AEM 2601: Homework 02 – Best Answers

1. **Target (the US discount retailer), H&M (the Swedish fashion clothing chain), and Primark (the UK discount clothing chain) have pioneered cheap chic —combining discount store prices with fashion appeal. What are the principal challenges of designing and implementing a cheap chic strategy?**
    - Cheap chic means that the company is attempting to implement a differentiation strategy while also keeping costs low. This is difficult to achieve because differentiation usually leads to higher costs. A cheap chic firm would have to keep up with the latest fashion trends and reproduce them on a budget. A cheap chic firm would ultimately have to ensure that its benefits from differentiation outweigh the added costs of differentiation.
    - The first principal challenge of a cheap chic strategy is being able to move large volumes of merchandise from design to showroom floor as quickly as possible (Investopedia, 2016). For example, companies like Zara move inventory quickly in and out of stores to create pressure for consumers to take advantage of low prices and buy the product (New York Times, 2012). As a result, it is imperative for cheap chic brands to locate manufacturing facilities and storefronts near each other to reduce shipping time. Secondly, cheap chic companies need to have great designers capable of producing multiple fashion lines in a year. To keep pressure on customers to buy now, new products must be designed regularly (New York Times, 2012). Similarly, strong market research provides the information necessary to stay in line with fashion trends. Lastly, sourcing cheap manufacturing labor and materials are critical to maintaining low price points. One of the challenges that emerges with this approach, however, is that working conditions in cheap chic company factories are poor. A global emphasis on humane manufacturing conditions has led to bad press for cheap chic companies like H&M, whose workers face low wages, sexual harassment, and other abuses (New York Times, 2016).
    - A cheap chic business strategy focuses on cost leadership as one of its primary drivers of success/profitability. Several challenges are associated with designing and implementing this strategy. The firms that employ cheap chic strategies are seeking a

cost advantage but also must simultaneously consider ways to differentiate their services. One key challenge on the supply side of cheap chic firms is designing a supply chain process for acquiring the clothing at the least cost possible in order to allow for as much possible profit margin under competitive, low pricing. These firms, for the most part, sell products that are the same regardless of which cheap chic store you buy them from. Therefore, with very low switching costs, customers go for the lowest price available. Places like Target, H&M and Primark don't hold the association of high fashion in their own names so they cannot rely on psychological factors regarding consumer status to differentiate themselves from competitors. Another challenge with this strategy is that it is relatively easy to imitate amongst competitors. Ultimately, the greatest overall challenge for these firms is to maintain the appeal of chic products while being able to deliver them at competitively low prices. This is mainly achieved through the design of an effective value chain. The demand side of the value chain in particular must include effective marketing tactics, widespread distribution and high quality customer service in order to develop/maintain a sustained competitive advantage. Once again, however, the nature of being a cost competitor makes it very difficult to sustain a competitive advantage when it is achieved.

- The biggest challenge for cheap chic is maintaining a small turnaround time from design to implementation. Fashion discount stores have to keep their turnaround time small because they have to keep consumers interested in their newest and latest products. Designing the piece of fashion is the easy part, manufacturing and distributing the goods to retail stores requires many complicated and entrenched networks. In order to keep up with the goods, these fashion houses create complex it software to follow the flow of goods from design to reaching the final destination in the stores. Another challenge for discount fashion stores is keeping up with current trends. It is not just enough to copy the designs of established designers. These clothing chains must understand trends within consumer buying habits - what looks good and what does not look good. Without consumer inputs into the design process, these fashion houses would fall behind and be unable to keep up with current trends. Establishing a forum for consumer input is critical for continued sales growth for these fashion companies.

2. **Do craft brewers pursue a cost advantage or differentiation advantage? Use the Value Chain to identify the sources of this advantage.**

   - Craft brewers pursue a differentiation advantage strategy. The aspects of the value chain that provide this source of a differentiation advantage are: operations, outbound logistics, sales & marketing, service, and the underlying infrastructure. In operations, craft brewers have unique manufacturing/production that creates bolder-tasting brews such as India Pale Ale, and fruit-flavored wheat beer. These flavors are differentiated from the large brewers and create a differentiated product. Also, craft manufacturing is manufactured differently from big brewed beers. The outbound logistics are also a source of the advantage since there are many craft brewers who can locally distribute in smaller quantities than the large breweries. In sales & marketing, craft brewers market their products to appear different and separate from big brewers. For example, Anheuser-Busch increased production on Shock Top, an in-house wheat brand that is next to craft brews, but Shock Top does not mention Ahneuser-Busch's name on its label in order to appear distinct from large brewers. Craft brewers also target a niche market that is distinct from traditional large brewers. Craft brewers may also be differentiated in service. Since craft brewers are smaller than large breweries, consumers may think that craft brewers have better customer service and care more about the consumer, due to their size. Additionally, the infrastructure that supports the value chain is a source of the differentiation advantage because administration and the financial infrastructure ensures that the craft brewer retains control of the company through strategic loans. To explain, Sam Calagione, founder of Milton, has turned down offers from venture capitalists, private-equity firms, and a large brewer in order to retain direct control of his company; therefore, he focuses on traditional banks to finance his business.
   - Craft brewers pursue a differentiation advantage. In terms of operations, regional brewers have poured millions into new brew kettles, fermenting tanks, and bottling lines (Wall Street Journal, 2011). By doing so, firms hope to improve production processes and meet growing demand. Additionally, craft beer brewers create different flavors and bolder tastes to compete with each other and larger light lager brewers in the industry (Wall Street Journal, 2011). Craft beer marketers focus on the care and

skill that go into each barrel of their product. The largest craft brewer in the United States, Samuel Adams, highlights its brewmasters in many of its commercials to emphasize the human connection and knowledge of beer that defines the brand. In doing so, Samuel Adams highlights the uniqueness of its product without encouraging the consumer to buy based on price. Lastly, outbound logistics factor into the differentiation advantage because many craft brewers focus on local markets (Wall Street Journal, 2011). As a result, craft beer companies can take advantage of the goodwill of being a local product and worry less about competing on price.

- Craft brewers pursue a differentiation advantage. While market leaders like Anheuser Busch InBev and MillerCoors mass produce common beer at roughly 75% of market share closer to the cost advantage side of the spectrum, craft brewers aim to provide customers with a more differentiated, sophisticated beer. Craft brewers have found success by focusing on their product quality and have undergone research and development for their products to come up with a wide range of unique, and sometimes flavored, products that provide an alternative to the mass produced generic brands like Budweiser, Miller lite and Coors light. This advantage is derived in multiple stages of the value chain. On the demand side, craft brewers capitalize on the inbound logistics of obtaining quality inputs for their products that will eventually result in the unique, differentiated product after manufacturing. Also, they focus on operations to enable their facilities to produce a wider range of beer including different flavors and different types of beer that will attract a niche consumer market. With respect to operations, craft brewers are trying to expand their facilities to increase capacity and to branch out into additional production locations; this effort will add value not only by fulfilling the rising demand for the product but also by reducing transportation costs. On the demand side of the chain, craft brewers increase value by marketing their products to a niche target. Their marketing tactics focus on emphasizing the product quality or the product uniqueness which in turn increases the chances that consumers would be willing to pay the premium over the more generic mass produced beers.