Innovation Management and New Product Development

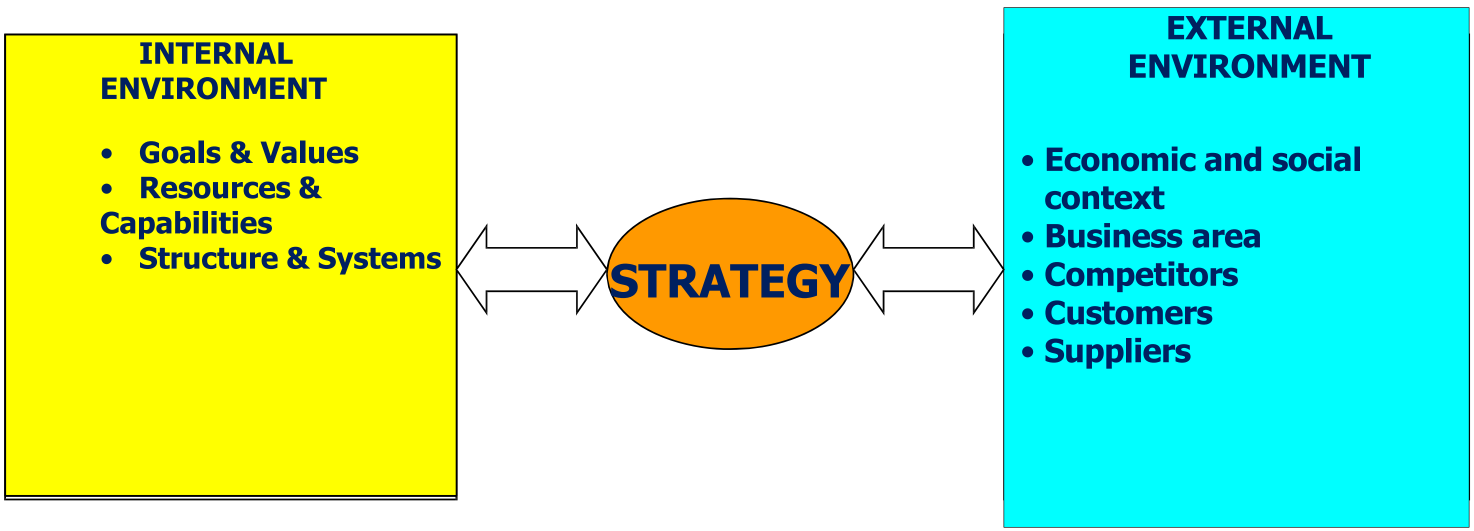
Competitive Intelligence

External and Internal Environment

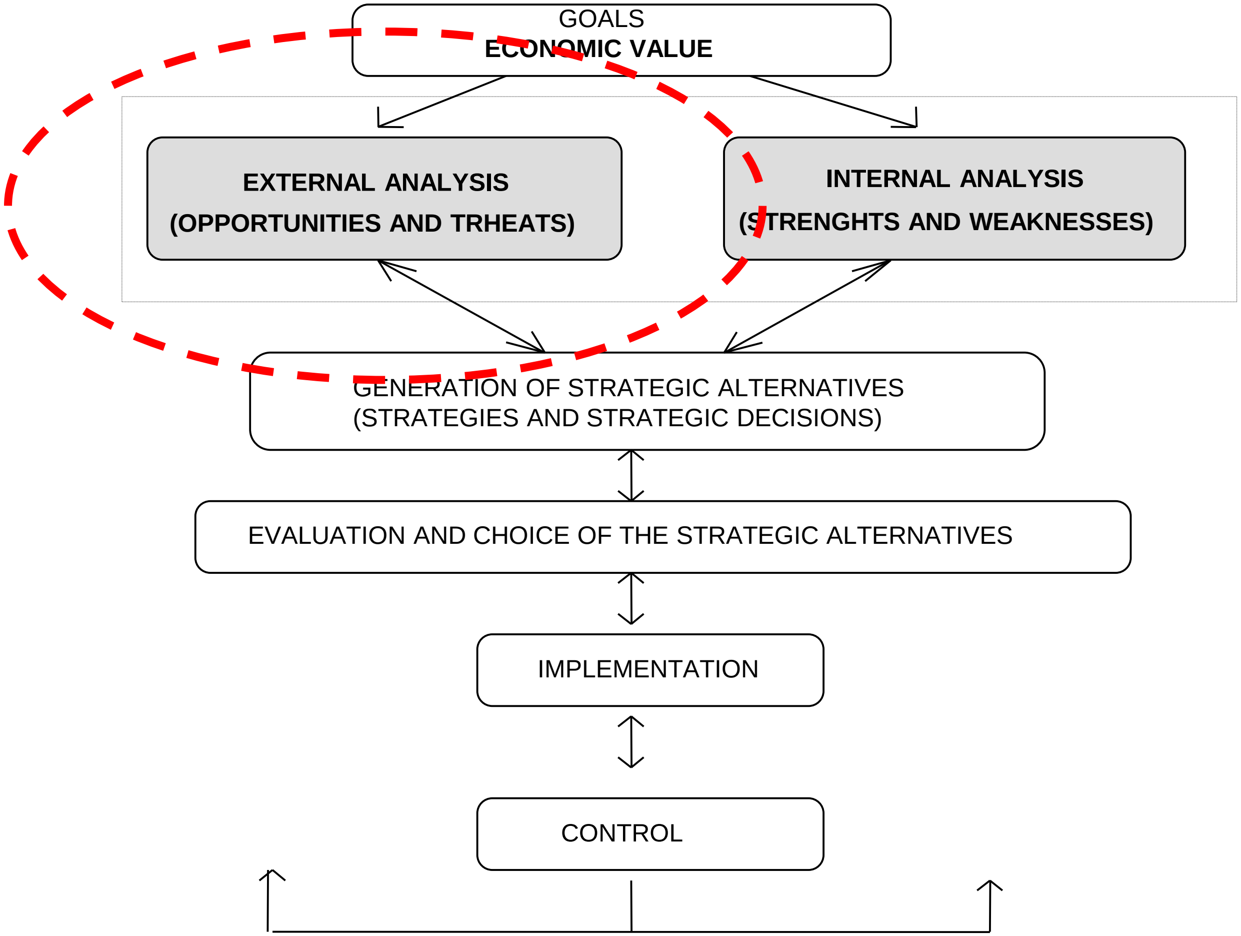
- The ***external environment*** comprises all the economic, social, political and technological factors that influence the company's decisions and its performance.

- The ***internal environment*** comprises:
  - the company's values and goals;
  - the company's resources and capabilities;
  - the company's organisational structure and systems.

Strategy as a link between Internal and External Environment



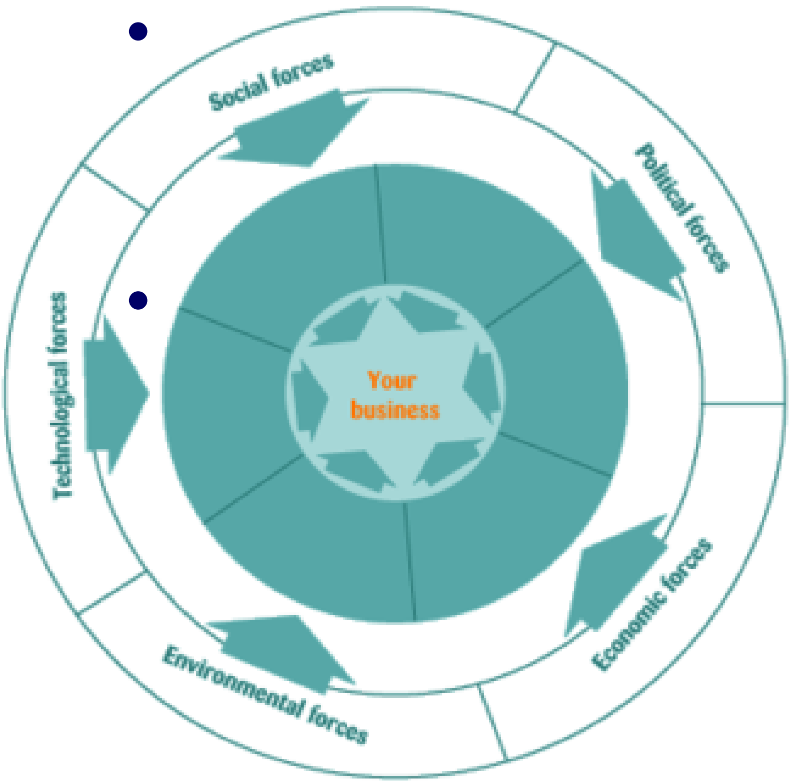
Strategic decisional process: the logic flow



Analysing the External Environment

- **Understanding the «big picture»: Steep Analysis**
- Understanding the «industry»: Porter's 5 Forces model
- Understanding the «competitors»: Competitor Analysis
- Understanding the «supply chain»: Distribution & Profit Pool Mapping

STEEP Analysis



Variables are grouped in:

- **S** ocial
- **T** echnological
- **E** conomic
- **E** cological
- **P** olitical

STEEP Analysis

Political/legal

Monopolies legislation
Taxation policy
Foreign trade regulations
Employment law
Government stability

Socio-cultural

Population demographics
Income distribution
Social mobility
Lifestyle changes
Attitude to work and leisure
Levels of education
Consumer activism

Economic

Business cycles
GNP trends
Interest rates, Exchange rates
Money supply and Inflation
Unemployment & av. income
Energy availability and cost

Ecological

Environmental protection laws
Compliance to env. protocols
Decommissioning costs

Technological

Govn. spending on research
Patent protection
New findings/developments
Speed of technology transfer
Rates of obsolescence

Analysing the External Environment

- Understanding the «big picture»: Steep Analysis
- **Understanding the «industry»: Porter's 5 forces model**
- Understanding the «competitors»: Competitor Analysis
- Understanding the «supply chain»: Distribution & Profit Pool Mapping

Attractiveness of the Business area

Attractiveness of the Business Area

↓

Average profitability and growth of the companies operating in the BA

(both current and future)

Porter's 5 Competitive Forces Model

It is referred to a specific Business Area

Basic assumptions:

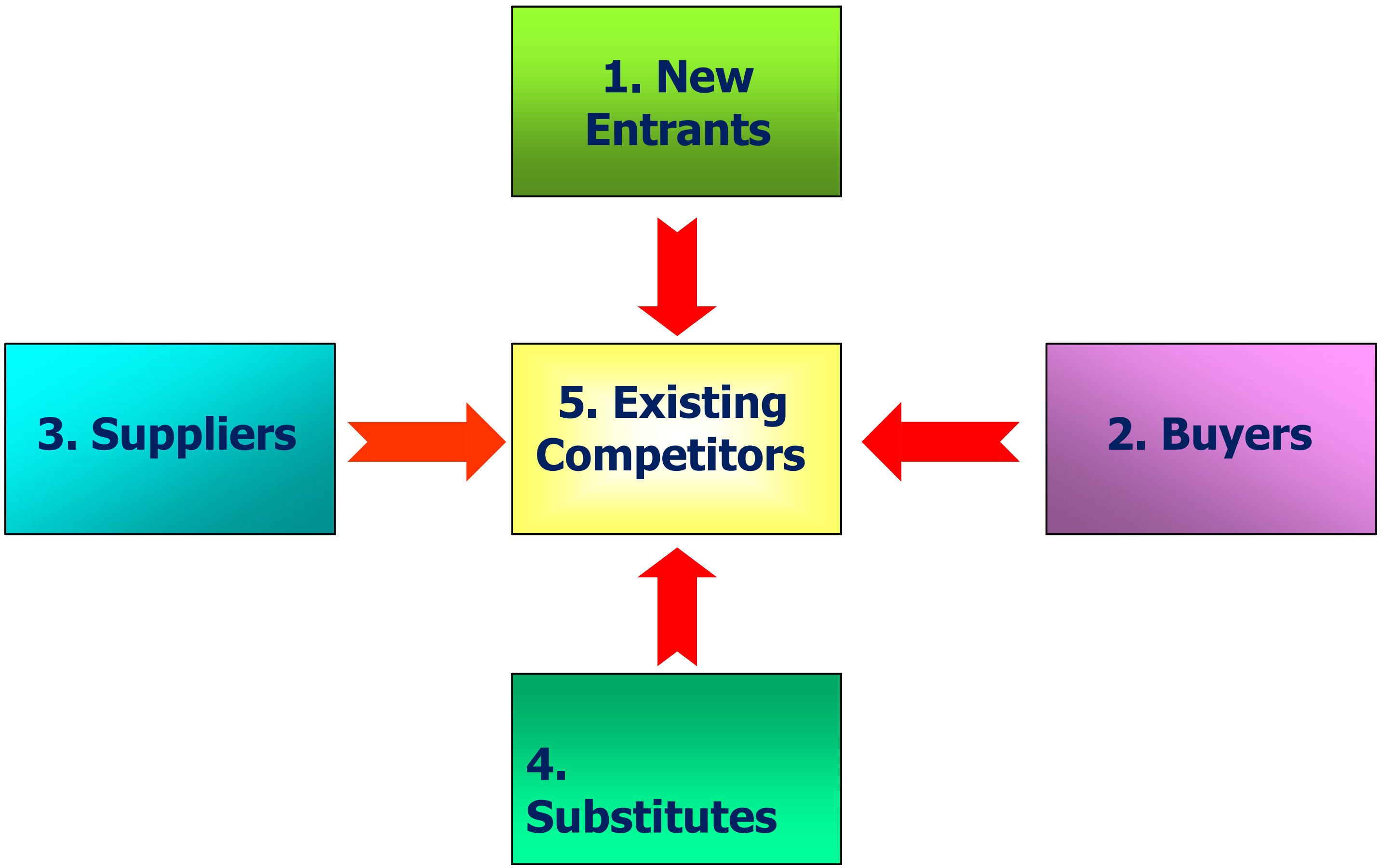
Competition is driven by industry structure

Business Area's attractiveness is inversely proportional to the level of competition of the competitive environment

Competition in an industry goes well beyond established players:

concept of *extended rivalry*

Porter’s Five Forces Model



Understanding Industry Structure

"Understanding the forces that shape competition in an industry is the starting point for developing strategy.

…Most importantly, an understanding of industry structure guides managers towards possibilities for strategic action, including:

(1) positioning the company vis-à-vis the current competitive forces;
(2) anticipating shifts in the forces and exploiting them;
(3) shaping the balance of forces to create new more favourable structure or one that favours the company."

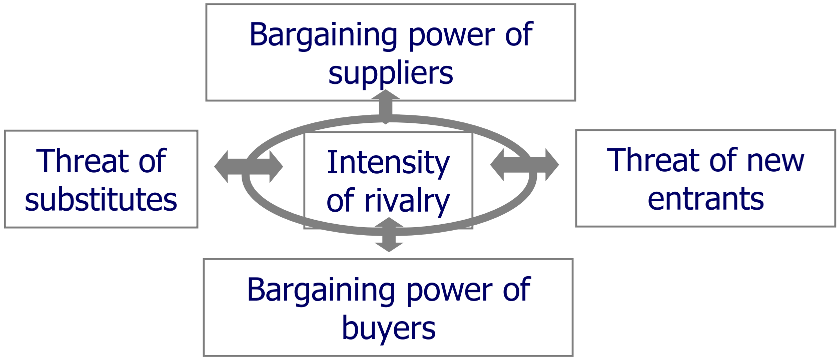
M. Porter, **HBS**, 2006

Intensity of internal rivalry

Direct competition

Structural determinants:

- Concentration and balance
- Diversity of competitors
- Industry growth
- Product differentiation
- Switching costs
- Fixed costs impact
- Storage costs
- Excess capacity



Exit barriers

Exit Barriers

- Common exit barriers include:
  - specialized assets;
  - fixed costs of exit such as labour agreements;
  - strategic interrelationships (relationships of mutual dependence between one business and other parts of a company's operation, such as shared facilities and access to financial markets);
  - emotional barriers (career concerns, loyalty to employees, etc.);
  - government and social restrictions.

Intensity of internal rivalry

Structural determinants:

- Economies of scale
- Capital requirements
- Brand identity
- Switching costs
- Access to distribution channel
- Cost advantages independent of size
- Legislation or government actions

Entry barriers

Proprietary product technology
Favourable access to raw materials
Favourable location
Learning curve
Government subsidies

+ Incumbent's expected reactions (retaliation)

Entry & Exit Barriers

- Entry in or exit from a business arena is not always easy (even in the «digital» era)

- Every business arena is «protected» by barriers that makes the entry and the exit a costly decision for companies

- The higher are the barriers to entry, the more profitable (other else being equal) is the business arena for those companies that are already in, as they have less to fear from new external competitors.

- The higher are the barriers to exit, the less profitable (other else being equal) is the business arena, as competitors might stay in even if they are not making any profit.

Types of competition

•In the reality there is a further type of competition (indirect). Therefore three types can be identified:

- *direct :*

between companies offering products with similar characteristics. The buyer's decision-making variable is often a preference for a particular brand: technological interfacing seems similar to the customer.

- *broadened:*

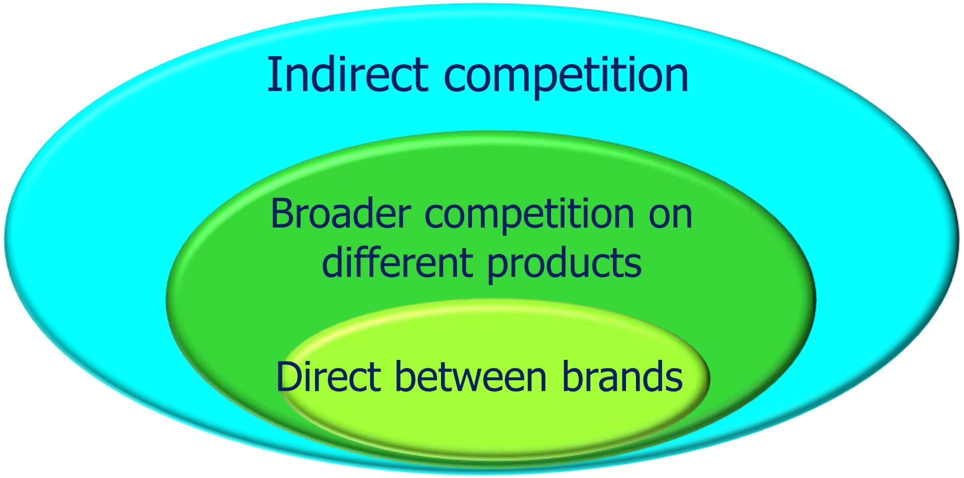
different products that nevertheless respond to comparable basic functions (substitute products). Technological interfacing on the customer side can be different.

- *indirect:*

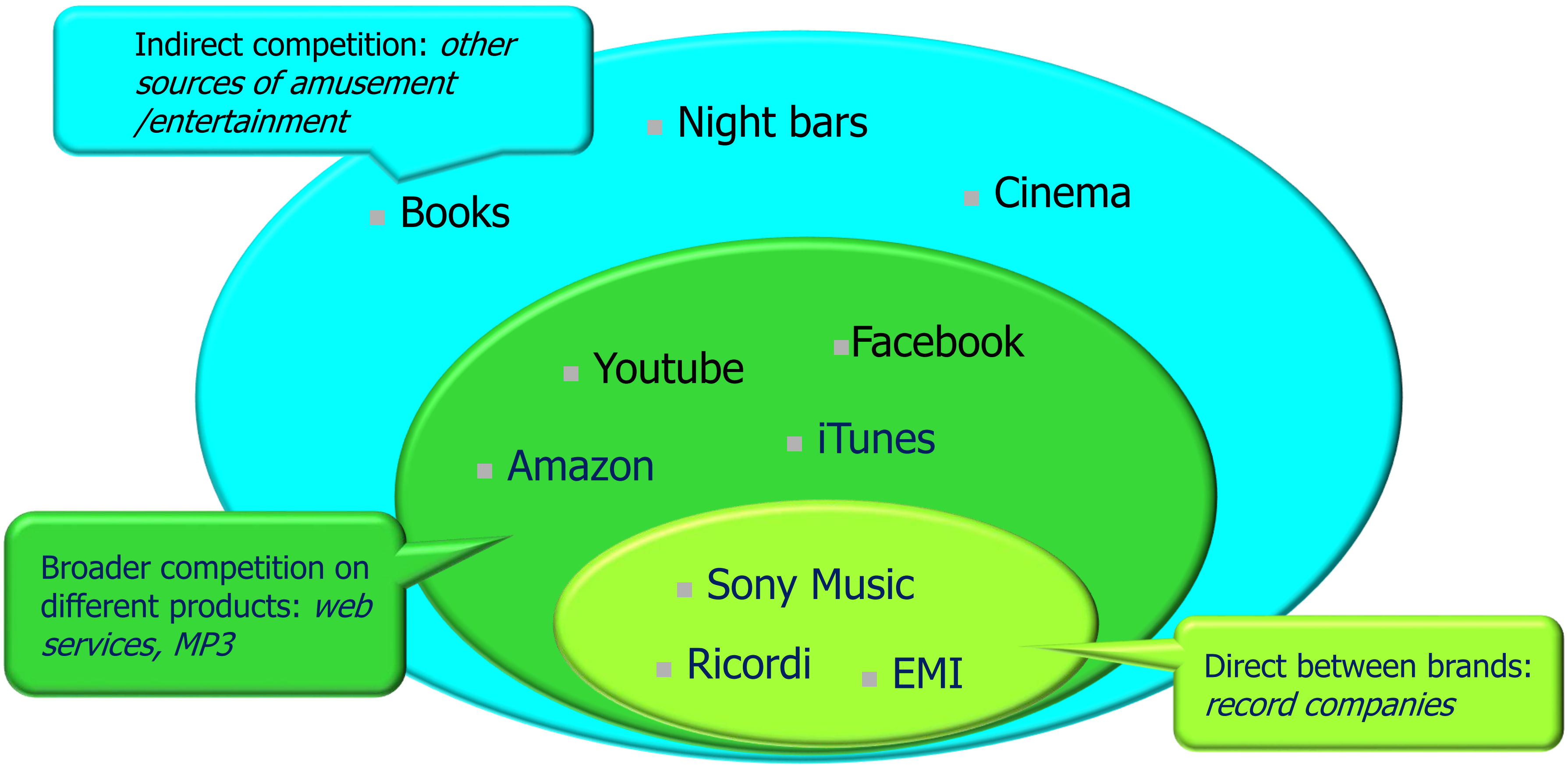
the competition shifts to the capturing of the customer's financial resources by companies in other sectors with different products.

Types of competition

Prospective	Competition type	Belonging to the same sector	User-side technology
Restricted	Between brands	Always	About the same
Broad	Between different products	Not always	Sometimes different
"From above"	Indirect (of resources)	Hardly ever	Different



Example



Indirect competition: *other sources of amusement /entertainment*
Night bars
Cinema
Books
Youtube
Facebook
iTunes
Amazon
Broader competition on different products: *web services, MP3*
Sony Music
Ricordi
EMI
Direct between brands: *record companies*

Direct Competitors

- The ***level of competition*** in the industry is a function of:
  - Industry concentration.
  - Market growth
  - Diversity of competitors.
  - Product differentiation.
  - Excess capacity and high exit barriers (for economic, strategic, emotional or legal reasons).
  - Scale economies.
  - Cost structure: fixed vs. variable cost.

Competition from Substitutes (broad and "from above")

- Substitutes are products that perform the same function as the product of the industry

- Substitutes limit the potential return of an industry by **placing a ceiling on the prices companies in the industry can profitably charge.**

- The competition from substitutes is a function of:
  - **switching costs;**
  - **substitute product's price vs. industry's product;**
  - **substitute product's quality and performance capabilities vs. industry's product**.

LIUC
Università Cattaneo

Threat of new entrants

Potential competition

Bargaining power of suppliers

Threat of substitutes | Intensity of rivalry | Threat of new entrants

Bargaining power of buyers

Structural determinants:

Entry barriers

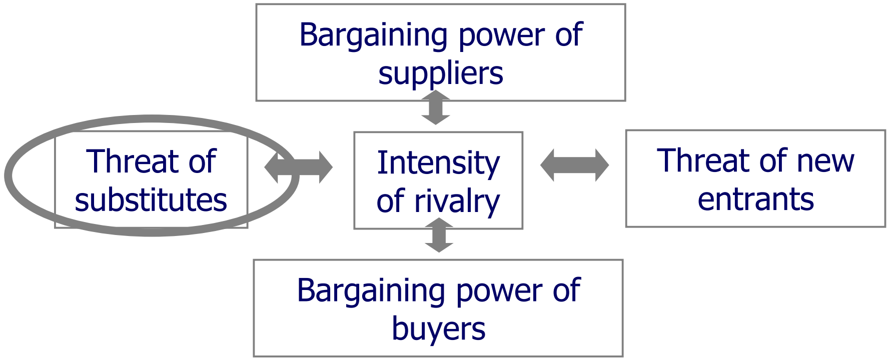
- Economies of scale
- Capital requirements
- Brand identity
- Switching costs
- Access to distribution channel
- Cost advantages independent of size
- Legislation or government actions

Incumbent's expected reactions (retaliation)

Proprietary product technology
Favourable access to raw materials
Favourable location
Learning curve
Government subsidies

Threat of substitutes

Indirect competition



Substitutes = Products able to satisfy the same needs

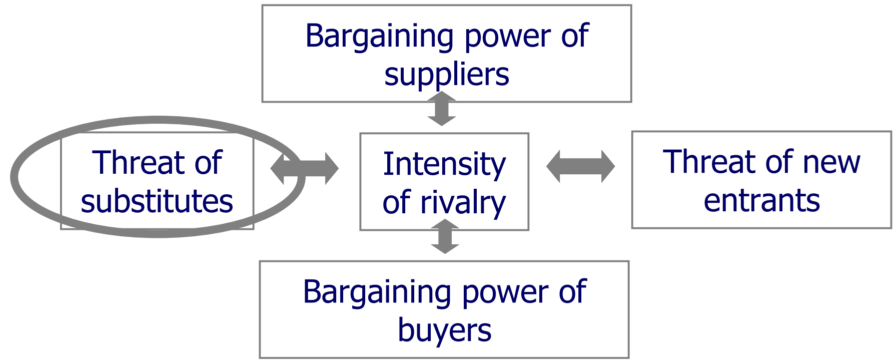
The price customers are willing to pay for a product depends on the availability of substitute products.

The absence of substitutes means that the consumer is insensitive to price (*demand is inelastic* with respect to price)

The existence of substitutes means that the consumers will switch to substitutes in response to price increases for the product (*demand is elastic* with respect to price)

Threat of substitutes

Indirect competition



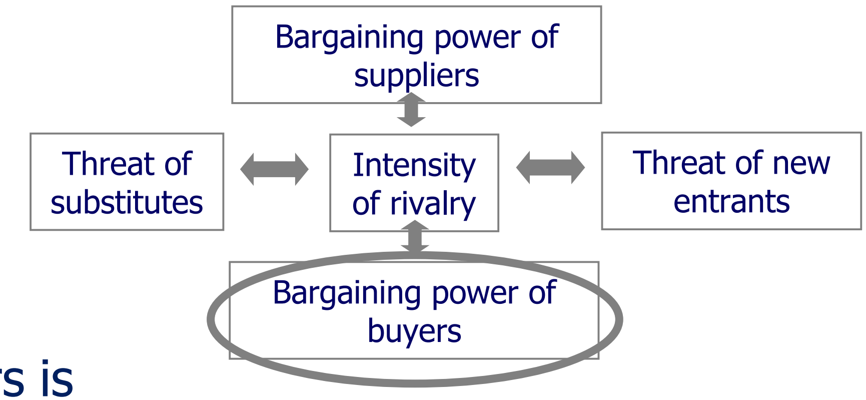
Substitutes = Products able to satisfy the same needs

The extent to which substitutes depress prices and profits depend on the propensity of buyers to substitute between alternatives. This depends on the *price/performance* characteristics.

The more attractive *price/performance ratio* of substitutes, the higher risk to lose customers to the advantage of substitutes.

Bargaining power of buyers

Downstream competition



It can derive from:

- Relative concentration
  - The bargaining power of buyers is higher if their business area is more concentrated than that of suppliers
- Product's features
  - The bargaining power of buyers increases if:
    - product differentiation is low
    - switching costs are low
    - product's impact on the final performance is weak (only for intermediate products)

Bargaining power of buyers

- Buyer's characteristics
  - The bargaining power of buyers increases if:
    - they are not very profitable
    - they are able to integrate themselves backward
    - they have clear information about the product
    - the component or material cost is a high percentage of the total cost

The power of buyers in B2C

It is usually quite low, but it increases if:

- product differentiation is low
- switching costs are low
- information about the product are easily available

The power of buyers in B2C

A definition of Switching Costs

•Switching costs are defined as those costs that incurred when a customer changes from one supplier or marketplace to another.

•Higher switching costs, more difficult to execute the switch.

The power of buyers in B2B

Relative concentration → The bargaining power of buyers is higher if their business area is more concentrated than that of suppliers

Product's features → The bargaining power of buyers increases if:

- product differentiation is low
- switching costs are low
- product's impact on the final performance is weak (only for intermediate products)

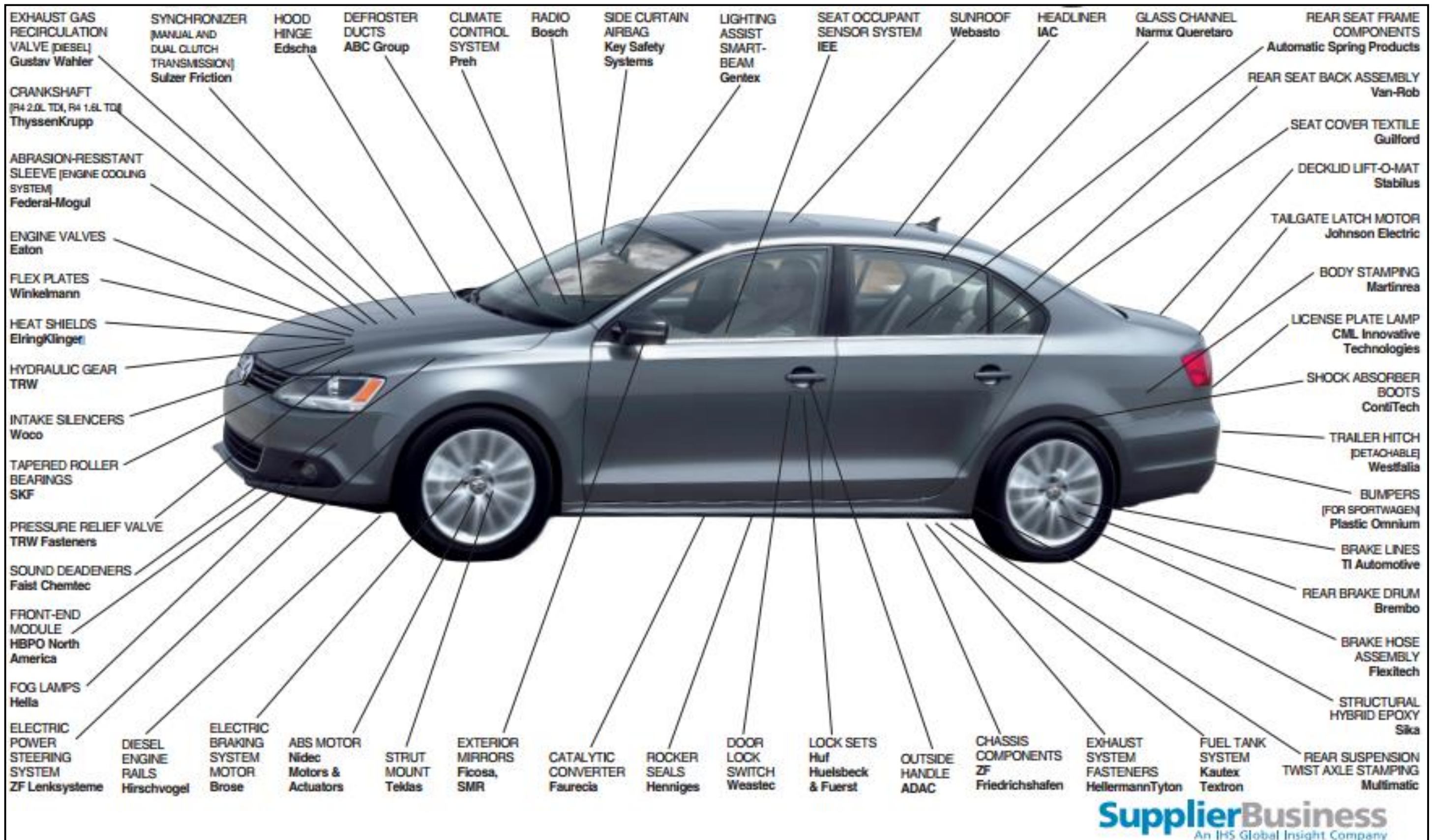
The power of buyers in B2B

Buyer's characteristics

- The bargaining power of buyers increases if:
  - they are able to integrate themselves backward
  - they have clear information about the product
  - the component or material cost is a high percentage of the total cost

Suppliers

- An example of suppliers in the automotive industry: the case of Volkswagen

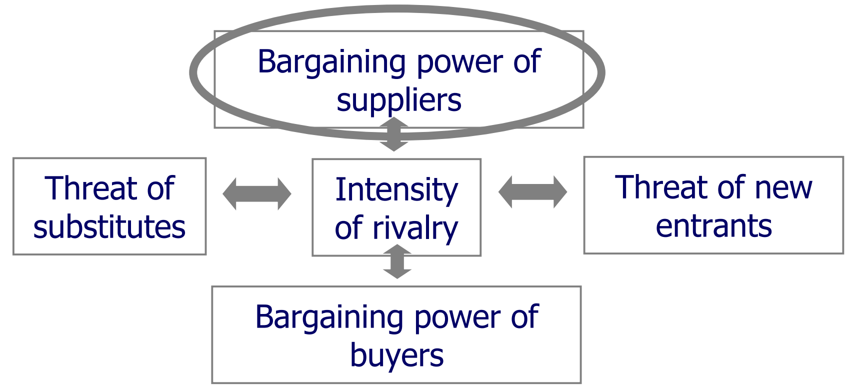


The impact of the component costs of a VW brand car is more than 85% of the product total cost

A VW brand car has an average operative profit of about $ 1.000 for each car sold and an average margin of about 3,5%

Bargaining power of suppliers

Upstream competition



The structural determinants of bargaining power of suppliers are <u>dual</u> to those influencing the bargaining power of buyers

The power of suppliers

Relative concentration → The bargaining power of suppliers is higher if their business area is more concentrated than that of companies producing the product

Product/service's features → The bargaining power of suppliers increases if:

- product/service differentiation is high
- switching costs are high
- product's impact on the final performance is high

The power of suppliers

Customer characteristics

The bargaining power of suppliers increases if:

- their customers are not able to integrate backward
- their customers have not clear information about the products
- the supplying cost is a low percentage of the total cost

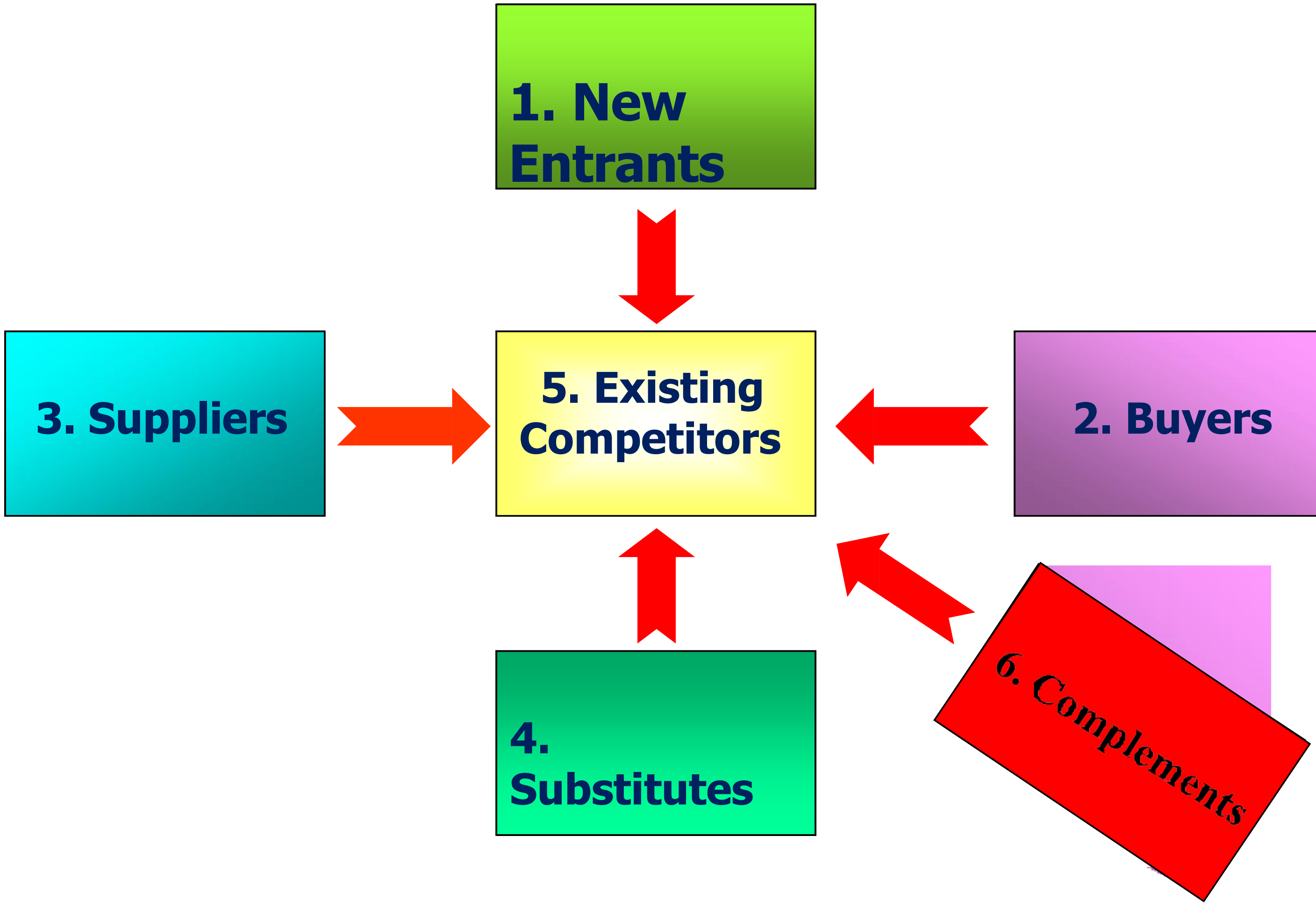
A Sixth Force: Complements

- While substitutes have a negative impact on value, complements have a positive impact.

- Complements are always important in affecting the overall demand for an industry's product.

Example: in the video game industry the producers of software (games) are complementors to the producers of hardware (consoles).

The Five Forces Model plus «Complements»



The complementors

- Complementors are those companies offering complementary products or services to the final customer, affecting the usage of the company's output;

- Complementors always affect the overall demand for an industry's product.

Example: in the video game industry the producers of software (games) are complementors to the producers of hardware (consoles).

The complementors

- An example of complementors in the mobile phone industry: the case of the app developers.

In EU have been created 49% of the top 50 app with major receipts in Europe and the US.

The three main companies producing app, success in Europe, are Rovio, King.com and Supercell.

Source: http://www.tomshw.it/

The power of complementors

- *From Harvard Business Review – 2007*
  «The Art of Managing Complementors»

Most companies benefit from complementors—other firms independently making products or services that increase your offerings' value to mutual customers. For example, digital-camera makers rely on manufacturers of affordable home photo printers to sell more cameras.

[…], **complementor relationships can be troublesome—because complementors' interests often conflict.** Take Apple Computer. It needs Intuit to make software for its computers. But Intuit needs high-volume sales to underwrite its hefty R&D program—sales that only market-dominating Microsoft Windows–powered computers can provide. Intuit could lose money by investing in software for Apple, a company with such a small market share.

How to manage such potential conflicts? Understand what motivates your complementors. Then choose different kinds of power to get complementors working in your favor. When necessary, and when you have the upper hand, use hard power—threats or incentives. […]

The power of complementors

[…]

The Idea in Practice

Hard-Power Tactics

Produce some or all strategically important complements in-house. You'll constrain complementors' power and possibly generate major profits. For example, Hewlett-Packard makes more money from selling ink cartridges for its printers than from selling the printers themselves. […]

Soft-Power Tactics

Reduce your complementors' risk. Build industry support for your chosen platform to boost everyone's chances of success. Intel helped make Wi-Fi the standard for wireless computing—and drove sales of its Wi-Fi-enabled Centrino laptop—by launching a $300 million marketing campaign touting its commitment to Wi-Fi. Complementors—T-Mobile, Starbucks, airports—profited by jumping on the Wi-Fi bandwagon.

Articulate a compelling vision in which all players benefit. Apple's Steve Jobs wanted major music companies to sell tracks to iPod users through its online music store, iTunes. Burned by illegal file-sharing services, most music-industry executives resisted. But Jobs's passionate vision persuaded them to get on board: He convinced them that Apple's technology would discourage users from sharing downloads, and that its service and marketing prowess would create a smash hit.

The power of complementors

[…]

Combining Hard and Soft Power

To get the most out of your complementors, choose wisely—hard power, soft power, or both.

When Apple opened its iTunes store, it relied primarily on soft power—cajoling music companies into making their libraries available and reducing their risks by offering safeguards against piracy. But when Apple's contracts with the music companies came up for renewal, it turned to hard power. The music companies wanted iTunes to increase the price per track from $.99 to $1.50–$2.00 so they could boost profits. But iTunes—commanding 80% of the market for legal downloads—had the upper hand.

Steve Jobs kept the low price, knowing it was the only way to sell more iPods and therefore maintain Apple's margins.

Five Forces Analysis: Key Questions and Implications

Università Cattaneo

- What are the **key forces** at work in the competitive environment?
- Will **competitive forces** change?
- Can **competitive strategy** influence competitive forces (e.g. by building barriers to entry or reducing competitive rivalry)?
- How **attractive** is this industry?

Analysing the External Environment

- Understanding the «big picture»: Steep Analysis
- Understanding the «industry»: Porter's 5 forces model
- **Understanding the «competitors»: Competitor Analysis**
- Understanding the «supply chain»: Distribution & Profit Pool Mapping

Competitor Analysis

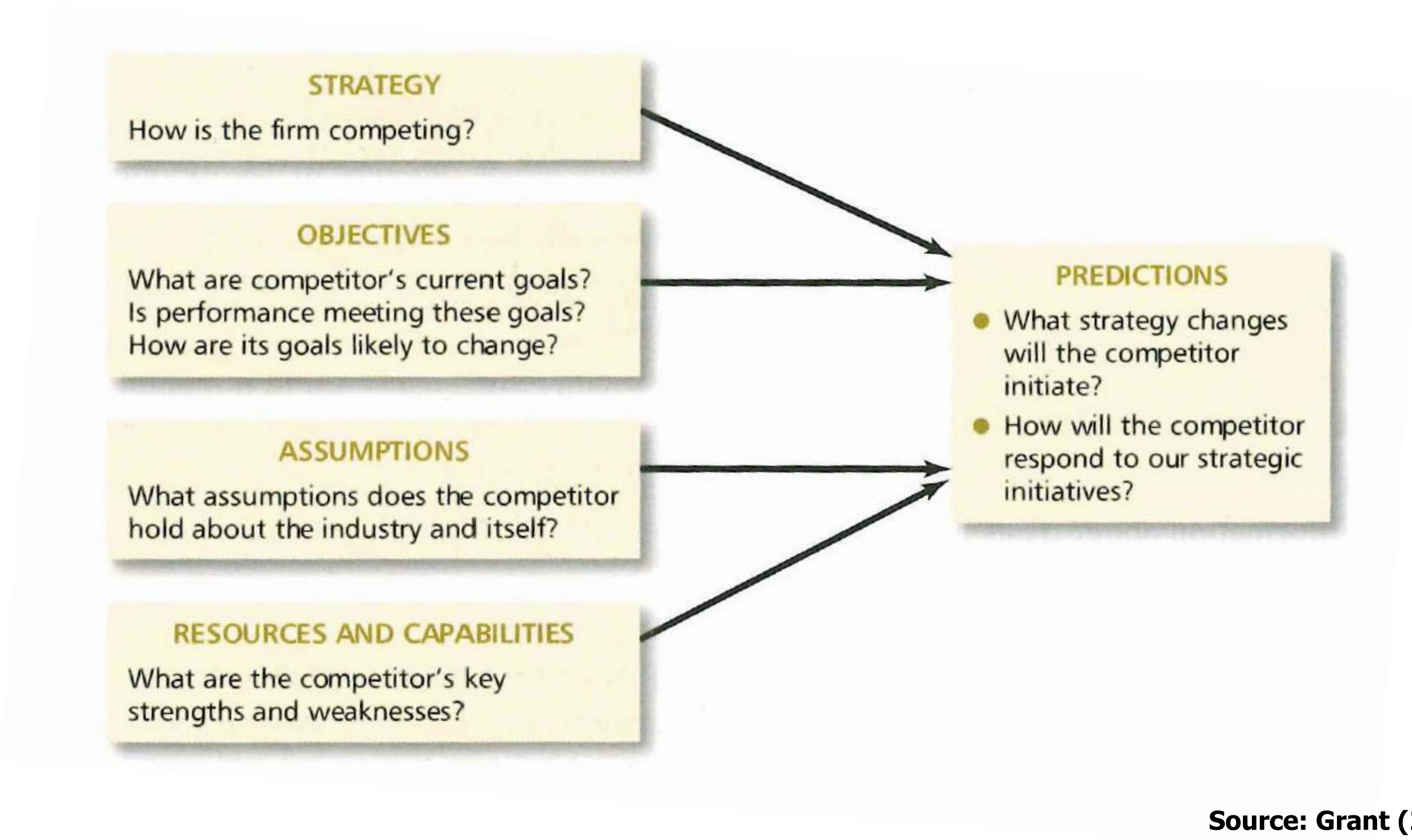
Three main purposes:

- to forecast competitors' **future strategies and decisions**
- to predict competitors' **reaction** to a firm's strategic initiatives
- to determine how **competitors' behaviour** can be influenced

Three main sections:

- to understand how **rivals compete at present**
- to forecast how **a competitor might change its strategy**
- to understand the **perception of the industry competitors have**

A Framework for Competitor Analysis



Source: Grant (2010)

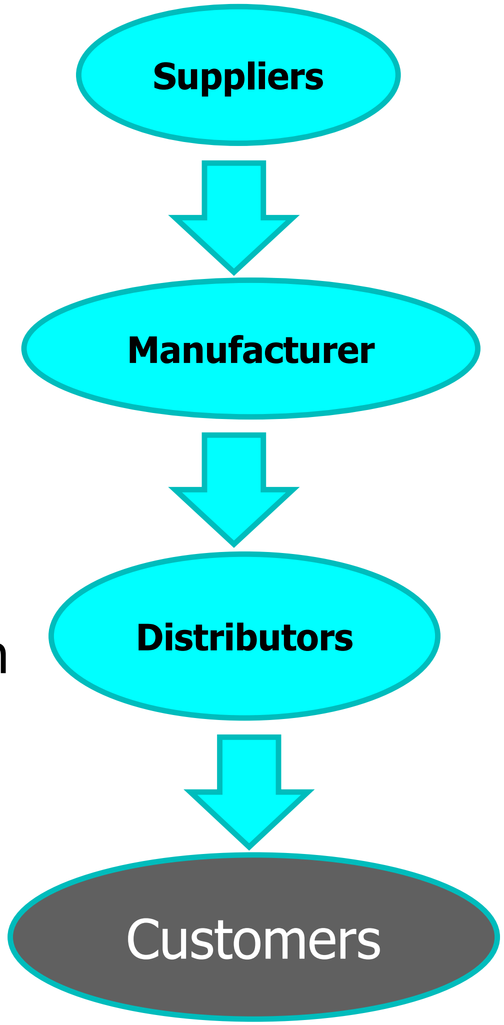
Analysing the External Environment

- Understanding the «big picture»: Steep Analysis
- Understanding the «industry»: Porter's 5 forces model
- Understanding the «competitors»: Competitor Analysis
- **Understanding the «supply chain»: Distribution & Profit Pool Mapping**

The «supply chain»

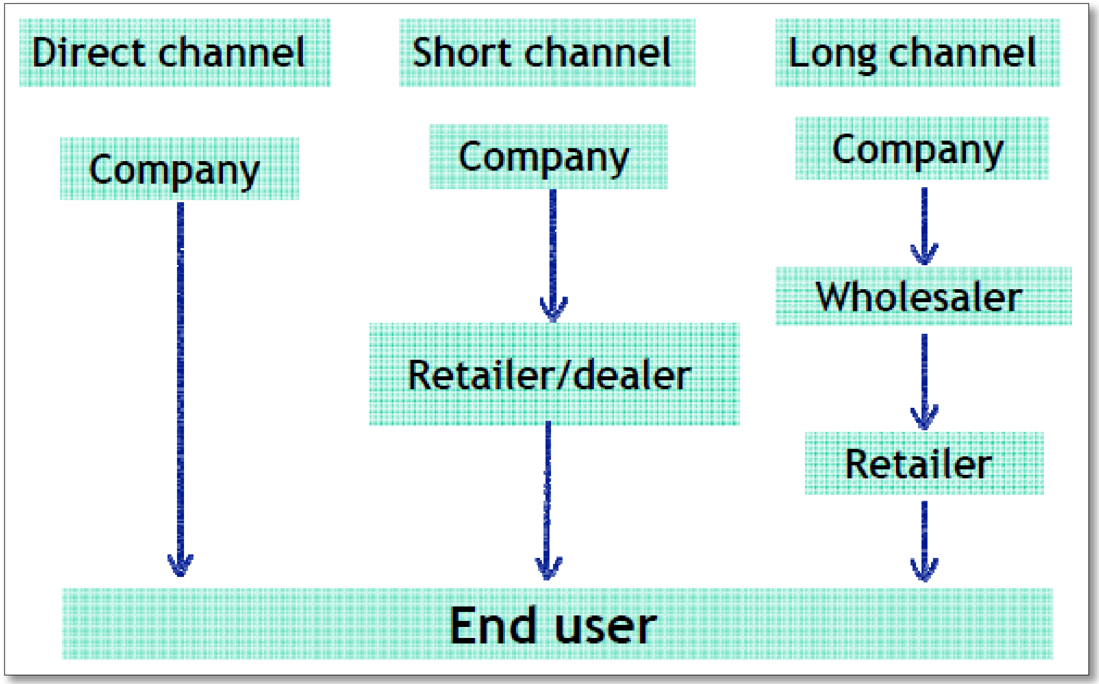
- Suppliers, i.e. those companies offering products (components) and/or services needed to the production process of the output of the company

- Distributors, i.e. those companies delivering the output of the company, making it to reach the final customers



Distribution

- Example of distribution channels:



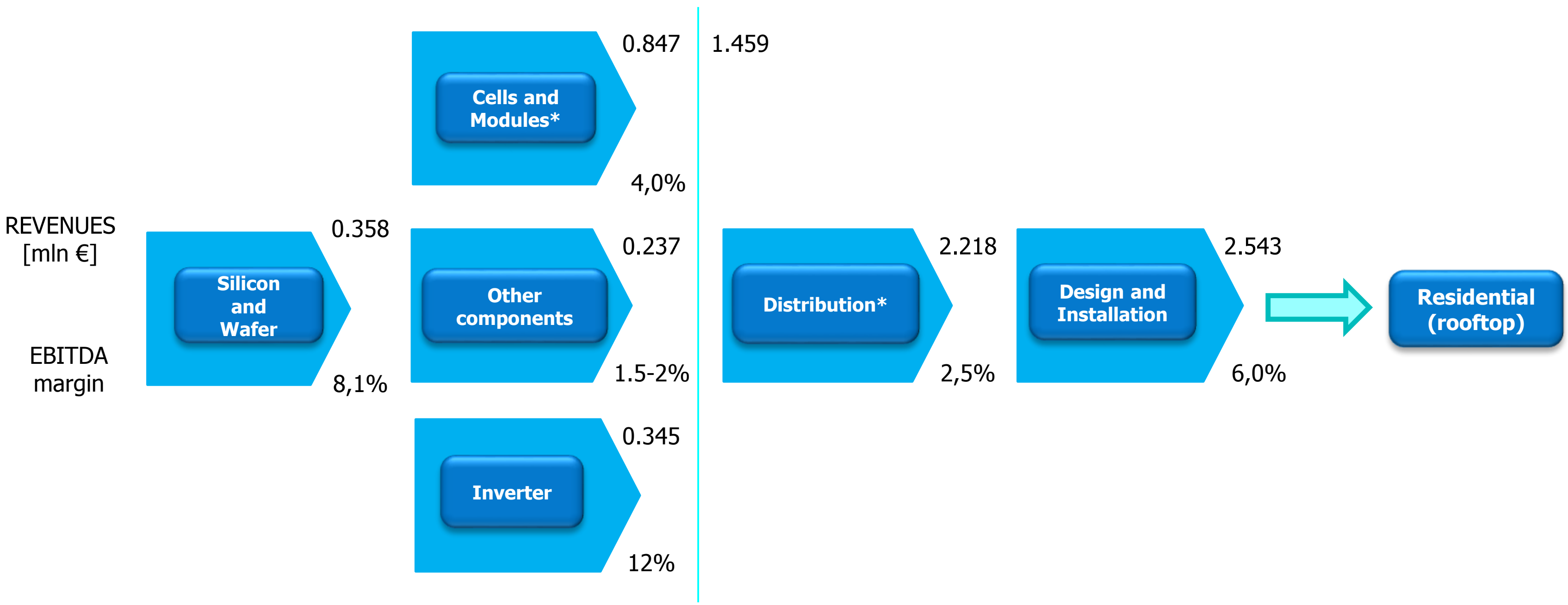
Dell → Direct Channel

Zara → Short Channel

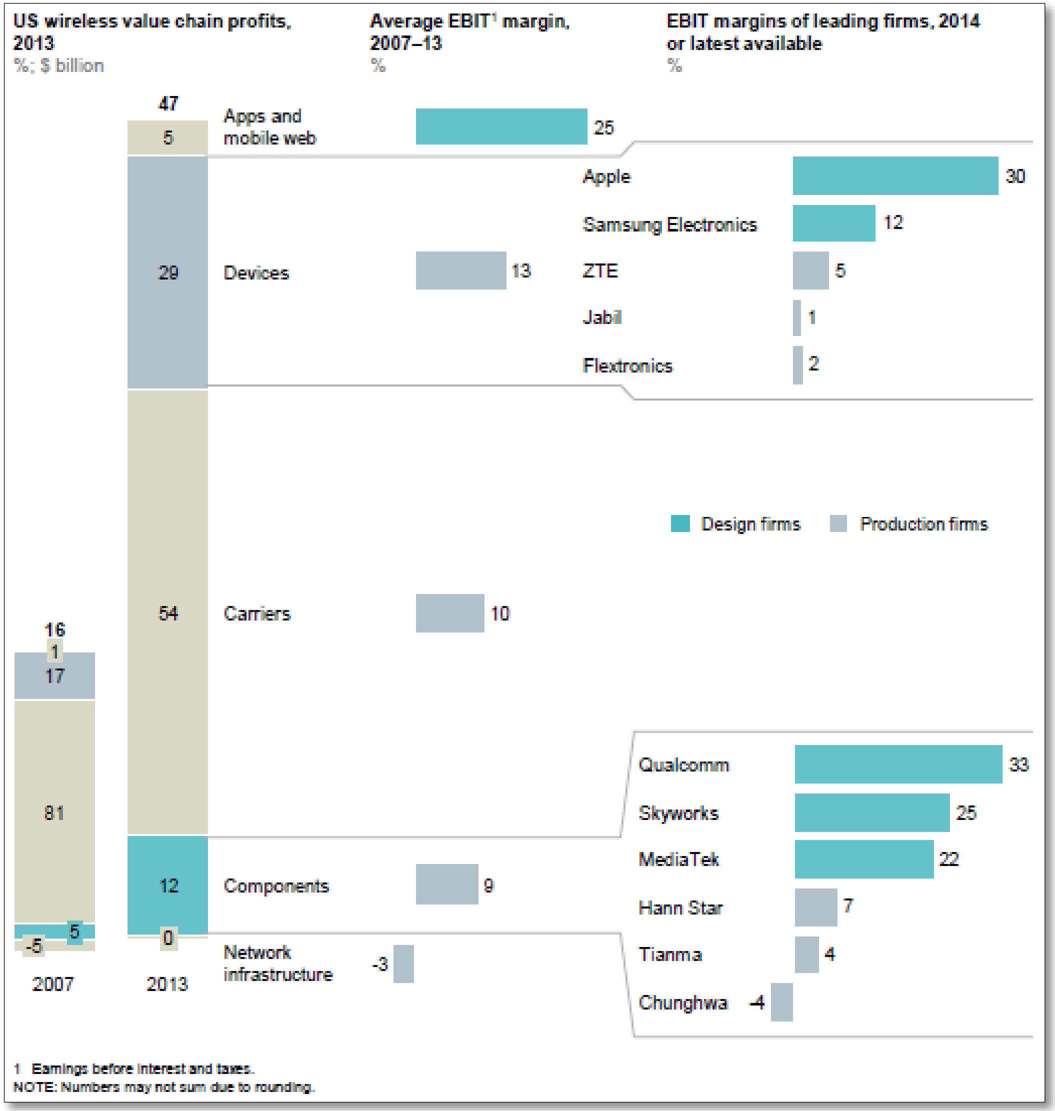
Food Products → Long Channel

Profit pool mapping

Profitability distribution in the «supply chain» of photovoltaic



Profit pool mapping



The most profitable firms in tech ecosystem tend to focus more on design and software instead of production and hardware

SOURCE: Strategy Analytics; Yankee Group; companies' annual reports; PQ Media; Gartner; McKinsey Global Institute analysis

Analysing the External Environment

- Understanding the «big picture»: Steep Analysis
- Understanding the «industry»: Porter's 5 forces model
- Understanding the «competitors»: Competitor Analysis
- Understanding the «supply chain»: Distribution & Profit Pool Mapping

A SUMMARY

Analysing the External Environment

LIUC
Università Cattaneo

The external analysis is useful to identify:

- **Opportunities**
- **Threats**
- **Key Success Factors**

LIUC
Università Cattaneo

Key Success Factors (KSFs)

Prerequisites for success

What do customers want?

How does the firm survive competition

Analysis of demand
- Who are our customers?
- What do they want?

Analysis of competition
- What drives competition?
- What are the main dimensions of competition?
- How intense is competition?
- How can we obtain a superior competitive position?

KEY SUCCESS FACTORS

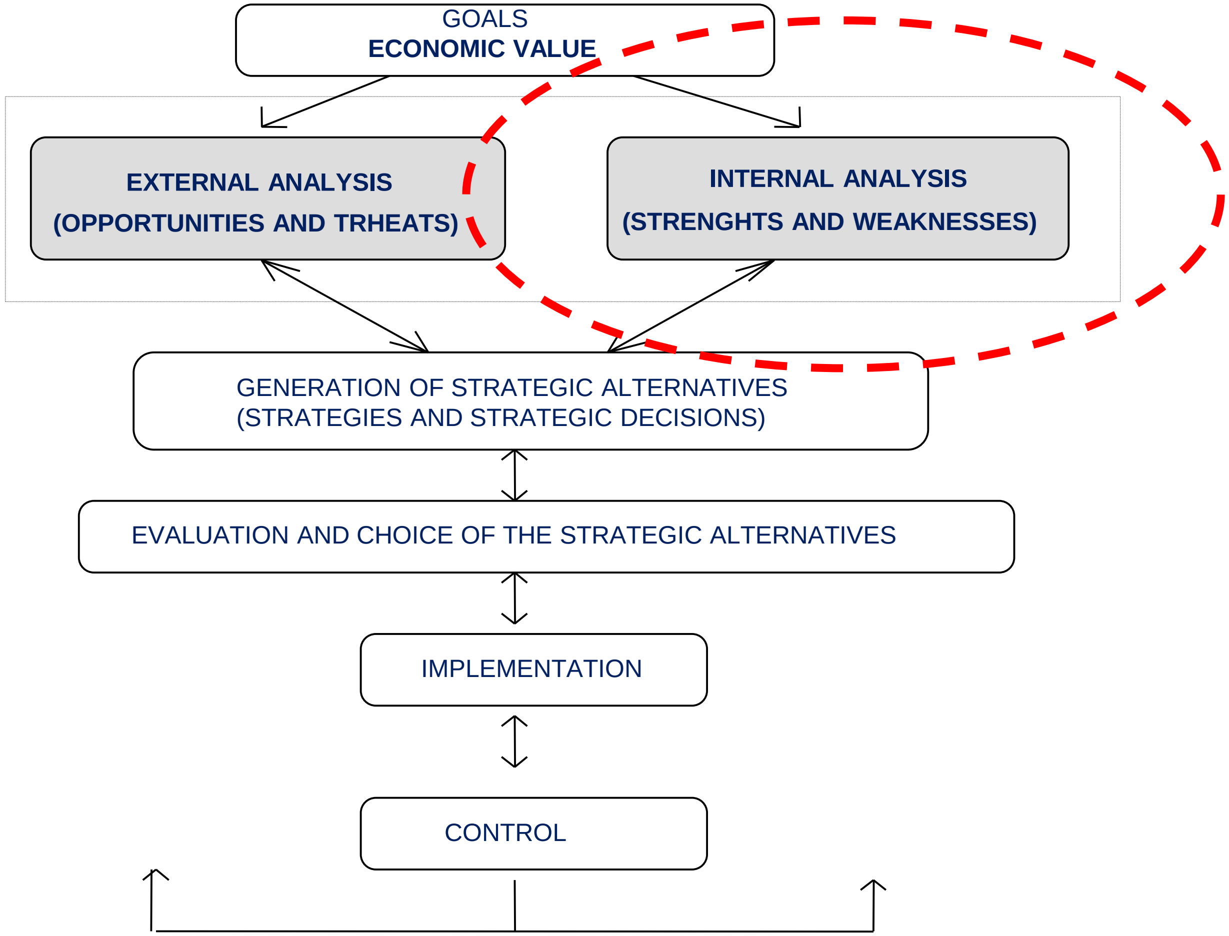
Source: Grant (2010)

Key Success Factors (KSFs)

- A Key Success Factor can be:
  - a specific skill or talent
  - a competitive capability
  - something a company **must do** to satisfy customers

- KSFs consist of the 3 - 5 really major determinants of financial & competitive success in an industry

Strategic decisional process: the logic flow



Analysing the Internal Environment

- **Understanding the sources of competitive advantage: why I make more/less profit than my competitors**
  - *the sources of competitive advantage*
  - *the role of resources and competences*

What is competitive advantage

- When two or more companies compete within the same market, one firm possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit

Analysing the Internal Environment

- **Understanding the sources of competitive advantage: why I make more/less profit than my competitors**
  - ***the sources of competitive advantage***
  - *the role of resources and competences*

Types of competitive advantage

- **Cost advantage**
- Differentiation advantage

Cost Advantage

The analysis of cost advantage is made up of **three phases**:

1. Identification of the "relevant" cost activities according to three criteria:

- size and growth of the cost represented by the activity;
- cost behaviour of the activity;
- behaviour of competitors in performing the activity.

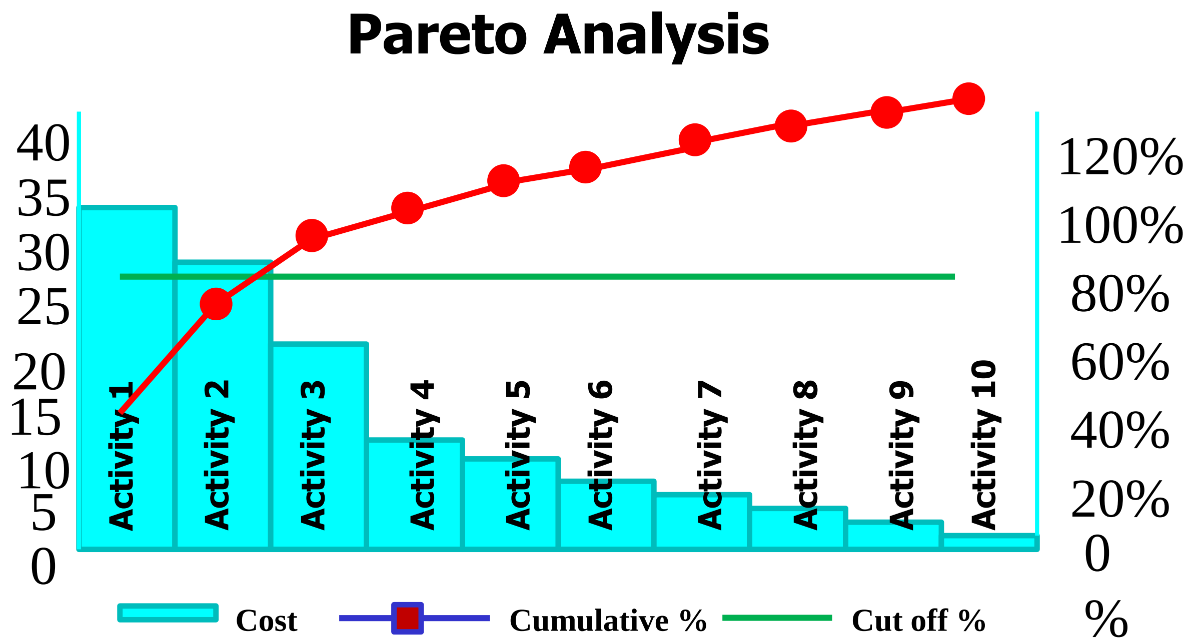
2. Identification of the specific cost drivers for each activity.

3. Identification of opportunities for cost reduction.

Cost Advantage: Identification of «relevant» cost activities

LIUC Università Cattaneo

- Running a Pareto analysis on the company's activities
- Fixed vs. variable costs? Internal vs. external costs?
- Is there any difference in how competitors run this activity?

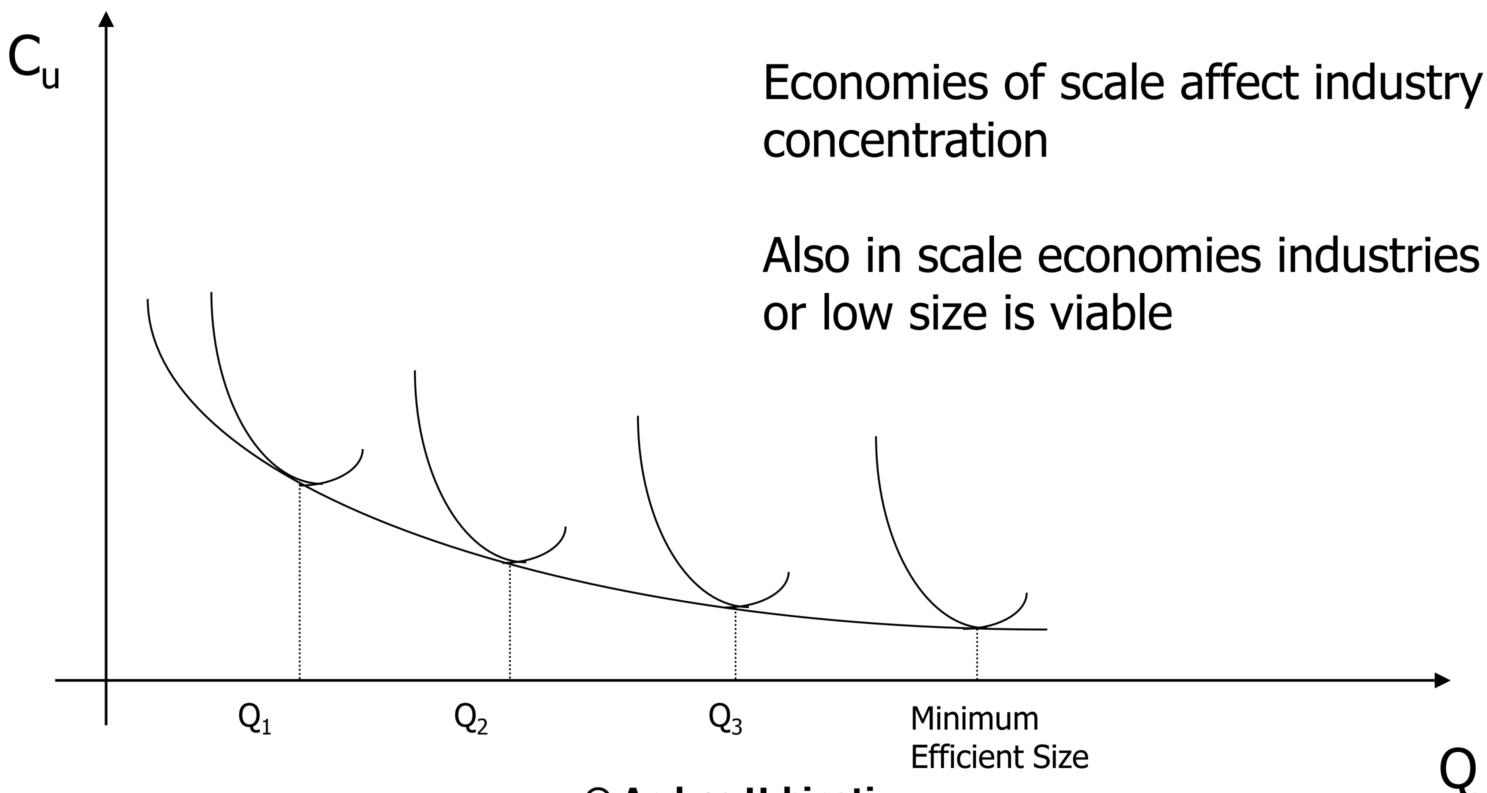


Cost Advantage: Identification of cost drivers

- Each activity has a specific cost structure and hence its cost drivers may be different.
- The main cost drivers are:
  - economies of scale;
  - economies of learning;
  - degree of saturation of the production capacity;
  - localisation;
  - preferential access to distribution channels;
  - institutional factors;
  - degree of vertical integration

Scale economies

- C_u cost per unit
- Q_i yearly production volume



Sources of economies of scale:

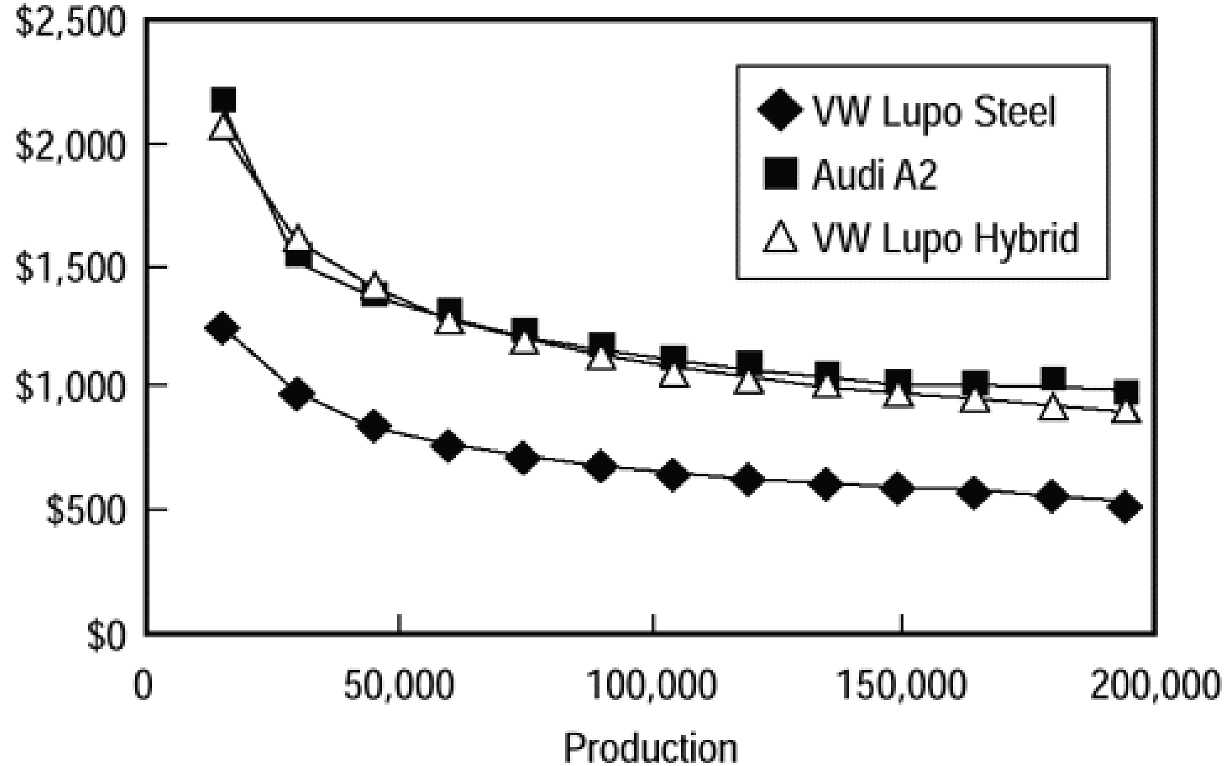
- Technical input-output relationship
- Indivisibilities
- Specialization

Economies of scale affect industry concentration

Also in scale economies industries mid or low size is viable

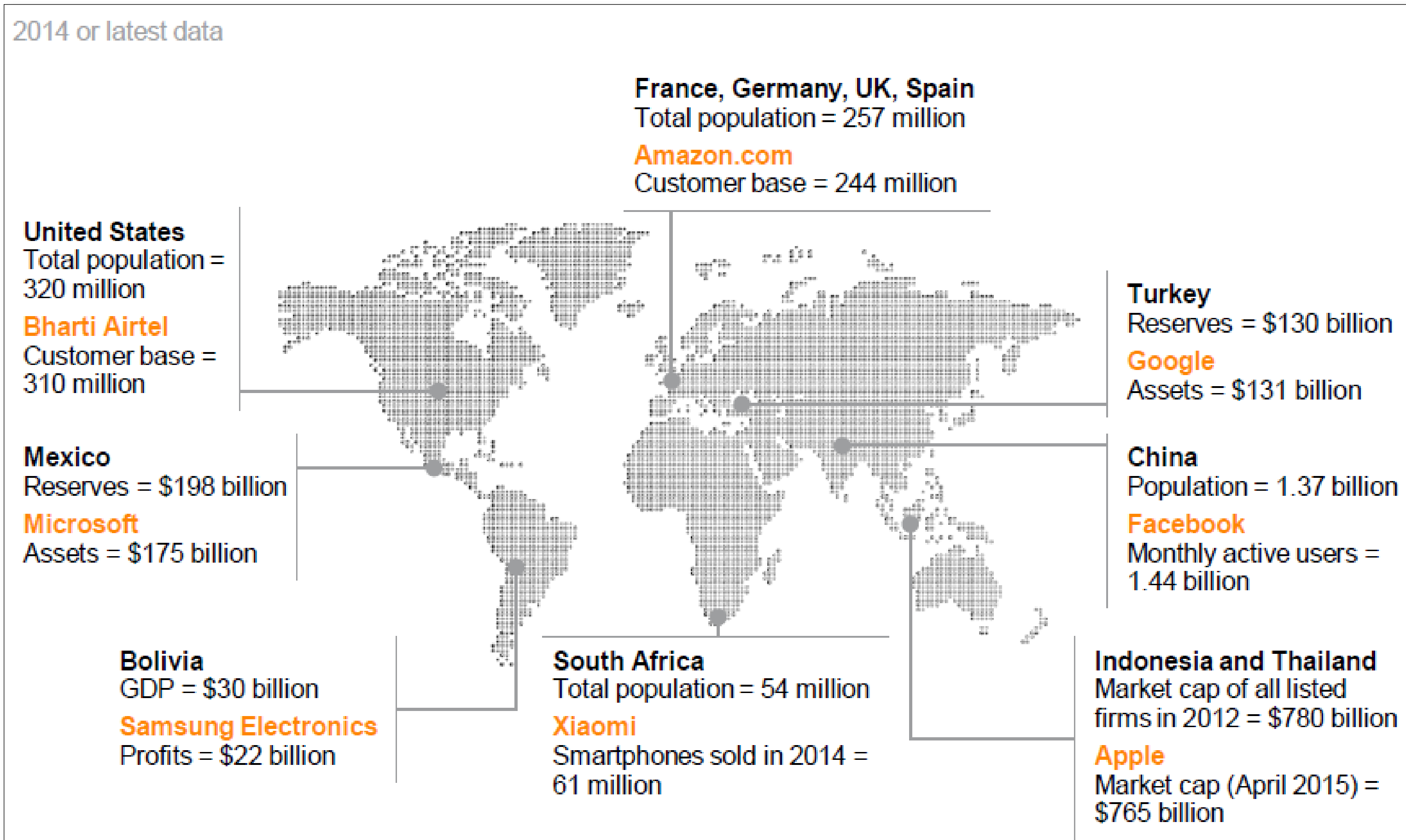
Scale economies

Production costs of three middle-sized car models



Scale economies

Effects of scale created by the largest tech firms rival in the world



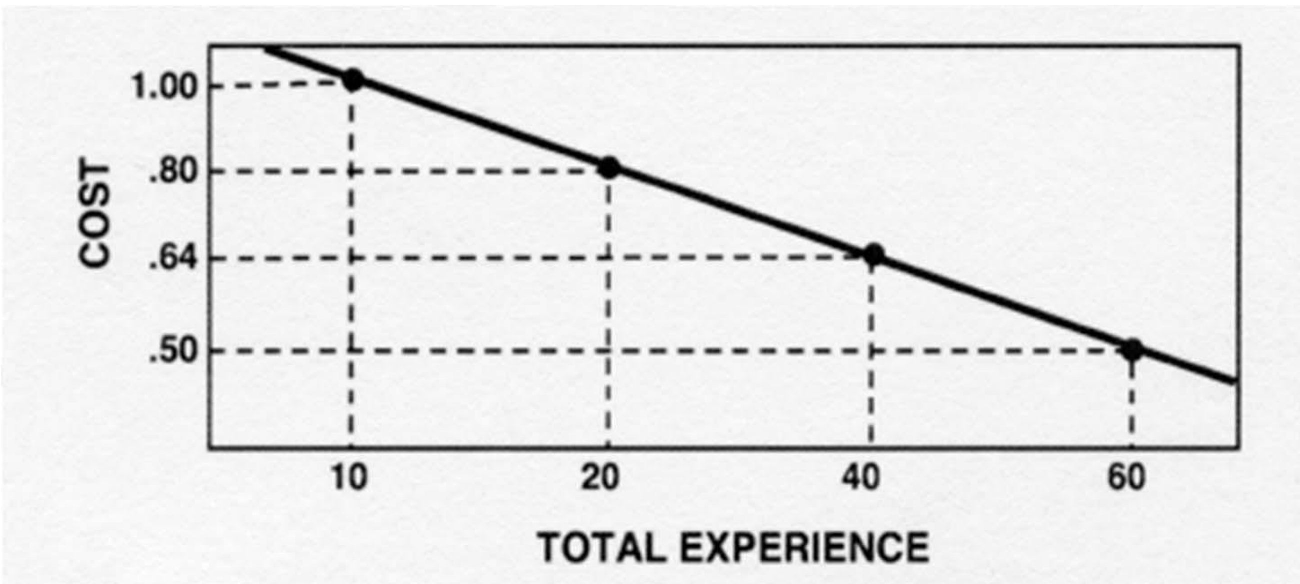
SOURCE: Forbes; Fortune 500; World Bank; company websites, annual reports, and press releases; McKinsey Corporate Performance Analysis Tool; McKinsey Global Institute analysis

Economies of learning

- The experience curve, introduced by The Boston Consulting Group in 1966 can be defined as follows: “Costs of value added decline approximately 20 to 30 percent in real terms each time accumulated experience is doubled.”
- These cost declines are after removing inflation. They continue indefinitely as long as the growth rate continues.
- Such cost declines do not occurr authomatically. They require management.

Economies of learning

- If we plot the experience curve on a diagram, we obtain the following figure:



Types of competitive advantage

- Cost advantage
- **Differentiation advantage**

Differentiation

Differentiating means characterizing our product through attributes **different and better** than competitors in a way that increases **customer value**

Differentiation

How to reach differentiation?

Product

Price

Promotion

Place

Personal selling

*…. **BRAND***

World's most valuable brand corporations

World's most valuable brand corporations: 1. Apple, 2. Google, 3. Coca Cola Company
Details and reports: http://www.eurobrand.cc/studien-rankings/eurobrand-2014/

Ranking 2014	Ranking 2013	Brand Corporation	Corporation	Industry	Country of Ownership	Brand Value, in € m	Percent Change	Industry Ranking
1	1		Apple	IT & Technology	USA	113 165,356	2,8%	1
2	3	Google	Google	IT & Technology	USA	67 471,293	22,7%	2
3	2	Coca-Cola	Coca-Cola Company	Consumer goods	USA	64 774,624	-3,6%	1

Apple remains world's No. 1 brand corporation with a brand value of **EUR 113,165 bn,** followed by **Google** representing a value of **EUR 67,471 bn (+22,7%)** which overtook the **Coca Cola Company** with a brand value of **EUR 64,775 bn**. **LVMH remains Europe's most valuable brand corporation** representing a brand value of **EUR 39,351 bn** (global rank 12), followed by **Nestlé** with a value of **EUR 33,049 bn** and **AB Inbev** representing a value of **EUR 29,858 bn**.
Top 10 global brand corporations are US-based. US brand landscape is dominated by IT & Technology, Consumer Goods and Financial Services and represents 46 out of the TOP 100 brand corporations. Europe represents 41 with Germans leading, whilst Asia is represented with 13 brand corporations.
Volkswagen Group No. 1 global automotive brand
Highest growth in Europe shows global No.3 automotive brand corporation **Daimler Group** gaining +20.60% and **Deutsche Telekom Group** growing by +12.10%.
In Asia China Mobile remains No.1 with a brand value of **EUR 43,929 bn** (global rank 11).
Toyota shows the highest growth (+15.20%).

Differentiation

Some examples of differentiation

- Product design
- Product presentation
- Customer service
- Publicity
- Distribution methods
- Innovative actions
- Product quality
- .....

- Customers perceive differences (real or "imaginary")
- Customers develop brand preferences
- The brand becomes more well-known and stronger
- The brand can use its "market power"
- The brand can command higher prices ("premium price")
- Product differentiation becomes a barrier to the entry of new competitors

Other sources of competitive advantage

1. Delivery

2. Time-to-market

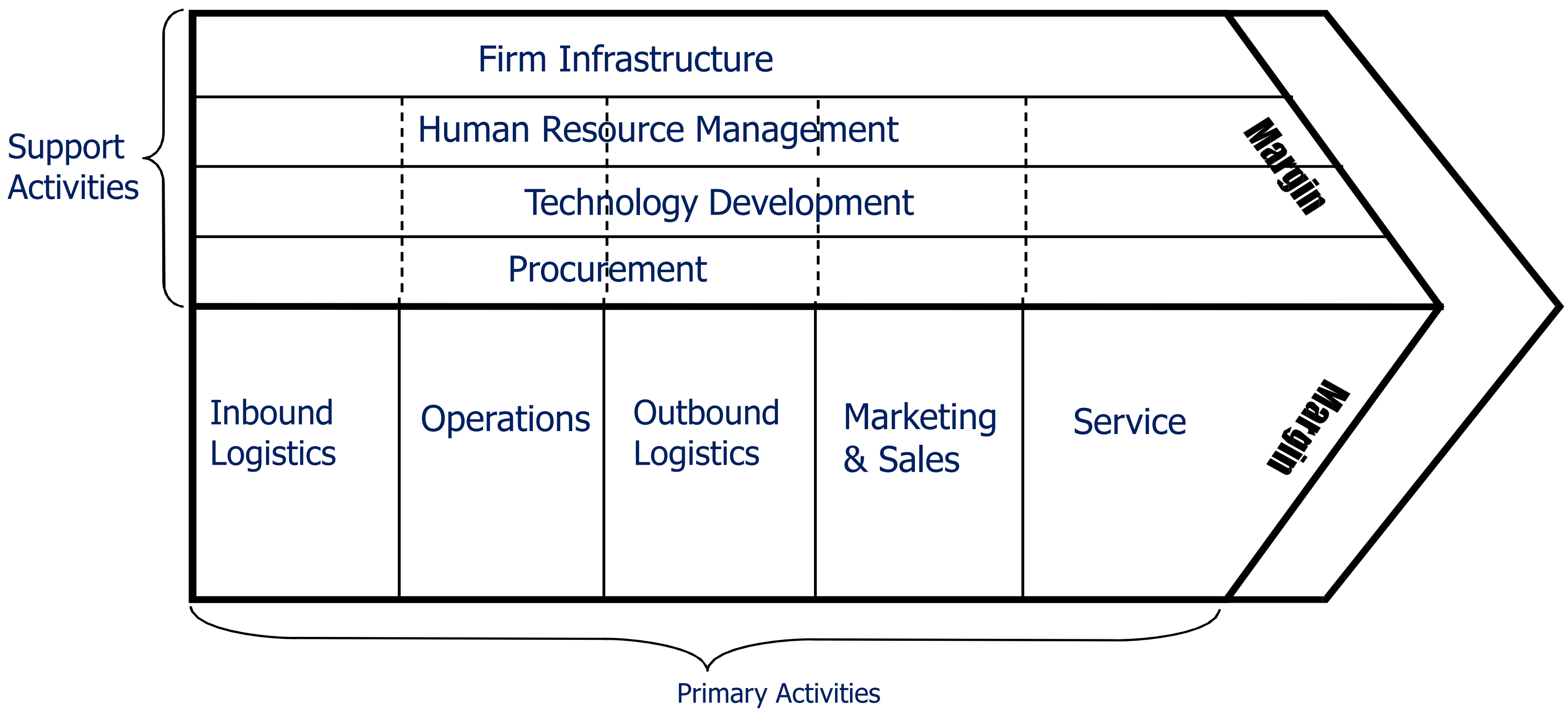
3. Variety of products/services

Competitive advantages: a summary

- Cost and differentiation advantages can be summarised by looking at their linkages with the activities of the company that stand behind their existence

- An effective way of representing this linkages is the **Porter's Value Chain**

Porter’s Value Chain



Michael E. Porter. Competitive Advantage: Creating and Sustaining Superior Performance. Free Press, 1988.

The Value Chain: Primary & Support Activities

- **Primary Activities** are the activities involved in the physical creation of the product and its sale and transfer to the buyer, as well as after-sale assistance.
- **Support Activities** support the primary activities and each other by providing purchased inputs, technology, human resources and various company- wide functions.

Value Chain: Primary Activities

The **five primary activities** are:

- **Inbound logistics.** These are activities such as: receiving, storing, listing, and grouping inputs to the product. Included are functions such as: materials handling, warehousing, inventory management, transportation scheduling and managing suppliers.
- **Operations include:** machining, packaging, assembly, maintenance of equipment, testing, operational management, etc.
- **Outbound logistics** refer to such activities as: order processing, warehousing, scheduling transportation and distribution management.
- **Marketing and sales** are all activities that make or convince buyers to purchase the company's products. Included are: advertising, promotion, selling, pricing, channel selection, retail management, etc.
- **Service** is to do with maintaining the product after sale. Service enhances the product value and also allows for after-sale (commercial) interaction with the buyers.

Value Chain: Support Activities

The **four support activities** are:

- **Procurement** includes: purchasing raw materials and supplies, negotiating contracts with suppliers, etc.
- **Technology development** refers to such activities as: R&D, product and/or process improvements, (re)design, developing new services, etc.
- **Human resources management** includes recruitment and education, as well as compensation, employee retention…
- **Company's infrastructure** refers to: general management, planning procedures, finance, accounting, public relations…

Examine the Value Chain

- The nature of the value chains and the relative importance of the activities vary by industry
- The relative importance of value chain activities can vary by a company's position in a broader value system which includes the value chains of upstream suppliers and downstream customers
- The value chain has to be examined in relation to the type of competitive advantage that the company pursues

Uses of the Value Chain: Examples

- **Xerox**: developing the value chain analysis has discovered that its service competitive disadvantages were linked to the high complexity of its copy machines' project that made difficult the ex-post individuation of problems.

- **Caterpillar**: comparing its value chain with that of competitors has individuated a cost competitive disadvantage. In order to reduce costs it has decided on the one hand to increase its array of products and on the other hand to sell its diesel engines to competitors aiming at better exploit economies of scale (in production, but also in marketing, sales and service).

Uses of the Value Chain: Examples

- **Volkswagen**: analysing the value chain of its Brazilian plant has verified how some activities were not managed effectively in house. Hence it has involved more deeply its suppliers that now are responsible of all logistics activities till the installation of the components on the assembly line.

Analysing the Internal Environment

LIUC
Università Cattaneo

- **Understanding the sources of competitive advantage: why I make more/less profit than my competitors**
    - *the sources of competitive advantage*
    - ***the role of resources and competences***

The role of Competence and Resources

- The foundations of the long-term (defendable) competitive advantage of a company are represented by its “core” competencies and resources

- The important features for a resource to be strategically important are as below (**VRIN model**)

  - **Valuable**
  - **Rare**
  - **Inimitable**
  - **Non-substitutable**

Strategic core Competence/Resource

- **Valuable:** When resources are able to bring value to the firm they can be a source of competitive advantage.

What makes a resource valuable:

- ***Relevance***: The resource or skill which is critical to fulfill a customer's need better than that of a firm's competitors

- ***Scarcity***: Resource which is in short supply or not easily substituted

Strategic core Competence/Resource

- **Rare:** Resources have to deliver a unique strategy to provide a competitive advantage to the firm as compared to the competing firms. Consider the case where a resource is valuable but it exists in the competitor firms as well. Such a resource is not rare to provide competitive advantage

- **Inimitable:** Resources can be sources of sustained competitive advantage if competing firms cannot obtain them. Consider the case where a resource is valuable and rare but the competing organizations can copy them easily. Such resources also cannot be sources of competitive advantage

Strategic core Competence/Resource

- Four characteristics (**isolating mechanisms**) make resources difficult to **imitate**:

- **Unique (physical) resources**

- **Path dependent resources** (resources which can not be instantaneously acquired but rather must be created over time)

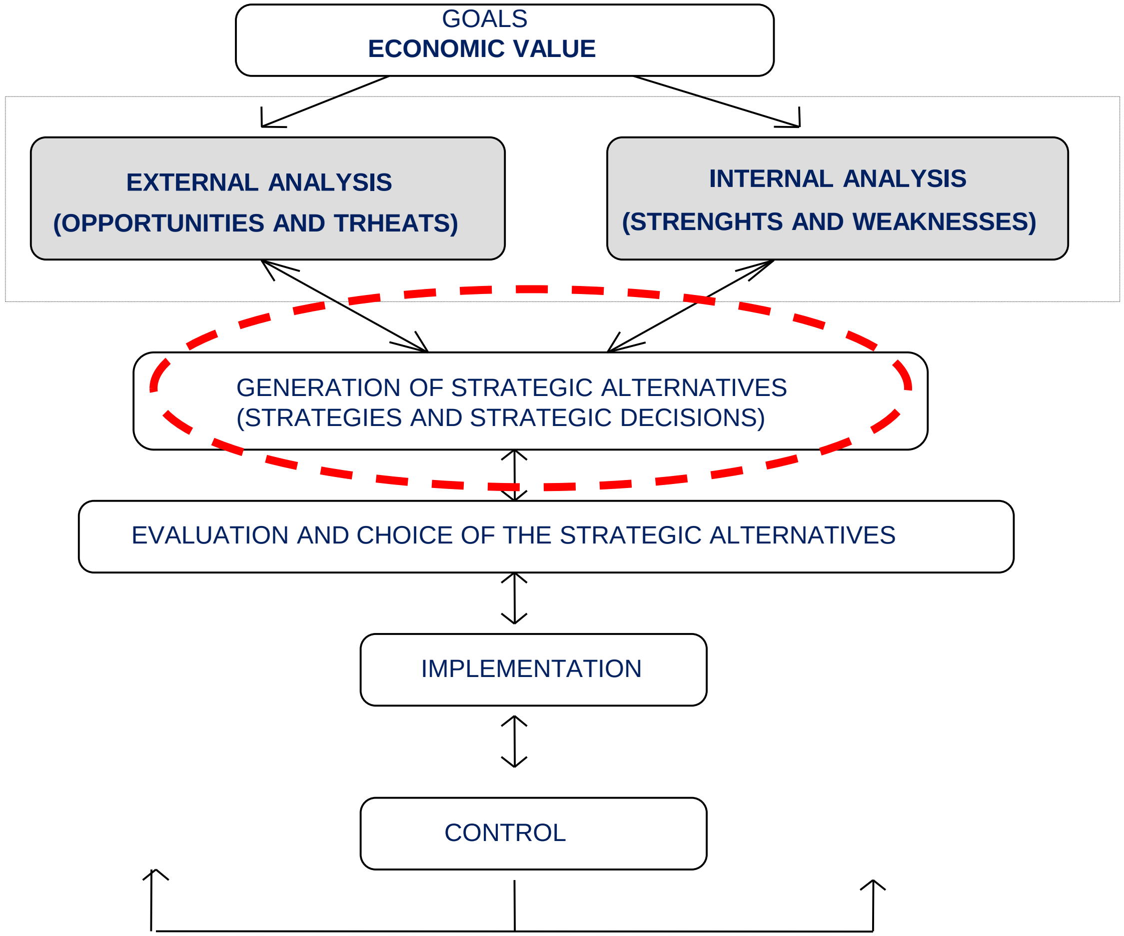
- **Causal amibiguity** (it is difficult for competitors to understand how a firm has created the advantage. This often occurs when at the origin of a competitive advantage there are organisational capabilities rather than single resources)

- **Economic deterrence** (the market size is not able to support two players)

Strategic core Competence/Resource

- **Non-substitutable -** Resources should not be able to be replaced by any other strategically equivalent valuable resources. If two resources can be utilized separately to implement the same strategy then they are strategically equivalent. Such resources are substitutable and so are not sources of sustained competitive advantage.

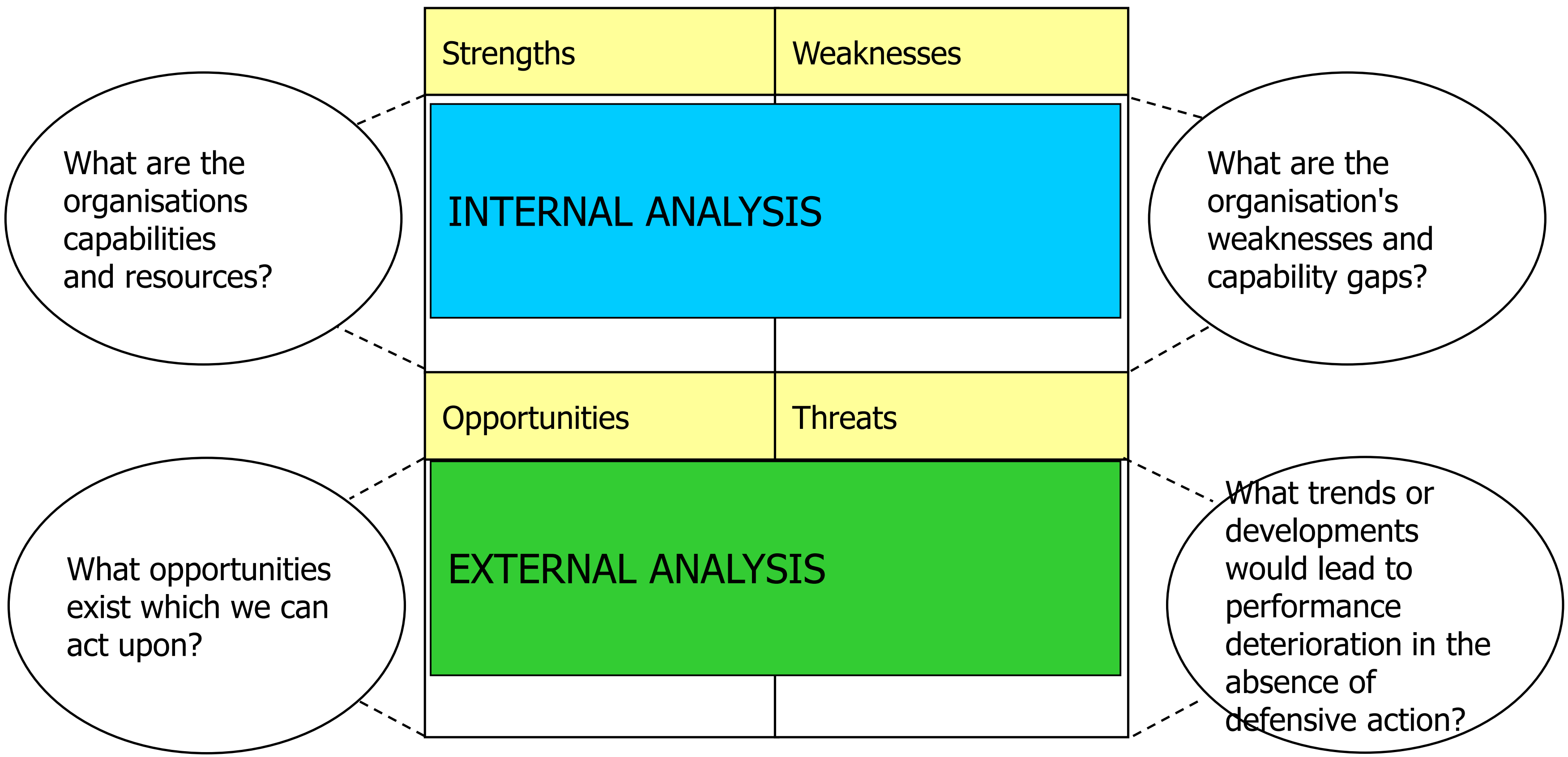
Strategic decisional process: the logic flow



Generation of strategic alternatives

- **Drafting the SWOT**

External and Internal Analysis to Identify SWOT's



Strengths and Weaknesses

- A **Strength** could be**:**
  - a specialist marketing expertise;
  - a new, innovative product or service;
  - the business location;
  - the quality of processes and procedures;
  - any aspect of the business that adds value to the product or service.

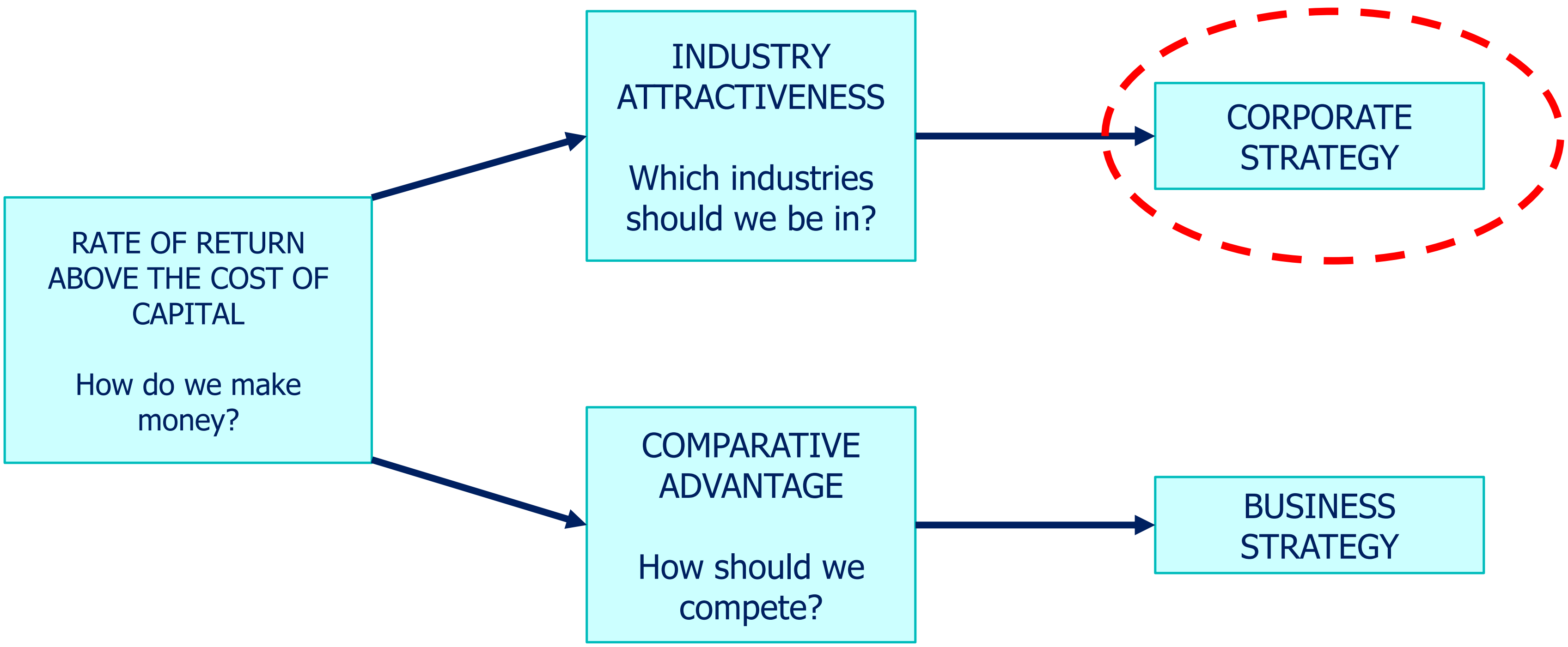
- A **Weakness** could be:
  - lack of marketing expertise;
  - undifferentiated product or service (relative to competitors);
  - poor quality of products or services;
  - damaged reputation.

Opportunities and Threats

- **Opportunities**
  - Can you introduce your current products into new markets?
  - Are demographic changes taking place that might increase demand for your products?
  - Can you license your technology (or patents) to other players?
- **Threats**
  - Are new regulations going to be introduced that will lower your level of efficiency?
  - Do you foresee new technologies becoming available that might diminish your competitive advantage?

Corporate Strategy

Levels of Strategy



Source: Grant (2010)

Corporate Strategy

- Corporate Strategy has to deal with the following **scopes:**
  - **Product scope**: how specialised should the company be in terms of the range of product it supplies? (e.g. Coca-Cola is specialised while GE is diversified)
  - **Geographical scope**: what is the optimal geographical spread of activities for the company

Diversification strategy

- **Traditional motives for diversification**
  - Growth
  - Risk reduction
  - Escape from unattractive industry environments
  - Use of surplus cash flow

Diversification strategy

- **Building a competitive advantage through diversification**
- **Economies of scope** (economies which exist when usinga resource across multiple activities uses less of that resource than when the activities are carried out independently)
- Tangible and intangible assets (distribution channels, R&D labs, sales force, IT systems, brand, reputation, technology, production facilities)
- Organisational capabilities
- **Economies from contracting out and licensing**
- **Internal markets**
- Financial resources
- Administrative activities

Modifying the product scope

Two main typologies of business portfolios exist:

"Unrelated portfolios"

"Related portfolios"

Usually real-world cases of business portfolios do not strictly belong to one of these categories

Real portfolios are a mix of the two extreme solutions

Unrelated product portfolios

Unrelated portfolios

ADVANTAGES

- "Bank effect"
- Transfer of human resources
- Risk diversification
- Sharing of infrastructural activities

DISADVANTAGES

- Organisational complexity
- Cultural heterogeneity
- Few synergies

Related product portfolios

Related portfolios

ADVANTAGES

- **Sharing of resources (economies of scale, of scope, critical mass, …)**
- **Sharing of competences**
- **Similar target markets**

DISADVANTAGES

- **High risk**
- **High managerial complexity**

About Diversification Strategies

When diversification creates value ?

- Attractiveness test (the industry must be attractive)
- The Cost-of-entry test
- The better-off test (is the combination more profitable ?)

The meaning of relatedness in the "digital" era

- Operational relatedness
- Strategic relatedness

About Diversification Strategies

The history:

from the era of diversification (1950-80) to refocusing.

Why ?

- *Emphasis on shareholders value*
- *Turbulence → Specialisation*
- *Sharing resources and capabilities as real source of advantage*

Corporate Strategy

- Corporate Strategy has to deal with the following **scopes:**
  - **Product scope**: how specialised should the company be in terms of the range of product it supplies? (e.g. Coca-Cola is specialised while GE is diversified)
    - **Portfolio Analysis**
  - **Geographical scope**: what is the optimal geographical spread of activities for the company

Portfolio Analysis

- Portfolio analysis is designed to help a company make decisions on market selection and direction in an integrated manner for all its businesses. Analogously, a business may use portfolio analysis to develop integrated plans for its products.

- The question of market selection and direction are naturally thought about in terms of two primary factors: some measure of a **market's attractiveness** and some measure of a **business's competitive position** within the market.

Portfolio Analysis

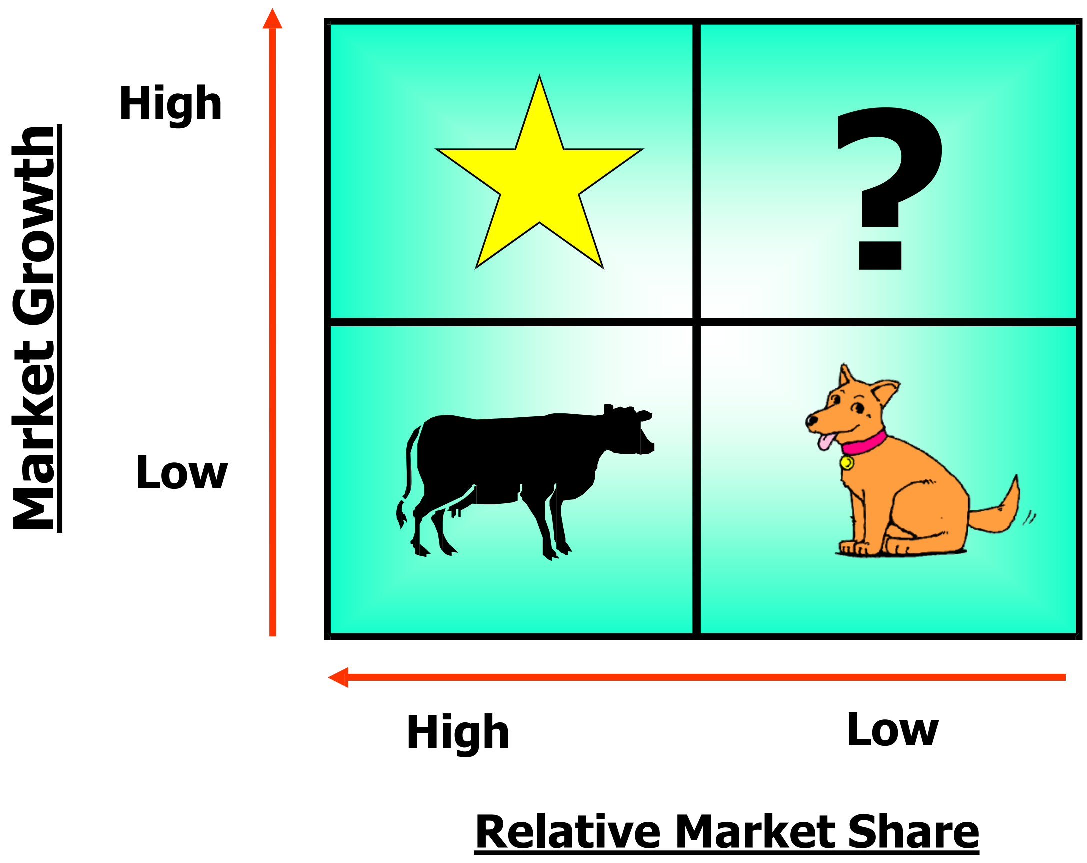
Before considering specific approaches, it is important to understand some **general assumptions** underlying portfolio analysis:

1. There are certain key characteristics on which products and markets can be meaningfully compared (e.g. market share).
2. These key characteristics are systematically related to performance measures such as profitability and cash flow.
3. It is necessary to invest in a product to achieve these desirable characteristics.
4. Companies are limited in the amount they can invest, because both financial and managerial resources are limited.
5. The portfolio can be internally cross-subsidized. Products receiving investment resources today will eventually yield surplus resources to subsidize other products in turn.

BCG Matrix

- The growth-share matrix - developed by The Boston Consulting Group in 1968 - describes products in terms of just **two factors**: market growth rate and relative market share.
- Positions in the product portfolio chart typically correspond to a business's cash flow characteristics. Generally, participation in a high-growth market requires cash, and high relative market share generates cash.

BCG Matrix



BCG Matrix

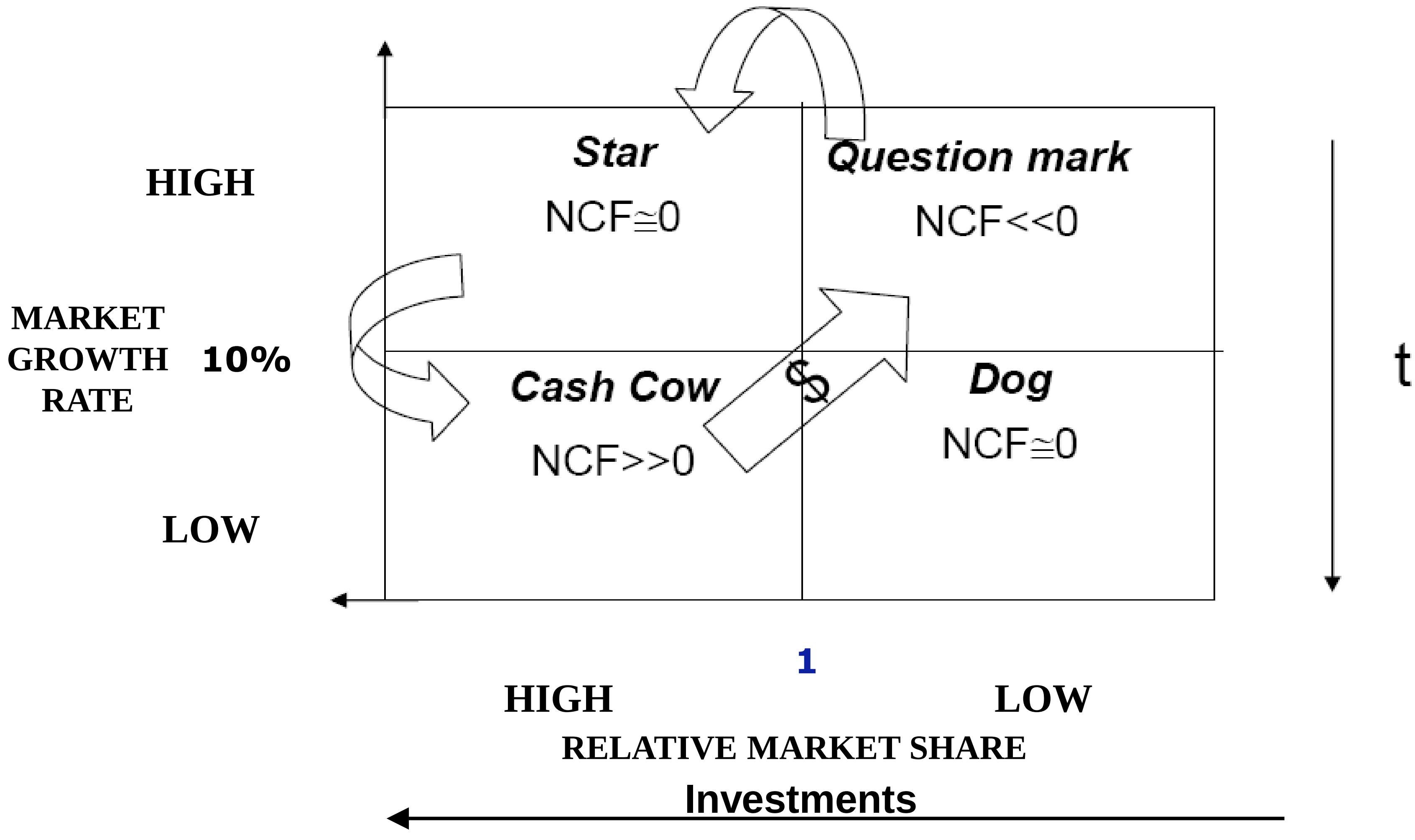
- **Stars** are high-growth, high-share products which may or may not be self-sufficient in cash flow.
- **Cash Cows** are products with high market share and slow growth, which characteristically generate large amounts of cash.
- **Question Marks** are products with high growth but low share. They require large amounts of cash to mantain market share, and still larger amounts to gain share.
- **Dogs** are product with low market share and slow growth, which neither generate nor require significant amounts of cash. Mantaining share usually requires the reinvestment of any profits as well as additional capital. These products are often called «cash traps».

BCG Matrix: Key Assumptions

The justification for thinking of business in terms of the growth- share matrix rests on **four general principles**:

1. Both margins and cash generations tend to increase with increasing relative market share. Experience curve and scale effects link high margins with high relative market share.
2. Product sales growth requires cash to finance added capacity, working capital, etc. Thus cash input is needed to maintain share of a growing market.
3. An increase in market share requires cash to finance increased advertising expenditures, additional plant etc.
4. Growth in each market will ultimately slow as the product approaches maturity. Cash generated as growth slows must be reinvested in other products that are still growing.

BCG Matrix: Key Assumptions



BCG Matrix: Recommended Strategies

• **Stars:**	Hold or Build Share.
• **Cash Cows:**	«Milk».
• **Question Marks:**	Build Share or Divest.
• **Dogs:**	Harvest or Divest.

BCG Matrix: The Balanced Portfolio

All products eventually become either cash-cows or dogs. The value of a product is completely dependent upon obtaining a leading share of its market before the growth slows.

The balanced portfolio has:

-**stars** whose high shares and high growth assure the future;

-**cash-cows** that supply funds for that future growth;

-**question marks** to be converted into stars.

Dogs need dedicated strategies.

Bruce Henderson, BCG Founder, 1970