

BEE/CSS 371 Business of Technology
Winter 2017
Lecture 9

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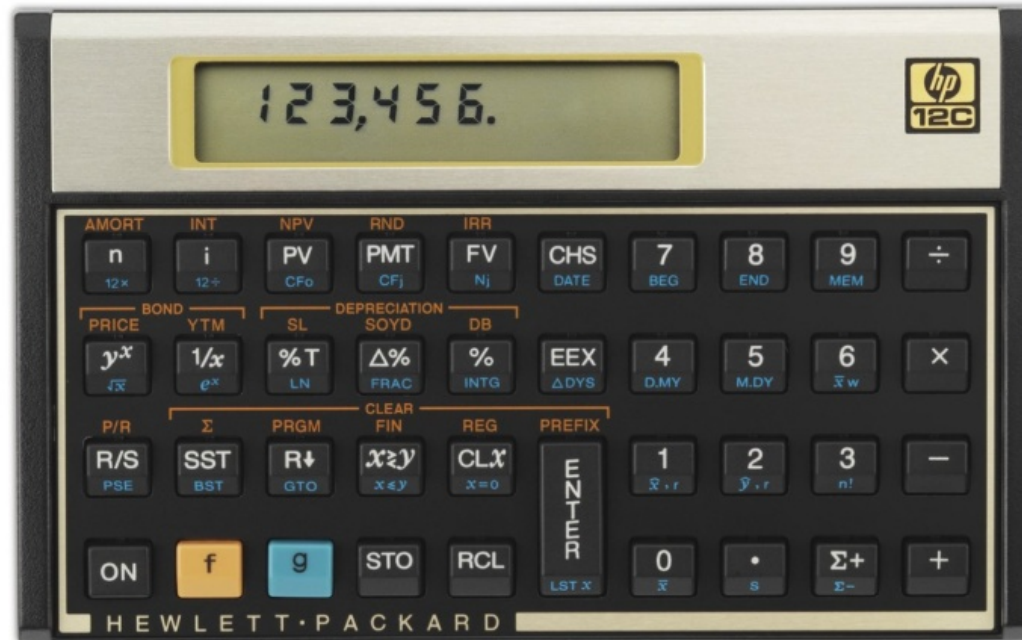
<https://faculty.washington.edu/kd1uj>

Today's agenda

1. Remarks on the brainstorming exercise
2. Chapter 4. [Competitive strategy](#)

Reminder: HP-12C calculators MONDAY

Financial calculator



Make time value of money calculations really easy.

HP-12C is still the only one to buy.

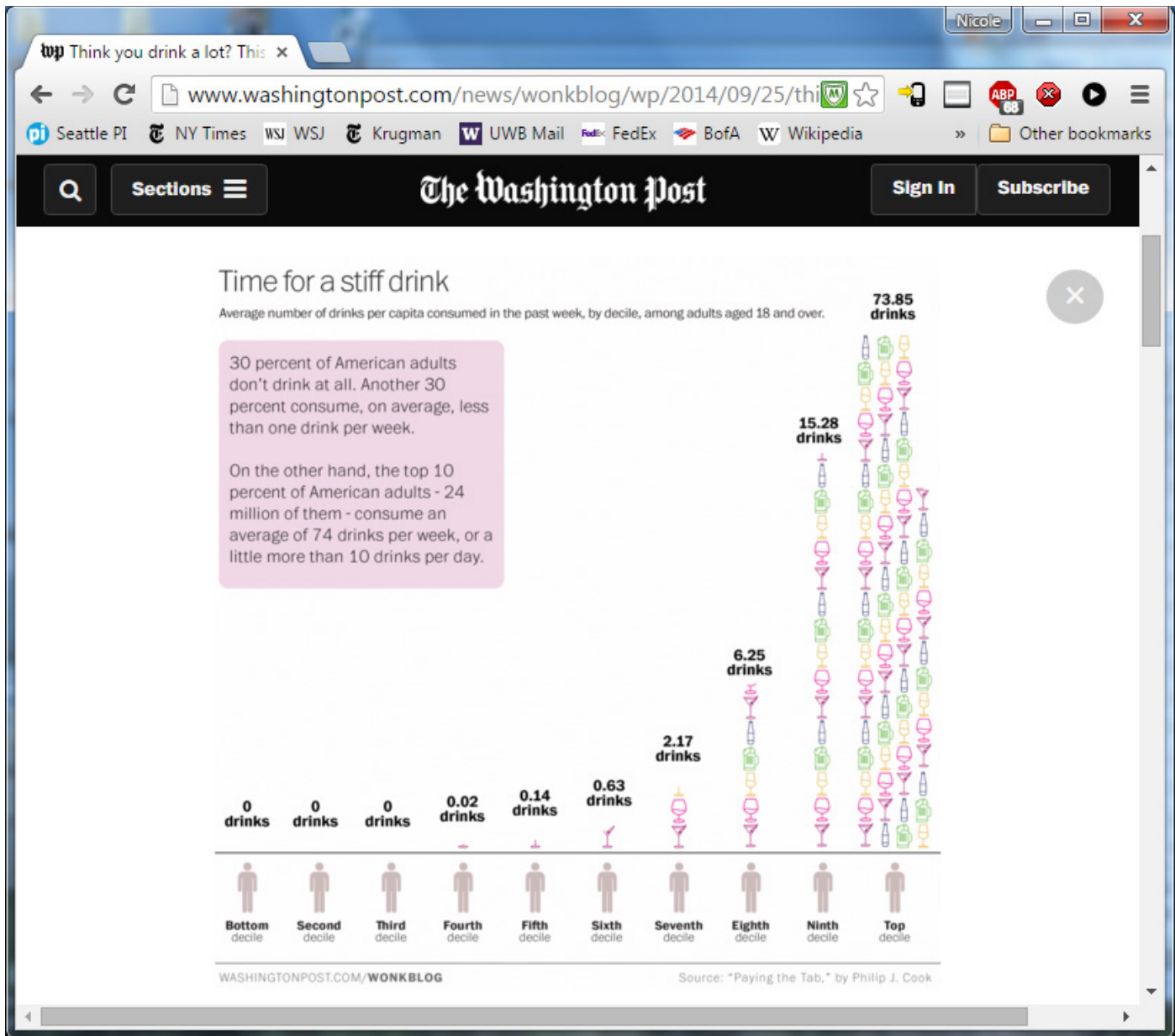
Available for as little as \$15 on eBay.

Buyers

Factors increasing the bargaining power of buyers

1. Large purchases relative to seller sales.
2. Purchases are a significant part of the buyer's costs.
3. Product is standard or a commodity.
4. Low switching costs.
5. Buyer earns low profits.
6. Credible threat of backward integration.
7. Product is unimportant to the quality of the buyer's products or services.
8. Buyer has full information.

Source: Porter, *Competitive Strategy*, pp. 24 – 26.



<http://www.washingtonpost.com/news/wonkblog/wp/2014/09/25/think-you-drink-a-lot-this-chart-will-tell-you/>

Consumer Behaviour - C.L. x

books.google.com/books?id=9i_xa8UsAUoC&pg=PA17&lpg=PA17&dq=beer+heavy+user&source=bl8

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Consumer Behaviour
By C.L. Tyagi, Arun Kumar

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potential users, first-time users and regular users of a product. While high-market-share companies are particularly interested in converting potential users into actual users, smaller firms try to get users of competitive brands to switch to their brand. Potential users and regular users require different marketing approaches.

Social marketing agencies pay close attention to **user** status. For example, drug rehabilitation agencies sponsor rehabilitation programs to help regular users quit the habit. To discourage young people from trying drugs they sponsor talks by ex-users.

(iii) *Usage rate* : Markets are also segmented into light medium and **heavy user** groups of the product called volume segmentation. Though **heavy** users are often a small percentage of the market but they account for a high percentage of total consumption. In a research on usage rates for **beer** it was found that 68 per cent of the panel members did not drink **beer**. The 32 per cent who did were divided into two groups. The lower 16 per cent were light users and accounted for only 12 percent of total **beer** consumption. The **heavy** half accounted for 88 percent of the total consumption — that is, for over seven times as much consumption as the light users. Thus, a **beer** company would prefer to attract one **heavy user** to its brand over several light users.

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Source: Tyagi, Kumar, *Consumer Behavior*, pp. 17-18. [\[link\]](#)

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ei=bLArVMifNsLNiwKi3YCwCg&ved=0CCQQ6AEwAQ#v=onepage&q=beer%20heavy%20user&f=false

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18 CONSUMER BEHAVIOUR

Most **beer** companies target the **heavy beer** drinker, using appeals such as Schaefer's "the one **beer** to have when you're having more than one."

The **heavy** users of a product have often common demographics, psychographics, and media habits. The profile of **heavy beer** drinkers shows the following characteristics : More of them are in the working class compared with light **beer** drinkers. Instead of under twenty-five and over fifty they fall between the ages of twenty-five and fifty. Instead of under two hours they watch television more than three and one-half hours per day. They prefer to watch sports programs. Profiles like this assist the marketer in developing price, message and media strategies.

Social marketing agencies often face a **heavy**-price, message and media strategies. Agency would normally target families who have the most children; but these families are also the most resistant to birth-control messages. The National Safety Council USA would target unsafe drivers; but these drivers are the most resistant to safe-driving appeals. The agencies must consider whether to go after a few highly resistant **heavy** offenders or many less resistant light offenders.

8. Consumer loyalty basis. Market can also be segmented by

SWOT analysis

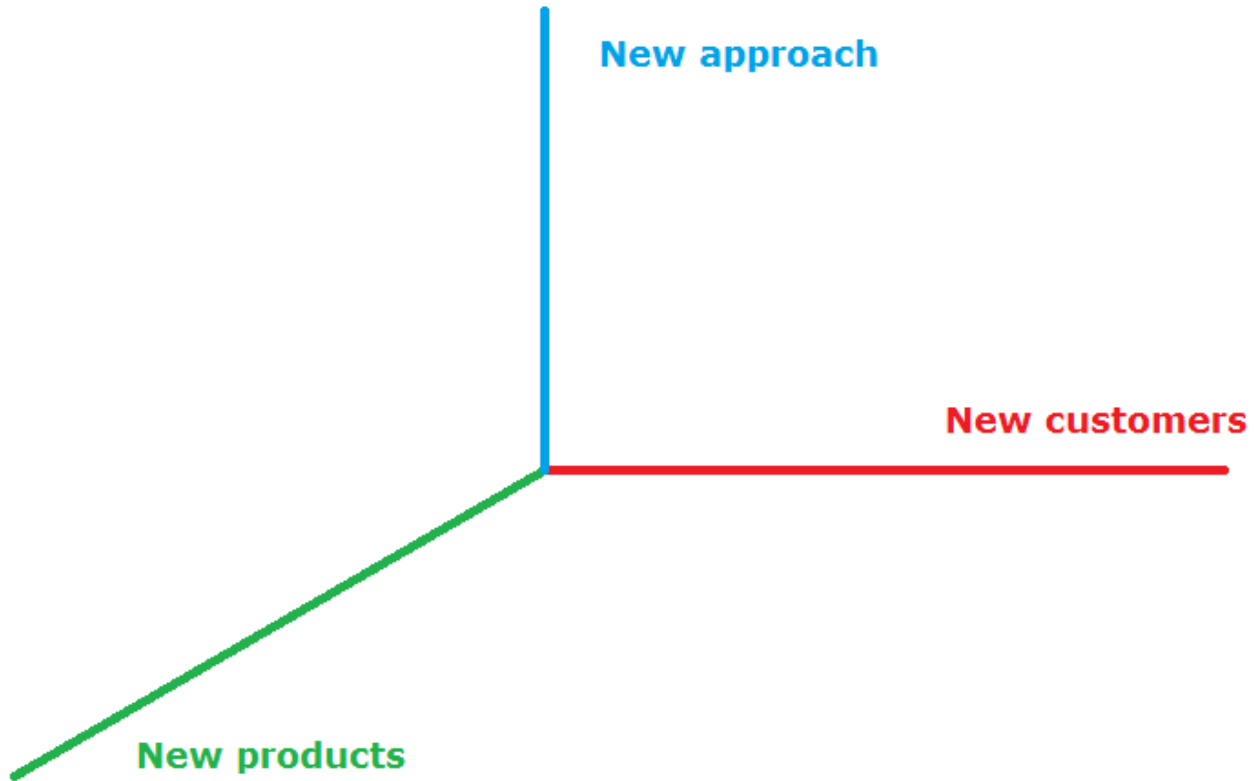
1. Strengths
2. Weaknesses
3. Opportunities
4. Threats



Source: <http://partneredoutsourcing.com/swot-analysis/>

TABLE 4.4 SWOT analysis for Amgen.

Organizational (internal)	Environmental (external)
<p>1. Strengths:</p> <ul style="list-style-type: none">■ Expertise in development and manufacturing of biologic drugs (e.g., proteins and antibodies)■ High-margin products and limited competition <p>2. Weaknesses:</p> <ul style="list-style-type: none">■ Inability to discover novel therapeutics to avoid declines in revenue	<p>1. Opportunities:</p> <ul style="list-style-type: none">■ Expansion of marketed products for new geographies, indications, and formulations■ Allocation of resources to discover novel therapeutics to sustain growth <p>2. Threats:</p> <ul style="list-style-type: none">■ Pharmaceutical companies entering the biologics arena■ Competition from follow-on biologics and pricing pressures



Three dimensions of opportunity

Barriers to entry are factors that make it costly for companies to enter an industry.

TABLE 4.5 Potential barriers to entry into an industry.

- Economies of scale
 - Cost advantages independent of scale
 - Product differentiation
 - Contrived deterrence
 - Government regulation
 - Switching costs
-

Economies of scale are declines in unit costs as the volume per period increases.

Advantages independent of scale

1. Proprietary product technology, including patents and trade secrets.
2. Favorable access to raw materials.
3. Favorable locations.
4. Government subsidies.
5. Learning curve experience.

Product differentiation means brand identification and customer loyalty stemming from past advertising, customer service, product differences or simply being first.

Contrived deterrence occurs when firms throw up barriers at a cost to themselves.

Examples: Using lower prices, newer products or brand building to send a signal to potential entrants that intense responses will result if they try to enter.

Government can limit or foreclose entry with licensing requirements, limits on access to raw materials (e.g., zoning), air and water pollution standards, product safety and other requirements.

Switching costs are the costs to the customer to switch to a competitor.

Example: Switching from Windows to Mac OSX.

		Exit Barriers	
		Low	High
Entry Barriers	Low	Low, stable returns	Low, risky returns
	High	High, stable returns	High, risky returns

FIGURE 1-2. Barriers and Profitability

There can also be barriers to exit.

Source: Porter, *Competitive Strategy*, p. 22.

Competitive advantages are those distinctive factors that give a firm a superior or favorable position relative to its competitors.

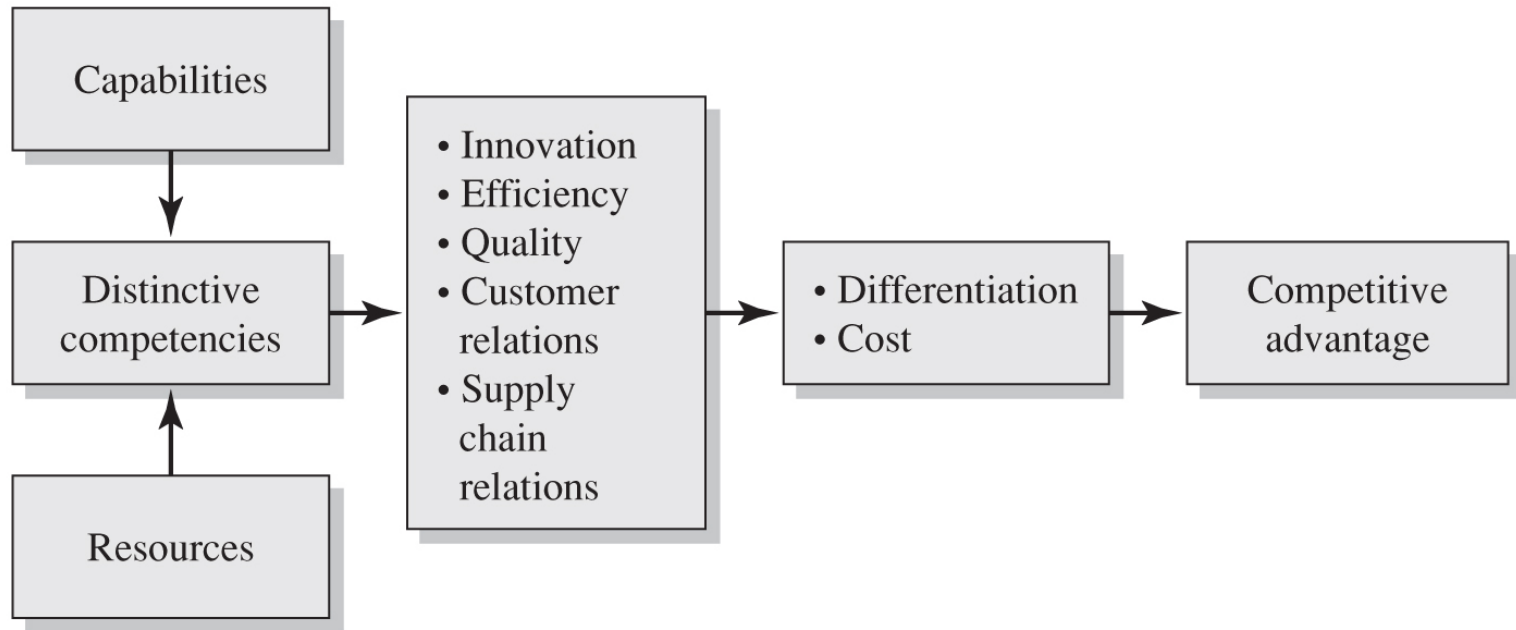


FIGURE 4.5 Distinctive competencies lead to a competitive advantage.

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Figure 1-3. Three Generic Strategies

Source: Porter, *Competitive Advantage*, p. 12.

TABLE 4.6 Four common types of strategies and their characteristics.

Factor	Type of strategy			
	Differentiation	Low cost	Differentiation-cost	Niche
Distinctive competencies	Innovation and relationships	Processes, logistics	Innovation and processes	Relationships
Product differentiation	High	Low	Medium	Medium
Market segmentation	Many segments	Mass market	Many segments	One or two segments
Examples	Intel	RadioShack	Dell	Getty Images
	Microsoft	Wal-Mart	Southwest Airlines	Incyte

TABLE 5-1 Product and Process Technology and the Generic Strategies

	COST LEADERSHIP	DIFFERENTIATION	COST FOCUS	DIFFERENTIATION FOCUS
	ILLUSTRATIVE TECHNOLOGICAL POLICIES			
<i>Product Technological Change</i>	Product development to reduce product cost by lowering material content, facilitating ease of manufacture, simplify logistical requirements, etc.	Product development to enhance product quality, features, deliverability, or switching costs	Product development to design in only enough performance for the target segment's needs	Product design to meet the needs of a particular segment better than broadly-targeted competitors
<i>Process Technological Change</i>	Learning curve process improvement to reduce material usage or lower labor input Process development to enhance economies of scale	Process development to support high tolerances, greater quality control, more reliable scheduling, faster response time to orders, and other dimensions that raise buyer value	Process development to tune the value chain to a segment's needs in order to lower the cost of serving the segment	Process development to tune the value chain to segment needs in order to raise buyer value

Source: Porter, *Competitive Advantage*, p. 178.

TABLE 1-1 Risks of the Generic Strategies

RISKS OF COST LEADERSHIP	RISKS OF DIFFERENTIATION	RISKS OF FOCUS
<p>Cost leadership is not sustained</p> <ul style="list-style-type: none"> • competitors imitate • technology changes • other bases for cost leadership erode 	<p>Differentiation is not sustained</p> <ul style="list-style-type: none"> • competitors imitate • bases for differentiation become less important to buyers 	<p>The focus strategy is imitated</p> <p>The target segment becomes structurally unattractive</p> <ul style="list-style-type: none"> • structure erodes • demand disappears
<p>Proximity in differentiation is lost</p>	<p>Cost proximity is lost</p>	<p>Broadly-targeted competitors overwhelm the segment</p> <ul style="list-style-type: none"> • the segment's differences from other segments narrow • the advantages of a broad line increase
<p>Cost focusers achieve even lower cost in segments</p>	<p>Differentiation focusers achieve even greater differentiation in segments</p>	<p>New focusers sub-segment the industry</p>

Source: Porter, *Competitive Advantage*, p. 12.