

**Strategic Management – The Competitive Edge**  
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**Lecture 18**  
**Competitive Advantage (CA), IFAS, SFAS**

So welcome to this session. So we were looking at competitive advantage, how should companies use resources to gain competitive advantage. In order to do that the companies should identify and classify the firm's resources in terms of strengths and weaknesses; we have discussed this in fair detail- how to do this what are the type of checklists you should have and all that. Now, using the strengths what should the company do? The company should combine the firm strengths to specific capabilities, you may be a company may be very advanced in some skilled welding techniques, that is its specific capability.

So if you look at PCB welding, it is a skilled welding, it is not what do you call rough type of welding it has to be done very well in a very fine manner, so that there is no flow of the weld from one point to the other point that is liquid flow. So this is called fine welding, this fine welding-it is an art actually when you look at this PCB, it is quite an art and then when you come to chips it is even further. So you have to have skills to produce these chips.

So if a company has this type of capability, it is its corporate capability; it is many times called the core competency of a company. So I gave you the example of welding because welding has changed over the last few decades- the scenario of welding itself has undergone a terrific change. Earlier you used to have a grump saying that it is a weld with respect to your door. So if you touch that welding grump usually some iron chip would get into your hand.

Now, what is the present day welding it is so smooth that you will not even make out that it has been welded. So this is the type of advances that have come out in the field of welding not to mention about the other fields like electronics, IT, and all that. Now, using these core competencies, the company should move to distinctive competencies use these core competencies that is a specific capabilities, move to distinctive competencies; what do you mean by moving to distinctive competencies?

This is where your core competency will become difficult to be imitated by the competitor. So when it becomes difficult to be imitated by the competitor, you have this distinctive competency coming into the picture. Now, you look at a firm like Gillette - example of Mach 3. The type of core competencies when it moved into distinctive competencies, this company could hold on to these distinctive competencies for quite a considerable period of time still holding on, result is it

is having a sustainable competitive advantage.

So you look at the profit potential and capabilities of your distinctive competencies. When you look at that profit potential and capabilities of your distinctive competencies, likely that company is likely to move towards sustainable competitive advantage; when you do this type of exercise, that is you list up the strengths, you list up the capabilities of the company, how you can really harness these capabilities, this will give you an idea of what is the best strategy that you should adopt, it will also tell you, what is the gap in your resources.

Similarly, when you are looking at weaknesses of the company, you will also come across the type of gaps in resources with respect to the company's strategic position in the marketplace what is the type of resource gap that the company is finding. So a company should invest in upgrading its weaknesses. So identify the resource gaps and invest in upgrading weaknesses.

Many times questions are asked -there is this doubt that will the advantage that a company gets initially will it become sustainable? How long will it be sustainable? This is an important question which as a strategic planner you may have to answer. So this is important not only for the marketplace, it is important for the ongoing operations of the company as well. So this brings you to a very important question how do you determine the sustainability of an advantage.

Sustainability of an advantage is looked at under different heads -one is durability that is the rate at which a firm's resources and capabilities become obsolete; this term obsolete is very important; is becoming even more important in the present day context when technology itself is becoming obsolete in a very short time. So what you thought earlier is going to carry the company through for quite a reasonable amount of period maybe 5 years 10 years, you may find to great surprise in the next 2 to 3 years that technology itself has undergone a change.

The best example for this is none other than Indian telephone industries. Earlier a few decades back up to 80's even mid 80's you can say the company used to pride itself in its Strowger and Crossbar technologies. Now what happened after this mid 80's? So the type of mechanical phones which you used to get from ITI after the company started operations many people were very happy with this mechanical phones of ITI. So it was a circular dial and each time you had to dial this number, so you may think, they were very happy because the number of phone connections at that point of time was limited, you could do this dialing of each number, all those types of things, yes, quite possible.

Now, many times people used to wonder why this phone used to weigh between 5 to 10 Kgs. So many times, the customer used to think suppose this phone were to drop on my leg, this leg will break that type of scenario. So many times the customer would be thinking, why cannot ITI bring

out a sleeker version of this phone instead of this. So all these questions were answered in mid 80's when in came the, what do you call the change in technology.

So from mechanical, it moved over to electronics, the result is the capabilities of ITI as a leader, as a giant in fact, in the field of Strowger and crossbar became extinct because the technology itself became obsolete, so the durability called in question.

So in came the electronics entry into the field of communication; the result was that you got instead of this circular dialing, the push button dialing of the telephones. So you had a slim phone, push button dialing and very sleek;and the customer who was earlier voicing great appreciation for the circular dial telephone of the ITI took to this push button telephone very fast, he said this is much better than the previous phone.

Now, what happened in this whole transition of technology from Strowger and crossbar to electronics- so many 1000's of employees, their skills became redundant, it was not required by the company, this is what technological obsolescence can do to a company and no better example than that of ITI only. So a large number of workers from 2 divisions-that is the Strowger and crossbar- it was required for them to upgrade their skills, many of them had crossed the age of 45 and they were asking, perhaps from their point of view, a valid question, should we learn this technology at this age now.

So this is what changes in technology can do to a company and its employees. So it was a very big challenge for ITI to train its workforce without making them feel that you are redundant for the company. So they had to bolster their confidence, retrain them. Training programs were initiated with the help of IISc to upgrade the skills of these employees back in the 80's only. So this is what durability can cost to company -that is a rate at which a firm's resources and capabilities become obsolete.

Then the second yardstick is imitability that is the rate at which a firm's resources and capabilities can be duplicated by others. We call this under so many heads; when the first slim line telephone came out from ITI, they wanted to commercialize this product, I am talking of the 80's. So before commercializing the product, they were very happy that ITI was able to come out with this slim line telephone and there were a lot of kudos given to ITI's R&D for coming out with a very good product in the marketplace.

So at that point of time, this slim line phone adorned the tables of the top echelons in the country, the tables of the President, the Prime Minister, Supreme Court judges, High Court judges, etc before it went into this commercialization stage.

So before going to this commercialization stage, they wanted to find out whether a similar phone is available in the marketplace. To the great chagrin of ITI, they found that in the grey market, a similar phone was available in Bangalore only. Whereas the price at which the company wanted to sell this phone, had fixed it at price  $x$ , to their next surprise, they found that it was available much lower than  $x$ .

So the company had to rethink. So this is what happens when you what you thought is an advantage, competitive advantage lends itself to duplication, that is your core competency lends itself to duplication by the other players. So this is the imitability, the rate at which a firm's resources and capabilities can be duplicated by others. A core competency can be imitated to the extent it is transparent, transferable and replicable.

It is not that these things were not there earlier in the Indian market; change is when you are looking through the prism of strategy, you are trying to bring them under these different umbrellas- that is transparency. Then transferability, the ability of a competitor to gather resources and capabilities to support a competitive challenge.

So suppose the competitor is able to give a real challenge to the company, then again this imitability comes into picture. So this core competency, what you thought was a competitive advantage for you, it may be just broken through this transferability.

So the next one is replicability ability of a competitor to use duplicated resources has happened to well-known players in the Indian market. The best example of this is the Bajaj scooter in the 80's and 90's. So there used to be what do you call tagline of Bajaj saying Humara Bajaj, and was very popular giving value for money at that point of time.

So one had to wait for several years to get a Bajaj scooter, especially the Chetak scooter till perhaps the late 80's. So that was also the scenario to get a telephone connection in the country, you had to wait for a number of years. So all these changed from 90s.

So now, what is the present day setup if you really look at it you may not require a telephone connection at all to your house, because the mobile phones is doing that job. So almost all the persons in the house have a mobile phone, they are easily accessible on the mobile. So many times many houses do not even have a landline now, earlier having a landline was considered a prestige up to the 80's. Now because getting landline phones from BSNL itself was a big challenge and involved process.

Suppose in a present day setup, when a consumer wants to disconnect his landline connection goes to BSNL office, the BSNL which earlier never used to bother asks the consumer why do

you want to disconnect the connection there are different plans where the charges are very low, why not you keep the landline connection, it is not going to cost you much and it will help BSNL also.

So suppose you are having that sentiment that BSNL is a public sector company why not I do my small bit to support it which many people especially from that age group that is those who were youngsters in the 70's and the 80's, they will say yes, we will go ahead with this landline connection pay this minimal charge keep that phone, it helps BSNL. So this is what has happened to BSNL. So this replicability is the ability of a competitor to use duplicated resources and capabilities to imitate.

This can give you a good idea of when you are looking at it how competitors can replicate the firm's success, so by duplication, this is what grey market is all about. And these types of electronic goods market abound in places like Bangalore, Bombay and other metro cities in the country.

Now, with all this, we look at the Internal Factors Analysis Summary, for the same company for which we looked at for external factors, that is Maytag-one of the important strengths of Maytag this consulting company which did the exercise for Maytag, found was the quality culture of Maytag- this quality is a very important attribute for a company's product- impregnable not easy to defeat.

And there is a comment on this at the in the last column quality key to success. So this you can find with respect to any product. Take for example, a simple almost what do you call essential product that is the cooker. So many brands of cookers are available - Hawkins, Pigeon, etc. But with all that suppose, you ask the housewife which brand of cooker do you want for your kitchen, probably she will say go for Prestige. So that is the type of quality assurance, that Prestige, the brand has given to most of the Indian housewives.

So this, the second strength of a company like Maytag was experienced top management, they know what is the type of appliances Maytag produces. And when they know what, it is a great advantage. The most immediate competitor for Maytag, when this consulting exercise was done was Hoover, whereas, Maytag did not have that much of international orientation Hoover's international orientation was a distinct advantage for the company.

So when you come to weaknesses, the weaknesses of Maytag was found to be process oriented R&D. So in R&D itself, you can have a product oriented R&D or a process oriented R&D. So suppose the product changes let us say, many times the product change may get necessitated due to technology change. So if you really look at it, I was giving you the example of a washing

machine. So many times the question that was being asked before you go into the washing machine purchase was: is this washing machine close to the hand wash.

So whether you look at IFB or whether you look at some other brand LG , The first question that was being asked was is it very close to handwash because, this is just a machine and it rotates your clothes; that is a drum rotates and your clothes also rotate in the whole process; the fear was your clothes might get torn much faster.

So this was considered to be a weakness with respect to Maytag - it was slow on coming out with new products. So this is what process oriented R&D can always do to your company. So when they took 5 strengths and 5 weaknesses and rated the company they came out with a rating for Maytag at 3.05 that is about 60 percent.

So what have we done in the whole process, we have looked at the EFAS, we have looked at IFAS. Before we go into this SFAS that is the Strategic Factors Analysis Summary, let us see, what is the type of issues that are coming in the 21st century? When you look at it, the first thing that you are noting is as more and more companies become hyper competitive, it will become harder to maintain a competitive advantage unless a company has a distinctive competency, which is not only hard to imitate but also durable.

Durability has however little value during technical discontinuity. So if your technology itself becomes obsolete, then durability has no meaning. So where the technology to prop up the product it is not there, so you have to discontinue the product.

So many times it is told the consumer tells a company that this product has sentimental value to me. What is this, what is the example of this product? Maybe look at an automotive car, the car may be an Ambassador car that car might have been used by his grandfather came from grandfather to father, then it is with his son and the son would like to give it to his son as a gift from the earlier generations.

So he may be wanting to keep that Ambassador car in spite of all its inadequacies in the present day setup. He might say look, your great grandfather used to drive this car. So this is what the Ambassador did; served the Indian market as a robust car for several decades, passed on from one generation to the other. And having an Ambassador car at that point of time was considered to be a great prestige.

So now if you look at the present day automotive market you do not find the ambassador cars at all. Maybe in some of the government offices you may still find these Ambassador car; but individual wise they have moved on in came the Maruti, after the Maruti came so many other

type brands of car like the Toyota, or the Honda etc

Japanese cars have overtaken the Ford in the American market only. So you find that the average American is going for the Japanese car rather than the American Ford. So the earlier father was an employee of Ford, son would be an employee of Ford, grandson would also be- all this is gone. So this is what technological obsolescence can do for a company.

The second one is subcontracting by firms to reduce costs and become globally competitive. This applies to almost to all IT companies.

So name a major company in the Indian setup, whether it is Wipro or Infosys, they are trying to find out what is the activity they should concentrate on, whether it is developing the software- they do not want their time and energy to be taken away or dissipated in activities which could be subcontracted out by the company, maybe transport, canteen, etc

So if you look at a company like Infosys only, you find that large number of BMTC buses carry their employees from almost all parts of the city of Bangalore to the company. So contrast it with the earlier scenario with respect to ITI, ITI's transport department was huge. In the 70's and 80's, it used to say we have 160 to 170 buses operating in different routes of Bangalore, so it called for a terrific investment in the transport department. And all these buses had to come in time for the company to start work at right time.

So if the company's general shift was at 8:45, almost all these buses plying on different routes would drop their employees between 8:15 to 8:20 in the ITI's main factory, so that they can have their breakfast in the canteen and move to the departments. So canteen was also a very big activity.

Now what is happening? So if you look at the present day setup transport department has almost become extinct not present in most of the present day companies. This is subcontracted out, saving on it, even the payroll activities subcontracted out. So they do not want the mainstream employees to get engaged in all these activities, this is called support activities. These support activities they say the company gains by subcontracting, it also helps other firms to make their livelihood in a marketplace.

So primary activities to increase in importance in hyper competitive global industries. So this is what is happening in the present day setup. So I gave you the example of Microsoft, when Windows 95 was doing very well, none other than the founder of Microsoft, Bill Gates cannibalized that product; he said, suppose I do not cannibalize this product now, when it is doing well, the competitor will make it to get cannibalized. So there will be competition in the

marketplace and this product might become extinct. So this is what is happening in the present day setup.

The next one which is happening right now, with respect to both the IT and the manufacturing industry is autonomous work teams, this is virtual working, may lead to greater efficiency and reduction in supervision. So the result is you are given a task you are responsible for the execution of the task. In order to execute that task, you may have to coordinate with different work teams at different places, this is what most of our IT employees are doing, what is called virtual working.

So one team might be in Bangalore, he might be coordinating with a team in California in US. So these autonomous work teams given a task to come out with a portion of the product or the product, or the software, whatever you are referring to the application. So this autonomous work teams may lead to greater efficiency and reduction in supervision. The result is you do not have to supervise on a day to day basis, but still you get the report from this work team.

So work team should have better training to handle, this is what is happening in the present day setup. So each work team thinks that he is extraordinary, so why should I listen to the other work team person. So the work team should have better training to handle conflict management. So when you are looking at these things, you should have better training for handling conflict management.

Before we go to this strategic factors Analysis Summary, I go to the book on strategic management. Please look at page number 85, this gives you how strategic groups are formed-categorizing firms in an industry which pursue similar strategies with similar resources as a set of business units is referred to as strategic group. This can help in better understanding of the competitive environment. Since a company structure and culture tend to reflect the kinds of strategies it follows, business units belonging to a strategic group within the same industry tend to become strong rivals and more similar to each other than to competitors in the group with in the same industry.

So an example of the bakery industry in Bangalore is given. To come up with a typical mapping of strategic groups in the bakery industry in Bangalore, so you had the Butter Sponge, Nilgiris scoresheets in one circle, the VB bakeries, in the middle, then at the higher end, you have Pizza Hut, Lakeview; so this is the type of thing which came out.

So what is the common organizational requirements? Combination of the above policies directed at particular strategic target is required, both in skills and resources and also in organizational requirements. So this is a type of scenario which you are likely to have in the present day



marketplace. So having these generic strategies and sustaining with that is a real task. So with all this we come to what is the how to look at the strategic factor analysis.

So you looked at the EFAS, you looked at the IFAS with respect to the same company, let us see Maytag- you look at strategic Factor Analysis Summary, how do you do that? So from the 2 tables take the most important opportunities or threats then the most important strengths and weaknesses from the IFAS, then come to the strengths and the weaknesses, opportunities and threats.

So when you look at Maytag, again quality was the one which was holding key. So the notes column tell you how they arrived at this SFAS matrix for this company Maytag. Why we are looking at all these 3 matrices- because this is the one which an Indian organization should also do or attempt to do in the present day context.

Because the market is changing very fast, when the markets are changing very fast you cannot be a mute spectator- many times it pains. To note that HMT watches have now become a showpiece, considering that HMT was the first company to introduce the quartz watch in the Indian market and their tagline was timekeepers to the nation. The timekeepers to the nation had a collaboration with citizen, came out with first quartz watch in the early 80's.

Now the HMT watch itself has become a showpiece - earlier used to have showrooms repairing only HMT watches- now we should find that showroom where your HMT watch can be repaired, if you have one. Many times they say sir why don't you take the Titan watch.

So it is another story that Titan itself was an offshoot of HMT- many ex-HMT employees starting this under Titan brand name. The entry of Titan started to dent the HMT slowly and now HMT watches itself has become extinct in the marketplace.

So earlier HMT started as a lathe manufacturing company was in fact in the competitive market; even in that a much smaller company has given jolts to wipe out the HMT, whether it was with respect to its usual lathes or the modern lathes- so the company Ace Designers is in Bangalore only. So HMT started feeling the brunt of this competition with respect to CNC lathes from this much smaller company. So this is what can happen in the present day market setup.

This is what the LPG era has done. So this is the reason why a company should go in for analysis of its internal factors, external factors, using these internal factors and external factors, it should come out with a strategic factor analysis for the company. So these 3 matrices play a very important role with respect to most of the Indian companies in the present day market.

This LPG era has in fact, intensified the whole competition. So suppose you thought that yours was an invincible product in the marketplace, no, it is not going to be invincible. You may find very soon a similar product entering the market, this has happened to so many reputed players in the marketplace.

Even though Maruti is the auto leader in the automotive market, even to this day, but still other companies have also made a big mark in the Indian market. Even the competitors of Honda recognize its main strength is its engine which they are not able to really beat, so this is what this say internally. So this is what happens when it is competition galore, as it is the present day case.

So we stop here; before we move to the next aspects of this subject, we look at some cases how to do a case analysis this is where the book on case analysis which I have suggested to you will be very helpful. Thank you.