

DELIVERED COST AND DIFFERENTIATION APPLIED TO THRESHOLD 3RD ED

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ABSTRACT

This interactive session explores an application of the concepts of Delivered Cost and Differentiation to Threshold Competitor, 3rd ed.. Delivered Cost and Differentiation were articulated by Porter (1980, 1985), and Hall (1980). They are described in many strategy texts; e.g., Thompson, Gamble, and Strickland (2006) and Hitt, Ireland, and Hoskisson (2005). The concepts can provide significant understanding of one's competitive situation, and guidance in strategic decision making; and at least as importantly, help students better understand the concepts.

OVERVIEW

This interactive session explores an application of the concepts of Delivered Cost and Differentiation to Threshold Competitor, 3rd ed.. Delivered Cost and Differentiation were articulated by Porter (1980, 1985), and Hall (1980). They are described in many strategy texts; e.g., Thompson, Gamble, and Strickland (2006) and Hitt, Ireland, and Hoskisson (2005). The concepts can provide significant understanding of one's competitive situation, and guidance in strategic decision making; and at least as importantly, help students better understand the concepts.

I found that many students, even at the end of simulation experiences did not know their cost per unit, much less their cost (value) chain (delivered cost). Nor were they able to articulate their differentiation relative to competitors.

I developed Cost Chain and Differentiation templates, then a Delivered Cost/Differentiation 2x2 to try to help students understand the concepts better, and help their decision making. Students, for the most part, have found they helped understand the concepts better, and made better decisions by using them.

These, and similar templates have been used in classes over the years. The templates presented in this interactive session, while adapted for Threshold, may be adapted to any simulation (and have been adapted to others).

In the world of business, information is often not in the form needed for decision making. Converting data from reports provided in Threshold to a Cost Chain and a Differentiation Index (see appendices) illustrates and hones analytical reasoning, quantitative and spreadsheet (thus computer) skills, and builds confidence based on capability.

The templates shown in the appendices illustrate one application of cost chain and differentiation concepts to Threshold Competitor.

REFERENCES

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- Porter, Michael, (1980) *Competitive Strategy*, Free Press, 1980.
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- Thompson, Gamble, and Strickland (2006) *Strategy: Winning in the Marketplace, 2nd ed.*, McGraw-Hill Irwin, 2006.

APPENDIX A: THRESHOLD COST CHAIN

Threshold Cost Chain		Product 1	Product 2	Product 1	Product 2
Quarter 0 Actual					
Number of Units Produced		6000	5100	6000	5100
Cost of Goods Produced		Total \$	Total \$	Per Unit \$	Per Unit \$
	Raw Material	48000	61200	8.00	12.00
	Labor Costs	106537	75463	17.76	14.80
	Overhead	49189	41811	8.20	8.20
	Improvements	10000	17500	1.67	3.43
	Depreciation	10800	9180	1.80	1.80
Total COGP		224526	205154	37.42	40.23
Selling Costs					
	TV Ads	30000	25000	5.00	4.90
	News Ads	9000	7000	1.50	1.37
	Mag. Ads	24000	21000	4.00	4.12
Admin. Costs					
	Office Expense	6486	5514	1.08	1.08
	Market Info.	5405	4595	0.90	0.90
Total Selling & Admin.		74891	63109	12.48	12.37
Delivered Cost Before Whse,					
Int, Tax, & Profit		299417	268263	49.90	52.60
Finished Goods	Ending Balance	0	0	xxxx	xxxx
Finished Goods Whse. Cost		0	0	0.00	0.00
Net Interest		5625	xxxx	0.49	0.52
Income Tax (payable)		25197	xxxx	2.10	2.47
TOTAL DELIVERED COST (DC)				52.50	55.59
Contribution to Profit (Net Income)		25198	xxxx	11.50	-8.59
Price		64	47	64	47

APPENDIX B: THRESHOLD DIFFERENTIATION INDEX

Threshold Differentiation Index

Co.	Qtr 2	Prod. 1									
	Qual.	TV	TV	News P1	News	Mag	Mag	Price	Price	Total	
	Quality	Z score	Z score	Z score	Z score	Z score	Z score	Z score	Z score		
1	10000	-1.74	6	0.27	9	1.04	8	0.75	67	-1.54	-1.21
2	27701	0.40	7	0.67	6	0.00	4	-0.80	67	-1.54	-1.27
3	37852	1.63	10	1.86	4	-0.70	10	1.53	64	0.40	4.73
4	24086	-0.04	5	-0.12	9	1.04	8	0.75	63	1.05	2.69
5	20057	-0.53	4	-0.52	2	-1.39	8	0.75	63	1.05	-0.63
6	21524	-0.35	1	-1.71	7	0.35	5	-0.41	64	0.40	-1.72
7	29438	0.61	3	-0.92	7	0.35	8	0.75	62	1.70	2.49
8	24432	0.00	5	-0.12	1	-1.74	3	-1.19	65	-0.24	-3.29
9	25481	0.13	4	-0.52	1	-1.74	3	-1.19	64	0.40	-2.92
10	34324	1.20	5	-0.12	8	0.70	7	0.37	64	0.40	2.54
11	14119	-1.24	4	-0.52	7	0.35	2	-1.58	63	1.05	-1.95
12	20428	-0.48	8	1.07	5	-0.35	7	0.37	66	-0.89	-0.29
13	14893	-1.15	9	1.46	10	1.39	9	1.14	66	-0.89	1.96
14	36996	1.52	8	1.07	4	-0.70	8	0.75	64	0.40	3.05
15	17375	-0.85	4	-0.52	8	0.70	4	-0.80	66	-0.89	-2.37
16	31729	0.89	2	-1.31	8	0.70	3	-1.19	66	-0.89	-1.81
avg.	24402		5.3		6.0		6.1		64.6		
StDev	8267		2.5		2.9		2.6		1.5		

APPENDIX C: THRESHOLD DELIVERED COST/DIFFERENTIATION 2X2

