CHAPTER 2

DYNAMICS OF COMPETITIVE STRATEGY

COMPETITIVE STRATEGY - INTRODUCTION

- A firm must identify its position relative to the competitors in the market
- The Objective of a competitive strategy is to
  - generate competitive advantage
  - increase market share &
  - beat competition

- Therefore, it consists of moves to
  - Attract customers
  - Withstand competive pressures
  - Strengthen market position

COMPETITIVE LANDSCAPE

Steps to understand the competitive landscape -

Identify the competitor

⇓

Understand the competitors

⇓

Determine competitor strength

⇓

Determine competitor weaknesses

⇓

Put all the information together.

Identify the competitor	• Identify the competitors in the firm's industry & • have actual data about their respective market share.
Understand the competitors	• strategist can use internet, social media, industry reports to understand the products & services offered by them.

Determine Competitor Strengths.	- What competitors do well? - Do they offer great products? - What is their marketing strategy? - Why do customers give them their business?
Determine Competitor Weaknesses	- Weaknesses can be identified through reports & reviews appearing in various media? - Get Idea, where they are lacking?
Put all the Information together	- About competitor's • What they are not offering • Areas where need is there to strengthen own firm

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STRATEGIC ANALYSIS

- Judgement about what strategies to pursue need to flow from analysis of
  - firm's External Environment &
  - firm's Internal resources & Capabilities

- The 2 most important situational considerations are
  - Industry & competitive conditions &
  - Org. own capabilities, resources, strength, weakness, market position.

Issues to consider for Strategic Analysis
[MC: BOR]
B: Balance   O: Over the period of time   R: Risk

Balance	Balances / Match has to be maintained between internal potential of the Org with the environmental opportunities but in real life, the perfect match in between two may not be feasible
Strategy Evolves over a period of time	The manager who makes an effort to change the strategy as per the requirement provides increase in growth. But the issue is the environment keeps on changing giving need to change strategy over the period of time.

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Risk	• An important issue of strategic analysis is to identify the potential imbalances or risks & assess their consequences. which arises from booms, recessions, techonological advancements etc.

METHODS OF INDUSTRY & COMPETITE ANALYSIS

[MC: Key MINDED]

Key - Key success factors
M - Market position Identification
I - Industry Profit Outlook
N - Nature & strength of competition
D - Dominant Economic features of Industry
E - Expected strategic moves of Rivals
D - Driving forces of industry change.

Dominant Economic features of Industry

[MC: SMS is the number of Rivals & Buyers
+
Product & service]

- S - scope of competive rivalry (local, regional, national, International)
- M - market growth rate & position in the business life (introduction, growth, maturity, decline)
- S - Size & nature of business
- Number of Rivals & their Size
- Number of Buyers & their Size
- Whether the products/services of Rival firms are
  - highly differentiated
  - weakly differentiated
  - Identical.

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Nature & strength of competition

• Includes analyses of competitive pressures which is given in chapter 5 [porter five forces model]

Trigger of change

Triggers are the Events that affect the industry powerfully. Therefore called Driving forces of industry change.

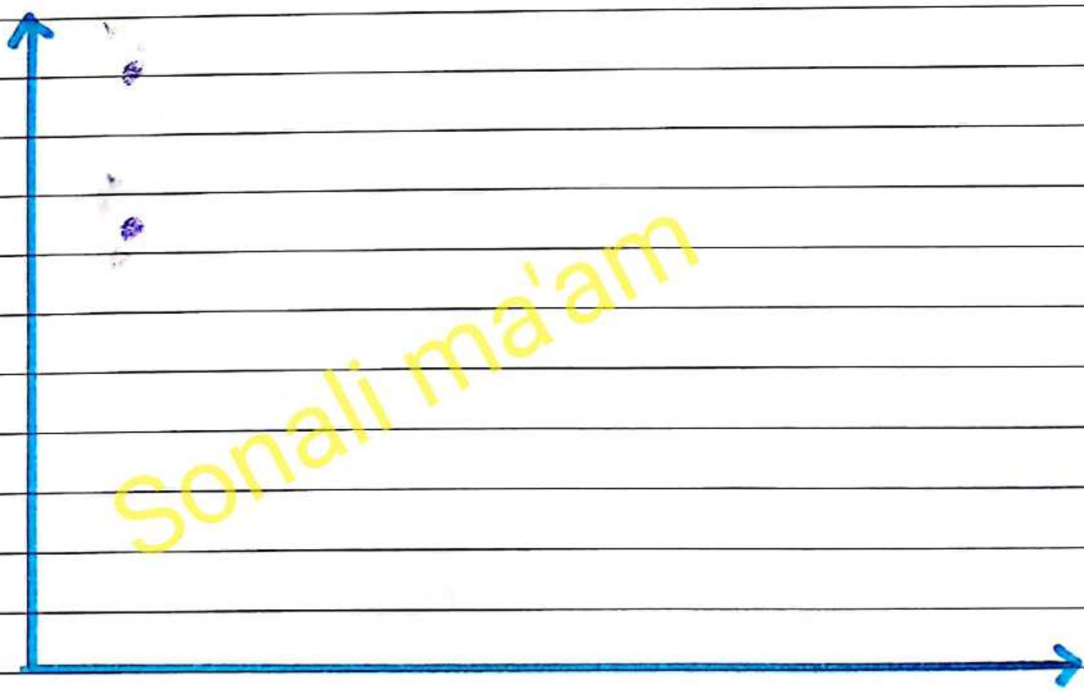
Following are the driving forces -

T - Technological know-How
R - Renovation in product
I - Internet
G - Globalization में Increase
G - Growth Rate में changes
E - Entry / Exit of major firms
R - Renovation in marketing

Identifying companies that are in the strongest / weakest position

The procedure for constructing a strategic group map & deciding which firms are strongest or weakest -

Step 1	Identify the competitive characteristics that differentiate firms in the Industry. Eg. • price • Quality • Product Line breadth [Products की Range]
Step 2	Plot the firms on a two-variable map using pairs of these differentiating characteristics.
Step 3	Assign firm that fall in about same strategy space to the same strategic group
Step 4	Draw circles around each strategic group making circles proportional to the size of respective share of industry's total sales.



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Likely strategic Moves of Rivals

One should have knowledge about
- Strategies Rivals are using
- their latest moves
- their strength & weakness
- plans they have announced.

Key Success factors (KSF's)

Key Success factors are the elements that influence the ability of a firm to succeed in the market.

The answers to the following following questions help to identify industry's KSF's
- On what basis customer choose b/w competing brands?
- What capabilities does a seller need to have to be successful
- What it does for sellers to achieve sustainable competitive advantage?

For example,
In apparel manufacturing, the KSF's are appealing designs & colour combinations (to create buyer's interest) & low cost. (to attract customers)

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Prospects & financial attractiveness of Industry

- If the industry's overall profit prospects are above average, the Industry can be considered attractive
- If its profits are below average, it is unattractive.

- Decisions if industry is "Attractive"
  - Expand sales efforts
  - Invest
  - Strengthen long term position

- Decision if industry is "Unattractive"
  - Invest Cautiously
  - Acquire smaller firms if the price is right
  - Diversification.

CORE COMPETENCE

Competency is defined as the combination of skills & techniques, which makes the whole organisation utilize separate Individual capabilities

If the three - below mentioned conditions are met, then the company can regard its compentence as Core Competence

- Competitor differentiation
- Customer Value
- Application of Competency to the markets (other areas)

Competitor differentiation	CD (MC) C: Competence is unique D: Difficult to immitate If the Competence is 'CD', this can provide an edge over competitors.
Customer Value	Customer Benefits (MC) Customer: Customer ↑ Real Impact Benefits : Benefitted from purchasing the product must have real Impact on the Customer & it has to provide fundamental benefit to the Customer.

Application of Competencies to other areas	Competencies must be used through out the Organisation rather than particular area of expertise to explore potential markets.

Four specific criterias of sustainable competitive advantage that firms can use to determine those capabilities that are core-competencies are -

- Valuable
- Core Competencies
- Costly to Imitate
- Non-Substitutable

Valuable	A firm created value for customers by effectively using capabilities.
Core Compentencies	Rare capabilities, very few of the Competitor possess this.
Costly to Imitate	Such capabilities are such that firms are unable to develop easily
Non-Substitutable	Capabilities that do not have equivalents (बराबरी का Product)

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VALUE CHAIN ANALYSIS

About Value chain Analysis.
(MC: VALUE)

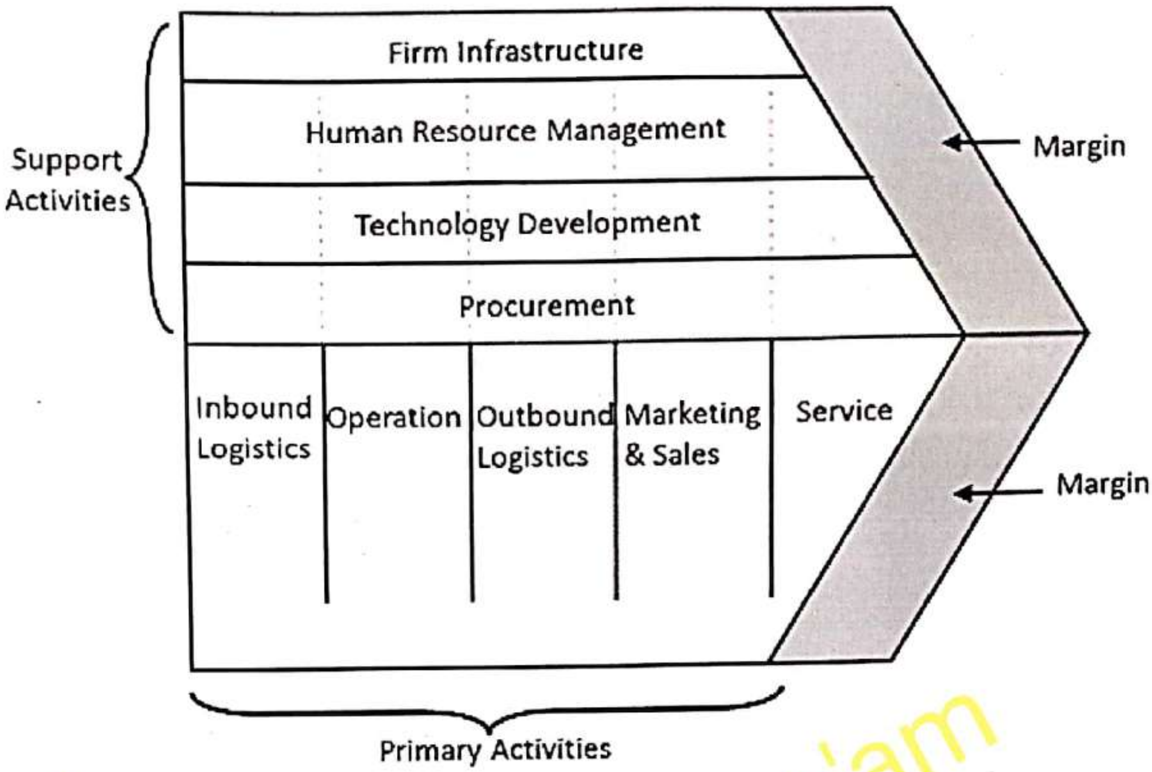
V : Value added from each Activity is linked to the Organisation's competitive Advantage
A : Approach for Internal analysis of Resources given by Michael Porter
L : Lalach: customer Demand (Discovering what customer wants)
U : Consists of series Undertaken by the firm or organisation.
E : With which, the organisation can edge over competitors

There are two basic steps of identifying separate activities & assessing the value added from each is linked to the organisation competitive advantage

Primary Activities — Support Activities.

PRIMARY ACTIVITIES

1. Inbound Logistics	Includes activities concerned with receiving, storing, distributing inputs
2. Operations	Transformation of Inputs into the final product



Value chain analysis...

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3. Outbound Logistics	The arrangements done for making the products available for Customers eg: transport
4. Marketing & Sales	Means whereby Customers/users are made aware of the product Eg:- Advertising.
5. Sales के बाद की Service	All those activities which are given post sales to enhance/maintain value of product. Eg - Repair & maintenance.

SUPPORT ACTIVITIES.

1. Infrastructure	Includes all that required area/facilities required for performing Primary activities. Eg. Premises.
2. Human Resource Mgt	Includes Selection, placement, appraisal of Labour/Employees
3. Technology	Includes know-how, procedures or Technological Inputs needed.
4. Procurement	Processes for acquiring the various resources (other than inputs) for the organisation.

COMPETITIVE ADVANTAGE

An Organisation is said to have Competitive advantage if its profitability is higher than the average profitability for all companies in its Industry.

Role of Resources, capabilities & Value-Creation in achieving competitive advantage.

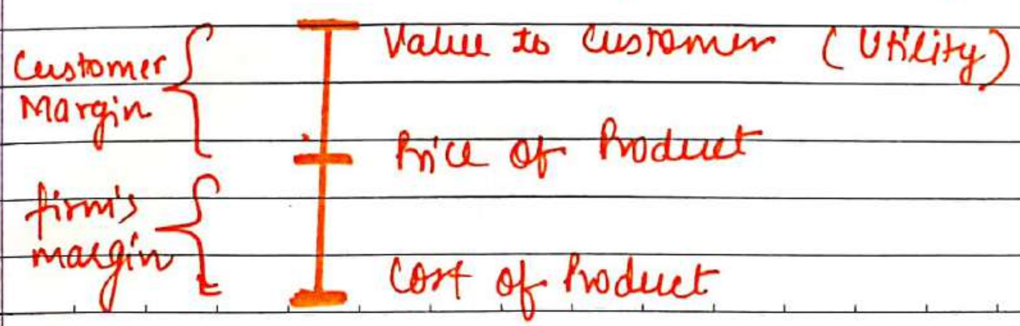
1. Resources
   - Tangible Resources
   - Intangible Resources

2. Capabilities
   - Effective use of Inventories, assets, customer Service
   - Efficient use of techniques.

3. Value Creation

At the most basic level, how profitable a company becomes, depends on three factors

- The cost of creating those products
- The price that a company charges for its product
- The Value customers place on the product.



The Sustainability of competitive advantage & a firm's ability to earn profits from its competitive advantage depends upon four major characteris. of resources & Capabilities-

Durability Transferability Imitability Appropriability

PORTFOLIO ANALYSIS
(Internal & External Analysis)

- A business portfolio is a collection of businesses/ products that make up the company.

- Portfolio Analysis are the set of techiques which helps in taking strategic decisions wrt products/ businesses.

- There are 3 important concepts, the knowledge of which is primary to understand the different models of Portfolio analysis:-

SBU Strategic Business Unit.	Experience Curve	Product Life Cycle

Strategic Business Unit

[MC: SBU

S : Separate Vision, mission, Obj

B : Business to be planned separately [Single/collection]

U : Unkey apney competitors]

- Identifying key businesses is termed as SBU
- It has separate vision, mission, objective which can be planned separately from other businesses
- It has its own set of Competitors
- Has a manager who is responsible for strategic planning & profit

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- After the identification of SBU's, the mgt will assess their respective attractiveness & decide how much support each deserves.

Experience Curve

- It is based on the common experience that Avg Cost per unit declines as a firm accumulates experience in terms of volume of Production

- It results from the following factors like :-
  - Learning Effects
  - Economies of Scale
  - Product Re-design
  - technical improvements

- Importance/Relevance :-
  - barrier for New firms
  - build market share.

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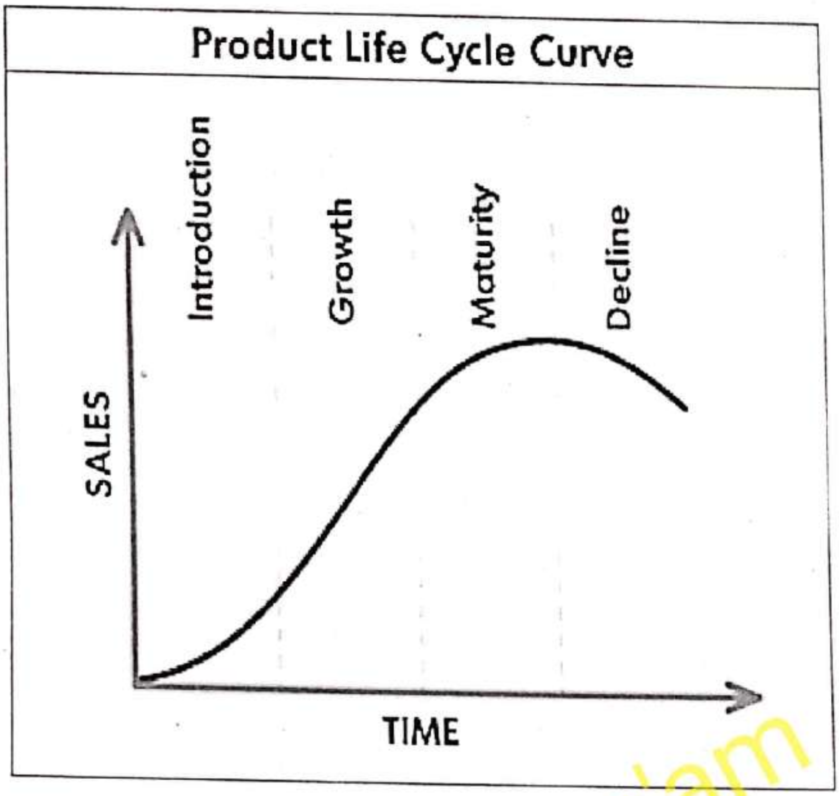
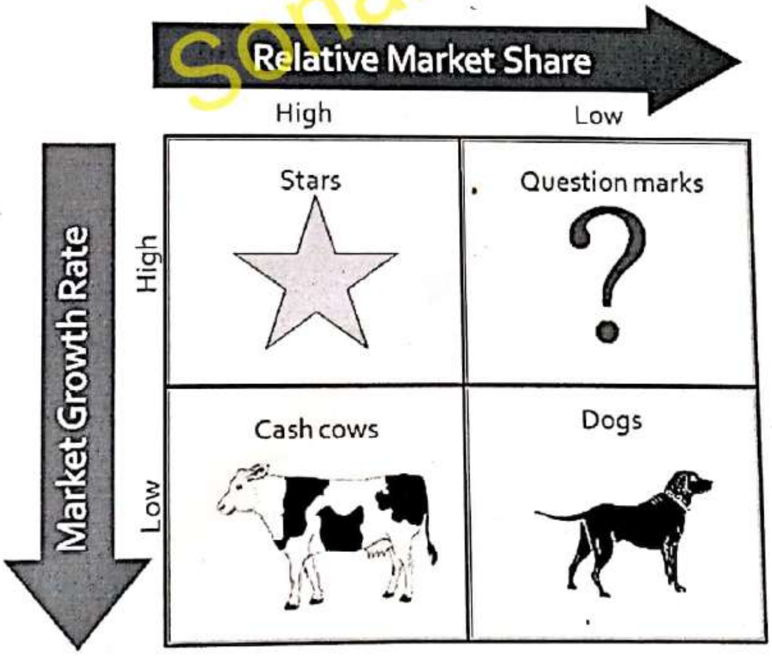
Product Life Cycle (PLC)

- It is S shaped Curve
- It shows the relationship of sales with respect to time
- There are 4 stages through which a product passes
  - Introduction stage
  - Growth stage
  - Maturity Stage
  - Decline stage

Introduction	• Sales growth is at lower Rate & • Because customers are not Known to our product
Growth	• Customers gained the knowledge about the product & • Therefore sales increases at a higher Rate
Maturity	• Competition gets tough • Org. try to maintain stability • Sales gets stabilized after Certain time
Declining	• Sales falls due to - • some new product replaces the existing product



PLC
Product
Life
Cycle



BCG
Growth
Matrix.

Portfolio Analysis Models

- BCG
- APM
- ADL
- GE

BCG [Boston Consulting Group] Growth Rate Matrix.

Stars	• High Market share & High market Growth Rate • Need investment to maintain their position • Best opportunities for Expansion
Question Marks	• Low Market share & High Market Growth Rate • Absorb cash if market share remain unchanged. • If left unattended, becoming Cash traps
Cash Cows	• High market share & low market growth Rate • They generate cash & have low Cost • In long Run, if market Rate slows down, Stars become cash cows.
Dogs	• Low market share & Low market growth Rate • Do not have much future • They need Cash to survive.

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Ansoff Product Market Growth Matrix (APM)

Growth depends upon

Product — Existing, New

Market — Existing, New

Market Penetration	To sell Existing Products in Existing Markets • It includes making increased sales to present customer • Without changing products in a major way. • It can be done by - – Increasing Product Usage / Utilities – Increasing the frequency of usage
Market Development	To sell Existing Products into New markets [MC: New PGDM] New P: New Product Dimensions New G: New Geographical Markets New D: New Distribution channels New M: New Market Segments
Product Development	To introduce new products in Existing mkt This is achieved by – Adding New features to the product – Developing a New product.

Diversification	TO Sell New Product in New Market • Starting up or Acquiring businesses outside company's current product & market • This strategy is most Risky.

Ansoff Product Market Growth Matrix.

GE Model

Business Unit Strength →

Market Attractiveness ↓	High	Medium	Low
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

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General Electric Model (Stop-Light Strategy Model)

- This Model is Similar to BCG-Growth Matrix However, there are differences. Firstly, market attractiveness replaces market growth Rate. Secondly, Competitive strength (Business Unit Strength) replaces market share

- If a product falls in Green section, the business is in advantageous position. To reap the benefits, Strategic decision should be to invest & Grow.

- If a Product falls in Yellow section, it needs Caution & managerial discretion is called for Strategic choices.

- If a Product falls in Red section, it will eventually lead to losses. Appropriate strategy should be Retrenchment, divestment or Liquidation

Red = Harvest, Divest
Yellow = Protect
Green = Invest

SWOT ANALYSIS

Environment

- Internal
  - Strength (S)
  - Weakness (W)
- External
  - Opportunity (O)
  - Threat (T)

Strength	• Inherent capacity which an Org. uses to gain advantage over competitors
Weakness	• Inherent Limitation which creates disadvantage over competitors
Opportunity	• Favourable Condition which enables Org. to strengthen its position
Threat	• Unfavourable Condition which causes damages to the Org.

Significance of SWOT analysis -

- It provides a logical framework
- It presents a Comparative Analysis
- It guides strategist in strategy formulation & Identification.

Internal Elements

External Elements

	Organizational Strengths	Organizational Weaknesses
Environmental opportunities (and risks)	**SO** Maxi-Maxi	**WO** Mini-Maxi
Environmental threats	**ST** Maxi-Mini	**WT** Mini-Mini

"TOWS Matrix"

TOWS Matrix

- Heinz Weihrich has developed this matrix whereby the Strengths & Weaknesses of Org are compared with the Opportunities & threats
- TOWS analysis is an action tool whereas SWOT analysis is a planning tool.
- The various combinations of TOWS Matrix are -

SO (Maxi-Maxi)	• The strength (resources) should be utilized to build/ Grab the opportunities
ST (Maxi-Mini)	• Firms try to Minimize the threats through its strength
WO (Mini-Maxi)	• The firm need to overcome the internal weaknesses to explore the opportunities to the maximum.
WT (Mini-Mini)	• WT is a strategy which is pursued to Minimize or overcome weaknesses & as far as possible cope up with threats.

GLOBALISATION

- Nature of Globalization
- Why do Companies Go Global
- MNC vs TNC
- Manifestation of Globalisation

Nature of Globalisation

- Integrating our economy with the world's economy is called Globalisation.
- A company which has gone global is called MNC [multinational company] or TNC [Transnational Company]
- A Global company has 3 characteristics

MC: multiple Units — Common Ownership [ORS]
" — Resources
" — Strategy

- It is an organisation having multiple units linked with common ownership
- These multiple units draw common pool of Resources
- Also, they respond to common strategy

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Multinational vs Transnational

MNC	TNC
• MNC own a home company & its subsy. or subsidiaries	• TNC company do not have companies in the form of subsidiaries.
• Have Centralised mgt system	• Have decentralized mgt system
• Facies barrier in decision-making	• They have their own systems of decision making

Why do Companies Go Global?

- shrinking of time & distance
- faster communication
- Technological inflows/Outflows
- domestic ~~tax~~ markets are no longer adequate
- cheaper raw material

Manifestation of Globalisation

[MC : IMPACT]

I : Interlinked economies
M : Mobility of Resources
P : Privatization ↑ Increase
A : Availability of Resources at international price
C : Configuring anywhere
T : Trade barrier ↓ Decrease.