



Greetings!!!

Cost leadership is the strategy used by businesses to create a low cost of operation within their niche. In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. 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. Cost leadership is an effective business level strategy to the extent that a firm offers low prices, provides satisfactory quality, and attracts enough customers to be profitable.

Objectives of Cost Leadership:

- * Cost control and cost reduction
- * Value maximization
- * Cost leaders keep their costs low by minimizing advertising, market research, research and development.
- * It contrasts differentiation strategies that emphasize quality or high value.
- * Using the cost leadership strategy, a business can use its advantages in low-cost operations to either bank more profits at industry average prices or to operate as a low-cost provider to increase customers and volume.

Under a cost-leadership strategy, the company seeks to be the lowest cost provider to most customer segments. If it sells at industry average prices it earns a higher profit than its rivals or it can sell at below these prices to increase market share. The company looks for ways to lower its cost position and these include economies of scale, experience curve effect, improving process efficiencies, and outsourcing.

It is the parallel emphasis on low-cost production activities. Companies that want to use the low-cost strategy must figure out how to optimize costs in each element of the value chain. A retailer, for instance, can use supply chain management and logistics to negotiate the best product prices and run the most efficient inbound and outbound transportation processes. It would also use a modest advertising budget to promote low costs and affordable value to :

its customers to attract buyers.

Firms operating in this highly competitive environment are always on the move to become successful. To thrive in this competitive environment, the firms should have an edge over the competitors. To develop competitive advantage, they should produce good quality products at minimum costs. This means the firms should provide high quality at low cost so that the customer gets the best value for the product he/she is buying. Therefore, it becomes necessary for the firms to have a strategic edge towards its competitors. One such competitive strategy is overall cost leadership, which aims at producing and delivering the product or service at a low cost relative to its competitors at the same time maintaining the quality. Cost leadership strategy takes place through experience, investment in production facilities, conservation and careful monitoring on the total operating costs. To gain competitive advantage, small businesses can focus on different strategies, including leadership in cost, quality, innovation or customer service. Strongest advantage comes through leadership in a factor that is important to customers and difficult for competitors to match.

The intention behind a cost leadership strategy is to be a lower cost producer in comparison to competitors. There are two traditional options for businesses to increase profits, either decreasing costs or increasing sales. In a cost leadership strategy, the concentration is on acquiring quality raw materials at the lowest price. Business owners additionally need to use the best labor to convert these raw materials into valuable goods for the consumers. Thus, this strategy is especially beneficial if the market is one where price is an important factor. Firms can gain competitive advantage through differentiation of their product offerings which provides superior customer value, or by maintaining lowest delivery cost.

This issue presents a good number of articles on the cover story theme 'Cost Leadership & Competitive Advantage' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.