Strategic Management

Autumn term

Hankuk University of Foreign Studies
Today’s class

1. Discussion: Case14_Small Package
   Express Delivery Industry

2. Chapter 3
   - Internal Analysis

3. Paper Discussion
   - Prahalad & Hamel (1990). Core competence

- Case Summary

The case traces the founding, evolution, and growth of the small package express delivery industry (PEDI). Aided by the airline industry deregulation of 1977, the industry grew rapidly with the entry of several players. As companies such as FedEx differentiated their service, the industry consolidated, and the weaker players exited the industry. By mid-1990s, the industry had acquired an oligopolistic structure, with FedEx, UPS, Airborne Express, and the U.S. Postal Service as the four major players. The industry showed robust growth during the economic expansion of 1990s and the rise of online retailing. In 2003, the U.S. market was shaken up by the entry of the German company DHL, which acquired Airborne Express.

The industry had changed immensely since the early 1970s. The minimum entry requirements, and the success factors had evolved due to trends toward globalization and tightening of supply chains on a global basis, as well as the rise of online commerce in many industrialized countries. In addition, rapidly developing economies of China and India, as well as the integration of these large markets with the rest of the world suggested that the rules for survival and growth in the PEDI could change even further within a short time. Global logistics and supply chain management were emerging as critical success factors for even the smallest of companies in most industries. Has PEDI transformed from being a domestic industry to a global industry? And if so, what new skills and competencies did the industry players need to invest in? Could global integration also expose the current players to competition from new sources and new countries? Which players had the best resources and assets to compete in the new scenario?
Questions

1. How has the PEDI changed since FedEx pioneered it in the 1970s?

2. What are the opportunities for industry’s incumbents, as well as for any potential entrants?
In March 2007, FedEx announced a major expansion within China. It announced that it would launch the first guaranteed overnight express-delivery service within the country. The company said it would provide next-business-day, time-definite delivery service to 19 cities and a day-definite service to more than 200 others. It plans to launch the upgraded service on May 28, 2007, and make it fully operational in June. A closely held Chinese airline, Okay Airways, will provide overnight air transportation for the new FedEx services, using three Boeing 737 freighter aircraft. FedEx will base its domestic Chinese operations at the Hangzhou Xiaoshan International Airport, in eastern Zhejiang province. The new hub will initially be able to sort as many as 9,000 packages an hour.

Until now, FedEx has focused mostly on international express deliveries to and from Chinese cities. One analyst of the industry projected that by volume FedEx has roughly 20% of the market in China, behind No. 1 DHL, which has about 32%. It is also estimated that UPS has a 15% share; TNT, 5%; and the state-run China Post, 15% to 20%. China’s domestic market for package deliveries has been estimated to be growing at a rate exceeding 20% annually. By being the first to guarantee next-day, time-definite deliveries within China, FedEx increases the pressure on its rivals in the express delivery business in the country—where it competes with United Parcel Service, TNT NV of the Netherlands, and DHL, a unit of Deutsche Post AG of Germany. At the time of FedEx’s announcement, UPS provided guaranteed next-day but not time-definite service. DHL offered domestic overnight service between dozens of cities but didn’t guarantee delivery by a specific time of day. TNT didn’t generally provide either time-definite or day-definite deliveries within China but claimed it can do both on a customized basis for some clients.

The U.S. market, on the other hand, seemed to be slowing down. In the United States in 2007, FedEx faced what could be its first decline in per-share earnings in more than three years. While some analysts believed a slower U.S. economy was taking its toll, FedEx claimed that its results suffered due to a lag between fuel-price changes and customer surcharges, which are adjusted once a month. UPS also signaled the potential for a slow economic start in 2007. It warned about the possibility of its full-year per-share earnings rising by the smallest percentage in four years, which it blamed on weakness in industrial production, typically a big generator of shipments ranging from computer parts to video cameras to toys for its fleet.

The forecast marked the latest sign of softness in the U.S. transportation sector in 2007. While railroads generally are continuing to prosper from the surge in imports from Asia and shipments such as coal and grain that are less vulnerable to economic swings than other types of freight, many trucking-related companies reported sluggish demand.
Opening case

Southwest Airlines (text p.75-76)

- southwest airlines: low-cost competitive advantage
- high employee productivity: profit-sharing/ careful hiring/ no-frills operation

QUESTIONS

- Whether any firm could hope to imitate Southwest’s low-cost competitive advantage?
- A possibility of a successful competitive attack by an airline pursuing a different strategy?
Teaching objective

Firm & Resources

1. Why some firms do better than others?
2. What are firm resources?
3. What is the basis of competitive advantage?
Teaching objective

to identify the strategic *strengths* and *weaknesses*

- Internal Analysis requires an assessment of:
  - The firm’s resources and capabilities
  - Distinctive competencies
Competitive Advantage
-A firm’s profitability is greater than the average profitability for all firms in its industry.

Resources

Distinctive competencies

Capabilities

Build

Shape

Strategies

Competitive advantage

Superior profitability

Build
How profitable a company becomes depends on three basic factors:

1. **Value or utility** the customer gets from owning the product
2. **Price** that a company charges for its products
3. **Costs** of creating that product

\[ U - P \]

\[ P - C \]

\[ U = \text{Utility to consumer} \]
\[ P = \text{Price} \]
\[ C = \text{Costs of production} \]
\[ U - P = \text{Consumer surplus} \]
\[ P - C = \text{Profit margin} \]
\[ U - C = \text{Value created} \]

Includes cost of capital per unit
Resources & Strategy

Value Creation & Pricing Options

Option 2: Lower prices to generate demand

Initial States

Option 1: Raise prices to reflect value
Comparing Toyota & GM

Toyota creates more utility
Toyota can charge higher prices
Toyota is more profitable
Toyota has a lower cost structure
The Value Chain

A company is a chain of activities for transforming inputs into outputs that customers value – including the primary and support activities.
The case: Burberry  (text: p.85)

company profile

-in 1997, described as outdated with a fashion cachet of almost zero.
-Rose Marie Bravo, however, said that there was hidden value in the brand.
-in 2006, achingly hip high-end fashion brand.

Question
-Compare Burberry with Aquascutum
<table>
<thead>
<tr>
<th></th>
<th>Burberry</th>
<th>Aquascutum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>established</strong></td>
<td>-1856, Hampshire</td>
<td>-1851, London</td>
</tr>
<tr>
<td><strong>royal warrant</strong></td>
<td>-around 1950s</td>
<td>-since 1897</td>
</tr>
<tr>
<td><strong>model</strong></td>
<td>-Kate Moss</td>
<td>-Giesele Bundchon</td>
</tr>
<tr>
<td><strong>owner</strong></td>
<td>-Great Universal Store in 1955</td>
<td>-Renown since 1990</td>
</tr>
<tr>
<td></td>
<td>-Spin-off in 2005</td>
<td></td>
</tr>
<tr>
<td><strong>profit</strong></td>
<td>-Sales: £995 million (‘08)</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>-Net income: £135 million (‘08)</td>
<td></td>
</tr>
</tbody>
</table>
Building Blocks of Competitive Advantage

- Superior quality
- Competitive Advantage:
  - Low cost
  - Differentiation
- Superior efficiency
- Superior innovation
- Superior customer responsiveness
Analyzing Competitive Advantage and Profitability

**Increase Company’s Return on Sales**
1. Increase sales revenue more than costs
2. Reduce cost of goods sold
3. Reduce spending on SG&A
   - Sales, Marketing, General & Administrative Expenses
4. Reduce R&D expenses
   - Research & Development

**Increase Capital Turnover**
5. Reduce the amount of working capital
   - Inventory, Accounts Receivable, Payables
6. Reduce the amount of fixed capital
   - PPE - Property, Plant & Equipment
The Durability of Competitive Advantage

1. Barriers to Imitation
   - Making it difficult to copy a company’s distinctive competencies

2. Capability of Competitors
   - Strategic commitment
   - Absorptive capacity

3. Industry Dynamism
   - Ability of an industry to change rapidly
Why Companies Fail

1. Inertia
   - Companies find it difficult to change their strategies and structures

2. Prior Strategic Commitments
   - Limit a company’s ability to imitate and cause competitive disadvantage

3. The Icarus Paradox
   - A company can become so specialized and inner-directed based on past success that it loses sight of market realities
   - Categories of rising and falling companies: 
     *Craftsmen/ Builders/ Pioneers/ Salespeople*
Avoiding Failure: Sustaining Competitive Advantage

1. Focus on the Building Blocks of Competitive Advantage
2. Institute Continuous Improvement and Learning
3. Track Best Practice and Use Benchmarking
4. Overcome Inertia
A case: Starbucks Coffee (text: p.85)

- company profile
  - business model: provides a third place between home and work
  - with focus on superior customer service and employee program
  - Starbucks own its stores

- Questions
  1. How secure is Starbucks’ coffee competitive advantage?
  2. What are the barriers to imitation?
Paper Discussion

Core Competence of the Corporation

1. Prahalad & Hamel (1990)
2. Core competencies in GTE and NEC
3. Core competence vs. vertical integration
4. From core competence to core products
Lessons from the Oxford and Cambridge Boat Race

1. de Rond (2008).

2. The ability of team members to balance competitive and cooperative instincts

3. The nature of seat racing

4. Two groups that face off on a series of problem-solving challenges
Paper Discussion

Firm Resources and Sustained Competitive Advantage


2. Physical/ Human/ Organizational resources
Firm Resources and Sustained Competitive Advantage

Value
Rareness
Imperfect Imitability
—History
—Dependent
—Causal Ambiguity
—Social
Complexity
Substitutability

→

Sustained Competitive Advantage
Next week

Simple Questions
1. What are Porter’s generic strategies of cost leadership and differentiation?
2. How a corporate-level strategy of vertical integration could enhance a business-level strategy?

Case 21 on NBC

Lecture on competitive advantage (chapters 4 & 5)

Paper Discussion
2. Drucker (2002) They’re not employees, they are people