



Topic 2. Economic viability



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Organisation of Business and Work, Administration and Human Resource Management

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2.1. Need to have a competitive advantage.

2.2. Key elements: adaptation to the type of transaction and environment.

2.3. Conclusion.





2.1. Need to have a competitive advantage

- Competitive advantage is a key determinant of success.
- <u>Definition</u>: ability, resource, knowledge, attribute, feature or aspect that differs from other competitors and places the business in a superior position to compete and obtain greater results.
- Three strong points:



Efficiency: flexibility, innovation.



Differentiation: competition not based on price but on other attributes.



Domain of a market share: eliminate or reduce competition in a segment.







2.1. Need to have a competitive advantage

- **Competitive strategy** allows capturing a portion of demand and keeping it long enough so that the investments required to carry out the idea are profitable (**sustainable** competitive advantage).
- The attribute must represent a key factor in the market, differ from other competitors and be sustainable for some time in a changing environment.
- What determines a competitive advantage?:
 - Type of product: attributes or distinguishing features.
 - *Type of transaction:* strategy appropriate to type of transaction.
 - *Environment:* rivalry and negotiating/bargaining power.



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2.2. Key elements: adaptation to the type of transaction and environment

I. ADAPTATION OF COMPETITIVE ADVANTAGE TO TYPE OF TRANSACTION:

The strategy is conditionned by the type of transaction.

II. ADAPTATION OF COMPETITIVE ADVANTAGE TO ENVIRONMENT:

The company interacts with the environment (source of problems and opportunities for the company).





2.2. Key elements: adaptation to the type of transaction and environment

I. ADAPTATION OF COMPETITIVE ADVANTAGE TO THE TYPE OF TRANSACTION

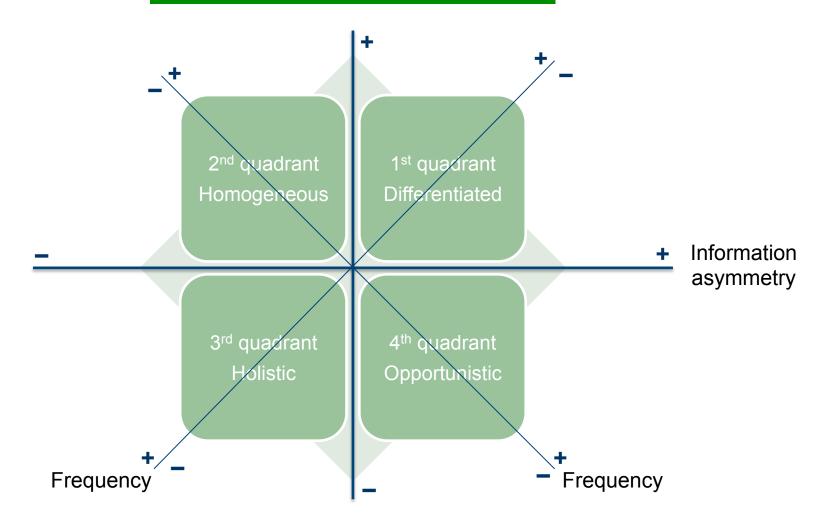
- Three variables:
 - Information asymmetry It depends on the ATTRIBUTES.
 - Frequency of transactions.
 - Information search habit.
- Four types:
 - Homogeneous: low information asymmetry and high information search habit.
 - **Differentiated:** <u>high</u> asymmetry and <u>high</u> searching habit.
 - Holistic: low asymmetry and low searching habit.
 - **Opportunist:** <u>high</u> asymmetry and <u>low</u> searching habit.



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Information search habit







Type of transaction. Examples. RETAILING Supermarkets/hypermarkets Small foodstore Specialty / Designer store Convenience store

- Differentiated: <u>high</u> asymmetry and <u>high</u> search habit.
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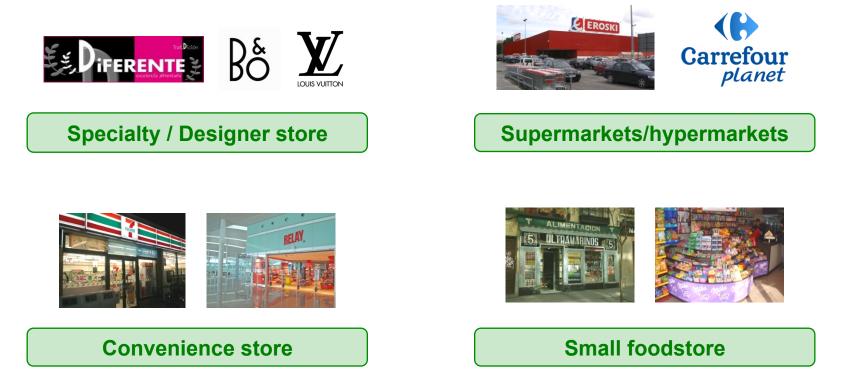


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Examples. Type of transaction: RETAILING



Here you have different types of retail premises with some examples. You have to identify what type of transaction corresponds to each type of retail premises.



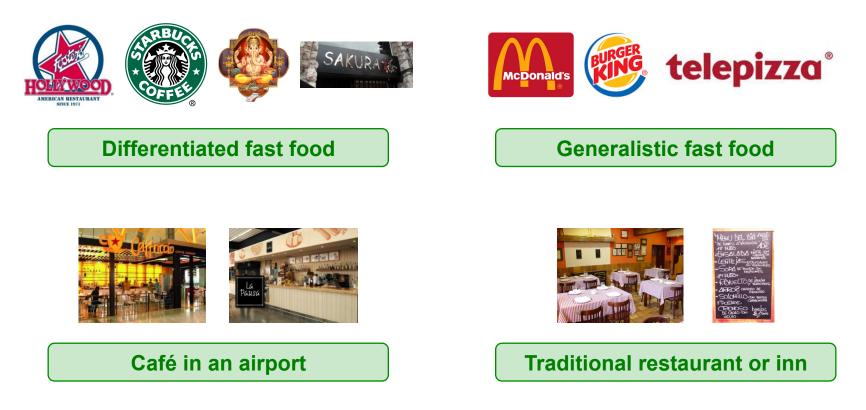


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Examples. Type of transaction: RESTAURANTS



Here you have different types of restaurants with some examples. You have to identify what type of transaction corresponds to each type of restaurant.





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Examples. Type of transaction: INSURANCE



Here you have different types of insurance with some examples. You have to identify what type of transaction corresponds to each type of insurance.







Type of transaction. Examples. RETAILING Supermarkets/hypermarkets Small foodstore Specialty / Designer store Convenience store

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Type of transaction. Examples. RETAILING

Specialty / Designer store

Small foodstore

• **Differentiated**: <u>high</u> asymmetry and <u>high</u> search habit.

Supermarkets/hypermarkets



Convenience store

- Homogeneous: <u>low</u> asymmetry and <u>high</u> information search habit.
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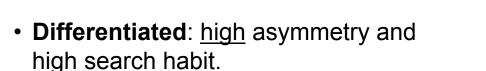




Type of transaction. Examples. RETAILING

Specialty / Designer store

Small foodstore



Supermarkets/hypermarkets

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Convenience store







Type of transaction. Examples. RETAILING



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Opportunistic: <u>high</u> asymmetry and ٠ low search habit.





Type of transaction. Examples. RETAILING

Supermarkets/hypermarkets	Small foodstore	Specialty / Designer store	Convenience store

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Type of transaction. Examples. RESTAURANTS Differentiated fast food Generalistic fast food Cafe in an airport Traditional restaurant or inn

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Setting Up Businesses

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Type of transaction. Examples. RESTAURANTS

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Type of transaction. Examples. INSURANCE General car insurance Custom car/housing insurance Holiday insurance Credit card insurance

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Type of transaction. Examples. INSURANCE General car insurance Custom car/housing insurance Holiday insurance Credit card insurance

- **Differentiated**: <u>high</u> asymmetry and <u>low</u> search habit.
 - Custom car / housing insurance, etc.
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• Holistic: <u>low</u> information asymmetry and <u>low</u> search habit.

• **Opportunistic**: <u>high</u> asymmetry and <u>low</u> search habit.





Type of transaction. Examples. INSURANCE General car insurance Kustom car/housing insurance

- **Differentiated**: <u>high</u> asymmetry and <u>low</u> search habit.
 - Custom car / housing insurance, etc.
- Homogeneous: <u>low</u> asymmetry and <u>high</u> search habit.
 General car / housing insurance.
- Holistic: low information asymmetry and low search habit.

• **Opportunistic**: <u>high</u> asymmetry and <u>low</u> search habit.





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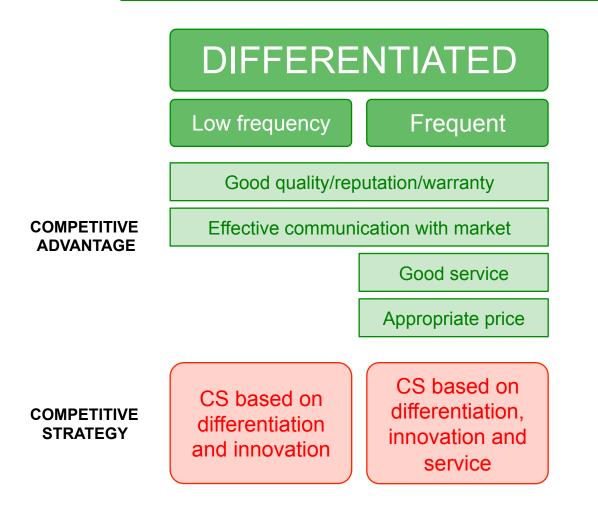
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 Credit card insurance.
- **Opportunistic**: <u>high</u> asymmetry and <u>low</u> search habit.
 - Holiday or business trip insurance.





2.2. Key elements: adaptation to the type of transaction and environment

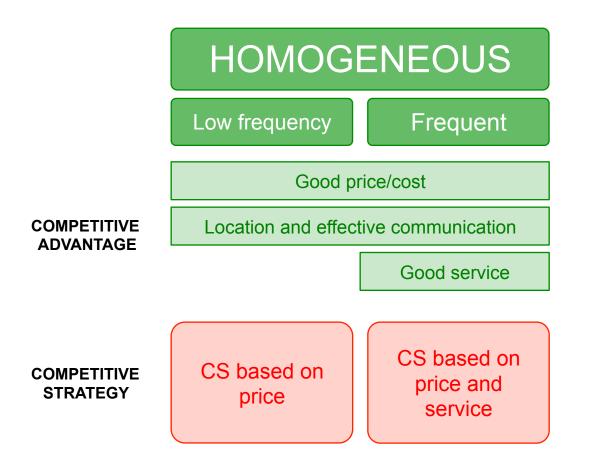


- Specialty store or designer store (clothing, wine, TVs).
- Differentiated fast food (Foster's Hollywood, Starbucks) / Ethnic food restaurants (Hindu, Japanese, etc.).
- Custom car / housing insurance, etc.





2.2. Key elements: adaptation to the type of transaction and environment

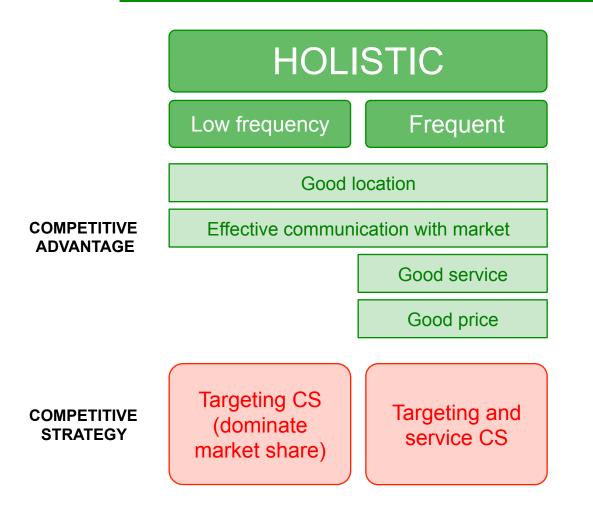


- Supermarkets / hypermarkets (homogeneus everyday consumer products: food, drink, desserts...).
- Traditional restaurants or inns (typical dishes, daily special menu).
- General car / housing insurance.





2.2. Key elements: adaptation to the type of transaction and environment

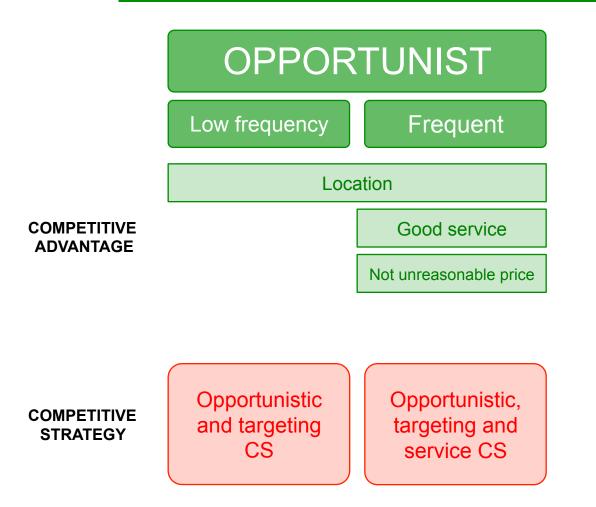


- Small foodstore (groceries, newspapers...).
- Generalistic fast food (McDonald's, Burger King, Telepizza).
- Credit card insurance.





2.2. Key elements: adaptation to the type of transaction and environment



- Convenience store (small purchases, perfumes, gifts...).
- Restaurants and cafes in airports, highways, etc.
- Holiday or business trip insurance.





2.2. Key elements: adaptation to the type of transaction and environment

II. ADAPTATION OF COMPETITIVE ADVANTAGE TO ENVIRONMENT

• Current time:

- Increased pressure from competitors.
- Reduced time to adapt to changing environment.
- Gradual increase in uncertainty.
- <u>Business success</u>: being aware of and anticipating changes in environment.
- <u>Two types of environment</u>:
 - Generic environment: this includes sociological, political and macroeconomic aspects, similarly affecting all companies.
 - **Specific environment:** this includes technology, competition, legal constraints and negotiating power with suppliers and customers, which differently affect each company.



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Types of environment (Mintzberg)

- **STABILITY:** stable vs dynamic. Unpredictable changes.
- **COMPLEXITY:** simple vs complex. Easy or difficult to understand.
- **MARKET DIVERSITY:** integrated vs. diversified. Number of variables.
- **HOSTILITY:** munificent (friendly) vs. hostile. Speed and effect of impacts.



FAVOURABLE - UNFAVOURABLE environment: difficulty in succeeding.





Environment influence on the success of the new company: generic environment

- **SOCIOLOGIAL ASPECTS.** Structure of household expenditure, women's incorporation into the workforce, family, cultural traditions, labor market situation, etc.
- ECONOMICS. Economic development in the region, availability of adequate labor, general level of taxes, wage levels, inflation, productivity, interest rates, exchange rates, deficit, trade balance, etc.
- **POLITICAL ASPECTS.** Political stability, economic policy, employment policy, lobbying, economic policy of EU, etc.





Environment influence on the success of the new company: generic environment

DO THESE FACTORS INFLUENCE THE DEVELOPMENT OF THE PRODUCT OR SERVICE?

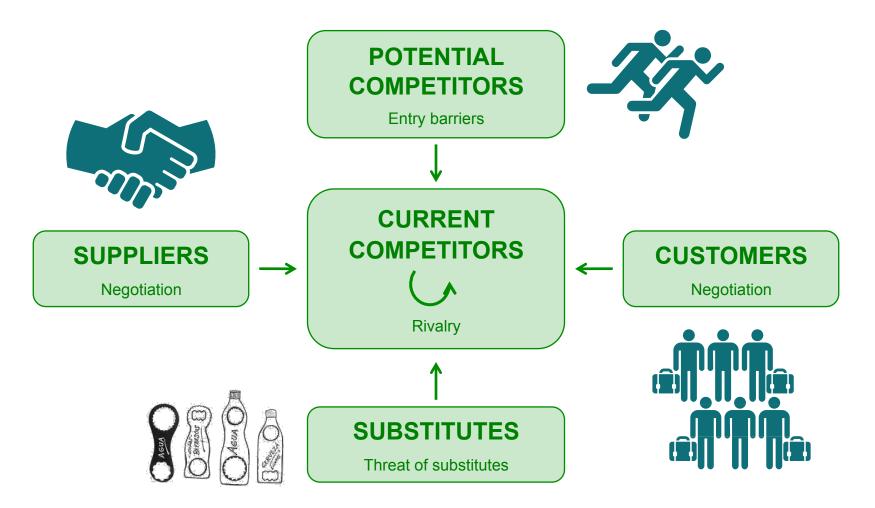
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Environment influence on the success of the new company: specific environment

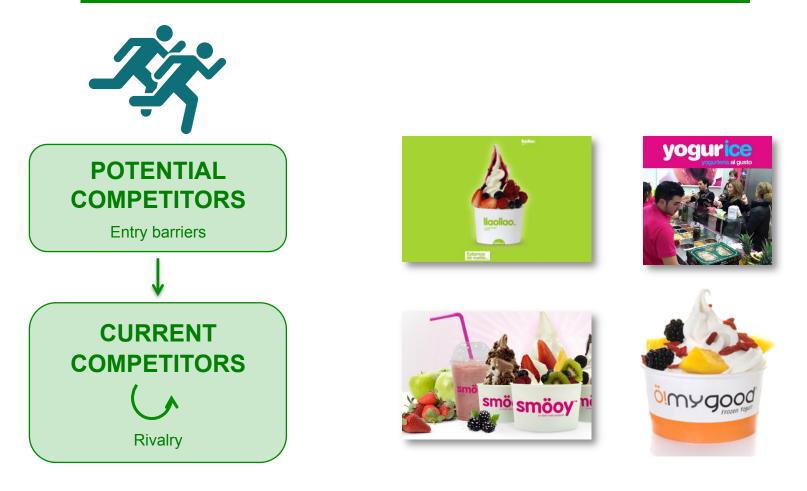




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Environment influence on the success of the new company: specific environment





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Environment influence on the success of the new company: specific environment

When is bargaining power higher for suppliers?



- No existence of substitutes.
- Key factor in production.
- Little importance of the customer.
- Highly differentiated product.
- There is a threat of forward integration.



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Environment influence on the success of the new company: specific environment

When is bargaining power higher for customers?

- When they purchase large amounts.
- The customer is important to the supplier.
- Poorly differentiated products.
- Low switching costs.
- Threat of backward integration.





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- Defining the type of transaction with which I will make my offer to the market.
- Definition of the competitive advantage that I am going to use.
- Assessment of the appropriateness of competitive strategy to the type of transaction.
- Observation and evaluation of the environment.



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Economic viability test

What to do:

- Answer the questions (Yes = 1 / No = 0).
- Calculate the equation.
- Understand the result (identify improvements).

ECONOMIC VIABILITY TEST	YES	NO
C1: I have defined the transaction with which I will launch the product/service into the market		0
C2: I have clearly defined the competitive advantage		
C3: I have clearly defined the characteristics of the products/services I offer	10	0
C4: I know the information search habit of customers	1	0
C5: I know how often customers do this transaction (frequency)	1	0
C6: I know how customers perceive the characteristics of the product/service (how easy it is to perceive its benefits)	1	0
C7: I know the product/service offered by my competitors	1	0
C8: I can protect the competitive advantage of my product/service	1	0
C9: I know the technology used by my competitors	1	0
C10: I know the response of competitors to my product/service	1	0
C11: I know the conditions of suppliers	1	0
C12: Knowledge of potential customers is good	1	0
C13: I have some kind of prior relationship with potential customers in order to facilitate completion of the transaction	1	0
C14: I have some prior advantages to facilitate the creation of the company (Information, financing or privileged relations)	1	0
C15: I can obtain facilities/aids to start the activity	1	0
C16: I think that in the context of the economic climate, it's a good time to start	1	0

$\nabla^3 c$	$10 + \Sigma^{16} C$	Causa	RESULT	IDEA	VIABILITY
$EVT = \frac{\sum_{i=1}^{n} c_i}{\sum_{i=1}^{n} c_i}$	$10 + \sum_{4}^{16} C_i$	_ Sum	0-50%	Undeveloped idea	More development
	43	43	50-80%	Idea with prospects	Some aspects should be concretized
			80-100%	Well-defined idea	It could be viable (economic viability)



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Idea



Competitive advantage

Viability

Environment

Entrepreneur

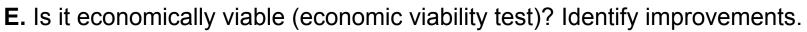
«Whether you think you can or whether you think you can not, in both cases you're right». Henry Ford





Project guiding notes – Basic outline

- **1.** General description of the idea. *How did I come up with the idea (opportunity, failure, inefficiency)?*
- 2. Economic viability.
 - A. Description of type of transaction.
 - B. Description of competitive advantage.
 - C. Description of generic environment.
 - D. Descripton of specific environment.



«I hear and I forget, I see and I remember, I do and I understand». Confucius







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Case studies (Topic 2)

	Building a competitive advantage
	A Bryant Homes case study
	Introduction
5	A successful company understands the nature of the environment in which it operates, and manages to identify how best to gain a competitive advantage over rivals. This is established by firstly carrying out an audit of its existing position. It must then identify key changes needed to sustain a competitive position in the future, known as competitive strategies.
0	This case study outlines how Bryant Homes, one of the UK's leading home building companies, has developed a competitive strategy by:
	 identifying areas of weakness and of strength identifying changes in its competitive environment building forward-thuking stategies to exceed the expectations of all its stakeholders.
5	A major difficulty facing homebuilders in recent years has been the government's insistence on a change in emphasis in local development plans. There is a move away from building on <u>greenfield sites</u> and a new emphasis on urban renewal and new housebuilding on <u>brownfield</u> <u>gites</u> . For Brynet Homes, this has reneted a fresh challenge: how best to make its higher density brownfield homes distinct from rival offerings so that it stays 'ahead of the game'.
	Objectives
0	The market for new housing has improved <u>steadily</u> over the last few years. Consumers have benefited from these improvements; they are offered more attractive designs, better use of space through improved design and a higher specification.
5	However, the market is now very crowded, and any innovation by one company is soon copied. As a result, there is very little apparent differentiation. Bryant Homes has risen to the challenge of a simation in which consumers were tailing about builders as " <u>much of a</u> <u>muchners</u> ". The company has engaged in a positioning exercise designed to make clear to customers that Bryant Homes has a distinct market position that is different from, and superior to, that of rivals. Bryant Homes has a celar competitive advantage over rivals.
0	In any modern industry, the key to gaining competitive advantage is to exceed the expectations of all stakeholders: those groups and individuals who have an interest in the company's business. Bryant has many different stakeholder groupings, each of which is considered important. They include:
5	 the City of London, which provides <u>financial backing</u> Government, with its concern to develop national housing policies buinters patters seeking to develop link with reliable companies shareholders seeking a healthy return on their investment existing home owners wanting ongoing support from their home builder
0	 potential customers and existing customers in the process of buying a home and many others

Case Study 1 (PDF).