



#### **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

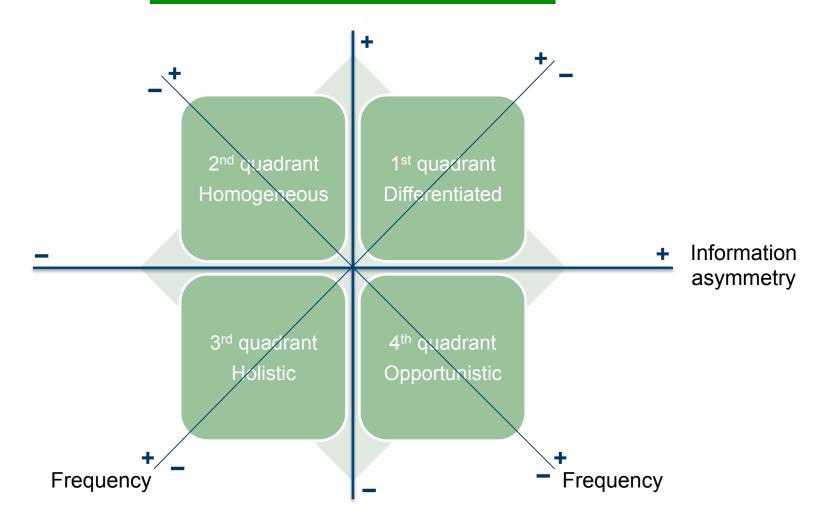
- Three variables:
  - Information asymmetry It depends on the ATTRIBUTES.
  - Frequency of transactions.
  - Information search habit.
- Four types:
  - Homogeneous: low information asymmetry and high information search habit.
  - **Differentiated:** <u>high</u> asymmetry and <u>high</u> searching habit.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

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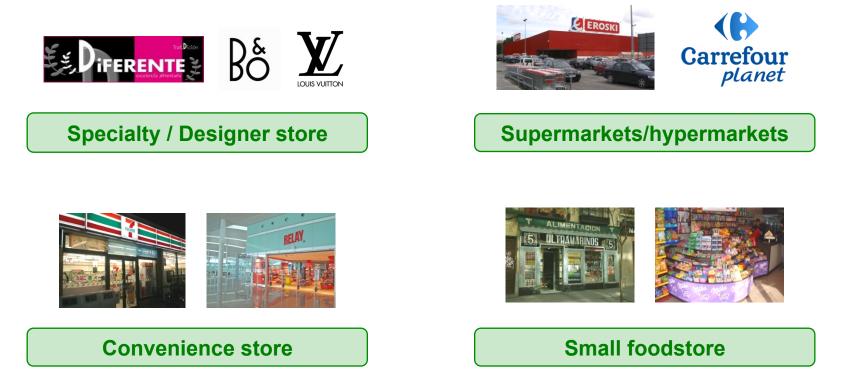


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### Examples. Type of transaction: RETAILING



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.



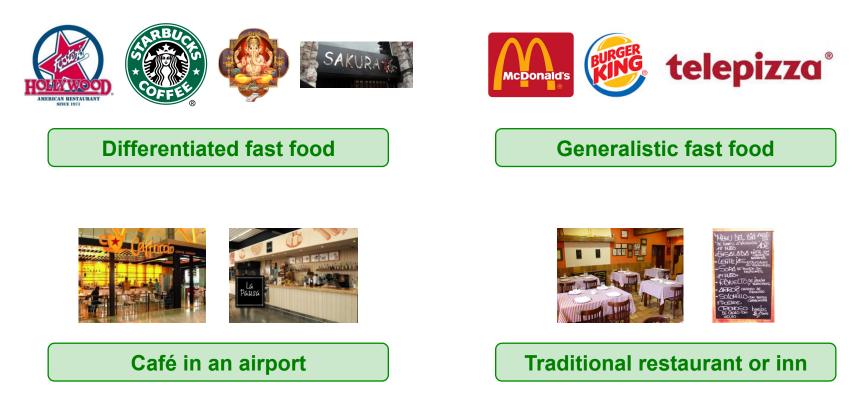


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### Examples. Type of transaction: RESTAURANTS



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.







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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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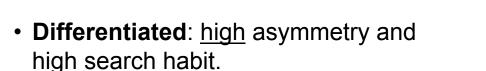




## Type of transaction. Examples. RETAILING

Specialty / Designer store

Small foodstore



Supermarkets/hypermarkets

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**Convenience store** 







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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.





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

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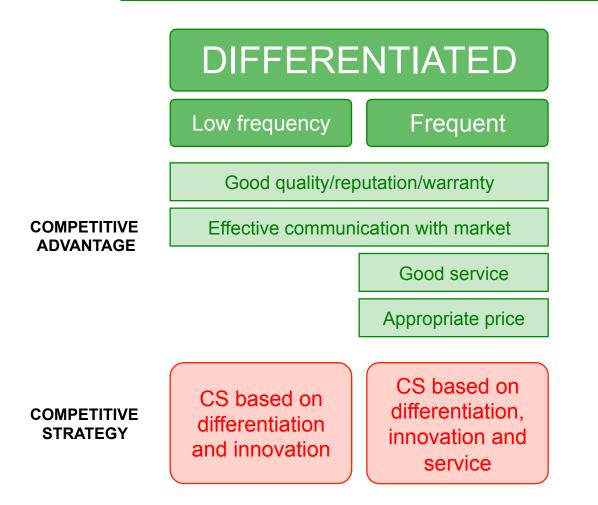
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- **Opportunistic**: <u>high</u> asymmetry and <u>low</u> search habit.
  - Holiday or business trip insurance.





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

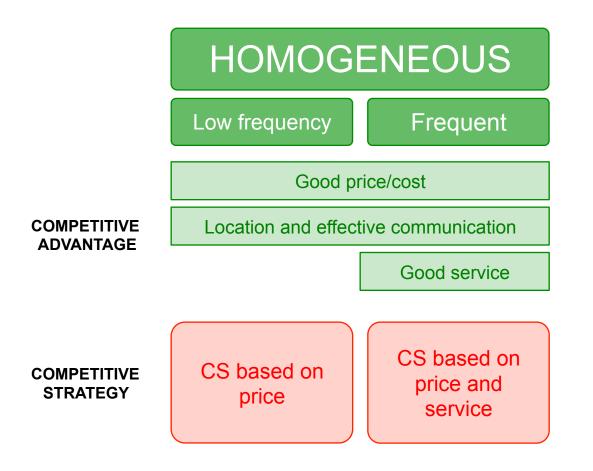


- Specialty store or designer store (clothing, wine, TVs).
- Differentiated fast food (Foster's Hollywood, Starbucks) / Ethnic food restaurants (Hindu, Japanese, etc.).
- Custom car / housing insurance, etc.





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

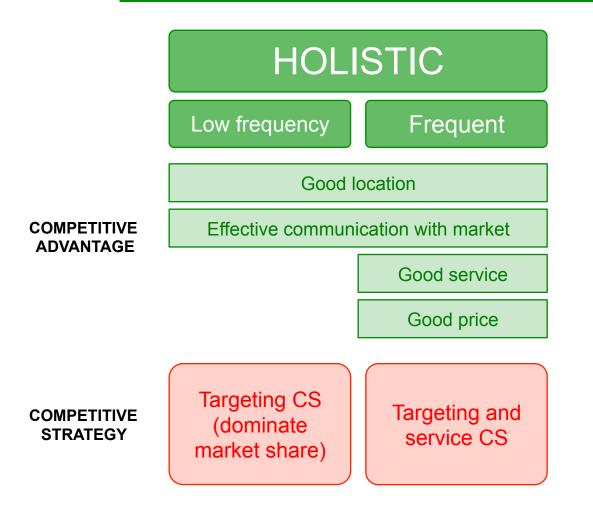


- Supermarkets / hypermarkets (homogeneus everyday consumer products: food, drink, desserts...).
- Traditional restaurants or inns (typical dishes, daily special menu).
- General car / housing insurance.





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

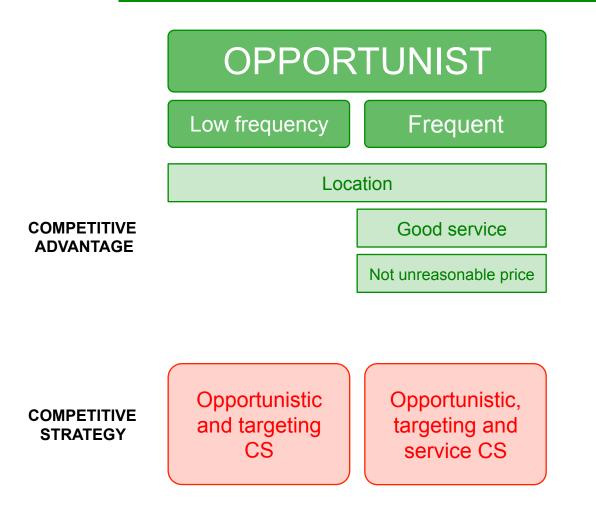


- Small foodstore (groceries, newspapers...).
- Generalistic fast food (McDonald's, Burger King, Telepizza).
- Credit card insurance.





# 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?

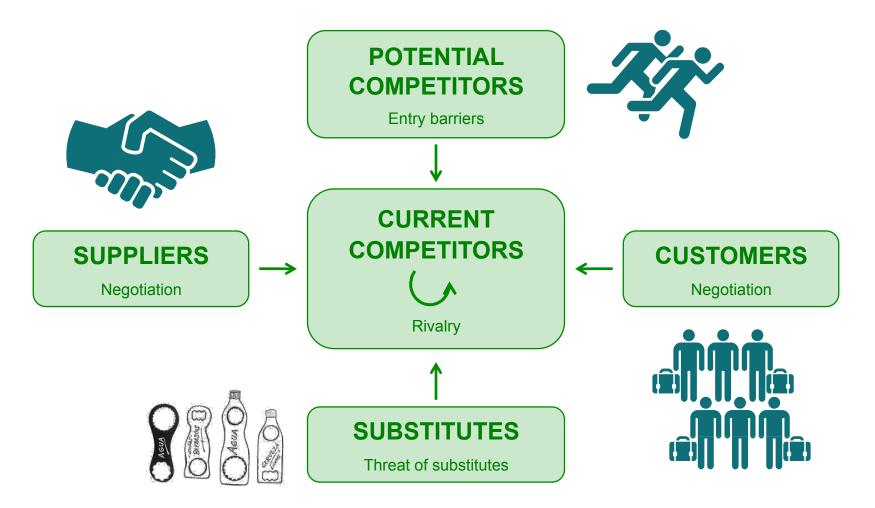
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# Environment influence on the success of the new company: specific environment

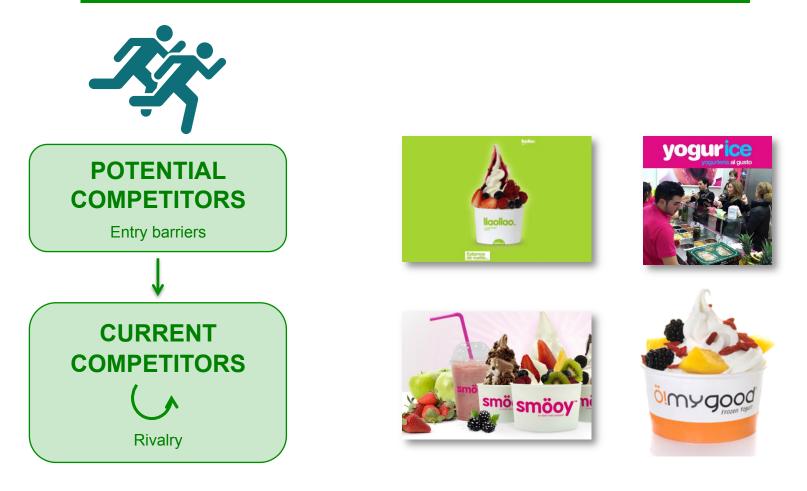




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# Environment influence on the success of the new company: specific environment





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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

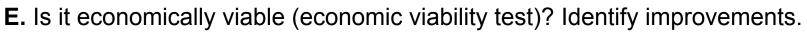
*«Whether you think you can or whether you think you can not, in both cases you're right».* Henry Ford





### **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:
	<ul> <li>identifying areas of weakness and of strength</li> <li>identifying changes in its competitive environment</li> <li>building forward-thuking stategies to exceed the expectations of all its stakeholders.</li> </ul>
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	<ul> <li>the City of London, which provides <u>financial backing</u></li> <li>Government, with its concern to develop national housing policies</li> <li>buinters patters seeking to develop link with reliable companies</li> <li>shareholders seeking a healthy return on their investment</li> <li>existing home owners wanting ongoing support from their home builder</li> </ul>
0	<ul> <li>potential customers and existing customers in the process of buying a home and many others</li> </ul>

Case Study 1 (PDF).