



CHAPTER 4

Developing Competitive Advantage and Strategic Focus

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SWOT Analysis

- A widely used framework for organizing and *utilizing the pieces of data and information gained from the situation analysis.*
- Encompasses both internal and external environments
- One of the most effective tools in the analysis of environmental data and information

2

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Making SWOT Analysis Productive (Exhibit 4.2)

- **Stay Focused**
 - *It is a mistake to complete one generic SWOT analysis for the entire organization.*
- **Search Extensively for Competitors**
 - *Information on competitors is an important aspect of a SWOT analysis. All four types of competition are important.*
- **Collaborate with other Functional Areas**
 - *Information generated from the SWOT analysis can be shared across functional areas.*

3

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Making SWOT Analysis Productive (Exhibit 4.2) *(continued)*

- **Examine Issues from the Customers' Perspective**
- **Look for Causes, Not Characteristics**
 - *Causes for each issue in a SWOT analysis can often be found in the firm's and competitors' resources.*
- **Separate Internal Issues from External Issues**
 - *Failure to understand the difference between internal and external issues is a major reason for a poorly conducted SWOT analysis.*

4

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Breaking Down Managerial Clichés (Exhibit 4.3)

Cliché	Potential Strengths	Potential Weaknesses
"We are an established firm."	Stable after-sales service Experienced Trustworthy	Old-fashioned Inflexible Weak innovation
"We are a large supplier."	Comprehensive product line Technical expertise Longevity Strong reputation	Bureaucratic Focused only on large accounts Impersonal Weak customer service
"We have a comprehensive product line."	Wide variety and availability One-stop supplier Convenient Customized solutions	Shallow assortment Cannot offer hard-to-find products Limited in-depth product expertise
"We are the industry standard."	Wide product adoption High status and image Good marketing leverage Extensive third-party support	Vulnerable to technological changes Limited view of competition Higher prices (weaker value)

Source: Adapted from Nigel Piercy, *Market-Led Strategic Change* (Oxford, UK: Butterworth-Heinemann, 2002).

5

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Potential Issues to Consider in a SWOT Analysis (Exhibit 4.4)

■ Strengths and Weaknesses

- *Presence or absence of scale and cost economies*
- *Presence or absence of financial or human resources*
- *Presence or absence of functional skills*
- *Presence or absence of intellectual, legal or reputational resources*

■ Opportunities and Threats

- *Conditions or changes in the customer environment*
- *Conditions or changes in the competitive environment*
- *Conditions or changes in the external environment*

6

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Potential Issues to Consider in a SWOT Analysis (Exhibit 4.4)

EXHIBIT 4.4 Potential Issues to Consider in a SWOT Analysis

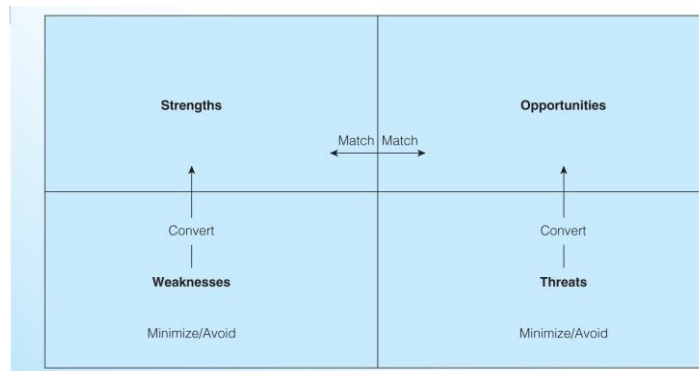
<p>Potential Internal Strengths</p> <ul style="list-style-type: none"> Abundant financial resources Well-known brand name Number 1 ranking in the industry Economies of scale Proprietary technology Patented products or processes Lower costs (raw materials or processes) Respected company/brand image Superior management talent Better marketing skills Superior product quality Alliances with other firms Good distribution skills Committed employees 	<p>Potential External Opportunities</p> <ul style="list-style-type: none"> Rapid market growth Complacent rival firms Changing customer needs/tastes Opening of foreign markets Mishap of a rival firm New product or process discoveries Economic boom/downturn Government deregulation New technology Demographic shifts Other firms seeking alliances High brand switching Sales decline for a substitute product Evolving business models in the industry
<p>Potential Internal Weaknesses</p> <ul style="list-style-type: none"> Lack of strategic direction Limited financial resources Weak spending on R&D Very narrow product line Limited distribution Higher costs (raw materials or processes) Out-of-date products or technology Internal operating problems Internal political problems Weak market image Poor marketing skills Alliances with weak firms Limited management skills Undertrained employees 	<p>Potential External Threats</p> <ul style="list-style-type: none"> Entry of foreign competitors Introduction of new substitute products Product life cycle in decline Evolving business models in the industry Changing customer needs/tastes Declining consumer confidence Rival firms adopting new strategies Increased government regulation Economic boom/downturn Change in Federal Reserve policy New technology Demographic shifts Foreign trade barriers Poor performance of ally firm International political turmoil Weakening currency exchange rates

7

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The SWOT Matrix (Exhibit 4.5)



Source: Adapted from Nigel Piercy, *Market-Led Strategic Change* (Oxford, UK: Butterworth-Heinemann, 2002).

8

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Quantitative Assessment of the SWOT Matrix (Exhibit 4.6)

This analysis was conducted for the VirPharm marketing plan example found on our website. The ratings in each cell have their basis in a thorough analysis of the company and the industry.

Strengths			M	I	R	Opportunities			M	I	R
ROPREX approved to treat arthritis, migraine headache, and general pain	3	3	3	3	9	FDA has approved the transition of prescription NSAIDs into OTC market	3	3	3	9	
Patent exclusivity for three years	3	3	3	3	9	Consumers will try new products as they become available	3	3	3	9	
New product entry	3	2	6	2	6	NSAIDs can be used as general pain reliever and fever reducer	3	3	3	9	
Prescription-strength pain relief available OTC	3	2	6	2	6	Potential market channels not currently exploited	3	3	3	9	
Effective migraine treatment	3	2	6	2	6	Competing prescription pain relievers have been pulled from the market	3	2	6	6	
Talented and motivated workforce	2	2	4	2	4	Weak product differentiation among OTC competitors	3	2	6	6	
Lower cost of raw materials	3	1	3	3	3	U.S. population is increasingly seeking convenience of online shopping	2	3	6	6	
Wide range of products	1	2	2	1	2	Increase in aging population	2	2	4	4	
Weaknesses			M	I	R	Threats			M	I	R
Limited marketing budget	-3	3	-9	3	-9	Competition from both prescription pain relievers and OTC pain relievers	-3	3	-9	-9	
Market position (number 6 in market)	-3	3	-9	3	-9	Extremely crowded OTC market	-3	3	-9	-9	
Weak product differentiation	-3	3	-9	3	-9	Consumer loyalty with existing competitors	-3	2	-6	-6	
Current brand name (new to market)	-3	2	-6	2	-6	Negative publicity regarding NSAIDs	-2	3	-6	-6	
Mid-sized company	-2	2	-4	2	-4	Declining physician recommendation of NSAIDs	-1	3	-3	-3	
ROPREX associated with gastrointestinal side effects	-1	3	-3	3	-3	OTC NSAIDs not indicated for long-term use	-1	2	-2	-2	
Variability in offshore suppliers	-1	2	-2	2	-2	Regulations on drug advertisements could intensify	-1	2	-2	-2	

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M = magnitude of the element, I = importance of the element, R = total rating of the element.
Magnitude scale ranges from 1 (low magnitude) to 3 (high magnitude).
Importance scale ranges from 1 (low importance) to 3 (high importance).

9

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Strengths, weaknesses, opportunities, and threats: Which is the most important? Why? How might your response change if you were the CEO of a corporation? What if you were a customer of the firm? An employee? A supplier?

DISCUSSION QUESTIONS

10

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Developing and Leveraging Competitive Advantages

- Competitive advantages can arise from many internal and external sources (see Exhibit 4.7).
- Competitive advantages *refer to real differences between competing firms.*
- Capabilities or competitive advantages that do not translate into specific benefits for customers are of little use to a firm.

11

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Developing and Leveraging Competitive Advantages

EXHIBIT 4.7 Common Sources of Competitive Advantage

<p>Relational Advantages</p> <ul style="list-style-type: none"> Brand-loyal customers High customer-switching costs Long-term relationships with supply chain partners Strategic alliance agreements Comarketing or cobranding agreements Tight coordination and integration with supply chain partners Strong bargaining power 	<p>Product Advantages</p> <ul style="list-style-type: none"> Brand equity and brand name Exclusive products Superior quality or features Production expertise Guarantees and warranties Outstanding customer service Research and development Superior product image
<p>Legal Advantages</p> <ul style="list-style-type: none"> Patents and trademarks Strong and beneficial contracts Tax advantages Zoning laws Global trade restrictions Government subsidies 	<p>Pricing Advantages</p> <ul style="list-style-type: none"> Lower production costs Economies of scale Large-volume buying Low-cost distribution Bargaining power with vendors
<p>Organizational Advantages</p> <ul style="list-style-type: none"> Abundant financial resources Modern plant and equipment Effective competitor and customer intelligence systems Culture, vision, and shared goals Strong organizational goodwill 	<p>Promotion Advantages</p> <ul style="list-style-type: none"> Company image Large promotion budget Superior sales force Creativity Extensive marketing expertise
<p>Human Resource Advantages</p> <ul style="list-style-type: none"> Superior management talent Strong organizational culture Access to skilled labor Committed employees World-class employee training 	<p>Distribution Advantages</p> <ul style="list-style-type: none"> Efficient distribution system Real-time inventory control Extensive supply chain integration Superior information systems Exclusive distribution outlets Convenient locations Strong e-commerce capabilities

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12

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Competitive Advantage Strategies (Exhibit 4.8)

- **Operational Excellence**
 - *Focus on efficiency of operations and processes*
 - *Lower cost operations lead to lower prices for customers*
- **Product Leadership**
 - *Excellence in technology and product development*
 - *Most advanced, highest quality product offering in the industry*
- **Customer Intimacy**
 - *Understand customers better than the competition*
 - *Develop long-term customer relationships*

13

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Support or contradict this statement:

“Given the realities of today’s economy and the rapid changes occurring in business technology, all competitive advantages are short-lived. There is no such thing as a *sustainable* competitive advantage that lasts over the long term.”

Defend your position.

DISCUSSION QUESTIONS

14

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Establishing a Strategic Focus

- Four major directions for strategic efforts
 - *Aggressive (many internal strengths / many external opportunities)*
 - *Diversification (many internal strengths / many external threats)*
 - *Turnaround (many internal weaknesses / many external opportunities)*
 - *Defensive (many internal weaknesses / many external threats)*

15

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Principles of Blue Ocean Strategy

- Firms develop strategic focus *by developing a strategy that stands apart from the competition.*

16

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What Makes Good Strategy?

- Good strategy is about matching the firm's strengths to the available opportunities.
- Blue Ocean Strategy defines good strategy as having these three characteristics:
 - *Focus* – Good strategy does not diffuse the company's efforts across all key factors of competition (the value curve clearly shows focus in the strategy).
 - *Divergence* – Good strategy differs from other competitors in the market (the value curve is unique from competitors).
 - *Compelling Tagline* – Good strategy can be summarized in a clear-cut statement that delivers a clear, compelling message to customers.

17

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Is it possible for an organization to be successful despite having a value curve that is not distinct from the competition?

In other words, can an organization be successful by selling a me-too product (a product that offers no compelling differences when compared to the competition)? Explain.

DISCUSSION QUESTIONS

18

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Developing Marketing Goals and Objectives

■ Marketing Goals

- *Statements of broad, desired accomplishments*
 - Attainability
 - Consistency
 - Comprehensiveness
 - Intangibility

■ Marketing Objectives

- *Specific, quantitative benchmarks used to measure progress toward the achievement of marketing goals*
 - Attainability
 - Continuity
 - Time frame
 - Assignment of responsibility

19

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Continuous versus Discontinuous Objectives

■ Continuous Objectives

- *Current objectives are similar to objectives set in the previous planning period.*
- *Objectives that are only slightly modified over time do not need new strategies, increased effort, or better implementation to be achieved.*

■ Discontinuous Objectives

- *Significantly elevate the level of performance on a given outcome factor*
- *Typically require new strategies to achieve higher performance*
- *Often a part of applying for the Malcolm Baldrige National Quality Award (see Exhibit 4.10).*

20

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