Strategic Management

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Lecture Notes:

Arborite (HBS 9-796-146)

Cost Focus
Arborite: Teaching Objectives

1. Review:
   – Market Segmentation
   – Attractiveness (5 forces)
   – Introduction to Generic Strategies

2. Introduce:
   – Firm Value Chain
   – Cost Leadership Strategies
Arborite: Agenda

- What is going on?
- Mission and Issues
- External Scan
- Internal Scrutiny
- Industry Value System
- Market Segmentation
- Segment Attractiveness
- Generic Strategies
- Firm Value Chain
- Review Key Concepts
Drivers of Cost Advantage

*Competitive Advantage*, Ch. 3

- Gaining Cost Advantage
  1. Control cost drivers
  2. Reconfigure the value chain
Cost Drivers

1. Economies of Scale
2. Learning and Spillovers
3. Pattern of Capacity Utilization
4. Linkages (with the firm, or vertically)
5. Interrelationships
6. Integration
7. Timing
8. Discretionary Policies
9. Location
10. Institutional factors (government, etc.)
DISCRETIONARY POLICIES INDEPENDENT OF OTHER DRIVERS

Product configuration, performance, features
Mix and variety of products offered
Level of service provided
Spending rate on marketing & IT
Delivery time
Discretionary Policies

Buyers served (big, small, many, few)
Channels employed (fewer or more)
Process technology chosen
Specifications of inputs (cost/quality)
Wages and amenities
Other HR policies

Procedures for scheduling production, maintenance, sales force, etc.
Pitfalls in Cost Leadership Strategies

- Exclusive focus on manufacturing costs
- Ignoring procurement
- Overlook indirect or small activities
- False perception of cost drivers
- Failure to exploit linkages
- Contradictory cost reduction
- Thinking incrementally
- Undermining differentiation
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