Strategic Management

PART A

Question 1

Competitive advantage can be defined by which an organization will use its core competencies and leverage its strategic strengths whist investing and sustaining a long term strategy to outperform its rivals and earn higher than average profits (Diasz, 2017). Porter's generic strategies are widely discussed related to achieve competitive advantage in the market. Instead of generic strategies, Resource based view (RBV) and positioning approach are the mostly used strategic formulation approaches to achieve competitive advantage.

Resource based view (RBV)

Resources based view focus on company's internal environment and concerns on values that arise from competences , resources and capabilities. This strategic approach is not applicable for all the situation. Porter's generic strategies and five forces analysis focus on how to adopt the company's strategy according to environmental factors. According to RBV, internal factors such as resources and capabilities which contribute to organization's growth and performance lead to achieve competitive advantage (Bowman and Faulkner, 1996). These resources and capabilities need to be difficult to copy. Company can do its operations better than its direct competitors by having superior skills or superior resources.

Superior skills – This refers that generalized skills that does not depend on single and few individuals. Further, these skills need to be maintained overtime (Diasz, 2017).

Superior resources – Superior resources can be tangible assets and intangible assets such as strong brand. According to Barney (1991), these resources need to be valuable, rare and costly to imitate to achieve competitive advantage.

Having superior skills and resources lead companies to outperform among other competitors and maintain its competitive advantage. Toyota is the one of the companies which successfully follow the SBV approach. Currently, Toyota is the largest automobile manufacture in the world. Toyota has superior skills than superior resources compared to other competitors. Toyota has positioned itself as an automobile company, which offer high quality product for an affordable price. Toyota's higher quality and productivity make it different from other competitors. It lead to create additional value to the customers. Toyota is the company, which introduced lean production system first time to the world. This production system support to achieve superior efficiency and maintain consistent higher quality, which allow company to offer higher quality to product for an affordable price.

Further, manufacturing systems such as Just in Time (JIT) inventory and self-managing teams, which are successfully tried out in Toyota lead to increase efficiency and reduce the setup time. It has been difficult to main competitors to imitate this low cost manufacturing process. Thus, Toyota has used resource-based view as strategic approach to gain competitive advantage.

Positioning approach.

Positioning approach mainly focus on external environment. Therefore, this approach focus on competitor analysis and market before develop business strategies. Firms which follows this strategic approach try to adopt according to market situation. Analyses such as SWOT analysis, Porter's five forces analysis, PESTEL analysis are used to evaluate external environment. Firms need to consider competitors' strategic position to position itself in the market. All these analyses are used to look ahead at the market and predict the market changes. Then, firms can change its strategic approaches according to market changes. This is mostly used strategic approach to achieve competitive advantage since it takes more time to develop superior skills and resources.

Air Asia is one of the leading low cost airline in the world. Air Asia has adopted to cost leadership strategy specially in Asian airline industry. There is a huge market for low budget airlines in Asian region. In Asian region, most of the middle class passengers could not afford premium airlines. In recent past, number of budget travelers have been increased significantly. Most of the budget travelers' favorite destination is Asia. Air Asia has positioned according to this market. Air Asia maintain high aircraft utilization since profit margin per passenger is relatively low. The main objective of Air Asia as a low cost carrier (LCC) is to achieve higher marker share by providing services to broader market. Air Asia provide basic facilities to passengers. Therefore, in positioning approach, firms adopt according to conditions of external environment of the market rather than focusing on its resources and capabilities.

Question 2

Blue ocean strategy emphasize that how to develop uncontested market space for the firm and it makes the competition irrelevant. Blue ocean strategy mainly focus on value innovation. Main objective of it to create demand and exploit untapped market via value innovation rather than achieving competitive advantage (Kim and Mouborgne, 2005). Blue ocean strategy emphasize that move to blue ocean which has little or no competition rather than stay in red ocean which has high level of competition. Here, strategy canvas and four actions framework are used to evaluate how blue ocean strategy apply in an organization. Netflix has become disruptive business to entertainment industry. Netflix is one of the great example to explain how blue ocean strategy apply in real life.

Strategy canvas

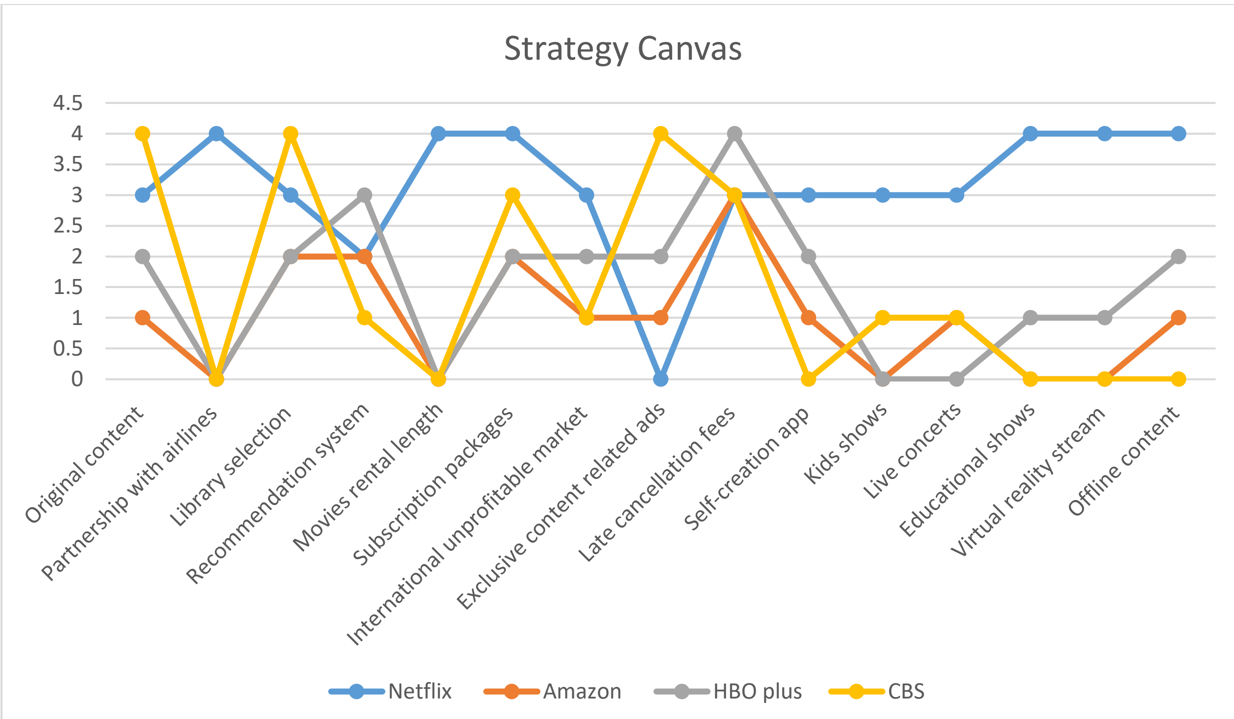
Strategy canvas visually display how firm has develop or is going to develop blue ocean strategy within the industry. This illustrate how other competitors compete in the market, how competition change according to different factors and how the firm react to different factors. Fourteen factors are identified and compared Netflix with other main competitors. All factors are scored from 0 to 4 based on the likeliness of the meeting the factor.

Table 01 – Ranking

Factors	Netflix	Amazon	HBO plus	CBS
Original content	3	1	2	4
Partnership with airlines	4	0	0	0
Library selection	3	2	2	4
Recommendation system	2	2	3	1
Movies rental length	4	0	0	0
Subscription packages	4	2	2	3
International unprofitable market	3	1	2	1
Exclusive content related ads	0	1	2	4
Late cancellation fees	3	3	4	3
Self-creation app	3	1	2	0

Kids shows	3	0	0	1
Live concerts	3	1	0	1
Educational shows	4	0	1	0
Virtual reality stream	4	0	1	0
Offline content	4	1	2	0

Figure 01 – Strategy canvas for Netflix and its main competitors



According to strategy canvas, Netflix has many strong points compared to other competiors. Therefore, Netflix has ability to outperform other competitors and stay stable in the market by not reacting much to competitors' strategies. Further, this illustrate the areas that firm need to focus more to reach to Blue Ocean. Value innovation of Netflix create new dimension to entertainment industry. It disrupted traditional television broadcasting industry and offer new experience to the viewers.

Four actions framework

Four actions framework includes four types of factors, which lead to practice blue ocean strategy; reduce, eliminate, create and raise.

Reduce – This refers the reducing factors, which well below to the industry standards.

Eliminate – This refers the factors that need to eliminate to get competitive leverage in the market.

Create – This refer the factors that firm need to offer which industry has never offered before.

Raise – This refer the factors that firm need to raised well above the industry standards (Kim and Mouborgne, 2005).

These four actions lead to company to create blue ocean by adding new value curve. These four actions can be used to reach the blue ocean and below figure illustrate which actions need to take for different factors.

Figure 02 – four actions framework

Eliminate	**Reduce**
Late cancelation fees Exclusive content related ads	Subscription options International unprofitable market.
Raise	**Create**
Original content. Library selection Partnership with airlines Recommendation systems Movies rental lengths	Kids shows Self-creation application Education shows Live concerts Offline content Virtual reality streaming

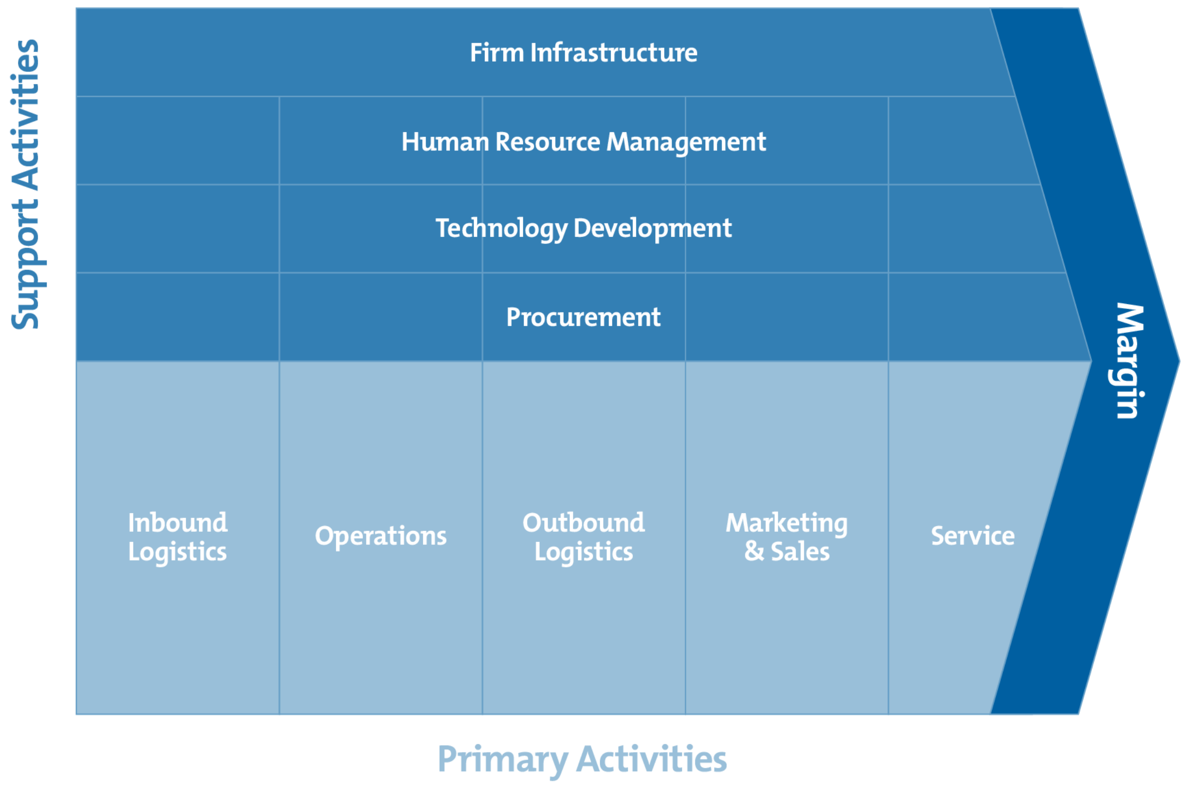
PART B

Question 1

Porter’s generic strategies are widely used strategic approach to decide the corporate strategy of the organization. Porter’s generic strategies explain how firm achieve competitive advantage in the industry. Porter’s generic strategies mainly focus on three strategies; cost leadership, differentiation and focus. Firm’s value chain need to be adopted according to generic strategy that company follows. Zara is one of leading fashion brand in the world. Zara is a brand of Intidex group. Zara follows the mix of cost leadership and differentiation strategy. This is called the best cost strategy and this relies on offering premium products for an affordable price. Company’s value chain need to be designed based on the business strategy. Porter’s value chain can be used to describe the value chain of the company.

Porter’s value chain for Zara

Figure 03 – Porter’s value chain



Primary activities

Primary activities are the activities, which directly involve to the production and selling process.

Inbound logistics

Inbound logistics focus on retrieving and storing raw materials and other inputs and internally distribute inputs to start the productions.

Zara follows differentiation strategy via inbound logistics by procuring high quality fabrics to produce high quality finishing goods. Inditex group is a vertically integrated group. On the other hand, company takes cost advantage through ordering raw materials in bulk volumes. Company negotiates with suppliers the best prices for materials and inbound transportations. Further, company follows lean concepts to inventory management.

Operation

Company try to differentiation by providing high quality and latest fashions to the market within short time period. Even though, most of leading fashion brands outsource its production to Asia, Zara has its own manufacturing plants in Europe instead of outsource to Asia. Zara is the one of main fashion brand, which introduce fast fashion concept. Zara has flexible manufacturing system to adopt the market requirements. Zara has ability to bring latest fashions from fashion shows to outlets within short time period. Zara produce wide range of styles in small qualities. It has more than 300 designers and design more than 11,000 items per year while other competitors design around 2000 to 3000 items per year.

On the other hand, company takes cost advantage by outsourcing part of the production to Asia and Africa. Especially, Zara outsource standard product range as bulks to achieve the economics of scale.

Outbound logistics

Distribution process is the one of main core competency of Zara. Firm has ability to deliver products to outlets twice a week. Zara has regional distribution centers in Europe, Asia, USA and Latin America and there is central distribution center in Europe interconnect all the distribution centers. All the products are received to central distribution center from factories and then distribute to regional distribution centers. Company uses the speedy shipments to deliver products to all over the world within 24 to 48 hours. Further, company distribute the products directly to the customers. Zara keeps stock in low quantities to reduce the inventory cost.

Marketing and sales

Zara has more than 6500 stores in 88 countries and most of them located in Europe. Instead of stores, there are online channels to sales the product. Company try to take cost advantage by reducing advertising cost. Company only spends about 0.3% of sales on advertising while industry average marketing spend for retail is 3.5%. Word of mouth is the main aspect of marketing.

Services

Store managers of Zara regularly communicate customers' feedback to designers on what customers prefer and not. Therefore, company has ability to design the products according to requirements of the market within short time period. Store managers have main responsibility to provide proper service to the customers. Zara's stores have futuristic appearance and these stores are located in prime locations in the cities. Further, Zara has 24*7 hour access to customers' complains.

Secondary activities

Firm infrastructure

Firm's infrastructure establish to achieve the fast fashion concept by maintaining shorter lead-time. Group is vertically integrated to facilitate the fast fashion concept. There are policies to standardize operation to maintain higher quality. On the other hand, company try to achieve economies of scale to get cost advantage.

Human resource management

Company highly focus on training and development to add value to customers throughout the value chain. Zara has around 300 young designers to design new trends. Store managers has autonomy to take decisions to facilitate the customers.

Technology development

Company has developed quick response system to the industry. Customers' feedbacks are gathered via personal digital assistants to provide better service to the customers. Company's research and development budget is relatively low compared to main competitors however, company mainly focus on innovative integration in product designing and improve the quality of materials.

Procurement

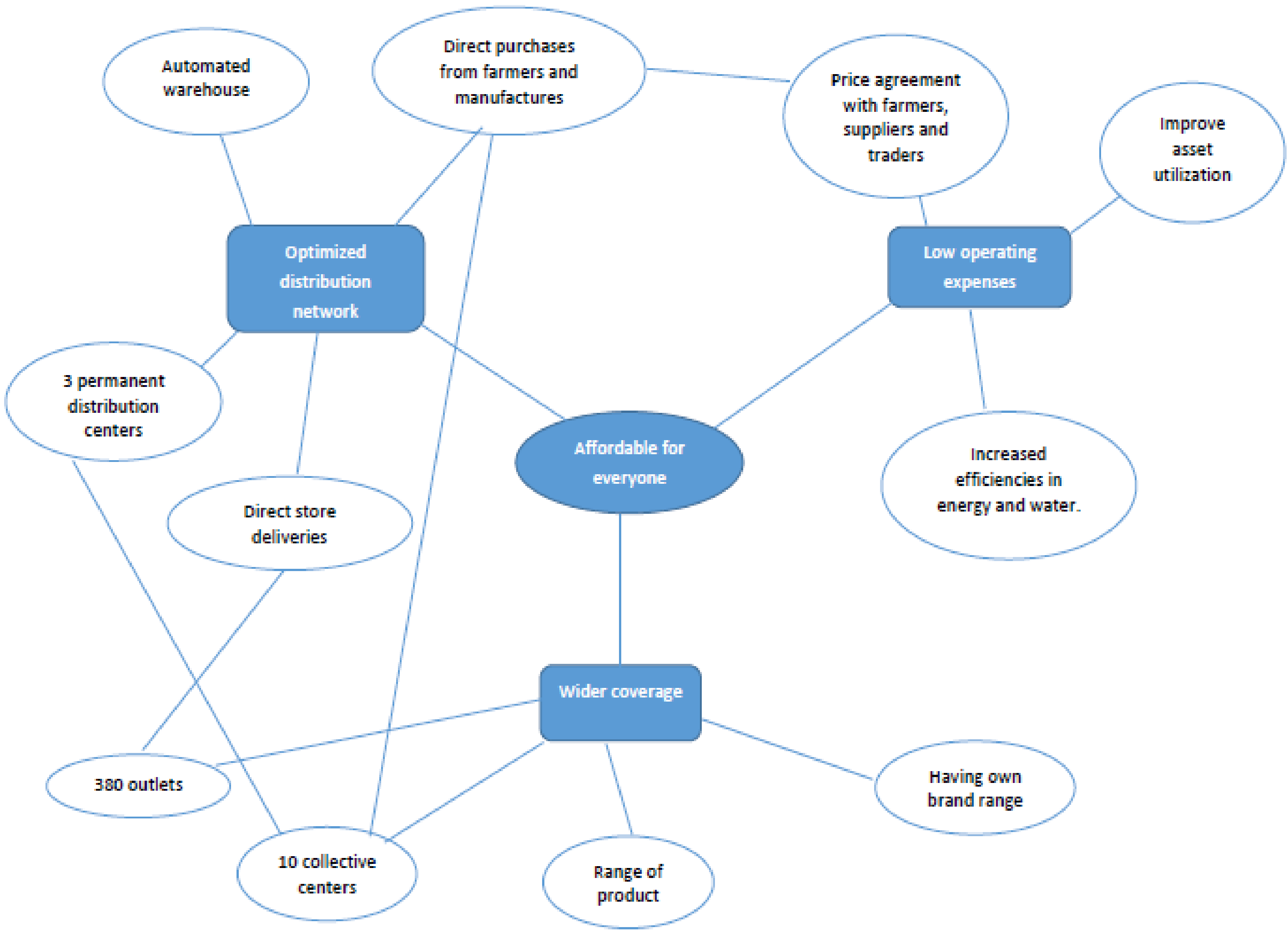
Company source fabric and other inputs from reliable suppliers for lower price. Zara follows Just In Time (JIT) method and it lead to reduce the production cost. Zara has centrally managed inventory system to address the orders from all over the world within quick time period.

According to above primary and secondary activities, it shows that Zara try to differentiate from the competitors via adding more value and at the same time, company try to take cost advantage to offer products to customers for affordable prices.

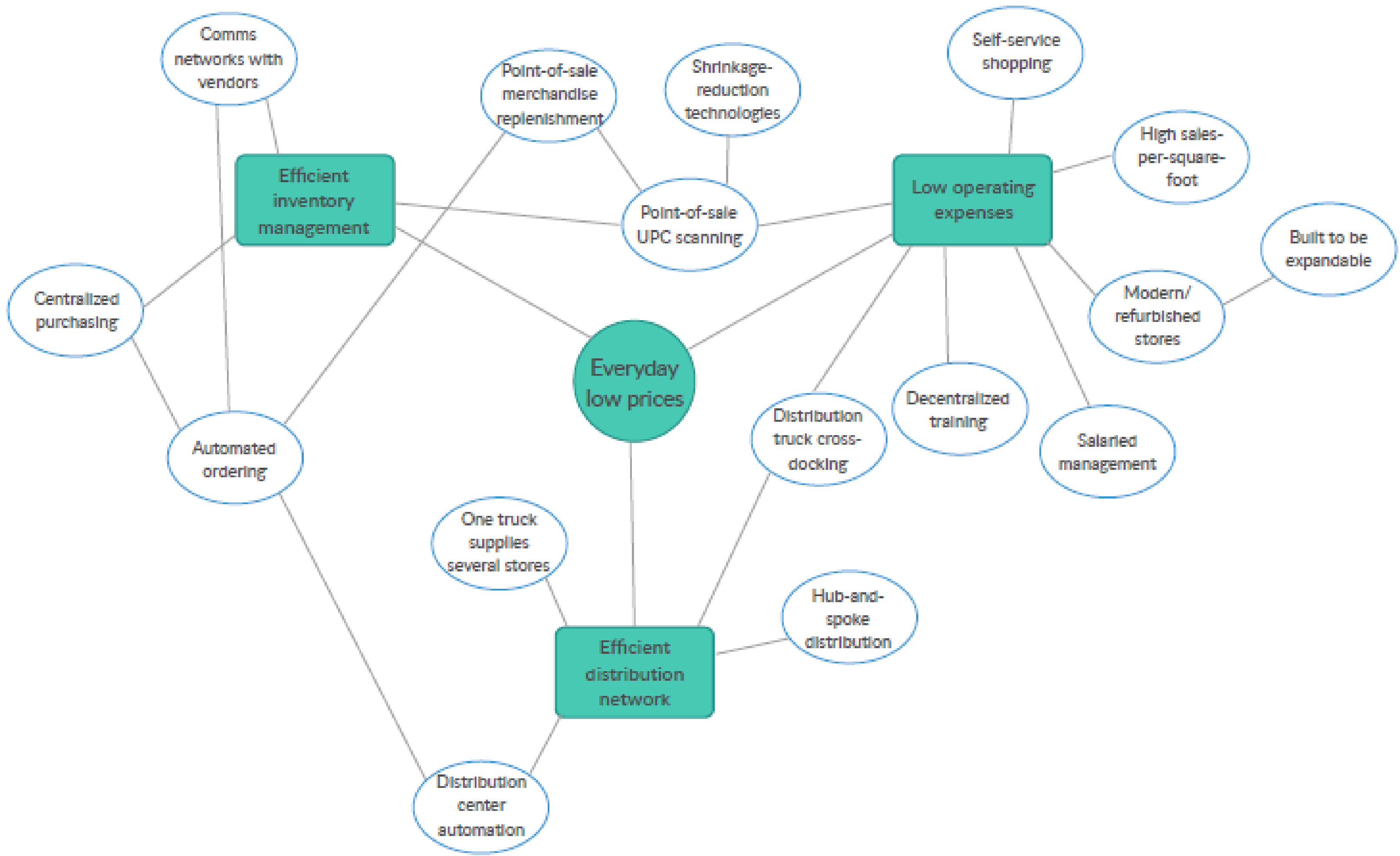
Question 2

Cargills Ceylon is one of leading super market chain in Sri Lanka. Below activity map illustrates how company try to achieve competitive advantage.

Figure 04 – Activity Map for Cargills



Cargills mainly focus on increase access to many customer segments. Therefore, company try to reduce the operation expenses to provide products for affordable prices. Company directly purchases most of the products from farmers, fishermen and manufactures. Cargills has 380 outlets all over the country to create more access. Company has effective distribution system throughout the country. Activity map of Walmart which follow similar strategy has been illustrated below.


Everyday low prices
Efficient inventory management
Low operating expenses
Efficient distribution network
Comms networks with vendors
Centralized purchasing
Automated ordering
Point-of-sale merchandise replenishment
Shrinkage-reduction technologies
Point-of-sale UPC scanning
Self-service shopping
High sales-per-square-foot
Built to be expandable
Modern/ refurbished stores
Decentralized training
Salaried management
Distribution truck cross-docking
One truck supplies several stores
Hub-and-spoke distribution
Distribution center automation

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