

- Please login with your UHD account (XXX@gator.uhd.edu). If not, please leave the meeting and login again.
- Steps: Open zoom “Sign in with SSO”, fill “uhd”.zoom.us, UHD login page shows up.
- Wrong logins on 09/18: XXX@gmail.com; XXX@sbcglobal.net
- Let us wait for first 3 minutes for people to login.
- While waiting, you can review slides in previous classes because we will have first pop quiz shortly.

Q&A

- 1. group assignment: everyone should participate. I will consider peer evaluation of group assignments in the participation score. We will have peer evaluation after the Apple case today.
- 2. same group for all group assignments through the whole semester.

Internal Analysis

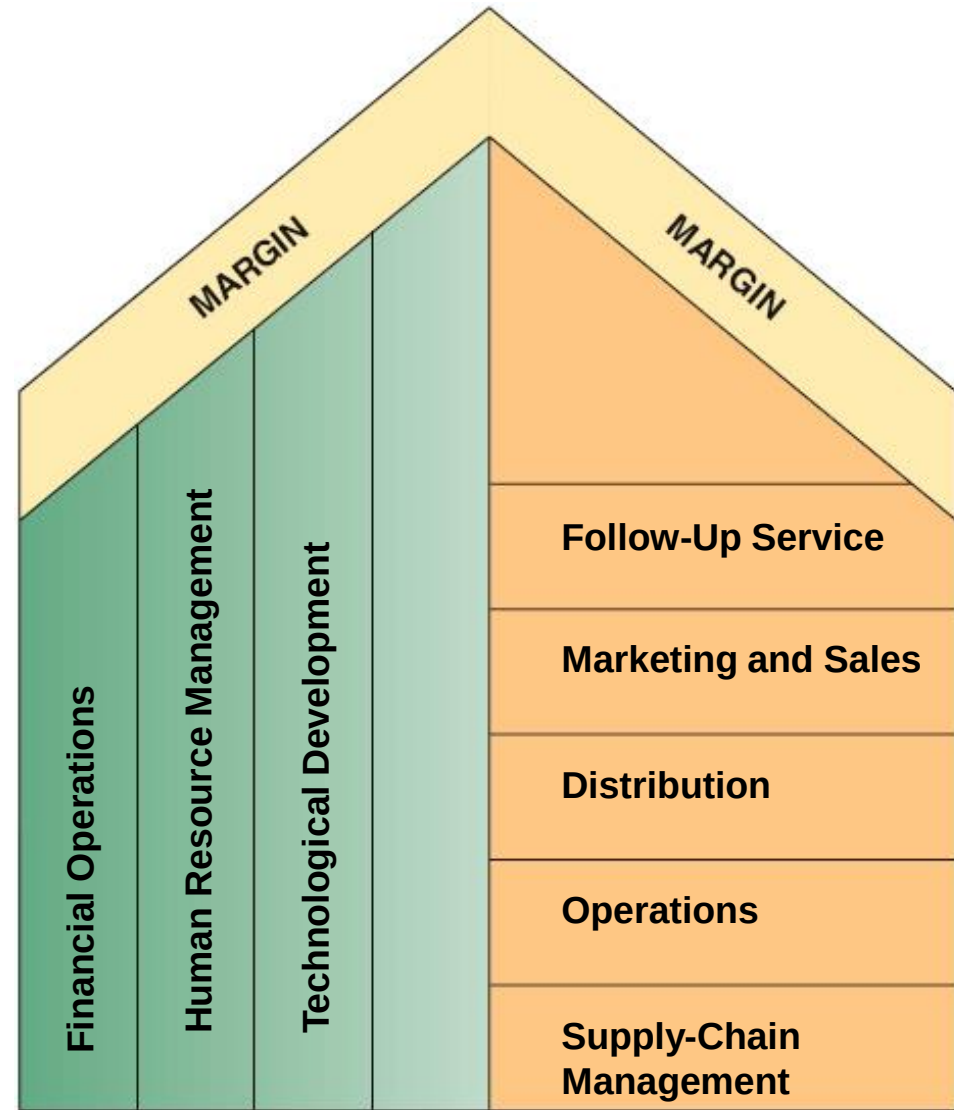
- Resources and Capabilities: **VRIN Analysis**
- **Value Chain Analysis (VCA)** to see how the resources and capabilities interact, drive firm performance, and reinforce the firm's chosen strategy
- **SWOT Analysis:** Strengths and Weaknesses (from internal analysis), Opportunities and Threats (from external analysis)

Value Chain Analysis

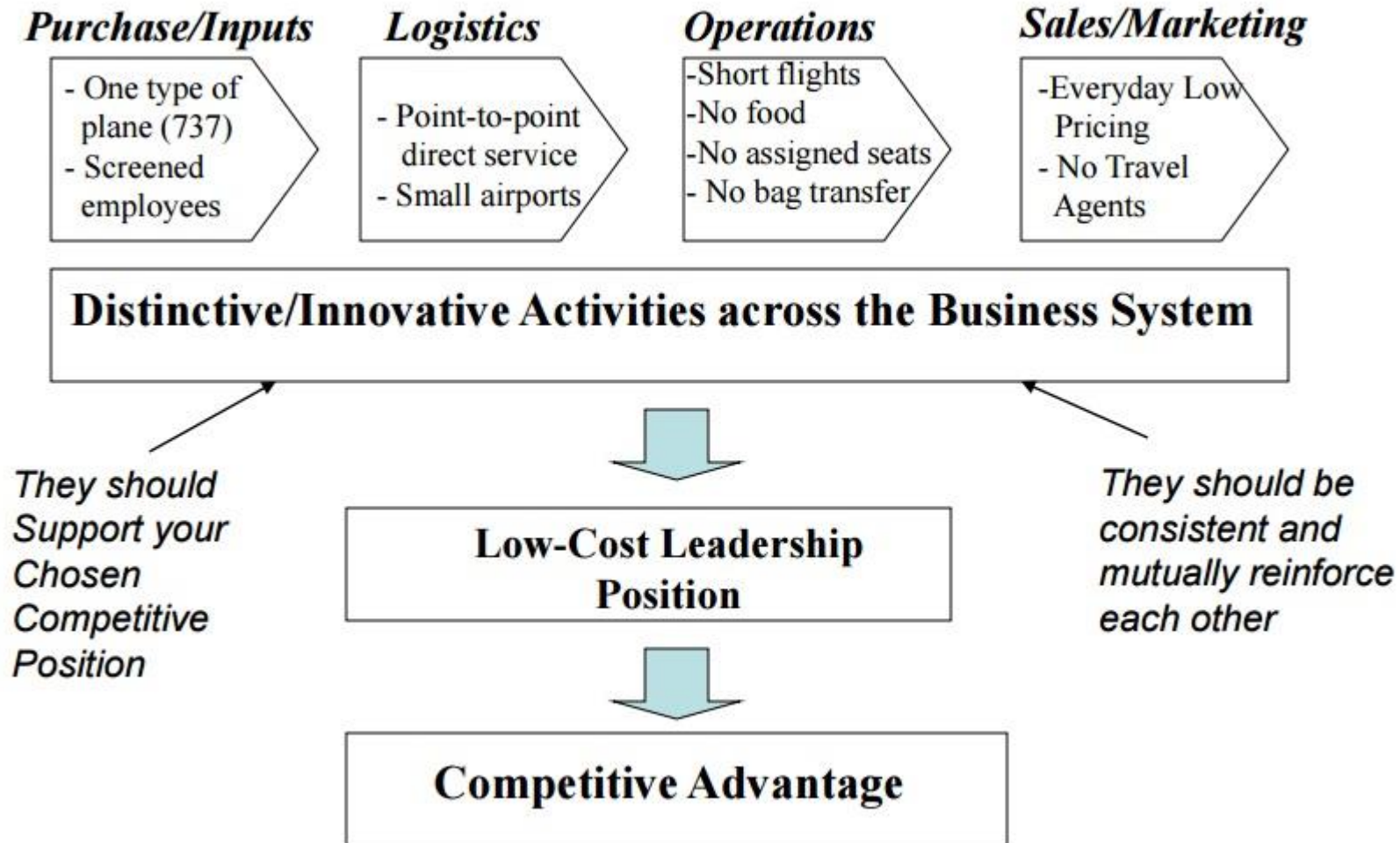
- **Value chain:** shows how a product moves from raw-material stage to the final customer
- Allows the firm to understand the parts of its operations that create value and those that do not

The Basic Value Chain

Each activity should be examined relative to competitors and rated *as superior, equivalent or inferior*



Value Chain Analysis Example: Southwest



Cost leadership & differentiation

Yajing Li

competitive advantage

Winning in business:

- A value creating strategy that allows an organization to outperform its competitors.

Sources of competitive advantage

- ❖ **Cost (C):** Total costs the firm incurs to produce the product and services
- ❖ **Value (V):** Consumers' perceived value of the firm's product and services

Types of Competitive Positions

Low-Cost Leadership

- Achieve the lowest costs in the industry.
- Pass on lower costs in terms of lower prices.
- Become a successful player with a large market share.
- E.g. southwest

• Differentiation

- Provide a 'very distinctive' product or service
- Focus on a segment of the market (that values the distinctive attributes provided).
- Higher cost structure → but can charge 'premium' price
- E.g. Apple

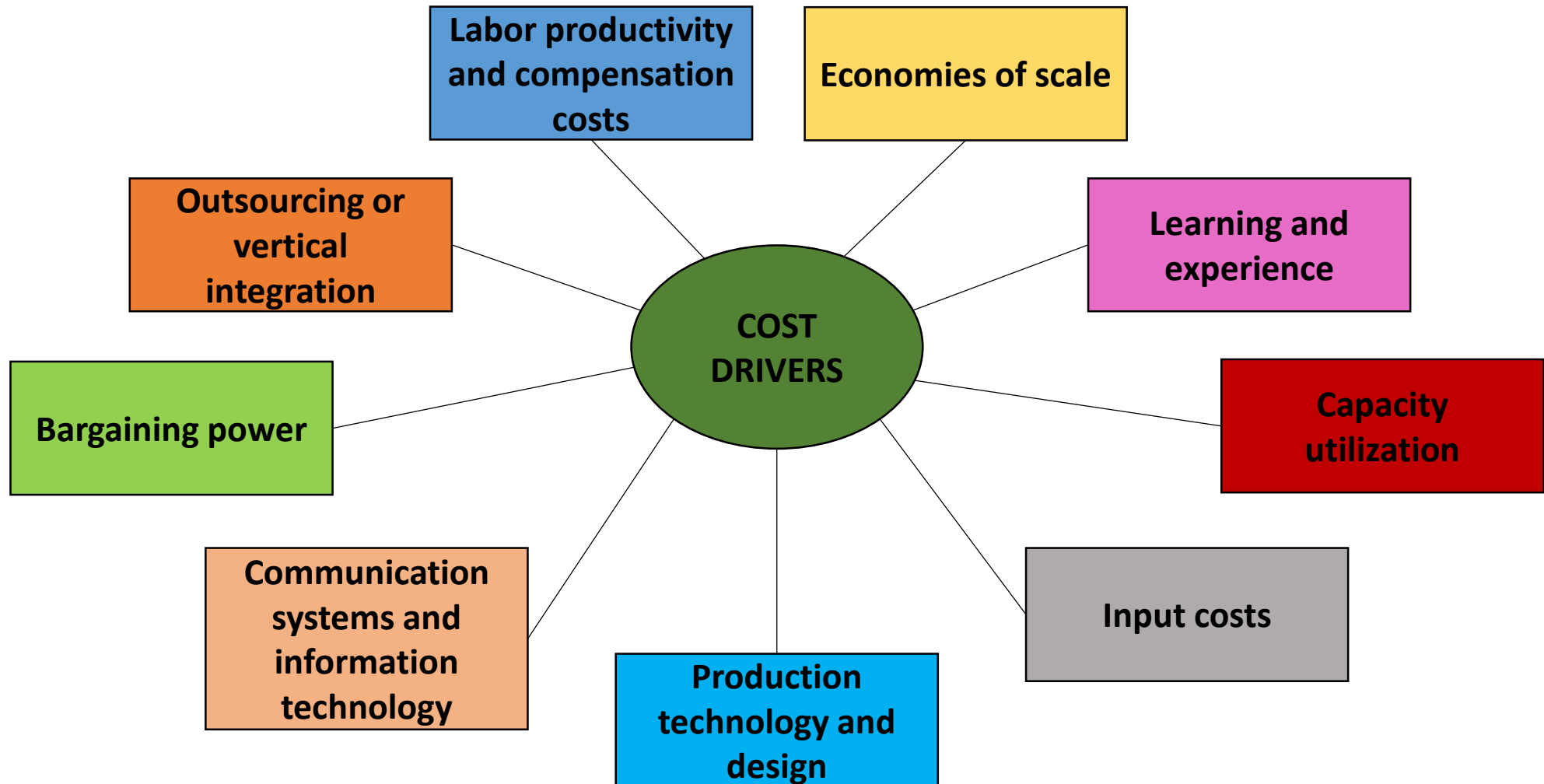
Cost leadership strategy

- **Cost-Leadership***[a cost position]*:
 - ❖ Seeks to create the same or similar value for customers by delivering products or services at a lower cost than competitors

Cost leadership strategy

- A **low-cost leader's basis** for competitive advantage is lower overall costs than competitors. Success in achieving a low-cost edge over rivals comes from ***eliminating “nonessential” activities*** and/or ***outperforming essential activities more cost-effectively than rivals***.

Important cost drivers in a company's value chain



Generating Cost Advantage

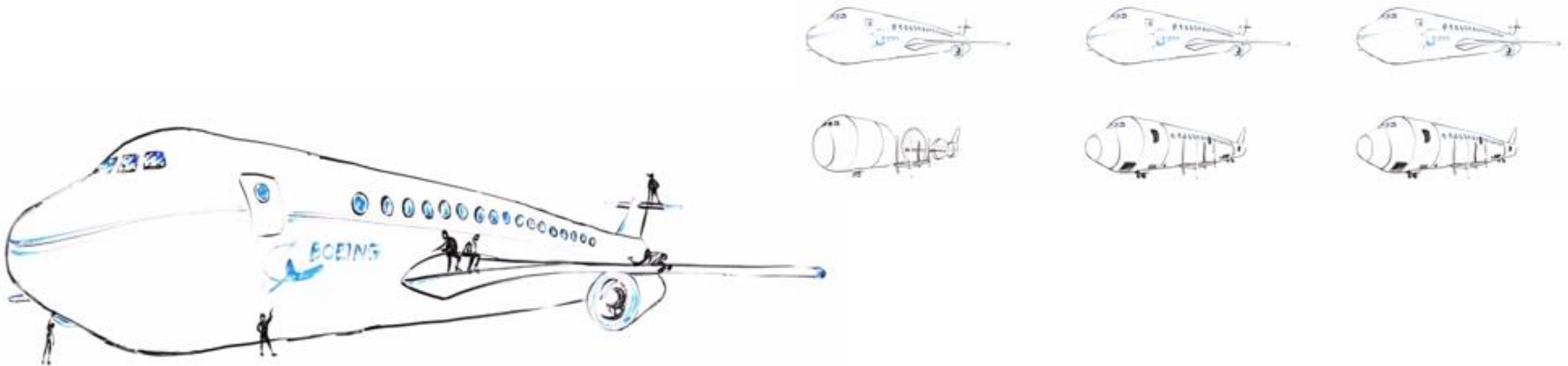
Rule 1: Economies of Scale – as output goes up, costs per unit go down

- Spreading fixed costs over large volume
 - Microsoft: upfront R&D for Windows
 - Walmart, Target
 - Home Depot, Best Buy

Generating Cost Advantage

Rule 2: Learning and Experience

- “Practice makes perfect”
 - Aircraft manufacturing



Generating Cost Advantage

Rule 3: Lower Input Costs

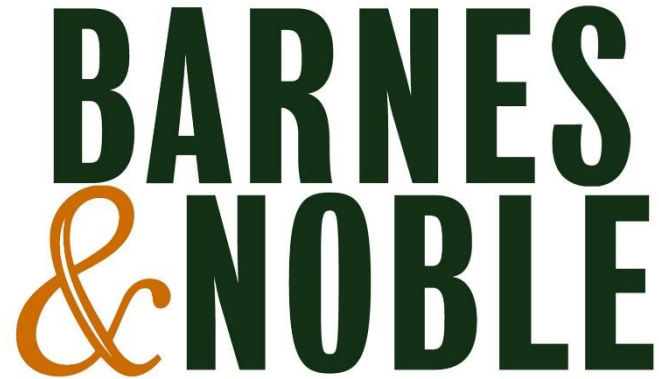
- Work cooperatively with suppliers
 - e.g. Toyota
- Source inputs from the lowest-cost location
 - e.g. Nike, H&M



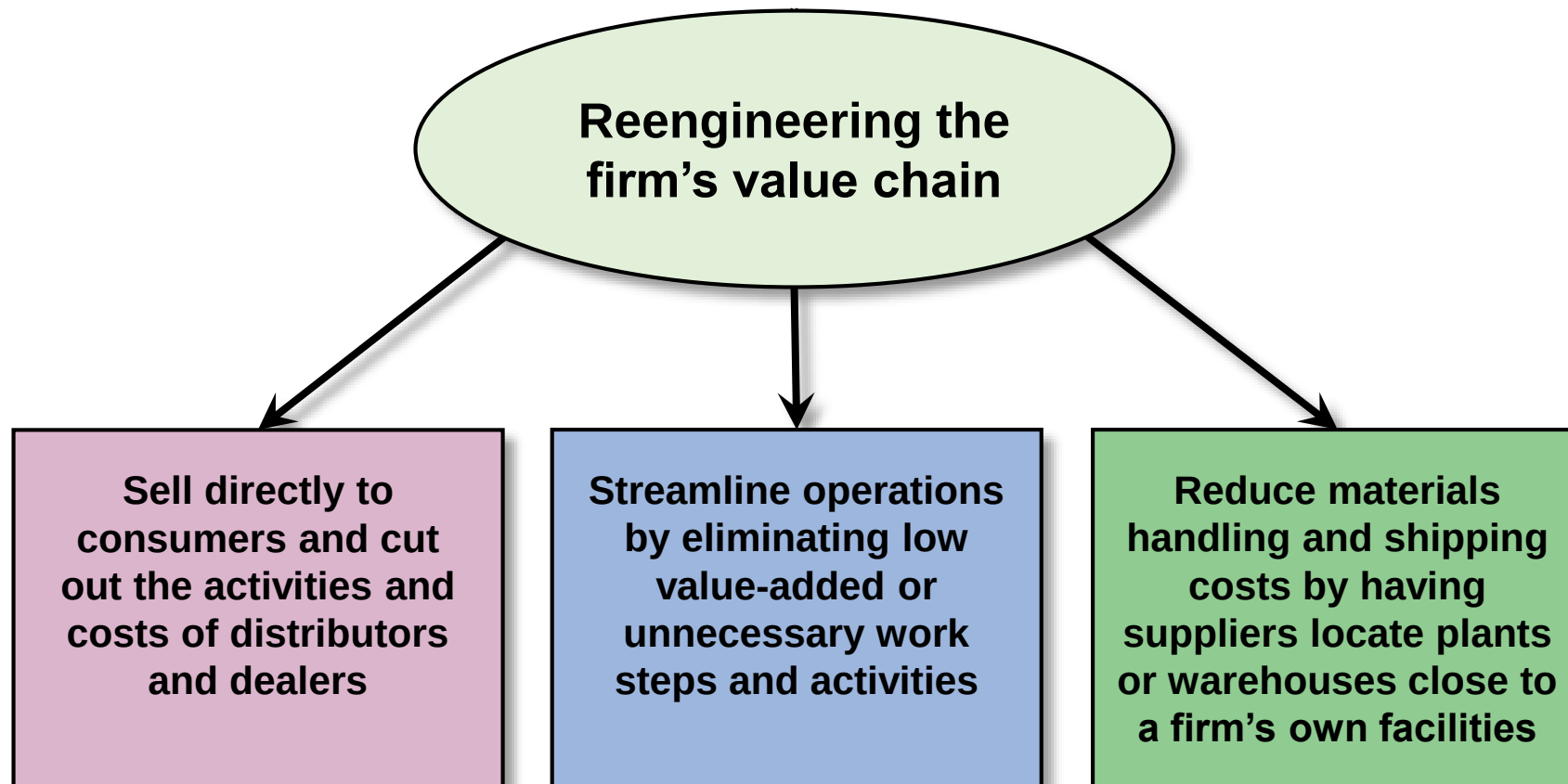
Generating Cost Advantage

Rule 4: Use a Different Business Model

- e.g. Amazon vs. Barnes & Noble

The Amazon logo, featuring the word "amazon" in a bold, black, lowercase sans-serif font. Below the text is a curved orange arrow that starts under the 'a' and points towards the 'n'.The Barnes & Noble logo, featuring the words "BARNES" and "NOBLE" in a bold, dark green, uppercase serif font, stacked vertically. Between them is a large, stylized orange ampersand "&".

Revamping the value chain



Suppliers for Southwest airlines

- Aircraft (Boeing)
- Airports
- Labor
- Fuel

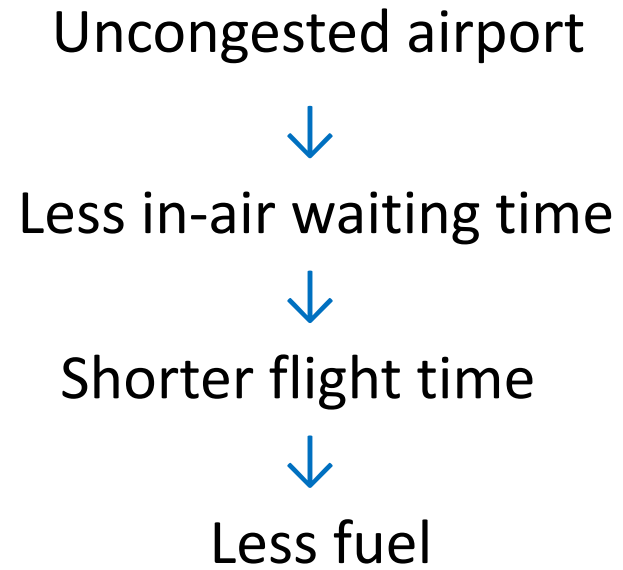
Airport

- Southwest flies with secondary airports which are less congested
 - Less competition with other airlines (more bargaining power)
 - Secure more resources with the airport
 - Decrease waiting time

Labor

- Labor includes pilots, cabin crew, ground personnel, gate agents, etc.
 - Southwest keeps a smaller fleet.
 - Southwest is good at maintaining a relationship with its employees.

Fuel



When does cost-leadership strategy work best?

- Price competition among rival sellers is especially vigorous
- Products are essentially standardized or identical
- There are few ways to achieve product differentiation that have value to buyers
- Buyers incur lower switching costs
- Industry newcomers use introductory low prices to attract buyers and build a customer base

Pitfalls of cost-leadership strategy

- Overly aggressive price cutting
 - Price cutting results in lower margins, no increase in sales volume, and lower profitability
- Reliance on easily imitated cost reductions
- Becoming too fixated on cost reduction
 - Ignoring buyer interest in additional features
 - Overlooking declining buyer sensitivity to price
 - Denying technological breakthroughs that will nullify cost advantages

- Apple case analysis

Apple's Business System and Competitive Position

R&D

- Heavy investment in R&D
- Focus on innovation

Purchasing

- Selective purchases from world-class suppliers

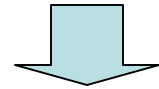
Operations

- Vertical Integration
- Proprietary H/W & S/W

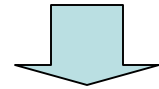
Sales/Marketing

- Innovative Prod. Features
- Distinctive Advertising
- Higher Prices

Distinctive/Consistent Activities across the Business System



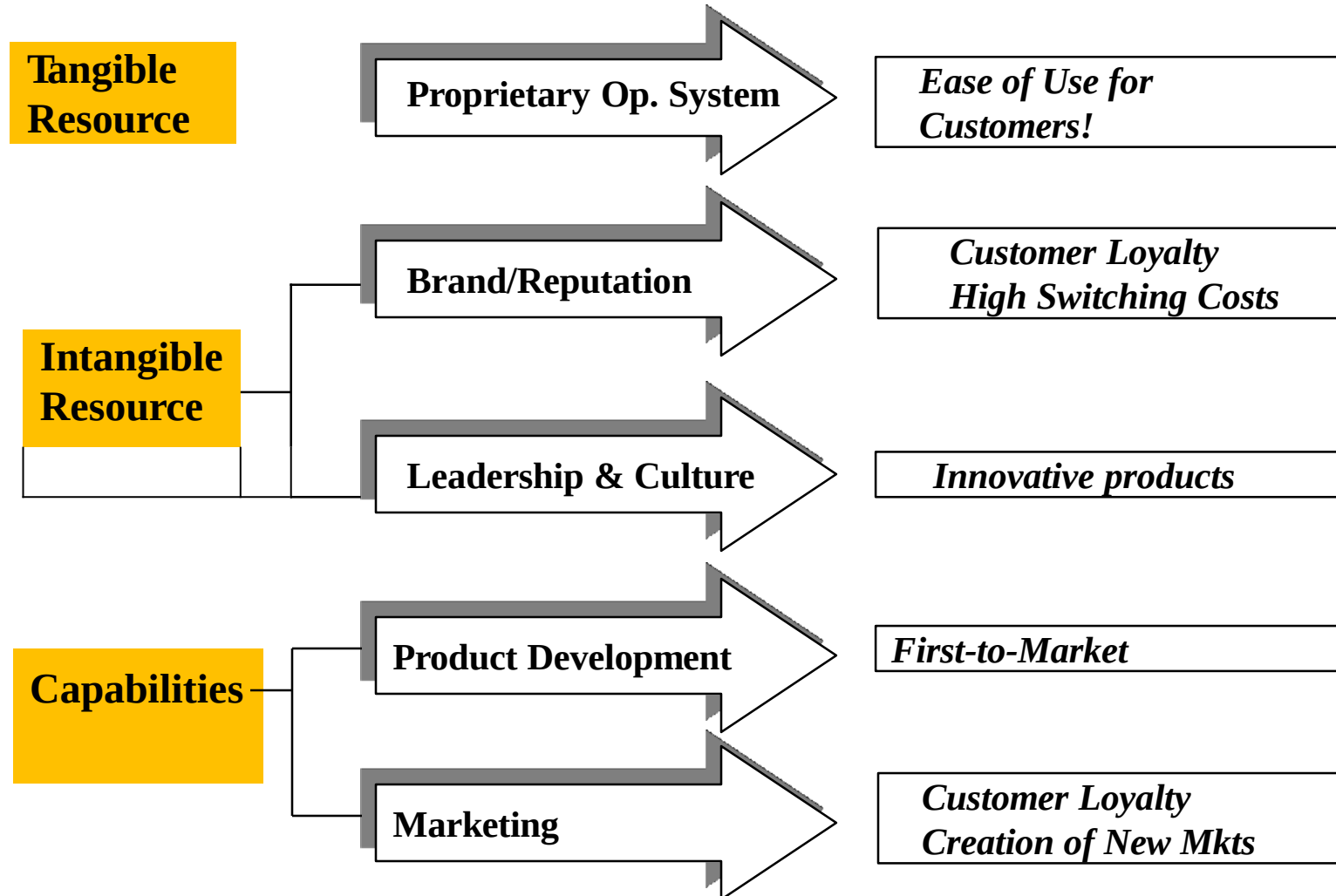
Differentiation Advantage



Competitive Advantage

Apple's Capabilities and Resources: Source of Competitive Advantage

VALUABLE!!



Q1. Why did Apple perform well up to 1984?

Emerging industry + differentiation strategy

Q2. Why did the firm's performance drop between 1985-1997?

Mature industry + not fitted low-cost strategy

Q3. Based on the information in the case, was Steve Jobs able to successfully turn Apple around by 2002 after reassuming leadership of company in 1997?

Yes, with getting back to the differentiation strategy + new products

Peer evaluation

- **(To be filled only when all team members have not equally participated in the team project)**

http://uhd.co1.qualtrics.com/jfe/form/SV_09wD4pBgEOwxWT3

- Peer evaluation is for all team assignments and projects. Under-performing members will have points deducted from their grade. In extreme situations where participation is non-existent for the whole semester, I reserve the right to give the offending student zero credit. This could mean taking the class over again so it is vitally important that all group members participate. I will evaluate any problems on a case by case basis. This survey will be strictly confidential, viewed only by the instructor for evaluation.
- Your team is given 100 points in total for peer evaluation. Allocate these points among members of the team, based upon the relative contribution of each team member to your project. The total sum must add up to 100 (Make sure you include yourself in the evaluation). An example answer is: member 1 name with points of XX, member 2 name with points of XX, member 3 name with points of XX, member 4 name with points of XX.

Assignment for next week

- 1. group project company
- 2. find CEO and board info: who, work for which company with what position, working/education background
- 3. no need to submit anything

Exercise example

- 1. company: apple
- <https://www.apple.com/> (bottom of the page)

About Apple

Newsroom

Apple Leadership

Job Opportunities

Investors

Events

Contact Apple



United States

<https://www.apple.com/leadership/>

Board of Directors

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Chairman of the Board, Apple
Former Chairman and CEO
Genentech

James A. Bell

Former CFO and Corporate
President
The Boeing Company

Tim Cook

CEO
Apple

Albert Gore Jr. ↗

Former Vice President of
the United States

Andrea Jung ↗

President and CEO
Grameen America, Inc.

Ronald D. Sugar, Ph.D.

Former Chairman and CEO
Northrop Grumman

Susan L. Wagner

Co-Founder and Director
BlackRock