Strategic Management for Competitive Advantage
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Lecture 07
Competition and Competitive Advantage -III

Welcome to the course, strategic management for competitive advantage. Today we will be continuing the last lecture, we are doing competitions and competitive advantage. We will be continuing where we had left last time.

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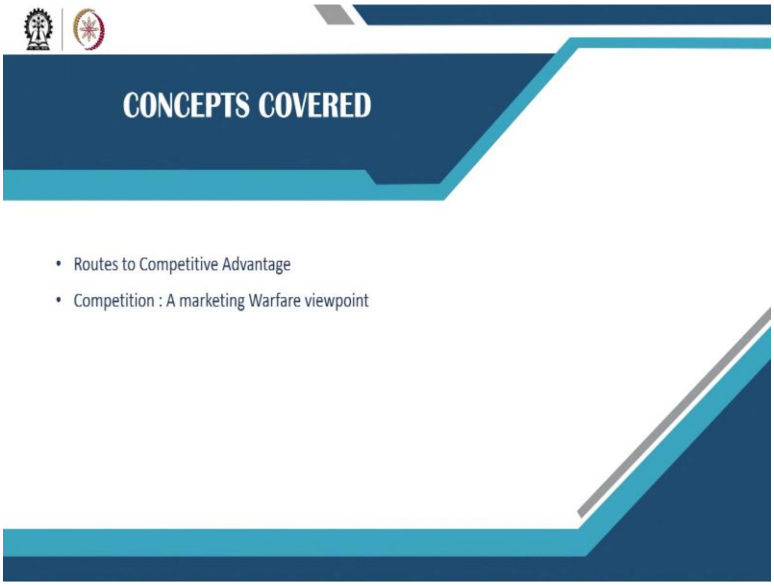

So, the concepts to be covered in this lecture are: routes to competitive advantage, we just started this one. we have talked about one concept. we will be doing the remaining part, and also, we will be seeing competition from the marketing warfare viewpoint.

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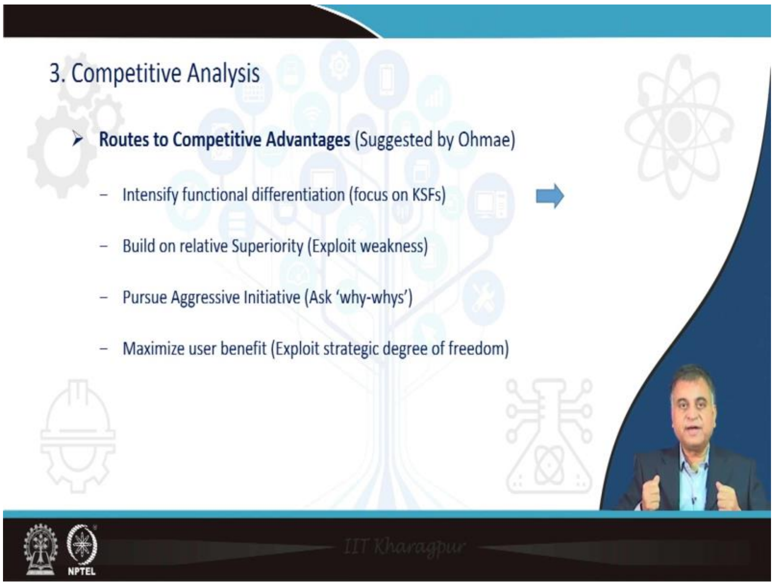

The first point we discussed in the previous class. Now, what we started is the building on relative superiority that is exploiting weaknesses, we have talked something about these in the previous class. Now further, we will dwell on this. So, what we talked about is that you take the competitor's product, and then you tear it down. You do the operational teardown and compare your product with the components of the competitor's product.

So, mostly these things are done in the automobile industry to see the relative strength and weaknesses of each other's products. So, I was talking about giving the example of what Ohmae suggested about the Japanese color film industry. You know the Japanese color film industry was dominated by three players. Out of that, two were Japanese, one were Fuji and another Sakura.

Sakura, once upon a time, was the market leader. Around six decades back, they controlled 50 per cent of the market share. But since then, Sakura was losing the market to Fuji, and Fuji was getting the upper hand. So, Sakura was at a loss, what are the reasons that they are losing the market shares?

So, they ran many tests, they contemplated many studies, but everything came back as a naught, they were clueless as they did not have any inferiority in their product, there is no complaint for the product, even though the market was growing, but market share of Sakura was declining. Sakura was clueless. So, they came to the conclusion that it is not about their product, but about the word "Sakura", which means in Japanese "cherry blossom" and conveys a blurry pinkish image. So, it's not very well- accepted, but Fuji means "blue, bright sky with snow-white mountain," which is very precious and sacred to the Japanese.

So, the name Sakura is not giving a good image to the company. So, changing the name of the company is not a good proposition. So, they cannot do anything and have to live with that name. So then came their chances, or the clue, they discovered from the color film developers - the developers who work with amateur photographers in Japan. They (amateur photographers) generally kept one or two rolls of 36-role film unexposed, but in 20-exposer films, they are invariably squeezed and nothing is left. They got the clue.

So, they made a strategic plan, the plan was that they would produce 24-film roles at the same price as that of the 20-film roles of the competitor. So, what happens now, if Fuji now wants to replicate their idea to have 24-films, they will incur a huge penalty. So, that is not an option for them, and what they can do? Fuji can bring down their price to get competitive, but Sakura was prepared to face that challenge because for productions of 20 film to 24 films, the cost increment is trivial to them, and it was a successful plan, and they could capture the market share.

So, these are the build on relative superiority. And also, what Sakura did? Sakura exploited the cost-conscious mindedness of the Japanese people, and they capitalized on those economic values and economics. So, this is built on relative superiority, as suggested by Ohmae.

Then the third route Ohmae suggested pursue aggressive initiatives i.e., always ask ‘why’. Why you cannot do that? So, here Ohmae gave the example of the Japanese Camera industry. Prior to that time, the camera lacked a built-in flash. So, the corporation started thinking they had to do this, why it cannot be done, why, keep asking why unless you have a breakthrough innovation.

And this was the cause, this was the reason why they got the breakthrough. So, there was no built-in flash at that time. wherever you want to go, you go with an attachment, an electrical fixture attachment, you just look for an electrical point or fixture and put it there for the flash.

So, pursuing these, why-why they built a built-in flash. So, it was a huge success in the Japanese market and other parts of the world. And it came as an aggressive initiative by asking why. So, you do not take anything for granted, do not take status quo, as your business will go like this, you always challenge the status quo, you always challenge what is granted in the business, then only you can go for breakthrough innovation. These are the ways to pursue an aggressive initiative to take competitive advantage.

Lastly, Ohmae suggested that competitive advantage can be taken by maximizing the user benefit. That is exploiting strategic degree of freedom, what is the strategic degree of freedom? He says maximize, sometimes you will find that you have operational constraint, resource-constraint and may have something like your key success factor then you go for the key success factors and concentrate on that. Suppose you find your key success factors also have some constraints and you cannot go. It is not always possible to go beyond that key success factor and may face some blockage.

In such cases, what do you do? You try to exploit that strategic degree of freedom. Here Ohmae suggested one more thing. One example of this is coffee. In a coffee shop, people go for what? What is the competitive advantage for a coffee shop or coffee industry? It is the taste of the coffee.

Now so, you exploit strategic degrees of freedom for the taste of the coffee. So, the taste of the coffee depends on what? The taste of the coffee depends on many variables, what are those variables? Those variables may be types of coffee beans, type of plucking, how it was grinded, the time between the plucking and the grinding, the time between grinding and brewing, hardness of water, the temperature of the water, the coffee pot, timing between the brewing and drinking of coffee etc.

So, there may be many variables. So, you identify those variables. And now, many of the variables may not be under the manufacturer's control, like the coffee beans and then the grinding of coffee. those things are outside the manufacturer's control. So, those do not qualify for the strategic degree of freedom, strategic degree of freedom is which is under the manufacturer's control.

Which are now under the manufacturer's control? There may be many factors that are not under the control of the manufacturer, but we do not look at them. For example, supposing the hardness of the water is under the control of the manufacturer, and if you put a filter and remove the hardness and other doable, your coffee tastes better.

So, you try to control those which are under the manufacturer's control to exploit the degree of freedom, but you can always go backwards to increase the variables, to increase the degree of freedom for your control. So, these are the four routes that Ohmae has suggested. These are the ways to take competitive advantage, like intensifying your functional differentiation, building on relative superiority (exploiting the weakness of your competitors), pursue aggressive initiatives. That is, ask 'why- whys' until you get your breakthrough, then you maximize users' benefit. That is, you exploit your strategic degree of freedom. These are the four routes.

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We will now be talking about competitions, which is a marketing warfare viewpoint. This marketing warfare viewpoint was suggested by AJ Ries and Jack Trout. So, they have made an analogy. Marketing as an analogy compared to warfare. And, as in this case, serving customers is no longer the only criterion for firms. The requirements go beyond customer service; it is outfighting, outflanking, and outwaiting your opponents; here is more about that.

And who is the enemy here? The enemy is the competition, and customers are the grounds that must be won. So, when it comes to competitions, there are four sorts of combat: defensive warfare, offensive warfare, flanking warfare, and guerrilla warfare. So, we'll be discussing this. What exactly is defensive warfare? They argue that defensive warfare is appropriate for market leaders. The market leaders will follow defensive warfare because market leaders have numerous entities they are fighting against; they must look after the regulators.

Then consider government policies and reforms, environmental rules, SEBI, and all other restrictions. There are pressure groups also when a firm becomes extremely successful (number one), you know there are many competitors, you know who is number two, you can anticipate their move, but (say) government policy changes, then regulators, then society, pressure group etc. l you have to defend against them.

As a result, this becomes an extension of your warfare. Second, you cannot afford to ignore your competitors; they are also breathing down your neck. As a result, you have to safeguard yourself against competitors. So, how do you go about it? They suggest that the best kind of defense is the attack on self.

So, what does it mean for the number one to attack itself? That is, you develop new items/products, while discontinuing those that are not performing well, that are not profitable, and have low sales. So, you drop the product and produce new product (differentiation), such that your products are far superior to your competitors, and if you generate innovative products, that ever-increasing gap itself, you are putting a defense against your competitors.

So, in general, this is referred to as defensive warfare, and it is carried out in one of the two ways: attacking itself is a good option, and obstructing competitors is the other option. Blocking competitors can be accomplished by product differentiation, as previously discussed, and possibly other techniques. You know Microsoft do not allow other competitors to enter, and there are numerous ways to accomplish this.

So, this is defensive warfare, which is generally followed by the number one in the industry, Offensive warfare is just the opposite of defensive warfare. It is followed by number two in the industry. It is the mirror image of defensive warfare, how do you go about it? You find the strength of the leader, then concentrate on that area of that strength, then find the weakness within that strength and you attack that weakness in a narrow front and gain the market.

There could be numerous examples of offensive warfare. So, for example, you may have seen recently that Reliance Jio entered the market; before that Airtel, Vodafone, Idea, and a slew of other players dominated the market. As a result, it chose offensive warfare. Jio arrived with offensive tactics. Similarly, you will find the Nirma - Nirma detergent in the 1980s and throughout the 1970s. They started with a very small thing, you know, one Gujarati businessman who started with his Nirma detergent and that became so popular and grabbed the market that Hindustan Lever and other large manufacturers were clueless, whereas those large manufacturers employed hundreds of MBAs from top schools, but they couldn't compete with that, and today with that Nirma detergent and all other products ...

But those were the things (products) that made them so popular that what you see now is the Nirma Empire, which was based on that success, and all they did was go for offensive warfare. Similarly, if you discover that some products, such as steel, are extremely expensive. So, some local businesses come in, and regional players build steel tubes and things like that, and they capture market share in offensive warfare.

So, next is flanking warfare, flanking warfare is the most innovative form of marketing. Most of the successful products have come into the market - that have been established in the market came through flanking. Flanking is similar to niche marketing. So, what you do here? ou cannot fight with the number one, number two in the market.

So, you have limited resources. So, you go for an uncontested area. You go for a product or service in an uncontested area, and you grab that market. For example, you can find nowadays that Sensodyne toothpaste, is flanking warfare, it is a niche market. Similarly, you can find many other floor products like this and this flanking, possibly for the high price, possibly for the low price, possibly for the small size, possibly for the large size, possibly for the high-end product, and possibly for the geographic or demographic, anything it can be produced form.

The first thing to understand about flanking is that you go for an uncontested area and the methods you use are highly critical for flanking. So, flanking should take place in an uncontested area, and tactical surprises should be an integral part of flanking. Pursuit is just as crucial as an attack. So, this is all about flaking

The last warfare that AJ Ries and Jack Trout have proposed is guerilla warfare. Guerilla warfare, like flanking warfare, has many players, and these players are very small, small players and in different regions, it may be guerilla like flanking, geographical guerilla, demographic guerilla, product form guerilla, so distributions, anything it can be, and the main thing is small players. They should look for a market niche that is small enough to defend.

Smaller companies can be successful as long as they do not emulate the leader, if leaders come on after you, you should be prepared to leave the market in guerilla. Example of guerilla-. regional guerilla, you will find it in many areas small companies producing your luggage items, suitcases etc. You can find these compact, unbranded luggage as opposed to the larger, branded suitcases such as VIP and American Tourister.

Similarly, you will find locally made rubber slippers (chappals) as opposed to branded company chapels. So, this guerilla might be a high-end, cheap price, and high price, and you can buy specialized high-end shoes and high-end clothes in some locations. You can find those items (those are high-end guerilla). I mentioned to you that locally made suitcases and luggage could be compact and inexpensive. Then there are rubber slippers (chappals), and all of this is guerrilla warfare.

In guerrilla warfare, as I told you, you will be highly successful, why, as long as you can defend your small enough market. Your segment will be small enough, and do not try to emulate your leaders and try to leave the market whenever at a moment's notice. These are four ways of marketing warfare, as suggested by Al Ries and Jack Trout.

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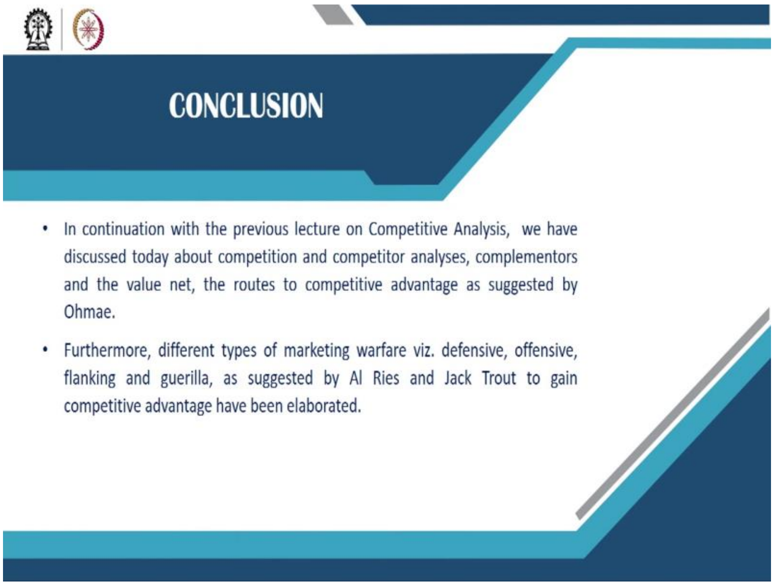

So, to summarize, what we have discussed today, so, we have discussed various routes to competitive advantage as suggested by Ohmae. Further, we have talked about different types of marketing warfare, such as defensive, offensive, flanking and guerrilla, as suggested by the authors Al Ries and Jack Trout. These will give you competitive advantages for the success of your organization.

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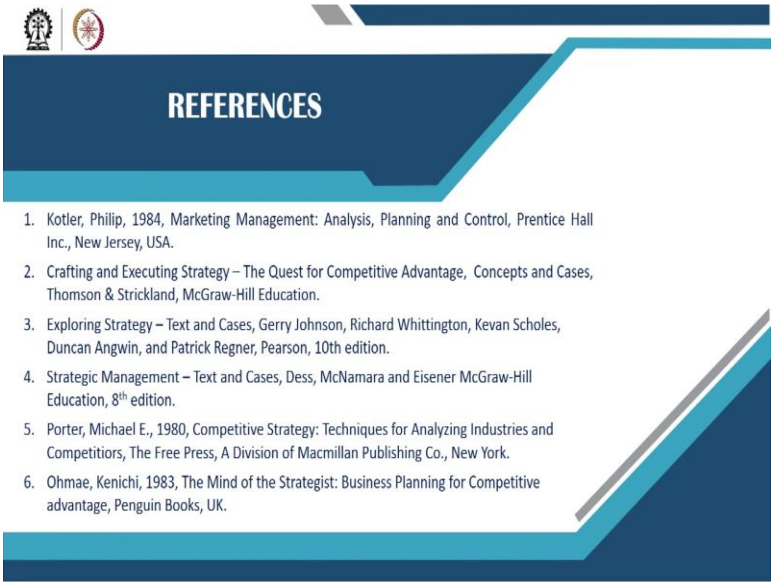

So, I will show you some references, these references will help you to know further on this topic, you can refer to these books. Thank you very much for today's lecture.