Competitive Strategy
BUSA405

LECTURE 6 – STRATEGIC CHOICES AND FORMULATION: BUSINESS LEVEL STRATEGY AND GROWTH STRATEGIES

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LEARNING OUTCOMES

- Understand what distinguishes each of the five generic strategies and why some of these strategies work better in certain kinds of industry and competitive conditions than in others.
- Gain command of the major avenues for achieving a competitive advantage based on lower costs.
- Learn the major avenues to a competitive advantage based on differentiating a company's product or service offering from the offerings of rivals.
- Recognize the attributes of a best-cost provider strategy—a hybrid of low-cost provider and differentiation strategies.

COMPETITIVE (BUSINESS) STRATEGY

- “ Competitive Strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.” Michael Porter 1996
- “ Strategy is the creation of a unique and value position involving a different set of values.” Michael Porter 1996
- “Strategy is an integrated set of choices that uniquely positions the firm in its industry so as to create sustainable advantage and superior value creation relative to the competition.” Lafley and Martin, 2013

COMPETITIVE ADVANTAGE

When two or more firms compete in the same market, one firm possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit/market share/customer base/advanced tech breakthroughs etc

SOURCES OF COMPETITIVE ADVANTAGE

- **“Key” Success Factors**
- **“Core” Competencies**
- **“Critical” Resources**

Competitive advantage is seen as concentrated in a few parts of the value chain

STRATEGY AND COMPETITIVE ADVANTAGE

Competitive advantage exists when a firm's strategy gives it an edge in

- Attracting customers ***and***
- Defending against competitive forces

Key to Gaining a Competitive Advantage

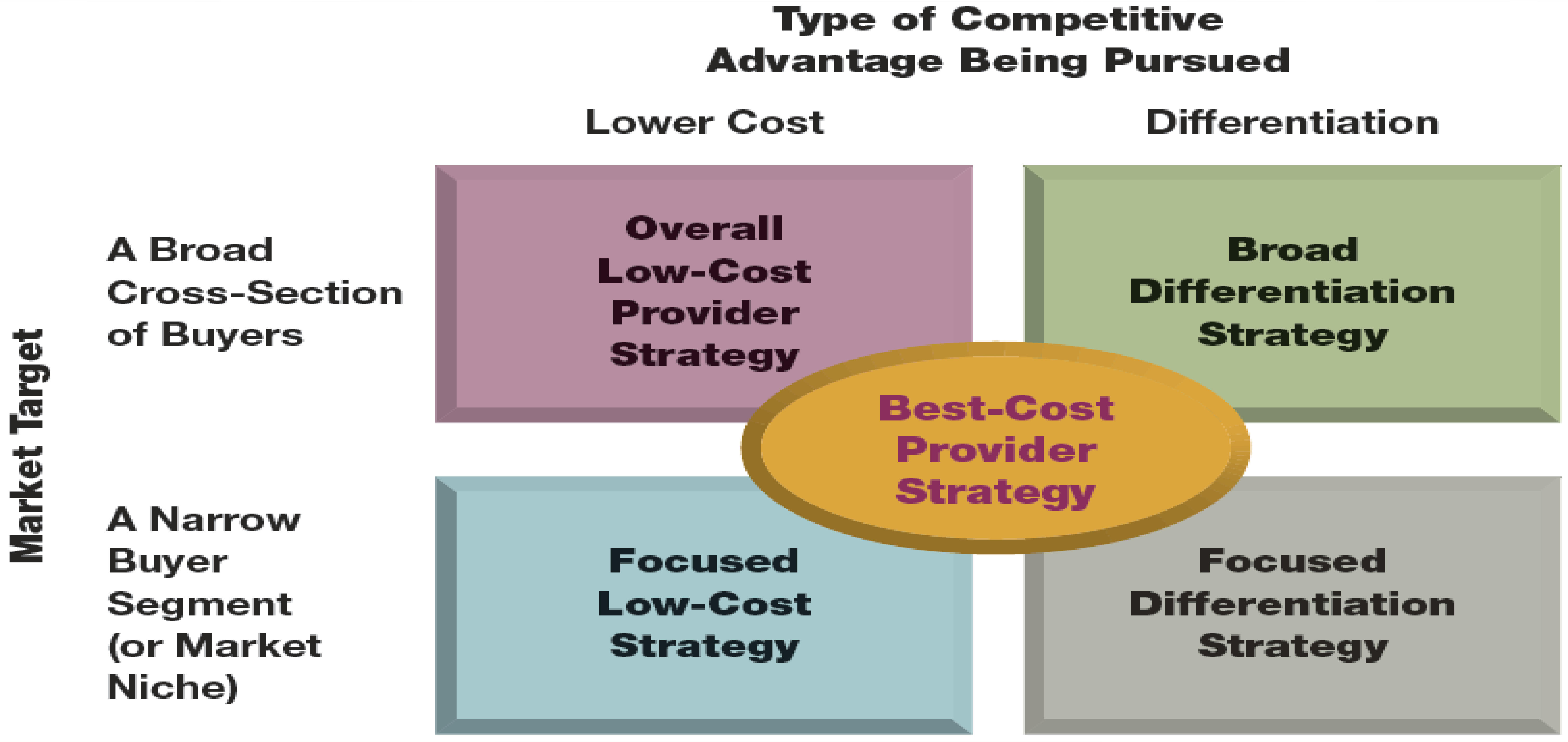
Convince customers on firm's product / service that offers ***superior value***

- A ***good product*** at a ***low price***
- A ***superior product*** worth paying more for
- A ***best-value product***

THE FIVE GENERIC COMPETITIVE STRATEGIES

NAME	DESCRIPTION
Low-Cost Provider	Striving to achieve lower overall costs than rivals on products that attract a broad spectrum of buyers
Broad Differentiation	Differentiating the firm’s product offering from rivals’ with attributes that appeal to a broad spectrum of buyers
Focused Low-Cost	Concentrating on a narrow price-sensitive buyer segment and on costs to offer a lower-priced product
Focused Differentiation	Concentrating on a narrow buyer segment by meeting specific tastes and requirements of niche members
Best-Cost Provider	Giving customers more value for the money by offering upscale product attributes at a lower cost than rivals

STRATEGY DIFFERENTIATION MATRIX



LOW-COST PROVIDER STRATEGIES

- **Effective Low-Cost Approaches:**
  - Pursue cost-savings that are difficult to imitate.
  - Avoid reducing product quality to unacceptable levels.
- **Competitive Advantages and Risks:**
  - Greater total profits and increased market share gained from underpricing competitors.
  - Larger profit margins when selling products at prices comparable to and competitive with rivals.
  - Low pricing does not always attract enough new buyers.
  - Rival's retaliatory price cutting can set off a price war.

MAJOR AVENUES FOR ACHIEVING COST ADVANTAGE

Low-Cost Advantage

- A firm's cumulative costs across its overall value chain must be lower than competitors' cumulative costs.

How to Gain a Low-cost Advantage:

1. Perform value chain activities more cost-effectively than rivals.
2. Revamp the firm's overall value chain to eliminate or bypass cost-producing activities.

COST-CUTTING METHODS FOR COMPETITIVE ADVANTAGE

- Striving to capture all available economies of scale.
  - Technical Input / Output
  - Specialization
- Taking full advantage of experience and learning-curve effects.
  - Learning by doing
  - Learning occurs both at the individual level through improvements in dexterity and problem solving and at the group level through the development and refinement of organizational routines
- Improving supply chain efficiency.
  - Negotiations for high quality inputs yet lower prices

COST-CUTTING METHODS FOR COMPETITIVE ADVANTAGE

- Trying to operate facilities at full capacity.
  - Under-utilisation raises unit costs
  - Pushing output beyond normal full capacity also creates inefficiencies
  - The key is to be able to speedily adjust capacity to downturns in demand
- Using communication systems and information technology to achieve operating efficiencies.
- Using lower cost inputs wherever, doing so will not entail too great a sacrifice in quality.
  - Location differences in input prices
  - Ownership of low-cost sources of supply
  - Bargaining power

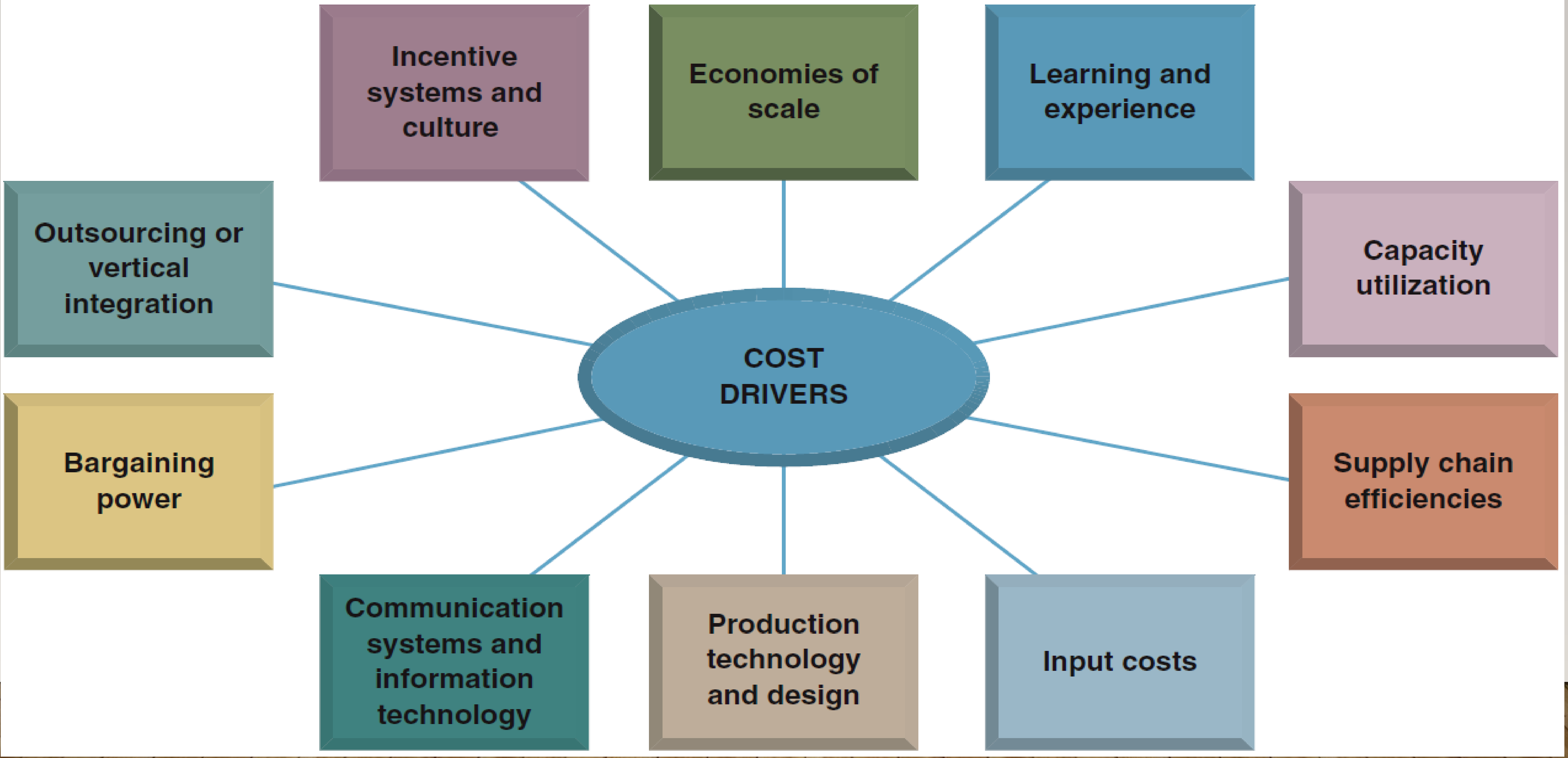
COST-CUTTING METHODS FOR COMPETITIVE ADVANTAGE

- Employing advanced production technology and process design to improve overall efficiency.
  - The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed
  - Reduced number of parts from 150 to 60
  - Designed printer in layers so robots could build it
  - Eliminated all screws, sprints, and other fasteners that required human insertion and adjustment and replaced them with molded plastic components that clipped together
- Using the firm's bargaining power vis-à-vis suppliers or others in the value chain system to gain concessions.
- Being alert to the cost advantages of outsourcing or vertical integration.
- Motivating employees through incentives and company culture.

MANAGEMENT OF VALUE CHAIN ACTIVITIES

- Cost Driver
  - Is a factor with a strong influence on a firm's costs.
  - Can be asset- or activity-based.
- Securing a Cost Advantage:
  - Use lower-cost inputs and hold minimal assets
  - Offer only "essential" product features or services
  - Offer only limited product lines
  - Use low-cost distribution channels
  - Use the most economical delivery methods

Cost Drivers: The Keys to Driving Down Company Costs



WHEN LOW-COST STRATEGY WORKS BEST

1. Price competition among rival sellers is vigorous.
2. Identical products are available from many sellers.
3. There are few ways to differentiate industry products.
4. Most buyers use the product in the same ways.
5. The majority of industry sales are made to a few, large volume buyers.
6. New entrants can use introductory low prices to attract buyers and build a customer base.

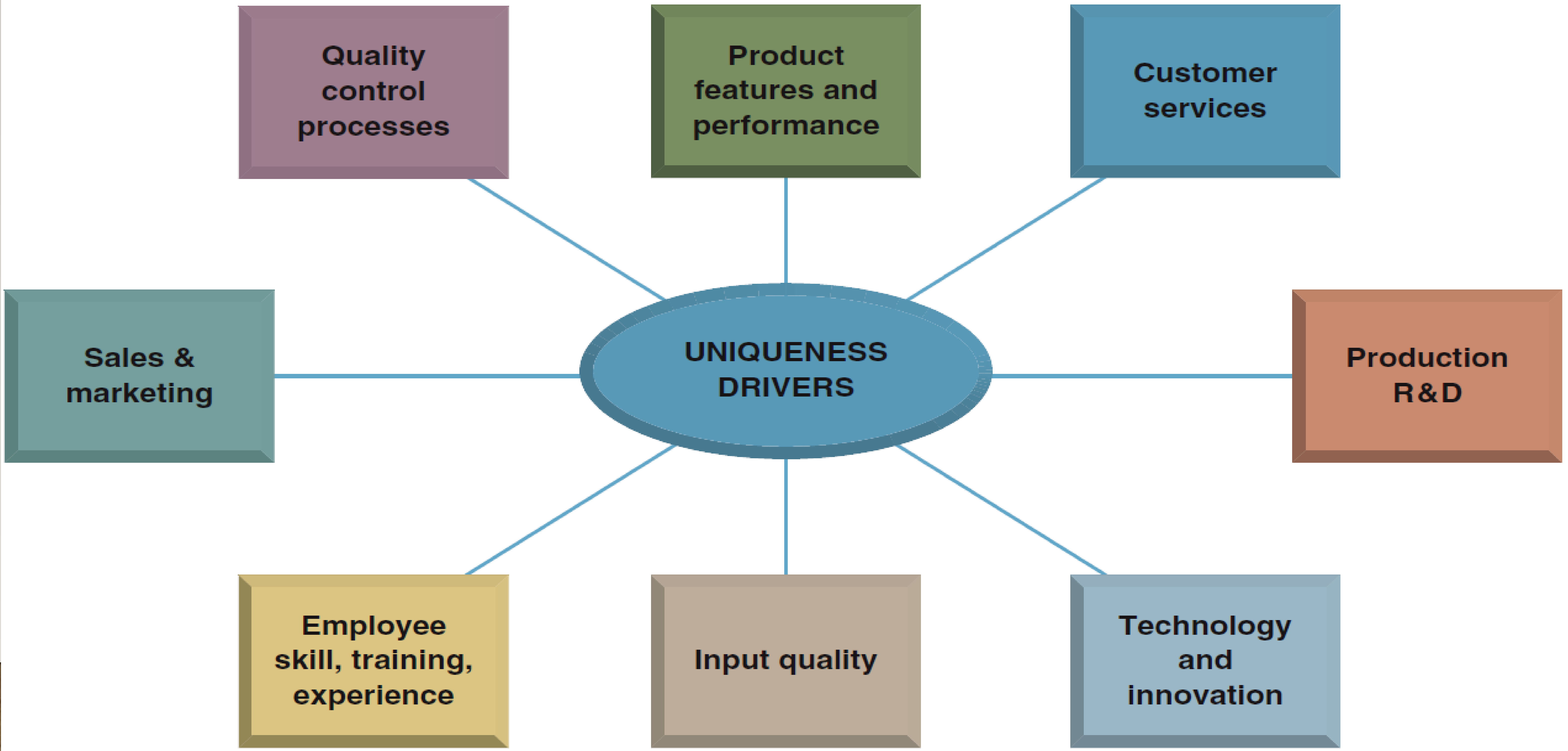
PITFALLS OF A LOW-COST PROVIDER STRATEGY

- Lowering selling prices results in gains that are smaller than the increases in total costs, reducing profits rather than raising them.
- Relying on a cost advantage that is not sustainable because rivals can copy or otherwise overcome it.
- Becoming too fixated on cost reduction such that the firm's offering is too features-poor to generate sufficient buyer appeal.

BROAD DIFFERENTIATION STRATEGIES

- **Effective Differentiation Approaches:**
  - Carefully study buyer needs and behaviors, values and willingness to pay for a *unique* product or service.
  - Incorporate features that both appeal to buyers and create a sustainably distinctive product offering.
  - Use higher prices to recoup differentiation costs.
- **Advantages of Differentiation:**
  - Command premium prices for the firm's products
  - Increased unit sales due to attractive differentiation
  - Brand loyalty that bonds buyers to the firm's products

UNIQUENESS DRIVERS: THE KEYS TO CREATING A DIFFERENTIATION ADVANTAGE

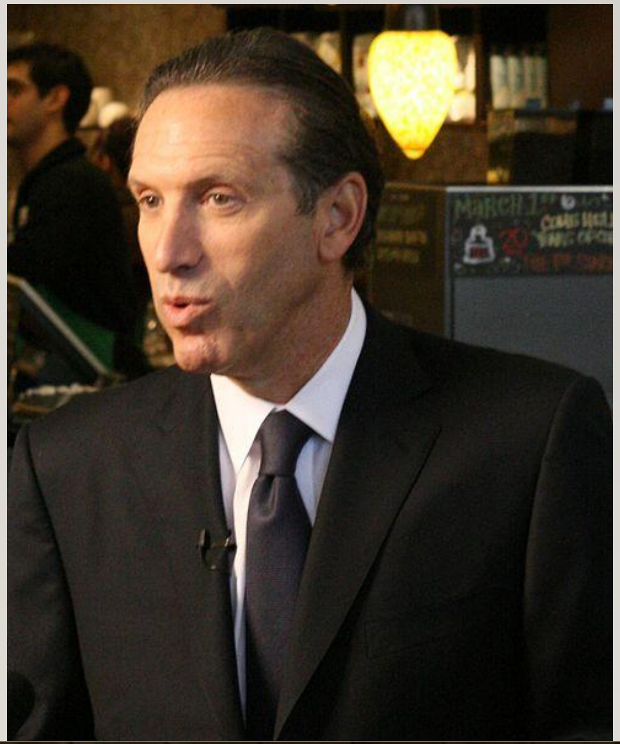


STARBUCKS, VALUE-DRIVEN DIFFERENTIATED COMPANY

Schultz asked – "how can we deliver value without lowering the price and diluting profit margins?"

Starbucks is the largest coffeehouse company in the world, with 19,763 stores in 59 countries, including 12,848 in the United States, 1,264 in Canada, 973 in Japan, 778 in Great Britain, 621 in China, 441 in South Korea, 350 in Mexico and 269 in Taiwan.

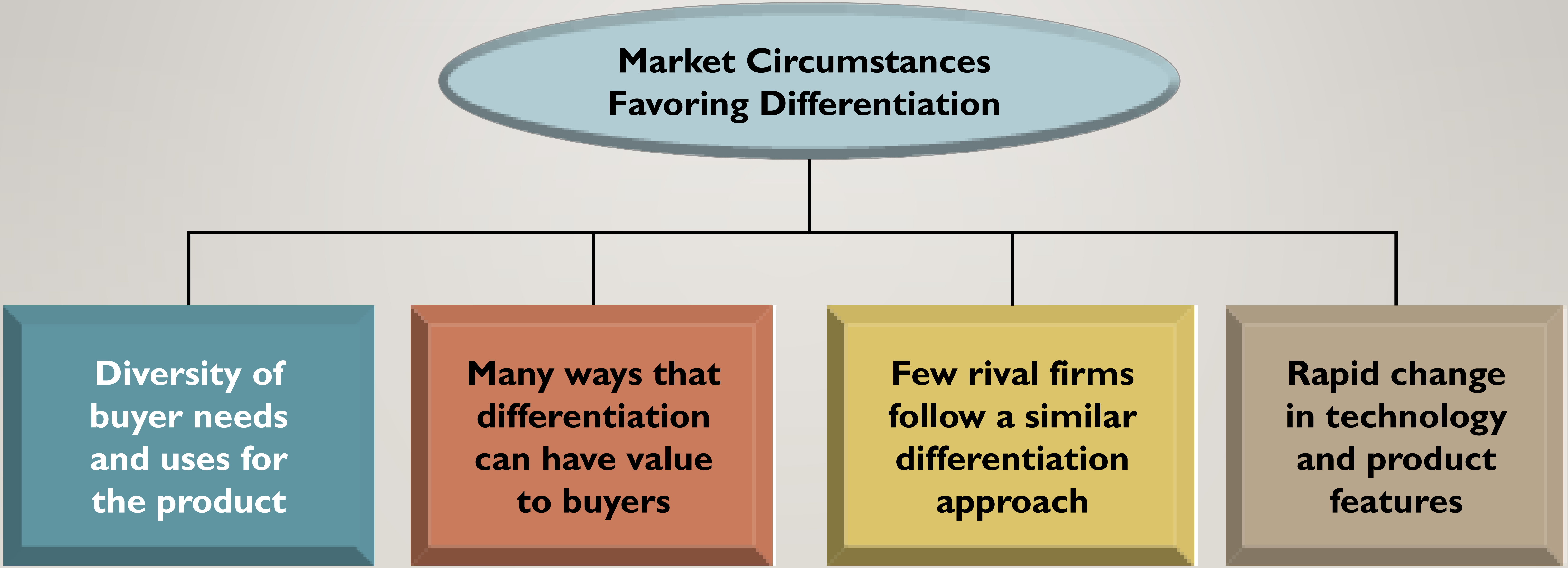
In January 2008, Schultz took over as President and CEO after an eight year hiatus, replacing Jim Donald, who took the post in 2005 but was asked to step down after sales slowed in 2007. Schultz aims to restore what he calls the "distinctive Starbucks experience" in the face of rapid expansion.
http://www.starbucks.com/responsibility



SUCCESSFUL APPROACHES TO SUSTAINABLE DIFFERENTIATION

- Differentiation that is difficult for rivals to duplicate or imitate (inimitable):
  - Company reputation
  - Long-standing relationships with buyers
  - Unique product or service image
- Differentiation that creates high switching costs that lock in buyers
  - Patent-protected product innovation
  - Relationship-based customer service

WHEN A DIFFERENTIATION STRATEGY WORKS BEST



DIFFERENTIAL METHODS FOR COMPETITIVE ADVANTAGE

- Technology, Innovation and Complexity
- Quality Control and Regulatory Requirements
- Customer needs Satisfaction

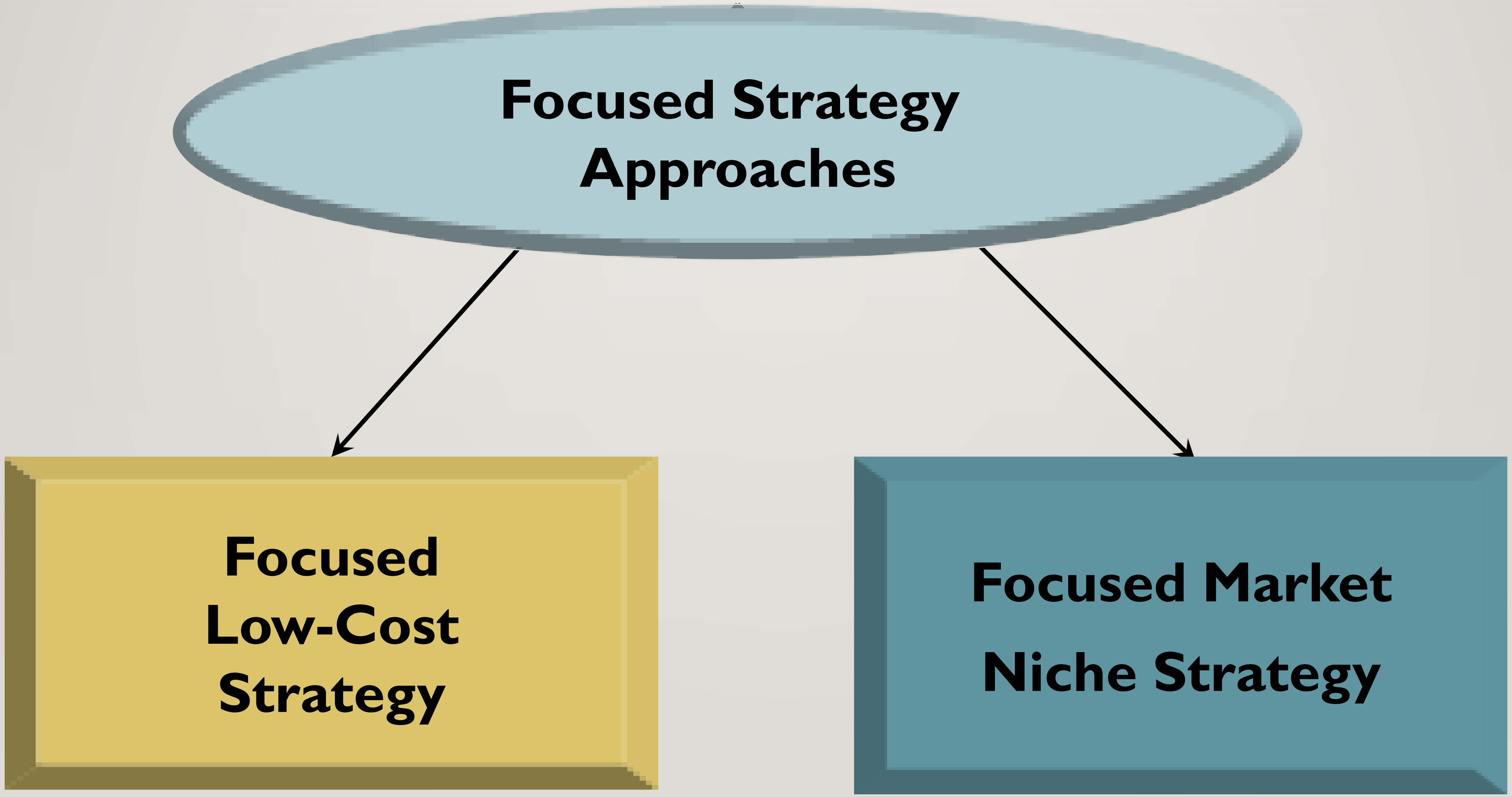
DIFFERENTIATION SOURCES FOR COMPETITIVE ADVANTAGE

- Product features and product performance
- Complementary services
- Intensity of marketing
- Location
- Bundling
- Procedures that influence customer experience
- Quality of purchased inputs
- Skill and experience of employees

PURSUING A DIFFERENTIATION STRATEGY - PITFALLS TO AVOID

- Relying on product attributes easily copied by rivals.
- Introducing product attributes that do not evoke an enthusiastic buyer response.
- Eroding profitability by overspending on efforts to differentiate the firm's product offering.
- Offering only trivial improvements in quality, service, or performance features vis-à-vis the products of rivals.
- Adding frills and features such that the product exceeds the needs and use patterns of most buyers.
- Charging too high a price premium.

FOCUSED (OR MARKET NICHE) STRATEGIES



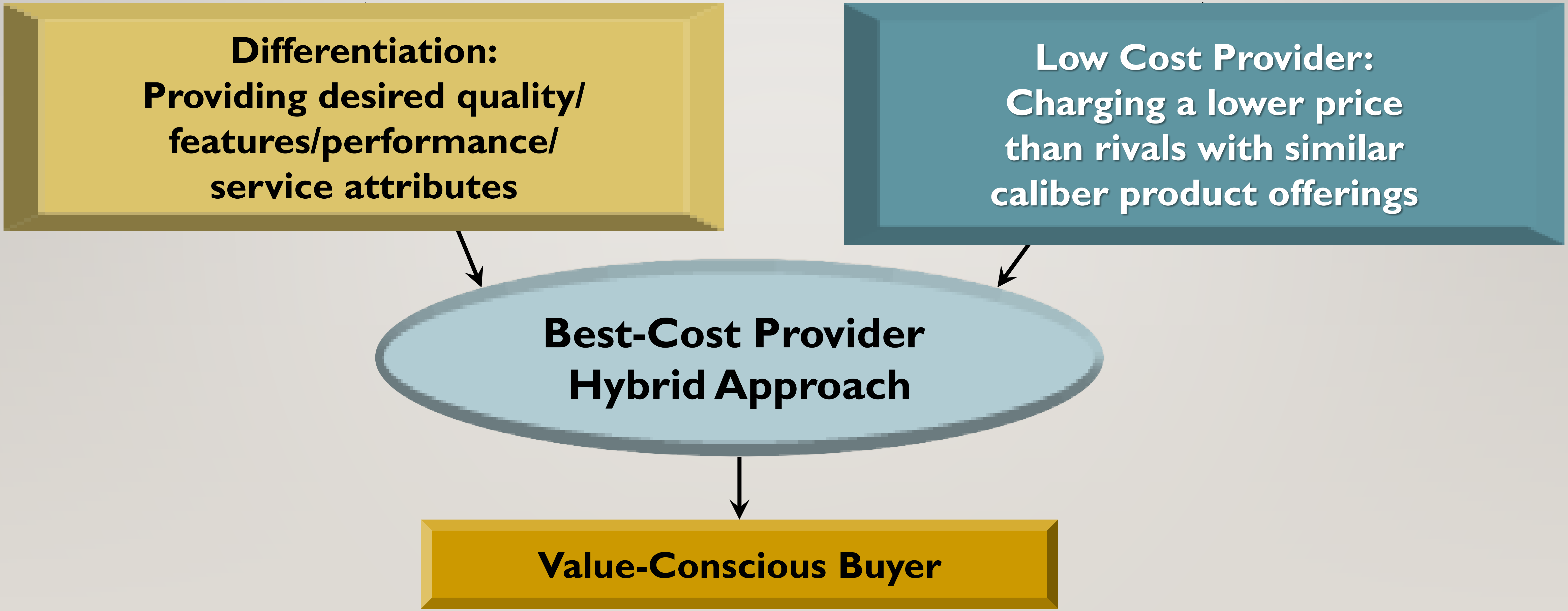
ATTRACTIVENESS OF FOCUSED LOW-COST OR FOCUSED DIFFERENTIATION STRATEGY

- The target market niche is big enough to be profitable and offers good growth potential.
- Industry leaders chose not to compete in the niche—focusers avoid competing against strong competitors
- It is costly or difficult for multi-segment competitors to meet the specialized needs of niche buyers.
- The industry has many different niches and segments.
- Rivals have little or no interest in the target segment.

RISKS OF A FOCUSED LOW-COST OR FOCUSED DIFFERENTIATION STRATEGY

1. Competitors will find ways to match the focused firm's capabilities in serving the target niche.
2. The specialized preferences and needs of niche members to shift over time toward the product attributes desired by the majority of buyers.
3. As attractiveness of the segment increases, it draws in more competitors, intensifying rivalry and splintering segment profits.

BEST-COST PROVIDER STRATEGIES



WHEN BEST-COST PROVIDER STRATEGY WORKS BEST

- Product differentiation is the market norm.
- There are a large number of value-conscious buyers who prefer midrange products.
- There is competitive space near the middle of the market for a competitor with either a medium-quality product at a below-average price or a high-quality product at an average or slightly higher price.
- Economic conditions have caused more buyers to become value-conscious.

THE BIG RISK OF A BEST-COST PROVIDER STRATEGY— GETTING SQUEEZED ON BOTH SIDES

CONTRASTING FEATURES OF THE FIVE GENERIC COMPETITIVE STRATEGIES: A SUMMARY

- Each Generic Strategy:
  - Positions the firm differently in its market.
  - Establishes a central theme for how the firm intends to outcompete rivals.
  - Creates boundaries or guidelines for strategic change as market circumstances unfold.
  - Entails different ways and means of maintaining the basic strategy.

CONTRASTING FEATURES OF THE FIVE GENERIC COMPETITIVE STRATEGIES: A SUMMARY

	Low-Cost Provider	Broad Differentiation	Focused Low-Cost Provider	Focused Differentiation	Best-Cost Provider
Strategic target	• A broad cross-section of the market.	• A broad cross-section of the market.	• A narrow market niche where buyer needs and preferences are distinctively different.	• A narrow market niche where buyer needs and preferences are distinctively different.	• Value-conscious buyers. • A middle market range.
Basis of competitive strategy	• Lower overall costs than competitors.	• Ability to offer buyers something attractively different from competitors' offerings.	• Lower overall cost than rivals in serving niche members.	• Attributes that appeal specifically to niche members.	• Ability to offer better goods at attractive prices.
Product line	• A good basic product with few frills (acceptable quality and limited selection).	• Many product variations, wide selection; emphasis on differentiating features.	• Features and attributes tailored to the tastes and requirements of niche members.	• Features and attributes tailored to the tastes and requirements of niche members.	• Items with appealing attributes; assorted features; better quality, not best.
Production emphasis	• A continuous search for cost reduction without sacrificing acceptable quality and essential features.	• Build in whatever differentiating features buyers are willing to pay for; strive for product superiority.	• A continuous search for cost reduction for products that meet basic needs of niche members.	• Small-scale production or custom-made products that match the tastes and requirements of niche members.	• Build in appealing features and better quality at lower cost than rivals.

CONTRASTING FEATURES OF THE FIVE GENERIC COMPETITIVE STRATEGIES: A SUMMARY

	Low-Cost Provider	Broad Differentiation	Focused Low-Cost Provider	Focused Differentiation	Best-Cost Provider
Marketing emphasis	• Low prices, good value. • Try to make a virtue out of product features that lead to low cost.	• Tout differentiating features. • Charge a premium price to cover the extra costs of differentiating features.	• Communicate attractive features of a budget-priced product offering that fits niche buyers' expectations.	• Communicate how product offering does the best job of meeting niche buyers' expectations.	• Tout delivery of *best* value. • Either deliver comparable features at a lower price than rivals or else match rivals on prices and provide better features.
Keys to maintaining the strategy	• Economical prices, good value. • Strive to manage costs down, year after year, in every area of the business.	• Stress constant innovation to stay ahead of imitative competitors. • Concentrate on a few key differentiating features.	• Stay committed to serving the niche at the lowest overall cost; don't blur the firm's image by entering other market segments or adding other products to widen market appeal.	• Stay committed to serving the niche better than rivals; don't blur the firm's image by entering other market segments or adding other products to widen market appeal.	• Unique expertise in simultaneously managing costs down while incorporating upscale features and attributes.
Resources and capabilities required	• Capabilities for driving costs out of the value chain system.	• Capabilities concerning quality, design, intangibles, and innovation.	• Capabilities to lower costs on niche goods.	• Capabilities to meet the highly specific needs of niche members.	• Capabilities to simultaneously deliver lower cost and higher-quality/differentiated features.

BLUE-OCEAN STRATEGY — A SPECIAL KIND OF OFFENSIVE

- The business universe is divided into:
  - An existing market with boundaries and rules in which rival firms compete for advantage.
  - A "blue ocean" market space, where the industry has not yet taken shape, with no rivals and wide-open long-term growth and profit potential for a firm that can create demand for new types of products.

BLUE OCEAN vrs RED OCEAN

A **blue-ocean strategy** offers growth in revenues and profits by discovering or inventing new industry segments that create altogether new demand.

Red Ocean Strategy

- **Focus on existing customers**
- Compete in existing market space
- Beat the competition
- Exploit existing demand
- Make the value-cost trade-off
- Align the whole system of a firm's activities with the strategic choice of differentiation or low cost

Blue Ocean Strategy

- **Focus on non-customers**
- Create uncontested market space
- Make the competition irrelevant
- Create and capture new demand
- Break the value-cost trade-off
- Align the whole system of a firm's activities in pursuit of differentiation and low cost