BBA-BI VIII Semester

Unit: VI

Strategic Options

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Strategic Options

- **Generic strategies:** Low cost provider strategy, Differentiation strategy, Best-cost provider strategy, focused strategy.
- **Grand Strategies:** Concentration, Market development, Product development, Innovation, Horizontal integration, Vertical integration, Joint Venture, Concentric diversification, Conglomerate diversification, Retrenchment/turnaround, Divestiture, Liquidation. 10

Competitive Strategy

- Competitive strategy we mean the specifics of management's game plan for competing successfully – how it plans to position the company in the marketplace, its specific efforts to please customers, and improve its competitive strength, and the type of competitive advantage it wants to establish.

CORE CONCEPT: A competitive strategy concerns the specifics of management's game plan for competing successfully and achieving a competitive edge over rivals.

Five Generic Competitive Strategies

a. low-cost provider strategy

b. A broad differentiation strategy

c. A best-cost provider strategy

d. A focused or market niche strategy based on lower cost

e. A focused or market niche strategy based on differentiation

Five Generic Competitive Strategies

a. A low-cost provider strategy: appealing to a broad spectrum of customers based by being the overall low-cost provider of a product or service
b. A broad differentiation strategy: seeking to differentiate the company's product/service offering from rivals' in ways that will appeal to a broad spectrum of buyers
c. A best-cost provider strategy: giving customers more value for the money by incorporating good-to-excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering products with comparable attributes

Five Generic Competitive Strategies

d. A focused or market niche strategy based on lower cost: concentrating on a narrow buyer segment and outcompeting rivals by serving niche members at a lower cost than rivals
e. A focused or market niche strategy based on differentiation: concentrating on a narrow buyer segment and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals products

1. Low-Cost Provider Strategies

A company achieves low-cost leadership when it becomes the industry's lowest-cost provider rather than just being one of perhaps several competitors with comparatively low costs.

For maximum effectiveness, companies employing a low-cost provider strategy need to achieve their cost advantage in ways difficult for rivals to copy or match.

CORE CONCEPT: A low-cost leader's basis for competitive advantage is lower overall costs than competitors. Successful low-cost leaders are exceptionally good at finding ways to drive costs out of their businesses.

1. Low-Cost Provider Strategies

To achieve a cost advantage, a firm must make sure that its cumulative costs across its overall value chain are lower than competitors' cumulative costs. There are two ways to accomplish this:

a. Out manage rivals in efficiency with which value chain activities are performed and in controlling the factors driving the costs of value chain activities
   a. Economies of scale
   b. Bargaining power vis-à-vis suppliers
   c. Locational variables
   d. Supply chain management expertise
   e. Sharing opportunities with other organizational or business units within the enterprise
b. Revamp (overhaul) the firm's overall value chain to eliminate or bypass some cost-producing activities. Making greater use of Internet technology applications – In recent years the Internet has become a powerful and pervasive tool for reengineering company and industry value chains.

2. Differentiation Strategies

Differentiation strategies are attractive whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product or by sellers with identical capabilities.

CORE CONCEPT: The essence of a broad differentiation strategy is to be unique in ways that are valuable to a wide range of customers.

Successful differentiation allows a firm to:

a. Command a premium price for its product

b. Increase unit sales

c. Gain buyer loyalty to its brand

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2. Differentiation Strategies

Achieving a Differentiation-Based Competitive Advantage

1. One approach is to incorporate product attributes and user features that lower the buyer's overall costs of using the product.
2. A second approach is to incorporate features that raise product performance.
3. A third approach is to incorporate features that enhance buyer satisfaction in noneconomic or intangible ways.
4. A fourth approach is to differentiate on the basis of capabilities – to deliver value to customers via competitive capabilities that rivals do not have or cannot afford to match.

CORE CONCEPT: A differentiator's basis for competitive advantage is either a product/service offering whose attributes differ significantly from the offering of rivals or a set of capabilities for delivering customer value that rivals do not have.

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3. Best-Cost Provider Strategies

Best-cost provider strategies aim at giving customers more value for the money. The objective is to deliver superior value to buyers by satisfying their expectations on key quality/service/features/performance attributes and beating their expectations on price.

1. A company achieves best-cost status from an ability to incorporate attractive attributes at a lower cost than rivals.
2. From a competitive positioning standpoint, best-cost strategies are a hybrid, balancing a strategic emphasis on low cost against a strategic emphasis on differentiation.
3. The market target is value-conscious buyers.
4. The competitive advantage of a best-cost provider is lower costs than rivals in incorporating good-to-excellent attributes, putting the company in a position to underprice rivals whose products have similar appealing attributes.

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4/5. Focused (or Market Niche) Strategies

The target segment or niche can be defined by:

a. Geographic uniqueness

b. Specialized requirements in using the product

c. Special product attributes that appeal only to niche members

A Focused Low-Cost Strategy

A focused strategy based on low cost aims at securing a competitive advantage by serving buyers in the target market niche at a lower cost and lower price than rival competitors.

A Focused Differentiation Strategy

A focused strategy based on differentiation aims at securing a competitive advantage by offering niche members a product they perceive is better suited to their own unique tastes and preferences.

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Grand Strategies

Called *master* or *business* strategies, provide basic direction for strategic actions. They indicate the time period over which long-range objectives are to be achieved.

Grand Strategies are:

Concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, joint ventures, strategic alliances, and consortia. Any one of these strategies could serve as the basis for achieving the major long-term objectives of a single firm. But a firm involved with multiple industries, businesses, product lines, or customer groups—as many firms are—usually combines several grand strategies.

Grand Strategies

Concentrated Growth

- **Concentrated growth is the strategy of the firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology.**

Market Development

- **Market development consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. It also allows firms to practice a form of concentrated growth by identifying new uses for existing products and new demographically, or geographically defined markets.**

Grand Strategies

Product Development

- **Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. The product development strategy is based on the penetration of existing markets by incorporating product modifications into existing items or by developing new products with a clear connection to the existing product line.**

Innovation

- **The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete. Few innovative ideas prove profitable because the research, development, and premarketing costs of converting a promising idea into a profitable product are extremely high.**

Grand Strategies

Horizontal Integration

- **When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called *horizontal integration*.**

Vertical Integration

- **When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are a customer for its outputs (such as warehousers for finished products), *vertical integration is* involved. Backward integration is the desire to increase the dependability of the supply or quality of the raw materials used as production inputs. Forward integration is a preferred grand strategy if great advantages accrue to stable production**

Grand Strategies

Concentric Diversification

Grand strategies involving diversification represent distinctive departures from a firm's existing base of operations, typically the acquisition of internal generation (spin-off) of a separate business with synergistic possibilities counterbalancing the strengths and weaknesses of the two businesses.

Conglomerate Diversification

In conglomerate diversification, the principal concern of the acquiring firm is the profit pattern of the venture. Unlike concentric diversification, *conglomerate diversification*gives little concern to creating product-market synergy with existing businesses.

The principal deference between the two types of diversification is that concentric diversification emphasizes some commonality in markets, products, or technology, whereas conglomerate diversification is based principally on profit considerations.

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Grand Strategies

Turnaround

- A firm can find itself with declining profits for many reasons such as economic recessions, production inefficiencies, and innovative breakthroughs by competitors. In many cases, strategic managers believe that such a firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify (strengthen) its distinctive competencies. This grand strategy is known as turnaround. It is typically begun through one of two forms of retrenchment—cost reduction or asset reduction—employed singly or in combination.

Divestiture

- *A divestiture strategy* involves the sale of a firm or a major component of a firm. When retrenchment fails to accomplish the desired turnaround or when a non-integrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm.

Grand Strategies

Liquidation

- When liquidation is the grand strategy, the firm is typically sold in parts, only occasionally as a whole, but for its tangible asset value and not as a going concern.

Bankruptcy

- Business failures are playing an increasingly important role in the American economy. In an average week, more than 300 companies fail. More than 75 percent of these financially desperate firms file for a "liquidation bankruptcy"—they agree to a complete distribution of their assets to creditors, most of whom receive a small fraction of the amount that they are owed.

Grand Strategies

Joint Ventures

- ***Joint ventures*** **are third commercial companies (children), created and operated for the benefit of the co-owners (parents). The joint venture extends the supplier-consumer relationship and has strategic advantages for both partners.**

Strategic Alliances

- ***Strategic alliances*** **are distinguished from joint ventures because the companies involved do not take an equity position in one another. In many instances strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. In other instances, strategic alliances are synonymous with licensing agreements.**

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Grand Strategies

Consortia, Keiretsus, and Chaebols

- ***Consortia*** **are defined as large interlocking relationships between businesses of an industry. A Japanese** ***keiretsu*** **is an undertaking involving up to 50 different firms which are joined around a large trading company or bank and coordinated through interlocking directorates and stock exchanges. A South Korean** ***chaebols*** **resembles a consortia of keiretsu except that they are typically financed through government banking groups and are largely run by professional managers trained by participating firms expressly for the job.**

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