

# Global Marketing

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Ninth Edition, Global

Edition

## **Strategic Elements of Competitive Advantage**

### **Chapter 16**

# Learning Objectives

1. Identify the forces that shape competition in an industry and illustrate each force with a specific company or industry example.
2. Define *competitive advantage* and identify the key conceptual frameworks that guide decision makers in the strategic planning process.
3. Explain how a nation can achieve competitive advantage, and list the forces that may be present in a national “diamond”.
4. Define *hypercompetitive industry* and list the key arenas in which dynamic strategic interactions take place.

# Industry Analysis: Forces Influencing Competition

- Industry – group of firms that produce products that are close substitutes for each other
- Michael Porter developed a **five forces model** on competition

# Porter's Force 1: Threat of New Entrants

- New entrants mean downward pressure on prices and reduced profitability
- Barriers to entry determines the extent of threat of new industry entrants

# Threat of New Entrants: Barriers to Entry

- **Economies of Scale**
  - Refers to the decline in per-unit product costs as the absolute volume of production per period increases
- **Product differentiation**
  - The extent of a product's perceived uniqueness
- **Capital requirements**
  - Required investment for manufacturing, R&D, advertising, field sales and service, etc.
- **Switching costs**
  - Costs related to making a change in suppliers or products

# Threat of New Entrants: Barriers to Entry

- **Distribution channels**
  - Are there current distribution channels available with capacity?
- **Government policy**
  - Are there regulations in place that restrict competitive entry?
- **Cost advantages independent of scale economies**
  - Is there access to raw materials, large pool of low-cost labor, favorable locations, and government subsidies?
- **Competitor response**
  - How will the market react in anticipation of increased competition within a given market?

# Porter's Force 2: Threat of Substitute Products

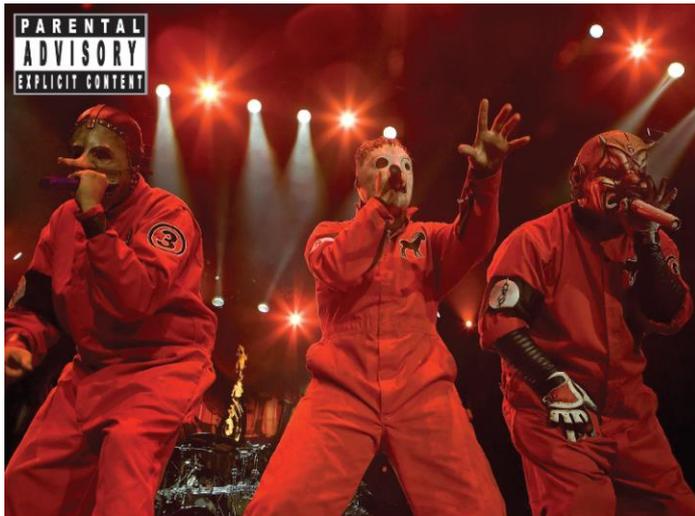
- Availability of substitute products places limits on the prices market leaders can charge
- High prices induce buyers to switch to the substitute

# Porter's Force 3: Bargaining Power of Buyers

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

# Bargaining Power of Buyers

- Walmart exercises its buying power by refusing to stock CDs bearing “Parental Advisory” stickers warning of controversial or potentially offensive lyrics.



- In response, Slipknot vocalist/lyricist Corey Taylor wrote lyrics for *Vol. 3 (The Subliminal Verses)* without profanity. He recognized that many fans had no other place to shop.

# Porter's Force 4: Bargaining Power of Suppliers

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

# Porter's Force 5: Rivalry Among Competitors

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

# Competitive Advantage

- Achieved when there is a match between a firm's distinctive competencies and the factors critical for success within its industry
- Two ways to achieve **competitive advantage**
  - **Generic strategies**—four types
  - **Strategic intent**—also four types

# Competitive Advantage

*“The only way to gain lasting competitive advantage is to leverage your capabilities around the world so that the company as a whole is greater than the sum of its parts. Being an international company— selling globally, having global brands or operations in different countries— isn’t enough.”*

- David Witwam, former CEO, Whirlpool

# Generic Strategies for Creating Competitive Advantage

- **Broad market strategies**
  - Cost Leadership—low price
  - Product Differentiation—premium price
- **Narrow market strategies**
  - Cost Focus—low price
  - Focused Differentiation—premium price

# Broad Market Strategy: Cost Leadership

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

# Broad Market Strategy: Product Differentiation

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

# Narrow Market Strategy: Cost Focus

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

# Narrow Market Strategy: Focused Differentiation

- The product not only has actual uniqueness but it also has a very narrow target market
- Results from a better understanding of customer's wants and desires
- Ex.: High-end audio equipment



This amplifier costs \$25,000.

# Creating Competitive Advantage via Strategic Intent

*“Few competitive advantages are long lasting. Keeping score of existing advantages is not the same as building new advantages. The essence of strategy lies in creating tomorrow’s competitive advantages faster than competitors mimic the ones you possess today. An organization’s capacity to improve existing skills and learn new ones is the most defensible competitive advantage of all.”*

- Gary Hamel and C.K. Prahalad

# Creating Competitive Advantage via Strategic Intent

- Created on the **continuous improvement** principles of W.E. Deming
- Building layers of advantage
- Searching for loose bricks
- Changing the rules of engagement
- Collaborating

# Building Layers of Advantage

- A company faces less risk if it has a wide portfolio of advantages
- Successful companies build portfolios by establishing layers of advantage on top of one another
- Illustrates how a company can move along the value chain to strengthen competitive advantage

# Searching for Loose Bricks

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

# Changing the Rules of Engagement

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

# Collaborating

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

# Global Competition and National Competitive Advantage

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

# Factor Conditions

- **Human Resources** – the quantity of workers available, skills possessed by those workers, wage levels, and work ethic
- **Physical Resources** – the availability, quantity, quality, and cost of land, water, minerals, and other natural resources
- **Knowledge Resources** – the availability within a nation of a significant population having scientific, technical, and market-related knowledge

# Factor Conditions

- **Capital Resources** – the availability, amount, cost, and types of capital available; also includes savings rate, interest rates, tax laws, and government deficit
- **Infrastructure Resources** – this includes a nation's banking, healthcare, transportation, and communication systems

# Demand Conditions

- **Composition of Home Demand** – determines how firms perceive, interpret, and respond to buyer needs
- **Size and Pattern of Growth of Home Demand** – large home markets offer opportunities to achieve economies of scale and learning in familiar, comfortable markets

# Demand Conditions

- **Rapid Home Market Growth** – another incentive to invest in and adopt new technologies faster and build large, efficient facilities
- **Products being pushed or pulled** – do a nation's people and businesses go abroad and then demand the nation's products and services in those second countries?

# Related and Supporting Industries

- The advantage that a nation gains by being home to internationally competitive industries in fields that are related to, or in direct support of, other industries
- Contact and coordination with suppliers that optimize the value chain
- Example: Non-U.S. sales of PCs from H-P, Lenovo, Dell, Acer have bolstered demand for software from Microsoft

# Firm Strategy, Structure, and Rivalry

- **Domestic rivalry** in a single national market is a powerful influence on competitive advantage
  - The absence of significant domestic rivalry can lead to complacency in the home firms and eventually cause them to become noncompetitive in the world markets
  - Differences in management styles, organizational skills, and strategic perspectives also create advantages and disadvantages for firms competing in different types of industries

# Firm Strategy, Structure, and Rivalry

- **Chance** events are occurrences that are beyond control of firms, industries & usually governments; they create major discontinuities
  - War
  - Exchange rate swings
  - Price fluctuation of inputs, like oil
- **Government** is also an influence on determinants by virtue of its roles as a consumer, policy maker, and commerce regulator

# Current Issues in Competitive Advantage

- Today's business environment, market stability is undermined by:
  - Short product life cycles
  - Short product design cycles
  - New technologies
  - Globalization
- Result is an escalation and acceleration of competitive forces

# Current Issues in Competitive Advantage

- **Hypercompetition** is a term used to describe a dynamic competitive world in which no action or advantage can be sustained for long
- **Competition** unfolds in a series of dynamic strategic interactions in four areas: cost quality, timing and know-how, and barriers to entry

# Cost/Quality

- **Cost/Quality** occurs via 7 dynamic strategic interactions:
  - price wars
  - quality & price positioning
  - “the middle path”
  - “cover all niches”
  - outflanking & niching
  - the move toward ultimate value marketplace
  - escaping the ultimate value marketplace by restarting the cycle

# Timing and Know-How

- Second arena for hypercompetition
- Firms with first-mover skills has achieved a **timing advantage**
- Technology knowledge achieves a **know-how advantage**

# Entry Barriers

- The third arena for hypercompetition is high barriers to entry
  - Build a geographic stronghold
  - Target the stronghold of competitors in other countries
  - Incumbents make short-term counter-responses to guerilla attacks
  - The Incumbent responds to the invader by creating new hurdles

# Current Issues in Competitive Advantage

- In today's world, in order to achieve a sustainable advantage, companies must seek a series of unsustainable advantages
- The role of marketing is innovation and the creation of new markets
- Innovation begins with abandonment of the old and obsolete

# The Flagship Firm

- A collection of 5 partners
  - Key suppliers do some tasks better than the flagship (ex: manufacturing)
  - Key customers (ex: car dealers)
  - Key consumers (ex: car buyers)
  - Selected competitors like Global Strategic Partnerships
  - Non-business infrastructure: universities, governments, trade unions that supply intangibles like technology and intellectual property

# Blue Ocean Strategy

- Two categories of competitive spaces:
  - **Red Oceans** are existing markets where the players understand the rules
  - **Blue Oceans** are markets or industries that do not currently exist
- Better to avoid the red ocean of cost cutting and imitation and create a new space without hypercompetitive forces
  - Ex.: eBay, cirque du Soliel, Wii