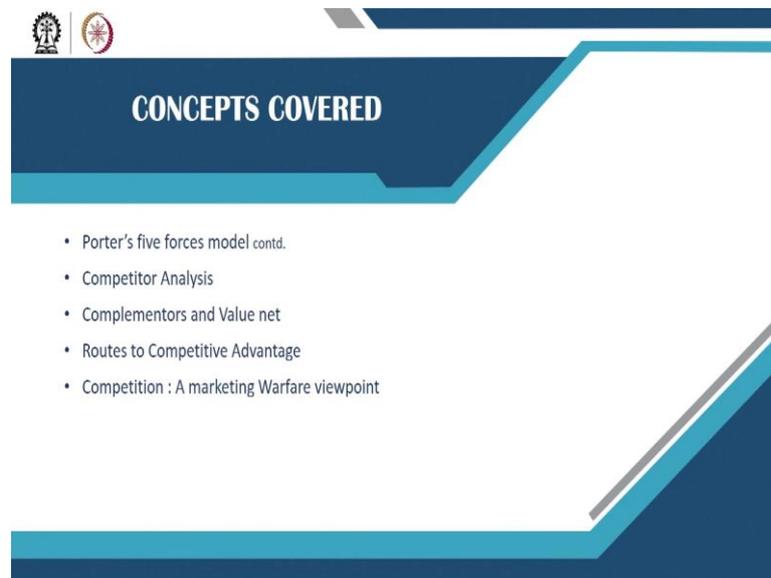


Strategic Management for Competitive Advantage
Professor Sanjib Chowdhury
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur
Lecture 06
Competition and Competitive Advantage - II

Welcome to the course strategic management for competitive advantage. In the last class, we were talking about competitive analysis, we will be continuing where we left in the last lecture.

(Refer Slide Time: 0:46)

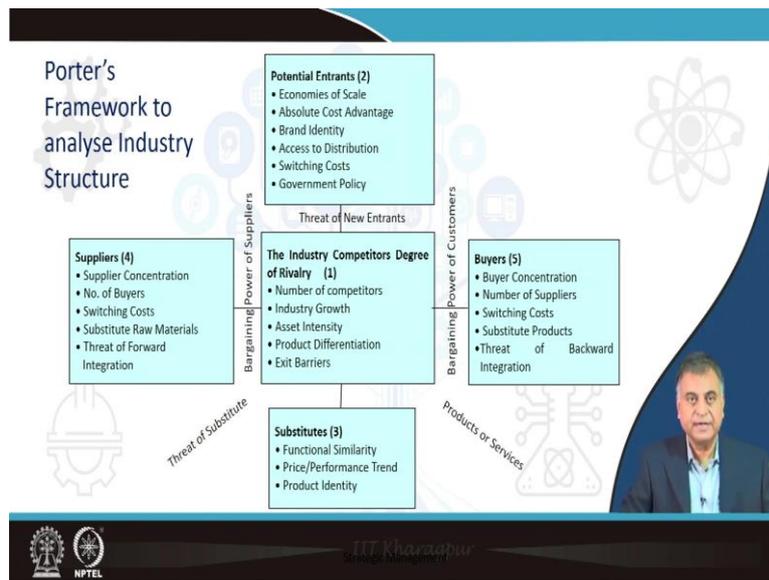


The slide features a dark blue header with the text 'CONCEPTS COVERED' in white. Below the header, a list of five bullet points is displayed in a smaller font. The slide is decorated with geometric shapes in shades of blue and grey, including a large blue shape on the left and a grey and blue shape on the right.

- Porter's five forces model contd.
- Competitor Analysis
- Complementors and Value net
- Routes to Competitive Advantage
- Competition : A marketing Warfare viewpoint

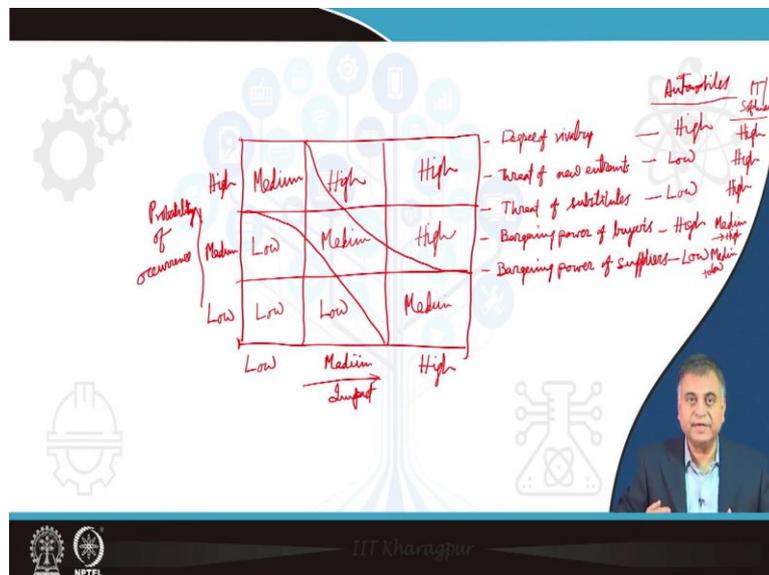
As we have covered Porter's five forces model. Now, just a few things I will be saying about it. After that, we will be covering competitor's analysis, competition, complementors, and value net followed by routes to competitive advantage and marketing warfare viewpoint.

(Refer Slide Time: 1:10)



So, in these slides, Porter's framework to analyze industry structure, we have explained in detail. Now, I will just further explain a few things. Suppose you are a strategist; how will you know the competition in your industry? What is the ultimate or potential profit-making available to that industry? So, I will just show you a framework for how to do that.

(Refer Slide Time: 1:54)



Let's say you can make a matrix. You all are aware that this resembles the Risk Severity matrix. This is impact scale, the other represents the probability of risk occurrence. This is low, medium, and high. In the risk matrix, which is similar to the risk priority or risk severity matrix, this is the chance of occurrence and impact. You can also draw a priority matrix. Suppose your outcome has a high probability of occurring. So, what happens here will result in these being also high. So, a high

probability of occurrence exists if the impact is medium. As a result, it is high. So, the likelihood of something happening is high if your impact is low. So, high and low is medium in this situation. Your impact is also significant, and the probability that it will happen is medium. As a result, it is high.

Now, say the probability of occurrence is medium, and the impact is medium, this is medium. If the impact is high and the probability of occurrence is low, this is medium. Similarly, you can find the impact is low, and the probability of occurrence is low. So, it is low. The probability of occurrence is medium, and the probability of an impact is low, so it is low.

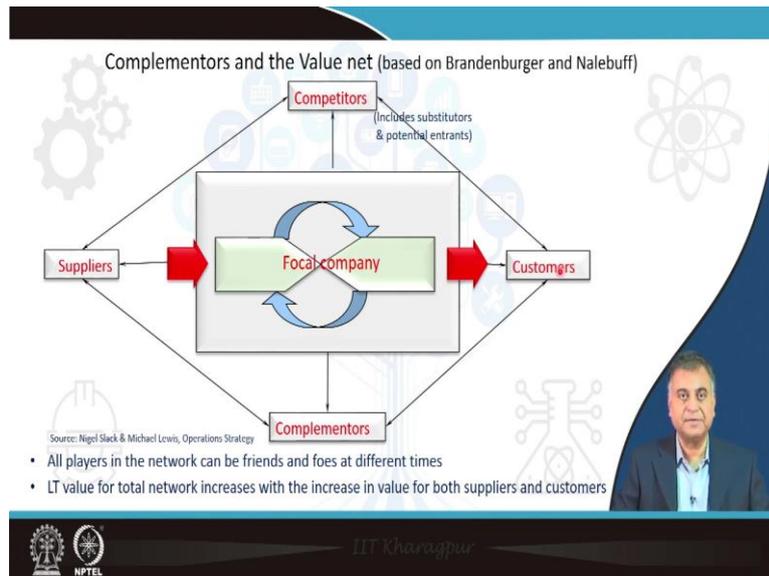
So, this way, you can prioritize. So, what do you find? This (risk) is your high, this (risk) is your low. So, these are the high priorities. These are the low priorities. And these are the medium priorities. This way, you can find out. Now, look at Porter's five forces. What does it say? One is the degree of rivalry, then the threat of new entrants; the threat of substitutes; the bargaining power of buyers; bargaining power of suppliers.

Now, what happened see now take any industry say automobile industry. In the automobile industry, what is the degree of rivalry? The degree of rivalry is very strong. Now you will see there is an oligopoly market. So, there are very few consolidated firms, say, Maruti Suzuki, Toyota, or Honda. So, if this degree of rivalry is high, then what is the threat of new entrants to automobiles? It is low. What is the threat of a substitute for the automobile? It is low. What are the bargaining powers of buyers in the automobile? It is high because, for individual buyers, it may not be that high, but for organizational buyers, say a company or the government, they buy in bulk, and also give repeat orders every year. What is the bargaining power of sellers of automobiles? It is low. Now, if you see the IT industry or the software industry, if you want it to be in the IT or software industry, what is the degree of rivalry? The degree of rivalry in the software industry is high.

what is the threat of new entrants in IT software? It is also high. Then what is the threat of substitutes in the IT industry? The threat of substitutes is also high. What happens to the bargaining power of buyers in the software industry? It moves from medium to high, it starts with medium, but it goes high in course of time. What happens to the bargaining power of suppliers in the software industry? It moves from medium to low.

So, this way, you can do your industry analysis. So, this is all about Porter's five forces model. So, we will be going next.

(Refer Slide Time: 9:50)



Now in Porter's five forces model, we have seen how five forces define the intensity of the state of competition but what are these complementors and value net? This is something different. Competitions are for different participants or competitors, but is not necessarily that all participants will be your competitors. Sometime competitors may be your complementors. So, what is the value net for an organization?

Suppose an organization is a focal company. So, any organizations have four, or more players like suppliers, customers, competitors, and complementors all these add value to your value net. So, now, who are the competitors? who are complementors? Now we will be discussing it. Say, a company's complementor is the one who adds value to your products or services. Complementors enable the customers to value your product or services more than their products or services. When the customers look at both the products, they value your products or services more than the complementor product or services, and the competitors are just the opposite. customers view competitor's product or services and value them more than your products or services. For example, I can say if you have a say restaurant, there may be two or three restaurants in a city side by side. So, now when a customer comes, these restaurants (two or three) are competing with each other.

These are competitors to one another. Now, if you look at it from a different perspective, the client would not have travelled to that area of the city if there was only one restaurant; they are going there because they are aware that there are several restaurants nearby. For this reason, you will find in a city the art galleries, cinema halls, theatres, then garage, that is, car repairing garages are all clustered together; even if you go to a market, or vegetable market, there are three-four dozens of vendors. This means that the competitors are cooperating, they

are attracting the customers there, which means they are increasing total size of the market, a joint market for attracting the customers there.

So, dozens of vendors are selling it, and people are going there because, they (competitors) are jointly in a form of cooperation have increased the total size of the business, the total size of the joint market which attracts customers. So, competitors are complementors here.

And now when you go to the market, or you go to the restaurant area, or you go to the food court, you choose which one to go then they become the competitors. So, these competitors include your substitute, (substitutes are also included in competitors) and the potential new entrants, they are also part of the competitors and complementors.

Another two crucial factors are a company's suppliers and customers. Typically, the sub-customers are the focal company's prime aim. You know that if a customer pressurizes, the company will pressurize the supplier. Let's say a buyer request 100,000 products (units) but they demand 150,000 units. Customers are therefore seeking higher quantity as well as faster delivery of the product.

So, what does the company do? Company pressurizes the supplier. So, suppliers are squeezed. Mostly you will find that suppliers are squeezed by the pressure of the customer. The company passes the pressure on to the supplier, but the value net says that this cannot go on for long. It does not add value to the net.

So, as a whole, you have to increase the value of all these four entities, which is called the value net. All players in the network can be friends and foes at different times, as I told you, competitors can be your friends, and complementors can be your foes at different point in time.

Now, long-term value for the total network increases with the increase in value for both suppliers and customers, and it cannot be at the cost of others. So, to increase the value of the net, you have to increase the value for both the suppliers and the customers and this has to go hand in hand.

(Refer Slide Time: 16:58)

Assessing Competitors Performance, Strength and Weakness

Competitive profile matrix identifies major competitors, their strengths and weaknesses w.r.t. firm's strategic position

Functions	Facilities & Equipment	Personnel Skills	Organisational Capabilities	Management Capabilities
General Mgmt.				
Finance				
R&D				
Operations				
Marketing (examples)	<ul style="list-style-type: none">- Warehousing- Retail Outlets- Sales Offices- Training facilities for Sales Staff	<ul style="list-style-type: none">- Door to Door Selling- Retail Selling- Advertising- After Sales Service	<ul style="list-style-type: none">- Direct Sales- After Sales Service- Service Network- Customer Loyalty	<ul style="list-style-type: none">- Industrial Marketing- Household Marketing- Large Customer Base

Source: Ansoff



IIT Kharagpur

Now, we will be discussing some more frameworks for assessing competitors' performance, how do you assess the competitor's performance? That is, the strength or weakness. So, usually, you have to scan the different reports say annual reports, chairman's speech, and many other sources, we have talked about it in module 2 (external environment analysis), if you refer to that, you will find the sources of information for this external environment.

So, from there, you will get those reports and those documents, that will help you to assess the performance of your competitors. Now, what do you want to find? you find the strengths and weaknesses of competitors and draw a competitive profile matrix.

First, you identify who are your major competitors. then you determine their strength and weakness with respect to your (Co.'s) strategic position, and what you want to do. This is one of the frameworks. This framework was given by Ansoff management expert. So here, this is just a framework (say) these rows indicate these are the different functional areas of an organization. It may be general management, finance, R&D, operations, engineering, or logistics marketing, it can be anything you are interested in, and this column shows the organizational capabilities, say facilities and equipment, personnel skills, organizational capability, and management capability.

So, this way in each area, you find out the competitor's strengths and weaknesses, so you can do it yourself. So, for example, Ansoff has shown in marketing - facilities and equipment, it may be the warehousing, retail outlets, sales office, training facilities for sales staff, all these you can determine whether your strength or weakness.

So, similarly to personnel skills, door-to-door selling, retail selling, advertising, and after-sales services. You take care of everything important to you or your organization. Similarly, organizational capability, such as direct sales, after-sales service, the network then, customer loyalty, management capability, industrial marketing, household marketing, and large customer base. So, these are just indicative one, you can make your own framework similar to this. This is one way to develop a competitor's profile matrix.

(Refer Slide Time: 20:23)

3. Competitive Analysis

► Routes to Competitive Advantages (Suggested by Ohmae)

- Intensify functional differentiation (focus on KSFs)
- Build on relative Superiority (Exploit weakness)
- Pursue Aggressive Initiative (Ask 'why-whys')
- Maximize user benefit (Exploit strategic degree of freedom)

IIT Kharagpur
NPTEL

We will now discuss some ways to get competitive advantage and many approaches that may be considered. There are many different ways to achieve competitive advantage; they are not just a few. It all depends on your organization, the situation, and the management style; these are all environmental factors that are related to it. However, I will focus on four ways that Ohmae, one of the management experts, identified in his book, and we will discuss them now.

So, what Ohmae suggest is that you intensify functional differentiation, what does that mean? Functional differentiation is - you focus on key success factors,; every industry has some key success factors. A corporation may be resource-constrained, or experiencing a capability restriction or may not be very large. In that situation, you should concentrate on one thing rather than aiming for everything. You concentrate on a select few important success elements, which determine your competitive advantage. Your competitive advantage may come from those essential success criteria.

So, instead of focusing on the entire gamut of organization (activities), you are focusing on a few key success factors because you have operational constraints, resource constraints, and personnel constraints. So, what are these key success factors?

(Refer Slide Time: 22:47)

The slide is titled "3. Competitive Analysis" and includes a red "Illustrative" box. It lists "Critical Success Factors: Some examples" for five industries:

- Toothpaste Industry (Quality, distribution network, promotion, brand loyalty)
- Food Processing Industry (Quality, packaging, distribution network, promotion)
- Shoe Industry (Quality, cost, retailing, product mix, product image)
- Automobile Industry (Style, dealer network, cost, environmental standards)
- Courier Service (Speedy dispatch, reliability, price)

The slide also features a small video inset of a man in a suit, a gear icon, a chemical flask icon, and logos for IIT Kharagpur and NPTEL at the bottom.

Basically, you go for these key success factors i.e., critical success factors. I will give you a few instances, using the toothpaste industry as an example. In the toothpaste sector, major success criteria may include the product's quality, the distribution system's reach into remote areas, the sales and promotions that are offered, as well as brand loyalty.

Similarly, the primary success factor in the food processing business is the quality of the product, packaging, the distribution network, and sales and promotions.

Similar to this, in the shoe sector, the cost of the product (retailing is very sensitive to cost), followed by the product mix and the product image. The style of the product, the dealer network, and cost are important to the automobile industry's success than environmental standards—even if you already know that emissions and other variables are important.

Similarly, for courier services, it is speedy dispatch, price reliability, and price sensitivity. Therefore, if your firm has fewer resources than competitors, you should concentrate on these key success elements and work to gain competitive advantage.

(Refer Slide Time: 24:51)

3. Competitive Analysis

- Routes to Competitive Advantages (Suggested by Ohmae)
 - Intensify functional differentiation (focus on KSFs) →
 - Build on relative Superiority (Exploit weakness)
 - Pursue Aggressive Initiative (Ask 'why-whys')
 - Maximize user benefit (Exploit strategic degree of freedom)

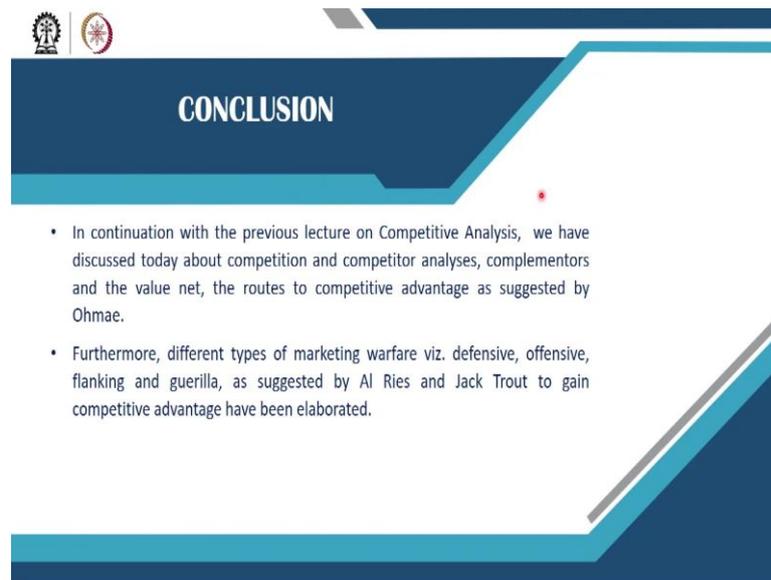
IIT Kharagpur
NPTEL

This way, you can intensify your functional differentiation, and then take competitive advantage. Ohmae says that the second approach is based on relative supremacy, that is, you exploit the weakness of your competitor, how to do that? For that, you carry out operational teardown.

Generally, the products that are assembled are torn down. You take the competitor's product, you tear it down to each component, then you compare each component of competitor's product with your product and find out whether it is a strength or weakness. This is called operational teardown.

So, Ohmae suggests a nice example, for the Japanese color film industry. We will be talking more about this in the next lecture, we will summarize today's discussion, and in the next session, we will be completing other routes to competitive advantage.

(Refer Slide Time: 26:37)

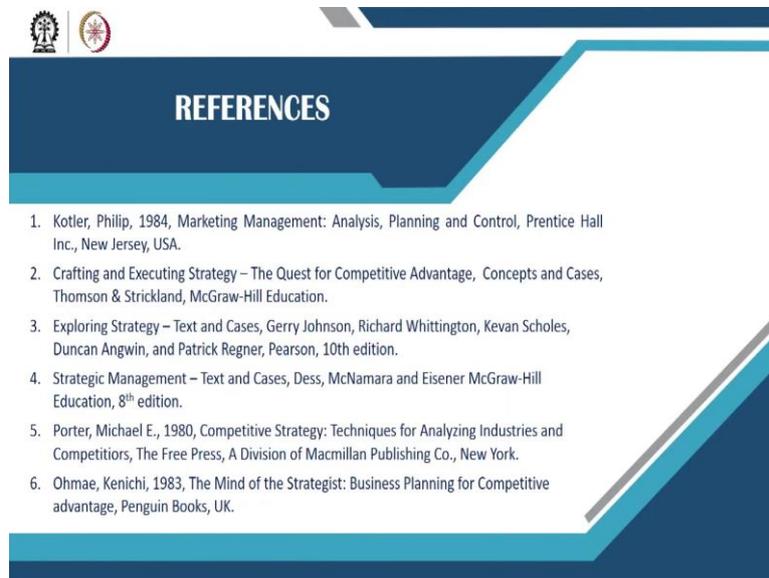


CONCLUSION

- In continuation with the previous lecture on Competitive Analysis, we have discussed today about competition and competitor analyses, complementors and the value net, the routes to competitive advantage as suggested by Ohmae.
- Furthermore, different types of marketing warfare viz. defensive, offensive, flanking and guerilla, as suggested by Al Ries and Jack Trout to gain competitive advantage have been elaborated.

What we have done in this lecture? In continuation with the previous lecture on competitive analysis, we have discussed today the competition and competitor's analysis, how to make competitors' profile matrix, we have talked about the complementors and the value net. How to increase the value net? Not necessarily all competitors are your foes, sometimes, they may become complementors, then we are now discussing the routes to competitive advantage as suggested by Ohmae. this is continuing, we will further talk about it in the next lecture.

(Refer Slide Time: 27:24)



REFERENCES

1. Kotler, Philip, 1984, Marketing Management: Analysis, Planning and Control, Prentice Hall Inc., New Jersey, USA.
2. Crafting and Executing Strategy – The Quest for Competitive Advantage, Concepts and Cases, Thomson & Strickland, McGraw-Hill Education.
3. Exploring Strategy – Text and Cases, Gerry Johnson, Richard Whittington, Kevan Scholes, Duncan Angwin, and Patrick Regner, Pearson, 10th edition.
4. Strategic Management – Text and Cases, Dess, McNamara and Eisener McGraw-Hill Education, 8th edition.
5. Porter, Michael E., 1980, Competitive Strategy: Techniques for Analyzing Industries and Competitors, The Free Press, A Division of Macmillan Publishing Co., New York.
6. Ohmae, Kenichi, 1983, The Mind of the Strategist: Business Planning for Competitive advantage, Penguin Books, UK.

So, I will show you some references, these references will help you to know further about this topic, you can refer to these books. So, thank you very much.