Strategic Elements of Competitive Advantage

Global Marketing
Chapter 15

Porter’s Force 1:
Threat of New Entrants
- New entrants mean downward pressure on prices and reduced profitability
- Barriers to entry determine the extent of threat of new industry entrants

Porter’s Force 2:
Threat of Substitute Products
- Availability of substitute products places limits on the prices market leaders can charge
- High prices induce buyers to switch to the substitute

Porter’s Force 3:
Bargaining Power of Buyers
- Buyers = manufacturers and retailers, not consumers
- Buyers seek to pay the lowest possible price
- Buyers have leverage over suppliers when
  - They purchase in large quantities (enables supplier dependence on buyer)
  - Suppliers’ products are commodities
  - Product represents significant portion of buyer’s costs
  - Buyer is willing and able to achieve backward integration

Industry Analysis:
Forces Influencing Competition

- Power of Suppliers
- Substitute Products
- Barriers to Entry
- Industry
- Competitive Rivalry

Threat of New Entrants: Barriers to Entry
- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Distribution channels
- Government policy
- Cost advantages independent of scale economies
- Competitor response
Porter’s Force 4: Bargaining Power of Suppliers

- When suppliers have leverage, they can raise prices high enough to affect the profitability of their customers.
- Leverage accrues when:
  - Suppliers are large and few in number.
  - Suppliers’ products are critical inputs, are highly differentiated, or carry switching costs.
  - Few substitutes exist.
  - Suppliers are willing and able to sell product themselves.

Porter’s Force 5: Rivalry Among Competitors

- Refers to all actions taken by firms in the industry to improve their positions and gain advantage over one another.
  - Price competition
  - Advertising battles
  - Product positioning
  - Differentiation

Competitive Advantage

- Achieved when there is a match between a firm’s distinctive competencies and the factors critical for success within its industry.
- Two ways to achieve competitive advantage:
  - Low-cost strategy
  - Product differentiation

Generic Strategies for Creating Competitive Advantage

- Broad market strategies
  - Cost leadership—low price
  - Product differentiation—premium price

- Narrow market strategies
  - Cost focus—low price
  - Focused differentiation—premium price

Broad Strategies

- Cost Leadership
  - Based on a firm’s position as the industry’s low-cost producer.
  - Must construct the most efficient facilities.
  - Must obtain the largest market share so that its per unit cost is the lowest in the industry.
  - Works only if barriers exist that prevent competitors from achieving the same low costs.

- Product Differentiation
  - Product that has an actual or perceived uniqueness in a broad market has a differentiation advantage.
  - Extremely effective for defending market position.
  - Extremely effective for obtaining above-average financial returns; unique products command a premium price.

Narrow Strategies

- Cost Focus
  - Firm’s lower cost position enables it to offer a narrow target market and lower prices than the competition.
  - Sustainability is the central issue for this strategy.
  - Works if competitors define their target market more broadly.
  - Works if competitors cannot define the segment even more narrowly.

- Focused Differentiation
  - The product has actual uniqueness but it also has a very narrow target market.
  - Results from a better understanding of customers’ wants and desires.
  - Ex: High-end audio equipment.
Building Layers of Advantage

- Build a wide portfolio of advantages
- Develop portfolios by establishing layers on top of one another
- Move along the value chain to strengthen competitive advantage

Searching for Loose Bricks

- Search for opportunities in the defensive walls of competitors whose attention is narrowly focused
  - Focused on a market segment
  - Focused on a geographic area to the exclusion of others

Changing the Rules of Engagement

- Refuse to play by the rules set by industry leaders
- Ex: Xerox and Canon
  - Xerox employed a huge direct sales force; Canon chose to use product dealers
  - Xerox built a wide range of copiers; Canon standardized machines and components
  - Xerox leased machines; Canon sold machines

Collaborating

- Use the know-how developed by other companies
- Licensing agreements, joint ventures, or partnerships

Strategic Alliances

- Cooperative agreements between potential or actual competitors.
  
  **Advantages:**
  - Facilitate entry into market.
  - Share fixed costs.
  - Bring together skills and assets that neither company has or can develop.
  - Establish industry technology standards.
  
  **Disadvantage:**
  - Competitors get low cost route to technology and markets.
Partner Selection

- Get as much information as possible on the potential partner
- Collect data from informed third parties
  - former partners
  - investment bankers
  - former employees
- Get to know the potential partner before committing

4 Cs to partner selection

- Complementary skills
- Cooperative cultures
- Compatible goals
- Commensurate levels of risk

Global Competition and National Competitive Advantage

- Global competition occurs when a firm takes a global view of competition and sets about maximizing profits worldwide
- The effect is beneficial to consumers because prices generally fall as a result of global competition
- While creating value for consumers, it can destroy the potential for jobs and profits

Factor Conditions

- Physical
- Human
- Knowledge
- Infrastructure
- Capital

Demand Conditions

- Market growth
- Incomes and incentives
- Consumer expectations
- Demand for specific services
- Perceptions
- Demand for growth at home

National Competitive Advantage

- Strategy, Structure, Rivalry
- Demand Conditions
- Related and Supporting Industries
- Factor Conditions
- Resources
- Infrastructure
- Knowledge
- Human
- Physical

4 Cs to partner selection

- Complementary skills
- Cooperative cultures
- Compatible goals
- Commensurate levels of risk
Related and Supporting Industries

The advantage that a nation gains by being home to internationally competitive industries in fields that are related to, or in direct support of, other industries

Strategy, Structure, and Rivalry

- Domestic rivalry in a single national market is a powerful influence on competitive advantage
  - Complacency in the home firms
  - Noncompetitive in the world markets
- Differences in management styles, organizational skills, and strategic perspectives create advantages and disadvantages depending on what industry
- Capital markets and attitudes toward investments affect the national environments
- Chance events create major discontinuities
- Government influences determinants by its roles as a consumer, policymaker, and commerce regulator

Current Issues

- In today's business environment, market stability is undermined by:
  - Short product life cycles
  - Short product design cycles
  - New technologies
  - Globalization
- Escalation and acceleration of competitive forces
- Difficult to achieve one sustainable advantage
  - Build a series of unsustainable but effective advantages
- Marketing focus needs to be on innovation
  - Learn to create new markets
- Must forget “that’s the way we always have done it.”

Innovative organizations

Spend neither time nor resources on defending yesterday. Systematic abandonment of yesterday alone can transfer the resources . . . for work on the new.

—Peter Drucker