

# Strategic uses of information technology and using the cost leadership strategy

[Business](#), [Strategy](#)



## **Cost Leadership**

Cost leadership is when a company is seen as the cheapest producer of a certain product in a competition. This strategy is tough to carry out as management always needs to focus on keeping costs reduced at every level to stay competitive. Using the Cost Leadership strategy is very effective as it helps with increasing market shares and with capturing the consumers' attention. It should not be mistaken that cost leadership means a company should produce goods and services of bad quality. A business should still be able to produce quality goods otherwise the business will fail.

## **Advantages**

### **Competitive Edge**

This is the main advantage of using the cost leadership strategy. For example, if Butchery A sells their meat at R10 per kg and Butchery B sells their meat at R20 per kg Butchery A will dominate the market.

### **Frugal Company Culture**

A popular strategy to reduce costs is to reduce the price paid for the raw materials/inputs and in this way the business develops frugal company culture. For example, if the butchery can find an equilibrium between lowering costs and keeping a good quality, the frugal culture achieved will be a constant advantage to the business.

## **Disadvantages**

### **Credibility**

Before the internet was used in e-commerce, the cheapest producer in a specific location was referred to as the everyday low-price leader. With the internet and e-commerce offering consumers online shopping ones prices are competing against many other online sellers. If ones prices are not in the same “ballpark” as the sellers prices online – your company will lose credibility and clients.

### **Customer Service**

Reducing costs and selling products at a low price results in a smaller profit margin causing the business to run on a low budget. It might be possible that the business does not have the resources to employ enough sales consultants needed to keep a good level of customer service.

### **Example**

Wal-Mart is a company that makes use of the cost leadership strategy. The company has established a huge distribution network and because of this distribution network the company gets special prices on goods and is able to sell them at a lower price than other retailers. For Example, a bicycle might sell at Wal-Mart for R600 whereas the exact same bicycle is being sold for R900 at Kloppers.

### **Product-Based Differentiation**

The differentiation strategy is when your product is unique and has a characteristic or “ability” that your competitors’ products lack. For example, in terms of speakers the brand Volcano has a much better sound quality and

material quality compared the brand Stuff. Having a product that is unique in even the smallest of ways – a nicer looking logo compared to that of your competitors – can have a huge impact on the consumer.

## **Tips to differentiate a product**

### **Product Features**

A product that produces solutions and results faster or is more economical without the consumer having to pay more for the product. Consider two similar cars below:

Car A Car B

Price R500 000 R450 000

Petrol Consumption R60 per 100km R55 per 100km

Luxury ★★★★★ ★★★★★

Speed 0 to 100km in 60 seconds 0 to 100km in 60 seconds

The two cars are exactly the same in terms of speed and luxury but most people will go for Car B as it is cheaper (more economical) in terms of the price and petrol.

Design

One of the best ways to achieve differentiation is through the use of unique packaging, attractive and unique/appealing product design. Consider the two cars below:

In this scenario we assume the consumer is wealthy. Putting power and performance aside the consumer will go for the Aston Martin as it is much more appealing than the Ford Fiesta and the Aston Martin brand provides a higher “snob” value than the Ford brand.

## **Advantage**

### **Creates Value**

A company that uses the differentiation strategy typically looks at the cost value of its products compared to similar products in the market, this allows the product to create its own value among current consumers and future consumers. This helps the company to focus on the quality of their products.

### **Brand Loyalty**

Product differentiation is achieved once there is a brand loyalty between customers. Brand loyalty also helps the company to achieve a higher market share. For the company to keep its current brand loyalty as well as expand their brand loyalty they need to continue producing quality goods otherwise the consumer will buy from the competitor.

## **Disadvantages**

### **The “me-too” danger**

A company needs to focus on improving and bettering their products to prevent their products from becoming out dated as other companies can easily make their own version of another company’s product.

**The “ lower price” danger**

There is a huge chance that another competitor produces a similar product at a lower price. Keeping prices as low as possible even though you are the main supplier is the best option.

**Example**

The makeup brand Lush (www. lush. com)

Completely different to other makeup brands in the market.

International company but focuses on a local approach

Believes in honest business and having handmade products. They prefer having a warm and helping image over a luxurious image.

**Market Penetration**

Market Penetration is used when a small business markets its existing and current products in the exact same market it has been a part of. According to small business experts the best way for business to grow with its current products is to gain market share. One of the most common ways to gain market share is to reduce prices.

**Advantages**

To achieve lower prices the business can produce more goods and get cheaper materials:

**Purchasing**

Suppliers tend to sell materials at a cheaper price (discount) when items are bought in bulk.

**Marketing**

Increasing sales will cover the costs involved with promoting the products.

**Disadvantages**

Shortage of cash:

One might need to take out loans or borrow money to be able to afford the expense of expanding a business. These expenses include buying larger workspace and better equipment.

**Compromised Quality**

Typically when more goods are produced the quality tends to drop. This can lead to customers turning to the competitor.

**Example**

Unilever brought a new product into the market called Sunsilk shampoo. This product was only sold in the US, Europe and Asia. The product was not changed or improved but the company kept with their quality standards and when it hit the shelves in the US sales were “ sky high”.

**Strategic Alliance**

Strategic Alliance is when two companies join forces and resources to achieve a specific goal. Making use of a strategic alliance is beneficial to a company as it helps them to enter a new market and “ one up” their competitor. Both companies should benefit from a strategic alliance.

**Disadvantages/Risks**

The two companies may have a difference of opinion which can result in bad blood/conflict. These companies will be sharing private and confidential

information with each other and therefore there should be great trust between the two parties.

How to build strategic alliances:

Both parties should have a clear understanding of each other's companies.

Each party should make it clear what they expect from this alliance and what they can offer to achieve the mutual goal.

Meetings should occur often so that both parties can always be on the same page and for both parties to communicate with each other.

For a strategic alliance to be successful an advisory board is needed. How to establish an advisory board:

Find a mutual goal.

How will you enable communication with the market?

Document the terms of the partnership/alliance

Make sure all terms especially terms regarding money are in writing.

Example

Spotify and Uber

Spotify and Uber have formed a partnership where both companies “promote” each other through their services. Many Spotify clients don't use



Uber and many Uber clients do not use Spotify. With Spotify one can listen to their personal playlists through the vehicle stereo when using Uber.

## **Hewlett-Packard and Disney**

When Fantasia was created Disney bought sound equipment from Hewlett-Packard. This resulted in Disney using HP equipment for most of their projects and tourist attractions. When Disney's Mission: SPACE was being built and designed the engineers from HP and the Imagineers from Disney worked hand-in-hand to build the most technologically advanced ride to exist.

## **Operational Excellence**

Once problem-solving and leadership has been seen as the genius behind continuous improvement operational excellence has been achieved.

Operational Excellence is often mistaken for a hierarchy of steps and activities that need to be performed. It is mainly a mindset that needs to be with ALL the employees of the business at all times.

Core principles of operational excellence:

Each and every person needs to be respected

One should always have humility.

Only stop at perfection.

Think scientifically.

The process is important and needs attention.

Quality should always be double checked

Always have purpose

Example

McDonalds follows operational excellence in the following way:

Their menu is basic and has remained almost the same for years.

They try to insure that their food is tasty.

Their décor follows a similar theme in all of their restaurants.

The food they provide has quality at good prices.

They have excellent relationships with their two main partners: Disney & Coca Cola.

Strategic Uses of Information Technology

Improving Business Processes

A business process is when an individual or group of people repeat the same set of tasks to produce a good or service for the stakeholder, sponsor or customer of the business. The process needs to be displayed in the form of a flowchart indicating how the goal of the business will be achieved. The process needs to start with a goal and end with the goal being accomplished, the goal should be of significance to the consumer. A business process is split up into three processes:

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1. Operational
2. Management
3. Supporting

Characteristics of a business process:

Clear boundaries, input and output.

Activities and tasks are in a sequence

Focuses on the customers' needs

Needs to be significant to the customer

Tools to improve your business process

Kanban

Mind mapping

Projectmanager. com

Promoting business innovation

Businesses and companies are based on innovation, without innovation the entrepreneur would not know what to produce and what appeals to human kind. For a brand to become a household name innovation is key. With competitors producing the same products one needs to find a unique way produce these products. Because of this huge disadvantage an environment that focuses on promoting and innovation is needed.

Keys to improve innovation in a business:

Remember that innovation includes all members of the business and is not limited to only top paid employees.

No idea is too small or too big. People like Steve Jobs and Bill gates were turned down multiple times and today we wouldn't be able to function without their innovations. Don't be afraid to do things differently.

Provide a warm an open environment. Employees will not feel free to share brilliant ideas if the environment is dominant and fearful.

Be relaxed but stern. It has been proven that teams who work in a more idea welcoming environment work better and the outcome is successful.

Hire people who share the same vision and values as you. A team that has common goals function smoothly. This should not be mistaken to hire people who only agree with you.

Locking in customers and suppliers

Locking in customers and suppliers means keeping your customers brand loyalty and ensuring that they don't turn to the competition, locking in suppliers refers to growing your network and relationship with suppliers to ensure that material prices are discounted and that suppliers do not supply the competitor with the same prices they do you or lower.

How to lock in customers:

Make it tough for customers to turn to the competitor by developing a relationship with consumers.

The customers should feel respected and prioritized.

Work on consumer's good judgement through the use of PR stunts and good publicity.

Customers should be kept informed of promotions, new products and other services available.

Motivate sales people through the use of commission and rewards.

#### Creating Switching costs

Switching costs are extra costs involved with switching from a business or brand to another. Switching costs are costs all around us designed to prevent people from going to another brand or supplier, this is effective as many people try and save costs where they can and prefer to spend their money where they can see the outcome. These costs come in different forms and are not necessarily financial costs but giving up something, for example if a lawyer moves from being a senior partner at a firm to another firm where they are a junior partner the cost they had to pay was giving up their title and position as senior partner. Transport companies and hotels make use of this strategy as well, if one cancels a flight or hotel booking a deposit that was payed will be lost or one will have to pay a penalty fee . How do switching costs improve a business?

Customers are encouraged to stay by the incentive that they will lose or give up something. Switching costs are something of significant value to customers. The cost of switching is something valuable to customers and is something they do not want to lose.

How rewards programs are beneficial to switching costs:

With the use of points programs customers gain points that they would like to keep. Most reward programs work where once a certain number of points have been achieved the customer's gains a free reward or discount of some sort. Customers work hard at earning these points and invest money into earning these point and therefore would prefer to get their reward or discount at the end. Using a VIP Rewards program gives customers an emotional attachment to the brand and made them feel elite. These programs work on the idea that people like to feel needed and show consumers how values they are by rewarding them with these perks.