MGTOP590 – Strategy

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Unit 4 - Competitive Advantage
Unit 4 - Roadmap

1. Strategy and the strategy process (Unit 2)
2. Analyze external environment – opportunities and threats (Unit 3)
3. Competitive advantage (Unit 4)
4. Analyze internal environment – strengths and weaknesses (Unit 5)
Unit 4 Activities

• Readings
  – Hill & Jones: Chapter 3
  – Article: “What is Strategy” (Porter)

• Multimedia
  – Boxer video clip:
    – 4 Boxer’s customers

• Quiz #1 (open book, open notes)
Unit 4 Outline

- What is “competitive advantage” and how can it be achieved?
- How is competitive advantage measured?
- Sustainability of competitive advantage
- Analytical tools
  - “Building blocks of competitive advantage”
  - Value chain
- Identifying strengths & weaknesses
Competitive Advantage

• Competitive advantage:
  – Superior profitability compared to competitive set (for-profit organizations)
  – Superior performance (criteria to be defined) (non-profit organizations)

• Sustainable competitive advantage
  – Above, over multiple business cycles

• How?
  – Better use of resources and capabilities
  – Distinctive (core) competencies
Resources & Capabilities

• Resources
  – Tangible (raw materials, physical assets)
  – Intangible (people, intellectual property)

• Capabilities
  – What you know how to do with your resources
    – Manufacturing
    – Research and development
    – Talent management
    – Etc.
Distinctive Competencies

- The ability to use resources and capabilities in a unique (hard-to-imitate way) to create value for customers.

- Distinctive competencies (Prahalad & Hamel)
  - Create value for customers
  - Enable entry into new markets
  - Are hard or impossible to imitate
Value, Cost, Price and Profit

- Value = measure of usefulness as perceived by customer
- Cost = cost of developing, producing, selling and servicing a product or service
- Price = what customer is willing to pay for the product
- Profit = Price – Cost
- Objective: maximize Profit by maximizing Value, minimizing Cost
The Value Chain

• Value chain = diagram showing, for a given business process
  – How value is created (= links of chain)
  – Cost of that value creation (= Σ of cost of each link in chain)

• Competitive advantage achieved by
  – Maximizing value created by each link
  – Minimizing cost of each link
  – Minimizing number of links

• Example: compare low-cost and legacy airlines
The Value Chain

• “…company is a chain of activities for transforming inputs into outputs customers value – including primary & support activities.
Building blocks of competitive advantage

- Superior quality
- Superior efficiency
- Superior innovation
- Superior customer responsiveness
ROIC

- ROIC = net profits/revenues x revenues/invested capital
- Is a measure of how hard investors’ money is working for them
- If ROIC is too low, demand for company’s shares will decrease
  - -> share price will decline
  - -> market capitalization will decline
  - -> risk of hostile takeover