

FROM THE EDITOR'S DESK

Greetings!

A firm pursuing a cost-leadership strategy attempts to gain a cost competitive advantage primarily by reducing its economic costs below its competitors. A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. The leadership strategies seek competitive advantage in a broad range of market or industry segments.

Cost competitiveness as a level of operation allows an organization to go on winning sales at a price that generates a sufficient level of return both for stakeholders and for the investment needs of the business.

Attaining cost leadership typically requires aggressive construction of efficient scale facilities and strong pursuit of cost reductions through experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, cost of production, advertising, etc. While attempting to achieve an overall cost leadership position, low cost relative to competitors is the theme running through the entire strategy and cost competitiveness through leadership thus get enhanced.

A low-cost position defends the firm against powerful buyers because buyers can exert power only to drive down prices to the level of the next most efficient competitor. Low cost provides a defense against powerful suppliers by providing more flexibility to cope with input cost increases. The factors that lead to a low-cost position usually also provide substantial entry barriers in terms of scale economies or cost advantages. Finally, a low-cost position usually places the firm in a favourable position vis-à-vis substitutes relative to its competitors in the industry. In one word, cost advantages can create value for a firm by reducing the five threats of entry, rivalry, substitutes, suppliers and buyers.

Barney & Hesterley (2006) mean that there are six main cost advantages or, sources of cost advantages for firms that successfully adopt cost leadership: 1. Size differences and economies of scale, 2. Size differences and diseconomies of scale, 3. Experience differences and learning-curve economies, 4. Differential low-cost access to productive inputs, 5. Technological advantages inde-



pendent of scale, and 6. Policy choices

Economies of scale: One of the most cited sources of cost advantage for a firm is its SIZE. There is a relationship between firm size measured in terms of volume of production and costs measured in terms of average costs per unit of production. The optimal volume of production is reached when the average costs per unit of production is minimum.

The learning curve: The learning-curve model attempts to relate the volume of production and costs over time. Economies of scale focus on the relationship between the volume of production at a given point in time and average unit costs. The learning curve focuses on the relationship between the cumulative volume of production and average unit costs.

Differential Low-Cost Access to Factors of Production: Differential low-cost access to factors of production may create cost differences among firms producing similar products in an industry. Factors of production are any inputs used by a firm in conducting its business activities. They include labor (human resources), capital, land, raw materials, knowledge

Technological Advantages Independent of Scale: A possible source of cost advantage not depending on economies of scale may be the different technologies that firms employ to manage their business. Technologies include not only technological hardware of companies but also technological software of firms (quality of relations among labor and management, an organization's culture, the quality of managerial controls). All these characteristics of a firm have an impact on a firm's economic costs.

Policy Choices: In general firms that attempt to implement a cost-leadership strategy will choose to produce relatively simple standardized products that sell for relatively low prices compared to the products and prices of firms pursuing other business or corporate strategies.

This issue presents a good number of articles on the cover story theme 'Cost Competitiveness through Leadership' 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.