12.2 Competitive strategy

Name: _____ Class: _____ Date: _____ **Total: 14 marks**

KEY WORDS differentiation • stuck in the middle

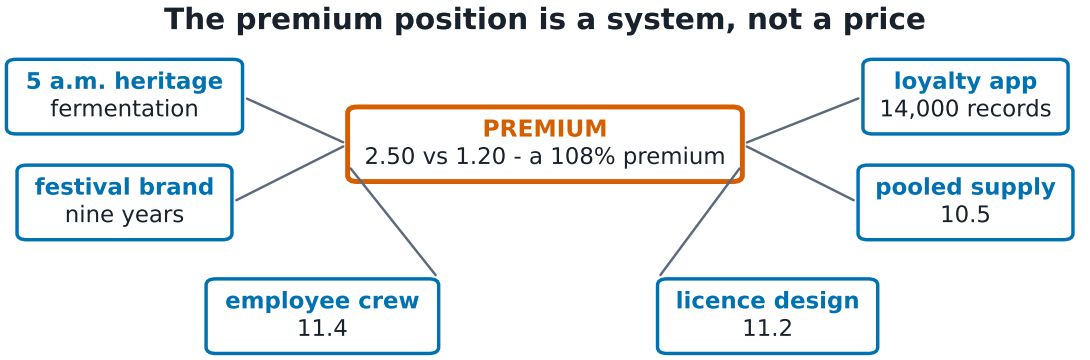
Objective

Choose a position, read a payoff matrix, and price a value line honestly.

1 Key knowledge and worked examples

■ Position, fit, game

Cost leadership or differentiation - not both. The activity system delivers the position; fit is the moat. In the game, look for dominant strategies first, then best replies.



the 2.50 bun: materials 0.95 + labour 0.70 + energy 0.20 + distribution 0.15 + overhead 0.30

= cost 2.30, margin 0.20 (8%) - against the supermarket cost line of 1.60

Each activity makes sense alone, together they are hard to copy

■ Worked example. The bakery game

Rival's Ignore is dominant ($14 > 10$, $12 > 9$); Premium wins against Ignore ($22 > 15$). Equilibrium (Premium, Ignore) 22/14 ✓; the value line dies at -0.15 ✓.

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2 Practice

A coffee roaster against a supermarket own-label. Payoffs (roaster / rival, thousands a week): (Specialty, Hold) 18 / 12; (Specialty, Follow) 9 / 8; (Everyday, Hold) 13 / 10; (Everyday, Follow) 11 / 6. An Everyday blend would price at 2.20 against its cost of 2.35.

2.1 Find the rival's dominant strategy, with the comparisons. [3]

2.2 Is Specialty dominant for the roaster? Show both comparisons, then find the equilibrium. [4]

2.3 The Everyday blend's margin per pack, and the two reasons the analysis kills it. [4]

2.4 The rival launches its own specialty line. Explain in two lines why fit, not secrecy, is the roaster's defence. [3]

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Solutions

2.1

- Hold dominates Follow: against Specialty $12 > 8$; against Everyday $10 > 6$.

2.2

- Specialty is NOT dominant: $18 > 13$ against Hold, but $9 < 11$ against Follow.
- Rival holds (dominant); against Hold, Specialty $18 > 13$: equilibrium (Specialty, Hold), 18 / 12.

2.3

- $2.20 - 2.35 = -0.15$ a pack.
- Unprofitable, and it spends the brand's scarcity attacking a cost curve the roaster cannot beat - stuck in the middle.

2.4

- Copying the beans buys the cost without the willingness to pay: the roaster's system (origin visits, in-store grinding, the subscription) is what Follow cannot carry - which is why Follow pays the rival 8 against Hold's 12.

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