Strategic Planning - Competition\(^1\) and Competitive Advantage\(^2\)

Overview: This note is broken into two parts. (A) is a discussion of Porter’s theory on Competitors. (B) is a focused analysis of competitive advantage.

(A) **Competition**

**Who are the competitors?** (see Porter’s Five Forces below)

- Existing Firms
- New Entrants
- Substitute Products
- Suppliers
- Customers

**What are your possible strategies?**

- Overall Cost Leadership
- Product Differentiation
- Focus on Market Segment
- Don't be "Stuck in the Middle"

**How can you analyze competitors?**

*Look at their:*

- Goals in terms of the market and your product categories
- Risk Adversity in terms of going to battle with you
- Capabilities- their own internal strengths and weaknesses
- In general, collect information, and be alert for signals.

**What competitive moves are possible on your part?**

\(^2\) Based on the article “Creating competitive advantage” by P.Ghemawat and J. Rivkin
• Commitment to addressing the competition
• Evolution of product or marketing of product in current lines
• Vertical Integration of your products
• Capacity Expansion of your production, distribution and marketing
• Enter New Business where the competition is less or might be stronger

(B) Competitive Advantage

1. To gain an understanding of an industry’s structural advantages, look at:
   a. level of competition
   b. reasons for or against loyalty of customer
   c. ease of switching products
   d. profit margins
   e. product protection, ie. patents.

2. Compare one industry against another. For example: Compare Pharmaceuticals versus Airlines

3. How does a firm create their competitive advantage?
   • What does it do that is unique and valuable and can’t really be replaced exactly by others (called “added value”)?

4. How does a firm create added value?
   a. examine its activities.
   b. Look at where it differs from competitors
   c. Look at what customers demand and how they perceive the “value added” by one versus another.

CONCERNS: Creating versus Sustaining Value:
What in the structure of the value allows it to remain over time?
   a. Does it neutralize unattractive features of industry
   b. Does it capitalize on good features
   c. examine how a leader might restructure the industry without diminishing their advantage

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3 Based on the article “Creating competitive advantage” by P.Ghemawat and J. Rivkin
• Customer willingness to pay is symmetrical to Supplier’s willingness to accept. This means that value can be achieved both from downstream customers and execution of activities.
• Competitive advantage derives essentially from lack of alternatives on the purchasers behalf. In other words, scarcity.
• Value derives when difference in willingness to pay is incrementally higher than increase in cost of production.

**VALUE CHAIN**

• Designing, producing, selling, delivering and servicing activities incur expenses and thus define costs as well as value for which a customer will pay.
• Analysis by activity can determine where a company does not perform efficiently. The “value chain” is used to do the analysis.
• The Value chain consists of Primary Activities: inbound logistics, operations, outbound logistics; marketing sales and after sale service.
• The Value chain also consists of Support Activities: inputs, technology and human resources, firm infrastructure.

• Overall consideration is to determine the willingness of a customer to pay relative to your competition.
Michael Porter’s Five Forces Diagram