*Strategic Management*, 9e: Chapter 8 study guide

Checklist: Comparing your costs against competitors

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| *Cost area* | *Key questions* |
| Product or service |  How does our product or service compare with competitors as assessed by our target customers? What benefits does it offer? At what price? |
| Purchasing |  Could we buy-in product rather than make it? What do our competitors do? Do we have economies of scale in purchasing? |
| Labour costs |  Do we have a history of ‘legacy costs’ like pension agreements and health insurance agreements that make us less competitive? |
| Research costs |  Is this important for company development? How much does the competition spend? Are we more or less effective than competition in our research effort? Why? |
| Raw materials |  Are raw materials a major part of total costs? Do we have any special raw materials that are small in number but expensive and crucial to production? Do we use the same quality of raw materials as our competitors? Does this have a major effect on costs? How does our mix of products or services compare with competitors? What would happen if this mix changed? Are there any special links between our competitors and their suppliers? For example, on technical or quality standards. How do our own arrangements compare? Do our competitors share their purchasing with another area of their business that would reduce their total costs? Do we or could we do the same? |
| Processing and manufacturing |  Do we use the same processes as our competitors? And at the same cost? Do we have the same overhead costs as our competitors? If they are different, why and how? In production, do we produce the same volume from the same plant of the same age as our competitors? In so far as we are different, what impact does this have on our costs? |
| Distribution |  What dealers do we use to distribute our products? At what cost? What does our competition do? Special linkages? What other means of distribution could we use, e.g. web-based? How does this compare with our competitors? If we are exporting from one country to another, what tariffs and other barriers? How does this compare with competitors? |
| Customers |  Do we sell high value items to a few customers or do we sell lower value items to many customers? What are the implications for our cost structure, e.g. high value items may mean strong and well-informed sales force whereas low value items may imply simple volume selling with higher marketing costs? What level of service do we currently offer customers? In delivery time? In sales force calling? How does this compare with competitors both actual and potential? What is our level of marketing investment? How does this compare with our competitors? Do we outspend competition and, if so, for how long? How did our competitors react to such spending? What formal and informal links do we have with our customers? At what cost and benefit? Are such links important? |