

# Innovative Strategies of Companies for Staying Cost Competitive

DR. N.Ananthi

Assistant Professor – Department of Business Administration Dr.Ambedkar Govt Arts College Vyasarpadi Chennai (India)

## ARTICLE DETAILS

### Article History

Published Online: 03 Oct 2018

### Keywords

Cost Management, Competitive strategy

### \*Corresponding Author

Email: ananthi.raja12[at]gmail.com

## ABSTRACT

Today's organizational environment is proving to be markedly different from that of the past. In the current era of globalization, competition among rivals is inevitable regardless of whether they are domestic or International. Innovation is a continuous process of discovery, learning and application of new technologies and techniques from many resources. Innovation can also take the form of organizational changes and new marketing strategies which spread out demand for products, support existing structures for new methods of production and amplify the efficiency of other types of innovative effort, leading to efficient productivity. In this article Paper titled "Innovative Strategies of Companies for Staying Cost Competitive" the purpose is to provide a literature perspective on the strategies of companies to gain cost competitive advantage.

## 1. Introduction

In today's world of ongoing globalization and changing technologies, competition is becoming keener than ever. In order to survive and grow, every enterprise is forced to strategize competitive edges in some way or the other. Businesses succeed when they possess some relative advantage to their competitors. Gaining this competitive advantage is the objective of the strategy

Strategy can be defined as "The determination of basic long term goals and objectives of an enterprise, and allocation of resources necessary to carry out these goals."- Chandler.

Competitive Strategy concerns the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals.

Competitiveness at the industry level, arises out of the ability of the nation's firms to achieve sustained success against or compared to foreign competitors, without protection or subsidies.

"National competitiveness refers to a nation's ability to produce, distribute, and service goods in the International economy in competition with goods and services produced in other countries, and to do so in a way that earns a rising standard of living."

Innovation can be defined as "activities that involve technological, scientific, financial, commercial, and organizational components that would cause or intended to cause the execution of improved and scientifically new products" (Hashi & Stojci, 2013). Innovative ideas are influenced by a new thought by the action of an economic agent. An organization's efficiency is increased by the implementation of a new idea, which may cause an increase in the firm's production, and lower its cost of production compared to its competitors

The capability to innovate and to bring innovation effectively to market is a vital determinant of the global competitiveness over the coming decade. There is rising awareness among policymakers that innovative activity is the key driver of economic progress and well-being as well as an impending factor in meeting up global challenges.

## 2. Key Areas of focus of Enterprise: Achieving Cost Competitiveness

According to the Report Published by The Institute of Cost Accounts of India on "Cost competitiveness ", It is indispensable for any enterprise to Focus on the Following key areas of business.

- Product Design
- Technology
- Plant Location and Layout
- Process Planning and Control
- Supply Chain Management

## 3. Tools For Achieving Cost Competiveness

The Following tool of analysis helps enterprises to achieve cost competitiveness.

- Engineering analysis of specifications for products, materials & production
- Processes.
- Work study techniques and O & M studies.
- Quantitative techniques (Operations Research & Statistical Techniques)
- Qualitative techniques (Pareto analysis, cause-effect analysis, what-how analysis, etc)
- Systems analysis & integrated information.
- Techno-commercial evaluation of capital projects.
- Value engineering.
- Total Quality Management.
- Benchmarking
- Business Process Re-engineering.
- Financial control

- Cost & Management Accountancy

- Differentiation by technology: Apple Computers.
- Differentiation by innovation: 3 M

#### 4. Strategies for Staying Cost Competitiveness

##### I. Porter Three Generic Strategies:

Porter (1985) had identified three generic strategies for organizations which help to gain strategic advantage. They are,

**Overall cost leadership.** Corporate decision making concentrated on developing functional policies that could exploit plant scale, experience curve, overhead and labor costs, and other cost – related factors.

**Differentiation.** The products and services of a company have to be made distinctive. Differentiation can be brought across in brand image, product development, customer loyalty and distribution networks etc.,

**Focus.** The strategy revolves around serving specific segments more effectively than competitors.

##### 1. Cost leadership strategy:

The cost leadership strategy represents attempts by firms to generate competitive advantage by achieving the lowest cost in the industry. The focus of firms implementing a cost leadership strategy is on stringent cost control and efficiency in all areas of operation (Porter, 1980).

The competitive advantage of cost leadership is achieved by performing important value chain activities at lower cost than competitors.

**Example:** Toyota Company has adopted this system. It has helped the company in cost reduction, quality and delivery time, has provided the impetus for a worldwide shift toward increasing efficiency through cost-cutting strategies. (Schonberger, 1994).

##### 2. Differentiation Strategy:

It involves creating a market position that is perceived as being unique industry-wide and that is sustainable over the long run (Porter, 1980). The Company can adopt such differentiation based upon design or brand image, distribution, and so forth (Frambach et. al, 2003). It helps to create customer value by offering high-quality products supported by good service at premium prices.

**Examples:** following are the examples of the above strategy,

- Differentiation by Brand : Harley Davidson, and Mercedes Benz
- Differentiation by design: Titan watches with gold studded gems, diamonds and precious metals.
- Differentiation by positioning: Domino Pizza “30 minutes delivery”.

##### 3. Hybrid strategy :

The Hybrid strategy intends to simultaneously achieve differentiation and low price relative to competitors. The strategy depends on the ability to deliver enhanced benefits to the customers with low price while achieving sufficient margins for re-investment to maintain and develop bases of differentiation.

When compared to companies relying on a single generic strategy, companies that integrate the generic strategies may position themselves to improve their ability to adapt quickly to environmental changes and learn new skills and technologies. This would help the company to effectively leverage core competencies across business units and product lines and would also help produce products with differentiated features or characteristics that customers' value and provide these differentiated products at a low cost, compared to competitors' products.

**Examples:** Following companies adopt Hybrid strategy.

- IKEA (differentiate in design + low cost)
- Toyota (quality - although under pressure + price)
- Ahold (quality +price).

##### 5. Utilization of Cost Competitiveness

The following are the merits of an effective of Cost competitive Strategy to business Enterprises.

- Provides in developing a competitive edge.
- Helps in focusing on competency.
- Helps in identifying organizational slack.
- Assists in Identifying gaps in functional performance of organizations.
- Helps in evolving strategies in Reduction of wastages
- Efficient supply chain Management.
- Helps to measure quality and service issues.
- Benchmarking against Industry Competitors.
- Helps to achieve Activity based optimization.

##### 6. Conclusion

Business has entered a new era of hyper-competition in which competition is violent and intense. In order to sustain competitive advantage, business enterprise must continually reconfigure internal resources and capabilities to assume Corporate responsibility for adapting turbulent environment.

Managing a new strategy is a complex process which requires effective leadership, careful crafting and effective implementation of the strategy. In crafting the cost leadership strategy, it is critical for the company to identify the cost drivers and factors that aid performance in order to create a sustainable competitive advantage position for Business enterprises to be a Market Leader.

## References

1. Mc Farland :*"Principles and Practice of Management"*, Macmillan & co .1980.
2. Scott, B. R. (1985), "U.S. Competitiveness: Concepts, Performance, and Implications," in B. R. Scott and G. Lodge *U.S. Competitiveness in the World Economy*. Boston: Harvard Business School Press.
3. Shri Debtosh Dey "Cost Competiveness – An Indispensible Key to Success". Institute of Cost accounts of India, Feb 2016, Volume II, No: IV, Pg 9- 14.
4. Flannery, M., and Chen, Y.J (2006). *Business strategy: Walmart Cost Leadership Strategy*. Cambridge: Harvard Business School Publishing.
5. Ramaswamy, V.S. and Namakumari S. (1996). *Strategic planning for Corporate Success In the context of New Economic Policies: A Pathfinder for Indian Corporate Sector*. New Delhi: Macmillan India Limited.
6. Davis, G. (1992). Positioning, Image and the Marketing of Multiple Retailers. *International Review of Retail, Distribution, and Consumer Research*, 1(2), 13-34.
7. Learning, D. A. (2010). *Hybrid Strategy: Sustainable competitive advantage*. Retrieved from
8. [www.daanassen.com/hybrid-strategy-sustainable-competitive-advantage](http://www.daanassen.com/hybrid-strategy-sustainable-competitive-advantage).
9. Porter, M. (1980). *Thechniques for analyzing industries and competitors, Competitive Strategy*. New York: Free Press.
10. Proff, H. (2000). *Hybrid Strategies as a strategic challenge. The case of the German automotive industry*. *The International Journal of Management Science*, 28, 541-553
11. Beal, R., & Yasai-Ardekani, M. (2000). *Performance implication of aligning CEO functional experiences with competitive strategies*. *Journal of Management*, 26, 733-762.
12. Hashi, I., & Stojicic, N. (2013). *The impact of innovation activities on firm performance using a multi stage model: Evidence from the community Innovation*. *Research Policy*, (42), 353-366