Business Development From Start to Scale
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Week - 03
Industry Structure and Company Analysis
Lecture - 14
Competitive Strategies

Hi friends. Welcome to the NPTEL course Business Development from Start to Scale. We are in week 3, with the theme of Industry Structure and Company Analysis. In this lecture, the 14th in the series, we are going to cover the topic of Competitive Strategies.

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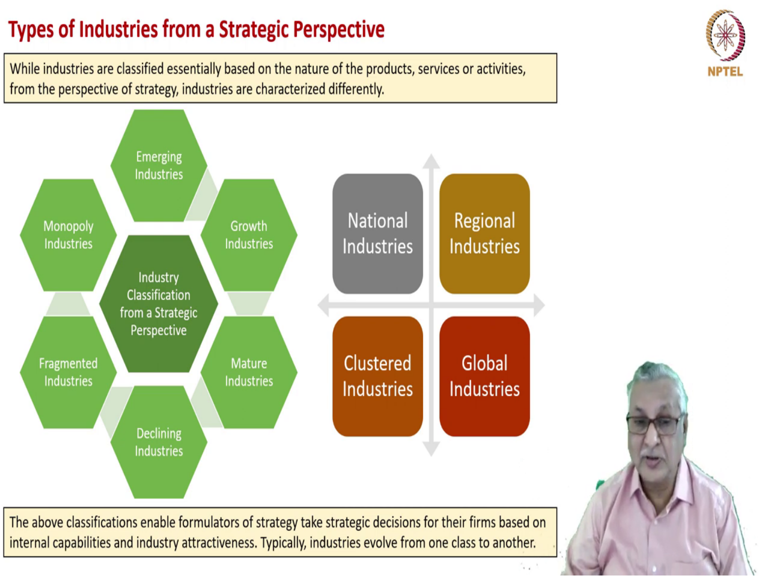

I have stated earlier that Professor Michael Porter has proposed several constructs in the theory of competitive strategy. I said that there are two essential theories in that, one related to the 5 forces, and the second related to the generic competitive strategies. I also said that the definition of industry is a key enabler of the understanding of the 5 forces as well as the generic competitive strategies that are possible for the industries.

Again, in one of the previous lectures, I described and illustrated how the 5 forces vary depending upon the industry, but still those 5 forces endure across the industries. To understand this topic further we need to understand the types of industries that could exist from a strategic perspective.

Typically, industries are classified based on the nature of the products, services, or activities that are comprised of in the industries. From the perspective of strategy, industries however, are characterized differently.

Industry classification from a strategic perspective could be in terms of its short term, medium term, long term, value creating and value expanding nature. We can have industries which are emerging, industries which are in the growth area, mature industries, declining industries, fragmented industries and monopoly industries.

Similarly, there could be industries which are national in nature, regional in nature, industries which are clustered around a particular pivot or completely global industries. This type of classification is useful because the formulators of strategy can take appropriate strategic decisions for their firms.

And they take into account the internal capabilities of the firm which vary depending on the nature of the industry and the industry attractiveness, again which varies depending on the nature of the industry and the environmental factors.

Typically, industries evolve from one class to another. What is an emerging industry yesterday would become a growth industry today, and possibly a mature industry a few years later. And if it is not rejuvenated technologically and functionally, it could be a declining industry as well.

If the market is considered very attractive there could be so many players entering the market, that the industry itself could be very much fragmented. Monopoly industries, monopoly industries are those industries where the company usually the innovator or pioneer has strong monopoly over the market.

Intel, in the early days of its chip manufacture, Google as the dominant search engine or examples of this kind of monopoly.

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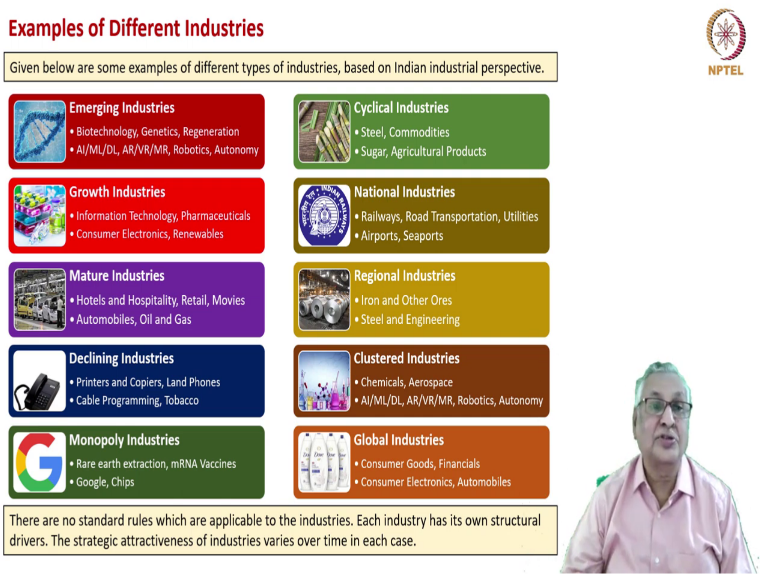

Let us look at this topic a little further in terms of examples of the industries under each classification. Emerging industries are those which have not seen the full potential. The technologies are evolving. There is apparently a boundless growth possibility, but that is not going to occur in a few years hence.

Biotechnology, genetics, regenerative medicine, artificial intelligence, machine learning, deep learning, augmented reality, virtual reality, mixed reality, robotics and autonomy, these are all the emerging industries. They are all they are already occupying certain share of the industry composition.

For example, biotechnology is already 25 percentage of the overall pharmaceutical industry. Genetics is probably only 3 to 5 percent of the overall pharmaceutical industry, but they are expected to get on to the mainstream sooner than later. Growth industries are those industries which are in a way linked to the demographic growth as well as the population growth.

And also, general improvement in the quality of business or quality of life. So, information technology, pharmaceuticals, consumer electronics and renewables, these are the growth industries. Mature industries are those industries where there is going to be steady demand consistent demand based on the essential requirement of those kinds of products and services.

Hotels and hospitality, retail, movies, automobiles, oil and gas are the mature industries. Declining industries are those industries whose products have technological obsolescence and new generation technologies with new generations of products have come into the user's landscape. Printers and copiers, land phones, cable programming, tobacco, these are all declining industries again for different reasons.

Monopoly industries are those industries where the early mover has got a strong dominant position even to the extent of 100 percentage of the industry. Rare earth extraction, mRNA vaccines, Google chips are all examples of this kind of industries.

Cyclical industries are those which move up and down with the economic cycles or global cycles. Steel, commodities, sugar, agricultural products are all categorized in under this classification. And they are also generally sensitive to things that are happening.

Suppose there is a windfall tax, the commodity cycle moves in a different way with reference to the domestic industry. Similarly, if there is loss of crop, the agricultural based products industry will go into a recession. Steel is dependent upon the infrastructure investments in various economies which is in turn dependent on the economic welfare of that particular nation or that region.

So, these are all cyclical industries. National industries are industries which cannot be catering to borders other than the nations. Railways, road transportation, utilities, airports and seaports are by and large generally confined to the national boundaries. They serve other global destinations, but they cannot by themselves transplant themselves to into other nations.

However, they can have corporate structures and infrastructures which can be supplanted, which can be provided in various other nations. Regional industries are strictly linked to the availability of basic feedstock. It could be iron and other ores, in respect of certain cases steel and engineering could be the feedstock for value added products.

Clustered industries are those industries where we find some competitive advantage in locating all the industries in one particular geographic area. Chemicals, aerospace and all the new age technologies come under this classification.

Global industries are those industries where product technologies, marketing practices, and the general industry itself can be portable across nations and across regions. Consumer goods, financials, consumer electronics and automobiles come under this category.

There are no standard rules which are applicable to the industry. Each industry has its own structural drivers. The strategic attractiveness of industries varies over time in each case. You may be recalling that I mentioned this classification in an earlier lecture too, but it makes even more appropriateness to recall this classification with reference to the lecture which we are having today.

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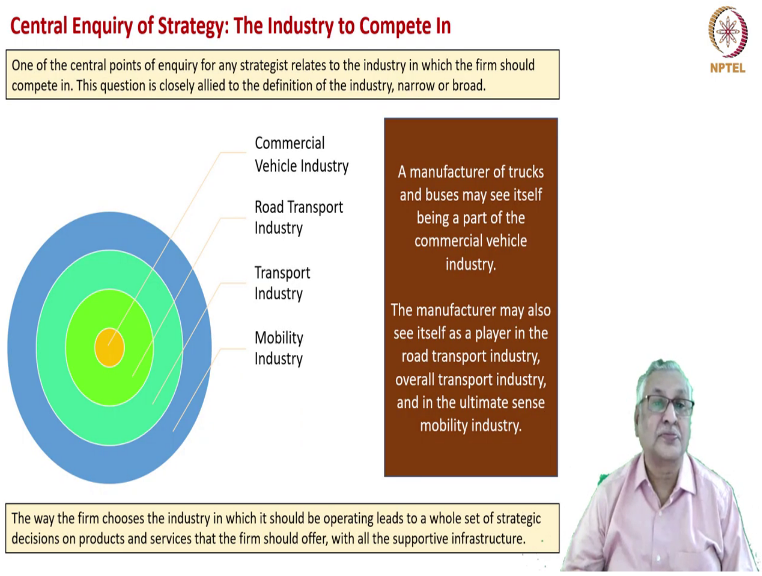

So, when you want to get into your strategy formulation activity, you need to understand what is the central enquiry of my strategy. The central enquiry of my strategy is to define the industry I am wishing to compete in, and that itself could be based on the strengths, weakness, opportunities and threats.

But the central point of enquiry for any strategist relates to the industry in which the firm should compete in. And this question is closely allied to the definition of the industry, narrow or broad. And this also is closely linked to the kind of vision which a company may have for the future.

So, if you look at the mobility industry, at the very core is the commercial vehicle industry which makes transportation happen. Then, we have road transport industry which is the business of transporting goods and passengers from one point to another point.

Then, you have transport industry which comprises not only the road transport industry, but also the rail transport industry, the waterways industry, the shipping industry, and the airliner industry. And encapsulating all of these things is the overall mobility industry which just helps people and goods move from one place to another by whatever means of transportation and by whatever means of vehicle or the railroad to make this happen or they ship.

A manufacturer of trucks and buses may see itself being a part of the commercial vehicle industry. But the manufacturer can also see itself as being a player in the road transport industry, in the overall transport industry or in the mobility industry.

We have seen how the road transport can be reconfigured when oxygen had to be transported from the oxygen manufacturers to the medical hospitals that are in dire need during the COVID period. Similarly, when multimodal logistics take shape, the hue of each of these transport sectors gets modified with greater dove tailing.

The way the firm chooses the industry in which it should be operating, that leads to a whole set of strategic decisions on products and services that the firm should offer, with all the supportive infrastructure.

When you are seeing yourself as a commercial vehicle manufacturer, getting the product out at the best quality, and the least cost is your priority. But when you see yourself as a mobility company, you your perspective is not confined only commercial vehicle manufacturer. You see yourself as a company which is tied to other transportation networks, a company which can provide transport exchange services which could be everything combined.

For example, a Tata Motors and Ashok Leyland, a delivery various things combined together, could be the mobility industry. And accordingly, the vision also would vary, the strategy would vary, and of course, the resources would determine whether such a broad and expansive definition of industry could be tenable for a company given its profile.

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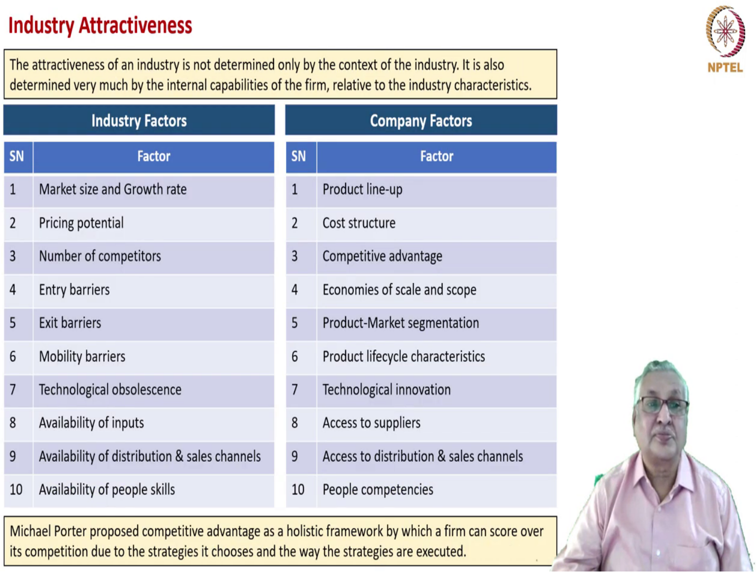

So, to understand the attractiveness of the industry, we need to have a framework. No one would like to operate in an industry which is not attractive presently or likely to be attractive in future. The attractiveness of the industry is determined not only by the context of the industry, it is also determined very much by the internal capabilities of the firm relative to the industry characteristics.

Some of the industry factors which drive industry attractiveness are as follows. Market size and growth, something which caters to the entire population of 1.3 billion in India is obviously, more attractive than something which caters to only 100 million population.

The pricing potential, that is your ability to price the product high or price the product in an appropriate manner for different segments, without too much of price elasticity segment that is going to be an attractive nature. The number of competitors, in an industry where the competitors are few or none. You have got much greater capability to influence the industry dynamics including the attractiveness of the industry.

The other one could be entry barriers. If you are able to enter an industry easily based on your resources, that would be attractive for you. And that is why industries get fragmented. When the industry barriers for entry are very low, every person every entity would like to operate in that industry, which is one of the reasons why the Indian pharmaceutical industry is so fragmented.

The entry barriers are low. One can bring assets from various equipment manufacturers, put them under a facility and start manufacturing. This is because the governments have not put the kind of regulatory barriers and regulatory standards that the US, FDA has. Therefore, the paradigm of doing something for the local market at a small scale is different from doing something for the global market with the international regulatory compliance.

Then, exit barriers also would be one of the causes. That, in an industry where entry and exit is free, in an industry where based on the profitability or unprofitability, you can either increase your capability or move out of the industry, would be one of the important factors for seeing the attractiveness of the industry.

In general, if there are no exit barriers, it means that your capital is unlikely to be locked and it will not be sunk dead capital. You can move on. You may cut the losses and move on to other industries.

An industry where the mobility barriers are very stringent is also an industry which is not very attractive. In automobile industry, you cannot easily move from passenger car manufacturer to truck manufacturer and again to two-wheeler manufacturer. There are strong mobility barriers, partially because of the market characteristics and consumer characteristics, but mostly because of the manufacturing characteristics.

An industry which undergoes rapid technological obsolescence is also not an attractive industry particularly for the new entrants. You take the example of consumer electronics and more specifically the smartphones. The technology is changing every 6 months that unless you have deep pockets, you would not be able to enter that industry.

Similarly, if you want to have a global agricultural vision that you want to operate in plantations all over the world in different crops, the mobility barriers from one type of plantation to another type of plantation and one type of plantation to another type of plantation could be tough. And that could be a factor that is going to determine whether you would like to be in that business.

So, coming back again to technological obsolescence, if the technological obsolescence is very fast and very deep, you need to have strong R and D capabilities and resources to back that capability. That would be one of the factors determining the industry attractiveness.

Imagine a situation where you have got R and D intensity of 15 percent of the sales, and a marketing intensity of another 15 percent of the sales, and manufacturing intensity of 50 percent. The margins you have even at the gross level are likely to be less, therefore the attractiveness of the industry will be low.

If your product is constrained by the availability of inputs, that is you take the refining of sunflower oil, fruit constitutes 80 percent of the cost for the product because all sunflower oil is imported as crude oil from Ukraine, Russia and Argentina and they are also at times strangulated based on the geopolitical considerations. In which case, is it sensible for any company to enter into an sunflower oil industry when there are already leading players and they are also having these challenges.

Then, the availability of distribution and sales channels. Until recently, companies used to have one is to one relationship with the channels. And it was not very easy to get channels which are multi-brand and that used to be a factor determining the attractiveness of the industry.

Typically, if somebody is a Unilever distributor, the distributor would not be very happy to take on smaller upcoming FMCG Company, that obviously, is a deterrent for the newcomer. Availability of people's skills, you need to operate in an industry where you are able to get the necessary skills or develop the necessary skills by yourself.

As far as the company is concerned, there are certain factors which influence how it utilizes the attractiveness of the industry or how it overcomes the lack of attractiveness of the industry or within a particular band of course. The product line up which a company has is one factor which could determine its own share in the market and the growth.

The cost structure of the company will influence the pricing potential. If your costs are very low, you have that much more cushion to be able to price yourself appropriately in the market depending upon the market structure and nature. If you have superior sustainable competitive advantage, then despite having number of competitors, you could be very competitive and have dominant position.

Entry barriers are influenced by the economies of scale and scope that exist in an industry. As I mentioned in an earlier lecture, it does not make any sense to have a capacity of less than 1 lakh cars per annum in the passenger car industry and 10 lakh two-wheelers per annum in today's markets situation.

Exit barriers are determined by the product market segmentation. If the product market configuration is very narrowly defined and your movement is to be within only this segment, you cannot move out of this segment. And if that product market segmentation is very low, nobody would come to acquire your brands facilities or your company. So, you get got to be stuck in that particular segment.

Product life cycle characteristics determine whether you could move from one group to the another. You take a particular product such as camera, you can keep extending the product life cycle. Can this camera become a smartphone? It cannot so easily. So, the life cycle characteristics help you enhance your presence in the same product market segment, but it makes it difficult to move from one consumer electronics segment to the other.

If your company is capable of technological innovation, then the technological obsolescence can be turned into a very good competitive advantage for the company. Similarly, access to suppliers and also captive channel arrangements would be of great support in determining the industry attractiveness from the firm's point of view.

People competencies are another factor, if you have a huge talent base, it is possible for you to leverage the available talent to start new ventures. Companies such as those in the diversified groups have got skill sets which can be assembled across the companies or from within the companies to be able to start new ventures.

In this framework, competitive advantage is the framework. It is a holistic framework, by which a firm can score over the competition due to the strategies it chooses, and the way the strategies are executed.

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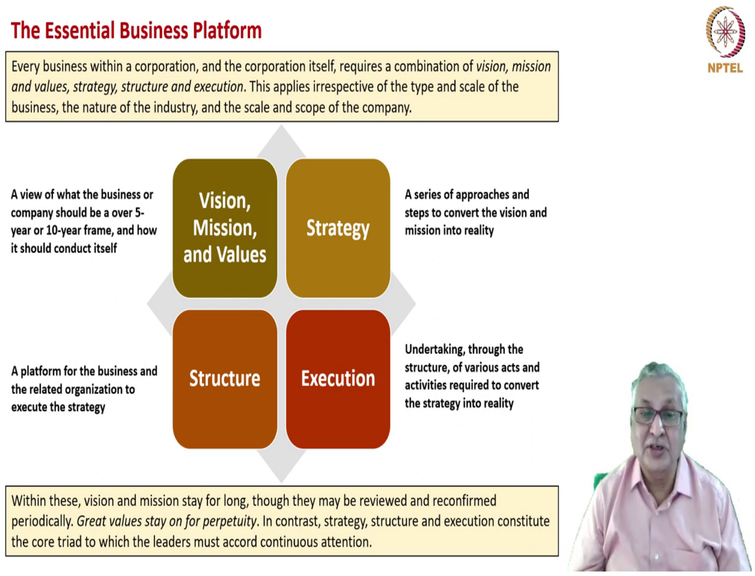

To be able to do that we have this paradigm which I have presented earlier, but I would like to recall here. You must have vision, mission, and values. These determine what the company would be. Values determine what kind of company we would be for almost perpetuity. Whereas, vision tells us what we would like to be 10 years hence. And mission tells us a particular way of transforming ourselves in the evolving industrial situation.

Strategy is a series of approaches and steps to convert the vision and mission into reality. Structure is a platform for the business and the related organization to execute the strategy, that is organization structure, the business structure, the entire value chain structure and so on.

Execution is the actual carrying out of the implementation. It comprises several activities, several project plans, and several monitoring mechanisms to make sure that the strategy is converted into reality. One thing which we must keep in mind is that vision and mission stay for long, strategies are dynamic, but the values will stay on for perpetuity.

Particularly, great values stay on for perpetuity. In contrast, all the other parameters need to be continuously and continually evolved to make sure that we are well aligned. Vision needs to be reviewed every 3 years or so. Mission needs to be reviewed every 1 year or so. Strategy needs to be dynamic in today's situation with so much competition that is coming in.

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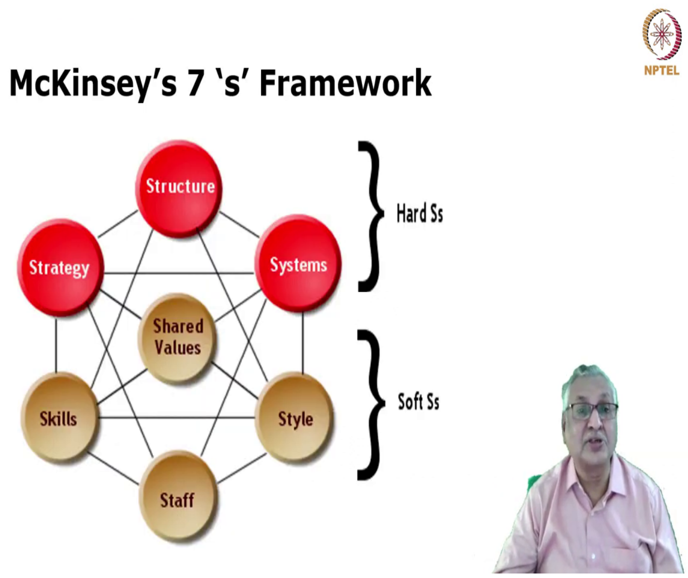

McKinsey the famous consulting company has proposed a 7's' framework for understanding strategy and also developing competitive strategy. McKinsey talks about hard Ss, strategy, structure and systems. And it also talks about soft Ss that is the shared values of the organization, the style of functioning of the organization, including the leadership and managerial styles.

The orientation of the staff towards various business objectives as also other things, such as ownership, collaboration, communication, etcetera. And these skill levels are competencies of the organization. These represent the 7 's' framework.

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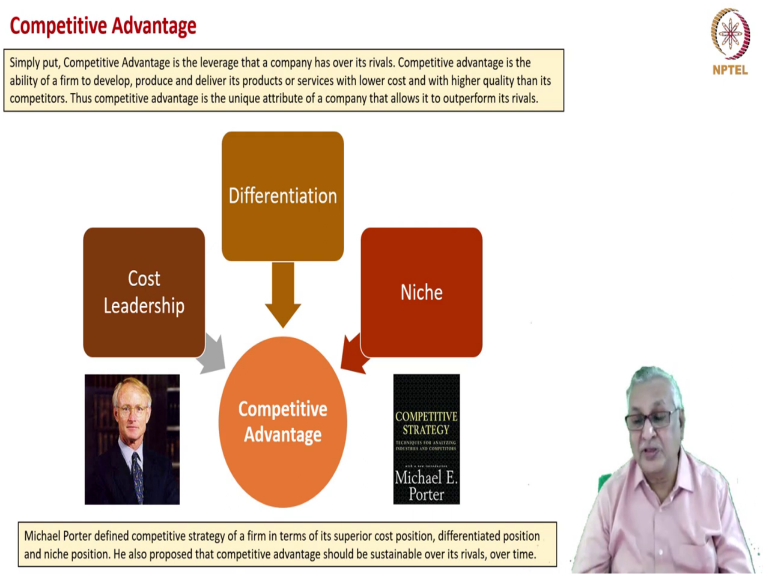

So, what is competitive advantage? Competitive advantage is something which has not been explicitly defined in Porter's works, but I would say that competitive advantage is the leverage that a company has over its rivals. Leverage means advantage or superiority over its rivals.

It is the ability of a firm to develop produce and deliver its products or services with lower cost and with higher quality than its competitors. To put it in a very very expensive and incredulously imaginative way. If you are able to produce a lux Lexus at corolla cost, then it is competitive advantage, but it is not so.

Because a Lexus by itself will not be sold in the corolla market segments because corolla market customers are completely different in their outlook. So, competitive advantage has to be not just a combination of lower cost and higher quality, but it is also something far beyond that. It is the suitability, appropriateness, and timeliness for the market segment where we are trying to play.

Of course, this market segment can be expanded, can be diversified, based on the competitive strategy we are pursuing, and the competitive advantage we are able to demonstrate, for us as a company and for the user in terms of the related value proposition.

So, we have 3 generic strategies which provide competitive advantage to any firm. One is cost leadership, the second is differentiation, and the third is niche. These are well brought out in the book competitive strategy by Michael Porter.

Michael Porter defined competitive strategy of a firm in terms of its superior cost position that is least cost production capability or service capability in your industry. Differentiated position that is your product looks not nearly different, looks differentiated with multiple additional features which others do not have, that includes superior experience for the customer in the usage of the product.

And thirdly the niche position which means that, it really suits a particular group of customers who are well defined in advance of the product getting developed. And the key aspect of competitive advantage is that it should be sustainable over its rivals, over a particular period of time.

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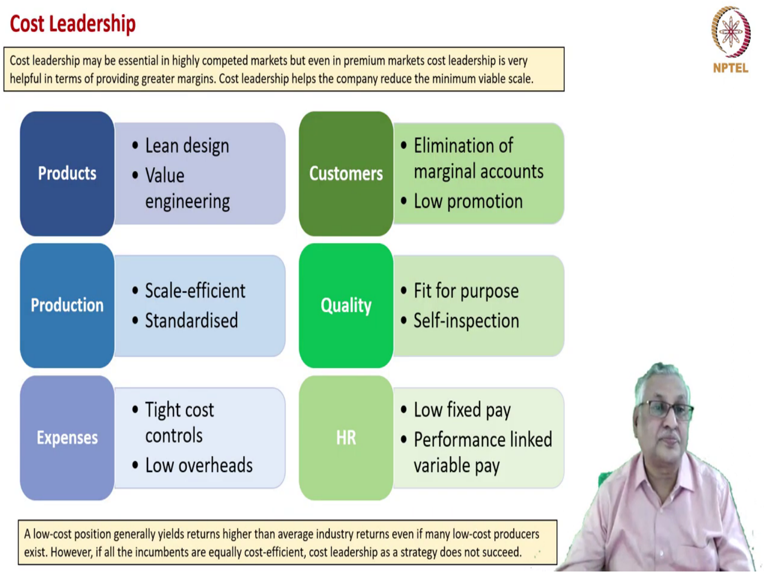

So, let us look at each of these aspects cost leadership is essential in highly competed markets. However, it is not that in premium markets you can afford to be profligate in terms of your cost. If you are cost competitive internally even in a premium market, you have that much buffer for you to price yourself or enjoy supernormal profits. It provides you greater leverage.

So, cost leadership helps the company reduce the minimum viable scale as well. So, products are primary areas for cost leadership, you should never over design your products. Therefore, lean design includes designing at the earliest possible opportunity with the best specifications and with perfect manufacture.

Then, value engineering that is see that each product component and the product together is value engineered to the perfection putting in the required material, the required tolerances just as required and not over the board. Production, will have cost leadership when it is scale efficient standardized.

Expenses also have a strong role we talk about the top line, the bottom line, but the middle line which comprises of the expenses is also an important aspect of competitive advantage. We need to have tight cost controls, but we can never grow by cutting costs therefore, this so called cost control has to be meaningful and actually value adding to the company.

Low overheads there is no point in having more people when the job can be done by fewer number of people or no point in having people when it can be done more efficiently in a different automated or software driven way. Then customer's elimination of marginal accounts, that it does not mean that we will not serve those customers.

In fact, we will be migrating those customers into other products which you have. And low promotion, that is we do not squander away money to make the customer make certain sales transactions for the day. You make investments to make the customers appreciate your brand, but you do not make promotions or spend money just to attract customers for a day or 2.

Quality is fit for purpose and for self-inspection being part of the production system. Even Apple says that its products are not for eternity, they have got a aging principle. They also have a principle by which the operating system updates an old generation product up to a particular series, but not below that.

As far as human resources are concerned, having low fixed pay and high-performance linked variable pay helps better value creation by the employees. And that assumes of course, that employees would like to perform better. A low-cost position generally yields returns which are higher than the average industry returns.

Even if many low-cost produces exist. However, if all the incumbents are equally cost efficient, cost leadership as the sole strategy does not succeed. You got to have cost leadership. You cannot afford to be a cost profligate company, but you also need something in addition for you to succeed in an equally cost distributed industry where everybody is a cost leader in its own right. And what could that be? Differentiation, which we will come to that later.

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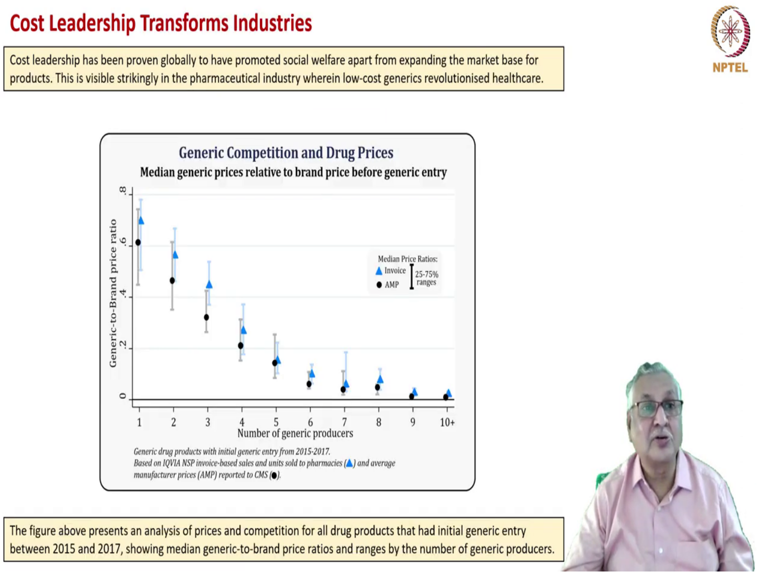

But, let us recognize at this stage that cost leadership transforms industry. Once upon a time in the US pharmaceutical market even after the patent period expiry, only the big pharma were supplying the medicines and probably they were supplying the medicines at 80 percent of the pricing that existed in the patented monopoly period.

And generic competition was considered as copycat competition and not to be encouraged. But when the Indian pharmaceutically entered the overall pharmaceutical industry demonstrated that its generic products are as good as the big pharma products, then the whole market structure and texture changed.

In fact, if you go to the United States and use a medicine which is prescribed by the doctor, you will find that more often not there are medicines made by the reputed in Indian manufacturers of pharmaceuticals. So, if you look at the generic to brand price ratio, you will see that the number of producers who are having better ratios is high, high.

So, which means what? The analysis of price and competition for all truck products that had initial generic entry between 2015 and 2017 shows that the median generic to brand price ratios, and ranges by the number of generic producers or in favour of cost leadership. And therefore, are in favour of patient healthcare requirements.

Therefore, the low-cost generics revolutionized healthcare in developed countries and of course, India was always preferring low cost branded generics.

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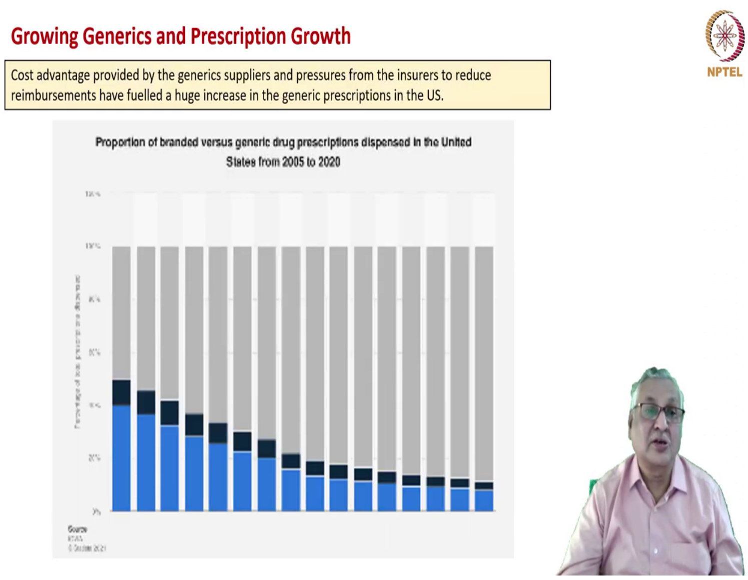

And the cost advantage provided by the generic suppliers and pressures from the insurers to reduce reimbursements have fuelled a huge increase the generic prescription in the US. This chart shows the generic descriptions between 2005 to 2020 along with the branded prescriptions.

You can see the grey graph which has been just shooting up over the years from 2005 to 2020 and that is because of the cost competitiveness that the generic pharma industry has been able to achieve.

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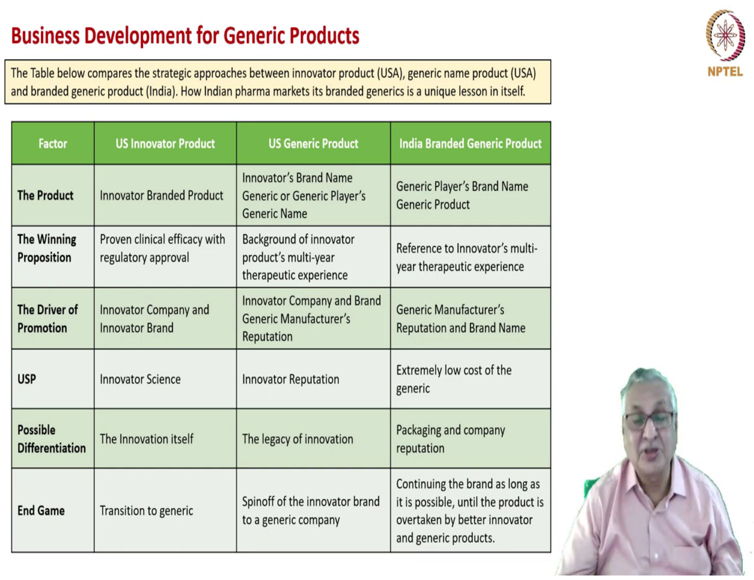

Factor	US Innovator Product	US Generic Product	India Branded Generic Product
The Product	Innovator Branded Product	Innovator's Brand Name Generic or Generic Player's Generic Name	Generic Player's Brand Name Generic Product
The Winning Proposition	Proven clinical efficacy with regulatory approval	Background of innovator product's multi-year therapeutic experience	Reference to Innovator's multi-year therapeutic experience
The Driver of Promotion	Innovator Company and Innovator Brand	Innovator Company and Brand Generic Manufacturer's Reputation	Generic Manufacturer's Reputation and Brand Name
USP	Innovator Science	Innovator Reputation	Extremely low cost of the generic
Possible Differentiation	The Innovation itself	The legacy of innovation	Packaging and company reputation
End Game	Transition to generic	Spinoff of the innovator brand to a generic company	Continuing the brand as long as it is possible, until the product is overtaken by better innovator and generic products.

How do you do the business development for generic products? Let us take the case of the pharmaceutical industry again. This table compares the strategic approaches between the innovator product USA, the generic name product again USA and an Indian branded generic product.

As far as the product is concerned US innovator product looks at innovator branded product. US generic product looks at innovators brand name generic or generic players' generic name. Whereas, Indian branded generic product looks at generic player's brand name generic product.

For example, if there is a product made by Rosh and it is called for as an example Rocephin as a branded product. It will still be called Rocephin even after it comes generic product. But the innovators brand name generic or generic players generic name, figures very prominently. The doctors are expected to write ceftriaxone rather than the brand name.

The India's branded generic product will be branded generic, that is you try to have a name which is created by you for the purpose. You can call it as a Cefoxin for whatever reason you choose to name that brand. So, every product molecule has got a brand name which is different there could be Tramadol, it could be Panadol, it could be Domperidone of Ranbaxy which is called Rom Peridone.

As an example, again or by Zydus (Refer Time: 32:51) Zederone. Anything is possible in terms of branding the generic product. And the doctors are expected to remember those branded generic products. The winning proposition in each case is also different. For the innovator product proven clinical efficiency with regulatory approvals.

For the generic product the aftermath of the innovative products, multiyear therapeutic experience and also the brand name. And as far as the Indian branded generic product is concerned, it is the reference allowed under the law to innovators multiyear therapeutic experience including proving of the bio equivalence.

The driver of promotion, the innovator company and the innovator brand name. For the US generic product, it is the innovator company and the brand generic manufacturer's reputation. In the case of the US company outsourcing its generic production to another manufacturer, and in the case of India branded generic product, it is generic manufactures reputation and brand name.

The unique selling proposition innovator science in the case of the generic product of the US innovator reputation. And for India, extremely low cost of the generic. Of course, with the caveat that they would also look at the name of the Indian company which is manufacturing.

Possible differentiation, for a first-time product the innovation itself for a US generic product the legacy of innovation. And for India branded generic product packaging and company reputation. The end game for an innovation product is to transit to generic product. For the generic product of the United States big pharma spinoff to the innovator brand to a generic company that is all the tail and brands as you call them move to a company.

That is what Pfizer did when it set up Viatris in joint venture and joint ownership with Meller and out and out generics company that is what could happen. For an Indian brand generic product continuing the brand as long as possible until the product is overtaken by better innovator and generic products.

One of the reasons why I have presented this table is not merely to give these differences for you, but also to encourage you to critically think about the alternatives and options.

Generally, whenever you think about any option or any alternative, there will be certain factors against which you need to understand each of the options, understand the pros and cons.

And then finally, take up strategies that are relevant to the context of that particular product and the nature of those factors. This is very important. This is one type of critical thinking which I expect you to observe as part of this course.

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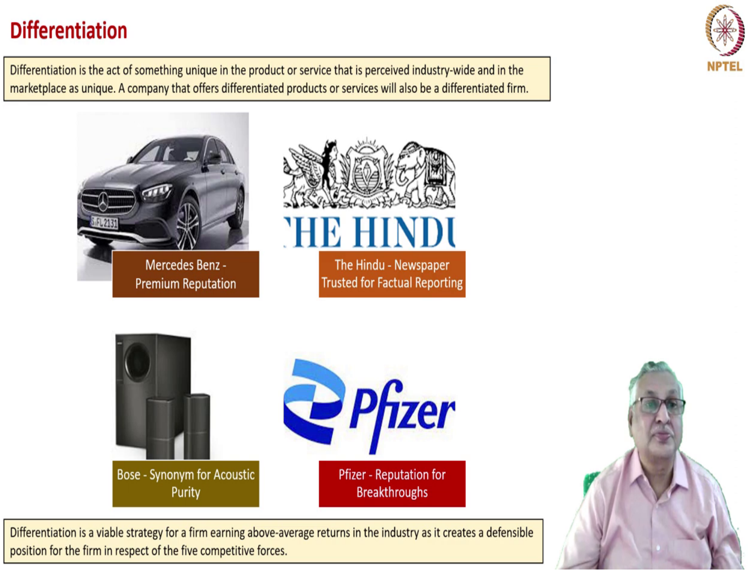

Let us come to differentiation. Differentiation is the act of doing something unique for the product or service and that should be perceived industry wide and also in the marketplace as unique. A company that offers differentiated products or services will also be a differentiated form.

Mercedes Benz has premium reputation that is the biggest differentiation for Mercedes Benz. The Hindu, the respected newspaper, it is trusted for factual reporting. It does not sensationalized events and outcomes. Both is synonym for acoustic purity. Pfizer is a company reputed for its breakthroughs.

Time to time you see the breakthroughs achieved by Pfizer, whether it is the lipid lowering drugs or the cancer curing drugs, the vaccines, and more recently the COVID vaccines and drugs. Differentiation is a viable strategy for a firm which is earning above average returns in the industry as it creates a defensible position for the firm in respect of the 5 competitive forces.

It is not so easy to apply those 5 competitive forces for a competitor, because the defender or the established company is able to defend itself through the differentiated features. Similarly, any competitor who enters the industry and the market with more differentiated features has better chance of entering the industry successfully. This is one factor we need to keep it.

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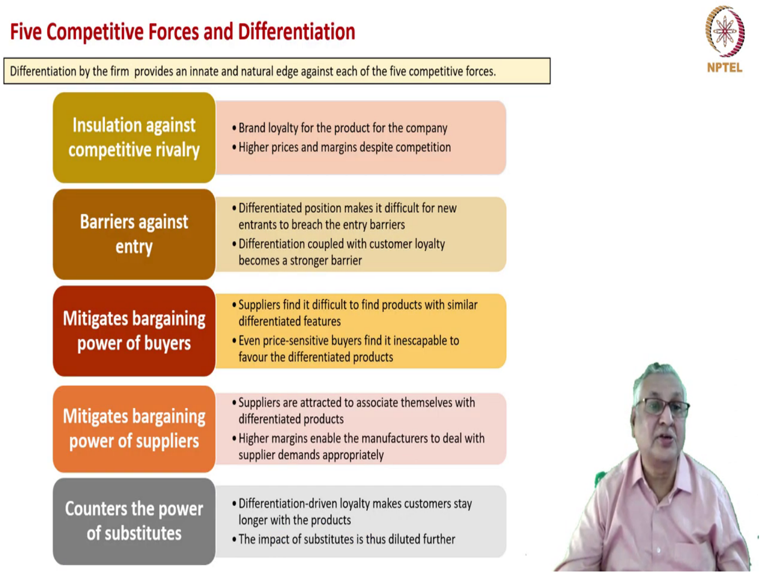

So, what is the advantage of having differentiation as a competitive strategy? It provides an innate as well as natural edge against each of the 5 competitive forces. It insulates the company against competitive rivalry because it generates brand loyalty for the product, for the company, at times the brand loyalty for corporation itself exists.

It provides higher prices and margins despite competition. It provides barriers against entry. It becomes difficult for new entrants to breach the entry barriers created by differentiated firms. Not everybody can be a Toyota. Differentiation coupled with customer loyalty becomes even a stronger barrier.

Mitigates bargaining power of buyers. Suppliers find it difficult to find products with similar differentiated features. Even price-sensitive buyers find it inescapable to favour the differentiated products. That is vendors find it difficult to change time to time. Similarly, the buyers find it difficult to change time to time because you do not have options.

The bargaining power of suppliers is also mitigated because suppliers are attracted to associate themselves with the differentiated products. Higher margins enable the manufacturers to deal with supplier demands appropriately.

And it counters the power of substitutes. Differentiation driven loyalty is far stronger than cost competitiveness driven loyalty and it makes customers stay longer with the products. That is why even in FMCG, there is a constant attempt to differentiate a product.

It could be single grain [FL], multi grain [FL], an [FL] which puffs, an oil which drains faster, and oil which does not get absorbed far too much. The factors of differentiation keep on changing. The impact of substitutes is thus diluted further when you are differentiated as a product and as a company.

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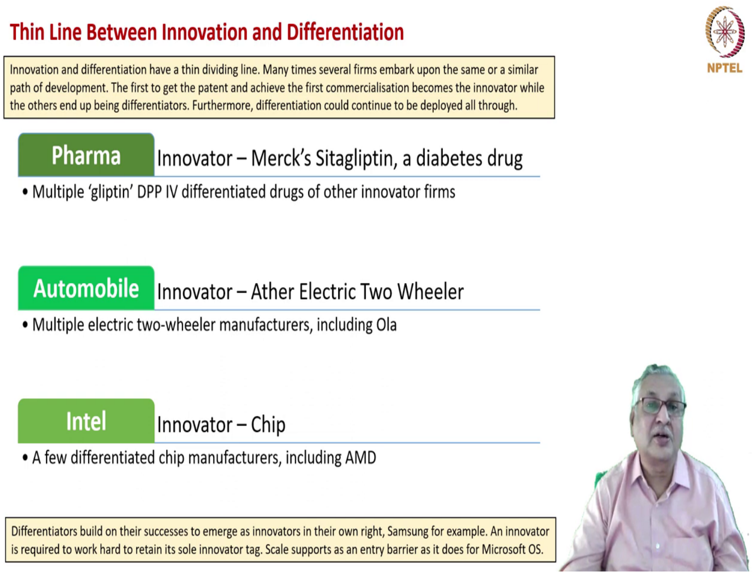

But let us also remember that there is a slight difference between innovation and differentiation. They are somewhat alike, but they also have a thin dividing line too. Many times, several firms embark upon the same or similar path of development. The first to get the patent and to achieve the first commercialization becomes the innovator, while the others end up being differentiators.

Furthermore, differentiation could continue to be deployed all through. I will take an example from pharmaceutical industry. For treating diabetes, a new pathway called DPP 4 has been identified. And Merck's Sitagliptin, the anti-diabetes drug was the first gliptin drug that was discovered.

But at the same time many other companies were working on the gliptin pathway. And that has led to many companies coming up with different types of gliptins, vildagliptin for example. But each of these gliptins had some differentiation. They had more potency, they had better safety profile and so on.

Similarly, in automobile, Ather Electric two-wheeler was the first to innovate a fully rounded electric two-wheeler, but multiple electric two-wheeler manufacturers have come into the industry including Ola. Intel has been the undisputed chip manufacturer and innovator.

However, a few differentiated chip maker came including AMD. And we also have chip maker who specialize in certain other categories, such as mobile phones, (Refer Time: 40:52) and video game, NVIDIA. So, differentiators build on their successes to emerge as innovators in their own right.

Samsung is a great example of differentiation, almost having the queue of innovation. An innovator is required therefore, to work hard, to retain its sole innovator track. Scale supports as an entry barrier as it does for Microsoft Operating System. You can innovate, keep on building scale, and become rather unassailable in the marketplace.

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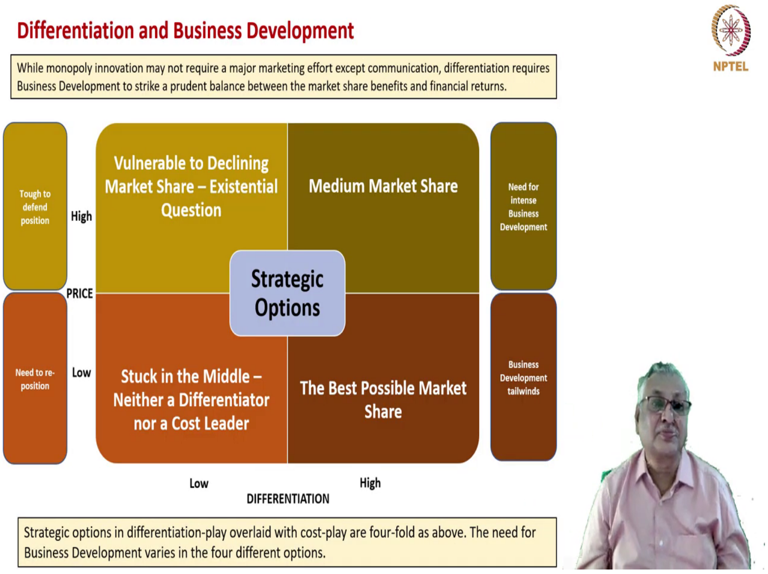

Differentiation is a very important aspect of business development. Differentiation can be seen in one axis, low or high, and price can be seen as in another axis, low or high. Generally, logically as well as technologically and commercially, a low differentiation product will have high price.

But suppose you are trying to price your low differentiated product at low price which is natural. First of all, you are not differentiated enough to influence the market in any significant way you are stuck in the middle. You are seen neither as a differentiator nor as a cost leader. So, you got to reposition yourself.

Let us say you are highly differentiated, but you also have mastered the art of cost reduction therefore, you are going to have the best possible market share, who would not buy a differentiated product which is at the least cost possible, who have business development tailwinds in such a situation.

Let us say you have very low differentiation, but because of your nature of production or manufacturing, you have very high pricing, then you are going to get into a tough to defend position. You are vulnerable to declining market share. It poses at times an existential question itself you know. You are not differentiated, but at the same time you are priced very high.

Let us say you are priced high, but also differentiated well, then probably the market will give you some weightage and you are going to be medium market Share Company. But you will have the requirement for intense business development to be able to sustain that market share.

Strategic options in differentiation play overlaid with cost play or fourfold as above. The need for business development varies in the 4 different options as I have illustrated.

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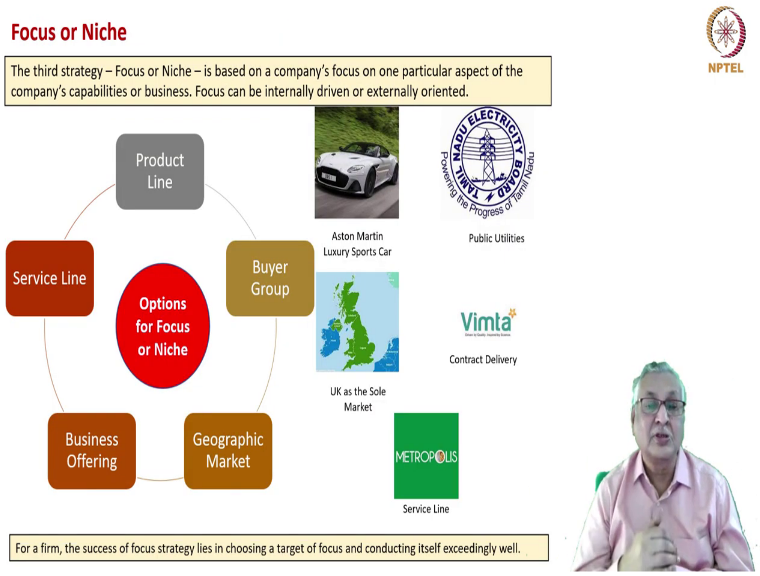

Let us come to the next strategy, the third strategy focus or niche. It is based on a company's focus on one particular aspect of the company's capabilities or business. Focus can be internally driven or externally oriented.

What are the options that exist for focus or niche? 1, the product line. 2, buyer group. 3, geographic market. 4, business offering. 5, service line. Why Swarovski has become a differentiated focused company? Because it has excelled in using the crystals for all of its jewellery. So, if you think of crystal-based jewellery, you think of none other than Swarovski.

Similarly, when you look at luxury sports car, Aston Martin comes up as one of the names. And it is also related to our famous James Bond in some of the movies. You having UK as the sole market is one of the differentiation for one company, Aston Martin as well as Rolls Royce to an extent.

Being a leader in diagnostic services became the differentiator for metropolis. For public utilities powering a particular region in a very satisfactory way for the consumer that becomes the focus or niche. If you are focused on contract delivery of R and D laboratory services, analytical services, then you become focus or Niche Company for that. Vimta lapse is an example of that particular thing.

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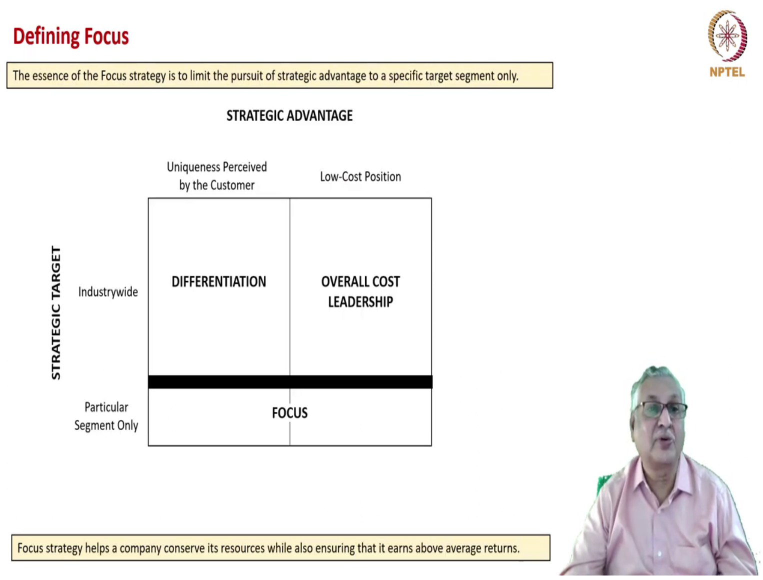

So, how do we define? Where should we play? So, you again draw a matrix of strategic target versus strategic advantage. If you have for your products and for your way of management uniqueness perceived by the customer and an industry wide applicability, then you could pursue differentiation strategy or differentiation strategy could get you that at twin advantage.

If you have low-cost position which is applicable on an industry wide basis you are going to achieve overall cost leadership. And if you are focused only on a particular segment with a balance or a toggle between the low-cost position and the uniqueness as perceived the customer, you would have focus on a group of customers.

Focus strategy certainly helps a company conserve its resources, while also ensuring that it earns above average returns.

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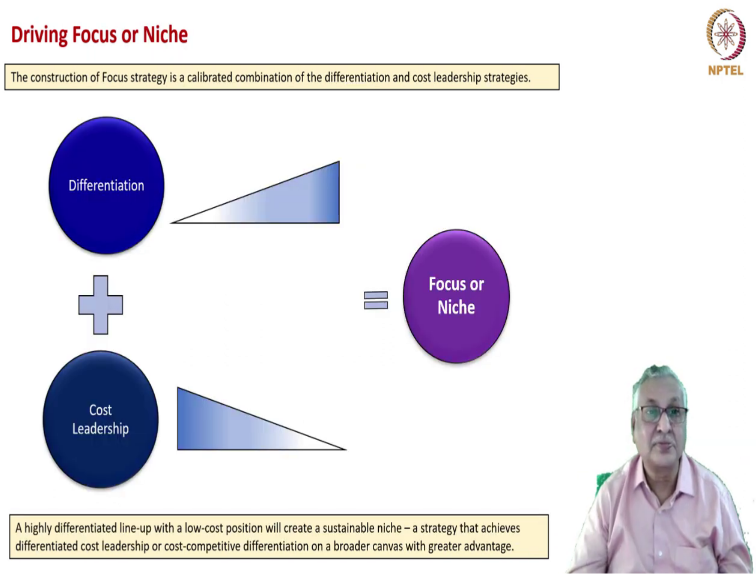

How do you drive focus or niche? Focus or niche is a combination of two things. It is in part differentiation and in part cost leadership. As you drive up differentiation and as you drive down cost leadership, you get different scales of focus or niche. A highly differentiated line up with a low-cost position will create a huge niche.

A strategy that achieves differentiated cost leadership or cost competitive differentiation. Differentiated cost leadership or cost competitive differentiation on a broader canvas with greater advantage is the way to go for making focus or niche our sustainable competitive advantage.

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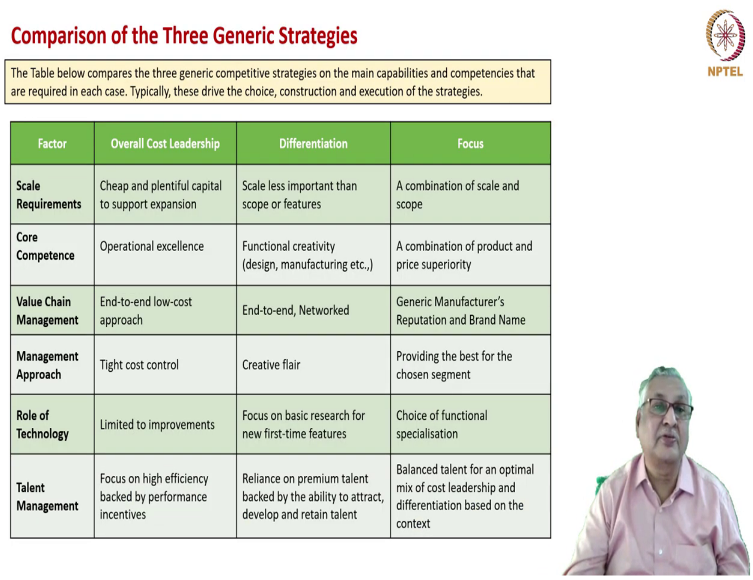

Again, let us apply critical thinking. Let us compare overall cost leadership with differentiation and focus. Scale requirements exist for every product or service. For overall cost leadership cheap and plentiful capital should be required to support expansion. For differentiation, scale is less important, features and scope are more important. And for focus, we need to have a combination of scale.

And scope for cost leadership the core competence must be operational excellence, ability to play in a commoditized market in certain cases. For differentiation, it should be functional, creativity could arise from design manufacturing etcetera. For focus, it should be a combination of product and price superiority.

How do you manage the value chain? For overall cost leadership, you should be able to control cost and achieve manufacturing integrity from the beginning to the end. So, end to end low-cost approach is required. For differentiation, it should be end to end, but it must be based on networking with the ecosystem.

For focus, you should have the generic manufactures reputation and brand name at the back of the focus strategy. Management approach, tight cost control for overall cost leadership, creative flair for differentiation and focus for providing the best for the chosen segment. That is why differentiated companies rely a lot on creative marketing and creative product development.

Role of technology, limited to improvements for cost leadership, focused on basic research for new first time features, and choice of functional specialization for focus. And talent management, you require people who can undertake repetitive activities with high efficiency and high quality, and performance incentives drive increased output and sales.

Whereas in differentiation, you will rely on premium talent which is creative and that must be backed by the ability of the company to attract develop and retain talent. And as far as focus is concerned you require balanced talent for an optimal mix of both cost leadership and differentiation. And the context varies as I said in the previous slide.

Thank you. With this we have come to the end of this lecture. I am sure you would have appreciate the nuances of developing the 3 generic competitive strategies, based on the industry context and firms capabilities. And as I said, critical thinking in understanding the contextual nature of this competitive strategies is very important.

Thank you once again. And I will see you in the next lecture.