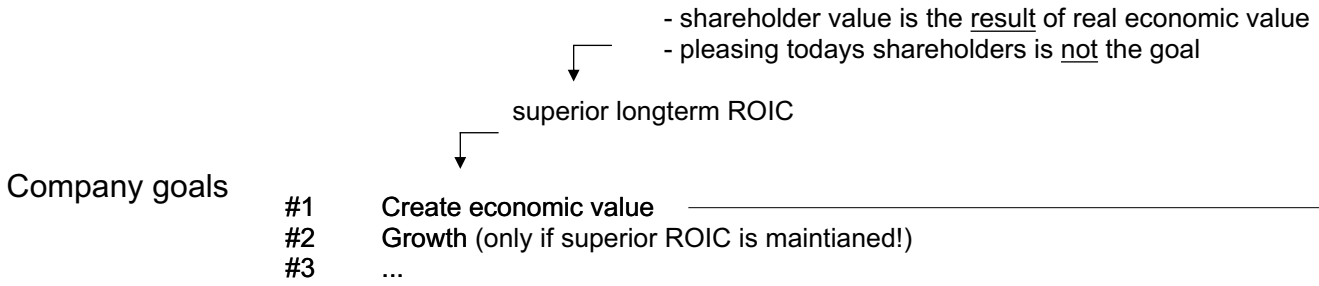


Company Strategy
Economic Foundations of Strategy

- is about
- being successful
 - doing things differently
 - being unique



Cost Leadership

- usually involves cost advantages in many activities
- often requires spending more on some activities
- sustained cost leadership is accompanied by a supporting culture / values

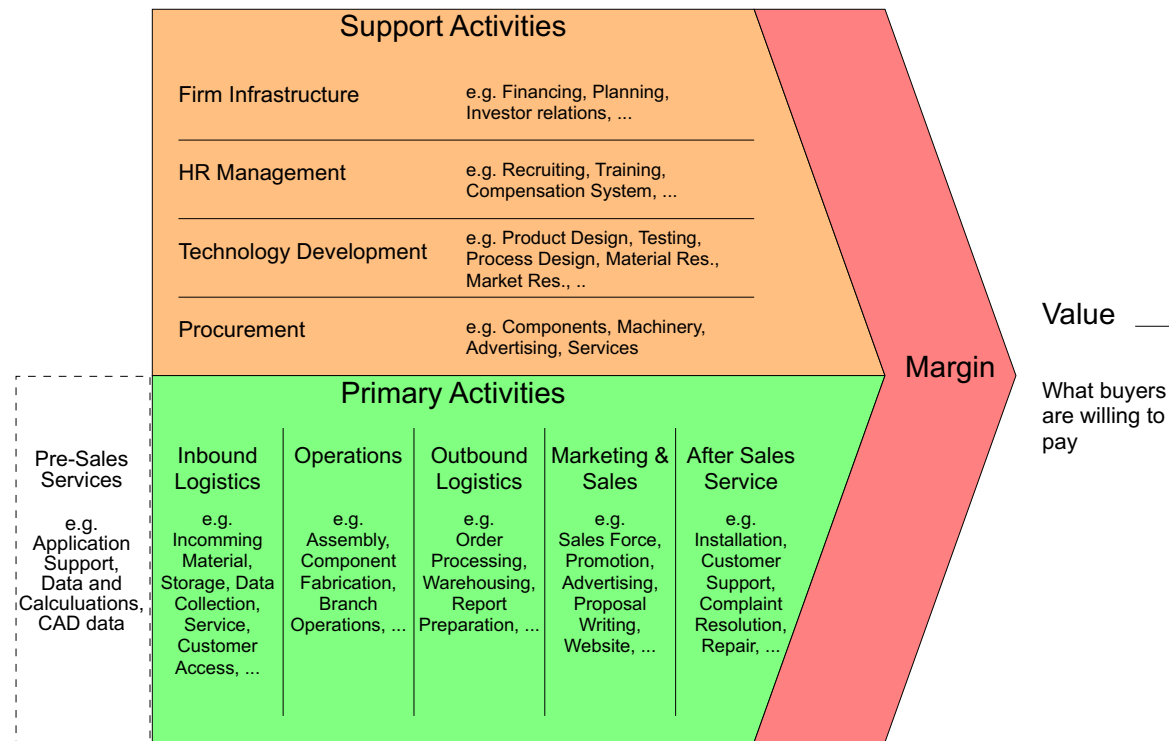
Cost advantage is profitable if it exceeds any price discount offered to secure adequate volume

Value Chain

The value chain is the source of our competitive advantage.

Taylor our value chain in a way

- "they" cannot copy it
- "their products" cannot substitute ours



Economic Value

Buyer value

- lowering his overall costs of doing business
- allow him to enhance (non price) value with his customers
- end user satisfaction



Signals of value

- have to be communicated by us

Activities create costs

- Check the cost drivers carefully
- Break down costs to the activity level (disaggregate)
- The relative cost of an activity is driven by a number of cost drivers

Economic value

Understanding Relative cost position

Value Chain

Identify the companies value chain in the business

Identify the value chains of competitors

Disaggregate costs by activity

Allocate joint costs using
- actual effort or
- resource utilisation
(rather than units or revenue)

Determine the costs drivers for each activity

Deduce competitors costs by activity

Triangulate with actual data on selected competitor cost items / activities.

Differentiate!

Creates value proposition

- by products
- by services
- by brand

- Differentiation should only add costs, where it contributes to value.



is about

- being successful
- doing things differently
- being unique

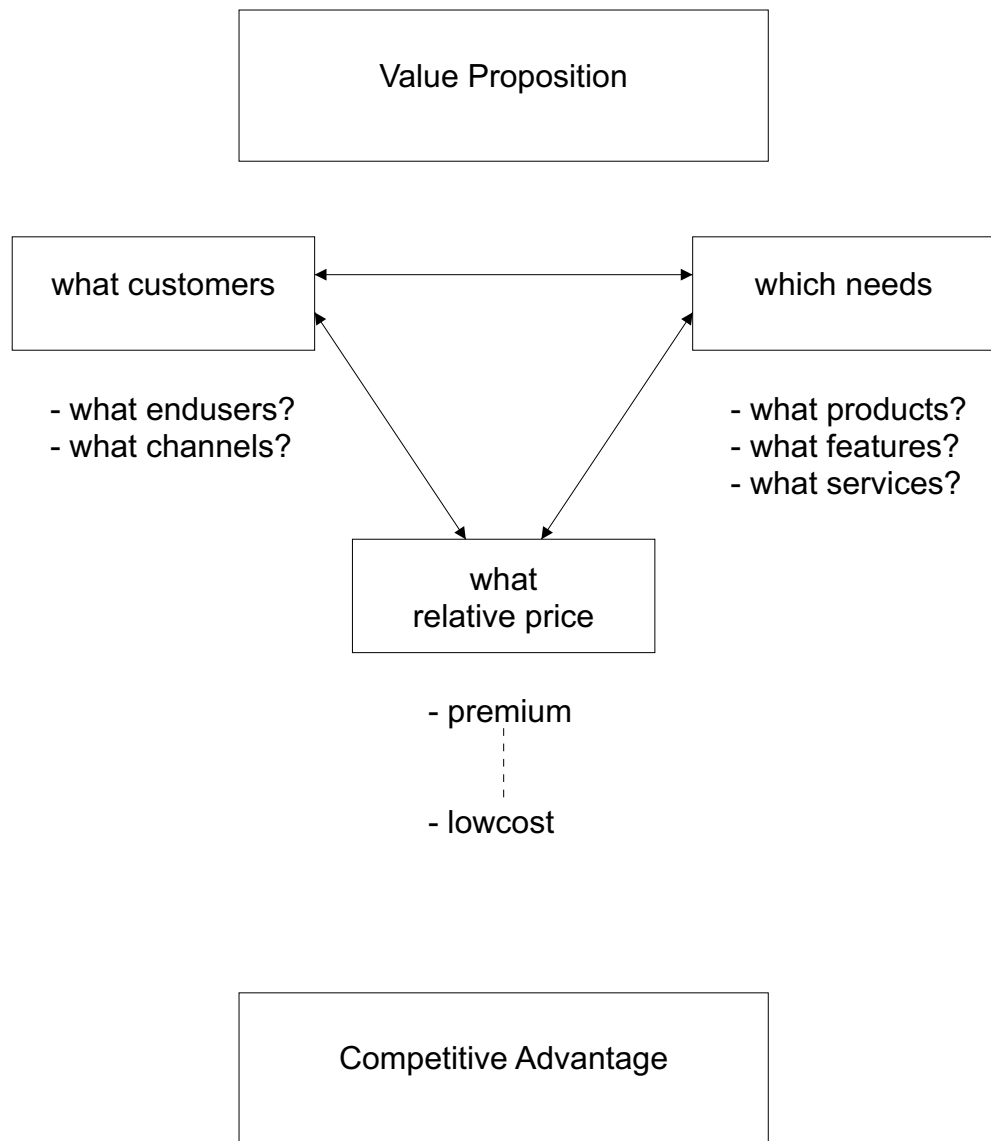
An essential part of the strategy is choosing what NOT to do.

has to be

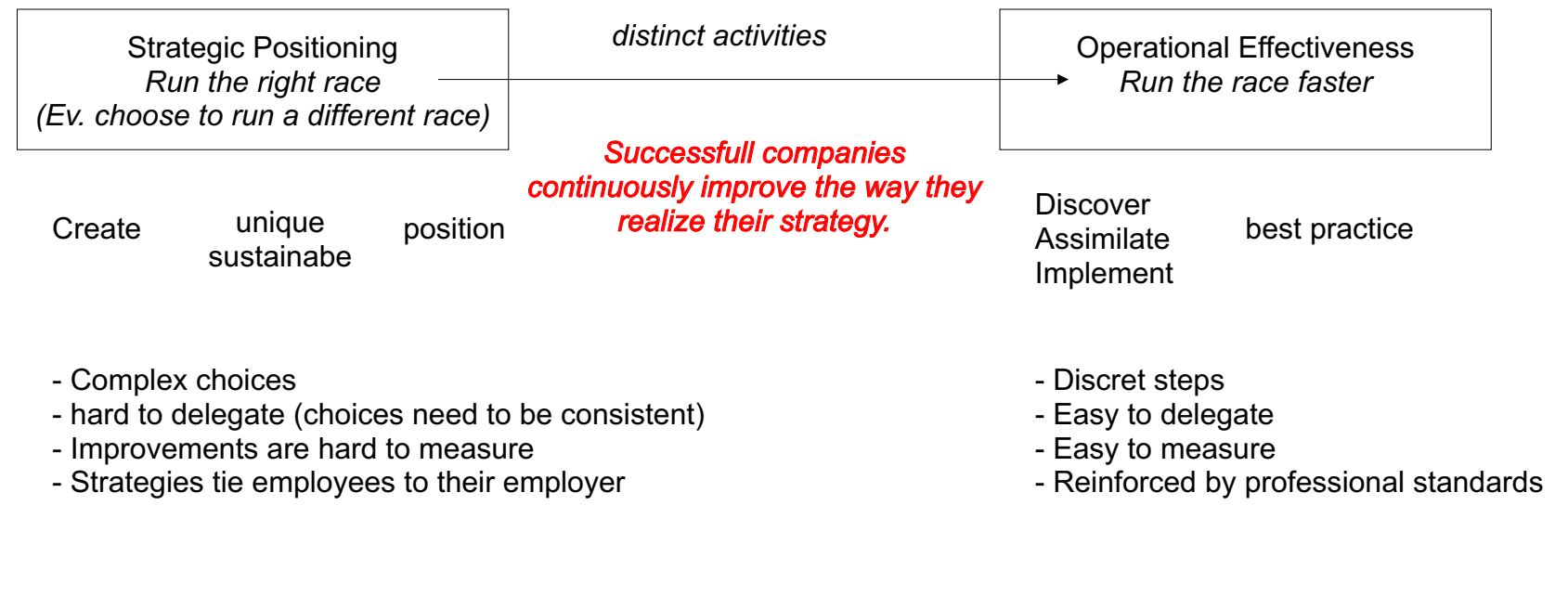
Conditions for a good strategy

- Unique value proposition → Meet different needs of your customers than your competition → try to offer
- A differently tailored value chain → do offer
- Clear tradeoffs and choosing what NOT to do [XOR]
- Activities that fit and reinforce each other
- Continuity (at least 3-5 years, continuity is needed in the companies basic value proposition)

to be transformed into distinct activities



- Key success factors
 - Core competencies
 - Critical resources
- Concentrated in a few parts of the value chain



Tradeoffs are incompatibilities between strategic positions that create the need for choice

- Sources of tradeoffs [XOR]
- Incompatible product / service features or attributes
 - Differences in the in the best configuration in the value chain
 - Inconsistencies in image or reputation
 - Limits on internal coordination, measurement, motivation and control

Company Strategy
Create & grow a strategy (1/2)

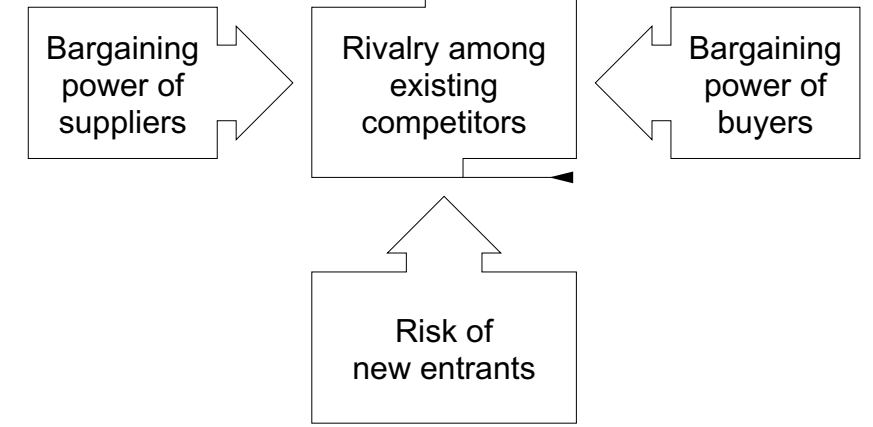
is about

- being successful
- doing things differently
- being unique

Company Strategy
Create & grow a strategy

Strategy Basics:

- Defining the **relevant industry** --> Check the products in this industry --> Do they have the same industry structure / environment? --> Do they have the same value chain?
- Defining the **geographic scope** of competition --> Local => Regional => National / Multidomestic => Global --> Remark: Different parts in the value chain may have different geographical scopes
- Using different lenses



Segmentation

- Creative **segmentation** of product varieties, customer groups and purchase occasions
- > Customer groups with different needs
- > different value chains

Unique Activities

- Building **off activities** with true uniqueness
- Looking for **new activity configurations**
- Finding **new combinations of activity choices**
- > Where are you very good (unique)? => Build the strategy around it

Tradeoffs

- Finding **tradeoffs** in the value proposition or in the value chain
- Overcome **obsolete** tradeoffs
- > Analyze and divide / decide

- **Migrate** towards the chosen strategic position
- Focus incremental investments on **reinforcing** the chosen position

Segmentation & Strategic Positioning

Customer group	Value proposition
Set of activities	Distinct activities
■ _____	■ _____
■ _____	■ _____
■ _____	■ _____
■ _____	■ _____

Industry dynamics

- The potential for an effective strategy may have been present in an industry but **undiscovered**
- However, opportunities for new strategies are often created by **change**
e.g. new customer / needs, new technologies, shifting input costs, changes in regulation, terrorism
- Change opens up strategic positions that are **unoccupied** and rivals may face **tradeoffs** in responding

Possible shortcuts (reveal a strategy):

- Historical approach** "Somewhen the company was different"
 - > Understand the unique position that the company may have occupied in the past
 - => can it be updated with new technology and delivery mechanism?
- Empirical approach**
 - > Intensity of sales by customer type / product type
 - > Product line (product type) / customer profitability
 - > profitability by product type
 - > profitability by customer (revenue minus costs, including working time spent on that customer)
 - > "Why am I profitable on this customer?"
 - => What is the strategy that explains the areas of superior profitability?

Company Strategy

Create & grow a strategy (2/2)

is about

- being successful
- doing things differently
- being unique

to be continued ...

Growing strategically