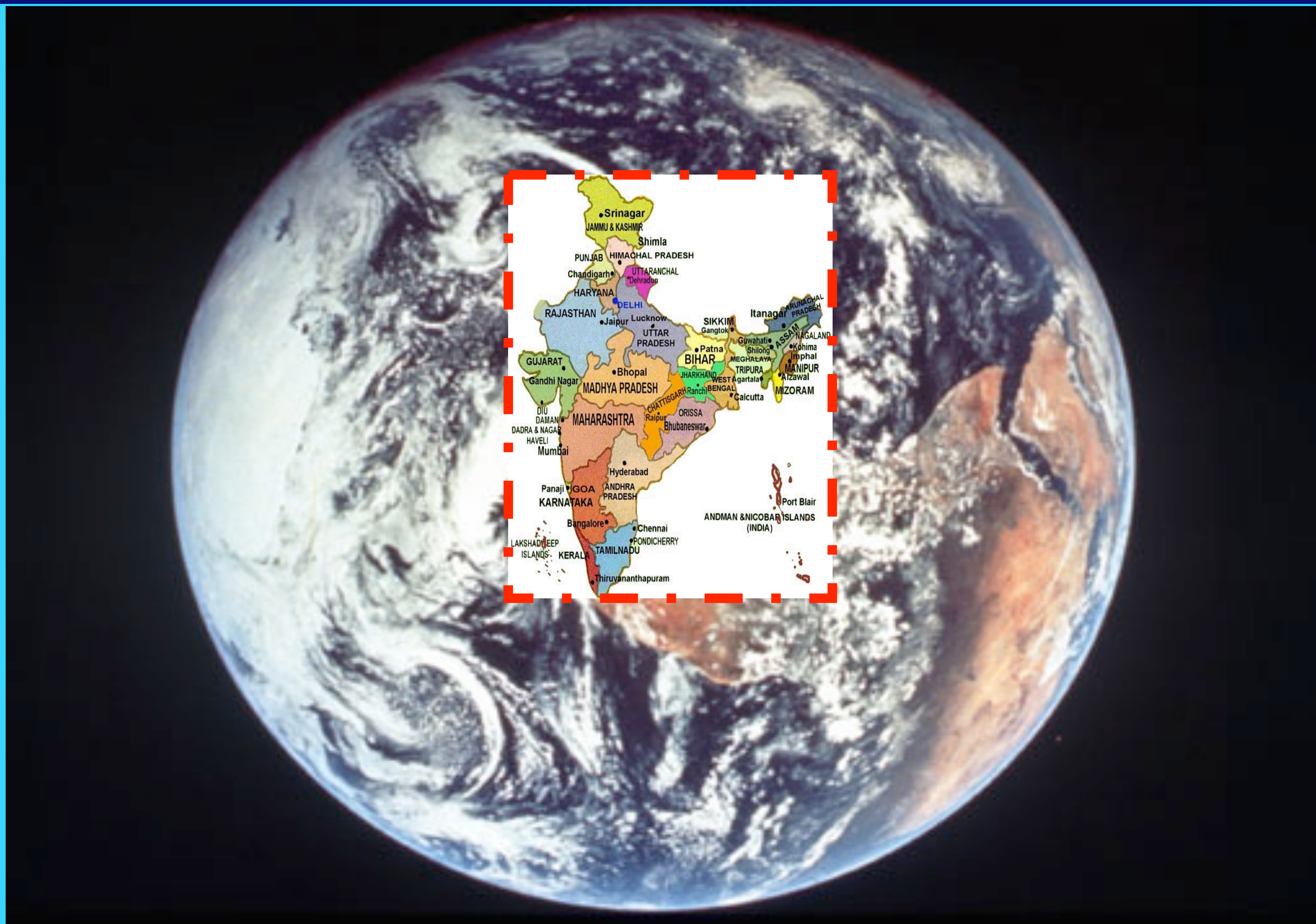

Creating global competitive advantage
through efficient workforce
Some Thoughts
P.K.Purang

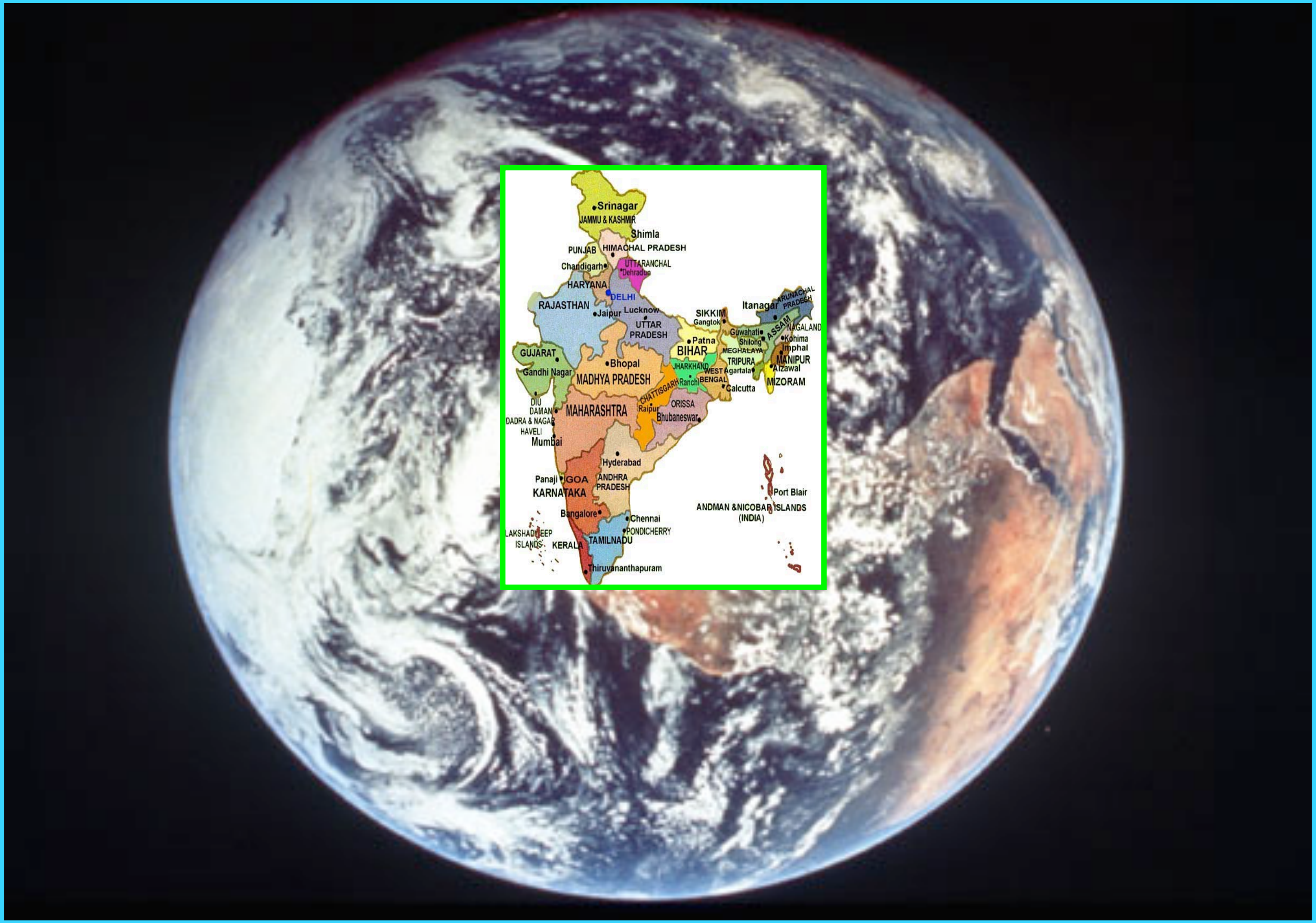
India- Protected Industry
60s and 70s

India - Technology Liberalization
80s and 90s



India – Financial / Economic Liberalization 90s

Globalization
Year 2000 onwards



Global Scenario

WTO

Liberalisation

Vanishing Boundaries

Communication

Internet & Electronic Media

Travel

Globalisation

Shrinking World

Contract Manufacturing, Global Sourcing,

Third Country Trading

Business Process Outsourcing

Emergence of MNCs

Investment in multiple countries

Blooming of Service Sector

Business Process Re-engineering and Acquisitions and Mergers

Strategic Alliances &Partnerships

Indian Scenario

Economic Liberalisation

Foreign Exchange Reserves

Reduction in Subsidies

Elimination of Price preferences

Elimination of Licensing system

Liberalised imports

Reduction in custom duties

Rationalisation of Excise Duty Structure.

Foreign investment

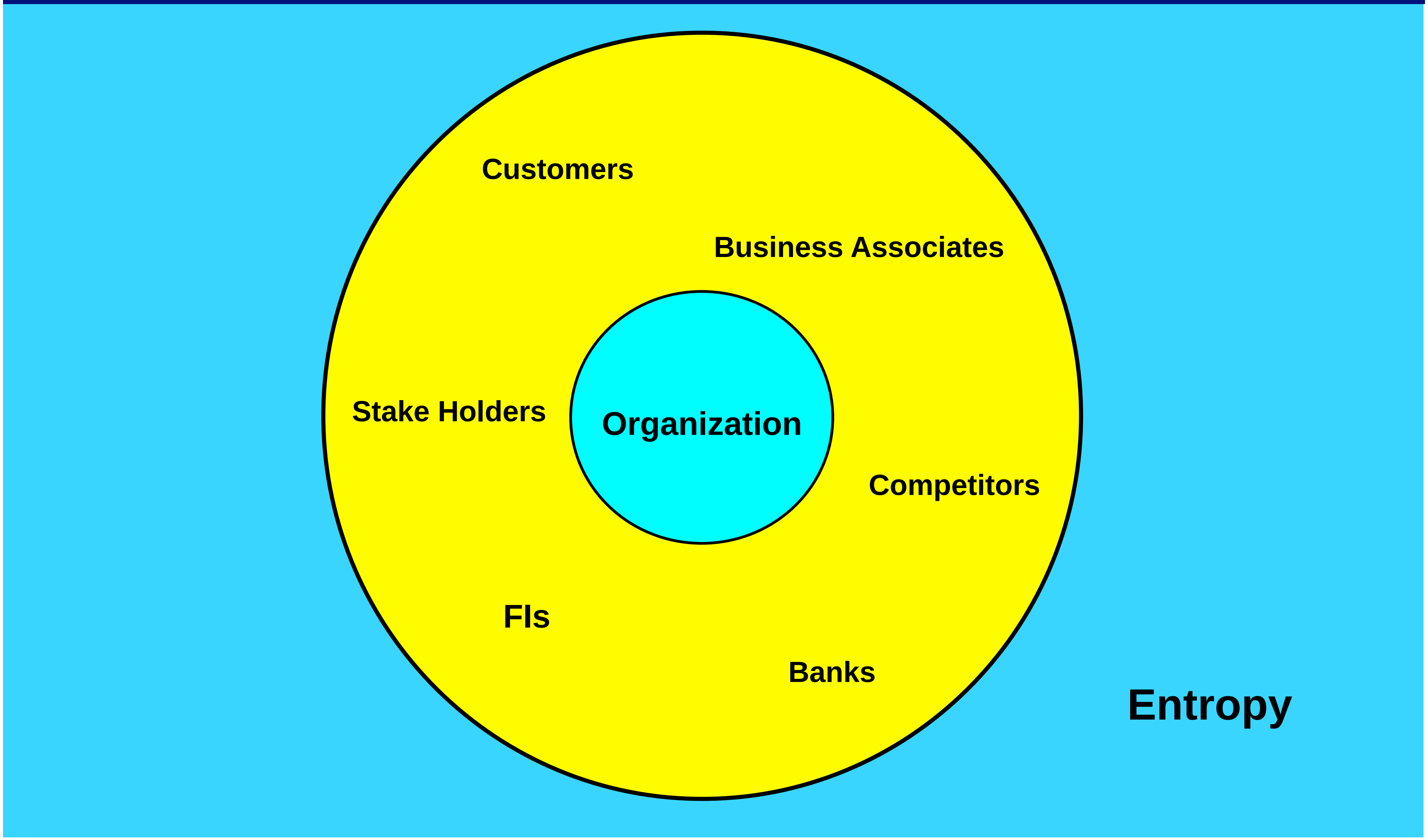
Global Competitive Environment

Multilateral functioning

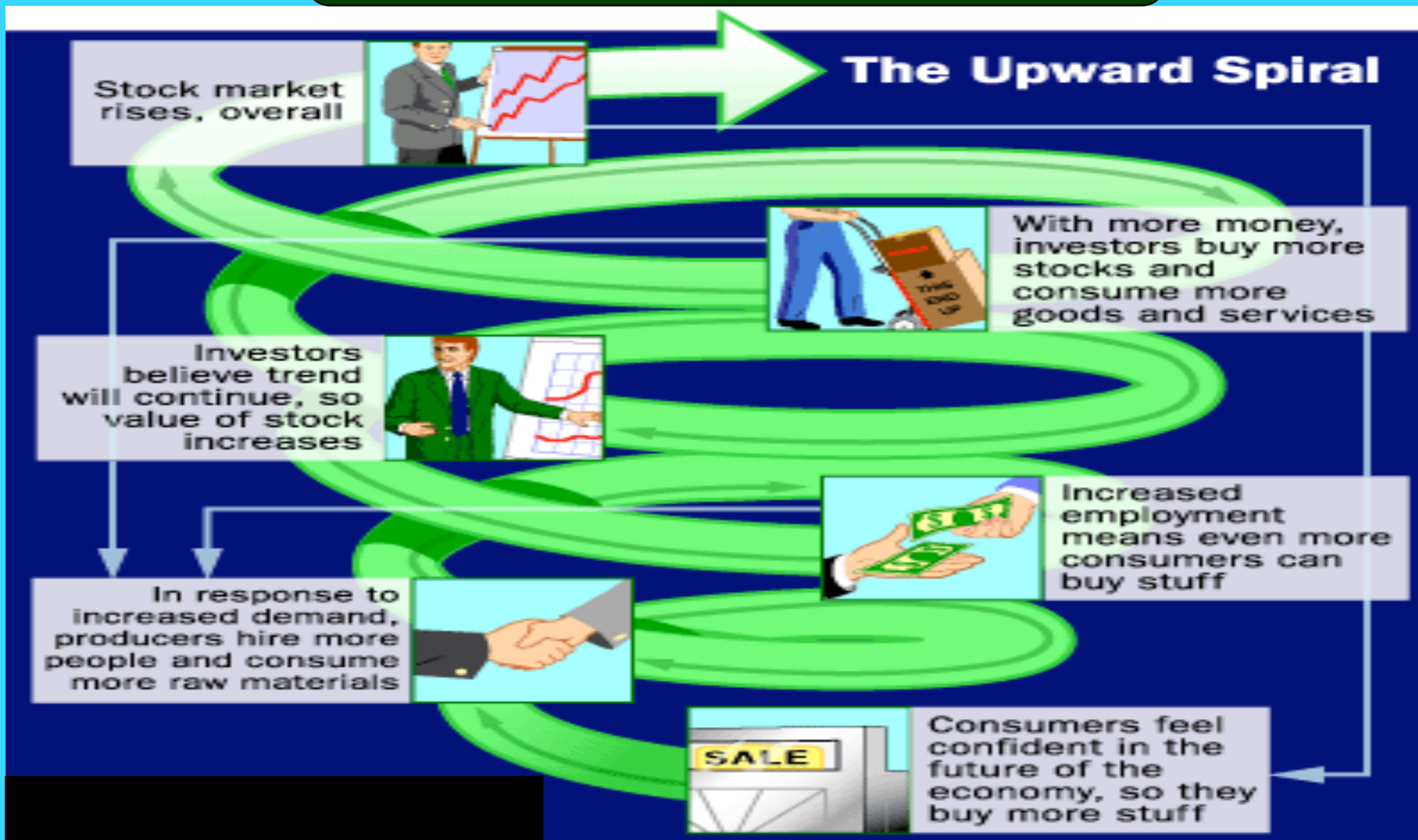
Customer Expectations dynamically changing

New Products, Crashed Delivery Timing,
Globally Competitive Value.

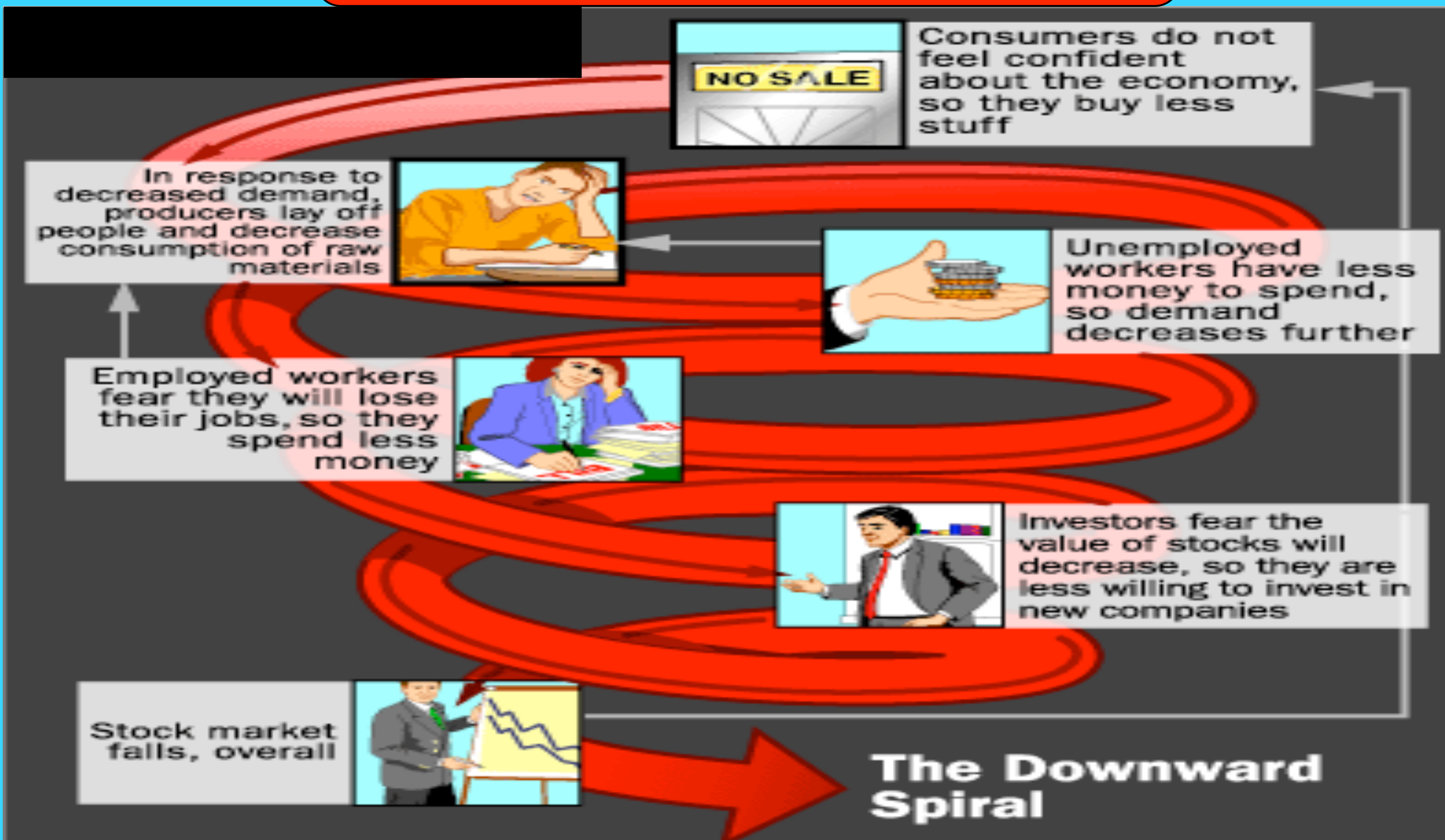
Business Dynamism



Growing Market Economy



Declining Market Economy



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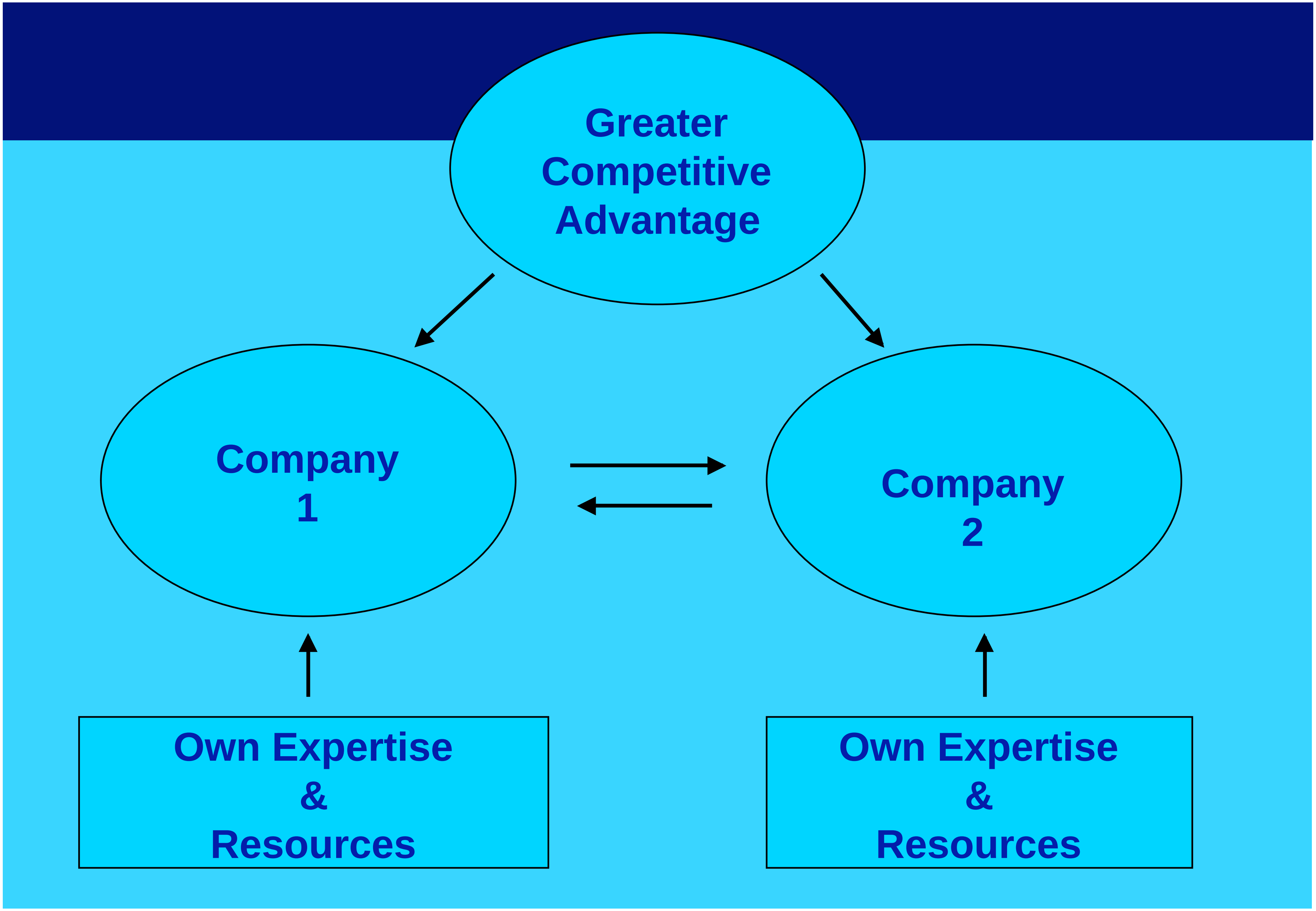
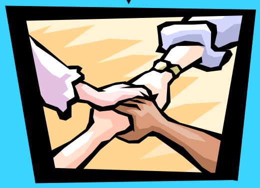

Greater Competitive Advantage
Company 1
Company 2
Own Expertise & Resources
Own Expertise & Resources

Creating Country Competitiveness

Industry Players



Joining Hands

To create greater value for global customers

By

Creating

COE → Auto Ind. – Engg. Testing, Testing Track, Crash Test Labs.

Service Groups → Metals ind.- Joint Shipping Co.

Technology support→ Engg. Solution, Design, Tooling Manufacturing

Pooling for Volume gain → Appliance Ind- Modular Design

Infrastructure Development → Mobile ind. – Towers.

High Value

&

Low Cost Country

Key Acumen for Supply Chain Management Professionals in Current Global Scenario

- Collaborative Approach
- Information & Intelligence
- Logic & Ability to go into depth
- Innovation
- Speed & pace of action
- Networking
- Continuous Learning

The Spirit Of Success

Togetherness

Thank you!

Please feel free to clarify your queries

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Latest IMF projections for Asia

(real GDP, year–on–year percent change)

	2008	2009	2010	2009	2010
		Latest projections		Fourth quarter[1]	
Industrial Asia	–0.2	–5.4	0.5	–2.4	–0.3
Japan	–0.6	–6.2	0.5	–2.7	–0.6
Australia	2.1	–1.4	0.6	–1.1	1.1
New Zealand	0.3	–2.0	0.5	–1.1	1.1
Emerging Asia	6.9	3.3	5.4	4.4	6.0
Newly Industrialized Economies	1.5	–5.6	0.8	–1.5	2.0
Hong Kong SAR	2.5	–4.5	0.5	–3.3	3.2
Korea	2.2	–4.0	1.5	0.0	2.4
Singapore	1.1	–10.0	–0.1	–6.9	1.9
Taiwan Province of China	0.1	–7.5	0.0	–1.6	1.0
China	9.0	6.5	7.5	6.9	7.9
India	7.3	4.5	5.6	4.8	5.9
ASEAN-5	4.9	0.0	2.3	1.2	3.3
Indonesia	6.1	2.5	3.5	2.3	4.0
Malaysia	4.6	–3.5	1.3	–0.3	1.5
Philippines	4.6	0.0	1.0	–2.1	3.4
Thailand	2.6	–3.0	1.0	1.2	2.8
Vietnam	6.2	3.3	4.0	3.7	4.3
Emerging Asia excl. China	4.8	0.1	3.2	1.8	4.0
Emerging Asia excl. China and India	3.1	–2.9	1.6	–0.2	2.6
Asia	5.1	1.3	4.3	2.7	4.5

Source: IMF, WEO database.

[1]Change from fourth quarter of preceding year.

Cost Leadership

- Cost leadership is perhaps the clearest of the three generic strategies. In it, a firm sets out to become the low-cost producer in its industry.
- The firm has a broad scope and serves many industry segments, and may even operate in related industries - the firm's breadth are varied and depend on the structure of the industry.
- If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average.
- At equivalent or lower prices than its rivals, a cost leader's low-cost position translates into higher returns.
- A cost leader, however, cannot ignore the bases acceptable by buyers, a cost leader will be forced to discount prices well below competitor's to gain sales.

Cost Advantage

- Cost advantage is one of the two types of competitive advantage a firm may possess. Cost is also of vital importance to differentiation strategies because a differentiator must maintain cost proximity to competitors. Unless the resulting price premium exceeds the cost of differentiation, a differentiator will fail to achieve superior performance. The behaviour of cost also exerts a strong influence on overall industry structure.
- It is extremely important for managers to recognise the importance of cost, and many strategic plans establish “cost leadership” or “Cost reduction” as goals.

Value Chain & Cost Analysis

- The starting point for cost analysis is to define a firm's value chain and to assign operating costs and assets to value activities. Each activity in the value in the value chain involves both operating costs and assets in the form of fixed and working capital.
- For purposes of cost analysis, the disaggregation of the generic value chain into individual activities reflects three principles that are not mutually exclusive"
  - The size and growth of the cost represented by the activity.
  - The cost behaviour of the activity.
  - Competitor differences in performing the activity.

Cost Drivers & Cost Behaviour

- **Cost behaviour depends on a number of structural factors that influence cost. These factors are also known as cost drivers.**
- **Several cost drivers can combine to determine the cost of a given activity.**
- **The important cost driver or drivers can differ among firms in the same industry if they employ different value chains.**
- **A firm's relative cost position in a value activity depends on its standing vis-à-vis important cost drivers.**

Cost Drivers & Cost Behaviour

- **Cost drivers are the structural causes of the cost of an activity and can be more or less under a firm's control. Ten Major cost drivers determine the cost behaviour of value activities. These are:**
  - **Economies or Diseconomies of Scale**
  - **The pattern of capacity utilisation**
  - **Interrelationships**
  - **Timing**
  - **Location**
  - **Learning**
  - **Linkages**
  - **Integration**
  - **Discretionary policies**
  - **Institutional factors**

Cost Drivers & Cost Behaviour

- **Economies or Diseconomies of Scale :**

  Economies of scale arise from the ability to perform activities differently and more efficiently at larger volume, or from the ability to amortise the cost of intangibles such as advertising and R&D over a greater sales volume.

Cost Drivers & Cost Behaviour

Learning :

- The cost of a value activity can decline over time due to learning that increases its efficiency. The mechanisms by which learning can lower cost over time are numerous, and include such factors as layout changes, improved scheduling, labour efficiency improvement, product design modifications that facilitate manufacturing, yield improvements, procedures that increase the utilisation of assets, and better tailoring of raw materials to the process.

Cost Drivers & Cost Behaviour

- **<u>The pattern of capacity utilisation :</u>**

  Capacity utilization at a given point in time is a function of seasonal, cyclical, and other demand or supply fluctuations unrelated to competitive position

Cost Drivers & Cost Behaviour

- **Linkages :** The cost of a value activity is frequently affected by how other activities are performed. Two broad types of linkages are:
  - **Linkages within the value chain and**
  - **Vertical linkages with the value chains of suppliers and channels**

Linkages create the opportunity to lower the total cost of the linked activities.

Cost Drivers & Cost Behaviour

- **Interrelationships :**

  Interrelationships with other business units within a firm affect cost. The most important form of interrelationships is when a value activity can be shared with a sister unit. Another form of interrelationship could be termed as intangible interrelationship that involves the sharing of know-how between separate but similar value activities.

Cost Drivers & Cost Behaviour

- **Integration :**

  The level of vertical integration in a value activity may influence its cost. The cost of an order processing system can be lower if the firm owns its own computer and software instead of contracting with a computer service bureau. A firm must assess the potential benefits of integration for each important purchased input in a value activity. Conversely, it must examine those functions currently performed internally to determine whether de-integration would lower the cost of the activity without undermining the firm's strategy.

Cost Drivers & Cost Behaviour

- **Timing:** The cost of a value activity often reflects timing. Sometimes a firm may gain first-mover advantages from being among the first to take a particular action. However, disadvantages may also accrue to first movers. Late movers can avoid high product or market development costs borne by early movers.
- **Discretionary policies:** Discretionary policy choices reflect a firm's strategy and often involve deliberate tradeoffs between cost and differentiation.

Cost Drivers & Cost Behaviour

- **Location :** The geographic location of a value activity can affect its cost, as can its location relative to other value activities. While location frequently reflects a policy choice, it can also stem from history, the location of inputs, and other factors. Location has some influence, on the cost of almost every value activity.

Cost Drivers & Cost Behaviour

- **Institutional factors :** Institutional factors, including government regulation, tax holidays and other financial incentives, unionisation, tariffs and levies and local content rules, constitute the final major cost driver.

Interactions Among Cost Drivers

- Cost drivers often interact to determine the cost of an activity. These interactions take two forms:
  - **Drivers either reinforce or**
  - **Counteract each others**

Cost Advantage

- A firm has a cost advantage if its cumulative cost of performing all value activities is lower than competitors' costs.

- The strategic value of cost advantage hinges on its sustainability. Sustainability will be present if the sources of a firm's cost advantage are difficult for competitors to replicate or imitate.

Cost Advantage

- Cost advantage leads to superior performance if the firm provides an acceptable level of value to the buyer so that its cost advantage is not nullified by the need to charge a lower price than competitors.

- A firm's relative cost position is a function of **:**
  - **The composition of its value chain versus competitors'.**
  - **Its relative position vis-à-vis the cost drivers of each activity.**

Pitfalls in Cost Leadership Strategies

- Many firms do not fully understand the behaviour of their costs from a strategic perspective and fail to exploit opportunities to improve their relative cost position.
- Some of the most common errors made by firms in assessing and acting upon cost position include the following ----

Pitfalls in Cost Leadership Strategies

- Exclusive focus on the cost of manufacturing activities
- Ignoring Procurement
- Overlooking Indirect or Small Activities
- False Perception of Cost Drivers
- Failure to Exploit Linkages
- Contradictory cost reduction
- Unwitting Cross Subsidy
- Thinking Incrementally
- Undermining Differentiation

Pitfalls in Cost Leadership Strategies

- **Exclusive focus on the cost of manufacturing activities :** When one mentions “Cost” the immediate focus goes on manufacturing cost. However, other activities like marketing, sales, service, technology development & infrastructure are generally overlooked. These contribute to a significant proportion of costs.
- **Ignoring Procurement :** Many firms work diligently to reduce labour costs but pay scant attention to purchased inputs. Linkages between purchased inputs and the cost of other value activities go unrecognised.

Pitfalls in Cost Leadership Strategies

- **Overlooking Indirect or Small Activities :** Cost reduction programs usually concentrate on large cost activities and/or direct activities. Indirect activities such as maintenance and regulatory costs often escape attention altogether.
- **False Perception of Cost Drivers :** Firms often misdiagnose their cost drivers. For example, a firm with the largest national market share and the lowest costs may incorrectly assume that national market share drives cost. It may also concentrate its defensive strategies on national competition and ignore the more significant threat posed by strong regional competitors.

Pitfalls in Cost Leadership Strategies

- **Failure to Exploit Linkages :** Firms rarely recognise all the linkages that affect cost, particularly linkages with suppliers and linkages among activities such as quality assurance, inspection and service. The ability to exploit linkages underlies the success of many Japanese firms.
- **Contradictory cost reduction :** Firms often attempt to reduce cost in ways that are contradictory. They locate close to buyers to save freight costs but emphasise weight reduction in new product development. Cost drivers sometimes work in opposite directions, and a firm must recognise the tradeoffs.

Pitfalls in Cost Leadership Strategies

- **Unwitting Cross Subsidy :** Firms often engage in unwitting cross subsidy when they fail to recognise the existence of segments in which costs behave differently.
- **Thinking Incrementally :** Cost reduction efforts often strive for incremental cost improvements in the existing value chain, rather than finding ways to reconfigure the chain. Incremental improvement can reach the point of diminishing returns, while reconfiguring the chain can lead to a whole new cost plateau.

Pitfalls in Cost Leadership Strategies

- **Undermining Differentiation :** Cost reduction can undermine differentiation if it eliminates a firm's sources of uniqueness to the buyer. Though doing so may be strategically desirable, it should be the result of a conscious choice. Cost reduction efforts should concentrate most on activities that do not contribute to a firm's differentiation. A cost leader will improve performance, moreover, it it differentiates in activities wherever differentiation is not costly.

Steps in Strategic Cost Analysis

- Identify the appropriate value chain and assign costs and assets to it.
- Diagnose the cost drivers of each value activity and how they interact.
- Identify competitor value chains, and determine the relative cost of competitors and the sources of cost differences.

Steps in Strategic Cost Analysis

- Develop a strategy to lower relative cost position through controlling cost drivers or reconfiguring the value chain .
- Ensure that cost reduction efforts do not erode differentiation, or make a conscious choice to do so.
- Test the cost reduction strategy for sustainability.

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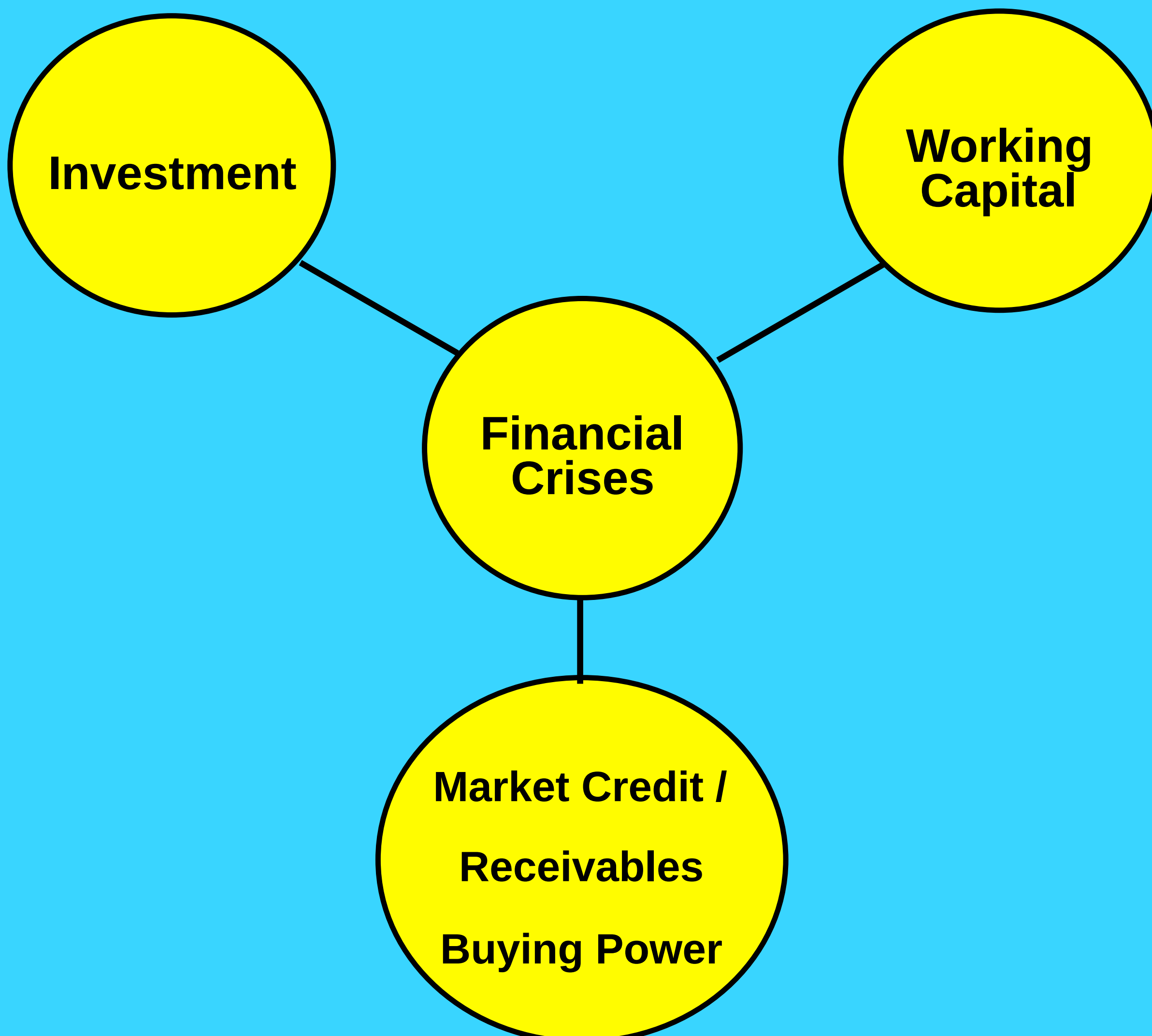
Financial Impact



Minimizing Impact of Recession

- Developing and Deploying a Forecasting Capability
- Applying Well-Timed Strategies and Tactics
- Building a Recession-Proof Organization

Organizational Robustness

- **Forecasting Capabilities**
- **Re-structuring & Organization Design**
- **Simulation**
- **Optimization**
- **Operation Research & Game Theory**