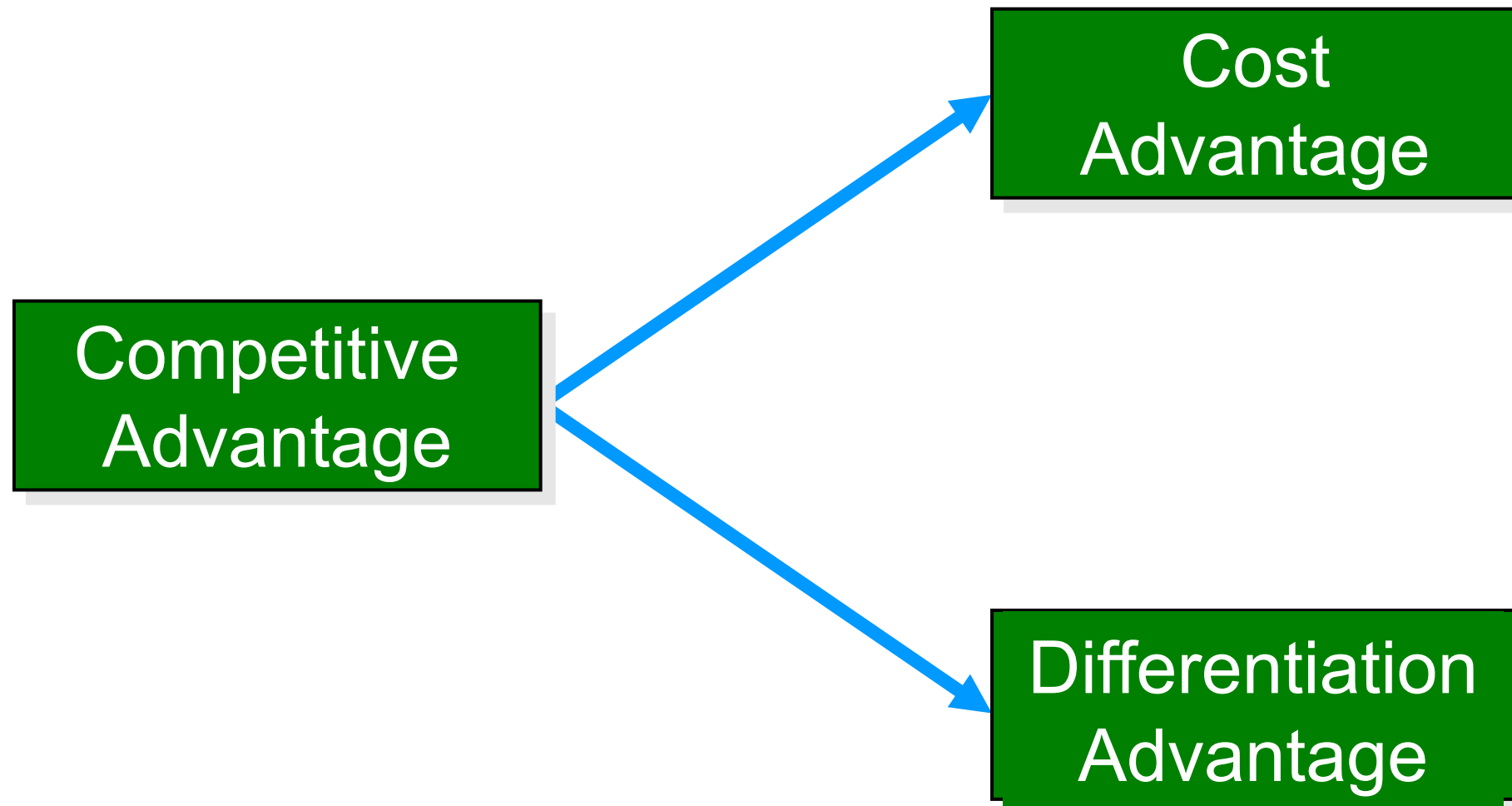
# Value Creation

- 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



# Cost vs. Differentiation: Differing Organizations

## Cost Advantage

## Differentiation Advantage

Elements  
of Strategy:

scale, learning,  
process design,  
control

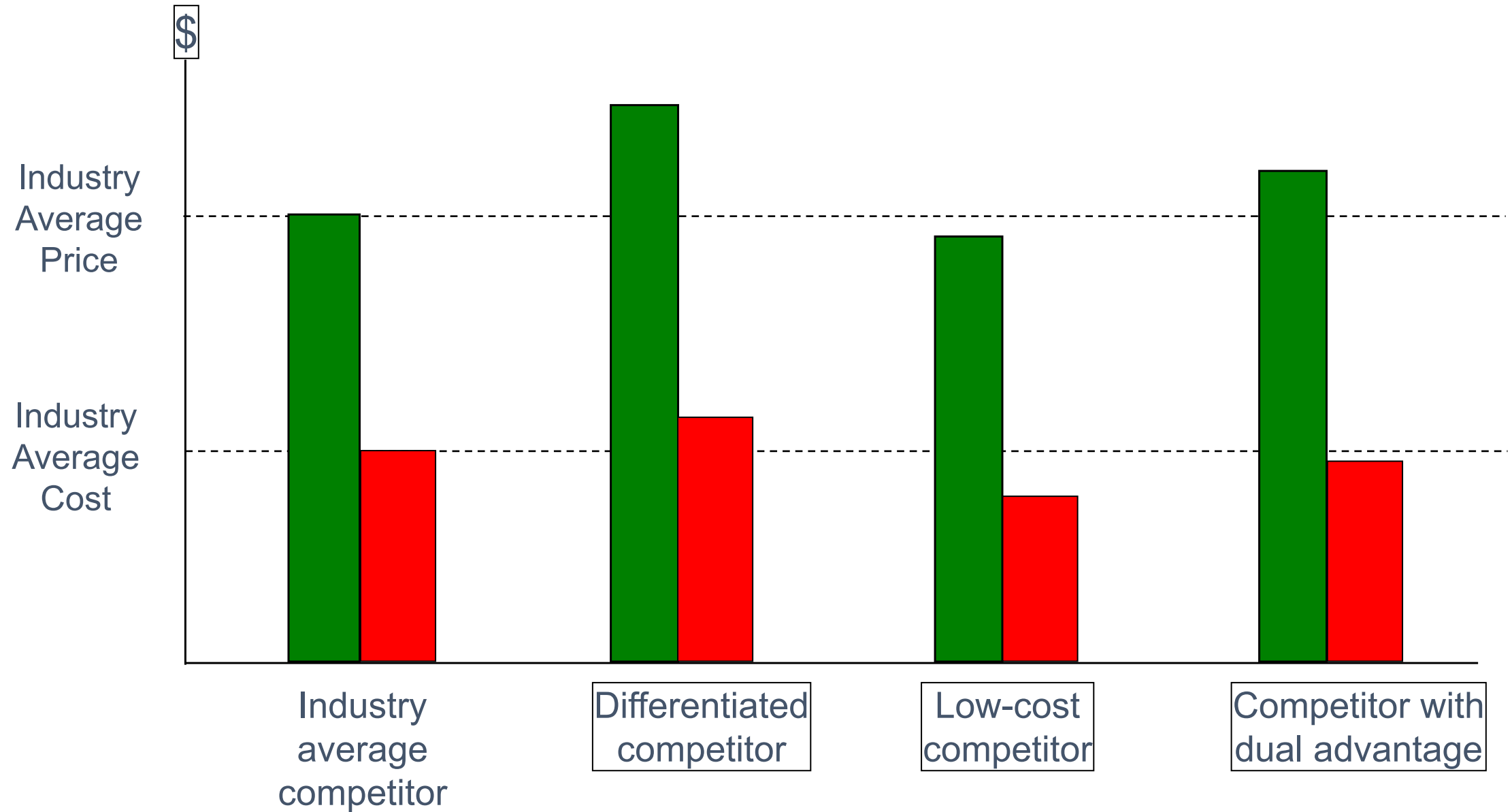
branding, service,  
features, quality,  
reliability

Resources  
and  
Capabilities:

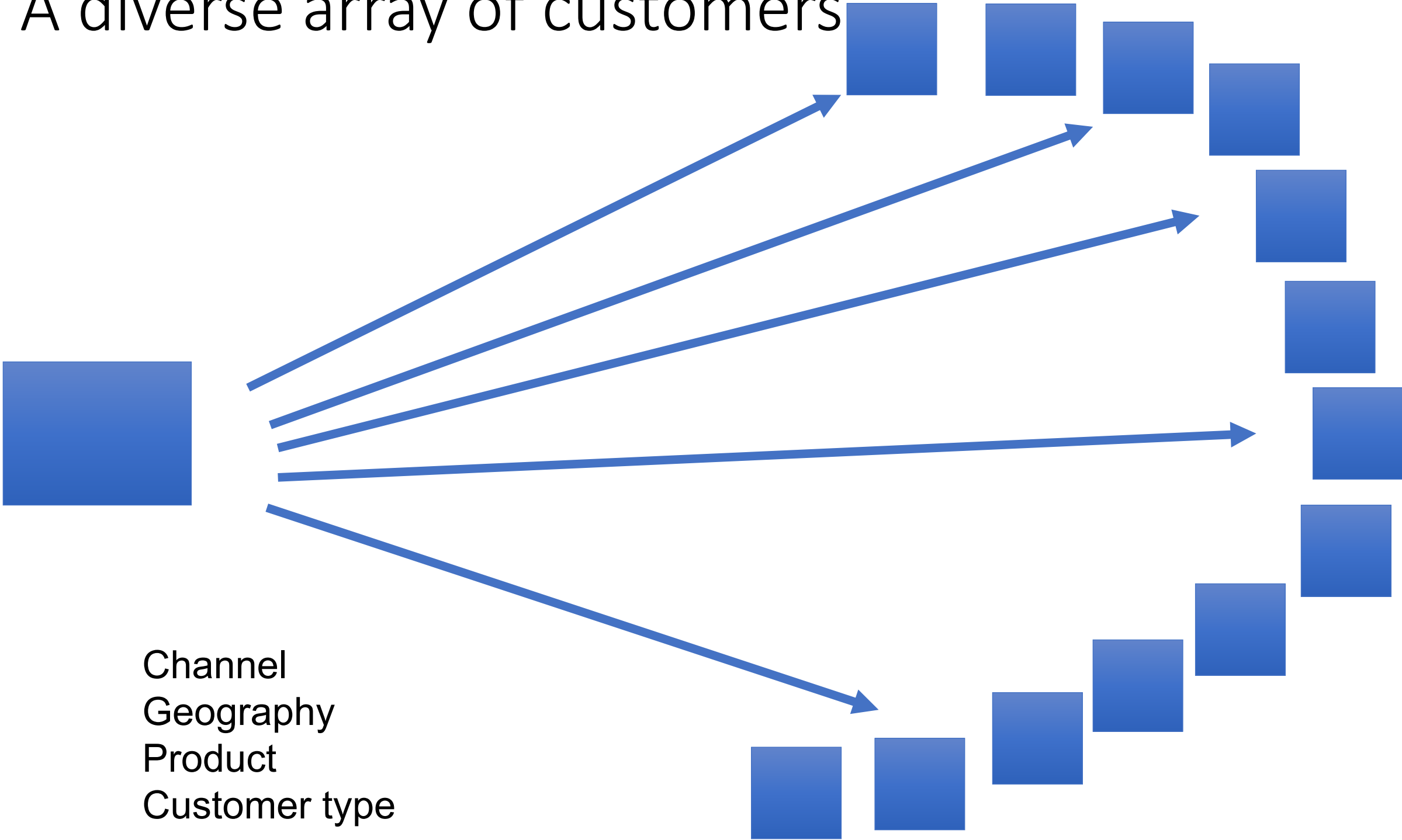
process eng., cost  
control, quantitative  
incentives,  
negotiation, etc.

marketing, product  
design, qualitative meas.  
and incentives,  
creativity, etc.

# Cost vs. Differentiation?

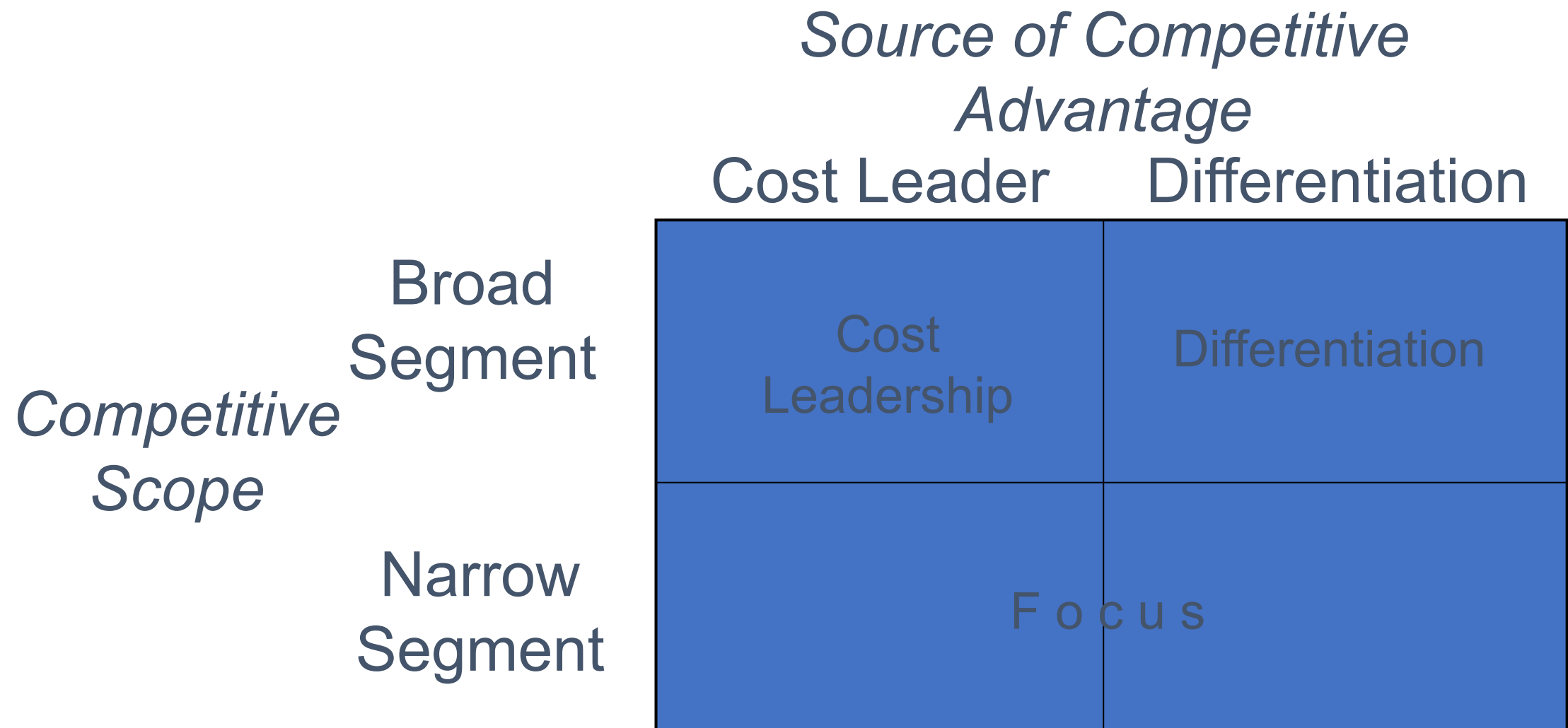


# A diverse array of customers



Channel  
Geography  
Product  
Customer type

# Porter's Generic Strategies





# 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.

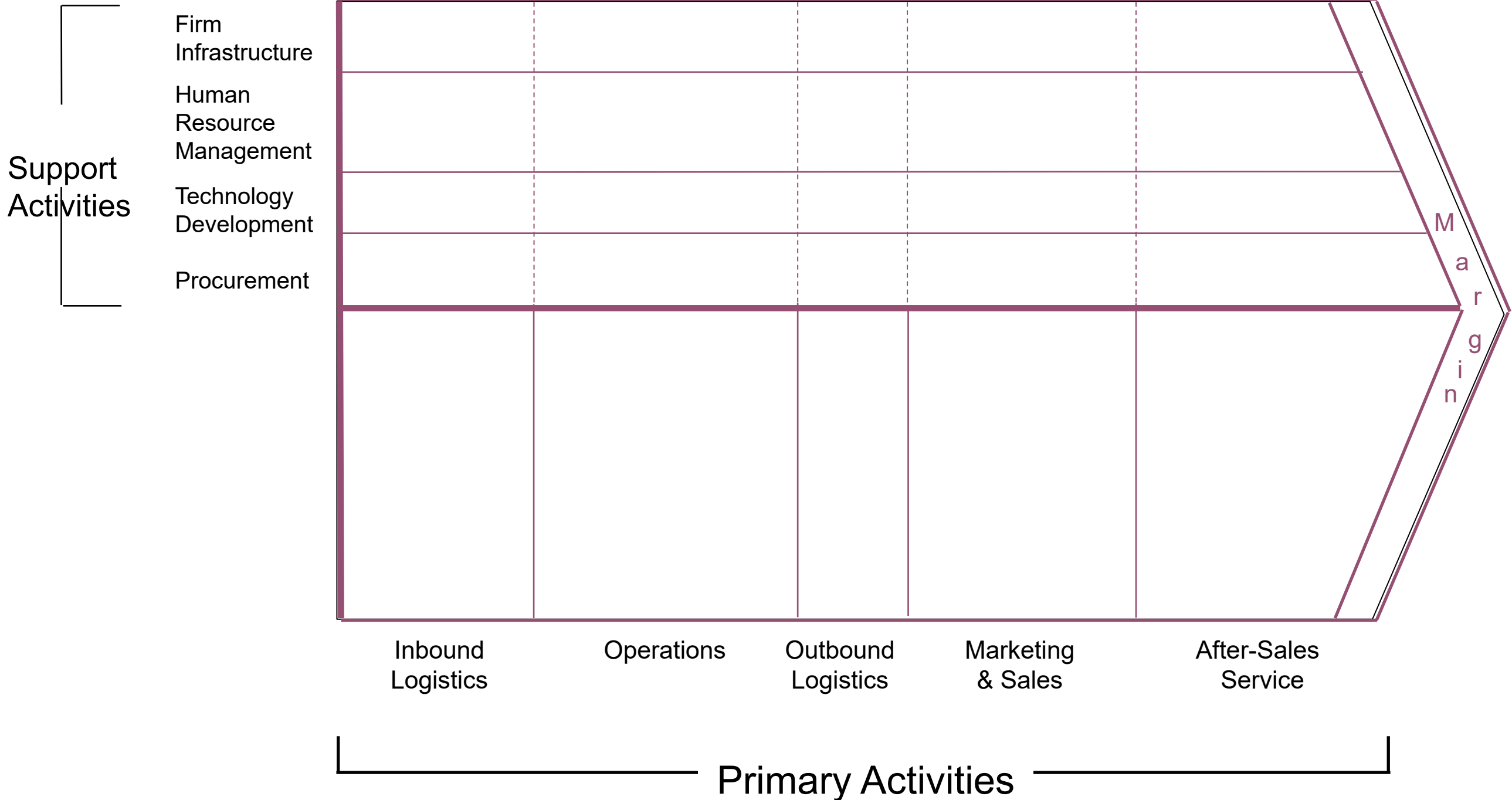
# Evaluating Strategy: Four Step Process

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

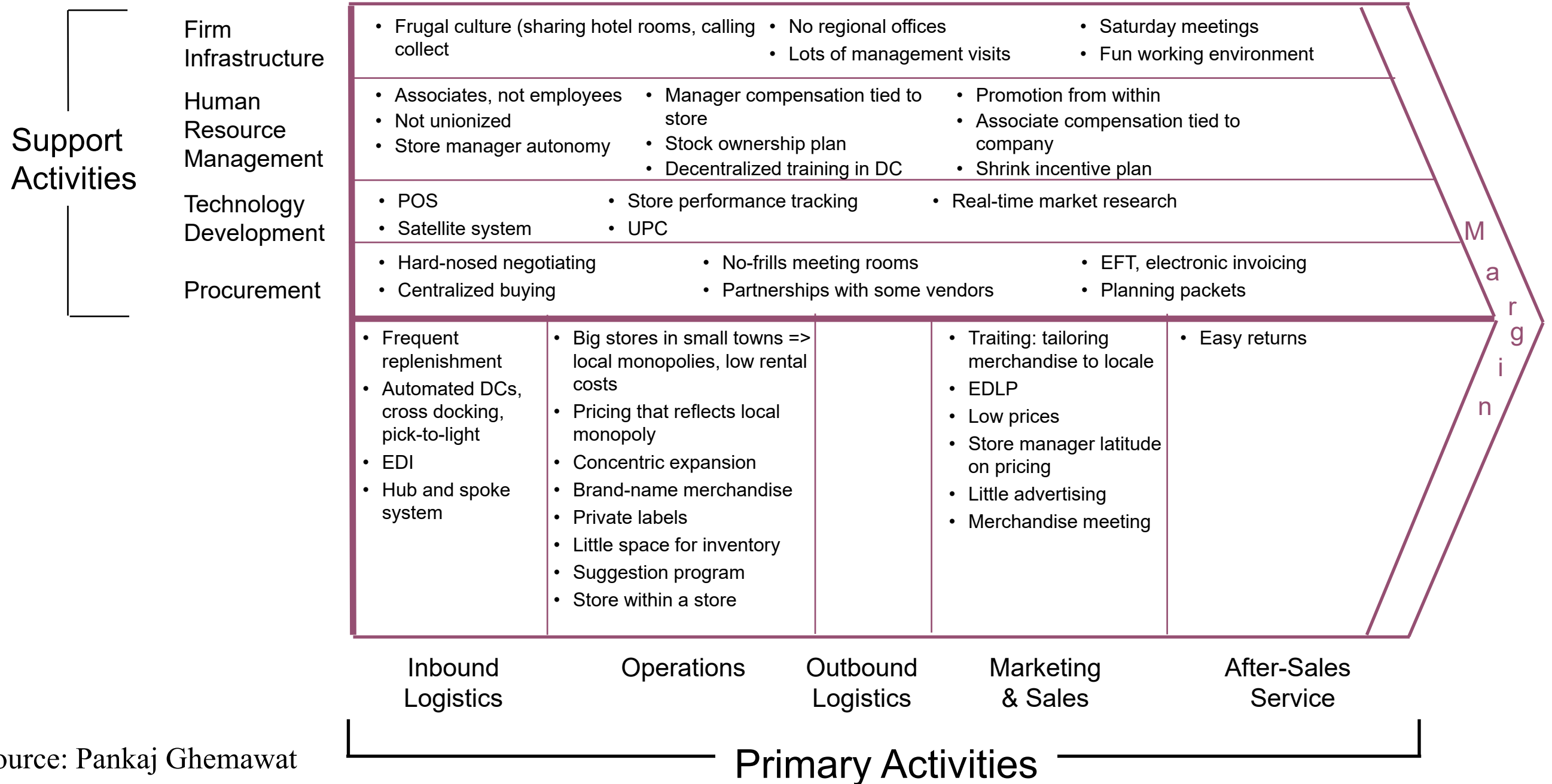
# STEP ONE

- 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)



Source: Pankaj Ghemawat

# STEP TWO

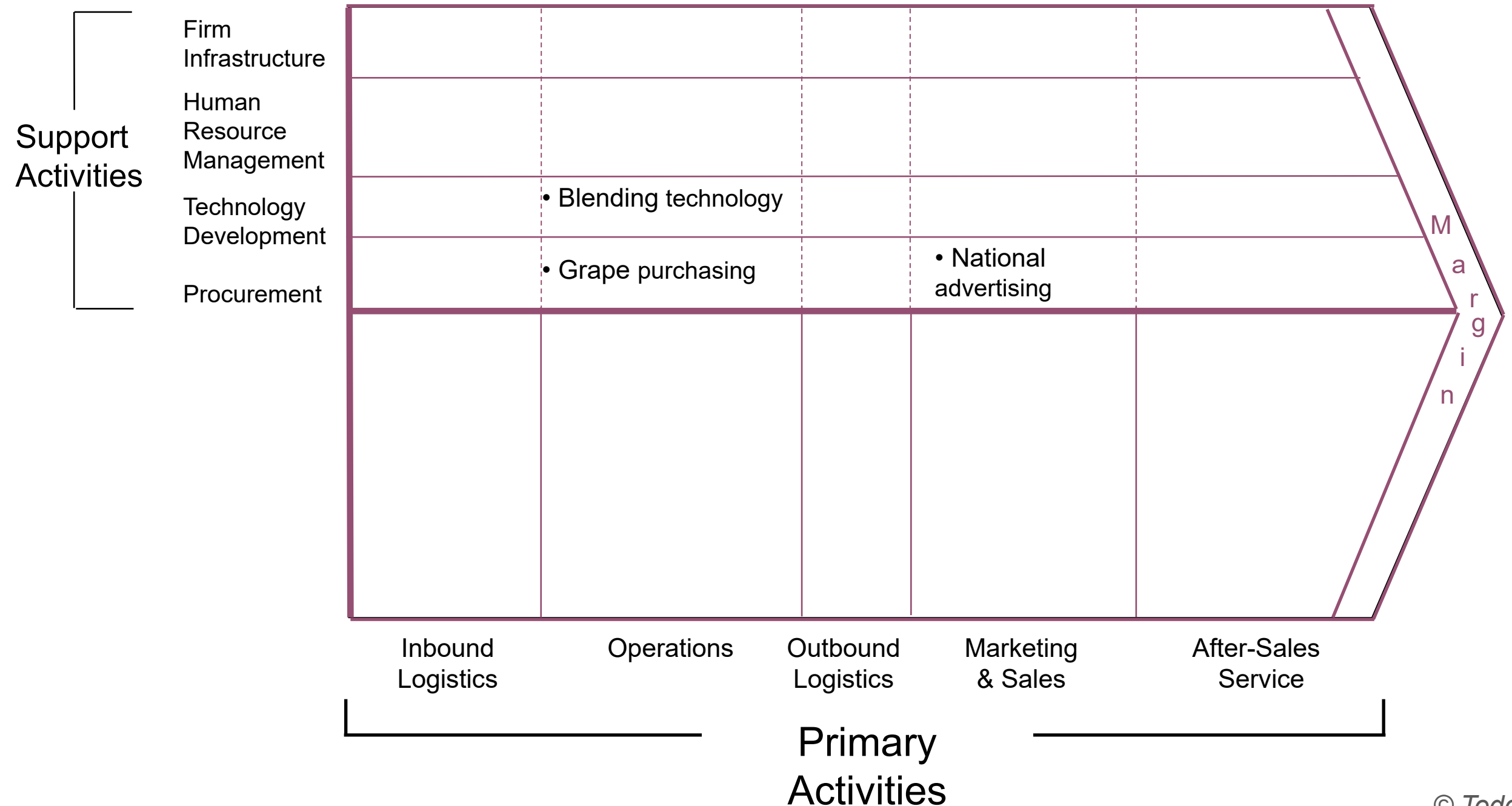
- By activity, identify key drivers of cost advantage
- What strategies or activity choices would lead to your firm possessing a cost advantage relative to competitors?



## 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



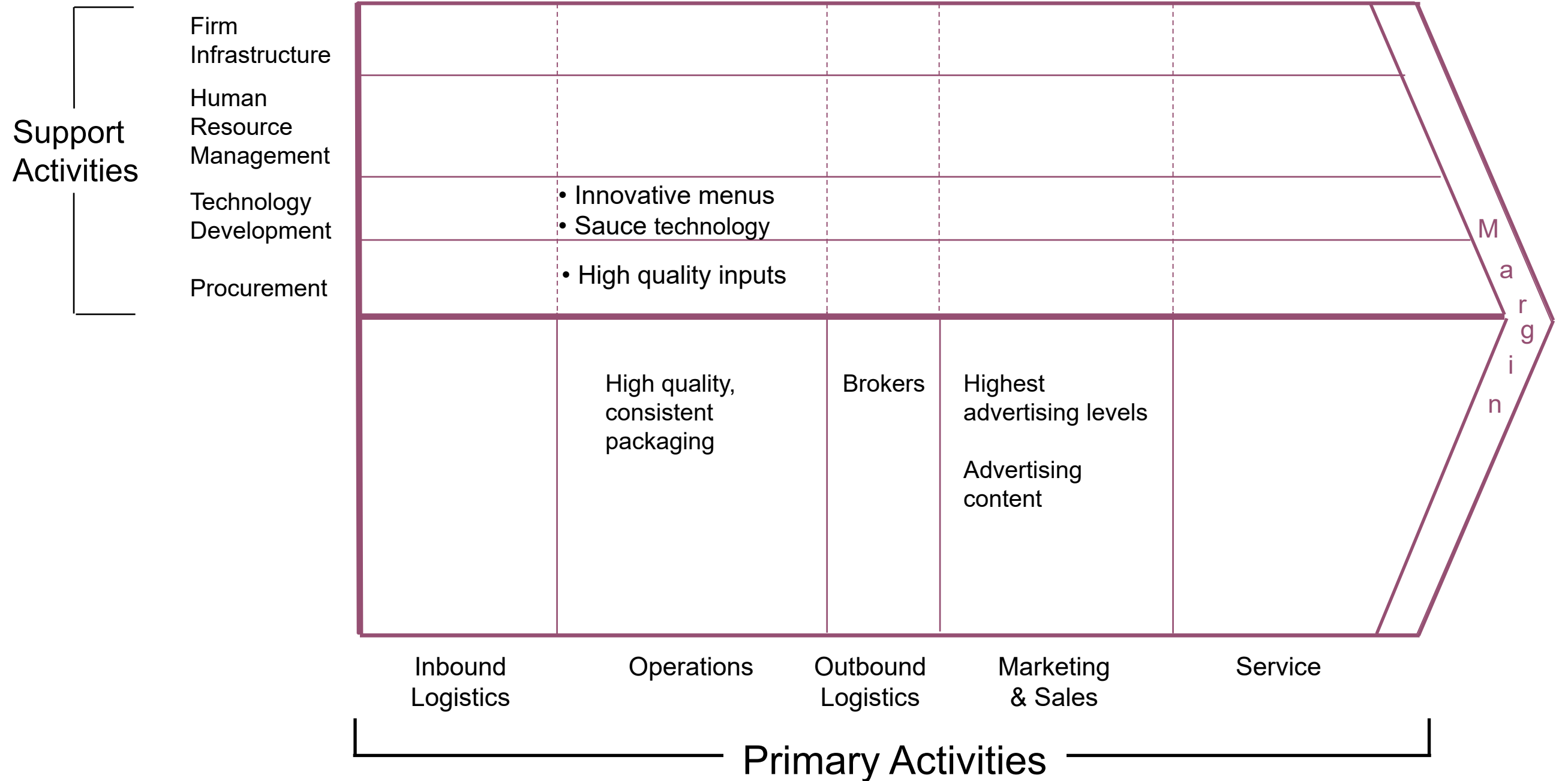
# STEP THREE

- 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?

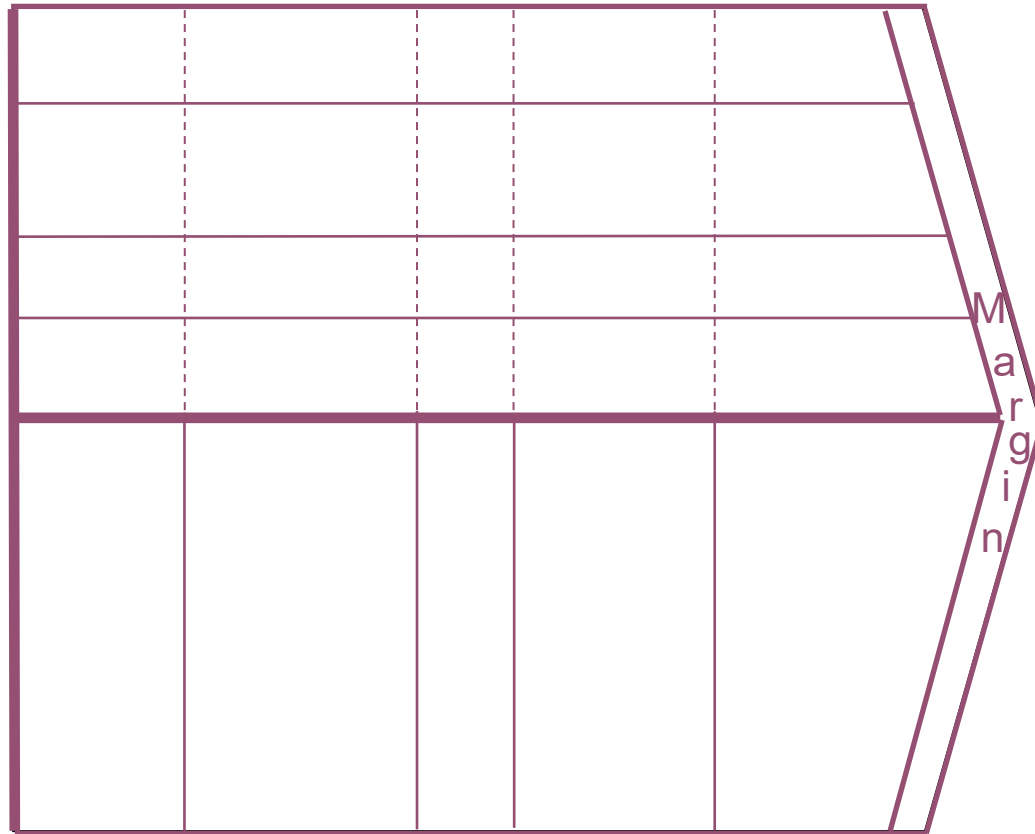
### 3. Analyze Relative Willingness to Pay

- 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



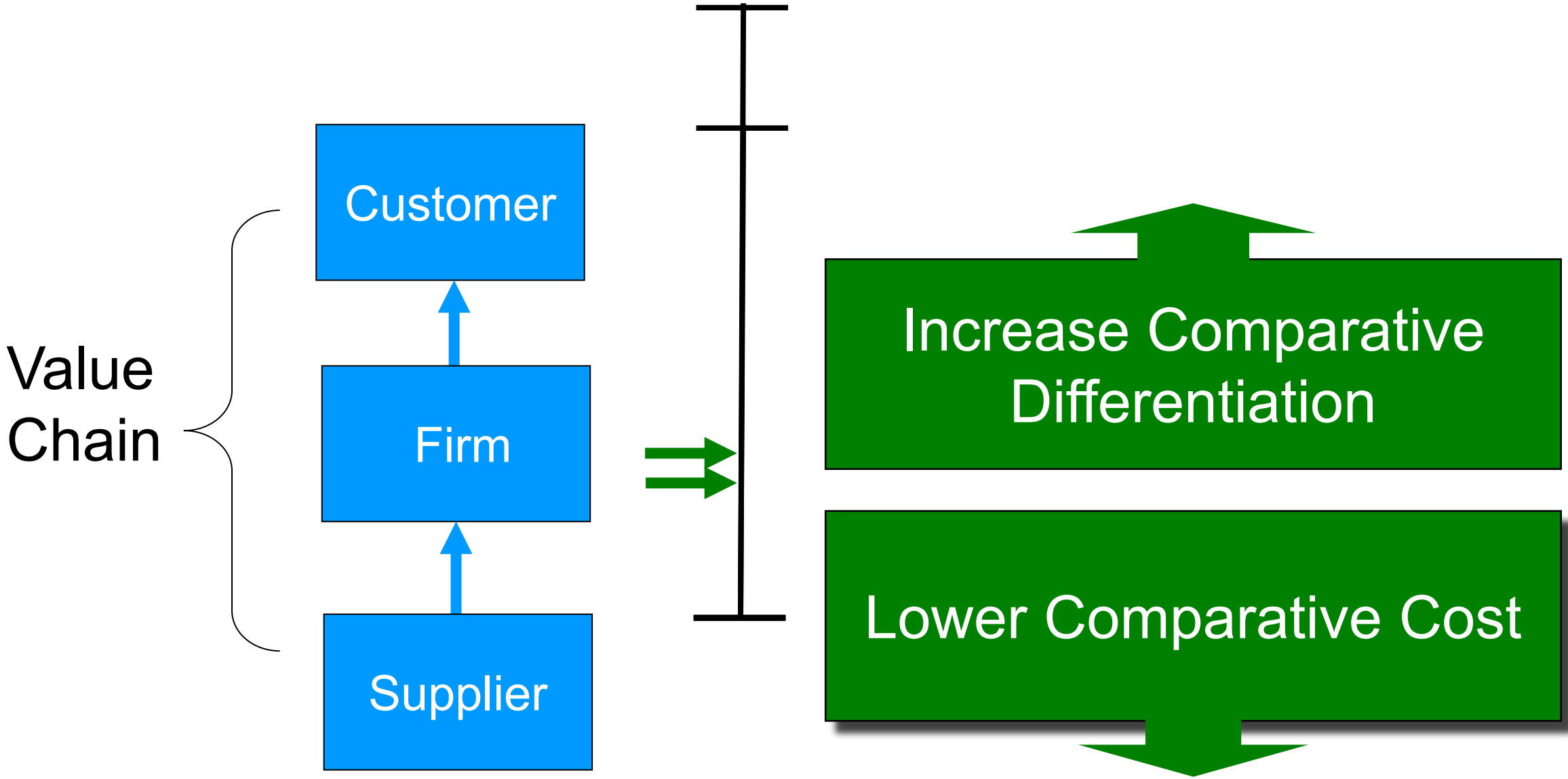
# Adding Value: Business to Consumer



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



# Types of Competitive Advantage

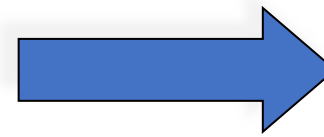
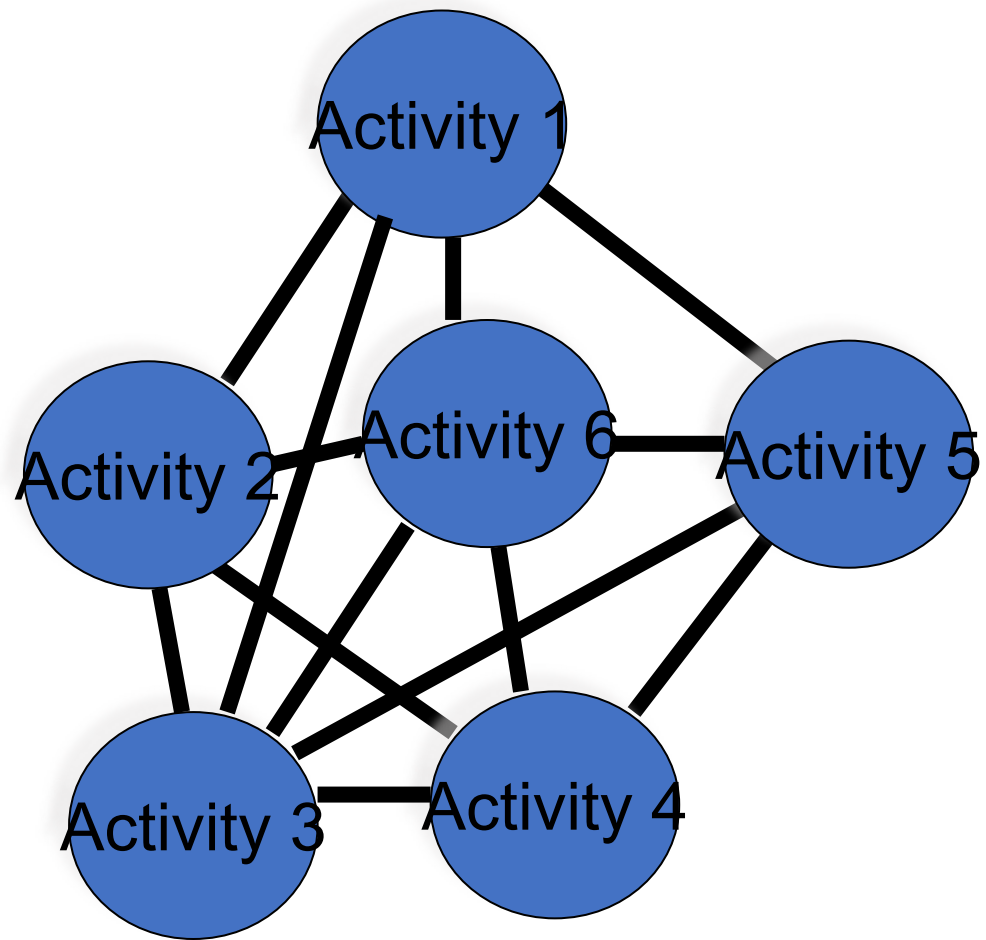




# STEP FOUR

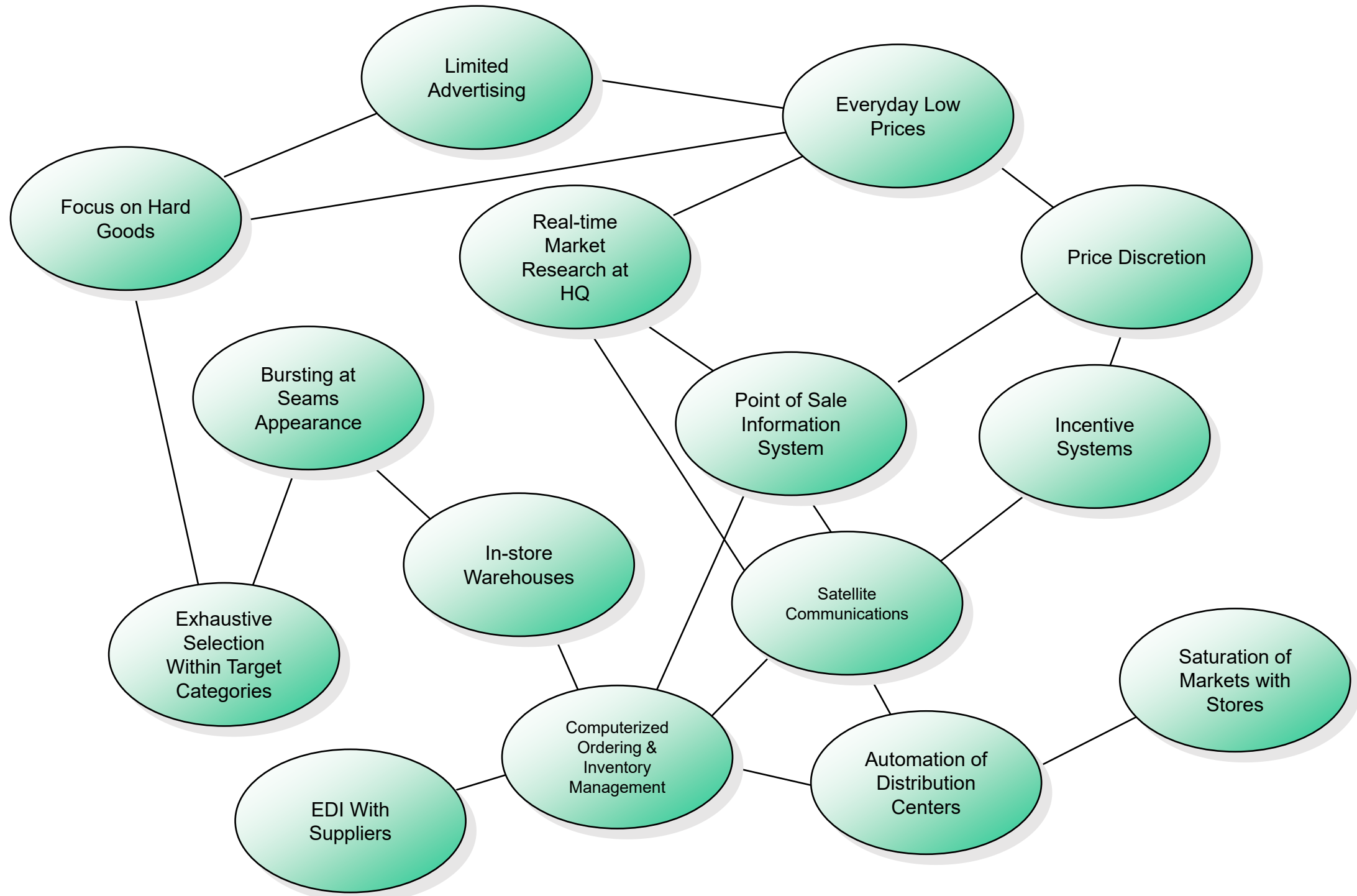
- Explore alternative bundles of activity choices
  - Are these unique and difficult to imitate?
  - Are they complementary?
  - Will they achieve a sustainable and valuable market position?
  - Do these choices leverage capabilities?
  - Do they respond to challenges in industry structure?

# Business Strategy

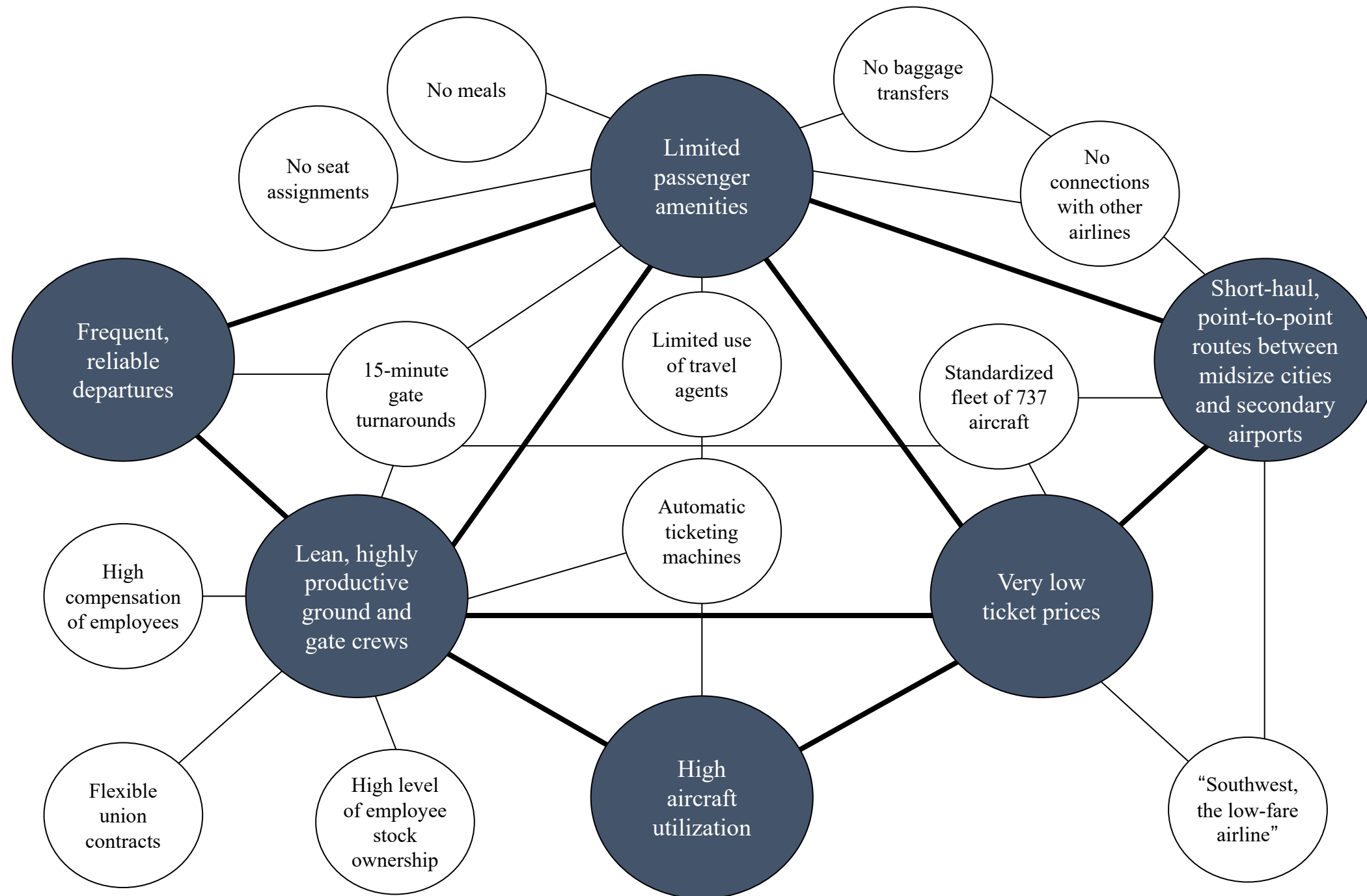


Competitive Advantage

# Wal\*Mart's Activities

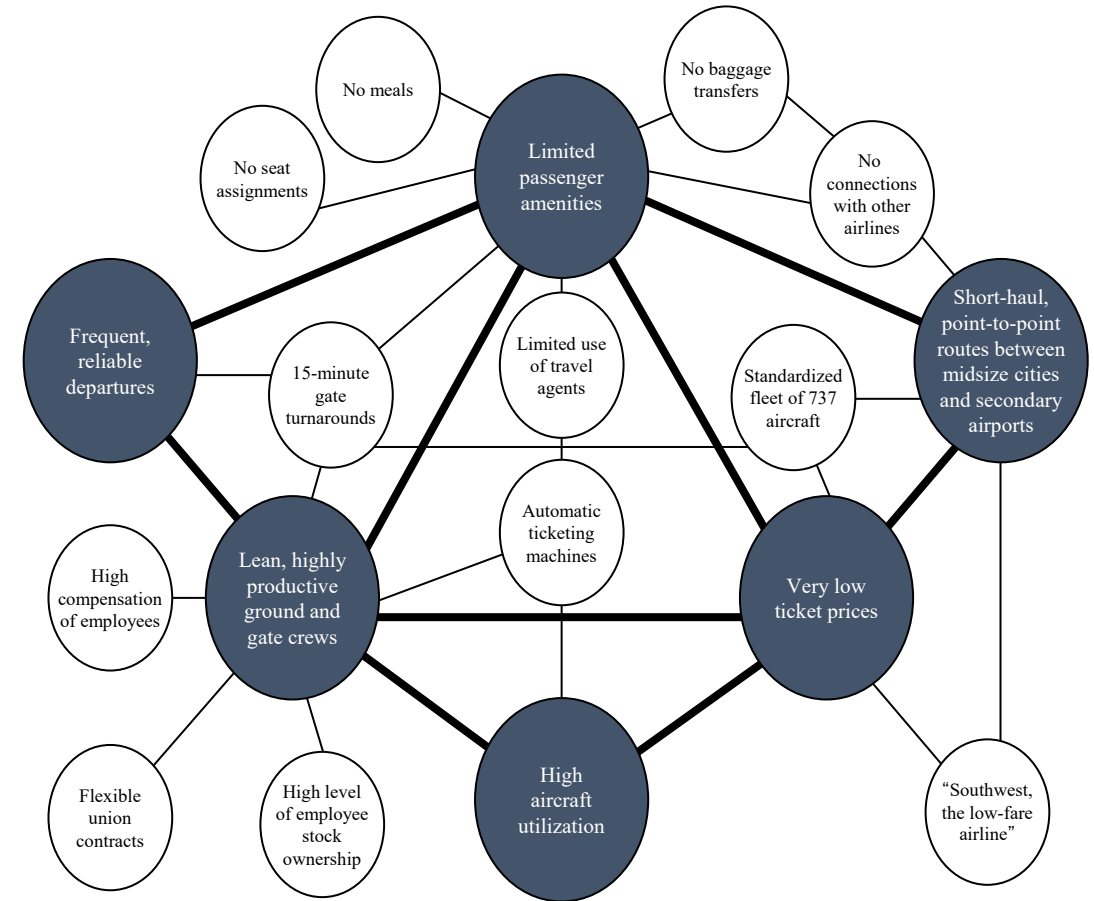
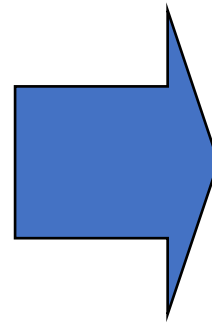
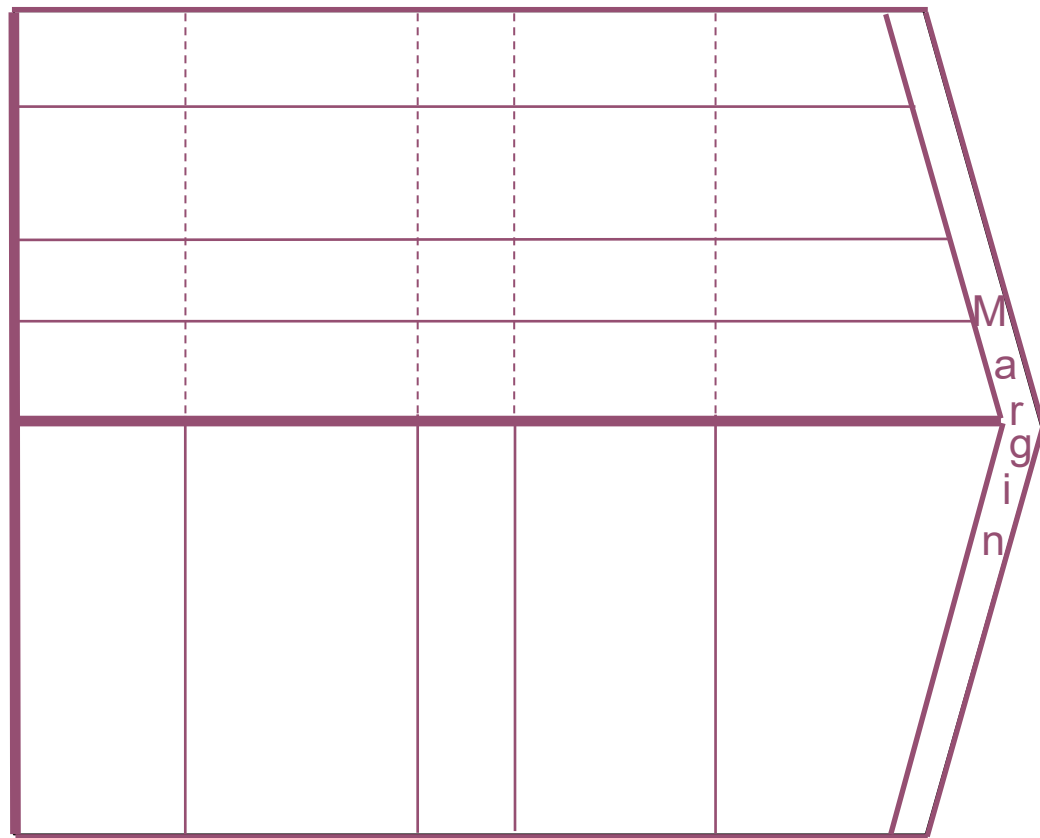


# Southwest Airlines' Activity System

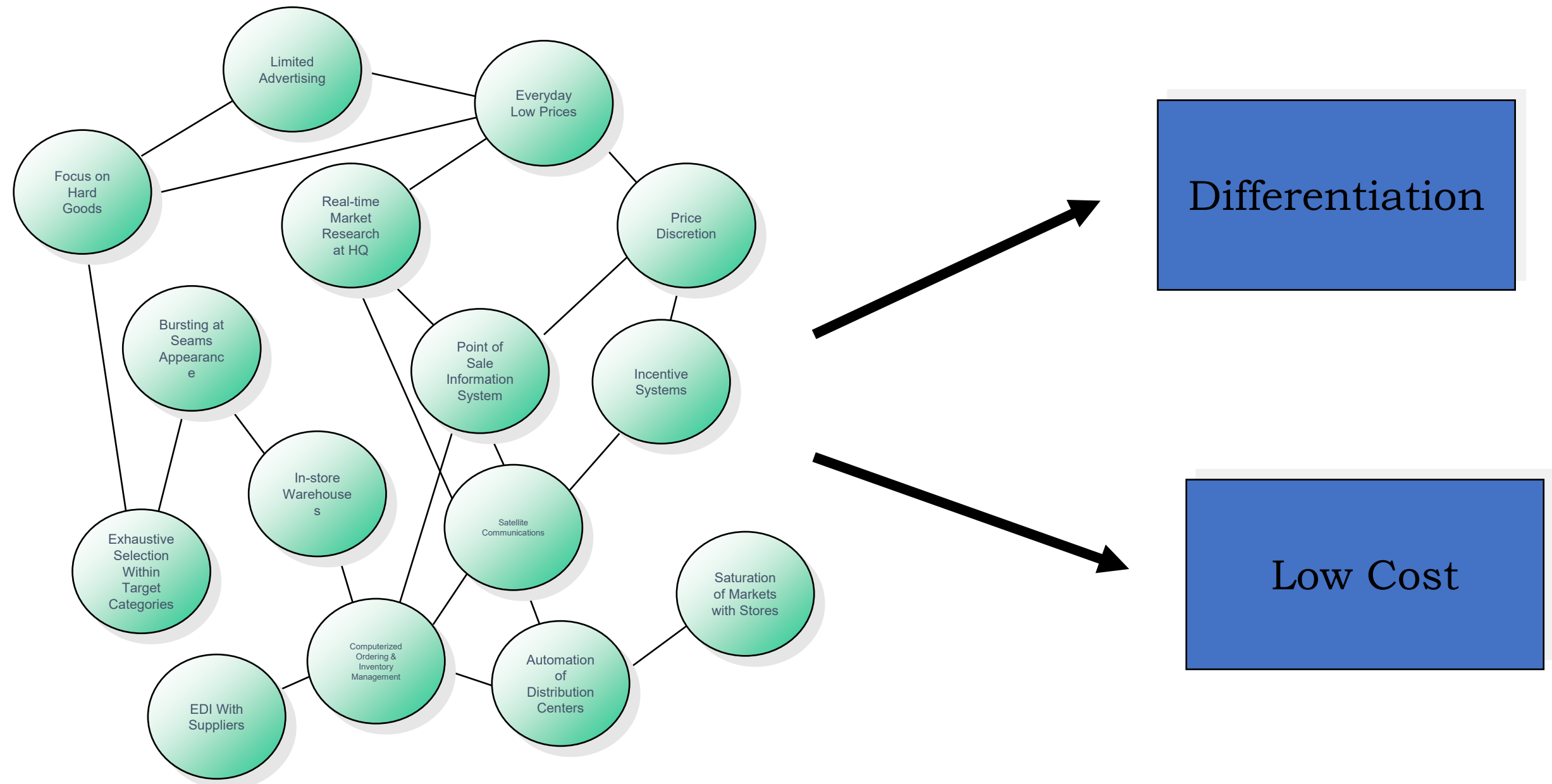


Source: Michael E. Porter "What is Strategy" *Harvard Business Review*, Nov-Dec 1986

# Mapping Complementarities among Activity Choices



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

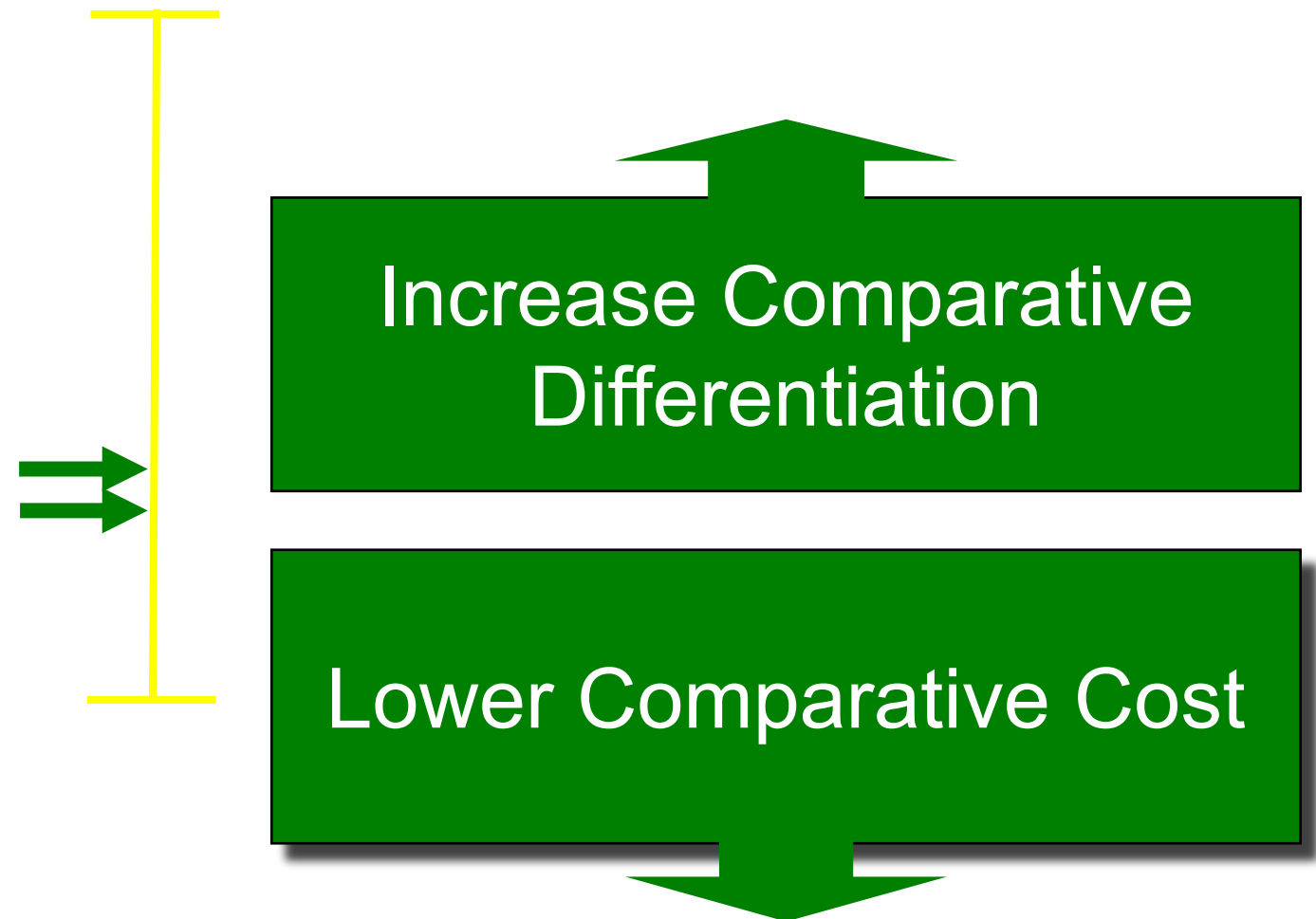


# Focus Strategy

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- Desirable focus: where activities required to service one customer are different from the activities required to service other customers

# Types of Competitive Advantage

**FOCUS**







- 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