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- ### Competitive Advantage
- Determinants:
 - Factor conditions
 - Demand conditions
 - Related and supporting industries
 - Firm strategy, structure, and rivalry
 - External variables:
 - The role of chance
 - The role of government

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- ### Competitive Advantage
- **Factor Conditions:** *land, labor, capital.*
 - The quantity, skills, and cost of the **personnel**
 - The abundance, quality, accessibility, and cost of the nation's **physical resources** such as land, water, mineral deposits, timber etc.
 - The nation's stock of **knowledge resources**, including scientific, technical, and market knowledge that affect the quantity and quality of goods and services
 - The amount and cost of **capital resources** that are available to finance industry
 - The type, quality, and user cost of the **infrastructure**, including the nation's transportation system, communications system, health-care system etc.
- Basic factors, such as labor or raw-material, do not constitute an advantage in knowledge-intensive industries.

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- ### Competitive Advantage
- **Factor Conditions:**
 - The most important factors of production are those that involve **sustained and heavy investment** and are **specialized**
 - Nations succeed in industries where they are particularly good at factor creation
 - Selective disadvantages in the more basic factor can stimulate a company to innovate and upgrade.
 - Converting disadvantages to advantages e.g. Japanese auto industry; office equipment industry

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Competitive Advantage

- **Demand Conditions:**

- **Buyer sophistication** and how well the needs of buyers in the home market precede those of buyers in other markets
 - The composition of demand in the home market as reflected by the various market niches that exist
- The **size and growth rate** of the home demand
- The ways through which domestic demand is **internationalized** and pulls a nation's products and services abroad

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Competitive Advantage

- **Demand Conditions:**

- When a particular industry segment is **larger or more visible in domestic market** than in foreign markets, home-demand conditions help build competitive advantage.
 - The composition and character of the home market has an important effect on how companies perceive, interpret and respond to buyer needs.
- **Sophisticated, demanding local buyers** for products or services help build competitive advantage.
 - Local buyers help build competitive advantage if their needs anticipate or even shape those of other nations.

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Competitive Advantage

- **Related and supporting industries:**

- The presence of **internationally competitive supplier industries** that create advantages in downstream industries through efficient, early, or rapid access to cost-effective inputs
 - Internationally competitive related industries that can coordinate and share activities in the value chain when competing
 - Access to components and machinery
- Accelerate innovation and upgrading based on close working relationship
 - Creates competitive advantage in a range of interconnected industries that are all internationally competitive

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Competitive Advantage

- **Firm strategy, structure and rivalry:**

- The amount of **domestic rivalry** and the creation and persistence of competitive advantage in the respective industry
 - Domestic rivalry spurs dynamic improvement;
 - Domestic rivalry creates pressure for constant upgrading of the sources of competitive advantage;
 - Geographic concentration magnifies the power of domestic rivalry;
 - Vigorous domestic competition pushes domestic companies to look at global markets and toughens them to succeed in them

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Competitive Advantage

• Role of chance:

- Chance events can nullify the advantages of some competitors and bring about a shift in overall competitive position due to:
 - New inventions
 - Political decisions by foreign governments
 - Wars
 - Significant shifts in world financial markets or exchange rates
 - Discontinuities in input costs such as oil shocks
 - Surges in world or regional demand
 - Major technological breakthroughs

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Competitive Advantage

• Role of government policies:

- Government can influence all four of the major determinants through:
 - Subsidies
 - Education policies
 - The regulation or deregulation of capital markets
 - Tax laws
 - Antitrust regulation
 - The establishment of local product standards or regulations that influence buyer needs
 - Regulations to influence supporting and related industries

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Swiss Watch Industry

Chance: Calvin

| Firm Strategy Structure & Rivalry | Factor Conditions | Demand Conditions | Related & Supporting Industries |
|--|---|--|--|
| <i>Small scale family business</i> <i>Low my brand.</i> <i>Costly Craftmanship</i> <i>CARTEL.</i> | <i>Craftsmen: watch Jewellers: making settled in Swiss.</i> <i>Centrally located shipping cost low</i> | <i>watch was only ornament allowed neutral country</i> <i>Exports desuavine</i> | <i>Existing watch making industry</i> <i>Farmer Jewellers</i> |

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US Watch Industry

Swiss - Fragmented, unable to adapt

US - Supplier to forward Integrals

| Firm Strategy Structure & Rivalry | Factor Conditions | Demand Conditions | Related & Supporting Industries |
|--|------------------------------------|--|--|
| <i>Mass production.</i> <i>Cheap products.</i> <i>Distribution cheap Jewellers - Korea</i> | <i>Automation.</i> <i>Advt.</i> | <i>Big domestic mkt</i> <i>Armed forces</i> <i>Athletes.</i> <i>Price war ←</i> | <i>Arms & Missile</i> <i>↳ Metallurgy</i> <i>Cultural Branding</i> <i>↳ Hollywood</i> <i>↳ Chip manf.</i> <i>↳ Texas Instr</i> <i>↳ Nat. Service</i> |

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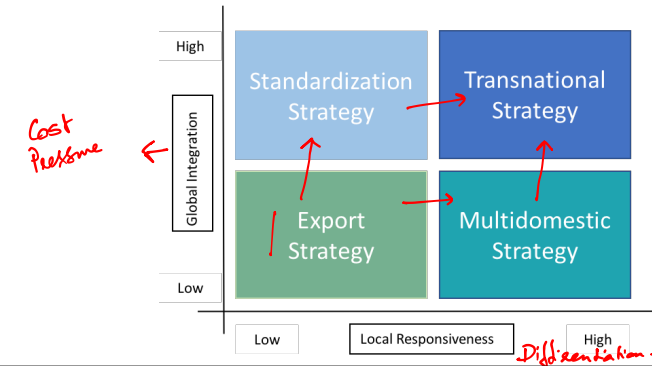
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Japanese Watch Industry

| Firm Strategy Structure & Rivalry | Factor Conditions | Demand Conditions | Related & Supporting Industries |
|--|-------------------|---|------------------------------------|
| Innovation. ↳ Quartz ↳ Variety Vertically Integrated Highly Concentrated | Govt. Support. | - Protected domestic mkt - Adj. mkt - Asia [Low margins. Copy cats.] | Music. Electronic LED LCD |

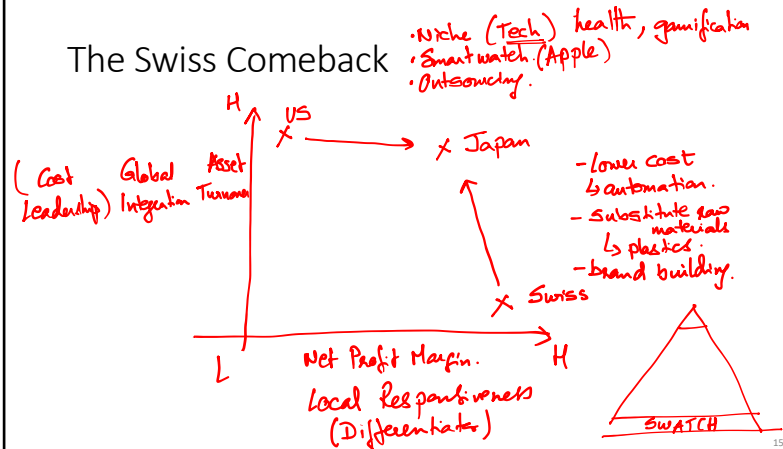
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The Swiss Comeback



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The Swiss Comeback



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Implication of trade theories

- Location implications** - a firm should disperse its various productive activities to those countries where they can be performed most efficiently
 - firms that do not may be at a competitive disadvantage
- First-mover implications** - a first-mover advantage can help a firm dominate global trade in that product
- Policy implications** - firms should work to encourage governmental policies that support free trade
 - want policies that have a favorable impact on each component of the diamond

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Take Aways

- Some industries like the watch industry are global rather than multidomestic
- In a global industry, competition around the world is interdependent
- Sources of competitive advantage are beneficial because they provide structure and order
 - But they set in rigidities and restrict change

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Take Aways

- Competitive advantage is dynamic and changes with time
- When competitive advantages changes every firm is at the starting position.
 - Past successes do not matter any more
- Global competitiveness usually starts from a strong domestic demand

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