competitive strategy

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Conceptual Overview

Competitive strategy is the process of developing competitive advantage and earning above-average returns for stakeholders. Competitive advantage is achieved through the strategic management of resources, capabilities, and core competences, as well as the firm's responsiveness to opportunities and threats in the external environment. Above-average returns are gains that are superior to alternative investments with a similar risk profile.

Resources are the starting point of competitive strategy and are the inputs required to produce a product or service. Tangible resources are raw materials, premises, machinery, and equipment. Intangible resources are finance, technology, human capital, supplier networks, distribution networks, patents, trademarks, established customer base, brand equity, and firm reputation. Resources can be combined and developed into capabilities, which in turn create core competences. Capabilities are the firm's capacity to transform resources into competitive products and processes. Capabilities become embedded in a tacit manner into the firm's internal processes. They are difficult to document as procedures and therefore difficult to copy. Intangible resources tend to be the main source of inimitable strategic capabilities. Capabilities are a more likely source of unique core competences that create sustainable competitive advantages. How a firm nurtures and supports its capabilities so that they can become core competencies is less visible to rivals, making efforts to understand and imitate the firm's capabilities more challenging.

Competitive strategy mitigates opportunities and treats in the external environment through preemptive and reactive strategies. New opportunities are exploited in the wake of new competitive positions that may be created in the process. The strategic conduct of the firm revolves around performance objectives (such as maximizing profits and increasing sales), pricing policies (such as cost-plus, marginal cost, entry-deterring price, collusive pricing, price leadership, and price discrimination), marketing strategies, and the extent of innovation and technical change. Treats are minimized through continuous adaptation and development of the business model.

Competitive strategy requires continuous adjustments and realignment to develop internal competences and to preempt changes in the external environment. Navigating through as complex set of strategic factors requires an understanding of their influence on competitive strategy, which is discussed next.

Influences on Competitive Strategy

There can be great differences between the abilities of firms to succeed – there are fundamental inequalities between most competitors. This contrasts with the conventional economics textbook view of perfect competition that holds that firms are essentially similar, if not the same, and that over time their performances will converge on a minimum rate of return on capital. Less efficient firms will be obliged to exit and the more efficient firms will be subject to imitation.

The competitive strategy view of the firm is that understanding and manipulating the factors that cause these inequalities, so as to give the firm a sustainable competitive advantage, largely govern long-term business success. These factors vary widely. Different businesses, even within the same industry, often need to be doing different things. Thus, there are many strategies open to firms.

The usual starting point is to recognize that strategy is the outcome of the resolution of several different, conflicting forces. These are summarized in Figure 1. Society has expectations of its business organizations. Owners, managers, and other implementers of strategy have their own personal values and ambitions. The company has strengths and weaknesses, and the industry context offers opportunities and threats. The traditional, top-down view of strategy is encapsulated in the *strategic planning view*. This involves deciding on long-term objectives and strategic direction, eliminating or minimizing weaknesses, avoiding threats, building on and defending strengths, and taking advantage of opportunities.

Wiley Encyclopedia of Management, edited by Professor Sir Cary L Cooper.

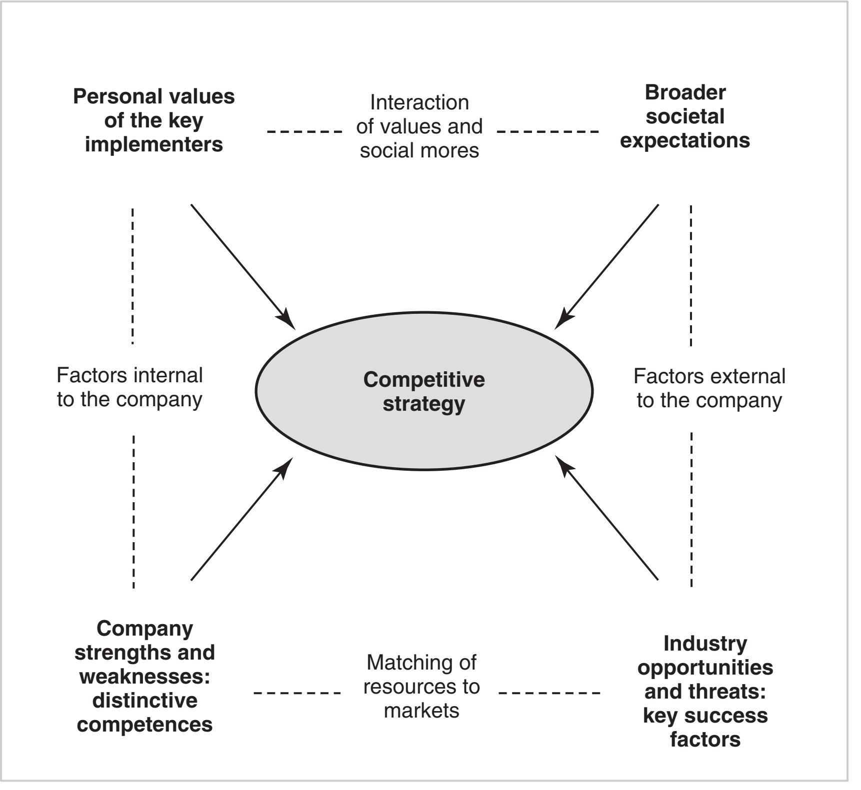

Figure 1 An overview of the influences on competitive strategy.

Given the strategic direction, the key strategic decision is product market selection. This should be based on the existence of long-term viable business opportunities (not merely the existence of growing markets), together with the prospect of creating the relevant core competences. Viable business opportunities depend on:

- the existence of valuable market segments;
- the existence of a sustainable positional advantage; and
- the creation of the appropriate strategic assets.

Key Success Factors

In conducting the assessment of viable business opportunity, the term *key success factors* is often used. Intuitively, this means "What do we have to do to succeed?" We can put some analytical flesh on these bones. There is a set of key questions to ask: Is there a market? Do we have some advantage? Can we survive the competition?

Figure 2 summarizes how these lead us into two pieces of analysis: the analysis of customers and demand, and the analysis of competition. Figure 3 shows how these can be put together to identify key success factors in three different industries. The key success factors represent the strategic logic(s) (there is usually more than one) available. In the steel industry, the key success factors revolve around low cost, cost efficiencies, and scale effectiveness, with some scope for specialty steels. In the fashion industry, key success factors are about differentiation, coupled with an element of low cost. Differentiation has speed of response characteristics, but the industry and the market are so broad that there are distinctive segments, some of which are cost driven, while others are differentiation

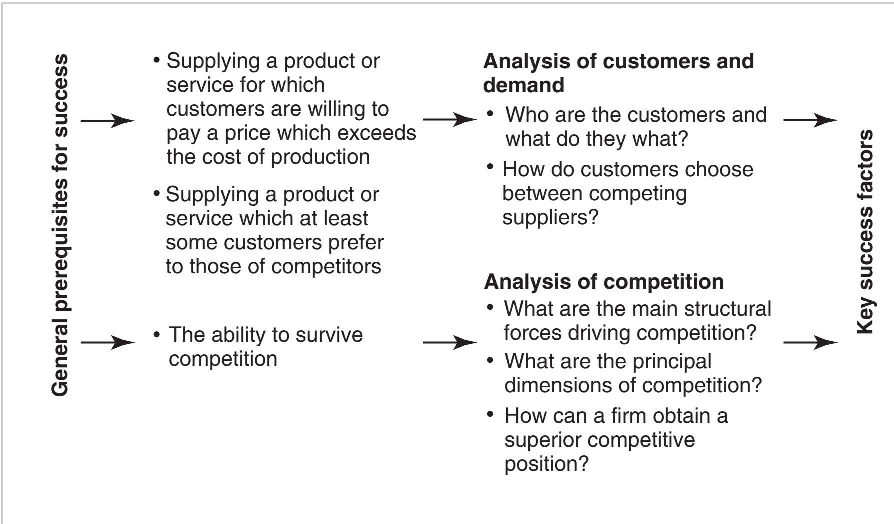

Figure 2 Identifying key success factors.

Industry	**What do customers want?** (analysis of demand)	+	**How do firms survive competition?** (analysis of competition)	=	**Key success factors**
Steel	Customers include automobiles, engineering, and container industries. Customers acutely price sensitive. Also require product consistency and reliability of supply. Specific technical specifications required for special steels.		Competition primarily on price. Competition intense due to declining demand, high fixed costs and low cost imports. Strong trade union bargaining power. Transport costs high. Scale economies important.		Cost efficiency through scale-efficient plants, low cost location, rapid adjustment of capacity to output, low labor costs. In special steels, scope for differentiation through quality.
Fashion Clothing	Demand fragmented by garment, style, quality, color. Customers willing to pay price premium for fashion, exclusivity, and quality. Retailers seek reliability and speed of supply.		Low barriers to entry and exit. Low seller concentration. Few scale economies. Strong retail buying power. Price and non-price competition both strong.		Combine effective differentiation with low cost operation. Key differentiation variables are speed of response to changing fashions, style, and reputation with retailers/consumers. Low wages and overheads important.
Grocery Supermarkets	Customers want low prices, convenient location and wide range of products.		Markets localized, concentration normally high. But customer price sensitivity encourages vigorous price competition. Exercise of bargaining power a key determinant of purchase price. Scale economies in operations and advertising.		Low cost operation requires operational efficiency, scale efficient stores, large aggregate purchases to maximize buying power, low wage costs. Differentiation requires large stores to provide wide product range and customer convenience facilities.

Figure 3 Key success factors steel, clothing, and supermarkets.

driven. This industry provides a good example of the multiplicity of available strategies.

In formulating competitive strategy, there are some important things to remember. Resources are limited and opportunities are infinite. The essence of strategy lies in saying "Yes" to only some of the options and, therefore, "No" to many others. Trade-offs are essential to strategy – they reflect the need for choice and purposefully limit what a company offers. Always factor in opportunity costs. A dollar invested "here" is a dollar not invested "there", or not given back to shareholders. The essence of strategy is choosing to perform activities differently than rivals. In the long run, what matters is not how fast you are running, but whether you are running faster than your competitors. A company can only outperform rivals if it can establish a difference that it can sustain. So always test for the sustainability of your competitive advantage. Competitors are likely to view relieving you of your competitive advantage as their cardinal duty. Furthermore, not all of them are likely to be stupid. The competitive value of individual activities cannot be separated from the whole. So, fit locks out imitators by creating a value chain that is stronger than its weakest link. The long-run test of any strategy lies not in what it contributes to market share or profit margins but in what it contributes to long-term return on investment. Strategic positions should have a time horizon of a decade or more, not just of a single planning cycle and/or product cycle.

See also *competitive advantage*; *competitive landscapes*; *competitive market theory*; *cost strategies*; *differentiation strategies*; *focus strategies*; *strategic fit*; *strategic renewal*

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