

Strategic Management - The competitive Edge

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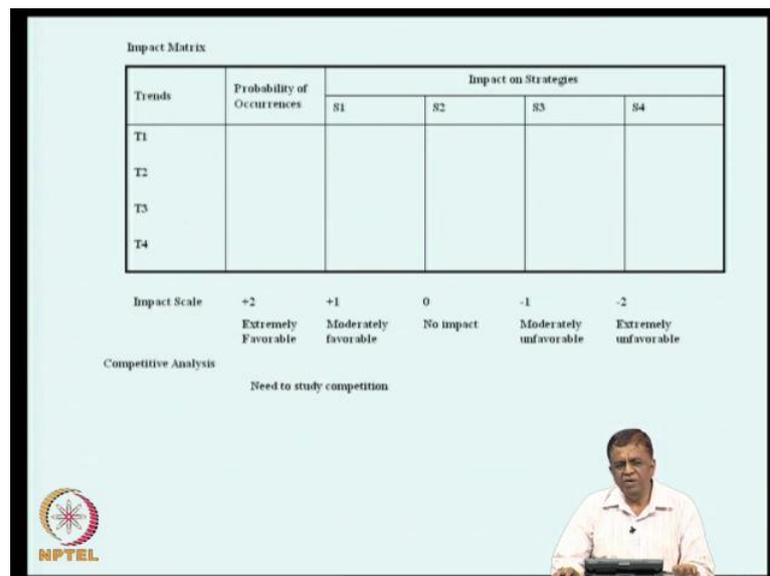
Module No. # 03

Lecture No. # 13

Value Chain Analysis

In the last class, we looked at the Impact Matrix with respect to an organization; the different trends; what is the probability of occurrences of the trends. Then, what is the impact on strategies that these trends can have?

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The slide displays an Impact Matrix table. The table has two main columns: 'Trends' and 'Probability of Occurrences'. The 'Probability of Occurrences' column is further divided into four sub-columns: 'S1', 'S2', 'S3', and 'S4'. The 'Trends' column lists T1, T2, T3, and T4. Below the table, an 'Impact Scale' is defined with values +2, +1, 0, -1, and -2, corresponding to 'Extremely Favorable', 'Moderately favorable', 'No impact', 'Moderately unfavorable', and 'Extremely unfavorable' respectively. A 'Competitive Analysis' section below the scale indicates a 'Need to study competition'. The NPTEL logo is in the bottom left, and a lecturer is visible in the bottom right.

Impact Matrix					
Trends	Probability of Occurrences	Impact on Strategies			
		S1	S2	S3	S4
T1					
T2					
T3					
T4					

Impact Scale

+2	+1	0	-1	-2
Extremely Favorable	Moderately favorable	No impact	Moderately unfavorable	Extremely unfavorable

Competitive Analysis

Need to study competition

How can there be an impact scale on this? In order to draw this impact matrix, we make use of an impact scale. This impact scale goes from 0 to plus 2 on one hand, minus 2 on the other hand and that is minus 2 going to extremely unfavorable, then plus 2 going to extremely favorable. Now, an organization can draw this impact matrix. After drawing this impact matrix, it will give the organization an idea of the type of trends that can be visualized in the environment that makes the organization more and more curious. It is also essential to know what type of competitors, who were there in the market. They

would like to analyze these competitors and analysis of competition becomes more and more important to the organization concerned.

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Impact Matrix					
Trends	Probability of Occurrences	Impact on Strategies			
		S1	S2	S3	S4
T1					
T2					
T3					
T4					

Impact Scale	+2	+1	0	-1	-2
	Extremely Favorable	Moderately favorable	No impact	Moderately unfavorable	Extremely unfavorable

Competitive Analysis

Need to study competition

- What is driving competition in specific industry?
- What actions competitors are likely to take in the wake of increased competition?

Types of Industry Structures

Factor	Perf. Competition	Monopolistic Competition	Oligopoly	Monopoly
No. of Factors	Many	Many	Few	One
Prod. Diffn ^l	No	Yes	Yes	Unknown
Entry or Exit	Open	Open	Restricted	Blocked

This need to study competition is extremely essential in a competitive market. Suppose, you are operating in a monopolistic market, the need will be less, but in a hyper competitive market like what we are in the present day, the need to study competition becomes extremely crucial.

Now, the question comes, what are we trying to do? When we say we want to study competition, we want to look at what is driving competition in the specific industry. Is it the large number of players, who are making the market extremely competitive? Or is it the product mix of the competing players, which is making the market extremely volatile? Then in the product mix, in each of the products, is there a substantive degree of differentiation between the players? How does my company fit in this type of a scenario? These are the types of questions, which engage the mind of the company. So, this is what driving competition is in a specific industry. We are looking at these types of questions from the company side and we will try to seek answers to those questions.

What is the second question? What is the second aspect, which engages a company? That is, what actions competitors are likely to take in the wake of increased competition? What you mean by increased competition? Suppose, as a company, you enter the market.

What does that mean? More players are added into the market and when more players are added into the market automatically, there is an increased competition.

Now, the question comes. How is it going to be viewed by the other existing players in a market? How are they going to view the increased competition? There is a new player coming in; he is coming out with products, new products, different product mix. How is the market going to view this? Now, all these can be mapped or all this can be put in the form of an industry structure. So, you take an industry structure and then see where does your industry fit in? Where does the type of company that you are operating fit in?

I have given some factors and the type of competition that is possible, if you look at the number of factors in a perfect competition, there are many factors. Similarly, in the case of a monopolistic competition, again have many factors. Suppose, it is an oligopoly, what is going to happen? Suppose, there are number of factors in a perfect competition, what is going to be the state of the industry? There will be many players. Similarly, in a monopolistic competition, there are many players and in oligopoly, there are few players; whereas, in a monopoly there is only 1 player. So, this is the type of scenario you are going to have.

The next question is suppose you have this type of a scenario, how does product differentiation take place, if you look at perfect competition? Now, you may ask the question - is there a perfect competitive scenario existing in the market? Is there such a situation existing at all? The answer that we will have to give as an academician is known, but there are situations, which are very close to perfect competition. Suppose, you look at a consumer product, take a very simple consumer product, say rice. Take a particular brand of rice, which is sold in Bangalore. Let us say, this is one of the common varieties of rice, which is sold in Bangalore and it is called the [FL] and that is a variety of rice. Suppose, you want to take this type of rice from a merchant, whether it is a, b, c or d, it is very possible and very likely that he will get the same quality of rice in all these different merchants, whomever you go.

Now, the next question is - how do you pick up that one merchant from where you purchase this rice? Suppose, you are new to the city, new to the area or new to the region or whatever, then you may say I will be dictated by the small price variation, which these different merchants are going to give. Let us say, one is quoting x and suppose the other

person is quoting x minus δx ; small δx less compared to the other. Let us say, as a consumer, who is interested in price may say, since the commodities are more or less the same, why not I go to this consumer who is giving this commodity at a little lower price compared to this particular merchant.

Now, you are already a resident in a particular area. You may not do this type of exercise because you may be purchasing the product from the same merchant over a number of years. So, you are generally happy with the quality of the product and you are generally sure that this merchant will not charge excess to you. So, you will not do all this exercise. You will say no problem; let the rice come from this merchant. So, if you look at the most of our houses, you get this type of an answer from the housewife. She will say we are purchasing the rice from this particular merchant, so we are generally sure of the quality of the rice and we are generally sure that he is not going to charge excess.

Suppose, you are new to a particular area, then you may have to do all this exercise. In a perfect competitive scenario or in a perfect competition, there is not much to distinguish between product A of a merchant A and the same product from the other merchants because the attributes of the products are almost same cutting across. So, the only small minor variations of price and other delivery aspects might provide the key for marketing.

This is the scenario in a monopolistic competition, but whereas in oligopoly, where there are few players existing, there is scope for product differentiation. So, the product A that a merchant A exhibits can be differentiated from the product that the merchant B exhibits in terms of the attributes. For example, the two-wheelers, which are existing in a market. So, you make a small comparison of the two-wheelers. You have number of reputed players in the two-wheeler market. You can name them; you have the TVS, you have the Honda and you have the Yamaha. Now, let us say, you are interested in making the purchase of a bike. You are interested in certain characteristics or attributes of this particular product. Now, you have to zero-in those attributes in the different manufacturers, which are more or less closely matching with what you have in mind. So, you may like a higher speed in a vehicle. You may find that a particular model of TVS, which you are going in, the speed or the pickup, is not to the extent that you desired. When you look at a Yamaha, you may say, oh this is having this nippy pickup compared to TVS. So, if you really look at these types of attributes in a product, the consumer may

zero-in on a particular product depending on the differentiating factors. So, in an oligopolistic market, a product differentiation is fairly perceptible or visible to you.

Now, what about a monopoly? In the case of a monopoly, there is only 1 player. There is nothing like product differentiation or at least you do not know about the product differentiation. You may tend to think that whatever product is coming from him is perhaps the best product. You may tend to think the other way, since he is the only 1 player in the market, we have to put up with whatever product he gives. In other words, this is what you call as a seller's market, when you are in the monopoly type of a situation.

Whereas, in the other types of situation, you are more or less coming into buyer's market. When you are in a buyer's market, a buyer always has the edge that is he can always dictate. He can always call the shots in the market and say this is what I want from the market. Give me this type of a product and more or less he is likely to succeed in that type of scenario. This is the type of market, which you are seeing in the present Indian context right now. The buyer more or less has the ultimate say, this is why I want and he more or less walks out with it.

Now, in this type of different competition, what is going to happen to entry or exit? It is perfect competition that is open to all to enter. You want to enter this field? Yes, enter. You have the resources, then anybody can enter particular field. Now, this is more or less true for most of the products in the Indian scenario. Anybody can enter into manufacturing of most of the products in the Indian market. This was not the scenario earlier, where you had restricted entry for many products. You are putting it under different categories and saying this cannot be done by private players or these products cannot be manufactured by private players and all these were there.

Now, that type of category or that type of small categorization and that type of categorization itself has become very small. He has a very small band, where a private manufacturer is not allowed. **So, this is what the LPG era has come. So, they have come to really.** In this LPG era, you have a situation, where you have a number of players in almost every market.

Now, whereas in a monopolistic competition, it is opened to anyone to enter; whereas, in an oligopoly; there are some restrictions. So, these restrictions may be imposed by the

country concerned or by the law enforcing agency concerned. What is going to happen? Restricted here means, your entry is also not open and your exit is also not so open. You cannot really exit from the market. In the case of a perfect competition or a monopolistic competition, you can enter and exit the market at your free wheel. In the case of an oligopoly competition, your entry is somewhat restricted and not blocked; kindly note that. Similarly, your exit is also somewhat restricted. So, this is the type of scenario you are going to operate in.

Compared to a monopoly and that is you are the monopoly. In that particular market, suppose, can you exit that market and that is can that company exit that market? The answer is no. You cannot exit that market. Your entry into that monopoly market is also blocked and your exit is also blocked. So, what could be an example for this? Take the Indian railways; anyone can enter as a competitor to Indian railways. Can he operate his own rail system? The answer is a firm no.

The next question is - can Indian railways say that you will not run? The answer is again a no. So, the entry is also blocked and the exit is also blocked. So, it is more or less a monopoly type of a market, where Indian airlines is dictated by certain obligations to the society and Indian railways is dictated by certain obligations to the society, which it has to discharge. So, Indian railways is more or less in the monopoly market in the present day scenario.

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We looked at the types of industry structures and what are the factors in the different types of markets are possible. Now, what do we do in this competitive analysis? What exactly are you going to study with respect to this competitive analysis?

We are looking at the strategy of each of these players that is in other words, you are trying to have the market intelligence of the different competitors in the market place, you want to gather market intelligence. What is the strategy of this player? How he entered? This market strategy can be with respect to different aspects, whether it is his pricing or product or the place or the time of entry or the positioning or how does he want? How has he positioned the product? So, you may like to look at all these aspects.

So, a very simple product like candy in the western market. Even a product like candy is positioned in such a way that it is unlikely to escape the attention of the child. So, when the child is walking out of the super market store or walking out with parents, it is likely that this candy will catch the attention of the child and it is going to demand for a candy. It is very probable that the parents will say yes to that. So, the candy company is really cashing in on the self positioning of that product. So, how does it position itself in that scenario? There are different positioning and what I gave you as an example is a very simple one. How have you positioned the product with respect to that particular store? Now, positioning can be with respect to the market itself. So, it can be a low priced and a low calorie market. Suppose, it is a food item or it can be a low priced medium calorie market or it can be a high priced high calorie market or it can be a high priced medium calorie market name. All these types of positioning are possible.

So, you have to be clear on which market and which product are you operating with. Depending upon which market you are operating, you come up with a positioning strategy on how you want to position your product. Now, the next thing, which you are interested with respect to the market, is the competitive analysis. What is the current performance of this player in the market place? What do you mean by current performance of this player in the market place? What is that aspect in which you are more interested? The aspect in which you are more interested or mostly interested is - what is the market share, which this player is commanding in the market place? So, how much does he command? Does he command 1 percent or 2 percent? Or is he himself from monopoly that is he is commanding 95 percent. If I enter this market, let us say, I will have to look at the remaining 5 percent. From that 5 percent is it a feasible

proposition? All these types of issues, you have to address yourself before entering into that product or that market.

So, in a competitive analysis, the company is looking at the current performance of the players. How much does this player have with respect to market share? Now, why do you want to look at this? This is the question, which you have to address. You want to look at this because you want to find out whether there is some open space possible, where you can come in and fill a slot that is as a company, you can come in and fill a slot and make good stay in that market. Why you want to stay in that market, if it is not worthy of staying? What do you mean by worthy of staying? **if it is not profitable**

Now, the next question, which you are doing as a analysis for the competitors is also his strengths and weaknesses. Question is – suppose, I enter this market and how are the other competitors going to react? It enters as a small player and the others are very big players. Is it possible that this other players will devour me as a small player, then what should I do? All these questions start coming in. Suppose, you find that the market players, who already exist or who are in the market are not very strong players. Let us say, you can easily and comfortably stay in the market, then you are always in an advantages position in such a type of a scenario.

Then the next question, which you have to address as a part of this competitive analysis is - what are the actions with these players? What are they likely to take with respect to the products of the markets in the near future? It is not a very huge scenario. You are not looking at scenario things of 5 years.

Now, this is what I suggested. What I told you in the earlier classes, when we are looking at corporate planning. You are looking at a scenario from 5 to 10 years, when we started looking at strategic management and at that time it arose and got strong to 3 years. Now, when you are looking at the different types of IT industries, what is happening? You are looking at the next year scenario. You are only looking at the next year scenario. Most of the IT industries are coining this term - our guidance suggest. So, the guidance is for the next quarter itself. So, the next quarter only, what is going to happen in that type of a scenario? So, in this type of a scenario, what is the type of actions that are expected in the near future from the different players? Now, the question is - you do all these

competitive analysis, where will it lead you? This leads you to gain competitive advantage in the market place.

The question is - what are the routes to this competitive advantage? I am giving you some idea of what are the types of routes that you can have for competitive advantage. You may intensify function differentiation and this can be a key factor for success. You may say this product (Refer Slide Time: 29:47) is different from the other products in the market place because this can deliver you these things – 1, 2, 3, 4. I have given you this example of mach 3 blade. He says it is a triple blade technology that is 3 blades are put in different angles, which goes through your beard very fast and gives you a very smooth shave. This is the type of thing, which the company claims and the company is Gillette. So, it is the key factor for success for that company. This is the product differentiation and that is the function differentiation. Whereas, other players are also there, they are also having different shaving systems. This shaving system is not possible. So far, it has not been possible to imitate by the other players.

Now, this is one of the key factors of success. We will study a little more about these key factors in a short while. Now, the next question is - you can also make use of the competitors weakness to gain competitive advantage in the market place. Suppose, a particular competitor is say, weak. You can cash in on that weakness.

Current example which is being quoted about the Indian cricket team: what is the area of weakness that many other international teams keep on pointing at? It is the Indian bowling, which is not up to that top level. So, what does it mean? The other competing nations want to cash in on this weakness. What is the great strength of the Indian cricket team, which the other competing teams also recognize? It is batting and its batting is very strong. So, even a tall order score can be matched or can be countered effectively by this team. So, for the Indian team, what is the route to gain competitive advantage? It should first overcome its weakness with respect to bowling for the competitor. What is that it has to gain? What is the route to competitive advantage? It has to really peck on this weakness of this particular side and let us say the bowling weakness.

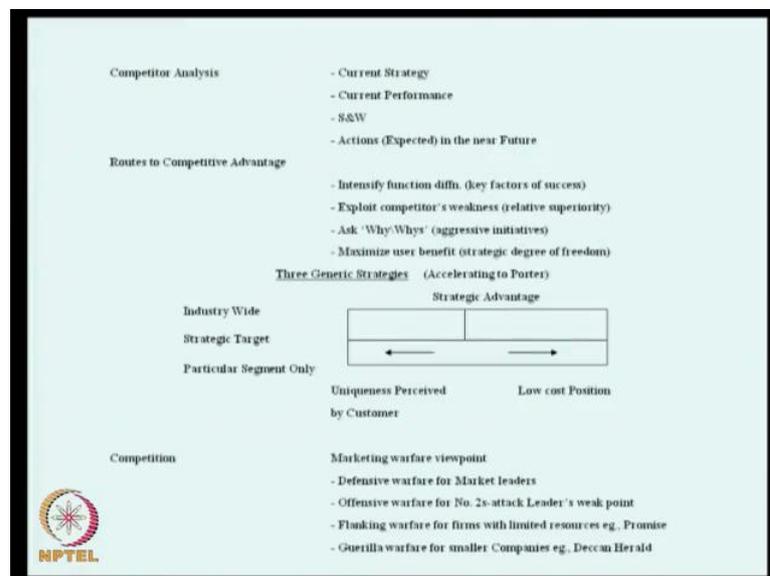
Similarly, with respect to other product markets also, same thing hold. Then, one of the other routes that a company can take for gaining competitive advantage is going in for an

aggressive initiative. It can be an aggressive marketing, so these are questions, which are asked by the aggressive marketers.

Ask this question - why this type of question? So, if you really see, there are many private players in the current market scenario in the country, who are adopting aggressive initiatives. So, one of the banks, which is adopting this aggressive initiatives in the private sectors is the ICICI Bank. Whether it is their loan product, whether it is their home loan product or their automotive loan product or personal loan product, name it, all are highly aggressive initiatives to push the product through.

The other route to competitive advantage is maximizing user benefit and that is you have to convince the user that by taking this particular product, the user really stands to benefit **way the other competing markets** that is if he is taking your product, he stands to really benefit compared to the other products. This is called the strategic degree of freedom.

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Now, I will list below 3 generic strategies, which were given by Porter. What are the types of strategies, which Porter suggested to gain competitive advantage? So, if you really see, he suggested what is called gaining competitive advantage through focus. Second is through differentiation and third is through overall cost leadership. So, this is the way this whole Porters generic strategy is. This figure (Refer Slide Time: 35:52) can be drawn. You see, this focuses that you are going from a low cost position to the

uniqueness perceived by the customer. You are going from a particular segment to the whole industry segment. So, the strategic target will tell you, whether you are focused or not and similarly, differentiation and overall cost leadership. How low or how optimally you can come out with the product costing and it will tell you whether you can maintain the overall cost leadership in a highly competing market and similarly differentiation.

How can you differentiate your product from the competitor's product? So, these are the 3 generic strategies, which Porter gave for gaining competitive advantage or which could be the generic routes to competitive advantage. So, you have this intensify function differentiation and it has one route. You have exploiting competitor's weakness as another route and also it is referred to as relative superiority. You have the aggressive initiatives as one more route. You have the strategic degree of freedom as another route. In addition to this, you can also make use of these 3 generic strategies given by Porter, the focus differentiation and the overall cost leadership to gain competitive advantage.

Now, in this type of competition, what is the type of marketing that you would suggest? So, you are already in this type of intense competition or hyper competitive market, all these types of things which we just said. Now, in this type of a market scenario, what is the type of marketing strategies you are going to suggest? So, the marketing strategies that you can suggest, is a defensive warfare for market leaders. Why are you suggesting a defensive warfare for market leaders? He is already a market leader and wants to hold on to his position. When he wants to hold on to his position, he may be adopting defensive because he is already concerned that he might be discharged from that number 1 position. What will the number 2 person in the market adopt? What is his warfare strategy? His warfare strategy will be an offensive warfare strategy. He wants to attack the leader's weak point. So that the leader can be discharged from number 1 and this number 2 becomes number 1 and this keeps on happening.

Suppose, you are a player with limited resources, let us say, there are very big players with large number of resources or large resources at their command in the market place. Here, as a limited player, what are you going to do? The suggested marketing warfare strategy is flanking warfare and do not keep on attacking the leader. So, this is what Titan did when it entered the watch market. He did not attack HMT and he did not say that HMT's products are of low quality or inferior quality, all those and nothing of that type of castigation. It said HMT's products range is like this and we are giving you a

different range of products. It never attacked HMT and this is what is called as the flanking warfare.

Now, for a smaller company, let us say, large number of big players are there that is a large number of big players are there, large companies and you are a very small player. I have taken the example of a well-known local player in Bangalore from the print media that is Deccan Herald. This Deccan Herald compared to the other players in the market, say, The Hindu or The Times of India or The Statesman, its circulation is small. Now, when other players like bigger players wanted to enter the Bangalore market, a few decades back, Deccan Herald was naturally concerned because it thought, it is going to get upset by the entry of these bigger players.

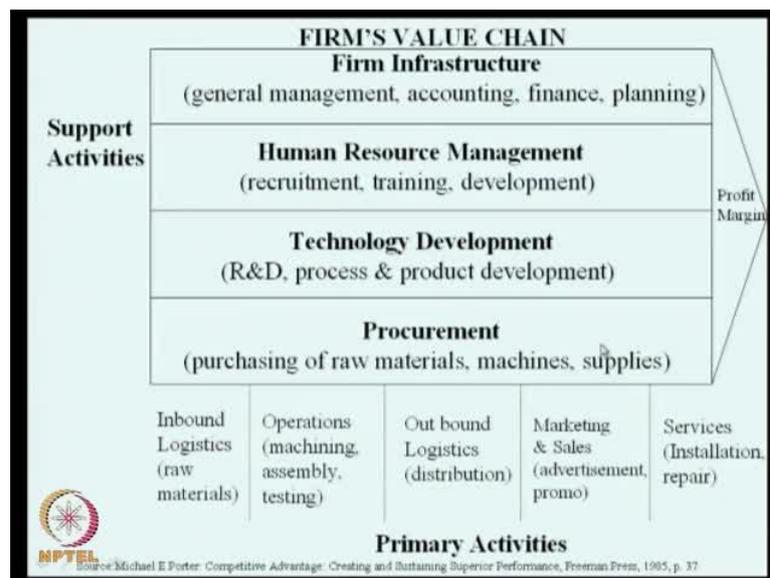
It resorted to what is called a Guerrilla warfare and that is to prevent or postpone or delay the entry of these bigger players. So, it went into lot of court cases against these players. So, one of the first players to enter the print media publishing from Bangalore was the Indian Express. There was something called a protracted litigation between Deccan Herald and The Indian Express. In which, the Indian Express won and the court said Indian Express is free to publish from Bangalore. This verdict was watched with great curiosity and interest by the other players. What is the type of verdict that is going to come in this case between Indian Express and Deccan Herald? As soon as it turned out that Indian Express has won the case. In a very short time, number of other big players came into the Bangalore market, whether it is The Hindu or whether it is The Times of India. So, many players came into the market and on the very next slot, The Hindu said we are publishing from Bangalore also. So, this is what competition is all about.

Whereas, if you really look at the example that I have given for flanking warfare, I have taken the example of a toothpaste form like Promise, which says that my toothpaste has got clove oil. What is the advantage of having clove oil in toothpaste? It can lessen the pain. Suppose, you have a tooth, which is not good or which is somewhat defective, if you want to say in the manufacturing language, so that type of pain in the teeth can be reduced by the use of this clove oil. There are number of big players, you have the Colgate, which comes out with a large variants of toothpaste.

Now, what is the position of Promise in the present day? Its market share is very small because its USP was that its unique selling proposition that is clove oil. The other

players, especially the Colgate also brought out this differentiating factor into its product range as well. It has got the Colgate sensitive Colgate Total. So, the Promise is forced to compete with all these different variants by this giant player. So, this is the example I took for this flanking warfare.

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Now, I give you a very important diagram. This diagram is given out by Porter again and this is called as the firm's value chain. If you look at this diagram on the firm's value chain, what you have? You have the primary activities and then you have the support activities. What could be the primary activities with respect to a company? The primary activities can be with respect to the inbound logistics that is the raw materials. It can be with respect to the operation that is the machining, assembly, testing etc. Then the outbound logistics, it can be distribution. Then marketing and sales, it can be advertising, promotion etc. It can be services that is installation, repair. All these are coming under the realm of the primary activities.

What are the support activities? The support activities are the firm infrastructure and that is the general management, accounting, finance planning, human resource management. It can be recruitment, training, development or technology development. It can be R and D process and product development. The other support activity could be procurement and that is purchasing of raw materials, machines, supplies.

Now, when do you get a profit margin? When you find that the sale price that is the selling price of the product is more than the cost price cost that is incurred on producing this product, you are going to make a profit margin. It is dictated by the firms value chain. So, all these activities, the primary activities and the support activities put together, what is the cost that is incurred? It will tell you what is the profit margin that the company is going to make. It is also the key for a company's competitive advantage.

In other words, firm's value chain holds the key to the competitive advantage of the firm in the market place. Suppose, it can reduce its expenses either with respect to primary activities or with respect to support activities. What is it going to happen? It is going to increase the profit margins that the company has to extend. It will be placed better in the market place. This is a very important diagram, which was given by Michel Porter in 1985 on the firm's value chain. Now, what is happening? All the activities, which Porter listed in this value chain; whether it is the primary activity or the support activities, they are being studied in more and more depth to see whether a firm can really gain competitive advantage and increase its profit margin. We will stop here and we will continue in the next class. Thank you.