

Strategic Management Course


Oct. 2005 – June 2006

Lessons 5 & 6 - Competitive

Advantage

Prof. David Ward

Course Outline and Contents

- Introduction to Strategy and Strategic Management
- Business Strategy
-  • Competitive Advantage
- Internal Context: Organisation Design
- Market Organisation and Competitive Advantage
- External Context: Industry Analysis
- The Spectrum of Competition and Niche Markets
- Competition in Concentrated Markets
- Entry and the Advantage of Incumbency
- Creating and Capturing Value in the Value Chain
- Globalisation and Strategy
- Current trends in Strategic Management
- Strategic Management in a Changing Environment

Summary of Lessons 3 & 4

Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

BS Objectives are intended to provide direction and guidance for what actions will be taken by the company.
But they also provide motivation and a sense of competition.

BS Scoping the BS involves defining the products, markets, locations, technologies, processes when the company will compete.

Summary of Lessons 3 & 4

Definitions of Strategy

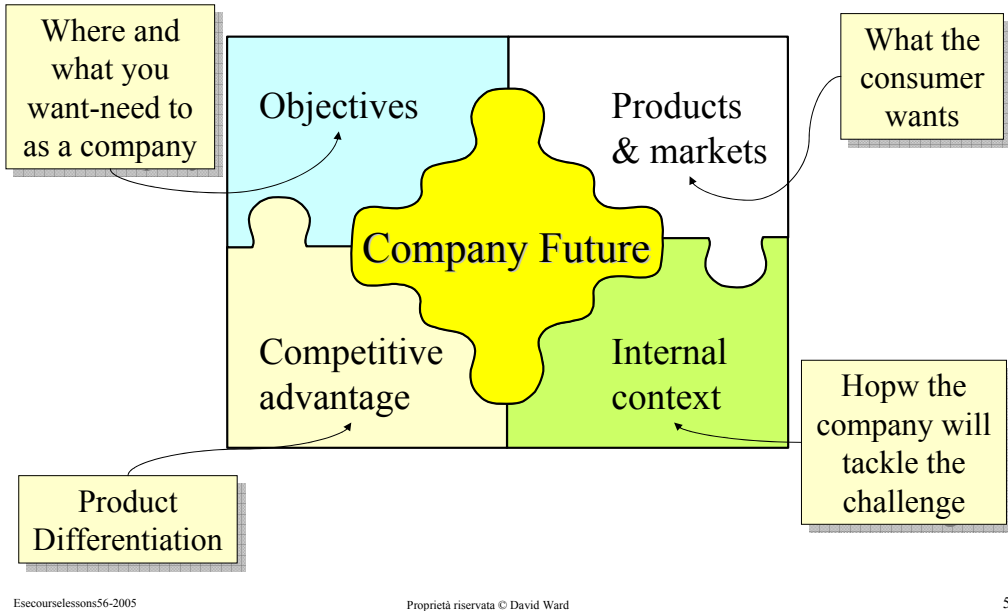
- The art of war, especially the planning of movements of troops, ships, planes etc., into favourable positions;
 - Plan of action or policy in business or politics etc.
- *Oxford Dictionary*

In essence the "WHY" of strategy is its underlying LOGIC, i.e. the explanation of WHY the strategy will work. In other words the business proposition or the economic engine.

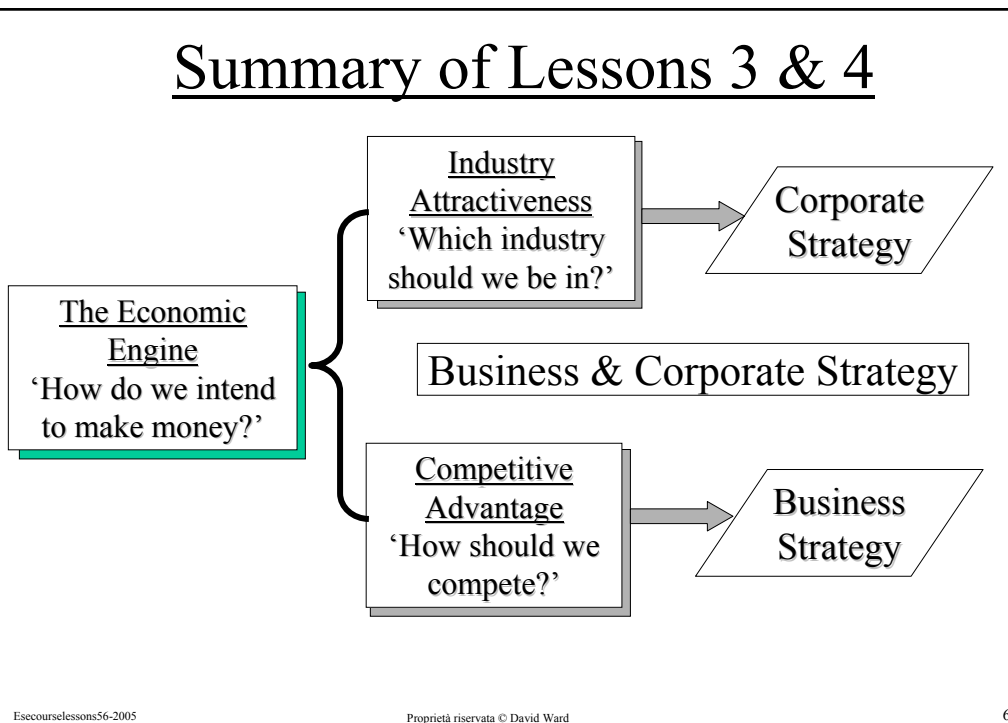
Business strategy refers to the single entity like a, business unit, division or indeed a collection of product divisions.

Corporate strategy refers to a much greater company set-up i.e. companies that have a multitude and variety of business interests e.g. from finance to products.

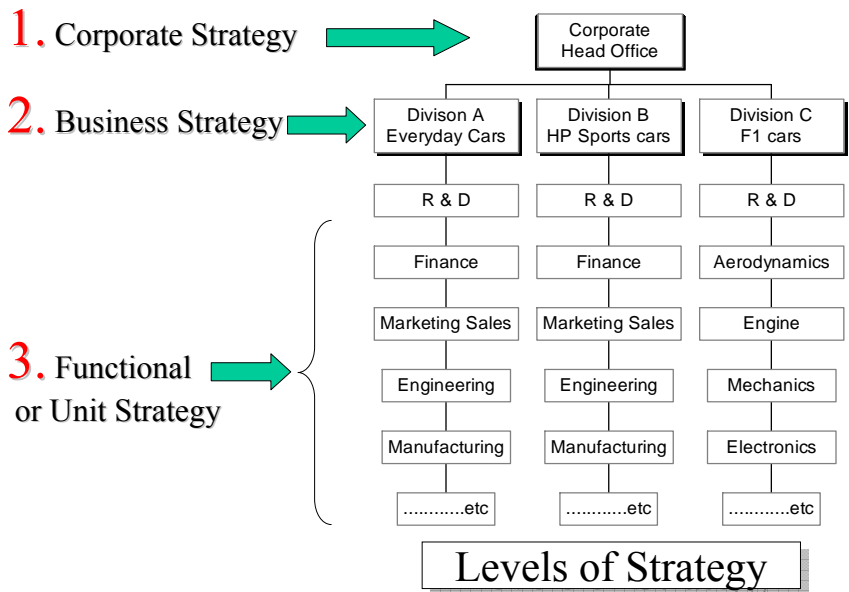
Summary of Lessons 3 & 4



Summary of Lessons 3 & 4



Summary of Lessons 3 & 4



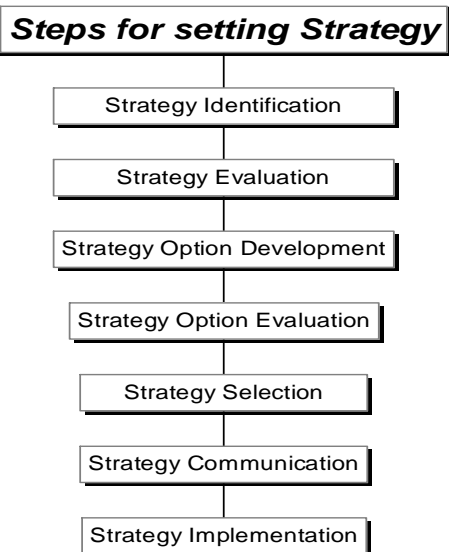
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Summary of Lessons 3 & 4

Strategy Process



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Food for Thought

Should company strategy always be made public?

When should company strategy be changed?

Can a company survive, grow, flourish without a strategy?

Do an internet search and look up the strategy of a company - I may ask you to explain it during the next lesson.

Give examples of competitive advantage?

How do you get the workforce to believe in the mission?

Keywords of Lessons 3 & 4

- Business Strategy
- Corporate Strategy
- Scope
- Logic
- How and Why
- Values
- Purpose
- Competitive advantage
- Long-term goals
- Strategy process
- Explicit
- Evaluation
- Implementation
- Economic engine
- Attractiveness
- Assets and Acquisitions
- Performance
- Levels
- Mission
- Statement
- Crafting
- Long-term goals
- Strategy process
- Explicit
- Evaluation
- Implementation

Dissertation Topics and Ideas

- Prove that something that is already known is wrong (or right) e.g. Corporate strategy doesn't exist.
- Prove that something that is already known is flawed (or unflawed) e.g. Porter's five forces model has 6 forces
- Propose a new model, hypothesis, method e.g. mathematical model that describes (or predicts) financial markets
- Practical application of theory in a different field e.g. Sun Tzu applied to financial markets
- Practical application of theory e.g. quality in a PMI
- Explanation or analysis of theory e.g. brand awareness (Revitalisation of the Maserati brand)
- Explanation of complexity through a rigorous research e.g. Coca Cola CRM in Tibet
- Story telling and forecasting the future e.g. the evolution of strategy

Suggestions

- Always choose a topic that interests you and for which you have passion.
- Choose a topic that is doable but at the same time is a challenge for you (remember the dissertation is a unique event!).
- The dissertation, if tackled with the right attitude, is a wonderful experience. It is your chance to show your value.
- Decide whether you want to start from scratch or choose a topic that already exists. Not always is the latter easier!!!
- Learn the ropes quickly (tools, methods etc.).
- Establish strong ties with your dissertation mentor/tutor (*relatore*).
- Make sure you know how to use Office programs effectively.
- Think of writing a paper
- Start now, don't wait!.... the majority of the best dissertations with the highest marks were started or conceived the year before e.g. Oct. of last year.
- English language dissertations are certainly doable but, if you are not English mother tongue, require much more commitment and preparation.

Dissertation Stages: A, B,C D!

- ✓ Establish the dissertation field and argument r
- ✓ Establish what are you trying to prove, analyse etc. R
- ✓ Provide the dissertation proposal R
- ✓ Draft of dissertation layout and outline R
- ✓ Review of Bibliography r
- ✓ Preparation of Chapters and draft dissertation R
- ✓ Preparation of Abstract r
- ✓ Preparation of Conclusions and findings R
- ✓ Preparation of Bibliography r
- ✓ Preparation of Viva R

A

B

C

D

R – review with yr. dissertation mentor is Mandatory

r – review with yr. dissertation mentor is Advised

I left you with these questions

Can you think of examples of where a company has failed or been (is) successful in it's strategy?

Should company strategy always be made public?

Can you think of examples of competitive advantage?


When should company strategy be changed?

Can a company survive, grow, flourish without a strategy?

Do an internet search and look up the strategy of a company - I will ask you to explain it during lesson 3.

Lessons 5 & 6 - Competitive Advantage

- Back flashes of Lessons 3 & 4 and open questions
- Competitive advantage: Definition and Scope
- Value and Competitive Advantage
- Paths to Competitive Advantage
 - Position
 - Capabilities
- Sustainable Competitive Advantage
 - Through Capability
 - Through Position
- The Cost-Quality Frontier and Competitive Advantage
- Designing an Organisation for Competitive Advantage

 This lesson was based on pages 39 to 64 of the course textbook or pages 47 to 76 in the Italian version of the course textbook.

Possible Exam Questions

Explain the term strategy and the difference between Business and Corporate Strategies. Describe how you would craft a mission statement and schematically explain the process to set-up your strategy. Discuss how strategic management has evolved since the 1950's and where it might be in the next decade (2010-2020).

- How would you split and breakdown this question?
- Are the parts separate or interdependent?
- What are the minor and major words?
- What are the fundamental concepts behind the question?
- Where do I start?

Class work

You have 20 mins to answer the above 5 questions

Developing a Strategy

In order to develop a strategy it is common, advised or necessary to follow a process.

There is no fixed or perfect process for strategy development but there are standard steps that help it happen.

The Strategy Process

Different Strategies can be applied across the organisation although the ultimate goal is same i.e. better company performance.

Steps for setting Strategy



Examples:

Procurement Strategy : Less Suppliers

R & D strategy : Co-development

H & R strategy : Lower personnel turnover

Strategy Identification

There are many ways of identifying a strategy some companies:

- Base it on products and markets e.g. launching a new product, product range or through company acquisition.
- Product Differentiation e.g. lower price, higher quality, new design, more features and functions etc.
- Empowering the workforce e.g. through a complete overhaul of the product development process
-

Strategy Evaluation: Testing the Logic

The logic of a strategy contains the argument for how the scope and competitive advantage(s) will enable the company to reach its goals based on its internal assets and external environment.

Testing implies looking at the internal and external contexts.

Strategy Option Development



Let's suppose ESE wants to compete with Bocconi, Yale, London School of Economics, Nottingham.... where would you start???



ESE have decided to enter the watch or clock market e.g. the idea is to market the ESE Time Masters watch. What options would you think are possible????

Hint: start from the consumer-customer

Evolution of Strategic Management**

PERIOD	1950s	1960s	EARLY-MID 1970s	LATE 1970s AND EARLY 1980s	LATE 1980s AND EARLY 1990s	LATE 1990s AND EARLY 2000s
<i>Dominant Theme</i>	Budgetary planning and control	Corporate planning	Corporate strategy	Analysis of industry and competition	The quest for competitive advantage	Strategic innovation and the new economy
<i>Main Issues</i>	Financial control through operational and capital budgeting	Planning growth	Diversification and portfolio planning	Choice of industries, markets, and segments, and positioning within them	Sources of competitive advantage within the firm	Competitive advantage through strategic innovation Competing on knowledge Adapting to the new, digital, networked economy
<i>Principal Concepts and Techniques</i>	Financial budgeting Investment planning Project appraisal	Business forecasting Investment planning models	Synergy Strategic business units Portfolio planning matrices	Experience curve and returns to market share Analysis of industry structure Competitor analysis PIMS analysis	Resource analysis Analysis of core competencies	Organizational flexibility and speed of response Knowledge management and organizational learning Competing for standards Early-mover advantage
<i>Organizational Implications</i>	Financial management the key	Rise of corporate planning departments and medium-term formal planning	Diversification Multidivisional structures Quest for global market share	Greater industry and market selectivity Industry restructuring Active asset management	Corporate restructuring and business process reengineering Refocusing and outsourcing	The virtual organization The knowledge-based firm Alliances and networks The quest for critical mass

What is the next trend going to be?

**Possible dissertation topic

Competitive Advantage = HOW

Competitive advantage discusses the HOW of strategy.

.....how the Company intends to achieve it's goals based on the products, markets, locations, technologies, processes.

.....competitive advantage provides a company also with a sense of existence.

Potential Sources of Competitive Advantage

-**Price (the lowest price, the 'right' price)**
-**Innovation - at the cutting edge of technology**
-**Quality**
-**Design**
-**Styling**
-**Reliability ('Zoppas li fa e nessuno li distrugge')**
-**Consumer loyalty**
-**Time-to-market**
-**Manufacturing cost**
-**Better business location and access to local markets**
-**Better logistics**
-**Product mix and flexibility**

Can you think of other examples of competitive advantage?

Competitive Advantage

Question

For each one of these companies is the competitive advantage Price or Product or both....or something else?

IKEA	?	Philips	?
DeLonghi	?	Sony	?
BA	?	Rai	?
BMW	?	Prada	?
GEC	?	CNN	?
Barilla	?	eBay	?
Whirlpool	?	Nokia	?
Bosch	?	DHL	?
Microsoft	?	Amazon	?
MacDonalds	?	Intel	?
Disney	?	Coop	?
AMD	?	Nestle	?
Coca Cola	?	Trenitalia	?
Virgin	?	Mediaset	?

Value and Competitive Advantage

The value a company generates is often the catalyst to dominate the market first, especially if the value is very innovative. However, not always does this guarantee sustainable competitive advantage i.e. being the 'first mover' is not always best move.

Examples:

- FORD introduced vehicle air conditioning and air bags as part of the sales package for its family cars in Europe.
- Tesori dell'Arca offered the first low cost equivalents of Mulino Bianco biscuits.
- The Americans essentially invented QC and QA but it was the Japanese that successfully implemented both under TQM.

Can you think of other cases where this (moving first) has happened?

Examples of First Movers and Losers

- Apple computers: Microsoft *stole* their concept of user interface.
- Buzz airlines: BA failed to capitalise on economy flights.
- FIAT: didn't believe in common rail engine technology and sold the intellectual rights to Bosch.
- Metro newspapers: Now overtaken by City, Leggo...

Why do you think these failures or flops occurred?
What part of the strategy was neglected or wrong?

Recent Focus on Values and CA

- Getting close to the consumer (e.g. consumer services, inviting and involving the consumer during product development, caring for the consumer etc.)...CRM
- Empowering the worker (at all levels): not just rewards and incentives but recognition, training, investing in people.
- Innovation: providing innovative solutions to match real consumer needs.
- Protecting your ideas not just through patents but through awareness, presence, knowing your customer etc.

Paths to Competitive Advantage

Competitive advantage is generally considered to fall under two categories that provide paths to success:

Positional

*The position of the company
in the market place*

Capabilities

*The capabilities of the
company to respond and
satisfy the market place*

Examples of Position

Monopolies: Not only in terms of product but also raw materials (think of coffee, cacao) , legislation (think of FDA), R & D (think of Glaxo, Bayer), services (motorway stations) etc.

Universality: Such as that provided by scale-of-economy, globalisation, market fragmentation. If a company can provide a complete 'product' in an otherwise fragmented market place this provides value and therefore competitive advantage.

Networking: Such as strategic supplier agreements (think of companies like Coca Cola) and the networking of power (think of banking, oil companies).

How do you exploit position to get the best competitive advantage?

Positional Advantages

- Brand (Aspirin from Bayer)
- Consumer relationships (IKEA)
- Government support and protection (Italian motorbike industry)
- Status (think of the Federal Bank)
- Distribution channels (think of supermarkets and petrol stations)
- Geographic location (North sea oil reserves)
- Product-service compatibility (std. procedures or tools)
- Trade partners and gatekeepers (car dealerships)

Capabilities

- Capabilities can be seen as the core competencies of the company. In most cases capabilities are either declared (recognised) or latent (unrecognised).
- In general the most valuable competencies are internal assets that cannot be separated from the organisation because they tend to be highly networked.
- Where a competency is localised it can often be out-sourced or developed much quicker/better.
- Often where know-how and ability are exploited and spread across an organisation translate not only into a recognised competitive advantage but also a sustainable C.A. too.

Examples of Capabilities

- Flexibility (e.g. willingness to match product to consumer requirements)
- Manufacturing (the Japanese are good at producing high quality consumer products)
- Time-to-market (the Japanese consistently launch innovative consumer electronics products)
- Technology expertise (certain companies and countries are renowned for their ability to be at the frontier of technical advancement: Germany for reliable and technologically advanced cars, Italy for Design and Fashion, Britain for Virtual Reality, Genetic engineering etc.)

Examples of Capabilities

- Sales and Marketing knowledge (knowing the market and what the consumer wants or what the consumer is willing to pay for)
- Close to the community (many American companies have strong ties with the local community)
- Creativity (certain companies and countries seem to be especially innovative)

Can you think of other core competencies?
What core competencies will be needed for the future?

Sustainable Competitive Advantage

What is sustainable competitive advantage?

Sustainable competitive advantage is the ability of a company (or individuals) to maintain (or grow) its market position, presence or dominance (in a specific area).

How can one sustain competitive advantage?

This can be done either through position or capability or both.

Examples of Sustainable C.A.

Capability

- Coca Cola (through distribution, brand awareness and more recently product diversification e.g. Diet Coke).
- Tacit know-how (i.e. knowing how do things that are not codified or easily copied or imitated - e.g. technical expertise, such as watch-making in CH, Lexus vs. Mercedes).
- 3M and Post-its (here the CA is in the manufacturing not the adhesive)
- Design and Styling (think of fashion designers, Armani, D & G)
- Consumer relationships (there is a natural desire to satisfy the consumer - almost as if it is a form of reward and recognition)
- Personal charisma (actors, sports personalities, politicians etc.)
- Training the workforce (the birth of Corporate universities)
- Knowledge (Oxford, Harvard, centres of excellence.....)
- etc.

Sustainable competitive advantage and trends

eLearning Trend

"The next big killer application for the Internet is going to be education. Education over the Internet is going to be so big it is going to make e-mail look like a rounding error."

John Chambers, CEO of Cisco Systems

How big is this trend?

http://www.docent.com/elearning/taylor_01.html

Creating competitive advantage in tough economic times requires a highly engaged and well-trained workforce that has the right information, in the right place, at the right time. Well-trained employees know what they need to do to deliver the desired top-line and bottom-line results in the most effective and efficient manner.

Knowledge Management

Reducing Vulnerability

Unique Position

Best-in-Class Capabilities

*Sustainable
Competitive
Advantage*

The greater the (positive) gap between what the consumer is willing to pay and what it costs the company, the stronger the competitive advantage.

Cost, Value and Quality

- What the company must pay to provide the consumer with what he/she wants e.g. product, service etc., is the firm's (product, service) cost.
- The gap between cost and what the consumer pays (or is willing to pay) is a measure of the value of the product.
- The willingness of the consumer to pay is a recognition also of the quality of the product and therefore CA.

It is important to realise the difference between low(est) price and low(est) cost.

BIC against Parker

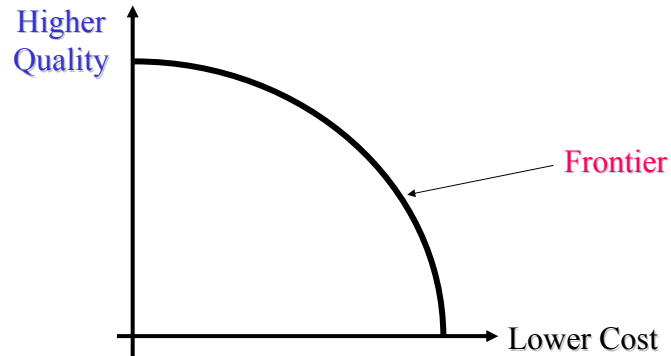
(Low) Cost vs. (Perceived) Quality vs. Value

If BIC (or Parker) were to consider entering the high quality pens and stationary goods market (e.g. Mont Blanc) what strategy would you suggest?

- How would you attack BIC? Who might attack BIC?
- How would you attack Mont Blanc? Who might attack MB?
- Are the customers so different?

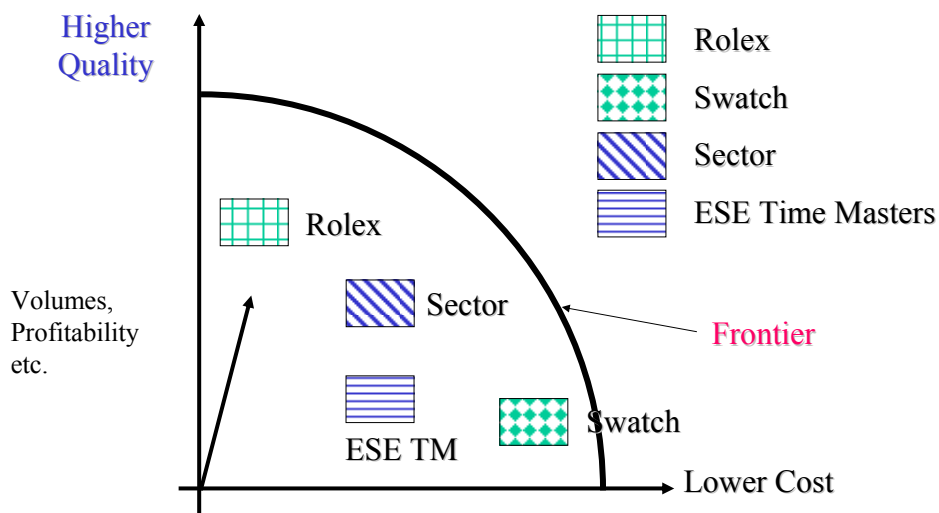
The Cost-Quality Frontier & Competitive Advantage

The cost-quality frontier technique helps you map the position of a company's competitive advantage.

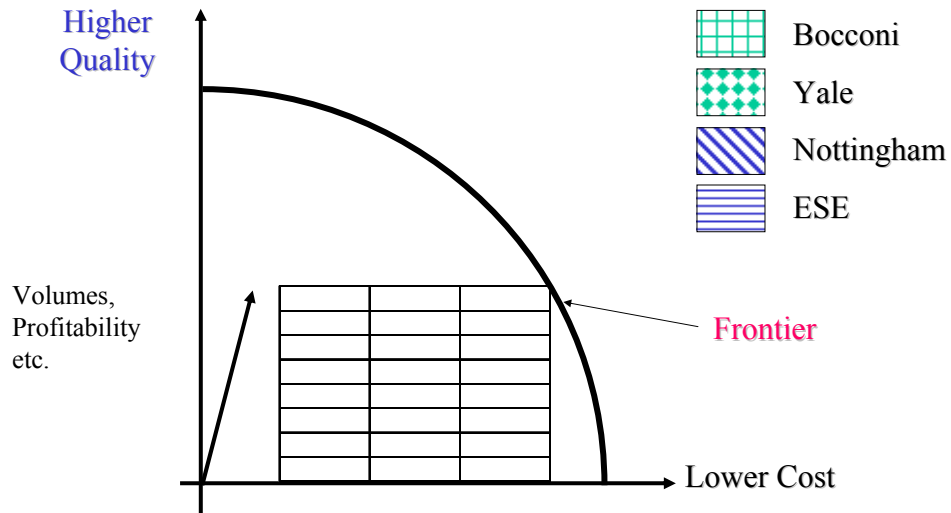


What does the Cost-Quality Frontier technique not tell you?.....think of a third dimension on the graph.

Plotting Your Competitive Advantage



Plotting Your Competitive Advantage



Which way would you suggest ESE to go?, think of different options

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Coffee Break

you have 10 minutes!

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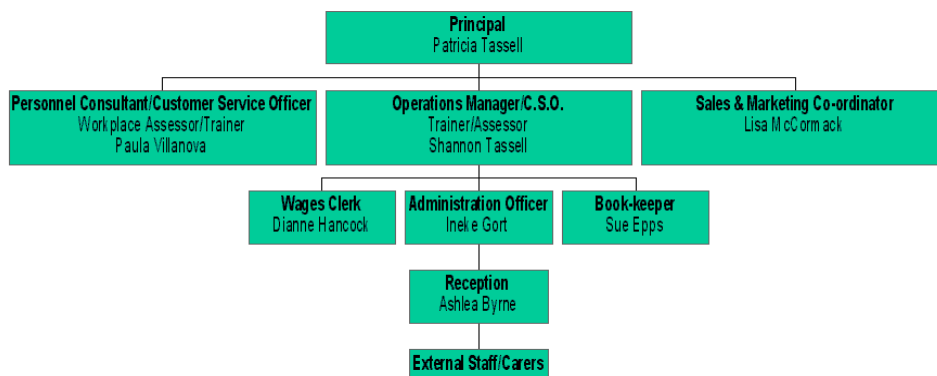
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Strategy Implementation

- Successful strategy implementation requires also the right organisation. Sometimes this is also called Strategic fit.
- The bigger the change in strategy the more likely you will have to change the organisation.
- This will affect the structure, procedures and culture of the company.
- To understand the effects of the strategy on the company a special tool called the ARC method is used.

Suppose you intend/need to radically change the company how do think this will change the organisation?

Example of an (Female) Organisation



This type of organisation is called the FUNCTIONAL organisation because it is based on functions

What advantages and disadvantages do you think this type (functional) of organisation has?

Functional Organisations

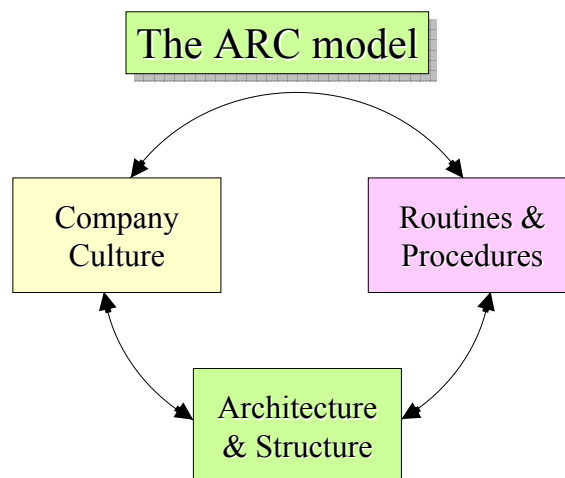
PROS

- Position = Person.
- Communication is simpler.
- Clarity in roles and boundaries.
- Good for mature products with low competition.
- Easy to replicate
- Ideal for high-power distance cultures e.g. Japan

CONS

- Position \neq Performance.
- Too procedural.
- Heavily dependent on upper management.
- Not good at adapting to turbulence.
- Personal growth is dictated by heirarchical circumstance.

Designing an Organisation for Competitive Advantage



Designing an Organisation for Competitive Advantage

The Key Elements

Architecture: is the 'relationship' structure of a company.

Routine: is the procedural (both formal and informal) part of a company.

Culture: is the creed or beliefs of a company.

Examples of Major Changes

- Italian Banks and Financial Institutions
- Health authorities (Hospitals, clinics etc.)
- Public services (trains, buses and metro)
- Alitalia
- FIAT
- Rebirth of Maserati
- Mergers: HP and Compaq

Possible dissertation topic: Comparing the application of the ARC method in the reorganisation of private and public companies.

Keywords of Lessons 5 & 6

- Architecture
- Routine
- Culture
- ARC
- Organisation
- Design
- Quality-Cost Frontier
- Cost-Quality
- Change
- Competitive Advantage
- Sustainability
- Value
- Best-in-class
- Vulnerability
- Capability
- Process
- Identification
- Options
- First mover
- Position
- Functional
- Frontier
- Perceived
- Value
- Implementation
- Pros and Cons

Lesson Info. Sources

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- Pascal Courty, Strategy Communication and Measurement (PDF file available).

Summary of Questions

Can you think of other examples of competitive advantage?

Do first movers always have the best competitive advantage?

Summary of Questions

What is sustainable competitive advantage?

How can one sustain competitive advantage?

How do you exploit position to get the best competitive advantage?

What is the next Strategic Management trend going to be?

What does the Cost-Quality Frontier technique not tell you?

Suppose you intend/need to radically change the company how do think this will change the organisation?

What advantages and disadvantages do you think this type (functional) of organisation has?

Guest Speaker

Understanding your competitive advantage through the SWOT analysis.

Tiziano Micci

Laureato in Sociologia ad indirizzo Economico, Organizzativo e del Lavoro.

Attualmente è Procurement Project Manager e coordinatore delle attività di acquisto dei materiali indiretti e dei servizi delle fabbriche europee.

Ha svolto diverse mansioni con incarichi di responsabilità crescente incl. responsabile delle analisi organizzative sul personale indiretto delle fabbriche produttive, responsabile Tempi e Metodi e Costo del prodotto e process engineer.