



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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