The dynamic fast paced business environments commerce essay

In today's fast paced dynamic business environment it is highly important for organisations to continually deliver value to customers and compete strategically in order to achieve a competitive edge. Strategy so has become the latest buzzword in the business world today. Over the past few decades significant progress has been made in the areas of environmental analysis and strategy making. However evaluating organisations capabilities in order to successfully implement a strategy is more so equally important.

" Strategy is the direction and scope of an organisation over the long term which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations."(Johnson, G., Scholes, K. and Whittington, R., 2008) Strategy and strategic management holds importance for any organisation because it is the basis on which depends the long term success or failure of the organisation. And Strategic capability is defined as " the resources and competences of an organisation needed for it to survive and prosper."(Johnson, G., Scholes, K. and Whittington, R., 2008) Resources in turn are classified into four major categories: physical, financial, human and intangible.

Johnson, G. et al., (2008) defined " a competence is used to mean the skills and abilities by which resources are deployed effectively through an organisation's activities and processes." And " Core Competences are the skills and abilities by which resources are deployed through an organisations activities and processes such as to achieve competitive advantage in ways that others cannot imitate or obtain."

Competence is considered as the most important attribute without which a business cannot enter or survive in an industry. Competences develop from resources and skills, technology and know-how all together makes up competences. For example in the pharma industry in order to survive or operate successfully a very specific understanding of the special equipment's needed to manufacture medicines and how a medicine works on the human body is important. That is every player in the industry needs to possess each of these competences in order for it to survive long term. And a Core competence is a distinctive capability that enables an organisation to perform above the average industry performance.

In the 1990s this concept gained momentum after the introduction of the idea of internally developed core competencies or organisations distinctive capabilities as essential means to develop a competitive edge rather than the environment by Hamel and Prahalad (1990) in their work.

And there has been considerable debate over this topic in the field of strategic management as many theorists have presented different views and a consensus has not been reached. (Wit, B. D. and Meyer, R., 2004). Porter considered as an important theorist advocates the positioning view and (Mintzberg, H., Quinn, J. B. and Ghoshal, S., 1998) his strategy formulation technique dominated in the 1980s and since the 1990s the resource based view of the firm has increasingly come to dominate the field of strategic management. (Whittington, R., 2001). Rumelt (1991) had clearly explained that industry didn't matter very much. This resource based reasoning has been extended by Teece, D. J., Pisano, G. and Shuen, A.(1997) argument for dynamic capabilities in which he argues industries and the environment are getting increasingly dynamic for formal environmental structure.

The idea of core competence as elucidated by Hamel and Prahalad(1990) that urges one to " Think of a diversified company as a tree: the trunk and major limbs as core products, smaller branches as business units, leaves and fruits as end products. Nourishing and stabilizing everything is the root system: Core competencies."

The reason why the idea is stressed is, focussing on the core competences establishes a link between a firm's diverse production and technical skills that leads to a systemic advantage that competitors will be unable to copy. In the article they had given the example of the diversified giant NEC which is found to have achieved significant advantage by incorporating core competencies. And this is the supposedly the reason why the authors urge the need for executives to rethink the concept of corporation itself. By providing a solid example of how GTE in comparison to NEC lost the race is interesting and substantiates the importance of core competences a step further. The major distinction was found in the way the organisations acted whether as a portfolio of businesses as opposed to a portfolio of competencies. This was clearly seen across many industries with the success of companies like Canon, Honda, Sony, Yamaha and Casio which were all able to come up with unanticipated products by operating at low cost and more steadily than competitors by building core competencies. It is about the coordination, integration and organisation of the various technological and production skills for creating valuable and innovative end products. The best example is Sony and Casio's capacity to miniaturize by harmonizing a range of skills to deliver value to customers.

Core competences can be identified by checking three criteria: if it provides potential access to a wide variety of markets, it can make a significant contribution to the perceived customer benefits of the end product and it can be difficult for competitors to imitate.

The nature of resources and competences that underpin them is to be explored first as the core competences are complex and intangible. The basic behind doing this to identify the resources and competences that acts as the foundation of existing or potential core competences. Usually not all the competitors in an industry are said to possess core competencies or distinctive capabilities but only those that are producing above the average performance. Core competencies can be distinguished from general competencies in a number of ways. They are unique to the company, more complex, difficult to copy, relate to fulfilling customer needs, add greater value, based on distinctive relationships with customers, distributors and suppliers and based on superior organisational skills and knowledge. When competitors of Apple such as IBM was spending at least 100 times more on research and development, Apple known for its innovation came up with mac by utilising its core competency in designing computing devices with exceptionally elegant ease of use and it improves its ease of use in unimaginable ways even before its market entry. Thereby a core competence becomes a market advantage.

The nature in which a few companies have achieved competitive advantage on the basis of their resource capabilities and competences in less favourable industries is interesting to analyse. Dyson is one such company into manufacturing alliances which is a perfect example for a company that has achieved a competitive advantage with its distinctive bagless vacuum cleaners. In order to identify the capabilities and competences of Dyson that generates a competitive advantage a comprehensive analysis of the firm's resources by category, specificity and performance is done. First analysis by category: Human, financial, tangible or physical is carried out. With its headquarters in a rural part of the west of England and it has a dedicated testing facility in Malaysia. James Dyson featured in the advertisements himself and firmly believed his own image and personal brand was major for the promotion of the firm. Dyson strongly believes in patents to protect the innovative ideas from being copied. The distinctive feature of Dyson dual cyclone vacuum cleaner is the adoption of an entirely new technology and its commitment to design. With special emphasis on the product engineering unit that develops prototypes using specialised computerised technology and other methods to practice and test new ideas.

Then according by specificity, which is industry specific knowledge and skills. Dyson takes special care by employing skilled and creative people with full of fresh and out of the box ideas. Design is deeply embedded in engineering and is clearly evident from the company's products whether it is their washing machine or vacuum cleaner it stands out because of this. Non-specific resources tend to be more flexible and form the basis of competences whereas these industry-specific resources form the foundation stones for building core competencies.

Then resources can be evaluated on the basis of its contribution to measures of performances such as financial and in comparison with competitors. In 2005 it was able to reach £100 m profit despite selling fewer vacuum cleaners than chief competitor Hoover. Unlike Apple known for its innovative design which subcontracts all manufacturing Dyson believes it is a blend of engineering, design and manufacturing that results in a competence that cannot be imitated by others and is particular about protecting each differentiated product through patenting. Dysons competitive advantage can be explained in terms of its unique, innovative products, engineering and design, manufacturing, marketing and brand promotion. Thus it has gained a good reputation for producing unique (difficult to be imitated by competitors) products by adequately focussing on customer needs.

Similarly another very good example is that of the budget airline pioneer Ryanair which has achieved a competitive advantage by following a low cost strategy which was adopted from the successful southwest airlines (US) model. Ryanair’s major resource capabilities include the physical resources such as its headquarters in Dublin, a younger aircraft fleet policy which leaves lesser carbon footprints hence spends only lesser taxes and penalties and using secondary airports.

When it comes to the company’s human resources it has 7245 employees. The financial resources of the company come from the Ryan family, investors, shareholders and creditors. Intellectual capital-knowledge includes the company's website, lower access fees at secondary airports, providing ancillary services.

Ryanair is clearly a low cost leader and considered as Europe's favourite low fares airline despite heavy competition from other low-cost airlines by sustaining the competitive advantage by practising a number of measures. These include its ability to cut down costs to sustain low fares at the same time remain profitable which is done by following a fleet commonality policy as the Boeing 737-800 which is the most common aircraft used, the firm is able to drive down costs in obtaining spares and maintenance services. By contracting out services such as aircraft handling, ticketing, baggage handling and other functions to third parties it reduces direct exposure to employee relations, the need to handle potential disputes and responsibilities. Moreover the firm is able to obtain competitive rates and multi-year contracts at fixed prices for ground handling which limits costs. In order to reduce airport charges such as landing fees, passenger loading fees, aircraft parking fees and noise surcharges to the bare minimum the firm tends to avoid congested primary airports and flies to secondary airports. The company controls employee compensation costs by implementing a performance related pay structure. By adopting the internet technology it is now capable of targeting customers directly rather cutting travel agent commissions. The firm's main advertisement tools are newspapers, radio, television and the company website.

It had adopted cost-cutting measures for passenger check-in and luggage handling by introducing priority boarding and web-based check-in thus saves staff, airport facilities and time. Charging for check-in bags resulted in passengers carrying fewer bags or even zero check-in luggage thus enhancing speed and saving on costs.

A value chain analysis of the company could be done in order to analyse which activities create value to the system and which do not. The primary activity directly concerned with the creation of product or service and comprises of inbound logistics, Operations, Outbound Logistics, Marketing and sales and service. The support activities help to improve the efficiency of primary activities and comprises of activities such as Procurement, Technology Development, Human resource Management and Infrastructure. The analysis shows clearly which activities add value to their business and which could be improved to develop a profitable business model.

The value chain analysis of Ryanair is as shown in the diagram below:

Source:

Based on Porter, M. E.(1998) Competitive Advantage: Creating and sustaining superior performance

Major competences were operating flights at lower fares and cost cutting policy it followed. It has core competence in its use of information technology that can support its management and marketing operation. Critical success factors include innovation, low fare tickets, punctuality and website.

Amazon is another excellent example of a company that swept past the traditional book business by using the internet to reach to customers and its success can mainly be attributed to its business model and its strategic competences and capabilities. The company had grown enormously well from a virtual book seller to selling diverse range of products online such as music CDs, software, office products, electronics, toys, games, cookware, hardware, food, and health products increasing its revenue manifold by this way. The company had gone global by establishing websites in many countries and has around 20, 700 employees. The company is favourably located in Seattle as there was a large supply of computer software talent available and followed a strategic recruitment policy. Amazons major resources are its specialised fulfilment centres, a reliable web infrastructure and the process of maintaining and managing the infrastructure. The internal capabilities that contribute to the competitive advantage are scalable Information technology in place, availability of the largest and most sophisticated collection of online retailing technologies and intangible resource is the way it centrally manages the web services.

Competences include use of recyclable cardboard for packaging. Since the company had already incurred fixed costs for developing software for the online store its expansion into other product categories would help to spread these costs across a greater pool of transactions thereby increasing the profits. Typically by this the company saves through economies of scale. And the competences that provide competitive advantage are its online product searching, ordering and reviewing facilities. By moving into new product categories it gains significant growth opportunities. Has gained a reputation for the brand and has a loyal customer base by providing consistent and timely services. The company's retail offering that includes the innovative one click technology concept by which it reduces the transactional burden on customers and enables them to quickly ease through the ordering process.

The company successfully obtained a patent for this and stalled its use by its chief rival Barnesandnoble. com. Another very important competence is its outstanding CRM and website personalisation. The affiliate program, successful partnering, auctions and Zshop initiative by which it got into the store hosting business had all proved to be profitable and thus had helped amazon go beyond retailing.

Bowman's strategy clock is an excellent framework to evaluate and determine a company's competitive position with respect to its competitors by means of using various strategic options. These are classified into eight competitive strategy options namely: low added value, low price, hybrid, differentiation, focused differentiation, increased price/standard, increased price/low value and low value/standard price. Positions 1 and 2 are price-based strategies, position 4 is a differentiation strategy, position 5 is a focused differentiation, position 3 is an

Hybrid or intermediate position between cost and differentiation, and positions 6, 7 and 8 are failure strategies. The strategy clock model is shown below:

Source: Based on Faulkner, D. and Bowman, C (1995). The Essence of competitive strategy, Prentice Hall.

Johnson, G., Scholes, K., Whittington, R. (2006) Exploring Corporate Strategy, 7th edition, Prentice Hall, p. 242

Now, using this strategy clock as a basis Dysons competitive place in the market can be analysed effectively. Dyson follows a focused differentiation strategy by providing its innovative products justifying a substantial price premium to the narrow home or electric appliances market segment. Thus it can be placed on the fifth position in the strategy clock. The price of its products was often higher than its competitor's products because of its innovatively different products and its features that differentiate it from the others and this is the justification for the higher prices. The company has achieved a loyal customer base by offering a unique and valuable product that customers are willing to pay extra for. Moreover it offered 2 years warranty for its products which is higher than the average industry standard of 1 year. The company has gained an advantage with its distinctive vacuum cleaner and had started to distribute a number of other innovative products such as hand dryers and fans. But the inherent risk involved in following this strategy is customers may start choosing the products with regular offering as their feature improves or due to the market segmentation arising as a result of more differentiated products offering by competitors.

Next the position of Ryanair on the clock could be analysed. The Airlines was influenced by the changes taking place in the business environment from time to time which had a large impact on its strategy. Deregulation of the EU airline industry provided great opportunities which were not possible before like opening new markets, introducing new services which shifted its strategic position. But it mainly became popular owing to its low cost and no frills service offering. In particular, Ryanair utilized various options in Bowman's strategy clock in order to maintain its business productivity and profitability. It had developed a low cost policy aiming to achieve low cost leadership advantage. This was adopted following its unsuccessful competition with Air Lingus based on a focused differentiation strategy. That is by operating two classes, starting the frequent flyer club and on-board sales by charging low fares at the same time proved unsuccessful and it was stuck in the middle. Then by realising this it decided to compete on a price basis. This change of strategy on the strategy clock means from position 3(hybrid) to position1 (No frills). The company now strives to be on the 1 and 2 positions on the clock by focussing on budget customers.

A Hybrid strategy matches perfectly with Ikeas mission statement of delivering high quality products at a low price . Thus Ikea can be placed on the third position of the strategy clock.

The company builds its differentiation in a number of ways. Firstly, it offered a wide range of home furnishing products at a low price targeting the global middle class. The designer makes use of suitable materials to give products an attractive and expensive look. Secondly, unlike other companies which rely on manufacturers Ikea owns it brands, design and sales distribution channel. It also designs its own low cost assembly furniture. Thirdly, by offering customers facilities to make shopping experience enjoyable with its uniquely large retail units in suburban areas providing childcare facilities, restaurants and plenty of parking area.. Also concentrates on low cost to achieve the hybrid strategy by providing flat packed furniture which the customers transports and assembles on their own. The number of sales staffs is reduced, chooses the most economic suppliers to traditional and by producing products in countries where labour it saves costs. Ikeas customer expectations of service levels are low allowing for cost reductions as customers are prepared to transport and build their own products thus gaining cost reduction outside its differentiated activities. A unique cost structure flat pack gives it a low cost distribution channel. Ikea can achieve greater volumes than competitors so margins may be better because of its lower cost base which is advantageous for reinvesting to maintain and develop the differentiation bases. This enables Ikea to sustain a low cost high quality advantage and follow a hybrid strategy.

Thus by analysing the success of companies such as Dyson, Amazon, Ryanair it is evident that the capabilities and competences when successfully deployed give organisations a competitive advantage against Porters environment based view. Hamel and Prahalad (1990) bring out the importance of the idea of discovering and developing a company's core competences which adds great value to the organisations performance in a competitive environment in their work. Hence it stresses the need to rethink the organisation as a portfolio of competencies in order to succeed in the long term. The strategic tool of analysing the position of an organisation in the market by the help of the strategic decisions they make is useful to understand the current stand and for analysing future scope for improvement. Companies such as Dyson, Ryanair and Ikea would have to analyse their position on the strategy clock continually in order to achieve better margins and to sustain the competitive advantage.